August 16, 2022

Senco Gold Limited: Ratings reaffirmed; Outlook revised to Positive from Stable; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short -term – Fund Based Working Capital	750.0	900.0	[ICRA]A-/[ICRA]A2+ reaffirmed; Outlook revised to Positive from Stable
Fixed Deposit Programme	150.0	150.0	[ICRA]A- reaffirmed; Outlook revised to Positive from Stable
Total	**900.0**	**1050.0**	

**Instrument details are provided in Annexure-I*

Rationale

The revised rating outlook considers a likely improvement in Senco Gold Limited's (SGL/company) revenue in FY2023 owing to an expected increase in volumes, while the operating profit margins are expected to remain steady at ~7-8%. In addition, the company is in discussion with various bankers to increase the working capital limits, which is likely to support the liquidity, once approved. Further, SGL has fund-raising plans via an Initial Public Offer (IPO) in the near term for which approval from SEBI has already been received. ICRA notes that SGL has already received ~Rs. 75-crore equity infusion from Oman India Joint Investment Fund (OIJIF) in April 2022. Post the fund infusion, SGL's capital structure and liquidity position are expected to improve further. The rating action also takes into consideration the healthy improvement in SGL's revenues in FY2022, supported by an increase in sales volumes and firm gold realisations. The operating margin also improved to 8.3% in FY2022 compared to 7.4% in FY2021, resulting in an improvement in debt coverage indicators with an interest coverage of ~4.0 times (~4.8 times when adjusted for lease liabilities) in FY2022. The ratings continue to favourably factor in the vast experience of the promoters in the retailing business of jewellery made of gold, silver, platinum and diamond, long presence and brand recall of SGL in West Bengal and eastern India and a shift in demand towards organised players, supported by greater push for formalisation of the industry. SGL's operational profile is supported by its rich experience in gold and diamond sourcing and retailing operations, focus on light-weight gold and diamond jewellery, a diversified mix of owned and asset-light franchise operated stores, with ~57 franchisee stores at present. ICRA notes that, SGL is improving its geographical diversification with increasing number of stores, both own and franchisee outside West Bengal to widen its pan-India presence.

The ratings are constrained by the high working capital intensity of operations with large inventory holding requirements, which result in higher dependence on working capital loans, thus keeping total outside liabilities (TOL) and debt coverage indicators at moderate levels. The working capital utilisation against the sanctioned consortium limits also remained high at 84% and 88% as on March 31, 2022, and June 30, 2022, respectively. The company is in discussion with the bankers to increase the working capital limits, which, once approved, would support its liquidity to an extent. The gold retail jewellery industry, including SGL is exposed to inherent regulatory risks, which impacted the retailers' performance in the past, a fragmented industry structure resulting in competitive pricing, and a cautious lending environment. While SGL is exposed to geographical concentration risks with 65% of revenues coming from West Bengal, the concentration risk has reduced over the years after setting up of stores outside West Bengal in the recent years, with focus on pan-India presence.

The Positive outlook reflects ICRA's opinion that SGL will generate healthy cash flows, relative to its debt service obligations and the liquidity position is expected to improve. ICRA notes that SGL will continue to benefit from the extensive experience of the promoters and established market position of SGL in the jewellery retailing business, particularly in West Bengal.

Key rating drivers and their description

Credit strengths

Healthy improvement in financial performance in FY2022 – SGL witnessed a sharp improvement in FY2022 with a ~33% growth in OI, supported by a ~35% increase in gold sales volumes and steady gold realisation. Apart from gold, diamond sales also grew by ~38%, supported by ~13% growth in volumes. With a steady addition of new stores in the recent years (including 10 new stores in FY2022), SGL's operating income witnessed a compounded annual growth rate (CAGR) of ~10% during FY2018-22. In Q1 FY2023, the revenue stood healthy at ~Rs. 1,016 crore compared to Rs. 587 crore in the corresponding period of the last fiscal.

Focus on cost control measures, increasing share of non-gold jewellery sales, and higher usage of low-cost gold metal loans (GML) had resulted in a gradual expansion of operating margins, which rose to 8.3% in FY2022 from 7.4% in FY2021. Going forward, the operating profit margins are expected to remain steady at ~7-8%. With improvement in revenues and profitability, SGL's debt coverage indicators also improved in FY2022 with interest cover of ~4 times (~4.8 times when adjusted for lease liability).

Established market presence along with strong brand recall in West Bengal and eastern India – Incorporated in 1994, SGL was set up by Late Shaankar Sen and is currently led by Mr. Suvankar Sen, Managing Director and CEO, who has been associated with the company over the last decade. In addition to the strong parentage, SGL is managed by an experienced Board with Mrs. Ranjana Sen as the Chairperson and equal representation of independent directors and a strong and professional management team Supported by the promoters' rich experience in the gems and jewellery industry and a strong reputation of the Senco brand, SGL has a dominant market position in gold and diamond jewellery retail business in eastern India, especially in West Bengal.

Strong operational profile – While the jewellery retailing industry in India remains fragmented and SGL faces competition from both organised and unorganised players, SGL's strong brand recall, product quality and creative designs (especially handcrafted jewellery) helped in strengthening its market position. In the recent past, customers preferences have shifted towards light weight and hand-made jewellery. Given its strong design team, ability to identify taste and preferences of consumers, and long association with skilled artisans, SGL manages to hold competitive edge over its peers.

Credit challenges

High working capital intensity – Jewellery retailing is highly working capital intensive in nature given the need to display varied designs of jewellery to its customers. SGL generally maintains an inventory of ~4-4.5 months on an average, across its stores, depending on the footfall and the stock holding surge during the festive season. While the inventory volumes have remained steady, the inventory days stood at ~162 in end-March-2022 due to higher valuation of the inventory amid rising gold prices.

With a large stockholding requirement, the dependence on working capital loans remains high. The company has high utilisation of its available bank limits, resulting in limited headroom in the bank lines, thus exerting pressure on liquidity. However, the company is in discussion with various lenders to increase the working capital limits, which is likely to support the liquidity, once approved. In addition, SGL has fund-raising plans via an IPO in the near term for which approval from SEBI has already been received. Post the fund infusion, capital structure and the liquidity position are expected to further improve.

Nonetheless, the company's ability to manage its inventory levels and liquidity position, while increasing the scale will be the key determinants of its financial risk profile.

Exposure to geographical concentration risks – At present, SGL has 70 company owned stores along with ~57 franchisee stores. Out of the company-owned stores, ~50% stores are in West Bengal, which contributed ~65% to its revenues in FY2022. Thus, the company is exposed to geographical concentration risks. However, such risk has reduced over the years and is likely to decline further with the company's plans to add new showrooms outside West Bengal.

Exposure to regulatory risks – The jewellery retail industry has witnessed increased regulatory intervention, which impacted the operating environment and consequently the performance of jewellers. Measures like limited access to gold metal loans, mandatory permanent account number disclosure requirement for purchases above Rs. 2 lakh, limitation on jewellery saving schemes, demonetisation, implementation of the Goods and Service Tax etc. affected both demand and supply in the past. Increasing supervision and cautious lending environment further restricted fund flows to the sector. However, SGL enjoys a healthy relationship with banks and has been able to increase its working capital limits by ~Rs. 250 crore in the last three years.

Liquidity position: Adequate

SGL's liquidity position is **adequate** with healthy cash flow from operations relative to its debt servicing obligations and negligible long-term debt. However, the average working capital utilisation, as a percentage of the sanctioned limits, remained high. The company is in discussion with various lenders to enhance the limits further, which once sanctioned, will support the liquidity to an extent. Additionally, ICRA notes that SGL has received Rs. 75 crore equity infusion in the current year to provide some cushion to the liquidity position.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of a significant improvement in the liquidity position, while maintaining its scale and profitability along with efficient working capital management. Specific triggers for upgrade will be an interest cover of ~5 times on a sustained basis.

Negative factors – The outlook will be revised to Stable in case of a deterioration in the liquidity position. Further, the ratings could be downgraded in case of a substantial increase in working capital requirements and/or a decline in scale, profitability and debt coverage metrics on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in Gold Jewellery - Retail Industry
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial profile of the company.

About the company

Senco Gold Limited is a pan-India jewellery retail player with a history of more than five decades. SGL is one of the largest organized jewellery retail player in the eastern India. SGL is primarily involved in manufacturing and selling jewellery made of gold, diamond, silver, platinum and precious and semi-precious stones and other metals and has an expertise in manufacturing of light weight jewellery. The company's products are sold under the "Senco Gold & Diamonds" tradename, through multiple channels, including ~70 Company Operated Showrooms and 57 Franchisee Showrooms. The asset light franchisee model helps the company achieve growth with lower capital requirement.

Key financial indicators (audited)

	FY2021	FY2022 (Provisional)
Operating income	2663.5	3536.1
PAT	61.5	129.9
OPBDIT/OI	7.4%	8.3%
PAT/OI	2.3%	3.7%
Total outside liabilities/Tangible net worth (times)	1.6	1.9
Total debt/OPBDIT (times)	3.5	3.5
Interest coverage (times) – adjusted	3.3	4.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Note: The Interest cover is adjusted for IND AS 116 lease liability

Status of non-cooperation with previous CRA: *CRISIL has moved the rating on SGL's fixed deposits to ISSUER NOT COOPERATING category as per its PR dated January 6, 2020 which remains the same as per PR dated January 13, 2022. The reason provided was non-furnishing of information for monitoring of ratings.*

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)					Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of July 20, 2022 (Rs. crore)	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021		Date & rating in FY2020	
					Aug 16, 2022	May 26, 2022	Aug 25, 2021 Sep 15, 2021	Sep 18, 2020	Jul 20, 2020	Jul 17, 2019	May 2, 2019
1	Fund Based Working Capital	Long term/Short term	900.0	744.0	**[ICRA]A-(Positive)/ [ICRA]A2+**	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)
2	Fixed Deposit Programme	Long term	150.0	--	**[ICRA]A-(Positive)**	[ICRA]A-(Stable)	MA (Stable)	MA (Stable)	MA (Stable)	MA (Stable)	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund Based Working Capital	Simple
Fixed Deposit Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund Based Working Capital	NA	8-10%	-	900.0	[ICRA]A-(Positive)/[ICRA]A2+
NA	Fixed Deposit Programme	NA	NA	NA	150.0	[ICRA]A-(Positive)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA.

Annexure II: List of entities considered for consolidated analysis

Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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