June 28, 2024

Senco Gold Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed Deposit Programme	235.00	475.00	[ICRA]A (Stable), reaffirmed/ assigned
Long-term/ Short-term Fund-based – Working Capital Facilities	1,200.00	1,440.00	[ICRA]A (Stable)/ [ICRA]A2+, reaffirmed/ assigned
Long-term/ Short-term – Unallocated Limits	-	360.00	[ICRA]A (Stable)/ [ICRA]A2+, assigned
Total	**1,435.00**	**2,275.00**	

** Instrument details are provided in Annexure – I*

Rationale

The reaffirmation of the ratings considers the stable operational and financial performance of Senco Gold Limited (SGL) over the last two years and ICRA's expectations that the performance would largely sustain over the medium term, supported by its established market position along with strong brand recognition in eastern India, precisely in West Bengal. ICRA notes that the company raised around Rs. 270 crore from fresh issue of equity shares through an initial public offering (IPO) in July 2023, which strengthened its net worth and positively impacted the capital structure. The ratings continue to favourably factor in the long 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 accelerated 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, and a diversified mix of owned and asset-light franchise operated stores (with 66 franchise 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. Increase in the working capital intensity of operations along with a significant revenue growth in FY2024 led to a rise in the working capital requirement, and the capital raised was entirely used to fund the same. The working capital utilisation against the sanctioned consortium limits also remained at a high level during the last twelve months, ended in April 2024. The ratings continue factor in the vulnerability of SGL's earnings to volatility in gold prices, an intense competition on the back of a fragmented industry structure and aggressive store expansion plans undertaken by large players, along with the inherent regulatory risks associated with the jewellery business and a cautious lending environment. While SGL is exposed to geographical concentration risk with 64% of its revenues in FY2024 derived from West Bengal, the same has been reducing over the years with a gradual increase in stores outside West Bengal, with the company's focus on widening pan-India presence.

The Stable outlook on the long-term rating reflects ICRA's opinion that SGL's operational and financial performances will continue to benefit from its established market position, increased focus on expansion into new markets and generation of healthy cash flows relative to its debt service obligations.

Key rating drivers and their description

Credit strengths

Established market position along with strong brand recognition in eastern India, precisely in West Bengal – SGL enjoys an established retail pan-India presence, with strong brand recognition. SGL has a dominant market position in gold and diamond jewellery retail business in eastern India, especially in West Bengal. The company's established track record of operations and long experience of the promoters strengthen its operating profile. 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 a competitive edge over its peers in those regions where it has a dominant position. The overall share of the studded jewellery increased by 100 basis points to ~11.4% in FY2024, on a YoY basis.

Steady growth in top line, thereby increasing profits and cash accruals from business – The operating income of the company witnessed a steady growth over the past few years, primarily driven by an increase in gold price and a rise in the volume off-take of gold jewellery. The revenue from diamond jewellery has also supported its top line growth over the past two years. Accordingly, the overall profits and cash accruals from the business have been increasing steadily. The company has been adding new stores (own showroom and franchisee stores) over the past few years. Despite a planned addition in the retail outlets, the overall volume of sales may fall to some extent in the current fiscal amid the continuing uptrend in gold prices and lower number of auspicious days in FY2025. Nevertheless, increasing gold price is likely to drive growth in the operating income of the company by 16-18%, on a YoY basis, in FY2025. In view of the growing scale of operations, the overall profits and cash accruals from the business are also projected to increase in FY2025.

Favourable long-term growth prospects for organised jewellery retailers – Increasing regulations in the jewellery retail industry, aimed at improving transparency and standardisation, over the recent years have accelerated the shift in the market share from the unorganised players to organised ones. The industry tailwinds are expected to benefit the organised jewellery retailers like SGL over the medium term, supported by its expanding retail presence. An expected rise in the share of studded jewellery is also likely to increase SGL's margin over the medium term.

Credit challenges

Performance exposed to intense competition and regulatory risks in retail jewellery segment – Jewellery retail business is very competitive, with a large share of unorganised trade. This coupled with robust store expansions by larger retailers into tier-2 and tier-3 cities in the recent years has intensified competition and limited the pricing flexibility of the players. SGL remains exposed to intense industry competition with limited pricing flexibility and presence of a large number of organised and unorganised players, which would keep its margins under check. The OPM of the company marginally declined to 7.3% in FY2024 from 8.0% in FY2023 due to increase in discount and higher marketing spends. The net profit margin (NPM) stood at a moderate level of 3.6% in FY2024. ICRA expects the OPM of the company to remain in the range of 7-8%, going forward. The RoCE of the company is also estimated to remain at a moderate level of 12-14% in the near-to-medium term. The jewellery retail industry has witnessed increased regulatory intervention, like restrictions on bullion imports, limited access to gold metal loans, limitation on jewellery saving schemes, mandatory PAN disclosure on transactions above a threshold limit, implementation of the Goods and Service Tax etc., which impacted the operating environment and consequently the performance of the jewellers. 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 on a timely basis.

Exposure to high geographical concentration risk – At present, SGL has 93 company-owned showrooms and 66 franchise stores. Out of the company-owned stores, ~44% stores are in West Bengal, which contributed ~64% to its revenues in FY2024. Thus, the company is exposed to high geographical concentration risk. However, such risk has been reducing over the years and is likely to decline further with the company's plans to add new showrooms outside West Bengal, widening its pan-India presence.

High working capital intensity of operations, exerting pressure on liquidity – Jewellery retailing business is highly working capital intensive in nature, given the need to display varied designs of jewellery to its customers. The stock holding surges during the festive season. SGL generally maintains an inventory of 4-5 months on an average, across its stores, depending on the footfall and the stock holding surge during the festive season. The overall inventory days stood high in end-March over the past two years due to higher valuation of the inventory amid rising gold prices. The net working capital relative to the operating income of the company increased to 39% in FY2024 from 36% in FY2023. With a large stockholding requirement, the dependence on working capital loans remains high. The company has relatively higher utilisation of its available bank limits, resulting in limited head room in the bank lines, thus exerting pressure on liquidity. The capital raised via IPO was entirely used to fund its enhanced working capital requirement to meet the 28% revenue growth witnessed in FY2024 on a YoY basis. 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.

Environmental and social risks

Environmental considerations – Exposure to environmental risks remains low for entities in the jewellery retail industry. Few concerns include episodes of excessive rainfall/ flooding in the operating regions, impacting its jewellery stores. Additionally, indirect risk of rural demand for jewellery moderating during periods of crop loss, caused by physical climate change, also pose risks to revenue growth and profitability.

Social considerations – Exposure to social risks remains moderate for entities in the jewellery retail industry. The sector has witnessed increased focus on product quality and transparency in pricing, which supported consumer confidence. Yet, the industry participants remain exposed to changes in consumer behaviour including a shift towards less gold-intensive daily/ fashion jewellery. Additionally, with a relatively higher requirement of workforce for store operations and jewellery manufacturing, the level of wages and associated fixed costs could weigh on the margins, given the skilled nature of work.

Liquidity position: Adequate

The company generated negative cash flow from operations in the past few years, amid an increase in the working capital intensity along with the rise in scale of operations. A sizeable growth in the top line is projected to keep the cash flow from operations negative in FY2025 as well despite a likely marginal improvement in the working capital intensity. The average fund-based working capital utilisation of the company stood at a high level during the last twelve months, ended in April 2024. Nonetheless, the company has been able to enhance its working capital limits on a timely manner, thus supporting its liquidity. The company has long-term debt repayment obligations of around Rs. 27 crore, primarily towards lease liabilities, in the current fiscal. SGL is expected to generate cash accruals of more than Rs. 260 crore in FY2025, which would be adequate to meet its incremental working capital requirements, long-term debt repayment obligations and moderate capital expenditure of around Rs. 32 crore. ICRA expects the overall liquidity position of the company to remain adequate, going forward.

Rating sensitivities

Positive factors – ICRA may upgrade the ratings of SGL if there is a sustained healthy growth in revenues and earnings along with an improvement in the inventory turnover, which would strengthen its credit metrics, return indicators and liquidity position.

Negative factors – ICRA may downgrade the ratings of SGL if there is significant pressure on the operating performance or a deterioration in the working capital cycle, impacting the debt protection metrics and the liquidity position. Specific credit metric that may trigger ratings downgrade includes an interest coverage of less than 3.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Jewellery – Retail
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the standalone financial statements of the company

About the company

Senco Gold Limited (SGL) is a pan-India jewellery retailer with a history of more than five decades and has expertise of manufacturing light weight jewellery. SGL is one of the largest organised jewellery retailers in eastern India. The company is currently involved in retailing of gold/ silver/ diamond/ platinum and various studded jewellery and operates through multiple channels, including its wide network of 93 showrooms and 66 franchisee stores. The company sells its products under the brand, Senco Gold & Diamonds.

The company raised around Rs. 270 crore from a fresh issue of equity shares through an IPO in July 2023. Subsequently, the equity shares of the company were listed on BSE and NSE on July 14, 2023.

Key financial indicators (audited)

SGL, Standalone	FY2023	FY2024
Operating income	4,075.6	5,229.7
PAT	158.8	188.8
OPBDIT/OI	8.0%	7.3%
PAT/OI	3.9%	3.6%
Total outside liabilities/Tangible net worth (times)	2.0	1.7
Total debt/OPBDIT (times)	4.3	4.6
Adjusted Total debt/OPBDIT (times)*	3.9	4.2
Interest coverage (times)	3.6	3.5
Adjusted Interest coverage (times)*	4.5	4.3

Source: Senco Gold Limited, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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

** Adjusted for lease liabilities*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years						
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022		
					Jun 28, 2024	Jun 13, 2023	Sep 02, 2022	Aug 16, 2022	May 26, 2022	Sep 15, 2021	Aug 25, 2021	
1	**Fixed Deposit Programme**	Long Term	475.00	-	**[ICRA]A (Stable)**	[ICRA]A (Stable)	[ICRA]A- (Positive)	[ICRA]A- (Positive)	[ICRA]A- (Stable)	MA (Stable)	MA (Stable)	
2	**Fund-based – Working Capital Facilities**	Long Term/ Short Term	1,440.00	-	**[ICRA]A (Stable)/ [ICRA]A2+**	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	
3	**Unallocated Limits**	Long Term/ Short Term	360.00	NA	**[ICRA]A (Stable)/ [ICRA]A2+**	-	-	-	-	-		

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fixed Deposit Programme	Simple
Long-term/ Short-term fund-based – Working Capital Facilities	Simple
Long-term/ Short-term – Unallocated Limits	Not Applicable

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fixed Deposit Programme	-	-	-	475.00	[ICRA]A (Stable)
NA	Working Capital Facilities 1	-	-	-	120.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	Working Capital Facilities 2	-	-	-	100.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	Working Capital Facilities 3	-	-	-	75.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	Working Capital Facilities 4	-	-	-	125.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	Working Capital Facilities 5	-	-	-	110.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	Working Capital Facilities 6	-	-	-	130.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	Working Capital Facilities 7	-	-	-	22.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	Working Capital Facilities 8	-	-	-	120.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	Working Capital Facilities 9	-	-	-	114.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	Working Capital Facilities 10	-	-	-	53.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	Working Capital Facilities 11	-	-	-	120.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	Working Capital Facilities 12	-	-	-	65.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	Working Capital Facilities 13	-	-	-	40.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	Working Capital Facilities 14	-	-	-	125.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	Working Capital Facilities 15	-	-	-	121.00	[ICRA]A (Stable)/ [ICRA]A2+
NA	Unallocated Limits	-	-	-	360.00	[ICRA]A (Stable)/ [ICRA]A2+

Source: Senco Gold Limited

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

Annexure II: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Mr. Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Ms. Kinjal Shah
+91 22 6114 3400
kinjal.shah@icraindia.com

Mr. Sujoy Saha
+91 33 7150 1184
sujoy.saha@icraindia.com

Mr. Sandipan Kumar Das
+91 33 7150 1190
sandipan.das@icraindia.com

RELATIONSHIP CONTACT

Mr. L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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.

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches