June 13, 2023

Senco Gold Limited: Long-term rating upgraded with revision in outlook, short-term rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fixed Deposit Programme	180.0	235.0	[ICRA]A(Stable) upgraded from [ICRA]A-(Positive)/assigned; Outlook revised to Stable from Positive
Long-term/ Short -term – Fund based working capital	900.0	1,200.0	[ICRA]A(Stable) upgraded from [ICRA]A-(Positive)/assigned; [ICRA]A2+ reaffirmed/assigned; Outlook revised to Stable from Positive
Total	**1,080.00**	**1,435.00**	

**Instrument details are provided in Annexure-I*

Rationale

The upward revision in the long-term rating reflects healthy improvement in Senco Gold Limited's (SGL/company) revenues in FY2023 and ICRA's expectation of continued improvement in the company's performance over the medium term, driven by an expected increase in volumes from existing as well as new stores, increasing share of studded jewellery amid favourable domestic demand outlook. The operating profit margins are expected to remain steady at ~7-8% p.a. Despite an increase in gold realisations, demand remained comfortable in the last two years, leading to a healthy increase in scale to over Rs. 4,000 crore in FY2023. SGL's capital structure remains moderately leveraged with a gearing of ~1.5 times (including lease liabilities) due to higher debt levels on account of large inventory stocking in end-March 2023 in anticipation of the upcoming festive season in April/May. Further, SGL has fund-raising plans via an initial public offer (IPO) in the near term, for which approval from SEBI is expected to be received shortly. Post the fund infusion, SGL's capital structure and liquidity position are expected to improve further. ICRA also notes that the working capital limits have been enhanced to ~Rs. 900 crore, further supporting its liquidity. 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 franchisee-operated stores (it has 61 franchise stores as on March 31, 2023). ICRA notes that SGL is improving its geographical diversification with increasing number of stores, both own and franchisee-operated 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 the total outside liabilities (TOL) and debt coverage indicators at moderate levels. The working capital utilisation against the sanctioned consortium limits also remained high at 94% as on March 31, 2023. However, the same was owing to high inventory stocking for festivals in April/May 2023. The utilisation moderated to 89% in end-April 2023. (Average utilisation for last 12 months ending Apr-23 is ~82%). 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 Stable outlook reflects ICRA's opinion that SGL will generate healthy cash flows, relative to its debt service obligations. Further, the liquidity position is also expected to improve.

Key rating drivers and their description

Credit strengths

Healthy improvement in financial performance in FY2023; likely to improve, going forward – SGL's revenue witnessed a healthy increase of ~15% in FY2023, supported by ~4% increase in gold sales volumes and ~13% increase in gold realisation. Apart from gold, diamond sales also grew by ~54%, supported by healthy demand and higher value addition. With a steady addition of new stores in the recent years (including 9 new stores in FY2023), SGL's operating income witnessed a compounded annual growth rate (CAGR) of ~13% during FY2019-23. In 2M FY2024, the revenue stood healthy at ~Rs. 920 crore, posting a ~25% growth compared to the corresponding period of the last fiscal. For the current fiscal as well, the revenues are expected to remain healthy, supported by favourable demand outlook.

Focus on cost control measures, increasing share of non-gold jewellery sales, and higher usage of low-cost gold metal loans (GML) are supporting the operating margins, which remained steady at ~8.0% in FY2023. Going forward, the operating profit margins are expected to remain steady at ~7-8% with increasing share of studded jewellery. With improvement in revenues and profitability, SGL's debt coverage indicators are also expected to improve.

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 since 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. ICRA notes that SGL is improving its geographical diversification with increasing number of stores, both own and franchisee-operated outside West Bengal to widen its pan-India presence.

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 a 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 the customers. SGL generally maintains an inventory of ~4-4.5 months on an average, across its stores, depending on the footfall. The stock holding surges during the festive season. While the inventory volumes have increased with addition of new stores, rising gold prices also resulted in high inventory days in -March 2023.

With a large stockholding requirement, the dependence on working capital loans remains high. The company has relatively higher utilisation of its available bank limits, thus exerting pressure on its liquidity. However, the company has been able to successfully enhance its working capital limits, as and when required. ICRA notes that the working capital limits have been enhanced to ~Rs. 900 crore, further supporting liquidity. In addition, SGL has fund-raising plans via an IPO in the near term for which approval from SEBI is expected shortly. Post the fund infusion, SGL's capital structure and the liquidity position are expected to further improve.

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

Exposure to geographical concentration risks – As on March 31, 2023, SGL has 75 company owned stores along with 61 franchise stores. Out of the company-owned stores, ~51% stores are in West Bengal, which contributed ~67% to its revenues in FY2023. 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 on a timely basis.

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, remains moderately high. Nonetheless, the company has been able to enhance its WC limits on a timely basis, thus supporting liquidity. ICRA notes that SGL has received Rs. 75 crore equity infusion in FY2023, which further supported the liquidity position.

Rating sensitivities

Positive factors – The ratings may be upgraded if the company registers a sustained healthy growth in revenue and earnings, resulting in an improvement in its credit metrics and return indicators.

Negative factors – Pressure on SGL's ratings may arise 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 trigger for ratings downgrade will be reported interest cover of less than 3.5 times 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 organised jewellery retail players in eastern India. SGL primarily manufactures and sells jewellery made of gold, diamond, silver, platinum and precious and semi-precious stones and other metals and has expertise of manufacturing light weight jewellery. The company's products are sold under the Senco Gold & Diamonds tradename through multiple channels including 75 company-operated showrooms and 61 franchisee-operated showrooms. The asset light franchisee model helps the company achieve growth with lower capital requirement.

Key financial indicators (audited)

SGL	FY2022	FY2023
Operating income	3536.1	4077.4
PAT	129.9	158.8
OPBDIT/OI	8.3%	8.0%
PAT/OI	3.7%	3.9%
Total outside liabilities/Tangible net worth (times)	1.7	1.8
Total debt/OPBDIT (times)*	3.5	4.3
Interest coverage (times)	4.0	3.7

Source: Senco Gold Limited; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore
**Includes Lease liabilities, adjusted for which, TD/OPBITDA is ~3.3 times and ~3.9 times in FY22 and FY23 respectively.*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Apr-23 (Rs. crore)	Date & rating	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021	
					Jun 13, 2023	Sep 02, 2022 Aug 16, 2022	May 26, 2022	Aug 25, 2021 Sep 15, 2021	Sep 18, 2020	Jul 20, 2020
1	FD Programme	Long term	235.0	-	**[ICRA]A (Stable)**	[ICRA]A- (Positive)	[ICRA]A- (Stable)	MA (Stable)	MA (Stable)	MA (Stable)
2	Fund based - Working Capital facilities	Long term/ short term	1200.0	799.0	**[ICRA]A (Stable)/ [ICRA]A2+**	[ICRA]A- (Positive)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)/ [ICRA]A2+	[ICRA]A- (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fixed Deposit Programme	Very Simple
Long-term/ Short -term – Fund-based working capital	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: 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	-	-	-	235.0	[ICRA]A(Stable)
NA	Fund-based bank facilities	-	-	-	1200.0	[ICRA]A(Stable)/[ICRA]A2+

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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