

Recommendation	Subscribe
Price Band	Rs 301-317
Bidding Date	4 th Jul – 6 th Jul
Book Running Lead Manager	AMBIT PRIVATE, IIFL SECURITIES, SBI CAPITAL MARKETS
Registrar	KFIN TECHNOLOGIES
Sector	Gems, Jewellery And Watches

Minimum Retail Application- Detail At Cut off Price

Number of Shares	47
Minimum Application Money	Rs. 14,899
Discount to retail	0
Payment Mode	ASBA

Consolidated Financials (Rs Cr)	FY22	FY23
Total Income	3,535	4,077
EBITDA	277	317
Adj PAT	129	158

Valuations (FY23)	Lower Band	Upper Band
Market Cap (Rs Cr)	2,338	2,462
Adj EPS	20.41	20.41
PE	15	16
EV/ EBITDA	10	10
Enterprise Value (Rs Cr)	3,077	3,202

Post Issue Shareholding Pattern

Promoters	68.5%
Public/Other	26.3%

Offer structure for different categories

QIB (Including Mutual Fund)	50%
Non-Institutional	15%
Retail	35%
Post Issue Equity (Rs. in cr)	77.66
Issue Size (Rs in cr)	405
Face Value (Rs)	10

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BACKGROUND

Incorporated in 1994, Senco Gold Limited is a pan-India jewelry retail player. It is the largest organized player in eastern India based on its number of stores. It primarily deals in gold and diamond jewelry along with jewelry made of silver, platinum, precious and semi-precious stones, and other metals. Besides this, it offers costume jewelry, gold, and silver coins, and utensils made of silver in its other offerings.

Objects and Details of the Issue:

- Total issue of ~Rs. 405 Cr (at upper price band) consists of fresh issue worth Rs. 270 Cr and offer for sale worth Rs.135 Cr
- To utilise an estimated amount of ₹ 196 Cr from the net proceeds towards the funding of company's working capital requirement

Investment Rationale:

- Leading organized jewellery player with a strong brand name
- Expansion of its presence through strong distribution channels
- Established low capex model to improve operating leverage
- Focusing on optimal product mix in order to achieve higher operating margins
- Focus on technology to enhance operational efficiency while targeting youth and upwardly mobile in India

Valuation and Recommendation:-

Senco Gold has positioned well in the eastern India and other non-eastern regions with its legacy of last five decades of journey. It has delivered 24% revenue growth over FY21-23 with margin improvement from 6.6% in FY21 to 7.8% in FY23. Although, company's decent performance in terms of profitability amongst its peers, it has observed challenges generating positive operating cash flow during the last 2 years. Further, debt to equity ratio at 1.2x as on Mar'23 may lead to further contraction in company's profitability. However, the IPO is issued at 15.5x PE valuation based on its FY23 EPS which is at discount relative to average PE valuation of its peers. Thus, **we recommend 'SUBSCRIBE' to the issue for listing gains.**

Financials	FY21	FY22	FY23
Net Revenues	2,660	3,535	4,077
Growth (%)	0.0%	32.9%	15.4%
EBITDA	175	277	317
EBITDA Margin (%)	6.6%	7.8%	7.8%
PBT	84	177	216
Adjusted PAT	61	129	158
EPS	7.92	16.61	20.41
ROCE	13.2%	15.6%	14.2%
EV/Sales			0.8
EV/EBITDA			10.1
P/E			15.5

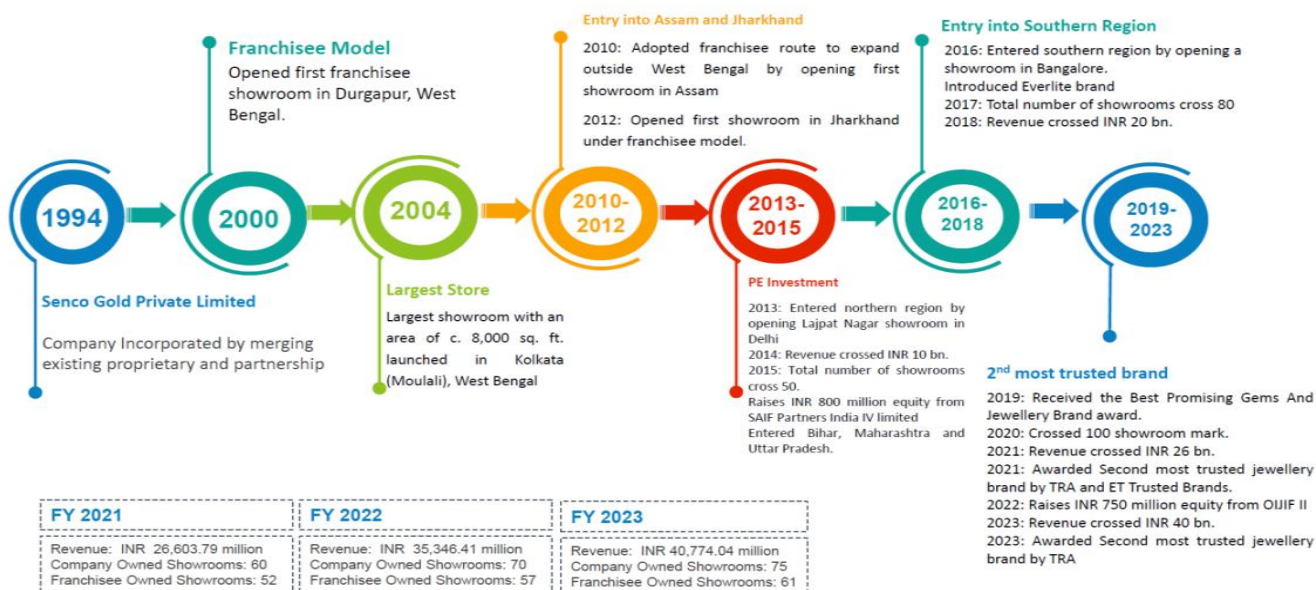
Source: RHP, NBRR

Company Background

Incorporated in 1994, Senco Gold Limited is a pan-India jewelry retail player. It is the largest organized players in eastern India based on its number of stores. It primarily deals in gold and diamond jewelry along with jewelry made of silver, platinum, precious and semi-precious stones, and other metals. Besides this, it offers costume jewelry, gold, and silver coins, and utensils made of silver in its other offerings.

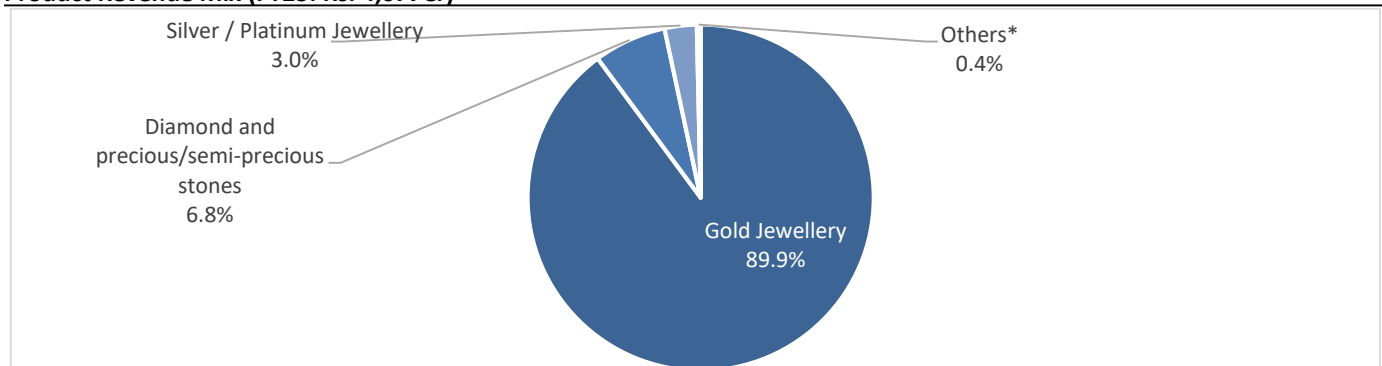
Its products are being sold under the tradename "Senco Gold & Diamonds". It serves its customers through multiple channels where it can connect with customers physically (stores), digitally (online services) and with phygital approach. It has a catalogue of more than 1,20,000 designs for gold jewellery and 69,000 designs for diamond jewellery.

Brief history of Senco Gold Ltd:



Source: RHP

Product Revenue Mix (FY23: Rs. 4,077Cr)



Source: RHP

*Others include revenue from fashion jewellery, novelty and accessories and franchisee fees

Brands and collections

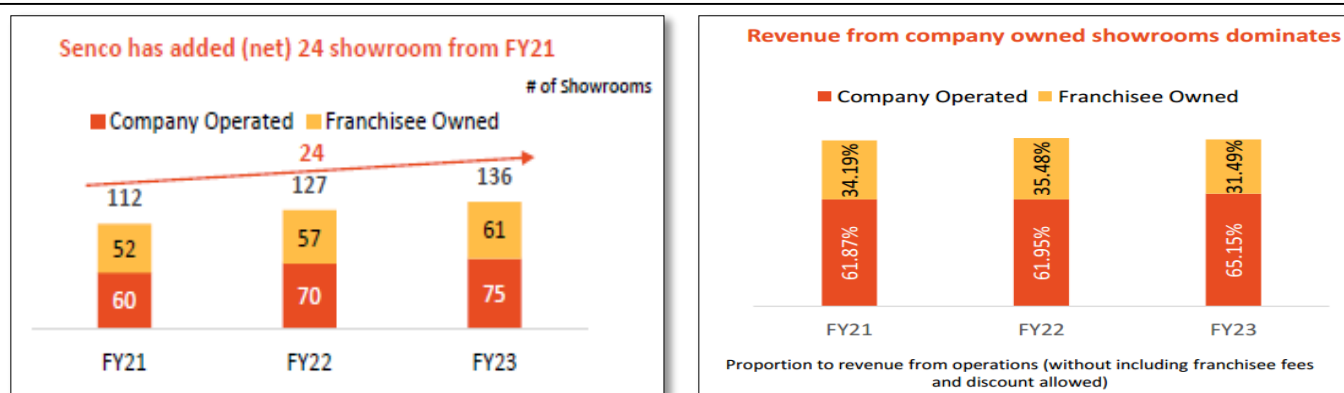
Senco Gold offers its products through its five key brands as listed below which caters to wide variety of customer segments such as women, men and kids. It serves customers with various options such as wedding jewellery, festival jewellery, daily wear jewellery, men's jewellery, kid's jewellery and jewellery for personal occasions. Further, it represents designs from wide range of cultures from traditional to Indo western to western designs in order to attract customers with varied interests. The five decades legacy of its brand suggests trust amongst its customers.

Senco Gold Key brands:



Source: RHP

As mentioned below, Senco Gold operates a low capex business model where it operates 75 company operated stores while 61 are franchise owned stores (Total 136 stores). The gross margins are shared with these franchise owners in 25:75 ratio.



Source: RHP

Schemes and digital offerings:

Particulars	Description
Jewellery purchase schemes (through periodic installments)	Swarna Labh (6 months), Swarna Yojana (11 months), Swarna Vridhi (18 months) with minimum enrollment at Rs. 1000
DG Gold	A digital platform for the purchase, redemption and sale of the gold through our website, www.mydigigold.com
DG Silver	A digital platform for the purchase, redemption and sale of the silver through our website, www.mydigisilver.com .
Jewellery Design	a dedicated team of 20 designers to offer customize jewellery for individuals and to develop new designs in line with industry-wide developing jewellery preferences
Sen'nes	diversifying product offerings and expanding into bags and perfumes

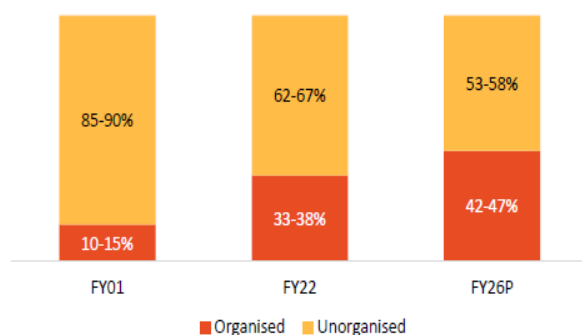
Source: RHP

Investment Rationale

Leading organized jewellery player with a strong brand name

India's Gems and Jewellery market currently stands at Rs. 4.7 tn which has grown at 14% CAGR between FY16-22 (includes 66% of gold jewellery and 34% of Bars & coins). While the business from organized players grew at 14% CAGR in the industry over FY17-23, the industry expects consistent rise in the share of organized sector from 33-38% in FY22 to 42-47% in FY26P. The gold demand is expected to improve in FY24E at 796 tonnes from 751 tonnes in FY23. The overall industry expects improved gold jewellery demand over the medium term.

Share of Organised Sector increasing consistently and likely to touch 42-47% by fiscal 2026



Organised players^A grew at ~20% CAGR vs ~14% for the industry over FY17-23

Structural growth drivers to cause this gain in market share



Source: RHP

Senco Gold is a largest organized player in eastern region of India in jewellery retail business in terms of its number of stores. The company has a legacy of five years of track record in its business where it has established a healthy customer connect with various distribution channels and business strategies.

Senco Gold focuses more on middle and upper middle class segments where it sells its products at an average ticket size of Rs. 60-70K. Its 65-75% of the products are being sold at Rs. 50K with its products which looks heavy but made light that attracts its customers. Additionally, it charges 1-2% higher making charges compared to industry for its look and feel. We believe the Senco Gold has positioned itself very well with its strong brand name.

Customised Showroom formats catering to all segments as listed below:

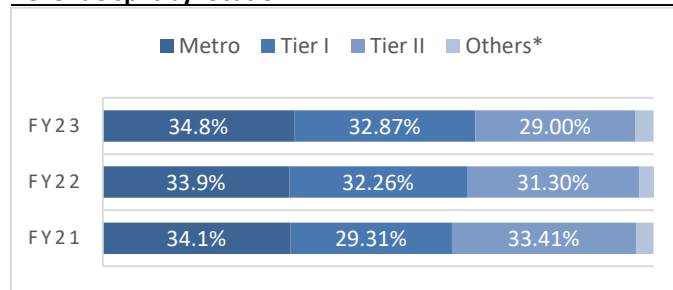
	Standard	D'Signia	Everlite
Target Audience	• Across all segments	• Across all segments • Premium collection	• Younger generation & upwardly mobile
Average Ticket Size	~INR 48,000	~INR 51,000	~INR 29,000
For Fiscal 2023			

Source: RHP

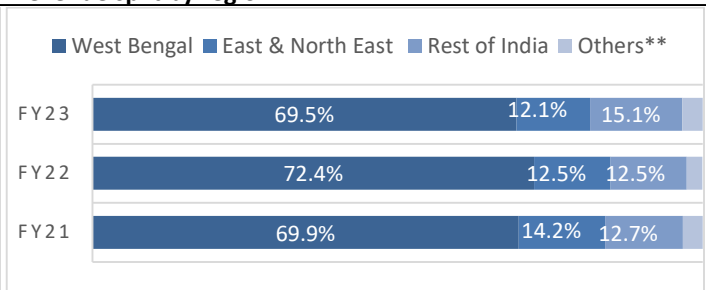
Expansion of its presence through strong distribution channels

Senco Gold's 136 showrooms are present across 96 cities and towns over 13 state, as on Mar'23. Some of the franchise showrooms are located in areas other than metros and Tier I cities that provides greater reach towards Tier II locations. It has a major presence in eastern India along with widest geographical footprint in non-eastern states.

Revenue split by location:



Revenue split by region:



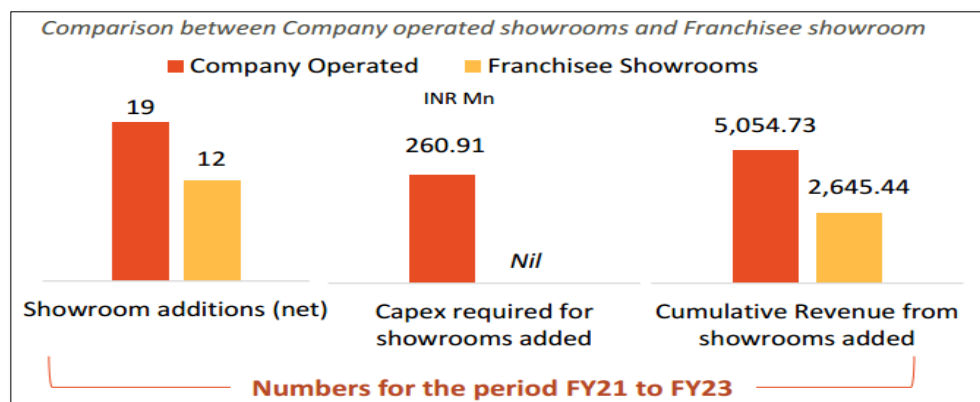
Source: RHP

*Others constitutes exports, DG Gold, DG Silver, corporate and e-commerce sales.

Besides this, Senco Gold intend to add new and future generation showroom formats such as D'Signia and Everlite. It has adopted Phy-gital approach to reach beyond physical showrooms while it will continue to dwell on expanding its presence through digital space which will add its incremental revenue with relatively low investments.

Established low capex model to improve operating leverage

Senco Gold aims at using its hub and spoke model across the country to enter new markets where a company operated showroom will connect to the number of franchise showrooms and continue to leverage its low capex business model in order to improve its operating performance. This asset light franchise model evaluates both 'franchise owned, franchise operated' model. **The company has invested Rs. 26 cr for the addition of 19 showrooms operated by company and 12 showrooms added without capex investment under franchise model that led to Rs. 265cr of incremental revenue between FY21-23.** Further, with this model, it enables Senco Gold to penetrate Tier II and Tier II cities efficiently.



Source: RHP

Focusing on optimal product mix in order to achieve higher operating margins

The management has observed that the Indian consumer demand for diamond jewellery has increased at higher rates compared to gold jewellery. Thus, Senco Gold focuses on the growth of its diamond jewellery business. Senco Gold grew its revenue from diamond jewellery at a CAGR growth of 43.3% between FY21-23 and its revenue share increased from 5.06% in FY21 to 6.77% in FY23. ~90% of company's revenue generates from gold jewellery, it aims to grow its diamond jewellery business (~6.8% of revenue) as it enhances company's overall operating margin profile.

The same will be initiated through light weight diamond jewellery sales through various initiatives such as introduction of its own branded lines, competitive pricing, increasing the range of products, marketing activities. Also, it has established a separate display counters for its diamond jewellery for its 'Everlite' brand and 'Perfect Love Diamond Solitaires' collection. It also aims at reducing the inventory holding period by improving operational efficiency.

Focus on technology to enhance operational efficiency while targeting youth and upwardly mobile in India

Senco Gold's has incorporated ERP model in its business in 2007 which was well ahead of the overall industry that shows company's focus on bringing efficiency through the investment in latest technologies. This has helped to maintain its control over business operations such as inventory management, showroom management, accounting, logistics management and customer data storage, etc. Currently, it is implementing CRM module which will consolidate customer data and perform business analytics to forecast trends and to manage customers' journey from enquiry to purchase.

It is also working on an omni-channel 360 degree customer shopping experience, including through the use of augmented reality or virtual reality to provide a customer a near in-showroom experience even when browsing or purchasing online by virtual try ons of certain designs.

Additionally, it has launched online platforms, www.sencogoldanddiamonds.com and www.mygossip.in and a mobile application, MySenco, through which its offers jewellery products and gold coins to a diverse range of customers. The websites www.mygossip.in for Gossip products, www.mydigigold.com for digital purchase of gold and our customer portal, www.mysenco.in for the status update of orders are amongst other initiatives to engage with customers across multiple channels across age groups, especially the younger generation.

It has a manufacturing facility located at Ankurhati, Howrah and the factory operated by subsidiaries allows it to drive agile manufacturing processes using modern technologies such as 3D printing, CAD driven designing and laser cutting.

High Risks and concerns

Heavy dependency on Gold and its price volatility

Senco Gold generates ~90% of business from gold jewellery products. Company's business or financials may negatively impact due to any related factors adversely affecting the procurement of gold or sale of gold jewellery. Further, company's inventory value may get impacted due to the volatility in the prices of gold or diamond that may impact company's profitability.

Regulatory risks

Company's borrowings includes gold loans subject to RBI regulations. Any change in the related regulations may have an impact governing gold on loan basis.

Generating negative operating cash flow since last 2 years

Although the company has focused on low capex model and its stable performance, it has unable to generate positive operating cash flow over the last 2 years. This can create challenges for the company in the future in case of any negative micro or macroeconomic scenario.

Valuation and Recommendation

Senco Gold has positioned well in the eastern India and other non-eastern regions with its legacy of last five decades of journey. It has delivered 24% revenue growth over FY21-23 with margin improvement from 6.6% in FY21 to 7.8% in FY23. Although, company's decent performance in terms of profitability amongst its peers, it has observed challenges generating positive operating cash flow during the last 2 years. Further, debt to equity ratio at 1.2x as on Mar'23 may lead to further contraction in company's profitability. However, the IPO is issued at 15.5x PE valuation based on its FY23 EPS which is at discount relative to average PE valuation of its peers. Thus, **we recommend 'SUBSCRIBE' to the issue for listing gains.**

Listed Retail Jewellers

FY23 Figures	Titan Ltd	Kalyan Jewellers	TBZ	Thangamayil Jewellery	Average	Senco Gold IPO
Revenue	40,575	11,584	2,399	3,153	5,712	4,077
CAGR (FY21-23)	37%	28%	34%	32%	31.1%	24%
EBITDA Margin	12.0%	8.1%	4.8%	5.0%	6.0%	7.8%
Asset Turns (x)	1.5	1.1	1.6	2.5	1.7	1.4
ROCE	25.1%	12.0%	7.4%	14.5%	11.3%	14.2%
ROE	30.7%	13.5%	8.6%	22.4%	14.8%	16.8%
Debt/Equity	0.2	0.5	0.9	1.4	0.9	1.2
EV/EBITDA	46.0	12.4	7.3	11.8	10.5	10.1
P/E	81.2	35.0	14.0	26.1	25.0	15.5

Source: RHP, NBRR

Note: Average excludes the Titan financials

Financials

P&L (Rs. Cr)	FY21	FY22	FY23	Balance Sheet (Rs. Cr)	FY21	FY22	FY23
Net Revenue	2,660	3,535	4,077	Share Capital	53	53	56
% Growth		33%	15%	Other Equity	549	673	890
Raw Materials	2,285	2,981	3,422	Networth	603	726	946
% of Revenues	85.9%	84.3%	83.9%	Total Loans	532	863	1,177
Employee Cost	52	75	93	Other non-curr liab.	134	146	214
% of Revenues	2.0%	2.1%	2.3%	Trade payable	61	117	144
Other expenses	147	202	245	Other Current Liab	229	248	424
% of Revenues	5.5%	5.7%	6.0%	Total Equity & Liab.	1,559	2,100	2,905
EBITDA	175	277	317	Fixed Assets & CWIP	67	69	85
EBITDA Margin	6.6%	7.8%	7.8%	Right-of-use-asset & Other	147	161	208
Depreciation	40	42	46	Deferred Tax Assets	13	14	18
Other Income	15	13	31	Inventories	1,039	1,391	1,885
Interest	67	71	86	Other non Curr. assets	64	55	94
Exceptional item	0	0	0	Cash	9	10	9
PBT	84	177	216	Bank	120	269	428
Tax	22	48	58	Debtors	28	39	45
Tax rate	27%	27%	27%	Other Current assets	73	92	133
Minority Interest	0	0	0	Total Assets	1,559	2,100	2,905
Adj. PAT (norm. Tax)	61	129	158				
% Growth		110%	23%				
EPS (Post Issue)	7.92	16.61	20.41				
				Cash Flow (Rs. Cr)	FY21	FY22	FY23
				Profit Before Tax	84	177	216
				Provisions & Others	96	104	114
				Op. profit before WC	180	281	330
				Change in WC	43	(312)	(347)
				Less: Tax	(42)	(39)	(59)
				CF from operations	181	(70)	(76)
				Int & Div Received	5	6	13
				Others	(45)	(138)	(180)
				Investment in/maturity of BD			
				Payment for PPE	(14)	(25)	(31)
				CF from Investing	(54)	(157)	(198)
				Proceeds from borrowings	(42)	331	315
				Repayment from borrowings	(1)	(0)	(1)
				Proceeds from issue of equity share ca	0	0	75
				Repayments towards lease liab	(11)	(17)	(20)
				interest & div paid	(68)	(85)	(95)
				CF from Financing	(122)	228	274
				Net Change in cash	5	1	(0)
				Cash & Bank at beginning	4	9	10
				Cash & Bank at end	9	10	9

Source: Company data, NBRR

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