

# Senco Gold

## Putting its best foot forward

We recently interacted with Senco's CFO, Mr Sanjay Banka, who expressed continued confidence in achieving 18-20% revenue growth and 12-13% same-store sales growth (SSSG) in FY25, with gross margin (GM) and EBITDA margin (EBITDAM) guidance of 14.5-15% and 7-8%, respectively. Additionally, demand in July and August has been healthy, with most SSSG gains expected to come from increased footfall. However, the company has revised its store addition target to 18-20 stores for FY25, as rising gold prices could impact the inventory available for the year. The stock is currently trading at 54x FY24 P/E.

- Q2 demand remains healthy:** Management highlighted that following demand moderation in Q1, demand in July and August 2024 has been healthy (channel checks indicate a 15-20% growth for the organised segment). We suspect this could partially be a consequence of the preponement of demand from Q3 in the wake of a sudden decline in gold prices (courtesy customs duty hikes). However, management expects demand to remain healthy for the rest of FY25. It has guided for 18-20% revenue and 12-13% SSSG growth in FY25. Most of the SSSG gains are expected to be led by footfall gains.
- On store expansion:** Store addition guidance has been toned down to 18-20 stores (from ~28 earlier) for FY25 as rising gold prices could take a toll on the total inventory that can be bought for the year. Over the medium-to-long term, management remains confident of clocking similar revenue growth rates/expansion pace as in FY25. However, the pace could potentially accelerate subject to the availability of WC. While East and North will remain mainstay catchments where the lion's share of the expansion will take place; management intends to improve its presence in South and West regions, especially in catchments with a stronger Bengali population.
- Gold sourcing strategy:** The company intends to keep >80% of its gold hedged via natural hedging instruments such as GML/other instruments. As of Q1 FY25, 40% of the gold procured was through GML, 35% through old gold exchange, and 24% through trading.
- On profitability:** Margin guidance for FY25 stands at 14.5-15%/7-8% (GM/EBITDAM). The underpinnings for this are likely to be (1) premiumisation and (2) studded ratio improvement (100 bps annually). However, management highlighted that although studded jewellery yields higher margins, its RoCE is comparable to plain gold jewellery, as the latter compensates with faster inventory turnover. Also, the cost of funding (via cheaper sources like GML) makes the profit spread (ROCE-funding cost) for plain gold jewellery broadly similar to that of studded jewellery. Hence, the focus will largely be on syncing assortment to consumer demand rather than pushing a certain type of jewellery. GMs are highest in the east, followed by the north, then the west and finally the south. The latter is low on profitability, given (1) intense competition and (2) low customer base.

### Financial Summary (INR mn)

	FY20	FY21	FY22	FY23	FY24
Net Sales	24,203	26,604	35,346	40,774	52,414
EBITDA	2,165	1,753	2,772	3,166	3,755
APAT	909	615	1,291	1,585	1,810
Dil. EPS (Rs/sh)	13	9	19	23	24
P/E (x)	94	139	66	55	53
EV/EBITDA (x)	42	51	33	30	28
ROE (%)	17.9	10.7	19.1	18.6	15.4

## NOT RATED

CMP (as on 18 Sep 24)	INR 1,260
Target Price	NA
NIFTY	25,378

### KEY STOCK DATA

Bloomberg code	SENCO IN
No. of Shares (mn)	78
MCap (INR bn) / (\$ mn)	98/1,170
6m avg traded value (INR mn)	529
52 Week high / low	INR 1,349/463

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	22.5	74.2	166.4
Relative (%)	15.2	59.0	143.7

### SHAREHOLDING PATTERN (%)

	Mar-24	Jun-24
Promoters	68.45	68.45
FIs & Local MFs	3.4	4.2
FPIs	14.02	7.72
Public & Others	14.13	19.63
Pledged Shares	0	0

Source : BSE

Pledged shares as % of total shares

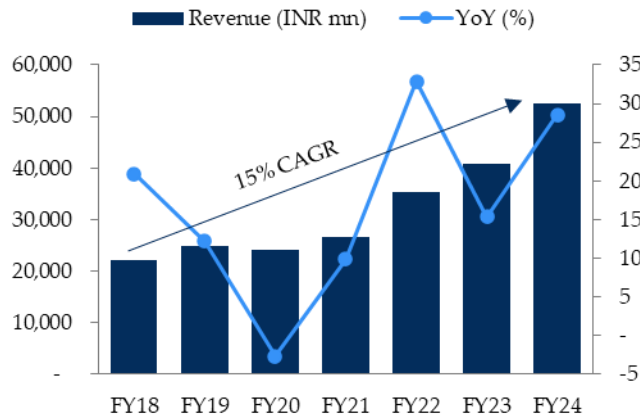
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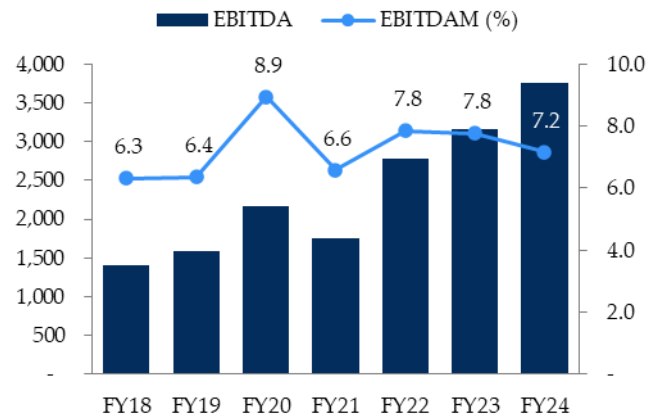
## Story in Charts

Senco Gold has compounded revenue at 16% CAGR over FY19-24...



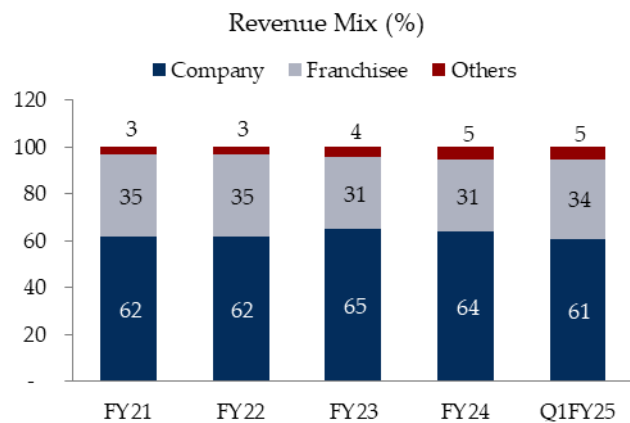
Source: HSIE Research

...and expanded margins by 80bps over FY19-24



Source: Companies, HSIE Research, (Universe: 23 footwear companies comprising 75%+ of organized pie)

COCO vs FOFO revenue mix has largely remained stable



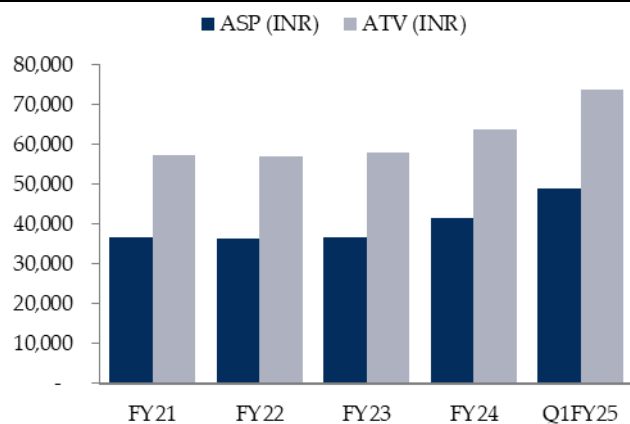
Source: Company, HSIE Research

...SSSG has remained healthy at an avg of 15% CAGR over FY21-24 (rising gold prices certainly helped)



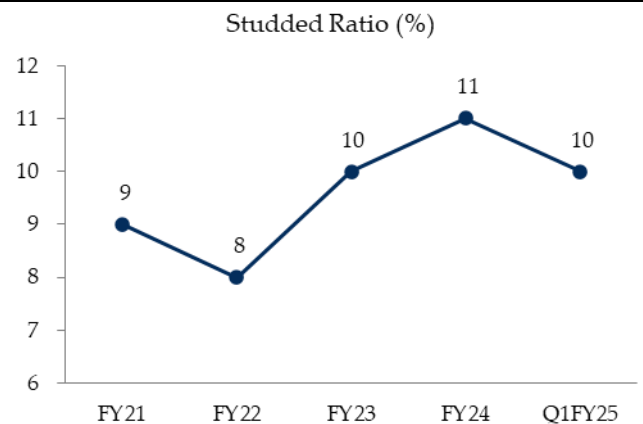
Source: Company, HSIE Research

...Ticket sizes have consistently inched up (courtesy rising gold prices)



Source: Company, HSIE Research

Studded Ratio remains largely stable (Mgt intends to improve 100bps annually)



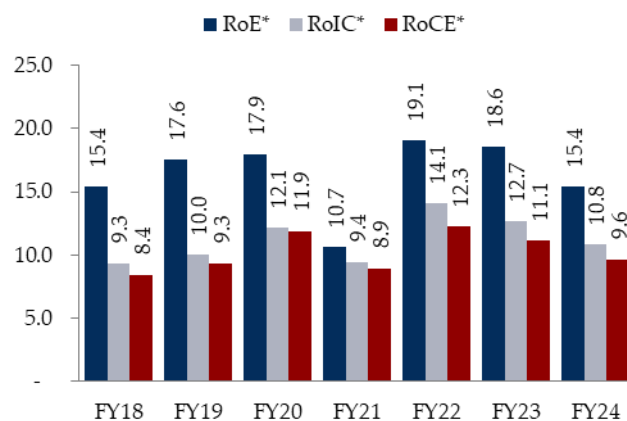
Source: Company, HSIE Research

### Cash conversion cycle

In days	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Inventory	138	128	164	143	144	169	171
Debtors	7	3	4	4	4	4	4
Other Current Assets	5	6	9	10	9	12	15
Payables	10	11	19	8	12	13	14
Other Current Liab & Provns	8	10	24	30	24	36	27
<b>Core CCC</b>	<b>135</b>	<b>119</b>	<b>149</b>	<b>138</b>	<b>136</b>	<b>160</b>	<b>160</b>
<b>Cash Conversion Cycle</b>	<b>132</b>	<b>114</b>	<b>134</b>	<b>119</b>	<b>121</b>	<b>136</b>	<b>149</b>

Source: Company, HSIE Research

### Returns profile (%)



Source: Company, HSIE Research

### Capital Allocation over the years

Particular (INR mn)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	Total
<b>Sources of Funds</b>									
Cash from Operations (excl. WC change)	1,030	1,456	1,632	2,183	1,798	2,823	3,302	3,850	18,073
Less : Rent Adjustment	-	-	-	234	113	173	204	312	1,037
: Interest Adjustment	-	-	-	-	165	190	219	285	859
Other Income	50	43	58	43	53	60	127	201	634
<b>Sub Total (A)</b>	<b>1,080</b>	<b>1,499</b>	<b>1,690</b>	<b>1,991</b>	<b>1,572</b>	<b>2,519</b>	<b>3,005</b>	<b>3,454</b>	<b>16,811</b>
Loan to subsidiaries	-	-	-	-	-	-	-	-	-
Borrowings	63	1,496	(215)	(127)	(429)	3,305	3,142	3,212	10,447
Net Proceeds from Issue of Capital	-	-	-	-	-	-	750	2,482	3,232
<b>Total (B)</b>	<b>1,143</b>	<b>2,995</b>	<b>1,475</b>	<b>1,864</b>	<b>1,143</b>	<b>5,824</b>	<b>6,897</b>	<b>9,147</b>	<b>30,490</b>
<b>Application of Funds</b>									
Working Capital	989	1,940	1,147	1,394	(11)	3,522	4,063	6,788	19,832
Net Capex	207	(34)	193	210	140	247	311	382	1,656
Investments -	-	-	-	-	-	-	-	-	-
- in subsidiary	-	-	-	-	-	-	-	-	-
- others	-	-	422	(200)	449	1,384	1,796	1,003	4,854
Other Investing flows	(183)	422	-	-	-	-	-	-	239
Interest	329	365	343	391	517	514	614	791	3,863
Dividend Paid	67	-	33	100	-	147	114	93	555
Net Change in cash	(265)	303	(664)	(31)	49	10	(1)	90	(509)
<b>Total (C)</b>	<b>1,143</b>	<b>2,995</b>	<b>1,475</b>	<b>1,864</b>	<b>1,143</b>	<b>5,824</b>	<b>6,897</b>	<b>9,147</b>	<b>30,490</b>
<b>As a % of Source of Funds (A)</b>									
WC + Capex	110.7	127.1	79.3	80.5	8.2	149.6	145.6	207.6	127.8
Obligatory payments (Interest)	30.4	24.3	20.3	19.6	32.9	20.4	20.4	22.9	23.0
<b>Total</b>	<b>141.1</b>	<b>151.5</b>	<b>99.6</b>	<b>100.2</b>	<b>41.1</b>	<b>170.0</b>	<b>166.0</b>	<b>230.5</b>	<b>150.8</b>

## Income Statement

Year End (March)	FY18	FY19	FY20	FY21	FY22	FY23	FY24
<b>Net Revenues</b>	22,146	24,855	24,203	26,604	35,346	40,774	52,414
Growth (%)	20.9	12.2	-2.6	9.9	32.9	15.4	28.5
COGS	19,383	21,643	20,459	23,359	30,553	34,916	45,297
Employee Expense	401	468	470	522	748	934	1,112
Advertisement Expense	347	427	517	262	506	810	1,034
Rent Expense	232	269	76	60	51	58	67
Other Operating Expenses	385	467	515	648	717	890	1,149
<b>EBITDA</b>	<b>1,398</b>	<b>1,581</b>	<b>2,165</b>	<b>1,753</b>	<b>2,772</b>	<b>3,166</b>	<b>3,755</b>
EBITDA Growth (%)	37.5	13.1	37.0	-19.0	58.1	14.2	18.6
EBITDA Margin (%)	6.3	6.4	8.9	6.6	7.8	7.8	7.2
<b>Pre IND AS EBITDA</b>	<b>1,398</b>	<b>1,581</b>	<b>1,783</b>	<b>1,475</b>	<b>2,408</b>	<b>2,743</b>	<b>3,204</b>
Pre IND AS EBITDA Growth (%)	37.5	13.1	12.8	-17.3	63.3	13.9	16.8
Pre Ind AS EBITDA Margin (%)	6.3	6.4	7.4	5.5	6.8	6.7	6.1
Depreciation	187	164	375	396	421	456	601
<b>EBIT</b>	<b>1,210</b>	<b>1,417</b>	<b>1,790</b>	<b>1,358</b>	<b>2,351</b>	<b>2,711</b>	<b>3,154</b>
<b>Pre IND AS EBIT</b>	<b>1,210</b>	<b>1,417</b>	<b>1,579</b>	<b>1,279</b>	<b>2,229</b>	<b>2,570</b>	<b>2,960</b>
Other Income (Including EO Items)	109	82	87	145	128	311	422
Interest	373	341	557	666	697	861	1,081
Pre IND AS Interest	373	341	409	501	507	642	796
<b>PBT</b>	<b>947</b>	<b>1,158</b>	<b>1,320</b>	<b>837</b>	<b>1,781</b>	<b>2,162</b>	<b>2,495</b>
Total Tax	397	412	411	222	490	577	685
<b>RPAT</b>	<b>550</b>	<b>746</b>	<b>909</b>	<b>615</b>	<b>1,291</b>	<b>1,585</b>	<b>1,810</b>
Exceptional Gain/(loss)	-	-	-	-	-	-	-
<b>Adjusted PAT</b>	<b>550</b>	<b>746</b>	<b>909</b>	<b>615</b>	<b>1,291</b>	<b>1,585</b>	<b>1,810</b>
APAT Growth (%)	40.4	35.8	21.8	-32.4	110.0	22.8	14.2
Adjusted EPS (Rs)	8.3	11.2	13.5	9.1	19.1	22.9	24.0
EPS Growth (%)	40.4	35.8	20.0	-32.4	110.0	19.6	4.8

Source: Company, HSIE Research

## Balance Sheet

Year End (March)	FY18	FY19	FY20	FY21	FY22	FY23	FY24
<b>SOURCES OF FUNDS</b>							
Share Capital - Equity	177	532	532	665	665	691	777
Reserves	3,761	4,028	4,853	5,361	6,595	8,764	12,878
<b>Total Shareholders' Funds</b>	<b>3,938</b>	<b>4,560</b>	<b>5,385</b>	<b>6,026</b>	<b>7,260</b>	<b>9,455</b>	<b>13,655</b>
<b>Minority Interest</b>	-	-	-	-	-	-	-
Long Term Debt	49	136	142	4	4	14	11
Short Term Debt	6,639	5,602	5,488	5,320	8,626	11,757	14,973
<b>Total Debt</b>	<b>6,687</b>	<b>5,738</b>	<b>5,630</b>	<b>5,324</b>	<b>8,630</b>	<b>11,772</b>	<b>14,983</b>
Net Deferred Taxes	(48)	(105)	(59)	(127)	(141)	(179)	(228)
Other Non-current Liabilities & Provns	8	9	1,351	1,482	1,638	2,349	2,691
<b>TOTAL SOURCES OF FUNDS</b>	<b>10,586</b>	<b>10,201</b>	<b>12,308</b>	<b>12,705</b>	<b>17,386</b>	<b>23,396</b>	<b>31,101</b>
<b>APPLICATION OF FUNDS</b>							
Net Block	863	815	778	701	716	870	1,186
CWIP	40	47	42	24	65	131	15
Investment Property	-	-	-	-	-	-	-
Other Non-current Assets	306	392	1,656	2,059	2,066	2,863	2,962
<b>Total Non-current Assets</b>	<b>1,210</b>	<b>1,253</b>	<b>2,476</b>	<b>2,784</b>	<b>2,847</b>	<b>3,864</b>	<b>4,163</b>
<b>Investments</b>	-	-	-	-	-	-	-
Inventories	8,368	8,684	10,871	10,395	13,912	18,855	24,570
Debtors	403	184	277	276	394	454	529
Other Current Assets	308	392	621	730	919	1,326	2,221
<b>Cash &amp; Equivalents</b>	<b>1,391</b>	<b>1,151</b>	<b>920</b>	<b>1,281</b>	<b>2,788</b>	<b>4,376</b>	<b>5,515</b>
<b>Total Current Assets</b>	<b>10,471</b>	<b>10,411</b>	<b>12,689</b>	<b>12,682</b>	<b>18,014</b>	<b>25,010</b>	<b>32,835</b>
Creditors	609	756	1,251	609	1,174	1,445	2,069
Other Current Liabilities & Provns	485	708	1,607	2,151	2,300	4,033	3,828
<b>Total Current Liabilities</b>	<b>1,094</b>	<b>1,464</b>	<b>2,857</b>	<b>2,760</b>	<b>3,474</b>	<b>5,477</b>	<b>5,897</b>
<b>Net Current Assets</b>	<b>9,376</b>	<b>8,947</b>	<b>9,832</b>	<b>9,921</b>	<b>14,540</b>	<b>19,533</b>	<b>26,938</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>10,586</b>	<b>10,200</b>	<b>12,308</b>	<b>12,705</b>	<b>17,386</b>	<b>23,396</b>	<b>31,101</b>

Source: Company, HSIE Research

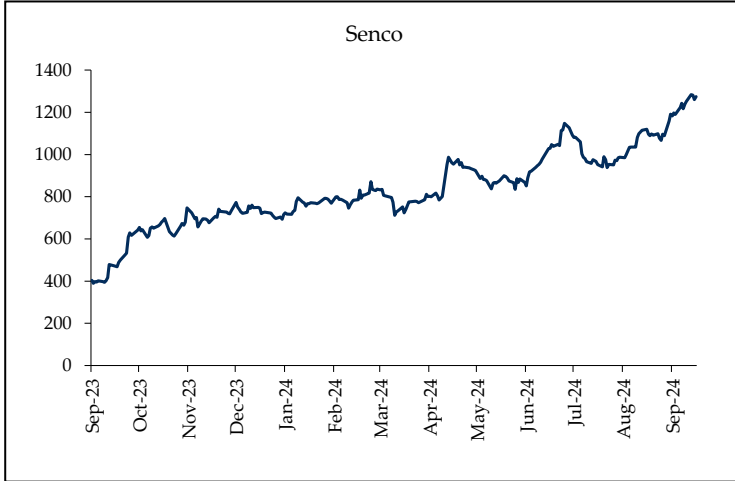
**CASH FLOW STATEMENT**

Year ending March	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Reported PBT	1,128	1,158	1,320	837	1,781	2,162	2,495
Non-operating & EO Items	(231)	(30)	(69)	(101)	(77)	(176)	(328)
Interest Expenses	373	341	557	666	697	861	1,081
Depreciation	187	164	375	396	421	456	601
Working Capital Change	(1,666)	(601)	(990)	432	(3,123)	(3,471)	(6,081)
Tax Paid	(274)	(546)	(404)	(421)	(399)	(592)	(708)
<b>OPERATING CASH FLOW ( a )</b>	<b>(483)</b>	<b>485</b>	<b>789</b>	<b>1,809</b>	<b>(699)</b>	<b>(761)</b>	<b>(2,938)</b>
Capex	34	(193)	(210)	(140)	(247)	(311)	(382)
Free Cash Flow (FCF)	(450)	292	579	1,669	(946)	(1,072)	(3,321)
Investments	-	(422)	200	(449)	(1,384)	(1,796)	(1,003)
Non-operating Income	(379)	58	43	53	60	127	201
<b>INVESTING CASH FLOW ( b )</b>	<b>(346)</b>	<b>(557)</b>	<b>33</b>	<b>(537)</b>	<b>(1,571)</b>	<b>(1,980)</b>	<b>(1,185)</b>
Debt Issuance/(Repaid)	1,496	(215)	(127)	(429)	3,305	3,142	3,212
Interest Expenses	(365)	(343)	(391)	(682)	(704)	(833)	(1,076)
FCFE	682	(267)	61	558	1,655	1,237	(1,185)
Share Capital Issuance	-	-	-	-	-	750	2,482
Dividend	-	(33)	(100)	-	(147)	(114)	(93)
Others	-	-	(234)	(113)	(173)	(204)	(312)
<b>FINANCING CASH FLOW ( c )</b>	<b>1,131</b>	<b>(592)</b>	<b>(853)</b>	<b>(1,224)</b>	<b>2,280</b>	<b>2,741</b>	<b>4,213</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>303</b>	<b>(664)</b>	<b>(31)</b>	<b>49</b>	<b>10</b>	<b>(1)</b>	<b>90</b>
Closing Cash & Equivalents	1,391	1,150	920	1,281	2,788	4,376	5,514

**KEY RATIOS**

	FY18	FY19	FY20	FY21	FY22	FY23	FY24
<b>PROFITABILITY (%)</b>							
GPM	12.48	12.92	15.47	12.20	13.56	14.37	13.58
EBITDA Margin	6.31	6.36	8.95	6.59	7.84	7.77	7.16
EBIT Margin	5.5	5.7	7.4	5.1	6.7	6.6	6.0
APAT Margin	2.5	3.0	3.8	2.3	3.7	3.9	3.5
RoE	15.4	17.6	18.3	10.8	19.4	19.0	15.7
RoIC (or Core RoCE)	9.3	10.0	12.1	8.7	13.1	11.8	10.3
RoCE	8.4	9.3	11.5	8.8	11.9	10.9	9.5
RoE*	15.4	17.6	17.9	10.7	19.1	18.6	15.4
RoIC*	9.3	10.0	12.1	9.4	14.1	12.7	10.8
RoCE*	8.4	9.3	11.9	8.9	12.3	11.1	9.6
<b>EFFICIENCY</b>							
Tax Rate (%)	35.4	35.5	31.1	26.5	27.5	26.7	27.5
Fixed Asset Turnover (x)	15.8	19.5	16.9	17.3	20.5	20.0	20.4
Inventory (days)	137.9	127.5	163.9	142.6	143.7	168.8	171.1
Debtors (days)	6.6	2.7	4.2	3.8	4.1	4.1	3.7
Other Current Assets (days)	5.1	5.8	9.4	10.0	9.5	11.9	15.5
Payables (days)	10.0	11.1	18.9	8.4	12.1	12.9	14.4
Other Current Liab & Provns (days)	8.0	10.4	24.2	29.5	23.8	36.1	26.7
Cash Conversion Cycle (days)	131.6	114.5	134.4	118.5	121.3	135.7	149.2
Net Debt/Equity (x)	1.3	1.0	0.9	0.7	0.8	0.8	0.7
Net Debt/EBITDA (x)	3.8	2.9	2.2	2.3	2.1	2.3	2.5
Interest Coverage (x)	3.2	4.2	3.2	2.0	3.4	3.2	2.9
<b>PER SHARE DATA (Rs)</b>							
EPS	8.3	11.2	13.5	9.1	19.1	22.9	24.0
CEPS	11.1	13.7	19.0	15.0	25.4	29.5	31.9
Dividend	-	2.5	2.5	3.0	2.1	4.0	1.0
Book Value	59.2	68.6	79.8	89.3	107.6	136.5	180.9
<b>VALUATION</b>							
P/E (x)	153.5	113.1	94.2	139.3	66.4	55.5	52.9
P/BV (x)	21.4	18.5	15.9	14.2	11.8	9.3	7.0
EV/EBITDA (x)	64.2	56.3	41.7	51.2	33.0	30.1	28.0
EV/Revenues (x)	4.1	3.6	3.7	3.4	2.6	2.3	2.0
OCF/EV (%)	(0.5)	0.5	0.9	2.0	(0.8)	(0.8)	(2.8)
FCF/EV (%)	(0.5)	0.3	0.6	1.9	(1.0)	(1.1)	(3.2)
FCFE/Mkt Cap (%)	0.8	(0.3)	0.1	0.7	1.9	1.4	(1.2)
Dividend Yield (%)	-	0.2	0.2	0.2	0.2	0.3	0.1

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: >10% Downside return potential

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