18 April 2024

Senco Gold

One of the largest organised jeweller in East; initiating, with a Buy

Rating: **Buy**
Target Price (12-mth): Rs.1,277
Share Price: Rs.968

An all-India retailer of gold and diamond jewellery at various prices, Senco Gold has major market share in East with ~79% of its store presence (FY23) in the east India. With its focus on light-weight jewellery and extensive retail network, it aims to cater to a wider customer base. Its key strengths are innovation, intricate designs, product quality & finish and ability to recognize consumer preferences and market trends. We build in 23%/28%/36% revenue/EBITDA/PAT CAGRs over FY24-26. We initiate coverage on the company with a Buy, valuing it at 28x FY26e P/E to arrive at a TP of Rs1,277.

Focus on light-weight jewellery, asset-light franchisee model. Senco's USP is its light-weight jewellery across prices, helping maximise its customer base. Its network of 90 COCO stores is supported by 65 franchisees and various online platforms. Its hub-and-spoke approach helped it expand to new regions and lever the logistical efficiency of stocks and return on capital. The COCO stores brought ~65% of FY23 sales; franchisees/online, ~32%/3%.

Efficient operating model. The vast variety of its jewellery is handcrafted by skilled *karigars*, third-party vendors or in-house. Most of the gold required is sourced via banks' gold-loan facilities, with hedging policies minimising the risks of gold-price fluctuations. The company has an effective inventory management system and focuses on levering technology to drive efficiencies.

Financials. Over FY24-26, we expect a 23% revenue CAGR driven by SSSG and store expansion, a 15.3% FY26 gross margin with better studded and product mixes and 28%/36% EBITDA/PAT CAGRs. We expect 21.4%/14.4% RoE/RoCE and 135 working capital days by FY26 largely due to fewer inventory days. Net debt would rise to Rs11bn by FY26. We expect the turnaround in OCF generation (cumulative Rs2.3bn over FY24-26) driven by higher profitability and lower inventory.

Valuation. We initiate coverage of Senco Gold with a TP of Rs1,277 (28x FY26e P/E). At the CMP, the stock is valued at 28.5x/21.2x FY25e/FY26e P/E. **Risks:** More working capital, higher regulatory requirements, keener competition.

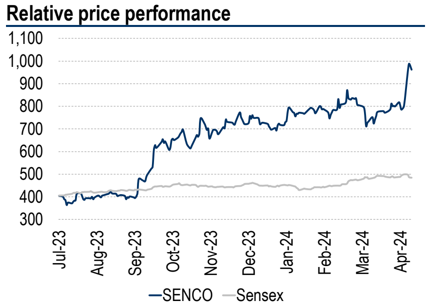
Key financials (YE Mar)	FY22	FY23	FY24e	FY25e	FY26e
Sales (Rs m)	35,346	40,774	52,093	64,461	78,577
Net profit (Rs m)	1,291	1,585	1,713	2,349	3,159
EPS (Rs)	19.4	22.9	24.7	33.9	45.6
P/E (x)	-	-	39.1	28.5	21.2
EV / EBITDA (x)	-	-	22.1	17.5	13.8
P/BV (x)	-	-	6.1	5.1	4.1
RoE (%)	19.4	19.0	16.7	19.4	21.4
RoCE (%)	12.6	10.7	10.2	12.3	14.4
Dividend yield (%)	-	-	0.2	0.2	0.2
Net debt / equity (x)	0.8	0.8	0.8	0.8	0.7

Source: Company, Anand Rathi Research

Key data	SENCO IN
52-week high / low	Rs1067 / 358
Sensex / Nifty	72489 / 21996
3-m average volume	$4.9m
Market cap	Rs75bn / $894.3m
Shares outstanding	78m

Shareholding pattern (%)	Dec'23	Sep'23	Jun'23
Promoters	68.5	68.5	-
- *of which, Pledged*	-	-	-
Free float	31.5	31.5	-
- Foreign institutions	14.5	14.4	-
- Domestic institutions	7.0	8.5	-
- Public	10.1	8.6	-

Relative price performance



Source: Bloomberg

Vaishnavi Mandhaniya
Research Analyst

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Research Associate

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Net revenues	35,346	40,774	52,093	64,461	78,577
Growth (%)	*32.9*	*15.4*	*27.8*	*23.7*	*21.9*
Direct costs	29,805	34,219	44,435	54,792	66,555
SG&A	2,769	3,388	4,107	5,082	6,194
EBITDA	**2,772**	**3,166**	**3,551**	**4,588**	**5,828**
EBITDA margins (%)	*7.8*	*7.8*	*6.8*	*7.1*	*7.4*
- Depreciation	421	456	567	621	677
Other income	128	311	365	258	157
Interest expenses	709	861	1,074	1,050	1,039
PBT	1,770	2,162	2,275	3,174	4,269
Effective tax rates (%)	*27.0*	*26.7*	*24.7*	*26.0*	*26.0*
+ Associates / (Minorities)	-	-	-	-	-
Net income	1,291	1,585	1,713	2,349	3,159
Adjusted income	1,291	1,585	1,713	2,349	3,159
WANS	66.7	69.3	69.3	69.3	69.3
FDEPS (Rs)	19.4	22.9	24.7	33.9	45.6
FDEPS growth (%)	*109.4*	*18.1*	*8.1*	*37.1*	*34.5*
Gross margins (%)	*15.7*	*16.1*	*14.7*	*15.0*	*15.3*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
Share capital	532	559	559	559	559
Net worth	7,260	9,455	11,030	13,240	16,261
Debt (incl. Pref.)	8,630	11,772	11,772	11,772	11,772
Minority interest					
DTL / (Assets)*	1,488	1,918	1,918	1,918	1,918
Capital employed	**17,378**	**23,145**	**24,720**	**26,930**	**29,951**
Net tangible assets**	2,207	2,774	2,996	3,241	3,380
Net intangible assets	25	23	-	-	-
Goodwill					
CWIP (tang. & intang.)	65	131	131	131	131
Investments (strategic)	-	-	-	-	-
Investments (financial)	0	1	1	1	1
Current assets (excl. cash)	15,775	21,569	25,022	30,565	35,712
Cash	2,788	4,376	2,517	812	648
Current liabilities	3,483	5,729	5,947	7,821	9,921
Working capital	12,292	15,841	19,075	22,745	25,790
Capital deployed	**17,378**	**23,145**	**24,720**	**26,930**	**29,951**
Contingent liabilities	-	-	-	-	-

* *including lease liabilities, ** including right-to-use assets*

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
PBT (adj. for int. inc. & exp.)	1,770	2,162	2,275	3,174	4,269
+ Non-cash items	1,042	1,140	1,641	1,671	1,716
Oper. prof. before WC	2,811	3,302	3,916	4,845	5,985
- Incr. / (decr.) in WC	3,123	3,471	3,234	3,670	3,046
Others incl. taxes	388	592	562	825	1,110
Operating cash-flow	(699)	(761)	119	350	1,829
- Capex (tang. + intang.)	247	311	450	550	500
Free cash-flow	(945)	(1,072)	(331)	(200)	1,329
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	147	114	139	139	139
+ Equity raised	-	750	-	-	-
+ Debt raised	3,305	3,142	-	-	-
- Fin investments	855	1,906	-	-	-
- Misc. (CFI + CFF)	1,347	801	1,390	1,366	1,355
Net cash-flow	10	(1)	(1,859)	(1,705)	(164)

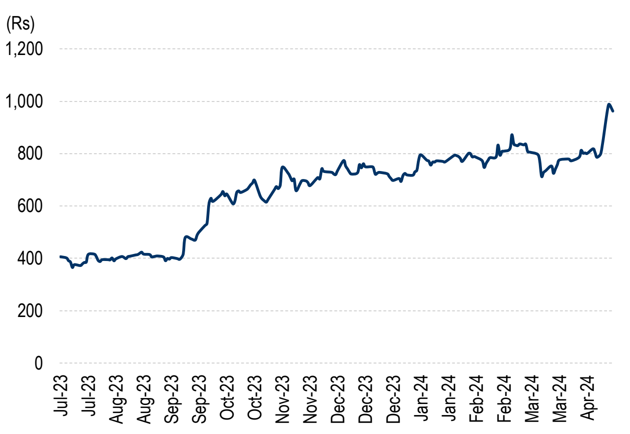
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	-	-	39.1	28.5	21.2
EV / EBITDA (x)	-	-	22.1	17.5	13.8
EV / Sales (x)	-	-	1.5	1.2	1.0
P/B (x)	-	-	6.1	5.1	4.1
RoE (%)	19.4	19.0	16.7	19.4	21.4
RoCE (%) - after tax	12.6	10.7	10.2	12.3	14.4
RoIC (%) - after tax	14.8	13.3	12.1	13.2	14.8
DPS (Rs)	1.5	1.5	2.0	2.0	2.0
Dividend yield (%)	-	-	0.2	0.2	0.2
Div. payout (%) - incl. DDT	7.7	6.6	8.1	5.9	4.4
Net debt / equity (x)	0.8	0.8	0.8	0.8	0.7
Receivables (days)	4	4	4	4	4
Inventory (days)	144	169	154	152	145
Payables (days)	12	13	11	14	14
CFO : PAT %	(54.1)	(48.0)	7.0	14.9	57.9

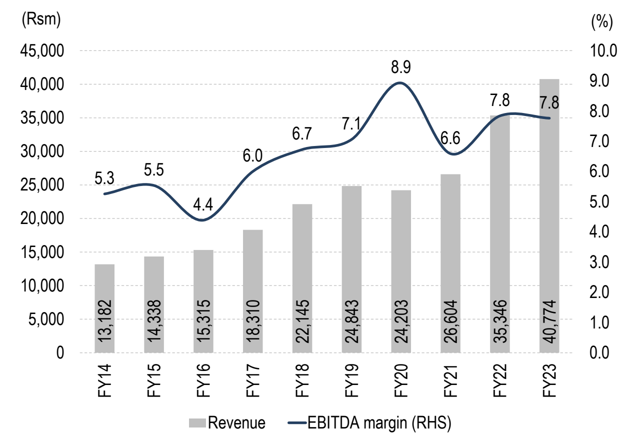
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – ~13%/18% revenue/EBITDA CAGRs over FY14-23



*Source: Company * FY14-20 are standalone figures*

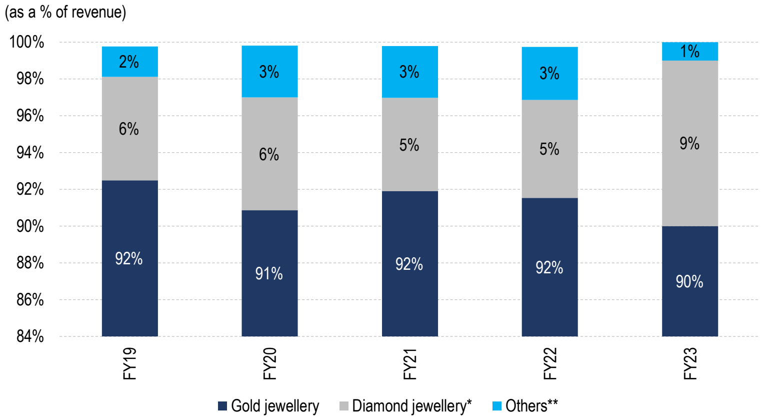
One of the largest organised jewellers in east India

Senco is a pan-India jewellery retailer with highest penetration in east India. As per management, the company currently enjoys mid-single digit of the overall jewellery market in the East.

It mainly retails gold jewellery (90% of its FY23 revenue), as well as diamond jewellery (9%) and silver, platinum, etc. (1%). It offers a wide variety of handcrafted jewellery (more than 130,000 catalogue designs for gold jewellery and 72,000+ for diamond jewellery); most of these are designed and manufactured in-house in close collaboration with skilled craftsmen of Kolkata and other regions.

Its focus on selling light-weight jewellery with ticket size of Rs2,000 and more, has helped it reach a wider customer base across age groups. It reported Rs36,600 ASP, while the transaction value in FY23 averaged Rs57,900.

Fig 7 – Revenue break-up across product segments



Source: Company
**Includes precious/semi-precious stones* ***Includes silver, platinum, fashion jewellery and novelty and accessories*

Its products are sold offline through 90 company-operated stores, 65 franchisees. It is also present through various online platforms including its own website and mobile app. The strategy of multiple channels enables it to allocate required capital as it continues to expand its geographic presence and moves toward an omni-channel network.

Its key strengths include focus on design and innovation, ability to recognize consumer preferences and market trends, design intricacy, and quality & finish of its products.

Fig 8 – Compelling reasons to invest in Senco Gold

Source: Anand Rathi Research

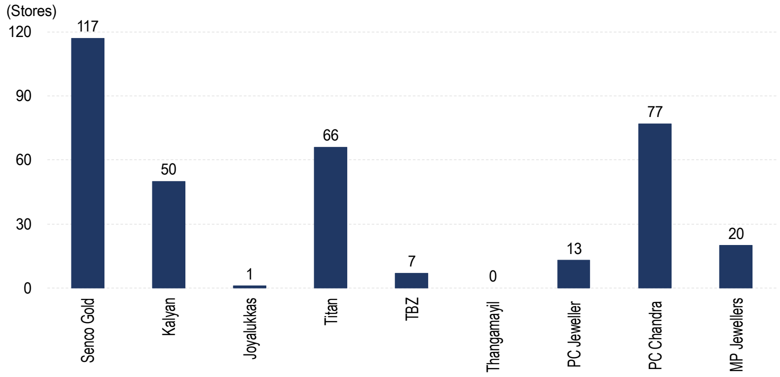
Mid-single digit market share in East India - vast headroom for growth

Senco's store presence is largest in East (~79% of its stores), accounting for 82-85% of its revenue over FY19-23.

The Eastern region is 15% of India's jewellery market with the organised segment accounting for 40-50% of this. Compulsory BIS hallmarking, increasing demand for diamond-studded and light-weight jewellery, better customer service and policies, focus on quality, offline stores as well as online formats are some growth drivers that would help on the structural shift from the unorganised to the organised segment. With Senco enjoying mid-single digit market share of the overall East jewellery market, opportunities and possibilities for growth are significant.

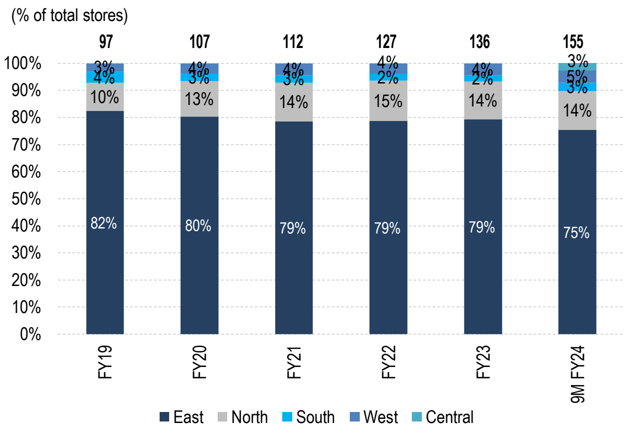
The company has large part of its operations in east and north-east India with 117 stores, vs. peers Titan's 66 and Kalyan's 50. East based players, PC Chandra Jewellers and MP Jewellers have 77/20 stores in east and north-east India.

Fig 9 – Senco has the most stores in the east and north-east compared to peers



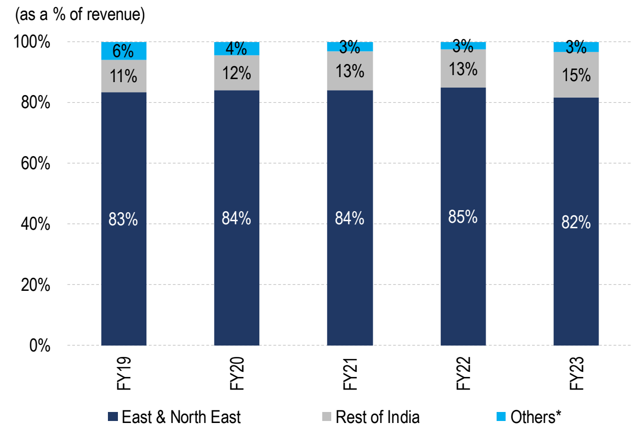
*Source: Company RHP *Senco's store count as of Dec'23; for the others store count as of May'23*

Fig 10 – East, north-east have the most stores



Source: Company

Fig 11 – East, north-east India bring ~82-85% to its revenue

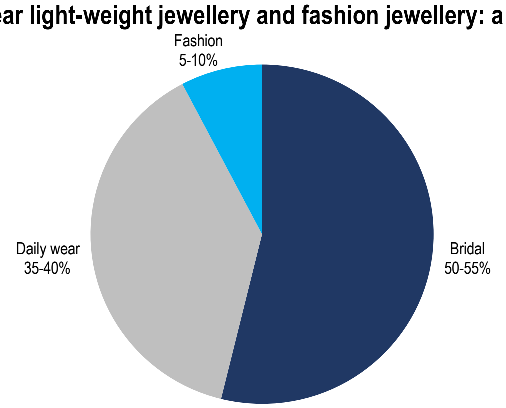


*Source: Company *Others includes exports, DG Gold, DG Silver, corporate and online sales.*

Focus on light-weight jewellery

The company's USP is light-weight gold jewellery. Daily wear light-weight and fashion jewellery constitute 40-50% of the India market (FY22) while bridal jewellery comprises 50-55%. Good growth has been seen in light-weight and affordable fashion jewellery, driven by the rising number of working women (hence, suitable daily-wear jewellery), by exposure to global designs, by the rising number of the younger generation, by jewellery preferred as adornment as well as investment, by preferences shifting from heavy to light-weight contemporary designs.

Fig 12 – Daily wear light-weight jewellery and fashion jewellery: a 40-50% share



Source: Company RHP

The company has capitalised on the swelling demand for light-weight jewellery through its diverse collection at various prices. Its strategy of selling light-weight jewellery (with gold content of 4gm to 10gm and diamonds of less than 30 cents) enabled it to reach wider customer bases across age groups. It has launched sub-brands and collections focused on jewellery averaging smaller ticket sizes to cater to youth and GenZ/millennials.

In this bracket, it has two brands, *Everlite* and *Gossip.*

Everlite offers light-weight gold and diamond jewellery starting from Rs5,000 to Rs60,000, targeting the upwardly mobile class with theme-based products. *Gossip,* a fashionable jewellery range, caters to the silver jewellery needs of younger customers. Senco has separate counters for these brands along with three exclusive *Everlite* stores.

It further intends to prioritise diamond jewellery, as these typically command higher gross margins than gold. It aims to grow diamond jewellery sales by introducing its own brands, developing light-weight products, broadening its diamond jewellery range and focused marketing campaigns.

Further, it offers a convenient way to buy jewellery though periodic instalments of six to 11 months under two schemes. Minimum enrolment is Rs1,000 and customers can redeem the value at the end of the scheme period at its jewellery stores, with discounts. For the six-/11-month tenure schemes, customers are offered special discounts of 30%/75% on the first-month instalment, to be adjusted from the value of the jewellery. These jewellery-purchase schemes at monthly instalments and the company's all-India footprint through its own website, mobile app, e-commerce tie-ups and its offline network have firmed up its foothold.

Various store formats cater to diverse customer segments

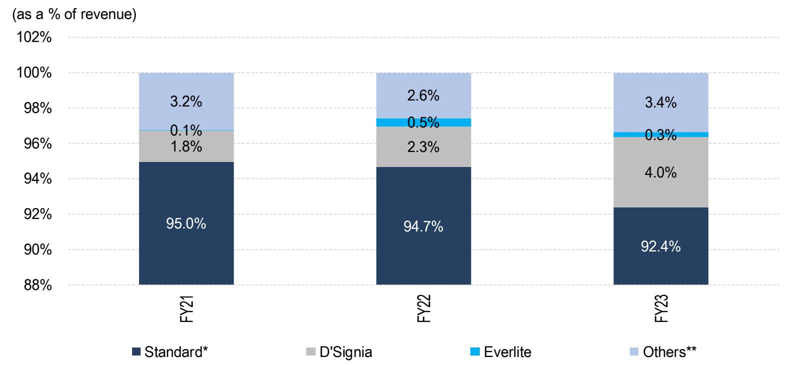
The company has six store formats: Classic and Modern, Everlite (light-weight), D'Signia (premium), House of Senco (luxury premium) and Sennes (lifestyle and accessories). The Classic and Modern store formats are only different in store layouts, not in target customer segments and merchandise.

Fig 13 – Customised showroom formats catering to all segments (9M FY24)

Store formats	Classic	D'Signia	Everlite	Modern	House of Senco	Sennes
Target audience	Traditional customer base in exiting areas	Premium and HNI	Younger generation and millennials	Upcoming regions	Super luxury	Lifestyle and accessories
ATV (Rs)	63,700	73,700	34,900	72,400	48,300	33,500
No. of stores	126	13	3	11	1	1

Source: Company

Fig 14 – ~92% revenue from standard stores in FY23



*Source: Company * Standard store formats include Classic and Modern stores ** Includes exports, DG Gold, DG Silver, corporate and online sales. *** Everlite and D'Signia stores launched in 2020' Sennes launched in 2023*

Fig 15 – Brand-wise store formats

Senco Classic

D'Signia

Everlite

House of Senco

Sennes

Source: Company

The company launched the *D'Signia* brand to focus on premium and high-value jewellery. At end-9M FY24, it had 13 D'Signia stores. Targeting the rising demand for men's jewellery, especially chains and bracelets, due to sportsmen and heroes wearing them, it launched its *Aham* collection for the cosmopolitan man. It also has a *Vivaha* collection with wedding jewellery and *Perfect Love Diamond* collection, which offers an exquisite range of solitaires.

Fig 16 – Senco's various brands and collections

everlite™	GOSSIP™ SILVER & FASHION JEWELLERY
AHAM MEN'S JEWELLERY	SENNES
myDigiGold™	myDigiSilver™
PERFECT LOVE DIAMONDS	Vivaha COLLECTION
Rajwada VIVAAH COLLECTION	Shagun

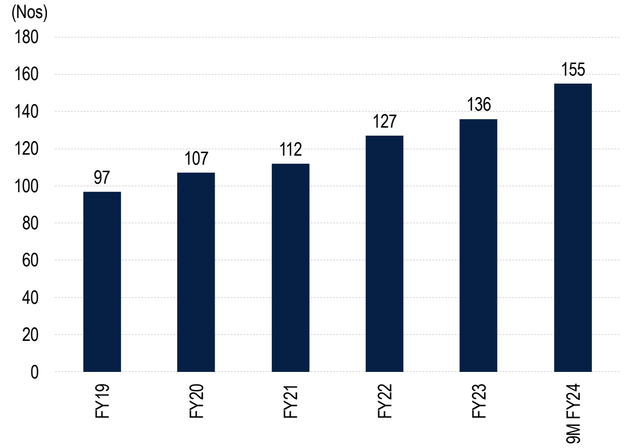
Source: Company

In Oct'23, it launched leather bags and accessories through its *Sen'nes* brand on pilot basis. It believes that by extending its product range to bags and perfumes, it can lever its existing channels and understand customers' evolving needs.

Extensive retail network

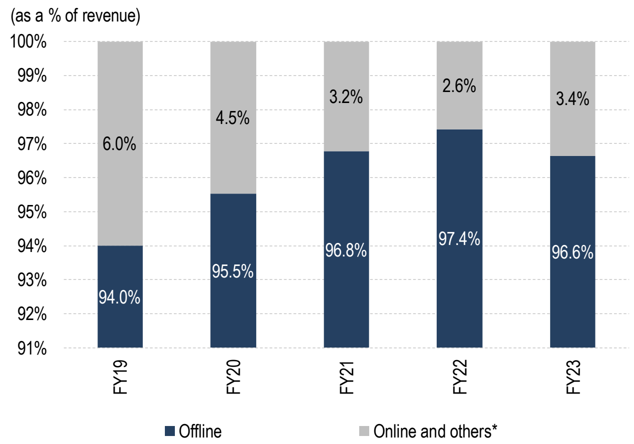
At end-9M FY24, it had 155 stores (90 company-operated, 65 franchisees) in 105 cities and towns, and an online channel. The company added 10 stores on average every year over FY19-23. The offline channel brought ~97% to revenue in FY23, online ~3%. It also exports (wholesale) its jewellery to Dubai, Malaysia and Singapore. The franchisee stores are mostly in FOFO model barring 3 stores which are on FOCO model.

Fig 17 – 155 stores in 9M FY24



Source: Company

Fig 18 – ~97% revenue from the offline channel



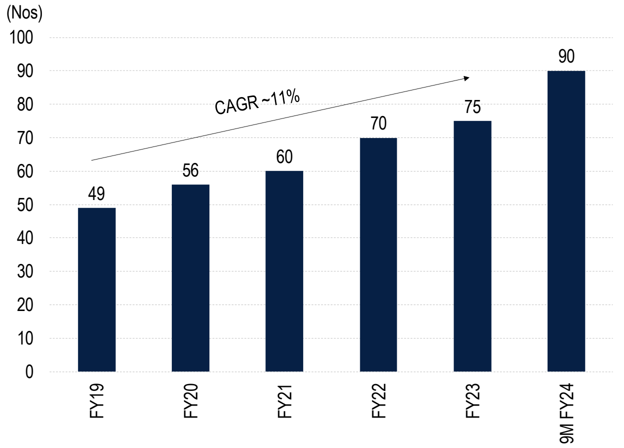
Source: Company * Includes exports, DG Gold, DG Silver and corporate sales

Online, it markets through its websites (www.SencoGoldAndDiamonds.com, www.EverLite.IN, www.MyGossip.IN, www.MySenco.IN), third-party platforms and the 'My Senco' app. It launched separate online platforms for digital gold and silver, www.MyDigiGold.com and www.MyDigiSilver.com. This allows customers to accumulate gold/silver in secure, physical third-party vaults and subsequently sell online or redeem it the form of jewellery at any of its showrooms. It recently launched a virtual jewellery showroom, 'Sencoverse'.

Strong company-operated stores complemented by an asset-light franchise model

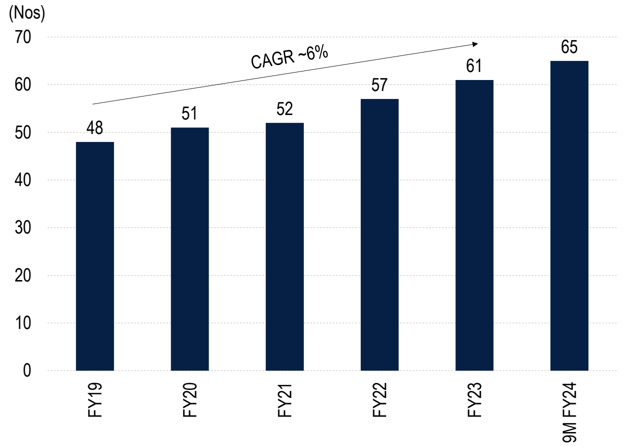
It has 90 company-operated stores (COCO) and 65 franchisees, with a hub-and-spoke approach to enter untapped regions. Typically, it makes a foray into large/new cities through company-operated stores, then uses franchisees to expand into tier-3 and -4 cities to lever logistical efficiency of inventory (supplied from own stores) and return on capital. Its company-operated stores are in metro, tier -1 and -2 cities, while franchisees operate in tier-2, -3, and -4 cities and beyond. Higher turnover at a franchisee store leads to higher RoE for Senco. Products at its stores include hyperlocal designs customised per local tastes and preferences, as well as more broadly appealing jewellery.

Fig 19 – 11% store expansion CAGR over FY19-23 for company-operated stores



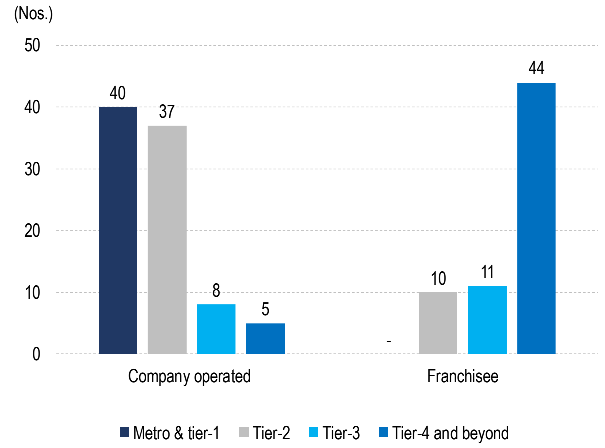
Source: Company

Fig 20 – 6% store expansion CAGR over FY19-23 for franchisees



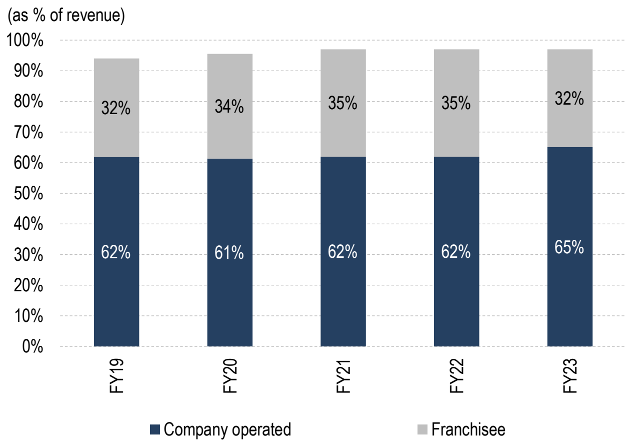
Source: Company

Fig 21 – Tier-wise stores (9M FY24)



Source: Company

Fig 22 – Company-operated stores, 60%+ of revenue



Source: Company

The reduced set-up cost, along with stock transferred to franchisees, makes up for the lower franchisee margins (than company-operated store margins). The 'franchise' model promotes asset-light growth with nil capital payout for stocks. Franchisees have to make full payment in advance for stocks procured, except during seasonal or localized spurts in demand. FOFO agreements are for five years, while FOCO agreements are for 15 years with a minimum three-year lock-in from the date of execution of the agreement.

The franchisee can exchange or return products to the company within 120 days of an invoice; they are required to abide by the company's margin policy for overall margins and pricing of products. The company has real time visibility and control on franchisee inventory since they operate on same ERP.

The company aims to further strengthen operations in east and north India, while expanding in states where its presence is small, focusing on high-growth, high-GDP states. It aims to enter markets where it can gain market share from unorganised players by carving out a niche because of its diverse product mix, designs, price structure and brand name and goodwill. Its USP is light weight jewellery.

Levering access to expert jewellery *karigars* in West Bengal

The company's ~70% of total jewellery sold is outsourced to *karigars,* ~25% is procured from organised manufacturers across India while its in-house facility accounts for ~5% of the total manufacturing.

Its operations in eastern India gives it a strategic location advantage with access to expert jewellery *karigars*. West Bengal is a prominent jewellery manufacturing hub in east India, reputed for light-weight and hand-made jewellery. Most of the company's hand-made products are manufactured by 170 skilled *karigars* in and around WB. Readymade jewellery is procured from organised manufacturers in Mumbai, Kerala, Rajkot, Coimbatore while in-house manufacturing is done in its own facility at Ankurhati, Howrah.

The scale of its operation allows it to commit significant volumes of work allocated to *karigars,* which in turn enables them to offer quality finished products at competitive prices, allowing it to maintain exclusivity of its in-house designed jewellery. The company supplies gold to these *karigars,* who manufacture jewellery per the company's designs or designs approved by it.

Making charges and wastage are fixed for these *karigars* based on jewellery type, with payments typically within 30 days of the invoice. The *karigars* are required to supply products within 10-30 days from the date of receipt of orders for plain jewellery and 9-45 days from the date of orders for studded jewellery. The tenure of *karigar* agreements usually vary up to two years and are renewable.

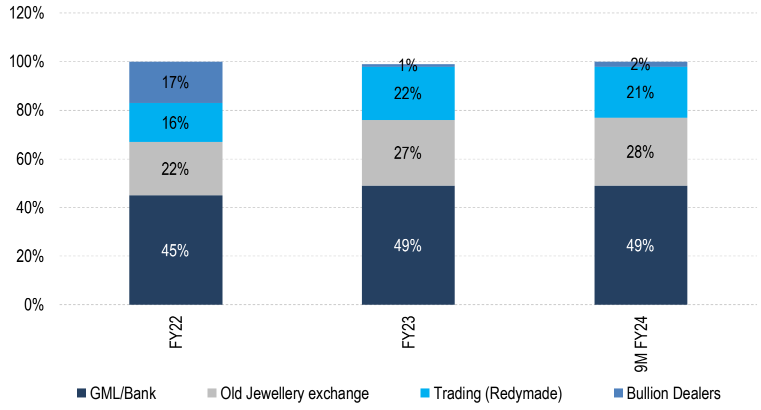
The company's in-house facility produces jewellery with modern technologies such as 3-D printing, CAD-driven designing and laser cutting. The company has a dedicated team of 20 designers.

Most gold used as raw material is sourced through GML facilities of banks. For 9M FY24, ~49% of gold was obtained as GML from consortium bankers, ~28% by exchanging old jewellery, ~21% from trading purchases and ~2% from bullion dealers.

Most of the gold is sourced through banks' gold-loan facilities with appropriate hedging policies. Under such an arrangement, the gold purchase price is not fixed on procurement, but rather within the applicable credit period, minimising risks related to gold-price fluctuations between procuring the raw material and selling finished products.

Of the exchange of old jewellery, 75-80% is from non-Senco customers, indicating a shift from the unorganised to the organised sector. Loose diamonds are mostly procured from reputed diamond traders, and diamond and platinum jewellery from organised jewellery manufacturers of Mumbai and Surat.

Fig 23 – GML accounted for ~49% of gold sourcing



Source: Company

Established systems, procedures to mitigate risk, heighten efficiencies

The company's ability to adjust its product range to continuously address the shift in customer preferences, just-in-time inventory availability and changes in demand provides it its competitive edge.

- **Quality assurance.** It follows stringent quality control procedures to ensure standardised product quality and purity. Gold jewellery is subject to quality control checks before being sent to stores. The internal quality department checks purity and product finish. The jewellery is then sent to a government-approved centre for hallmarking according to BIS norms. Senco has been BIS-hallmarking gold jewellery since 2012, prior to regulatory-mandated hallmarking started in May'21.

  Further, the associated *karigars'* workshops are subject to periodic audits and inspection. All the diamonds, loose and in jewellery, are certified by SGL Labs or The International Gemological Institute**.** Certain specific diamonds such as heart- and arrow-cut are certified by GEMEX**.** Besides, the company obtains declarations from third-party vendors and diamond suppliers regarding adherence to the Kimberley Process Certification Scheme regarding supply of 'non-conflict' diamonds.

- **Effective inventory management.** Each piece of jewellery at its own stores and with franchisees is bar-coded, monitored and controlled through ERP. Its ERP system helps track all customised orders and repairs. Inventories are rotated among stores to increase turnover and minimal accumulation of slow-moving stocks at stores, driven by data analyses and reports. All goods movements are insured under the jeweller's block insurance policy and checked by five members of the logistics team before dispatch.

- **Strong technology focus.** The company has a standard SQL server-reporting service integrated with ERP, through which it has user-specific reporting systems, in turn enabling it to take data-/fact-driven decisions. The CRM module is system-integrated and consolidates customer data and performs business analytics to forecast trends.

  Senco is working on an omni-channel customer-shopping experience, including the use of augmented/virtual reality to provide customers with a near in-showroom experience even when purchasing online, by way of virtual try-ons of certain designs.

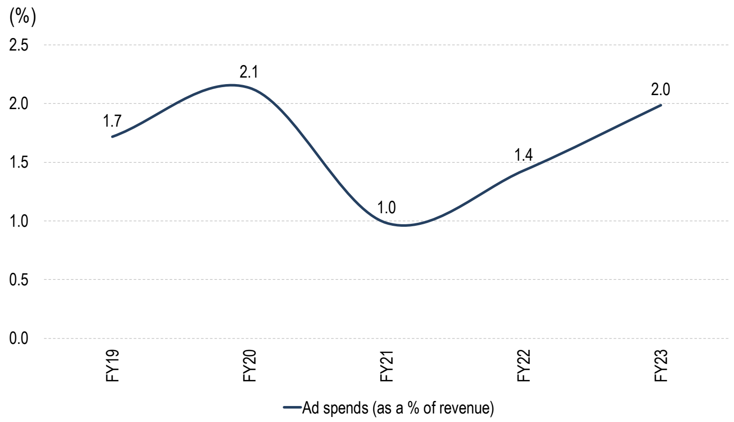
Effective marketing and brand-building initiatives

Marketing campaigns are tailored to enhance brand recall, generate more footfalls and highlight the variety of its collections and designs, especially its light-weight gold jewellery. Its marketing activities are either brand-driven or tactical to promote sales. Its marketing schemes & offers vary to befit occasions such as wedding seasons, anniversaries and festivals like Akshaya Tritiya, Dhanteras, Polia Baisakh, Valentine's day, Eid, etc.

Key marketing channels are specific coverage in local lifestyle, fashion magazines and events, newspapers, billboards and signage, digital and television advertising, in-showroom customer engagement programs, leaflets in local newspapers, use of marketing collateral (posters, banners, tent cards).

Senco also collaborates with various local and national influencers to increase reach and brand visibility through social media platforms. It has regular tie-ups with celebrity brand ambassadors to promote its brand or specific collections, and sponsors sports teams and events.

Fig 24 – Ad spends maintained at 1–2% of sales



Source: Company * FY19 and FY20 are standalone figures

The company believes its focus on quality, craftsmanship and original designs, along with its targeted marketing and customer service, have contributed to strong brand recognition and customer loyalty. It implemented a loyalty programme in Mar'23 and entered into an agreement with a third-party service provider for financing facilities, which would help customers purchase high-value diamond jewellery and pay in instalments.

Financials

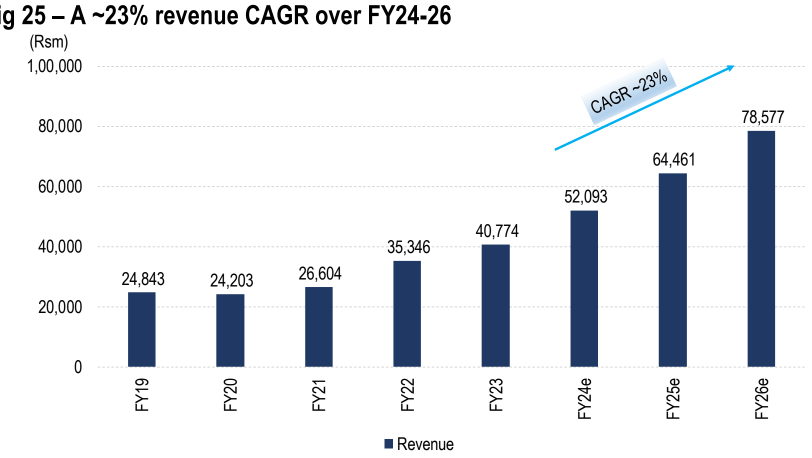
A ~23% revenue CAGR over FY24-26

We expect a ~23% revenue CAGR over FY24-26, driven by SSSG and network expansion, with the focus on east and north India.

- We expect the company to open 20 stores each year over FY25-26 to reach 199 stores by end-FY26. It opened 23 stores (net) in FY24. Management talked of 18-20 stores (net) added yearly over three years with an equal number of company-operated stores and franchisees.
- We expect Rs416m revenue per store in FY26, at a ~9% CAGR over FY24-26. Per management, when a store reaches Rs210m-220m, it turns fully break-even and covers interest costs. Launching collections, more high-end designs, premiumisation, volume growth, more wedding sales and old-gold exchanges and expanding to complementary products (perfumes, bags) would ahead drive further sales per store.
- We expect the company to deliver healthy SSSG, driven by increasing footfalls, more conversions and larger average ticket sizes. The company reported 10% SSSG in FY23, and 19% in FY24. Historically, the company reported 10-12% SSSG. However, with hallmarking becoming mandatory, there has been 5-6% incremental SSSG due to old gold jewellery exchange (FY24 SSSG at 19%). Management talked of 18-19% sustainable SSSG going forward. We consider 8-9% SSSG going forward.

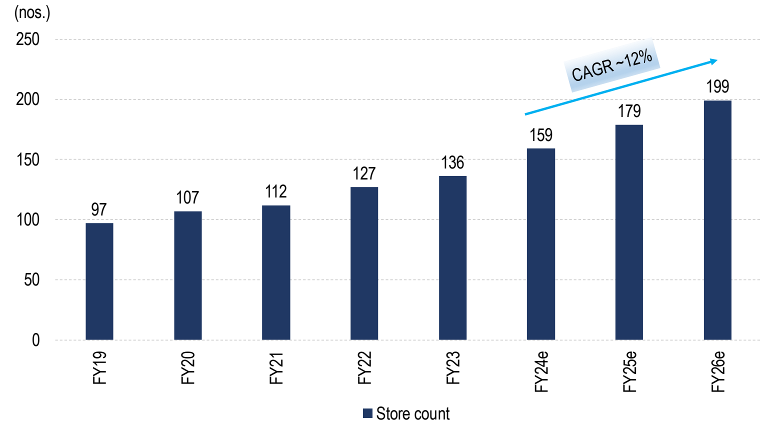
Driven by a ~10% store expansion CAGR to 159 stores in FY24, its revenue CAGR over FY19-24 was ~16%. Gold accounted for ~>90% of its revenue (FY19-23) and diamond jewellery, ~5-9%. Company-operated stores brought more than 60% of its revenue, the rest came from franchisees and online. Senco reported Rs40.8bn revenue in FY23, growing ~15% y/y, mainly driven by 10% SSSG. FY24 revenue grew ~28% y/y, driven by 19% SSSG and store expansions.

Fig 25 – A ~23% revenue CAGR over FY24-26



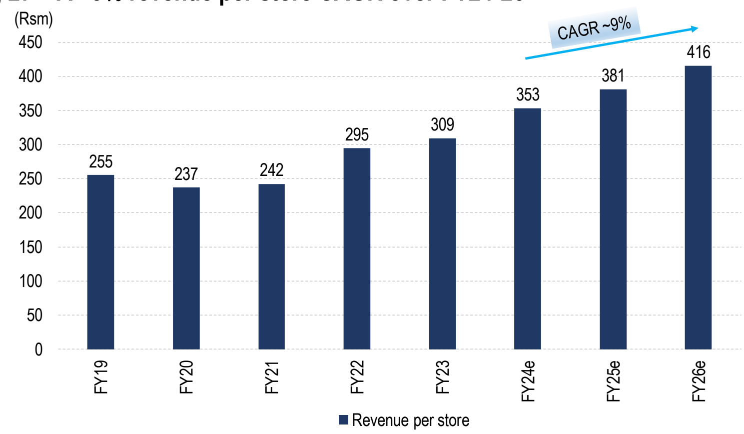
Source: Company, Anand Rathi Research * FY19 and FY20 are standalone figures

Fig 26 – A ~12% store expansion CAGR over FY24-26



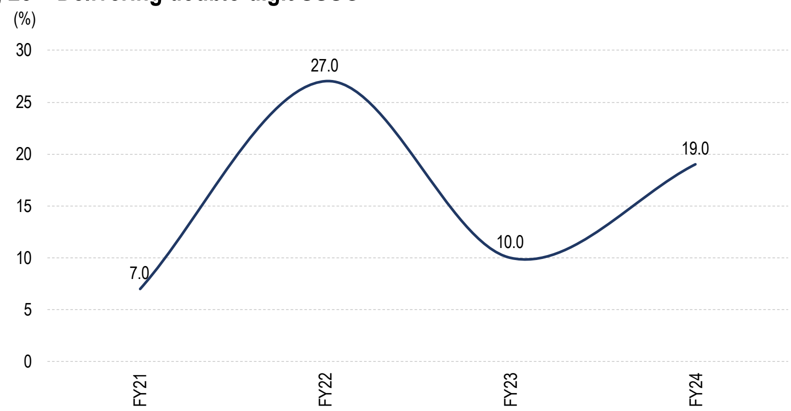
Source: Company, Anand Rathi Research

Fig 27 – A ~9% revenue per store CAGR over FY24-26



Source: Company, Anand Rathi Research * FY19 and FY20 are standalone figures

Fig 28 – Delivering double-digit SSSG



Source: Company

A ~15% gross margin over FY24-26

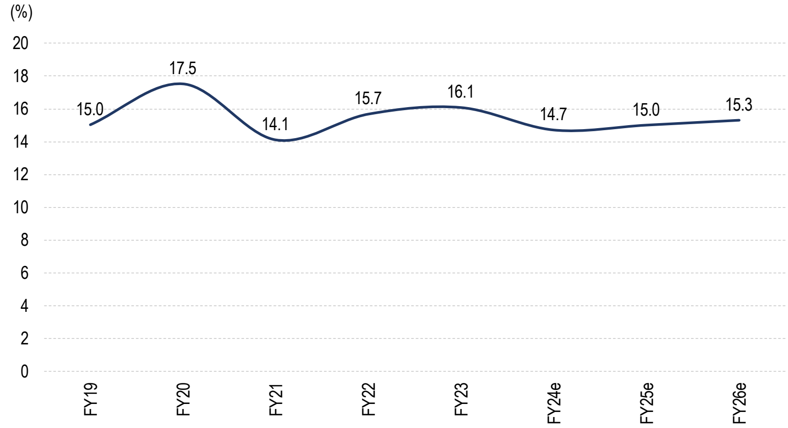
We expect gross margins over FY24-26 to be maintained at ~15%, impelled by its own-store share (vs. franchisees), the greater proportion of diamond-studded jewellery, the product mix (more temple jewellery, other high-end designs), the hedging impact (Rs40m-50m) and operating leverage.

The focus on increasing the percentage of diamond jewellery in overall revenue involves the introduction of its own branded jewellery lines, developing light-weight products at competitive prices, a wider diamond-jewellery range to cater to the younger and upwardly mobile customer segments in India, and focused marketing campaigns.

Management says its H2 gross margins are usually higher than those of H1 due to the greater share of diamond jewellery sales during the wedding season and on Valentine's Day. It guided to sustainable, 14-15%, gross margins.

The gross margin expanded 105bps over FY19-23, impelled by the better product mix and a higher studded ratio. The FY23 16.1% gross margin was higher than the usual ~14-15% over FY18-22 (barring FY20) due to the rise in prices of diamonds. The 9M FY24 gross margin contracted ~60bps y/y to 14.8% due to the product and channel mixes, offers and schemes.

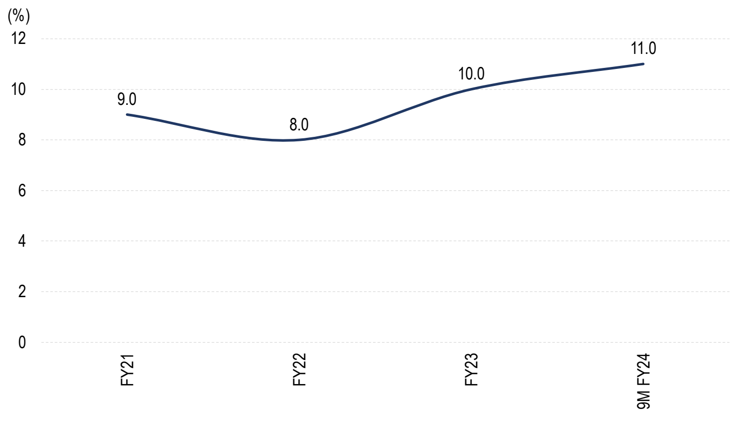
Fig 29 – A ~15% gross margin over FY24-26



Source: Company, Anand Rathi Research * FY19 and FY20 are standalone figures

In FY23 the studded jewellery ratio rose to 10% (from 8% in FY22) aided by the greater share of light-weight diamond jewellery. For 9M FY24 it rose to 11% (for its own stores, it was 13.2% - up 190bps y/y). The North reported the highest stud ratio at 17.8%, almost double that of the East. Management expects the blended stud ratio to rise a minimum 100bps every year. Also, the inventory turn for diamond jewellery is only 1x as franchisees in tier-2 and -3 cities do not keep much diamond jewellery since demand is lower in those areas, leading to the 7-8% stud ratio for franchisees.

Fig 30 – An 11% studded mix in 9M FY24



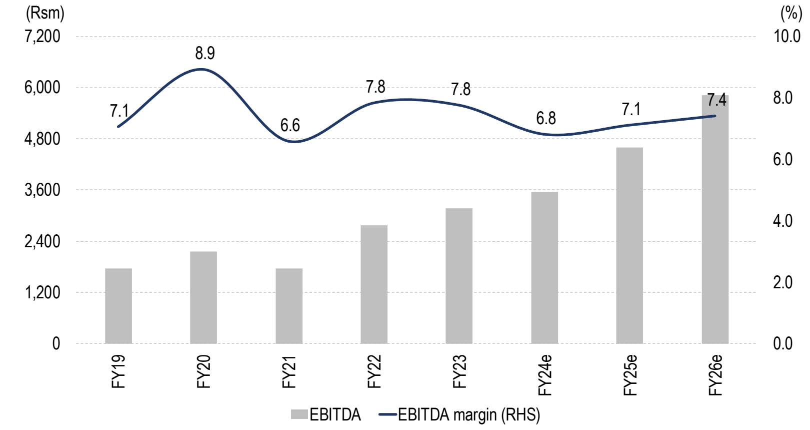
Source: Company

~28%/36% EBITDA/PAT CAGRs over FY24-26

Driven by greater operating efficiencies, we expect a ~28% EBITDA CAGR over FY24-26. Despite lower gross margins, the EBITDA margin will be retained at ~7% over FY24-26. Management says operating expenses are expected to rise slower than sales; absolute EBITDA, thus, would be higher.

Over FY19-24, EBITDA registered a ~15% CAGR, to Rs3.6bn, with the EBITDA margin retained at ~7-9%. In FY21 EBITDA had dropped ~19% y/y due to the impact of Covid-19. Over FY21-23, EBITDA recorded a ~34% CAGR, while the EBITDA margin was maintained at 7.8% over FY22-23. For 9M FY24 EBITDA grew ~15% y/y to Rs2.9bn, while the EBITDA margin contracted 65bps y/y to 7%.

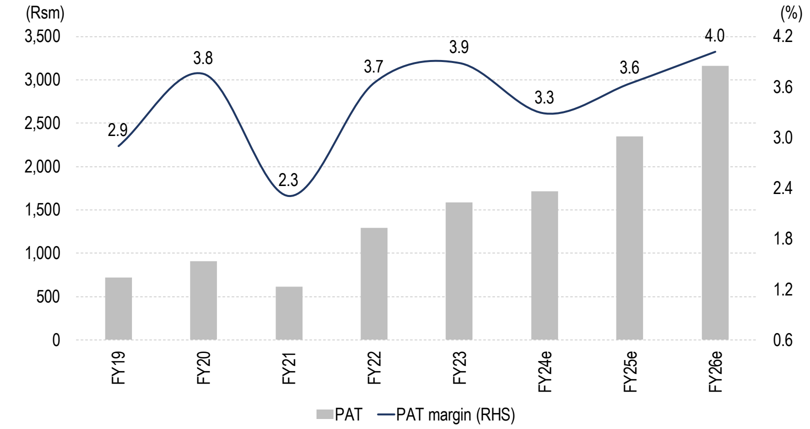
Fig 31 – A ~7% EBITDA margin over FY24-26



*Source: Company, Anand Rathi Research * FY19 and FY20 are standalone figures*

We expect a ~36% PAT CAGR over FY24-26, with the 3-4% PAT margin maintained, similar to margins over FY18-23 (barring FY21). Over FY19-24, PAT saw a ~19% CAGR to Rs1.7bn.

Fig 32 – PAT margin to be maintained at 3-4% over FY24-26

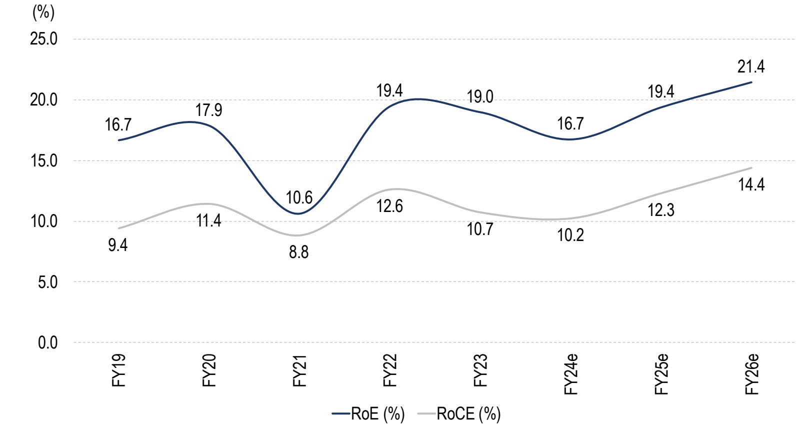


*Source: Company, Anand Rathi Research * FY19 and FY20 are standalone figures*

~21% RoE, 14% RoCE in FY26

We expect a 21.4% RoE and 14.4% RoCE in FY26. FY23's RoE was 19%; the RoCE, 10.7%. The (post-tax) RoIC was 13.3%; we expect 14.8% in FY26.

Fig 33 – ~21% RoE, 14% RoCE in FY26



Source: Company, Anand Rathi Research * FY19 and FY20 are standalone figures

Fig 34 – duPont Analysis

	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Profit margin (%)	2.9	3.8	2.3	3.7	3.9	3.3	3.6	4.0
Asset turnover (x)	2.0	1.7	1.7	1.9	1.6	1.7	2.0	2.1
Equity multiplier (x)	2.8	2.7	2.7	2.8	3.0	2.9	2.7	2.5
RoE (%)	**16.7**	**17.9**	**10.6**	**19.4**	**19.0**	**16.7**	**19.4**	**21.4**

Source: Company, Anand Rathi Research * FY19 and FY20 are standalone figures

Working capital to dip to 135 days

We expect working capital to shrink to 135 days by FY26, from 160 in FY23. We expect this to be aided by fewer inventory days to 145 in FY26, from 169 in FY23. Receivables would be retained at four days. The company's working capital has yet to reach pre-Covid's ~120-130 days over FY16-19.

Fig 35 – Working capital cycle to reduce to 135 days by FY26

(days on sales)	FY19	FY20	FY21	FY22	FY23	FY24e	FY25e	FY26e
Receivables	3	4	4	4	4	4	4	4
Inventory	128	164	143	144	169	154	152	145
Payables	9	19	8	12	13	11	14	14
Net working-capital cycle	**122**	**149**	**138**	**136**	**160**	**147**	**142**	**135**

Source: Company, Anand Rathi Research * FY19 and FY20 are standalone figures

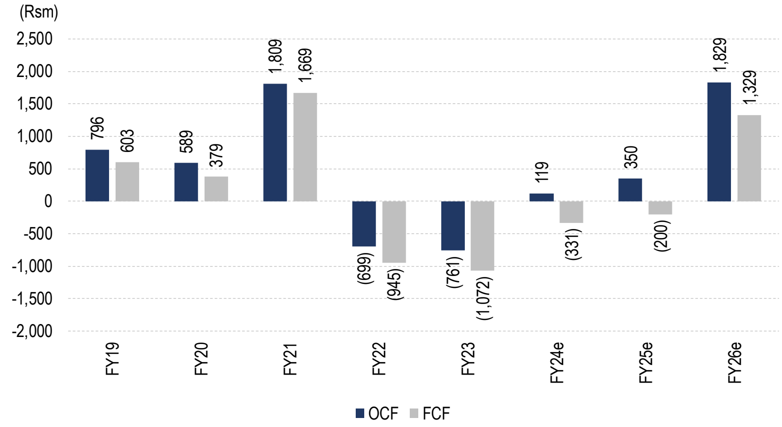
In FY23 working-capital days (on sales) rose to 160 (averaging 136 over FY19-22). Inventory days were 169 (144). Receivables days were four (same as the average over FY19-22). Payables days were 13 (12).

Turnaround in OCF/FCF

We expect the company to generate Rs2.3bn/Rs799m cumulative OCF/FCF over FY24-26, driven by higher profitability and lower inventory. We expect cumulative net capex at Rs1.5bn, led by 23 store added in FY24 and 20 stores added annually over FY25-26. Management says that, for a 4,000 sq.ft. store, capex is ~Rs20m-25m.

Senco accounts for changes in gold metal loans as part of cash flow from financing activities while its peer Titan as part of change in working capital (under cash flow from operations). If we do the same for Senco, as per our estimate, its OCF and FCF would be Rs1.3bn/ Rs990m in FY23 respectively (vs. reported negative Rs761m/Rs1,072m OCF/FCF).

Fig 36 – OCF, FCF generation



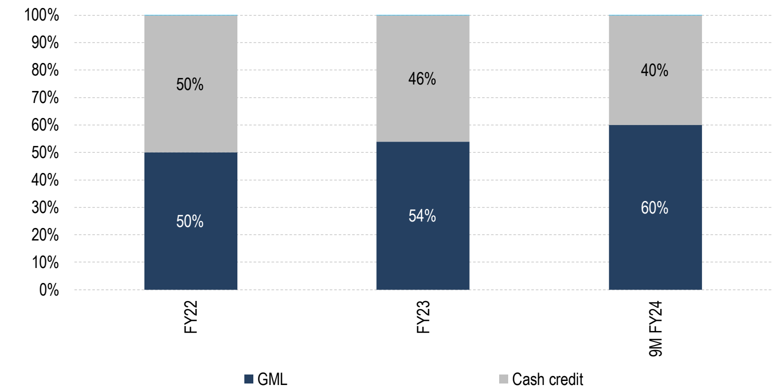
Source: Company, Anand Rathi Research * FY19 and FY20 are standalone figures

FY19-21's OCF/FCF was positive, cumulatively Rs3.2bn/Rs2.7bn. FY23's OCF was negative Rs761m (vs. FY22's negative Rs699m); FCF was negative Rs1,072m (vs. FY22's negative Rs945m) due to ~26% y/y higher capex.

Net debt-to-equity to reduce to 0.7x

The company's gross debt stood at Rs11.8bn as of FY23-end (net debt at Rs7.4bn) which comprised of 54% gold metal loans (GML) and 46% working capital borrowings. Going forward we expect net debt to increase to Rs11.1bn by FY26 as the company requires gold inventory as it opens more stores and on increase in gold prices. Over FY21-23 its GML grew at a CAGR of 60% while revenue at ~24%, store count ~10% and gold prices by ~16%.

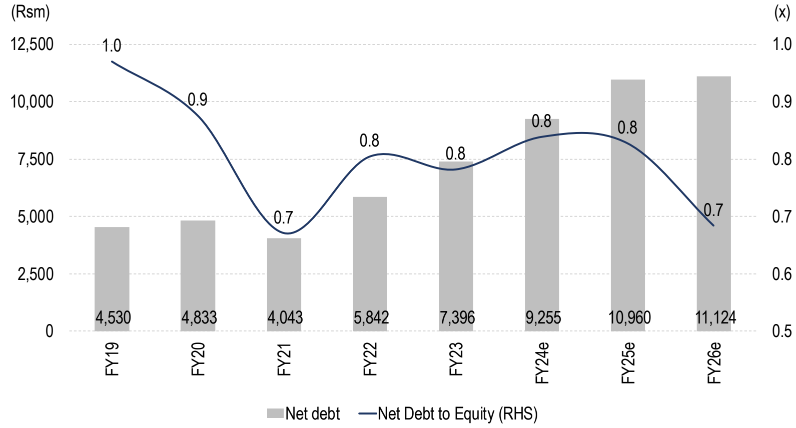
Fig 37 – GML accounts for 50%+ of total borrowings



Source: Company **As a % of total borrowings.*

We expect net debt-to-equity to shrink to 0.7x by FY26. The company had net debt of Rs7.4bn in FY23 and net-debt-to-equity 0.8x. H1 FY24 net debt was Rs7.1bn.

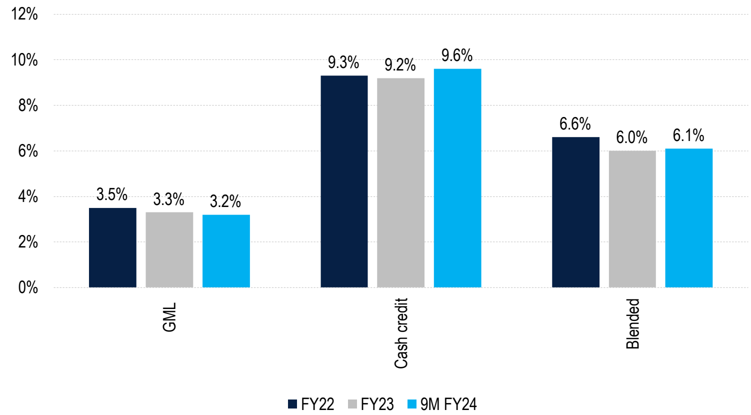
Fig 38 – Net debt-to-equity to reduce to 0.7x



Source: Company, Anand Rathi Research * FY19 and FY20 are standalone figures

GML borrowing as percent of total borrowings has consistently risen to ~60% in 9M FY24, leading to working-capital efficiency and lower RoI. The company hedges 80-90% of its gold to protect it from price fluctuations. The interest rate for GML is usually ~3%; for cash-credit loans it is ~9%. The interest paid to consortium bankers has been range-bound, averaging ~6%.

Fig 39 – Blended borrowing cost per year



Source: Company

Peer comparison

Fig 40 – Senco vs. peers

	Titan^					Kalyan					Senco Gold				
	FY19	FY20	FY21	FY22	FY23	FY19	FY20	FY21	FY22	FY23	FY19***	FY20***	FY21	FY22	FY23
Year of Incorporation	**1984**					**1993**					**1994**				
Key product segment	Gold, diamond, silver and platinum jewellery					Gold, diamond and platinum jewellery; gemstones					Gold, diamond, platinum and silver jewellery				
Regional presence	Across India; US, Singapore, the GCC regions					Across India (dominant in South); Middle East					All-India; largely eastern India				
Revenue (Rs m)	163,901	173,190	193,200	255,230	359,140	97,708	101,009	85,733	108,179	140,714	24,843	24,203	26,604	35,346	40,774
Growth %	23.6	5.7	11.6	32.1	40.7	(7.2)	3.4	(15.1)	26.2	30.1	12.2	(2.6)	9.9	32.9	15.4
EBITDA (Rs m)	19,654	21,890	18,500	32,270	45,950	5,803	7,603	5,943	8,145	11,140	1,755	2,162	1,753	2,772	3,166
Growth %	30.1	11.4	(15.5)	74.4	42.4	(20.8)	31.0	(21.8)	37.1	36.8	17.8	23.2	(18.9)	58.1	14.2
EBITDA margins %	12.0	12.6	9.6	12.6	12.8	5.9	7.5	6.9	7.5	7.9	7.1	8.9	6.6	7.8	7.8
EBIT (Rs m)	19,080	20,510	17,010	30,550	43,870	3,567	5,211	3,694	5,829	8,694	1,477	1,790	1,357	2,351	2,711
Growth %	30.4	7.5	(17.1)	79.6	43.6	(32.8)	46.1	(29.1)	57.8	49.2	13.4	21.2	(24.2)	73.3	15.3
EBIT margins %	11.6	11.8	8.8	12.0	12.2	3.7	5.2	4.3	5.4	6.2	5.9	7.4	5.1	6.7	6.6
Stud ratio % **	NA	32.0	27.0	28.0	29.3*	26.1	24.8	22.7	23.6	26.2	NA	NA	9.0	8.0	10.0
No. of stores	375	461	514	582	763	137	144	137	154	182	97	107	112	127	136
Revenue/store (Rs.) - calculated	466	414	396	466	534	757	719	610	744	838	255	237	242	295	309
Retail area (m sq. ft.)	1.2	1.3	1.3	1.7	2.1	0.5*	0.5*	0.5	0.5	0.6	0.3	0.3	0.3	0.4	0.4
Revenue/sq.ft. (Rs) – calculated****	144,152	138,386	143,430	169,139	190,374	204,076	202,040	163,440	203,154	245,284	95,118	77,622	76,018	91,151	102,234

*Source: Company ^ For Titan, all data is taken for its jewellery division on consol. basis * As per our calculations ** Stud ratio for Titan and Kalyan is on standalone basis **** FY19, FY20 for Senco: standalone ***** Senco revenue/ sq.ft. data over FY19-22 from the FY22 annual report, FY23 retail area from the RHP, SPSF calculated accordingly*

Fig 41 – Peer valuations

Valuation	M Cap (Rs,m)	EV/EBITDA (x)			P/E (x)		
		FY24e	FY25e	FY26e	FY24e	FY25e	FY26e
Titan (C)	31,30,689	59.3	47.0	39.1	85.5	68.0	55.8
Avenue Supermarts (C)	30,11,007	72.8	57.4	46.7	114.5	89.2	71.6
Trent (C)	14,52,913	78.1	56.4	44.2	154.9	109.1	80.6
Kalyan Jewellers (C)	4,14,236	31.9	25.5	20.5	66.2	46.7	34.5
Page Industries	3,94,374	42.1	36.5	30.2	65.7	56.9	47.3
Metro	2,92,185	40.8	34.9	29.2	85.9	67.2	48.4
Aditya Birla Fashion & Retail	2,33,189	21.0	15.5	12.0	NA	NA	NA
Vedant Fashions	2,19,676	32.7	27.7	23.2	52.7	43.8	36.0
Relaxo	2,04,092	49.3	37.9	31.2	99.4	71.3	55.5
Bata	1,72,683	22.1	18.7	16.3	58.0	45.3	36.1
Raymond	1,27,162	11.0	9.9	8.6	17.8	15.3	12.8
Shoppers Stop	77,058	14.4	11.8	9.6	113.8	53.2	35.7
Electronics Mart India Ltd.	76,257	18.1	14.1	11.1	42.6	31.0	23.5
Senco Gold	**74,716**	**22.1**	**17.5**	**13.8**	**39.1**	**28.5**	**21.2**
Campus	73,307	37.3	27.5	22.1	89.3	55.9	41.9
Go Fashion	62,391	26.6	20.9	17.0	69.2	47.8	36.3
Arvind Fashions	59,400	12.9	10.0	8.0	49.4	21.7	15.4
Kewal Kiran	43,384	22.1	18.3	15.0	30.0	25.9	21.8
Vmart Retail	41,087	26.1	17.7	13.1	NA	NA	58.9
Lux Industries	34,322	22.7	11.8	9.2	37.1	17.2	13.1
Sai Silk	32,974	35.4	26.0	19.2	32.3	19.5	13.7
Dollar Industries	30,255	18.0	13.2	11.0	29.2	20.9	17.0
Rupa Company	20,796	16.7	11.8	9.3	25.9	16.7	12.8

Source: Bloomberg, Anand Rathi Research (C) - consolidated

Fig 42 – Peer financials

	CAGR % (FY19-FY23)			Gross margins (%)	EBITDA margins (%)	RoCE (%)			RoE (%)			Working capital (days)		
	Revenue	EBITDA	PAT	FY23	FY23	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
Titan (C)	19.7	25.1	23.7	25.2	12.0	9.5	16.5	18.9	13.8	25.9	30.7	133	132	130
Avenue Supermarts (C)	21.0	22.2	27.4	15.1	8.5	8.5	11.2	15.7	9.5	11.5	16.0	26	26	22
Trent (C)	33.0	47.4	46.3	42.7	13.0	(2.6)	2.6	12.7	(6.2)	4.5	17.9	25	41	32
Kalyan Jewellers (C)	9.5	17.7	NM	15.6	7.9	(1.0)	6.9	9.6	(0.3)	7.5	12.8	201	177	157
Page Industries	13.8	8.7	9.7	54.7	18.0	40.0	55.2	43.7	40.0	54.4	46.4	61	73	111
Metro	15.0	19.2	24.5	58.1	31.9	4.5	19.4	25.8	8.3	20.2	25.7	62	71	84
ABFRL	11.2	28.1	NM	55.3	12.0	(9.3)	2.1	4.0	(39.7)	(4.4)	(1.9)	21	12	37
Vedant Fashions	14.1	18.9	24.9	74.0	49.5	10.0	27.5	34.0	12.3	29.0	34.6	267	164	151
Relaxo	5.0	0.9	NM	52.1	12.1	20.1	13.5	8.5	20.5	14.0	8.5	59	97	76
Bata	4.2	13.6	NM	56.1	23.0	(4.3)	7.3	23.1	(4.9)	5.8	19.9	53	74	61
Raymond	5.7	20.1	33.2	63.5	14.6	(5.6)	11.9	14.5	(13.3)	11.7	20.1	151	69	69
Shoppers Stop	3.0	29.7	15.6	42.1	17.3	(101.2)	(13.3)	73.3	(286.7)	(48.0)	82.3	(55)	(58)	(27)
Electronics Mart India Ltd.	17.8	11.7	12.3	13.6	6.2	14.6	19.7	16.1	12.7	19.1	13.8	65	58	59
Senco Gold	**13.2**	**15.9**	**21.8**	**16.1**	**7.8**	**8.8**	**12.6**	**10.7**	**10.6**	**19.4**	**19.0**	**138**	**136**	**160**
Campus	25.7	26.2	32.0	49.3	17.1	6.6	22.7	20.5	9.0	29.3	23.9	67	89	101
Go Fashion	23.6	27.6	27.9	66.7	31.9	(5.5)	10.2	19.9	(1.2)	9.9	17.3	171	190	149
Arvind Fashions	NM	12.0	22.0	48.2	10.2	(15.5)	(3.5)	9.7	(71.1)	(16.4)	10.6	99	42	43
Kewal Kiran	11.6	7.8	10.3	52.2	19.5	2.1	13.9	18.9	4.5	17.9	23.2	175	138	135
V-mart Retail	14.5	19.3	NM	35.2	10.9	2.8	9.8	5.8	(1.0)	1.2	(0.8)	80	83	57
Lux Industries	18.5	4.7	8.6	48.1	9.0	25.8	24.4	8.5	30.9	29.2	10.0	122	190	177
Sai Silk	6.7	26.7	33.9	39.1	15.7	5.4	14.9	19.2	2.2	21.2	28.0	141	113	125
Dollar Industries	7.9	NM	NM	45.6	7.0	13.6	19.6	7.4	17.1	24.4	7.6	185	191	170
Rupa Company	NM	NM	NM	47.0	7.8	22.0	18.7	4.9	26.8	23.8	6.0	165	225	252

Source: Company (C) - consolidated

Valuation

We initiate coverage on Senco Gold with a Buy rating at a 12-mth TP of Rs1,277 based on 28x FY26e P/E. At the CMP, the stock trades at 39.1x/28.5x/21.2x FY24e/FY25e/FY26e P/E and 22.1x/17.5x/13.8x EV/EBITDA.

Senco's own stores and franchisees, location advantage in the east, focus on light-weight jewellery, ability to meet shifts in consumer preferences, just-in-time inventory, efficient operating model and a eight-decade legacy provide it the edge over competitors.

Fig 43 – Valuation parameters

	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	-	-	39.1	28.5	21.2
EV / EBITDA (x)	-	-	22.1	17.5	13.8
EV / Sales (x)	-	-	1.5	1.2	1.0
RoE (%)	19.4	19.0	16.7	19.4	21.4
RoCE (%)	12.6	10.7	10.2	12.3	14.4

Source: Company, Anand Rathi Research

Risks

- **More working capital required.** Jewellery retailing requires more working capital. The company's inability to meet such requirements on commercially-acceptable terms may curtail its business.
- **Stricter regulated environment.** The jewellery segment is subject to certain approvals, permits and licenses in the ordinary course of business. Failure to obtain, renew or comply with such requirements may curb operations.
- **Stiff competition.** The company operates in highly competitive and fragmented regions, where competition is based on market trends, pricing and customer preferences.

Company Background, Management

Incorporated in 1994 in Kolkata, WB, by founder-chairman, the late Sankar Sen, Senco Gold & Diamonds has a strong heritage and a eight-decade legacy. To expand, it was converted to a public limited company in 2007. It has 155 stores in India, and exports gold and diamond jewellery to Dubai, Singapore and Malaysia. The company has mid-single digit market share in East with ~79% of its store presence (FY23) in the east India.

It is equally strong across digital platforms, catering to diverse needs of online consumers. Its focus on quality, craftsmanship and original designs, along with targeted marketing and customer service, have led to brand recognition and customer loyalty.

Fig 44 – Key events

Year	Event
2000	First franchisee opened
2014	Investment from SAIF Partners India IV (Post OFS in IPO, it holds 11.6% of the total shareholding)
2014	Crossed 50th showroom mark
2016	Launched the Everlite brand
2017	Launched www.SencoGoldDiamonds.com
2020	Crossed 100th showroom mark
2020	Launched D'Signia showrooms
2021	Launched DG Gold
2022	Crossed 125th showroom mark
2023	Investment from OIJIF II
2023	2nd Most Trusted Jewellery Brand in India by TRA for fourth year in a row
2023	2nd Most Desired Jewellery Brand in India by TRA
2023	Certified as Great Place to Work® by the Great Place to Work®, Institute, India

Source: Company

In Jul'23, Senco Gold came out with a Rs4,050m IPO incl. Rs1,250m OFS by SAIF Partners India IV (now elevation capital).

Management

Fig 45 – Key managerial personnel

KMP	Designation	Detail
Suvankar Sen	Managing Director, Chief Executive Officer	B.Sc. (Hons, Economics), St Xavier's College, University of Calcutta; PGDM, IMT, Ghaziabad. Over 18 years' experience in the jewellery industry. With the company since 2005.
Ranjana Sen	Chairperson, Whole-time Director	BA, University of Calcutta. Over 29 years' experience in the jewellery industry. With the company since its incorporation.
Joita Sen	Head Marketing, Whole-time Director	Bachelor's degree from St Xavier's College, University of Calcutta; MA, Presidency College, University of Calcutta. Over 14 years' experience in designing and marketing. With the company since 2009.
Bhaskar Sen	Independent Director	B.Com. (Hons), University of Calcutta. Also, cleared the associate examination of The Indian Institute of Bankers. Earlier, independent director Bandhan Bank, chairman & managing director United Bank of India, executive director Dena Bank. More than four decades of experience in the banking sector. With the company since 2021.
Kumar Shankar Datta	Independent Director	B.Com., M.Com., University of Calcutta; Chartered Accountant and Cost and Works Accountant. Over 30 years' experience in finance, functional and project management in different corporate organisations. Previously, associated with KPMG (East) as CFO. With the company since July'18.
Suman Varma	Independent Director	MA in comparative literature, Jadavpur University. An advertising and marketing professional. Previously with J Walter Thompson (India), Rediffusion – Y & R (India) and Hamdard Laboratories (India). With the company since 2018.
Shankar Prasad Halder	Independent Director	B.E, Electronics and Telecommunications from the Bengal Engineering College, University of Calcutta. Previously with the Northern Digital Exchange, Modi Telestra, Escotel Mobile Communications and Bharti Airtel. Currently, founder and CEO of Pinnacle Digital Analytics Pvt. Ltd. Over 30 years' experience in both wire line and wireless mobile and telecommunications service providers. With the company since Apr'21.
Sanjay Banka	CFO	B.Com., St. Xavier's' College, University of Calcutta. Fellow member of the ICAI and ICSI. Also, member of the All-India Management Association and Chartered Institute of Securities and Investment, UK. Previously, CFO at the Landmark Group, Saudi Arabia, Bharat Road Network, Merino Industries and Aksh Optifibre. Also worked with, Usha Martin Telekom, Reliance Communications, Bharti Airtel and Wireless TT Info Services. Over 20 years' experience in the finance sector. With the company since Dec'20.
Surendra Gupta	Company Secretary & Compliance Office	B.Com., Calcutta University; LLB., Magadh University; LLM Business Law, National Law School of India. Also, member of the ICSI. Previously, associated with Jupiter International. Over 9 years' experience in the jewellery sector. With the company since May'13.

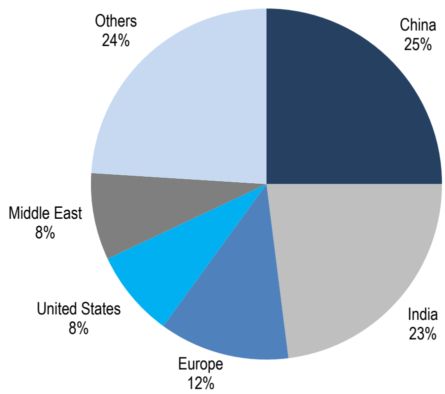
Source: Company

Appendix - Industry Analysis

Global demand for gold and diamonds

In CY22, China continued to be the largest consumer of gold, incl. jewellery and bars/coins (25% by volume), followed by India (23%). Together, the two countries account for ~50% of gold consumption globally; other key regions are the USA, Europe and the Mid-East. Gold prices are impacted by currency fluctuations, demand in key consuming nations such as the US, India and China, geopolitical events, volatility and the performances of other asset classes (equities), inflation and central bank buying.

Fig 46 – Region-wise gold consumption by volume, CY22 (jewellery, bars/coins)



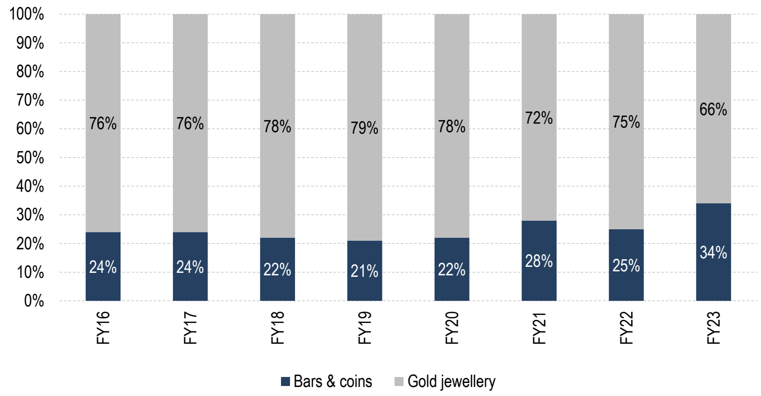
Source: Company RHP " The Mid-east includes Saudi Arabia, the UAE, Kuwait, Egypt, Iran and others; Europe includes France, Germany, Italy, Spain, the UK, Switzerland, Austria and others*

Domestic gems and jewellery market

The domestic gems and jewellery market was roughly USD 78bn in FY23 with gold jewellery dominant (a 66% share). Consumption of studded jewellery rose over the past five years but is still significantly lower than that of gold jewellery, driven by changing consumer preferences, organised manufacturers and relentless advertising campaigns. Demand for gold stalled over FY16-23 due to modest growth in GDP per capita, de-monetisation, gold prices rising, the Covid-19 pandemic and adverse regulatory changes.

Gold prices spiked in FY23 during the peak Q3 festival season and an unprecedented rise due to the US banking crisis in Q4. This resulted in consumers postponing or entirely deferring purchases. However, rising prices were a positive for investment demand, resulting in more offtake of gold bars and coins. Thus, jewellery demand came down to 66% (from 75% in FY22). FY22 saw pent-up demand as the Covid-19 pandemic had led to weddings being postponed.

Fig 47 – Domestic gold market split



Source: Company RHP

A low base, pent-up demand and more weddings are likely to boost near-term jewellery demand. Over the long term, better economic growth, rising urbanisation, the growing middle-class population, more disposable income and regulatory changes are likely to bolster growth. However, inflation and geopolitical events may slash demand. Demand for gold jewellery is expected to clock a 5-7% volume CAGR over FY19-26.

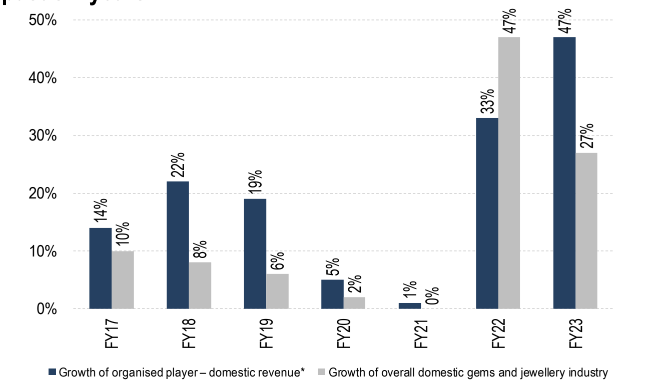
Also, over 95% domestic gold demand is met through imports as India has negligible reserves of gold and rough diamonds. Thus, success depends on raw-material sourcing, foreign-exchange-volatility management, designing, ability to scale up and efficient working-capital management.

Organised segment to gain market share in domestic retail jewellery

In India, jewellery is retailed through national chain stores, regional chain stores and local standalone stores. India's retail jewellery was dominated by family-owned small standalone stores, operated largely on trust and forming part of the non-organised segment. The organised segment has grown rapidly in recent years and gained substantial market share (33-38% in FY22). This was earlier dominated by regional chains but altered with regional manufacturers venturing outside their core area.

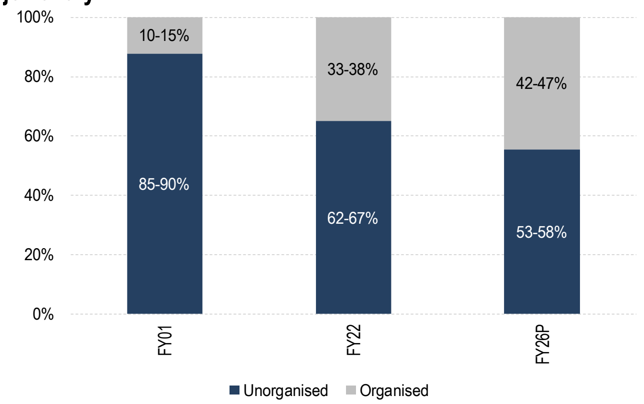
Organised jewellery retailers have introduced sophisticated advertising and sales campaigns, effective inventory management systems, more variety & designs, and raised the quality, which aided this shift. Further, better services, supply-chain efficiency and enhanced transparency provide it an edge over standalone jewellers. Enhanced level of compliance ushered in recent years like mandatory PAN no above Rs2lakhs, mandatory hallmarking and AML coverage has made matters difficult for unorganised players, hastening the shift in demand towards the organised segment.

Fig 48 – Listed companies grew faster than the industry in the past six years



Source: Company RHP " Listed manufacturers considered incl. Titan (jewellery division), TBZ and Thangamayil; domestic demand includes gold jewellery and coins"*

Fig 49 – Organised segment to gain market share in retail jewellery



Source: Company

The organised segment would continue to gain market share (42-47% by FY26), driven by changing consumer preferences, ie, rising demand for diamond-studded & lab grown diamond and light-weight jewellery, and more designs as organised manufacturers have wider product ranges and better design capabilities along with favourable regulatory changes.

Online gems and jewellery are poised for fast, 28-33%, growth and expected to account for 7-8% of the segment by FY25 (from ~4% in FY23). The online jewellery market clocked a ~38% CAGR over FY17-22.

Gold jewellery demand and ownership is higher in rural India at 60%. The south dominates (40-45% of jewellery demand), supported by higher per-capita income, less poverty and strong NRI demand. In the south and east, the preference is for 22 carats, the north/west prefer 14/18 carats.

Fig 50 – Regional trends in jewellery demand (FY23)

	South	West	North	East
Indicative market share (%)	40-45	24-26	18-23	14-16
Carat preference	22k	22k, 18k, 14k	24k, 22k, 18k, 14k	22k, 24k
Important centres	Chennai, Hyderabad, Kochi, Bengaluru	Mumbai, Ahmedabad	New Delhi, Jaipur	Kolkata

Source: Company RHP

Jewellery consumption in India is broadly bridal, daily wear and fashion. Maximum demand for gold jewellery usually arises from bridal jewellery (50-55% in FY22); daily-wear and fashion jewellery, 40%-50%. Daily wear and fashion jewellery, which are more lightweight and of contemporary design, have started gaining market shares with changing demographics.

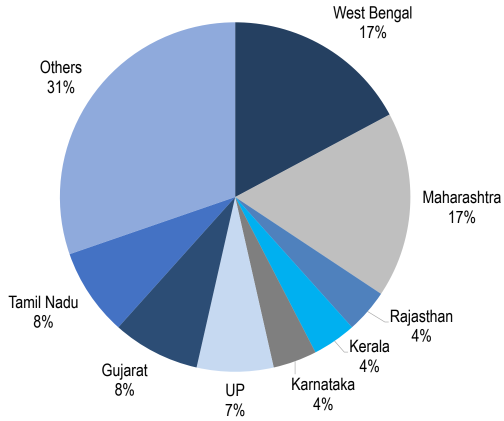
Fig 51 – Trends by jewellery type (FY22)

	Bridal	Daily wear	Fashion
Indicative market share by weight (%)	50-55	35-40	5-10
Carat preference	24k, 22k, 18k	22k, 18k	18k, 14k
Average weight (gm)	20 to 250	5 to 30	5 to 20

Source: Company RHP

BIS data for May'23 shows that the country had >150,000 stores registered to sell hallmarked gold jewellery. Of these, West Bengal and Maharashtra were home to a sizable ~17% each (or ~25,000 stores), which make these the biggest markets for BIS-registered stores in India.

Fig 52 – West Bengal, Maharashtra have the most BIS-registered hallmarked gold jewellery retailers



Source: Company RHP

Old gold recycling

Globally, India is fourth in gold recycling. In the five years to 2022, 11% of India's gold came from old gold, likely driven by gold prices, expectation of future prices and the grim economic outlook following the pandemic. Ahead, expectations of growth in the Indian economy could lead to less distress and selling off of gold. Fashion-conscious customers, however, tend to keep jewellery for a shorter period and are more willing to trade when the value of gold rises. Besides, the government has taken steps to support and boost old-gold recycling in India, primarily to reduce reliance on imports of gold.

Appendix

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