

Q2TD sees strong pent-up demand after muted Q1; BUY

Retail ▶ Result Update ▶ August 15, 2024

TARGET PRICE (Rs): 1,400

Senco reported a big beat to our Q1 EBITDA/PAT estimates led by better gross margin (up by ~500bps YoY). The sudden spike in gold price and operating challenges led to a modest retail revenue growth of 11% in Q1, in line with muted trends seen in TTAN. However, a big 900bps duty cut on gold and return of operating normalcy has driven a strong recovery with FY25TD retail growth climbing to ~20%. Senco has retained its FY25 growth outlook of 18-20%. The EBITDA margin beat of ~250bps was led by better franchisee terms, lower discounting/better gold premium, and a low-margin base as hedging remained at ~95% in Q1. While the duty cut significantly improves medium-term prospects, Senco expects a short-term hedging loss of Rs0.5bn, which shall be distributed over the next 2-3 quarters. Margin beat drives a ~12% upward revision to our earnings estimates. Senco is trading at considerable discount to peers despite similar or better operating performance. We increase our TP multiple by 5% and revise TP up to Rs1,400/sh (based on 32x Sep-25E EPS).

Senco Gold: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	40,774	52,414	63,197	74,900	88,452
EBITDA	3,166	3,755	5,289	6,072	7,312
Adj. PAT	1,585	1,810	2,752	3,106	3,810
Adj. EPS (Rs)	22.9	23.3	35.4	40.0	49.0
EBITDA margin (%)	7.8	7.2	8.4	8.1	8.3
EBITDA growth (%)	14.2	18.6	40.8	14.8	20.4
Adj. EPS growth (%)	18.0	1.6	52.1	12.9	22.7
RoE (%)	19.0	15.7	19.8	18.1	18.7
RoIC (%)	15.5	13.6	17.6	17.0	18.3
P/E (x)	48.0	47.2	31.0	27.5	22.4
EV/EBITDA (x)	25.7	24.3	17.3	15.1	12.4
P/B (x)	8.0	6.3	5.4	4.6	3.9
FCFF yield (%)	(1.4)	(2.0)	1.3	1.9	2.7

Source: Company, Emkay Research

Q1 margin performance encouraging despite muted topline growth: Revenue grew 8% in Q1 led by 11% growth in retail sales (4% SSG) and relatively slower growth in exports. The festive period (first 41 days of Q1) witnessed higher traction with 21% YoY growth but demand trends remained muted in the second half of Q1 due to election-related challenges, lesser weddings, and heatwaves. However, duty cut and return of operating normalcy has driven a strong pickup with FY25TD retail growth at ~20%. Senco also maintained its guidance of 18-20% growth in FY25 (12-13% SSG). Gold price spike (~20 YoY in Q1) also impacted diamond volumes with studded mix seeing a decline of ~100bps to 10%. However, Senco retained its target to improve stud ratio by 100-150bps in FY25. Senco opened 6 stores in Q1 with 2/4 stores in FOFO/COCO format. Gross margin was up by ~500bps to 17.3% led by lower discounting, better gold premiums, and favorable changes in franchisee terms. Higher sales in *Bangle Utsav/Akshay Tritiya* also aided in better margin performance. Higher asset base and promotional spends led to lower improvement in EBITDA at ~260 bps to 7.7%.

Earnings call KTAs: 1) Senco maintained its guidance of 18-20 store adds for FY25 with healthy pipeline for both COCO/FOFO formats. International expansion is expected to occur in a calibrated manner; however, the company remains open toward franchisee-led opportunity to accelerate. 2) Senco recognized the encouraging outlook for industry with recent customs duty cut of 9% and is also witnessing increase in footfall/frontloading of wedding-related buying. However, customs duties are already paid for gold metal loans and a 900bps duty cut will impact P&L to the tune of Rs0.5bn that shall be distributed over the next two-three quarters. 3) SSG during 41 days of Q1 (festive period) was ~11-12% but dipped later due to slowdown in sales. 4) Inventory as of Q1-end was ~Rs26bn including ~Rs5bn of diamonds. 5) Share of wedding jewelry is ~40-45% of sales. 6) Gross/EBITDA margin is expected at ~15%/8% for FY25. 7) SENNES is witnessing good traction but has not reached breakeven yet; sales is expected at ~Rs0.5-1bn in FY25. 8) The overall gold hedging for Q1 was ~95% in line with its risk management policy. GML/MCX hedge ratio was 55:45. 9) ATV/ASP improved 12-13% to ~Rs74k/Rs49k. 9) Old gold exchange program contributed to ~35% of mix in Q1.

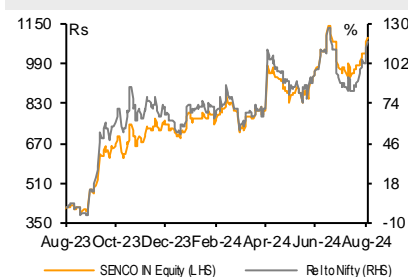
Target Price – 12M	Sep-25
Change in TP (%)	21.7
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	27.4
CMP (14-Aug-24) (Rs)	1,099.0

Stock Data	Ticker
52-week High (Rs)	1,177
52-week Low (Rs)	380
Shares outstanding (mn)	77.7
Market-cap (Rs bn)	85
Market-cap (USD mn)	1,017
Net-debt, FY25E (Rs mn)	5,994
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	490.8
ADTV-3M (USD mn)	5.8
Free float (%)	15.0
Nifty-50	24,144
INR/USD	83.9
Shareholding, Jun-24	
Promoters (%)	68.5
FPIs/MFs (%)	7.7/10.5

Price Performance

(%)	1M	3M	12M
Absolute	13.7	27.2	170.7
Rel. to Nifty	15.4	17.1	117.9

1-Year share price trend (Rs)



Devanshu Bansal

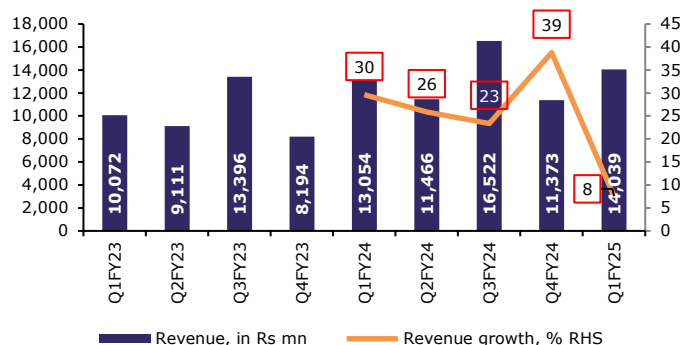
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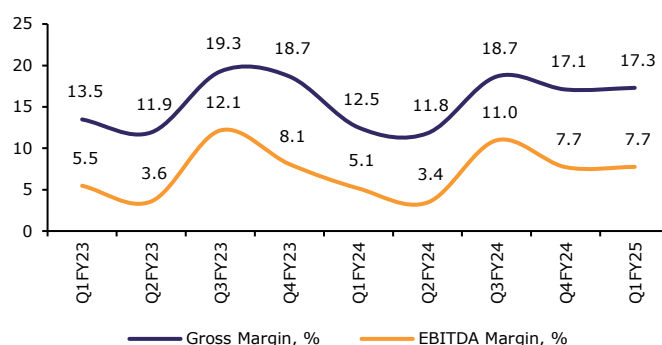
Story in Charts

Exhibit 1: Revenue was up 8%, led by a moderate 11% retail growth in jewelry (4% SSG), while export growth was slower in Q1



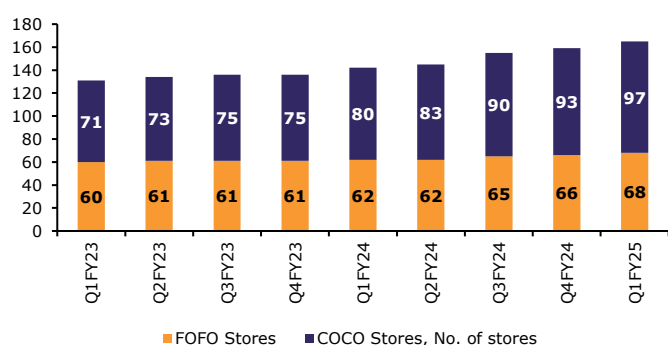
Source: Company, Emkay Research

Exhibit 2: Gross margin improved by ~500bps led by better franchisee terms, lower discounting, and better gold premiums



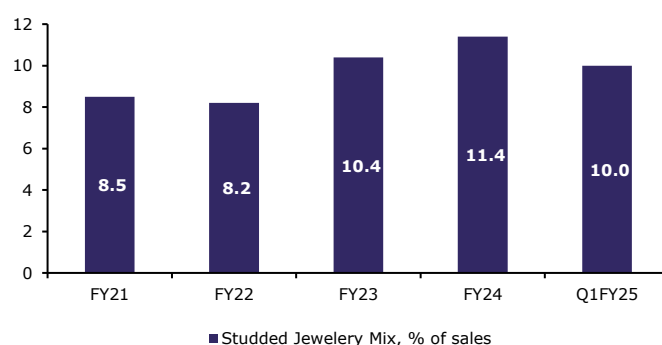
Source: Company, Emkay Research

Exhibit 3: Senco opens net 6 stores in Q1, which includes 4/2 COCO/FOFO stores. Among 4 COCO stores, 1 was Intl. (Dubai)



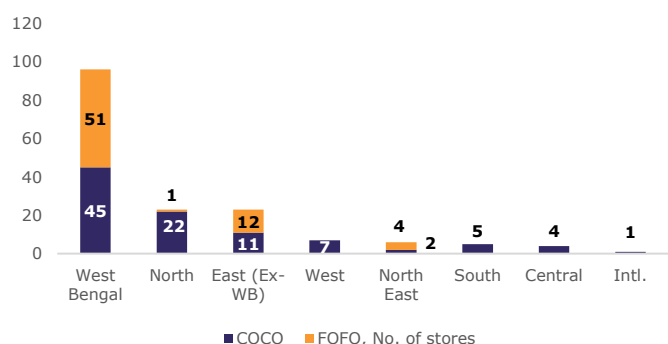
Source: Company, Emkay Research

Exhibit 4: Stud ratio for Q1 was down by 100bps to 10% in Q1; long-term target of achieving 15% remains intact



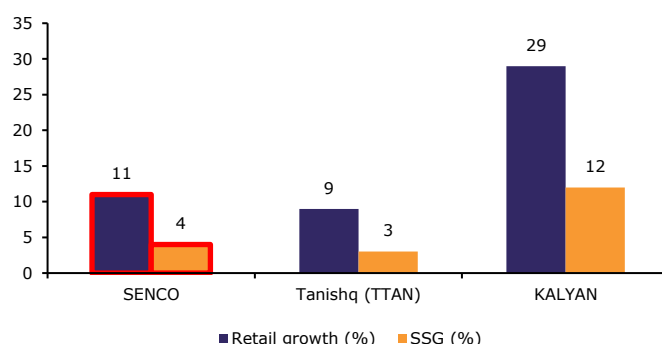
Source: Company, Emkay Research

Exhibit 5: Senco is turning asset-light with the franchisee route in stronghold regions vs COCO in the West/Central/South India



Source: Company, Emkay Research

Exhibit 6: Senco posted 11% retail growth in Q1, supported by SSG growth of 4%; performance was largely in line with TTAN



Source: Company, Emkay Research; **Note: For Kalyan, we have considered reported India business growth.**

Exhibit 7: Actual vs Estimates (Q1FY25)

(Rs mn)	Actual	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net Sales	14,039	15,069	14,922	-6.8%	-5.9%	Topline was below our estimate due to lesser wedding and election-related challenges Higher EBITDA was on account of better gross margin performance
EBITDA	1,087	816	813	33.2%	33.8%	
EBITDA Margin	7.7%	5.4%	5.4%	233	230	
PAT	513	325	320	57.8%	60.4%	PAT came in higher led by higher EBITDA

Source: Company, Emkay Research

Exhibit 8: Summary of quarterly results

Y/E, Mar (Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Revenue	13,054	11,466	16,522	11,373	14,039	7.5	23.4	40,774	52,414	28.5
Expenditure	12,382	11,071	14,711	10,496	12,952	4.6	23.4	37,608	48,659	29.4
Consumption of RM	11,422	10,111	13,439	9,429	11,611	1.7	23.1	34,219	44,401	29.8
as % of sales	87.5%	88.2%	81.3%	82.9%	82.7%			83.9%	84.7%	
Employee Cost	254	253	325	280	340			934	1,112	
as % of sales	1.9%	2.2%	2.0%	2.5%	2.4%			2.3%	2.1%	
Advertising & SP	196	172	248	250	309			811	866	6.8
as % of sales	1.5%	1.5%	1.5%	2.2%	2.2%			2.0%	1.7%	
Other expenditure	511	534	700	536	692	35.6	29.2	1,644	2,281	38.8
as % of sales	3.9%	4.7%	4.2%	4.7%	4.9%			4.0%	4.4%	
EBITDA	672	395	1,811	877	1,087	61.8	24.0	3,166	3,755	18.6
Depreciation	126	133	158	184	181	44.0	-1.7	456	600	31.8
EBIT	546	262	1,653	693	907	65.9	30.8	2,711	3,155	16.4
Other Income	94	110	89	128	123	30.1	-4.3	311	422	35.6
Interest	266	234	283	298	322	20.7	7.9	861	1,081	25.6
PBT	375	139	1,459	524	708	89.0	35.2	2,162	2,496	15.5
Total Tax	98	20	366	202	195	99.5	-3.4	577	685	18.8
PAT	277	119	1,093	322	513	85.3	59.4	1,585	1,811	14.3
Extraordinary items	0	0	0	0	0			0	0	
Reported PAT	277	119	1,093	322	513	85.3	59.4	1,585	1,811	14.3
Minority Interest	0	0	0	0	0			0	0	
Adjusted PAT	277	119	1,093	322	513	85.3	59.4	1,585	1,811	14.3
Adjusted EPS (Rs)	4.0	1.7	15.8	4.7	7.4	85.3	59.4	23	26	14.3
(%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	(bps)	(bps)	FY23	FY24	(bps)
EBITDA margin	5.1	3.4	11.0	7.7	7.7	260	0	7.8	7.2	-60
EBIT margin	4.2	2.3	10.0	6.1	6.5	230	40	6.6	6.0	-60
EBT margin	2.9	1.2	8.8	4.6	5.0	220	40	5.3	4.8	-50
PAT margin	2.1	1.0	6.6	2.8	3.7	150	80	3.9	3.5	-40
Effective Tax rate	26.1	14.1	25.1	38.6	27.6	140	-1100	26.7	27.5	80

Source: Company, Emkay Research

Exhibit 9: Peer Comparison

Companies	Price (Rs)	Mcap (Rs bn)	Reco	Target Price (Rs/sh)	EPS (Rs)			P/E (x)			EV/EBITDA (x)*		
					FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Titan Company	3,402	3,020	Buy	4,000	38.4	55.9	73.4	88.7	60.9	46.3	50.4	40.6	32.5
Page Industries	40,700	454	Reduce	37,300	593.0	713.7	845.7	68.6	57.0	48.1	44.7	37.7	32.1
Jubilant FoodWorks	637	421	Add	600	4.5	7.5	10.0	142.3	84.5	63.7	26.0	21.7	18.8
Devyani International	170	206	Reduce	175	0.9	1.4	2.2	195.2	123.0	78.7	22.5	18.2	14.9
ABFRL	311	316	Sell	260	-3.5	-0.8	0.1	NA	NA	NA	18.1	13.4	11.0
Westlife Foodworld	800	125	Reduce	875	2.0	8.1	11.6	402.2	99.1	69.0	34.7	23.8	19.6
Sapphire Foods	1,536	98	Add	1,700	9.3	20.4	32.1	166.0	75.3	47.8	18.0	13.6	10.7
Go Fashion	1,107	60	Buy	1,350	20.1	27.1	33.3	55.1	40.8	33.2	19.9	15.6	12.8
Ethos	3,139	77	Buy	3,700	43.4	56.3	75.5	72.4	55.7	41.6	36.4	26.8	20.3
Senco Gold	1,099	85	Buy	1,400	29.2	40.0	49.0	37.7	27.5	22.4	17.3	15.0	12.5
Varun Beverages	1,462	1,900	Add	1,650	19.2	25.3	32.0	76.3	57.8	45.7	42.2	34.9	29.4
Aditya Vision	4,518	58	Buy	5,800	96.2	132.7	180.6	47.0	34.0	25.0	25.6	19.5	15.0

Source: Company, Emkay Research; Note: *Post-IndAS-116 EBITDA

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Exhibit 10: Changes in estimates

(Rs mn)	FY25E			FY26E			FY27E		
	Old	New	Change (%)	Old	New	Change (%)	Old	New	Change (%)
Revenue	63,195	63,197	0.0	74,898	74,900	0.0	88,450	88,452	0.0
EBITDA*	4,543	5,289	16.4	5,632	6,072	7.8	6,818	7,312	7.2
EBITDA margin (%)	7.2	8.4	120 bps	7.5	8.1	60 bps	7.7	8.3	60 bps
Net profit	2,145	2,266	5.6	2,750	3,106	12.9	3,410	3,810	11.7
EPS (Rs)	27.6	29.2	5.6	35.4	40.0	12.9	43.9	49.0	11.7

Source: Company, Emkay Research

Senco Gold: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	40,774	52,414	63,197	74,900	88,452
Revenue growth (%)	15.4	28.5	20.6	18.5	18.1
EBITDA	3,166	3,755	5,289	6,072	7,312
EBITDA growth (%)	14.2	18.6	40.8	14.8	20.4
Depreciation & Amortization	456	601	764	876	1,002
EBIT	2,711	3,154	4,525	5,196	6,310
EBIT growth (%)	15.3	16.4	43.5	14.8	21.4
Other operating income	0	0	0	0	0
Other income	311	422	528	634	760
Financial expense	861	1,081	1,373	1,677	1,977
PBT	2,162	2,495	3,679	4,152	5,093
Extraordinary items	0	0	(650)	0	0
Taxes	577	685	763	1,046	1,284
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	1,585	1,810	2,266	3,106	3,810
PAT growth (%)	22.8	14.2	25.2	37.1	22.7
Adjusted PAT	1,585	1,810	2,752	3,106	3,810
Diluted EPS (Rs)	22.9	23.3	35.4	40.0	49.0
Diluted EPS growth (%)	18.0	1.6	52.1	12.9	22.7
DPS (Rs)	1.7	1.7	2.1	2.9	3.5
Dividend payout (%)	7.2	7.2	7.2	7.2	7.2
EBITDA margin (%)	7.8	7.2	8.4	8.1	8.3
EBIT margin (%)	6.6	6.0	7.2	6.9	7.1
Effective tax rate (%)	26.7	27.5	20.7	25.2	25.2
NOPLAT (pre-IndAS)	1,987	2,288	3,586	3,886	4,720
Shares outstanding (mn)	69.1	77.7	77.7	77.7	77.7

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	2,162	2,495	3,679	4,152	5,093
Others (non-cash items)	456	601	764	876	1,002
Taxes paid	(615)	(734)	(798)	(1,086)	(1,329)
Change in NWC	(3,324)	(4,434)	(2,315)	(2,882)	(3,060)
Operating cash flow	(773)	(1,413)	1,526	2,104	2,923
Capital expenditure	(393)	(415)	(350)	(412)	(424)
Acquisition of business	(1)	0	0	0	0
Interest & dividend income	311	422	528	634	760
Investing cash flow	(75)	159	144	183	292
Equity raised/(repaid)	750	2,700	0	0	0
Debt raised/(repaid)	1,322	399	308	324	342
Payment of lease liabilities	(447)	(556)	(665)	(770)	(890)
Interest paid	(642)	(809)	(1,047)	(1,299)	(1,541)
Dividend paid (incl tax)	0	0	0	0	0
Others	(136)	(390)	(163)	(224)	(275)
Financing cash flow	848	1,345	(1,568)	(1,969)	(2,364)
Net chg in Cash	(1)	90	102	317	850
OCF	(773)	(1,413)	1,526	2,104	2,923
Adj. OCF (w/o NWC chg.)	2,551	3,021	3,841	4,986	5,983
FCFF	(1,166)	(1,828)	1,176	1,692	2,499
FCFE	(1,715)	(2,487)	331	648	1,282
OCF/EBITDA (%)	(24.4)	(37.6)	28.9	34.6	40.0
FCFE/PAT (%)	(108.2)	(137.4)	12.0	20.9	33.6
FCFF/NOPLAT (%)	(58.7)	(79.9)	32.8	43.5	52.9

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	691	777	777	777	777
Reserves & Surplus	8,764	12,878	14,981	17,863	21,398
Net worth	9,455	13,655	15,758	18,640	22,175
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(179)	(228)	(263)	(302)	(347)
Total debt	5,396	5,983	6,282	6,596	6,925
Total liabilities & equity	14,671	19,410	21,777	24,934	28,753
Net tangible fixed assets	847	1,121	1,217	1,337	1,433
Net intangible assets	23	65	63	68	75
Net ROU assets	(171)	(194)	(363)	(559)	(786)
Capital WIP	131	15	15	15	15
Goodwill	0	0	0	0	0
Investments [JV/Associates]	1	1	1	1	1
Cash & equivalents	95	185	288	605	1,455
Current assets (ex-cash)	25,850	33,177	40,382	47,672	55,817
Current Liab. & Prov.	12,105	14,960	19,826	24,206	29,258
NWC (ex-cash)	13,746	18,217	20,557	23,467	26,559
Total assets	14,671	19,410	21,777	24,934	28,753
Net debt	5,301	5,798	5,994	5,991	5,470
Capital employed	14,671	19,410	21,777	24,934	28,753
Invested capital	14,445	19,209	21,473	24,312	27,281
BVPS (Rs)	136.7	175.7	202.8	239.9	285.4
Net Debt/Equity (x)	0.6	0.4	0.4	0.3	0.2
Net Debt/EBITDA (x)	1.7	1.5	1.1	1.0	0.7
Interest coverage (x)	0.3	0.3	0.3	0.3	0.3
RoCE (%)	23.2	21.0	24.5	25.0	26.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	48.0	47.2	31.0	27.5	22.4
P/CE(x)	37.2	35.4	23.2	21.4	17.7
P/B (x)	8.0	6.3	5.4	4.6	3.9
EV/Sales (x)	2.0	1.7	1.4	1.2	1.0
EV/EBITDA (x)	25.7	24.3	17.3	15.1	12.4
EV/EBIT(x)	30.0	28.9	20.2	17.6	14.4
EV/IC (x)	5.6	4.7	4.3	3.8	3.3
FCFF yield (%)	(1.4)	(2.0)	1.3	1.9	2.7
FCFE yield (%)	(2.3)	(2.9)	0.4	0.8	1.5
Dividend yield (%)	0.2	0.2	0.2	0.3	0.3
DuPont-RoE split					
Net profit margin (%)	3.9	3.5	4.6	4.1	4.3
Total asset turnover (x)	3.1	3.1	3.1	3.2	3.3
Assets/Equity (x)	1.6	1.5	1.4	1.4	1.3
RoE (%)	19.0	15.7	19.8	18.1	18.7
DuPont-RoIC					
NOPLAT margin (%)	4.9	4.4	5.7	5.2	5.3
IC turnover (x)	3.2	3.1	3.1	3.3	3.4
RoIC (%)	15.5	13.6	17.6	17.0	18.3
Operating metrics					
Core NWC days	63.5	65.1	67.2	67.7	66.7
Total NWC days	123.0	126.9	118.7	114.4	109.6
Fixed asset turnover	22.6	24.0	25.0	27.4	30.1
Opex-to-revenue (%)	6.7	6.3	6.5	6.3	6.2

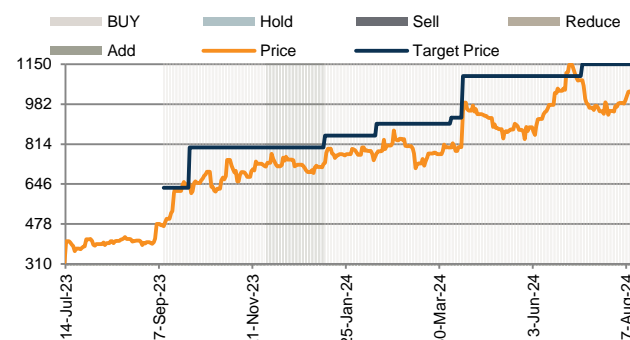
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
23-Jul-24	990	1,150	Buy	Devanshu Bansal
07-Jul-24	1,083	1,150	Buy	Devanshu Bansal
24-May-24	874	1,100	Buy	Devanshu Bansal
15-Apr-24	952	1,100	Buy	Devanshu Bansal
07-Apr-24	800	925	Buy	Devanshu Bansal
15-Feb-24	774	900	Buy	Devanshu Bansal
10-Jan-24	735	850	Buy	Devanshu Bansal
30-Nov-23	719	800	Add	Devanshu Bansal
11-Nov-23	657	800	Buy	Devanshu Bansal
26-Oct-23	614	800	Buy	Devanshu Bansal
08-Oct-23	645	800	Buy	Devanshu Bansal
20-Sep-23	469	630	Buy	Devanshu Bansal

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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