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Jewelry

Transcending tradition; adorning fashion

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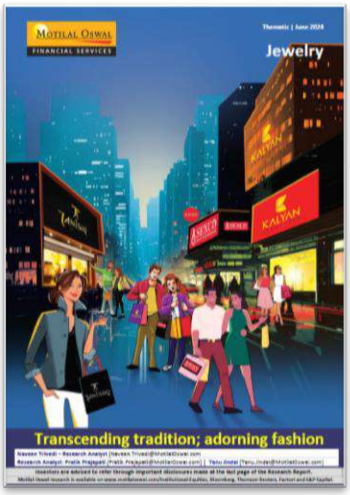
Jewelry: Transcending tradition; adorning fashion

Companies covered in the report

KALYAN JEWELLERS: Crafting success in a competitive market!

SENCO: Shining bright in the Indian jewelry market!

Jewelry

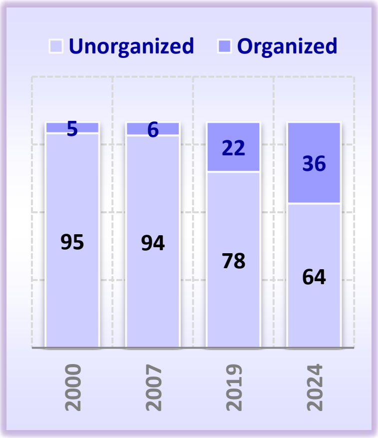


Transcending tradition; adorning fashion

Hyper-local play; execution needs to be critical!

- **A giant stride…: The jewelry sector has been experiencing a significant trend towards formalization, with the organized market accounting for 36-38% of the total jewelry market, compared to ~22% in FY19. The total jewelry market reported ~8% revenue CAGR during FY19-24, reaching a market value of INR6,400b. The organized market clocked ~18-19% revenue CAGR while Titan, Kalyan, and Senco combined recorded ~20% revenue CAGR during FY19-24.**
- **…towards the organized channel with…: We are optimistic about the jewelry category and anticipate ongoing rapid shifts in consumer purchasing behavior, transitioning from unorganized/local to organized channels. Factors such as increasing ticket prices, enhanced shopping experiences, greater product variety, et al. are fueling this momentous trend.**
- **…the franchise model being a growth catalyst: In addition, after achieving success in new markets/states, top players are further motivated to expand into newer geographies. The franchise-based model consistently achieved success, prompting several players to modify their business models. The franchise model is not only asset-light but also enables faster reach. Jewelry store penetration is at its peak, driven by small jewelers, which offers significant growth opportunities for organized players.**
- **Our take: We initiate coverage on Kalyan Jewellers and Senco Gold with a BUY rating and a TP of INR525 (based on 45x FY26E EPS) and INR1,300 (based on 35x FY26E EPS), respectively. We reiterate our BUY rating on Titan with a TP of INR4,150 (premised on 65x FY26E EPS).**
- **Key risks:** 1) gold price volatility; 2) failure in store unit economics, especially in new markets; 3) capital inefficiency in rapid store expansion; and 4) pricing pressure (with respect to making charges) due to competition.

Visible shift towards organized jewelry players



Top-10 organized players command >30% of the total jewelry demand

- We analyzed the organized jewelry market, which makes up 36-38% of the total jewelry market, by players to gain a deeper understanding of the industry. The top 10 players in the organized jewelry sector collectively control over 30% (90% of the organized market) of the total jewelry demand in India. We estimate that these players held less than 20% of the total market share in FY19.
- The proliferation of stores and consumers' growing inclination towards purchasing jewelry from branded retailers, especially in the last 3-4 years, have brought about significant shifts in the market composition.

Store mix vs. population mix vs. GDP mix

- We collected store locator information for the top 18 organized retailers to analyze the state-level competitive landscape and the market mix of each player. The top 10 states account for 78% of the organized retail network, comprising over 2,000 stores. These states represent 60% of the total population and contribute 68% of the GDP. The top 5 states are Tamil Nadu, Maharashtra, Karnataka, West Bengal, and Uttar Pradesh, with a store mix of 15%, 14%, 10%, 8%, and 7%, respectively.
- The store-to-GDP ratio for the top 10 states is 1.1x, compared to 0.7x for other states. Tamil Nadu has the highest ratio of 1.7x, followed by West Bengal at 1.4x.

Top 10 states – organized store network vs. population and GDP mix

Hyper-local play; execution needs to be critical!

- Although jewelry is emerging as a nationwide trend for several players, it still primarily operates on a hyper-local level. The acquisition of customers, upgrades, and frequency of visits to the store require strict local oversight and competitiveness. Some retailers are engaging in various expansion formats, tailoring their approach to suit the preferences of specific cities or neighboring towns. Others are bridging the gap by attracting consumers from towns to nearby cities where they have a store presence. Effective inventory/SKU management and enhancing customer experiences will be crucial for achieving success.

Unlike other retail plays, there is a limited risk of product substitution

- Unlike several other retail stories (e.g., the QSR category), where competition arises not only from peers but also from product substitutions, the jewelry sector has a limited risk of product substitution. Consumers always have numerous choices in the QSR category, leading to major substitution risks. However, customers in the jewelry category stick to their preferred choices only, thereby limiting substitution risk.

Initiate coverage with a BUY rating on Kalyan Jewellers and Senco Gold

- **Kalyan Jewellers (KALYAN)** is one of the largest jewelry retail chains in India, with a strong network of over 217 stores across the country. The asset-light expansion (franchise-driven) will generate the necessary cash flows to repay its debt in India (INR6.0b) over the next two years. The studded ratio of 28% in FY24 was best in class and reflected the company's understanding of evolving consumer trends, such as youth-led and non-traditional preferences. We model 29%/26%/41% revenue/EBITDA PAT CAGR during FY24-26E. **Initiate coverage on KALYAN with a BUY rating and a TP of INR525 (based on 45x P/E on FY26E).**
- **Senco Gold (SENCO)** is one of the most promising players in the organized retail jewelry market. The company has a pan-India presence with a strong network in the eastern region (store/revenue mix of 75%/ 80%). SENCO operated a total of 159 stores across India, with 93 company-owned stores and 66 franchise stores as of FY24. SENCO holds ~4% market share in the eastern region, predominately in West Bengal, where 75% of its eastern region stores are located. We model 19%/20%/26% revenue/EBITDA PAT CAGR during FY24-26E. **Initiate coverage on SENCO with a BUY rating and a TP of INR1,300, based on 35x P/E on FY26E.**
- **We reiterate our BUY rating on Titan with a TP of INR4,150 based on 65x P/E on FY26E.** We have been bullish on Titan for more than a decade due to its superior execution track record and strong competitiveness in such a fragmented market. We model 17%/20%/25% revenue/EBITDA PAT CAGR during FY24-26E.

Valuation summary

Company Name	CMP (INR)	TP (INR)	Rating	MCap (INR b)	EPS (INR)			P/E (x)			RoE (%)			RoIC (%)		
					FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Titan	3,589	4,150	BUY	3,188.5	39.3	50.2	60.9	91	71	59	32.8	33.5	28.2	26.1	23.3	22.9
Kalyan	424	525	BUY	437.8	5.8	8.5	11.5	73	50	37	15.3	19.4	22.6	11.6	13.9	16.0
Senco	1029	1,300	BUY	80.0	23.3	30.3	37.1	44	34	28	15.7	15.9	16.8	11.8	11.7	12.1

Source: MOFSL, Company

Titan has ~8% market share in overall jewelry market

Coverage Stocks – Thesis

Titan: Longevity sustains rich valuation

- Titan Company (Titan), with its superior competitive positioning (in sourcing, studded ratio, youth-centric focus, and reinvestment strategy), has continued to outperform other branded players. The brand recall and business moat are not easily replicable; therefore, Tanishq's competitive edge will remain strong in the category. The store count reached to 3,035 stores as of Mar'24 and expansion story remains intact.
- Titan's EBITDA margin has been under pressure during FY24 owing to a lower studded mix. It will be critical to monitor the margin outlook amid intensifying competition. The non-jewelry business is also scaling up well and will contribute to growth in the medium term. The business currently accounts for 12% and 9% of revenue and EBIT, respectively.
- We model 17%/20%/25% revenue/EBITDA PAT CAGR during FY24-26E. Titan's valuation is rich, but it offers a long runway for growth with a superior execution track record. **Reiterate BUY with a TP of INR4,150 based on 65x FY26E EPS.**

Titan – Key financial assumptions

Consolidated (INR b)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue (Total)	198	211	216	288	406	511	599	698	811
YoY growth (%)	23	6	3	33	41	26	17	16	16
Gross profits	54	59	52	72	102	117	138	164	191
GM (%)	27.2	28.0	24.2	24.9	25.2	22.8	23.0	23.5	23.5
EBITDA	19	23	17	34	49	53	64	76	88
EBITDA margin (%)	9.4	11.0	8.0	11.9	12.0	10.4	10.6	10.9	10.8
PBT	18	20	13	30	44	46	59	72	85
PBT margin (%)	9.2	9.4	6.2	10.6	11.0	9.0	9.9	10.3	10.5
PAT	14	15	10	23	33	35	45	54	64
PAT margin (%)	7.0	7.2	4.5	8.1	8.1	6.8	7.5	7.8	7.9
Revenue Jewelry (ex-bullion)	164	173	180	245	337	414	492	572	665
Stores (Jewelry)	395	461	514	582	763	937	1,069	1,213	1,362
Store addition	67	66	53	68	181	174	132	144	149
Stud ratio (%)	30	31	27	28	29	29	29	29	29
Jewelry EBIT	19	21	17	31	44	48	57	68	80
Jewelry EBIT margin (%)	11.6	11.8	9.5	12.6	13.0	11.6	11.6	11.9	12.0
Jewelry Rev/ Store	415	376	349	421	442	442	460	472	488
Jewelry EBIT/Store	48	44	33	53	57	51	53	56	58
RoE (%)	24.9	23.8	13.8	27.7	30.8	32.8	33.5	28.2	27.5
RoIC (%)	25.5	22.5	14.9	32.0	31.2	26.1	23.3	22.9	24.7

Source: MOFSL, Company

KALYAN JEWELLERS

Kalyan aims to reduce overall ~INR7.0b debt over next two years.

KALYAN: Crafting success in a competitive market!

- Kalyan Jewellers (KALYAN) is one of the largest jewelry retail chains in India, with a strong network of over 217 stores across the country. At first, KALYAN focused more on the company-owned stores to establish its brand name, even in the newer markets. After achieving success, KALYAN has implemented a franchise model since 2023 and expanded to 76 stores by FY24.
- The company is further leveraging its brand by extensively expanding across Indian markets with 80 new stores being opened in FY25 through the franchise route. The asset-light expansion will generate the necessary cash flows to repay its debt in India (~INR6.0b) over the next two years. The studded ratio of 28% in FY24 was best in class and reflected the company's understanding of evolving consumer trends, such as youth-led and non-traditional preferences. The Middle East business (INR26b; 36 stores) was steady in FY24.
- KALYAN aims to reduce its overall debt levels by ~INR7.0b over the next two years. We model 29%/26%/41% revenue/ EBITDA/PAT CAGR during FY24-26E. **We initiate coverage on the stock with a BUY rating and a TP of INR525 (based on 45x FY26 P/E).**

KALYAN – Key financial assumptions

Particulars (INR b)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Kalyan (India)									
Revenue	74	78	73	91	116	158	214	280	335
YoY growth (%)	-10	5	-7	24	28	36	36	30	20
SSSG (%)	0	0	0	0	5	12	12	10	9
Stores	103	107	107	124	149	217	337	457	542
-COCO	103	107	107	124	132	128	128	128	128
-FOCO	0	0	0	0	15	76	156	251	321
-Candare	0	0	0	0	2	13	53	78	93
Store addition		4	0	17	25	68	120	120	85
Stud ratio (%)	26	25	23	24	26	28	29	29	29
Gross profits	12	14	12	14	18	23	29	36	41
GM (%)	16.4	17.7	16.9	15.3	15.6	14.5	13.4	12.7	12.3
EBITDA	5	6	6	7	9	11	15	19	22
EBITDA margin (%)	6.2	8.1	8.5	7.6	8.1	7.1	6.8	6.7	6.4
PBT	0	2	2	3	6	7	11	15	17
PBT margin (%)	0.5	3.0	2.6	3.2	4.8	4.7	5.2	5.4	5.1
PAT	0	2	1	2	4	6	8	11	13
PAT margin (%)	0.1	2.0	1.9	2.4	3.6	3.5	3.9	4.0	3.9
Revenue/ Store (INR m)	723	733	685	730	777	727	636	612	619
EBITDA/ Store (INR m)	45	59	58	56	63	51	43	41	40
ROE (%)	0.5	7.5	5.3	6.8	12.0	14.1	18.5	21.7	21.6
ROIC (%)	2.2	7.9	8.2	8.6	11.6	13.1	16.2	18.5	18.9

Kalyan (Consol. INR b)

	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	98	101	86	108	141	185	244	310	368
YoY growth (%)	-7	3	-15	26	30	32	31	27	19
Stores	137	144	137	154	182	253	378	503	590
Store addition		7	-7	17	28	71	125	125	87
Stud ratio (%)	24	23	22	22	25	28	29	29	29
Gross profits	16	17	15	17	22	27	33	40	46
GM (%)	16.1	16.9	17.0	15.6	15.6	14.6	13.7	12.9	12.4
EBITDA	6	8	6	8	11	13	17	21	24
EBITDA margin (%)	5.9	7.5	6.9	7.5	7.9	7.1	6.8	6.8	6.5
PBT	0	2	0	3	6	8	12	16	18
PBT margin (%)	0.2	2.2	0.5	2.8	4.1	4.3	4.8	5.1	5.0
PAT	0	1	0	2	5	6	9	12	14
PAT margin (%)	0.0	1.4	-0.1	2.1	3.3	3.2	3.6	3.8	3.7
Revenue/ Store (INR m)	713	701	626	702	773	733	645	616	624
EBITDA/ Store (INR m)	42	53	43	53	61	52	44	42	40
RoE	-0.2	6.9	-0.3	7.5	13.6	15.3	19.4	22.6	22.4
RoIC	-1.7	6.8	-1.1	7.7	10.6	11.6	13.9	16.0	16.5

SENCO: Shining bright in the Indian jewelry market

Senco has ~4% market share in overall eastern market.

- Senco Gold (SENCO) is one of the most promising players in the organized retail jewelry market. The company has a pan-India presence with a strong network in the east region (store/revenue mix of 75%/ 80%). SENCO operated a total of 159 stores across India, with 93 company-owned stores and 66 franchise stores as of FY24. SENCO holds ~4% market share in the eastern region, predominately in West Bengal, where 75% of its eastern region stores are located.
- The company is further expanding its footprint in eastern markets and scaling up its network in other regions. SENCO aims to expand its consumer base (added three states and 11 cities during FY24) by focusing on light-weight jewelry and capturing the consumer trend of studded (250bp gain in studded ratio in the last three years to 11.4%). In line with the formalization in the jewelry market, we continue to see store expansion-led growth for SENCO (estimate addition of 34 stores during FY24-26E, taking the total to 193 stores).
- We estimate a CAGR of 19%/20%/26% in revenue/EBITDA/adj. PAT over FY24-26. The stock is currently trading at 27x FY26E EPS, with RoE/RoIC of 17%/12% in FY26E. **We initiate coverage on SENCO with a BUY rating and value the stock at 35x FY26E EPS to arrive at our TP of INR1,300.**

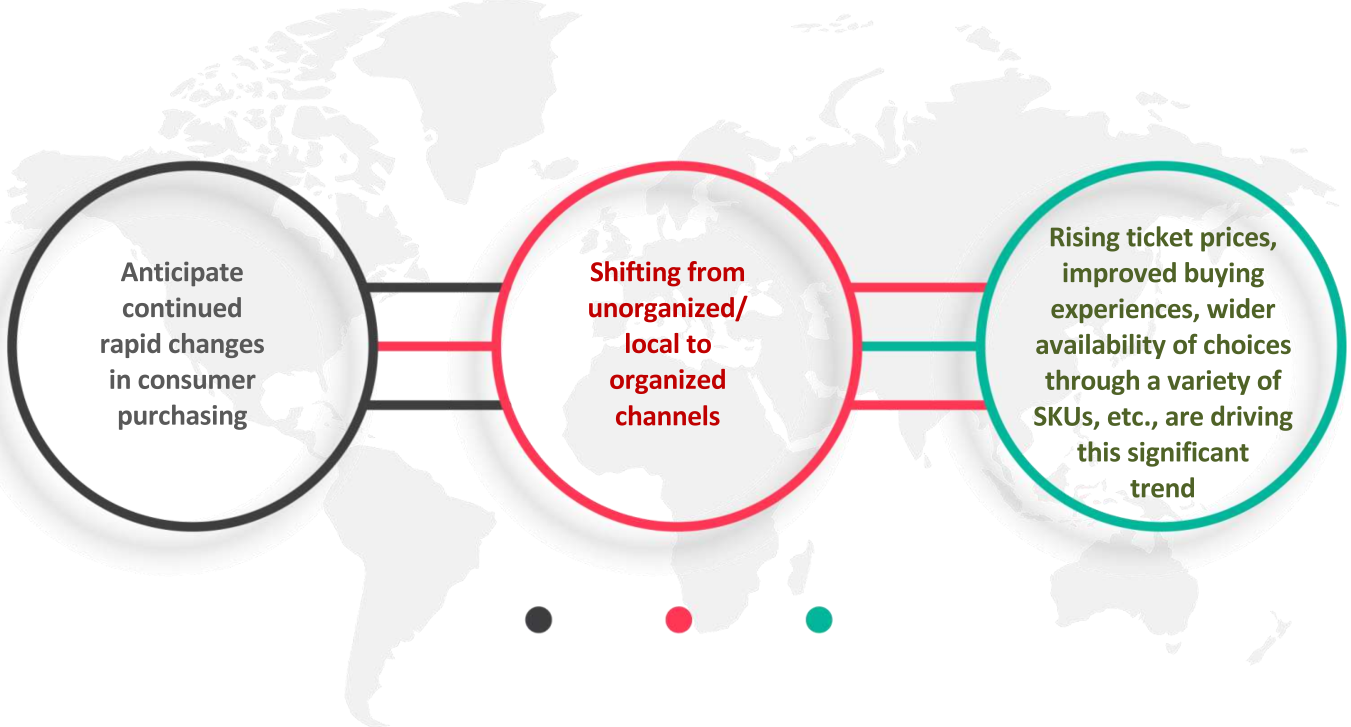
SENCO – Key financial assumptions

Particulars (INR b)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	25	24	27	35	41	52	63	74	87
YoY growth (%)	12	-3	10	33	15	29	20	18	17
Stores	97	108	111	127	136	159	175	193	212
-COCO	49	56	60	70	75	93	102	112	123
-FOFO	48	52	51	57	61	66	73	81	89
Store addition		11	3	16	9	23	16	18	19
Stud ratio (%)	7	8	9	8	10	11	12	13	14
Gross profits	3.7	4.2	3.7	5.5	6.6	8.0	9.8	11.4	13.2

Particulars (INR b)	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
GM (%)	15.0	17.5	14.1	15.7	16.1	15.3	15.5	15.4	15.2
EBITDA	1.8	2.2	1.8	2.8	3.2	3.8	4.5	5.4	6.2
EBITDA margin (%)	7.1	8.9	6.6	7.8	7.8	7.2	7.2	7.3	7.1
PBT	1.1	1.3	0.8	1.8	2.2	2.5	3.1	3.9	4.5
PBT margin (%)	4.5	5.5	3.1	5.0	5.3	4.8	5.0	5.2	5.2
PAT	0.7	0.9	0.6	1.3	1.6	1.8	2.4	2.9	3.4
PAT margin (%)	2.9	3.8	2.3	3.7	3.9	3.5	3.7	3.9	3.9
Revenue/ Store (INR m)	256	224	240	278	300	330	361	385	409
EBITDA/ Store (INR m)	18	20	16	22	23	24	26	28	29
RoE	16.7	17.9	10.7	19.4	19.0	15.7	15.9	16.8	16.9
RoIC	11.0	11.9	9.6	14.0	13.4	11.8	11.7	12.1	12.2

STORY IN CHARTS

OPTIMISTIC ABOUT THE JEWELRY CATEGORY



SHIFTING TOWARDS ORGANIZED PLAYER

~64% Traditional method of Buying Jewlery

TITAN COMPANY KALYAN JEWELLERS SENCO

36% Hallmark Buying Jewlery

- ✓ Brand building efforts by organized players on planks of trust and transparency
- ✓ Karatometer and jewelry exchange schemes; introduction of certificate of authenticity and buyback schemes
- ✓ Micro segmentation of the market and the launch of sub-brands; growth of franchise model
- ✓ Tanishq and Kalyan emerge as leading players with stores across India, with focus on rural and semi-urban demand and initiation of ecommerce for jewelry retail

GROWTH DRIVERS

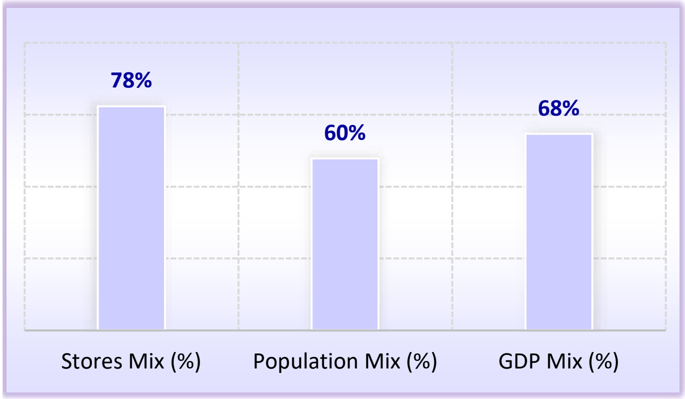
MEASURES THAT COULD LEAD TO SHIFT TO ORGANIZED TRADE

GOLD VALUE CHAIN IN INDIA

	Sourcing (mining and imports)	Refining	Trading	Manufacturing	Retailing	Consumer
Consumption	❖ Limited mining	❖ Private and government refiners	❖ Traders, jewellers, or manufacturers	❖ Large, organized Jewelry manufacturers largely catering to consumption demand	❖ National and regional Jewelry chains focusing primarily on Jewelry consumption demand	❖ Consumption demand for Jewelry (high value-added products, fashion wear)
	❖ Imports through nominated banks, nominated agencies, select star & premium trading agencies		❖ Commodity exchanges	❖ Unorganized manufacturers catering to both investment and consumption demand	❖ Local jewellers focusing on both consumption and investment demand	❖ Investment demand for physical gold (low value-added Jewelry, bars and coins)
				❖ Coin manufacturers	❖ Banks retailing bars and coins, other dealers	
Investment				Financial industry for gold-based products		
				❖ Banks, mutual funds, exchanges		❖ Investment demand for gold-backed financial products

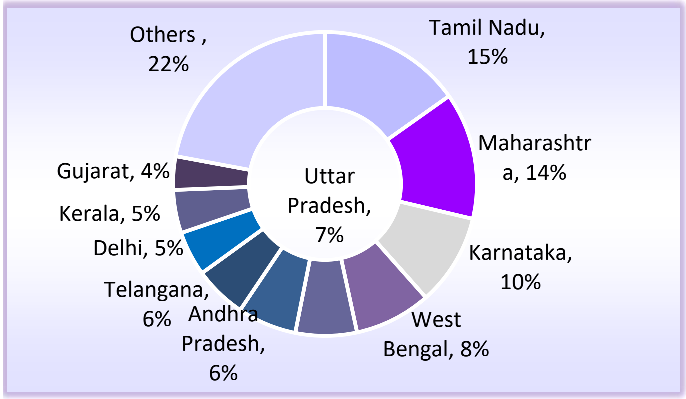
Source: A. T. Kearney analysis

Top 10 states – organized store network vs. population and GDP mix



Source: Companies website, Industry, MOFSL

State-wise store network of organized players



Source: Companies website, Industry, MOFSL

State-wise organized store network vs. population mix and GDP mix

Top 10 states	Stores Mix (%)	Population Mix (%)	GDP Mix (%)	Store/GDP Mix (x)
Tamil Nadu	15	6	9	1.7
Maharashtra	14	9	12	1.2
Karnataka	10	5	8	1.2
West Bengal	8	7	6	1.4
Uttar Pradesh	7	17	9	0.8
Andhra Pradesh	6	4	5	1.3
Telangana	6	3	5	1.1
Delhi	5	2	4	1.2
Kerala	5	3	4	1.3
Gujarat	4	5	7	0.5
Total (top 10 states)	**78**	**60**	**68**	**1.1**
Others	22	40	32	0.7
Total	**100**	**100**	**100**	**1.0**

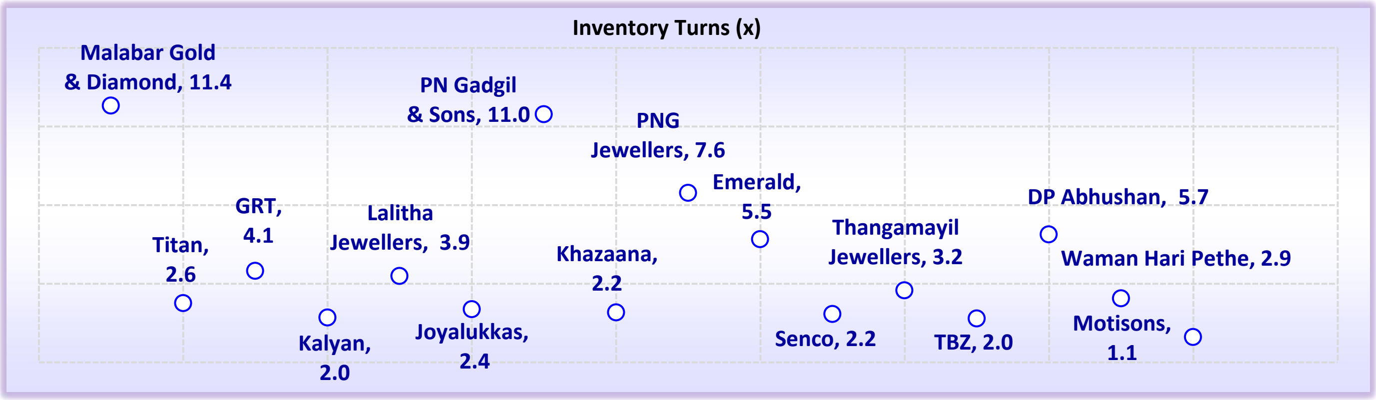
Source: Companies website, Industry, MOFSL

Jewelry market breakup – Organized market at 36-38% of the total market

Particulars (INR b)	FY19	FY20	FY21	FY22	FY23	FY24
Malabar Gold & Diamond	135	161	239	314	400	512
Titan (Jewelry)	164	173	193	255	359	455
GRT	122	136	152	190	258	289
Kalyan	98	101	86	108	141	185
Lalitha Jewellers	78	78	72	82	134	180
Joyalukkas	81	80	81	103	145	170
PN Gadgil & Sons	20	21	22	57	101	115
Khazaana	43	49	52	64	81	89
PNG Jewellers	23	23	19	26	45	60
Emerald	37	36	38	44	58	71
Senco	25	24	27	35	41	51
Thangamayil Jewellers	14	17	18	22	32	38
TBZ	18	18	13	18	24	23
DP Abhushan	8	8	12	17	20	22
Waman Hari Pethe	6	6	6	7	14	16
Motisons	2	2	2	3	4	4
PC Jewellers	87	52	28	16	25	2
Total Org Market	**961**	**986**	**1,060**	**1,363**	**1,881**	**2,283**
Total Market	4,400	4,800	3,440	4,560	5,600	6,400
Org Market Mix (%)	**22%**	**21%**	**31%**	**30%**	**34%**	**36%**

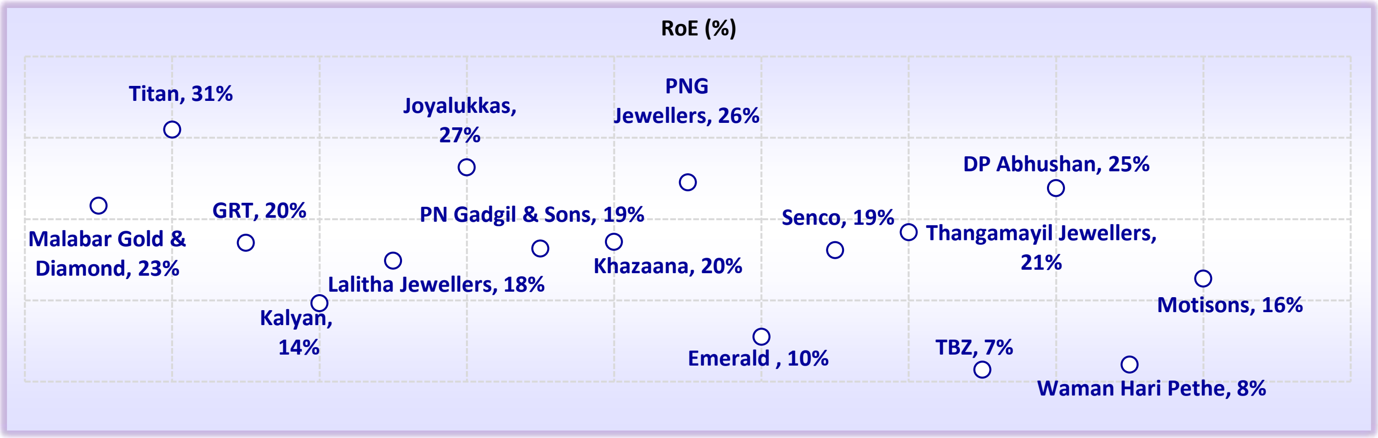
Source: Companies, VCCircle, Capitaline, Industry, MOFSL

Top players – Inventory turns (x)



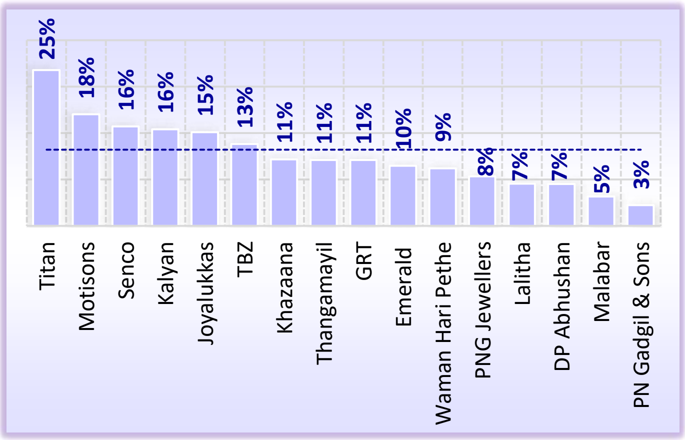
Source: Companies, VCCircle, Capitaline, Industry, MOFSL ; Note: FY23 financials

Top players – RoE (%)



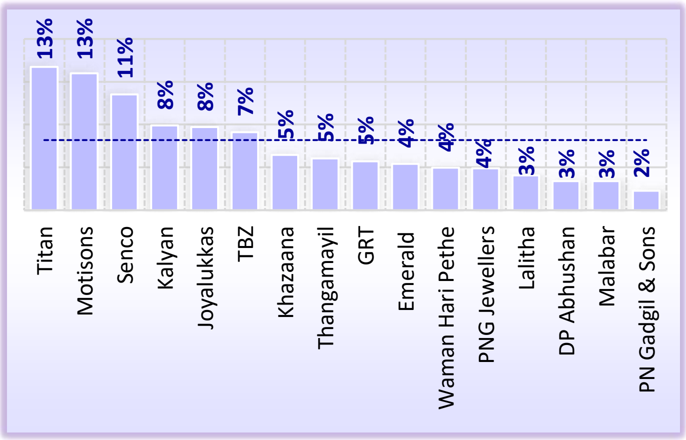
Source: Companies, VCCircle, Capitaline, Industry, MOFSL; Note: FY23 financials

Gross margin comparison



Source: Companies, VCCircle, Capitaline, Industry, MOFSL

EBITDA margin comparison



Source: Companies, VCCircle, Capitaline, Industry, MOFSL

Transcending tradition; adorning fashion: Key insights

Indian jewelry retail sector at USD80b in FY24

The Indian jewelry retail sector's size was close to USD80b in FY24. Organized retail accounted for about 36-38% and comprised both pan-India and regional players.

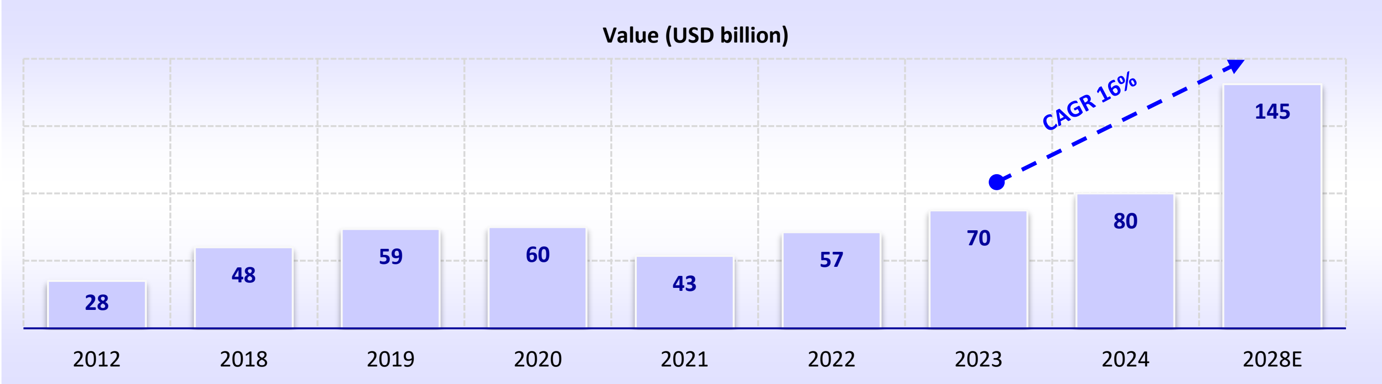
- The size of the Indian jewelry retail sector was close to USD80b (INR6,400b) in FY24. Within this landscape, organized retail accounted for about 36-38% and comprised both pan-India and regional players.
- The remainder of the jewelry retail sector continued to be dominated by the unorganized/local players, comprising over 500,000 local goldsmiths and jewelers. The total gold consumption in India was attributed to 66% for jewelry and remaining 34% for bars & coins.
- The jewelry market was close to USD48-50b within the organized market in FY18, accounting for a share of 20-22%. The total market reported a CAGR of 9-10% during FY18-24, while the organized market registered a CAGR of more than 17%. The last three years were golden years for the industry, which clocked a 20%/30% value growth for total/organized market segments.
- According to industry estimates, the jewelry market is expected to clock a 15-16% CAGR to reach USD145b by FY28. Of this, the organized/formal market is projected to achieve over 20% CAGR, accounting for 42-43% of the total market.
- There are multiple drivers in the industry leading to such rapid growth, driven by rising disposable income (higher per capita growth in double digits), an improving mix for regular wear (beyond weddings and investment-led), enhanced product offerings (design, diamonds, etc.), trust-building through hallmarking, and a better buying experience at organized retail outlets.

Exhibit 1: Jewelry market breakup – Organized market at 36-38% of the total market

Particulars (INR b)	FY19	FY20	FY21	FY22	FY23	FY24
Malabar Gold & Diamond	135	161	239	314	400	512
Titan (Jewelry)	164	173	193	255	359	455
GRT	122	136	152	190	258	289
Kalyan	98	101	86	108	141	185
Lalitha Jewellers	78	78	72	82	134	180
Joyalukkas	81	80	81	103	145	170
PN Gadgil & Sons	20	21	22	57	101	115
Khazaana	43	49	52	64	81	89
PNG Jewellers	23	23	19	26	45	60
Emerald	37	36	38	44	58	71
Senco	25	24	27	35	41	51
Thangamayil Jewellers	14	17	18	22	32	38
TBZ	18	18	13	18	24	23
DP Abhushan	8	8	12	17	20	22
Waman Hari Pethe	6	6	6	7	14	16
Motisons	2	2	2	3	4	4
PC Jewellers	87	52	28	16	25	2
Total Org Market	**961**	**986**	**1,060**	**1,363**	**1,881**	**2,283**
Total Market	4,400	4,800	3,440	4,560	5,600	6,400
Org Market Mix (%)	**22%**	**21%**	**31%**	**30%**	**34%**	**36%**

Source: Companies, VCCircle, Capitaline, Industry, MOFSL

Exhibit 2: Indian jewelry market size – By value (USD b)



Source: Technopak

The top 10 organized jewelry players command over 30% (90% of organized) of the total jewelry demand in India

Top 10 organized players command >30% of the total gold demand

The top 10 organized jewelry players command over 30% (90% of organized) of the total jewelry demand in India. We believe these players accounted for less than 20% of the total market during FY19. The store expansion and consumers' preference for buying jewelry from brand retailers, particularly over the last 3-4 years, have led to significant changes in the market mix.

Exhibit 3: Top players' market share in the total jewelry market (%)

Market share in total market	FY19	FY20	FY21	FY22	FY23	FY24
Malabar Gold & Diamond	3.1	3.4	6.9	6.9	7.1	8.0
Titan (Jewelry)	3.7	3.6	5.6	5.6	6.4	7.1
GRT	2.8	2.8	4.4	4.2	4.6	4.5
Kalyan	2.2	2.1	2.5	2.4	2.5	2.9
Lalitha Jewellers	1.8	1.6	2.1	1.8	2.4	2.8
Joyalukkas	1.8	1.7	2.3	2.3	2.6	2.7
PN Gadgil & Sons	0.5	0.4	0.6	1.2	1.8	1.8
Khazaana	1.0	1.0	1.5	1.4	1.4	1.4
PNG Jewellers	0.5	0.5	0.6	0.6	0.8	1.0
Emerald	0.8	0.8	1.1	1.0	1.0	1.1
Senco	0.6	0.5	0.8	0.8	0.7	0.8
Thangamayil Jewellers	0.3	0.4	0.5	0.5	0.6	0.6
TBZ	0.4	0.4	0.4	0.4	0.4	0.4
DP Abhushan	0.2	0.2	0.4	0.4	0.4	0.3
Waman Hari Pethe	0.1	0.1	0.2	0.2	0.3	0.2
Motisons	0.1	0.0	0.1	0.1	0.1	0.1
PC Jewellers	2.0	1.1	0.8	0.4	0.4	0.0
Total Organized Market	**22**	**21**	**31**	**30**	**34**	**36**
Total Unorganized Market	**78**	**79**	**69**	**70**	**66**	**64**
Total Market	**100**	**100**	**100**	**100**	**100**	**100**

Source: Companies, VCCircle, Capitaline, Industry, MOFSL

Exhibit 4: Top players' market share in the organized jewelry market (%)

Market share in Org market	FY19	FY20	FY21	FY22	FY23	FY24
Malabar Gold & Diamond	14	16	23	23	21	22
Titan (Jewelry)	17	18	18	19	19	20
GRT	13	14	14	14	14	13
Kalyan	10	10	8	8	7	8
Lalitha Jewellers	8	8	7	6	7	8
Joyalukkas	8	8	8	8	8	7
PN Gadgil & Sons	2	2	2	4	5	5
Khazaana	5	5	5	5	4	4
PNG Jewellers	2	2	2	2	2	3
Emerald	4	4	4	3	3	3
Senco	3	2	3	3	2	2
Thangamayil Jewellers	2	2	2	2	2	2
TBZ	2	2	1	1	1	1
DP Abhushan	1	1	1	1	1	1
Waman Hari Pethe	1	1	1	1	1	1
Motisons	0	0	0	0	0	0
PC Jewellers	9	5	3	1	1	0
Total Org Market	**100**	**100**	**100**	**100**	**100**	**100**

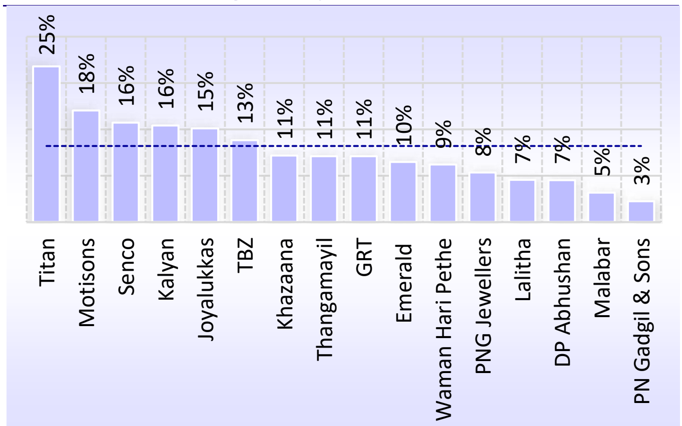
Source: Companies, VCCircle, Capitaline, Industry, MOFSL

The jewelry industry's average gross margin/EBITDA/PAT stood at 12%/7%/4%.

Industry revenue and profit pool

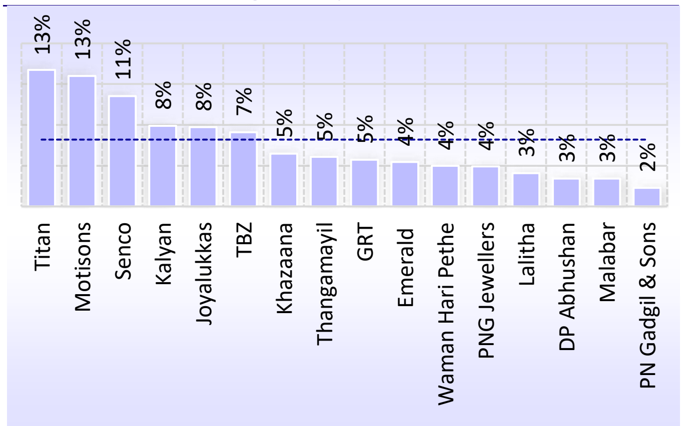
Although organized players have benefited from the change in consumer preferences, each player has a different business model within the industry. Jewelry is a highly localized market, and demand patterns vary significantly among regions. Therefore, the operating profit margin varies significantly among players despite using the same metal. The mix of bullion sales, stud ratio, and consumer preferences varies based on the financial profiles of the players. At the aggregate level, gross margins are close to 12% with an EBITDA margin of 7%. The operating expenses are at 5%. With differences in customer/product segmentation and brand positioning, we have observed a diversity in the margin profile among different players. The northern region typically has a higher studded ratio compared to other regions, resulting in higher gross margins than in other regions. In this market, however, marketing spending and inventory levels are higher than in other markets. South is typically a heavy jewelry market with a low studded ratio, resulting in a low gross margin. The net profit margin for the aggregate is 3-4%, and capital efficiencies play a significant role in sustaining a better margin profile at the player level.

Exhibit 5: Gross margin comparison



Source: Companies, VCCircle, Capitaline, Industry, MOFSL

Exhibit 6: EBITDA margin comparison



Source: Companies, VCCircle, Capitaline, Industry, MOFSL

Exhibit 7: Top players' revenue and profit pool mix

Particulars (FY23)	Revenue (INR b)	EBITDA (INR b)	PAT (INR b)	Revenue mix (%)	EBITDA mix (%)	PAT mix (%)	GM (%)	EBITDA margin (%)	NPM (%)
Malabar Gold & Diamond	400	13	8.8	21	11	13	5	3	2
Titan (Jewelry)	359	46	30.4	19	37	44	25	13	8
GRT	258	11	5.1	14	9	7	11	4	2
Kalyan	141	11	4.7	7	9	7	16	8	3
Lalitha Jewellers	134	5	2.3	7	4	3	7	4	2
Joyalukkas	145	16	9.0	8	13	13	15	11	6
PN Gadgil & Sons	101	2	1.1	5	1	2	3	2	1
Khazaana	81	6	3.8	4	5	6	11	7	5
PNG Jewellers	45	1	0.9	2	1	1	8	3	2
Emerald	58	2	0.8	3	1	1	10	3	1
Senco	41	3	1.6	2	3	2	16	8	4
Thangamayil Jewellers	32	2	0.8	2	1	1	11	5	3
TBZ	24	1	0.4	1	1	1	13	5	2
DP Abhushan	20	1	0.5	1	1	1	7	4	2
Waman Hari Pethe	14	1	0.2	1	1	0	9	5	1
Motisons	4	0	0.2	0	0	0	18	13	6
PC Jewellers	25	2	-2.0	1	2	-3	16	10	-8
Total	**1,881**	**123**	**69**	**100**	**100**	**100**	**12**	**7**	**4**

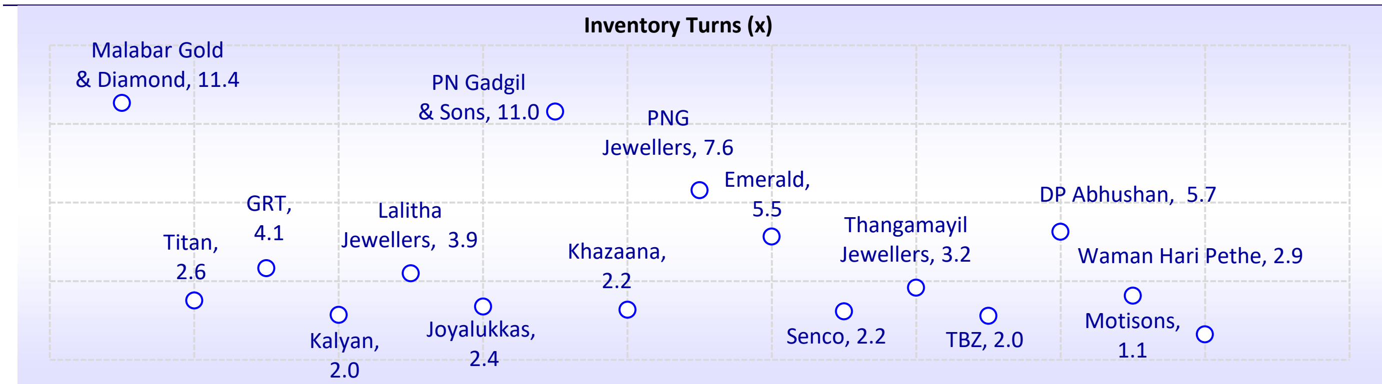
Source: Companies, VCCircle, Capitaline, Industry, MOFSL; Note: Titan company level GM/NPM

Inventory turns of Titan, KALYAN, and SENCO stood in the range of 2-3%

Capital efficiencies: Inventory turns and RoE

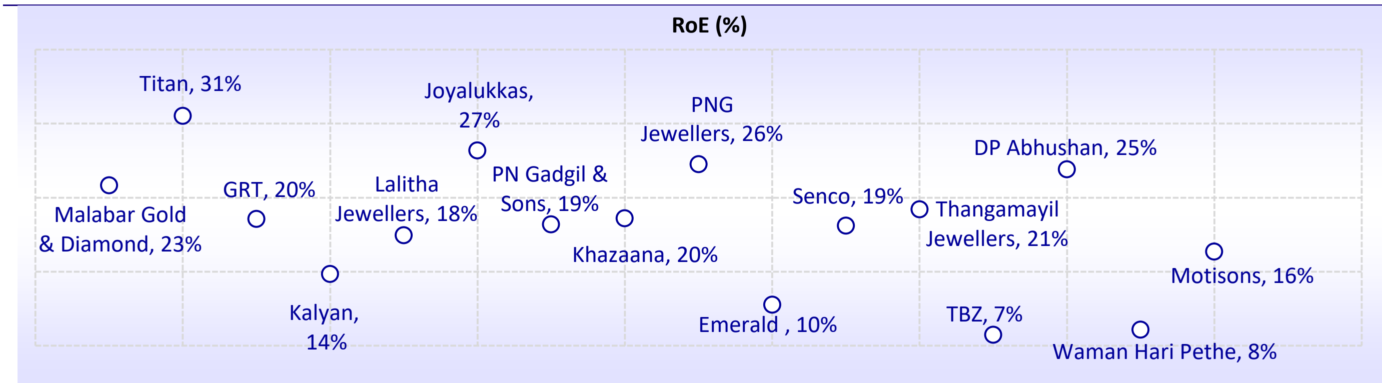
The business model and capital efficiency differ in the industry, leading to financial superiority among players. In the business model where the studded ratio is high, along with a large store size to maintain a wide SKU assortment and presence in multiple markets, we observe that inventory turns are low. Conversely, regional branded players focus more on running SKUs and better inventory control, leading to higher inventory turns.

Exhibit 8: Top players – Inventory turns (x)



Source: Companies, VCCircle, Capitaline, Industry, MOFSL; Note: FY23 financials

Exhibit 9: Top players – RoE (%)



Source: Companies, VCCircle, Capitaline, Industry, MOFSL; Note: FY23 financials

Exhibit 10: Top players – Background and key business facts

Companies Name	State Origin	Store (India)	Presence	Key Facts
Malabar Gold & Diamond	Kerala	203	Pan India; majorly South India	❖ Bullion sales - ~60% ❖ Present in 15 states
Titan (Jewelry)	Tamil Nadu	937	Pan India	❖ Stud ratio - 29% ❖ 7% market share in the overall jewelry market
GRT	Tamil Nadu	58	South India	❖ Revenue Mix: Tamil Nadu - 75%, Karnataka & AP 25% ❖ Studded ratio - <10%
Kalyan	Kerala	217	Pan India; majorly South India	❖ Present in 23 states; however, 55% of the stores are in the South ❖ Studded ratio - 28% ❖ Strategic initiates to drive growth through the FOCO model
Lalitha Jewellers	Tamil Nadu	50	South India	❖ Revenue mix: Andhra Pradesh 33%; Tamil Nadu 33%; Karnataka 13%; Telangana 18%;
Joyalukkas	Kerala	100	Pan India; majorly South India	❖ Revenue mix: South- 90%, Non-South - 10% Store: South 81 stores, Non-South - 16 stores
PN Gadgil & Sons	Maharashtra	30	West India, mainly Maharashtra	❖ Bullion sales - >65% Studded ratio - 4% 26 stores on lease and four are owned stores
Khazaana	Andhra Pradesh	39	South India	❖ Revenue mix (%): Andhra Pradesh - 51%; Telengana - 15%; Telangana - 21%; Karnataka, Odisha, Puducherry - 23%
PNG Jewellers	Maharashtra	33	West India, mainly Maharashtra	❖ Second-largest organized jewelry player in Maharashtra Successfully operates the franchisee model (COCO- 23, FOCO- 10)
Emerald	Tamil Nadu	14	South India	❖ B-B player in South India Production capacity: Gold : 36 ton, Silver : 180 ton
Senco	West Bengal	159	Pan India; majorly in East India	❖ 76% stores in East India, contributing 80-85% of revenue Focus on lightweight jewelry Studded ratio - 11%
Thangamayil Jewellers	Tamil Nadu	57	South India	❖ Majorly present across Tier 2 and Tier 3 cities Gold jewelry contribution is >90% All showrooms are located in Tamil Nadu (higher concentration in the Madurai market)
TBZ	Maharashtra	33	Pan India	❖ Leader in wedding and occasion-related sales and contributes ~65% of revenue Present in 25 cities across 12 states Extending product design by adding 8-10 jewelry lines every year
DP Abhushan	MP	8	Central India	❖ Focus on gold jewelry in eight regions (Ratlam, Indore, Udaipur, Bhopal, Ujjain, Bhilwara, Kota, and Banswara) Operates in Tier 2 & 3 cities Revenue mix: Gold (92%), Diamond (6%), Silver (2%), and Others (0.4%)
Waman Hari Pethe	Maharashtra	26	Western India	❖ Gold jewelry contribution is 80-85% Recently ventured into Polki jewelry segment
Motisons	Rajasthan	4	Rajasthan	❖ Gold jewelry contribution is 80%. Currently, all four showrooms are in Jaipur More focus on customized jewelry.

Source: Companies, Industry, Credit Rating Reports, MOFSL

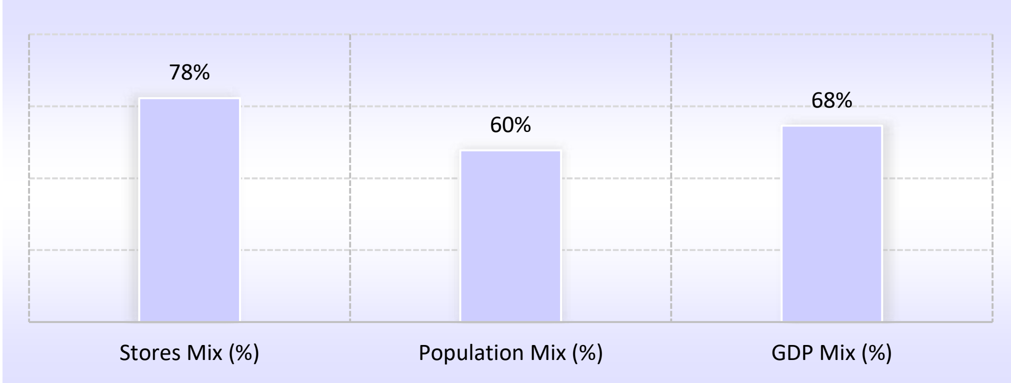
Jewelry sector – store locator

Top 10 states contribute 78% of the organized retail network

The top 10 states contribute 78% of the organized retail network, with a population/ GDP mix of 60%/68%.

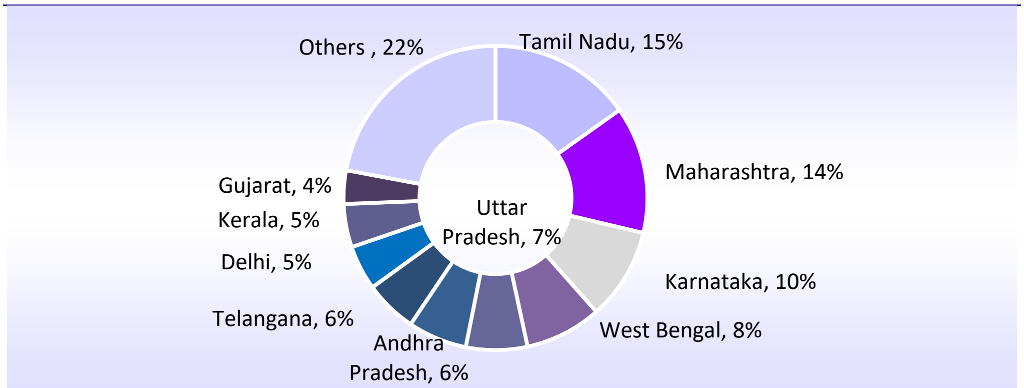
We captured the store locator for top 18 organized retailers to analyze the state-level competitive landscape and market mix of each player. The top 10 states contribute 78% of the organized retail network of over 2,000 stores. These states contribute 60% of the total population and 68% of the GDP. Tamil Nadu, Maharashtra, Karnataka, West Bengal, and Uttar Pradesh are the top 5 states with a store mix of 15%, 14%, 10%, 8% and 7%, respectively.

Exhibit 11: Top 10 states – organized store network vs. population and GDP mix



Source: Companies website, Industry, MOFSL

Exhibit 12: State-wise store network of organized players



Source: Companies website, Industry, MOFSL

Store mix vs. population mix vs. GDP mix

We captured the store locator information for the top 18 organized retailers to analyze the state-level competitive landscape and market mix of each player. The store-to-GDP ratio for the top 10 states is 1.1x, compared to 0.7x for other states. Tamil Nadu has the highest ratio of 1.7x, followed by West Bengal at 1.4x. Despite having a favorable population and GDP mix, Maharashtra and Karnataka do not have as high a store/GDP ratio as Tamil Nadu and West Bengal. Uttar Pradesh also has a huge opportunity to further improve its store/GDP mix, particularly as it contributes 17% of the population and 9% of the GDP mix.

Exhibit 13: State-wise organized store network vs. population mix and GDP mix

Top 10 states	Stores Mix (%)	Population Mix (%)	GDP Mix (%)	Store/GDP Mix (x)
Tamil Nadu	15	6	9	1.7
Maharashtra	14	9	12	1.2
Karnataka	10	5	8	1.2
West Bengal	8	7	6	1.4
Uttar Pradesh	7	17	9	0.8
Andhra Pradesh	6	4	5	1.3
Telangana	6	3	5	1.1
Delhi	5	2	4	1.2
Kerala	5	3	4	1.3
Gujarat	4	5	7	0.5
Total (top 10 states)	**78**	**60**	**68**	**1.1**
Others	22	40	32	0.7
Total	**100**	**100**	**100**	**1.0**

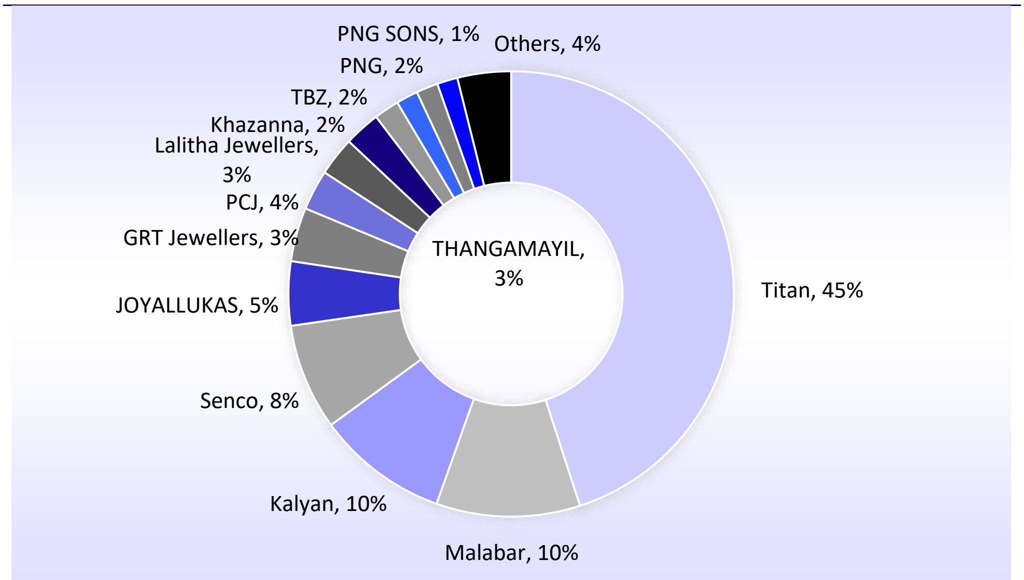
Source: Companies website, Industry, MOFSL

Among the organized players, Titan has the largest store network (at 45%).

Top players' store mix: Organized retail store network at over 2,000 stores

Titan holds the lion's share in the organized retail sector with ~45% share in a network of over 900 stores spanning Tanishq, Caratlane, Mia, and Zoya. Other major retail players include Malabar, Kalyan, Senco, et al. Several players, after experiencing success in their own region, have gradually become pan-India players. The success of other markets has given them the necessary confidence in their execution capabilities. Top players, with additional funding, will expand the network beyond their core markets.

Exhibit 14: Store mix of organized players with a network of 2,000 stores



Source: Companies website, Industry, MOFSL

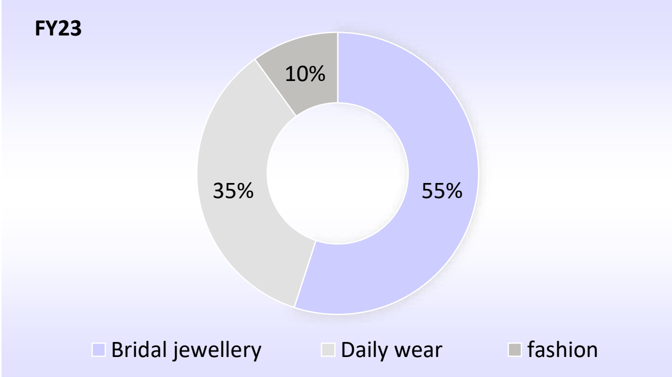
Bridal jewelry contributes a significant 55% of the total jewelry demand.

Gold consumption patterns in India

Jewelry for occasions

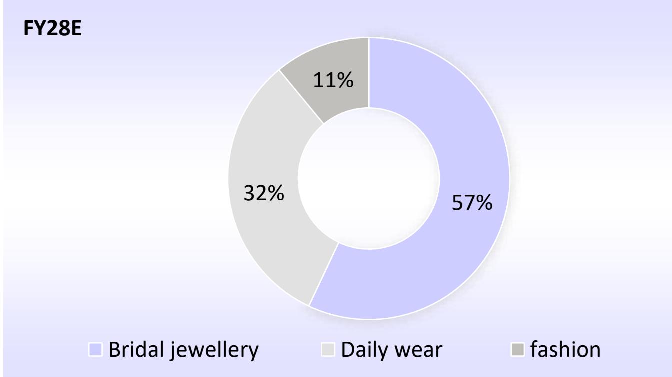
- Weddings and festivals are the primary reasons for the purchase of jewelry in India. Bridal jewelry still accounts for a significant portion of demand, contributing 55% to the total jewelry demand. Daily wear jewelry accounts for 30-35% of the Indian jewelry market. Players are strategically focusing on manufacturing lightweight pieces to cater to the preferences of younger consumers, especially those who desire daily wear gold jewelry that complements western-style attire.
- Fashion jewelry, on the other hand, contributes nearly 10% to the Indian jewelry market. Expectations indicate continued growth, especially among the youth seeking diverse and affordable products. Fashion jewelry, available across various value segments, materials, craftsmanship, and designs, caters to different preferences and purposes.

Exhibit 15: Jewelry market for occasions – by value (FY23)



Source: Technopak

Exhibit 16: Jewelry market for occasions – by value (FY28E)



Source: Technopak

Jewelry by product category

- Bangles and chains are the primary contributors to domestic jewelry consumption, accounting for 60-70% of total sales. These are preferred as daily wear by women.
- Necklaces contribute around 15-20% to the sales volume, with their sales surging during special occasions, such as festivals and weddings.
- The remaining 5-15% of sales is attributed to rings and earrings.

Exhibit 17: Jewelry market by product category

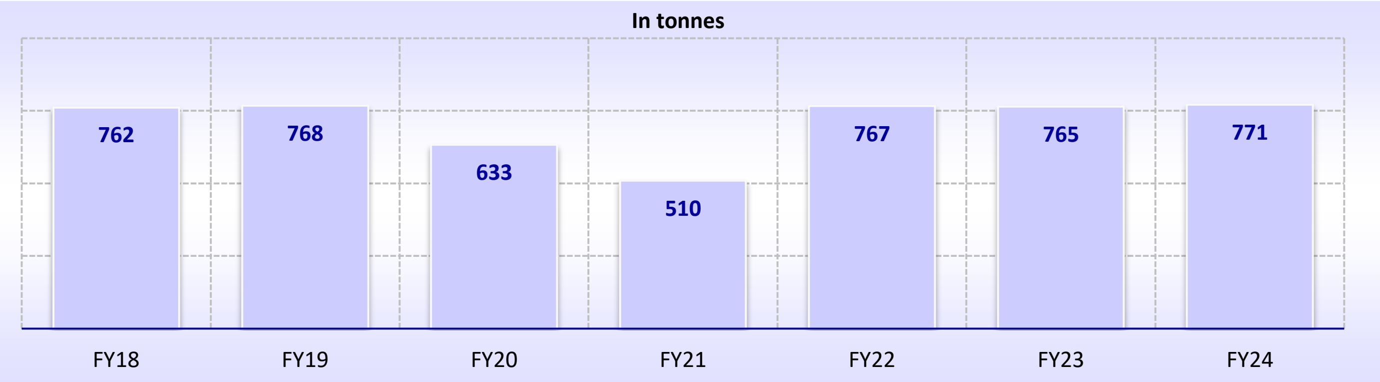
	Bangles	Chains	Necklaces	Earrings	Rings
					
Average Weight	8-25 grams	10-50 grams	25-250 grams	2-30 grams	2-15 grams
% of Retail Sales	30-40%	30-40%	15-20%	5-15%	5-15%

Around 60-65% of imported gold is consumed for jewelry, and recycled gold contributes 20% of consumption.

Jewelry demand pattern

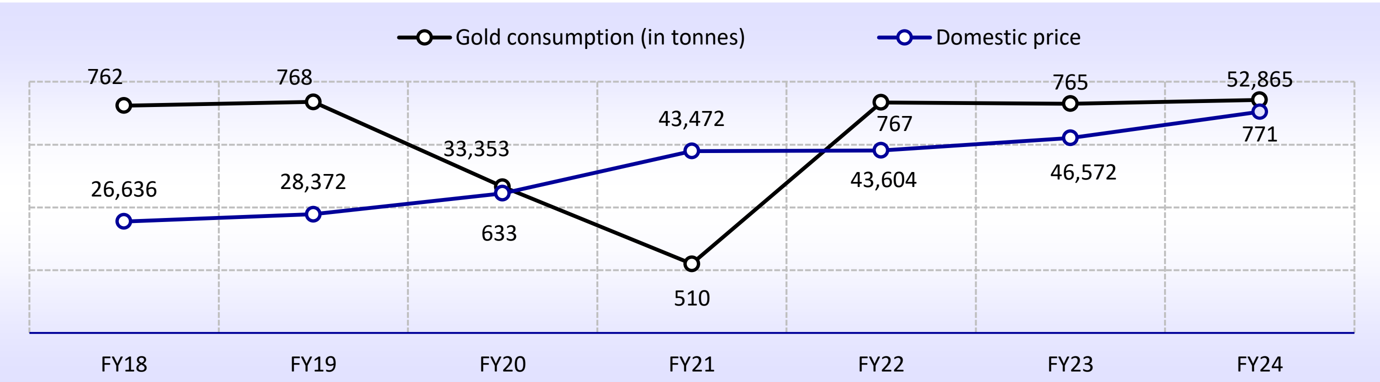
- Global gold production is ~3,600 tonnes, while India imports ~900 tonnes of which ~60-65% is consumed for jewelry. As per the industry, recycle gold contributes ~20% of India gold consumption for jewelry.
- Domestic gold prices experienced a significant increase of ~30% in FY21, due to upward trajectory of international prices and INR depreciation. This price surge, however, had repercussions on gold demand. The onset of the pandemic triggered a notable reduction in demand, due to lower discretionary spending.
- The closure of stores for a significant period and intermittent lockdowns in select states during that time further exacerbated the decline. Post-Covid, the revival trend persisted due to increased wedding-related purchases, and an improvement in overall consumer sentiment.
- In FY22, there was a notable improvement in volume for gold to reach 767 tonnes from 510 tonnes in FY21. This surge was propelled by heightened discretionary spending and the gradual easing of the pandemic's impact.
- The deferral of weddings due to the pandemic led to pent-up demand during FY22, contributing to a 50% surge in overall demand.
- However, FY23 witnessed a marginal decline in domestic gold demand, attributed to the escalation of import duty from 7.5% to 12.5% starting 30th Jun. The first quarter of FY23 saw an improvement in gold demand, attributed to a low baseline and increased purchases for festivities and weddings. Nevertheless, the higher import duty prompted retailers to transfer the additional costs to customers, adversely impacting discretionary purchases.

Exhibit 18: Domestic gold consumption in volume (in tonnes)



Source: WGC

Exhibit 19: Domestic gold consumption (in tonnes) and Price (in INR/10 grams) correlation



Source: WGC

Regional insights

Regional variations in jewelry demand and their impact on profitability

The studded jewelry ratio is high in the northern and western states compared to the southern states.

- In the southern states of India, consumer purchasing behavior tends to favor traditional plain gold jewelry, which usually has lower margins.
- Consumers in the northern and western regions of India are more receptive to studded jewelry and impulse-led, lighter-weight jewelry purchases (14k, 18k jewelry) vis-à-vis their southern counterparts.
- Plain gold jewelry typically has a gross margin ranging from 10% to 14%, while diamond-studded jewelry has a gross margin ranging from 30% to 35%.
- Consequently, as the studded ratio (studded jewelry/total revenue) goes up, profitability improves, thereby incentivizing South-focused retailers to expand towards the North, West, and East.

Exhibit 20: Regional jewelry demand and preferences

Region	North	East	West	South
Market mix	20%	15%	25%	40%
Dominant categories	Ring, Pendants, Necklaces	Bangles, Necklace, Rings	Pendants, Earrings	Pendants, Necklace, Earrings
Gold type	White & yellow	Yellow	White & yellow	Yellow
Diamond quality	S1-I1	VVS, Lower colors	VS, all colors	VVS, Better colors
Preferred carats	22k, 18k, 14k	22k	22k, 18k, 14k	22k
Important centers	New Delhi, Jaipur	Kolkata	Mumbai, Ahmedabad	Chennai, Hyderabad, Cochin, Bangalore

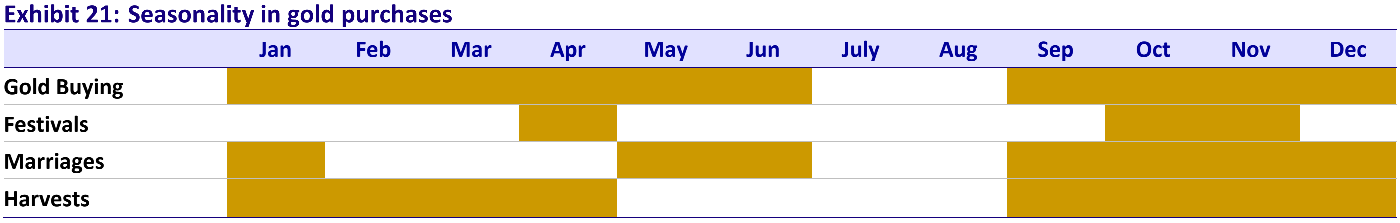
Source: Technopak

Seasonal and regional factors to drive demand

Jewelry demand peaks during the wedding season

- Jewelry demand is also very seasonal in nature, with different seasonal patterns across regions in India. Jewelry demand peaks during the months leading up to popular wedding seasons, such as May-June, September-November, and January.
- Agricultural output and monsoon patterns influence gold demand in Tier II and Tier III towns. Rural households invest their proceeds from harvests in gold jewelry during the months of November and December.
- Demand for gold and silver jewelry improves during the auspicious religious events such as Diwali/Dhanteras in October and November and Akshaya Trithiya in April and May.

Exhibit 21: Seasonality in gold purchases



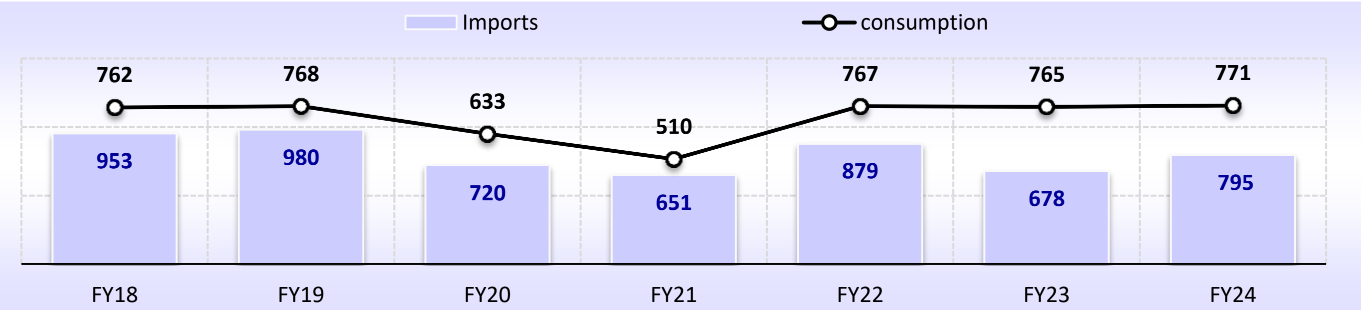
Source: Technopak

India's gold supply is dominated by imports

- The gold market experienced notable fluctuations in imports from FY18 to FY20, reaching 980 tonnes in FY19 before declining to 720 tonnes in FY20.
- This volatility was led by various factors, including declines in global gold prices, buoyant economic conditions leading to heightened disposable incomes, and substantial demand for gold due to traditional celebrations and weddings. However, in FY20, a significant drop occurred due to escalating import duties and the initial stages of an economic slowdown.

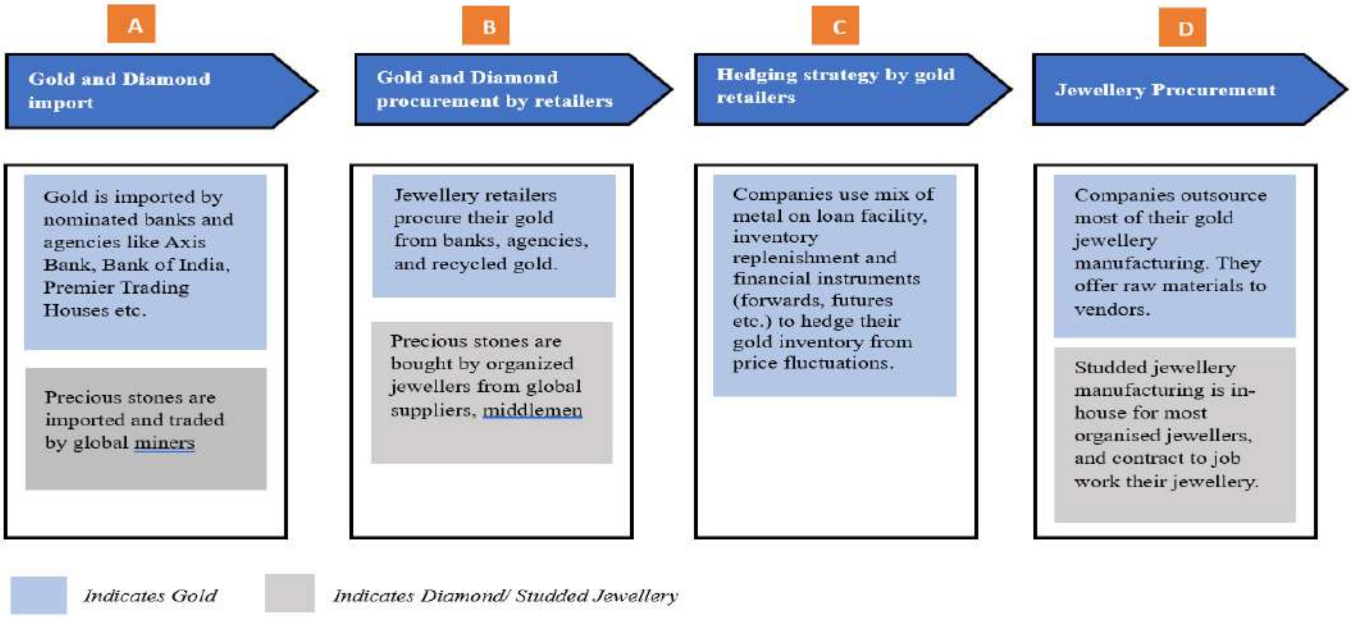
- Recovery signs emerged in FY22, marked by an increase in imports to 879 tonnes. Factors contributing to this rebound included gold's appeal as an inflation hedge and the release of pent-up demand following the easing of pandemic restrictions.
- However, in FY23, imports experienced a slight reduction to 678 tonnes, possibly influenced by government measures aimed at managing the current account deficit and promoting domestic gold recycling.

Exhibit 22: Import and consumption of gold in tonnes



Source: Technopak

Exhibit 23: Procurement value chain for organized Jewelers in India



Source: Technopak

Exhibit 24: Retail business comparison

	Pharma Retailing	Food & Grocery Retailing	jewelry Retailing	Apparel Retailing	QSR
Typical order Value (INR)	250-500	500-1000	20,000-1,00,000	2,000-3,000	500-550
Typical store Area (sq. ft)	~500	1,500-2,500	3,000-5,000	1,000-1,500	1,200-1,600
Typical store Revenue per month (INR)	10-15 Lakhs	30-50 Lakhs	4-6 Cr	15-25 Lakhs	25-35 Lakhs
Average Revenue per sq. ft (INR)	~42,000	~24,000	~1,40,000	~20,000	~26,000
Inventory Cost (INR)	10-15 Lakhs	28-30 Lakhs	30 Cr-40 Cr	~70 Lakhs	10-15 Lakhs
Inventory Turns	9-15 times	12-15 times	2 times	3-4 times	24
Promotional expense as % of store revenue	~1%	1-2%	1-3%	5-7%	4-5%
Employee Cost as % of store revenue	4-5%	5-8%	1-2%	8-10%	9-12%
Capex per store (INR)	4-8 Lakhs	32-35 Lakhs	3-4 Cr	30-35 Lakhs	1.5 -2.5 Cr.
Share of Private Labels	10-15%	15-20%	100%	Varies	100%
Number of SKUs	5,000-15,000	4,000-5,000	1000-1500	500-600*	35-40***
Pay Back Period	~3 years	~3-4 years	~3-5 years	~2-4 years	~3-4 years
Steady State RoCE	40-50%	30-35%	20-25%	25-40%	25-35%

Source: Technopak

Our views

What are the big themes in the category?

Visible shift towards organized players as their contribution jumped to 36% in FY24 from 22% in FY19

The jewelry category is experiencing rapid changes in consumer buying behavior, shifting towards the organized channel. Rising ticket prices, improved buying experiences, greater availability of choices through a wide range of SKUs, etc., are driving this significant trend. After experiencing success in new markets and states, the desire to expand into even more markets is further fueled. The franchise-based model has seen consistent success, prompting most players to adapt their business models accordingly. It is not only an asset-light model but also provides faster reach. Jewelry store penetration is at its best, led by small jewelers, offering significant growth opportunities for organized players.

Hyper-local play; execution needs to be critical

Players need to be hyper-local to remain ahead of competition

Although jewelry is becoming a nationwide trend for many players, it remains hyper-local. The acquisition of customers, upgrades, and frequency of visits to the store require strict local control and competitiveness. Some players are participating in all formats of the expansion, depending on the preferences of the city or nearby towns. Some are bridging the gap by attracting consumers from towns to nearby cities where they have a store presence. Therefore, the store expansion spree will continue; the key aspect to monitor is the execution. Inventory and SKU management, gold hedging, and consumer upgrades will be the key to success. The rural market in India continues to account for 58% of the demand for jewelry. However, rural consumers face challenges in terms of accessing quality products, transparent pricing, and appealing designs.

Unlike other retail plays, there is limited risk of substitution

Unlike several other retail stores, where competitiveness is not only among peers but also from product substitutions, the QSR category is a classic case where brands have to compete with each other, local players, dark kitchens, and home food. A consumer always has multiple options. Hence, they face substitution risk in their businesses. Jewelry is a competitive market; thus, consumers may opt for lower-priced options during economic downturns. Consumers can postpone demand for a period during times of high gold inflation, but the underlying demand remains steady.

Shift in consumers' purchasing behavior

Jewelry purchases may be for various occasions such as weddings, gifts, or daily wear. However, the growing trend indicates that consumers are shifting their purchasing motivations from solely buying metal (for investment or need-based reasons) to also considering purchasing jewelry from a fashion perspective. Consumers have been upgrading their wallets, so retailers need to be agile to meet the evolving needs of the rapidly changing consumers. It is no longer limited to buying for elders in the family; youth participation is growing at a faster pace as well.

Fashion + Investment = Perfect fit for growing consumer class

For ages, our purchasing habits for jewelry have primarily revolved around weddings, gifts, and festivals. Thus, the products' requirements were also very standard and stereotypical. However, as more and more young people are purchasing primarily studded items, the trend is changing rapidly. In India, consumers always seek value for money, even when purchasing premium products. Jewelry fits into India's mindset of combining fashion with investment. Therefore, we may see lower carat products/lightweights but more designer/studded products in the coming years.

Unlike many, the sector is not only limited to post-Covid beneficiaries

We have seen many consumer categories benefitting from the post-Covid phase. Pent-up demand and slight behavioral changes in consumers have increased demand for many categories. However, some of the categories normalized very quickly in FY23/FY24. The jewelry category also benefited from pent-up demand, including weddings, etc. The shift from unorganized/local players to organized/ branded players has been significant and augured well. We believe that some of the pent-up demand has already subsided during FY23/FY24. Therefore, those benefits have already been captured. However, the underlying shift towards consumers purchasing from branded retailers, upgrading to studded products, and increasing their frequency of visits (for normal wear, etc.) will continue to benefit the category over the medium term.

Comparative Scorecard (FY24)

Following is the FY24 performance scorecard of listed peers on key metrics, i.e. SSSG, store, revenue per store, operating margin, working capital days, and key ratios.

Exhibit 25: Comparison across key parameters for the major listed players

Jewelry listed Players (INR m)	Titan (Company)	Kalyan (India)	Kalyan (Consol)	Senco	Thangamyil
State origin	Tamil Nadu	Kerala	Kerala	West Bengal	Tamil Nadu
P&L					
Store (Jewelry)	937	217	253	159	57
Avg store size	4200	6500		2500	1500
SSSG	15%	12%		19%	23%
Revenue (Jewelry)	4,55,240	1,57,825	1,85,483	52,414	38,268
YoY growth (%)	27%	36%	32%	29%	21%
Gross Profit	1,16,520	22,910	27,137	8,014	3,688
GM (%)	22.8%	14.5%	14.6%	15.3%	9.6%
Employee (%)	3.6%	3.3%	3.3%	2.1%	1.8%
Ad-spending (%)	2.2%	2.0%	1.9%	1.8%	0.5%
EBITDA	52,920	11,156	13,127	3,755	2,124
EBITDA margin (%)	10.4%	7.1%	7.1%	7.2%	5.5%
PBT	46,220	7,440	7,888	2,495	1,651
PBT margin (%)	9.0%	4.7%	4.3%	4.8%	4.3%
PAT	34,950	5,540	5,973	1,810	1,232
NPM (%)	6.8%	3.5%	3.2%	3.5%	3.2%
Per Store (INR m)					
Revenue	415	727	733	330	671
EBITDA	48	51	52	24	37
Ratios					
Inventory turnover (x)	2.9	2.5	2.4	2.4	3.2
RoE	33%	14%	15%	16%	25%
RoIC	23%	13%	12%	12%	17%
Inventory days	127	144	151	151	113
Debtor days	6	4	6	3	0
Payable days	9	35	31	12	2
Cash conversion cycle (days)	124	112	125	142	112

Source: MOFSL, Company

Valuation summary

Exhibit 26: Valuation summary

Companies	CMP (INR)	TP (INR)	Upside (%)	Rating	EPS (INR)				P/E			
					FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E
Titan	3,589	4,150	16%	BUY	39.3	50.2	60.9	72.1	91	71	59	50
Kalyan	424	525	24%	BUY	5.8	8.5	11.5	13.4	73	50	37	32
Senco	1,029	1,300	26%	BUY	23.3	30.3	37.1	43.6	44	34	28	24

Companies	Revenue (INRb)				GM (%)				EBITDA margins (%)			
	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E
Titan	511	599	698	811	22.8	23.0	23.5	23.5	10.4	10.6	10.9	10.8
Kalyan	185	244	310	368	14.6	13.7	12.9	12.4	7.1	6.8	6.8	6.5
Senco	52	63	74	87	15.3	15.5	15.4	15.2	7.2	7.2	7.3	7.1

Companies	EBITDA (INR b)				PAT (INR b)				PAT margins (%)			
	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E
Titan	53	64	76	88	35	45	54	64	6.8	7.5	7.8	7.9
Kalyan	13	17	21	24	6	9	12	14	3.2	3.6	3.8	3.7
Senco	4	5	5	6	2	2	3	3	3.5	3.7	3.9	3.9

Companies	RoE (%)				RoIC (%)				Inventory turns (x)			
	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E	FY24	FY25E	FY26E	FY27E
Titan	32.8	33.5	28.2	27.5	26.1	23.3	22.9	24.7	2.9	3.0	3.3	3.5
Kalyan	15.3	19.4	22.6	22.4	11.6	13.9	16.0	16.5	2.4	2.8	3.1	3.3
Senco	15.7	15.9	16.8	16.9	11.8	11.7	12.1	12.2	2.4	2.4	2.4	2.4

Source: MOFSL, Company

Jewelry: Transcending tradition; adorning fashion

KALYAN JEWELLERS

SENCO

Kalyan Jewellers

BSE Sensex	NIFTY-50
77,301	23,558

CMP: INR424 **TP: INR525 (+24%)** **Buy**

KALYAN JEWELLERS

Stock Info

Bloomberg	KALYANKJ IN
Equity Shares (m)	1030
M.Cap.(INRb)/(USDb)	437 / 5.2
52-Week Range (INR)	450 / 122
1, 6, 12 Rel. Per (%)	-2/24/198
12M Avg Val (INR M)	1181
Free float (%)	39.4

Financial Snapshot (INR b)

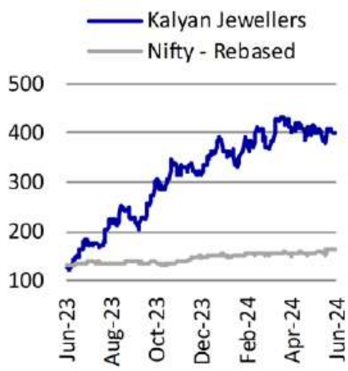
Y/E MARCH	FY24	FY25E	FY26E
Sales	185.5	243.8	309.9
EBITDA	13.1	16.7	20.9
EBITDA Margin (%)	7.1	6.8	6.8
Adj. PAT	6.0	8.8	11.9
Cons. Adj. EPS (INR)	5.8	8.5	11.5
EPS Gr. (%)	29.9	46.8	35.6
BV/Sh. (INR)	40.7	47.0	55.3
Ratios			
RoE (%)	15.3	19.4	22.6
RoIC (%)	11.6	13.9	16.0
Valuations			
P/E (x)	73.1	49.8	36.7
EV/EBITDA (x)	33.3	26.0	20.5

Shareholding pattern (%)

As On	Mar-24	Dec-23	Mar-23
Promoter	60.6	60.6	60.6
DII	11.0	5.5	2.6
FII	21.1	26.2	29.7
Others	7.3	7.8	7.2

FII Includes depository receipts

Stock performance (one-year)



Crafting success in a competitive market!

Kalyan Jewellers (KALYAN) is one of the largest jewelry retail chains in India, with a strong network of over 217 stores across the country. Initially, it focused more on the company-owned stores to establish its brand name, even in the newer markets. After achieving success, KALYAN has implemented a franchise model since FY23 (Jun'22) and expanded to 76 stores by FY24. It is further leveraging its brand by extensively expanding across Indian markets with 80 new stores set to open in FY25 via the franchise route. This asset-light expansion strategy will generate the necessary cash flows to reduce its debt in India by INR6.0b over the next two years. The studded ratio of 28% in FY24 was best in class and reflected KALYAN's understanding of evolving consumer trends, such as youth-led and non-traditional preferences. The Middle East business (INR26b; 36 stores) remained steady in FY24. KALYAN aims to reduce its overall debt levels by INR7.0b over the next two years. We model a 29%/ 26%/41% revenue/EBITDA/PAT CAGR during FY24-26E. We initiate coverage on the stock with a BUY rating and a TP of INR525 (premised on 45x FY26E P/E).

Nationwide expansion into non-southern regions to boost margins

- KALYAN is a Kerala-based company that has now expanded its presence to cover 23 states and a union territory in India. The industry dynamics that are favorable to organized players will sustain the store-led growth for Pan-Indian brands such as KALYAN and Tanishq.
- KALYAN's success in the non-southern markets has boosted its confidence in faster store expansion. Its goal is to capitalize on the popularity of studded jewelry in the non-southern markets.
- The studded jewelry share in India is 22% for southern and 35% for non-southern markets. Studded jewelry operates at a higher gross margin of ~35% in India (non-southern > southern margin) vs. plain gold jewelry (at 11-12%).

Hyper-local strategies for different geographies and customer segments

- KALYAN's hyper-local strategy enables effective services across diverse geographies and customer segments in India, where jewelry preferences vary significantly by region. This necessitates a focused approach, deep understanding of local preferences, and region-specific inventory models.
- KALYAN employs region-specific campaigns with localized content and brand ambassadors appealing to national, regional, and local audiences. Each showroom is staffed with local personnel who are knowledgeable about the local language and culture, and designed to reflect local tastes.
- Additionally, the "My Kalyan" network hires employees from local communities to ensure relevant language skills and local relationships.

Focusing more on the asset-light FOCO model

- KALYAN has devised a strategy to operate through both the Company Owned, Company Operated (COCO) and Franchise Owned, Company Operated (FOCO) models in Indian and international markets. This move aims to adopt an asset-light approach, reducing leverage on its B/S.
- In FY25, the company plans to open 80 new FOCO stores in India and six stores internationally. Further, it intends to focus more on the FOCO model vs. the COCO model in the Middle East. It is in the process of converting 20 stores from COCO to FOCO in the long run.
- To facilitate this transition, it has partnered with a global investment bank

Candere: Navigating online and offline markets

Candere has reported a 24% revenue CAGR over the last four years. The company plans to open 50 FOCO stores in FY25

- KALYAN extends its jewelry offerings through its online platform, targeting a younger, digitally adept customer base. Customers can easily browse and purchase jewelry directly from www.candere.com, with the added convenience of home delivery options.
- This online platform serves as an additional distribution channel, presenting an opportunity to attract more traffic to their physical showrooms.
- Candere has delivered a robust revenue CAGR of 24% over the last four years, reaching INR1,303m in FY24. It maintains a strong presence and enjoys user loyalty on prominent online marketplaces such as Amazon and Flipkart.
- In FY24, the company inaugurated its first FOCO Candere showroom, marking the beginning of a strategic expansion plan. By 31st Mar'24, a total of eight FOCO showrooms were operational. Additionally, there is a promising pipeline of potential franchise partners, with 50 signed Letters of Intent (LOIs) for FY25.

'My Kalyan' network – strategies to promote the KALYAN brand

The 'My Kalyan' centers, available at 1,006 locations, engage over 10m customers, with 36% of enrolments to purchase advance schemes in India

- The 'My Kalyan' centers serve as valuable touchpoints for gathering local market data and engaging with customers, thereby bridging the gap between customers and the brand.
- KALYAN promotes the brand, showcases products, enrolls customers in purchase-in-advance schemes, and drives traffic to nearby showrooms. With 1,006 locations and 4,003 dedicated staff as of FY24, the 'My Kalyan' network plays a pivotal role in connecting with potential customers, especially within the wedding ecosystem.
- This approach enables KALYAN to engage with over 10m potential customers annually through its 'My Kalyan' network. The network significantly contributes to revenue and enrollment in purchase-in-advance schemes, accounting for ~14% of revenue from operations and 36% of scheme enrollments for FY24 in India.

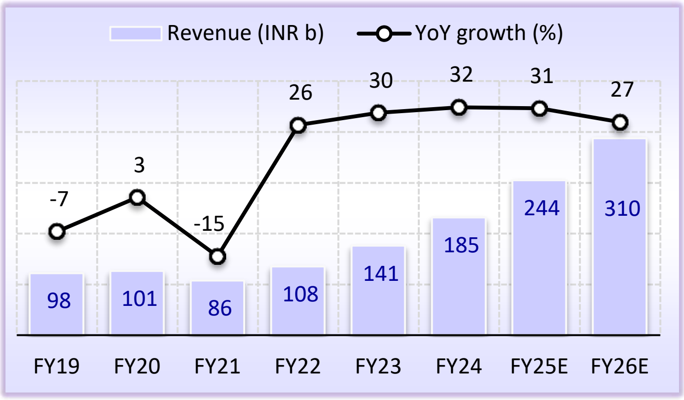
Valuation and View

KALYAN is a prominent player in the organized jewelry market and it is expected to deliver a revenue/EBITDA/Adj. PAT CAGR of 29%/26%/41% over FY24-26E.

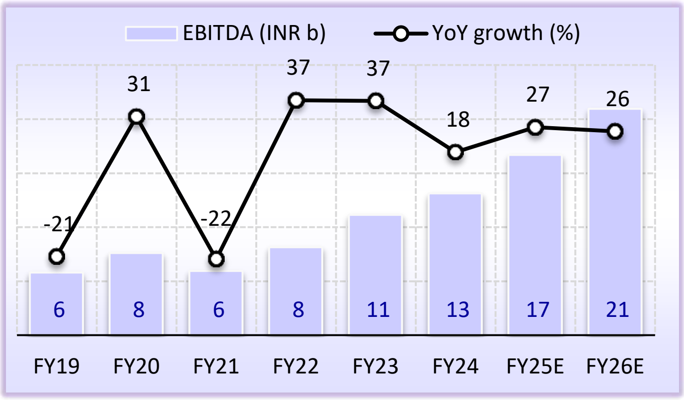
- KALYAN is a prominent player in the organized jewelry market, known for its wide range of product offerings, strong brand reputation, and extensive store network.
- The company operates in 23 states, but the majority of its revenue comes from five states and a union territory in the South. It is now embarking on an aggressive expansion plan in the rest of India, where higher margins are achievable. This expansion will be achieved by successfully building through a franchise model.
- If executed well, this plan could transform KALYAN and pave the way for ~15-20% long-term annual revenue growth, lift its ROE from 14-15% to potentially 20-22% in the next 2-3 years, and unlock operating leverage.
- We estimate KALYAN to deliver a revenue/EBITDA/Adj. PAT CAGR of 29%/26%/ 41% over FY24-26E.
- KALYAN is currently trading at 37x FY26E P/E with a RoE/RoIC of ~23%/16% in FY26E. We believe that the company will be able to successfully scale up its new franchise businesses, and expand its reach in the non-southern markets to evolve as a leading brand in the industry. **We initiate coverage on the stock with a BUY rating and a TP of INR525 (premised on 45x FY26E P/E).**
- **Key downside risks: a) volatility in gold prices; b) dependence on third-party manufacturers; and c) intensified competition.**

STORY IN CHARTS

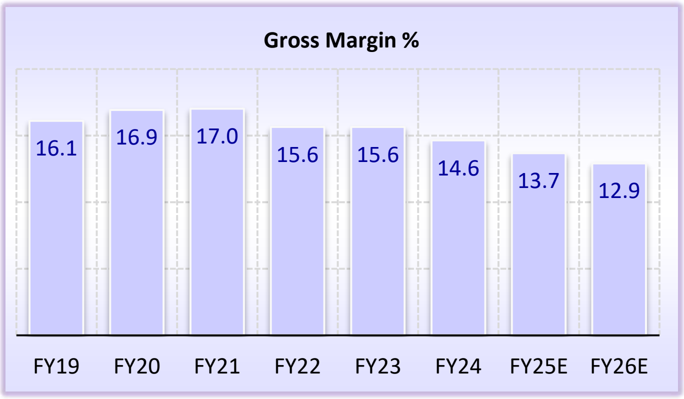
Revenue to record 29% CAGR over FY24-FY26E…



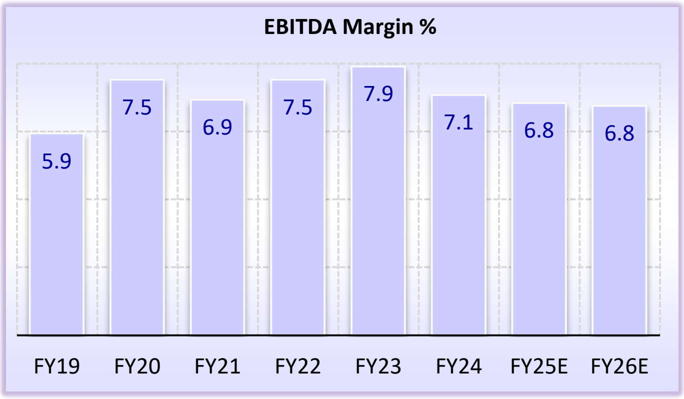
…along with healthy EBITDA growth



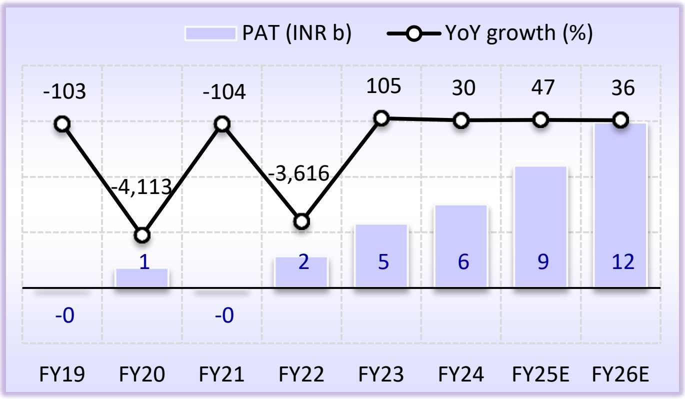
Gross margin to contract due to the franchise model



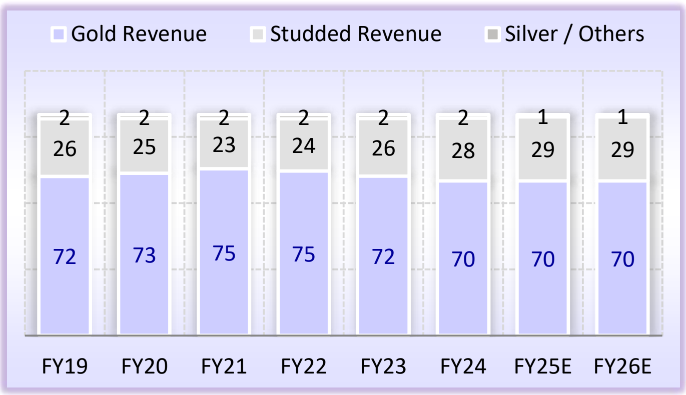
EBITDA margin to hover in the 6.5-7.0% range



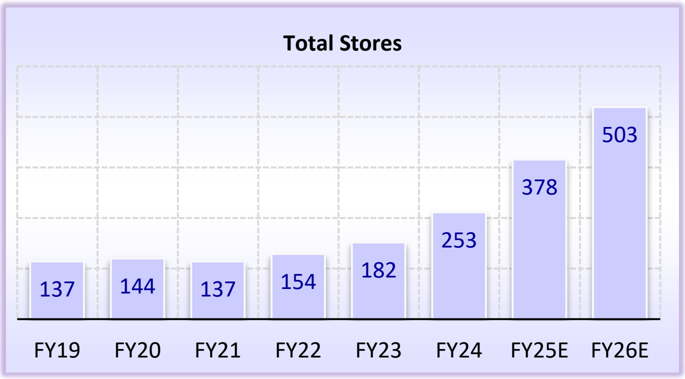
Adj. PAT to register 41% CAGR over FY24-FY26E



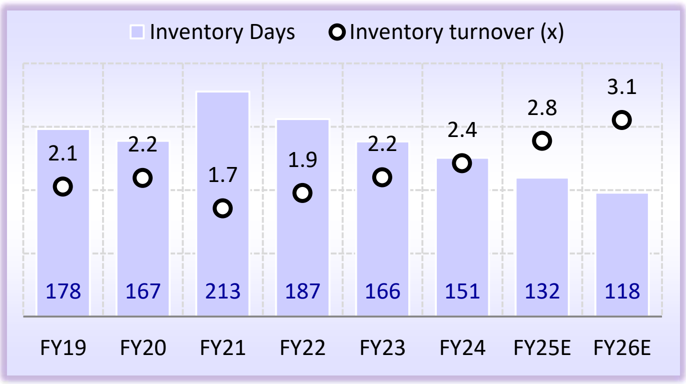
Revenue mix across verticals %



Store count to increase with 100-120 store additions per year



Inventory turn to increase going forward



Company overview

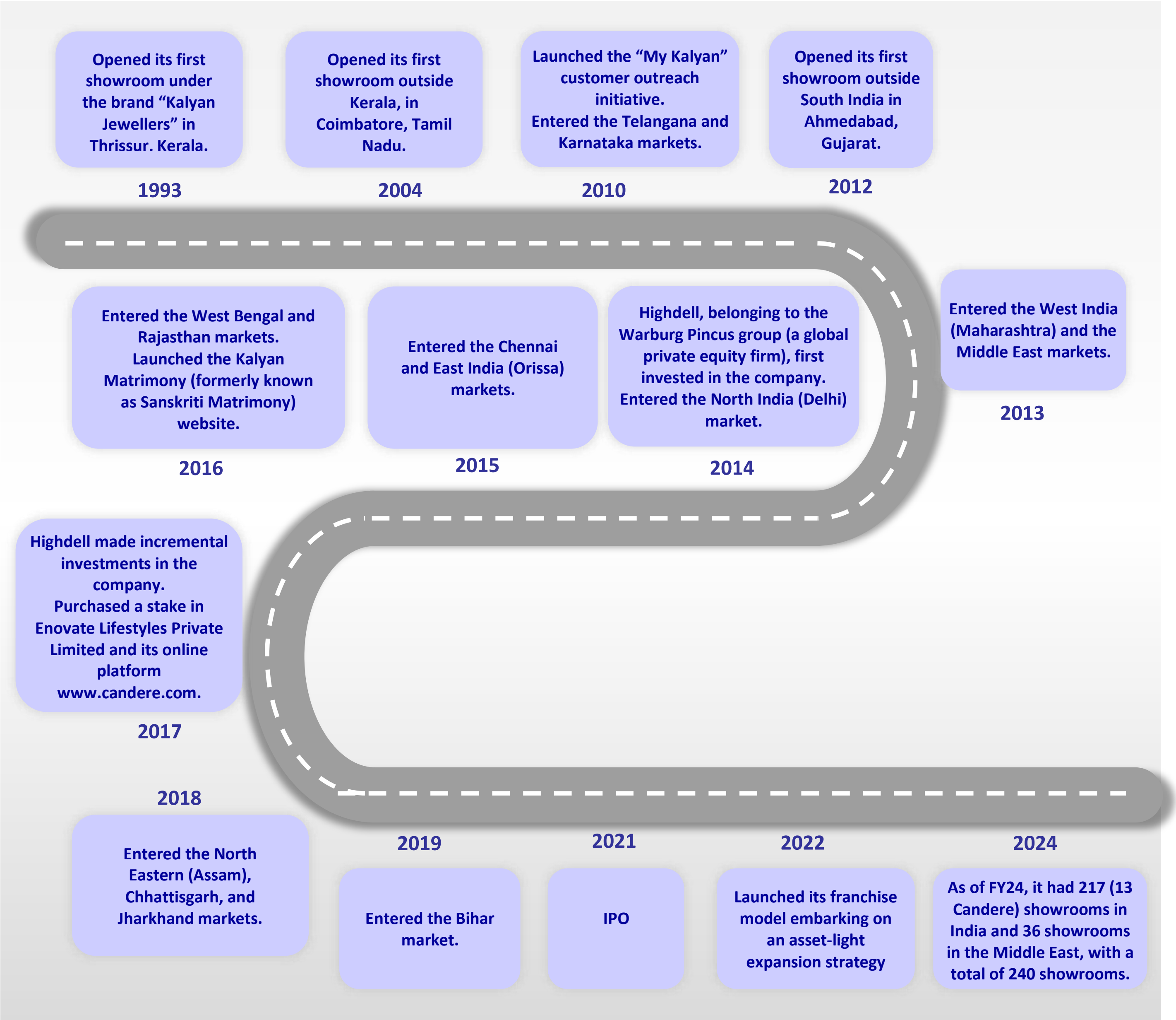
A family legacy driving success both Pan-India and globally

- KALYAN was founded in 1993 by Mr. T.S. Kalyanaraman. It has grown into one of India's largest jewelry companies over the years. With a rich family legacy and over 45 years of retail experience, including more than 25 years in the jewelry industry, the company began its journey with a single showroom in Thrissur, Kerala, in 1993, leveraging decades of industry expertise to build a strong foundation.
- The company offers a wide range of gold, studded, and other jewelry products across various price points, catering to diverse customer preferences. Its product range includes items suitable for special occasions, such as weddings, as well as pieces ideal for everyday wear. This versatility ensures that customers can find jewelry for various occasions, making KALYAN a one-stop destination for all their jewelry needs.
- The company has expanded to become a pan-India jewelry player, with 217 showrooms located across 23 states and a union territory in India. Additionally, it has an international presence with 36 showrooms located in the Middle East as of Mar'24.
- Revenue distribution for KALYAN has been 86% from India and 14% from the Middle East. Over the years, it has reduced its presence in the South from 74% in FY18 to 52% in FY24. KALYAN plans to continue opening showrooms in both regions through a franchise model to reduce capex at the company level.
- The company ventured into the jewelry e-commerce market with the acquisition of Candere, an online jewelry retailing platform, in 2017. It sells jewelry via its online platform (www.candere.com). Candere reported a revenue of INR1,300m in FY24.

Leading brand in a jewelry market with rapidly increasing organized share

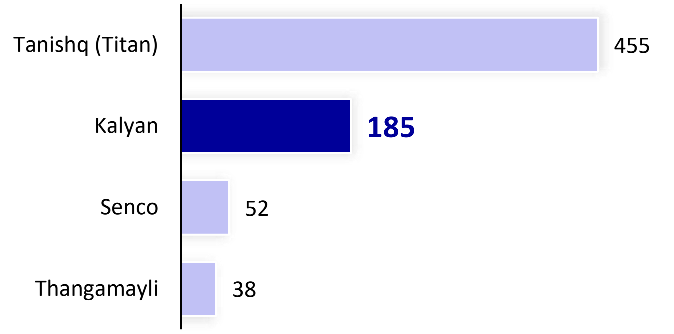
- With its origins in Kerala since 1993, KALYAN has a strong presence in South India, with 38% of the stores and 51.5% of revenue coming from the five southern states (Kerala, Tamil Nadu, Karnataka, Andhra Pradesh, and Telangana) and one UT (Puducherry).
- Over the last decade, the company has pivoted to becoming a national player and has decided to take the franchise route to expand aggressively, especially in the other states. It opened 76 franchise stores in FY24 and plans to open 80 under the KALYAN brand and 50 under Candere. Additionally, the company plans to open six overseas showrooms in FY25.
- KALYAN also operates around 1,006 'My Kalyan' centers to enhance local connections and understand customers in smaller towns. These centers serve as feeders to its showrooms, allowing the company to meet customers at their doorstep with its value proposition and guide potential customers to its regular stores. In FY24, 'My Kalyan' centers contributed more than 36% of enrollments to its "Purchase Advance Scheme" in India and 16% of domestic revenue.

Timeline of KALYAN's business operations



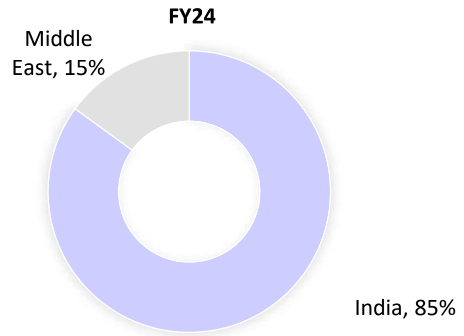
Source: Company

Exhibit 27: One of the largest jewelry companies in India in terms of revenue (FY24)



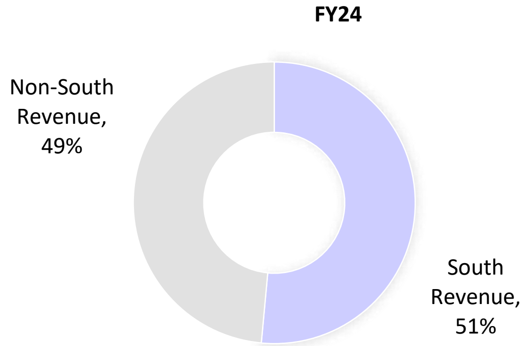
Source: MOFSL, Company

Exhibit 28: Revenue mix by geography



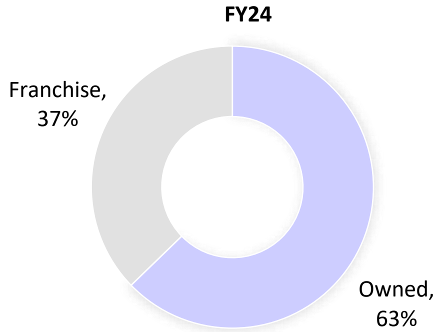
Source: MOFSL, Company

Exhibit 29: Expanding its presences in Non-South



Source: MOFSL, Company

Exhibit 30: Kalyan has 63% owned stores in India



Source: MOFSL, Company

Exhibit 31: The company's brands and product portfolio

Logo	Brands	Types of Jewelry	Brand Types
	Muhurat	Gold, Uncut Diamonds, Precious Stones & Diamonds	Bridal Wear
	Mudhra	Antique	Occasion
	Antara	Diamond	Lightweight
	Apoorva	Diamond	Illusion Setting
	Ziah	Diamond	Lightweight
	Anokhi	Uncut Diamond Studded	Occasion
	Rang	Precious Studded Jewelry	Occasion
	Nimah	Gold Studded with Semi-Precious Stones	South Indian heritage jewelry
	Glo	Diamond Jewellery	Twinkle- setting for semi-formal occasions
	Laya	Diamond Jewellery	Pink-gold collections in unusual shapes
	Hero	Diamond Jewellery	Affordable daily wear collection for working women
	Tejasvi	Polki Collection	Polki collection for the royal look

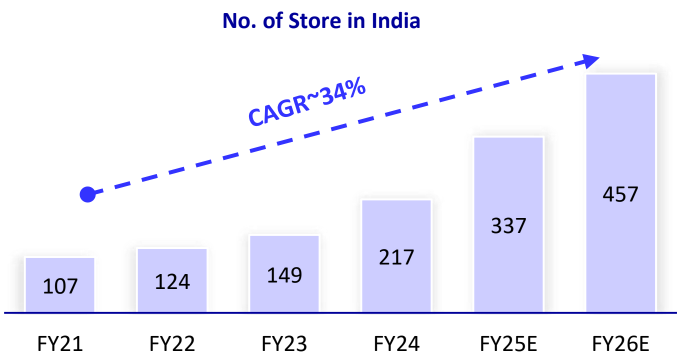
Exhibit 32: KALYAN's sub-brands and their target geographies and themes

	Mudhra	Tejasvi	Rang	Anokhi	Nimah	Muhurat	Glo	Apoorva	Ziah	Hera	Laya	Antara
Product Description	Antique (non-yellow gold finish)	Polki collection	Precious studded jewellery	Uncut diamond-studded	Gold-studded with semi precious stones	Gold, Uncut diamonds, precious stones and diamonds	Diamond jewellery	Diamond jewellery	Diamond jewellery	Diamond jewellery	Diamond jewellery	Diamond jewellery
Theme	Occasion wear	Occasion wear	Occasion wear	Occasion wear	South Indian Heritage jewellery	Bridal Wear	Casual / Semi-formal / Occasion	Illusion setting collection	Light wear cluster-setting collection	Generic / Affordable / Daily-wear	Fancy shape/rose gold	Light Weight, Prong Setting

KALYAN's showroom presence

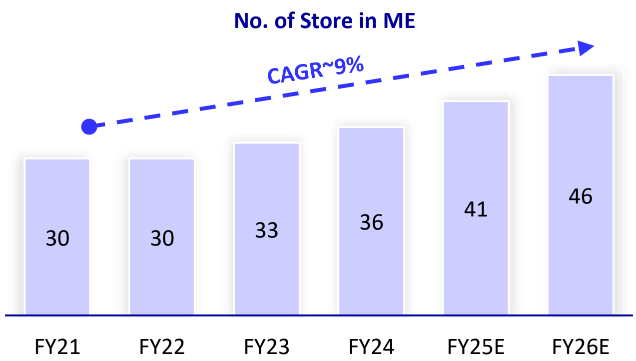
- As of 31st Mar'24, KALYAN had a total of 217 showrooms in India (including 13 Candere) across 23 states and a union territory of India. These showrooms collectively span an area of 7,00,000 sq. ft. Additionally, KALYAN has 36 showrooms in the Middle East, covering a total area of 44,000 sq. ft.
- About 86% of KALYAN's showrooms, including Candere, are located in India, while the remaining ~14% are located in the Middle East. Regionally, KALYAN has a presence in 38% of stores in the South and 62% in non-southern regions. Further, 30% of the showrooms are located in metros, with the remaining 70% in the non-metro areas.

Exhibit 33: Faster store expansion in India



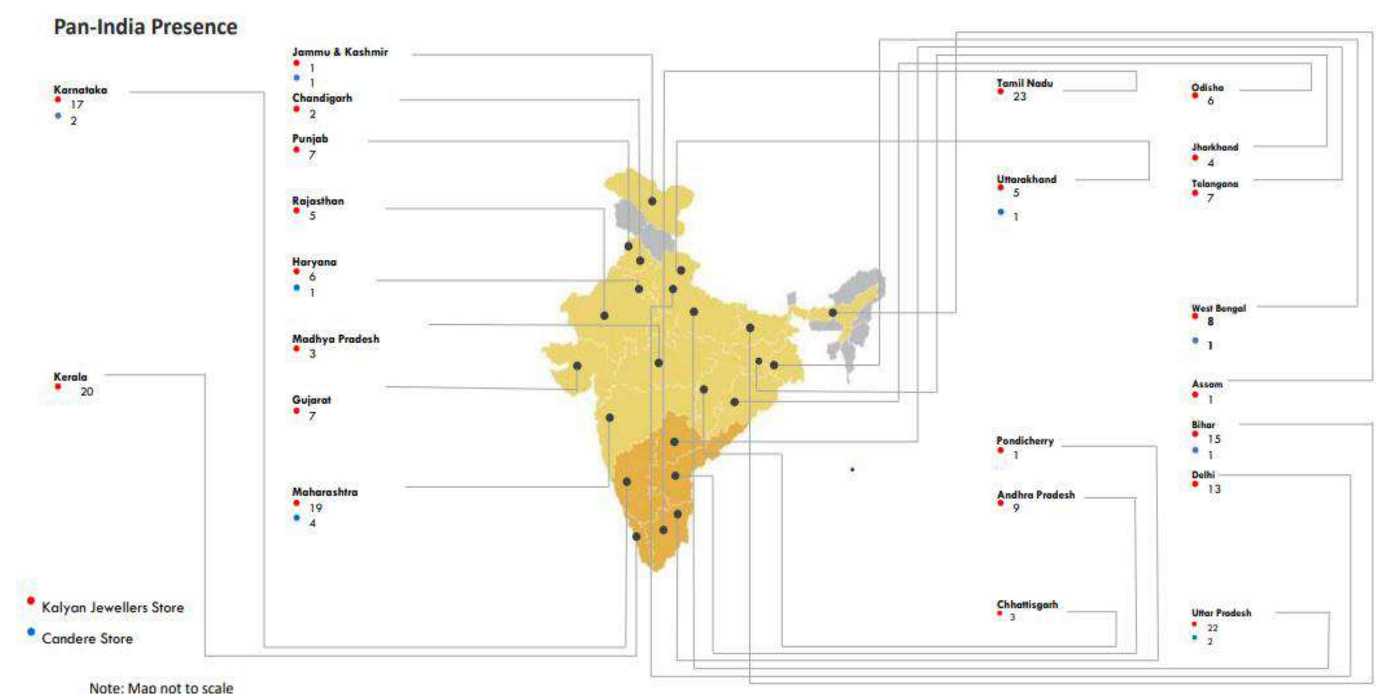
Source: MOFSL, Company

Exhibit 34: ME store expansion



Source: MOFSL, Company

Exhibit 35: KALYAN's showroom center presence across India

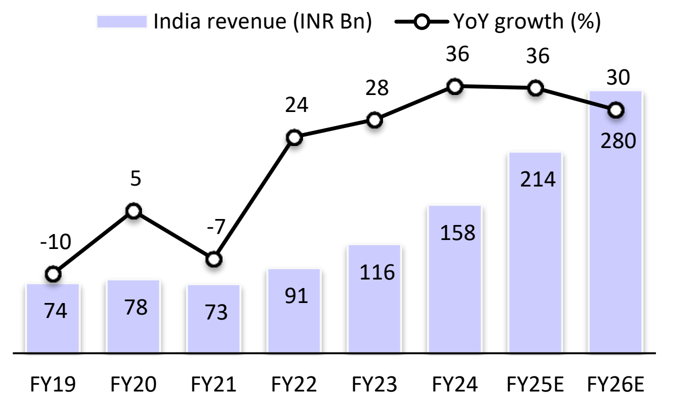


Overview of the India business

India is the primary focus and growth market for KALYAN

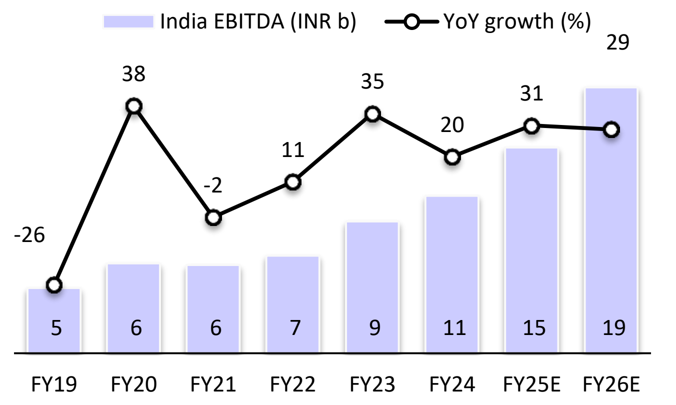
- Since the IPO in 2021, KALYAN has expanded quite aggressively in India. In 2021, it had 78% of showrooms in India and the remaining 22% in the Middle East. Among the Indian showrooms, KALYAN had a substantial presence of 61% in South India and 39% in non-southern states. However, these figures have changed in 2024. The jewelry maker has 86% of the stores in India and 14% in the Middle East in 2024. Moreover, it has transformed its presence and holds 38% and 62% stores in South and non-South India, respectively.
- As KALYAN expanded its operations, the same was reflected in the aggregate retail space (in sq. ft.). Across India, the retail space had increased to ~7,00,000 sq. ft. in 2024 from ~4,60,000 sq. ft. in 2021.
- KALYAN launched the FOCO model of franchised showrooms in 2021 and has since converted the majority of its existing stores into franchised stores. This is a capital-efficient, return-accretive path to expansion that helps the company improve its profitability.
- Candere, KALYAN's e-commerce site, has helped the company remarkably since the acquisition in 2017. It has offered customers access and the opportunity to purchase jewelry at their convenience. In the past one year, Candere's presence has increased to 13 stores pan-India from only two stores, and the same increase could be observed in the retail space (in sq. ft.) of the showrooms.
- We expect a 33% revenue CAGR over FY24-26E, driven by SSSG and store expansion in India.

Exhibit 36: India business revenue to clock 33% CAGR over FY24-26E



Source: MOFSL, Company

Exhibit 37: EBITDA to grow at 30% CAGR over FY24-26E



Source: MOFSL, Company

Strategic initiatives for the India business: Driving future growth

FOCO model

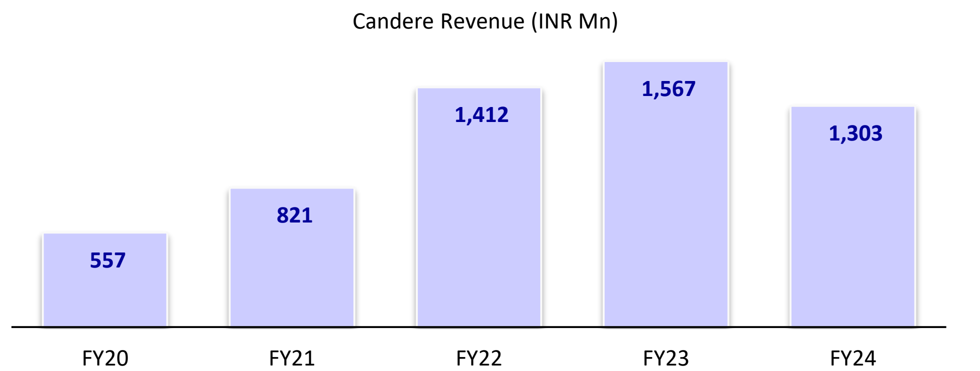
- KALYAN has also taken strategic measures to drive growth and lighten its balance sheet. The asset-light expansion will lead to faster growth without deploying its own capital. This will lead to much higher levels of free cash generation and an expansion in return ratios.
- Management is focusing on the expansion plans through this significantly more capital-efficient and return-accretive path. Management plans to leverage the KALYAN brand and utilize the infrastructure/resources of the franchise owner.

- Inventory investment is incurred by the franchisee, along with all showroom-related expenses except for salaries.
- In FY25, the launch of 80 FOCO KALYAN showrooms is anticipated in India. The first FOCO showroom in the Middle East was inaugurated in FY24, with five more Letters of Intent (LOIs) signed for FY25.
- The first FOCO Candere showroom was launched in FY24, with eight FOCO showrooms operational by 31st Mar'24. Additionally, there is a strong pipeline of potential franchise partners, with 50 signing LOIs in FY25. Two owned showrooms in South India were successfully converted into FOCO during FY24, with more conversions planned for FY25.

Candere – KALYAN's online/ e-Commerce platform

- Candere, in FY24, achieved a revenue of INR1,300m, reflecting its strong market performance.
- The company successfully launched two showrooms during FY23, expanding its reach and customer base. Looking ahead, Candere has ambitious plans to launch an additional 50 showrooms by FY25, aiming for accelerated market growth.
- To enhance the customer experience and stay ahead of the curve, Candere is introducing an omni-channel approach, providing a seamless and integrated shopping experience across various channels.
- With a relentless pursuit of growth and customer-centric strategies, Candere is poised to achieve exponential market expansion and solidify its position as a leading player in the industry.

Exhibit 38: Candere's revenue clocked a CAGR of 24% over FY20-24



Source: MOFSL, Company

The 'My Kalyan' Network – strategies implemented to promote the KALYAN brand

- KALYAN has launched the 'My Kalyan' initiative to establish personal connections with its customers. This program allows the company to reach out to customers individually, providing tailored offerings right at their doorstep.
- The 'My Kalyan' centers serve as valuable touchpoints for gathering local market data and engaging with customers, thereby bridging the gap between customers and the brand.
- They promote the brand, showcase products, enroll customers in purchase advance schemes, and drive traffic to nearby showrooms. With 1,006 locations and 4,003 dedicated employees as of FY24, the 'My Kalyan' network plays a

pivotal role in connecting with potential customers, especially within the wedding ecosystem.

- This approach enables KALYAN to engage with over 10m potential customers annually through its 'My Kalyan' network. The network significantly contributes to revenue and enrollment in purchase advance schemes, accounting for 14% of revenue from operations and 36% of scheme enrollments in India for FY24.

Exhibit 39: My Kalyan metrics

Particulars	FY20	FY21	FY22	FY23	FY24
My Kalyan – Centers	761	766	865	990	1,006
Number of My Kalyan employees	2682	2682	3,234	3,771	4,003
KALYAN's India store count	107	107	124	147	204
My Kalyan to India Store count ratio (%)	7.1	7.2	7.0	7.0	7.1
Contribution to revenue from India (%)	17.0	21.0	19.0	16.0	15.3
Enrolment to purchase advance scheme (%)	32.0	35.0	38.0	38.3	37.0

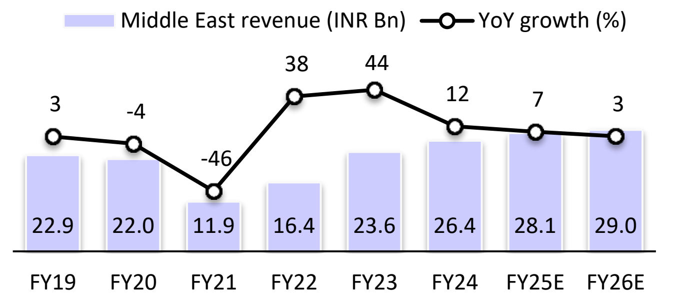
Source: MOFSL, Company

Overview of the Middle East business

The Middle East is the largest market for Indian jewelers

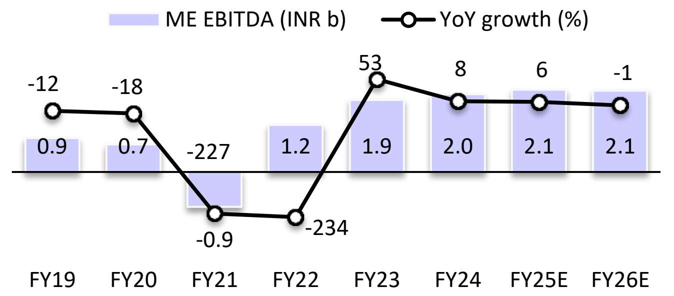
- The expansion of Indian jewelry retailers outside India is primarily to meet the demands of the Indian diaspora abroad, who have similar product preferences as Indian customers. Therefore, the sale of jewelry by Indian jewelers in the international market is largely viewed as an extension of their domestic businesses.
- KALYAN was the third-largest Indian jeweler with an international presence in FY19. The Gulf Cooperation Council (GCC) region, comprising Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain, and Oman, hosts ~8.5m non-residential Indians (~15% of the total population in this region). For this size of the Indian diaspora, over 90% of the global stores of key Indian jewelry retailers (organized) are located in the GCC region to meet the jewelry needs of the Indian diaspora in that region.
- As of 31st Mar'24, KALYAN operated 14% of its showrooms in the Middle East, totaling an aggregate retail space of 44,000 square feet. Over the next three years, KALYAN intends to focus its international operations primarily on franchising. To achieve this goal, management plans to reduce capital investment in the Middle East by converting some owned showrooms into franchised ones and expanding the network through the franchise model.
- We expect a 5% revenue CAGR over FY24-26E, driven by store expansion in ME.

Exhibit 40: ME revenue to clock 5% CAGR over FY24-26E



Source: MOFSL, Company

Exhibit 41: ...along with 2% CAGR in EBITDA



Source: MOFSL, Company

Outlook

- The market is expected to proliferate due to rising disposable incomes and changing lifestyle preferences.
- With a cautious and strategic approach, the Middle East holds immense promise for KALYAN's progress. Its recent performance indicates a positive trajectory in this region, and it expects to maintain the same momentum. Management will further explore expansion opportunities majorly through the franchisee model in the Middle East.
- Though the number of showrooms increased to 36 in FY24 from 30 in FY21, the overall percentage share of the Middle Eastern showrooms dropped to 14% in FY24 from 22% in FY21. This was due to the rigorous expansion in India. Despite that, KALYAN has achieved ~30% YoY revenue growth for the past three years.
- The international operations will primarily be driven by franchises for the next three years, with an aim to reduce capital investment in the Middle East. This will be achieved by converting some of the owned showrooms into franchised ones and expanding the network further through the franchise model. On this account, KALYAN has signed multiple LOIs in the Middle Eastern market.

Adapting to regional preferences for pan-India presence

- KALYAN utilizes a network of artisans across India to manufacture its jewelry products. These artisans work as contract manufacturers under agreements with the company, receiving raw materials and designs to create the jewelry.
- KALYAN controls the entire manufacturing process, ensuring quality and adherence to design specifications. This approach allows them to cater to regional preferences and compete effectively with both local and organized jewelry chains. For instance, the company tailors the designs to match regional tastes, such as temple jewelry in South India and antique collections in the western regions.
- In addition to its own manufacturing facilities, KALYAN also sources finished products from local manufacturers in the Middle East.

Raw material procurement: Ensuring quality and sustainability

- KALYAN sources gold for its jewelry from banks in India and the Middle East, as well as directly from customers.
- The company obtains gold through outright purchases and gold metal loans, where bullion is loaned to them by banks. These loans require collateral, which is adjusted daily based on gold price fluctuations. When selling gold procured through this model, the company aligns purchase and selling rates.
- A significant portion of KALYAN's revenue comes from exchanging/selling old jewelry by customers.
- The company also purchases cut and polished diamonds outright from the Indian suppliers, ensuring conflict-free diamonds with Kimberley Certifications. Additionally, the company acquires semi-finished studded jewelry and other raw materials from various suppliers to process into finished products.

Gold hedging strategy

- Management believes that the company's profits primarily stem from the value it adds, which reflects the strength of the KALYAN brand, rather than from fluctuations in gold prices.
- To mitigate the impact of gold price volatility, KALYAN employs several hedging techniques, including gold metal loans, forward contracts, and options on Indian and international commodity exchanges.
- Gold metal loans offer a natural hedge against gold price fluctuations. When selling gold obtained through these loans, they can fix the purchase rate to align with the selling rate, ensuring stability in the transactions.
- For gold acquired from customers and regulated banks, the company uses forward contracts and options to safeguard against price changes. KALYAN’s Chief Executive Officer (CEO) is responsible for managing and overseeing the hedging policies and portfolio, ensuring their effective implementation.

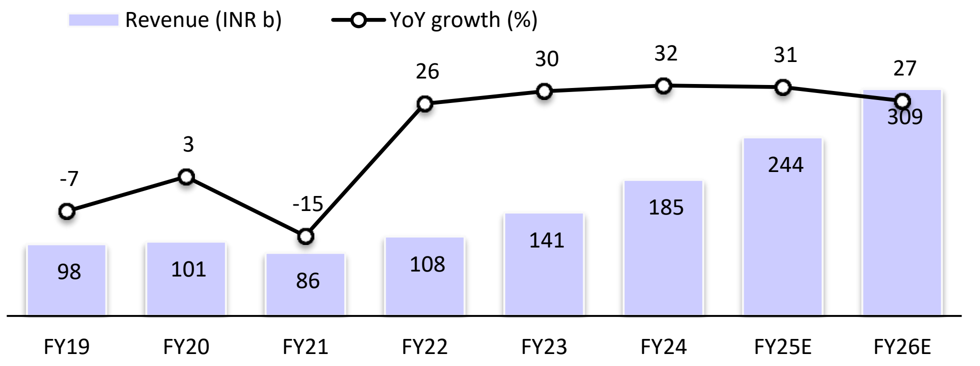
Strong track record of healthy financials

Revenue, EBITDA, and PAT clock an impressive CAGR over FY19-24

Revenue growth momentum to continue

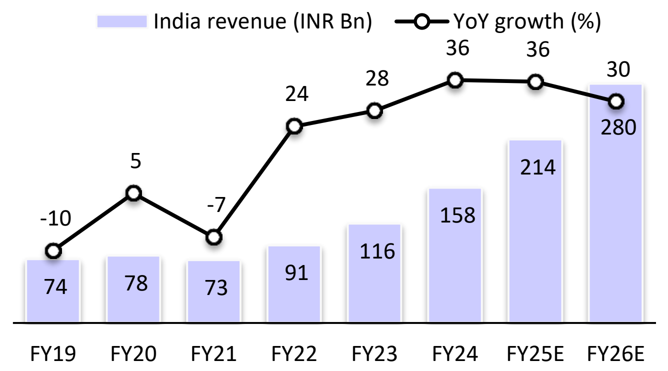
- We expect a 29% revenue CAGR over FY24-26E, driven by SSSG and store expansion, with a focus on the FOCO model for India and the Middle East.
- The management stated that the company will add 130 stores in India, 80 Kalyan stores, 50 Candere stores, and 6 stores in the international markets in FY25. We expect the store count to reach 503 by end-FY26E. KALYAN opened 70 stores (net) in FY24.

Exhibit 42: Revenue likely to clock 29% CAGR over FY24-26E



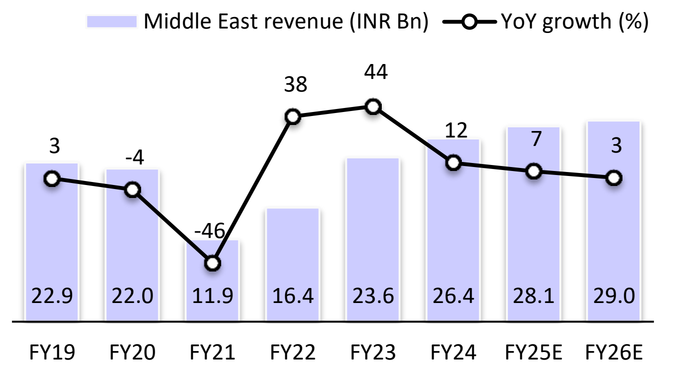
Source: Company, MOFSL

Exhibit 43: India revenue expected to record 33% CAGR over FY24-26E



Source: Company, MOFSL

Exhibit 44: ME revenue expected to report 5% CAGR over FY24-26E



Source: Company, MOFSL

Margins

- Jewelry companies earn margins through making charges collected from customers. The studded ratio is improving as the company focuses on increasing the share of non-southern markets where the studded ratio is higher.
- Gross profit margin is usually higher in the second half of the financial year compared to the first half due to the higher share of diamond jewelry sales during the wedding season and on Valentine's Day.
- With the opening of franchise stores, the blended gross profit margin is contracting as the company retains only 8% of the margin from franchises.

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Exhibit 45: EBITDA expected to post 26% CAGR over FY24-26E

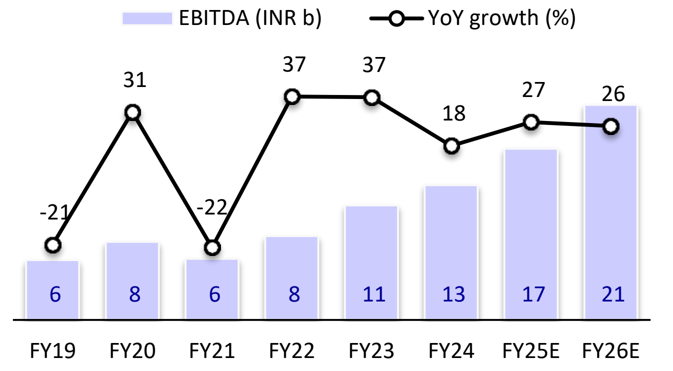
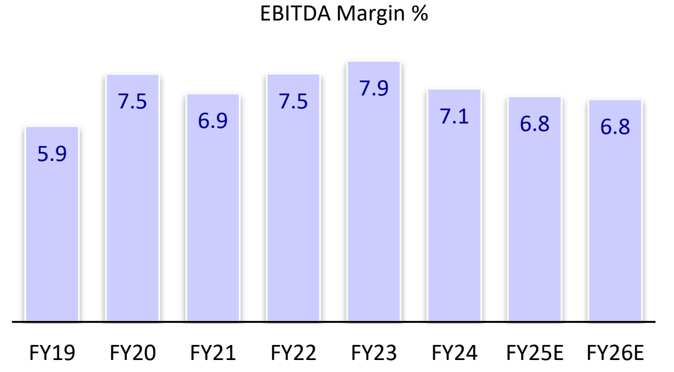


Exhibit 46: EBITDA margin to hover at ~6.5-7.0%



- We expect ~41% PAT CAGR over FY24-26E, with stable PAT margin in the range of 3-4%.

Exhibit 47: PAT expected to post 41% CAGR over FY24-26E

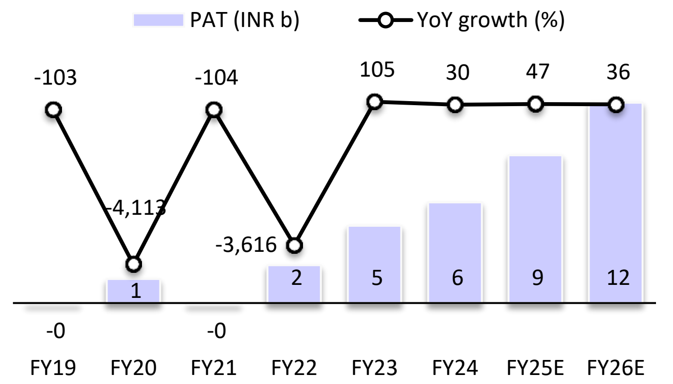
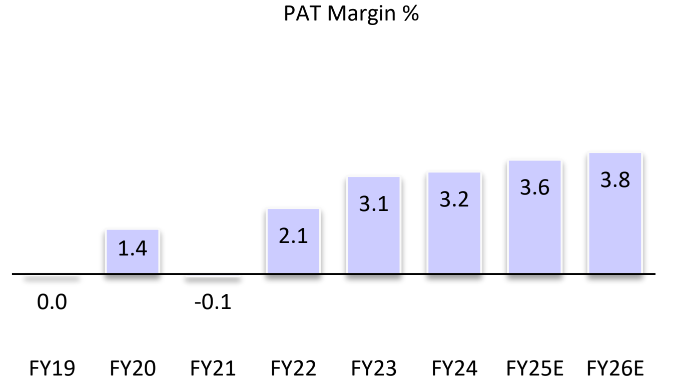
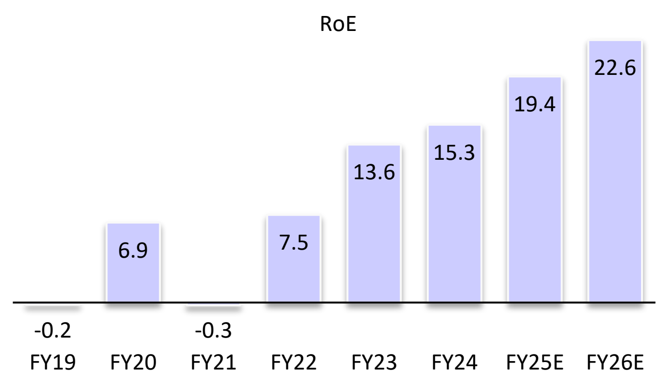


Exhibit 48: PAT margin hovered at ~3-4%



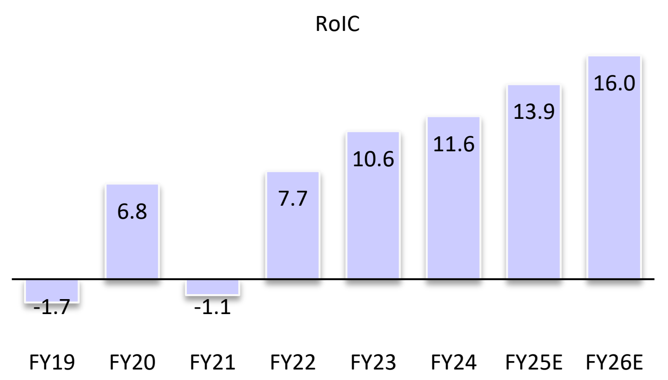
- In FY24, the company delivered 15.3% RoE and 11.6% RoIC (contracted due to equity raise).

Exhibit 49: Improvement in RoE…



Source: Company, MOFSL

Exhibit 50: …along with RoIC

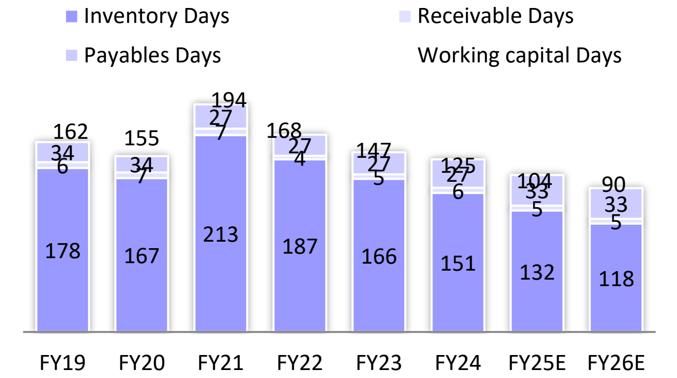


Source: Company, MOFSL

Working capital to improve…

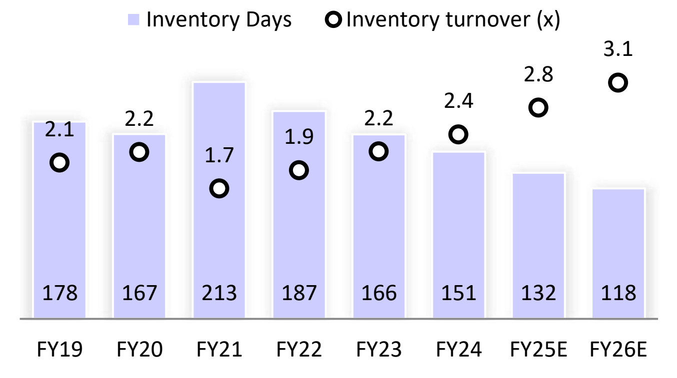
- KALYAN's working capital has come down to 125 days in FY24 from 194 days in FY21, aided by effective inventory optimization and normalization of inventory days (post-pandemic) to 151 in FY24 from 213 in FY21.

Exhibit 51: Net working capital days to reduce



Source: Company, MOFSL

Exhibit 52: Inventory turnover to improve



Source: Company, MOFSL

Overall, we anticipate a healthy improvement in the company's financials in the future. This growth will be driven by robust revenue growth, an improving margin profile, a reduction in working capital (leading to strong cash flow generation), and the sustained maintenance of a healthy return ratio.

Key Management Personnel

Mr. Vinod Rai

Chairman & Independent Non-Executive Director

He has been on the Board of KALYAN since 2022. He holds master's degrees from the University of Delhi and Harvard University. He is a former Comptroller and Auditor General of India and former Chair of the United Nations Panel of External Auditors. He held various positions within the Indian government as well as in the state government of Kerala.

Mr. T.S. Kalyanaraman

Managing Director

He has over 47 years of retail experience, supplemented by about 30 years in the jewelry industry. He has been with the company since its inception.

MR. T. K. Ramesh

Whole-time Director

He is a Promoter and a whole-time Director of the Company He has been working with the Company since its inception and has been associated with the brand 'Kalyan Jewellers' since 2000. He has completed his master's degree in commerce from Karnataka State University. He has ~22 years of experience in the jewellery industry

Mr. T.K. Seetharam

Whole-time Director

He has been associated with: KALYAN since its incorporation, and with the brand 'Kalyan Jewellers' since 1998. He holds a master's in business administration from Bharathiar University, Coimbatore. He has ~24 years of experience in the jewellery industry.

Mr. Sanjay Raghuraman

Chief Executive Officer

He has over nine years of dedicated service at Kalyan, supplemented by a robust background spanning 15 years across retail, financial services, and operations. His professional journey includes enriching tenures at esteemed organizations such as HDB Financial Services, Wipro, and Clix Capital.

Mr. V. Swaminathan

Chief Financial Officer

He has over 14 years' experience in the technology sector and brings seven years of dedicated service to Kalyan, contributing significantly to its technological advancements. He has further amassed a remarkable 27 years of expertise in finance, corporate planning, and control, making him a seasoned leader in both technology, and finance domains.

Mr. Abraham George

Head of Treasury and Investor Relation

He has over five years of dedicated experience at KALYAN and brings extensive expertise to the table with ~17 years of experience in finance and capital markets. His deep understanding of these sectors enriches his contributions to the organization.

Mr. Sanjay Mehrottra

Head of Strategy

He has 27 years of experience in Indian capital markets and possesses a wealth of expertise. Having dedicated over four years to KALYAN, he brings invaluable insights and leadership to the organization.

Mr. Arun Sankar

Head of Technology

With over seven years at KALYAN and a total of around 14 years in the technology sector, he possesses extensive expertise. Additionally, he brings a rich background in finance, corporate planning, and control, accumulating 27 years of experience in these domains.

Valuation and key risks

Initiate coverage with a BUY rating

- KALYAN is a prominent player in the organized jewelry market, known for its wide range of product offerings, strong brand reputation, and extensive store network.
- The company operates in 23 states, but the majority of its revenue comes from five states and a union territory in the South. It is now embarking on an aggressive expansion plan in the rest of India, where higher margins are achievable. This expansion will be achieved by successfully building through a franchise model.
- If executed well, this plan could transform KALYAN and pave the way for ~15-20% long-term annual revenue growth, lift its ROE from 14-15% to potentially 20-22% in the next 2-3 years, and unlock operating leverage.
- We estimate KALYAN to deliver a revenue/EBITDA/Adj. PAT CAGR of 29%/26%/ 41% over FY24-26E.
- KALYAN is currently trading at 37x FY26E P/E with a RoE/RoIC of ~23%/16% in FY26E. We believe that the company will be able to successfully scale up its new franchise businesses, and expand its reach in the non-southern markets to evolve as a leading brand in the industry. **We initiate coverage on the stock with a BUY rating and a TP of INR525 (premised on 45x FY26E P/E).**
- **Key downside risks: a) volatility in gold prices; b) dependence on third-party manufacturers; and c) intensified competition.**

Bull and Bear cases

Bull case

- ☑ In our bull case scenario, we assume a revenue CAGR of 40% over FY24-26E, aided by a strong same store sales growth followed by store expansion.
- ☑ We expect the margin will contract slightly by ~70bp from the current levels to reach ~6.4% over FY26E, due to more franchise stores addition.
- ☑ The company's EPS would register a robust CAGR of 50% over FY24-26E, driven by operating leverage.

Bear case

- ☑ In our bear case scenario, we assume a revenue CAGR of 22% over FY24-26E, considering demand-side challenges that would restrict the strong growth trajectory.
- ☑ We expect the margin to contract ~60bp from the current levels to reach ~6.5% over FY26E.
- ☑ The company's EPS would register a CAGR of 26% over FY24-26E.

Exhibit 53: Bull and Bear case scenarios (INR m)

	Particulars	FY24	FY25E	FY26E	CAGR (FY24-26E, %)
Bear case	Revenue	1,85,483	2,26,764	2,78,345	22
	EBITDA	13,127	15,805	17,989	17
INR420	EPS	5.8	7.9	9.3	26
Base case	Revenue	1,85,483	2,43,834	3,09,905	29
	EBITDA	13,127	16,684	20,944	26
INR525	EPS	5.8	8.5	11.5	41
Bull case	Revenue	1,85,483	2,65,845	3,59,411	40
	EBITDA	13,127	17,754	23,065	33
INR580	EPS	5.8	9.3	12.9	50

Source: MOFSL, Company

SWOT analysis

Strength

- ☑ A well-established brand name and strong market position
- ☑ Diversified product portfolio across price points, catering to diverse consumer requirements
- ☑ Track record of scaling up new businesses and product categories
- ☑ Pan-India distribution network with a presence across multiple channels

Weakness

- ☑ Operating in a competitive market – both branded and unbranded
- ☑ Limited brand presence outside India
- ☑ Dependence on third-party manufacturers in India.

Opportunity

- ☑ The Indian organized jewelry retail market is likely to grow at 14%.
- ☑ Increasing brand loyalty.
- ☑ Utilizing omni-channel retailing to boost conversions.
- ☑ Expanding into non-southern markets in India and the Middle East.

Threats

- ☑ Fluctuations in gold & diamond prices
- ☑ Economic slowdown
- ☑ Changing consumer preferences

Financials and valuations

Income Statement consol. (INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	**97,708**	**1,01,009**	**85,733**	**1,08,179**	**1,40,714**	**1,85,483**	**2,43,834**	**3,09,905**	**3,68,309**
Change (%)	-7.4	3.4	-15.1	26.2	30.1	31.8	31.5	27.1	18.8
Raw Materials	81,983	83,918	71,141	91,263	1,18,722	1,58,346	2,10,523	2,69,896	3,22,475
Gross Profit	**15,724**	**17,092**	**14,592**	**16,916**	**21,992**	**27,137**	**33,311**	**40,009**	**45,834**
Margin (%)	16.1	16.9	17.0	15.6	15.6	14.6	13.7	12.9	12.4
Operating Expenses	9,921	9,489	8,649	8,771	10,852	14,010	16,627	19,065	21,992
EBITDA	**5,803**	**7,603**	**5,943**	**8,145**	**11,141**	**13,127**	**16,684**	**20,944**	**23,842**
Change (%)	-20.8	31.0	-21.8	37.1	36.8	17.8	27.1	25.5	13.8
Margin (%)	5.9	7.5	6.9	7.5	7.9	7.1	6.8	6.8	6.5
Depreciation	2,236	2,391	2,249	2,316	2,446	2,743	3,241	3,715	4,202
Int. and Fin. Charges	3,791	3,803	3,754	3,224	3,026	3,232	3,131	3,102	3,179
Other Income	433	801	454	383	379	737	1,351	1,682	1,942
Profit before Taxes	**209**	**2,209**	**394**	**2,989**	**6,048**	**7,888**	**11,662**	**15,809**	**18,402**
Change (%)	-90.2	955.7	-82.2	659.3	102.4	30.4	47.8	35.6	16.4
Margin (%)	0.2	2.2	0.5	2.8	4.3	4.3	4.8	5.1	5.0
Tax	258	786	455	748	1,396	1,925	2,892	3,921	4,601
Tax Rate (%)	123.2	35.6	115.6	25.0	23.1	24.4	24.8	24.8	25.0
PAT Before Minority	**-49**	**1,423**	**-61**	**2,240**	**4,652**	**5,963**	**8,770**	**11,888**	**13,802**
Minority Interest	-13	-7	2	-3	-12	-11	0	0	0
Exceptional	0	0	0	0	333	0	0	0	0
Reported PAT	**-36**	**1,430**	**-64**	**2,244**	**4,331**	**5,973**	**8,770**	**11,888**	**13,802**
Adjusted PAT	**-36**	**1,430**	**-64**	**2,244**	**4,599**	**5,973**	**8,770**	**11,888**	**13,802**
Change (%)	-103	-4,113	-104	-3,616	105	30	47	36	16
Margin (%)	0.0	1.4	-0.1	2.1	3.3	3.2	3.6	3.8	3.7

Balance Sheet (INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	9,583	9,583	10,301	10,301	10,301	10,301	10,301	10,301	10,301
Reserves	10,459	12,028	17,960	21,070	26,047	31,590	38,094	46,686	56,161
Net Worth	**20,042**	**21,611**	**28,260**	**31,370**	**36,347**	**41,891**	**48,395**	**56,987**	**66,462**
Minority Interest	-36	-30	5	9	-2	-13	-13	-13	-13
GML		11,671	14,180	14,968	18,536	22,530	23,656	24,441	25,258
Loans	37,039	24,230	19,600	18,664	16,550	10,643	6,643	3,643	643
Lease liability	7,986	7,578	6,983	6,661	7,869	11,691	15,952	20,887	24,664
Deferred tax	-302	-81	-461	-450	-562	-662	-662	-662	-662
Capital Employed	**64,728**	**64,979**	**68,567**	**71,223**	**78,738**	**86,079**	**93,971**	**1,05,283**	**1,16,353**
Gross Block	14,562	15,462	15,031	16,056	15,373	18,973	21,473	23,073	24,673
Less: Accum. Depn.	3,665	4,669	5,413	6,240	6,635	8,069	9,788	11,681	13,711
Net Fixed Assets	**10,897**	**10,793**	**9,618**	**9,816**	**8,738**	**10,904**	**11,685**	**11,392**	**10,963**
Goodwill	51	51	51	51	51	51	51	51	51
Intangible assets	100	97	94	70	49	35	30	28	26
Capital WIP	167	242	527	17	200	485	485	485	485
Right to Use Assets	9,849	10,110	8,613	8,667	9,580	11,390	13,748	16,288	18,314
Investments	26	0	0	6	44	44	44	44	44
Other non-current assets	2,082	1,830	2,186	1,962	2,748	5,117	9,956	13,519	16,473
Curr. Assets, L&A	**57,125**	**58,984**	**67,103**	**68,414**	**85,158**	**99,490**	**1,09,327**	**1,25,884**	**1,42,463**
Inventory	45,007	47,203	53,031	57,943	70,139	82,976	92,899	1,06,748	1,18,924
Account Receivables	1,467	2,137	1,127	1,195	2,442	3,283	4,041	4,805	5,563
Cash and Bank Balance	8,255	7,501	10,966	7,772	9,819	9,751	9,572	10,754	13,725
Others	2,396	2,142	1,979	1,504	2,759	3,480	2,815	3,577	4,252
Curr. Liab. and Prov.	**15,568**	**17,127**	**19,627**	**17,778**	**27,830**	**41,436**	**51,354**	**62,407**	**72,466**
Account Payables	4,194	5,576	6,901	6,566	11,927	19,441	24,933	31,351	37,106
Provisions	310	385	445	493	714	668	923	1,109	1,325
Other current liabilities	11,063	11,166	12,280	10,720	15,188	21,326	25,499	29,947	34,035
Net Current Assets	**41,557**	**41,857**	**47,476**	**50,635**	**57,329**	**58,054**	**57,972**	**63,477**	**69,998**
Application of Funds	**64,729**	**64,979**	**68,564**	**71,224**	**78,738**	**86,079**	**93,971**	**1,05,283**	**1,16,353**

E: MOSL Estimates

Financials and valuations

Ratios									(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Basic (INR)									
EPS	**0.0**	**1.5**	**-0.1**	**2.2**	**4.5**	**5.8**	**8.5**	**11.54**	**13.4**
Cash EPS	2.3	4.0	2.1	4.4	6.8	8.5	11.7	15.1	17.5
BV/Share	20.9	22.6	27.4	30.5	35.3	40.7	47.0	55.3	64.5
DPS	0.0	0.0	0.0	0.0	0.5	1.2	2.2	3.2	4.2
Payout %	0.0	0.0	0.0	0.0	11.2	20.7	25.8	27.7	31.3
Valuation (x)									
P/E	-11,400.5	284.1	-6,844.4	194.7	95.0	73.1	49.8	36.7	31.6
Cash P/E	184.6	106.3	199.9	95.8	62.0	50.1	36.4	28.0	24.3
EV/Sales	4.5	4.2	5.2	4.1	3.2	2.4	1.8	1.4	1.2
EV/EBITDA	75.0	55.6	74.9	55.0	39.8	33.3	26.0	20.5	17.8
P/BV	20.3	18.8	15.5	13.9	12.0	10.4	9.0	7.7	6.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.1	0.3	0.5	0.8	1.0
Return Ratios (%)									
RoE	-0.2	6.9	-0.3	7.5	13.6	15.3	19.4	22.6	22.4
RoCE	-1.4	6.0	-1.0	6.7	9.3	10.2	12.4	14.3	14.6
RoIC	-1.7	6.8	-1.1	7.7	10.6	11.6	13.9	16.0	16.5
Working Capital Ratios									
Inventory (Days)	178	167	213	187	166	151	132	118	112
Debtor (Days)	6	7	7	4	5	6	5	5	5
Payable (Days)	22	18	27	23	24	31	33	33	34
Cash coversion (Days)		155	194	168	147	125	104	90	83
Inventory turns (x)	2.1	2.2	1.7	1.9	2.2	2.4	2.8	3.1	3.3
Asset Turnover (x)	1.5	1.6	1.3	1.5	1.8	2.2	2.6	2.9	3.2
Leverage Ratio									
Net Debt/Equity (x)	1.4	0.8	0.3	0.3	0.2	0.0	-0.1	-0.1	-0.2

Cash Flow Statement									(INR m)
Y/E March	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Profit before Tax	209	2,209	394	2,989	5,715	7,888	11,662	15,809	18,402
Depreciation	2,236	2,391	2,249	2,316	2,446	2,743	3,241	3,715	4,202
Net interest	3,282	3,333	3,461	2,805	2,753	2,649	1,780	1,420	1,237
Others	-34	-460	1,396	-59	85	170	0	0	0
Direct Taxes Paid	-394	-65	-569	-1,529	-1,290	-2,262	-2,892	-3,921	-4,601
(Incr)/Decr in WC	-1,411	-4,213	-642	-4,071	424	2,040	-527	-3,783	-2,950
CF from Operations	**3,888**	**3,196**	**6,288**	**2,450**	**10,134**	**13,227**	**13,264**	**13,241**	**16,291**
Incr in FA	-2,926	-1,075	-479	-908	-1,863	-3,712	-2,530	-1,635	-1,638
Free Cash Flow	**962**	**2,121**	**5,810**	**1,542**	**8,272**	**9,516**	**10,735**	**11,606**	**14,652**
Pur of Investments	1,378	28	0	-6	-37	0	0	0	0
Others	-1,331	529	-268	705	188	1,896	-5,778	-5,961	-4,953
CF from Invest.	**-2,880**	**-517**	**-747**	**-209**	**-1,712**	**-1,816**	**-8,308**	**-7,595**	**-6,591**
Issue of Shares	0	0	7,565	0	0	0	0	0	0
Incr in Debt	1,671	1,816	-5,132	-861	-2,146	-5,909	-4,000	-3,000	-3,000
Dividend Paid	0	0	0	0	0	-515	-2,266	-3,296	-4,326
Net interest Paid	-2,840	-2,706	-2,864	-2,407	-2,291	-2,389	-3,131	-3,102	-3,179
Others	-1,764	-2,542	-1,646	-2,167	-1,939	-2,667	4,262	4,935	3,777
CF from Fin. Activity	**-2,933**	**-3,432**	**-2,076**	**-5,435**	**-6,376**	**-11,479**	**-5,135**	**-4,463**	**-6,729**
Incr/Decr of Cash	**-1,925**	**-753**	**3,465**	**-3,194**	**2,047**	**-68**	**-179**	**1,182**	**2,971**
Add: Opening Balance	10,179	8,255	7,501	10,966	7,772	9,819	9,751	9,572	10,754
Closing Balance	**8,255**	**7,501**	**10,966**	**7,772**	**9,819**	**9,751**	**9,572**	**10,754**	**13,725**

E: MOFSL Estimates

Senco Gold

BSE SENSEX	S&P CNX
77,301	23,558

Stock Info

Bloomberg	SENCO IN
Equity Shares (m)	78
M.Cap.(INRb)/(USDb)	79.9 / 1
52-Week Range (INR)	1100 / 358
1, 6, 12 Rel. Per (%)	13/27/-
12M Avg Val (INR M)	460
Free float (%)	31.6

Financials Snapshot (INR b)

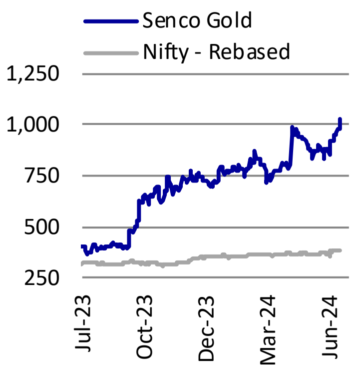
Y/E MARCH	FY24	FY25E	FY26E
Sales	52.4	63.1	74.3
EBITDA	3.8	4.5	5.4
EBITDA Margin (%)	7.2	7.2	7.3
Adj. PAT	1.8	2.4	2.9
EPS (INR)	23.3	30.3	37.1
EPS Gr. (%)	1.6	30.0	22.6
BV/Sh. (INR)	175.7	204.0	238.2
Ratios			
RoE (%)	15.7	15.9	16.8
RoIC (%)	11.8	11.7	12.1
Valuations			
P/E (x)	44.2	34.0	27.7
EV/EBITDA (x)	21.4	17.7	15.0

Shareholding pattern (%)

As On	Mar-24	Dec-23
Promoter	68.5	68.5
DII	7.5	7.0
FII	14.0	14.5
Others	10.0	10.1

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR1,029 TP: INR1,300 (+26%) Buy

Shining bright in the Indian jewelry market!

Senco Gold (SENCO) is one of the most promising players in the organized retail jewelry market. The company has a pan-India presence with a strong network in the eastern region (store/revenue mix of ~75%/ 80%). SENCO operated a total of 159 stores across India, with 93 company-owned stores and 66 franchise stores as of FY24. With about 4% market share in the eastern region, primarily in West Bengal, where 75% of its stores are located, SENCO is strategically expanding its presence in eastern markets and other regions. The company aims to grow its consumer base (added three states and 11 cities during FY24) by focusing on lightweight jewelry and capitalizing on the trend of studded jewelry (250bp gain in the studded ratio over the last three years to 11.4%). As the jewelry market formalizes, SENCO is expected to achieve growth through store expansion, with plans to add 34 stores during FY24-26E, bringing the total count to 193 stores. We estimate a revenue/EBITDA/adj. PAT CAGR of 19%/20%/26% over FY24-26E. The stock is currently trading at 28x FY26E EPS, with a RoE/RoIC of 17%/12% in FY26E. We initiate coverage on SENCO with a BUY rating and value the stock at 35x FY'26E EPS to arrive at our TP of INR1,300.

Focus on relevant consumer trends; expanding the consumer base

- SENCO's pan-India presence is supported by its diverse product designs, comprising over 151,000 gold jewelry designs and more than 85,000 diamond jewelry designs across price points. The company has a strong network of karigars, who manufacture 75% of the company's total jewelry requirements. SENCO procures 20-21% of its jewelry from organized manufacturers, and the rest ~4% from its factories.
- Consumer preferences for purchasing jewelry products are also changing rapidly. Studded products are growing faster than other jewelry products. There are multiple drivers, such as the increasing number of working women, exposure to global designs, a focus on regular-wear fashion products, etc. SENCO is addressing the need for lightweight jewelry across products to cater to its large consumer base.
- SENCO has a diverse jewelry collection across price points, starting at INR2,000 to INR3m, for customers across age groups. In the current portfolio of SENCO, Everlite and Gossip are lightweight jewelry brands. The company primarily focuses on marketing lightweight jewelry with gold content of 1g to 10g in case of gold jewelry and diamonds of less than 10 cents for diamond jewelry.
- The company has also customized store formats to cater to diverse customer segments. Currently, it has six store formats: Classic, Modern, Everlite (lightweight), D'Signia (premium), House of Senco (luxury premium), and Sennes (lifestyle, LGD, and accessories).

Extensive retail network with growing presence across India

- SENCO operates through multiple channels (company-operated/franchise) and continues to expand its geographic presence, with a focus on the east and north regions. SENCO is also widening its presence through the digital platform, thus creating an omni-channel sales channel.
- It has the largest presence in the eastern market (~75% of stores), followed by the north region (14% of stores) in FY24. Location-wise, the company is present in prominent and accessible high-street locations and malls.
- SENCO uses a hub-and-spoke approach to enter new geographies. It forays into large or new cities through company-owned, company-operated (COCO) stores and further expands into tier-II and tier-III locations through a franchise model, leveraging the logistical efficiency of inventory (supplied from its own stores) and return on capital.
- The company has expanded to 16 states, with 93 COCO showrooms and 66 franchise showrooms in 107 towns and cities as of Mar'24.

Strong operating model; engages in complete value chain

- SENCO enjoys a complete value chain of manufacturing process, from designing jewelry to selling finished products. This helps the company mitigate procurement risk and improve efficiency.
- The company aims to reduce the risks associated with fluctuations in gold prices by primarily sourcing gold through GML facilities provided by consortium banks and by procuring old gold from customers. The majority of gold used as raw material by the company is sourced through GML facilities. Around 50% of gold is sourced through GML facilities, 25-30% via the gold exchange program, 20-25% through finishing and trading jewelry, and the remaining is bought from bullion dealers. SENCO has an effective inventory management system and focuses on leveraging technology to improve efficiency.
- Jewelry is manufactured by skilled karigars in West Bengal and organized manufacturers in various regions, including Mumbai and Rajkot.
- To ensure quality, SENCO conducts periodic audits at its workshops, along with stringent quality control measures, including the hallmarking of gold jewelry. Inventory management strategies include jewelry rotation among showrooms to increase turnover and minimize the accumulation of slow-moving stock, guided by data analysis and forecasting for future inventory needs.

Valuation and view

- SENCO has delivered a healthy revenue growth over the last five years, with a revenue/EBITDA/APAT CAGR of 16%/16%/20% during FY19-24. The company opened >60 stores during FY19-24 to reach a total count of 159.
- SENCO is transitioning from being labeled as a 'regional player' to becoming a pan-India player. While the eastern region currently accounts for ~75%/80% of its store/revenue mix, the company is expanding its operations in other regions to diversify its revenue streams. SENCO is increasing its presence by expanding both its owned and franchise stores.
- The company aims to grow its consumer base (added three states and 11 cities during FY24) by focusing on lightweight jewelry and capitalizing on the trend of

studded jewelry (250bp gain in the studded ratio over the last three years to 11.4%).

- We anticipate a store expansion-led growth for SENCO (estimated addition of 34 stores during FY24-26E to a total of 193 stores). We estimate a revenue/EBITDA/adj. PAT CAGR of 19%/20%/26% over FY24-26. The stock is currently trading at 28x FY26E EPS, with a RoE/RoIC of 17%/12% in FY26E. **We initiate coverage on SENCO with a BUY rating and value the stock at 35x FY26E EPS to arrive at our TP of INR1,300.**
- **Key downside risks: a) competitive pressure on margin; b) high working capital requirement; and c) dependence on skilled craftsmen.**

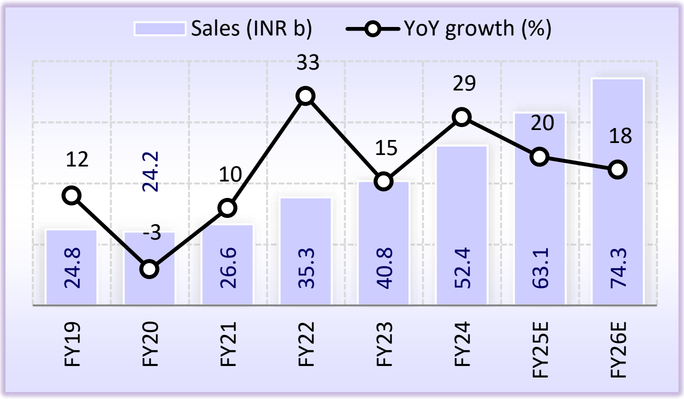
Exhibit 54: Key business parameters (FY24)

Showrooms	Franchise Showrooms	Towns and Cities	Stud ratio
159	66	107	11.4%
Inventory Turnover (x)	**SSSG**	**RoE**	**RoIC**
2.4	19%	15.7%	11.8%

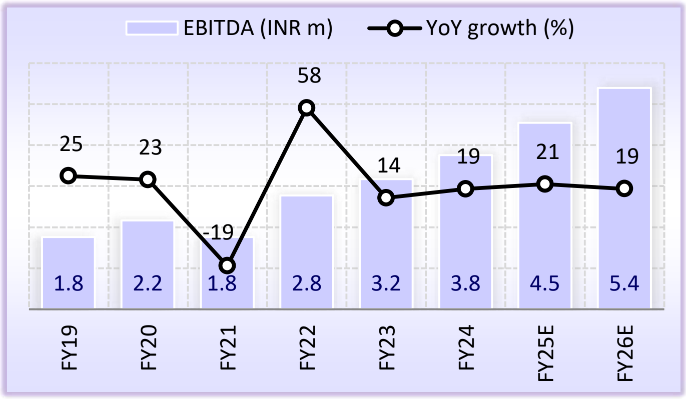
Source: Company, MOFSL

STORY IN CHARTS

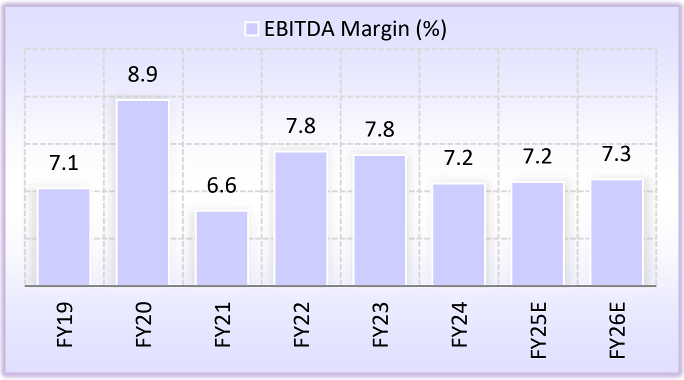
Revenue to record 19% CAGR over FY24-FY26E…



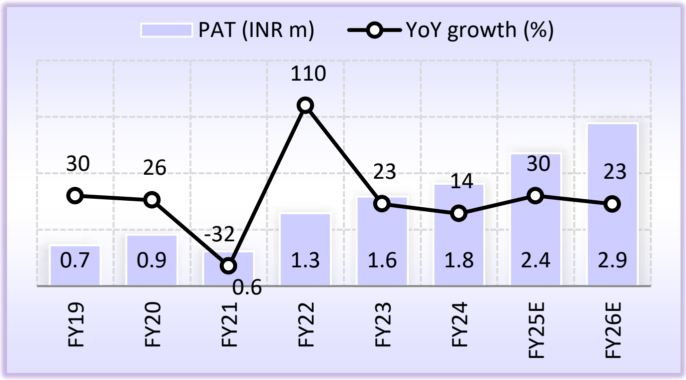
…supported by strong EBITDA growth…



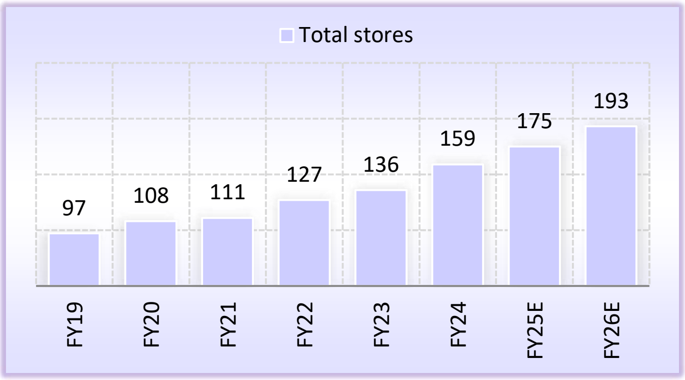
…EBITDA will hover in the 7.0-7.5% range



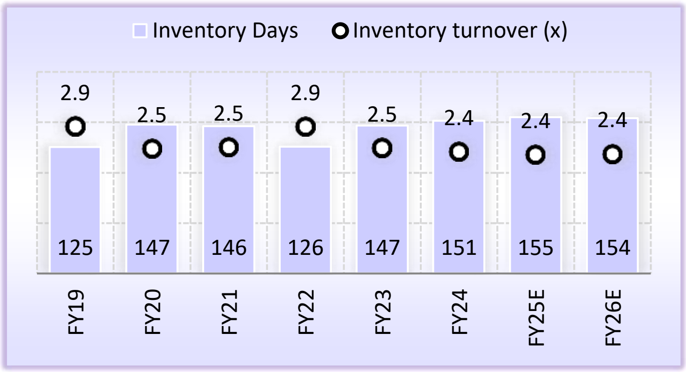
Adj. PAT to register 26% CAGR over FY24-FY26E



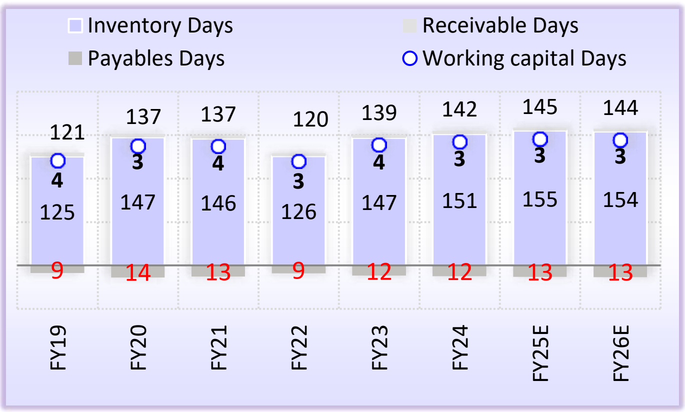
Store count will reach 193 by FY26E



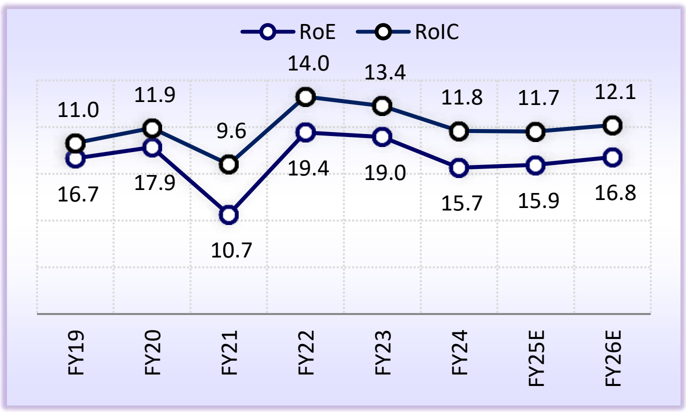
Inventory turnover and inventory days



Working capital days



RoE/RoIC trends



Source: MOFSL, Company

Company overview

SENCO delivered 16% revenue CAGR over FY19-24.

- SENCO was incorporated as Senco Gold Pvt. Ltd. in 1994 in Kolkata, West Bengal, founded by the late Mr. Sankar Sen. It was reconstituted as a public limited company in 2007. SENCO is the largest organized jewelry retail player in the eastern region of India, based on the number of stores (4% revenue share in eastern market).
- The company offers over 151,000 designs for gold jewelry and over 85,000 designs for diamond jewelry across various price points.
- It has total 159 stores in India (93 COCO, 63 FOFO, 3 FOCO) and various online platforms. It also exports to wholesalers in Singapore, Dubai and Malaysia.
- SENCO delivered a revenue CAGR of 16% over FY19-24. Eastern India contributes ~80% of total revenue, while store salience is ~75% of total stores.

Exhibit 55: Legacy of decades with multiple developments over the years

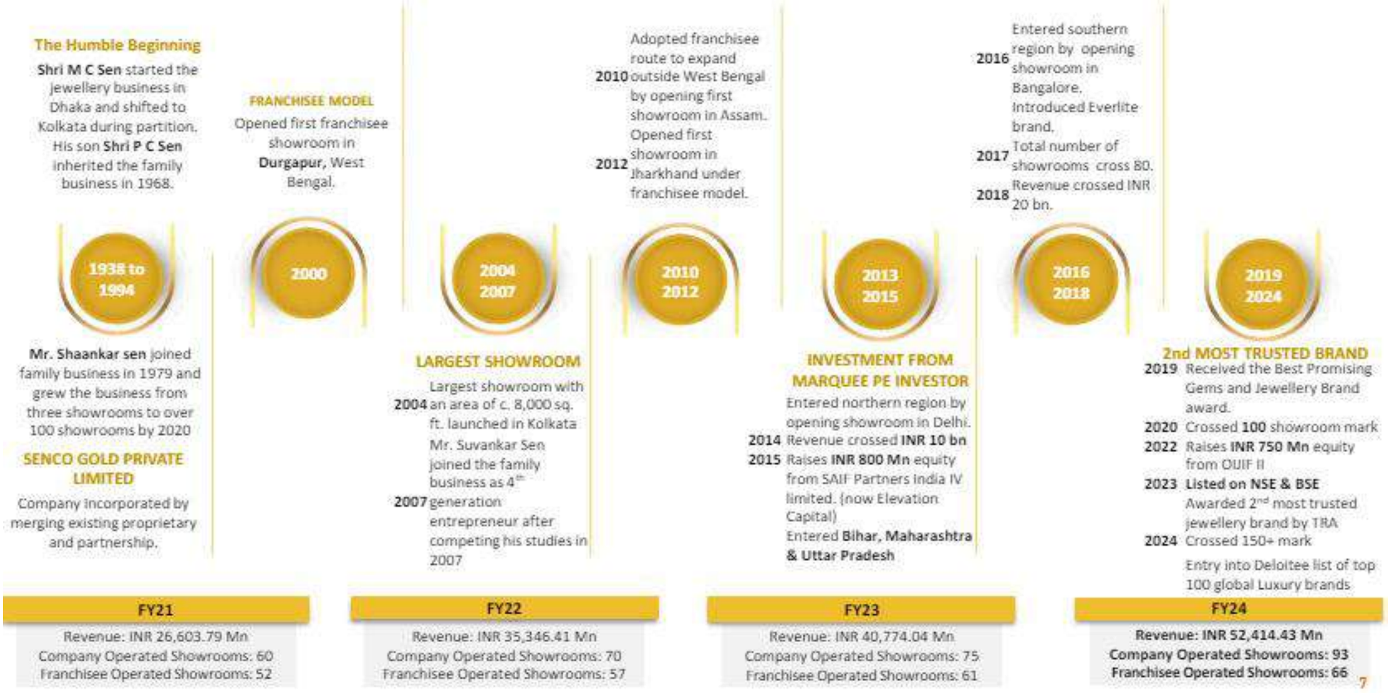


Exhibit 56: SENCO's revenue mix across showroom formats

Focus on lightweight, modern, and affordable jewelry

SENCO showcases lightweight, everyday fine jewelry such as Everlite, Gossip, et al.

- With the increasing number of working women, exposure to global designs, and a rising number of young consumers who prefer to purchase jewelry for adornment rather than investments, consumer preferences are shifting away from traditional bulky jewelry to lightweight fashion items.
- SENCO primarily focuses on marketing lightweight jewelry with gold content of 1g to 10g in case of gold jewelry and diamonds of less than 10 cents for diamond jewelry.
- The company has a diverse jewelry collection across various price points starting at INR2,000 to INR3m to maximize the customer base across age groups. In its current portfolio, Everlite and Gossip are lightweight jewelry brands.
- The Everlite brand, with price points ranging from INR5,000 to INR60,000, targets upwardly mobile consumers, while the Gossip brand caters to the silver and costume jewelry needs of younger customers.
- SENCO focuses on diamond jewelry, which typically commands higher gross margins than gold jewelry. It aims to grow diamond jewelry sales by introducing its own brands, developing lightweight products, broadening its diamond jewelry range and conducting focused marketing campaigns.

Exhibit 57: Everlite – jewelry collection

Various store formats cater to diverse customer segments

- SENCO has customized store formats catering to diverse customer segments. Currently, it has six store formats: Classic, Modern, Everlite (lightweight), D'Signia (premium), House of Senco (luxury premium) and Sennes (lifestyle and accessories). The Classic and Modern store formats are only different in terms of store layouts, with similar target customer segments and merchandise.
- Vivaha offer heavier or premium designer jewelry or a more premium jewelry retail shopping experience.
- The average ticket value (ATV) was ~INR62,900 for Classic, INR73,600 for D'Signia, and ~INR35,500 for Everlite in FY24.

Exhibit 58: Customized showroom formats catering to all segments (FY24)

	Classic	Modern	D'signia	Everlite	Modern	House of Senco	Sennes
Target Audience	Traditional customer base in existing geography	Upcoming geographies	Premium and HNI	Younger generation and millennial	Upcoming geographies	Super Luxury	Lifestyle, LGD and accessories
Average Ticket Value	INR62,900	INR72,700	INR73,600	INR35,500	INR72,700	INR51,900	INR34,300
Showrooms (159)	**128**	**11**	**13**	**3**	**11**	**1**	**3**

Exhibit 59: Customized store formats

Senco Gold & Diamonds

D'SIGNIA

Everlite

House of Senco

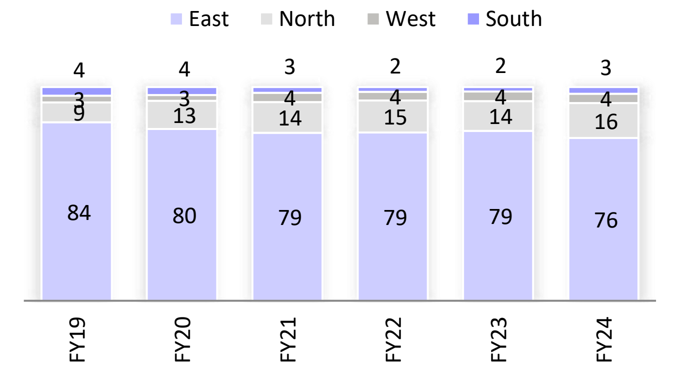
Sennes

Largest jewelry retail player in eastern India

SENCO holds 4% market share in the eastern region.

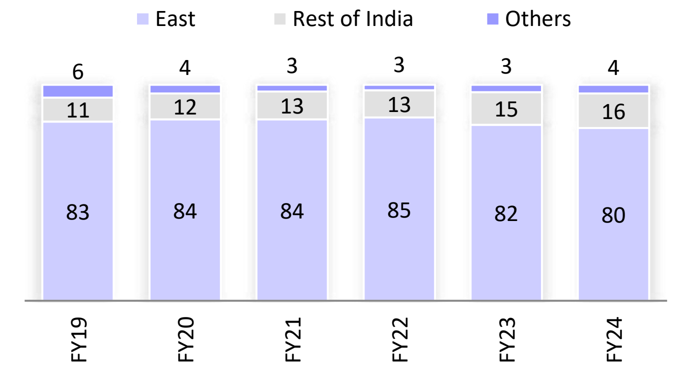
- SENCO is a pan-India jewelry retailer with a strong network in east India. The brand has ~75% of its stores in the eastern region, which generates ~80% of its revenue. It is the largest organized jewelry retail player in the eastern region, based on the number of stores.

Exhibit 60: Region-wise store mix with ~75% in eastern India



Source: MOFSL, Company

Exhibit 61: Region-wise revenue mix with 80% contributed by eastern India



Source: MOFSL, Company

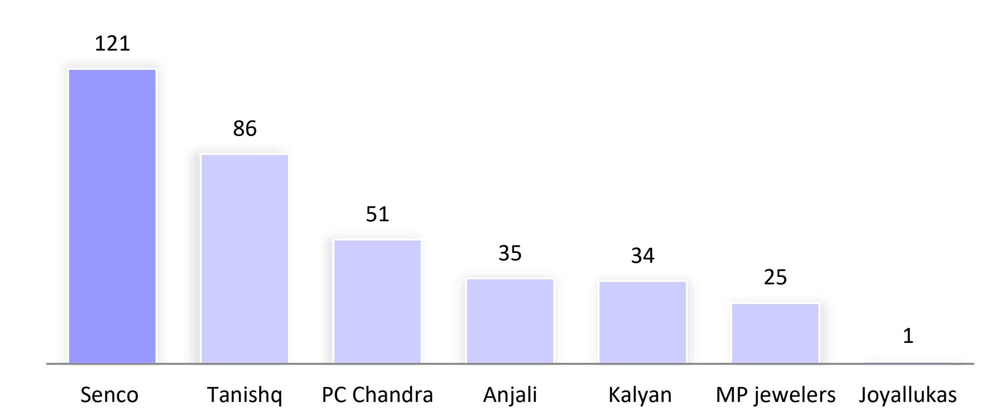
- The eastern region represents 15% of the Indian jewelry market, with organized players accounting for 35-40% of the market. SENCO has a mid-single digit (4%) market share in the overall jewelry market and a 12% market share in the organized jewelry market in the eastern region.

Exhibit 62: SENCO's market share in the eastern region

	(INR b)
India market size	6,400
Eastern market share (15% of pan-India)	960
Organized share	36%
Organized market	346
SENCO eastern revenue	42
SENCO market share in organized eastern market	**12%**
SENCO market share in total eastern market	**4%**

Source: MOFSL, Industry

Exhibit 63: SENCO has highest no. of stores in eastern region



Source: Company, MOFSL

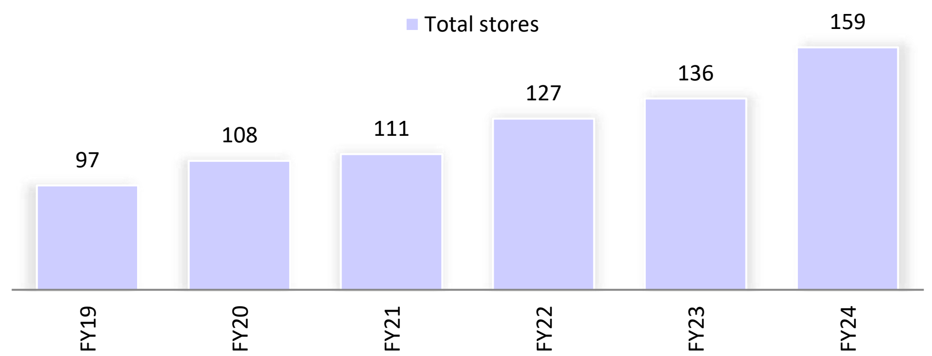
- SENCO is still underpenetrated in the eastern territory with only a ~4% market share, and there is headroom for growth. We believe that SENCO will gain share through brand building, various product design offerings and store expansion.
- With a focus on pan-India expansion, SENCO is opening stores in North India. This move provides the company with an opportunity to expand the business, as the northern region has a larger Total Addressable Market (TAM) and a strong preference for studded jewelry. This strategic decision could potentially enhance its margins. SENCO opened its first store in Delhi in FY13. Currently, it has 22 stores in the North (21 COCO, 1 FOFO).

Extensive retail network with growing presence across regions

SENCO operated a total of 159 stores in FY24 (93 COCO, 63 FOFO and 3 FOCO).

- SENCO operates through multiple channels (company-operated/franchise) and continues to expand its geographic presence with a focus on the eastern and northern regions. SENCO has also widened its presence through the digital platform, creating an omni-channel sales channel. The company has expanded to 16 states, with 93 company-operated showrooms and 66 franchise showrooms in 107 towns and cities as of Mar'24. It has the largest presence in the eastern market (75% of its stores), followed by the northern region (14% of stores). Location-wise, the company is present in prominent and accessible high street locations or malls.

Exhibit 64: SENCO expanded its stores at 10% CAGR over FY19-24



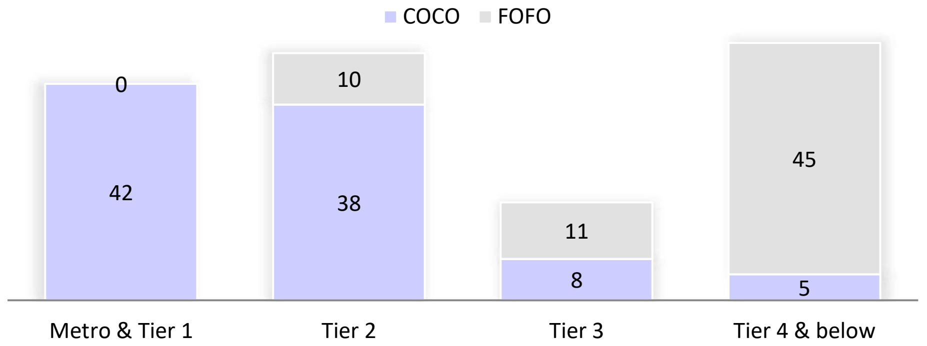
Source: Company, MOFSL

- Its online platforms include websites (Senco gold and Diamonds, Everlite, Gossip), third-party platforms and the 'My Senco' app. It launched separate online platforms for digital gold (myDigiGold) and silver (myDigiSilver). This allows customers to accumulate gold/silver in secure, physical third-party vaults and subsequently sell it online or redeem it in the form of jewelry at any of its showrooms. It recently launched a metaverse space virtual jewelry showroom, 'Sencoverse'.

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

- SENCO uses a hub-and-spoke approach to enter new geographies. It forays into large or new cities through COCO stores and expands into smaller tier-II and tier-III locations through the franchise model, leveraging logistical efficiency of inventory (supplied from own stores) and return on capital. Its company-operated stores are in metro, tier-1 and tier-2 cities, while franchise-operated stores are in tier-2, tier-3, and tier-4 cities and beyond. A higher turnover at a franchise store leads to higher RoE for SENCO. Products at its stores include hyper-local designs customized per local tastes and preferences, as well as more widely appealing jewelry. The company opened its first franchise showroom in Durgapur, West Bengal in 2000.

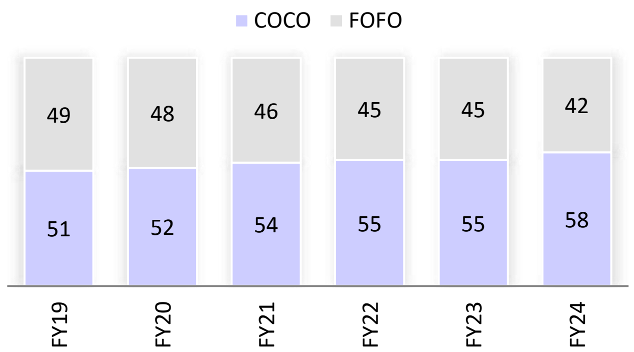
Exhibit 65: FOFO expands into the smaller locations



Source: Company, MOFSL

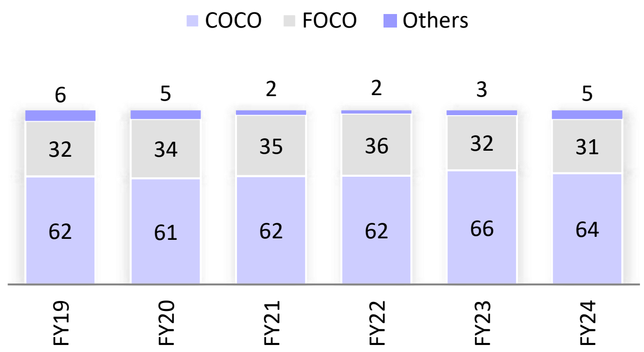
- In FY24, SENCO operated 58% of its stores under the COCO model, with a revenue contribution of ~64%. It operated 42% of stores under the FOFO model, with a revenue contribution of ~31%. The balance revenue was contributed by exports, e-commerce, corporate sales, etc.

Exhibit 66: Store mix between COCO and FOFO



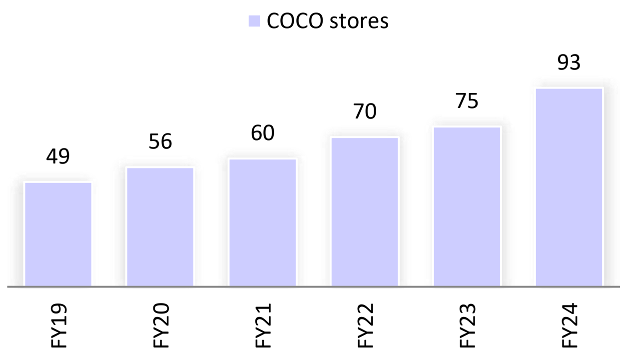
Source: MOFSL, Company

Exhibit 67: Revenue contribution by COCO and FOFO



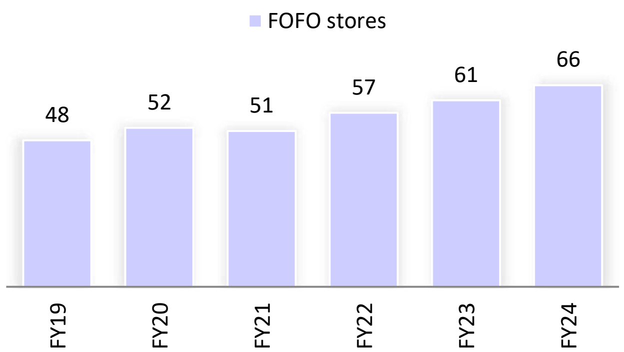
Source: MOFSL, Company

Exhibit 68: COCO stores expanded at ~14% CAGR over FY19-24



Source: MOFSL, Company

Exhibit 69: FOFO stores expanded at ~7% CAGR over FY19-24



Source: MOFSL, Company

- Margins from franchise showrooms are typically lower than margins from company-operated showrooms. Normally, SENCO sells products to franchises after retaining a margin of 6-8%. However, it enables an asset-light business model due to nil setup cost and immediate transfer of inventory. Due to nil capital requirement, its return ratio is healthier in franchise stores than in company-operated stores.

- FOFO agreements are signed for five years with an additional five year renewal option, while FOCO agreements are valid for 15 years with a minimum lock-in period of three years from the date of execution of the agreement. Currently, SENCO has only three stores under the FOCO model.
- Franchises purchase inventory from the company by making upfront payments. SENCO extends credit only during the festive season. The franchise can exchange or return products to the company within 120 days of invoice without deduction of monthly charges.
- Franchises 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 over franchise inventory since they operate on the same ERP.

Exhibit 70: Advantage of the franchise model

	Advantages of the franchise model	FOFO model of SENCO
Lower capital requirement and Inventory	❖ By expanding via the franchise route, a company can lower its capital requirements for store capex, leading to a leaner balance sheet.	❖ SENCO has made no capital investment in its franchise model. Franchises made investments in the form of store capex and upfront purchase of jewelry from SENCO. Credit is extended only during the festive season. Hence, inventory risk lies with the franchise. ❖ The capital employed for a franchise store would be around INR100-120m, including inventory, capex and security deposit. ❖ Franchises typically fund this from own funds and bank loans (maximum in the ratio of 25:75).
Better understanding of local preferences	❖ Franchises often have a stronger understanding of local consumer preferences in jewelry, especially in new markets, enabling the company to swiftly cement its presence in the market.	❖ SENCO expands into tier2/3 cities through the franchise model. It partners with the people who understand the local market conditions and consumer preference and have risk appetite.
Lower operating expense	❖ Since franchises bear part of or all of the operating expenses, the company's fixed cost burden is lower.	❖ All operating costs are borne by the franchise in the FOFO model and in FOCO, company pays the manpower expenses.

Source: MOFSL, Company

Exhibit 71: Operating model of SENCO's franchise stores

FOFO agreement	❖ The FOFO agreement has given the franchises a right to operate showrooms under SENCO trademarks for five years with an additional five-year renewal option, consisting of a lock-in period of three years.
Profit sharing	❖ SENCO has no revenue sharing model with franchises. It sells products after retaining a margin of 6-8% and a one-time initial franchise fee, payable at the time of the agreement. All operating costs are borne by the franchise in the FOFO model.
Others	❖ SENCO provides startup support, including store design, staff hiring and training, and market research, sales technique, product knowledge and training. Also, it gives the additional support to franchises with respect to trade schemes, discounts, annual maintenance of the business software and other things to run the franchise stores as required.

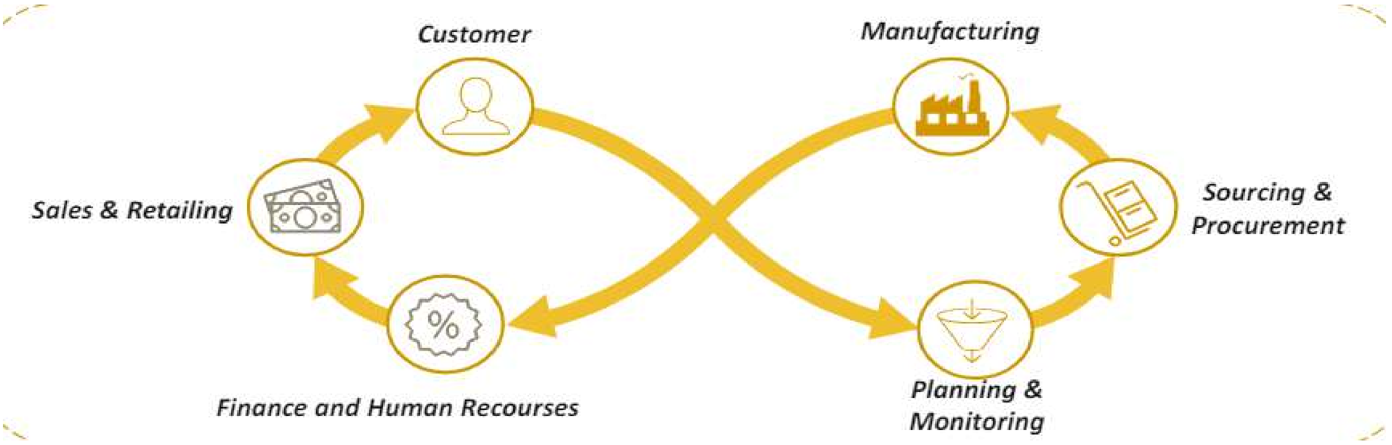
Source: MOFSL, Company

Strong operating model; engages in complete value chain

The company hedges >80% of its inventory to mitigate price fluctuations

- SENCO enjoys a complete value chain of manufacturing process, from designing jewelry to selling finished products. This helps to mitigate the risks and improve efficiency.
- The company aims to reduce risks associated with fluctuations in gold prices by primarily sourcing gold through GML facilities provided by consortium banks and by procuring old gold from customers. Jewelry manufacturing is carried out either by skilled karigars in West Bengal and by organized manufacturers in various regions, including Mumbai in Maharashtra and Rajkot in Gujarat.
- To ensure quality, workshops undergo periodic audits, and there are stringent quality control measures, including hallmarking of gold jewelry. Inventory management strategies include jewelry rotation among showrooms to increase turnover and minimize the accumulation of slow-moving stock, guided by data analysis and forecasting for future inventory needs.

Exhibit 72: Robust system enables seamless collaboration and growth



Raw material procurement (gold sourcing)

- The majority of gold used as raw material by the company is sourced through GML facilities offered by consortium banks. Around ~50% of gold sourced via GML facilities, ~25-30% via gold exchange program, ~20-25% comprises finished and trading jewelry, and the remaining is bought from the bullion dealers. Diamonds are mostly procured from diamond traders and sight holders.
- The increase in gold prices impacts jewelry sales volume as consumers generally defer purchase of gold jewelry or reduce the purchase volume in a rising gold price environment while maintaining the budgeted spending amount. Any significant downward movement in gold prices can affect a jeweler's margins and hence jewelry companies need to adopt appropriate hedging strategies.
- Currently, the company has an appropriate hedging policy in place under which it has to hedge minimum 51% of gold inventory through futures, options and GML to manage the risk of gold price fluctuation. SENCO hedges >80% inventory to mitigate price fluctuations.
- In the gold exchange program, the large quantity of old gold comes from the consumers, of which ~60% of gold not belong to SENCO consumers.

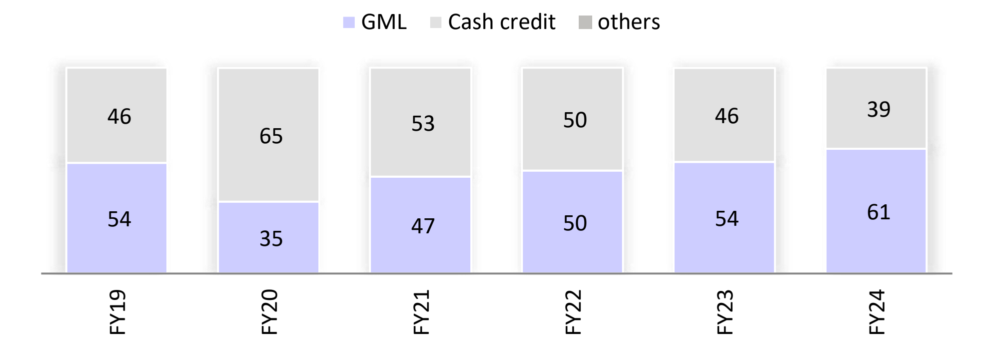
Exhibit 73: Most of RM sourcing is through GML facilities from Consortium banks

RM Sourcing (%)	FY21	FY22	FY23	FY24
GML (Consortium bank)	51.0	45.4	49.4	50.0
Bullion dealers	12.3	16.8	1.4	2.0
Old gold exchange	25.1	22.0	27.1	29.0
Trading Jewelry	11.6	15.9	22.1	19.0
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: Company, MOFSL

- In GML arrangements, the price of gold purchased under GML is not fixed on procurement, but rather within the applicable 180 days credit period, thereby minimizing any risk relating to gold price fluctuations between the time of procuring the raw material and selling the finished product to customers.
- GML can be secured for 180 days in the case of domestic jewelry manufacturers and 270 days for exports. The loan is then settled in rupees (or gold subject to certain conditions) with the eventual sales proceeds.
- GML and old gold exchange provide a natural hedge as the gold price for GML repayment is approximately matched with the sale price from the customer. Therefore, ~50-55% is hedged naturally and for the remaining 45-50% gold, the company enters into futures or options contracts.
- As a percentage of total borrowings, the share of GML has been rising consistently (61% as on Mar'24), which led to working capital efficiency and lower RoI.

Exhibit 74: GMLs constitute 61% of total borrowings



Source: Company, MOFSL

- The blended cost of interest has also been reduced, with an increasing ratio of GMLs in total borrowings as GMLs carry a lower rate of interest (in the range of 2.5%-4%) compared to other working capital loans (9-10%). The blended cost has been range-bound at 6%.

Manufacturing process (access to expert jewelry karigars in West Bengal)

- The company's ~75% of total jewelry manufacturing is outsourced to karigars, ~20-21%% is procured from organized manufacturers across India, and its in-house facility accounts for ~3-4% of the total manufacturing.
- Jewelry manufacturing is carried out by 170 skilled karigars in and around West Bengal for handmade products. Readymade jewelry is procured from organized manufacturers in Mumbai, Kerala, Rajkot, and Coimbatore, while in-house manufacturing is done in its own facility at Ankurhati, Howrah.
- All loose diamonds, precious and semi-precious stones are tested for quality by SGL, an international diamond testing company.

- Its operations in eastern India give it a strategic location advantage with access to expert jewelry karigars. West Bengal is a prominent jewelry manufacturing hub in east India, reputed for lightweight and handmade jewelry.
- Making charges and waste are fixed for these karigars based on jewelry type, with payments typically within 30 days of the invoice. The karigars are required to supply products within 15-40 days from the date of receipt of orders for plain jewelry and 9-45 days from the date of orders for studded jewelry.
- The company's in-house facility produces jewelry using modern technologies such as 3D printing, CAD-driven designing and laser cutting. The company has a dedicated team of 20 designers.

Exhibit 75: Leveraging Bengal's Karigari and Craftsmanship

Quality assurance

- The internal quality control department uses XRF machine to check the purity and the finish of the jewelry. After that, jewelry is sent to a government approved hallmarking centers for hallmarking in accordance with BIS norms.
- All loose diamonds, precious and semi-precious stones are tested for quality by SGL, an international diamond testing company.

Effective inventory management

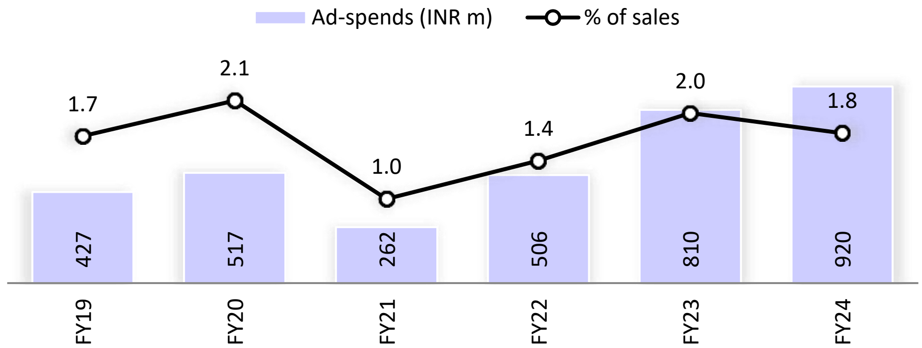
- All jewelry is bar-coded, monitored and controlled manually as well as through ERP.
- Optimum showroom stock review is done regularly and the plan is shared with the production department.
- Jewelry is also rotated between different showrooms in an effort to increase inventory turnover and avoid the accumulation of slow-moving stock at certain showrooms.

Effective marketing and brand building initiatives

- SENCO's marketing initiatives are strategically customized to reinforce the brand recall, drive higher footfalls, and highlight the diversity of its collection, especially lightweight gold jewelry. Marketing strategies are adapted according to occasions, seasons, and customer demands, aligning with events like weddings, anniversaries, birthdays, and festive periods, which traditionally see increased jewelry purchases.
- As a part of its marketing strategy, SENCO has tied up with multiple national and regional brand ambassadors, including personalities from film and sports. To enhance its brand image at the national level (especially to increase brand saliency in north India) and to target younger consumers.

Exhibit 76: Brand ambassadors to drive pan-India loyalty

Exhibit 77: Marketing expenses hovered at 1.8-2.0% of sales for SENCO



Source: Company, MOFSL

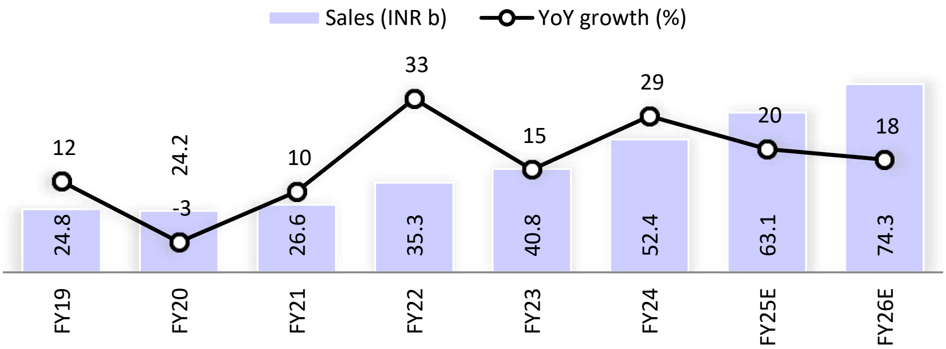
Strong track record of healthy financials

Revenue/EBITDA/PAT clocked an impressive CAGR of 16%/16%/20% over FY19-24.

Revenue

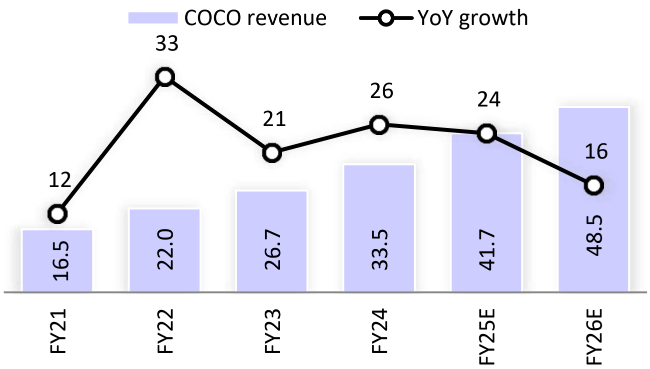
- We expect 19% revenue CAGR over FY24-26E, driven by SSSG and store expansion, with the focus on the east and north regions of India.
- The management said that company will add 18-20 stores (net) per year going forward with an equal number of company-operated stores and franchises. We expect store count will reach to 193 by end-FY26. It opened 23 stores (net) in FY24.
- Within total revenue growth, 70-80% was driven by SSSG and the remaining by new stores. We expect the company to deliver healthy SSSG, driven by increasing footfalls, more conversions, and higher ATVs.

Exhibit 78: Revenue to clock 19% CAGR over FY24-26E



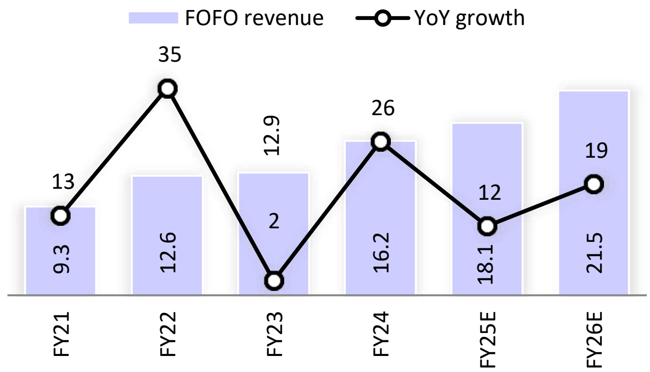
Source: Company, MOFSL

Exhibit 79: COCO revenue to post 20% CAGR over FY24-26E



Source: MOFSL, Company

Exhibit 80: FOFO revenue to report ~15% CAGR over FY24-26E



Source: MOFSL, Company

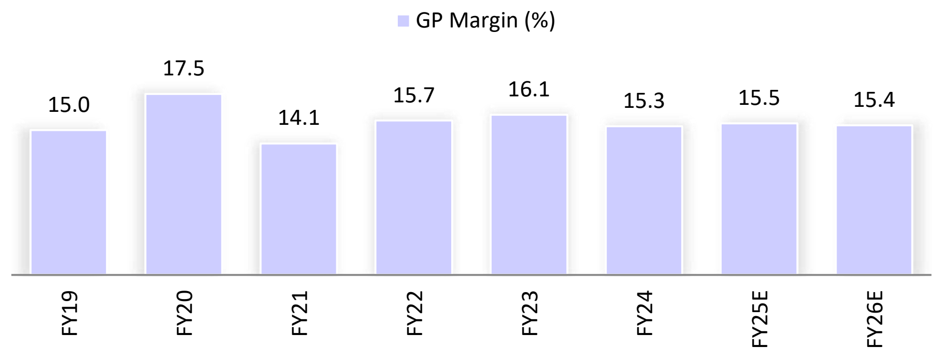
Margins

- Jewelry companies earn margins through making charges collected from customers. In FY24, the COCO stores earned a gross margin of ~20%, while in case of franchise stores, the company maintained its gross margin at 6-8%. Export sales had 5-6% margins. Therefore, blended GP margin was 15.3%.
- The studded ratio is improving as the company focuses on increasing the share of diamond margins in revenue through the introduction of lightweight jewelry at

competitive prices, a wider range of diamond jewelry to cater to younger and upwardly mobile customers in India, and focused marketing campaigns.

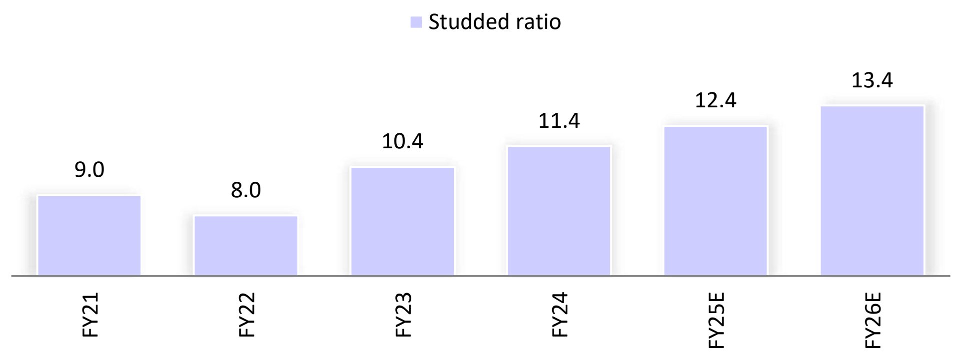
- GP margin is usually higher in the second half of the financial year compared to the first half due to the greater share of diamond jewelry sales during the wedding season and on Valentine's Day.
- We model a 15-16% gross margin for FY25-26E, driven mainly by own-store share (franchises have 6-8%), higher proportion of studded diamond jewelry, gold exchange (usually lower margins) program, and product mix.

Exhibit 81: We model ~15-16% GP margin for FY25E and FY26E



Source: Company, MOFSL

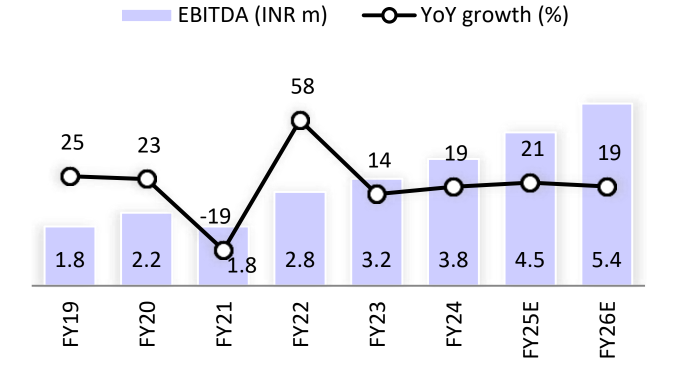
Exhibit 82: Improvement in the studded ratio



Source: Company, MOFSL

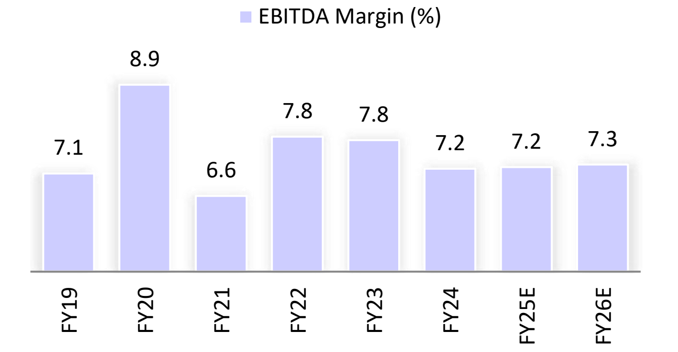
- Driven by greater operating efficiencies, we expect ~20% EBITDA CAGR over FY24-26E. EBITDA margins would remain in the range of 7-7.5%.
- The company delivered a ~16% CAGR in EBITDA over FY19-24 to INR3.8b.

Exhibit 83: EBITDA to report 20% CAGR over FY24-26E



Source: MOFSL, Company

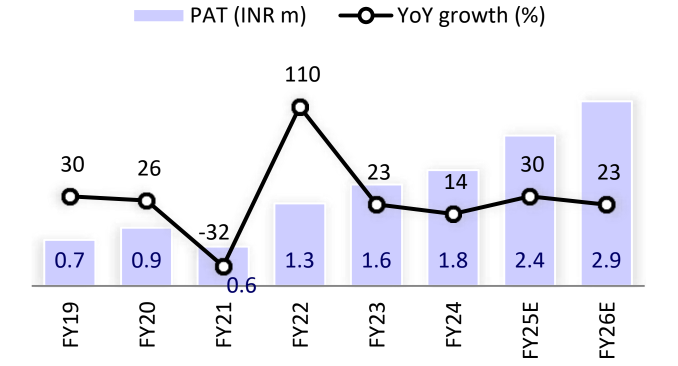
Exhibit 84: EBITDA margin hovered at ~7.0-7.5%



Source: MOFSL, Company

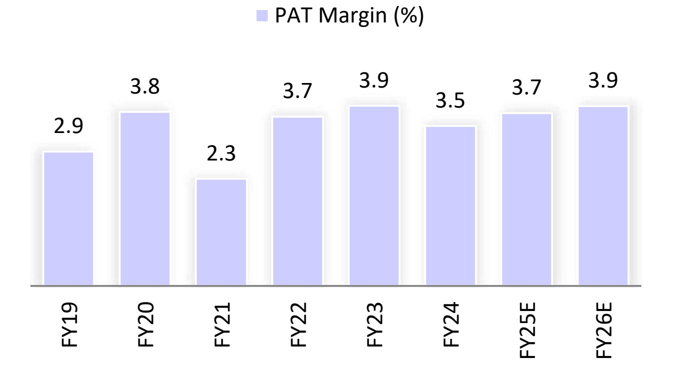
- We expect a ~26% PAT CAGR over FY24-26E, with stable PAT margin range of 3-4% (similar to FY20-24, barring FY21). Over FY19-24, PAT reported a ~20% CAGR to INR1.8b.

Exhibit 85: PAT to clock a 26% CAGR over FY24-26E



Source: MOFSL, Company

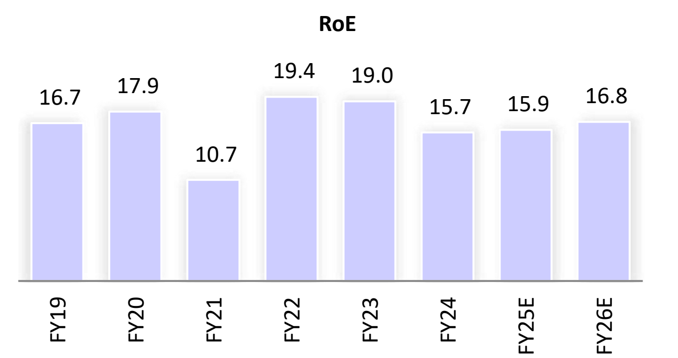
Exhibit 86: PAT margin hovered at ~3-4%



Source: MOFSL, Company

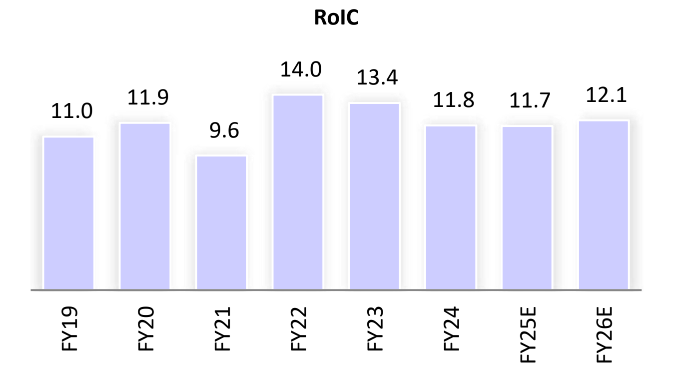
- In FY24, the company delivered 15.7% RoE and 11.8% RoIC (contracted due to equity raise).

Exhibit 87: RoE trends



Source: MOFSL, Company

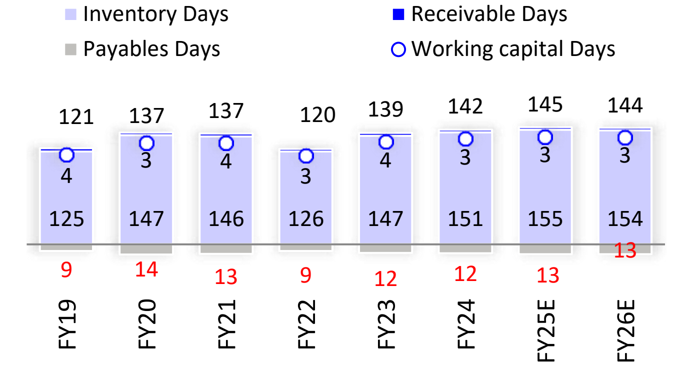
Exhibit 88: RoIC trends



Source: MOFSL, Company

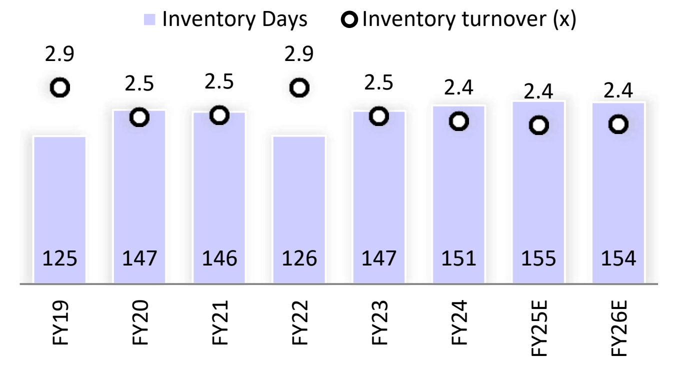
- Working capital rose to 142 days in FY24 from 121 days in FY19 due to a rise in inventory days. With the placement of more volume (including more studded jewelry) in stores and lower churn of inventory, inventory days increased to 151 in FY24 from 125 in FY19. Debtor days remained constant at 3-4.
- Inventory turnover days declined to 2.4x in FY24 from 2.9x in FY19.

Exhibit 89: Net working capital days



Source: MOFSL, Company

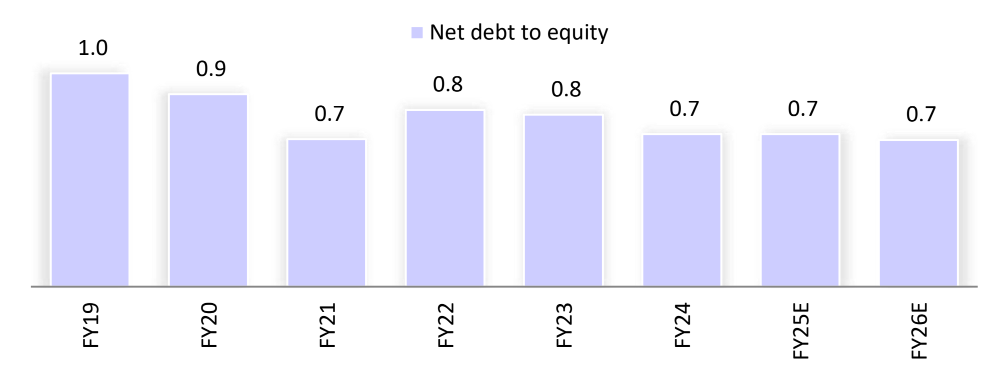
Exhibit 90: Inventory days



Source: MOFSL, Company

- The company's gross debt stood at INR15.0b as of end-FY24 (net debt at INR9.5b), which comprised 61% GML and 39% working capital borrowings. SENCO's gross debt increased in FY24 due to a rise in gold inventory as it added more stores.

Exhibit 91: Net debt to equity



Source: Company, MOFSL

Valuation and key risks

Initiate coverage with a BUY

- SENCO has delivered a healthy revenue growth over the last five years, with a revenue/EBITDA/APAT CAGR of 16%/16%/20% during FY19-24. The company opened >60 stores during FY19-24 to reach a total count of 159.
- SENCO is transitioning from being labeled as a 'regional player' to becoming a pan-India player. While the eastern region currently accounts for 75%/80% of its store/revenue mix, the company is expanding its operations in other regions to diversify its revenue streams. SENCO is increasing its presence by expanding both its owned and franchise stores.
- The company aims to grow its consumer base (added three states and 11 cities during FY24) by focusing on lightweight jewelry and capitalizing on the trend of studded jewelry (250bp gain in the studded ratio over the last three years to 11.4%).
- We anticipate a store expansion-led growth for SENCO (estimated addition of 34 stores during FY24-26E to a total of 193 stores). We estimate a revenue/EBITDA/ adj. PAT CAGR of 19%/20%/26% over FY24-26. The stock is currently trading at 28x FY26E EPS, with a RoE/RoIC of 17%/12% in FY26E. **We initiate coverage on SENCO with a BUY rating and value the stock at 35x FY26E EPS to arrive at our TP of INR1,300.**
- **Key downside risks**: a) competitive pressure on margin; b) high working capital requirement; and c) dependence on skilled craftsmen.

ESG initiatives

Environmental initiatives

- **Sustainable Sourcing**: Using responsibly sourced materials for their jewelry to minimize environmental impact.
- **Energy Efficiency**: Implementing energy-efficient practices in their operations to reduce carbon footprint.
- **Waste Management**: Developing waste reduction and recycling programs to manage production waste effectively.

CSR initiatives

- **Community Engagement**: SENCO offers various customer engagement programs, including loyalty programs and financing facilities for high-value diamond jewelry. These initiatives help build a strong community of loyal customers and support their financial flexibility.
- **Support for Karigars**: SENCO focuses on securing relationships with its Karigars, ensuring continuity of their work, minimizing order cancellations, and releasing payments early. These measures support the livelihoods of these karigars, particularly during challenging times like the pandemic.
- **Employee Welfare**: Providing a safe and healthy working environment with fair wages and benefits.
- **Customer Transparency**: Ensuring transparency in business practices to maintain trust and integrity with customers.

Governance

- As of Mar'24, the board comprised seven directors, including four Independent directors and three female directors.
- **Ethical Business Practices**: Adhering to high standards of corporate governance and ethical business conduct.
- **Compliance and Risk Management**: Implementing robust compliance and risk management frameworks.
- **Stakeholder Engagement**: Regularly engaging with stakeholders to address their concerns and incorporate feedback into business strategies.

Bull and Bear cases

Bull case

- ☑ In our bull case scenario, we assume a revenue CAGR of 25% over FY24-26E, aided by a strong same store sales growth followed by store expansion.
- ☑ We expect the margin will expand slightly by ~40bp from the current levels to reach ~7.5% over FY26, led by an improving studded mix.
- ☑ The company's EPS would register a robust CAGR of 36% over FY24-26E, driven by operating leverage.

Bear case

- ☑ In our bear case scenario, we assume a revenue CAGR of 14% over FY24-26E, considering demand-side challenges that would restrict the strong growth trajectory.
- ☑ We expect the margin will dip by ~30bp from the current levels to reach 6.8% over FY26.
- ☑ The company's EPS would register a CAGR of 16% over FY24-26E.

Exhibit 92: Bull and Bear case scenarios (INR m)

	Particulars	FY24	FY25E	FY26E	CAGR (FY24-26E, %)
Bear case	Revenue	52,414	60,184	68,354	14
	EBITDA	3,755	4,184	4,664	11
INR1,070	EPS	23.3	27.8	31.3	16
Base case	Revenue	52,414	63,123	74,349	19
	EBITDA	3,755	4,543	5,391	20
INR 1,300	EPS	23.3	30.3	37.1	26
Bull case	Revenue	52,414	65,840	82,001	25
	EBITDA	3,755	4,907	6,181	28
INR1,460	EPS	23.3	32.6	42.9	36

Source: MOFSL, Company

SWOT analysis

- Established brand with a significant presence in the Indian jewelry market
- Offers a wide variety of jewelry designs catering to different customer preferences
- Skilled karigars and experienced management team
- Broad distribution network with numerous retail outlets across India

- Significant expenses related to inventory management and retail operations
- Limited brand presence outside India
- Dependence on craftsmen for manufacturing

- Potential to expand online sales and reach a wider customer base
- Opportunities to penetrate global markets and expand its presence
- Rising demand for gold as investment can boost sales
- Potential tie-ups with fashion designers and celebrities to enhance brand appeal

- Fluctuating gold prices can impact consumer purchasing behavior
- High competition from other established jewelry brands and local karigars
- Changes in government policies related to gold imports and taxes can affect operations and profitability

Management team

Ms. Ranjana Sen
Chairperson and Whole Time Director

Ms. Ranjana has been associated with the company since incorporation and has over 29 years of experience in the jewelry industry. She holds a bachelor's degree in arts from the University of Calcutta.

Mr. Suvankar Sen
MD and CEO

Mr. Suvankar joined the company since 2005. He has over 17 years of experience in the jewelry industry. He holds PGDM degree from the Institute of Management Technology, Ghaziabad.

Mr. Sanjay Banka
CFO

Mr. Banka has been with SENCO since Dec'20. He has over 20 years of experience in the fields of banking, corporate finance, company secretary, business strategy, M&A, taxation, IT implementation, and, treasury. He is a fellow member of ICAI, ICSI, AIMA, and CISI, UK. Previously, he worked with Landmark Group Saudi Arabia (as CFO), Bharat Road Network, Merino Industries and Aksh Optifibre.

Ms. Joita Sen
Head of Marketing

Ms. Joita has been associated with the company since 2009. She has over 10 years of experience in designing and marketing. She holds a master's degree in arts from Presidency College, University of Calcutta.

Mr. Vivek Kumar Mathur
Non-Executive Nominee Director

Mr. Mathur is nominated as a director by SAIF Partner India IV Ltd. pursuant to the terms of the shareholders' agreement. Earlier, he served as Executive Director for Customer Service at Dell International Services Pvt. Ltd. and is a partner at Light Ray Advisors LLP. He holds a master's degree in business administration from the Graduate College of the University of Iowa.

Financials and valuations

Income Statement (INR m)

Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Net Sales	**24,843**	**24,203**	**26,604**	**35,346**	**40,774**	**52,414**	**63,123**	**74,349**	**86,632**
Change (%)	12.5	-2.6	9.9	32.9	15.4	28.5	20.4	17.8	16.5
Gross Profit	**3,732**	**4,242**	**3,750**	**5,541**	**6,555**	**8,014**	**9,782**	**11,413**	**13,180**
Margin (%)	15.0	17.5	14.1	15.7	16.1	15.3	15.5	15.4	15.2
Other expenditure	1,977	2,081	1,997	2,769	3,388	4,259	5,239	6,022	7,017
EBITDA	**1,755**	**2,162**	**1,753**	**2,772**	**3,166**	**3,755**	**4,543**	**5,391**	**6,163**
Change (%)	24.9	23.2	-18.9	58.1	14.2	18.6	21.0	18.7	14.3
Margin (%)	7.1	8.9	6.6	7.8	7.8	7.2	7.2	7.3	7.1
Depreciation	278	372	396	421	456	601	698	808	907
Int. and Fin. Charges	448	557	666	709	861	1,081	1,167	1,288	1,401
Other Income - Recurring	94	87	145	128	311	422	465	558	669
Profit before Taxes	**1,123**	**1,320**	**837**	**1,770**	**2,162**	**2,495**	**3,142**	**3,853**	**4,524**
Change (%)	17.8	17.5	-36.6	111.5	22.1	15.4	25.9	22.6	17.4
Margin (%)	4.5	5.5	3.1	5.0	5.3	4.8	5.0	5.2	5.2
Tax	471	371	288	496	613	728	789	967	1,135
Deferred Tax	-68	40	-66	-17	-37	-43	0	0	0
Tax Rate (%)	35.9	31.1	26.5	27.0	26.7	27.5	25.1	25.1	25.1
Profit after Taxes	**721**	**909**	**615**	**1,291**	**1,585**	**1,810**	**2,353**	**2,886**	**3,388**
Change (%)		26.2	-32.4	110.0	22.8	14.2	30.0	22.6	17.4
Margin (%)	2.9	3.8	2.3	3.7	3.9	3.5	3.7	3.9	3.9
Extraordinary income	0	0	0	0	0	0	0	0	0
Reported PAT	**721**	**909**	**615**	**1,291**	**1,585**	**1,810**	**2,353**	**2,886**	**3,388**

Balance Sheet

Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Share Capital	665	665	665	665	691	777	777	777	777
Reserves	4,002	4,853	5,361	6,595	8,764	12,878	15,076	17,729	20,806
Net Worth	**4,667**	**5,518**	**6,026**	**7,260**	**9,455**	**13,655**	**15,853**	**18,506**	**21,583**
GML	3,054	2,003	2,504	4,314	6,376	9,070	10,455	11,457	12,847
Loans	2,626	3,750	2,820	4,316	5,396	5,913	5,638	6,176	6,923
Lease liabilities	1,029	1,351	1,474	1,630	2,098	2,628	2,958	3,326	3,653
Deferred Tax	-114	-59	-127	-141	-179	-228	-228	-228	-228
Capital Employed	**11,262**	**12,564**	**12,697**	**17,378**	**23,145**	**31,038**	**34,675**	**39,236**	**44,779**
Gross Block	1,272	1,428	1,537	1,726	2,035	2,558	2,805	3,142	3,519
Less: Accum. Depn.	507	679	864	1,035	1,188	1,399	1,638	1,905	2,204
Net Fixed Assets	**765**	**749**	**674**	**691**	**847**	**1,158**	**1,167**	**1,237**	**1,315**
Intangibles	47	27	27	25	23	28	28	26	24
Capital WIP	47	44	24	65	131	15	15	15	15
Right of use asset	961	1,246	1,417	1,516	1,927	2,434	2,611	2,838	2,984
Investments	0	0	0	0	1	1	1	1	1
Curr. Assets, L&A	**10,744**	**13,098**	**13,323**	**18,563**	**25,945**	**33,362**	**38,012**	**43,493**	**50,202**
Inventory	8,684	10,871	10,395	13,912	18,855	24,570	29,041	33,697	38,932
Account Receivables	184	277	276	394	454	529	640	754	878
Cash and Bank Balance	1,150	920	1,281	2,788	4,376	5,514	5,082	5,270	6,047
Others	725	1,030	1,371	1,469	2,261	2,749	3,249	3,772	4,345
Curr. Liab. and Prov.	**1,301**	**2,601**	**2,769**	**3,483**	**5,729**	**5,960**	**7,160**	**8,374**	**9,762**
Trade Payables	591	1,251	609	1,174	1,445	2,069	2,484	2,931	3,421
Provisions	68	25	31	14	27	66	79	93	109
Other current liabilities	642	1,325	2,128	2,295	4,258	3,825	4,596	5,349	6,232
Net Current Assets	**9,442**	**10,497**	**10,554**	**15,081**	**20,216**	**27,402**	**30,852**	**35,119**	**40,440**
Application of Funds	**11,262**	**12,564**	**12,697**	**17,378**	**23,145**	**31,038**	**34,675**	**39,236**	**44,779**

E: MOFSL Estimates

Financials and valuations

Ratios (INR m)

Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
Basic (INR)									
EPS	**10.8**	**13.7**	**9.2**	**19.4**	**22.9**	**23.3**	**30.3**	**37.1**	**43.6**
Cash EPS	15.0	19.3	15.2	25.8	29.5	31.0	39.3	47.5	55.3
BV/Share	70.2	83.0	90.6	109.2	136.7	175.7	204.0	238.2	277.8
DPS	0.0	0.0	0.0	0.0	0.0	1.0	2.0	3.0	4.0
Payout %	0.0	0.0	0.0	0.0	0.0	4.3	6.6	8.1	9.2
Valuation (x)									
P/E	94.9	75.2	111.3	53.0	44.9	44.2	34.0	27.7	23.6
Cash P/E	68.5	53.4	67.7	40.0	34.9	33.2	26.2	21.6	18.6
EV/Sales	2.8	2.9	2.6	2.0	1.8	1.5	1.3	1.1	0.9
EV/EBITDA	39.8	33.0	39.9	25.2	22.8	21.4	17.7	15.0	13.1
P/BV	14.7	12.4	11.4	9.4	7.5	5.9	5.0	4.3	3.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.4
Return Ratios (%)									
RoE	16.7	17.9	10.7	19.4	19.0	15.7	15.9	16.8	16.9
RoCE	9.6	10.9	8.7	12.0	10.9	9.6	9.8	10.4	10.6
RoIC	11.0	11.9	9.6	14.0	13.4	11.8	11.7	12.1	12.2
Working Capital Ratios									
Inventory days	125	147	146	126	147	151	155	154	153
Debtor (Days)	4	3	4	3	4	3	3	3	3
Payables days	9	14	13	9	12	12	13	13	13
Cash coversion days	121	137	137	120	139	142	145	144	143
Inventory turnover (x)	2.9	2.5	2.5	2.9	2.5	2.4	2.4	2.4	2.4
Asset Turnover (x)	2.2	1.9	2.1	2.0	1.8	1.7	1.8	1.9	1.9
Leverage Ratio									
Net Debt/Equity (x)	1.0	0.9	0.7	0.8	0.8	0.7	0.7	0.7	0.6

Cash Flow Statement

Y/E March	2019	2020	2021	2022	2023	2024	2025E	2026E	2027E
OP/(loss) before Tax	1,123	1,320	837	1,770	2,162	2,495	3,142	3,853	4,524
Int./Div. Received	-47	-47	-50	-72	-164	-249	-465	-558	-669
Depreciation & Amort.	278	372	396	421	456	601	698	808	907
Interest Paid	448	557	666	709	861	1,081	1,167	1,288	1,401
Direct Taxes Paid	-546	-404	-421	-388	-592	-708	-789	-967	-1,135
Incr in WC	-1,024	-2,241	934	-1,313	-1,408	-3,386	-2,444	-3,019	-3,089
CF from Operations	**276**	**-462**	**2,310**	**1,111**	**1,306**	**-244**	**1,310**	**1,405**	**1,939**
Incr in FA	-193	-211	-140	-247	-311	-382	-258	-346	-387
Free Cash Flow	**83**	**-673**	**2,170**	**864**	**995**	**-626**	**1,052**	**1,060**	**1,551**
Investments	1	2	-136	113	-212	44	-680	-814	-805
Others	58	43	53	60	127	201	465	558	669
CF from Invest.	**-134**	**-166**	**-224**	**-74**	**-396**	**-138**	**-474**	**-602**	**-523**
Issue of Shares	-	-	-0	0	750	2,482	-0	-0	0
Incr in Debt	213	1,137	-923	1,499	1,086	521	-275	538	747
Dividend Paid	-33	-83	-	-148	-114	-93	-155	-233	-311
Interest paid	-343	-545	-682	-705	-833	-791	-1,167	-1,288	-1,401
Others	-220	-111	-120	-176	-211	-600	330	368	327
CF from Fin. Activity	**-383**	**398**	**-1,725**	**471**	**678**	**1,519**	**-1,268**	**-615**	**-638**
Incr/Decr of Cash	**-241**	**-231**	**361**	**1,507**	**1,588**	**1,138**	**-432**	**188**	**777**
Add: Opening Balance	1,391	1,150	920	1,281	2,788	4,376	5,514	5,082	5,270
Closing Balance	**1,150**	**920**	**1,281**	**2,788**	**4,376**	**5,514**	**5,082**	**5,270**	**6,047**

E: MOFSL Estimates

REPORT GALLERY

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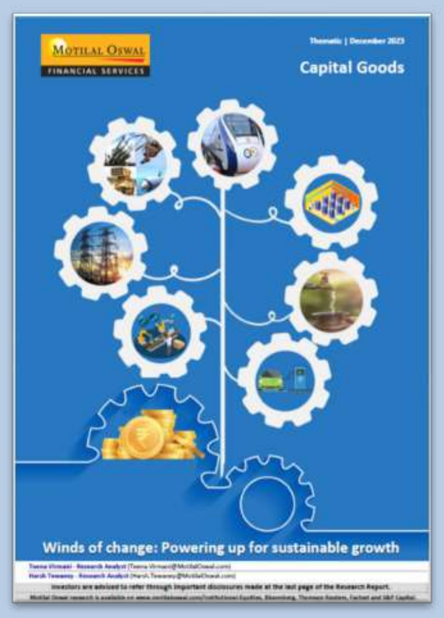
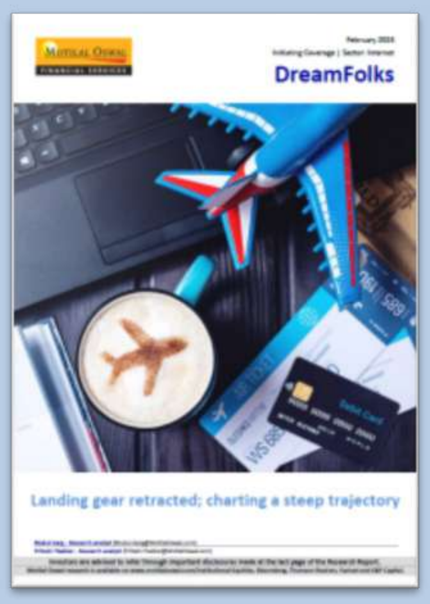
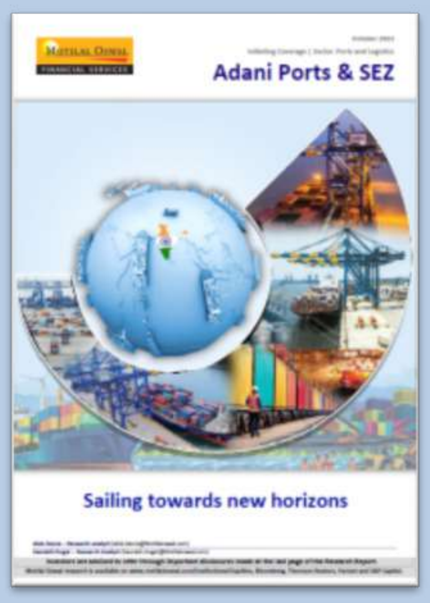


RECENT INITIATING COVERAGE REPORTS





N O T E S

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