

Company Name: Senco Gold Ltd.

Management Participants :

Mr. Sanjay Banka – Chief Financial Officer

11th Annual Valorem Conference Highlights :

- Q3-FY26 saw ~50% YoY revenue growth led by Dhanteras and wedding demand, with steady EBITDA margins driven by operating leverage despite gold price volatility.
- Rising gold prices boost EBITDA and PAT as margins are value-based, not weight-based.
- FY27 revenue guidance implies ~25% growth to INR 10,500–10,700 crores (vs ~INR 8,300–8,400 crores FY26E), with higher internal targets and detailed store- and category-level budgeting.
- 50% of gold inventory is hedged, ~38% via GML and ~12% via MCX.
- Franchise stores deliver strong economics with 40%+ ROE vs 8–10% for company stores, achieving break-even in ~12 months.
- Expansion beyond East continues, as the company prioritizes pan-India diversification.
- Old gold exchange contributes ~43% of sales with ~0.5% lower margins due to mix skew towards lower-priced, non-diamond products and loss of gold margin.
- Swarna Yojana is a key demand driver, with higher FY27 collections targeted to build a loyal customer base and improve working capital visibility.
- Senco's ~68% stake in Melorra targets INR 1,000 crores by FY31 with ~INR 80 crores PAT, supporting long-term value croresation.

Key Questions & Answers discussed during the Conference:

- **How should we think about the reported 6.6% PAT margin for 9M FY26 vs guidance of 3.8–4.2%?** The 9M PAT margin of 6.6% is elevated due to inventory gains from rising gold prices. 3.8–4.2% is the normalized PAT margin target, which assumes no gold price benefit. The INR 150 crores gold gain embedded in FY26 earnings is one-time in nature; stripping this out, the underlying business is tracking at the guided level.
- **What is the revenue and PAT target for FY27?** ~25% revenue growth is targeted, implying a top-line of ~INR 10,500–10,700 crores. Internal targets are set at 25%+ while public guidance is aimed at 18–20%. PAT guidance is INR 400–430 crores at 3.8–4.2% PAT margin. Revenue targets are not based on gold price — they are set on jewellery value, so volume must grow to compensate for any gold price decline.
- **How does the company charge from karigars and vendors?** Charges vary depending on the jewellery type, with intricate categories like antique, kundan, and jadau commanding higher rates due to greater craftsmanship and complexity. Typically, karigars are paid around ~4.3% as making charges, while vendors are paid ~5.6%.

- **How does gold price movement affect the business model?** Margins are charged on the value of jewellery (e.g. 20% making on INR 1,80,000 is better than 20% on INR 1,20,000). A higher gold price thus mechanically lifts EBITDA and PAT in absolute terms even at the same percentage margin. Conversely, gold price correction creates headwinds. We target to offset price risk through volume growth.
- **What is the hedging position and how was January's gold price volatility managed?** Approximately 50% of inventory is hedged. Of this, ~38% is through GML and ~12% via MCX. The January 2026 gold price spike led to significant position squaring. We have a 7-day window to adjust the hedge book and can buy additional gold ahead of key seasons like Akshaya Tritiya.
- **How does the franchise model work?** A franchisee invests ~INR 12–13 crore (INR 84 lakh capex, INR 15 lakh entry fee, ~INR 12 crore inventory). Senco supplies inventory and earns ~7% gross margin (net ~3–3.5%), while the franchisee retains ~13% gross margin (~9.2% net after discounts) to cover operating costs. Break-even is achievable within Year 1 at ~INR 12 crore revenue, with franchisee ROE exceeding 40% versus ~8–10% for company-owned stores.
- **Why does the franchisee model deliver higher ROE than company-owned stores?** Franchisee owners operate from smaller, more targeted stores with strong local relationships, selective product mix and faster inventory turns (2.1x vs 0.88x for company-owned stores). They invest their own money, which drives operational intensity. The owner sits in the store personally vs a hired manager.
- **What is the rationale for expanding beyond East India when South/West stores have lower sales productivity?** Yes, there is a productivity gap (East at INR 55 crores vs South/West at INR 23–28 crores per store) and pan-India presence is strategically essential. Consumers across geographies are increasingly brand-aware, particularly younger demographics influenced by social media. Restricting to East would limit brand building. The goal is to build credibility in non-core markets even at lower initial productivity.
- **How does old gold exchange work and why are margins slightly lower?** Old gold contributes ~43% of Senco's sales. Margins are approximately 0.5% lower vs new jewellery because: (1) the gold component's margin is foregone when old gold is exchanged, and (2) old gold customers typically skew toward lower-priced, non-diamond products. This has been validated through internal data including a board-level review. Titan is at a similar 45–46% old gold mix.
- **What is the Dubai international business doing?** We have two owned stores in Dubai. The revenue is below INR 50 crores as Dubai operations are primarily B2B. We are building the brand brick-by-brick; profitability in non-core zones takes time. The focus is building credibility outside East India, both domestically and internationally.
- **Do FOCO margins work the same as FOFO margins?** No, FOCO margins are lower than FOFO. In the FOCO model, Senco earns ~8.5–9% margins and also reimburses certain operating costs such as manpower. The franchisee, however, typically bears fixed costs like rent. In contrast, under FOFO, Senco's margins are higher as most operating expenses are borne by the franchisee.

- **What is the Melorra acquisition thesis and what are the targets?** We acquired ~68% of Melorra, a D2C fine jewellery brand focused on South and West India, after it faced a cash crunch. We took over store operations and supplied inventory. The target is to scale Melorra to INR 1,000 crores revenue by FY31 (vs ~INR 100 crores now). At INR 1,000 crores, expected PAT is ~INR 80 crores. our total group revenue target by 2031 is INR 20,000 crores, of which INR 1,000 crores is expected from Melorra.

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