Ref: SEC/SE/98/2024-25 **Date:17th February, 2025**

The Manager- Listing	The Manager – Listing
The National Stock Exchange of India Limited "Exchange Plaza", Bandra – Kurla Complex, Bandra (EAST), Mumbai – 400051	**BSE Limited** Corporate Relationship Department Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001
NSE SYMBOL: SENCO	**BSE SCRIP CODE: 543936**

Dear Sir/Madam,

Sub: FAQs for Investors for the quarter and nine months ended 31st December 2024

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please note that we had earlier issued Q3 FY25 quarterly presentation and addendum slide no. 50 to same on 16th February, 2025. In view of various queries received from our esteemed investors on Hedging, Hedge Accounting, IND AS Accounting impact and disclosure of same in financials, we are now providing the FAQs on same which comprehensively addresses all the queries.

This update shall also be available on the website of the Company at: www.sencogoldanddiamonds.com

This is for your information and records.

Yours sincerely,

For SENCO GOLD LIMITED

Mukund Chandak
Company Secretary & Compliance Officer
Membership No. A20051

Encl: as above

SENCO GOLD LIMITED

FAQ On

Gold Hedging

(Policy, Practices, Accounting and Disclosure)

Version 1	**Dated 17 Feb, 2025**	**Document Type: FAQ**

FREQUENTLY ASKED QUESTIONS (FAQ)

BACKGROUND

As a part of Investors Education/ Outreach initiative, we are pleased to share below FAQ which we have replied to our esteemed investors during the last few earning calls and specially Q3, FY 25 earning call.

Question nos 5,6,7 of Section 3 are most important and marked in Italics.

1.HEDGING POLICY & PRACTICES

1. **Question: What is your Hedging Policy?**
   Answer: Our Hedging Policy is a documented policy duly approved by Risk Committee of Board (RCB) & Board; and has evolved over year. Our Hedge Policy mandates minimum 50 % hedging, however considering the inherent risk and price volatility, we have been hedging our Gold Inventory exposure in 50% to 80% range monthly average .

2. **Whats is the basis/ underlying for your Hedging?**

   Answer: We hedge our <u>Gold Inventory exposure</u> to price volatility risk and we hedge it in 80% range . Say as of Sep 24, our total inventory as per Balance Sheet is Rs 2894.39 Cr which includes Gold , Diamond , platinum, silver etc . So we hedge our Inventory exposure of Gold Jewellery , say Rs 2300 Cr . As aforesaid, we must hedge minimum Rs 1150 Cr (being 50% range of Gold Inventory of Rs 2300 Cr as per Board Policy) ; however considering price volatility and direction of movement (which is presently northwards), we have been hedging in 65% to 80% range say Rs 1840 Cr . The hedging % is dynamic as per price volatility and will be in 50% to 80% monthly average range (AHR). If price is northwards, AHR can be below 80% also.

3. **How do you do Hedging?**

   Answer 1: On a daily level hedging , We do daily buying and selling of almost equal quantity as part of our hedging strategy .Over a month and week, Buy quantity is always more then sell . This means if we sell gold jewellery at lower price on a day, we buy (including GML fixing/ MCX contract square off) equal quantity at same (almost similar) price same day to avoid any business loss. For example , if Spot price on day is Rs 83,000 ; and on day 2 it falls to Rs 70,000/ gram , then we have to sell 100 Kg of gold jewellery at lower price (as against last day price of Rs 83000) ; in this case to mitigate realisation loss we buy / fix the GML/ square off MCX at same rate of Rs 70,000 to avoid the losses. This Sell Buy matching of quantity and value ensures that there is no realisation loss. *(In this context , it is important to note that while the cost prices are determined by market, sale price is not linked to cost and there are wide variations in prices including some entities offering discount on gold rate which creates mismatch in buying and selling prices)*

   Answer 2: We mainly do hedging by Unfixing of Gold Metal Loan (GML) whereby we drawdown gold from bullion banks and have option to fix price upto 180 days. Thus, if gold price falls then we have to pay the lower price to banks for GML, which is risk mitigation. *For example, we draw 50 Kgs of GML from Bullion bank on day 1 (say 1 Jan, 2025) at a price of Rs 73,000 then we can fix the price any time upto 30th June, 25. We can sell this gold on 20 March, 2025 ay Rs 87,000 and fix the price on same date or keep the price still open till 25th June, 25. If price on 25th June 25 is say Rs 92,000 then we will have to pay Rs 92,000 or if prices on 25th June, 25 is Rs 81,000 then we will pay to GML Bank Rs 82,000. In this example, we have sold the gold at Rs 87,000 but paid to Bank*

Rs 82,000 making a straight gain of Rs 5000. However in reality, as stated in answer 1 above , we do daily matching of quantity sold and value and such gains will be rare.

Since the GML price is not fixed and presently gold prices are rising, hence we end up paying higher price for Gold Loan as and when we fix the price, while we realise also the higher rate . On an average 50%-60% of our Hedge position, which is say Rs 925 Cr (50% of Rs 1850 Cr) will be covered by unfixed GML and balance 50%- 40% is covered by MCX derivative contracts. *(Accounting impact mentioned in Hedge accounting & reporting section)*

Interest is payable to Bullion Bank for such GML for the period of loan which presently is on average 3.1% per annum (please refer slide no 39 of Q3, FY 25 presentation)

Balance 50%-40% of Hedge position is done by MCX derivative contracts which is Future Sell or Option (Put Buy- Put position). In either of these positions, in case of price fall, we have gains on such contracts which effectively covers the loss on gold sold at lower cost. Conversely , in case of price rise (which has been the scenario in last 2 years), we have realisation gains on gold jewellery sold, but incur loss of such MCX positions. In continuance of above example , if out of Rs 1850 Cr, 50% hedging is done by GML Unfixing, then balance 50% i.e. Rs 925 Cr will be done by taking MCX contracts – say Future Sell Rs 500 Cr and Rs 425 cr buy put or future sell Rs 925 Cr . The choice of derivative contract is dependent on availability of counterparty on MCX, premium cost, margin payable etc (Accounting impact mentioned in Hedge accounting & reporting section)

Finally to reiterate, in case of price fall, the loss on realisations are countered by gains on unfixed GMLs or MCX contracts; while in case of price rise, the gains on realisations are countered by losses on GML fixing and MCX contracts.

4. **Question: in the present scenario of price rise, why are you doing hedging and incurring losses?**

   Answer: No one can predict the gold price movements, and if price suddenly starts falling, then it will be a huge loss in case of unhedged position. Hence despite consistent price rise in last 8 to 10 quarters , and similar expectations in future of crossing USD 3000 / Oz level in near future, we will continue to do hedging, as per our hedge policy and investors' expectations for risk mitigation.

5. **Question: Do you change your Hedging Policy?**
   Answer: Hedging Policy and practices are dynamic based on risk. However, we will make any change only post approval from RCB and communication in advance to Board, presently we will continue to hedge in the range of 50% to 80%. We have been communicating our hedging levels and now publishing our Average Hedge Ratio (AHR) since last 2 quarters as a pioneering step.

6. **Question: How your Hedging Policy is different that of other listed Jewellery Retailers?**
   Answer: To our understanding, every Company has their own specific hedging Policy which they disclose from time to time , and as an Industry we all believe that Hedging is an integral risk management tool to mitigate price volatility.

7. **Question: How much you Hedge?**
   Answer: We have hedged from 50% range upto 95% range also. Our AHR has been in 80% range for last 8-10 quarters and being regularly communicated during earning calls also.

8. **Question: At which platform you do MCX hedging?**
   Answer: MCX permits hedging through its nominated brokers. We maintain accounts with registered brokers to do MCX hedging.

9. **Question: If you hedge in 50% to 80% range, how do you account for gains on rest of Inventory due to price increase.**
   Answer: As per Accounting norms, no gains are recognised on unrealised gains on inventories. Only when such inventories are sold, gains / losses are recognised.

10. **Question**: **Many peers are confirming that they are doing 100% hedging, Why don't you do 100% Hedging?**
    Answer: Hedging % depends on risk management policy of a company . Our present Hedge Policy does not mandate 100% hedging, it requires min 50% hedging and thereafter whether we do 80% or 100% is guided by price volatility and many other factors. During the current year , our Average Hedge Ratio has been in 80% range , while during some period it went upto 90% also .Practically 100% is not feasible based on liquidity situation and volatile price movement, but as stated earlier many times we have achieved 95% hedging and we will always calibrate to best optimal levels to mitigate any risk.

    Please note that 100% of Inventory is hedged, then it effectively means that one is covering risk for almost 2 quarters (Usually inventory levels in Industry are for 180 days) . Since our inventory is for 145-150 days, 80% hedging means (80% of 150 days= 120 days) . Thus we are of the view that hedging risk for a quarter plus another 30 days is good risk mitigation, since risk of realisation is only for quarterly sale and not on unsold inventory.

11. **Question: How can Investors estimate margins for ensuing quarter(s) based on price volatility.**

Answer: Actual margin for a quarter depends on price volatility, sales volume and purchases made, unwinding / squaring off of MTM positions, fixing of GMLs, stud ratio, product mix, channel mix, geographical mix , Offers and discounts and competitive intensity . However , we have seen that marking charge revenue and diamond margins are range bound which constitute over 90% of gross margin (say 90% of 14%-15% in our case) i.e. 13% -13.5% gross margin can be easily predicted ; and balance can be estimated once realisation gains are actually computed net of realised gains on hedging positions. Of Late, we have seen lesser growth of diamond jewellery (lesser stud ratio) which has partly impacted our stable business margins. We have control over our opex due to operating leverage and hence resultant EBITDA can be easily estimated in similar range. With the improvement in stud ratio in Q4, FY 25 so far, we are hopeful of improving our business margins.

2.GROSS MARGIN & EBITDA Margin

1. **How do you report/ compute your Gross Margins ?**
   Answer: Gross Margins are computed by standard accounting process that is Opening Stock + Purchases minus Sales minus closing stocks which can be computed from the published financials. For simplicity, we are reporting the same in our quarterly presentation as well . There are 3 main components of gross margin- Making Charge revenue, Margin on Diamond and Gains or losses on gold realisation as adjusted by losses or gains on hedge positions. (please refer to slide no 45 of Q3 , FY 25 results)

2. **Question: How do you report/ compute your EBITDA Margins ?**

Answer: If you reduce from gross margin , all reported Opex like Manpower, Lease Rentals, Marketing, Other Opex, then you get EBITDA Margins . These are IND AS Margin which are usually 1% higher than actual business margin due to lease accounting impact.

3. **Question: How does your margins compare with the Industry ?**
   Answer: Every Industry members has unique business model (Franchisee revenue, Stud Ratio , geographical exposure being main contributor) and margins are not comparable . The margins of peers with high franchisee revenue are likely to be lower, while those having no/lower franchisee business should be have higher margins. Similarly, those with high stud ratio will have higher margins. Thus due to varying business model, best indicator to judge financial efficiency of Jewellery retailers , all other financial parameters as well as sustainability factors should also be considered like ROE and ROCE, inventory turnover, pricing , stud ratio etc.

The term margin used in market is primarily for EBITDA margin, while we have added the context to it with Gross Margin.

3.HEDGE ACCOUNTING & REPORTING

1. **Question: Which accounting policy you follow-** Fair value Hedge (FVH) or Cash Flow Hedge (CFH)?
   Answer: Accounting of Hedging is governed by IND AS 109 which is mostly in line with global accounting standards called IFRS. This is a mandatory standard. In this standard, hedge positions and results are tested for each and every transaction done and as per AS 109 , the results are classified as either Fair Value Hedge or Cash flow hedge. Most of our hedge positions on gold have been classified as Fair Value Hedge – The effective portion are reported as part of COGS and impact at Gross Margin level, while the ineffective portion is reported as part of Other Income or other expense as case may be. But net net all realised gains/ losses are recorded in P&L; while unrealised / MTM positions are recorded in balance sheet with nil impact. Please refer to table below in Question no Q4.

2. **Question: Does industry follow similar accounting policy?**
   Answer: We cannot comment on same , but every entity is required to comply with IND AS 109 and duly audited by their statutory auditors. However, we have been given to understand that application of IND AS 109 is subject to “formal hedging policy document”. Thus, depending on policy document of respective peers on hedge objective, what they hedge, how they hedge etc, accounting disclosure may vary.

3. **Question: Do you revalue inventory every quarter?**
   Answer: Yes, Inventory is valued at cost or Net Realisable Value -NRV (effectively market price less cost of realisation) whichever is lower every quarter . This itself means that we report inventory lying with us at Cost in a rising price scenario. Market fluctuations or Notional gains or losses due to price movement in inventory are not captured in P&L as below. Inventory valuation is done at weighted average cost basis and hedging impact (realised ones) is added / loaded to inventory for COGS computation.

4. **Question: Do you do Mark to Market (MTM) accounting of Unfixed GML and Open MCX contracts?**
   Answer: Yes, we continuously do MTM accounting of Unfixed GML and Open MCX Positions at quarter end. But the impact of same does not impact profitability / P&L for the quarter. MTM accounting is done relating to Open Hedge positions and net impact at Balance Sheet level is Nil.

The effective impact of accounting entries for gains or losses on MTM positions are disclosed as Balance sheet item with Nil Impact as follows.

Unrealised/ MTM impact	Unfixed GML	MCX Positions
Gains	Borrowing Dr Rs 100 Mn Inventory Cr Rs 100 Mn (Due to MTM gains , borrowing is reduced and inventory is also reduced with equal value – (Nil impact at P&L and also at Balance Sheet.)	MCX Broker A/c Dr Rs 100 Mn Inventory Cr Rs 100 Mn (Due to MTM gains , Broker Account balance is increased- leading to reduction/ release of margin ; and inventory is reduced with equal value (Nil impact at P&L and also at Balance Sheet)
Losses	Inventory Dr Rs 100 Mn Borrowing Cr Rs 100 Mn (Due to MTM losses , borrowing is increased and inventory is also increased with equal value) (Nil impact at P&L and also at Balance Sheet)	Inventory Dr Rs 100 Mn Borrowing Cr Rs 100 Mn (Due to MTM losses, Inventory is increased and Broker Account balance is increased (Nil impact at P&L and also at Balance Sheet).

(The above are not accounting entry, these are impact of accounting entry for ease of understanding)

5. **Question: The *objective of Hedging is to minimise fluctuation in reporting, why your Gross Margins and EBITDA are fluctuating?***
Answer : *The objective is Hedging is to mitigate the risk of losses caused due to price volatility. If hedging is done efficiently , then losses can be minimised. But as far as impact of hedging results on profitability is concerned, due to complex nature of IND AS Accounting, the impact of realised hedging gains and losses as adjusted to COGS does not give symmetrical impact within same quarter. It spreads over next quarter(s) as well.*

Every Indian entity (including listed one) is required to comply with IND AS 109 as duly audited by their statutory auditors. The actual application of IND AS 109 is subject to "formal hedging policy document" of each and every company . Thus depending on policy document of the entity like Hedge Objective, what to hedge, how much to hedge, FVH/ CFH approach etc, accounting treatment / disclosure / impact on profitability may vary from entity to entity.

The impact of realised gains and losses in respect of GML and MCX contracts are added/ loaded to Inventory on Weighted Average Cost basis, which creates a disproportionate impact and thus sometime creates asymmetrical within a quarter. The impact of hedge accounting on profitability is not symmetrical; instead, it spreads over 2 to 3 quarters, smoothing fluctuations. For instance, if a company records realization gains of Rs 53 crore and hedging losses of Rs 50 crore in a given quarter, the net impact on margins will not be a direct ₹3 crore in the same quarter, it may spread over to next quarter(s) as well.

It is thus important to ascertain business gross margins instead of just accounting gross margins also.

6. **Question: *Why your GM% and EBITDA is varying so much in reported financials? Why your Q3, FY 25 margins are not in line with3rd quarter of earlier years?***
   Answer : *We have maintained that our pricing (making charge being % of value and , diamond pricing) does not change every quarter subject to seasonal offers and discounts or share of stud ratio due to seasonal demand/ sales. Hence 11% EBITDA margin as noted in Q3, FY 22 and Q3, FY 24 can not be a benchmark for all Q3. The higher margin as noticed in earlier Q3s was result of gross margin levers which may have played in Q3 earlier including IND AS accounting impact as stated above.*

   Our Q3 EBITDA margins of FY 24 and FY 23 were incidentally in 11% range and that may have been caused due to multiple factors like stud ratio, franchisee revenue %age, price volatility, carry over of hedge accounting impact of previous quarter to Q3. Opex incurred, etc. However, if you look at YTD 9 Months margins of those years, they were in 7% range.

   Our Q2 and Q3 FY 25 EBITDA margins were adversely impacted due to one time custom duty reduction impact; and resultant loss on realisation amounting to Rs 57.4 Cr (please refer to addendum slide no 50 issued on 16 Feb, 25) . The 9 months "adjusted EBITDA margins" for FY 25 is 6.2% , which 90 basis points lower versus earlier years (please refer slide no 44, Q3 FY 25 results). The lower 90 basis points in Q3, FY 25 is due to few factors like lower stud ratio versus last year, higher export sales, product mix and IND AS impact as well etc. It is important to note that YoY diamond jewellery sales has improved by 9%, however due to increase in total base by 22%, the stud ratio is lower.

   It is thus recommended to look at YTD nos instead of QoQ or YoY while comparing profitability. Sales can always be compared YoY or QoQ but not profitability.

7 **Question: What action, you propose to take to reduce reporting variance and ensure consistent margins?**
   Answer : We are squaring off equivalent MCX contracts within same quarter to take full impact of MTM gains / losses to match with realisation losses/ gains to minimise such reporting variance. We take fresh position

   We have also started reporting Normalised Business Margins (EBITDA) which are fairly stable at 13.5% to 14% after removing the impact of Hedge accounting. (Please refer to addendum slide issued today on 17 Feb, 25 marked as sl no 50.)

   We once again request that Gross Margin and EBITDA should be seen on YTD basis over 2 to 3 quarters considering inventory cycle of 145 -180 days (specially during festival seasons in Q1 and Q3).

4.GUIDANCE FOR Q4 AND FY 26

1. **Question: What is your guidance on Gross Margins and EBITDA Margins ?**

Answer : We have consistently maintained that given the present competitive intensity, product mix, Regional Presence, stud ratio and Franchisee revenue Mix (FRM); for Q4 we are looking at minimum 14% to 15% adjusted gross margins ; and 7% to 8% adjusted EBITDA margin on standalone basis.

However, since our 9 months FY 25 reported EBITDA margins is at 5% , and adjusted EBITDA is at 6.2% (please refer slide 52, Q3 FY 25 presentation) ; hence despite 7%-8% EBITDA margin expected in Q4, our full year guidance for FY 25 adjusted EBITDA Margins is 6.5% to 6.8% range.

Having said that for future years, we continue to look at minimum 14% to 15% adjusted gross margins ; and 7% to 8% Adjusted EBITDA Margin (in case of any unforeseen event like custom duty) . These margins are always subject to competitive intensity, stud ratio, discounts being offered by peers are gold metal itself. We believe that due to our strategic locational advantage, low Opex Model which will yield operating leverage and will continuously improve our EBITDA margins from the above levels on mid-term and long term basis.

We hope that above FAQ have clarified Investors' queries. In case of any more queries, please feel free to connect with us at ir@sencogold.co.in .

sd/-

Sanjay Banka
Chief Financial Officer

Note: This document is for awareness purposes only. For authentic text on IND AS , please refer to Accounting Standards and consult accounting experts for further understanding.

The numbers stated in this document are management estimate and unaudited