

July 30, 2014

Facilities	Amount (Rs. Crore)	Rating
Export Packing Credit	3.00	SMERA A3 (Assigned)
Foreign Bill Purchase	6.00	SMERA A3 (Assigned)
Proposed pre-shipment and post-shipment credit	6.00	SMERA A3 (Assigned)

SMERA has assigned a rating of '**SMERA A3**' (read as **SMERA A three**) to the abovementioned bank facilities of The Design House (TDH). For arriving at the rating, SMERA has consolidated the business and financial risk profiles of TDH and SNC Jewels Private Limited (SNC Jewels). The consolidation is in view of the common management, similar business line and same clientele of the aforementioned entities, which are collectively referred to as the 'SNC Group'. The rating is supported by the group's experienced management, healthy financial risk profile marked by healthy operating profit margin and comfortable liquidity position. The rating also factors in group's in-house design facility and the benefits derived from being in export promotion zone. However, the rating is constrained by the group's exposure to geographic and client concentration risks. The rating factors in risks related to the group's working capital-intensive operations, susceptibility of the profit margins to volatility in raw material prices and fluctuations in foreign exchange rates.

The SNC Group is engaged in manufacturing of diamond-studded gold jewellery. The promoters of the group have around two decades of experience in the gems and jewellery industry. SNC Group's healthy financial risk profile is evidenced by low gearing (debt-to-owner's funds ratio) of 0.99 times as on March 31, 2014. The group's comfortable coverage indicators are reflected in interest coverage ratio (ICR) of 2.83 times and debt service coverage ratio (DSCR) of 2.38 times in FY2013-14 (refers to financial year, April 01 to March 31). SNC Group reported healthy operating profit margin (EBITDA margin) of 11.99 per cent (provisional) in FY2013-14, as compared with operating profit margin of 6.97 per cent in the previous year. This was mainly on account of removal of low margin clients and cost realization techniques employed by the management. The group's healthy liquidity position is evidenced by net cash accrual to total debt (NCA/TD) ratio of 0.19 times as on March 31, 2014.

The rating is constraint due to geographical and client concentration risk as both the entities in the SNC Group has same clientele. SNC group has high dependence on customers based in the United States of America (USA) which accounts for ~71 per cent in total sales. Moreover, the group is also exposed to customer concentration risk arising with top five customers contribute around ~67 per cent of the total export sales in FY2013-14. The aforementioned risk is partially offset by the group's long-standing relations with customers.

SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.

SNC Group's operations are working capital-intensive, as reflected in its gross current assets (GCA) of ~203 days and working capital cycle of 157 days in FY2013-14. Despite of high working capital intensity, SNC group's average bank limit utilization has been moderate at around 70 to 80 per cent for the period March 2014 to June 2014.

SNC Group's profit margins are susceptible to volatility in prices of diamonds and gold. The group's profitability is also exposed to forex fluctuation risk on account of substantial time gap between purchases and sales. However, the risk is mitigated as SNC group has dollar denominated purchases of diamonds (~45 per cent of total purchases) as against 100 per cent exports.

Rating sensitivity factors

- Sustained growth in revenues and profitability
- Substantial improvement in coverage indicators
- Efficient working capital management
- Higher—than-expected debt funded capex or working capital requirements

About the group

The SNC Group (based in SEEPZ, Mumbai) comprises two entities (TDH and SNC Jewels Private Limited) engaged in manufacturing of diamond-studded gold jewellery. SNC Jewels, established in 2002 is owned by members of the Choksi family and Sagar family. TDH, established in 2012 is owned by Mr. Aditya Choksi, Mr. Bhavin Choksi and Ms. Arohi Choksi.

Contact List:

Media / Business Development	Analytical Contacts	Rating Desk
Mr. Sanjay Kher Head – Sales, Corporate Ratings Tel: +91 22 6714 1193 Cell: +91 9819136541 Email : sanjay.kher@smera.in Web: www.smera.in	Mr. Umesh Nihalani Head – Corporate Ratings Tel: +91-22-6714 1106 Email: umesh.nihalani@smera.in	Tel: +91-22-6714 1170 Email: ratingdesk@smera.in

SMERA rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. SMERA ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, SMERA, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. SMERA is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. SMERA ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.smera.in) for the latest information on any instrument rated by SMERA.