



SMERA RATINGS LIMITED

The Design House (TDH)

Rating
Rationale**February 22, 2016**

Facilities	Amount (Rs. Crore)	Rating
Export Packing Credit	5.00*	SMERA BBB/Stable (Upgraded from SMERA BBB-/Stable)
Foreign Bill Purchase	10.00*	SMERA BBB/Stable (Upgraded from SMERA BBB-/Stable)
Pre-shipment and Post-shipment Credit (Proposed)	10.00	SMERA BBB/Stable (Upgraded from SMERA BBB-/Stable)

Long term rating has been assigned at the request of the client

**Interchangeability from pre-shipment to post-shipment to the extent of 100 per cent of pre-shipment (Rs.5.00 crore) and post-shipment to pre-shipment at 30 per cent of post-shipment (Rs.3.00 crore).*

SMERA has upgraded the rating of the Rs.25.00 crore bank facilities of The Design House (TDH) to '**SMERA BBB' (read as SMERA triple B)** from 'SMERA BBB-' (read as SMERA triple B minus). The outlook is '**Stable**'. The rating upgrade is in view of the improved profitability, coverage indicators and liquidity position. The rating continues to draw comfort from the firm's experienced management, healthy financial risk profile and benefits derived from being in the export promotion zone. However, the rating is constrained by the firm's exposure to geographical and client concentration risks. Additionally, the rating also factors in risks related to the working capital-intensive operations, susceptibility of the profit margins to volatility in raw material prices and fluctuations in forex rates.

Update

For 9MFY2015-16 (April 2015 to December 2015), TDH's revenues have improved as compared to SMERA as well as company projections. The firm reported operating margin of 19.36 per cent in 9MFY2015-16 as against 14.18 per cent in FY2014-15. The net cash accruals to total debt (NCA to TD) stands healthy at 0.71 times as on December 31, 2015.

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

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Outlook:

SMERA believes that TDH outlook will remain stable owing to promoters experience in the gems & jewellery industry. The outlook may be revised to 'Positive' if the company's scale of operations increases substantially, while improving its operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' in case of weakening of operating margins or if financial risk profile deteriorates owing to higher-than-expected increase in debt-funded working capital requirements.

About the Firm

TDH, established in 2012, is a Mumbai-based firm promoted by Mr. Aditya Choksi, Mr. Bhavin Choksi and Ms. Arohi Choksi. The firm is engaged in the manufacture and export of diamond-studded gold jewellery.

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