

Press Release

The Design House

September 2, 2017

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	SMERA BBB / Outlook: Stable

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

** Refer Annexure for details*

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BBB**' (read as **SMERA BBB**) on the Rs. 25.00 crore bank facilities of The Design House. The outlook is '**Stable**'.

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

Key Rating Drivers

Strengths

- **Experienced management**

TDH was established in 2012 by Mr. Aditya Choksi, Mr. Bhavin Choksi and Ms. Arohi Choksi who possess around two decades of experience in the gems and jewellery industry.

- **Established relations with clientele**

TDH, a 100 per cent Export oriented unit caters to several reputed firms in USA, UK and Germany. The customer base of the firm increased from 38 in FY2015 to 54 in FY2017.

- **Healthy financial performance**

The firm registered increase in revenue from Rs. 52.42 crore in FY2015 to Rs.101.27 crore in FY2016 and Rs. 115.60 crore in FY2017 (Provisional). The operating margins improved from 14.18 per cent in FY2015 to 17.97 per cent in FY2016 and further to 15.40 in FY2017 (Provisional). The PAT margins improved from 10.07 per cent in FY2015 to 16.06 in FY2016 and fell to 13.63 per cent in FY2017 (Provisional). The margins declined in FY2017 due to increase in raw material cost.

- **Benefits derived from operating in SEEPZ's special economic zone**

TDH derives tax benefits from operating in SEEPZ's special economic zone. The firm is eligible for income tax benefits as well as other benefits such as duty free imports/ domestic procurement, Excise, CST exemption and VAT refund.

- **Healthy financial risk profile**

The financial risk profile of TDH is remained healthy with gearing of 0.32 times as on 31 March, 2017(Provisional) as against 1.10 times as on 31 March, 2016. The net worth stood at Rs.37.78 crore as on 31 March, 2017 (Provisional) compared to Rs. 23.61 crore as on 31 March, 2016. The Interest coverage ratio improved to 9.55 times in FY2016 and 9.54 times in FY2017 (Provisional).

Weaknesses

- **Working capital intensive operations**

The GCA days improved from 226 days in FY2014-15 to 195 days in FY2015-16 to 135 days in FY2016-17. The firm changed its credit policy from 180 days to 120 days for select clients. Despite the high working capital intensity, the average bank limit (pre & post shipment credit) utilisation has been moderate at around 64 per cent in the last six months.

- **Geographic and customer concentration risk**

TDH is exposed to geographic concentration risk with 82 percent revenue being generated from USA and the rest from European countries. TDH's top five clients contribute ~73 per cent to total sales and hence it is susceptible to customer concentration risk as well.

- **Susceptibility to volatility in raw material prices and foreign exchange rates**

The firm's sales largely comprises diamond jewellery with white gold (up to 18K) comprising the remaining. The gems and jewellery industry is heavily dependent on imports and this exposes the firm to volatility in the prices of raw material. Further, 100 per cent of TDH's revenues are from export sales. This exposes the firm's profit margins to fluctuations in forex rates.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm.

Outlook: Stable

SMERA believes that TDH will maintain a stable outlook owing to the extensive experience of its promoters in the gems and jewellery industry. The outlook may be revised to 'Positive' if the firm is able to sustain growth in revenues and profitability. Conversely, the outlook may be revised to 'Negative' in case of weakening of the financial risk profile or infusion of higher than expected debt funded capex.

About the Rated Entity - Key Financials

For FY2016, the firm reported profit after tax (PAT) of Rs. 16.27 crore on operating income of Rs.101.27 crore as compared to Rs. 5.28 crore on operating income of Rs.52.42 crore in the previous year. The net worth stood at Rs. 23.61 crore as on 31 March, 2016 as against Rs. 9.01 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Manufacturing Entities - <https://www.smera.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument
<https://www.smera.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-Feb-2016	Export Packing Credit	Long Term	INR 5#	SMERA BBB / Stable
	Bills Discounting	Long Term	INR 10#	SMERA BBB / Stable
	Proposed Packing Credit	Long Term	INR 10	SMERA BBB / Stable
24-Jun-2015	Export Packing Credit	Short Term	INR 5	SMERA A3
	Bills Discounting	Short Term	INR 10	SMERA A3
	Proposed Packing Credit	Short Term	INR 10	SMERA A3
30-Jul-2014	Export Packing Credit	Short Term	INR 3	SMERA A3
	Bills Discounting	Short Term	INR 6	SMERA A3
	Proposed Packing Credit	Short Term	INR 6	SMERA A3

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

Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs.Cr.)	Ratings/Outlook
Export Packing Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BBB / Stable
Bills Discounting	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BBB / Stable
Proposed Packing Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BBB / Stable

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ABOUT SMERA

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