Press Release

The Design House

24 August, 2018

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 25.00 Cr
Long Term Rating	ACUITE BBB/Negative (Rating Reaffirmed and Outlook revised to Negative)

**Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of **ACUITE BBB (read as ACUITE triple B)** to the Rs.25.00 crore bank facilities of the Design House (TDH). The outlook is revised from **'Stable'** to **'Negative'.**

Acuité has revised the outlook to 'Negative' from 'Stable' on account of slower than expected growth in revenues and net cash accruals vis-à-vis the initial expectation. This is likely to continue over the near to medium term. Any further slowdown in net cash accruals due to further decline in the scale of operations or pricing pressures along with any further elongation in working capital cycle could result in downward revision in the rating. Conversely, any significant and sustainable improvement in the scale of operations and profitability while maintaining its working capital and liquidity profile would entail a revision of outlook to Stable.

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.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of TDH to arrive at this rating.

Key Rating Drivers:

Strengths

Experienced promoters in Gems and jewellery industry:

The firm is promoted and managed by Mr. Aditya Choksi, Mr. Bhavin Choksi and Ms. Arohi Choksi who have around two decades of experience in the gems and jewellery industry. TDH, a 100 percent export-oriented unit catering to several reputed entities in USA, UK and Germany.

Comfortable financial performance:

TDH's financial risk profile stood comfortable marked by net worth of Rs.39.89 crore as on 31 March, 2018 (Provisional) as compared to Rs.37.87 crore as on 31 March, 2017. The gearing (debt-equity) stood comfortable at 0.26 times as on 31 March, 2018 (Provisional) as compared to 0.31 times as on 31 March, 2017. The total outstanding liabilities to total net worth (TOL/TNW) stood at 0.50 times as on 31 March, 2018 (Provisional) as against 0.62 times as on 31 March 2017. The total debt of Rs.10.33 crore as on 31 March, 2018 (Provisional)

consists of working capital facility of Rs.9.54 crore, loans from NBFC's and vehicle loans from banks of Rs.0.27 crore and unsecured loans from Directors of Rs.0.52 crore. Interest Coverage Ratio (ICR) stood at 17.06 times in FY2018 (Provisional) as against 9.79 times in FY2017.
Acuité believes that TDH's financial risk profile will continue to remain stable on the backed of healthy net worth and comfortable debt protection metrics.

Weakness

Decline in the scale of operations and moderate profitability:
TDH has reported revenues of Rs.84.06 crore in FY2018 (Provisional) as against Rs.115.60 crore in FY2017. The revenues have declined as the firm has discontinued its business from low margin customers. The profitability has improved to 16.01 percent in FY2018 (Provisional) as against 15.48 percent in FY2017.

Acuité believes that TDH's ability to scale up its operations and stabilize its business risk profile remains a key rating sensitivity.

Working capital intensive operations:
TDH's operations are working capital intensive marked by Gross Current Assets of 155 days in FY2018 (Provisional) as against 136 days in FY2017. This is mainly due to high debtors of 87 days in FY2018 (Provisional) as against 77 days in FY2017. The inventory stood at 62 days in FY2018 as against 43 days in FY2017.

Susceptibility to volatility in raw material prices and foreign exchange rates:
The sales largely comprise diamond jewellery with white gold (up to 18K). 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 percent of TDH's revenues are from export sales. This exposes the firm's profit margins to fluctuations in forex rates.

Outlook: Negative

Acuité believes that the outlook of TDH will remain 'Negative' over the medium term. The rating may be downgraded in case the firm exhibits lower than expected revenues and margins causing further decline in accruals. Conversely, the outlook may be revised to 'Stable' in case of significant and sustainable improvement in revenues and accruals resulting in stable business risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Prov.)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	84.06	115.60	101.27
EBITDA	Rs. Cr.	13.46	17.89	18.20
PAT	Rs. Cr.	10.41	15.89	16.27
EBITDA Margin	(%)	16.01	15.48	17.97
PAT Margin	(%)	12.39	13.74	16.06
ROCE	(%)	26.79	35.78	45.42
Total Debt/Tangible Net Worth	Times	0.26	0.31	1.10
PBDIT/Interest	Times	17.06	9.79	9.55
Total Debt/PBDIT	Times	0.74	0.65	1.38
Gross Current Assets (Days)	Days	155	136	195

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

None

Applicable Criteria

- Manufacturing Entities https://www.acuite.in/view-rating-criteria-4.htm
- Financial Ratios and Adjustments: https://www.acuite.in/view-rating-criteria-20.htm
- Default Recognition: https://www.acuite.in/view-rating-criteria-17.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
2-Sep-17	Packing Credit	Long Term	5.00*	ACUITE BBB/Stable (Reaffirmed)
	Bill Discounting	Long Term	10.00*	ACUITE BBB/Stable (Reaffirmed)
	Proposed Packing Credit	Long Term	10.00	ACUITE BBB/Stable (Reaffirmed)
22-Feb-16	Packing Credit	Long Term	5.00*	ACUITE BBB/Stable (Upgraded)
	Bill Discounting	Long Term	10.00*	ACUITE BBB/Stable (Upgraded)
	Proposed Packing Credit	Long Term	10.00	ACUITE BBB/Stable (Upgraded)
24-June-15	Packing Credit	Short Term	5.00*	ACUITE A3 (Reaffirmed)
	Bill Discounting	Short Term	10.00*	ACUITE A3 (Reaffirmed)
	Proposed Packing Credit	Short Term	10.00	ACUITE A3 (Assigned)
30- July -14	Packing Credit	Short Term	3.00	ACUITE A3 (Assigned)
	Bill Discounting	Short Term	6.00	ACUITE A3 (Assigned)
	Proposed Packing Credit	Short Term	6.00	ACUITE A3 (Assigned)

**Interchangeability from pre-shipment to post-shipment to the extent of 100% of pre-shipment (Rs.5.00 crore) 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. Crore)	Ratings/Outlook
Packing Credit	Not Applicable	Not Applicable	Not Applicable	5.00*	ACUITE BBB/Negative (Rating Reaffirmed, and outlook revised)
Bill Discounting	Not Applicable	Not Applicable	Not Applicable	10.00*	ACUITE BBB/Negative (Rating Reaffirmed, and outlook revised)
Proposed Packing Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/Negative (Rating Reaffirmed, and outlook revised)

**Interchangeability from export packing credit (EPC) to pre shipment credit (PSC) up to 70 percent of EPC (Rs.3.50 crore) and from PSC to EPC upto 30 percent of PSC (Rs.3.00 crore).*

Contacts

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.