

MIRA INFORM REPORT

Report No. :	541902
Report Date :	03.12.2018

IDENTIFICATION DETAILS

Name :	LEO SCHACHTER DIAMONDS LTD.
Registered Office :	21 Tuval Street Diamond Exchange, Yahalom Bldg. Ramat Gan 5252138
Country :	Israel
Date of Incorporation :	13.07.1981
Legal Form :	Private limited company
Line of Business :	Diamond cutters, polishers, traders, importers, marketers and exporters.
No. of Employees :	Not Available

RATING & COMMENTS

(Mira Inform has adopted New Rating mechanism w.e.f. 23rd January 2017)

MIRA's Rating :	A
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Credit Rating	Explanation	Rating Comments
A	Acceptable Risk	Business dealings permissible with moderate risk of default

Status :	Satisfactory
Payment Behaviour :	Slow
Litigation :	Clear

NOTES :

Any query related to this report can be made on e-mail : infodept@mirainform.com while quoting report number, name and date.

ECGC Country Risk Classification List

Country Name	Previous Rating	Current Rating
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	(30.06.2018)	(30.09.2018)
Israel	B1	B1

Risk Category	ECGC Classification
Insignificant	A1
Low Risk	A2
Moderately Low Risk	B1
Moderate Risk	B2
Moderately High Risk	C1
High Risk	C2
Very High Risk	D

ISRAEL - ECONOMIC OVERVIEW

Israel has a technologically advanced free market economy. Cut diamonds, high-technology equipment, and pharmaceuticals are among its leading exports. Its major imports include crude oil, grains, raw materials, and military equipment. Israel usually posts sizable trade deficits, which are offset by tourism and other service exports, as well as significant foreign investment inflows.

Between 2004 and 2013, growth averaged nearly 5% per year, led by exports. The global financial crisis of 2008-09 spurred a brief recession in Israel, but the country entered the crisis with solid fundamentals, following years of prudent fiscal policy and a resilient banking sector. Israel's economy also weathered the 2011 Arab Spring because strong trade ties outside the Middle East insulated the economy from spillover effects.

Slowing domestic and international demand and decreased investment resulting from Israel's uncertain security situation reduced GDP growth to an average of roughly 2.8% per year during the period 2014-17. Natural gas fields discovered off Israel's coast since 2009 have brightened Israel's energy security outlook. The Tamar and Leviathan fields were some of the world's largest offshore natural gas finds in the last decade. Political and regulatory issues have delayed the development of the massive Leviathan field, but production from Tamar provided a 0.8% boost to Israel's GDP in 2013 and a 0.3% boost in 2014. One of the most carbon intense OECD countries, Israel generates about 57% of its power from coal and only 2.6% from renewable sources.

Income inequality and high housing and commodity prices continue to be a concern for many Israelis. Israel's income inequality and poverty rates are among the highest of OECD countries, and there is a broad perception among the public that a small number of "tycoons" have a cartel-like grip over the major parts of the economy. Government officials have called for reforms to boost the housing supply and to increase competition in the banking sector to address these public grievances. Despite calls for reforms, the restricted housing supply continues to impact younger Israelis seeking to purchase homes. Tariffs and non-tariff barriers, coupled with guaranteed prices and customs tariffs for farmers kept food prices high in 2016. Private consumption is expected to drive growth through 2018, with consumers benefitting from low inflation and a strong currency.

In the long term, Israel faces structural issues including low labor participation rates for its fastest growing social segments - the ultraorthodox and Arab-Israeli communities. Also, Israel's progressive, globally competitive, knowledge-based technology sector employs only about 8% of the workforce, with the rest mostly employed in manufacturing and services - sectors which face downward wage pressures from global competition. Expenditures on educational institutions remain low compared to most other OECD countries with similar GDP per capita.

Source : CIA

COMPANY NAME AND ADDRESS

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Diamond Exchange, Yahalom Bldg.

RAMAT GAN 5252138 ISRAEL

HISTORY & LEGAL FORMATION

A private limited company, incorporated as per file No. 51-089213-6 on the 13.07.1981, as an amalgamation of the diamond business activities of Late Leo Schachter founded in the USA in 1952 and those of David Namdar in Italy.

It was originally registered under the name SCHACHTER & NAMDAR POLISHING WORKS LTD., which changed to LEO SCHACHTER LTD. on the 30.08.2005 and finally changed to the present name on the 24.07.2006.

During 2004 subject's shareholders decided to split their activities, and part of the activities were transferred to a newly established subsidiary MOSHE NAMDAR & CO. LTD., which later in 2007 separated from subject's Group altogether.

SHARE CAPITAL

Authorized share capital NIS 1,000.00, divided into –
1,000,000 ordinary shares of NIS 0.001 each,
fully issued.

SHAREHOLDERS

Subject is fully owned by a foreign corporation IFRA GmbH.

According to the Registrar of Companies, in January 2017 IFRA gained the shares in subject from its former shareholders (we assume some are holding shares in IFRA), mainly LEO SCHACHTER & CO. INC. of the USA (49.5%), owned by the heirs of Leo Schachter, Tannenbaum and Greenberg families.

In the first half of 2018 ROSY BLUE Group (via one of its foreign subsidiaries) foreign affiliate) reported that it became a minority shareholder in LEO SCHACHTER DIAMONDS LTD., which comes after over 30 years of close cooperation between the two groups. We could not fully understand the structure of the transaction (perhaps

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ROSY BLUE gained shares of IFRA, as there has been no change in the Registrar in subject's shareholding structure). Subject's Accountant said he is not involved in that deal in his daily work, so he cannot update us on the status.

DIRECTORS

1. Elliot Tannenbaum, President & Co-General Manager,
2. David Greenberg, Co-General Manager,
3. Dov Tannenbaum.

BUSINESS

Diamond cutters, polishers, traders, importers, marketers and exporters.
Almost all sales are for export.

Among local clients: B. BRIZA COLORS, MULTI-NATIONAL DIAMONDS, R.E.S. DIAMONDS, AVNER EIZENSTEIN DIAMONDS.

Among local diamond suppliers: OFER MIZRAHI DIAMONDS

Operating from owned premises, in Yahalom Building, Diamond Exchange, 29th Floor, in 21 Tuval Street (also referred to as 54 Bezalel Street), Ramat Gan.

Also operating from factories in Botswana, Mumbai-India, Bangkok-Thailand, as well as offices in New York, Mumbai, Shanghai, Hong Kong and Dubai (UAE).

Exact number of employees unavailable. Known to have over 1,500 employees serving LEO SHACHTER Group worldwide (most in the Group's factories), of which several tens employees estimated to be in Israel.

MEANS

Financial data not forthcoming, but known to be financially solid.

LEO SCHACHTER Group, via LEO SCHACHTER INTERNATIONAL LTD. (also in its previous forms) is a Diamond Trading Company (DCT) Sightholder from DE BEERS since 1966. According to reports from February 2004, they were the largest receiver from a DE BEERS Sight in volume of US\$ 150-200 million per year.

It is also included in ALROSA's Long-term Customers of the Contract Period 2018-2020. ALROSA is the world's largest diamond producer by volume.

There are 2 charges for unlimited amounts registered on the company's assets, in favor of Israel Discount Bank Ltd. (charges placed in 1986 and 2000).

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REVENUES

According to the data published by the Israel Supervisor on Diamonds in the Ministry of Economy & Industry, export of polished diamonds by subject (actual overall sales presumed to be higher, as there are local sales of polished diamonds and may have sales of rough diamonds as well), were as follows:

2011 sales for export (net) were US\$ 403,000,000.
2012 sales for export (net) were US\$ 317,000,000.
2013 sales for export (net) were US\$ 327,692,000.
2014 sales for export (net) were US\$ 287,702,000.
2015 sales for export (net) were US\$ 150,000,000.
2016 sales for export (net) were US\$ 99,000,000.
2017 sales for export (net) were US\$ 63,000,000.

OTHER COMPANIES

LEO SCHACHTER DIAMONDS LLC, USA.
LEO SCHACHTER INTERNATIONAL LTD, Hong Kong.
LEO SCHACHTER DIAMONDS EAST LTD., Hong Kong.
LEO SCHACHTER DIAMONDS (INDIA) PVT. LTD., India.
LEO SCHACHTER DIAMONDS (SHANGHAI) LTD., China.
LEO SCHACHTER BOTSWANA PTY LTD., Botswana.
SHACHTER AND NAMDAR HOLDINGS LTD., a holding company.
I. LESHEM DIAMONDS LTD., 100%, traders, importers, exporters and marketers of diamonds.
KAMA-SCHACHTER JEWELLERY, Mumbai, India.
S.N.W LTD.

And other foreign companies/ subsidiaries.

Subject's shareholders/ directors also hold and invest in other companies as well (also in other branches, real estate –NBS ISRAEL-, etc.).

BANKERS

Israel Discount Bank Ltd., Diamond Exchange Branch (No. 080), Ramat Gan.

CHARACTER AND REPUTATION

Nothing unfavorable learned.

Similar to the previous years, subject's Accountant gave only general data, and refused to disclose financial and other business details, as a matter of policy.

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Subject is a world leading diamond company, enjoying excellent reputation in Israel and worldwide. According to the report published by the Israel Supervisor on Diamonds in the Ministry of Economy & Industry, subject was ranked 6th in the 2017 List of Israel's largest polished diamonds exporters, after being ranked 5th in the 2016 list, 4th in the 2015, 1st in the 2011-2014 lists. In previous years (2005 till 2010) subject was ranked 2nd.

In 1995 it was reported that subject's shareholders acquired 2 floors (21st and 22nd floors- total of 2,300 sq. meters) in the Yahalom Building, in consideration of US\$ 10 million. Part of the area was rented, the rest used by subject.

In May 2005, it was reported that the SCHACHTER & NAMDAR Group acquired a 3,000 sq. meters plot in central Tel Aviv, for a sum of US\$ 15 million. The plot is designed for 18 story building, for residential and commercial purposes.

In 2004 subject announced a structural change in the SCHACHTER & NAMDAR Group, initially the establishment of a subsidiary MOSHE NAMDAR & CO. LTD., that, in order to maximize potential where each party will focus on different markets. In the beginning of 2007 the split was completed between the activities of Namdar family and LEO ASCHACHTAR Group.

In 2005 subject created a joint venture with New York's WILLIAM GOLDBERG DIAMONDS, one of the most respected names in the industry, specializing in high-end customers, including leading jewelry houses Cartier and Harry Winston.

In 2007, subject joined with KAMA Jewelry of Mumbai, India to form KAMA SCHACHTER JEWELRY, one of Asia's largest manufacturers and exporters of diamond jewelry.

In 2006 LEO SCHACHTER formed an alliance with LEE HENG DIAMOND Group in Hong Kong to distribute the Leo Diamond brand in the Far East.

In June 2014 subject was awarded the Asia Dignitaries Award by the Israel Asia Chamber of Commerce for its being a leading firm which considerably increased its diamonds export to Asia – total of close to US\$ 150 million in 2013 to Hong Kong, India and China.

In July 2017 subject filed a NIS 17.5 million lawsuit against diamond dealer Shaked Zamir and others, accusing of theft, claiming that the creditors of Shaked Zamir, whose diamond polishing firm supplied services for subject and collapsed, took diamonds from Zamir that belonged to subject (case no. 66518-07-17 pending at the Tel Aviv District Court).

ROSY BLUE Group is one of the world's largest manufacturers of quality polished diamonds and finished jewellery.

Export (net) of polished diamonds from Israel in 2017 totaled US\$ 4,478 million, some 4% lower than in 2016 and 2015 (US\$ 4,675 million and US\$ 4,996 million, respectively), and well below 2014 (US\$ 6,269 million) and from its peak on the eve of the crisis in the branch, with export of polished diamonds of US\$ 7 billion.

The diamonds market has been volatile over the last years after experiencing its worst depression due to the global economic crisis, then recovered in 2010 but fell again in 2012. According to Israel's Diamond Administration (IDA) at the Ministry of Economics, profit margins have been decreasing due to smaller gaps between rough (increasing) and polished (decreasing) diamond prices.

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In addition, the local diamond sector has been negatively affected by other significant factors: the production of counterfeit diamonds, whose quality keeps improving (harming the raw diamonds market), the entrance of new rules by the local Tax Authorities on the Diamond Exchange for enforcing money laundering, and the "underground bank" affair – as below.

As a result, local diamond dealers report on difficulties in executing transactions and bad atmosphere in the branch. Signs of recovery appeared towards the last quarter of 2016 – mainly due to the growing stability of the market and the industry's agreement with the Israel Tax Authority in December, yet the market is still volatile, as witnessed with the endurance of the depression trend during most of 2017.

Export (net) of rough diamonds fell 10.4% in the first 9 months of 2017 (compared to the parallel period in 2016), reaching US\$ 1,796 million (summed up to US\$ 2,702 million in all 2016, 23% higher than 2015).

From initial summary by the Ministry of Industry & Economy from January 2018, total net export of both rough and polished diamonds from Israel in 2017 summed up to US\$ 7 billion, 7% decrease from 2016.

Net imports of polished diamonds in 2017 totaled US\$ 2,700 million, compared to US\$ 3,282 million in 2016.

Net import of rough diamonds summed at US\$ 3,246 million in 2016, up 16.7% from 2015, and reached US\$ 2,089 million in the first 9 months of 2017, down 11.6% compared to 2016 (import for the whole 2017 unavailable).

The United States continued to be Israel's major market for polished diamonds, accounting for 45% of the market in the first 9 months 2017 (was 39% in 2016). Hong Kong is 2nd largest market with 30% of exports (26% in 2016), followed by Switzerland 9% (7%), Belgium 8% (8%), and the rest of the world account for the remaining 8% of Israel's polished diamond export.

An affair of an "underground bank" (known as the "Check List" Affair) shocked the local diamond branch, after in late January 2012 Police raided the Diamond Exchange (after a long undercover operation), arrested several individuals for investigation, caught diamonds and various assets worth NIS millions, and blocked several bank accounts. It is suspected that a group of people, including diamond dealers, run an illegal bank in the Diamond Exchange compound for loans, money transfer abroad based on fictitious transactions and exchange in volume of NIS 1 billion for several years.

The affair led to several of reported bankruptcies of local diamond firms, a decrease of up to 70% in transactions in 2012, and for a while to paralysis (especially in raw diamonds purchase) due to uncertainty among local and foreign dealers. Later in 2012 the Police decided to lower the profile of the investigation for a while (pressure from the diamond branch due to the continuing damage inflicted and the Government (losing US\$ hundred millions from decrease in tax collection), but resumed investigation in 2013.

In mid-2014, based on the Police and Tax Authorities recommendations, the State Attorney started the process of filing indictments against central defendants in the affair, initially against dealers who provided foreign currency services to the "bank" (in June 2015 the court made the first conviction in the affair, sending a foreign currency dealer who pretended also to be a diamond dealer, for 4 years prison, a fine and confiscation of assets in volume of NIS millions, part of a plea bargain). Since late 2015 indictments for severe charges pressed against 11 diamond dealers and their firms for tax felonies committed and issuing fictitious invoices in volumes of millions US\$ (latest indictments filed by the Tel Aviv District Attorney in August 2016). In the case of one of the prosecuted, a plea bargain was reached in May 2018 (fines and serving community services). Other cases are pending.



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SUMMARY

Notwithstanding refusal to disclose financial and other commercial data, considered good for trade engagements.

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FOREIGN EXCHANGE RATES

Currency	Unit	Indian Rupees
US Dollar	1	INR 69.66
UK Pound	1	INR 89.08
Euro	1	INR 79.36
ILS	1	INR 18.93

Note : Above are approximate rates obtained from sources believed to be correct

INFORMATION DETAILS

Analysis Done by :	NIY
Report Prepared by :	TRU

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RATING EXPLANATIONS

Credit Rating	Explanation	Rating Comments
A++	Minimum Risk	Business dealings permissible with minimum risk of default
A+	Low Risk	Business dealings permissible with low risk of default
A	Acceptable Risk	Business dealings permissible with moderate risk of default
B	Medium Risk	Business dealings permissible on a regular monitoring basis
C	Medium High Risk	Business dealings permissible preferably on secured basis
D	High Risk	Business dealing not recommended or on secured terms only
NB	New Business	No recommendation can be done due to business in infancy stage
NT	No Trace	No recommendation can be done as the business is not traceable

NB is stated where there is insufficient information to facilitate rating. However, it is not to be considered as unfavourable.

This score serves as a reference to assess SC's credit risk and to set the amount of credit to be extended. It is calculated from a composite of weighted scores obtained from each of the major sections of this report. The assessed factors are as follows:

- Financial condition covering various ratios
- Company background and operations size
- Promoters / Management background
- Payment record
- Litigation against the subject
- Industry scenario / competitor analysis
- Supplier / Customer / Banker review (wherever available)