

## MIRA INFORM REPORT

<b>Report No. :</b>	532457
<b>Report Date :</b>	28.09.2018

### IDENTIFICATION DETAILS

<b>Name :</b>	FRUCHTER GAD DIAMONDS LTD.
<b>Registered Office :</b>	P.o. Box 270, maccabi bldg. (internal), 1 jabotinsky street, Diamond exchange, maccabi bldg, ramat gan 5252001
<b>Country :</b>	Israel
<b>Date of Incorporation :</b>	1944
<b>Legal Form :</b>	Proprietorship
<b>Line of Business :</b>	Dealers, importers, exporters and marketers of rough diamonds, 30pct up to 5grs sawn rough in all colors and qualities
<b>No. of Employees :</b>	10

### RATING & COMMENTS

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

<b>MIRA's Rating :</b>	B
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Credit Rating	Explanation	Rating Comments
B	Medium Risk	Business dealings permissible on a regular monitoring basis

<b>Status :</b>	Moderate
<b>Payment Behaviour :</b>	Slow but Correct
<b>Litigation :</b>	Clear

#### NOTES :

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

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**ECGC Country Risk Classification List**

Country Name	Previous Rating (30.09.2017)	Current Rating (31.12.2017)
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**

### **FRUCHTER GAD DIAMONDS LTD.**

Telephone 972 3 575 10 55  
Fax 972 3 575 09 35  
Email: [rough@fruchtergad.com](mailto:rough@fruchtergad.com)  
P.O. Box 270, Maccabi Bldg. (internal)  
1 Jabotinsky Street  
Diamond Exchange, Maccabi Bldg.  
RAMAT GAN 5252001 ISRAEL

## **HISTORY & LEGAL FORMATION**

Originally established as a sole proprietorship in 1980, continuing diamond family business established in 1944. Converted into a private limited company and registered as such as per file No. 51-334607-2 on the 01.01.2003.

## **SHARE CAPITAL**

Authorized share capital of NIS 39,100.00, divided into:-  
39,100 ordinary shares of NIS 1.00 each,  
of which 100 shares amounting to NIS 100.00 were issued.

## **SHAREHOLDERS**

1. Gad Fruchter, 75%,
2. Ben Fruchter, 25%, son of Gad.

Gad Fruchter used to hold 100% of the shares up until 2015, when Gad's son Ben entered as a shareholders.

## **DIRECTORS**

1. Gad (Gadi) Fruchter, General Manager,
2. Ben Fruchter

## **BUSINESS**

Dealers, importers, exporters and marketers of rough diamonds, 30pct up to 5grs sawn rough in all colors and qualities.

60%-70% of sales are export (as in 2017 and 2016).

Among local clientele: NIRO DIAMONDS, YOSHFE DIAMONDS, E Z DAIMONDS, and more.

Among diamond suppliers: ROSENBLUM.

Operating from premises, owned by shareholder, on an area of 100 sq. meters, in 1 Jabotinsky Street, Diamond Exchange, Maccabi Building (15<sup>th</sup> floor, Suite 1542), Ramat Gan. Group also operates from offices in Antwerp (Belgium), and Hong Kong (manufacturing operations are in Israel, Armenia and China).

Website: [www.fruchtergad.com](http://www.fruchtergad.com)

Having 10 employees in Israel (same as in 2017, had 11 employee in 2016, 9 employees in 2015, same as in the end of 2014), and further several employees in offices overseas.

## **MEANS**

Financial data not forthcoming.

Subject is a Diamond Trading Company (DCT) Sightholder from DE BEERS.

There are 2 charges for unlimited amounts registered on the company's assets, in favor of Union Bank of Israel Ltd. (charges placed back in 2003).

## **REVENUES**

Sales figures not forthcoming.

## **OTHER COMPANIES**

Also part of GAD FRUCHTER Group:

FBP DIAMONDS LTD., manufacturers and distributors of Hearts & Arrows polished diamonds.

FRUCHTER GAD DIAMONDS BELGIUM BVBA, Belgium.

## **BANKERS**

Mizrahi Tefahot Bank Ltd., Diamond Exchange Business Center Branch  
(No. 466), Ramat Gan.

Union Bank of Israel Ltd., Ramat Gan Branch (No. 62), Ramat Gan

## **CHARACTER AND REPUTATION**

Nothing unfavorable learned.

Subject's officials refused to disclose financial data.

This is a very long established family diamonds business. Mr. Gad Fruchter is a known, respectable diamond dealer, and is a DE BEERS Sightholder.

Export (net) of polished diamonds from Israel in the first 9 months of 2017 totaled US\$ 3,383 million, which represents 11.8% decrease compared to the parallel period in 2016, while export of net rough diamonds fell 10.4% in this period, reaching US\$ 1,796 million. That is in contrast to the figures in 2016, which showed signs of recovery for the Israeli diamond trade, coming after the export of diamonds from Israel experienced a drastic fall by 20% in 2015 from 2014 (down 40% from 2011).

Net export of polished diamonds in 2016 decreased by 6.4% from 2015, reaching US\$ 4,675 compared to US\$ 4,993 million in 2014 (after 0.6% rise in 2014 and 11.6% in 2013), however net rough diamonds exports jumped 23.1% to US\$2,702 million (in 2015 fell 28.3% from 2014, after 4.2% rise in 2014, and a mere rise in 2013). Yet the figures are well away from its peak on the eve of the crisis with export of polished diamonds of US\$ 7 billion. In total, diamonds export (polished and rough) in 2017 were expected to sum up to US\$ 7 billion, 7% lower than in 2016, from the Ministry of Economy forecast.

The market has been volatile over the last years after experiencing its worst depression due to the global economic crisis. 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.

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 2017.

Net imports of polished diamonds totaled US\$ 3,282 million in 2016, 5.7% decrease from 2015, while net import of rough diamonds reached US\$ 3,246 million, up 16.7% from 2015.

Net imports of polished diamonds decrease by 15.1% in the first 9 months of 2017 and totaled US\$ 2,015 million, compared to the parallel period in 2016, whereas net import of rough diamonds reached US\$ 2,089 million, down 11.6% from 2016.

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 2<sup>nd</sup> 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.

In 2009, Israel was ranked as the world's largest exporter of cut diamonds, followed by India, Belgium and South Africa.

Local diamond sector employs some 20,000 persons.

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). Their cases are pending.

## **SUMMARY**

Notwithstanding the refusal to disclose financial details, considered good for trade engagements.

**FOREIGN EXCHANGE RATES**

Currency	Unit	Indian Rupees
US Dollar	1	INR 72.65
UK Pound	1	INR 95.43
Euro	1	INR 85.04
ILS	1	INR 19.93

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

**INFORMATION DETAILS**

Analysis Done by :	NIY
Report Prepared by :	KET

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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)