

## JK Files and Engineering Limited

February 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	18.00	CARE AA-; Stable	Assigned
Long-term bank facilities	110.00 (Enhanced from 85.10)	CARE AA-; Stable	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Short-term bank facilities	12.00 (Reduced from 18.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities reflect JK FEL's strong growth in Total Operating Income which has increased by 48.1% to ₹819.68 crore in FY22 aided both by volume and realization growth. The rating continues to factor strong parentage being a fully owned subsidiary of Raymond Limited (rated "CARE AA-; Stable/CARE A1+"). CARE Ratings Limited (CARE Ratings) expects the growth to continue aided by growth in the end-user industries and the company's leadership position in files business. The ratings also derive strength from its comfortable financial risk profile led by low overall gearing of 0.16x as on March 31, 2022, along with high cash levels; the robust debt coverage metrics and liquidity are expected to continue in FY23. The company is guided by management with over three decades of experience and has created a dominant and sustained market position of over 60% market share in files segment domestically along with broad distribution network in the files industry.

The rating strengths are, however, constrained by the fragmented nature of the files industry, exposure to volatile raw material price swings, risk associated with foreign exchange fluctuation, inherent cyclicity in the auto ancillary industry, fierce competition, and risks associated with the fast shift towards electrification. It is essential for the business to change its technology-neutral product profile. The progress made by the company in this regard will be key rating monitorable. Furthermore, ability of the company to optimally utilize the expanded capacity and thereby maintain profitability going forward is a key monitorable.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Increase in PBILDT margin above 18% on a sustained basis.
- Improvement in scale of operations above ₹1,000 crore

#### Negative factors

- Deterioration in consolidated overall gearing beyond 0.25x on a sustained basis.
- Deterioration in consolidated PBILDT margin below 14% on a sustained basis.
- Any downgrade/negative change in the parent will adversely impact JK FEL's ratings

### Analytical approach: Consolidated

Consolidated approach has been adopted for the rating of JK FEL, as in FY22, the Ring Plus Aqua Limited (RPAL) and Scissors Engineering Products Limited (SEPL) have become the subsidiaries of the company through share transfer. Furthermore, CARE Ratings derives comfort from RPAL being part of the Raymond group. The list of subsidiaries consolidated is given in Annexure 6.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Key strengths

**Part of the well-established promoter group:** JKFEL is a subsidiary of Raymond, which is one of the leading integrated producers of suiting. Raymond, which is the flagship company of the Raymond group, is a diversified conglomerate having interests in textiles, apparel retailing, toiletries, real estate, engineering files and tools and private aviation services. The promoter group led by Gautam Singhania (Chairman & Managing Director of Raymond) has been closely involved in devising the overall business strategy backed by experienced management team. The company, however, does not require any financial support from the Raymond group.

**Leading market position in India:** The company derives its competitive advantage from its established market position, wide distribution channel and diversified product portfolio with multiple stock keeping units (SKUs) to meet the demand of its customers. JKFEL is the market leader in the files segment in India with a market share of around 65% in India in FY21 by sales volume. JKFEL has a strong global presence with products sold over 55 countries across the globe with strong distribution network in Africa, Asia and Latin America, thereby diversifying sales geographically. The company has a comprehensive distribution network of around 730 dealers to market the products within the country. Under the auto components and engineering products division being managed under RPAL, the company has a very strong market position in the ring gear original equipment manufacturing (OEM) and Tier 1 category in the domestic market and is a leading player in this segment.

**Robust debt coverage indicators:** The company continued to have stable financial risk profile and debt coverage indicators in FY22 as evinced by overall gearing of 0.16x as on March 31, 2022. The working capital in JKFEL in FY22 was funded through internal accruals and elongation in the credit period by creditors. RPAL continues to be debt free on a long-term basis. The other debt coverage indicators like Total Debt/GCA and Total debt/PBILDT have improved YoY and continue to be below unity in FY22 on a consolidated basis. Going forward as well, the debt coverage indicators are expected to be stable despite fresh term loan as the company expects to incur major capital expenditure (CAPEX) from internal accruals.

**Improvement in performance in FY22:** The TOI on a consolidated basis witnessed a strong growth of 48.14% in FY22. The production for both files and drills increased by 23.7% and 25.5% with capacity utilisation reaching 71% and 43% respectively. The total sales value of files increased by 52.51% and drills increased by 39.79% YoY in FY22 mainly due to increase in per unit realisations. The PBILDT margin for the company in FY22 moderated by around 112 bps mainly due to lower base of the previous year. The revenue from the auto component and engineering products segment grew by 57.6% mainly led by revival of the auto sector (both CV and PV). The domestic PV segment showed a strong growth of 30% YoY in November 2022. Within the auto segment, the ratio between commercial vehicles and passenger vehicles is 35:65 on an average.

## Key weaknesses

**Volatility in raw material prices and foreign exchange fluctuation risk:** JKFEL's profitability remains exposed to the volatility in raw material prices and as well as forex fluctuations. The major raw material consumed is High carbon steel, billets and HSS steel. The company can pass on the increase in price of raw materials to the finished goods by increasing the price of finished goods. For the auto components and engineering products business as well, products like steel bars, steel sheets and steel tubes form approximately 35-40% of total cost of sales. The steel prices have been on the increasing trend since the second half of FY22. As per the Raymond group's forex policy, the maximum un-hedged net exposure allowed is USD 10 million at any point of time.

**Exposed to regulatory risk:** Government of India's push towards implementation of electric vehicles (EVs) owing to its multiple advantages such as eco-friendliness, cheaper operational cost including running and maintenance is likely to have a negative impact on the auto ancillary industry as a whole. Since the transition to EVs would take at-least 6-7 years due to inadequacy of charging infrastructure and high cost of batteries, the internal combustion engine (ICE) vehicles are expected to co-exist with EVs in the medium term. For RPAL, this risk is mitigated to an extent due to diversification of revenue in CV, tractors and off highway vehicles. However, as large part of RPAL's portfolio is dependent on ICE, it is indispensable for the company to modify its product profile which is technology agnostic.

## Liquidity: Strong

The company has strong liquidity position backed by cash and liquid investments amounting to ₹30.65 crore on a consolidated basis as on March 31, 2022. The average utilisation for the fund-based limits and non-fund-based limits remain low at 10% and 15% respectively for the 15 months ended on November 30, 2022. The company is expected to have consolidated cash accruals to the tune of ₹ 100-110 crore with no repayment obligation.

## Applicable criteria

[Auto Ancillary Companies](#)  
[Consolidation](#)  
[Factoring Linkages Parent Sub JV Group](#)  
[Financial Ratios – Non financial Sector](#)  
[Liquidity Analysis of Non-financial sector entities](#)  
[Manufacturing Companies](#)  
[Policy on default recognition](#)  
[Policy on Withdrawal of Ratings](#)  
[Rating Outlook and Credit Watch](#)  
[Short Term Instruments](#)

## About the company

JKFEL is a wholly owned subsidiary of Raymond Limited (Rated CARE AA-/Stable/A1+). The company has been in the business of files and tools since 1949, which earlier operated as a division of Raymond. JKFEL is one of the leading manufacturers of steel files in the world and in the domestic market and also one of the leading manufacturers of HSS twist drills in India. It is also into trading of hand tools, and power tools. JKFEL has manufacturing units located at Ratnagiri, Chiplun (Maharashtra), Vapi, and Pithampur (MP). The company manufactures three types of steel files catering to three distinct sectors of the economy viz: agricultural sector, industrial engineering sector and carpenters.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	553.30	819.68	440.63
PBILDT	86.46	118.90	60.94
PAT	48.07	85.24	37.34
Overall gearing (times)	0.16	0.16	0.07
Interest coverage (times)	18.89	31.45	31.13

A: Audited; UA: Unaudited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for the last three years:** Please refer Annexure-2

**Covenants of the rated instruments/facilities:** Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of the various instruments rated:** Annexure-4

**Lender details:** Annexure-5

## Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	110.00	CARE AA-; Stable
Non-fund-based - ST-BG/LC		-	-	-	12.00	CARE A1+
Term loan-Long term		-	-	31-03-2030	18.00	CARE AA-; Stable

**Annexure-2: Rating history for the last three years**

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Term loan-Long term	LT	-	-	-	-	1)Withdrawn (24-Mar-21)	1)CARE A (CW with Developing Implications) (23-Mar-20) 2)CARE A (CW with Developing Implications) (19-Nov-19)
2	Fund-based - LT-Cash credit	LT	110.00	CARE AA-; Stable	-	1)CARE A+; Stable (17-Mar-22) 2)CARE A (CW with Developing Implications) (07-Oct-21)	1)CARE A (CW with Developing Implications) (24-Mar-21)	1)CARE A (CW with Developing Implications) (23-Mar-20) 2)CARE A (CW with Developing Implications) (19-Nov-19)
3	Non-fund-based - ST-BG/LC	ST	12.00	CARE A1+	-	1)CARE A1+ (17-Mar-22) 2)CARE A1 (CW with Developing Implications) (07-Oct-21)	1)CARE A1 (CW with Developing Implications) (24-Mar-21)	1)CARE A1 (CW with Developing Implications) (23-Mar-20) 2)CARE A1 (CW with Developing Implications) (19-Nov-19)
4	Term loan-Long term	LT	18.00	CARE AA-; Stable				

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable**
**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	Term loan-Long term	Simple

## Annexure-5: Lender details

To view the lender-wise details of bank facilities please [click here](#)

## Annexure-6: List of subsidiaries which are consolidated

Sr. No.	Name of companies/ Entities	% of holding
1.	Ring Plus Aqua Limited	89.07%
2.	JK Talabot Limited	90.00%
3.	Scissors Engineering Products Limited	100.00%

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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### About us:

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