

## JK Files and Engineering Limited

December 23, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	69.00 (Reduced from 81.00)	CARE AA- (RWD)	Continues to be on Rating Watch with Developing Implications
Short-term bank facilities	41.00	CARE A1+ (RWD)	Continues to be on Rating Watch with Developing Implications
Long-term bank facilities*	-	-	Withdrawn
Non-convertible debentures*	100.00 (Reduced from 200.00)	CARE AA- (RWD)	Continues to be on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities and instruments of JK Files and Engineering Limited (JKFEL) continue to be on rating watch with developing implications on account of announcement made by the parent, Raymond Limited (RL), on July 04, 2024, regarding vertical demerger of its real estate business to its wholly owned subsidiary, Raymond Realty Limited (RRL). According to the announced scheme, RL and RRL will operate as separate listed entities within the Raymond Group post completion of the demerger scheme. Each shareholder of RL will get one share of RRL for every share held in RL. Post this demerger, RL will continue to hold the engineering business consolidated under two new companies, one into auto components and the other into aerospace and defense and the denim business through its joint venture (JV) company (Raymond UCO Denim Pvt Ltd). Further the company is restructuring its engineering division, wherein, RL will consolidate the auto and engineering businesses of JK Files and Engineering Limited, Ring Plus Aqua Limited (RPAL), and Maini Precision Products Limited (MPPL) into a new company and the defence and aerospace business of MPPL into another company. Post the process, MPPL and RPAL will cease to exist, and RL will hold 66.3%, MPPL promoters 28.5%, and balance will be with the others and minority shareholders of the new companies. The above transactions are subject to various regulatory approvals.

Earlier, on April 27, 2023, RL had announced the demerger of its lifestyle business (textile, garment, and shirting among others) into Raymond Lifestyle Limited (RLL) (erstwhile Raymond Consumer Care Limited [RCCL]). The National Company Law Tribunal (NCLT), vide its order pronounced on June 21, 2024, has approved the composite scheme of arrangement between RL and RLL. The demerger is effective from June 30, 2024.

CARE Ratings Limited (CARE Ratings) notes that although the demerger of the lifestyle business is effective June 30, 2024, the recent announcement related to the demerger of the real estate vertical and restructuring of engineering business will take another 6-12 months to conclude including receipt of all the necessary statutory approvals.

The reaffirmation of ratings continue to factor JKFEL's stable operating performance in FY24 supported by increased demand for auto components business, while the files and tools sales growth remained muted. RPAL has acquired Maini Precision Products Limited on March 28, 2024, for ₹682 crore. In H1FY25, the company reported Total Operating Income (TOI) of ₹862 crore, which include MPPL sales of ₹444 crore. The ratings continues to factor strong parentage being a wholly owned subsidiary of Raymond Limited [rated CARE AA-; (RWD)]. CARE Ratings expects the operating performance to improve given the company's leadership position in the files and auto components business and stable demand from OEMs, followed by exports and replacement market. Further MPPL's established position in high-precision machined components for automotive and aerospace industries is expected to improve the revenue profile of the company along with diversification.

JKFEL is guided by management with over three decades of experience and has created a dominant and sustained market position with it being the Number 1 brand in files segment domestically along with broad distribution network in the files industry.

The ratings are constrained by its moderate financial risk profile with overall gearing at 1.86x as on March 31, 2024 (PY: 0.10x) due to the debt-funded acquisition of 59.25% stake in MPPL.

The rating strengths are further constrained by the fragmented nature of the files industry, exposure to volatile raw material prices, risk associated with foreign exchange fluctuation, inherent cyclicity and competition in the auto ancillary industry, and risks associated with the fast shift towards EV vehicles. 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, the ability of the company to optimally utilise the expanded capacity and thereby maintain profitability going forward is a key monitorable.

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

\*CARE Ratings has withdrawn the ratings assigned to the proposed NCD of ₹100 crore of the company at the company's request and in line with CARE Rating's Withdrawal policy. Further, ratings assigned to the bank facility (term loan) of the company has been withdrawn on closure of the same with the Bank.

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

### Positive factors

- Increase in PBILDT margin above 16% on a sustained basis.
- Improvement in Net Debt to PBILDT to below 1x on a sustained basis.

### Negative factors

- Deterioration in Net Debt (excluding parent debt)/PBILDT to more than 3.50x on a sustained basis.

### Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has adopted a consolidated approach for arriving at the ratings of JKFE. CARE Ratings has removed parent notch up framework of Raymond Limited while arriving at the ratings as going forward, post the demerger of real estate business to a separate company "Raymond Realty Limited", Raymond Limited will hold the engineering business under JKFE. The list of subsidiaries which have been consolidated is provided in Annexure-6.

## Detailed description of key rating drivers:

### Key strengths

#### Part of the Raymond group

JKFE is a subsidiary of Raymond Limited (Rated: CARE AA-; Rating Watch with Developing Implications'), which is one of the leading integrated producers of suiting fabric in the world. Lifestyle business was demerged from Raymond Limited to Raymond Lifestyle Limited, post the demerger, Raymond holds the real estate and engineering businesses. The company has further announced demerger of its real estate business to a separate entity. After the demerger of real estate business, RL will remain a pure play engineering company, allowing it to provide support to JKFE and its subsidiaries. RPAL is a step-down subsidiary of Raymond Limited. The promoter group led by Mr. Gautam Singhania (Chairman & Managing Director of Raymond) has been closely involved in devising the overall business strategy backed by experienced management team.

#### Leading market position for files and drills in India

JKFE 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. JKFE is the number one brand for steel files in India. JKFE was the second-largest supplier globally of steel files with 25% global manufacturing capacity. The company has manufacturing capacities of 85 million dozen of files and 24 million units of drills per annum as on March 31, 2024 in ISO 9000-2008 certified plants. JKFE's distribution network includes over 730 active distributors with a retail reach of over 150,000 outlets spread across more than 600 towns in India. The top 10 customers accounted for 29% of JKFE's standalone revenue in FY24.

#### Stable operating performance in FY24

The TOI on a consolidated level, the TOI was stable at ₹863.66 crore in FY24 (FY23: ₹864.50 crore). The capacity utilisation moderated slightly in FY24 when compared with previous year. The total sales value of files declined by 14% y-o-y in FY24 on account of decline in volumes by 13.5% y-o-y impacted by sluggishness in export market. The realisations remained stable at ₹46.35 per piece (₹46.61 per piece in FY23) The total drills sales value moderated by 2.57% y-o-y in FY24 on account of moderation in volumes by 13% partially offset by improvement in realisations by 12%. The PBILDT margin for the company in FY24 was stable due to operational efficiencies, improved product mix and higher realisations in drills segment. However, the global macroeconomic environment facing heightened inflationary pressures continues to impact demand. The industry also faces challenges from geo-political uncertainties, increasing freight costs and delayed deliveries.

Pent-up demand following the auto sector's recovery from the COVID-19 Pandemic, both in Commercial Vehicles (CV) and Passenger Vehicles (PV) segments, contributed to 16% growth in revenue from the auto component and engineering products segment. The CV industry continues to show healthy demand due to increased economic activity, a sustained government thrust on infrastructure development, robust demand for replacements, growth in core sectors, and continued growth in the e-commerce sector despite concerns about inflation and headwinds in rural demand.

#### Strong market position in auto ancillary segment through subsidiary, Ring Plus Aqua Limited

Ring Plus Aqua Limited (RPAL) has a very strong market position in the Ring Gear OEM category in the domestic and export markets. RPAL earns 58% revenue from exports, majorly to several renowned global OEMs, RPAL is the sole manufacturer of flex

plates in India. According to the management, RPAL is the leading player in the Ring Gear market on the OEM side in the domestic market. The Ring Gears and also bearings are not directly sold to OEMs, but to the manufacturers of flywheels. The Ring gears are mostly sold in the OEM segment and not replacement segment. Flex plates find application in automatic transmission (AMT) vehicle. AMT vehicles comprised 26% of sales in FY24 as compared to 16% in FY20. This is expected to further rise to 50% by 2030. RPAL also exports flex plates to countries like Germany, US, Austria, and China among others.

### Key weaknesses

#### Susceptible to commodity price risk and foreign exchange fluctuation risk

JKFEL's profitability remains exposed to the raw material price volatility and 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 auto components and engineering products business as well, products like steel bars, steel sheets and steel tubes form ~35-40% of total cost of sales. Approximately 50% of JKFEL's revenue is from export market exposing it to foreign currency fluctuation risk. The company purchases forward contracts to protect itself against commodity risk.

#### Moderate financial risk profile and debt coverage indicators

The financial risk profile has moderated in FY24 due to the debt funded acquisition of MPPL. The overall gearing increased to 1.86x in FY24 (PY: 0.10x) with NCD of ₹300 crore (₹100 crore in JKFEL and ₹200 crore in RPAL) and ICDs of ₹225 crore from parent RL availed in FY24. The company also issued redeemable preference shares of ₹50 crore to RL, further debt on consolidation of MPPL, increased the overall debt position of the company. Working capital borrowings have increased due to high operating cycle in the MPPL aerospace and auto components business.

The debt coverage metrics are expected to improve slightly from FY25 onwards due to scheduled repayment of NCDs. The total debt excluding parent debt is ~ ₹660 crore, large part of which includes working capital borrowings as on March 31, 2024.

#### Liquidity: Adequate

Liquidity profile of the company is marked adequate backed by Cash and Liquid Investments amounting to ₹25.72 crore on a consolidated basis as on March 31, 2024. The average utilisation for the fund-based limits and non-fund-based limits remains low at 27.15% and 10.47%, respectively, for 12 months ended August 2024. The gross cash accruals (GCA) for FY25 is expected to be sufficient to meet debt repayment obligations of ₹69 crore and capex. The company has adequate financial flexibility by virtue of being a part of Raymond group, the company is a subsidiary of Raymond Limited which has cash & cash equivalents of ₹1,372 crore as on September 30, 2024.

### Applicable criteria

- [Definition of Default](#)
- [Liquidity Analysis of Non-financial sector entities](#)
- [Rating Outlook and Rating Watch](#)
- [Manufacturing Companies](#)
- [Financial Ratios – Non financial Sector](#)
- [Auto Components & Equipments](#)
- [Short Term Instruments](#)
- [Consolidation](#)
- [Policy on Withdrawal of Ratings](#)

### About the company and industry

#### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial products	Other industrial products

JK Files and Engineering Limited (JKFEL) is a wholly owned subsidiary of Raymond Limited (rated 'CARE AA-; Rating Watch with Developing Implications'). The company has been in the business of files and tools since 1949, which earlier operated as a division of Raymond. sssss

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 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. The company produces more files for industrial engineering and carpenter sector, while the production of files and tools for agricultural sector is more cyclical to the changes in the demand for agricultural goods.

Brief Consolidated Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	864.50	863.66	862.14
PBILDT	113.18	112.66	98.11
PAT	71.85	46.83	4.92
Overall gearing (times)	0.10	1.86	-
Interest coverage (times)	39.24	13.44	2.29

A: Audited UA: Unaudited; Note: The above results are the latest financial results available.

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

**Any other information:** Not applicable

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

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook
Debentures-Non-convertible debentures	INE027907018	07-Mar-2024	9.85	07-Mar-2031	100.00	CARE AA-(RWD)
Debentures-Non-convertible debentures	Proposed	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash credit		-	-	-	69.00	CARE AA-(RWD)
Non-fund-based - ST-BG/LC		-	-	-	41.00	CARE A1+(RWD)
Term loan-Long term		-	-	31-03-2030	0.00	Withdrawn

**Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Cash credit	LT	69.00	CARE AA-(RWD)	-	1)CARE AA-(RWD) (14-Nov-23) 2)CARE AA-(RWD) (08-May-23)	1)CARE AA-; Stable (06-Feb-23)	1)CARE A+; Stable (17-Mar-22) 2)CARE A (CW with Developing Implications) (07-Oct-21)
2	Non-fund-based - ST-BG/LC	ST	41.00	CARE A1+(RWD)	-	1)CARE A1+(RWD) (14-Nov-23) 2)CARE A1+(RWD) (08-May-23)	1)CARE A1+ (06-Feb-23)	1)CARE A1+ (17-Mar-22) 2)CARE A1 (CW with Developing Implications) (07-Oct-21)
3	Term loan-Long term	LT	-	-	-	1)CARE AA-(RWD) (14-Nov-23) 2)CARE AA-(RWD) (08-May-23)	1)CARE AA-; Stable (06-Feb-23)	-
4	Debentures-Non-convertible debentures	LT	100.00	CARE AA-(RWD)	-	1)CARE AA-(RWD) (14-Nov-23)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable**

#### Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non-convertible debentures	Simple
2	Fund-based - LT-Cash credit	Simple
3	Non-fund-based - ST-BG/LC	Simple
4	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 companies/entities consolidated as on September 30, 2024

Sr. No.	Name of the Company	Extent of consolidation	Rationale for consolidation
1	Ring Plus Aqua Limited	Full	Subsidiary
2	JK Talabot Limited	Full	Subsidiary
3	Scissors Engineering Products Limited	Full	Subsidiary
4	Maini Precision Products Limited (subsidiary of RPAL)	Full	Step down Subsidiary

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

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#### About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

#### Disclaimer:

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