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ICRA assigns LBB and A4 ratings to bank facilities of Spark Electrodes Private Limited

ICRA has assigned a long term rating of LBB (pronounced as L double B) to the Rs. 93.5 million fund based facilities of Spark Electrodes Private Limited (SEPL) †. ICRA has also assigned a short term rating of A4 (pronounced as A four) to the Rs. 15 million non-fund based facilities of SEPL.† The rating carries a stable outlook.

ICRA's ratings factor in SEPL's modest scale of operations and the intensely competitive and cyclical nature of the steel tubes industry which coupled with low value-additive nature of work has resulted in moderate profitability for the company. The assigned ratings are also constrained by SEPL's susceptibility to adverse raw material price movement and foreign exchange rate fluctuations given the company's increasing focus on exports. The ratings however draw comfort from the experience of the promoters in the business; benefits arising from backward integration and the positive demand outlook for steel tubes, driven by infrastructure growth in the country. Going forward, the company's ability to scale up its operations and improvement in its profitability will remain key rating sensitivities.

Company Profile:

Spark Electrodes Private Limited (SEPL) is engaged in the production and sale of galvanized steel tubes and structures. The company was promoted by Mr. Nathu Ram Goyal, who was initially engaged in the steel rolling business. The affairs of the company are currently being managed by him and his son Mr. Sushil Kumar Goyal. The facility for producing galvanized steel tubes is located in Sahibabad (Uttar Pradesh), was set up in June 2001 with an installed annual capacity of 9000 MT. The shareholding of SEPL is entirely held by the promoters and their family members.

For FY 2009 the company reported revenues of Rs. 251.1 million and Profit After Tax of Rs. 2.78 million.

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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

† For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

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