October 26, 2022

Hindustan Copper Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	876.50	250.00	[ICRA]AA+(Stable) reaffirmed
Fund-based Facilities	350.00	350.00	[ICRA]AA+(Stable) reaffirmed
Fund-based Facilities	723.50	-	
Unallocated – fund based/non-fund based facilities	-	1350.00	[ICRA]AA+(Stable)/[ICRA]A1+ reaffirmed
Non-fund-based Facilities	150.00	150.00	[ICRA]A1+ reaffirmed
Commercial Paper	100.00	100.00	[ICRA]A1+ reaffirmed
Total	**2200.00**	**2200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in ICRA's expectation of a stable financial performance in FY2023 on the back of commencement of Malanjkhand's underground mines, which is expected to ramp up in H2 FY2023. The debt levels have also significantly reduced owing to large loan prepayments done in FY2022, which resulted in a significant improvement in debt coverage indicators. In addition, given the equity infusion of Rs. 500 crore via Qualified Institutional Placement (QIP) route in April 2021 and expectation of comfortable operating cash flows in the near term, HCL would be able to fund a substantial portion of the capex, limiting the company's long-term debt requirement. This would lend support to the capital structure and debt coverage indicators, going forward, even in a scenario of lower copper prices. Moreover, post stabilisation of the recently commenced mines, the company will benefit from the increase in its scale of operation and better grade of underground mined ores, which would support HCL's efforts in reducing its production costs. ICRA continues to favourably factor in the status of HCL as an integrated copper producer, its public sector undertaking (PSU) status and its existing relationships with banks, which provide financial flexibility in arranging debt at a competitive cost for funding the ongoing capex, if required. The ratings, however, also consider the company's exposure to fluctuation in copper prices, which results in volatility in its profitability and cash flows. ICRA also took cognisance of the large contingent liabilities of the company. Any significant devolvement of the same, impacting HCL's liquidity and financial position would be a credit negative. ICRA also notes the adverse cost structure in smelting and refining operations of the company's refineries in Jharkhand, given the vintage of the plant and the lack of economies of scale. However, at present, production from these facilities is minimal with the company focussing on selling only MIC.

The Stable outlook on the [ICRA]AA+ rating reflects ICRA's opinion that HCL will generate healthy cash flows, going forward, and will continue to benefit from its strong position in the domestic market, having access to quality copper mines.

Key rating drivers and their description

Credit strengths

Significant improvement in capital structure, liquidity and debt coverage indicators – Healthy cash accruals from operations helped the company to deleverage its balance sheet with a significant reduction in debt levels in FY2022. The total debt reduced to Rs. 409 crore as of March 2022 from Rs. 1,137 crore in March 2021. Consequently, the debt coverage indicators have sharply improved with an interest cover of 22 times, net debt/OPBITDA of ~0.1 times and DSCR of 2 times. Despite the large ongoing capex, HCL would be able to fund a substantial portion of the same via QIP funds already raised and internal accruals, limiting the company's long-term debt requirement, going forward.

Financial performance to remain healthy in FY2023 – After witnessing a substantial improvement in financial performance in FY2022, arising out of HCL's long-term sale agreement with a metal conglomerate in India, reversal of inverted duty structure on copper concentrate as well as favourable copper prices, the performance is expected to sustain in the current fiscal with the commencement of underground Malanjkhand mines. The copper prices, despite moderation in the recent months, remain comfortable and are expected to remain range-bound in the near term. This, along with HCL's stable cost of production, is expected to result in healthy cash accruals relative to debt service obligations.

Only integrated copper producer in the country with access to large copper ore reserves – HCL is the only integrated copper producer in India with captive mines, smelter, refinery and rod manufacturing facilities. However, production from these facilities remain minimal at present due to an adverse cost structure at its smelting and refining operations and HCL is producing only MIC, which is the most profitable product for the company.

Thrust on developing mines to increase in-house ore production capacity – HCL's thrust on developing new copper mines would quadruple its ore production capacity in the next few years, leading to economies of scale, thereby strengthening its position in the domestic copper industry.

Credit challenges

Exposure to the commodity cycle – HCL remains exposed to the movement in international copper prices, leading to volatility in profitability and cash flows. While copper prices were healthy in Q1 FY2023, the same moderated significantly in Q2 FY2023, which would impact the cash accruals of HCL to an extent.

Large planned capital expenditure – HCL has lined up a large capital expenditure plan in the next few years for expansion of its mines. The phasing of the balance capex and the exact funding pattern would remain key rating sensitivities. However, the capital structure is likely to remain at a comfortable level because of regular accruals from the business and equity infusion in FY2022, which would limit its long-term debt requirement.

Adverse cost structure in smelting and refining operations and contingent liabilities – HCL has an adverse cost structure at its copper smelter and refinery in Ghatshila because of the vintage of the plant and lack of economies of scale. Thus, HCL is now focussing on producing and selling MIC only, and production at its smelting and refinery facilities remains marginal.

Environmental and Social Risks

HCL is exposed to environment risks as mining activities could have a negative impact on the local ecology. The company could encounter increasing regulatory oversight and tighter compliance with sustainable mining practices to limit the adverse impact on the environment. Such measures could increase the compliance costs or result in penalties.

Also, rehabilitation and resettlement (R&R) challenges associated with acquisition of large land parcels, especially near densely populated areas, remain an important risk that mining projects encounter frequently. R&R issues delays project implementation schedules and increases project costs.

Liquidity position: Adequate

HCL's liquidity is expected to remain comfortable in the near term given the healthy cash flow from operations. HCL's cash flows would be more than sufficient to meet its debt repayment obligations. While HCL has large capex plans for expansion of its mines, fund infusion of Rs. 500 crore through QIP for the said capex supports its liquidity position. ICRA also takes comfort from the company's public sector undertaking (PSU) status and its existing relationships with banks, which provide financial flexibility to the company in arranging debt at a competitive cost.

Rating sensitivities

Positive factors – A rating upgrade looks unlikely in the near term. However, a significant ramp-up of the mining operations and stabilisation, leading to a significant improvement in scale and profits could be a trigger for a rating upgrade.

Negative factors – The company's ratings may be downgraded in case of a significant deterioration in its performance, leading to net debt/EBITDA (net of cash) remaining above 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating methodology –primary non-ferrous metal manufacturers Rating methodology for mining entities
Parent/Group support	Parent – Government of India (GoI) Although ICRA does not envisage the requirement of any support from the GoI in the near term, however, given its sovereign ownership, ICRA expects the GoI to extend financial support to HCL, should there be a need.
Consolidation/Standalone	Standalone financials have been considered.

About the company

HCL is a public-sector undertaking under the administrative control of the Ministry of Mines, the Government of India (GoI). The GoI holds a 66.14% paid-up equity capital of the company. HCL has five units viz. Malanjkhand Copper Project (MCP) in Madhya Pradesh, Khetri Copper Complex (KCC) in Rajasthan, Indian Copper Complex (ICC) in Jharkhand, Taloja Copper Project (TCP) in Maharashtra and Gujarat Copper Project (GCP) in Gujarat. While ICC is a fully integrated unit (mining, ore beneficiation, smelting and refining), MCP and KCC have mining and ore-beneficiation facilities. GCP, as on date, has a refining facility and Taloja has a wire-rod manufacturing facility. The combined refining and smelting capacity of HCL is 68,500 MT per annum of copper cathode (including the refining plants at ICC and GCP and the smelting capacity of 18,500 MT at ICC). The facility at GCP is suspended at present. The installed capacity at Taloja is 60,000 MT per annum of wire rod. However, as on date, HCL is mainly producing and selling only MIC, and production from other facilities is marginal.

Key financial indicators (audited)

HCL	FY2021	FY2022	Q1 FY2023
Operating income	1796.8	1830.5	346.4
PAT	110.2	374.1	57.1
OPBDIT/OI	35.9%	35.7%	36.0%
PAT/OI	6.1%	20.4%	16.5%
Total outside liabilities/Tangible net worth (times)	1.5	0.5	
Total debt/OPBDIT (times)	1.8	0.6	
Interest coverage (times)	10.1	21.8	30.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2022 (Rs. crore)		Date & Rating in FY2022	Date & Rating in FY2021			Date & Rating in FY2020
					Oct 26, 2022	Oct 29, 2021	Oct 22, 2020	Jul 28, 2020	Apr 27, 2020	May 07, 2019
1	Term Loan	Long-term	250	223	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)
2	Fund-based Facilities	Long-term	350	295	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)
3	Fund-based Facilities	Long term/short term	-			[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA+ (Negative)/ [ICRA]A1+	
4	Non-fund-based Facilities	Short term	150		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
5	Commercial Paper	Short term	100		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
6	Unallocated	Long term/Short term	1350		[ICRA]AA+ (Stable)/ [ICRA]A1+	-				

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loan	Simple
Fund-based Facilities	Simple
Non-fund-based Facilities	Very simple
Commercial Paper	Very simple
Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2017-2019	3.5-4.5%	FY2024	250.0	[ICRA]AA+(Stable)
NA	Fund-based Facilities	-	-	-	350.0	[ICRA]AA+(Stable)
NA	Non-fund-based Facilities	-	-	-	150.0	[ICRA]A1+
NA	Commercial Paper		Not placed yet		100.0	[ICRA]A1+
NA	Unallocated				1350.0	[ICRA]AA+(Stable)/[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

NA

ANALYST CONTACTS

Jayanta Roy
+91 33 7150 1120
jayanta@icraindia.com

Kaushik Das
+91 33 7150 1104
kaushikd@icraindia.com

Priyesh Ruparelia
+91 22 6169 3328
Priyesh.ruparelia@icraindia.com

Sumit Jhunjhunwala
+91 33 7150 1111
sumit.jhunjhunwala@icraindia.com

Maitri Vira
+91 79 4027 1538
maitri.vira@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches