

October 30, 2024^(Revised)

Hindustan Copper Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based – Term loan	250.00	200.00	[ICRA]AA+ (Stable) reaffirmed
Long-term fund-based – Cash credit	350.00	350.00	[ICRA]AA+ (Stable) reaffirmed
Short term non-fund-based- Others	150.00	150.00	[ICRA]A1+ reaffirmed
Long term fund-based- Others	96.00	0.00	-
Long term/Short term - Unallocated limits	1,254.00	1,400.00	[ICRA]AA+ (Stable)/[ICRA]A1+ reaffirmed
Commercial paper	100.00	100.00	[ICRA]A1+ reaffirmed
Total	2,200.00	2,200.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation factors in ICRA's expectation that Hindustan Copper Limited's (HCL) financial performance will remain healthy in FY2025 owing to a sharp increase in copper prices globally. In Q1 FY2025, HCL reported robust profits with an OPBDITA of ~Rs. 189 crore compared to ~Rs. 93 crore in the corresponding period of the previous year. HCL's profits and cash accruals are expected to improve in the current financial year with firm copper prices and stable sales volume of copper metal in concentrate (MIC), leading to an improvement in the debt protection metrics as well. The average copper price on the London Metal Exchange (LME) remained firm at ~\$9493/MT in the current fiscal (till date) from the ~\$8365/MT levels in end-March-2024. Copper prices are expected to remain firm in the near term owing to supply constraints in the global market, thus supporting the overall financial performance of the entity.

ICRA also notes that HCL has entirely shifted the production in the Malanjkhand mine to underground mining from open cast, wherein the production levels are likely to improve, going forward. Additionally, the lease extension of the Surda mines and proposed reopening of the Kendadih and Rakha mines in FY2025 will lead to higher production in Indian Copper Complex, Jharkhand. The overall debt levels have also significantly reduced in recent years compared to the highs of FY2020 and FY2021, which have resulted in a material improvement in the debt coverage indicators for FY2023 and FY2024.

While the entity has continuous capital expenditure plans of Rs. 450-500 crore on an annual basis, the healthy accruals are likely to limit company's long-term debt requirement. This would support the capital structure and debt coverage indicators, going forward, even when copper prices are low. Moreover, after the 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 for availing debt at a competitive cost for funding the ongoing capex, if required.

The ratings also consider the company's exposure to the 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 of the smelting and refining operations of the company's integrated unit in Jharkhand, given the vintage of the plant

and the lack of economies of scale. However, at present, production from these facilities remain suspended with the company focussing on selling only metal in concentrate (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

Financial performance expected to improve in FY2025 – The financial performance is expected to witness a material improvement in FY2025, aided by favourable copper prices. Copper prices have increased significantly in the past six months and are expected to remain healthy in near term. This, along with HCL's stable cost of production, is expected to result in healthy cash accruals relative to the debt service obligations.

Healthy capital structure and liquidity position; comfortable debt coverage indicators – The healthy cash accruals from operations helped deleverage HCL's balance sheet with a significant reduction in the debt level in FY2023 and FY2024. The total debt reduced to Rs. 223 crore as of March 2024 from Rs. 1,137 crore in March 2021. Consequently, the debt coverage indicators remained comfortable with an interest cover of 34 times, total debt/OPBITDA of 0.4 times and DSCR of 4.5 times in FY2024. Despite the large ongoing capex, HCL would be able to fund a substantial portion of its debt via internal accruals, limiting the company's long-term debt requirement, going forward

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, smelters, refineries and rod manufacturing facilities. However, production from the smelting and refining facilities remains suspended at present due to an adverse cost structure and HCL is producing only MIC, 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 significantly increase its ore production capacity in the next few years, leading to economies of scale, 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, resulting in a volatility in profitability and cash flows. In the past, HCL's profitability was impacted by a decline in copper prices.

Adverse cost structure in smelting and refining operations and contingent liabilities – HCL has an adverse cost structure at its copper smelter and refinery in Ghatsila 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.

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

Environmental and Social Risks

HCL is exposed to environmental and social risks as mining activities could have a negative impact on the local ecology and communities. However, all HCL's operational mines are underground, which mitigates the above risk to an extent. Nonetheless, the company could face 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.

An important risk which mining projects encounter frequently are related to project implementation schedules that 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. ICRA also notes that the company has regular capex plans of Rs. 450-500 crore on an annual basis, which would be primarily funded through healthy cash accruals, thus limiting the long-term debt requirement.

Rating sensitivities

Positive factors – A significant ramp-up and stabilisation of the mining operations, leading to a marked improvement in its scale and profits, along with a sustenance of healthy debt protection metrics, could be a trigger for an upgrade.

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Mining Non-Ferrous Metals (Primary Producers)
Parent/Group support	Parent – Government of India (GoI) 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 secondary smelting and refining facility and Taloja has a wire rod manufacturing facility. The smelting and refining facilities at ICC and GCP are suspended at present. TCP's facility is utilised for tolling of cathodes for third parties. As on date, HCL is mainly producing and selling only MIC, and production from other facilities is marginal.

Key financial indicators (audited)

HCL	FY2023	FY2024	Q1FY2025*
Operating income	1677.3	1717.0	493.6
PAT	295.3	295.4	113.4
OPBDIT/OI	33.1%	33.2%	38.2%
PAT/OI	17.6%	17.2%	23.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.4	-
Total debt/OPBDIT (times)	0.3	0.4	-
Interest coverage (times)	32.1	34.4	-

Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	
				Oct 30, 2024	Oct 11, 2023	Sep 29, 2023	Oct 26, 2022	Oct 29, 2021	
1	Term loans	Long term	200.0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
2	Cash credit	Long term	350.0	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
3	Fund-based facilities	Long term/short term	-	-	-	-	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	
4	Fund-based facilities	Long term	0.0	-	[ICRA]AA+ (Stable)	-	-	-	
5	Fund-based facilities	Short term	0.0	-	-	[ICRA]A1+	-	-	
6	Non-fund based facilities	Short term	150.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
7	Commercial paper#	Short term	100.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
8	Unallocated	Long term/short term	1400.0	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term loan	Simple
Long-term fund-based – Cash credit	Simple
Short-term 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 loans	NA	7.65% pa- 7.85% pa	FY2026 FY2027	200.00	[ICRA]AA+(Stable)
NA	Cash credit	NA	7.15%	NA	350.0	[ICRA]AA+(Stable)
NA	Non-fund based facilities	NA	NA	NA	150.00	[ICRA]A1+
NA	Commercial paper#	NA	NA	NA	100.0	[ICRA]A1+
NA	Unallocated	NA	NA	NA	1400.00	[ICRA]AA+ (Stable)/ [ICRA]A1+

Source: Company, # CP is not placed yet; pa-per annum

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not Applicable
CORRIGENDUM

The document dated October 30, 2024, has been corrected with revisions as detailed below:

In Pg 4, Annexure I: Instruments details, the coupon rate has been revised from 4% to 7.65% -7.85% respectively and the maturity has been changed to FY2026 and FY2027.

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