



Hindustan Copper Limited

Instrument	Amount Rated (Rs crore)	Rating action
Fund Based Working Capital Limits	92.5	[ICRA]AA+ (stable) reaffirmed
Non Fund Based Working Capital Limits	100	[ICRA]A1+ reaffirmed

ICRA has reaffirmed the [ICRA]AA+ (pronounced ICRA double A plus)* rating of the Rs 92.5 crore† fund based working capital facilities of Hindustan Copper Limited (HCL). The outlook on the rating is Stable. ICRA has also reaffirmed the [ICRA]A1+ (pronounced ICRA A one plus) rating of the Rs 100 crore non fund based working capital facilities of HCL†.

The rating action continues to take into account the status of the company as the only integrated copper producer in India, with access to large reserves of copper ore in the country, the healthy financial position of the company characterized by healthy profitability and cash accruals, its debt free status and financial flexibility on account of a substantial cash and bank balance and liquid investments. The ratings also continue to factor in the 89.95% shareholding of the GoI in the company and the demonstrated financial support by GoI in the past.

While reaffirming the ratings, ICRA has also taken into account HCL's plan of acquisition of the copper smelter and refinery of Jhagadia Copper Ltd. The total investment for the same is estimated at ~Rs 290 crore, which includes Rs 210 crore for purchase of the assets and additional Rs 80 crore required towards refurbishments of the plant. Although the acquisition is expected to be funded by debt and equity in the ratio of 2:1, HCL's capital structure and coverage indicators would remain favourable going forward. Moreover, ICRA understands that the acquisition is strategic to the company's plans to increase its downstream capacities. The ratings, however, also take into account the exposure of the company to fluctuation in copper prices, which results in volatility in profitability and cash flows, further accentuated by the adverse cost structure in smelting and refining operations of the company because of the vintage of the plant and lack of economies of scale.

Overall concerns about the Chinese economy, where growth is tapering off, and concerns over the level of economic activity in the Euro Zone and Japan, had led to a continued pressure on copper prices at the LME during 2013-14 (CY14). Average LME price during CY14 was around USD 6861/MT, an almost 6% decline from that in CY13. Lower international prices adversely affected HCL's realizations as well, as domestic copper prices have a strong correlation with the LME.

ICRA further notes that the fall in HCL's revenue by ~23% in the first 9 months of the current year (9M FY15) as compared to 9MFY14, was also a result of lower MIC production and consequent sales, apart from lower prices. HCL's MIC production witnessed a de-growth of ~25%, on account of suspension of operation in two of its mines for a significant period, in one due to environmental reasons and another due to regulatory reasons. ICRA however takes cognizance of the fact that the causes of discontinuation have been recently addressed, and the mines are expected to start optimum production in the short term. Lower sales resulted in lower profits as well, which was heightened by HCL's higher per tonne cost of production due to lower overall production.

As per International Copper Study Group, mine production and refined copper production are expected to grow by around 7% and 4% respectively in CY15. With the study group expecting global demand to grow by only ~1%, it expects a large surplus in the refined copper market in CY15. While the actual level of surplus going forward would be determined by the overall recovery of the global economic scenario on one hand and the actual growth in supplies on the other, in ICRA's opinion copper prices are most likely to remain range bound in the short term.

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

† 100 lakh = 1 crore = 10 million



Over the long term, the company's thrust on developing new mines to substantially increase the production of MIC is likely to strengthen its operating profile going forward on account of better economies of scale, use of better mining technology and higher labour productivity. The company has drawn up a large capital expenditure (capex) plan, of around Rs 3,500 crore to develop mines over a five year period, which is likely to quadruple the production of MIC over the long term. While a part of the capex/investment is likely to be funded by debt, generation of healthy cashflows on the back of increasing scale of operations and a better cost structure is likely to keep the overall financial profile of the company healthy going forward.

Company Profile

HCL is a public sector undertaking under the administrative control of the Ministry of Mines, Govt. India. HCL holds 89.95% of the paid up equity capital of the company. HCL has four operating units viz. Khetri Copper Complex (KCC in Rajasthan), Malanjkhand Copper Project (MCP in Madhya Pradesh), Indian Copper Complex (ICC in Jharkhand) and Taloja Copper Project (TCP in Maharashtra). While Khetri and Ghatsila are fully integrated units (mining, ore beneficiation, smelting and refining), Malanjkhand has mining and ore beneficiation facilities while Taloja has wire rod manufacturing facility only. The combined capacity of HCL's smelting and refining capacity is 51,500 MT per annum of copper cathode (including the smelting and refining plant at KCC, which is currently non-operational). The installed capacity at Taloja is 60,000 MT per annum of wire rod.

Recent Results

In 9M FY15, HCL posted a profit after tax (PAT) of Rs. 41.00 crore on the back of operating income of Rs. 769.34 crore as against a PAT of Rs 149.54 crore on an operating income of 1003.07 crore in 9MFY14. During FY14, HCL posted a PAT of Rs. 286.42 on an operating income of Rs. 1512.62 crore.

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