April 27, 2020 Revised

Hindustan Copper Limited: [ICRA]AA+/A1+ ratings reaffirmed, Outlook revised to Negative

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	600	600	[ICRA]AA+ Reaffirmed; Outlook revised to Negative from stable
Fund-based Facilities	350	350	[ICRA]AA+ Reaffirmed; Outlook revised to Negative from stable
Fund-based/Non-fund-based Facilities	650	650	[ICRA]AA+/A1+ Reaffirmed; Outlook revised to Negative from stable
Commercial Paper	100	100	[ICRA]A1+ Reaffirmed
Total	**Rs. 1,700 crore**	**Rs. 1,700 crore**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the outlook considers the correction in copper prices globally, following the outbreak of Covid-19, which is expected to keep Hindustan Copper Limited's (HCL) credit metrics at a weaker level, than previously expected, and the risks of further slippage on the back of weak global macroeconomic outlook. While the impact of the virus outbreak in China (world's largest copper consumer) abated to an extent from around March 2020, leading to some improvement in demand outlook and an increase in copper prices from the low level of $4,600 per MT, the lockdown in India restricted HCL's ability to ship materials, leading to a build-up in inventory. Consequently, an increase in the working capital borrowings, in addition to a higher quantum of term debt availed to fund the ongoing mine expansion projects of the company, are estimated to have led to a deterioration in HCL's capital structure and debt coverage indicators as on March 31, 2020. While the working capital position is likely to ease to an extent going forward, leading to some reduction in total indebtedness of the company, its capital structure and debt coverage indicators would continue to remain under pressure, given the weakness in market conditions.

The ratings factor in the status of HCL as the only integrated copper producer in India, and its healthy margins in the copper business, notwithstanding a correction in average copper prices. The improvement in business margins in the last two years was a result of the company's focus on sale of copper metal in concentrates (MICs). However, MIC sales are lumpy in nature, which leads to volatility in sales and cash flows. ICRA notes that the company is in the process of undertaking a large mine expansion, out of which, in the first phase the company is investing around Rs. 3,500 crore to develop mines, which is likely to quadruple the production of MIC over the long term. While a part of the capex is being funded by additional debt, generation of adequate cash flows, fresh equity infusion, coupled with an increasing scale of operations and a better cost structure are likely to keep the overall financial profile of the company healthy, going forward. The phasing of the balance capex and the exact funding pattern would, nonetheless, remain key rating sensitivities. ICRA takes comfort from the company's public sector undertaking (PSU) status and its existing banking relationships, which provide financial flexibility to the company in arranging debt at competitive cost for funding the ongoing capex.

The ratings, however, also take into account the company's exposure to fluctuation in copper prices, which results in volatility in its profitability and cash flows. This is further accentuated by the adverse cost structure in smelting and refining operations of the company's refinery in Jharkhand, given the vintage of the plant and lack of economies of scale. ICRA also notes that there has been a considerable delay in the ramp up of cathode production from the copper refinery at its Gujarat Copper Project (GCP, erstwhile Jhagadia Copper Ltd). The delay is a result of non-availability of a stable source of raw material. While ramp up in production at GCP would be contingent upon steady supply of raw material, HCL's thrust on developing new mines would substantially increase production of MIC and lead to higher scale of operations. This, coupled with the use of better mining technology and higher labour productivity would support HCL's efforts in reducing its production costs, going forward. Consequently, ICRA expects HCL's debt coverage indicators to remain healthy.

Key rating drivers and their description

Credit strengths

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.

Improving business margin – HCL's gross business margin is improving because of its focus on selling copper MIC. However, lumpy nature of MIC sales leads to volatility in cash flow.

Strategic initiatives to strengthen operating profile – HCL's strategic initiatives to reduce its cost of production and improve by-product recovery are likely to strengthen its operating profile, going forward.

Thrust on developing mines to increase in-house ore – 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

Deterioration in debt protection metrics – HCL's debt protection metrics has weakened in the recent years because of the debt-funded capex and lack of return from these investments given the long gestation period of mining projects.

Exposure to the commodity cycle – HCL remains exposed to the movement in international copper prices, leading to a volatility in profitability and cash flows.

Adverse cost structure in smelting and refining operations in Jharkhand – HCL has an adverse cost structure at its copper smelter and refinery in Ghatshila as a result of the vintage of the plant and lack of economies of scale.

Large planned capital expenditure, a part of which is likely to be debt-funded – HCL has lined up a large capital expenditure plan in the next few years. A part of the capex is likely to be debt-funded. However, the capital structure is likely to remain at a comfortable level as a result of regular accruals from business.

Liquidity position: Adequate

HCL's liquidity remans adequate on account of its steady cash flows from operations, notwithstanding a moderation in the last six months. HCL has long-term debt repayment liabilities of ~Rs. 257 crore in the next one year, which the company is expected to comfortably meet from its operational cash flows. ICRA takes comfort from the company's public sector undertaking (PSU) status and its existing banking relationships, which provide financial flexibility to the company in arranging debt at competitive cost.

Rating sensitivities

Positive triggers – Given the Negative outlook, a rating upgrade in the near term is unlikely. However, ICRA could change the outlook to Stable if an improvement in market conditions leads to a recovery in copper prices, which in turn would result in an improvement in debt protection metrics.

Negative triggers – The company's ratings may be downgraded if copper prices decline due to a deterioration in market conditions, leading to a weakening in debt coverage indicators of the company. Specific metric that could lead to a downward revision of ratings is Total Debt/EBITDA remaining materially above 2.75 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Primary Non-Ferrous Metal Manufacturers
Parent/Group Support	Not Applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the standalone financials of HCL

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 76.05% of the paid-up equity capital of the company. HCL has five operating units viz. Khetri Copper Complex (KCC) in Rajasthan, the Malanjkhand Copper Project (MCP) in Madhya Pradesh, the Indian Copper Complex (ICC) in Jharkhand, the Gujarat Copper Project (GCP) in Gujarat and the Taloja Copper Project (TCP) in Maharashtra. While ICC is fully-integrated units (mining, ore beneficiation, smelting and refining), MCP and KCC has mining and ore-beneficiation facilities. GCP, as on date, has a refining facility and Taloja has a wire-rod manufacturing facility. The combined refining capacity of HCL as on date 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 (the smelting plant at ICC). The installed capacity at Taloja is 60,000 MT per annum of wire rod.

In 9M FY2020, HCL reported a net loss of Rs. 54.8 crore on the back of an operating income of Rs. 713.6 crore. In FY2019, HCL registered a net profit of Rs. 145.7 crore on the back of an operating income of Rs. 1,811.3 crore.

Key Financial Indicators (Audited)

	FY2017	FY2018	FY2019	9M FY2020 (Provisional)
Operating Income (Rs. crore)	1179.2	1674.1	1811.3	713.6
PAT (Rs. crore)	62.2	79.8	145.7	-54.8
OPBDIT/ OI (%)	18.24%	16.90%	28.72%	27.4%
RoCE (%)	7.32%	9.14%	17.94%	
Total Debt/ TNW (times)	0.3	0.4	0.7	
Total Debt/ OPBDIT (times)	2.2	2.3	2.1	
Interest Coverage (times)	19.6	12.0	9.1	4.5
DSCR	1.2	2.2	-0.6	
TOL/TNW	0.8	1.0	2.2	

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					27-Apr-20	07-May-19	06-Apr-18	12-May-17
1	Term Loan	Long Term	600	810.35[1]	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Fund-based Facilities	Long Term	350	-	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
3	Fund-based Facilities/ Non-fund-based Facilities	Long Term/Short Term	650	-	[ICRA]AA+ (Negative))/A1+			
5	Commercial Paper	Short Term	100	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

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

[1] Out of Rs 810.35 crore of outstanding term loan, ICRA has rated Rs 600 crore

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2017-FY2019	3.5-4.5%	FY2021-FY2025	600[2]	[ICRA]AA+ (Negative)
NA	Fund-based Facilities	-	-	-	350	[ICRA]AA+ (Negative)
NA	Fund-based /Non Fund-based - facilities	-	-	-	650	[ICRA]AA+ (Negative)/A1+
NA	Commercial Paper[3]	-	-	-	100	[ICRA]A1+

Source: Hindustan Copper Limited

[2] HCL's rated limits of term loans is Rs 600, however, the company's outstanding exposure of terms loans is higher. The details provided are for the rated limits

[3] Yet to be placed

Corrigendum

Rationale dated April 27, 2020 has been corrected with revisions as follows:

- Table containing Key financial indicators updated with inclusion of DSCR and TOL/TNW for FY2017, FY2018 and FY2019

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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.

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