July 28, 2020

# Hindustan Copper Limited: Ratings revised [ICRA]AA (Stable)/A1+

## Summary of rated instruments

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Term Loan | 600 | 785 | Revised from [ICRA]AA+ to [ICRA]AA<br>Outlook changed to Stable from Negative |
| Fund-based Facilities | 350 | 350 | Revised from [ICRA]AA+ to [ICRA]AA<br>Outlook changed to Stable from Negative |
| Fund-based/Non-fund-based Facilities | 650 | 465 | Revised from [ICRA]AA+/A1+ to [ICRA]AA/A1+<br>Outlook on long-term rating changed to Stable from Negative |
| 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 long-term rating reflects the deterioration in Hindustan Copper Limited's (HCL) capital structure and debt coverage indicators as on March 31, 2020, and ICRA's expectation that the company's gearing will remain elevated in the near term at least. The weakening of HCL's capital structure is a result of large losses of Rs. 514 crore reported by the company in Q4 FY2020 (Rs. 569 crore for the full year FY2020) following subdued copper prices, lower sales volume due to delay in execution of sales contracts, and one-time losses booked by the company on account of reconciliation of the carrying value of its inventory. The overall debt quantum of HCL had increased significantly to Rs. 1,564 crore as on March 31, 2020 from Rs. 1,070 crore as on March 31, 2019 because of higher working capital requirement and debt availed to fund the ongoing mine expansion projects of the company. ICRA however, notes that the working capital position has eased to an extent in the last four months, leading to some reduction in the company's total outstanding debt as on date. Nevertheless, HCL's liquidity position in the near term will be affected by a significant amount of short-term debt contracted by the company to meet its business requirements. The revision in the outlook considers the buoyant trend in international copper prices in the recent months, which along with a decline in treatment and refining charges (Tc/Rc), would benefit integrated copper manufacturers such as HCL. However, the extent of improvement in FY2021 would be contingent upon sustainability of such price trends as well as an increase in the company's overall scale of operations, both of which remains to be seen, given the adverse operating environment in the aftermath of the Covid-19 pandemic.

The ratings continue to factor in the status of HCL as the only integrated copper producer in India. The improvement in business margins in FY2018 and FY2019 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. 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 remain key rating sensitivities. ICRA takes comfort from the company's 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.

The ratings, however, also consider 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 the 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 materials. ICRA also takes cognisance of HCL's large inventory that was written off in Q4 FY2020. While the large write -off of inventory impacts HCL's earning potential in the short to medium term, its thrust on developing new mines would substantially increase production of MIC and lead to higher scale of operations in the long term. This, coupled with the use of better mining technology and higher labour productivity would support HCL's efforts in reducing its production costs. Consequently, ICRA expects HCL's debt coverage indicators to improve, going forward.

## 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.

**Business margin likely to improve** – HCL's gross business margin is likely to improve 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 capital structure and debt coverage indicators in FY2020 –** HCL's capital structure weakened in FY2020 because of erosion in its tangible net worth position and higher quantum of debt availed to fund its working capital requirement and mining expansion projects. Moreover, lower absolute profits and cash flows led to a weakening of the debt coverage indicators as well.

**Weakening in debt protection metrics** – HCL's debt protection metrics 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 because 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 because of regular accruals from the business.

## Liquidity position: Adequate

HCL's liquidity remans adequate on account of its steady cash flow 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. With the current buoyancy in copper prices, HCL's cash flows would be more than sufficient to meet its debt repayment obligations. ICRA 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 triggers** – ICRA could upgrade HCL's long-term rating if the company is able to profitably scale up its mining operations and copper recycling operations. Specific trigger for a rating upgrade would be net debt/EBITDA below 0.5 times on a sustained basis.

**Negative triggers** – The company's ratings can be downgraded if its net debt/EBITDA remains above 2.75 times on a sustained basis. Further extraordinary losses including inventory write-offs or impairment charges that impact the liquidity position of the company would also be triggers for ratings downgrade.

## Analytical approach

| Analytical Approach | Comments |
| --- | --- |
| Applicable Rating Methodologies | Corporate Credit Rating Methodology<br>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 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 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 (the smelting plant at ICC). The installed capacity at Taloja is 60,000 MT per annum of wire rod.

In FY2020, HCL reported a net loss of Rs. 569.1 crore on the back of an operating income of Rs. 831.9 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 | FY2020 |
|---|---|---|---|---|
| Operating Income (Rs. crore) | 1179.2 | 1674.1 | 1811.3 | 831.9 |
| PAT (Rs. crore) | 62.2 | 79.8 | 145.7 | -569.1 |
| OPBDIT/ OI (%) | 18.24% | 16.90% | 28.72% | -29.53% |
| RoCE (%) | 7.32% | 9.14% | 17.94% | -32.13% |
| | | | | |
| Total Debt/ TNW (times) | 0.3 | 0.4 | 0.7 | 1.6 |
| Total Debt/ OPBDIT (times) | 2.2 | 2.3 | 2.1 | -6.4 |
| Interest Coverage (times) | 19.6 | 12.0 | 9.1 | -4.1 |

## 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 | Date & Rating in FY2020 | Date & Rating in FY2019 | Date & Rating in FY2018 |
| | | | | | 28-Jul-20 | 27-Apr-20 | 07-May-19 | 06-Apr-18 | 12-May-17 |
| 1 | Term Loan | Long Term | 785 | 810.35[1] | [ICRA]AA (Stable) | [ICRA]AA+ (Negative) | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) |
| 2 | Fund-based Facilities | Long Term | 350 | - | [ICRA]AA (Stable) | [ICRA]AA+ (Negative) | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) | [ICRA]AA+ (Stable) |
| 3 | Fund-based Facilities/ Non-fund-based Facilities | Long Term /Short Term | 465 | - | [ICRA]AA (Stable)/A1+ | [ICRA]AA+ (Negative)/A1+ | | | |
| 5 | Commercial Paper | Short Term | 100 | - | [ICRA]A1+ | [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 | 785[2] | [ICRA]AA (Stable) |
| NA | Fund-based Facilities | - | - | - | 350 | [ICRA]AA (Stable) |
| NA | Fund-based /Non Fund-based - facilities | - | - | - | 465 | [ICRA]AA (Stable)/A1+ |
| NA | Commercial Paper[3] | - | - | - | 100 | [ICRA]A1+ |

*Source: Hindustan Copper Limited*

[2] HCL's rated limits of term loans is Rs 785 crore, however, the company's outstanding exposure of terms loans is higher. The details provided are for the rated limits

[3] Yet to be placed

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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.

For more information, visit www.icra.in

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