October 29, 2021

Hindustan Copper Limited: Long term rating upgraded to [ICRA]AA+(Stable) and short-term rating reaffirmed at [ICRA]A1+

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	1053.75	876.50	[ICRA]AA+(Stable) upgraded from [ICRA]AA(Stable)
Fund-based Facilities	350.00	350.00	[ICRA]AA+(Stable) upgraded from [ICRA]AA(Stable)
Fund-based Facilities	546.25	723.50	[ICRA]AA+(Stable) upgraded from [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	**2,200**	**2,200**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in the long-term rating factors in ICRA's expectation of a further improvement in Hindustan Copper Limited's (HCL) financial performance in FY2022 after a material improvement in FY2021 owing to a sharp increase in copper prices globally. In Q1 FY2022, HCL reported robust profits despite lower sales volumes. HCL's profits and cash accruals are expected to improve significantly in the current financial year with firm copper prices and higher sales volumes of copper metal in concentrate (MIC) leading to a significant improvement in the debt metrics as well.

While revising the ratings, ICRA also takes note of HCL's ongoing large capital expenditure for expansion of its mines, which is likely to quadruple the production of MIC over the long term. Given the equity infusion of Rs 500 crore via Qualified Institutional Placement (QIP) route in April 2021 and expectation of strong 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 also lend support to the capital structure and debt coverage indicators, going forward, even in a scenario of lower copper prices. Moreover, post the expansion, the company will benefit from a substantial increase in its scale of operation and better quality 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 refinery in Jharkhand, given the vintage of the plant and the lack of economies of scale. However, at present, the production from these facilities are minimal with the company focussing on selling MIC. ICRA also notes that in FY2021, HCL had made huge provisions for impairment of its assets at Gujarat Copper Project (GCP), which adversely impacted its net profits. Going forward, any such large write offs will be a key monitorable.

The Stable outlook on the [ICRA]AA+ rating reflects ICRA's opinion that HCL will generate healthy cash flows going forward, owing to buoyant copper prices at present and would also 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

Material improvement in financial performance expected in FY2022 – The financial performance of HCL is expected to witness a material improvement in FY2022, aided by favourable copper prices. The copper prices have increased substantially in the past one year and are expected to remain firm in the near term. This, along with HCL's stable cost of production is expected to favourably benefit the company.

Significant improvement in capital structure, liquidity and debt coverage indicators – Healthy cash accruals from operations would help the company deleverage its balance sheet with a significant reduction in debt levels expected in the current year. Moreover, Rs. 500 crore of equity infusion in April 2021 further led to an improvement in the capital structure. The company's cash flows are expected to remain healthy as copper prices are expected to sustain at a firm level over the near term. Consequently, the debt coverage indicators are also expected to improve. Despite the large ongoing capex, HCL would be able to fund a substantial portion of the same 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, smelter, refinery and rod manufacturing facilities. However, due to an adverse cost structure at its smelting and refining operations, production from these facilities remain minimal at present 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 a volatility in profitability and cash flows.

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 remain marginal.

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.

Liquidity position: Adequate

HCL's liquidity is expected to remain comfortable in the near term given the healthy cash flow from operations. As a result, HCL has been able to significantly reduce its total debt in the current financial year. With the current buoyancy in copper prices, 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 can be downgraded if its net debt/EBITDA is above 1.5 times on a sustained basis. Further extraordinary losses including any large inventory write-offs could also be triggers for ratings revision.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology] [Rating Methodology for Primary Non-Ferrous Metals Manufacturers]
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. Khetri Copper Complex (KCC) in Rajasthan, Malanjkhand Copper Project (MCP) in Madhya Pradesh, Indian Copper Complex (ICC) in Jharkhand, Gujarat Copper Project (GCP) in Gujarat and 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. However, as on date, HCL is mainly producing and selling only MIC, and production from other facilities are marginal.

Key financial indicators (audited)

HCL	FY2020	FY2021	Q1 FY2022
Operating Income (Rs. crore)	828.3	1786.8	267.6
PAT (Rs. crore)	-569.4	110.2	45.7
OPBDIT/OI (%)	-27.1%	35.6%	54.3%
PAT/OI (%)	-68.7%	6.2%	17.1%
Total Outside Liabilities/Tangible Net Worth (times)	2.2	1.5	
Total Debt/OPBDIT (times)	-7.0	1.8	
Interest Coverage (times)	-3.6	9.9	13.3

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 (FY2022)				Chronology of Rating History for the past 3 years				
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Sep 30, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021			Date & Rating in FY2020	Date & Rating in FY2019
					Oct 29, 2021	Oct 22, 2020	Jul 28, 2020	Apr 27, 2020	May 07, 2019	Apr 06, 2018
1	Term Loan	Long-term	876.50	769.08	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Fund-based Facilities	Long-term	350.00	-	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
3	Fund-based Facilities	Long term/short term	723.50	-	[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	150.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+		
5	Commercial Paper	Short term	100.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

&= Under watch with developing implications

Complexity level of the rated instruments

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

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 analyzing 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No/ Banker Name	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%	FY2027	876.50	[ICRA]AA+(Stable)
NA	Fund-based Facilities	-	-	-	350.00	[ICRA]AA+(Stable)
NA	Fund-based Facilities	-	-	-	723.50	[ICRA]AA+(Stable)/[ICRA]A1+
NA	Non-fund-based Facilities	-	-	-	150.00	[ICRA]A1+
NA	Commercial Paper	Not placed yet			100.00	[ICRA]A1+

Source: *Company*

Annexure-2: 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 61693328
Priyesh.ruparelia@icraindia.com

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

Maitri Vira
+91 33 7150 1103
maitri.vira@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@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

© Copyright, 2021 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.