Hindustan Copper Limited

May 07, 2019

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	150	600	[ICRA]AA+ (Stable); Reaffirmed
Fund-based Facilities	250	350	[ICRA]AA+ (Stable); Reaffirmed
Fund-based Facilities	300	0	-
Non-fund-based Facilities	450	0	-
Fund-based/Non-fund-based Facilities	0	650	[ICRA]AA+(Stable)/[ICRA]A1+; Reaffirmed
Commercial Paper	100	100	[ICRA]A1+; Reaffirmed
Total	**1250**	**1700**	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation considers the significant improvement in HCL's business margin during 9m FY2019 (from 13.7% in FY2018 to 26.5%) and cash flows because of higher mine production and consequent sales thereof, and higher copper prices in the domestic market. ICRA notes that in FY2019, copper prices in India were bullish as a result of the depreciation in the INR and higher premiums as a result of a shortage of the metal in the domestic physical market. The ratings also favourably factor in HCL's mine expansion plans, which are under way at present, and the sizeable investments that the company is making to expand its capability in recovering byproducts during the copper-production process. Such efforts, although debt-funded, are likely to strengthen the company's overall operating profile further in the long run.

The ratings continue to factor in the status of HCL as the only integrated copper producer in India, its healthy financial position, characterised by low gearing and healthy coverage indicators. ICRA notes that the company has drawn up a large capital expenditure (capex) plan of around Rs. 5,500-crore to develop mines over the next few years, which is likely to quadruple the production of metal in concentrate (MIC) over the long term. While a part of the capex is likely to be funded by additional debt, generation of healthy cash flows, fresh equity infusion, coupled with increasing scale of operations and a better cost structure are likely to keep the overall financial profile of the company strong, going forward. The phasing of the capex and the exact funding pattern would, nonetheless, remain a key rating sensitivity.

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. Nevertheless, 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. While assigning the rating, ICRA has also taken into consideration the 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 for the plant. HCL's Gujarat copper plant is designed to recycle copper from electronic grade copper scrap. The company's ability to secure a long-term and stable source of such scrap would be a key determinant of the scale-up of the plant.

Outlook: Stable

ICRA believes that HCL would continue to generate healthy cash flows on account of a stable outlook on international copper prices. The outlook may be revised to Positive if there is a significant improvement in the company's free cash flows on a sustainable basis. The outlook may be revised to a if there is a reversal in international copper prices, on a sustained basis.

Key rating drivers

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.

Healthy financial position and considerable financial flexibility – HCL's financial position remains healthy as indicated by a comfortable capital structure (gearing of 0.4 times as on March 31, 2018) and favourable debt-coverage indicators (interest cover of 9.4 times in 9m FY2019). The comfortable capital structure provides considerable financial flexibility to the company.

Strategic initiatives to strengthen operating profile – HCL's strategic initiatives to reduce its cost of production and improve by-product recovery is 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

Exposure to the commodity cycle – HCL remains exposed to the volatility in international copper prices, leading to 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, 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 the healthy accrual and planned equity infusion.

Liquidity position

HCL's strong balance sheet position provides the company financial flexibility which would help it generate adequate funds for its capital expenditure. Fund flow from operations is also likely to remain strong, which in turn would keep the company's liquidity position healthy.

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, Government of India (GoI). The GoI holds a 70.36% 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 KCC and ICC are fully-integrated units (mining, ore beneficiation, smelting and refining), MCP has mining and ore-beneficiation facilities. GCP, as on date, has a refining facility and Taloja has a wire-rod manufacturing facility. The smelting operation at GCP is expected to start soon. The smelting and refining operations at KCC are suspended at present due to the high cost of operations at the plant. 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.

Key Financial Indicators (Audited)

	FY 2017	FY 2018	9MFY2019 (Provisional)
Operating Income (Rs. crore)	1129.7	1628.4	1365.2
PAT (Rs. crore)	62.2	79.8	106.2
OPBDIT/ OI (%)	14.17%	13.72%	26.5%
RoCE (%)	7.32%	9.14%	
Total Debt/ TNW (times)	0.3	0.4	
Total Debt/ OPBDIT (times)	2.9	2.9	
Interest coverage (times)	14.6	9.5	9.4

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2020) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating May 2019	Chronology of Rating History for the past 3 years Date & Rating in FY2019 Apr-18	Date & Rating in FY2018 May-17	Date & Rating in FY2017 Aug-16
1	Term Loan	Long Term	600	577	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	
2	Fund-based Facilities	Long Term	350	75	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
3	Fund-based Facilities/ Non-fund-based Facilities	Long Term/ Short Term	650	-	[ICRA]AA+ (Stable)/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

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	[ICRA]AA+ (Stable)
NA	Fund-based Facilities	-	-	-	350	[ICRA]AA+ (Stable)
NA	Fund-based /Non Fund-based - facilities	-	-	-	300	[ICRA]AA+ (Stable)/A1+
NA	Commercial Paper[1]	-	-	-	100	[ICRA]A1+

Source: Hindustan Copper Limited

[1] 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.

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