

October 22, 2020

Hindustan Copper Limited: Ratings reaffirmed at [ICRA]AA (Stable)/A1+, rated amount enhanced

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loan	785	1053.75	[ICRA]AA (Stable) reaffirmed
Fund-based Facilities	350	350.00	[ICRA]AA (Stable) reaffirmed
Fund-based/Non-fund-based Facilities	465	0	-
Fund-based Facilities	0	546.25	[ICRA]AA(Stable)/A1+ reaffirmed
Non-fund-based Facilities	0	150.00	[ICRA] A1+ reaffirmed
Commercial Paper	100	100.00	[ICRA]A1+ Reaffirmed
Total	Rs. 1,700 crore	Rs. 2,200 crore	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings take into account 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 H1 FY2021, 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 stable 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. The favourable price dynamics resulted in a healthy improvement in HCL's financial performance in Q1FY2021. However, the extent of such improvement for the full year 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). ICRA notes that the company is in the process of undertaking a large mine

expansion. In the first phase, the company is undertaking around Rs. 2,500 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 remains adequate on account of its steady cash flow from operations, notwithstanding a moderation in FY2020. 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 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.

During Q1 FY2021, HCL reported a net profit of Rs 29.46 crore on the back of an operating income of Rs 431.43 crore.

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	828.3
PAT (Rs. crore)	62.2	79.8	145.5	-569.4
OPBDIT/ OI (%)	18.2%	16.9%	28.7%	-27.1%
PAT/OI (%)	5.3%	4.8%	8.0%	-68.7%
Total Outside Liabilities/ TNW (times)	0.7	0.8	1.0	2.2
Total Debt/ OPBDIT (times)	2.2	2.3	2.1	-7.0
Interest Coverage (times)	19.6	12.0	9.1	-3.6

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	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					22-Oct-20	28-Jul-20	24-Apr-20	07-May-19	06-Apr-18	12-May-17
1	Term Loan	Long Term	1053.75	1040.03	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Fund-based Facilities	Long Term	350	211.08	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
3	Fund-based Facilities	Long Term/Short Term	546.25	219.50	[ICRA]AA (Stable)/A1+					
4	Non Fund based Facilities	Short Term	150		[ICRA]A1+					
5	Commercial Paper	Short Term	100	-	[ICRA]A1+	[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

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- FY2020	3.5-8.5%	FY2021- FY2025	1053.75	[ICRA]AA (Stable)
NA	Fund-based Facilities	-	-	-	350	[ICRA]AA (Stable)
NA	Fund-based Facilities	-	-	-	546.25	[ICRA]AA (Stable)/A1+
NA	Non Fund based Facilities	-	-	-	150	[ICRA]A1+
NA	Commercial Paper ¹	-	-	-	100	[ICRA]A1+

Source: Hindustan Copper Limited

¹ Yet to be placed

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