October 11, 2023

Hindustan Copper Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	250.00	250.00	[ICRA]AA+ (Stable) reaffirmed
Long-term Fund-based – Cash Credit	350.00	350.00	[ICRA]AA+ (Stable) reaffirmed
Short term non-fund-based-Others	150.00	150.00	[ICRA]A1+ reaffirmed
Short term Fund-based-Others	125.00	0.00	-
Long term Fund-based- Others	0.00	96.00	[ICRA]AA+ (Stable) reaffirmed
Long-term/short-term Unallocated Limits	1,225.00	1,254.00	[ICRA]AA+ (Stable)/[ICRA]A1+ reaffirmed
Commercial Paper	100.00	100.00	[ICRA]A1+ reaffirmed
Total	**2,200.00**	**2,200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in ICRA's expectation that Hindustan Copper Limited's (HCL) financial performance will remain stable in FY2024 on the back of commencement of production from Malanjkhand's underground mines in FY2023. While the average copper price on London Metal Exchange (LME) has moderated in the current fiscal (till date) from the level of ~$9,000/MT in end-March 2023, the increase in sales volume is expected to offset the impact on profits to an extent. The overall debt levels have also significantly reduced owing to prepayments/scheduled repayments done in FY2022 and FY2023, which resulted in a material improvement in debt coverage indicators, which are likely to remain healthy in the near-to-medium term. HCL plans to fund the large portion of the capital expenditure (capex) through internal accruals and the unutilised portion (~Rs. 250 crore) of the Qualified Institutional Placement (QIP) fund raised in April 2021, limiting the company's long-term debt requirement. This would support the capital structure and debt coverage indicators, going forward, even in a scenario of lower copper prices. Moreover, post stabilisation of the recently commenced mines, the company will benefit from the increase in its scale of operation and better grade 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 for availing 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 refineries in Jharkhand, given the vintage of the plant and the lack of economies of scale. However, at present, production from these facilities is minimal with the company focussing on selling only metal in concentrate (MIC).

The Stable outlook on the [ICRA]AA+ rating reflects ICRA's opinion that HCL will generate healthy cash flows, going forward, and will 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

Healthy capital structure, liquidity position and comfortable debt coverage indicators – Healthy cash accruals from operations helped the company deleverage its balance sheet with a significant reduction in debt level in FY2022 and FY2023. The total debt reduced to Rs. 157 crore as of March 2023 from Rs. 1,137 crore in March 2021. Consequently, the debt coverage indicators remained comfortable with an interest cover of 32 times, net debt/OPBITDA of (0.3) times and DSCR of 2.8 times in FY2023. Despite the large ongoing capex, HCL would be able to fund a substantial portion of the same via QIP funds already raised and internal accruals, limiting the company's long-term debt requirement, going forward.

Financial performance to remain healthy in FY2024 – The financial performance is expected to remain healthy in the current fiscal with the commencement of production from Malanjkhand mines, resulting in higher volumes. The copper prices, despite a moderation in the recent months, remain comfortable and are expected to remain range-bound in the near term. This, along with HCL's stable cost of production, is expected to result in healthy cash accruals relative to debt service obligations.

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, production from smelting and refining facilities remain minimal at present due to an adverse cost structure and HCL is producing only MIC, 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, 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 volatility in profitability and cash flows. In the past, HCL's profitability has been impacted due a decline in copper prices.

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.

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 remains marginal.

Environmental and Social Risks

Environmental considerations: HCL is exposed to environmental risks as mining activities could have a negative impact on the local ecology. The company could face increasing regulatory oversight and tighter compliance with sustainable mining practices to limit the adverse impact on the environment. Such measures could increase the compliance costs or result in penalties.

Social considerations: Also, rehabilitation and resettlement (R&R) challenges associated with the acquisition of large land parcels, especially near densely populated areas, remain an important risk that mining projects encounter frequently. R&R issue delays project implementation schedules and increases project costs.

Liquidity position: Adequate

HCL's liquidity is expected to remain comfortable in the near term, given the healthy cash flow from operations. 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, the unutilised portion of QIP 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 availing 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 its scale and profits, could be a trigger for a rating upgrade.

Negative factors – The company's ratings may be downgraded in case of a significant deterioration in its performance, leading to net debt/EBITDA (net of cash) remaining above 1.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Primary Non-Ferrous Metal Manufacturer Rating methodology for mining – others
Parent/Group support	Parent – Government of India (GoI) 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. Malanjkhand Copper Project (MCP) in Madhya Pradesh, Khetri Copper Complex (KCC) in Rajasthan, Indian Copper Complex (ICC) in Jharkhand, Taloja Copper Project (TCP) in Maharashtra and Gujarat Copper Project (GCP) in Gujarat. 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 secondary smelting and refining facility and Taloja has a wire-rod manufacturing facility. The facility at GCP is suspended at present. TCP's facility is utilised for tolling of cathodes for third parties. As on date, HCL is mainly producing and selling only MIC, and production from other facilities is marginal.

Key financial indicators (audited)

HCL	FY2022	FY2023	Q1FY2024
Operating income	1,821.0	1677.1	370.9
PAT	373.8	295.3	47.3
OPBDIT/OI	28.7%	33.1%	25.1%
PAT/OI	20.5%	17.6%	12.7%
Total outside liabilities/Tangible net worth (times)	0.5	0.4	
Total debt/OPBDIT (times)	0.8	0.3	
Interest coverage (times)	17.4	32.1	23.5

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)					Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021		
					Oct 11, 2023	Sep 29, 2023	Oct 26, 2022	Oct 29, 2021	Oct 22, 2020	Jul 28, 2020	Apr 27, 2020
1	**Term loans**	Long term	250.0	113.4	**[ICRA]AA+ (Stable)**	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)
2	**Cash Credit**	Long term	350.0	43.0	**[ICRA]AA+ (Stable)**	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA+ (Negative)
3	**Fund-based Facilities**	Long term/short term	-	-	**-**	-	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	[ICRA]AA+ (Negative)/ [ICRA]A1+
4	**Fund-based Facilities**	Long term	96.0		**[ICRA]AA+ (Stable)**	-	-	-	-	-	-
5	**Fund-based Facilities**	Short term	0.0	-	**-**	[ICRA]A1+	-	-	-	-	-
6	**Non-fund based Facilities**	Short term	150.0	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
7	**Commercial Paper#**	Short term	100.0	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
8	**Unallocated**	Long term/short term	1254.0	-	**[ICRA]AA+ (Stable)/ [ICRA]A1+**	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	-	-	-

CP is not placed yet

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term fund-based – Cash Credit	Simple
Long-term Fund-based Facilities	Simple
Short-term Non-Fund-based Facilities	Very Simple
Commercial Paper	Very Simple
Unallocated	NA

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 analysing 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 are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loans	FY2017-FY2019	4%	FY2024	250.0	[ICRA]AA+(Stable)
NA	Cash Credit	NA	7.15%	NA	350.0	[ICRA]AA+(Stable)
NA	Fund based facilities	NA	NA	NA	96.0	[ICRA]AA+(Stable)
NA	Non-fund-based Facilities	NA	NA	NA	150.0	[ICRA]A1+
NA	Commercial Paper#	NA	NA	NA	100.0	[ICRA]A1+
NA	Unallocated	NA	NA	NA	1254.0	[ICRA]AA+ (Stable)/ [ICRA]A1+

Source: Company; # CP is not placed yet

Please click here to view details of lender-wise facilities rated by ICRA.

Annexure II: List of entities considered for consolidated analysis – Not applicable.

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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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