

Hindustan Copper

Stretched Valuations

Government of India is divesting 37,008,720 shares (4% stake) in Hindustan Copper Ltd. (HCL) with an option to sell an additional 51,714,580 shares. It has set a floor price of ₹155 for the issue. **We recommend investors to AVOID subscribing to shares due to expensive valuation.**

Company overview

HCL was incorporated in 1967 to take over NMDC's copper mines and plants. The company's core business includes exploration, mining beneficiation, smelting, refining and casting of finished copper. The company has four operating units namely Khetri Copper Complex in Rajasthan, Indian Copper Complex in Bihar (both mining cum metallurgical complex), Malanjkhand Copper Complex in M.P. (mining complex) & Taloja copper project in Maharashtra (collaboration with Southwire Company, US). The company's copper reserves and resources in accordance with JORC standard are 411mn tonnes (average grade 1.05%) and 623mn tonnes (Average grade 1.04%) as on April 1, 2010, respectively, making it the largest copper company in India.

Investment arguments

Expanding capacity to fully exploit India's copper ore demand: India has a large imbalance between its smelting/refining capacity as against its copper mining capacity. Currently India's smelting/refining capacity stands at 1MTPA for which 100MT of copper ore is required (assuming 1% cu). Currently India's actual copper ore production stands at 3.2MTPA which is entirely produced by HCL. So in order to capitalize on this sustained demand, HCL plans to ramp up its production capacity from the current 3.2MTPA to 12.4MTPA by FY2018 at a capex of ₹2,500cr. The company aims to expand its Malanjkhand, Khetri, Kolihan and Surda mines and Banwas Mine; further, it aims to re-open Rakha and Kendadih mines and develop new mine Chapri-Sidheswar.

Single vertically integrated player in India: HCL is the only vertically integrated player in India which has its operations span across the entire value chain. Their core operations include mining of copper ore, concentration of copper ore into copper concentrate through a beneficiation process and also smelting, refining and extruding of the copper concentrate into refined copper in downstream saleable products.

Possesses first mover advantage: Copper mining requires substantial investments and time for greenfield projects to be set up. Also many clearances need to be obtained from the Government for the same. This entails a lot of entry barriers in this industry. HCL on the other hand has all its mining complexes near the major copper ore deposits of the country. Thus any greenfield projects undertaken by the company can rely on its existing infrastructure. Moreover, HCL has applied for prospecting, mining and Reconnaissance Permit in the states of Rajasthan, Jharkhand, Madhya Pradesh and Haryana.

Valuation: Although HCL is the only vertically integrated copper producer in India, the stock is currently trading at an expensive valuation of 44.4x FY2012 EV/EBITDA due to low free float (0.41% of its market cap). Even at a floor price of ₹155, it is trading at FY2012 EV/EBITDA of 24.5x, which is expensive compared to its peers. Miners such as Coal India, MOIL and NMDC are trading in the range of 5-10x FY2012 EV/EBITDA. **Hence, we recommend investors to AVOID subscribing to HCL issue.**

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Profit & loss statement (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012
Net Sales	1,210	1,319	1,171	1,492
% chg	(24.1)	9.0	(11.2)	27.4
Total Expenditure	1,297	1,134	790	961
EBIDTA	(88)	184	381	530
(% of Net Sales)	(7.3)	14.0	32.5	35.6
Other Income	120	53	56	88
Depreciation & Amortisation	19	18	97	144
Interest	8	3	4	2
PBT	5	216	335	473
(% of Net Sales)	0.5	16.4	28.6	31.7
Extraordinary Expense/(Inc.)	(3)	1	(1)	(1)
Tax	16	61	111	149
(% of PBT)	288.1	28.3	33.1	31.6
PAT	(7)	154	226	324
% chg	-	-	46.3	43.7
Ad. PAT	(10)	155	224	323
% chg	-	-	44.9	44.3

Balance sheet (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012
SOURCES OF FUNDS				
Equity Share Capital	463	463	463	463
Reserves & Surplus	505	660	719	935
Shareholders Funds	968	1,123	1,182	1,398
Share warrants	-	-	-	-
Minority Interest	-	-	-	-
Total Loans	36	0.05	-	-
Other Liabilities	-	-	77	85
Deferred Tax Liability (net)	(54)	(57)	3	(6)
Total Liabilities	950	1,065	1,262	1,477
APPLICATION OF FUNDS				
Gross Block	731	760	770	788
Less: Acc. Depreciation	522	541	557	579
Net Block	210	220	213	209
Capital Work-in-Progress	379	409	459	480
Goodwill	-	-	-	-
Investments	0	72	64	149
Current Assets	1,007	863	879	1,014
Current liabilities	646	498	371	421
Net Current Assets	361	365	508	594
Other assets	0	0	17	45
Misc Expenditure	-	-	-	-
Total Assets	950	1,065	1,262	1,477

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012
Profit before tax	5	216	335	473
Depreciation	19	18	21	18
(Inc)/Dec in Working Capital	(48)	(116)	30	(83)
Direct taxes paid	44	67	120	154
Others	(79)	(90)	(157)	(219)
Cash Flow from Operations	(59)	94	349	343
(Inc.)/Dec. in Fixed Assets	(53)	(28)	(18)	(20)
Free Cash Flow	(112)	66	332	323
(Inc)/Dec in Investments	0	(72)	(15)	(84)
Others	(7)	68	(80)	(10)
Issue of Equity	-	-	-	-
Inc./(Dec.) in loans	(79)	(34)	0	0
Dividend Paid (Incl.Tax)	0	0	46	46
Cash Flow from Financing	(86)	(37)	(49)	(48)
Inc./(Dec.) in Cash	(231)	(124)	169	85
Opening Cash balances	528	297	173	342
Closing Cash balances	297	173	342	428

Key Ratios

Y/E March	FY2009	FY2010	FY2011	FY2012
Per Share Data(₹)				
EPS (diluted)	-	1.7	2.3	3.3
Book Value	(17.2)	15.1	5.3	18.3
Ratios				
EBITDA margin (%)	2.3	16.6	34.1	37.8
Adj. Net margin (%)	(0.6)	10.8	17.5	19.7
Net Debt/Equity	0.1	0.0	0.0	0.0
Returns %				
RoE	34.6	1.1	20.6	28.5
RoCE	1.1	20.6	28.5	34.6
RoIC	10.3	11.1	16.4	20.5
Valuation Ratio (x)				
P/E	-	318.8	119.5	76.7
P/BV	10.5	43.9	22.7	17.8
EV/Sales	8.3	37.6	22.6	16.4
EV/EBITDA	773.9	186.4	66.6	44.4

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