

## Hindustan Copper

### Stretched Valuations

Government of India is divesting 37,119,152 shares (4.01% of equity capital) in Hindustan Copper Ltd. (HCL). It has set a floor price of ₹70 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:** HCL is the only vertically integrated copper producer in India. However, at the OFS price of ₹70, the stock is available at a valuation of 21.0x PE and 11.9x EV/EBITDA based on FY2012 numbers, which is expensive compared to its peers. Miners such as Coal India, MOIL and NMDC are trading in the range of 3-7x FY2012 EV/EBITDA. **Hence, we recommend investors to AVOID subscribing to HCL issue.**

## AVOID

CMP	₹73
OFS floor price	₹70

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**Profit & loss statement (Standalone)**

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012
<b>Net Sales</b>	<b>1,210</b>	<b>1,319</b>	<b>1,171</b>	<b>1,492</b>
% chg	(24.1)	9.0	(11.2)	27.4
Total Expenditure	1,297	1,134	790	961
<b>EBIDTA</b>	<b>(88)</b>	<b>184</b>	<b>381</b>	<b>530</b>
(% of Net Sales)	(7.3)	14.0	32.5	35.6
Other Income	120	53	56	88
Depreciation & Amortization	19	18	97	144
Interest	8	3	4	2
<b>PBT</b>	<b>5</b>	<b>216</b>	<b>335</b>	<b>473</b>
(% 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
<b>PAT</b>	<b>(7)</b>	<b>154</b>	<b>226</b>	<b>324</b>
% chg	-	-	46.3	43.7
<b>Ad. PAT</b>	<b>(10)</b>	<b>155</b>	<b>224</b>	<b>323</b>
% chg	-	-	44.9	44.3

**Balance sheet (Standalone)**

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

**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)
<b>Cash Flow from Operations</b>	<b>(59)</b>	<b>94</b>	<b>349</b>	<b>343</b>
(Inc.)/Dec. in Fixed Assets	(53)	(28)	(18)	(20)
<b>Free Cash Flow</b>	<b>(112)</b>	<b>66</b>	<b>332</b>	<b>323</b>
(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
<b>Cash Flow from Financing</b>	<b>(86)</b>	<b>(37)</b>	<b>(49)</b>	<b>(48)</b>
Inc./ (Dec.) in Cash	(231)	(124)	169	85
<b>Opening Cash balances</b>	<b>528</b>	<b>297</b>	<b>173</b>	<b>342</b>
<b>Closing Cash balances</b>	<b>297</b>	<b>173</b>	<b>342</b>	<b>428</b>

**Key Ratios**

Y/E March	FY2009	FY2010	FY2011	FY2012
<b>Per Share Data (₹)</b>				
EPS (diluted)	-	1.7	2.3	3.3
Book Value	(17.2)	15.1	5.3	18.3
<b>Ratios</b>				
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
<b>Returns %</b>				
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
<b>Valuation Ratio (x)</b>				
P/E	-	41.9	31.0	21.0
P/BV	6.7	5.8	5.5	4.6
EV/Sales	5.3	5.0	5.4	4.2
EV/EBITDA	-	35.5	16.7	11.9

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