



MANAGEMENT DISCUSSION AND ANALYSIS REPORT

I. Industry Structure and Development

Copper, a malleable and ductile metallic element, is an excellent conductor of heat and electricity as well as being corrosion resistant and antimicrobial. Copper occurs naturally in the Earth's crust in a variety of forms. It can be found in sulfide deposits (as chalcopyrite, bornite, chalcocite, covellite), in carbonate deposits (as azurite and malachite), in silicate deposits (as chrysocolla and diopside) and as pure "native" copper.

The global demand for copper continues to grow and refined copper usage more than tripled in the last 50 years due to expanding sectors such as electrical and electronic, building construction, industrial machinery and equipment, transportation, consumer and general products. Implementation of electric vehicle worldwide with associated charging infrastructure, decarbonization policy push by US and EU and more and more emphasis on green energy to mitigate climate change will enhance the demand of copper.

Virtually all products made from copper can be recycled and recycled copper loses none of its physical and chemical properties. Copper recycling rates are already significant with over a third of the world's copper currently produced via secondary markets.

Global Business Scenario

World copper mine production remained essentially unchanged in calendar year (CY) 2020 compared to CY 2019. The concentrate production increased by 0.4% and solvent extraction-electrowinning (SX-EW) declined by about 2%. World refined copper production increased by about 1.5% in CY 2020 with primary production (electrolytic and electrowinning) up by 2.8% and secondary production (from scrap) down by 4.5%. World apparent refined copper usage increased by 2.2% in CY 2020. World refined copper balance for CY 2020 indicates an apparent deficit of about 560,000 tonnes due to strong Chinese usage.

ICSG has reported that World copper mine production after three years is expected to increase by about 3.5% from 20.59 million tonnes CY 2020 to 21.32 million tonnes in CY 2021 and 3.7% from 21.32 million tonnes in CY 2021 to 22.10 million tonnes in CY 2022.

In CY 2020 World mine production remained flat as recovery in production in some countries from constrained output in 2019 (e.g. Chile and Indonesia) and additional output from projects including those in Panama, Russia and the D.R. Congo helped in balancing the negative impact which Covid-19 pandemic had on copper mine output in few countries, like Peru.

In CY 2021, growth of 3.5% is anticipated as global output is expected to recover from CY 2020 constrained levels and benefit from increased supply resulting from the ramp-up of recently commissioned mines and expansions as well as from the planned start-up of larger projects. Major projects starting in CY 2021/2022 include Kamo a Kakula in the D.R of Congo, Quellaveco in Peru, Spence-SGO (already started), and Quebrada Blanca QB2 in Chile and Udokan in Russia. A number of medium and small projects are also expected to come on stream.

After increasing by 1.6% in CY 2020, world refined copper production is expected to rise by about 3% in both CY 2021 and CY 2022 and expected to reach production level of 25.16 million tonnes in CY 2021 & 25.93 million tonnes in CY 2022.

After a decline of 4% in world secondary refined production (from scrap) in CY 2019 and CY 2020, due to the Chinese scrap ban and the negative impact of the lockdown on the supply of copper scrap, world secondary refined production is expected to grow in CY 2021 and CY 2022 on the basis of continued improvement in scrap availability.

World primary electrolytic refined production (from concentrates and SX-EW) is also forecasted to increase by 2.9% in CY 2021 and CY 2022, with SX-EW output presenting lower growth of 0.6% in CY 2021 and 2.2% in CY 2022.

World apparent refined copper usage is expected to remain essentially unchanged in CY 2021 and to grow by about 3% in CY 2022.

In CY 2020, the world consumption of refined copper was 25.04 million tonnes registering an increase of 2.5%. Sustained growth in copper demand is also expected to continue as copper is essential to economic activity and even more so to the modern society. Infrastructure development in major countries such as China and India and the global trend towards cleaner energy and electric cars will continue to support copper demand in the longer term.

Indian Copper Scenario

Compared with global markets, India has limited copper ore reserve contributing about 0.31 % of world copper reserves. Mining production is just 0.2% of world's production, whereas refined copper production capacity is about 4% of world's production. The size of Indian Copper Industry (consumption of refined copper per annum) is around 6.6 lakh tonnes, which as percentage of world copper market is only 3%.

As on 1.4.2020, HCL had access to around two-fifths of the copper ore reserves and resources in India with an average grade



1.01%. Also, as on 1.4.2020, HCL had reserves (proved & probable) of 167.08 million tonnes ore with average grade of 1.32% and total reserves and resource of 570.40 million tonne ore with average grade of 1.01% (based on UNFC system). Total copper resources in India is 12.16 million tonnes of which 2.73 million tonnes constitutes reserves, both in terms of copper metal as on 1.4.2015 as per NMI database (As per Indian Minerals Year Book 2019, 58th Edition, dated October 2020).

There are three major players which dominates the copper industry in Indian markets namely Hindustan copper Limited (HCL) in Public sector, M/s Hindalco Industries Ltd and M/s Sterlite Copper a Unit of Vedanta Industries Ltd in Private Sector. Adani Group has recently announced to install 5 MTPA custom smelter plant named as Kutch Copper Limited. Refined copper production in India has declined significantly due to the permanent closure order issued to Sterlite Copper for their Smelter/ refinery plant at Tuticorin by Tamilnadu Government in May, 2018.

HCL is the only vertically integrated copper producer in the country which produces refined copper from mined ore, while M/s Hindalco Industries Ltd at Dahej in Gujarat and Sterlite Copper at Tuticorin in Tamil Nadu have set up port based smelting and refining plants. However, there are few installations to produce Electro-won copper but their capacities are still very low and production is inconsistent. There are more than 1000 SMEs, MSMEs and unorganized sector working in the downstream and secondary recycling of copper Industries in India.

In the fiscal year 2020-21, the copper ore production in India was 3.27 million tonnes. HCL has plans to increase its mining capacity from its current level ore production to 12.2 million tonne per annum in Phase-I in next 7 to 8 years and will take necessary action for further capacity enhancement to 20.2 million tonne per annum in Phase-II. Metal in concentrate production of HCL in FY 2020-21 was 23,866 tonnes.

Refined copper production in India during FY 2020-21 was approx.3.63 lakh tonnes (Vedanta- 1.01 lakh tonnes, HCL- Nil & Hindalco- 2.62 lakh tonnes), as compared to 4.08 lakh tonnes in FY 2019-20.

II. SWOT analysis

Strength

- Only Company mining copper ore in India.
- Fully developed infrastructure facilities
- Holding mining lease of more than 80% of country's copper reserves
- Vertically integrated operations greater business certainty
- Skilled and well-trained workforce
- Established brand value
- Wide distribution network and established customer base

Weakness

- Smaller size mine deposits except Malanjkhand
- Aged equipment & old technology for value addition
- Low process efficiency
- High cost of logistics due to multi location units
- Low utilization of two plants, TCP & GCP resulting in cross subsidization
- Aged workforce

Opportunity

- Growing copper demand within country
- Ready market for copper concentrate in India due to large smelting/refining capacity
- Buoyancy in world copper prices
- Scope for expansion of mine capacity
- Opportunity to explore new deposits

Threat

- Volatility in LME Copper price affecting turnover/profitability
- Increasing cost of inputs
- Attrition of skilled manpower
- Regulatory risks in mining increasing
- Risk in existing non-profitable business
- Non-availability of competent underground Metal mining contractor / Outsourcing agency in India

III. Segment-wise or product-wise performance

Covered in the main report.



IV. Outlook

Copper demand is expected to grow at 7% -8% in India. The growing demand from the power sector in view of Government laying thrust on renewable energy and increasing demand from the households for consumer durables will increase demand for copper in India. Manufacturing of hybrid and electric vehicles (EVs) will also augment the consumption of copper as EVs use four times more copper than traditional internal combustion engines. Copper is essential to EV technology and its supporting infrastructure. The evolving EVs market will have a substantial impact on copper demand. Copper demand is expected to increase further in health sector due to its biocidal properties.

The per capita copper consumption in India is expected to increase from the current level of 0.5 Kg to 1 kg in coming years. The average per capita copper consumption in the world is 3.2 kg.

V. Risks and concerns

The Company has laid down risk management framework keeping the Company's objectives, growth strategy and process complexities arising out of its business operations. Risk management in HCL is a continuous process of identifying, assessing and managing all the opportunities, threats and risks faced by the company to achieve its goals.

VI. Internal control systems and their adequacy

HCL has robust internal control system and internal audit is being carried out on half yearly basis in order to achieve operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies.

VII. Discussion on financial performance with respect to operational performance

The financial performance for FY 2020-21 vis-à-vis FY 2019-20 is summarized below:

(₹ in crore)

| Particulars | 2020-21 | 2019-20 |
|--|----------|----------|
| Turnover | 1760.84 | 803.17 |
| Value of Production | 1482.50 | 939.95 |
| Cost of production excluding depreciation, amortization and Finance Cost | 1037.82 | 1126.56 |
| Profit/(Loss) before depreciation, amortization and Finance Cost | 444.68 | (186.61) |
| Depreciation, Amortisation | 294.82 | 290.68 |
| Finance Cost | 62.61 | 60.42 |
| Profit/ (Loss) Before Tax from Continuing Operation | 87.25 | (537.71) |
| Profit/ (Loss) Before Tax from Discontinuing Operation | (0.35) | (0.35) |
| Profit/(Loss) Before Tax from continuing & discontinuing operation | 86.90 | (538.06) |
| Provision for taxation -Current | 77.91 | 8.33 |
| -Deferred | (100.99) | 22.96 |
| Profit/ (Loss) After Tax from Continuing & Discontinuing Operation | 109.98 | (569.35) |

Capital Expenditure

During the year, the expenditure on account of Replacements & Renewals (R&R) of plant & machinery, mine expansion, mine development & green field exploration stood at ₹372.35 crore which was funded partially through internal resources of the Company and partly through borrowings from banks and no Government support for capital expenditure was asked for.

Contribution to Exchequer

During 2020-21, the Company contributed a sum of ₹153.18 crore to the exchequer by way of duties, taxes and royalties, as against ₹194.59 crore in 2019-20, as detailed below:

| Particulars | ₹ in crore | |
|------------------|------------|---------|
| | 2020-21 | 2019-20 |
| Customs Duty | - | 0.14 |
| Sales Tax/GST | 20.56 | 32.65 |
| Royalty and Cess | 81.45 | 75.91 |
| Income Tax | 38.69 | 83.40 |
| Others | 12.48 | 2.49 |
| Total | 153.18 | 194.59 |



VIII. Material developments in Human Resources / Industrial Relations front including number of people employed

(i) Manpower

As on 31.3.2021, the manpower of the Company was 1649. Category-wise break-up is tabulated below.

| Employee Group | Category (No.) | | | | |
|----------------|----------------|------------|------------|------------|-------------|
| | Gen | SC | ST | OBC | Total |
| A | 311 | 84 | 24 | 103 | 522 |
| B | 15 | 4 | 0 | 4 | 23 |
| C | 445 | 137 | 155 | 133 | 870 |
| D | 78 | 94 | 40 | 22 | 234 |
| Total | 849 | 319 | 219 | 262 | 1649 |

| Employee Group | Special Categories (No.) | | | |
|----------------|--------------------------|-----------|------------|------------|
| | ESM | PwD | LDP | Minorities |
| A | 0 | 16 | 0 | 29 |
| B | 0 | 1 | 0 | 0 |
| C | 5 | 4 | 113 | 74 |
| D | 15 | 9 | 33 | 10 |
| Total | 20 | 30 | 146 | 113 |

Legends: Group A & B: Executives; Group C & D: Non-Executives; Gen: General; SC: Scheduled Caste; ST: Scheduled Tribe; OBC: Other Backward Class; ESM: Ex-Servicemen; PwD: Persons with Disabilities; LDP: Land Displaced Person.

(ii) Employment of SC/ST/OBC Community and PwD candidates

The Company adheres to the prescribed Government guidelines on reservation for SC/ST/OBC/PwD categories in its recruitment activities. The representation of SC, ST, OBC and PwD employees in the total manpower of 1649 as on 31.03.2021 was 19.35%, 13.28%, 15.89% and 1.82% respectively.

(iii) Employment of Women

The Group-wise strength of women employees as on 31.03.2021 vis-à-vis the total employee strength of the Company is given below.

| Group | No. of Employees | | Women Employees as % of total Employee |
|--------------|------------------|------------|--|
| | Total | Women | |
| A | 522 | 39 | 07.47 |
| B | 23 | 2 | 8.70 |
| C | 870 | 36 | 04.14 |
| D | 234 | 54 | 23.00 |
| Total | 1649 | 131 | 07.94 |

(iv) Employee Relations

During the period, the Employee Relations continued to be harmonious and peaceful in all Units of the Company. The successful operation of various Bi-partite fora at the Apex, Unit and Shop-floor levels have contributed immensely towards smooth functioning of the Company.

During the FY 2020-21, a meeting of the apex level Bi-partite Forum NJCC was held through video conference on 10.10.2020. Major issues were discussed and some were resolved.

(v) Human Resource Development

Training and Development, based on identified needs, is given due priority by the Company for all levels of employees to increase employee effectiveness, utilization and productivity as well as to usher in a culture of innovation and creativity with emphasis on deciphering problem-solving skills. In FY 2020-21, 3900 mandays of training were achieved against a target of 3862 mandays. The Company selectively nominated employees for specialized training Programmes / Workshops / Seminars / Conferences organized by reputed professional organizations and Institutes.

(vi) Communal Harmony and National Integration

In the townships of the Company located at Khetri, Malanjhand and Ghatsila as well as in other places of work, the employees of different caste, creed, region and religion live together in harmony and celebrate all religious festivals with pomp and gaiety.



(vii) Status of implementation of Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013

The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 has been implemented across all the Units / Office of the Company. The constituted Internal Committees at Units / Offices are amended in accordance with the provisions contained in the Act. The details of the Internal Committees across HCL have been put up in the Company's website for wider circulation and easy access. A provision in this regard has also been incorporated in the Conduct, Discipline and Appeal Rules of HCL. During the year, no complaint was received by the Internal Committee. SheBox portal is also regularly monitored.

(viii) Status of implementation of The Persons with Disability Act, 1995

The number of employees belonging to Persons with Disabilities (PwD) category employed in the Company as on 31.3.2021 was 16 (sixteen) in Group A, 1 (one) in Group B, 4 (four) in Group C and 9 (nine) in Group D, aggregating to 30 (thirty).

Recruitment: In recruitment matters the reservation for PwD was adhered to as per Government of India directives and duly incorporated in advertisement published, wherever applicable.

- a) Scholarship: HCL grants scholarship to employees' children under a special scheme. Particular care and wide publicity is given to the scheme. It has specific provision for PwD category children with relaxed eligibility criteria.
- b) Ramp: Ramps constructed at Hospitals, Works and General / Administrative Offices to enable easy access to elevated areas in buildings and ease of mobility. Provision of wheelchairs in Hospital/main administrative offices in Units / Projects is also available.
- c) 'Accessibility Audit' of office buildings was carried out in all the five Units.
- d) Conveyance Allowance: Conveyance Allowance / Transport Subsidy to PwD employees were paid at higher rates than other employees as per Government Directives.

(ix) Skill Development

a) Apprenticeship Training

HCL imparted apprenticeship training to 168 persons in FY 2020-21. An amount of ₹86.31 Lakhs was spent on the training of these apprentices in FY 2020-21.

b) Skill Development Institute as an Upgraded Training Center

A Skill Development Institute was established at Khetri Copper Complex by upgrading the existing Training Center. One Batch of 28 trainees have completed their practical training in the trade of 'Winding Engine Driver' in FY 2020-21.

d) Digital Payments:

Payments of wages to all Contract Labour through digital mode has been ensured. No cash transactions are carried out in HCL. To maximize cashless transactions by the Internal and External customers of HCL, 14 PoS machines have been installed at Guest House, Directors' Bungalow, Hospitals, Town and General Administration, Finance Department, Cash Sections, etc. in the three mining Units of HCL.

(x) Swachh Bharat Mission

In accordance with the Swachh Bharat Abhiyan launched by Govt. of India, intensive Swachhata Pakhwada was organized from 16th-30th November 2020. Activities were undertaken in all Units and Offices including Corporate Office. Details of major activities undertaken are given below.

- a. Upkeep and cleaning of
 - i. Offices including common area premises, Plant and Mines.
 - ii. Residential complexes, pathways and common areas of the Units.
 - iii. Neighbouring market, roads and parks surrounding Plant and Mines.
- b. Conducted awareness campaign on cleanliness, distribution of mask and sanitization in the neighborhood community.



IX. Key financial ratios and details of significant changes therein (i.e. change of 25% or more as compared to the immediately previous financial year) along with detailed explanations thereof:

| Sr. No. | Key Financial Ratio | FY 2020-21 | FY 2019-20 | Reason for significant changes (i.e. change of 25% or more) |
|---------|---------------------------------|------------|------------|---|
| i. | Debtors Turnover | 10.49 | 9.69 | NA |
| ii. | Inventory Turnover (times) | 14.47 | 1.74 | Due to reduction in inventory and increase in turnover on account of higher sales volume coupled with rise in LME Price of Copper and higher Exchange Rate during the current financial year. |
| iii. | Interest Coverage Ratio (times) | 2.39 | -7.91 | Due to profit reported during the current year on account of higher sales volume coupled with rise in LME Price of Copper and higher Exchange Rate. |
| iv. | Current Ratio | 0.88 | 0.72 | NA |
| v. | Debt Equity Ratio | 2.11 | 4.21 | Due to repayment of term loans and profit reported during the current year on account of higher sales volume coupled with rise in LME Price of Copper and higher Exchange Rate. |
| vi. | Operating Profit Margin (%) | 6.51% | -66.56% | Due to profit and higher turnover reported during the current year on account of higher sales volume coupled with rise in LME Price of Copper and higher Exchange Rate. |
| vii. | Net Profit Margin (%) | 6.25% | -70.89% | Due to profit and higher turnover reported during the current year on account of higher sales volume coupled with rise in LME Price of Copper and higher Exchange Rate. |

X. details of any change in Return on Net Worth as compared to the immediately previous financial year along with a detailed explanation thereof.

Return on Net Worth for FY 2020-21 is 20.49% as against negative Return on Net Worth for FY 2019-20. The increase in Return on Net Worth is mainly due to the sale of unsold opening MIC stock coupled with rise in LME Price of Copper and higher Exchange Rate and decrease in operating expenditure after offsetting the impact of provision for impairment of assets of Gujarat Copper Project and Copper Ore Tailing (COT) Beneficiation Plant at Malanjkhanda Copper Project (MCP).