



Falling Prices to Hit Copper Smelters

The fall in global copper prices is set to dent domestic copper smelting companies' profitability, because treatment and refining charges (TC/RC) for 2016 will get locked at much lower rates than last year.

China's largest copper smelter Jiangxi Copper and Chilean copper miner Antofagasta have agreed on 2016 TC/RCs of \$97.35 a tonne and 9.735 cents per lb. The processing fees are nine per cent lower than the \$107 per tonne and 10.7 cents per lb level agreed between Jiangxi Copper and US-based Freeport McMoRan in 2015, it said.

"Even if smelters and miners are still negotiating, it is very clear the tone is bearish in the market. For Indian smelters, we see the TC/RC contracts locking at about 10 per cent lower rates from last year," a senior official said with Hindustan Copper.

Indian copper smelting companies follow the Japanese-Korean benchmark for TC/RC rates and usually arrive at a settlement by end-January to early-February. Copper TC/RCs are paid by miners to smelters to refine concentrate into metal and are a key part of the copper sector's earnings. A downward revision in TC/RC indicates a negative impulse for the company's performance in the coming quarters.

Aditya Birla Group's flagship company Hindalco Industries; state-owned Hindustan Copper; and Sterlite Industries, part of Anil Agarwal-led Vedanta are the three top copper smelting companies in the domestic market. Of these, Kolkata-based Hindustan Copper is the only entity engaged in mining apart from smelting activity.

A slowdown in the Chinese economy, the largest consumer of most metals in the world,

has led to the continuous fall in global copper prices since May 2015. Prices of the industrial metal tumbled to seven-year low to \$4,486 per tonne from \$6,500 in May last year.

Spot TC/RC charges have been witnessing a downward trend since mid-2015, in line with copper prices, but domestic smelting companies have largely remained insulated all through mainly because of their long-term contracts with miners, said brokerages.

"The profitability of copper smelting companies has been one of the highest for the past two years. Now with a 10 per cent fall in TC/RC rates, profitability of these companies could take a hit of seven-eight per cent year-on-year basis," said Giriraj Daga, portfolio manager at SKS Capital & Research. "It is for the first time the profitability of these companies is going to take a hit since the metal started to come off from \$6,500 a tonne in May."

Hindalco Industries, India's largest aluminium producer, has been banking on its earnings from the red metal for the past several quarters as its aluminium business has already been in trouble amid falling trend in global aluminium prices. In the quarter ended September, the company's earnings from the copper segment was 91 per cent higher than that from aluminium. In the year ended March, earnings before interest and tax from the copper segment stood at Rs 1,516 crore against Rs 1,349 crore from the aluminium business. Industry officials also see further correction in TC/RCs during the year apart from the 10 per cent fall in rates and cost cutting would be the only option for most companies. However, with most of

Hindalco and Sterlite Industries' contracts being long-term in nature, these companies will remain insulated from a deeper fall in profitability during the year, said brokerages.

"This kind of business situation in copper may lead to severe cost cutting measures such as slashing of manpower, production cuts and cancellation of expansion plans," said the Hindustan Copper official without stating whether the company would go for staff cuts.

Hindustan Copper is unlikely to shelve its mining expansion plan at Malankhand in Madhya Pradesh despite adverse business conditions.

Hindalco Industries, which already has expansion plans in place for its aluminium business, is not much into copper expansion mode as yet.

The Aditya Birla Group company has its integrated copper facility in Gujarat, comprising copper smelters and captive power plants along with a captive jetty, while its other competitor Vedanta has one copper plant in Tamil Nadu.

In terms of domestic copper consumption, which could see some uptick given the sharp fall in prices over the past few months, traders said demand for copper would not fall beyond a point. "Copper is the lifeline in construction and auto sectors. Demand may fall for a while, which it did when prices started moving down from \$6,500 per tonne, but we do not see any fall in consumption this year as copper has some compulsory demand in certain segments," said Mumbai-based trader Hiten Mehta of Miraj Metals, who is also a director of Bombay Metal Exchange.