

CHAPTER VIII: MINISTRY OF MINES

Hindustan Copper Limited

8.1 Unfruitful investment in acquisition and loss from operation of Gujarat Copper Project

Hindustan Copper Limited (Company) acquired Gujarat Copper Project (GCP) (erstwhile Jhagadia Copper Limited, Gujarat) without ensuring the availability of raw materials and the plant remained almost wholly unutilised since commissioning which led to unfruitful investment of ₹303.18 crore and loss from operating GCP amounting to ₹102.49 crore.

Hindustan Copper Limited (Company) was engaged in mining of copper ore and processing of the same for production of final product i.e. Copper Cathode. The copper ore is primarily processed in Concentrator Plant for production of Metal in Concentrate (MIC) which is further processed in Smelter for producing Copper Anode and the same is finally refined in the Refinery Plant for production of Copper Cathode. The Company was approached (August 2014) by the Asset Reconstruction Company (India) Limited, Mumbai (ARCIL) seeking the interest of the Company in the acquisition of the plant of Jhagadia Copper Limited, Gujarat (JCL). JCL had the facilities of a Secondary Copper Smelter and Refinery (Secondary denotes processing of scrap copper) for an annual production capacity of 50,000 Metric Tonne Per Annum (MTPA) of Copper Cathodes and had commenced commercial production from May 2006. However, the operation of JCL was suspended from September 2009 for want of working capital.

The Consultant, appointed (October 2014) by the Company to prepare the detailed feasibility report for the investment in the proposed acquisition, indicated that the Secondary Smelter Plant of JCL had the facility to process copper scrap only and as such there was no scope for processing of MIC therein. It was also indicated that the Refinery Plant could be operated by sourcing the Copper Anode from elsewhere. The Consultant, however, also stressed that the availability and sourcing of the raw materials was to be ensured for optimum utilisation of JCL, as it was a major risk for success of such acquisition. The Company finally decided (November 2014) for acquisition of JCL. The Company proposed to source copper scrap by procuring it from the open market (19,200 MTPA) and from that generated in its other units (800 MTPA). The Company also projected to source Copper Anode by tolling¹ of imported MIC through Hindalco² (from 20,000 to 30,000 MTPA) as well as tolling of its own MIC through other Copper producers (7,000 MTPA). The Company further assessed that it could utilise 22,000 MT of copper scrap laying in the State Trading Corporation (STC) godown located in the JCL plant.

The Company acquired (February 2015) JCL plant at a price of ₹210 crore (Plant & Machinery including leasehold land) from ARCIL as a single bidder by taking a term loan of

¹ A transaction by which MIC will be converted into Copper Anode by a Copper producer

² A private sector copper producing company

₹200 crore. JCL was renamed as Gujarat Copper Project (GCP) and its commercial production was commenced from October 2016. It was, however, seen that the capacity utilisation of GCP was very low since its acquisition and it could produce only 24,007 MT of copper cathodes during the period from November 2016 to March 2019 which was only 20 per cent of the total capacity of the plant. Such low capacity utilisation of GCP was primarily due to non-availability of raw materials i.e. copper scrap as well as Anode. In the meantime, the Company made a total investment of ₹303.18 crore in GCP (including acquisition cost) till March 2019.

In this connection Audit noticed as follows: -

- The projection of the Company regarding availability of copper scrap from the market to the extent of 19,200 MTPA was not at all realistic, since the Company was not able to source any copper scrap from the market during the period from November 2016 to March 2019. Management also realised that sourcing of copper scrap indigenously was difficult due to unorganised market and there were quality issues also. Further, Management did not properly assess the status of the of copper scrap lying in the STC godown as the same was sub-judice and not readily available for processing.
- The Company proposed to source Anodes (20,000 MTPA to 30,000 MTPA) by tolling imported MIC through Hindalco. However, the Company did not enter into any agreement with Hindalco for such tolling to ensure sustainable availability of Anodes. Further, the Company did not have any prior experience for import of MIC and tolling of the same through another copper producer. In this connection it is also worth mentioning that Hindalco did not have any spare smelting capacity for such tolling as the capacities of its smelter and refinery were same. This is also corroborated with the fact that the Company was not able to source any Anode through Hindalco by such tolling.

Audit, therefore, observed that the projections made by the Company towards availability of raw materials for sustainable operation of both Smelter and Refinery plant of GCP were not at all realistic and supported by proper due diligence. As a result, the GCP was utilised with a very low capacity and did not yield any benefit. On the other hand, the Company has been suffering recurring loss from operation of GCP. Thus, the decision of the Company for acquisition of GCP without obtaining firm commitment from the sources projected for availability of raw materials was not prudent which led to unfruitful investment of ₹303.18 crore. Further, the Company suffered a loss of ₹102.49 crore during the period from November 2016 to March 2019 by operating GCP.

Management while accepting the Audit observations replied (October 2019) that projections made at the time of acquisition on availability of raw material for sustainable operation of GCP was miscalculated. It was also stated that the Company never imported MIC for tolling it to anode and GCP was acquired without any firm commitments regarding availability of raw materials and finally, the Company was unable to ensure continuous operation of the plant due to difficulty in sourcing raw material.

Hence, acquisition of GCP without ensuring the availability of raw materials led to unfruitful investment of ₹303.18 crore and loss of ₹102.49 crore from operations of GCP. Further, the company will continue to incur such a loss till it develops a viable future plan for GCP utilisation.

The para was issued to the Ministry in October 2019; their response was awaited (June 2020).