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Annual Report

2004 - 2005

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HINDUSTAN COPPER LIMITED

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HINDUSTAN COPPER LIMITED

(A Government of India Enterprise)

PRESENT BOARD OF DIRECTORS

Shri M Samajpati
Acting Chairman-cum-Managing Director

Shri P Swarup
Director(Operations)

Shri R K Bhargava

Shri V K Thakral

COMPANY SECRETARY

Shri C S Singhi

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AUDITORS

M/s. M C Bhandari & Company, Kolkata

M/s. Dinesh Mehta & Company, New Delhi

BANKERS

State Bank of India
State Bank of Bikaner and Jaipur
Indian Overseas Bank
United Bank of India
Syndicate Bank
Punjab National Bank
State Bank of Hyderabad

REGISTERED OFFICE

Tamra Bhavan
1 Ashutosh Chowdhury Avenue
Kolkata-700 019

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NOTICE FOR ANNUAL GENERAL MEETING

Notice is hereby given that 38th Annual General Meeting of the members of Hindustan Copper Limited will be held on Friday the 30th September 2005 at 4.00 pm at the Registered Office of the Company at "Tamra Bhavan", 1 Ashutosh Chowdhury Avenue, Kolkata-700019 to transact the following business :-

Ordinary Business

1) To receive, consider and adopt the Audited Balance Sheet as on 31st March, 2005 and the Profit and Loss Account for the year ended 31st March, 2005 together with the Directors' Report, Auditors' Report and C&AG's comments.

2) To fix the remuneration of the Auditors.

Special Business

3) To consider and, if thought fit, to pass with or without modifications, the following resolution as Ordinary resolution :

"RESOLVED THAT appointment of Shri V K Thakral as Director on the Board of the company with effect from 18.11.2004 in terms of Ministry of Coal and Mines, Department of Mines' Order No.10(2)/2002-Met.III dated 18.11.2004 be and is hereby approved."

4) To consider and, if thought fit, to pass with or without modifications, the following resolution as Ordinary resolution :

"RESOLVED THAT appointment of Shri M Samajpati as Director(Finance) of the company with effect from 27.9.2004 in terms of Ministry of Coal and Mines, Department of Mines' Order No.10(1)/2004-Met.III dated 17.9.2004 be and is hereby approved."

5) To consider and, if thought fit, to pass with or without modifications, the following resolution as Ordinary resolution :

"RESOLVED THAT appointment of Shri P Swarup as Director(Operations) of the company with effect from 23.2.2005 in terms of Ministry of Mines' Order No. 10(2)/2001-Met.III dated 22.2.2005 be and is hereby approved."

By order of the Board

Place : Kolkata
Date : 5th September, 2005

C S Singhi
Company Secretary

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NOTES :

1) A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and on a poll, to vote instead of himself/herself and the proxy need not be a member of the Company. Proxies, in order to be valid and effective, must be deposited with the Registered Office of the Company not less than 48 hours before the commencement of the meeting.

2) The Register of Members and Share Transfer Books of the company will remain closed from 23rd September 2005 to 30th September 2005 (both days inclusive).

3) Members are requested to kindly notify immediately change in their addresses, if any, to the Registered Office of the Company quoting their folio numbers.

4) Pursuant to Section 619(2) of the Companies Act,1956, the Auditors of a Government Company are appointed or re-appointed by the Comptroller and Auditor General of India and in terms of Section 224(8)(aa) of the Act their remuneration has to be fixed by the Company in the General Meeting. The appointment of Statutory Auditors of the Company for the year 2005-2006 is awaited from C&AG of India. The Annual General Meeting may authorise the Board to fix up an appropriate remuneration of Auditors for the year 2005-2006.

5) Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, in respect of Item No.3 to 5 as set out above, is annexed hereto.

ANNEXURE TO NOTICE

(Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956)

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Item No.3

Shri V K Thakral, Joint Secretary, Ministry of Mines, Government of India has been appointed as part-time official Director of the Company w.e.f. 18.11.2004 in terms of Ministry of Coal and Mines, Department of Mines' Order No.10(2)/2002-Met.III dated 18.11.2004. It is now proposed to regularise his appointment at the ensuing 38th Annual General Meeting of the company in order to comply with the relevant provisions of the Companies Act, 1956.

Shri Thakral is an IAS from Manipur cadre (1982 Batch). Before joining the Ministry, he was Resident Commissioner, Manipur House in Delhi. Prior to that Shri Thakral was Director in the Ministry of Coal, Govt. of India.

None of the Directors of the Company except Shri V K Thakral is in any way concerned or interested in the resolution.

Item No. 4

Shri M Samajpati has been appointed as Director(Finance) of the Company with effect from 27.9.2004 in terms of Ministry of Coal and Mines, Department of Mines' Order No.10(1)/2004-Met.III dated 17.9.2004. Shri Samajpati is also holding the additional charge of the post of CMD, HCL w.e.f. 31.3.2005. It is now proposed to regularise his appointment at the ensuing 38th Annual General Meeting of the conpany in order to comply with the relevant provisions of the Companies Act, 1956.

Shri Samajpati is B.Sc., FICWA and has about 32 years working experience in Finance, Management, Corporate Planning and other related areas. Before joining HCL, he has served a number of companies in Public and Private Sector in senior positions including as Director(Finance) for about 9 years in Jessop & Company Ltd. Shri

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Samajpati had also worked as Head of Finance, for some time, of Rakha Copper Project during 1977-1988 period.

None of the Directors of the Company except M Samajpati is in any way concerned or interested in the resolution.

Item No.6

Shri P Swarup has been appointed as Director(Operations) of the Company with effect from 23.2.2005 in terms of Ministry of Mines' Order No. 10(2)/2001-Met.III dated 22.2.2005. It is now proposed to regularise his appointment at the ensuing 38th Annual General Meeting of the company in order to comply with the relevant provisions of the Companies Act, 1956.

Shri Swarup joined Hindustan Copper in 1971 and had been associated with Khetri unit of the company since commissioning stage of the plant. He has got sound technical knowledge and before joining the Board of HCL, he had also worked as General Manager, ICC unit and prior to that as Head of Project Department in the Corporate Office.

None of the Directors of the Company except P Swarup is in any way concerned or interested in the resolution.

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REPORT OF THE BOARD OF DIRECTORS

The Shareholders
Hindustan Copper Limited
Kolkata

1. Your Directors have pleasure in presenting the thirty-seventh Annual Report of the Company together with the audited statement of accounts and Auditors' Report thereon for the year ended 31st March, 2005.

2. FINANCIAL PERFORMANCE

The comparative position of the working results for the year 2004-05 vis-à-vis 2003-04 is as under :

Particulars	(Rs. in crore) 2004-05	2003-04
i. Sales (tonnes)	26043	30144
ii. Turnover	559.11	518.87
iii. Profit before interest, depreciation, provision & write off and tax	127.79	33.73
iv. Interest	42.99	59.63
v. Depreciation, provision & write off	32.74	30.26
vi. Profit before tax	52.06	(56.16)
vii. Provision for taxation	0.00	0.00
viii. Net Profit/(Loss) after tax but before deferred tax	52.06	(56.16)

The financial performance of the company shown significant improvement as company posted a net profit of Rs.52.06 crore in 2004-05 after a gap of about 8 years. The improvement in bottomline has been achieved due to improved production process, rationalisation of manpower through VRS, reduction in interest cost and other cost cutting measures being implemented by the company. The recent surge in LME price of copper has also helped in achieving better working results.

The cash profit during 2004-05 was Rs.84.80 crore as compared to cash loss of Rs.25.90 crore in 2003-04.

3.1 At Malanjkhand Copper Project, ore milling at 23.43 lakh tonnes during the year 2004-2005 was highest since inception.

3.2 At Indian Copper Complex, Ghatsila the highest ever production of Blister Copper of 2001 MT was achieved in the month of March, 2005. In the year 2004-05 recovery at 95.99% was the highest. Similarly specific consumption figures for fuel oil and oxygen were lowest. Further, increased availability of equipment and close monitoring of process variables have contributed in lowest generation of copper secondaries/process intermediate at 15.72% of the product during the period 2004-05.

3.3 Due to major overhauling job of Smelter/Refinery Plant at KCC, cathode production during 2004-05 was affected. The Plant has since been commissioned on 20th April, 2005.

3. PRODUCTION PERFORMANCE

Products	2004-2005 (April 2004 to March 2005)				2003-2004 (April 2003 to March 2004)			
	KCC	ICC	MCP	Total	KCC	ICC	MCP	Total
Ore Raised ('000T)	872	-	2051	2923	574	-	2321	2895
Ore Milled('000T)	894	-	2342	.3236	678	-	2265	2943
Metal in Conc.(T)	7742	-	21184	28926	6249	-	22057	28306
Blister Copper(T)	4843	14449	-	19292	28173	2697		30870
Cathodes(T)	11675*	12511	-	24186	27303	3295	-	30598
CC Wire Rod(T)	-	-	-	27423**	-	-	-	28003

* includes tolled cathode of 4909 tonnes.

** includes tolling of 4220 tonnes on behalf of other parties.

KCC-Khetri Copper Complex, ICC-Indian Copper Complex, MCP-Malanjkhand Copper Project

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3.4 Since the Company's PMR Plant was not in operation, production of precious metals like Gold and Silver during the year was nil. However, 36.02 MT of Anode Slime, a process intermediate, containing about 180 Kgs. of Gold and 3850 Kgs. of Silver has been produced during the period. PMR Plant is scheduled to be back in production cycle from July'05.

4. POWER SUPPLY POSITION

Power supply position in all the units of the company except ICC unit was more or less satisfactory. ICC experienced occasional load shedding imposed by DVC due to payment default by JSEB. HCL took up the matter with JSEB and DVC and the latest position has been comparatively stable.

5. ENERGY CONSERVATION

HCL continued to give priority for energy conservation measures at various stages of process from mining of ore to extraction of Copper metal and other by-products. Special efforts were made in making the operations energy efficient. In most of the areas of production the company was able to achieve reduction in specific consumption rates over the previous year. The achievements made in this regard in KCC mine, ICC, MCP & TCP (KCC smelter was under shutdown from July'04 to March'05) are indicated below :

Sl. No.	Specific consumption	Unit	2004-05	2003-04
1	KCC Mine Power	KWH/T	18.07	23.60
2	MCP Mine Power	KWH/T	0.881	1.011
3	ICC Smelter Power	KWH/T	1133.45	1561.40
4	ICC Refinery Power	KWH/T	276.48	307.17
5	ICC Sulphuric Acid Power	KWH/T	180.74	355.52
6	TCP Power	KWH/T	117.57	120.98
7	KCC Ore Milling Power	KWH/T	23.69	24.73
8	ICC Smelter Fuel Consumption	Ltr./T	467.25	739.33
9	ICC Smelter Oxygen Consumption	Nm3/T	389.30	555.92

6. TRANSFER OF TOWNSHIPS

The Government of Jharkhand has decided to takeover the townships of Mosaboni and Rakha including land, building, hospital and other public utility buildings against one time settlement of the arrear electricity fuel surcharge and DPS upto 31.08.2003 (Mosaboni) and 30.09.2003 (Rakha Unit) and water cess upto 31.03.2000, amounting to Rs.64.15 crore claimed by JSEB and State Government. The Receiver for handing over of the townships has since been appointed after Gazette Notification. Pending settlement of the aforesaid claim of fuel surcharge and water cess, there exists a provision of Rs.36.54 crore in the books of account of the company. The balance amount of settlement and also the accounting effect of transfer of assets would be carried out after finally handing over of the assets.

7. SAFETY

Safety continues to be priority area for HCL in its all activities. Kolihan Copper Mine at Rajasthan maintained zero-accident status during this year also like the previous year 2003-04.

Malanjkhand Copper Project at Madhya Pradesh has reported a reduction in accident to 5 during the year as against 6 in the previous year 2003-04.

Khetri Copper Mine was closed from January, 2003 to December, 2003 (nearly 1 year) and reopened from January, 2004. It has worked throughout the year 2004-05 and reported 6 accidents against NIL in 2003-04. The total accident for HCL during 2004-05 was 11. No Fatal Accident occurred during the year.

The recommendation of 9th Conference in Safety in Mines held in February, 2002 and decisions of Tripartite Meeting of HCL have been implemented. Safety matters are discussed regularly in monthly Safety Committee Meeting held at Mines of all projects at Madhya Pradesh and Rajasthan.

Regular safety campaigns like Fire Service day, All India Mine Rescue Competitions, Annual Safety Week celebration etc. have been actively participated by the employees of the company.

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8. MARKETING

8.1 During the year 2004-05, as KCC smelter was under shutdown for major overhauling, the sale of copper was limited to 26043 MT with a monthly average of 2170 MT as against the monthly average of 2512 MT in previous year. The total sales tonnage included CC Rod of 23607 MT and Cathode and miscellaneous copper of 2436 MT. Sale of wirebar during the year was nil as against 461 MT in 2003-04. Wirebar production was stopped in July'03 in view of less availability of copper and lower realization from wirebar. However, with KCC smelter being put in full operation from 20th April'05, it has been decided to resume production of wirebar.

8.2 The average LME during 2004-05 was US $ 3000.18 which is expected to be maintained at stable level.

9. PROGRESS OF NEW PROJECTS/EXPANSION SCHEMES

No new Projects/expansion Schemes were taken up during the year.

10. DEVELOPMENT OF SSI AND ANCILLARY UNITS

All units of Hindustan Copper Limited continued to follow the Government guidelines in encouraging procurement of materials from SSI & Ancillary units in or around their areas. Items like Grinding media, Earth moving equipment, spares etc. are regularly purchased from SSI/NSIC Units. SSI and Ancillary Units are also provided assistance to develop import substitution items.

11. RESEARCH & DEVELOPMENT

i) Specific areas in which R&D activities carried out during the year : Nil

ii) Benefits derived as a result of R&D : Nil

iii) Future plan of action : Two schemes have been taken up by HCL for initiation of action in 2004-05. One relates to bio leaching of lean grade sulphide ore at MCP and the other is on selection of appropriate combination of reagents for beneficiation of oxidised ore.

iv) Expenditure on R&D : Not applicable

12. SCIENCE & TECHNOLOGY/TECHNOLOGY ABSORPTION

During the year, Company concentrated on improving the operational practices with a view to reduce processing cost. No new technology has been absorbed during the year.

13. PROGRESSIVE USE OF HINDI

Hindi fortnight, Hindi Week and Hindi Day was celebrated in the offices and units of company, under which various Hindi competitions were organised and prizes were distributed to winner participants. The messages of Hon'ble Home Minister, Minister of State for Coal & Mines and CMD were circulated in all offices/units and read out on the occasion of Hindi Day. Efforts were made to fulfil the targets prescribed by Government of India in regard to increase the use of Hindi in the company's official work during the year 2004-05. Employees were motivated to use their working knowledge of Hindi in their day to day official work by conducting Hindi workshops in our Units and Head Office. Check points were made more effective to ensure 100% compliance of Section 3(3) of Official Language Act. Replies of all letters received in Hindi were given in Hindi. Regular review with regard to progress of Hindi use and difficulties faced was carried out in quarterly meetings of Official Language Implementation Committee under the chairmanship of Unit Heads in Units and CMD at Head Office. Head Office of the company was awarded with Rajbhasha Vaijayanti (Official Language Shield) for doing excellent works in Hindi under Official Language Award Scheme, 2003-04 of Town Official Language Implementation Committee (PSUs), Kolkata on 12th August, 2004.

During the year the inspection committee of Ministry of Mines visited the Head Office on 16th November, 2004 to inspect the progressive use of Hindi. The committee expressed its satisfaction regarding the quantum of work being done in Hindi. The use of Hindi in computer was further increased. The Annual Report of the company for the year 2003-04 has also been published in Hindi alongwith English. Company's web-site in Hindi is in operation. All the employees have been advised to put their signatures in Hindi and make more and more notings in Hindi in the files.

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14. MANAGEMENT DISCUSSION AND ANALYSIS

14.1 Industry Structure and Developments

In the year 2004-05, Indian economy & global economy performed well as it came out successfully from the recessionary trend. During the year, the demand for copper in the global market has been growing steadily. In Asia except Japan, which has attained almost a saturation point, the growth rate is even higher. Consequently the copper price in the global market has been steadily hovering around US $ 3000 to US $ 3300 per tonne for the last one year and the trend is likely to continue in the near future. In India, the Copper demand both for primary and secondary refined Copper has increased at an average annual growth rate of 4-5 % approximately. Growth of copper usage in the country is projected to be roughly 5% this year, exceeding world average of 3-4 %, but still we are far behind from China where the average growth-rate during the last decade is 13%. The capacity for production of primary copper in India has risen from a mere 47,500 MT per year till 1997 to approximately 4,75,000 MT in 2004 and is expected to rise to 9,00,000 MT in coming years.

14.2 Opportunities and Threats

HCL is the only fully integrated primary copper producing company having its own mining in India. The company has ample scope for expansion of manufacturing capacity for value addition at a low capital cost and augment its mining activity by increasing production from the existing mines as well as further development in the mining area.

At present, the cost of mining in copper has been substantially less than the prevailing global price of copper. With higher production and productivity and improved technology both capital intensive and labour intensive, the advantages can be consolidated further. In India, per capita consumption of copper is 0.3 kg. as against the around 10 Kg. in developed countries, so there exists a distinct scope for increased demand growth rate of copper in the country. The increased emphasis of the Government on infrastructure development and reform process in the telecom sector transformed the Indian copper industry from its stagnant past to present vibrant state. It is expected that by 2010 the current demand of about 4.50 lac ton per annum may reach a figure of 9.0 lac ton.

The threat perception for the company includes great volatility in international market, substantial increase in production capacity far in excess of the rate of increase in domestic demand of copper, increasing cost of inputs including power, fuel and non-availability of adequate funds for investment.

14.3 Future Outlook

Action initiated by the company has helped in registering a net profit of Rs.52.06 crore in 2004-05. HCL now looks forward to having a decisive turn around of the company in the year 2005-06. While higher LME price for copper has improved the overall viability of mining and other operations in the company, HCL's thrust for the year 2005-06 would be on improving mining production and development including Shaft sinking to exploit deposits from Banwas Block at Khetri, improving operational efficiency of Smelter Plants for achieving higher yield and recovery along with increased availability of all production Plants, reduction in cost of power, fuel and oxygen, reduction in the specific consumption of inputs as well as inventory, disposal of non-performing assets and scrap, rationalization of manpower and managing essential requirements through change in work culture and outsourcing, wherever felt necessary. Another area of thrust would be to reduce interest cost through repayment and restructuring of loans and reduction of interest rates through negotiation. Meanwhile, the company has also initiated a special drive in repairing and replacing old machines & equipment, the area where job could not be taken up in the company for quite some time in the past due to paucity of fund. Backlogs in mine development both in the open cast mine at Malanjkhand and the underground mines at Khetri

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& Kolihan had been done in 2004-05 through upgradation of mining equipment and partial off-loading of mining development work. In brief, the Company's thrust for 2005-06 would be to augment its infrastructural strength and to sustain its profitability.

14.4 Risks and Concerns

The depreciation of US$ against rupee, TC/RC rates of copper causes concern for net realisation. Apart from this, probability of further reduction in custom duty and fall in LME prices of copper adds to the existing concern. However company enjoys a natural hedge against these concerns as it has technological edge coupled with professional approach.

14.5 Internal control system and their adequacy

Company has well-established internal control system commensurate with the size of the company. 'Purchase Manual' and 'Contract Manual' have been updated to facilitate processing control as well as greater transparency. HCL has entrusted the job of internal audit to outside professional accounting firms. The internal audit reports are discussed thoroughly by the Board and corrective action taken by management as and when necessary.

14.6 Vigilance Activities

For effective control, surprise checks/regular inspections were conducted. Returns and reports were submitted to the statutory agencies and the CVC guidelines, received from time to time, were followed and adhered to as precautionary and preventive measures. A campaign for creating awareness was taken up by organising the Vigilance Awareness Week Celebration commencing from 01.11.2004 to 06.11.2004 at all the Units including at Head Office. Stress was given on preventive vigilance with a view to minimise scope for corruption and assisting the management in improving the systems and procedures.

14.7 Discussion on financial performance with respect to operational performance

14.7.1 The summarised financial performance of 2004-05 compared with 2003-04 is given below :

(Rs. in crore)

	Head	2004-05	2003-04
a.	Sales	559.11	518.87
b.	Value of Production	631.24	534.43
c.	Cost of production excluding depreciation, provisions, write-offs/write-back and interest	503.45	500.70
d.	Profit/(Loss) before depreciation, provisions, write-off/write-back and interes	127.79	33.73
e.	Depreciation, provisions, write-off/write-back	32.74	30.26
f.	Interest	42.99	59.63
g.	Profit/(Loss) before tax	52.06	(56.16)
h.	Provision for tax	0.00	0.00
i.	Profit/(Loss) after tax but before deferred tax	52.06	(56.16)

14.7.2 Capital Expenditure

During the year 2004-05, HCL has received Rs.40 crore as equity from the Govt. for replacement and renewals of existing plant and machinery.

14.7.3 Grant-in-Aid from Government

HCL has received Rs.35.00 crore from the Govt. as Grant-in-Aid during the year 2004-05 towards separation of manpower through VRS.

14.7.4 Bonds (Secured and Unsecured)

Out of the total 14.00% Unsecured privately placed bonds of Rs.63.33 crore, the company has already redeemed Rs.47.78 crore leaving a balance of Rs.15.55 crore even though the bonds are overdue for payment.

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