Press Release

The Singareni Collieries Company Limited
April 03, 2019

Ratings

<table>
<thead>
<tr>
<th>Facilities</th>
<th>Amount (Rs. crore)</th>
<th>Rating¹</th>
<th>Rating Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term Bank Facilities</td>
<td>431.00</td>
<td>CARE AA; Stable (Double A; Outlook: Stable)</td>
<td>Revised from CARE AA-; Stable(Double A Minus; Outlook: Stable)</td>
</tr>
<tr>
<td>Total Facilities</td>
<td>431.00 (Rs. Four Hundred and Thirty One crore only)</td>
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</tbody>
</table>

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of The Singareni collieries Company Limited (SCCL) derives comfort from improvement in revenue and profitability margins during FY18 (refers to period from April 01 to March 31), satisfactory leverage and coverage indicators along with improvement in receivable position of the company. The ratings continue to factor in strength from sovereign ownership of the company, significant market position in coal industry, large proven coal reserves, stable operational performance during FY18, presence of long term PPA for power units and strong liquidity position with high cash balances and liquid investments as on March 31, 2018. However, the rating strengths are partially offset by huge reserves of low quality of coal and project risk associated with the planned expansion of power capacity.

The ability of the company to continue to improve the operational performance of the coal division with subsequent improvement in profitability, maintain the capital structure given the envisaged capex and manage the receivables efficiently are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

**Improvement in revenue and profitability margins during FY18**

The total operating income registered a y-o-y growth of about 32.81% in FY18 over FY17. The same was led by increase in the revenue from the power unit coupled with increased demand for coal during FY18. The PBILDT margin of the company has improved marginally from 17.14% during FY17 to 18.50% during FY18 on account of economies of scale. However, the PAT margin of the company improved significantly by ~297 basis points from 4.71% during FY17 to 7.68% during FY18 on account of reversal of provision for District Mineral Foundation Trust (DMF).

**Improvement in receivable position**

The operating cycle of the company improved from 102 days during FY17 to 74 days during FY18 primarily on account of improvement in receivable position. The company realized majority of pending receivables from Telangana and Andhra Pradesh State Power Generation Corporations resulting in improvement of collection period during FY18.

**Satisfactory capital structure with strong liquidity position**

The overall gearing of the company has improved marginally from 0.92x as on March 31, 2017 to 0.74x as on March 31, 2018 on account of scheduled repayment of term debt and plough back of profits to reserves. The other debt coverage indicators have also remained satisfactory with PBILDT interest coverage at 8.36x in FY18 and total debt to GCA improving from 2.01x in FY17 to 1.54x during FY18. The company had significant free cash balance/liquid investments amount to about Rs.2,923 crore as on March 31, 2018, considering which, the net gearing remains strong. Further, the average utilization of fund based limits for the past 12 months ending February 28, 2019 stood almost nil.

**Sovereign ownership established track record**

SCCL is a Public Sector Undertaking (PSU) with the Government of Telangana holding 51% stake in the company and the balance held by Govt. of India. The company has a strong track record of more than nine decades in exploration, commercial exploitation, conservation & processing of coal mineral.

**Significant market position**

SCCL is the second largest coal producer in India, although the size is very small compared to Coal India Ltd. It has large proven coal reserves and coal production has been witnessing continuous growth over the past couple of years. The production increased to 62.01 MT in FY18 (growth of 1.09%) and further 57.94 MT in 11MFY19.

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications
**Long term PPA for the power unit**

SCCL completed the 2x600 MW coal based thermal power plant in June 2016 and the commercial operation of the same commenced from September 2016 (Unit I) and December 2016 (Unit II). SCCL has entered into long term PPA with TSPPDCL and TSNPDCL, the State Distribution Utilities of Telangana for supply power for a period of 25 years from COD i.e. December 02, 2016. The Tariff would be based upon the prevailing TSREC Regulation from time to time.

**Key Rating Weaknesses**

*Low quality of coal reserves with lower calorific value*

Majority of the coal reserves of the company are of low quality (grade D, E & F) which has lower calorific value and thereby fetching low coal premium for the company.

*Project implantation risk*

The company has announced expansion of the capacity of power division with setting up of another 800 MW thermal power plant which was approved by Government of Telangana. Further, the company also proposes to set up 300 MW solar power plant during FY20-FY21. Thus, the company is exposed to risk associated with project funding and thereafter implementation.

**Analytical Approach:** Standalone.

**Applicable Criteria**

- Criteria on assigning Outlook to Credit Ratings
- CARE’s Policy on Default Recognition
- Financial ratios – Non-Financial Sector

**About the Company**

The Singareni Collieries Company Limited (SCCL) is jointly owned by the Government of Telangana (GoT) [consequent to bifurcation of the State of Andhra Pradesh and formation of State of Telangana w.e.f June 02, 2014] and Government of India (GoI) on 51:49 basis. SCCL is in business of coal mining. The company’s accredited function is to explore and exploit the coal deposits in the Godavari Valley Coalfield (GVC), which is the only repository of coal in South India. Mining activities of SCCL are presently spread over four districts of Telangana viz. Adilabad, Karimnagar, Khammam and Warangal. Apart from mining, the company has ventured into setting up of coal based power plants with capacity of 1200 MW which commenced commercial operation from September 2016. The company has entered into PPA with Telangana DISCOMs for a period of 25 years at tariff rates specified by TSREC.

**Brief Financials (Rs. crore)**

<table>
<thead>
<tr>
<th></th>
<th>FY17 (A)</th>
<th>FY18 (A)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total operating income</td>
<td>13,631.41</td>
<td>18,103.83</td>
</tr>
<tr>
<td>PBILDT</td>
<td>2,335.81</td>
<td>3,350.01</td>
</tr>
<tr>
<td>PAT</td>
<td>641.94</td>
<td>1,390.38</td>
</tr>
<tr>
<td>Overall gearing (times)</td>
<td>0.92</td>
<td>0.74</td>
</tr>
<tr>
<td>Interest coverage (times)</td>
<td>9.95</td>
<td>8.36</td>
</tr>
</tbody>
</table>

*A: Audited*

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable.

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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**For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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In case of partnership/proprietary concerns, the rating/outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**Annexure-1: Details of Instruments/Facilities**

<table>
<thead>
<tr>
<th>Name of the Instrument</th>
<th>Date of Issuance</th>
<th>Coupon Rate</th>
<th>Maturity Date</th>
<th>Size of the Issue (Rs. crore)</th>
<th>Rating assigned along with Rating Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fund-based - LT-Cash Credit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>131.00</td>
<td>CARE AA; Stable</td>
</tr>
<tr>
<td>Non-fund-based - LT-Letter of credit</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>225.00</td>
<td>CARE AA; Stable</td>
</tr>
<tr>
<td>Non-fund-based - LT-Bank Guarantees</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>75.00</td>
<td>CARE AA; Stable</td>
</tr>
</tbody>
</table>

**Annexure-2: Rating History of last three years**

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Instrument/Bank Facilities</th>
<th>Type</th>
<th>Amount Outstanding (Rs. crore)</th>
<th>Current Ratings</th>
<th>Date(s) &amp; Rating(s) assigned in 2018-2019</th>
<th>Date(s) &amp; Rating(s) assigned in 2017-2018</th>
<th>Date(s) &amp; Rating(s) assigned in 2016-2017</th>
<th>Date(s) &amp; Rating(s) assigned in 2015-2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Fund-based - LT-Cash Credit</td>
<td>LT</td>
<td>131.00</td>
<td>CARE AA; Stable</td>
<td>1)CARE AA; Stable (29-Mar-18)</td>
<td>2)CARE AA; Stable (05-Apr-17)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Non-fund-based - LT-Letter of credit</td>
<td>LT</td>
<td>225.00</td>
<td>CARE AA; Stable</td>
<td>1)CARE AA; Stable (29-Mar-18)</td>
<td>2)CARE AA; Stable (05-Apr-17)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Non-fund-based - LT-Bank Guarantees</td>
<td>LT</td>
<td>75.00</td>
<td>CARE AA; Stable</td>
<td>1)CARE AA; Stable (29-Mar-18)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>