The Singareni Collieries Company Limited
April 05, 2017

Ratings

<table>
<thead>
<tr>
<th>Facilities</th>
<th>Amount (Rs. crore)</th>
<th>Rating(^1)</th>
<th>Rating Action</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term Bank Facilities</td>
<td>431</td>
<td>CARE AA-; Stable (Double A Minus; Outlook: Stable)</td>
<td>Revised from CARE AA (Double A)</td>
</tr>
<tr>
<td>Total Facilities</td>
<td>431 (Rupees Four Hundred and Thirty One crore only)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Details of instruments/facilities in Annexure-I

Detailed Rationale & Key Rating Drivers

The revision in the long-term rating assigned to the bank facilities of The Singareni Collieries Company Limited (SCCL) takes into account decline in profitability margins on account of lower price realization and deterioration in working capital cycle during FY16 (refers to the period April 01 to March 31). The ratings continue to derive strength from the sovereign ownership along with experience and long standing track record of operations in the coal industry, stability in operational performance during FY16, growth in total operating income, healthy free cash balances and successful completion of thermal power project.

The ratings are, however, constrained by moderate overall gearing, decline in PBILDT margin, stressed total debt to GCA and decline in coal premium on account of competition in the open market.

The ability of the company to improve its debtors realization, profitability margins, debt coverage indicators, derive benefits from commencement of power projects and effectively deal with fall in coal prices are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

**Sovereign ownership along with experience and long standing track record of operations in the coal industry**

Incorporated in 1920, SCCL is jointly owned by the Government of Telangana (GoT) and Government of India (GoI) on 51:49 basis. SCCL has a long standing track record of operations in the coal industry with more than nine decades and is currently operating 14 opencast and 36 underground mines as on March 31, 2016.

**Stability in operational performance during FY16**

There was substantial improvement in coal production by 14.92% in FY16 as compared in FY15. The capacity utilization of SCCL was at 96% during FY16 similar to FY15 which was about 95%.

**Growth in total operating income with improvement of PAT margin**

The total operating income has improved to Rs.13,162.43 crore in FY16 (Rs.12,069.82 crore in FY15) due to increase in the offtake coal production in FY16. The PAT margin of the company improved substantially by about 404 basis points to 8.10% in FY16 as against 4.06% in FY15 due to impact of non-cash items (reduction of provision for backfilling and mine closure activity) and reduction of depreciation charges.

**Healthy cash balance of the company**

The company consistently maintained healthy cash balances during the past and present although gradually depleting on account of partly utilizing the same towards capex and operations.

**Successful completion of Thermal Power Project**

The company has completed its 2X600MW thermal power project and successfully synchronized first unit on March 13, 2016 and second unit on June 01, 2016. The company declared that the first unit was commercially operational in September 2016 while the second became commercial operational in December 2016. The company has entered into a Power Purchase Agreement (PPA) with the Telangana State Distribution Companies (TSDISCOMs) on January 18, 2017 to supply 1200 MW power for a period of 25 years.

Key Rating Weaknesses

**Decline in PBILDT margin**

The PBILDT margin of the company has declined from 22.71% in FY15 to 18.07% in FY16 due to increase in overburden expenses, decline in premium on coal prices and contribution made by it towards District Mineral Foundation Trust.

**Deterioration in overall gearing and coverage indicators**

The overall gearing of the company deteriorated marginally as on March 31, 2015 to as on March 31, 2016 on account of availing external debt for the completion of thermal power project. The interest coverage ratio, although remained comfortable during FY16, deteriorated from FY15. Furthermore, the total debt to GCA of the company remained stressed during FY16 on account of higher debt levels.

**Deterioration in working capital cycle**

\(^1\)Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications
The working capital cycle of the company deteriorated from FY15 to FY16 on account of increase in the average collection period. The receivables of the company almost doubled on account of delay in realization of sales from various GENCOs and state power corporations.

**Analytical Approach:** Standalone

**Applicable Criteria**
- Criteria on assigning Outlook to Credit Ratings
- Criteria for short term Instruments
- 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 thermal based power plants with capacity of 1200 MW, which has commenced its operation from September 2016.

During FY16, SCCL reported a PAT of Rs.1,066.13 crore on a total operating income of Rs.13,162.43 crore as against a PAT of Rs.490.44 crore on a total operating income of Rs.12,069.82 crore in FY15.

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

**Any other information:** Not Applicable

**Rating History (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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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>300.00</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 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>
<th>Date(s) &amp; Rating(s) assigned in 2014-2015</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>-</td>
<td>-</td>
<td>1)CARE AA (10-Mar-16)</td>
<td>1)CARE AA (06-Feb-15)</td>
</tr>
<tr>
<td>2.</td>
<td>Non-fund-based - LT-Letter of credit</td>
<td>LT</td>
<td>300.00</td>
<td>CARE AA-; Stable</td>
<td>-</td>
<td>-</td>
<td>1)CARE AA (10-Mar-16)</td>
<td>1)CARE AA (06-Feb-15)</td>
</tr>
</tbody>
</table>
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