Coal India Limited

April 12, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,694.30	CARE AAA; Stable	Assigned
Short-term bank facilities	7,220.00	CARE A1+	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Coal India Limited (CIL) draw strength from its majority ownership by the Government of India (GoI) as well as the company's strategic importance to the GoI, as it plays a key role in meeting energy needs for the country. The ratings further derive comfort from CIL's dominant position in domestic coal mining, availability of large reserves, its experienced and professional management, along with a long track record in the domestic coal mining industry.

Furthermore, the ratings also derive strength from long term demand committed through fuel supply agreements (FSAs) resulting in strong revenue visibility, growing scale of operations, sound and resilient profitability margins, as well as the company's comfortable financial risk profile, marked by low gearing, healthy debt metrics, and strong liquidity position.

The ratings, however, remain susceptible to the inherent regulatory and socio-political risks, significantly high contingent liabilities vis-à-vis net-worth base and the large capital expenditure (capex) requirements for ensuring adequate evacuation infrastructure albeit the same is expected to be funded largely from internal accruals.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not applicable

Negative factors

- Higher-than-expected debt-funded capex or acquisition thereby resulting in overall gearing beyond 0.50x.
- Materialisation of its contingent liabilities resulting in significant adverse impact on its liquidity.
- Any changes in government policies significantly affecting CIL's operations.

Analytical approach: Consolidated, along with considering its strategic importance to the GoI. The entities considered in CIL's consolidated financials are placed at **Annexure-6.**

Outlook: Stable

CARE Ratings Limited (CARE Ratings) believes that CIL would continue to maintain its dominant position in the domestic coal mining industry along with maintaining its comfortable financial risk profile. Moreover, it shall continue to remain strategically important to the GoI.

Detailed description of the key rating drivers

Key strengths

Strategic importance to the Indian energy sector with majority ownership by GoI

CIL is promoted and majorly owned by GoI, which holds 63.13% ownership and Life Insurance Corporation of India holds 10.60% ownership as on December 31, 2023.

CIL plays a strategic role in meeting India's energy requirement as evident from its 79% contribution to total domestic coal production in FY23. CIL's importance to GoI is further corroborated by large dividend and taxes paid by it. CIL also has two Government Nominee directors on its board namely Shri Nagaraju Maddirala who is also Additional Secretary-Ministry of Coal (MoC) and Smt. Nirupama Kotru who is Joint Secretary and Financial Advisor, MoC.

Further CIL is managed by an experienced team of management. Shri PM Prasad- Chairman cum Managing Director of the company has 38 years of experience in the varied facets of operations and management and has also received award of 'Best Mines Manager' from Secretary Coal, MoC in 1995. Further, senior management of the company has vast experience in their respective domains which facilitates smooth day-to-day operations and management's competence is seen from maintaining the company's position as the largest coal producer in India and being able to successfully navigate rough cyclical industry ups and downs over decades.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Near monopoly status in coal mining segment despite increase in commercial mining

CIL has established track of operations of over five decades in coal mining and holds around 48% of total proven coal reserves of India. As on April 01, 2023, it had total 322 mines spread over eight states of India. Government has started auctions for commercial mining by private sector from 2020. Coal production by the private sector is expected to surpass 140 million tonnes (MT) in FY24, as the coal ministry pushes for enhancing output from captive and commercial mines. As of February 2024, the total number of producing mines stood at 54, of which 35 blocks have been allocated to the power sector, 11 to the non-regulated sector, and 8 for sale of coal. Despite increase in coal production through commercial mining, CIL is expected to enjoy near monopoly status as India is still importing large quantity of coal given the growing demand from power sector. In the absence of cost-effective and sustainable sources of fuel, coal is expected to continue to be the dominant source in our country's fuel mix in the medium term, as it offers reliability and stability of supply at affordable prices.

CIL achieved highest coal production in FY23 at 703.20 MT and till March 07, 2024 CIL has already produced 685.08 MT of coal during FY24 against production target of 780 MT in FY24. Going forward, the production target for FY25 is 838 MT and for FY26 is 1000 MT, which is expected to further strengthen CIL's positioning.

Long-term demand committed through FSAs resulting in strong revenue visibility; also mitigating revenue concentration from power sector

Of the total coal production of 703.20 MT in FY23, around 85% of coal was supplied to power sector. Considering the FSAs executed with the power plants under provisions of New Coal Distribution Policies (NCDP) and the FSAs executed under various provisions of SHAKTI, the operative linkage for a total quantity of about 578 MTPA exists with the power sector as on March 31, 2023, which is bound by long-term supply commitments through FSAs excluding bridge linkage commitments which stood at 30 MTPA, where coal supply is based on best effort basis. The total FSA commitments for non-power consumer including the FSAs of erstwhile regime, bridge linkage and state nominated agencies stood at 87 MTPA as on even date.

Under FSAs for power and non-power sector, the company gets penalised only if the supply is less than 75% of the committed quantity. The realizations under FSA are lower as compared to e-auction, however, FSAs provide a very good revenue visibility to CIL.

As major coal supply is to power sector, top 15 customers contribute around 80%-85% of total sales of the company. However, the company has established long-term relationships with these customers and majority of them being PSUs, there is low credit risk. Currently, the company majorly uses railways for its dispatches as around 67% of coal dispatched is through railways, 31% is through roads and balance through belt and rope. Average daily rail loading stood at around 274 rakes in FY23 and 281 rakes in 9MFY24.

Significant improvement witnessed in TOI and operating profitability during past two years ended FY23 and 9MFY24

The company's total operating income (TOI) increased by 22% y-o-y in FY22 and further by 26% y-o-y in FY23 to ₹138,252 crore. This apart, operating profitability marked by PBILDT margin improved by 184 bps in FY22 to 22.54% and further by 409 bps in FY23 to 26.63% despite provisioning of ₹8,153 crore towards wage revision of CIL's non-executive manpower.

Growth in TOI in FY22 was contributed mainly by higher volume dispatch while that in FY23 was contributed by significantly higher e-auction realisations on back of high demand of coal apart from revision in surface transportation prices. The e-auction premium over notified prices stood at 252% in FY23. Also, operational efficiency increased in FY22 and FY23 as witnessed from increased productivity of its employees.

During 9MFY24, company reported TOI of Rs.1,04,914 registering y-o-y growth of 5%. PBILDT margin continued to remain healthy in 9MFY24 at 28.95% supported by firm e-auction prices, though lower than FY23 level. Its capacity utilization has also remained healthy at around 85% during FY23 and 9MFY24.

As coal accounts for about 75% of India's power generation and power demand is expected to rise going forward, CIL's performance is also expected to remain healthy over medium term.

Strong financial risk profile marked by comfortable capital structure and debt coverage indicators

The company has a strong financial risk profile marked by high net-worth base of ₹55,427 crore and low debt levels of around ₹6,393 crore as on March 31, 2023. The company's overall gearing has remained consistently below 0.20x for past 5 years ended FY23. Also, its debt protection metrics are strong marked by PBILDT interest coverage of 53.80x and total debt/ gross cash accruals (GCA) of 0.19x in FY23. Company's dividend payout increased from ₹7,703 crore in FY21 to ₹14,328 crore in FY23 (₹11,947 crore in 9MFY24).

Further, company's annual debt repayment obligation is minimal vis-à-vis its annual cash accruals as it plans to fund its capex requirements largely through internal accruals, even after large dividend payout.

Liquidity: Strong

CIL has a strong liquidity position with unencumbered cash and cash equivalents of ₹43,415 crore as on March 31, 2023 which stood at around ₹35,223 crore as on December 31, 2023. CIL generally receives advance payment for sales under e-auction and sales made through FSAs (FSAs form a major portion of sales [78% in FY23]), which aids its cash flow from operations and results in comfortable operating cycle. The company reported healthy net cash flow from operations of ₹28,077 crore and generated GCA of ₹33,286 crore in FY23. CIL's debt repayment obligations are on the lower side vis-à-vis annual cash accruals of around ₹30,000 crore; accordingly, CIL is expected to generate sufficient accruals to meet its capex requirements and dividend payouts.
The company utilises its fund-based working capital limits very sparingly as average fund-based working capital limit utilisation of the company stood at around 29% during the last 12 months ended December 2023. The company's overall gearing was very comfortable at 0.12x as on March 31, 2023, providing sufficient gearing headroom for availment of additional debt.

Key weaknesses

Large capex requirements albeit largely proposed to be funded out of internal funds

CIL is expected to spend around ₹15,000-22,000 crore p.a. over next three years viz., FY24-FY26, mainly towards increasing its washing capacity, coal mining capacity, various first mile connectivity (FMC) projects and development of rail infrastructure for improving evacuation capabilities as it is targeting 1 billion tonne of coal production by FY26. The above capex is expected to be funded comfortably from internal accruals and available liquidity. Limitations or bottlenecks in the evacuation infrastructure, can result in delays, congestion, and increased costs of moving coal.
MoC is developing the National Coal Logistic Plan, which includes FMC through railway siding near coal mines. which should enable faster loading and evacuation of coal thereby supporting CIL's growing production target. CIL plans to operationalise various FMC projects by FY29 thereby having a cumulative rapid loading capacity of 914.50 MTPA.
Going forward, the company is expected to increase its capex spend on various diversification projects, including solar power, pit-head thermal power projects, revival of fertilizer plants, coal bed methane, surface coal gasification, and sand from overburden material among others. Timely completion of these projects and their stabilisation would be critical to sustain its healthy return on capital employed (ROCE).

Significantly high level of contingent liabilities; materialisation of which may lead to significant cash outflow

The company had high contingent liabilities of ₹70,889 crore as on March 31, 2023 (₹1,05,600 crore as on March 31, 2022) vis-à-vis its tangible net worth as on even date. Contingent liabilities pertaining to claims related to environmental clearances has reduced significantly from ₹46,189 crore as on March 31, 2022 to ₹2,915 crore as on March 31, 2023 upon resolution of various disputes. Nonetheless, contingent liabilities continued to be on the higher side and materialisation of any such liabilities shall lead to significant cash outflow and remain a key monitorable.

Environment, social and governance (ESG) risk assessment

Risk factors	Compliance and action by the company
Environmental	• The company has 30 Eco-parks, of which eight new eco-parks were set up in FY23. • The company does effective utilisation of mine water. Mine discharge treatment plants are installed in mines for treatment of discharged mine water on the surface for second-phase treatment. Treated mine water is then used partly for dust suppression, firefighting, plantation, and washing among others. According to the need of the local community, treated mine water is supplied to the nearby villages for drinking and irrigation purposes. To assess the impact of mining activities on ground water, monitoring of ground water levels is being carried out in and around of the mine lease hold area. • Reclamation of the mined-out areas and external OB dumps are major environmental mitigatory activities taken up by CIL. Reclamation of mined out areas are being done per the Environmental Management Plan (EMP) and Mine Closure Plan (MCP), which are approved by MoEF&CC. Top soil is preserved, stored, and used in plantation areas in the opencast mines. Concurrent reclamation and rehabilitation of mined out areas are taken up for gainful land use. • The company is creating sand from overburden material (OBR). This initiative makes inexpensive sand available for construction in eco-friendly manner. The company has cumulatively produced 264,429 cubic metres of sand from OBR. • The waste generated by the company is recycled through authorised recyclers and on-site composting machines (in facilities and residential establishments) and remaining waste is disposed through State Pollution Control Board-approved landfill/incineration facilities.

Risk factors	Compliance and action by the company
	• The company achieved 52.10 million units reduction in electricity usage and generated 6,836,317 KwH solar energy in FY23. Also, 5,524.64 KL water was recycled and achieved around 5,606 tonnes p.a CO_2 Emission reduction in FY23. • The company has already established an Effluent Treatment Plant (ETP) and a Rainwater Harvesting system to further enhance water management practices. The company is also into process of setting up sewage treatment plant (STP). • The company undertakes greenhouse gas (GHG) inventory accounting and disclosures on Scope-1 and Scope-2 emissions. CIL has lowered its Scope-1 and Scope-2 emissions by 8% y-o-y in FY23.
Social	• CIL has been consistently ranked in top 10 companies in India for CSR spending. The company spent ₹586.50 crore on various CSR projects in FY23. Company's CSR spent of ₹2,172.63 crore during a four-year period ended FY23, was 25.70% higher than ₹1,731.6 crore that the company was statutorily obligated to spend. • CIL's two subsidiaries were declared winners in 'Agriculture & Rural Development' and 'Promotion of Sports,' respectively, in the prestigious National CSR Awards 2020 in August 2022. • Fatality rate per MT of coal produced was 0.03 in FY23 decreasing sizeably by 40%, as against 0.047 of 2021; whereas coal production has increased during the referred period. • There were 37 consumer complaints and one complaint for sexual harassment at workplace which were resolved by end-FY23. • 100% of the employees and workers are part of recognised associations and unions and there were no complaints pending for resolution as at end-FY23 pertaining to working conditions and health & safety.
Governance	• Out of total strength of 15 directors on its board, 7 are independent directors and 2 are Government Nominee directors on board. However, due to non-appointment of woman independent director on board, CIL was imposed fines by BSE and NSE. CIL being a CPSE, the appointment of Directors is made by GoI and the company has no control over filling up the vacancy within the stipulated time-frame specified under the Act/ Rules / Regulations. • The company has a defined process for grievance redressal and internal complaints committee for timely resolution of grievances/ complaints.

Applicable criteria

Consolidation
Definition of Default
Factoring Linkages Government Support
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Energy	Oil, Gas & Consumable Fuels	Consumable fuels	Coal

CIL is a 'Maharatna' Central Public Sector Enterprise (CPSE) under the administrative control of Ministry of Coal, Government of India (GoI). As on December 31, 2023, GoI holds 63.13% stake in the company.
CIL was incorporated in 1972 as Coal Mines Authority Limited post nationalisation of the coal sector and its name was rechristened to CIL in November 1975 as a Holding Company with five subsidiaries. Currently CIL has 11 wholly owned subsidiaries including a foreign subsidiary and five joint venture (JV) companies.
The company is the largest coal producer in India and operates through 83 mining areas spread over eight states of India. As on April 01, 2023, the company had total 322 mines of which 138 are underground mines, 171 are opencast mines and 13 are mixed

mines. CIL contributed 79% of total domestic coal production in FY23 and thus plays a strategic role in meeting India's energy needs.

Brief Financials-Consolidated (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (UA)
Total operating income	1,09,715	1,38,252	1,04,914
PBILDT	24,729	36,818	30,376
PAT	17,378	28,125	23,849
Overall gearing (times)	0.13	0.12	0.16
Interest coverage (times)	45.67	53.80	51.73

A: Audited; UA: Unaudited; Note: 'these are latest financial results available'.
Financials are reclassified as per CARE Ratings' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history of last three years: Please refer to Annexure-2

Covenants of rated facilities: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various facilities rated: Please refer to Annexure-4

Lender details: Please refer to Annexure-5

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash credit		-	-	-	2330.00	CARE AAA; Stable
Non-fund-based - ST-BG/LC		-	-	-	7210.00	CARE A1+
Non-fund-based - ST-Forward contract		-	-	-	10.00	CARE A1+
Term loan-Long term		-	-	March 2044	364.30	CARE AAA; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Non-fund-based - ST-BG/LC	ST	7210.00	CARE A1+				
2	Non-fund-based - ST-Forward contract	ST	10.00	CARE A1+				
3	Fund-based - LT-Cash credit	LT	2330.00	CARE AAA; Stable				
4	Term loan-Long term	LT	364.30	CARE AAA; Stable				

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of the rated facilities: Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Non-fund-based - ST-BG/LC	Simple
3	Non-fund-based - ST-Forward contract	Simple
4	Term loan-Long term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of all the entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Bharat Coking Coal Limited	Full	Wholly owned subsidiary
2	Central Coalfields Limited	Full	Wholly owned subsidiary
3	Eastern Coalfields Limited	Full	Wholly owned subsidiary
4	Mahanadi Coalfields Limited	Full	Wholly owned subsidiary
5	Northern Coalfields Limited	Full	Wholly owned subsidiary
6	South Eastern Coalfields Limited	Full	Wholly owned subsidiary
7	Western Coalfields Limited	Full	Wholly owned subsidiary
8	Central Mine Planning and Design Institute Ltd	Full	Wholly owned subsidiary
9	CIL Navikarniya Urja Limited	Full	Wholly owned subsidiary
10	CIL Solar PV Limited	Full	Wholly owned subsidiary
11	Coal India Africana Limited (Mozambique)	Full	Wholly owned subsidiary
12	Hindustan Urvarak & Rasayan Ltd	Proportionate	Joint venture
13	Talcher Fertilizers Limited	Proportionate	Joint venture
14	Coal Lignite Urja Vikas Private Limited	Proportionate	Joint venture
15	CIL NTPC Urja Pvt Limited	Proportionate	Joint venture
16	International Coal Ventures Pvt. Limited	Proportionate	Joint venture

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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