

Coal India Limited

August 28, 2024

The Hon'ble Supreme Court of India, in a recent judgement, has upheld the power of State Governments to tax mineral rights and mineral-bearing lands. Furthermore, the bench, vide its judgement dated August 14, 2024, has also concluded that the States may levy or renew demand of such tax (if any) in a retrospective manner, on transactions made on or after April 01, 2005. The said judgement further states that, should the States choose to exercise this retrospective option, then the total amount due from an assessee can be paid over a period of 12 years, beginning April 1, 2026, without any interest or penalties.

As per management of Coal India Ltd (CIL), total retrospective financial liabilities arising from the above-said verdict of the Hon'ble Supreme Court of India, could be around Rs.31,591 crore for the past period since 2005. The impact is expected to be only limited to two of the subsidiaries of CIL viz. Mahanandi Coalfields (MCL) and Central Coalfields (CCL). While in MCL the liability is likely to be around Rs.31,227 crore that in CCL could be around Rs.364 crore. For its coal supplies to customers through long-term fuel supply agreements (FSAs), CIL's management expects to recover significant portion of its liabilities from such customers basis the contractual terms of the FSAs. Accordingly, CIL's management believes that the net financial impact for past tax dues could be around Rs.6,000 crore.

While CARE Ratings Ltd shall continue to assess the impact (if any) of the afore-mentioned ruling of the Hon'ble Supreme Court of India on entities involved in mining operations and appropriately review the ratings as and when further clarity emerges, we note that CIL has a strong business and financial risk profile as on June 30, 2024 and that the payment of the retrospective liability is spread over 12 yearly installments.

Please refer to the following link for Care Ratings Ltd's previous Press Release on CIL which captures amongst other things the rationale and key rating drivers along with their detailed description, rating sensitivities, liquidity position, and brief financial indicators: [Click here](#)

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