Coal India Limited

October 09, 2024

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

Details of facilities in Annexure-1.

Rationale and key rating drivers

Ratings assigned to bank facilities of Coal India Limited (CIL) continue to draw strength from its majority ownership by the Government of India (GoI) and the company's strategic importance to GoI, as it plays a key role in meeting energy needs for the country. Ratings further continue to derive comfort from CIL's dominant position in domestic coal mining, availability of large reserves, its experienced and professional management, and a long track record in the domestic coal mining industry.
Furthermore, ratings also continue to 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, and the company's comfortable financial risk profile, marked by low gearing, healthy debt metrics, and strong liquidity position. Furthermore, ratings also factor in continued improvement in total operating income (TOI) and operating profitability in FY24 (refers to April 01 to March 31) and Q1FY25.
However, ratings remain susceptible to inherent regulatory and socio-political risks, significantly high contingent liabilities against net-worth base and large capital expenditure (capex) requirements for ensuring adequate evacuation infrastructure despite this is expected to be funded largely from internal accruals.

CARE Ratings Limited (CARE Ratings) further notes that Honourable 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, 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. This judgement further states if the states choose to exercise this retrospective option, then the total amount due from an assessee can be paid over 12 years, beginning April 01, 2026, without interest or penalties. Subsequently, centre has sought review on the verdict.
Per CIL's management, total retrospective financial liabilities arising from the verdict of Honourable Supreme Court of India, could be ~₹31,591 crore for the past since 2005. For its coal supplies to customers through long-term FSAs, CIL's management expects to recover significant portion of its liabilities from such customers basis the contractual terms of FSAs. Accordingly, CIL's management expects that there can be net financial impact for past tax dues around ~₹6,000 crore.
While CARE Ratings shall continue to assess the impact (if any) of Hon'ble Supreme Court of India's ruling on entities involved in mining operations and appropriately review 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 retrospective liability is spread over 12 yearly instalments.

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 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 GoI.

Detailed description of key rating drivers

Key strengths

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

Strategic importance to 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 9.98% ownership as on June 30, 2024.

CIL plays a strategic role in meeting India's energy requirement as evident from its 78% contribution to total domestic coal production in FY24. 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, Nagaraju Maddirala who is also Additional Secretary-Ministry of Coal (MoC) and Nirupama Kotru who is Joint Secretary and Financial Advisor, MoC.

Further, CIL is managed by an experienced team of management. PM Prasad- Chairman cum Managing Director of the company has 38 years of experience in varied facets of operations and management and has also received award of 'Best Mines Manager' from Secretary Coal, MoC in 1995. Further, the company's senior management 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.

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 ~48% of total proven coal reserves of India, with production accounting for 78%-80% of domestic coal production in FY22-FY24. In FY24 and FY25 (till August 31, 2024), CIL produced 774 MT and 290.4 MT of coal, respectively, against 703 MT and 281.5 MT, respectively, in the corresponding period of previous fiscal. Going forward, production target for FY25 is 838 MT and that for FY26 is 1000 MT, which is expected to further strengthen CIL's positioning.

Government has started auctions for commercial mining by private sector from 2020. Coal production by the private sector increased to 154 million tonnes (MT) in FY24 from 122 MT in FY23, as the coal ministry pushes for enhancing output from captive and commercial mines. 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 India's fuel mix in the medium term, as it offers reliability and stability of supply.

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

Of the total coal production of 774 MT in FY24, ~80% of coal was supplied to power sector. Considering FSAs executed with power plants under provisions of New Coal Distribution Policies (NCDP) and provisions of SHAKTI, operative linkage for a total quantity of ~583.4 MTPA exists with the power sector as on March 31, 2024, excluding bridge linkage commitments of 11.8 MTPA. Total FSA commitments for non-power consumer including FSAs of erstwhile regime, bridge linkage and state nominated agencies stood at 103.4 MTPA as on March 31, 2024.

Under FSAs for power and non-power sector, the company gets penalised only if supply is less than 75% of the committed quantity. Realisations 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 ~80%-85% of the company's total sales. However, the company has established long-term relationships with these customers and majority of them being PSUs, there is low credit risk.

Improvement witnessed in TOI and operating profitability in FY24 and Q1FY25

The company's TOI increased by 3% y-o-y in FY24 to ₹1,42,329 crore supported by a volume growth of 8%, partly offset by lower e-auction premium from the highs of FY23. Operating profitability marked by PBILDT margin improved by 171 bps in FY24 to 33.71% considering higher volume sales leading to better absorption of fixed overheads, which accounts for majority of cost.

In Q1FY25, the company reported TOI of ₹36,465 crore compared to ₹35,983 crore in Q1FY24. PBILDT margin improved to 39% in Q1FY25 (38% in Q1FY24) supported by higher off-takes and better absorption of fixed overheads. Its capacity utilisation also improved to ~94% in FY24 from ~85% in FY23.

As coal accounts for ~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 ₹80,864 crore and low debt levels of ~₹8,565 crore as on March 31, 2024. The company's overall gearing remained consistently below 0.20x for past five years ended FY24. Also, its debt protection metrics are strong marked by PBILDT interest coverage of 58.55x and total debt/gross cash accruals (GCA) of 0.20x as on March 31, 2024.

Further, the company's annual debt repayment obligation is minimal against 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 ₹33,287 crore as on March 31, 2024. CIL generally receives advance payment for sales under e-auction and sales made through FSAs (FSAs form a major portion of sales [82% in FY24]), which aids its cash flow from operations and results in comfortable operating cycle. The company reported healthy net cash flow from operations of ₹14,251 crore and generated GCA of ₹43,972 crore in FY24. CIL's debt repayment obligations are on the lower side against annual cash accruals; accordingly, CIL is expected to generate sufficient accruals to meet its capex requirements and dividend payouts. Even after considering the outflow, if any, towards the recent Supreme Court's verdict, considering power of State Government to tax mineral rights and mineral bearing land, liquidity position is expected to remain robust.

The company utilises its fund-based working capital limits very sparingly as average fund-based working capital limit utilisation of the company stood low in the last 12 months. Its overall gearing was very comfortable at 0.11x as on March 31, 2024, 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 ~₹15,500-16,500 crore per annum for the next three years FY25-FY27, mainly towards increasing its washing capacity, coal mining capacity, 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 evacuation infrastructure can result in delays, congestion, and increased costs of moving coal. Of the planned first mile connectivity projects, 15 projects with total capacity of 200.5 MTPA have already been commissioned under phase-1. Further, 18 projects of phase-1 with total capacity of 182 MTPA are expected to be completed in FY25. Furthermore, CIL is focusing on improving the rail infrastructure in Odisha, Jharkhand and Chhattisgarh with projects in pipeline. It plans to operationalise three phases of FMC projects by FY29 having a total rapid loading capacity of 914.50 MTPA, including previous capacity of 151 MTPA. Overall, these projects will ease evacuation constraints and increasing the share of railways in transporting coal.

Going forward, the company is expected to increase its capex spend on diversification projects, including solar power, pit-head thermal power projects, revival of fertiliser 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 ₹54,345 crore as on March 31, 2024 (₹70,889 crore as on March 31, 2023) against its tangible net worth as on even date. Contingent liabilities pertaining to claims related to environmental clearances significantly reduced to ₹2,915 crore as on March 31, 2024, upon resolution of disputes. Nonetheless, contingent liabilities continued to be on the higher side and materialisation of 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	• From mining to coal cleaning, transportation to electricity generation, coal releases numerous toxic pollutants into the air, water and land. Coal mining and combustion releases significant amount of pollutants including CO_2 and methane, into the air and water, affecting human health. Environmental clearance is critical for mining operations and breach may lead to financial or operational implications. • 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. Per the need of local community, treated mine water is supplied to nearby villages for drinking and irrigation purposes. 2,595.29 lakh Kilo Litres (LKL) mine water was utilised for own use and 2,591.42 LKL for community supply including domestic and irrigation purpose benefitting 11.62 lakh people in 857 villages in FY24. • 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. • The company achieved 12.84 million units reduction in electricity usage and generated 20.21 mu of solar energy in FY24. Also, 5,186.71 KL water was reused and achieved ~16,582 tonnes per annum CO2 Emission reduction in FY24.

Risk factors	Compliance and action by the company
Social	• Coal mining is hazardous, with risks of accidents, respiratory diseases, and other health issues for workers. Mining operations can displace communities, disrupt local economies, and lead to social conflicts. • Fatality rate per million MT of coal produced was 0.04 in FY24 while serious injury rate per million MT was 0.06. • The company spent ₹574.58 crore on CSR projects in FY24 out of requirement of ₹547.59 crore. • CIL maintains essential welfare facilities such as rest shelters, canteens, pithead baths, and creches, to support daily needs and well-being of its workforce. Also, it provides company housing to all eligible employees with regular maintenance and repairs conducted. • There were 42 consumer complaints out of which 1 is pending and no complaint for sexual harassment at workplace by end-FY24. • 100% of the employees and workers are part of recognised associations and unions and there were no complaints pending for resolution as at end-FY24 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, 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

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
Consolidation

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic industry
Energy	Oil, gas and 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 June 30, 2024, 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 84 mining areas spread over eight states of India. As on April 01, 2023, the company had total 313 mines of which 131 are underground mines, 168 are opencast mines and 14 are mixed mines. CIL contributed 78% of total domestic coal production in FY24 and thus plays a strategic role in meeting India's energy needs.

Brief Financials-Consolidated (₹ crore)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	1,38,252	1,42,329	36,465
PBILDT	44,240	47,976	14,339
PAT	31,723	37,369	10,944
Overall gearing (times)	0.11	0.11	NA
Interest coverage (times)	64.65	58.55	68.66

A: Audited UA: Unaudited NA: Not Available; Note: 'these are latest financial results available'.
Financials are reclassified per CARE Ratings' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history of last three years: Annexure-2

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

Complexity level of facilities rated: Annexure-4

Lender details: 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 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+	1)CARE A1+ (12-Apr-24)	-	-	-
2	Non-fund-based - ST-Forward Contract	ST	10.00	CARE A1+	1)CARE A1+ (12-Apr-24)	-	-	-
3	Fund-based - LT-Cash Credit	LT	2330.00	CARE AAA; Stable	1)CARE AAA; Stable (12-Apr-24)	-	-	-
4	Term Loan-Long Term	LT	364.30	CARE AAA; Stable	1)CARE AAA; Stable (12-Apr-24)	-	-	-

LT: Long term; ST: Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please click here

Annexure-6: List of entities consolidated (as on June 30, 2024)

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	Jharkhand Central Railway Limited	Full	Step-down subsidiary
13	Chhatisgarh East Railway Limited	Full	Step-down subsidiary
14	Chhatisgarh East West Railway Limited	Full	Step-down subsidiary
15	Mahanadi Coal Railway Limited	Full	Step-down subsidiary
16	Mahanadi Basin Power Limited	Full	Step-down subsidiary
17	MJSJ Coal Limited	Full	Step-down subsidiary
18	MNH Shakti Limited	Full	Step-down subsidiary
19	Hindustan Urvarak & Rasayan Ltd	Proportionate	Joint venture
20	Talcher Fertilizers Limited	Proportionate	Joint venture
21	Coal Lignite Urja Vikas Private Limited	Proportionate	Joint venture
22	CIL NTPC Urja Pvt Limited	Proportionate	Joint venture
23	International Coal Ventures Pvt. Limited	Proportionate	Joint venture

CIl has announced two JVs in September 2024, with Rajasthan Rajya Vidyut Utpadan Nigam Limited. It will have 74% shares in both entities.

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

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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