

Grading Rationale

Coal India Limited

Grading Assigned

Particulars	Number of equity shares	Grading ¹	Remarks
IPO Grade	631,636,440 equity shares of face value of Rs. 10 each	'CARE IPO Grade 5' [Five]	Assigned

CARE has assigned a 'CARE IPO Grade 5' to the proposed IPO of Coal India Limited (CIL). 'CARE IPO Grade 5' indicates **Strong Fundamentals**. CARE assigns IPO grades on a scale of Grade 5 to Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals. CARE's IPO grading is an opinion on the fundamentals of the issuer. The grade assigned to any individual issue represents a relative assessment of the 'fundamentals' of the issuer.

CIL proposes an initial public offering of 631,636,440 equity shares of face value of Rs.10 through 100% book building process.

Grading Rationale

The assigned grading reflects CIL's dominance in the Indian coal industry. CIL contributes to around 82% of coal production in India. The balance 18% is produced mainly for captive consumption by manufacturing/power companies. Thus practically, CIL holds the monopoly in traded coal available domestically. Also CIL's strong financial position with cash balances of Rs.39077 cr with a comfortable gearing ratio give it immense financial flexibility to fund its on-going and planned expansion projects. Moreover, CIL is one of the lowest cost producers giving it an pricing edge over imported coal. The grading also factors experienced management and impressive track record of operations.

CARE Research foresees demand for the domestic coal industry will be mainly driven by the power generation companies. Increasing domestic steel and cement capacities are also likely

¹ Complete definition of the grading assigned is available at www.careratings.com and other publications of CARE.

to further support the domestic coal demand. Hence the offtake related risk for CIL are negligible.

However, CIL's operations are affected to some extent by socio-environmental concerns. Changes in pricing regulations, delays in obtaining clearances from the forest department and delay in receipt of regulatory approvals continue to pose a threat to the company's operations.

Background

In order to provide for a higher growth in coal sector to meet the growing energy needs of the country, the Government in 1973, nationalized the coal mines by enacting the Coal Nationalization Act and formed 'Coal Mines Authority Limited'. The company went through a reorganisation in 1975 wherein Bharat Coking Coal, Central Coalfield Limited, Coal Mines Planning and Development Institute, Eastern Coalfields limited and Western Coalfield Limited became its subsidiaries and the name was changed to **Coal India Limited (CIL)**. The company is responsible for the entire coal mining sector and is owned and controlled by the Central Government. The company was conferred 'Navratna' status by the GoI (Government of India) in October 2008 and all its subsidiaries were conferred the mini-navratna status giving operational autonomy.

Management

The senior management team has an extensive experience in the coal industry with many of the members serving the company or its subsidiaries for more than 30 years. The highly qualified and well experienced team provides the company with expert knowledge on exploration and production of coal. With effective demarcation of roles assigned to the individual directors, the company is able to achieve superior cost and operational efficiency.

Corporate Governance

Currently, the board has 14 Directors, out of which five are Executive. Two Directors are Government Nominees and the remaining seven Directors are the Independent Directors. Post-IFC, the government would continue to be a majority shareholder driving the affairs of the company.

CIL has constituted the prescribed committees such as Audit Committee, Shareholders/Investors Grievance Committee and Remuneration Committee.

Litigations

There are various outstanding litigations involving CIL and its subsidiaries before different courts / authorities. The probable financial liability / losses in many of such litigations are not quantifiable. In the cases where the amount is quantified, the same does not prima-facie seem significant in relation to the size of the company.

IPO Details

Size of the Issue

The proposed IPO comprises an offer for sale of 631,636,440 Equity Shares of the face value of Rs. 10 each by the President of India, acting through the Ministry of Coal (MOC), GOI. The Government is planning to divest 10 percent of its equity through the public issue of shares.

Terms of the issue

The offer comprises a net offer to public of 568,472,796 equity shares and a reservation of 63,163,644 equity shares for subscription by eligible employees. The offer shall constitute 10.0% of the post offer paid-up equity share capital of CIL.

Purpose of the issue

- Offer for sale by Government of India.
- The objects of the Offer are to carry out the divestment of 631,636,440 equity Shares by the Selling Shareholder (GOI) and to achieve the benefits of listing the equity Shares on the Stock Exchanges.
- The Company will not receive any proceeds from the Offer and all proceeds shall go to the Selling Shareholder (GOI).

Shareholding Pattern Pre-issue and Post-issue:

Share Holders	Pre Issue (%)	Post-Issue (%)
Govt. of India & nominees	100.0	90.0
Public	0	10.0
Total	100.0	100.0

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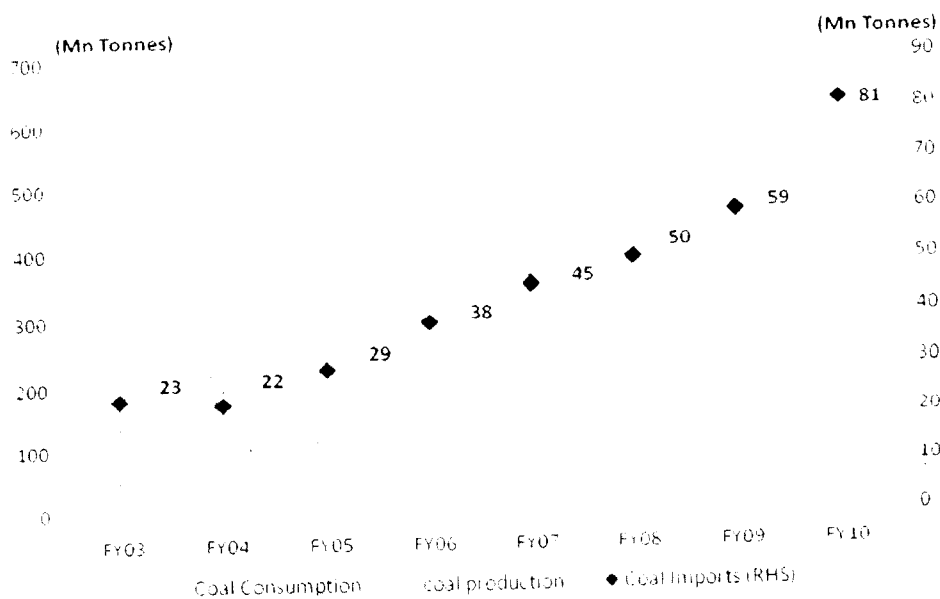
Financial Analysis

CIL is practically a debt free company and has healthy profit margins. However, the prices of coal, being a commodity, are volatile in nature. Hence the profit margins too are volatile for the company. Nevertheless, on account of low operating cost and strong reserves built by the company, the financial soundness is high. Furthermore, the global coal industry has been witnessing tight demand-supply situation and thus providing support to the coal prices. Further the shift of the company to a more market linked pricing mechanism is expected to improve its profitability. Also, the prospects of CIL in the medium term would be governed by its ability to manage its operational flexibility & thereby improve its profitability. Implementation and development of proposed expansion project without time & cost overrun and effective management of working capital remains crucial factors for the company.

Industry Review

Despite having one of the largest coal reserves (4th largest in the world), the Indian coal industry does not hold a position in league of global energy suppliers. Soaring domestic demand outpacing the slow pace in capacity additions of new coal mines is restricting the domestic coal sector from achieving the next league. Due to slow pace of capacity additions, the percentage of imports in the domestic coal consumption has shown an increasing trend in the past few years.

Rising domestic coal imports:



Source: CARE Research, MOC

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During FY03-FY09, while the domestic coal consumption in the country has increased at a CAGR of about 7.8%, production during the same period has increased at a CAGR of about 6.6%. Rise in consumption growth being higher than the rise in capacity growth, has pushed India into a net importer of coal in the past few years. From about 22 mn tonnes in FY03, coal imports have now touched the levels of about 81mn tonnes by the end of FY10 (CAGR 19.7%).

The power sector alone consumed more than 75% of the domestic consumption of coal. Electricity consumption through thermal power plant contributed to about 83% of the total electricity consumption in the country. Coal accounted for more than 53% of the total generation of electricity through thermal power plants.

CARE Research foresees demand for the domestic coal industry will be mainly driven by the power generation companies. Increasing domestic steel and cement capacities are also likely to further support the domestic coal demand.

Financials – Consolidated:

	2008	2009	2010
For the year ended / as on Mar.31			
Financials (Rs. crore)			
Total Income	38617	46064	52592
PAT (after defd. Tax)	3597	4063	9829
Equity share capital	6316	6316	6316
Networth (without adjusting for defd. tax assets)	17201	19008	25844
Key Ratios			
PBILDT margin (%)	19.5	15.7	27.6
RoNW - calculated based on average of opening and closing networth (%)	21.5	22.4	43.8
Basic EPS (Rs.)	6.8	6.4	15.6
Diluted EPS (Rs.)	6.8	6.4	15.6
Book value (FV - Rs.10)	27.2	30.1	40.9
Current ratio	1.21	1.20	1.34

Note : Numbers have been reclassified wherever required

Source : DRHP

DISCLAIMER:

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer. Also it does not indicate compliance violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.

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CARE IPO grading Scale

CARE IPO grade	Evaluation
CARE IPO Grade 5	Strong fundamentals
CARE IPO Grade 4	Above average fundamentals
CARE IPO Grade 3	Average fundamentals
CARE IPO Grade 2	Below average fundamentals
CARE IPO Grade 1	Poor fundamentals