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## **ICRA assigns IPO Grade 5 to the proposed Initial Public Offering of Coal India Limited**

ICRA has assigned an '**IPO Grade 5**', indicating strong fundamentals to the proposed initial public offering of Coal India Limited (CIL). ICRA assigns IPO grading on a scale of IPO Grade 5 through IPO Grade 1, with Grade 5 indicating strong fundamentals and Grade 1 indicating poor fundamentals.

CIL is proposing to come out with an Initial Public Offer for sale of 631,636,440 shares of face value Rs. 10/- each by the President of India, acting through the Ministry of Coal, Government of India (GoI). The offer would be made through the 100% book building route. 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% of the post offer paid-up equity share capital of CIL and the net offer shall constitute 9% of the post offer paid-up equity share capital of CIL. Of the net offer, 50% is reserved for Qualified Institutional Buyers (QIBs), 15% for non-institutional investors and 35% for the retail investors. Post IPO, the shares will be listed on the National Stock Exchange and Bombay Stock Exchange. The objects of the offer are to divest 631,636,440 equity shares held by GoI in the company and to realize the benefits of listing the equity shares on the stock exchanges. CIL will not receive any proceeds from the offer and all proceeds shall go to GoI.

While assigning the IPO grade to Coal India Limited, the holding company, ICRA has consolidated its financials along with its nine subsidiaries as a single entity (CIL), to evaluate its business fundamentals as well as financial strengths. The IPO grade assigned by ICRA reflects CIL's status as the largest coal mining company in the world with access to the vast amount of coal reserves, the highly favourable demand-supply situation in the domestic coal industry, and CIL's near monopoly position in the strategically important sector which is expected to result in strong growth prospects for the company. The grade also reflects the continuous improvement in labour productivity, use of better technology and high share of production from profitable opencast mines, leading to a better control of costs and thus, leading to healthy overall profitability of CIL. The deregulated coal pricing regime gives CIL the power to fix the price for its produce which, along with the favourable demand supply position and cost competitiveness vis-à-vis imported coal, is likely to enable the consolidated entity to sustain its healthy profitability going forward. However, ICRA notes that CIL has to contend with the potential adverse impact of any decision on coal price increase on the overall economy. Notwithstanding the two subsidiaries with weak financial profile which are currently under the purview of the Board for Industrial and Financial Reconstruction (BIFR), CIL has a highly comfortable financial profile characterized by healthy Return of Capital Employed (RoCE) and Return of Net Worth (RoNW). CIL's inferior grades of coal deposits with lower calorific values and high ash content could expose it to competition from alternative fuels in the long run, which however is mitigated to an extent by CIL's current initiatives to focus on washed coal. The strengths are also partially offset by its large, though declining, workforce, long delays in project approvals and weak financial health of two of its mining subsidiaries. These companies, however, have large reserves of prime quality coal, which CIL is currently pricing at import linked prices at significant premium to the prevailing notified prices that has impacted the profitability of these subsidiaries favourably. Although these companies have posted profits in 2009-10 mainly as a result of such initiatives and price increase effected by CIL, future slippages however cannot be ruled out, especially if the increase in planned production from these two subsidiaries is delayed.

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**Entity Profile**

Coal India Limited is wholly owned by the Government of India (GoI) and in turn holds 100% of the equity capital of its seven coal mining subsidiaries and two other subsidiaries. The holding company itself carries out coal mining operations in the coal mines in some north-eastern states. CIL controls all the coal mines in the country except the ones under the public sector companies including Singareni Collieries Company Limited (SCCL) and Neyveli Lignite Corporation (NLC), and a few captive coal mines managed by various other companies. Consequently, the group accounts for around 82% of the domestic coal production. Post IPO, the GoI's share holding would come down to 90% of the post offer paid up equity share capital of the company.

CIL is the largest producer of coal in the world, carrying out operations in 471 mines in 21 major coalfields across eight states in India, which include 163 open cast mines, 273 underground mines and 35 mixed mines (which include both open cast and underground mines). In 2009-10, CIL produced a total of 431 million MT of coal, accounting for 82% of the coal produced in India. The company was awarded the Navratna status in 2008.

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