

ACB (India) Limited

One-time assessment

CRISIL IPO Grade 4/5 (Above Average)

January 30, 2013

Grading summary

CRISIL has assigned a CRISIL IPO grade of “4/5” (pronounced “four on five”) to the proposed IPO of ACB (India) Ltd (ACB). This grade indicates that the fundamentals of the IPO are ‘**above average**’ relative to the other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, its future market price or suitability for a particular investor.

The grade factors in ACB’s position as a leading player in the coal beneficiation industry with a market share of more than 47%. The company is largely present in the coal bearing states of Chhattisgarh and Orissa. It enjoys a competitive edge on account of the strategic location of its washeries (in proximity to mines) which lowers transportation costs. This, coupled with access to railway sidings at most of its plants, enables ACB to manage logistics efficiently. Business fundamentals are supported by the regulatory requirement that power plants located more than 1,000 km from the pit head, need to use coal with less than 34% ash content. Around 65% of domestic coal has high ash content which can be beneficiated to reduce the ash content. The grading also factors in ACB’s effective utilisation of coal rejects (reprocessing or blending with raw coal and making them marketable) which has led to superior margins for the company. ACB ventured into power generation to use coal rejects as a fuel – it currently has a 350 MW generation capacity that uses coal rejects. Since the cost of rejects is lower than that of raw coal, power generation costs are lowered. Overall, the company generates a healthy EBITDA margin of 35-40%. The grade is also supported by the management’s experience in coal beneficiation and coal logistics business.

The grade is constrained by the project-related risks associated with setting up of two power projects, aggregating to 900 MW capacity (ACB’s economic interest is 579 MW). These power plants are based on coal linkage from Coal India Ltd (CIL) and therefore exposed to fuel-supply risk due to CIL’s inability to increase production and the consequent delay in signing the fuel supply agreement (FSA). However, 10-15% of fuel requirement can be met through coal rejects. Further, the company’s beneficiation business is susceptible to increased competition in the future, which may dent its profitability. CIL has announced plans to set up 20 beneficiation plants under the public-private-partnership (PPP), which is expected to make way for new entrants. Also, ACB’s beneficiation business is exposed to risk of non-renewal of coal washing contracts.

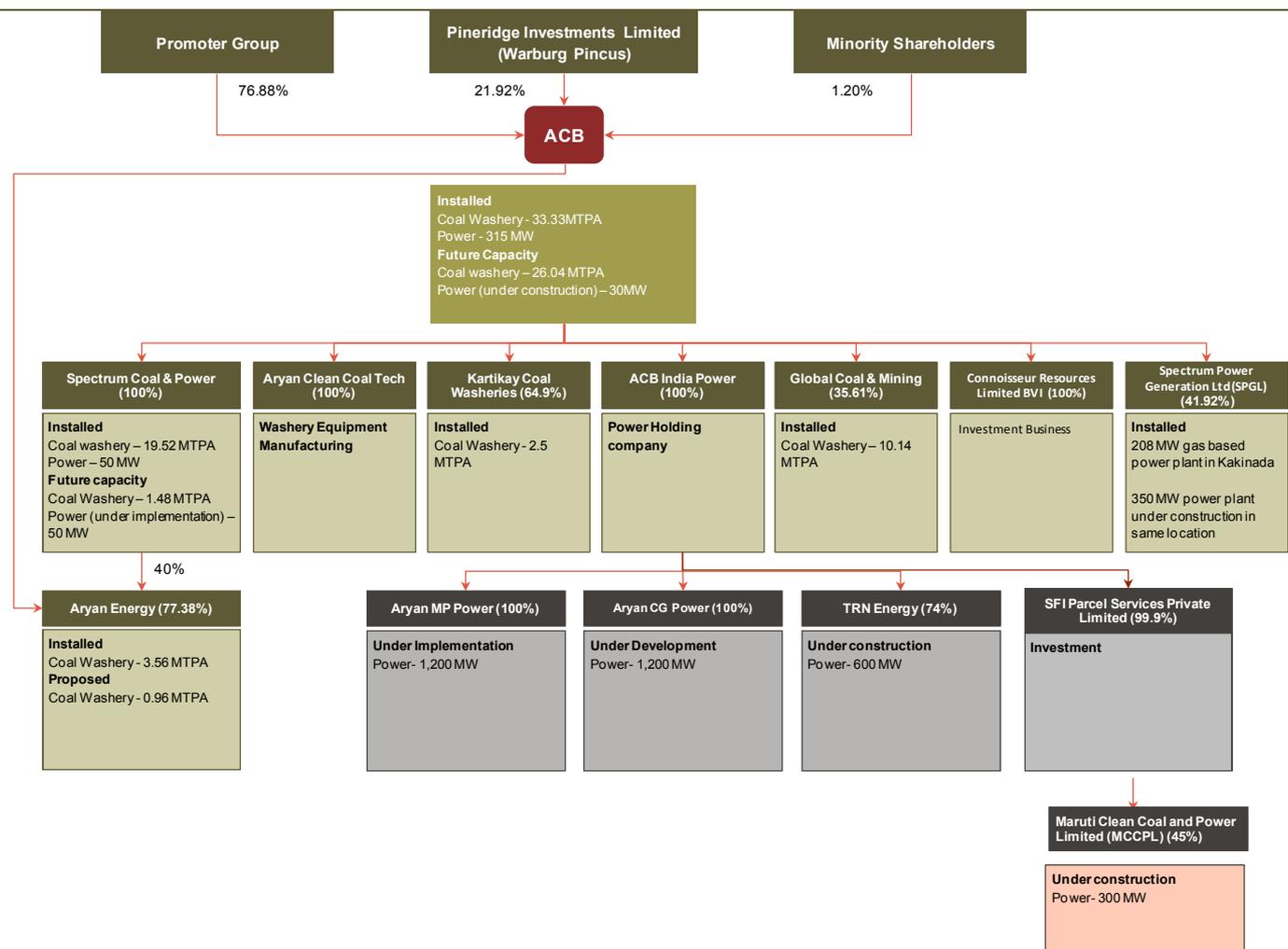
ACB’s consolidated operating income has grown at 14% CAGR to ₹13.5 bn over FY09-12, led by rapid growth in coal operations. Average RoE over FY10-12 has been around 13%, which is partly on account of large capital work-in-progress as well as investments which are currently generating low returns. Going forward, we expect return on equity to improve as ACB’s under-construction power projects are commissioned and coal washing plants get optimally utilised.

About the company

ACB (India) Ltd (ACB), founded in 1997, is the largest coal beneficiation company in India. It started operations in 1999 with a 1-mn tonne per annum (mtpa) capacity washery plant in Dipka, Chattisgarh; it currently has an aggregate designed beneficiation capacity (by economic interest) of 62.35 mtpa. The company is promoted by Mr Rudra Sen Sindhu, Mr Ganesh Chandra Mrig, Mr Vir Sen Sindhu and Mr Kuldeep Singh Solanki. Promoters hold 76.88% stake in the company while 21.92% stake is held by Pineridge Investments Ltd (Warburg Pincus). ACB's coal beneficiation operations are spread across Chhattisgarh, Orissa, Maharashtra and Andhra Pradesh. As a part of its beneficiation operations, ACB also offers logistics services to its customers for the transportation of raw as well as clean coal.

The company's beneficiation plants generate coal rejects, during the coal beneficiation process, which is sold as it is, after reprocessing and also after blending with raw coal. In 2007, the company ventured into power generation by setting up a 30 MW thermal power plant in Chhattisgarh which uses low-cost coal rejects after reprocessing. The company's current power generation capacity (by economic interest) is 452 MW and includes power plants that utilise coal rejects, wind and gas. It sources all the coal rejects for the operational power plants from its coal beneficiation operations.

ACB's corporate structure



Source: Company

History and key milestones

Year	Key milestones
1997	<ul style="list-style-type: none"> Incorporated as a private limited company
1999	<ul style="list-style-type: none"> First washery was planned and commissioned in Dipka, Korba, Chhattisgarh with an initial capacity of 1 MTPA
2001	<ul style="list-style-type: none"> Received first major work order for the supply of 1 MTPA of washed coal to the Punjab State Electricity Board
2003	<ul style="list-style-type: none"> Aryan Clean Coal Technologies Private Limited set up a manufacturing plant for washery equipment in Rewari, Haryana New washery was set up in Pandarpauni, Maharashtra, with an initial capacity of 1.62 MTPA
2005	<ul style="list-style-type: none"> Commissioned a 15MW wind power plant in Sangli, Maharashtra
2006	<ul style="list-style-type: none"> Pineridge Investment Ltd (affiliate of Warburg Pincus) made an initial investment of ~ ₹2,000 mn in ACB for a 15.38% stake Aryan Energy Private Limited commissioned a new washery with an initial capacity of 0.99 MPTA in Gauri, Maharashtra Expanded the capacity of washery in Dipka to 12.00 MTPA of raw coal
2007	<ul style="list-style-type: none"> Pilot power project of 30 MW based on washery rejects was commissioned in Chakabura, Chhattisgarh Entered into an implementation agreement with the Government of Chhattisgarh and Chhattisgarh State Electricity Board for establishment of a 250 ± 20% MW thermal power project in village Kasaipali, Chhattisgarh Entered into a power purchase agreement with Gujarat Urja Vikas Nigam Limited for the sale of 200 MW of power Pineridge further invested ~₹200 mn from through preferential allotment of warrants
2008	<ul style="list-style-type: none"> Commissioned washery with an initial capacity of 6.25 MTPA in Gevra, Chhattisgarh Signed an implementation agreement with the Government of Madhya Pradesh to establish a 1,200 MW coal-fired thermal power project in Sidhi, Madhya Pradesh Pineridge further invested ~₹1,000 mn through preferential allotment of warrants. Pursuant to the investment and upon the conversion of share warrants issued to Pineridge in 2007, ACB allotted 298,705 equity shares to Pineridge, thereby increasing Pineridge's stake in the company to 25.59%
2009	<ul style="list-style-type: none"> Acquired 100% equity stake in Spectrum Coal and Power Limited, which was then in the process of setting up 2x50 MW thermal power plant in village Ratija, Chhattisgarh Acquired 51% stake in TRN Energy Private Limited, which was then in the process of setting up a 2x300 MW thermal power plant in District Raigarh, Chhattisgarh Commenced construction of 2x135 MW thermal power plant in Kasaipali, Chhattisgarh Acquired 35.61% equity stake in Global Coal and Mining Private Limited from its promoters and as a consideration issued 118.74 mn equity shares of ACB to the promoters. Consequently, there was a reduction in the stake held by Pineridge Pineridge further invested ~₹532 mn in ACB. Currently, Pineridge holds 21.92% stake in the company
2010	<ul style="list-style-type: none"> Executed an implementation agreement with Government of Chhattisgarh for establishing an 1100+20% MW coal fired thermal power project in Champa, Chhattisgarh Executed an implementation agreement with Government of Chhattisgarh for establishing a 1x30 MW blended coal based thermal power project in Chakabura, Chhattisgarh Commissioned a new washery in Binjhri, Chhattisgarh with an initial capacity of 0.96 MTPA
2011	<ul style="list-style-type: none"> Commissioned a new washery in Himgir Orissa with an initial capacity of 5 MTPA Commissioned Unit 1 (135 MW) of the Korba Power Project, Chhattisgarh
2012	<ul style="list-style-type: none"> Commissioned unit 2 (135 MW) of the Korba Power Plant, Chhattisgarh Acquired 44.96% equity stake in Maruti Clean Coal and Power Limited through SFI Parcel Services Private Limited Trial runs of 1x50MW Ratija Power Plant commenced

Source: Company

Issue details

Type of issue	Fresh issue and offer for sale
Fresh shares offered to public	Not available
Offer for sale	28,081,000 shares
Fresh shares offered as per cent of post issue equity (dilution)	Not available
Object of the issue	<ul style="list-style-type: none"> ■ To set up 2x300 MW Raigarh Power Project ■ To set up phase II of 30 MW Chakabura Power Plant ■ General corporate purposes
Amount proposed to be raised	₹5,750 mn from fresh issue
Price band	Not available at the time of grading
Lead managers	IDFC Capital, Edelweiss Capital, JP Morgan India, Macquarie Capital Advisors, Axis Bank, ICICI Securities, Yes Bank

Source: Company

Use of IPO proceeds

Particulars	Deployment of IPO proceeds (₹ mn)
Setting up of 2x300 MW Raigarh Power Project	4,500
Setting up of phase II of 30 MW Chakabura Power Plant	400
General corporate purposes and issue expenses	850
Total	5,750

Source: Company

Shareholding pre and post-issue

Category of equity shareholders	Pre-issue		Post Issue (Estimated)	
	No. of equity shares	%	No. of equity shares	%
Promoters	182,987,770	76.9	NA	NA
Pineridge Investment Ltd	52,162,514	21.9	NA	NA
Others	2,855,444	1.2	NA	NA
Total	238,005,728	100.00	NA	NA

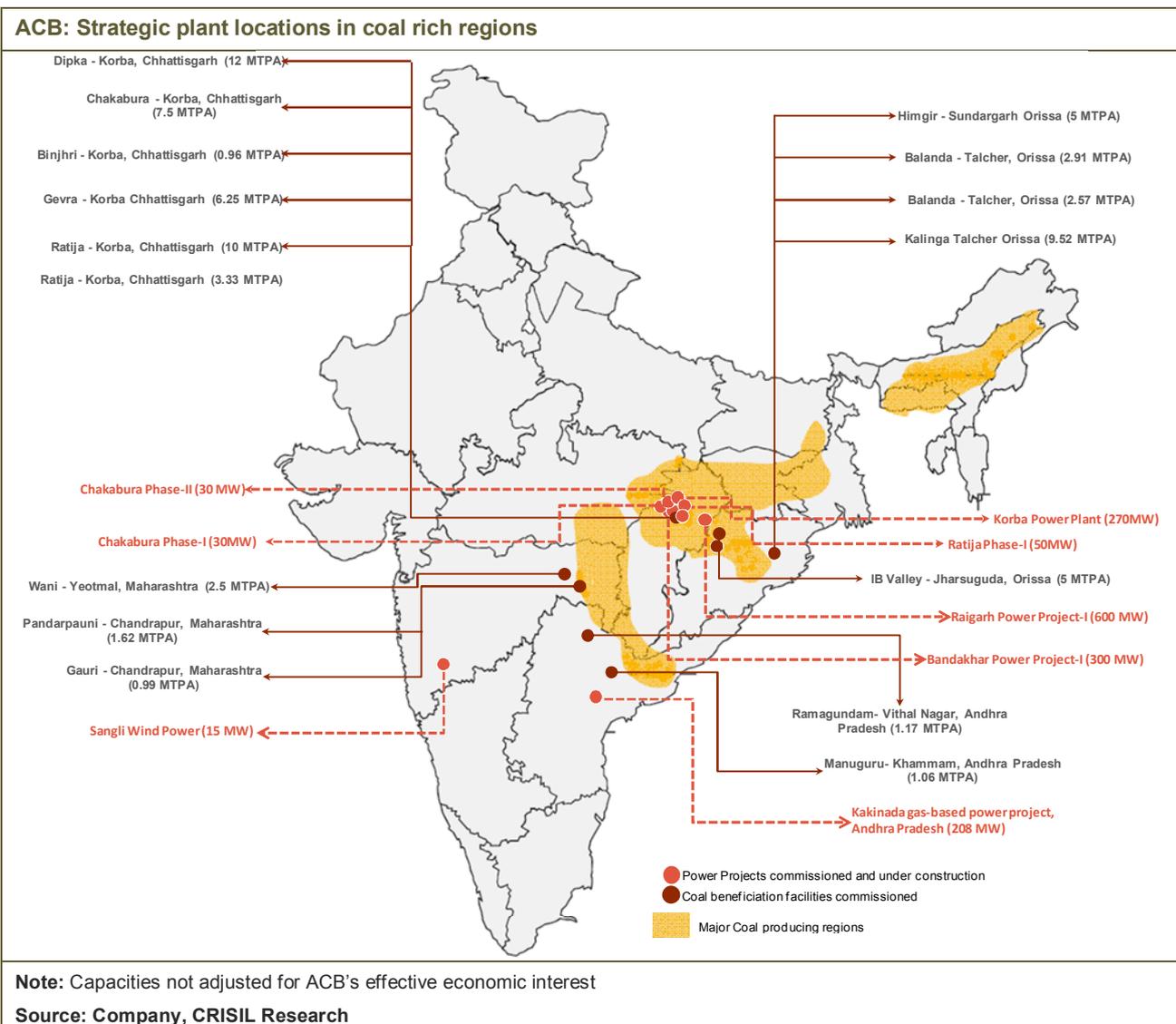
Source: Company

Detailed Grading Rationale

A. Business Prospects

▪ **Largest coal beneficiation player in India, with facilities in strategic locations**

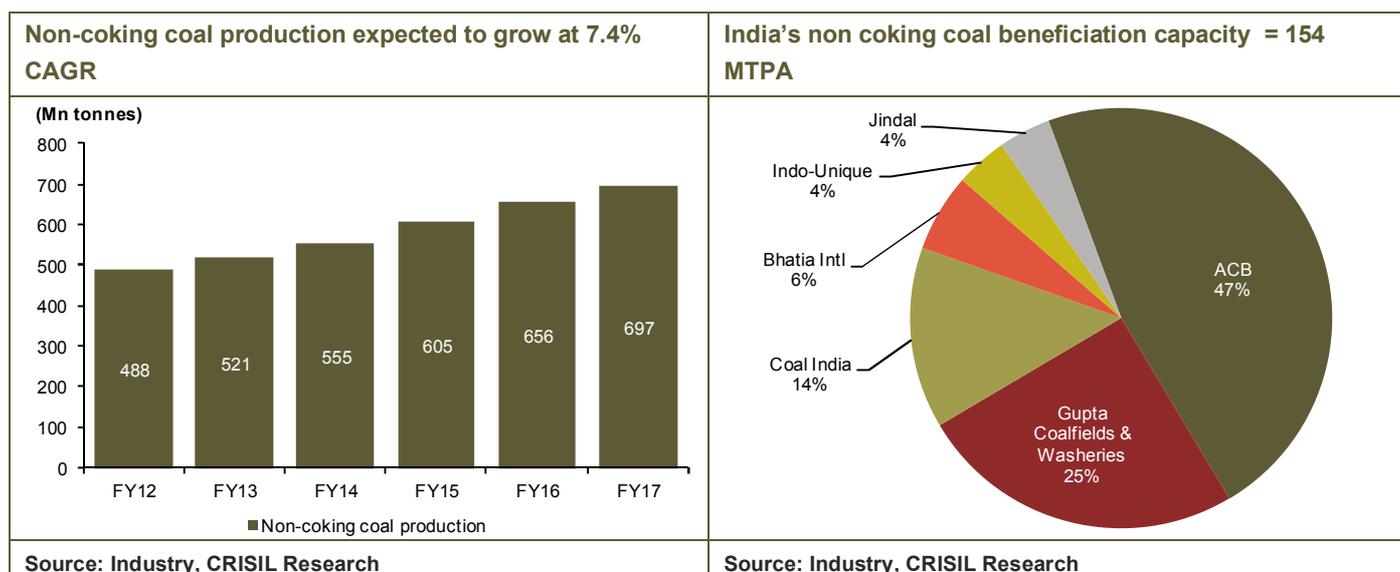
ACB, along with its subsidiaries, is the largest non-coking coal washing company in India (47% share of the domestic capacity), with installed capacity of 72.38 mtpa (economic interest capacity of 62.35 mtpa), spread across 16 locations in Chattisgarh, Orissa, Maharashtra and Andhra Pradesh. It provides coal washing services through its plants situated in these four states which are the largest coal-bearing zones in India. The company's Dipka plant - with a capacity of 12 mtpa - is the single largest coal washery in the country. ACB's beneficiation operations involve lifting coal from Coal India's (CIL) mines (on behalf of its clients), transportation to washeries, coal washing and allied operations, and transportation of the washed coal to customers' locations (generally via rail). The strategic location of its washeries (in proximity to mines) and logistics support (railway siding) not only lower transportation costs but also enable ACB to competitively bid for coal beneficiation contracts and enter into contracts for beneficiation of larger volumes of coal.



▪ Demand for beneficiated coal expected to grow

CRISIL Research believes that demand for beneficiated coal will increase on account of poor quality of Indian coal reserves (high ash content) because use of beneficiated coal improves the efficiency and utilisation of power plants. About 540 MTPA of coal is mined in India, of which around 65% is low-grade coal with high ash content. In 1998, the Ministry of Environment and Forests (Government of India) stipulated that all power plants located in urban sensitive areas, critically polluted areas, or those located more than 1,000 km away from the pit head, should necessarily use coal having less than 34% ash. A proposal - that will require all power plants located more than 500 km away from the pit head to use coal having less than 34% ash and gross calorific value (GCV) of 4,000 kilo cal/kg - is currently under consideration with the Government of India. As per Coal Vision 2025 issued by the Ministry of Coal (Government of India), 361 MT of non-coking coal from CIL and non-CIL command areas need to be washed before industrial use, compared to 60-70 MT being washed currently.

Washing reduces coal's ash content by 8% to 10%, which also results in an equivalent reduction in ash handling costs as well as increase in thermal efficiency. We believe established players such as ACB are well-positioned to benefit from the increase in demand for washed coal because of their strategically located coal washeries (and the consequent reduction in freight costs). Coal washeries located away from the mines find it difficult to get washing contracts due to higher costs of transportation of coal.



ACB's Coal beneficiation operations	FY09	FY10	FY11	FY12
Revenues (₹ mn)	3,027	3,580	3,997	4,377
Growth	30.3%	18.3%	11.6%	9.5%
Sales Volumes (mn tonnes)	21	26	27	26
Growth	28.1%	23.1%	2.3%	-4.6%
Realisation (₹/tonne)	141	136	148	170
Growth	1.7%	-3.9%	9.2%	14.8%

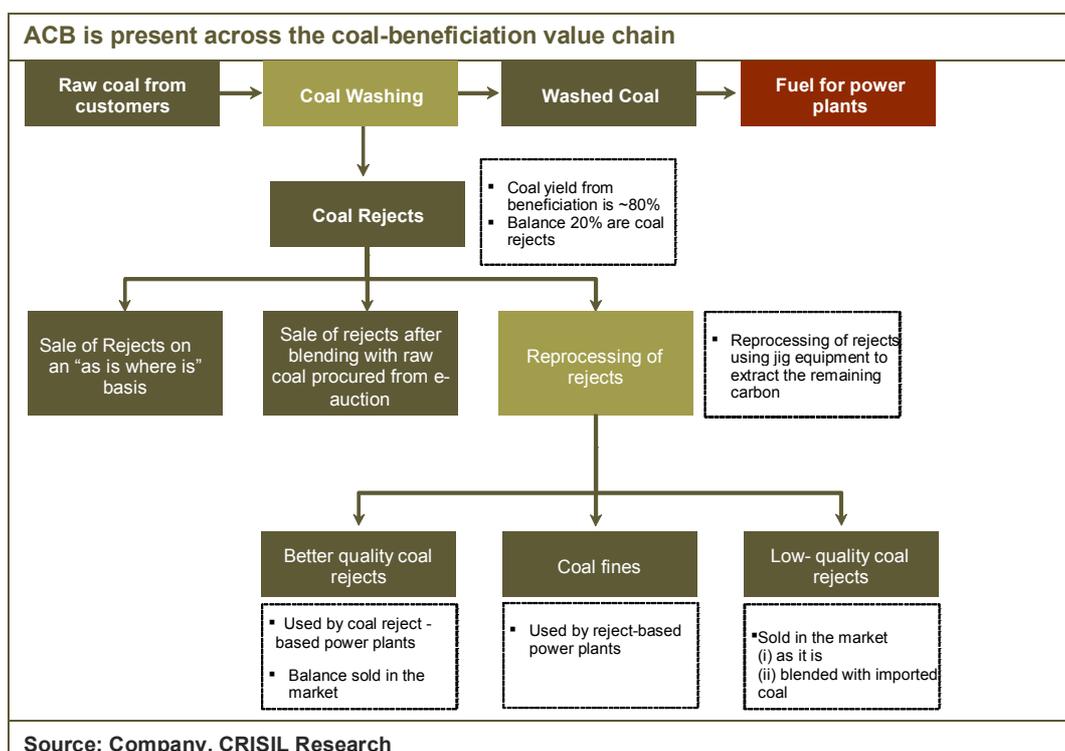
Source: Company, CRISIL Research

ACB's revenues from coal beneficiation and allied services have grown at 13.1% CAGR over FY09-12. Volumes have remained flat on account of contractual issues with some customers, leading to non-renewal or delay in finalisation of beneficiation contracts. We believe that this is a key monitorable as it may impact revenue growth.

▪ **Effective utilisation of coal rejects increases the profitability of ACB's coal operations**

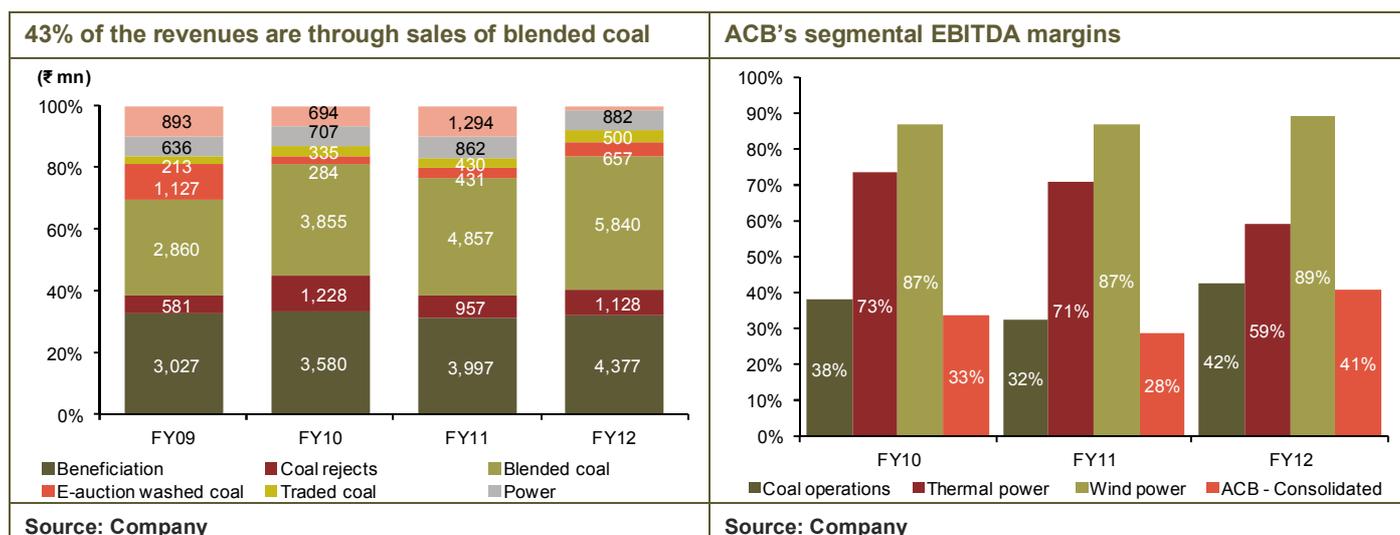
As a part of its coal operations, ACB also undertakes re-processing of rejects generated from the coal beneficiation process (20% to 30% rejects generated). Through the use of jig equipment, which further breaks down coal rejects into organic coal particles and inorganic impurities, the company extracts the remaining carbon in the form of better quality coal rejects and coal fines. ACB blends coal rejects with raw-coal purchased from third parties (primarily through CIL's e-auctions). Blending raw coal increases the calorific value of coal rejects and increases its utility as fuel. Given the current shortage of coal due to slower growth in CIL's coal production, as well as increase in price of imported coal, there is a strong demand from power and cement sectors for high quality coal rejects and blended coal. ACB typically purchases the rejects - generated during the beneficiation process - from its customers.

In FY12, the company generated 5.2 mn tonnes of coal rejects out of which 2.3 mn tonnes were sold as it is without blending (8% of revenues) while 2.6 mn tonnes were sold after reprocessing and blending with e-auction coal (43% of revenues). The company also sold washed e-auction coal (5% of revenues) and raw e-auction coal (4% of revenues). Coal operations contributed around 90% to ACB's revenues in FY12 with margins of 35-40%. The margins are high as ACB purchases coal rejects, increases their utility through reprocessing and blending with raw coal, and is therefore able to resell it as feedstock for power plants.



Revenues from coal rejects – Reprocessed washed coal (blended)	FY10	FY11	FY12
Revenues (₹ mn)	3,855	4,857	5,840
Growth	34.8%	26.0%	20.2%
Sales Volumes (mn tonnes)	3.0	3.6	3.3
Growth	19.5%	19.9%	-9.1%
Realisation (₹/tonne)	1,268	1,332	1,762
Growth	12.8%	5.1%	32.2%

Source: Company, CRISIL Research



Growth of coal beneficiation in India is partly dependent on increase in CIL's coal production

Most of the coal beneficiated in India is produced by CIL and therefore growth of the coal beneficiation industry is dependent on CIL. However, CIL's coal production has grown at a slow 3.8% CAGR over FY06-12. This has also led to delays in signing of fuel supply agreements with power projects that are currently under construction/implementation phase. As an increase in CIL's production is expected to subsequently increase the quantity of coal that need to be washed, any steps taken by CIL to increase its coal production will be a positive for beneficiation players.

Competition to intensify in coal beneficiation...

CRISIL Research expects competition to intensify in the coal beneficiation industry. There are no significant technological barriers, as most of the technology is indigenously available. A large amount of the business is awarded through tenders and most of the existing players are able to meet the technical criteria. The beneficiation contract is awarded to the lowest bidder (L1). This may also lead to lower operating margins in case ACB bids aggressively for these tenders.

CIL has announced plans to invest ₹35 bn for setting up 20 coal beneficiation projects - likely to be set-up under public-private-partnership (PPP) - to meet the growing demand for washed coal. Noted private players including Shriram EPC, Lanco Infratech, L&T Ltd, Heavy Engineering Corporation as well as ACB have qualified as bidders for these projects. While we expect ACB to gain some share of this business, it will also make way for entry of new players in the coal beneficiation industry. Further, in case any of CIL's washeries are set up in proximity to ACB's washeries, the company's sales from that particular plant may get affected.

...but ACB has a head start

Being an incumbent, we believe that ACB enjoys some advantages which may act as deterrent for new entrants in the industry. (1) Location is an important criterion for the viability of beneficiation operations. If the location of the washery is at a considerable distance from the mine or the railway siding, then transporting coal from mine to washery and from washery to railway siding becomes expensive for customers. Also, acquiring appropriate and adequate land for setting up a washery can be a long process on account of problems relating to terrain, availability of contiguous land parcels, demands of project-affected people (tribal settlements in some cases) and title issues in case of a private land. Most of ACB's washeries are located in proximity to the mines (around 5-6 km). (2) Coal washing and transportation is a large-scale operation requiring proper management of logistics – raw coal is usually transported from mines to washery and from washery to railway sidings by trucks. ACB's major facilities have access to railway sidings (100-200 meters in some cases), which enables ACB to manage logistics costs. (3) Setting up washeries requires regulatory clearances from the environment and forest ministries, as well as clearances for setting up railway sidings – getting all the clearances can be a time-consuming process. As ACB's promoters have set up similar projects in the past, their experience is a positive for

ACB. ACB also benefits from the promoters' experience in coal mining - through Sainik Mining & Allied Services, which is owned by ACB's promoters and is a leading private mining contractor for CIL.

▪ **Delay in approvals and contractual issues have led to low operating rates for washery operations**

Currently, ACB's utilisation of its beneficiation capacity is around 50-55% (45-50% for the industry). Some of the large beneficiation plants set up by the company have been operating at low utilisation rates either on account of contractual issues with its key customers or due to delay in obtaining approval for setting up of logistics infrastructure. The company set up the 9.52 MTPA beneficiation plant in Talcher (Orissa) to cater to beneficiation requirements of Andhra Pradesh Power Generation Corporation (APGENCO). However, the plant is non-operational pending finalisation of certain contractual terms and pending award of letter of intent (LOI) for certain incidental works through a tendering process. As per the management, the 20-year beneficiation contract is expected to be operational by April 2013. The company also commissioned a beneficiation plant in Himgir (Orissa) in FY12 to provide beneficiation services to Haryana state power utility and other customers. However, the commencement of its operations was delayed due to delay in certain approvals for commissioning of the railway siding. Some of the washeries have less than 40% utilisation levels or are non-operational due to contractual disputes with two customers. Delay in commencement of operations of some of the plants has also affected ACB's coal beneficiation volumes (up at 3% CAGR only over FY09-12). We expect the capacity utilisation to improve in the future led by growth in demand for washed coal and commencement of operations at some of the non-operational plants. However, this is a key monitorable.

ACB's plants with low capacity utilisation rate

Plant	Capacity (MTPA)	Commissioned	Entity	FY10	FY11	FY12	Comments
				Capacity Utilisation (%)			
Talcher, Orissa	9.5	FY10	Spectrum Coal & Power	0%	0%	0%	Set up to cater to APGENCO. However, delay in implementation of contract led to delay in commencement of operations. Operations to begin in April 2013
Himgir, Orissa	5.0	FY12	ACB	-	-	0%	Set up to cater to Haryana Power Genco, but could not commence operations due to delay in getting certain approvals for commissioning of railway siding. This approval has been recently received and railway siding has been commissioned
Wani, Maharashtra	2.5	FY06	Kartikay Coal	38%	37%	2%	Set up to cater to MAHAGENCO. Low capacity utilisation due to dispute related to quality of coal supplied
Pandarpauni, Maharashtra	1.6	FY04	ACB	47%	43%	36%	Set up to cater to MAHAGENCO. Low capacity utilisation due to dispute related to quality of coal supplied
Balanda, Orissa	2.6	FY04	Aryan Energy	2%	2%	0.3%	Set up to cater to Karnataka Power Corporation Limited (KPCL) and other private customers. However, contract of KPCL could not be renewed. Work for the new customer APGENCO started in April 2012.

Source: Company

▪ **Integrating power generation with coal beneficiation**

With an established presence in coal beneficiation, ACB has entered into power generation business. The company is using the low value coal rejects generated from its beneficiation operations as fuel for the power plant, which will keep its generation costs low. The company commissioned its first coal rejects-based power plant in 2007 (30 MW Chakabura, Chhattisgarh). Subsequently, it commissioned a similar project with aggregate capacity of 270 MW and trial runs for another similar project with aggregate capacity of 50 MW are underway. Another 30 MW of coal reject-based power project is under construction and expected to be commissioned in FY14. We believe ACB generates adequate coal

rejects to meet the requirement of its coal-reject based power projects that are operational and are under construction. Also, the coal-reject based power projects are located close to ACB's beneficiation plants which reduce fuel transportation expenses. While PPAs are generally long term in nature (20-25 years), coal beneficiation agreements are generally for two to three years. As ACB's supply of coal rejects is dependent on its coal beneficiation operations, the company's ability/inability to bag coal beneficiation contracts on a consistent basis will be a major risk for the power plants. To mitigate this risk, the company plans to sign long-term coal reject supply agreements; it has signed a 25-year long-term agreement with Gujarat State Electricity Corporation (GSEC) that will ensure assured fuel supply (coal rejects) for the Korba Power Project (270 MW); ACB is committed to supply 200 MW of power generated from this plant to Gujarat Urja Vikas Nigam Ltd (GUVNL).

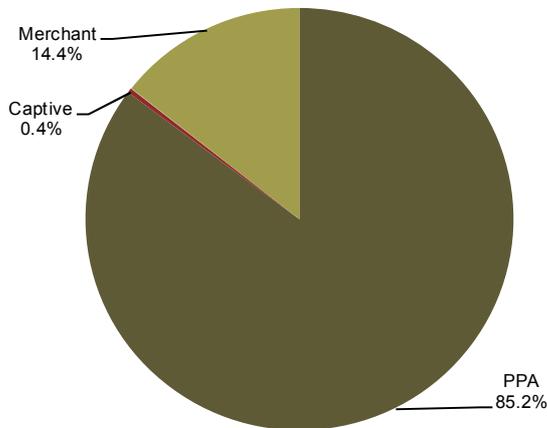
Facility	Entity	ACB's stake (%)	Location	Primary Fuel	Capacity (MW)	Economic Interest (MW)	Commissioning Date
Commissioned							
Korba Power Project	ACB India	100%	Korba, Chhattisgarh	Coal Rejects	270	270	Unit 1 – Dec- 2011, Unit 2 – Jun-12
Ratija Power Project (Phase I)	Spectrum Coal and Power	100%	Ratija, Chhattisgarh	Coal Rejects	50	50	Jan-13 (trial runs underway)
Chakabura Power Project (Phase I)	ACB India	100%	Chakabura, Chhattisgarh	Coal Rejects	30	30	2007
Wind Project	ACB India	100%	Sangli, Maharashtra	NA	15	15	2005
Kakinada Power Project	Spectrum Power Generation	41.92%	Kakinada, Andhra Pradesh	Natural Gas	208	87	1998

▪ **Setting up power plant based on linkage coal**

ACB is also setting up power plants based on linkage coal. Its subsidiary, TRN Energy (74% stake), is setting up a 600 MW power plant in Raigarh (Chhattisgarh) while its 45% associate company, Maruti Clean Coal, is putting up a 300 MW plant in Bandakhar (Chhattisgarh). ACB has an economic interest of 579 MW in these projects and is expected to contribute approximately ₹8.3 bn towards its share of equity. Both the projects, which have received letter of assurance from CIL's subsidiaries for supply of coal, are pithead power projects and using Boiler Turbine Generator (BTG) procured from China. Currently under construction, the 300 MW project is expected to be commissioned by December 2013 and the 600 MW project is expected to be commissioned in December 2014. ACB intends to sell the power generated through a mix of long term power purchase agreements (PPA) and short term sales (merchant). Once the under-construction projects are commissioned, the company expects to sell more than 80% of its power through long term PPAs. It has already signed off-take agreements with Chhattisgarh State Power Transmission Co. Ltd. (CSPTCL) and PTC India.

Power projects under construction	Capacity (MW)	ACB's economic interest (MW)	Expected commissioning	Fuel	Power off-take	Project Cost (₹ mn)	Status
Bandakhar Power Project (Chhattisgarh)	300	135	FY14	Coal linkage from CIL. Letter of assurance received from Ministry of Coal. Completed all milestones as per letter of assurance received. FSA yet to be signed	195 MW to be sold to PTC India through long term PPA. 5% of the power generated to be sold to Chhattisgarh state power utility. Balance to be sold on merchant basis	14,560	under construction
Raigarh Power Project (Chhattisgarh)	600	444	FY14-15	Coal linkage from CIL. Letter of assurance received from Ministry of Coal. FSA yet to be signed	390 MW to be sold to PTC India through long term PPA. 5% of the power to be sold to Chhattisgarh state power utility	28,445	under construction
Total	900	579					

85% of ACB's power projects to sell power on long term basis

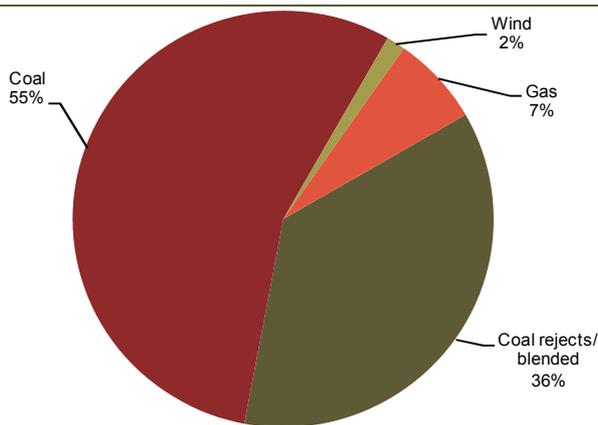


Source: Company, CRISIL Research

▪ **Linkage coal to meet 50% of coal requirements**

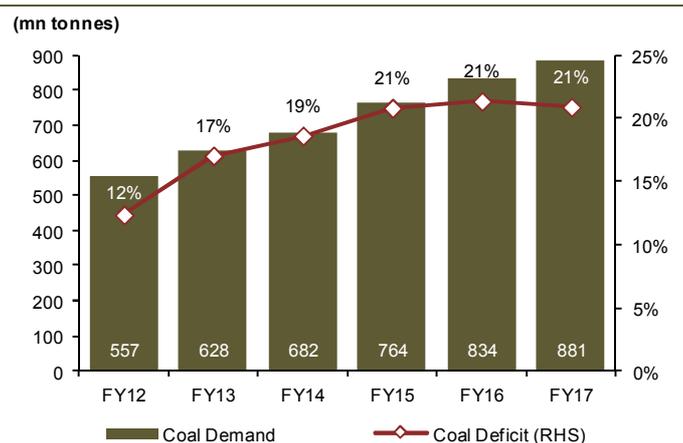
Post commissioning of the under-construction power projects, ACB's dependence on Coal India's coal supply would significantly increase. CRISIL Research expects that half of ACB's power generation capacity (including existing plants) would rely on coal linkage from CIL. While the company has been granted Letter of Assurance for coal linkage by the Ministry of Coal (Government of India), FSAs are yet to be signed with CIL. As FSAs are yet to be signed, any delay in this regard may affect performance of ACB's linkage coal-based power plants post commissioning. Even after signing of the FSA, we expect CIL to be able to supply only 60-65% of the required quantity. In such a scenario, ACB's management plans to meet the shortfall by using blended coal (coal rejects and e-auction coal). However, any challenge in running the local washery can pose further difficulty for the power plant and remains a key monitorable.

Half of ACB's generation capacity to rely on coal linkage for fuel



Source: Company, CRISIL Research

India's coal supply deficit to increase in future



Source: Industry, CRISIL Research

B. Financial Performance

ACB's consolidated operating income has grown at 14% CAGR over FY09-12. Revenues from sale of coal rejects have grown at 27% CAGR, which supported the overall top-line growth. However, beneficiation operations have slowed down, at around 13% CAGR over the same period. Sale of power (6% of revenues in FY12) has grown at 12% CAGR over FY09-12. Historically, EBITDA margin has been driven by the company's coal operations. EBITDA margin contracted in FY10 due to lower realisations in beneficiation operations because of increased competition. It contracted further in FY11 due to nearly 40% increase in cost of e-auction coal. However, operating margin expanded in FY12 on account of increase in realisations in beneficiations as well as in sale of coal rejects. RoE at 16.7% in FY12 is muted due to large capital work-in-progress as well as low returns from investments. During FY12, ACB sold its subsidiary, Aryan Ispat and Power, which was incurring losses at the EBITDA level. This also boosted the EBITDA margin. Going forward, we believe power is expected to account for a larger proportion of sales from the current 7%. We expect return ratios to improve from the current levels once the under construction projects are commissioned.

Particulars (₹ mn)	FY09	FY10	FY11	FY12
Operating income	9,098	10,494	12,713	13,452
EBITDA	3,914	3,500	3,614	5,457
EBITDA margin	43.0%	33.3%	28.4%	40.6%
Reported PAT after minority interest	2,251	1,756	1,253	2,848
Adjusted PAT	2,311	1,749	1,265	2,951
Adjusted PAT margin	25.4	16.7	10.0	21.9
Net worth	10,061	14,261	16,575	18,792
ROE	27.6	14.4	8.2	16.7

Financials are classified as per CRISIL standards

Source: Company, CRISIL Research

C. Management Capabilities and Corporate Governance

▪ **Management has extensive experience in coal industry**

ACB is promoted by Mr Rudra Sen Sindhu, Mr Ganesh Chandra Mrig, Mr Vir Sen Sindhu and Mr Kuldeep Singh Solanki. Each of the promoters has at least 25 years of experience in coal mining, beneficiation and logistics. Mr Rudra Sindhu is the executive chairman and managing director while Mr Vir Sen Sindhu is joint managing director. Mr Solanki is non executive director. Mr Mrig, now retired, was a managing director of the company. A criminal litigation is pending against one of the promoters.

ACB also benefits from promoters' experience in coal mining. Sainik Mining and Allied Services Ltd (Sainik Mining), one the largest private sector coal mining players in India, is owned by ACB's promoters. It provides coal mining and logistics services to CIL's subsidiaries and operates extensively in regions where ACB also has a presence (Chhattisgarh, Orissa and Madhya Pradesh). We believe that ACB gains from promoter's experience of understanding local conditions (including dealing with local stakeholders) as well as regional coal logistics.

▪ **Senior positions occupied by professionals**

ACB has highly experienced professionals handling key responsibilities. Coal operations are headed by Mr Ramesh Khanna (advisor – washeries) who has around 40 years of experience in coal washing; he was previously employed with CIL, heading washing operations for Bharat Coking Coalfields Ltd. Power operations are headed by Mr Shirish Rangole (president – power) who has over 30 years of experience in implementing power projects in India and Indonesia. Mr Dalip Nagar (senior president - corporate finance and strategy) has extensive experience in areas such as mergers, acquisitions, and taxation. Mr Sanjay Hasija, CFO is engaged with the company since incorporation and has extensive experience in corporate finance and accounts. Mr Satish Sharma, Group Company Secretary and Legal Head, has an extensive experience in the field of corporate law matters, mergers and acquisition. Senior management also includes Mr Shyam Sunder Verma (vice president – washeries), Mr Hari Prakash Gupta (vice president – power), Mr Harinder Mohan Jain (vice president – power) and Mr Mohan Lal Gupta (vice president – marketing).

▪ **Board composition and independent directors**

ACB's board consists of 12 directors of whom six are independent. Mr Rudra Sen Sindhu (Chairman cum Managing Director), Mr Vir Sen Sindhu, Mr Vrit Pal Sindhu, Mr Kuldeep Singh Solanki and Mr Ajay Mrig are directors representing the interest of the promoters. Mr Niten Malhan is the nominee director from Pineridge. The independent directors have extensive experience and are from diverse backgrounds such as banking, government administration, defense and business. Independent directors include (1) Mr Surinder Singh Kohli (chairman, audit committee) who was earlier managing director of India Infrastructure Finance Corporation (IIFCL), Punjab National Bank and Punjab & Sind Bank; (2) Mr Brij Behari Tandon (retired – IAS), former Chief Election Commissioner of India, with extensive experience of working with public sector enterprises; (3) Mr Charan Das Arha (retired – IAS) former Additional Secretary, Ministry of Coal; (4) Mr Yogesh Chandra has served as nominee director of Government of India on the boards of multiple public sector companies and retired as the Principal Advisor (Secretary level), Government of India. Other independent directors are Maj. Gen (Retd) Samay Ram (director Indian Farmers Fertiliser Cooperative and National Aluminium Co.) and Mr Harish Ahuja (managing director, Shahi Exports Pvt. Ltd).

▪ **Corporate governance and board processes**

The company's quality of disclosure can be considered good judged by the level of information and details furnished in the DRHP, websites and other publicly available data. All the major decisions are discussed at the board meetings, and the independent directors receive the necessary documents in advance. Following our discussions with the independent directors, we believe that the company needs to strengthen its internal controls and systems. One of the promoters holds around 17% stake (directly and indirectly) in Global Coal and Mining, which is an associate of ACB (35.61% stake). As Global Coal & Mining is also engaged in coal beneficiation, we believe this is a potential conflict of interest. However, Global Coal & Mining has agreed in writing to restrict its geological presence to the states of Orissa and Andhra Pradesh.

Annexure I

Overview of ACB's Power Projects

Facility	Subsidiary / Associate	ACB stake (%)	Location	Primary Fuel	Capacity (MW)	Economic Interest (MW)	Commissioning Date
Commissioned							
Korba Power Project	ACB India	100%	Korba, Chhattisgarh	Coal Rejects	270	270	Unit 1 – Dec-2011, Unit 2 – Jun-12
Ratija Power Project (Phase I)	Spectrum Coal and Power	100%	Ratija, Chhattisgarh	Coal Rejects	50	50	Jan-13 (trial runs underway)
Chakabura Power Project (Phase I)	ACB India	100%	Chakabura, Chhattisgarh	Coal Rejects	30	30	2007
Wind Project	ACB India	100%	Sangli, Maharashtra	NA	15	15	2005
Kakinada Power Project	Spectrum Power Generation	41.92%	Kakinada, Andhra Pradesh	Natural Gas	208	87	1998
Under Construction							
Chakabura Power Project (Phase II)	ACB India	100%	Chakabura, Chhattisgarh	Coal Rejects	30	30	Sep-13
Bandakhar Power Project	Maruti Clean Coal	45%	Bandakhar, Chhattisgarh	Raw coal (CIL)	300	135	Dec-13
Raigarh Power Project	TRN Energy	74%	Raigarh, Chhattisgarh	Raw coal (CIL)	600	444	Unit 1 – Sep-14, Unit 2 – Dec-14
Under Implementation							
Ratija Power Project (Phase II)	Spectrum Coal and Power	100%	Ratija, Chhattisgarh	Coal Rejects	50	50	Dec-15
Sidhi Power Project	Aryan MP Power Generation	100%	Sidhi, Madhya Pradesh	Raw coal (blended)	1,200	1,200	2016-17
Kakinada Power Project	Spectrum Power Generation	41.92%	Kakinada, Andhra Pradesh	Natural Gas/Raw Coal	350	147	NA

Overview of ACB's Coal Beneficiation Projects

Plant	Entity	Equity Stake	Location	Installed Capacity (MTPA)	Economic Interest (MTPA)	Status/ Commissioning
Dipka	ACB	100%	Korba, Chhattisgarh	12	12	Commissioned Oct-99 (FY00)
Chakabura	ACB	100%	Korba, Chhattisgarh	7.5	7.5	Commissioned. Jun-04 (FY05)
Binjhri	ACB	100%	Korba, Chhattisgarh	0.96	0.96	Commissioned. Nov-10 (FY11)
Gevra	ACB	100%	Korba, Chhattisgarh	6.25	6.25	Commissioned. Mar-08 (FY08)
Ratija	Spectrum Coal & Power	100%	Korba, Chhattisgarh	10	10	Commissioned. Dec-99 (FY00)
Ratija	Maruti Clean Coal	45.00%	Korba, Chhattisgarh	3.33	1.5	Commissioned. July 07 (FY08)
Pandarpauni	ACB	100%	Chandrapur, Maharashtra	1.62	1.62	Commissioned. May-03 (FY04)
Himgir	ACB	100%	Sundargarh, Orissa	5	5	Commissioned. Apr-11 (FY12)
Balanda	Aryan Energy	77.38%	Talcher, Orissa	2.57	1.99	Commissioned. Jul-03 (FY04)

Plant	Entity	Equity Stake	Location	Installed Capacity (MTPA)	Economic Interest (MTPA)	Status/ Commissioning
Gauri	Aryan Energy	77.38%	Chandrapur, Maharashtra	0.99	0.77	Commissioned. Mar-06 (FY06)
Wani	Kartikay Coal	64.88%	Yeotmal, Maharashtra	2.5	1.62	Commissioned. Jun-05 (FY06)
Kalinga	Spectrum Coal & Power	100%	Talcher, Orissa	9.52	9.52	Commissioned. Apr-08 (FY09)
IB Valley	Global Coal & Mining	35.61%	Jharsuguda, Orissa	5	1.78	Commissioned. Mar-06 (FY06)
Balanda	Global Coal & Mining	35.61%	Talcher, Orissa	2.91	1.04	Commissioned. Apr-02 (FY02)
Ramagundam	Global Coal & Mining	35.61%	Vithal Nagar, Andhra Pradesh	1.17	0.42	Commissioned. May-04 (FY05)
Manuguru	Global Coal & Mining	35.61%	Khammam, Andhra Pradesh	1.06	0.38	Commissioned. Jan-10 (FY10)
Total capacity				72.38	62.35	
Proposed projects						
Ratija	Maruti Clean Coal	45%	Korba, Chhattisgarh	6.67	3.00	Land acquired FY15
Raigarh	ACB	100%	Raigarh, Chhattisgarh	2.40	2.40	Land acquired. Public hearing conducted, environmental clearance received for phase I, consent for establishment awaited. FY15 (phase I of 0.96 MTPA) and FY16 (phase II of 1.44 MTPA)
Ramkrishnapuram	Aryan Energy	77.38%	Adilabad, Andhra Pradesh	0.96	0.74	Land has been allocated by Singreni Collieries Company Limited. Environmental clearance awaited FY14
Kalinga	Spectrum Coal & Power	100%	Talcher, Orissa	1.48	1.48	Expansion FY14
Binjhri	ACB	100%	Korba, Chhattisgarh	3.84	3.84	Land acquired. Public hearing conducted, environmental clearance received, consent for establishment received. Trial runs for 1.44 MTPA completed FY16
Kuchena	ACB	100%	Korba, Chhattisgarh	5.0	5.0	Land acquired. Public hearing conducted, environmental clearance awaited. FY16 (phase I of 2.5 MTPA) and FY17 (phase II of 2.5 MTPA)
Himgir	ACB	100%	Sundargarh, Orissa	4.8	4.8	Land acquired FY16
IB Valley	ACB	100%	Jharsuguda, Orissa	5.0	5.0	Land acquisition underway FY17
North Karanpura	ACB	100%	Chattra, Jharkhand	5.0	5.0	FY17
Total capacity				35.15	31.26	

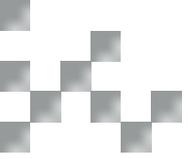
Annexure II: Profile of the Directors

Name	Designation	Age	Qualification	Yrs of Experience	Directorships / partnership in other entities*
Rudra Sen Sindhu	Chairman cum Managing Director	56	Bachelor's degree in arts	30	<u>Other directorships:</u> 1. ACB (India) Power Limited 2. Aryan Chhattisgarh Power Generation Private Limited 3. Aryan Clean Coal Technologies Private Limited 4. Aryan Energy Private Limited 5. Aryan M.P. Power Generation Private Limited 6. Global Coal and Mining Private Limited 7. Kalinga Coal Mining Private Limited 8. Kartikay Coal Washeries Private Limited 9. M.P. Sainik Coal Mining Private Limited 10. TRN Energy Private Limited Foreign companies 1. Connoisseur Resources Limited 2. Sainik Mining (International) Limited 3. Unity Holding Business Limited
Vir Sen Sindhu	Joint managing director	52	Bachelor's degree in arts	32	<u>Other directorships:</u> 1. ACB (India) Power Limited 2. Aryan Chhattisgarh Power Generation Private Limited 3. Aryan Clean Coal Technologies Private Limited 4. Aryan Energy Private Limited 5. Aryan M.P. Power Generation Private Limited 6. M.P. Sainik Coal Mining Private Limited 7. TRN Energy Private Limited
Vrit Pal Sindhu	Whole time director	46	Graduated in 2006 from Institute of Open and Distance Education, Barkatullah University Bhopal	27	<u>Other directorships:</u> 1. ACB (India) Power Limited 2. Aryan Chhattisgarh Power Generation Private Limited 3. Aryan Clean Coal Technologies Private Limited 4. Aryan Energy Private Limited 5. Aryan Ispat and Power Private Limited 6. Aryan M.P. Power Generation Private Limited 7. M.P. Sainik Coal Mining Private Limited
Ajay Mrig	Non executive director		Bachelor's degree in engineering	12	<u>Other directorships:</u> Indian companies 1. Kartikay Coal Washeries Private Limited 2. Sarvesh Coaltech Private Limited 3. Aryan Energy Private Limited 4. ACB (India) Power Limited 5. TRN Energy Private Limited Foreign companies 1. Connoisseur Resources Limited 2. Kartikay Resources FZE
Kuldeep Singh Solanki	Non-executive director	56	Bachelor's degree in arts	30	<u>Other directorships:</u> Indian companies 1. ACB (India) Power Limited 2. Aryan Chhattisgarh Power Generation Private Limited 3. Aryan Clean Coal Technologies Private Limited

Name	Designation	Age	Qualification	Yrs of Experience	Directorships / partnership in other entities*
					4. Aryan M.P. Power Generation Private Limited 5. Kalinga Coal Mining Private Limited 6. Maneesha Finlease Limited 7. Sainik Coal Washery Private Limited 8. TRN Energy Private Limited 9. Global Coal and Mining Private Limited Foreign companies 1. Connoisseur Resources Limited 2. Unity Holding Business Limited 3. Unity Holding Business Singapore Pte Limited
Niten Malhan	Non-executive nominee director	41	Bachelor's degree in computer science and a master's in business administration from the Indian Institute of Management, Ahmedabad	17	<u>Other directorships:</u> 1. D. B. Corp Limited 2. Lemon Tree Hotels Private Limited 3. Metropolis Healthcare Limited 4. Punj Lloyd Limited 5. Warburg Pincus India Private Limited. 6. ATC Tires Private Limited 7. D.B. Power Limited
Yogesh Chandra	Independent director	65	Master's degree in economics	-	Nil
Surinder Singh Kohli	Independent director	67	Bachelor's degree in mechanical engineering and a diploma in industrial finance from the Indian Institute of Bankers	-	<u>Other directorships:</u> 1. Infrastructure Development Finance Company Limited 2. MBL Infrastructure Company Limited 3. SME Rating Agency of India Limited
Brij Bihari Tandon	Independent director	71	Master's degree in economics and Bachelor's degree & is a certified associate of the Indian Institute of Bankers specializing in cooperation & industrial finance. He was an IAS from 1965-2001	More than 40 years	<u>Other directorships:</u> 1. Ambuja Cement Foundation 2. Ambience Private Limited 3. Adani Power Limited 4. Bhushan Steel Limited 5. Birla Corporation Limited
Samay Ram	Independent director	73	Master's degree in military sciences		<u>Other directorships:</u> 1. SNY Logistics And Infrastructure Private Limited 2. National Aluminium Co Ltd.
Charan Das Arha	Independent director	67	Master's degree in history. Diploma in management & administration of rural development Joined the Indian Administrative Services in 1968.	More than 44 years	<u>Other directorships:</u> 1. Anand Rathi Financial Services Limited 2. Emami Cements Limited 3. Taj Gvk Hotels & Resorts Limited
Harish Ahuja	Independent director	57	Bachelor's degree in commerce	-	<u>Other directorships:</u> 1. Shahi Exports Private Limited 2. Shahi Apparels Private Limited 3. Shahi India Buildcon Private Limited 4. AMA Real Estate Private Limited 5. AMA Softech Private Limited

*Indicative list, may not be exhaustive

Source: Company



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- Coverage on 70 industries and 139 sub-sectors; provide growth forecasts, profitability analysis, emerging trends, expected investments, industry structure and regulatory frameworks
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- All opinions and forecasts reviewed by a highly qualified panel with over 200 years of cumulative experience
- Largest independent equity research house in India, focusing on small and mid-cap companies; coverage exceeds 100 companies
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- First research house to release exchange-commissioned equity research reports in India

Funds and Fixed Income Research

- Largest and most comprehensive database on India's debt market, covering more than 14,000 securities
- Largest provider of fixed income valuations in India
- Value more than ₹33 trillion (USD 650 billion) of Indian debt securities, comprising 85 per cent of outstanding securities
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- Ranking of Indian mutual fund schemes covering 73 per cent of assets under management and ₹5 trillion (USD100 billion) by value
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- covering over 50 million individuals, for selecting fund managers and monitoring their performance

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- Released company reports on all 1,401 companies listed and traded on the National Stock Exchange; a global first for any stock exchange
- First research house to release exchange-commissioned equity research reports in India
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