Coal India Limited

Auction of Coal Linkages in the "Others" Sub-Sector – Phase IV of Tranche I

Pre Bid Presentation

This presentation is for ease of understanding of the Auction Process by the Bidders. In case of any discrepancies between this presentation and the Scheme Document, the provisions of the Scheme Document shall prevail.

September 14, 2016

AGENDA

- Background
- Key Auction Principles
- Auction Methodology
- Key Terms
- Eligibility Criteria
- Conditions to E-Auction
- E-Auction Process
- Payments
- Key FSA Terms & Modifications to earlier FSA

BACKGROUND

Policy Guidelines for Auction

- Proportion of coal allocation between power and non-power sector at 75% and 25% respectively **as per CCEA decision**
- Sub-sectors **could be** Cement, Sponge Iron/Steel, Aluminium and Others [excl. Fertiliser (Urea)] including their CPPs etc.
- Existing FSAs of non-regulated sector
  - No premature termination
  - No renewal except FSAs of CPSEs and Fertiliser (Urea)
  - In case CPSE's want additional linkages they will have to participate in the auction for such additional quantity.
- Quantity for Tranche I shall be aggregate of FSAs of non-regulated sector maturing in FY2016 onwards & 25% of incremental CIL/SCCL production during FY2016 over FY2015
- Separate quantities to be earmarked for sub-sectors
- CIL will allocate coal from area or mine within a subsidiary, as deemed fit
- FSA tenure may be as decided by MoC, subject to a **maximum tenure of 15 years**

Policy Guidelines for Auction ...2

- Bid parameter shall be Premium over Notified Price of coal
- Auction methodology shall be **Non Discriminatory Ascending Clock Auction**
  - Auctioneer increments the Premium on electronic platform till demand supply equilibrium is established

Premium shall remain constant over contract period; Notified price to be paid shall be suitably indexed on semi annual basis

- Bidders can bid up to **normative annual coal requirement of the end use plant (EUP)**
- Provision for **third party sampling** for coal supplied
- CIL/SCCL shall chalk out annual or 6-monthly auction calendar
- Based on experience of Tranche I, operational details may be appropriately reviewed

Benefits to consumers over existing NCDP/ FSA provisions

Earlier	Now
• Linkage quantity was 75% of normative quantity	• Linkage quantity will be 100% of normative quantity
• Consumers did not have freedom to choose source of supply as per their requirement	• Consumers have freedom to choose source of supply as per their requirement
• Transportation cost varied as per allocation of sources	• Transportation cost can be controlled as sources will be known beforehand
• Third Party Sampling provision was available only to consumers with ACQ of 4 LT and above	• Third Party Sampling provision is available to all consumers

KEY AUCTION PRINCIPLES

Sub-sectors for Auction

- It has been decided to conduct the current auction of coal linkages under non-regulated sector (Tranche I) under the following sub-sectors:
  a) Cement (excluding its CPPs)
  b) Sponge Iron (excluding its CPPs)
  c) All Captive Power Plants (CPPs)
  d) Others [excluding Fertilizer (urea) sector]
- All EUPs that do not fall under (a), (b) and (c) above are included in "Others" sub-sector.
- **Co-generation CPPs that have not participated in the auction under CPP sub-sector are also eligible to participate under the "Others" sub-sector.**
- Auction for the Sponge Iron, Cement and CPP sub-sectors have been successfully completed.
  - Sponge Iron sub-sector - June 10-16, 2016 ("Phase I")
  - Cement sub-sector - June 28 – July 2, 2016 ("Phase II")
  - CPP sub-sector - July 26 – Aug 3, 2016 ("Phase III")
- **Auction for the "Others" sub-sector is scheduled to commence from September 27, 2016**

Allocation of Coal Quantity

- For the purpose of the first tranche of linkage auction, total quantity is **~ 23.75 Million Tonnes (MT)**
- Of the same ~ **2.95 Million Tonnes** is allocated to the “Others” sub-sector.

Cut-off date for “Others” sub-sector

- For linkages which have expired / are due to expire by **September 30, 2016**, the following guidelines will apply:
  - For bidder who participated in the auction for “Others” sub-sector and won back part / full of such quantity, the quantity won back shall be supplied till the execution of new FSA
  - For bidder who has either not participated in the auction for “Others” sub-sector or not won back part / full of such quantity, the supply for quantity not won back shall be stopped after **September 30, 2016**
- Bidders will not be allowed to bid for any linkage quantity against which they have a valid FSA which is expiring post **September 30, 2016**
- For linkages which are due to expire post **September 30, 2016**, the extant coal supply arrangements from such linkages may continue till the next linkage auction’s Cut-off date (will be specified later)
- Bidders with tapering linkages are allowed to participate in the linkage auction.

Bidding Parameter

- The auction will commence at the Reserve Price (Floor Price) and the Bidders shall bid for premium above the Reserve Price and for a particular Quantity.

- **Reserve Price**
  - Reserve Price shall be the notified price published for a particular grade of coal

AUCTION METHODOLOGY

Auction Process

Method of Bidding – Non-Discriminatory Ascending Clock Auction Process

Online Electronic Auction Platform

Registration on Auction Platform; No physical bids

Conditions to Auction

Bidder to submit his self assessed Coal Requirement. Auction Platform to display Normative Coal Requirement across various grades.

Non-Discriminatory Ascending Clock Auction Process

Increase in Premium till Demand Supply equilibrium is established

Auction Process …2

- Bidder should visit the website of MSTC website for registration **www.mstcecommerce.com/auctionhome/coallinkage/index.jsp**
- Bidder registration on the Auction Platform is linked to an End Use Plant (EUP)
- Any Bidder having one or more EUP (in a single location within the same boundary and specific to a particular industry) belonging to sub-sectors other than Cement, Sponge Iron, Fertilizers (urea) and Captive Power Plants are eligible to participate in the auction for the "Others" sub-sector.
- Bidders with co-generation CPPs that have not participated in Phase III of the Tranche I Coal Linkage Auction (i.e. the CPP sub-sector) are also eligible to participate in the auction of the "Others" sub-sector.

Auction Process …3

- Bidder will have to register each EUP on the MSTC system
  - Combination of units located within the same plant boundary and belonging to the same industry is allowed, and such combined units can be registered as one EUP. However, once the units are combined and registered as single EUP, they cannot be split subsequently.
- For registering under the auction portal, the Bidder will provide the following:
  - Company Name
  - Name of EUP (auction portal will generate a unique registration number for each EUP)
  - Sub-sector in which each EUP is applying
  - Self-attested copy of Income Tax PAN Card
  - Self-attested copy of VAT/ CST Registration certificate

Auction Process ...4

- Auction process shall consist of: **Conditions to Auction** and **Non-Discriminatory Ascending Clock Auction Process**
- As a part of Conditions to Auction, Bidders shall provide the following details:
  - Coal Requirement (in TPA) of the EUP in G10 Grade at 85% capacity utilization, calculated either:
    - On the basis of the norms specified in CIMFR Report titled "Setting up of modalities for normative coal requirement of different industries" dated May 2015 if applicable; (available on https://www.mstcecommerce.com/auctionhome/Layouts/notice-coal-linkage.html) or
    - On the basis of Bidder's own norms/ formula in case the consumption norms of the EUPs are not specified in the above mentioned CIMFR Report, provided that such calculation is scientific.
  - Details of any existing coal linkages (**expiring after September 30, 2016**) for the above EUP
  - Details of any coal mine allocated under CMSP and/or MMDR Acts

Based on the above the system will calculate the Normative Coal Requirement of the EUP.

Auction Process ...5

- Following this the Bidder shall deposit the necessary Bid Security and the Process Fee

- Bidders shall submit documents evidencing the basis of computation of the Coal Requirement in pdf format, with size not exceeding 4MB and not more than 10 pages.

- Bidders shall also submit certain other documents **(both hard copy and soft copy format)** such as Notarized Power of Attorney and Affidavit, Board Resolution (if required) etc.

- Post submission of the requisite information/payments, e-auction process will commence wherein the bidders are required to bid for quantity against a certain price.

Auction Process ...6

- After completion of the auction of each Lot, Successful Bidder(s) for that lot will be announced.
- The quantity allocated to Successful Bidders will be called "Provisional Allocated Quantity".
- Successful Bidder(s) shall be issued a Letter of Intent **("Provisional LOI")** within 15 (fifteen) days of completion of the Phase IV Auction.
- Within 60 days of completion of the Phase IV Auction (**Verification Period**), Successful Bidders shall get their Coal Requirement be verified from Verification Agencies (DIC, Director of Industries or any other Department as may be nominated by the State Govt.).
  - If the verified Coal Requirement is less than the Coal Requirement specified by the Successful Bidder,
    - The Provisional Allocated Quantities will be decreased by the percentage **(Deficit Percentage)** wherein

$$\boldsymbol{Deficit\ Percentage} = \frac{\boldsymbol{Coal\ Requirement - Verified\ Coal\ Requirement}}{\boldsymbol{Normative\ Coal\ Requirement\ before\ verification}} \times \boldsymbol{100}$$

    - Such reduced quantities will be rounded down to the nearest integer multiple of the Transport Factor and will be declared as the Allocated Quantity.
  - If the verified Coal Requirement is more than the Coal Requirement specified by the Successful Bidder, then the Provisional Allocated Quantity will be rounded down to the nearest integer multiple of the Transport Factor and will be declared as the Allocated Quantity.
  - If the verified Coal Requirement comes out to be less than 4,200 TPA, such Successful Bidders will no more be considered to be Successful Bidders.

Example– Allocated Quantity post Verification

- An example of determination of Allocated Quantity post verification of the Coal Requirement for a Successful Bidder is provided below:

Description	Values before verification of Coal Requirement	Values after verification of Coal Requirement
Coal Requirement of EUP	**150,000**	**132,000**
Existing Linkage Quantity (deemed to be of G10 Grade)	20,000	20,000
Quantity of Coal allocated Mine in G10 Grade Equivalent	30,000	30,000
Normative Coal Requirement (in TPA)	**100,000**	**82,000**
Deficit (difference between the Normative Coal Requirements before and after verification) (in TPA)	18,000	
Deficit Percentage (A = Deficit / Normative Coal Requirement before verification)*100	**18.00%**	

Lot	Provisional Allocated Quantity (TPA) (B)	Reduction based on Deficit Percentage (TPA) (C = B x A)	Entitled Quantity (TPA) (D = B – C)	Allocated Quantity (TPA) post Adjustment for Transport Factor
1	30,000	5,400	24,600	24,600
2	48,000	8,640	39,360	39,300
3	20,300	3,654	16,646	16,600

Auction Process ...7

- In case the Successful Bidders fails to get the coal requirement verified within Verification Period, the Provisional Allocated Quantity to which the relevant Bidder had become entitled to shall automatically be cancelled at the end of the Verification Period
- Successful Bidder(s) shall be issued a Letter of Intent **("LOI"**) after completion of the Verification Period, which will include the cumulative Allocated Quantity of such Bidder from the relevant CIL subsidiary pursuant to Phase IV auction.
- The Successful Bidder shall, within 45 (forty five) days of issuance of the LOI to it, submit the Performance Security to the relevant Subsidiary.
- The Agreement (FSA) shall be executed between the Successful Bidder and the relevant Subsidiary in respect of the Allocated Quantity within 30 (thirty) days of:
  - receipt of the Performance Security; and
  - submission of the documents specified in Scheme Document.
- Bidders will have to execute separate FSAs for each Lot where they emerge as Successful Bidders.

Auction Process ...8

- CIL/ the relevant Subsidiary reserves the right to get the Coal Requirement of the Successful Bidder verified by Central Institute of Mining & Fuel Research ("CIMFR") or any other agency that may be nominated by CIL ("Final Verification Agency"), within 180 (one hundred eighty) days of execution of the relevant Agreement.
- In case the Coal Requirement verified by the Final Verification Agency is lower than
  (i) Coal Requirement verified and certified by the Verification Agency and
  (ii) Coal Requirement specified by the Successful Bidder,
  then the Allocated Quantity will be subject to further downward adjustment based on principles similar to those followed during the verification conducted by the Verification Agency (i.e. If the verified Coal Requirement is less than the Coal Requirement specified by the Successful Bidder) subject to necessary changes.
- The excess supply already made, if any, due to aforesaid further downward revision shall be adjusted during the residual period of the initial 2 (two) years from the execution of the relevant Agreement.
- For the balance term of the Agreement, the revised Allocated Quantity will be supplied.

Auction Process ...9

- In case the Coal Requirement verified by the Final Verification Agency is more than: (A) the Coal Requirement specified by the Successful Bidder; or (B) the Coal Required verified by the Verification Agency, then the Allocated Quantity will not be subject to revision / adjustment.
- In the event the Normative Coal Requirement calculated based the Coal Requirement verified by the Final Verification Agency is less than 4,200 TPA, the Successful Bidder shall not be entitled to receive any coal pursuant to the Scheme and the Agreement(s) entered into by the Successful Bidders with the relevant Subsidiary(ies) shall stand terminated.

Auction Process ...10

Illustration: Verification of Coal Requirement and adjustment of Provisional Allocated Quantity

Description	Formula	Quantity (in TPA)
Coal Requirement (as per Bidder's self-assessment)	A	1,50,000
Existing Linkage Quantity (deemed as G10 Grade)	B	20,000
Quantity of coal allocated from the Mine (computed as G10 Grade equivalent)	C	30,000
Normative Coal Requirement (based on Bidder's self-assessed Coal Requirement)	D = A - B – C	100,000
Provisional Allocated Quantity		
Lot 1 (after adjustment for Transport Factor)	E	25,000
Lot 2 (after adjustment for Transport Factor)	F	22,000
Lot 3 (after adjustment for Transport Factor)	G	18,000
Coal Requirement (as per the Verification Agency)	H	1,32,000
Normative Coal Requirement (based on Coal Requirement as per the Verification Agency)	I = H - B - C	82,000
Deficit (in case H is lower than A)	J = A – H	18,000
Deficit %	K = J/D × 100	18.00%
Allocated Quantities post verification by Verification Agency		
Lot 1 (after adjustment for Transport Factor)	L = E × (1-K)	20,500
Lot 2 (after adjustment for Transport Factor)	M = F × (1-K)	18,000
Lot 3 (after adjustment for Transport Factor)	N= G × (1-K)	14,700
Coal Requirement (as per the Final Verification Agency)	O	1,18,000
Normative Coal Requirement (based on Coal Requirement as per the Final Verification Agency)	P = O - B – C	68,000
Deficit (in case O is lower than both A and H)	Q = A - O	32,000
Deficit %	R = Q/D × 100	32.00%
Allocated Quantities post verification by Final Verification Agency		
Lot 1 (after adjustment for Transport Factor)	S = E × (1-R)	17,000
Lot 2 (after adjustment for Transport Factor)	T = F × (1-R)	14,900
Lot 3 (after adjustment for Transport Factor)	U = G × (1-R)	12,200

Auction Process ...11

Illustration: Adjustment of Allocated Quantity post verification by the Final Verification Agency

Description	Formula	Value
Allocated Quantity for a particular Lot	A	20,500 TPA
Time taken by the Final Verification Agency to verify the Coal Requirement	B	4 months
Say, total quantity supplied prior to the verification by the Final Verification Agency	C	8,500 Tonnes
Allocated Quantity post verification by the Final Verification Agency	D	17,065 TPA
Allocated Quantity post verification by the Final Verification Agency (post adjustment for the Transport Factor)	E	17,000 TPA
Excess supply before the verification by Final Verification Agency is available	F= C – (E × B/12)	2,833 Tonnes
Residual Period	G = 24 - B	20 months
Required Monthly Adjustment	H = F /G	142 Tonnes
Quantity to be supplied monthly during the Residual Period	I = (E/12) - H	1,275 Tonnes

The figures have been rounded off for the purpose of this illustration.

KEY TERMS

Normative Coal Requirement

- As per Para 2(g) of the Policy, maximum bid quantity by a particular bidder shall not exceed the Normative Coal Requirement of the End Use Plant (EUP).
- Normative Coal Requirement for each EUP in the "Others" sub-sector will be calculated by the auction platform based on the self assessed Coal Requirement and other inputs provided by the Bidders on the auction platform.
- Coal Requirement (in TPA) of the EUP in G10 Grade of Coal at 85% capacity utilization will be calculated by the Bidders for their EUPs, either:
  - On the basis of the norms specified in CIMFR Report titled "Setting up of modalities for normative coal requirement of different industries" dated May 2015 if applicable; or
  - On the basis of Bidder's own norms/ formula in case the consumption norms of the EUPs are not specified in the above mentioned CIMFR Report, provided that such calculation is scientific.

Normative Coal Requirement…2

Normative Coal Requirement (TPA)	Coal Requirement (in TPA) ***minus*** Annual coal requirement of the EUP met through any existing coal linkage(s), which shall be calculated on the basis of the annual contracted quantity wherein such annual contracted quantity shall be deemed to be of G10 grade of coal, irrespective of actual contracted grade ***minus*** Annual coal requirement of the EUP met through any captive coal mine(s), which shall be computed on the basis of G10 grade of coal ***minus*** Annual coal requirement of the EUP met through any allocation of coal linkage(s) pursuant to auction process of any lot conducted by CIL under this Scheme Document and/ or by SCCL, which shall be computed on the basis of G10 grade of coal.

Example – Normative Coal Requirement Calculation

Particulars	Unit	Formula	Value
Coal Requirement of EUP in G10 Grade of Coal	**TPA**	**(A)**	**1,50,000**
Existing Linkage Quantity	TPA	(B)	20,000
Deemed Grade of Coal Allocated through Linkage			G10
Quantity of Coal allocated for the EUP from the Mine	TPA	(C)	28,105
Grade of Coal from Mine			G9
Average GCV of G9 grade of coal	kcal/kg	(D)	4,750
Average GCV of G10 grade of coal	kcal/kg	(E)	4,450
Quantity of Coal allocated for the EUP from the Mine in G10 grade of coal	TPA	(F = C x D/E)	30,000
Normative Coal Requirement of EUP in G10 Grade of Coal	**TPA**	**(G = A – B – F)**	**1,00,000**

Lots & Auction Sequence

- ‘Lot’ shall mean a specified quantity of coal belonging to a particular grade which is to be offered for sale and which may be dispatched by road or by rail
- Each Lot will contain only one Grade
  - Each Lot will also have a pre-identified Secondary Source
- Each Lot will have a specified mode of dispatch i.e. road or rail. Bidders will have to off-take coal from Lots via the specified mode of dispatch only
- In case of a force majeure event or other operational constraints, CIL may supply coal from other mine(s) (Road Sale Points)/ railway siding i.e. Secondary Source and make necessary steps to revert to the primary source as soon as it is operationally possible

S. No.	Subsidiary Name	Mine/ Siding	Mode	Grade/ Size	Quantity	Notified Price	Secondary Source

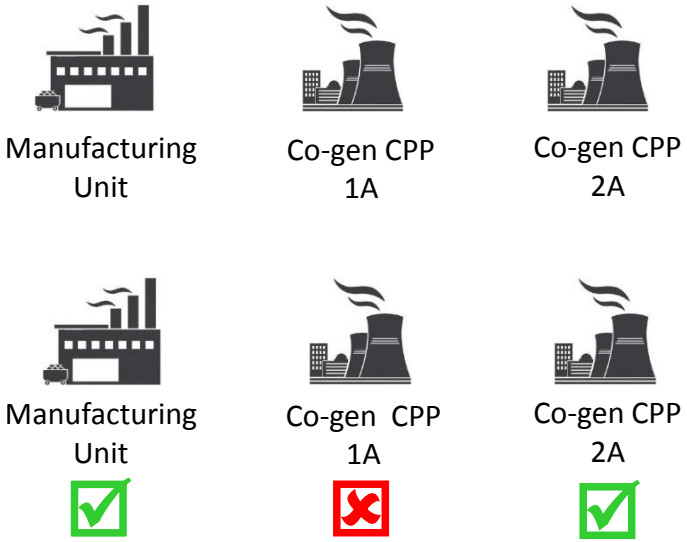
- Details of Lots will be provided in the Scheme Document
- Auction of Lots will be conducted sequentially
- Sequence and schedule of Lots will be provided upfront to the Bidders

Specified End Use Plant for “Others” Sub-Sector

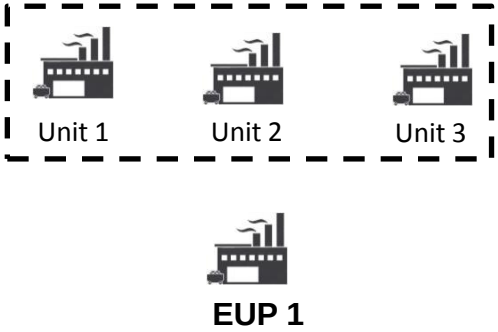
Company ‘A’ has a manufacturing unit (under “Others”) and two co-gen CPPs (Plant 1A and Plant 2A). Company ‘A’, had participated in the auction under CPP sub-sector for co-gen CPP 1A only.

Only the manufacturing unit and co-gen CPP 2A will be eligible to participate for auction of Lots under the “Others” sub-sector.

Accordingly, Bidder to mention the Coal Requirement and related details of the manufacturing unit and co-gen CPP 2A strictly.



Bidders having multiple units within the same plant boundary and belonging to the same industry can combine such units and register as one EUP.



ELIGIBILITY CRITERIA

Eligibility Criteria

Composition of the Bidder

- Any resident Indian Person including a Proprietorship/partnership firm registered in India
- Companies incorporated in India

Ownership of End Use Plant (EUP)

- Bidder to own the EUP
- EUP to be located in India
- Coal to be used for own consumption

Status of End Use Plant

- EUPs should have commenced commercial operations

Normative Coal Requirement

- Calculated at **85% Plant Capacity Utilisation** and bidders may bid up to 100% of their Normative Coal Requirement
- To be net of requirement being met from other linkages and / or captive coal mine
- **Minimum Normative Coal Requirement should be 4,200 TPA**

Eligibility Criteria ...2

No. of Bids by a Bidder

- With respect to one specified EUP, Bidder is required to submit information/documents and payments as required under Conditions to e-Auction
- With respect to one EUP, the Bidder may submit financial bid for multiple Lots

Other Conditions

- Bidders with criminal conviction with respect to misutilisation of coal allocated through FSA will not be eligible.
- No transfer of linkage is allowed under the current linkage auction process. However change of control may be considered as specified in the Scheme Document.

CONDITIONS TO E-AUCTION

EUP Details

- As a part of Conditions to Auction, Bidders shall provide their EUP details for computation of the Normative Coal Requirement of the plant.
- Following Details are required for this purpose:
  - Details of the EUP including its Coal Requirement (in TPA) of G10 Grade of Coal
  - Details of existing coal linkage(s) if any
  - Details of existing Captive Coal Mine, if any

The same are required in the format as provided on the electronic platform.

Bid Security

- Bidder shall furnish, a bid security in the form of an Earnest Money Deposit (EMD).
- The Bid Security shall be Rs. 100 per tonne of the quantity the bidder intends to bid across various Lots.
- The payments made by Bidders towards the Bid Security shall be collected in a designated bank account as mentioned in the Scheme Document
- The Bidder shall ensure that at any time during the auction process, its Bid Security is adequate vis-à-vis the intended Link Quantity.
  - The Bidder has the flexibility to top up the Bid Security **at least 1 business day prior** to the scheduled auction of Coal Linkages pertaining to the Lot.
  - **Under no circumstances, the bidder shall be allowed to bid for a quantity for which the Bid Security has not been deposited.**

Bid Security…2

Refund of Bid Security

- The Bid Security with respect to quantities not allocated to the Bidder/ Successful Bidder, as the case may be, will be returned by the Service Provider to the Successful Bidder or Bidder, without any interest, post completion of the Phase IV Auction.
- The Bid Security pertaining to the difference between the Provisional Allocated Quantity and the Allocated Quantity of the Successful Bidder, if any, will be returned by the relevant Subsidiary to the Successful Bidder, without any interest, post the verification period; and
- The Bid Security pertaining to the Allocated Quantity of the Successful Bidder will be returned by the relevant Subsidiary to the Successful Bidder, without any interest, post submission of executed copies of Agreement to the relevant Subsidiary;
- The Bid Security pertaining to the Provisional Allocated Quantity shall be returned by the relevant subsidiary without any interest, post completion of the verification period, in case the verified Coal Requirement is less than 4,200 TPA.

Bid Security…3

Conditions for forfeiture of Bid Security

- The information, documents and/ or payments with respect to the Conditions to Auction are determined to be non-responsive
- Engagement in a Corrupt Practice, Fraudulent Practice, Coercive Practice, Undesirable Practice or Restrictive Practice
- In case of a Successful Bidder, failure to submit within 45 days of issuance of the LOI, the following:
  - Performance Security
  - Documents as will be specified the Scheme Document and other documents as may be requested by CIL or the relevant Subsidiary
- Failure to execute the Agreement within the time period specified in the Scheme Document

In which case, the Bidder will also cease to be a Successful Bidder.

Process Fee

- Along with Bid Security, the Bidders shall also be required to submit a process fee in the form of an earnest money deposit within the stipulated timeline which is **Rs. 2.50 per tonne (inclusive of service tax) multiplied by the Link Quantity across various Lots**
- The Bidder shall ensure that the Process Fee shall, at any time during the auction process, correspond to its intended Link Quantity across various Lots
- In case a Bidder decides to change the bidding strategy by opting to Bid for a different Link Quantity in a specific Lot, which requires additional Process Fee to be paid, the Bidder shall be required to top up the Process Fee no later than **1 business day prior** to the scheduled auction of the Coal Linkages from the relevant Lot
- The payments made by Bidders towards the Process Fee will be paid into a bank account as stipulated in the Scheme Document
- The Process Fee pertaining to the Provisional Allocated Quantities of each Successful Bidder will be debited towards transaction expenses for running the auction process and the balance shall be refunded, without interest
- In the event that a Bidder does not qualify as a Successful Bidder, the entire amount of the Process Fee, without any interest, shall be refunded to such Bidder after completion of the Phase IV auction for “Others” sub-sector

Other Documents

- A power of attorney along with a certified true copy of the relevant authorizations in support thereof e.g. letter of authority, resolution of the board of directors, resolution of the shareholders etc.
- An affidavit certifying inter alia that they meet all the Eligibility Conditions required for participation in the auction process hereunder.
- An Undertaking to perform activities required for submitting the bid in the manner prescribed in the Scheme Document and certifying that he shall continue to satisfy all the Eligibility Conditions.
- Documents evidencing the basis of computation of the Coal Requirement. The document should be in PDF format and the document should not be more than 4MB and not more than 10 pages.

Formats for the Power of Attorney, the Affidavit and the Undertaking will be provided in the Scheme Document.

E-AUCTION PROCESS

Electronic Auction Process

- Coal quantity will be allocated by Non-Discriminatory Ascending Clock Auction
- For a particular sub-sector, Lots shall be auctioned sequentially
  - However, two or more Lots for different sub-sectors may be auctioned simultaneously
- For a particular Lot,
  - The auction process shall be conducted in rounds
  - The Auction Platform will calculate the premium for each auction round depending on the Demand – Supply Ratio of the immediately preceding round

$$Demand\ Supply\ Ratio(\%) = \frac{Total\ Bid\ Quantity\ of\ all\ Bidders\ in\ a\ Lot\ (TPA)}{Lot\ Size\ (TPA)}$$

  - Bidders are required to indicate quantity **("Link Quantity")** against premium quoted for each successive round of auction
  - The Bidders cannot increase the quantity between the previous and subsequent round
  - **Not entering any quantity in a particular round will imply "Zero" quantity entered and therefore the bidder will not be able to bid for any quantity in the subsequent rounds.**
  - Auction stops when Demand Supply Ratio is **less than or equal to 100%** for a particular round
  - The round at which the auction stops and penultimate round will be compared and the sale of coal from the round generating maximum revenue will be selected

Electronic Auction Process…2

- The Bid Quantity **("Link Quantity")** will be the minimum of Normative Coal Requirement or the quantity offered in a particular Lot.
- The Link Quantity will be integer multiples of the 100 TPA, the "**Transport Factor**"
- The minimum Link Quantity in any round for rail mode shall be 4,000 TPA
- At the end of each round, bidders will be told the Demand Supply Ratio of that round and the corresponding Premium of the next round and the bidder shall quote the Link Quantity required under each Round subject to the following conditions:
  - The Link Quantity is lower than or equal to the Link Quantity quoted in the previous Round
  - The Link Quantity will be an integer multiple of 100 TPA

Round Premium

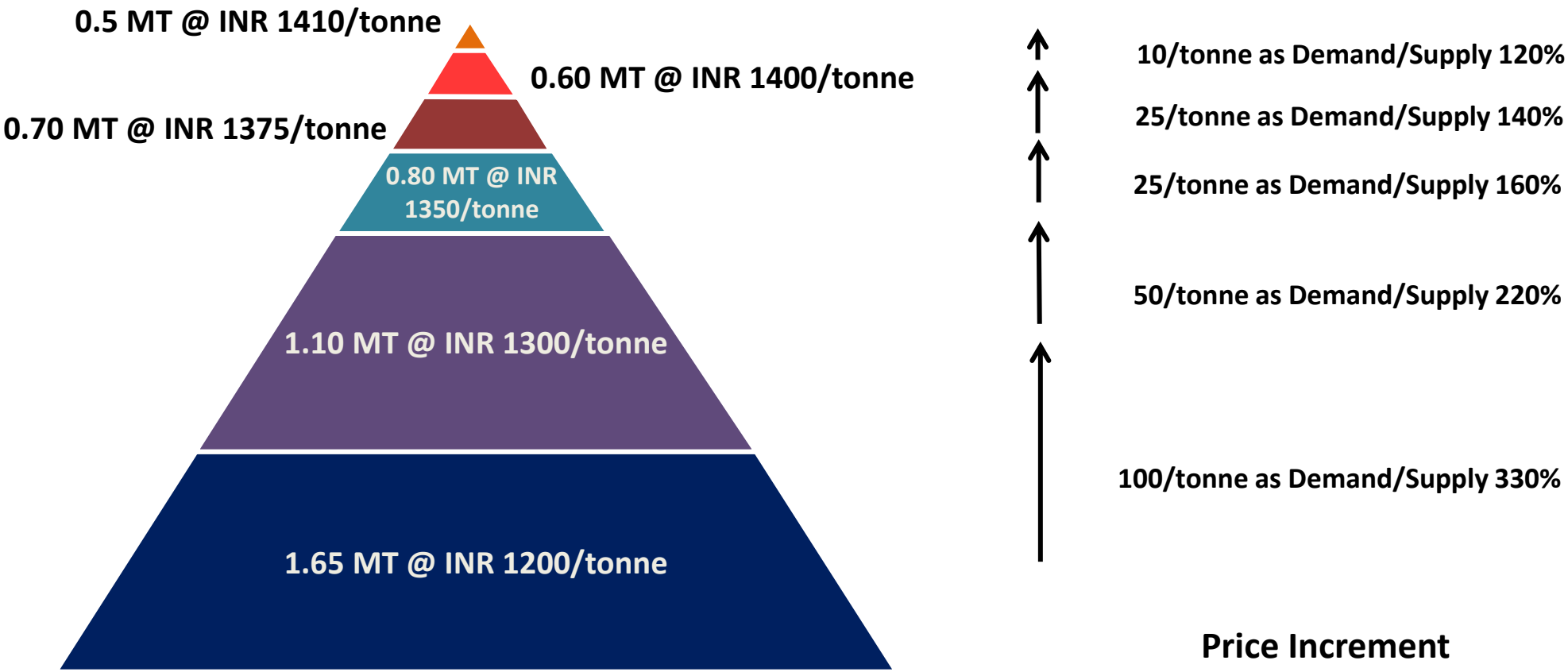
- Premium for the first round will be Rs. Zero/ tonne
- Round Premiums (other than the first Round) will depend on the Demand/Supply Ratio of the immediately preceding round and will be determined by the Auction Platform as follows:

Demand/Supply Ratio in a particular round	Incremental Round Premium (Rs. per tonne)
Greater than 100% and less than or equal to 125%	10
Greater than 125% and less than or equal to 200%	25
Greater than 200% and less than or equal to 300%	50
Greater than 300%	100

- Premium would be cumulative i.e. Premium for a particular round would be the premium at the preceding round plus the premium computed for the current round.

Example - Non-Discriminatory Ascending Clock Auction

Ascending Price with Demand Converging to 0.5 MT Quantity Offered



Provisional Allocated Quantity

- Each round will be considered a valid offer to purchase the Link Quantity at the stated price. Moving to the next round does not mean the previous offer is discarded or becomes invalid.
- The auction will stop once the Demand Supply Ratio is lower than or equal to 100%.
- In case in any of these rounds the Demand Supply Ratio is more than 100%, bidders will be provisionally allocated their pro-rata share.
- The revenue from the last and the penultimate rounds will be compared and the and the round generating maximum revenue for CIL will be selected.
  - *For rounds where Demand Supply Ratio is more than 100%, the rounded down pro-rata quantity will be used for calculating the revenue to CIL*

Example # 1 – Provisionally Allocated Quantity ...2

- If the round at which the auction stops has Demand Supply ratio of 98% with a notified price of Rs 1,700/tonne and total premium of Rs 360/tonne. The penultimate round has Demand Supply ratio of 102% with a notified price of Rs 1,700/tonne and total premium of Rs 350/tonne. In such a scenario, for comparing the two round, following methodology will be considered:

Description	Allocation and Revenue Calculations for Penultimate Round			Allocation and Revenue Calculations for Round at which the auction stops		
	Bidder 1	**Bidder 2**	**Bidder 3**	**Bidder 1**	**Bidder 2**	**Bidder 3**
Link Quantity (TPA)	32,000	62,000	1,10,000	30,000	60,000	1,06,000
Pro-rata Allocated Quantity (TPA)	**31,373**	**60,784**	**1,07,843**	**30,000**	**60,000**	**1,06,000**
Total Quantity Available for Sale	**2,00,000 TPA**			**1,96,000 TPA**		
Notified Price	Rs. 1,700 per tonne			Rs. 1,700 per tonne		
Applicable Round Premium	Rs. 350 per tonne			Rs. 360 per tonne		
Total Applicable Price	Rs. 2,050 per tonne			Rs. 2,060 per tonne		
Total Annual Revenue	Rs. 41.00 Crore			Rs. 40.38 Crore		

- *Since revenue at the penultimate round is* ***more than the revenue in the round at which the auction stops***, CIL may *choose this round and provisionally allocate each Bidder their pro-rata share with a premium of Rs. 350 per tonne*

Example # 2 – Provisionally Allocated Quantity ...3

- If the penultimate round has Demand Supply ratio of 203% with a notified price of Rs 1,700/tonne and total premium of Rs 310/tonne and the round at which the auction stops has Demand Supply ratio of 98% with a notified price of Rs 1,700/tonne and total premium of Rs 360/tonne, following methodology will be considered:

Description	Allocation and Revenue Calculations for Penultimate Round			Allocation and Revenue Calculations for Round at which the auction stops		
	Bidder 1	**Bidder 2**	**Bidder 3**	**Bidder 1**	**Bidder 2**	**Bidder 3**
Link Quantity (TPA)	63,700	1,23,300	2,19,000	30,000	60,000	1,06,000
Pro-rata Allocated Quantity (TPA)	**31,379**	**60,739**	**1,07,882**	**30,000**	**60,000**	**1,06,000**
Total Quantity Available for Sale	2,00,000 TPA			**1,96,000 TPA**		
Notified Price	Rs. 1,700 per tonne			Rs. 1,700 per tonne		
Applicable Round Premium	Rs. 310 per tonne			Rs. 360 per tonne		
Total Applicable Price	Rs. 2,010 per tonne			Rs. 2,060 per tonne		
Total Annual Revenue	Rs. 40.20 Crore			Rs. 40.38 Crore		

- *Since revenue at the round at which the auction stops is **more than penultimate Round**, CIL may choose the last round and provisionally allocate each Bidder their pro-rata share with a premium of Rs. 360 per tonne.*

PAYMENTS

Periodic Payments & Price Indexation

- ***The premium determined through the auction process will be converted into percentage terms i.e. percentage of the notified price and this percentage premium will remain constant throughout the tenure of the FSA***

- Notified price will be reviewed semi-annually and any modification (upward or downward) in the notified price post such review shall be considered as indexation and such modified price will be referred as **"Indexed Notified Price"**.

- The price charged will be the sum of (a) notified price (or indexed notified price post review if any) and (b) the percentage premium on such notified price (or indexed notified price).

- An example is worked out below

Original Notified Price (Rs./tonne)	1,700
Premium (Rs./tonne)	250
Total Price Payable by Successful Bidder (Rs./tonne)	**1,950**
% Premium over Notified Price (to remain constant)	**14.71%**
Upward Revised Notified Price (Rs./tonne)	2,000
Premium Payable @ 14.71% of Rs. 2,000 / tonne	294
Total Price Payable by Successful Bidder after Price Revision (Rs./tonne)	**2,294**
Downward Revised Notified Price (Rs./tonne)	1,500
Premium Payable @ 14.71% of Rs. 1,500 / tonne	214
Total Price Payable by Successful Bidder after Price Revision (Rs./tonne)	**1,714**

Performance Security

- The Successful Bidder, shall provide to the relevant CIL Subsidiary, a Performance Security within 45 days of issuance of the LOI in the form of an Irrevocable and unconditional guarantee from an Acceptable Bank (in the format as will be specified in the Scheme Document) or in the form of a non-interest bearing security deposit.

Performance Security = 6% x [Allocated Quantity of the Successful Bidder] × [Aggregate of the (Notified Price or Indexed Notified Price, as the case may be) and (% Winning Premium x Notified Price or Indexed Notified Price, as the case may be)]

- The amount of Performance Security shall be suitably revised in case of change in Notified Price or change in the Allocated Quantity (post verification by the Final Verification Agency)
- Validity of Performance Security is till 3 months from the date of expiry of the FSA
- The Performance Security may be forfeited by the relevant Subsidiary in the manner as will be specified in the Agreement

"**Acceptable Bank**" shall mean a Scheduled Bank as listed in the Second Schedule of the Reserve Bank of India Act, 1934 excluding those listed under the headings of Gramin Banks, Urban Co-operative Banks and State Co-operative Banks

KEY FSA TERMS AND MODIFICATIONS IN EXISTING FSA

Grade Variation

- In case of a variation in grade of coal (decided on the basis of third party sampling, (in case the Bidder has opted for Third Party Sampling) as compared to the Allocated Quantity grade, Bidder shall pay the Notified Price (or the latest Indexed Notified Price as the case may be) of the supplied grade plus the Winning Premium (in percentage terms) on the Notified Price (or the latest Indexed Notified Price as the case may be) of the supplied grade without factoring in royalty payments, taxes etc.
- Illustration:

Particulars	Case I: Supplied Grade is lower than Contracted Grade	Case II: Supplied Grade is higher than Contracted Grade
Allocated Grade to Bidder	G6	G6
Notified Price (Rs./ Tonne) (B)	2,280.00	2,280.00
Premium (Rs./ Tonne) (C)	300.00	300.00
Premium as % of Notified Price (D=C/B)	13.16%	13.16%
Actually Supplied Grade	G7	G5
Notified Price of Supplied Grade (Rs./ Tonne) (E)	1,920.00	2,750.00
Premium of Supplied Grade (Rs./ Tonne) (F=E*D)	252.63	361.84
Price Payable for Supplied Grade (Rs/Tonne) (I = E+F)	2,172.63	3,111.84

Independent Third Party Sampling

- Each Successful Bidder off-taking coal via rail mode may choose an agency from the following:
  - list of independent third parties provided by CIL from time to time or
  - CIMFR or CIMFR appointed agencies.
- Bearing logistical issues, in case of off-take of coal via road mode, a single independent third party sampling agency will be appointed by respective CIL subsidiary for sampling coal supplied to various purchasers from a particular source
- Third party sampling, if requested by the Successful Bidder, shall be done from the delivery/ loading point at supplier's end
- Costs of third party sampling
  - shall be borne equally in case of transport via rail mode
  - in case of transport via road 50% of the cost of third party sampling will be borne by respective CIL subsidiary and the residual 50% cost shall be shared by the parties who have requested for Third Party Sampling on a proportionate basis (depending on quantity of coal supplied).
- The procedure for conduct of Third Party Sampling shall be as detailed in the Agreement.

Key Modifications over the earlier FSA

- **Duration and Lock-in**
  - As per Para 1(ii) of the Policy, tenure of the FSA may be as decided by MoC subject to a maximum of 15 years
  - Under the Auction Process, the Agreement shall come into force from the date of signing of the Agreement and shall be valid for a term of 5 (five) years from the date of signing. Upon expiry of the aforesaid period of 5 (five) years, the Agreement may be extended for a further period of 5 (five) years on mutually agreed terms
  - The Agreement shall have a lock-in period of 2 (two) years

- **Change in Control**

  Change in Control of the Successful Bidder and/ or any transfer of the Specified End Use Plant along with the rights in relation to the Allocated Quantity shall be permissible with prior approval of the relevant Subsidiary if:

  - Such change in Control does not result in the Successful Bidder becoming non-compliant with any of the Eligibility Conditions or the transferee of the Specified End Use Plant along with the rights in relation to the Allocated Quantity continues to satisfy all of the Eligibility Conditions
  - Such change in Control and/ or transfer occurs in accordance with Applicable Law and the conditions for transfer and/ or assignment contained in the Agreement

Key Modifications over the earlier FSA …2

- **Exit Options**
  - Post the expiry of lock-in period, the Successful Bidder may seek an exit after serving a prior written notice of three months.
  - If the Successful Bidder exits the Agreement prior to expiry of the lock-in period of 2 (two) years, the Performance Security shall be forfeited in its entirety and the Successful Bidder shall be disqualified from participating in the subsequent tranche of auction for the non-regulated sector conducted by CIL
- **Indemnification**
  - The relevant Subsidiary shall be indemnified by the Successful Bidder for any claims or action that may arise inter alia on account of any misrepresentation of the Bidder misrepresentation, unwilling or otherwise

Key Modifications over the earlier FSA ...3

- **Quantity and Compensation for short delivery / lifting**
  - If level of delivery by the relevant Subsidiary or level of lifting by the Successful Bidder falls below 75% (seventy five per cent.) then the defaulting party shall be liable to pay compensation to the other party in the following manner:

Level of Delivery/ Lifting of Coal in a Year	Percentage of Penalty for the failed quantity
Below 75% but up to 70% of Allocated Quantity	0 - 5
Below 70% but up to 65% of Allocated Quantity	5 - 10
Below 65% but up to 60% of Allocated Quantity	10 - 20
Below 60% but up to 50% of Allocated Quantity	20 – 40
Below 50% of Allocated Quantity	40

  The penalty shall be computed in the same manner as done slab wise for computation of income tax. However, unlike income tax the percentage of compensation shall grow on a linear basis within each slab.

- **Performance Incentive**
  - There shall be no performance incentive under the Agreement because contracted quantity will be 100% of the EUP's Normative Coal Requirement.

- **Security**
  - Successful Bidder shall be entitled to create encumbrances over the Agreement or rights granted to it under the Agreement for the purposes of availing financing from a bank or financial institutions for financing the EUP without any prior approval by relevant CIL Subsidiary.

Key Modifications over the earlier FSA …4

- **Termination**
  - Failure of a party to perform its obligations under the Agreement because of a force majeure, for a period beyond 90 (ninety) days in any continuous period of 180 (one hundred eighty) days
  - Successful Bidder being prevented /disabled under Applicable Law from using coal, for reasons beyond their control
  - Any material change in the coal distribution system of the relevant subsidiary of CIL due to a Government directive/ notification, post the execution of the Agreement
  - The matter pertaining to the diversion or breach of end use of coal leads to suspension of the deliveries and the matter cannot be resolved
  - Encashment of the Performance Security or suspension of coal supplies
  - In the event a party suffers insolvency, appointment of liquidator (provisional or final), appointment of receiver of any of material assets, levy of any order of attachment of the material assets, or any order or injunction restraining the party from dealing with or disposing of its assets
  - A party commits a breach of terms or conditions of the Agreement
  - The Normative Coal Requirement computed on the basis of the Coal Requirement verified by the Final Verification Agency comes out to be less than 4,200 TPA.

THANK YOU

SBI Capital Markets Limited

New Delhi
(Regional Office)

World Trade Tower
Ground Floor
Barakhamba Lane
New Delhi – 110 001

T: +91 (11) 2348 5200
F: +91 (11) 2341 8773