



Firing up the markets

Coal India's IPO was the largest in India to date. Vandana Chatlani examines the complex preparations that were required and reveals the secrets behind the listing's success

Make a call to Coal India and while waiting for the operator, you'll hear what sounds like an army of workers singing the company's song: "Hum hai aag, hum hai bijli, hum hai shakti ki khand, hum hai Coal India, Coal India hum", (We are fire, we are electricity, we are a mine of power, we are Coal India, Coal India is us). On the company's website the song plays against a montage of coalminers hard at work, giant coal plants stretching across acres of green fields and ordinary citizens marvelling at the magic of electricity in their everyday lives. Coal India is clearly a source of great pride.

The Kolkata-based company, which produces 80% of India's coal, is the largest coal producer in the world. It has 397,138 employees, 64,786 million tonnes of coal reserves, eight subsidiaries, and 471 mines in 21 major coalfields stretching from the green valleys of Assam to the industrial heartland of Maharashtra. The company's US\$3.43 billion IPO in October was the icing on the cake.

The IPO was a disinvestment by the Indian government of 10% of its shareholding, 1% of which was reserved for the company's employees. It was the largest listing

to date in India. However, viewing the offering through a purely statistical lens may do it a disservice. "A bank in China can do an offering that's much larger in terms of the proceeds, but that doesn't mean the due diligence obligation would be larger, or even as large as it was for Coal India, because Coal India is such a massive company," says Stephen Peepels, a partner at DLA Piper who led the team that advised Coal India on its offering.

Pre-IPO makeover

Coal India was once viewed as a dinosaur amid the Reliances and Bhartis that have redefined India Inc. As a state-owned enterprise serving only the domestic market, it has been governed solely by Indian regulations and has had little exposure to international standards.

As part of the IPO process, the 100-year-old company underwent a transformation to make it more attractive to international investors. "Working with a company that had never been through the process before, whose ways of doing business have been around for decades and

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Stuart Rubin
Partner
Ashurst



converting that into a public listed company with international investors ... that was the challenge," says Peepels.

The company even had to change how it measured its coal reserves. Until recently it had used Indian Standard Procedure, which was not well known outside the country. But as part of its pre-IPO makeover, all of Coal India's reserves were re-assessed using internationally accepted methods prescribed by the Joint Ore Reserves Committee. It was assisted in this process by SRK Group, an international mining and geological consultancy.

Complicating the process further were Coal India's eight subsidiaries, each of which is a large entity in its own right. Madhurima Mukherjee, a partner at Luthra & Luthra, which was Coal India's domestic counsel on the deal, says that each subsidiary "could have issued its own individual IPO for millions of dollars".

The subsidiaries are Bharat Coking Coal, Central Coalfields, Central Mine Planning & Design Institute (all of which are based in Jharkhand), Eastern Coalfields in Dishergarh, Mahanadi Coalfields in Orissa, Northern Coalfields in Madhya Pradesh, South Eastern Coalfields (SECL) in Chhattisgarh, and Western Coalfields in Nagpur, Maharashtra.

"That's a lot to get your arms around," says Mukherjee, who led the effort to draw up Coal India's prospectus.

Despite the complexity of the preparations for the listing, Coal India's legal advisers were given less than three months to complete the process. "All government of India transactions tend to be on very, very aggressive timelines," says Stuart Rubin, a Hong Kong-based partner at Ashurst, which teamed up with Amarchand Mangaldas to advise the lead managers.

Citigroup Global Markets India was one of the lead managers on the IPO and was also responsible for coordinating the due diligence of the company's operations. The other lead managers were Deutsche Equities (India), DSP Merrill Lynch, ENAM Securities, Kotak Mahindra Capital and Morgan Stanley.

Digging for data

The senior managers of Coal India were unfamiliar with the IPO process and, as the legal teams soon

discovered, it was impossible to collect the necessary information using an "ask and thou shalt receive" strategy.

"In the beginning it was a huge challenge because they just didn't get the fact that so much information needed to come out of them and in a very organized manner," says Mukherjee.

Another challenge Mukherjee faced was the difference in work ethic between a modern Delhi-based law firm and a 100-year-old state-owned enterprise. "We were working till 1am every day and they'd say 'we have to go home at 5pm'," she recalls with a laugh. However, Mukherjee's job became easier once she had enlisted the support of Asok Kumar Sinha, the director of finance at Coal India.

Sinha understood the challenges and worked tirelessly to get things done. "He was great," Mukherjee enthuses. "He would crack his whip and he would say 'tell me the next 10 things you have to do'."

Sinha mobilized employees across the board. He also made trips to all eight subsidiaries and opened an IPO room in each, where extensive information could be collected and then sent to Coal India's headquarters in Kolkata to be centrally collated.

Sinha is modest about his contribution to the IPO and quick to emphasize that it was a collaborative effort. "We worked very closely with Luthra & Luthra and we got full support from them," he says.

"We had very good relations with Madhurima and her team, and the team was very, very good. We also had Biswajit Chatterjee who was part of DLA Piper's international legal team," Sinha adds. "Everybody worked jointly. We never thought about whether it was a Saturday or Sunday. Even during the holidays we worked from 9.30am up to 1am in the morning."

Balancing act

Slowly but surely the IPO documentation started taking shape. On 9 August, Mukherjee and her team filed a 359-page red herring prospectus with the Securities and Exchange Board of India (SEBI).

But in a company of Coal India's size, information

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Partner
Luthra & Luthra



changes on a daily basis. Updating the prospectus every time there was a new development was a considerable challenge.

Many of the updates related to court cases and government approvals for new mines. "In a company like Coal India, the biggest impediment is their litigation," says Mukherjee.

Indeed, Coal India was hit by a flood of court cases in the run-up to its IPO. Private citizens and fellow businesses alike seized the opportunity to vent grievances that included accusations of corruption, corporate negligence, illegal mining, land encroachment and coal pilferage.

According to some estimates, the company has more than 600 cases pending against its employees and subsidiaries, some of which are being investigated by bodies such as the Central Bureau of Investigation (CBI). On 27 May, for example, MP Dikshit, the former chairman and managing director of SECL, was arrested by the CBI for allegedly accepting a ₹10 million (US\$220,000) bribe.

"One needs to handle these things very sensitively," says Mukherjee, who had to perform a balancing act. "You can't just go out there and write 'our employees don't cooperate with us', 'we have corrupt officials' ... you have to put it delicately. We have a responsibility to write what is true, correct and complete ... But at the same time, when you put it in the document, it becomes sensitive.

"The whole choice legally was between adequate disclosure to make sure that the government, the company and the banks were covered as far as liability goes, but at the same time not to overexpose the company," she says.

Labour unrest

A large part of Coal India's operations are located in West Bengal, which has a history of labour disputes. Employee resistance to the company's IPO was therefore to be expected.

Jiban Roy, a trade union leader affiliated with the

**It's difficult to go to market
when your employees
aren't on board**

Prashant Gupta

Partner

Amarchand Mangaldas



Sharing the spoils

**If the government wants to repeat
the success of the Coal India IPO,
it may need to pay more money
to its legal advisers**

While Coal India's IPO was 15 times oversubscribed and the most lucrative listing in India's history, some of the legal architects of the deal believe that their contribution was seriously undervalued. The discontent stems from the government's policy of making price a key criterion in the selection of legal advisers.

Disinvestments in companies as large and complex as Coal India require extensive legal and financial expertise. Yet, when law firms work for the government or state-owned entities, the fees they charge tend to be substantially lower than those charged to private clients. In the past, law firms have generally been happy to go along with this arrangement, particularly when it has enabled them to work on prestigious, high profile projects. But as the complexity of government work increases, lawyers are finding themselves undertaking ever more demanding and time-consuming assignments without a corresponding increase in their fees.

Now they are calling for change, arguing that the government will no longer be able to count on first-rate legal advice if it isn't willing to pay for it.

"Nobody's asking for anything which is above market price," says Madhurima Mukherjee, a partner at Luthra & Luthra. "We do understand the government has the L1 policy, which is the lowest paying, but if you have that aggressive a policy to do things quickly and you also want to do things well because there are legal and financial implications, then you need to hire the best people in the market."

"We cannot continue to do Coal India-type transactions in the future unless we get adequately compensated," she says.

Communist Party of India (Marxist), voiced his opposition to the disinvestment, telling reporters that "private mining means slaughter of mines and slaughtering of labourers." Another trade union, the Akhil Bharatiya Khan Mazdoor Sangh, called for a strike at all Coal India coalfields.

"Some employees probably felt that by privatizing, their interests were being jeopardized," says Prashant Gupta, a partner at Amarchand Mangaldas. "That was a unique situation because it's difficult to go to market when your employees aren't on board with the company listing ... So we had to deal with disclosure issues, the government had to get involved and we understand that the finance minister had to speak to the unions."

Sinha plays down the difficulties posed by the unions. "They are very friendly with us," he says. "There is a lot of

open communication and they support us in all activities regarding production, dispatch and they also think about the future of the company.

"You see, it is a new thing for Coal India," he continues. "In the coal industry, most of the employees are illiterate. Nobody has any idea about capital markets. It's so technical that the trade unions are not able to understand the implications of this disinvestment."

Sinha went out of his way to educate the company's employees about the IPO and the opportunity for them to buy shares. "I organized some meetings in the field, I talked to the concerned employees and the trade union people and explained that opening of the PAN [permanent account number] account and the demat account is necessary," he says. "If our employees participate in the shares, they will become the owners of the company."

However, with such a large workforce spread over a wide geographical area, it was impossible to connect with everyone. Sinha remains sympathetic to those workers in remote areas who were somewhat disconnected from the IPO process. "How would those residing in remote areas, far from your villages, far from your towns, know what the procedures are for the demat account and opening a PAN?" he asks rhetorically.

Sparks fly

When the marketing of the IPO was well underway, a crisis struck: An error was spotted in the company's financial statements. SEBI was informed and demanded immediate action to correct the mistake.

Mukherjee describes the incorrect disclosure a "clerical error", which she says was easily rectified. "When the printer was converting the audited results of the report to a PDF, two of the columns got switched," she says. "One of the chappies, who obviously had an axe to grind with Coal India, caught on to it and he wrote into SEBI. We could have issued a corrigendum to say it was a clerical error but SEBI wouldn't hear of it."

By the time the error came to light, the offering had opened. "The book was already subscribed – it was overflowing," says Mukherjee.

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Asok Kumar Sinha
Director of Finance
Coal India



When you invest in a company like Coal India, you're investing in the belief that India itself is on the rise

Stephen Peepels
Partner
DLA Piper



To avert the crisis, the red herring prospectus was promptly amended and prospective investors were informed of the error. The offer deadline was also extended by one day.

"I don't think the banks or the company were worried at any stage," says Mukherjee. "It was just more work for the lawyers."

Shrewd pricing

The IPO received an overwhelming response from investors. It was oversubscribed more than 15 times and attracted significant interest from qualified institutional buyers as well as retail and private investors.

Peepels believes investors were consciously buying into the lifeblood of India's economy. "Coal India itself becomes a bit of a proxy for India," says Peepels. "When you invest in a company like Coal India, you're investing in the belief that India itself is on the rise. Investors that participated in the offering, whether large, sophisticated hedge funds, or retail investors, believe that India is a good long-term bet," he says.

The smooth execution of the IPO is another factor that contributed to its success. In this regard, Bhavna Thakur, the director of global investment banking at Citigroup, has been singled out for particular praise. "The execution aspect of the transaction was remarkably well run and I think the credit for that goes in large part to Citi's skill and execution," says Rubin.

Coal India outperformed other state-owned entities such as NTPC and Power Grid that had issued shares earlier in the year. Some analysts say this was because the government was more receptive to banks' and investors' opinions on pricing. "NTPC was probably among the largest of the six or seven government companies that went to market this year," says Gupta. "I think the market wasn't very good when they launched that issue and secondly, I think the pricing may have been a bit aggressive on the government's side on that deal.

"There's no real reason why Coal India should have done better than NTPC, except for pricing." ■