

Policy guidelines for investment of surplus funds

A. Investment/Deployment of Surplus Funds in Appropriate Financial Instruments approved by CIL Board in its 197th meeting held on 20.7.2001

With revision in coal prices with effective from 31.1.2001, NCL and MCL having share of 32% of total coal production with only 7% of total manpower are generating substantial surpluses. These companies have been parking their surplus resources with CIL. Under the corporatization structure adopted by CIL, such surpluses are recognized as interest bearing loans.

2. CIL Board in its 197th meeting held on 20.7.2001 approved the policy in respect of Deployment of surplus fund in appropriate financial assets for short and long duration so as to enable the company generate resources for payment of interest to the PMCs on surplus funds parked with CIL. In absence of any investment policy, CIL has been parking surplus funds by way of short-term deposits since May 2001. Further, in the aforesaid Board Meeting, CIL Board approved the Policy and ratified the interim action, the summary of which is as under:

3. Investment of surplus funds in PSUs are regulated by the guidelines received from the Govt. Notification dt 14.12.94, 1.11.95, 11.3.96, 2.7.96, 14.2.97 and 25.11.99. The various notifications read collectively yield the following set of guidelines for regulating investment of surplus funds by PSUs:

- a) The mode and manner of identifying surplus funds and duration thereof should be decided in consultation with the administrative Ministry.
- b) According to para 3 of OM dt 14.12.94, it has also been stated that decisions for investment of surplus funds shall have to be taken by the Board except that decisions for investing short term surplus funds upto 1 year maturity may be delegated to the designated group of Directors which should invariably include CMD and D(F). Wherever such delegation is made, the order should spell out the levels of approval and the powers of each official. In all such cases where delegation is being exercised a appropriate system should be made functional to ensure automatic internal reporting to the Board at its next meeting in all cases.
- c) The instruments may be selected from the following ranges as detailed below:

Sl No	Nature of Investments
1.	Fixed Deposit with any scheduled bank(banks incorporated in India) with a networth of atleast Rs.100 crores and fulfilling the capital adequacy norm as prescribed by the RBI from time to time. These adequacy norms should be reflected in the last published balance sheet
2.	Treasury bills and GOI securities upto three years maturity period – settlement of G-secs is through delivery versus payment system mechanism through the SGL accounts maintained by authorized dealers with RBI.
3.	Debt instruments namely ICDs etc. rated by established credit rating agencies having investment grade rating and issued by the scheduled commercial banks/term lending institutions including their subsidiaries as well as commercial paper of corporates
4.	Bond funds and money market funds of Unit Trust of India

4. Keeping the aforesaid position in view the following system has been adopted for investment of surplus funds:

i) The amount of funds surplus to requirement and tenor thereof shall be estimated after taking into account liquidation of fund based facilities repayable at the relevant point in time. This shall exclude the tenure linked loans e.g. FCNR, Short term loan etc. However, the balance tenure of all outstanding loans not repayable should be taken into cognizance for estimating the period for which the funds would remain surplus.

i) The surplus funds should be invested in a well- diversified portfolio of permissible securities. In order to achieve this objective the options indicated in the above table should be explored to arrive at the appropriate investment decision. Immediately after identification of the investible surplus funds and tenor thereof, the following broad procedure is proposed for arriving at the investment decision.

a) Obtaining competitive offers from eligible scheduled commercial banks within the consortium for short-term deposits(FDs and/or rated debt instruments programs(ICDs). While taking decisions for investment, the credit rating of such institution shall have to be taken into account.

b) Obtain similar offers from financial institutions and/or their subsidiaries with rated debt programs(ICDs).

ii) Compare the best rate obtained from the above process with current yields for maturities equivalent to the identified tenor in the various schemes of UTI such as UTI bond fund and UTI money market funds.

iii) Based on the above exercise an investment decision should be taken with the proviso that investment of surplus funds in any one category should, on the average over a period of time, not exceed 50% of the total amount of investment. Even within a particular category, the investment with any single agency should not exceed 50% unless justified by considerations of higher returns or superior flexibility for withdrawal before maturity. These provisions are proposed to achieve a well-diversified portfolio.

On completion of processes as above the recommendations for investment of surplus funds specifying the amounts, tenor and the agency with which the funds should be placed and the rationale thereof shall be presented by the committee duly constituted for this purpose. Recommendation shall be put up for approval of the committee of Directors to be nominated by the Board except for proposals involving tenor of more than one year in which approval of Board shall be sought.

5. Pending approval of the Board for implementation of the above, the following actions have been taken to prevent idling of surplus funds in the current account of the consortium banks:

(a) Interest rate for short-term deposits for 15 days and 31 days have been considered for placing credit balances of current/cash credit account in deposits in excess of a predetermined threshold amount. The bank allows interest on such deposits commensurate to the period of holding. In the event company needs to draw funds in excess of the threshold balance, one or more of the deposits are encashed before maturity. The deposits which are to encashed prematurely are chosen by calculating the “least loss of return” so as to ensure the minimum loss of interest

(b) The deposits that are placed with banks have been arrived at as the proportion which the fund based facility of the banks bears to the aggregate fund based facility of all banks and henceforth, this shall be called as Normal Due Share (NDS). This shall hold provided the range of variation in the interest rate offered is within 25 bps of the median rate. In the event that the banks offering interest rate lower than 25 bps of median rate, banks shall hold deposits not more than 50% of the respective NDS. Banks offering the interest rate higher than the median offer by 25 bps or more shall be allowed to hold deposits equivalent to a maximum of 200% of the respective

NDS. In short, the banks accepting the arrangement shall be grouped in three categories based on their offered interest rate, namely those eligible for NDS (Interest rate at or around the median offer), 50% of NDS (interest rate lower than the median offer by 25 bps or more), 200% of NDS(interest rate higher than the median offer by 25 bps or more). Further, in order to ensure the better return on deposits, it has been decided that the banks offering interest rate lower by 50 bps than median rate has not been considered for placing deposits.

© In compliance with Govt. guidelines it has been ensured that the banks in receipt of such deposits have, as per their latest Balance Sheet, a net worth in excess of Rs.100 crores and are in fulfillment of the current capital adequacy norms stipulated by RBI.

(d) Furthermore, an incentive system has been built in for the banks offering encashment without any penal charges. At the same time, a disincentive system may be built in for the banks asking penal charges higher than the normal. One or two banks have indicated that premature encashment shall not be allowed by them and such banks were not considered for placing the deposit.

(e) The deployment of funds as short term deposits in scheduled banks is an eligible instruments. Para 4 of OM dated 14.12.1994, require, interalia, that decisions for investing short term surplus funds upto 1 year maturity may be taken by a designated group of Directors that should include Chairman and Director (F). Placing surplus funds in CIL is a day-to-day operation and that cannot be carried out in the manner suggested in the guideline. However, keeping the spirit of the guideline and in order to ensure complete transparency, a committee of three members has been formed comprising of CGM (F) – who shall chair the proceedings, CFM (B) and CFM (WBP) alternate CFM(D).

B. Investment/Deployment of Surplus Funds in Appropriate Financial Instruments approved by CIL Board in its 214th meeting held on 12.2.2004

CIL Board in its 214th meeting held on 12.2.2004 approved the deployment of surplus funds with SBI in FDs/ICDs on the date of receipt of the remittance for bunching of the corpus for not more than 7-10 days.

C. Investment/Deployment of Surplus Funds in Appropriate Financial Instruments approved by CIL Board in its 226th meeting held on 7.6.2006

The Board after detailed deliberation approved the proposals in respect of investment of surplus fund as follows:

- a) Placement of deposits with the eligible banks of the consortium who shall quote median rate and above.
- b) Placement of fund in other eligible banks of the consortium besides SBI on the date of the receipt for a tenure of 7 to 10 days and thereafter for placement of the fund with the consortium banks as per approved investment policy of CIL Board.
- c) Investment of Rehabilitation fund with the eligible consortium banks fulfilling DPE norms offering highest interest rate.

Subsequently, CIL Board in its 235th meeting approved the Uniform deposit Policy applicable for CIL and its all Subsidiary Companies which has already been placed in the CIL Web Site.