Inclusion of royalty, District Mineral Foundation (DMF) and National Mineral Exploration Trust (NMET) in "sale value" under the Explanations to Rule 38 of the 2016 Rules and Rule 45(8)(a) of the Mineral Conservation and Development Rules, 2017, is a valid measure for computation of average sale price and does not alter the legal nature of royalty under Section 9 of the Mines and Minerals (Development and Regulation) Act, 1957 MMDR Act

The **Supreme Court** in the case of **Kirloskar Ferrous Industries vs Union of India [Writ Petition (C) No. 733 of 2025] dated July 13, 2026**, has held that inclusion of royalty, District Mineral Foundation (DMF) and National Mineral Exploration Trust (NMET) in "sale value" under the Explanations to Rule 38 of the 2016 Rules and Rule 45(8)(a) of the Mineral Conservation and Development Rules, 2017, is a valid measure for computation of average sale price and does not alter the legal nature of royalty under Section 9 of the Mines and Minerals (Development and Regulation) Act, 1957 MMDR Act.

The Court held that the rule-making authority is entitled to adopt such a computational mechanism as a regulatory measure to check evasion and price manipulation, provided the measure has a reasonable nexus with the levy. On that basis, the impugned Explanations were held not violative of Articles 14 or 19(1)(g), and not ultra vires Section 9 of the MMDR Act.

The Court reiterated that royalty is not a tax but a contractual consideration paid by the mining lessee to the lessor for enjoyment of mineral rights. Even so, since the levy is structured through statute and rules, principles relevant to fiscal legislation and computation of levies become applicable when examining the validity of the impugned Explanations. A key part of the judgment was the Court's distinction between the nature of a levy and the measure of a levy. The Court held that the real controversy was not about the existence of royalty, but about the base figure used for calculating it. Relying on settled precedent, the Court observed that the legislature or delegated rule-making authority has broad freedom to prescribe the method and measure for quantification of a levy, so long as the method has a reasonable nexus with the levy and is not capricious, fanciful or clearly unjust.

The Court accepted the Union's justification that the impugned measure was designed as an antidote to evasion. It referred to prior tax cases where deeming fictions and presumptive methods had been upheld to prevent manipulation, concealment or avoidance. The Court said that the Union had placed sufficient material showing how ASP could be artificially depressed by miners through strategic reporting of ex-mine prices and despatch quantities, and that the non-deduction of royalty, DMF and NMET from sale value was a measure adopted to suppress that mischief and arrive at a fairer value of the mineral.

The Court found that this measure had a rational connection with the levy and could not be treated as manifestly arbitrary. It held that there was nothing capricious or irrational in retaining royalty, DMF and NMET within sale value for computation of ASP, and that the petitioners had failed to establish that the Explanations were unconstitutional or beyond the MMDR Act. On the Article 14 challenge, the Court rejected the comparison with coal. It held that coal and iron ore operate under different pricing mechanisms, and that there is no concept of ASP for coal based on miners' own data in the same way as for iron ore. Therefore, differential treatment between coal and iron ore in royalty computation could not be termed unconstitutional discrimination.

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