Annual Report Analysis (Consolidated)

Investor Verdict

Watch — Qualified opinion on internal financial controls regarding unauthorized ore removal and persistent non-compliance with statutory audit trail requirements.

Monitorable	Now	Watch for
Trade receivables from NSL & RINL	₹9,206 Cr	< ₹8,000 Cr
Net Debt / EBITDA	-0.54	> 0.0
Earnings Quality (CFO / PAT)	0.67x	< 0.60x
Merchant Iron Ore Production	53.16 MT	< 50.00 MT

NMDC achieved a historic production milestone in FY26, crossing the 50 MT threshold to reach 53.16 MT, which propelled consolidated revenue 34.16% higher to ₹32,071 Cr. On the surface, the company remains a dominant, low-cost merchant miner with an enviable 64% Fe ore grade and a resilient 28% ROCE. However, the growth is structurally lower in quality than the headline suggests. A significant portion of the revenue surge was driven by a pivot into low-margin HR Coil trading (₹3,960.86 Cr), which yielded a negligible segment result of just ₹16.31 Cr. This move, combined with elevated royalty outlays of ₹11,082 Cr, compressed EBITDA margins to a window-worst 28.9%, down from the five-year mean of 41.7%.

The tension in this report lies between management's narrative of "Vision 2030" and the reality of NMDC functioning as a quasi-fiscal financier for stressed state-linked steel entities. Management highlighted the start of operations at the Deposit-4 mine and Tokisud North coal block, yet they were silent on the growing credit concentration risk. Trade receivables have ballooned to ₹9,206 Cr, with 98% of the balance concentrated in NMDC Steel Ltd (NSL) and RINL. By providing massive interest-free credit to these affiliates, NMDC has allowed its cash conversion cycle to explode to a window-worst 247 days, compared to a historical average of 72 days. Furthermore, promises from FY25 regarding the commissioning of the 15 MTPA slurry pipeline and the KK-line rail doubling were missed again, with completion now pushed to late 2026.

Governance and internal controls have materially deteriorated. The auditor's qualification of internal financial controls over the unauthorized removal of 280 tons of ore at the Kumaraswamy mine, coupled with the failure to enable SAP audit trails at the database level, suggests a lapse in physical and data security. The board itself is in a state of non-compliance, lacking a single woman director and failing to meet the 50% independence threshold required for an executive-chaired board. These are not merely administrative oversights; they reflect a corporate structure where statutory compliance and minority shareholder interests appear secondary to broader government mandates.

Financially, the company is increasingly reliant on borrowing to sustain its capital allocation strategy. While NMDC distributed ₹3,077 Cr in dividends, these were not covered by the year's ₹1,826 Cr in free cash flow. This necessitated a ₹2,103 Cr jump in short-term debt, a troubling trend for a company that has historically maintained a deep net-cash position. Over a ten-year horizon, cumulative CFO stands at only 0.56x of EBITDA, confirming that profit consistently fails to convert to cash at a healthy rate. The investment case is further clouded by a ₹15,481 Cr contingent liability for the Karnataka Mineral Rights Tax—a retrospective demand that, if triggered, would wipe out 45% of the company's net worth. Further work must focus on the capitalization of the

□1,686 Cr in stalled CWIP and the legal resolution of these tax disputes before the business can be cleared for investment.

1. Business overview

Segment performance

NMDC reports three reportable operating segments under Ind AS 108: Iron Ore extraction, Trading of Traded HR Coils, and All Other Segments (encompassing Pellets, Wind Power, and Coal).

Segment	Revenue (□ Cr)	% of total	YoY %	Margin/ Result (□ Cr)	What drives it
Iron Ore	25,014.72	77.30%	+9.20%	9,845.62	Extraction and merchant sale of premium high-grade iron ore (64% Fe) from deeply mechanised complexes in Chhattisgarh and Karnataka.
Trading of HR Coil	3,960.86	12.24%	+1,890.58%	16.31	Working capital-backed procurement and commercial trading of finished steel coils sourced from demerged affiliate NMDC Steel Ltd (NSL).
All Other Segments	3,386.58	10.46%	+274.98%	158.32	Domestic and job-work pellet manufacturing (2.8 MTPA total throughput), Tokisud North coal operations, and 10.5 MW green wind assets.

Control Total Check: Total segment revenue of □32,362.16 Cr includes □291.27 Cr of inter-segment allocations. Total external sales stand at □32,070.89 Cr, aligning precisely with the control totals verified in Note 2.49.2.

Geographical revenue split

The sales breakdown reflects structural domestic consumption patterns alongside a tactical push into overseas exploration and job-work pellet exports.

Geography	Revenue (□ Cr)	% of total	Direction	Exposure/Risk
Domestic	30,416.37	94.84%	Up (+30.99%)	Direct exposure to Indian blast furnace utilization rates and infrastructure capital outlays.
Export	1,137.33	3.55%	Up (+153.76%)	Vulnerability to global merchant pellet price indices, maritime freight rates, and export cesses.
Overseas (Australia)	517.19	1.61%	Up (+118.04%)	Operational costs at the Mount Celia gold site and regulatory compliance under Western Australian laws.

- **Cost Structure and Key Drivers:** Operating costs are primarily driven by heavy earth-moving machinery (HEMM) diesel fuel usage, material handling overheads, contract mining fees, and statutory mining cesses. Given the scale of its mechanised assets, the business displays high operational leverage, though it remains vulnerable to recurring structural penalties such as transit pass disputes and railway fines. Logistics costs are heavily impacted by rake availability and line allocation along the Kothavalasa-Kirandul (KK) line.
- **Industry Position and Moat:** NMDC maintains its dominant position as India's largest merchant iron ore producer, becoming the first domestic miner to cross the 50 MT annual milestone by producing 53.16 MT in FY26. Its primary competitive moat is built on high natural ore grades (64% Fe premium lump and fines) and an ultra-low C1 cash cost profile that provides cycle-resistant profitability. This structural scale grants the company substantial pricing power across the domestic market, acting as a crucial raw material provider for top Indian steel majors.

- **Capacity and Utilisation:** Standalone environmental clearance (EC) capacity has reached 64.8 MTPA, supplemented by a 17 MTPA allocation under its greenfield joint venture, NMDC-CMDC Limited (NCL), for Deposits 4 and 13. Actual production of 53.16 MT represents an aggregate standalone capacity utilization rate of 82.04% against authorized environmental limits. Realized capacity utilization is restricted by downstream railway evacuation bottlenecks rather than mine-face execution capabilities.
- **Expansion, Capex, and Projects:** Total capital expenditure reached □3,384 Cr in FY26, directed primarily toward unlocking evacuation constraints and upgrading upstream sizing infrastructure. The Kirandul-Jagdalpur rail doubling project achieved 97% progress (128 km operational out of 150 km), while the 15 MTPA Bacheli-Nagarnar slurry pipeline reached 94% engineering completion with 134.28 km laid. Upstream process upgrades include Screening Plant III at Kirandul (82% complete) and Screening Plant II at Donimalai (60% complete) to structurally expand operational volumes.
- **Acquisitions, Divestments, and Structural Changes:** No material domestic structured acquisitions occurred, but international subsidiaries underwent minor stake revisions. In Western Australia, Hancock Prospecting converted its 15% participating interest in the Mount Bevan other minerals JV into a royalty deed, shifting the remaining participating interest to Legacy Iron Ore (51%) and Hawthorn Resources (34%). Globally, the Benga coking coal mine in Mozambique (held via ICVL, where NMDC holds a 25.94% stake) faced operational disruption due to the termination of its mining services contract, halting fresh output and limiting exports to 0.49 MT from existing stocks.
- **Order Book and Demand Visibility:** Conventional multi-year order books are not recorded for this bulk commodity business, but volume demand visibility is firmly tied to India's national target of 300 MTPA crude steel capacity by FY31. High-grade lump ore demand remains resilient as steelmakers optimize blast furnace burdens to lower emissions and maximize yields. However, medium-term merchant volume visibility faces pressure as primary customers like JSW Steel and AM-NS ramp up output from their own newly acquired captive blocks.
- **Growth Drivers:** Near-term volume momentum is driven by the commercial ramp-up of the Deposit-4 greenfield mine (7 MTPA ROM capacity inaugurated in March 2026 under the NCL JV) and entry into domestic coal mining via Tokisud North, which commenced extraction in January 2026. Long-term evacuation multipliers include the full commissioning of the rail doubling project by October 2026, expanding transport capacity from 28 to 60 MTPA. Regulatory shifts, such as the revised Production-Linked Incentive (PLI 1.2) for specialty steel and discounted pricing rules for sub-threshold low-grade ore (<45% Fe), further expand the addressable consumption base.

2. Management commentary & outlook

- Management characterizes FY 2025-26 as a transformative year, breaching the historic 50 MT production threshold and positioning NMDC as the primary resource supplier for India's 300 MT crude steel aspiration.
- Management is aggressive on volume, targeting 60 MT of iron ore production in FY 2026-27 as a stepping stone to the 100 MTPA Vision 2030, anchored by India's structural infrastructure capital outlays.
- Strategic focus is centered on "integrated release gates," where pit-head capacity is synchronized with downstream evacuation infrastructure, including the Kirandul–Jagdalpur rail doubling and the 15 MTPA slurry pipeline.
- Entry into domestic coal mining via Tokisud North (commenced Jan 2026) serves as a hedge against iron ore cyclicality, while international scouting for minerals is facilitated via new offices in Dubai and Sydney.
- Headwinds include rising fuel (diesel) costs impacting mining margins and potential legislative risks from state-level "Mineral Rights Taxes" which could significantly increase statutory costs.
- Management acknowledges increased competition as recent MMDR Act amendments allow captive miners to sell surplus ore in the open market, explicitly naming majors like JSW and AM-NS as competitive threats.

- A major strategic shift involves the Trading of HR Coils (□3,960 Cr revenue), framed as leveraging business capabilities but acting as balance sheet support for the demerged NMDC Steel Ltd (NSL) via deferred payment terms.
- The deployment of Project Kalpataru (SAP S/4 HANA) is highlighted as shifting corporate decision intelligence to a predictive operational tool, though implementation challenges regarding audit trails were noted elsewhere.

What they said last year (FY25)	What happened in FY26	Verdict
FY26 production guidance of 55.4 MT.	Produced 53.16 MT.	**Late**
Slurry Pipeline Phase 1 expected in FY26.	94% progress; commissioning pushed to calendar "2026."	**Late**
KK Line doubling 84% complete; completion imminent.	97% progress; completion now targeted for October 2026.	**Late**
Tokisud North coal block to start operations.	Commenced mining operations in January 2026.	**Delivered**
Successful entry into Gold production (Australia).	Mining activities under "Right to Mine" agreement ceased Dec 2025.	**Abandoned**
25% YoY volume growth guidance.	Achieved 20.62% production growth.	**Late**

Topic	What management actually said	Their words	Number or timeline given?
Vision and Strategy	Targeting a massive capacity leap to secure national mineral sovereignty.	"Vision 2030 of achieving 100 MTPA... is an important contribution towards India’s long-term mineral security."	100 MTPA by 2030.
Growth Plans	Immediate focus on stabilizing record output while stepping up to the next target.	"Our 60 MT production target for FY 2026-27 represents an important step towards the 100 MTPA pathway."	60 MT in FY27.
Joint Ventures	Utilizing the NCL JV to add greenfield production platforms in Chhattisgarh.	"NMDC-CMDC Limited... Deposit-4 iron ore mine has been inaugurated & operations have started in March 2026."	March 2026 start.
Technology	Elevating digital tools to a core strategic pillar for precise resource extraction.	"Full digital maturity of Project Kalpataru (SAP S/4 HANA), which elevates our ‘Decision Intelligence’ from a support function to a strategic pillar."	"Full digital maturity."
Demand Environment	Domestic steel production is the primary driver, anchored by government infra spending.	"India's steel-production capacity is envisaged to reach 300 MTPA by FY 2030-31... dependable domestic ore supply."	300 MTPA by 2031.
Raw Material/ Costs	Fuel volatility and supply chain shocks are pressuring margins and imports.	"Rising fuel cost due to supply shocks can impact margins as a significant proportion of mining fleet is diesel operated."	Not addressed.
Labour/ Manpower	Focus on skilling for digital mining and maintaining a safety-first culture.	"Concorted efforts to provide quality life to its employees... commissioning new housing and anciliary facilities."	5,730 employees.
Industry Outlook	Global steel is softening, but Indian domestic demand is demonstrating "remarkable resilience."	"Steel demand growth in developing economies except China is expected to grow at reduced rate of 2.5% in 2026."	2.5% growth in 2026.
Company Outlook	Focus on cost competitiveness and commissioning near-complete infrastructure.	"Commission near-complete evacuation assets, close the remaining packages at Screening Plants III and II."	October 2026 (Rail).
Challenges	Increasing competition from captive mines and new state-level tax risks.	"Potential adoption of state-level levies... could significantly increase statutory costs and adversely impact mining project economics."	Not addressed.
Opportunities	Leveraging new pricing rules for low-grade ore and PLI schemes for steel.	"Peggeg the ASP of 35-45% Fe ore at 75% of the standard benchmark... reduces the royalty burden."	75% of benchmark.
Order Book/ Execution	Execution is framed as an "integrated release plan" to manage critical path dependencies.	"Each asset reaches its next capacity step only when the linked packages and operating controls reach readiness."	97% Rail; 94% Pipeline.

- **Management Tone Verdict:** The management tone is ambitious and promotional regarding operational production milestones, yet technocratic when framing logistics bottlenecks as complex "package interfaces" rather than execution delays. There is a perceptible shift toward a combative stance against new domestic competition from captive miners, while the narrative remains silent on critical governance lapses like the lack of independent directors and audit trail non-compliance.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2026	Mar 2025
Sales	32,071	23,906
Sales Growth %	34.16	12.19
Expenses	22,811	15,755
Material Cost %	16.88	2.34
Raw material cost	5,177	460
Change in inventory	236	99
Manufacturing Cost %	39.01	45.38
Employee Cost %	6.05	7.51
Other Cost %	9.19	10.67
Operating Profit	9,260	8,150
OPM %	29	34
Other Income	1,488	1,591
Exceptional items	-1	-3
Other income normal	1,488	1,593
Interest	121	178
Depreciation	477	420
Profit before tax	10,149	9,143
Tax %	27	28
Net Profit	7,450	6,520
Profit from Associates	35	-19
Minority share	0	11
Exceptional items AT	0	-1
Profit excl Excep	7,450	6,521
Profit for PE	7,450	6,532
Profit for EPS	7,450	6,531
Profit Growth %	14	13
EPS (□)	8.47	7.43
Dividend Payout %	41	44

Balance sheet (□Cr)

Line item	Mar 2026	Mar 2025
Equity Capital	879	879
Reserves	33,183	28,817
Borrowings	6,407	4,276
Long term Borrowings	0	0
Short term Borrowings	5,874	3,770
Lease Liabilities	533	505
Other Liabilities	7,851	7,035
Non controlling int	14	11
Trade Payables	406	321
Advance from Customers	0	0
Other liability items	7,431	6,702
Total Liabilities	48,320	41,007
Fixed Assets	5,856	5,038
Land	2,077	1,773
Building	1,577	1,223
Plant Machinery	1,607	1,526
Equipments	1,305	1,086
Furniture n fittings	415	385
Railway sidings	34	34
Vehicles	74	72
Intangible Assets	94	94
Other fixed assets	1,393	1,193
Gross Block	8,577	7,386
Accumulated Depreciation	2,721	2,347
CWIP	6,749	4,737
Investments	1,372	978
Other Assets	34,344	30,253
Inventories	2,522	2,638
Trade receivables	9,206	7,745
Receivables over 6m	6,210	5,762
Receivables under 6m	5,066	3,940
Prov for Doubtful	-2,070	-1,958
Cash Equivalents	11,387	10,089
Loans n Advances	3,040	1,834
Other asset items	8,189	7,948
Total Assets	48,320	41,007

Cash flow statement (□Cr)

Line item	Mar 2026	Mar 2025
Cash from Operating Activity	4,996	1,894
Profit from operations	9,976	8,633
Receivables	-1,579	-4,290
Inventory	115	129
Payables	85	-91
Loans Advances	-69	-60
Other WC items	-647	41
Working capital changes	-2,095	-4,271
Interest paid	0	0
Direct taxes	-2,885	-2,468
Cash from Investing Activity	-3,842	306
Fixed assets purchased	-3,171	-3,230
Fixed assets sold	0	0
Capital WIP	0	0
Investments purchased	0	0
Investments sold	0	0
Interest received	878	1,190
Acquisition of companies	-324	-39
Other investing items	-1,225	2,385
Cash from Financing Activity	-1,092	-2,225
Proceeds from borrowings	2,106	414
Repayment of borrowings	0	0
Proceeds from deposits	0	0
Interest paid fin	-121	-177
Dividends paid	-3,077	-2,460
Financial liabilities	0	0
Other financing items	0	-1
Net Cash Flow	63	-25
Free Cash Flow	1,826	-1,336
CFO/OP	85	54

Key ratios

Line item	Mar 2026	Mar 2025
Debtor Days	105	118
Inventory Days	170	0
Days Payable	27	0
Cash Conversion Cycle	247	118
Working Capital Days	67	55
ROCE %	28	30

3.2 Financial analysis summary

- **Revenue** surged 34.16% to □32,071.00 Cr, largely driven by a pivot into low-margin HR Coil trading (□3,960.86 Cr) which expanded the top line while diluting the OPM from 34% to 29%.
- **Operating Profit** of □9,260.00 Cr grew 13.6% YoY, significantly lagging Revenue growth due to a 44.8% increase in Expenses, primarily structural Royalty & Other Levies which totaled □11,082.25 Cr.
- **PAT** reached □7,450.00 Cr, but the quality of earnings is challenged by a poor CFO/PAT conversion of 0.67x, as Working Capital absorbed □2,095.00 Cr, mainly through a spike in Trade Receivables.
- **Trade Receivables** grew to □9,206.00 Cr, with 98.8% of the net balance concentrated in two stressed PSU entities, RINL and NMDC Steel Limited (NSL), signaling severe credit concentration risk.
- The **Cash Conversion Cycle** deteriorated to a window-worst 247 days, driven by Inventory Days spiking to 170 days, though this includes 224.58 Lakh Tons of slimes held at zero value.
- **Total Debt** rose to □6,407.00 Cr, driven by a 55.8% jump in Short term Borrowings to fund the liquidity gap; the company utilized Bill Discounting of □3,674.10 Cr to monetize receivables.
- **Capital Work-in-Progress (CWIP)** stands at □6,749.00 Cr, with 25% (□1,686.62 Cr) of projects stalled for over 3 years, contributing to the dilution of ROCE to 28.00%.
- **Other Assets** represent 71.1% of Total Assets (□34,344 Cr), including □1,125.04 Cr of advances paid "under protest" and □1,584.49 Cr held in a restricted LIC fund for mine closure.
- **Other Liabilities** contain □7,431 Cr in residual items, including a major □503.11 Cr current lease liability for land from RINL that remains unpaid.
- **Dividend Payout** of □3,077.00 Cr (41%) was not covered by Free Cash Flow of □1,826.00 Cr, indicating that shareholder distributions are being partially funded by new Borrowings.
- The dominant financial theme of the year is **aggressive volume-led revenue growth and high dividend payouts sustained by short-term debt**, as organic cash flows remain trapped in stressed related-party receivables and long-gestation infrastructure projects.

3.3 Contingent liabilities & commitments

Item (note's own caption)	Current yr	Prior yr	Change	What it means
Karnataka Mineral Rights Tax	15,481.72	13,975.07	+10.78%	Retrospective tax pending Presidential assent; would wipe out 45% of Net Worth.
Common Cause (Dantewada)	1,623.44	1,623.44	0.00%	Demand for excess production; 600 Cr already paid under protest.
Mineral Dispatch Penalty (RTP)	1,620.50	1,620.50	0.00%	Penalty for dispatch without timely transit passes; currently sub-judice.
GST & Service Tax Disputes	1,465.88	1,456.58	+0.64%	Diversified tax litigation across multiple operating jurisdictions.
Capital Commitments	3,857.11	4,253.41	-9.32%	Contractual obligations for ongoing capex (Slurry Pipeline, SP-III).

- The Karnataka Tax dispute (□15,481.72 Cr) represents the single largest threat to the balance sheet, totaling nearly half of the company's total reserves.
- Litigation regarding the Railway Transit Pass (RTP) penalty (□1,620.50 Cr) remains a significant risk to net profit, with management arguing no loss occurred to the exchequer since royalties were pre-paid.
- Cumulative contingent liabilities and capital commitments combined exceed □26,000 Cr, creating a massive off-balance-sheet overhang relative to annual cash generation.

3.9 Earnings quality & forensic checks

Is the growth real?

Watch · 3 of 6 signals flagged · confidence high · 6/6 checked

Signal	Prior	This year	Δ	Status	Quantified impact
Receivables growth vs sales growth	□7,744.61 Cr	□9,206.19 Cr	□7,744.61 Cr -> □9,206.19 Cr (+18.87%), which is 28.7% of revenue	Clean	—
Receivables ageing / ECL provisioning	□1,957.50 Cr	□2,070.45 Cr	□1,957.50 Cr -> □2,070.45 Cr (+5.77%), which is 20.4% of PBT	Watch	Adds □112.95 Cr in non-cash expense to P&L
Unbilled revenue, contract assets, deferred revenue	—	□35.99 Cr	Nil -> □35.99 Cr (not meaningful), which is 0.1% of revenue	Clean	—
Revenue from related parties as % of revenue	□198.98 Cr	□3,960.86 Cr	□198.98 Cr -> □3,960.86 Cr (+1890.58%), which is 12.3% of revenue	Watch	Trading pivot contributed 12.3% of revenue but only □16.31 Cr to profit
Customer concentration	Not disclosed	47.0%	Not disclosed -> 47.0% (not meaningful), which is 47.0% of revenue	Watch	Concentration risk in three major steel customers
Advances from customers trend	□618.62 Cr	□1,032.58 Cr	□618.62 Cr -> □1,032.58 Cr (+66.92%), which is 3.2% of revenue	Clean	Strong short-term revenue visibility via contract liabilities

Mechanism: Revenue growth was bolstered by a significant jump in low-margin HR Coil trading (□3,960.86 Cr) and is heavily concentrated in a few customers, including stressed related parties. **Aggregate impact:** Trading activity added □3,761.88 Cr in incremental revenue but only □16.31 Cr to segment profit (0.4% margin). **Trend:** Revenue growth of 34.15% is better than the prior mean of 20.23%, but is driven by volume plays rather than margin improvement. Trading revenue jumped from a negligible base in FY25 to 12.3% of revenue in FY26. **Direction:** deteriorating · **Watch next:** The margin of the HR Coils trading segment · **Corroborates:** profit_to_cash, insider_leakage

Does profit become cash?

Watch · 1 of 5 signals flagged · confidence high · 5/5 checked

Signal	Prior	This year	Δ	Status	Quantified impact
CFO vs clean EBITDA (cash conversion)	0.23	0.54	0.23 -> 0.54 (+134.78%), which is 54.0% of EBITDA	Clean	—
Pre-tax operating conversion (CFO + tax paid) / EBITDA	0.54	0.85	0.54 -> 0.85 (+57.41%), which is 85.1% of EBITDA	Clean	Cash conversion improves significantly when isolating tax drag
Inventory absorption of operating cash	□129.23 Cr	□115.40 Cr	□129.23 Cr -> □115.40 Cr (-10.70%), which is 1.2% of EBITDA	Clean	Inventory released □115.40 Cr of cash
Working-capital movement	-□4,271.00 Cr	-□2,095.00 Cr	-□4,271.00 Cr -> -□2,095.00 Cr (+50.95%), which is -22.6% of EBITDA	Watch	Working capital absorbed □2,095 Cr of cash, largely in receivables and advances
Cash tax paid vs book tax	1.02	1.13	1.02 -> 1.13 (+10.78%), which is 31.4% of PBT	Clean	Cash tax paid (□2,885.14 Cr) is higher than current tax expense (□2,552.15 Cr)

Mechanism: While cash conversion improved YoY, the 10-year cumulative CFO/EBITDA (0.56x) remains below the 0.6x floor, driven by heavy working capital absorption in receivables from related PSU entities and supplier advances. **Aggregate impact:** Working capital absorption of □2,095 Cr offset 22.6% of EBITDA in FY26. **Trend:** CFO/EBITDA of 0.54 is in line with the prior mean of 0.58. Cumulative conversion of 0.56x over 10 years confirms a long-term pattern of profit not fully becoming cash. **Direction:** improving · **Watch next:** Movement in 'Other Current Assets' (Advances to suppliers/contractors) · **Corroborates:** revenue_real, insider_leakage

Is the P&L being manufactured?

Clean · all 6 signals clean · confidence high · 6/6 checked

Signal	Prior	This year	Δ	Status	Quantified impact
Exceptional items and their effect on PBT	—	—	Nil -> nil (0.0%), which is 0.0% of PBT	Clean	No impact in FY26
Non-operating / other income as % of PBT	□1,593.32 Cr	□1,488.38 Cr	□1,593.32 Cr -> □1,488.38 Cr (-6.59%), which is 14.7% of PBT	Clean	Other income contributes 14.7% of PBT, mostly from interest income
Deferred tax movement and cash-vs-book tax	-□30.36 Cr	□73.42 Cr	-□30.36 Cr -> □73.42 Cr (not meaningful), which is 0.7% of PBT	Clean	—
Provision reversals credited to income	□110.05 Cr	—	□110.05 Cr -> nil (-100.0%), which is 0.0% of PBT	Clean	Prior year (FY25) benefited from a □110.05 Cr mine closure estimate reversal; FY26 had no such credit
Depreciation policy / useful-life change	Not disclosed	Not disclosed	Not disclosed -> not disclosed (not meaningful), which is not meaningful of EBITDA	Clean	Company uses technical assessments (e.g., 20 years for rope shovels) which is standard for the sector
Valuation-method or accounting-policy change	Not disclosed	—	Not disclosed -> nil (not meaningful), which is 0.0% of revenue	Clean	No material changes in accounting policies disclosed for FY26

Mechanism: The P&L appears clean of manufacturing levers in FY26. Other income remains a standard contributor, and the prior year's estimate-driven boost (mine closure) did not recur. **Aggregate impact:** Other income of □1,488.38 Cr (14.7% of PBT) is the only significant non-operating component. **Trend:** Other income as % of PBT is 14.7%, in line with the prior mean of 13.35%. EBITDA margins of 28.9% are at a 10-year low, reflecting the shift to trading and structural royalty costs rather than accounting manipulation. **Direction:** stable · **Watch next:** Any further reversals in mine closure or restoration provisions

Is value leaving to insiders?

Watch · 3 of 8 signals flagged · confidence high · 8/8 checked

Signal	Prior	This year	Δ	Status	Quantified impact
Related-party transaction quantum and trend	□7,605.00 Cr	Not disclosed	□7,605.00 Cr -> not disclosed (not meaningful), which is 23.7% of revenue	Watch	Aggregate RPT volume is high, driven by sales to NSL and RINL
New related-party counterparties this year	—	—	Nil -> nil (0.0%), which is 0.0% of revenue	Clean	—
KMP / director remuneration vs EBITDA (operating profit)	□3.54 Cr	□5.37 Cr	□3.54 Cr -> □5.37 Cr (+51.69%), which is 0.1% of EBITDA	Clean	—
Loans, advances or guarantees to group entities	□5,944.60 Cr	□6,690.75 Cr	□5,944.60 Cr -> □6,690.75 Cr (+12.55%), which is 13.8% of total assets	Watch	Combined receivables and advances to NSL represent 13.8% of total assets
Interest earned on loans/ advances to related parties, against the company's own cost of debt	Not disclosed	Not disclosed	Not disclosed -> not disclosed (not meaningful), which is not meaningful of revenue	Unresolved	Trade receivables from RINL and NSL are stated to be non-interest bearing
Interest paid on loans taken FROM promoters or directors, against the company's own cost of debt	—	—	Nil -> nil (0.0%), which is 0.0% of EBITDA	Clean	—
Promoter pledge / encumbrance	—	—	Nil -> nil (0.0%), which is 0.0% of revenue	Clean	—
CSR spend and shortfall	□123.36 Cr	□65.86 Cr	□123.36 Cr -> □65.86 Cr (-46.61%), which is 0.6% of PBT	Watch	Persistent CSR shortfall totaling □246.53 Cr (cumulative 3-year)

Mechanism: Value is not leaking through direct KMP extraction but is being used to support stressed related-party entities (NSL and RINL) through massive interest-free receivables totaling □10,945.93 Cr. **Aggregate impact:** NMDC is effectively providing □10,945.93 Cr of interest-free credit to associates and group entities (22.7% of Total Assets). **Trend:** Related-party transaction volume has risen from □591 Cr in FY16 to □7,605 Cr in FY25, highlighting a decade-long increase in inter-group dependencies. **Direction:** deteriorating · **Watch next:** Repayment of the □1,851.39 Cr demerger receivable from NSL

Can the balance sheet take a hit?

Flag · 5 of 5 signals flagged · confidence high · 5/5 checked

Signal	Prior	This year	Δ	Status	Quantified impact
CWIP ageing and stalled projects	₹4,737.48 Cr	₹6,748.58 Cr	₹4,737.48 Cr -> ₹6,748.58 Cr (+42.45%), which is 14.0% of total assets	Watch	₹1,686.62 Cr of CWIP (25%) is pending for > 3 years (Slurry Pipeline)
Dividend vs free cash flow	1.84	1.69	1.84 -> 1.69 (-8.15%), which is 33.2% of EBITDA	Watch	Dividends (₹3,077 Cr) exceed Free Cash Flow (₹1,826 Cr) in FY26
Contingent liabilities vs net worth	₹19,788.83 Cr	₹22,425.53 Cr	₹19,788.83 Cr -> ₹22,425.53 Cr (+13.32%), which is 65.8% of net worth	Flag	Karnataka Mineral Rights Tax (₹15,481.72 Cr) is the single largest threat
Borrowing terms, security, covenants	₹3,770.45 Cr	₹5,874.10 Cr	₹3,770.45 Cr -> ₹5,874.10 Cr (+55.79%), which is 12.2% of total assets	Watch	Short-term unsecured borrowings and bill discounting jumped by ₹2,103.65 Cr
Encumbered assets / title deeds not in company name	Not disclosed	Not disclosed	Not disclosed -> not disclosed (not meaningful), which is not meaningful of total assets	Watch	Multiple land parcels and mining leases (e.g., Deposit 10, Vizag Port Trust) await formal deed execution/renewal

Mechanism: The balance sheet is under significant stress from massive contingent liabilities (65.8% of Net Worth) and dividend payments that are not covered by current-year free cash flow, necessitating a rise in short-term borrowing. **Aggregate impact:** Total contingent risk and capital commitments (₹3,857.11 Cr) combined exceed ₹26,000 Cr. **Trend:** Cumulative FCF of ₹20,842 Cr covers only 0.88x of the ₹23,593 Cr dividends paid over 10 years, indicating dividends are partially debt-funded or funded by drawing down cash reserves. **Direction:** deteriorating · **Watch next:** Legal outcome of the Karnataka Mineral Rights Tax dispute

Material notes captured

Discloses	Prior	This year	Impact	Signal
Internal control failure regarding audit trail (edit log) facilities in SAP S/4 HANA.	Not disclosed	Not enabled at DB level; delayed at app level	Risk to data integrity and non-compliance with Rule 3(1) of Companies Rules.	Negative
Unauthorized removal of 280 tons of iron ore from Kumaraswamy Iron Ore Mine.	—	₹0.11 Cr	Material weakness in physical asset security leading to auditor qualification of IFC.	Negative
224.58 Lakh Tons of iron ore slimes held at zero value.	Not disclosed	224.58 Lakh Tons	Significant hidden potential asset if beneficiation markets emerge.	Positive

4. Management & governance

A. Auditor report & key audit matters

- **Audit Opinion:** Unmodified Opinion on Financial Statements; **Qualified Opinion on Internal Financial Controls (ICFR)**.
- **Key Audit Matters (KAMs):**
  - **Revenue & Royalty:** Complexity in Fe content adjustments and risk of IBM rate publication mismatches.
  - **Capital Work-in-Progress (CWIP):** Risk of non-impairment of ₹6,748.58 Cr in projects, with 25% pending for >3 years.
  - **Trade Receivables:** Recoverability of ₹9,206 Cr, with 98% concentration in stressed PSUs (NSL, RINL).

- **Contingent Liabilities:** Magnitude of ₹22,425.53 Cr involving complex legal/tax judgments.

- **Emphasis of Matter (EoM):** Includes the ₹15,481 Cr Karnataka Mineral Rights Tax and recovery risks from NMDC Steel Ltd and RINL.
- **Internal Control Deficiencies:** Material weakness identified at Kumaraswamy mine regarding unauthorized dispatch of 280 tons of ore. Audit trail features in SAP S/4 HANA were not enabled at the database level for most of the year.

B. Related party transactions

Party	Relationship	Nature	Amount (₹Cr)	Concern
NMDC Steel Ltd (NSL)	Common Control	Trade & Other Receivables	6,690.75 Cr	***Liquidity Blockage***
Rashtriya Ispat Nigam Ltd	Associate	Trade Receivables	4,586.31 Cr	***Credit Concentration***
Karnataka Vijaynagar Steel	Subsidiary	Loans & Advances	643.15 Cr	Project Delay Risk
NMDC-CMDC Ltd	Joint Venture	Loans & Subscription	360.26 Cr	Funding Support

- **RPT Risk:** NMDC functions as a financier for struggling state-linked steel entities. Combined exposure to NSL and RINL (₹11,277 Cr) is more than double annual operating cash flow. These receivables are largely non-interest bearing despite NMDC's own borrowing costs.

C. Shareholding

- **Promoter Holding:** 60.79% (Govt. of India).
- **Institutional Holding:** 30.97% (FIIs: 13.12%, DIIs: 17.85%).
- **Promoter Pledge:** 0.00%.

D. Board composition

- **Total Directors:** 11.
- **Independent %:** 36.36% (4 of 11) — **Non-Compliant** (SEBI requires 50% for Executive Chair).
- **Women Directors:** 0 — **Non-Compliant** (No replacement since Jan 2026 superannuation).

E. KMP compensation

- **Total KMP Remuneration:** Negligible at ₹5.37 Cr.
- **Proportionality:** Represents **0.058% of EBITDA** (₹9,260 Cr), significantly below our 1.3–2.6% benchmark.
- **Statutory Ceiling:** Compensation follows government pay scales and is well within §197 statutory limits.
- **Insider-use Assets:** Vehicles represent 0.86% of the gross block; as this is well below the 15% reporting threshold, it is considered immaterial.

F. Capital allocation & capex

Action	FY current (□Cr)	% of CFO	Signal
Dividends	3,077.23 Cr	61.59%	**Strength**
Capex (FA Purchase)	3,171.00 Cr	63.47%	—
Net Debt Change	2,103.65 Cr	42.11%	—

- **CAPEX Notes:** Capex is growth-focused (Slurry Pipeline 94% complete, KK Rail Doubling 97% complete). However, the combined outflow for Capex and Dividends (□6,248 Cr) exceeded CFO (□4,996 Cr), necessitating □2,104 Cr in short-term debt.

G. Revenue recognition policy

- **Policy:** Point-in-time recognition upon delivery (domestic) or Bill of Lading (export).
- **Forensic Signal:** Significant "variable consideration" due to Fe grade adjustments poses a risk of restatement if third-party grade certifications differ from internal mining results.

H. Risks

Risk	Impact	Severity
Karnataka Mineral Rights Tax	□15,481.72 Cr potential outflow; wipes out 45% of Net Worth.	High
RPT Credit Concentration	□9,206 Cr receivables at risk of impairment if PSUs fail.	High
Qualified ICFR Opinion	Material weakness regarding theft/unauthorized dispatch of ore.	High
Common Cause / RTP	Penalties totaling □3,243 Cr currently sub-judice.	Med

5. Scorecard

Part a: scorecard

Dimension	Rating (1–5)	Delta	One-line rationale
Business quality	4	→	Dominant merchant iron ore producer with ultra-low cost curve but high commodity cyclicality.
Financial health	3	↓	Rising short-term debt to fund dividends and capex as cash is trapped in RPT receivables.
Earnings quality	2	↓	CFO significantly below PAT; material weakness in physical asset security; audit trail non-compliance.
Management & governance	2	↓	Qualified ICFR opinion; non-compliant board composition; massive related-party credit support.
Capital allocation & earnings visibility	2	↓	Dividends not covered by FCF; 25% of CWIP stalled; debt-funded shareholder payouts.

Business Quality — 4/5 → NMDC maintains the largest merchant iron ore capacity in India (53 MT) with high-grade reserves (64% Fe) providing a structural cost moat. Near-term volume visibility is anchored by the 300 MT steel target, though captive mine auctions introduce new competitive threats.

Financial Health — 3/5 ↓ While the balance sheet shows a net cash position, the **Cash Conversion Cycle** hit a window-worst 247 days. Net debt rose as short-term borrowings jumped 55.8% to fund a ₹2,095 Cr working capital build-up, primarily in PSU receivables.

Earnings Quality — 2/5 ↓ **CFO** of ₹4,996 Cr covers only 0.67x of PAT (₹7,450 Cr), below the 0.6x healthy floor. Governance red flags include a qualified audit opinion on ICFR for unauthorized ore removal and persistent SAP audit trail non-compliance.

Management & Governance — 2/5 ↓ The board is non-compliant with SEBI requirements for independent and women directors. The company functions as a financier for stressed affiliates, with ₹11,277 Cr (23% of assets) tied up in related-party receivables from NSL and RINL.

Capital Allocation & Earnings Visibility — 2/5 ↓ **Free Cash Flow** of ₹1,826 Cr failed to cover the ₹3,077 Cr Dividends paid. 25% of CWIP (₹1,686 Cr) has been stalled for >3 years, indicating poor deployment efficiency for long-gestation assets.

Overall scorecard summary NMDC exhibits strong operational scale but deteriorating financial and governance quality. The business is on a deteriorating trajectory as robust operating profits are being absorbed by stressed related-party receivables and a massive retrospective tax overhang. Aggressive dividend payouts, while high, are currently unsustainable via organic cash flow and are increasingly dependent on short-term borrowing, while internal control lapses raise significant concerns regarding physical and data security.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay within the §197 ceiling?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Final line: "Total: 3/10 — Governance Rating: 2"

6. How it has been doing

6.1 The multi-year picture

Metric	5-yr mean	Range	This year	Vs trend
Revenue growth %	20.23	-31.96–68.93	34.15	Better than trend
EBITDA margin %	41.68	34.09–57.19	28.87	Worst in window
PAT margin %	32.45	26.13–40.83	23.23	Worst in window
CFO to EBITDA ratio	0.58	0.23–1.01	0.54	In line with trend
ROCE %	34.0	29.0–50.0	28.0	Worst in window
Debtor days	72.2	42.0–118.0	105.0	Worse than trend
Cash conversion cycle (days)	72.2	42.0–118.0	247.0	Worst in window
Net debt to EBITDA ratio	-0.74	-1.23–-0.44	-0.54	Worse than trend
Interest coverage ratio	205.73	43.43–503.59	72.59	Worse than trend
Other income % of PBT	13.35	3.95–26.21	14.66	In line with trend
Free cash flow (□Cr)	3238.0	-1336.0–5744.0	1825.0	Worse than trend

6.2 Breaks from trend

Cash conversion cycle — 247.0 days against a 5-year mean of 72.2 days

The cash conversion cycle lengthened severely to 247.0 days as significant liquidity became locked up in trade receivables that reached □9,206.19 Cr, which is evidenced in Note 2.49.3 and the related party disclosures. This deterioration reflects a deliberate policy to provide extensive, interest-free credit support to stressed state-linked entities, specifically NMDC Steel Limited and Rashtriya Ispat Nigam Limited. This break from the historical cycle is structural because the commercial integration and deferred payment terms established with these group majors alter the company's long-term cash generation profiles.

EBITDA margin — 28.87% (□9,260.00 Cr operating profit) against a 5-year mean of 41.68%

Operating profitability broke below historical bounds to an EBITDA margin of 28.87% (representing □9,260.00 Cr of operating profit on □32,071.00 Cr of revenue), which is evidenced in Note 2.52 and the Segment Performance report. This margin contraction was driven by a major corporate pivot into low-margin commercial trading of finished hot-rolled coils from NMDC Steel Limited, which added □3,960.86 Cr in top-line revenue but yielded an immaterial segment profit of only □16.31 Cr. This shift is structural because the open-market sale of ore by new captive mining competitors and the structural dilution from bulk steel trading represent a permanent evolution of NMDC's traditional high-margin business model.

PAT margin — 23.23% (□7,450.00 Cr net profit) against a 5-year mean of 32.45%

Net profit margins experienced a severe drop down to 23.23% (representing □7,450.00 Cr of net profit out of □32,071.00 Cr of sales), which is evidenced in the consolidated profit and loss statement and Note 3.2. This earnings compression occurred because a massive increase in total operating expenses and heavier statutory royalty outlays of □11,082.25 Cr outpaced physical mining volume growth. This performance break is structural due to the ongoing combination of thin-margin trading revenues and an elevated regulatory taxation landscape that permanently restructures the net yield.

ROCE — 28.00% (₹10,149.00 Cr PBT) against a 5-year mean of 34.00%

The return on capital employed fell to 28.00% (with profit before tax finishing at ₹10,149.00 Cr), a window-worst level that is evidenced in the Key Audit Matters of the Auditor's Report regarding project capitalization. Capital efficiency was undermined by severe execution bottlenecks on long-gestation assets, leaving a substantial share of capital work-in-progress—amounting to ₹1,686.62 Cr out of a total ₹6,748.58 Cr—stalled for over three years. This underperformance is TOO early to TELL because the near-term commercial commissioning of the 15 MTPA Bacheli-Nagarnar slurry pipeline and the Kirandul-Jagdalpur rail line doubling will radically expand evacuation infrastructure and could restore asset turnover rates.

6.3 What has not changed

1. **Quasi-Fiscal Related Party Exposure**: NMDC consistently operates as a key financial backer for its demerged arm (NMDC Steel Limited) and associate (Rashtriya Ispat Nigam Limited). This pattern of building up massive interest-free balances is in its tenth year, representing a chronic drag where cumulative related-party transactions rose to ₹7,605.00 Cr by March 2025 and total outstanding credit to these entities reached ₹11,277.06 Cr in the current year.
2. **Sustained Dominant Cost Moat**: The company maintains its structural position as India's lowest-cost merchant iron ore producer, underpinned by a premium iron ore grade of 64% Fe. This operational superiority has sustained high profitability across the entire ten-year window, producing a cumulative EBITDA of ₹74,500.00 Cr and a cumulative PAT of ₹55,384.00 Cr.
3. **Regulatory and Litigation Friction**: Operating as a state-owned miner involves persistent, massive legal and statutory demands. This long-standing exposure is highlighted by outstanding items like the retrospective Karnataka Mineral Rights Tax of ₹15,481.72 Cr, the Common Cause litigation of ₹1,623.44 Cr, and a Railway dispatch penalty of ₹1,620.50 Cr, creating a permanent off-balance-sheet overhang.
4. **Conservative Inventory Valuation Policy**: Management consistently excludes run-of-mine ore and iron ore slimes from inventory valuation. This conservative methodology creates a high-quality earnings buffer, leaving a substantial hidden asset of 224.58 Lakh Tons of slimes valued at zero rupees on the balance sheet.
5. **Inadequate Operating Cash Conversion**: Over the ten-year period, cumulative cash flow from operations stands at ₹41,943.00 Cr against cumulative EBITDA of ₹74,500.00 Cr, yielding a conversion ratio of 0.56x, which remains permanently below the healthy threshold of 0.60x. This chronic deficiency is driven by continuous working capital absorption.
6. **Aggressive Dividend Distribution Policy**: Shareholder payouts consistently outpace organic free cash flow generation. Over the ten-year window, cumulative dividends paid reached ₹23,593.00 Cr, exceeding cumulative free cash flow of ₹20,842.00 Cr and requiring a net increase in borrowings of ₹4,686.00 Cr to cover the shortfalls.