Kalyani Steels

Moving the world into the new millennium

Kalyani Steels Limited

26 TH ANNUAL REPORT

1998-99

BOARD OF DIRECTORS

Mr. B.N. Kalyani
Chairman & Wholetime Director

Mr. S.S. Hiremath

Mr. S.M. Kheny

Mr. V.G. Yennemadi

Mr. A.S. Kapre
ICICI Nominee

Mr. K.G. Vassal
UTI Nominee

Mr. B.B. Hattarki
Joint Managing Director

AUDITORS
Dalal & Shah
Chartered Accountants
49-55, Bombay Samachar Marg
Fort, Mumbai - 400 023.

BANKERS
Bank of Baroda
Canara Bank
Union Bank of India
ICICI Banking Corporation Ltd.
HDFC Bank Ltd.

REGISTRARS & TRANSFER AGENTS
MCS Limited
116, Akshay Complex
Off Dhole Patil Road
Near Ganesh Mandir
Pune - 411 001.

REGISTERED OFFICE
Mundhwa, Pune - 411 036.
Phone : 91-020-670806, 670435
Fax : 91-020-672514

WORKS
Hospet Road, Ginigera
Tal. & Dist. Koppal
Karnataka - 583 228.

The cover picture shows integrated steel plant at Ginigera, being implemented in strategic alliance with Kalyani Ferrous Industries Limited and Mukand Limited - all set to supply world class steel.

Kalyani Steels

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26TH ANNUAL GENERAL MEETING

Day	:	Tuesday
Date	:	27th July, 1999
Time	:	10.30 a.m. (IST)
Place	:	Training Centre, Bharat Forge Ltd., Mundhwa, Pune 411 036.

DIRECTORS' REPORT

Dear Shareholders,

Your Directors have pleasure in presenting their Twenty Sixth Annual Report on the business and operations of your Company and the Audited Accounts for the year ended March 31st, 1999.

1. **The year in retrospect :**

The year under review witnessed a major slowdown in the Indian economy and for commercial vehicles in the market. This consequently affected the forging industry, our major customer segment. Low capacity utilisation in the steel industry also forced closures of some of the alloy steel producers. In spite of this, your Directors are glad to inform you that your Company has shown remarkable improvement over the previous year's performance. This was largely on account of introduction of new grades, sections and applications of steel, development of new customers and higher off-take of your Company's products by seamless tubes manufacturers who also constitute a significant customer base. Increased off-takes which offsets the lower demand from forging industry are reflected in the year end results, which show an increase in sales from 63,413 tonnes for the previous financial year to 75,724 tonnes for the current financial year, a growth of 19.41%. The turnover in absolute terms increased from Rs.1861.761 Million for the year 1997-98 to Rs.2267.088 Million for the year 1998-99, which included turnover of the new Carbon and Alloy Steel project at Ginigera Rs. 166.519 Million.

2. **Ginigera Project :**

The Directors are pleased to inform you that the Company's cost effective Carbon and Alloy Steel project through the Mini Blast Furnace route at Ginigera, in the State of Karnataka has been fully implemented. This project is being implemented as a strategic alliance between Kalyani Group comprising your Company and Kalyani Ferrous Industries Limited, and Mukand Limited. The Rolling Mill has commenced trial runs in the month of March, 1999. The Company has also started the activities pertaining to As Cast Blooms and Billets, getting the same manufactured from Mukand Limited against the Product Sharing Agreement. During the year 1998-99, the Company sold 9,378 Tonnes of Blooms and Rounds, aggregating Rs.166.519 Million and 82 Tonnes of Rolled Products, aggregating Rs.1.273 Million.

The trial runs of the Hospet project have shown good results and there is a continuous emphasis on reduction of cost to achieve optimum results. The As Cast Blooms are being supplied to the Seamless Tubes Industry. With the commencement of the Rolling Mill in March, 1999 and the Vacuum Degassing facility getting installed in June, 1999, your Directors expect to establish and successfully develop grades for the automobile sector, defence and export market during the current year. The cost of production at Hospet is expected to be among the lowest in the alloy steel industry which will give it a cutting edge *vis-a-vis* competition and hence, in spite of recessionary trends in the industry and market, your Directors are confident of successfully establishing your Company's products and capturing substantial market shares.

3. **Financial highlights :**

(Rs. Million)

	1998-99	1997-98
Total Income	**2267.088**	1861.761
Gross Profit	**174.992**	181.832
Profit after providing depreciation	**92.171**	98.499
Provision of Taxation	**10.100**	10.745
Profit available for appropriation	**237.621**	252.317
Transfer to Debenture Redemption Reserve	**130.000**	177.456
Proposed Dividend		
- On Preference Capital	**18.743**	15.051
- On Equity Capital	**30.053**	30.053

4. **Dividend :**

Your Directors recommend a Dividend of 10% (Rupee 1/- per Equity Share of Rs.10/- each) for the year ended 31st March, 1999. The aggregate distribution for the year amounts to Rs. 30.053 Million. Your Directors also recommend a Dividend of Rs.18.743 Million for the year ended 31st March, 1999 on the Cumulative Redeemable Preference Shares issued by the Company.

5. **Transfer of Mundhwa Undertaking**

Your Company had entered into the Joint Venture Agreement with Carpenter Technology Corporation, USA for manufacture and marketing of high value added speciality steels to be manufactured under the technology to be provided by Carpenter. The Joint Venture contemplates the promotion of two joint venture companies viz. Kalyani Carpenter Special Steels Limited, the manufacturing joint venture and Kalyani Carpenter Metal Centres Limited, the distribution joint venture. Your Company, through its subsidiaries, holds 74% of the equity capital of the manufacturing joint venture and 49% of the equity capital of the distribution joint venture.

In terms of the Joint Venture, the Mundhwa undertaking of the Company was transferred and assigned to Kalyani Carpenter Special Steels Limited (KCSSL) by way of 'slump sale' with effect from 1st April, 1999 and KCSSL has taken over the entire fixed assets and inventories of the Mundhwa Plant along with all pending purchase / sales orders and employees of the Mundhwa Plant for an agreed consideration of Rs.650 Million. The Company has duly received the consideration from KCSSL, a substantial part of which was utilised for pre-payment of long term loans of the Company, which will result in considerable reduction in the interest costs.

The Joint Venture with Carpenter Technology Corporation was a part of the corporate restructuring exercise undertaken by your Company and the Directors are confident that it will benefit your Company immensely. The new products to be manufactured by the joint venture company have huge export potential and are also import substitutes and possess substantial value addition and contribution.

6. **Fixed Deposits :**

As on 31st March, 1999, deposits aggregating Rs.1,366,000/- (172 depositors) remained unclaimed. Subsequently, Deposits aggregating Rs. 121,000/- (16 depositors) were claimed, paid / renewed.

7. **Directors :**

Mr.A.J. Advani, Nominee Director of ICICI Limited, has ceased to be a Director of the Company with effect from 28th October, 1998 and Mr.A.S. Kapre was appointed in his place.

Mr. V.S. Kirloskar, Mr. R. M. Gandhi, Mr. C.P. Shah, Mr. M. R. Kalewar, Mr. N.K. Prasad and Mr. P.C. Nayak, Directors of the Company resigned with effect from 25th May, 1999. The Directors place on record their appreciation of the valuable guidance given by the aroresaid Directors during their tenure as Directors of the Company.

Mr. S.M. Kheny, Director of the Company retires by rotation and being eligible, offers himself for reappointment.

8. **Auditors :**

You are requested to appoint the Auditors of the Company for the Current Year to hold office from the conclusion of the ensuing Annual General Meeting until the conclusion of the next Annual General Meeting.

9. **Subsidiaries :**

The Statement, pursuant to Section 212 of the Companies Act, 1956, relating to Chakrapani Investments & Trades Ltd., Surajmukhi Investment & Finance Ltd. and Gladiolla Investments Ltd., wholly owned subsidiaries of the Company is attached to the Accounts of the Company.

10 **Particulars of employees :**

As required under the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of the employees are set out in the Annexure to the Directors' Report. However, in terms of the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and the Accounts is being sent to all shareholders of the Company excluding the aforesaid Annexure. Any shareholder interested in obtaining a copy of said Annexure may write to the Company Secretary at the Registered Office of the Company.

11. **Conservation of energy, technology absorption and foreign currency exchange earnings & outgo :**

The information required under the provisions of Section 217(1) (e) of the Companies Act, 1956, read with the Companies (Disclosure of Particulars in the report of the Board of Directors) Rules, 1988 and forming part of the Report is also annexed hereto.

12. **Quality and Safety :**

The Company continued to give utmost attention to quality, safety, training, development, health and environment during the year.

The Company successfully went through two Surveillance Audits for ISO 9002 Certification by TUV Germany. Safety measures have been given high priority and regular in-house training programmes are being conducted for promoting effective safety awareness amongst the employees. Added emphasis was given to tree plantation and green belt development.

13. **Year 2000 (Y2K) :**

The Company has already made a plan to mitigate the risk associated with Year 2000 issues. Detailed inventory of equipment have already been made and steps have been taken to make them Year 2000 compliant. The Company has in place a dedicated team with a Chief Compliance Officer heading it and with the steps taken, the Company is confident of ensuring compliance by 30th September, 1999. The Company is also putting into place a contingency plan to minimise the risk from any external agency in supply chain not achieving the desired status of Year 2000 readiness.

14. **Employees :**

The Management appreciates the contribution of the employees at all levels. The relations with labour remained cordial throughout the year.

Your Directors would like to place on record their appreciation of the co-operation received from the Central Government and the Government of Maharashtra, Government of Karnataka, Karnataka Industrial Area Development Board, M.S.E.B., M.I.D.C., Financial Institutions and the Bankers.

For and on behalf of the Board of Directors

Place : Pune
Date : 25th May, 1999.

B.N. Kalyani
Chairman & Wholetime Director

INFORMATION AS PER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956, READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 1999.

I. CONSERVATION OF ENERGY :

a) Energy Conservation measures taken :

- Arc Furnace Cooling Tower replaced by Fan less type.
- 22" Mill Recuperator removed and renovated.

b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy :

- Erection of 132 KV Sub-Station to reduce low voltage losses.
- Replacement of Cooling Towers at LF, ESR and 22" Reheating Furnace.

c) Impact of the measures at (a) & (b) above for reduction of energy consumption and consequent impact on the cost of production of goods :

Energy consumption per tonne of production is restricted to 971 KWH.

d) Total energy consumption and energy consumption per unit of production as per Form -A of the Annexure to the Rules in respect of Industries specified in the Schedule thereto :

	1998-99	1997-98
A) Power & Fuel Consumption :		
1. Electricity :		
a) Purchased		
Unit (KWH in thousands)	75,622	64,951
Total amount (Rs. In Million)	287.550	243.806
Rate / KWH (Rs.)	3.802	3.754
b) Own generation	N.A.	N.A.
I) Through Diesel Generator		
Unit	—	—
Units per Ltr. Of Diesel oil Cost / Unit	—	—
II) Through Steam Turbine / Generator Unit		
Units per Ltr. Of Fuel Oil / Gas	—	—
Cost / Unit	—	—
2. Coal :		
Quantity (Tonnes)	—	—
Total Cost	—	—
Average Rate	—	—
3. Furnace Oil / HSD :		
Quantity (K. Ltrs.)	4,733	4,097
Total Amount (Rs. In Million)	28.580	25.758
Average Rate / K. Ltr. (Rs.)	6,038	6,286
4. Others :		
LDO		
Quantity (K. Ltrs.)	2,936	2,493
Total cost (Rs. In Million)	23.591	20.054
Rate / K. Ltrs. (Rs.)	8,035	8,044

B) Consumption per unit of production :	Unit	**1998-99**	1997-98
Product			
(Mild Steel / Carbon / alloy Steel Ingots / Billets)	M.T.	**77,876**	65,443
Electricity	KWH	**971**	992
Furnace Oil / HSD	K. Ltrs.	**0.061**	0.063
Coal	M.T.	—	—
LDO	K. Ltrs.	**0.038**	0.038

II. TECHNOLOGY ABSORPTION :

Efforts made in technology absorption as per Form-B of the Annexure to the Rules

1. Research & Development (R & D) :

   a) Specific area in which R & D carried out by the Company :

   Development of Shock Resistant Cold Working Tool Steel.

   b) Benefits derived as a result of the above R & D :

   Successfully supplied Shock Resistant Cold Working Tool Steels in bulk quantity to customer's satisfaction.

   c) Future plan of action :

   Development of forging quality steels through mini blast furnace and energy otpimising furnace route.

   d) Expenditure on R & D :

		Rs.	Rs.
		1998-99	1997-98
(i)	Capital	—	—
(ii)	Recurring	**888,884**	531,462
(iii)	Total	**888,884**	531,462
(iv)	Total R&D expenditure as a percentage of total turnover	**0.04**	0.03

2. Technology absorption, adaption and innovation :

   a) Efforts in brief, made towards technology absorption, adaptation and innovation :

   Technology developed and absorbed through literature survey and trial heats.

   b) Benefits derived as a result of the above efforts, for product improvement, cost reduction, product development, import substitution etc. :

   Successfully developed bearing steels with low oxygen content for domestic and export market.

   c) In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year) :

   No fresh technology was imported during the last five years.

III. **FOREIGN EXCHANGE EARNINGS & OUT GO :**

a) Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services and export plans :

The Company's efforts to penetrate the export markets continue. Concerted efforts are underway to develope export markets.

b) Total foreign exchange used and earned :

(Rs. in Million)

Used : 137.677 Earned : —

For and on behalf of the Board of Directors

Place : Pune
Date : 25th May, 1999.

B.N. Kalyani
Chairman & Wholetime Director

REPORT OF THE AUDITORS TO THE MEMBERS

We have audited the attached Balance Sheet of KALYANI STEELS LIMITED, as at 31st March, 1999 and also the Profit and Loss Account of the Company for the year ended on that date annexed thereto and Report as under :

1. As required by the Manufacturing and Other Companies (Auditor's Report) Order, 1988, issued by the Company Law Board in terms of Section 227(4A) of the Companies Act, 1956, we annex hereto a statement on the matter specified in paragraphs 4 and 5 of the said order;

2. Further to our comments, in the annexure referred to in paragraph 1 above we report that :-

   We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

   In our opinion, proper Books of Account as required by Law have been kept by the Company so far as appears from our examination of the books of the Company;

   The Balance Sheet and Profit and Loss Account dealt with by the report are in agreement with the Books of Account of the Company;

   In our opinion, the Profit & Loss Account and the Balance Sheet comply with the accounting standards, referred to in Sub-section (3C) of Section 211 of the Companies Act, 1956 to the extent applicable.

   In our opinion, and to the best of our information and according to the explanations given to us, the accounts read together with the notes thereon, give the information required by the Companies Act, 1956, in the manner so required and read together with other relevant notes present a true and fair view:-

   (a) in the case of the Balance Sheet, of the state of affairs of the Company as at 31st March, 1999 and

   (b) in the case of the Profit and Loss Account, of the Profit for the year ended on that date.

For and on behalf of
DALAL & SHAH
Chartered Accountants

ANISH AMIN
Partner

Mumbai : 27th May, 1999.