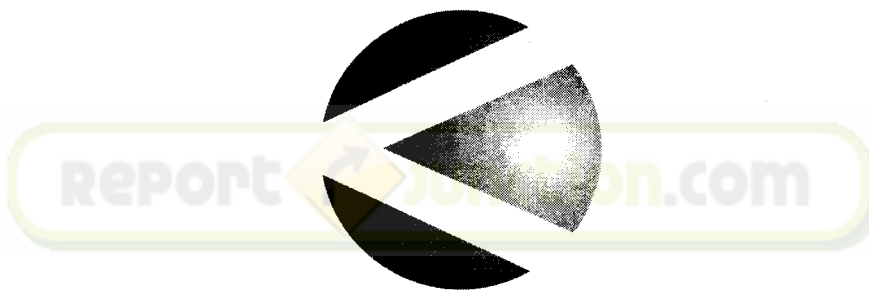


KALYANI STEELS LIMITED



KALYANI

DRIVING INNOVATION

**33RD ANNUAL REPORT
2005-2006**

BOARD OF DIRECTORS

Mr. B. N. Kalyani
Chairman

Mr. Amit B. Kalyani

Mr. S. S. Hiremath

Mr. S. M. Kheny

Mr. S.S. Vaidya

Mr. B.B. Hattarki

Mr. M.U. Takale

Mr. C.G. Patankar
Executive Director

Mr. Suresh Pandey
Wholetime Director (Technical)

AUDITORS

Dalal & Shah
Chartered Accountants
Bombay Samachar Marg
Fort, Mumbai - 400 023

BANKERS

Bank of Baroda
Union Bank of India
Canara Bank
HDFC Bank Limited
State Bank of India

REGISTRAR & TRANSFER AGENTS

MCS Limited
116, Akshay Complex
Off Dhole Patil Road
Near Ganesh Mandir
Pune - 411 001

REGISTERED OFFICE

Mundhwa, Pune - 411 036
Phone : 91-020-26715000, 66215000
Fax : 91-020-26821124
Website: www.kalyanisteels.com
E-mail : ksl@kalyanisteels.com

WORKS

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

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Report Junction.com**33RD ANNUAL GENERAL MEETING**

Day : Saturday
Date : 26th August, 2006
Time : 11.00 a.m. (I.S.T.)
Place : Registered Office,
Kalyani Steels Limited,
Mundhwa,
Pune - 411 036

**KALYANI**

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MANAGEMENT DISCUSSION AND ANALYSIS

The Board takes pleasure in presenting your Company's Thirty-Third Annual Report for the year 2005-06 along with the compliance report on Corporate Governance. This chapter on Management Discussion and Analysis forms a part of the compliance report on Corporate Governance.

Industry Structure and Development :

The steel sector in the country is on a roll. The buoyancy in the sector continued for the third year in a row by strong growth in demand in various user sectors such as automobiles, infrastructure and capital goods etc. These user sectors are doing well and would need additional steel in coming years. As a result, many steel business houses have announced ambitious expansion plans while many others are going ahead with Greenfield expansion.

With abundant iron ore resources and well-established base for steel production in the country, steel sector is poised for growth in the coming decades. Production has increased from 17 million tonnes in 1990 to 35 million tonnes in 2005 and 66 million tonnes is targeted for 2011. While steel will continue to have a stronghold in traditional sectors such as construction, housing and infrastructure, special steels will be increasingly used in hi-tech engineering industries such as forging, automobile, aeronautics, power generation, petrochemicals, fertilizers etc. Steel will continue to be the most popular, versatile and dominant material for wide ranging applications.

On the Global front, World Crude Steel output reached the level of 1129.4 Million Metric Tonnes in 2005, which is 5.9% more than the previous year. The top steel producing country in 2005 was China, followed by Japan and USA. India occupied the 8th position. On global level, in terms of consumption, the construction industry was the highest consumer of steel i.e. 39%, while the automobile industry consumed 14% of the steel produced.

The International Iron and Steel institute (IISI) in its forecast for 2006, has confirmed that the trend of recent years, is of an increase in steel use, in line with general economic growth and with the fastest growth occurring in the countries with the highest GDP growth such as India and China. This growth is estimated to continue until 2015 at a rate of approximately 4% per year. However, the cost of raw materials and energy would continue to represent a major challenge for the world steel industry.

Company Performance :

- Gross Turnover – Rs.7,546 Million
- Profit before Taxation – Rs.1,354 Million
- Profit after Taxation – Rs.1,010 Million

Turnover includes Trading Turnover of Rs.231 Million and Manufacturing Turnover of Rs.7,315 Million. Trading Turnover was mainly on account of sale of iron ore and coke.

Manufacturing turnover includes sale of Rolled Products, As Cast Blooms, Pig Iron, Misc. Sales and Conversion Charges received. The Company sold 99,465 tonnes of 'Rolled Products' aggregating Rs.3,978 Million, 37,964 tonnes of 'As Cast Blooms' aggregating Rs.1,187 Million and 10,678 tonnes of Pig Iron aggregating Rs.164 Million. Misc. Sales amounted to Rs.326 Million and Conversion Charges received were Rs.1,660 Million. The Manufacturing Turnover includes exports of 951 tonnes aggregating Rs.49 Million.

Internal Control Systems and their adequacy :

The Company employs an adequate and effective system of internal control commensurate with its size and nature of business, that provides for :

- Assurance of the efficiency of operations
- Security of Company's assets
- Accurate and prompt recording of transactions
- Efficient Management Information Systems
- Compliance with prevalent statutes, accounting standards, listing agreement requirements, management policies and procedures

The internal control system is further supplemented by a programme of audits by management auditors who periodically

KALYANI STEELS

present their observations to the Audit Committee. The Audit Committee of Directors reviews the significant observations made by management auditors along with status of action thereon.

Human Resources :

The Company believes that the competence and commitment of its people are the key drivers for growth of any organisation. Conscious efforts are made by the management towards the development of employees. Employees are sponsored for various external seminars and other development programmes. Courses are designed to keep employees acquainted with the latest trends in management. Emphasis is laid on creativity, innovation, achievement and motivation for excellence, developing initiative and leadership qualities. As on 31st March, 2006 the Company has 191 employees. 776 employees are on the role of Hospet Steels Limited, which is a Joint Venture Company formed with the specific purpose of managing and operating the composite steel making facility at Ginigera, in terms of Strategic Alliance between the Company and Mukand Limited.

Opportunities, Threats and Future Outlook :

Steel is yet to touch the lives of millions of people in India. Per capita consumption of steel in India is only 35 kg and has to go a long way to reach world average of 140 kg. and consumption levels of around 400 kg in developed countries like USA.

There is also need to continue the current thrust in infrastructure related activities and extend them to rural India. The opportunity to increase usage of steels in these areas through projects such as rural housing, roads will show an increasing appetite for steel in the years to come.

While growing demand and the need for ample capacity to service is not in question, what has cast a shadow of doubt over the steel industry is the specter of over capacity as well as the feeble outlook on prices. Shortages of inputs may result in pushing up the costs for the steel industry. There is an urgent need to develop raw material resources for inputs like iron ore and coal within or outside the country.

Adequate enabling infrastructure such as power, ports, roads, rail transport is pre-requisite for the Indian Steel Industry to remain competitive, is also required to be developed.

Barring these factors, the overall near outlook for the domestic as well as global steel industry remains positive in the year 2006. The industry is likely to see a normal and healthy year with prices remaining stable.

Cautionary Statement

Statements in this management discussion and analysis describing the Company's objectives, projections, estimates and expectations may be 'forward looking statements' within the meaning of applicable laws and regulations. Actual results may differ substantially or materially from those expressed or implied. Important developments that could affect the Company's operations include a downtrend in the industry – global or domestic or both, significant changes in political and economic environment in India, applicable statutes, litigations, labour relations and interest costs.

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CORPORATE GOVERNANCE

Kalyani Steels recognises that good Corporate Governance is a continuing exercise and is committed to pursue higher standards of Corporate Governance in the overall interest of all the stakeholders. The Company is in full compliance with the requirements under revised Clause 49 of the Listing Agreement with the Stock Exchanges.

This chapter of the report, plus the information given under 'Management Discussion and Analysis' and 'Shareholder Information' constitutes the compliance report of the Company on Corporate Governance during the year 2005-06.

1. BOARD LEVEL ISSUES

COMPOSITION OF THE BOARD :

As on 31st March, 2006, the Board of Directors of Kalyani Steels comprises eight directors. The Board consists of the Chairman, who is Promoter Non-Executive Director, three Executive Directors and four Non-Executive Directors, of which three are Independent. Details are given in Table 1.

NUMBER OF BOARD MEETINGS :

During the year, seven Board Meetings were held. These were held on 27th April, 2005, 20th June, 2005, 11th July, 2005, 26th July, 2005, 22nd August, 2005, 30th October, 2005 and 23rd January, 2006. All the meetings were held in such manner that the gap between two consecutive meetings was not more than four months.

DIRECTORS' ATTENDANCE RECORD AND DIRECTORSHIPS :

Table 1: The composition of the Board, the category of Directors, their attendance record and the number of directorships :

Table - 1 - Details about Board of Directors of the Company						
Name of Director	Category	Number of meetings held	Number of meetings attended	Whether attended last AGM	Number of Directorships of public limited companies	Materially significant pecuniary or business relationship with the Company
B.N. Kalyani Chairman	Promoter Non-executive	7	5	Yes	12	None
Amit B. Kalyani	Promoter Non-executive	7	7	Yes	12	None
S.S. Hiremath	Non-executive	7	6	Yes	2	None
S.M. Kheny	Non-executive	7	6	Yes	14	None
Ajeet Prasad*	Non-executive	3	2	No	8	None
S.S. Vaidya**	Non-executive	1	1	N.A.	8	None
C.G. Patankar Executive Director	Executive	7	7	Yes	12	N.A.
Suresh Pandey Wholetime Director (Technical)	Executive	7	5	Yes	1	N.A.
B.B.Hattarki Wholetime Director	Executive	7	7	Yes	10	N.A.

* UTI Asset Management Company Private Limited, has withdrawn, Mr.Ajeet Prasad, their Nominee Director, on the Board of the Company, w.e.f. 24th August, 2005.

** Co-opted on the Board w.e.f. 30th October, 2005.

Notes :

None of the Directors is a member of more than ten Board level Committees of public limited companies in which they are Directors or a Chairman of more than five such Committees, as included for the purposes of Corporate Governance laid down by SEBI and Listing Agreement.

INFORMATION PLACED BEFORE THE BOARD :

The Board of the Company is presented with all the relevant information on various vital matters affecting the working of the Company as well as those matters, which require deliberation at the highest level. Among others, information to the Board includes :

- Annual operating plans and budgets, capital budgets, updates.
- Sales and financial performance statistics.
- Quarterly results for the Company and its operating divisions.
- Minutes of the meetings of audit committee and other committees of the Board.
- Minutes of the Board Meetings of the unlisted subsidiary companies and statement of significant transactions and arrangements entered into by the unlisted subsidiary companies.
- Information on recruitment and remuneration of senior officers just below the Board level, including significant development in human resources / industrial relations front.
- Compliances of any regulatory, statutory nature or compliances relating to listing requirements and shareholders services.
- Details of show cause, demand notices, if any.
- Details of any Expansion plans / Joint Venture / Collaboration / Amalgamation / Scheme of Arrangement including amendments thereof.
- Sale of material nature of investments, subsidiaries, assets, if any, which is not in normal course of business.
- Share transfer and demat compliances.
- Status of shareholders / investors grievances.

The Board of Kalyani Steels is presented with detailed notes on various vital matters along with the agenda papers well in advance of the meeting.

DIRECTORS WITH MATERIALLY PECUNIARY OR BUSINESS RELATIONSHIP WITH THE COMPANY :

There has been no materially relevant pecuniary transactions or relationship between the Company and its non-executive and / or independent Directors for the year 2005-06.

AUDIT COMMITTEE :

The Company has an Audit Committee comprising four members, three of them including Chairman are Independent Directors. All the members have relevant accounting, finance and audit exposure. The Chairman of the Audit Committee is Mr.S.S. Vaidya. Mr.B.N. Kalyani, Mr.S.M. Kheny and Mr.S.S. Hiremath are the other members of the Committee.

The representatives of the Statutory Auditors, Management Auditors and remaining Board Members are permanent invitees to the Audit Committee Meetings. The Secretary of the Company also acts as the Secretary of the Audit Committee.

During the year Audit Committee met on 20th June, 2005, 26th July, 2005, 30th October, 2005 and 23rd January, 2006. Particulars relating to the attendance at the Audit Committee meetings held during the year are given below :

Name of Director	Category	Number of Meetings held	Number of Meetings attended
S.S. Vaidya, Chairman	Independent	1	1
B.N. Kalyani	Promoter Non-executive	4	3
S.M. Kheny	Independent	4	4
S.S. Hiremath	Independent	4	4
Ajeet Prasad, UTI Nominee*	Independent	2	1

* Ceased to be the Chairman and member of the Audit Committee w.e.f. 24th August, 2005, as UTI Asset Management Company Private Limited, has withdrawn, Mr.Ajeet Prasad, their Nominee Director, from the Board of the Company.

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Terms of reference :

The terms of reference for the Audit Committee as specified by the Board of Directors of the Company consists of the following :

- 1) Oversight of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- 2) Recommending to the board, the appointment, re-appointment and if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
- 3) Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
- 4) Reviewing, with the management, the annual financial statements before submission to the board for approval.
- 5) Reviewing, with the management, the quarterly financial statements before submission to the board for approval.
- 6) Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
- 7) Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official, heading the department, reporting structure, coverage and frequency of internal audit.
- 8) Discussions with management auditors on any significant findings and follow up thereon.
- 9) Reviewing the findings of any internal investigations by the management auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
- 10) Discussions with statutory auditors before audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
- 11) To look into the reasons for substantial defaults, if any, in the payment to the depositors, debentureholders, shareholders (in case of non-payment of declared dividends) and creditors.
- 12) Carrying out any other function as is mentioned in the terms of reference of the audit committee.

REMUNERATION POLICY :

As all decisions regarding the remuneration of Executive and Non-executive Directors are taken by the entire Board of Directors ('the Board') of the Company, no formal Remuneration Committee has been constituted.

The Executive Director and the Wholtime Directors are paid remuneration as per the terms approved by the Board and confirmed by the Shareholders of the Company. The remuneration of the Executive Director comprises of Salary, Commission and Perquisites besides contributions to provident fund, superannuation and gratuity and leave encashment facility. The remuneration of the Wholtime Directors comprises of Salary, Perquisites and leave encashment facility.

Services Contracts are entered into with the Executive Director and the Wholtime Directors in terms of the resolutions governing their appointment and the terms of remuneration. In terms of the said contracts either party may terminate the Contract by giving to the other party a three month's notice and do not contain any provision for payment of severance fees. The Company does not have any stock option scheme.

The Non-executive Directors are paid sitting fees for attending each meeting of the Board and of the Committees thereof as specified by the Board. Each of the Non-executive Directors is paid sitting fee of Rs.2,000/- per meeting attended by him. The Non-executive Directors also draw remuneration in the form of commission based on net profits of the Company, as determined by the Board.

REMUNERATION OF DIRECTORS :

Table 2 : The details of the remuneration package of Directors, their shareholding in the Company and relationship, if any.

Name of Director	Relationship with other directors	Sitting fees* (Rs.)	Salaries and perquisites (Rs.)	Commission*** (Rs.)	Total (Rs.)	No. of Shares held
B.N. Kalyani	**	42,000	N.A.	700,000	742,000	1,118
Amit B. Kalyani	**	14,000	N.A.	700,000	714,000	31,694
S.S. Hiremath	None	20,000	N.A.	50,000	70,000	50
S.M. Kheny	None	28,000	N.A.	—	28,000	10,890
Ajeet Prasad****	None	4,000	N.A.	—	4,000	Nil
S.S. Vaidya	None	4,000	N.A.	50,000	54,000	Nil
C.G. Patankar	None	N.A.	4,166,050	6,500,000	10,666,050	4,770
Suresh Pandey	None	N.A.	2,397,400	—	2,397,400	Nil
B.B. Hattarki	None	N.A.	1,482,443	—	1,482,443	2,360

* Sitting fees include payment for board level committee meetings.

** None of the employees / directors are related to any of the Directors except Mr.Amit B. Kalyani, who is a son of Mr.B.N. Kalyani, Chairman.

*** Commission proposed and payable after the adoption of accounts by shareholders, in the ensuing Annual General Meeting.

**** UTI Asset Management Company Private Limited, has withdrawn, Mr.Ajeet Prasad, their Nominee Director, on the Board of the Company, w.e.f. 24th August, 2005.

None of the employees are related to any of the Directors of the Company.

2. MANAGEMENT**MANAGEMENT DISCUSSION AND ANALYSIS :**

This Annual Report has a detailed chapter on Management Discussion and Analysis.

DISCLOSURES BY MANAGEMENT TO THE BOARD :

All disclosures relating to financial and commercial transactions where Directors may have a potential interest are provided to the Board and the interested Directors do not participate in the discussions nor they vote on such matters.

3. SHAREHOLDERS**DISCLOSURES REGARDING APPOINTMENT OR RE-APPOINTMENT OF DIRECTORS :**

Mr.B.N. Kalyani, Mr.B.B. Hattarki and Mr.Suresh Pandey, Directors of the Company are retiring by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. Mr.S.S. Vaidya and Mr.M.U. Takale, appointed as an Additional Directors, on 30th October, 2005 and 26th June, 2006 respectively, are seeking appointment as Directors pursuant to the Notices received from the Members of the Company, signifying their intention to propose Mr. S.S. Vaidya and Mr.M.U. Takale, as candidate for the office of Director. Details of directors to be re-appointed / appointed are given below :

Mr.B.N. Kalyani is Chairman and Managing Director of Bharat Forge Limited and Executive Chairman of Kalyani Carpenter Special Steels Limited. Mr.Kalyani, born on 7th January, 1949, is a Mechanical Engineer from the Birla Institute of Technology, Pilani. He is also M.S. from the Massachusetts Institute of Technology, U.S.A. Mr.Kalyani also serves on the Board of Automotive Axles, Ugar Sugar Works, Hikal, Nandi Infrastructure Corridor Enterprises, Kalyani Lemmerz,



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Kalyani Carpenter Special Steels, Kalyani Carpenter Metal Centres, Meritor HVS (India), BF Utilities and Nandi Economic Corridor Enterprises. Mr.Kalyani is retiring by rotation at the ensuing Annual General Meeting and being eligible, offer himself for re-appointment.

Mr.B.B. Hattarki born on 10th October, 1941, is a Metallurgy and Mechanical Engineer. He serves on the Board of Kalyani International, Kalyani Mukand, Hospet Steels, BF Utilities, Automotive Axles, Precision Seals Manufacturing, Chakrapani Investments and Trades, Surajmukhi Investment and Finance and Gladiolla Investments. Mr.Hattarki is retiring by rotation at the ensuing Annual General Meeting and being eligible, offer himself for re-appointment.

Mr.Suresh Pandey born on 5th November, 1943, is a Metallurgical Engineer, from the Indian Institute of Technology, Kanpur having 41 years rich experience in the steel industry. Mr.Pandey is also re-appointed as Wholtime Director (Technical) for the period of two years from 1st February, 2006 to 31st January, 2008, on the terms and conditions mentioned in the notice convening the ensuing Annual General Meeting. Mr.Pandey is retiring by rotation at the ensuing Annual General Meeting and being eligible, offer himself for re-appointment.

Mr.S.S. Vaidya born on 9th August, 1955 is a Chartered Accountant. He is a partner of M/s Kunte & Vaidya, Chartered Accountants, Pune. He has been in practice for over 25 years and has vast experience in Corporate & Legal field, Tax Laws, Company Law, Foreign Exchange Laws etc. Mr.Vaidya also serves on the Boards of Sharp India, Sahyadri Hospitals, Bosch Chassis Systems India, BF Utilities, Nandi Economic Corridor Enterprises, Nandi Infrastructure Corridor Enterprises and Nandi Highway Developers.

Mr.M.U. Takale, born on 18th August, 1960, is a Mechanical Engineer having more than 23 years experience in forging and automotive related industries. Mr.Takale, after having his initial graduation in Pune, completed his MS in Industrial and Systems Engineering from Columbia University, New York, U.S.A. and MBA from Western Carolina University, NC, U.S.A. He was in U.S.A. for six years and besides obtaining degree in Engineering and Management, has had considerable exposure to technological advancements in automotive field. He also has work experience in Automotive Industry in U.S.A. Mr.Takale serves on the Board of Kalyani Net Ventures.

COMMUNICATION TO SHAREHOLDERS :

Kalyani Steels has its own Website and all vital information relating to the Company and its performance, including quarterly, half yearly, annual results, official news releases and presentation to analysts if any, is put on the Website for the benefit of the public at large. The Company's Website address is www.kalyanisteels.com.

Quarterly, half yearly, annual results and information relating to convening of Annual General Meeting / Extraordinary General Meeting(s) is also published in leading newspapers and is also notified to the Stock Exchanges as required under the Listing Agreements.

In addition to this, the Company has also filed quarterly, half yearly, annual results, quarterly shareholding patterns on the Electronic Data Information Filing and Retrieval (EDIFAR) Website (www.sebiedifar.nic.in) maintained by National Informatics Centre (NIC), online, in the manner, format and within such time as prescribed by SEBI.

Letters and Transfer Deeds received from shareholders are acted upon and replied promptly.

INVESTOR GRIEVANCES :

The Company has in place "Shareholders / Investors Grievance Committee" for redressing Shareholders' / Investors' complaints. The Committee comprises of Mr.S.M. Kheny (Chairman), Mr.C.G. Patankar, Executive Director and Mr.B.B. Hattarki, Director. During the year 2005-06, the Shareholders / Investors Grievance Committee met on 20th June, 2005, 26th July, 2005, 30th October, 2005 and 23rd January, 2006. During the year ten complaints were received, which were redressed. The status of complaints is also reported to the Board of Directors, as an agenda item. Mrs.D.R. Puranik, Company Secretary, is the Compliance Officer.