

KALYANI STEELS LIMITED



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KALYANI

DRIVING INNOVATION

**34TH ANNUAL REPORT
2006-2007**

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
49-55, 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

Intime Spectrum Registry Limited
Block No.202, Akshay Complex,
2nd Floor, 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**34TH ANNUAL GENERAL MEETING**

Day : Monday
Date : 13th August 2007
Time : 11.00 a.m. (I.S.T.)
Place : Registered Office,
Kalyani Steels Limited,
Mundhwa,
Pune - 411 036

**KALYANI**

34th Annual Report 2006-2007

MANAGEMENT DISCUSSION AND ANALYSIS

The Board takes pleasure in presenting your Company's Thirty-Fourth Annual Report for the year 2006-07 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 :

Steel is vital to the development of any modern economy. The level of per capita consumption of steel is treated as one of the important indicators of socio-economic development and living standard of the people in any country. The growth of all major industrial economies, has been largely shaped by the strength of their steel industry.

Steel Industry is backbone of Indian Economy and plays vital role in the development process of the economy. Soaring demand by sectors like infrastructure, construction and automobiles, at home and abroad, has put India's steel industry on the world map. International Iron and Steel Institute (IISI) has ranked India as the seventh largest steel producer in the world with an overall production of about 40 million tones in 2006. The steel sector in the country is set to move upward and overall scenario is positive with accelerated rate of growth in steel sector.

While steel continues to have a stronghold in traditional sectors such as construction, housing, ground transportation, special steels is also increasingly used in hi-tech engineering industries such as power generation, petrochemicals, fertilisers etc. With the expected growth in demand for steel, many business houses have announced Brownfield as well as Greenfield expansion programmes which will substantially increase the steel production capacity. Along with this, down the line facilities like rolling, galvanizing, fabrication are also coming up.

Indian Companies are also expanding overseas to increase their size and reach. The increasing presence of the Indian steel companies in the global market is a pointer to the increased competitiveness of this industry. This is mainly due to improvement in the operational parameters of the Indian plants effected through establishment of new state-of-the-art plants and technology upgradation schemes in the older plants. The average techno-economic parameters of an Indian plant vis-à-vis international benchmarks show that the Indian plants are fast catching up with the best in the world.

Company Performance :

- Gross Turnover – Rs.10,700 Million
- Profit before Taxation – Rs.1,252 Million
- Profit after Taxation – Rs.899 Million

Turnover includes Trading Turnover of Rs.2,050 Million and Manufacturing Turnover of Rs.8,650 Million. Trading Turnover was mainly on account of buying and selling of coke and pig iron.

Manufacturing turnover includes sale of Rolled Products, As Cast Blooms, Pig Iron, Misc. Sales and Conversion Charges received. The Company sold 142,296 tonnes of 'Rolled Products' aggregating Rs.5,549 Million, 20,373 tonnes of 'As Cast Blooms' aggregating Rs.594 Million and 35,856 tonnes of Pig Iron aggregating Rs.623 Million. Misc. Sales amounted to Rs.452 Million and Conversion Charges received were Rs.1,432 Million. The Manufacturing Turnover includes exports of 1,528 tonnes of steel, aggregating Rs.70 Million.

Internal Control Systems and their adequacy :

The Company has adequate and effective internal control systems commensurate with its size and nature of business. The systems ensure protection of assets, proper authorisation and recording of all transactions and timely reporting.

The internal control systems are further supplemented by a programme of audits by management auditors who periodically 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 :

Human Resources are the strength of the Company and the Company recognises the contribution by the employees towards the growth of the Company. The Company focuses on training and upgrading of technical and managerial skills of employees, to enable them to face the challenges of the changing industry requirements.

KALYANI STEELS

As on 31st March, 2007 the Company has 183 employees. 854 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 :

With abundant iron ore resources and well-established base for steel production in the country, steel industry is poised to growth in the coming decades. As the average per capita consumption of steel in India is only 38 kg. compared to the global average of 170 kg., there is huge scope for increasing steel production in India.

On the demand side, the strategy should be adopted to create incremental demand through promotional efforts, creation of awareness and strengthening the delivery chain, particularly in rural areas. On the supply side, the strategy would be to facilitate creation of additional capacity, remove procedural and policy bottlenecks in the availability of inputs such as iron ore and coal, make higher investments in R&D and HRD and encourage the creation of infrastructure such as roads, railways and ports.

While there have been concerted efforts to control the fragmented nature of the industry through consolidation and closures, the problem continues to persist. Further, the biggest threat to the industry remains from the cyclical nature of the sector, which could put immense pressure on steel prices if steel consumption shows signs of faltering or supply exceeds the demand considerably.

Another possible threat to the domestic steel sector continues to be from dumping by international companies. With wide spread capacity expansion taking place across the globe and the protection to domestic steel companies being progressively reduced with consistent reduction in custom duties, international steel companies might look at markets to dump their products. In such a scenario, Indian companies stand to lose due to lack of competitiveness in terms of size, which now they are scaling up.

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 has always focused on good Corporate Governance, which is a key driver of sustainable corporate growth and long-term value creation. The basic philosophy of Corporate Governance is to achieve business excellence and dedicate itself for increasing long-term shareholder value. The Company is committed to good Corporate Governance and 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 2006-07.

1. BOARD LEVEL ISSUES

COMPOSITION OF THE BOARD :

As on 31st March, 2007, the Board of Directors of Kalyani Steels comprises nine directors. The Board consists of the Chairman, who is Promoter Non-Executive Director, two Executive Directors and six Non-Executive Directors, of which four are Independent. Details are given in Table 1.

NUMBER OF BOARD MEETINGS :

During the year 2006-07, the Board of the Company met seven times on 20th April, 2006, 26th June, 2006, 25th July, 2006, 26th August, 2006, 16th October, 2006, 14th November, 2006 and 19th January, 2007. 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 the Director	Category	Particulars of Attendance			Number of Directorships and Committee Memberships / Chairmanships in Public Limited Companies		
		Number of Board Meetings		Last AGM	Directorships	Committee Memberships	Committee Chairmanships
		Held	Attended				
Mr. B.N. Kalyani Chairman	Promoter Non-executive	7	6	Yes	12	5	2
Mr.Amit B. Kalyani	Non-executive	7	6	Yes	12	4	—
Mr.S.S. Hiremath	Non-executive	7	6	Yes	1	1	—
Mr.S.M. Kheny	Non-executive	7	7	Yes	12	3	2
Mr.S.S. Vaidya	Non-executive	7	7	Yes	8	5	5
Mr.B.B. Hattarki	Non-executive	7	6	Yes	9	6	2
Mr.M.U. Takale	Non-executive	5	4	Yes	2	—	—
Mr.C.G. Patankar Executive Director	Executive	7	7	Yes	11	4	—
Mr.Suresh Pandey Wholetime Director (Technical)	Executive	7	7	Yes	1	—	—

As detailed in the table above, 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.

BOARD PROCEDURE :

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. Board Members are given appropriate documents / detailed notes and information in advance of each Board and Committee Meeting.

KALYANI STEELS**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 2006-07.

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 2006-07 Audit Committee met on 20th April, 2006, 26th June, 2006, 25th July, 2006, 16th October, 2006 and 19th January, 2007. 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
Mr.S.S. Vaidya, Chairman	Independent	5	5
Mr.B.N. Kalyani	Promoter Non-executive	5	5
Mr.S.M. Kheny	Independent	5	5
Mr.S.S. Hiremath	Independent	5	4

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.

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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.

Service 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
Mr.B.N. Kalyani	**	60,000	N.A.	900,000	960,000	1,118
Mr.Amit B. Kalyani	**	12,000	N.A.	900,000	912,000	31,694
Mr.S.S. Hiremath	None	20,000	N.A.	100,000	120,000	50
Mr.S.M. Kheny	None	32,000	N.A.	—	32,000	10,890
Mr.S.S. Vaidya	None	24,000	N.A.	100,000	124,000	—
Mr.B.B. Hattarki	None	68,000	247,005	—	315,005	—
Mr.M.U. Takale	None	8,000	N.A.	—	8,000	3,500
Mr.C.G. Patankar	None	N.A.	5,374,074	8,800,000	14,174,074	4,770
Mr.Suresh Pandey	None	N.A.	2,487,400	—	2,487,400	—

* Sitting fees include payment for board level committee meetings.

** None of the 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.

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.

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

Mr.Amit B. Kalyani, Mr.S.S. Hiremath and Mr.S.M. Kheny, Directors of the Company are retiring by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. Details of directors to be re-appointed are given below :

Mr.Amit B. Kalyani, born on 26th July, 1975, is an Executive Director of Bharat Forge Limited. Mr.Amit B. Kalyani, after having his initial education in Pune, graduated in Mechanical Engineering from Bucknell University, U.S.A. He was in U.S.A. for a number of years and besides obtaining degree in engineering, has had considerable exposure to technological advancements in various fields and especially in Information Technology. He also has work experience in Speciality Steel Manufacturing Industry in U.S.A. Mr.Amit B. Kalyani serves on the Board of Kalyani Net Ventures, BF Utilities, Nandi Economic Corridor Enterprises, Nandi Infrastructure Corridor Enterprises, Bhalchandra Investment, Forge Investment, Mundhwa Investment, Jalkamal Investment and Finance, Jalkumbhi Investment and Finance and KPIT Cummins Infosystems.

Mr.S.S. Hiremath is B. Sc., LL.B., born on 25th November, 1928 is an Independent Director of the Company. Mr.Hiremath has more than 50 years rich experience in Agriculture and Sugar Industry. He was formerly a Director of Maharashtra Sugar Federation, Mumbai and National Sugar Federation, New Delhi.

Mr.S.M. Kheny, Mechanical Engineer, born on 18th March, 1948 is an Independent Director of the Company. Mr.Kheny serves on the Board of Kalyani Engineering & Construction Company, Kalyani Highway Developers, Kalyani Infrastructure Projects, Kalyani Habitat, India International Infrastructure Engineers, Nandi Engineering, Nandi Highway Developers, Nandi Infrastructure Corridor Enterprises, Hospet Steels, Hikal and Hospet Power.

COMMUNICATION TO SHAREHOLDERS :

Kalyani Steels puts all vital information relating to the Company and its performance, including quarterly, half yearly, yearly financial results, official announcements and communication to the investors and analysts on its website www.kalyanisteels.com, regularly for the benefit of the public at large.

Quarterly, half yearly, yearly financial results are published in leading newspapers such as Economic Times (Mumbai & Pune), Business Standard (All Editions) and Sakal (Pune) and are also sent to the Stock Exchanges immediately after they are approved by the Board.

These results and Shareholding Pattern of the Company at the end of each quarter are also posted on website developed by SEBI viz. www.sebidifor.nic.in.

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 2006-07, the Shareholders' / Investors' Grievance Committee met on 26th June, 2006, 25th July, 2006, 16th October, 2006 and 19th January, 2007. Particulars relating to the attendance at the Shareholders' / Investors' Grievance Committee meetings held during the year are given below :

Name of Director	Category	Number of Meetings held	Number of Meetings attended
Mr.S.M. Kheny, Chairman	Independent	4	4
Mr.C.G. Patankar	Executive	4	4
Mr.B.B. Hattarki	Non-Executive	4	3

During the year six 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.



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The Company has already provided separate E-mail ID for registering complaints by investors (investor@kalyanisteels.com) and the said E-mail ID is also displayed on the web-site of the Company.

SHARE TRANSFER :

The Company has constituted the 'Share Transfer Committee', which meets twice a month to approve share transfers, transmissions, consolidation, sub-division, issue of duplicate certificates and requests for dematerialisation of Company's shares. The Committee comprises of Mr.B.N. Kalyani, Chairman, Mr.B.B. Hattarki, Director and Mr.C.G. Patankar, Executive Director.

DETAILS OF NON-COMPLIANCE :

Kalyani Steels has complied with all the requirements of regulatory authorities. No penalties were imposed on the Company by Stock Exchanges or SEBI or any statutory authority on any matter relating to the capital market during the period under report.

GENERAL BODY MEETINGS :

Particulars of General Body Meetings held for the last three years are given below :

Date	Time	Type of Meeting	Venue
28th August, 2004	11.00 a.m.	Annual General Meeting	Registered Office of the Company at Mundhwa, Pune - 411 036
22nd August, 2005	11.00 a.m.	Annual General Meeting	Registered Office of the Company at Mundhwa, Pune - 411 036
26th August, 2006	11.00 a.m.	Annual General Meeting	Registered Office of the Company at Mundhwa, Pune - 411 036
14th November, 2006	11.00 a.m.	Extraordinary General Meeting	Registered Office of the Company at Mundhwa, Pune - 411 036

No Special Resolution was put through postal ballot in the last year.

This year no resolution is proposed to be taken up through postal ballot.

COMPLIANCE WITH MANDATORY AND NON-MANDATORY REQUIREMENTS :

The Company is fully compliant with the applicable mandatory requirements of the Clause 49. It has not adopted any non-mandatory requirements.

SHAREHOLDER INFORMATION

ANNUAL GENERAL MEETING :

Day and Date : Monday, 13th August, 2007 at 11.00 a.m.

Venue : Registered Office of the Company at Mundhwa, Pune - 411 036

FINANCIAL CALENDAR :

1st April to 31st March

BOOK CLOSURE :

The books will be closed from Saturday, 4th August, 2007 to Monday, 13th August, 2007 (both days inclusive).

DIVIDEND DATE :

Dividend of 40% i.e. Rs.4/- per Equity Share would be payable on and from 24th August, 2007.

LISTING :

Pune Stock Exchange Limited and Bombay Stock Exchange Limited

STOCK CODES :

Pune Stock Exchange Limited : KALST 6091

Bombay Stock Exchange Limited : 500235

ISIN in NSDL and CDSL : INE907A01018