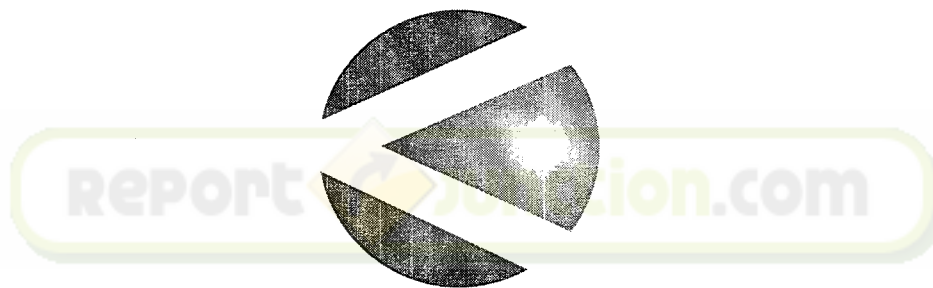


KALYANI STEELS LIMITED



KALYANI

DRIVING INNOVATION

**35TH ANNUAL REPORT
2007-2008**

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
Wholtime Director (Technical)

Report

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
Axis Bank Limited

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 : ksi@kalyanisteels.com

WORKS

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

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Balance Sheet Abstract & Company's General Business Profile
Consolidated Financial Statements

35TH ANNUAL GENERAL MEETING

Day : Wednesday
Date : 27th August, 2008
Time : 11.00 a.m. (I.S.T.)
Place : Registered Office,
Kalyani Steels Limited,
Mundhwa,
Pune - 411 036



KALYANI

35th Annual Report 2007-2008

MANAGEMENT DISCUSSION AND ANALYSIS

The Board takes pleasure in presenting your Company's Thirty-Fifth Annual Report for the year 2007-08 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 :

India's rapid economic growth is being built on a frame of steel and the industry will continue to play a very vital role in the overall growth of the country. Soaring demand by sectors like infrastructure, real estate and automobiles, at home and abroad, has put the country's steel industry on the world steel map.

With a strong economy, amongst the fastest growing in the world and with rising income levels and consumer spending patterns, India's steel appetite is likely to match the developed countries in the next one to two decades.

Due to fast growth in the industry, domestic companies are expanding their steel production capacity to benefit from the opportunity by undertaking Greenfield / Brownfield expansions. Apart from the domestic companies, foreign companies too are staking high on this thriving sector to rake over the profits.

Global steel demand is also rising on the back of accelerated infrastructure activity in China and CIS, housing boom in USA and white goods resurgence in Europe. For the first time in last twenty years, there is a demand growth all over the world for steel.

The demand supply gap is expected to increase and this will drive steel prices northwards, even as the global steel industry is not prepared for this demand onslaught.

Company Performance :

- Gross Turnover – Rs.11,557 Million
- Profit before Taxation – Rs.1,050 Million
- Profit after Taxation – Rs.792 Million

Turnover includes Trading Turnover of Rs.2,204 Million and Manufacturing Turnover of Rs.9,353 Million.

Manufacturing turnover includes sale of Rolled Products, As Cast Blooms, Pig Iron, Misc. Sales and Conversion Charges received. The Company sold 153,966 tonnes of 'Rolled Products' aggregating Rs.6,173 Million, 13,630 tonnes of 'As Cast Blooms' aggregating Rs.423 Million and 26,125 tonnes of 'Pig Iron' aggregating Rs.590 Million. Misc. Sales amounted to Rs.656 Million and Conversion Charges received were Rs.1,511 Million. The Manufacturing Turnover includes exports of 9,263 tonnes of steel, aggregating Rs.379 Million.

Internal Control Systems and their adequacy :

The Company has adequate and effective internal control systems commensurate with its size and nature of business. These have been designed to provide reasonable assurance with regard to recording and providing reliable operational and financial information, safeguarding the assets, executing transactions with proper authorisation and ensuring compliance with corporate policies and applicable laws and regulations.

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 adequacy and effectiveness of the internal control systems and suggests improvements.

Human Resources :

The Company believes that people are its most important asset and it is the Company's constant endeavour to nurture and develop the talent towards achievement of its organisational objectives.

As on 31st March, 2008 the Company has 170 employees. 927 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.

KALYANI STEELS**Opportunities, Threats and Future Outlook :**

The Steel Industry has enough potential to grow at a much accelerated pace in the coming future due to the continuity of the development projects around the world. The Industry is at present working near its productive capacity which needs to be increased with increasing demand.

While one can remain confident of the growing demand, the principal deterrent to the steel industry's growth could be raw material availability particularly metallurgical coke and scrap. In the steel industry, cost is the main driver for competitiveness and 60-80 percent of the cost of production is contributed by raw materials, mainly iron ore, metallurgical coke and scrap.

With China, the largest supplier of metallurgical coke, stepping up its own consumption, worldwide supplies have come under tremendous pressure. Metallurgical coke prices have nearly quadrupled over the past one year and are unlikely to abate in the medium to long term.

Though India has abundant coal reserves, most of it is of non-coking variety, rendering limited usability to metallurgical industry. Till recently imported metallurgical coke was never a constraining factor, in future however reliance would have to be placed on domestic manufacturing of metallurgical coke by utilising imported coal. Substantial backward integration projects can therefore be expected from integrated steel manufacturers.

In view of the above scenario, the Company expects to have increased cost pressure. Barring demand supply mismatch and volatility, steel prices are expected to be firm on medium term.

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 been practising the principles of good Corporate Governance, over the years and lays strong emphasis on transparency and proper disclosures. The Company believes that timely disclosures, transparent accounting policies and strong Board go a long way in protecting shareholders trust while maximizing long term corporate value. The Company recognises that good Corporate Governance is a continuing exercise and is in full compliance with the requirements under 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 2007-08.

1. BOARD LEVEL ISSUES

COMPOSITION OF THE BOARD :

As on 31st March, 2008, the Board of Directors of Kalyani Steels comprised 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 2007-08, the Board of the Company met six times on 24th April, 2007, 28th May, 2007, 20th July, 2007, 13th August, 2007, 19th October, 2007 and 30th January, 2008. 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	6	6	Yes	14	3	2
Mr.Amit B. Kalyani	Non-executive	6	4	No	15	4	—
Mr.S.S. Hiremath	Non-executive	6	6	Yes	1	1	—
Mr.S.M. Kheny	Non-executive	6	6	Yes	12	1	2
Mr.S.S. Vaidya	Non-executive	6	6	Yes	9	9	5
Mr.B.B. Hattarki	Non-executive	6	6	Yes	11	5	2
Mr.M.U. Takale	Non-executive	6	6	Yes	3	—	—
Mr.C.G. Patankar Executive Director	Executive	6	6	Yes	12	5	—
Mr.Suresh Pandey Wholetime Director (Technical)	Executive	6	4	Yes	2	—	—

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 2007-08.

AUDIT COMMITTEE :

As on 31st March, 2008, the Audit Committee of Kalyani Steels comprised four members, of which three are Independent Directors. All the members have accounting and finance management expertise. 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 2007-08 Audit Committee met on 24th April, 2007, 28th May, 2007, 20th July, 2007, 19th October, 2007 and 30th January, 2008. 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	5

The functions of the Audit Committee of the Company include of the following :

- 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.
- 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.
- Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
- Reviewing, with the management, the annual financial statements before submission to the board for approval.
- Reviewing, with the management, the quarterly financial statements before submission to the board for approval.
- Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
- 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.
- Discussions with management auditors on any significant findings and follow up thereon.
- 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.
- 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.
- 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.
- Carrying out any other function as is mentioned in the terms of reference of the audit committee.

The Company has systems and procedures in place to ensure that the Audit Committee mandatorily reviews :

- Management discussion and analysis of financial condition and results of operations.
- Statement of significant related party transactions (as defined by the Audit Committee), submitted by management.
- Management letters / letters of internal control weaknesses issued by the statutory auditors.
- Internal audit reports relating to internal control weaknesses.
- The appointment, removal and terms of remuneration of the chief internal auditors.



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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 Wholetime Director 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 Wholetime Director comprises of Salary, Perquisites and leave encashment facility.

Service Contracts are entered into with the Executive Director and the Wholetime Director 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 with other directors, 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	**	36,000	N.A.	900,000	936,000	1,118
Mr.Amit B. Kalyani	**	8,000	N.A.	900,000	908,000	31,694
Mr.S.S. Hiremath	None	22,000	N.A.	100,000	122,000	50
Mr.S.M. Kheny	None	30,000	N.A.	—	30,000	10,914
Mr.S.S. Vaidya	None	22,000	N.A.	100,000	122,000	—
Mr.B.B. Hattarki	None	76,000	N.A.	—	76,000	—
Mr.M.U. Takale	None	12,000	N.A.	—	12,000	2,500
Mr.C.G. Patankar	None	N.A.	6,395,717	9,100,000	15,495,717	4,770
Mr.Suresh Pandey	None	N.A.	2,557,400	—	2,557,400	—

* 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 do they vote on such matters.

KALYANI STEELS

3. SHAREHOLDERS

DISCLOSURES REGARDING APPOINTMENT OR RE-APPOINTMENT OF DIRECTORS :

Mr.B.B. Hattarki born on 10th October, 1941, is a Metallurgical and Mechanical Engineer. He serves on the Board of BF Utilities, Automotive Axles, Kalyani International, Kalyani Mukand, Surajmukhi Investment and Finance, Chakrapani Investments and Trades, Gladiolla Investments, Hospet Steels, Khed Economic Infrastructure and Khed Developers. Mr.Hattarki is retiring by rotation at the ensuing Annual General Meeting and being eligible, offers 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 27 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 Bosch Chassis Systems India, Nandi Infrastructure Corridor Enterprises, Sahyadri Hospitals, BF Utilities, Nandi Economic Corridor Enterprises, Sharp India, BF Systems and Nandi Highway Developers. Mr.Vaidya is retiring by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

Mr.M.U. Takale, born on 18th August, 1960, is a Mechanical Engineer having more than 25 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 and Kalyani Infotech Solutions. Mr.Takale is retiring by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

Mr.Suresh Pandey born on 5th November, 1943, is a Metallurgical Engineer, from the Indian Institute of Technology, Kanpur having 43 years rich experience in the steel industry. Mr. Pandey also serves on the Board of Kalyani Carpenter Special Steels. Mr.Pandey has been re-appointed as Wholtime Director (Technical) for the period of one year from 1st February, 2008 to 31st January, 2009, on the terms and conditions mentioned in the notice convening the ensuing Annual General Meeting.

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.sebidifir.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 2007-08, the Shareholders' / Investors' Grievance Committee met on 28th May, 2007, 20th July, 2007, 19th October, 2007 and 30th January, 2008. 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	4

During the year one complaint was received, which was redressed. The status of complaints is also reported to the Board of Directors, as an agenda item. Mrs.Deepti R. Puranik, Company Secretary, is the Compliance Officer.

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.

**KALYANI**

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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	Special Resolution Passed
22nd August, 2005	11.00 a.m.	Annual General Meeting	Registered Office of the Company at Mundhwa, Pune - 411 036	None
26th August, 2006	11.00 a.m.	Annual General Meeting	Registered Office of the Company at Mundhwa, Pune - 411 036	None
14th November, 2006	11.00 a.m.	Extraordinary General Meeting	Registered Office of the Company at Mundhwa, Pune - 411 036	2*
13th August, 2007	11.00 a.m.	Annual General Meeting	Registered Office of the Company at Mundhwa, Pune - 411 036	None

*In an Extraordinary General Meeting held on 14th November, 2006, two special resolutions were passed, details of which are : i) Consent under Section 81(1A) of the Companies Act, 1956 for Preferential Allotment of 1,600,000 Equity Shares ii) Consent under Section 163 of the Companies Act, 1956 for keeping register and index of members, debentureholders, other related books and copies of Annual Returns at the office of Registrar and Transfer Agents viz. Intime Spectrum Registry Limited.

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 : Wednesday, 27th August, 2008 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 Monday, 18th August, 2008 to Wednesday, 27th August, 2008 (both days inclusive).

DIVIDEND DATE :

Dividend of 40% i.e. Rs.4/- per Equity Share would be payable on and from 8th September, 2008.

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