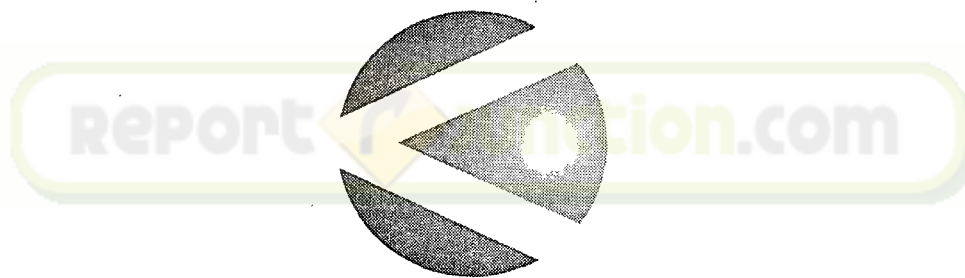


KALYANI STEELS LIMITED



KALYANI

DRIVING INNOVATION

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

AUDITORS

Dalal & Shah
Chartered Accountants
252, Veer Savarkar Marg,
Shivaji Park, Dadar,
Mumbai - 400 028

BANKERS

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

REGISTRAR & TRANSFER AGENTS

Link Intime India Private 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

KALYANI STEELS

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

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36TH ANNUAL GENERAL MEETING

Day : Wednesday
Date : 26th August, 2009
Time : 11.00 a.m. (I.S.T.)
Place : Registered Office,
Kalyani Steels Limited,
Mundhwa,
Pune - 411 036



KALYANI

36th Annual Report 2008-2009

MANAGEMENT DISCUSSION AND ANALYSIS

The Board takes pleasure in presenting your Company's Thirty-Sixth Annual Report for the year 2008-09 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 :

Bankruptcy of Lehman Brothers and subsequent fall of financial markets all over the world really changed the mood of the business globally. Till mid of 2008, businesses were riding high on booming world economy, planning ambitious expansions, acquisitions, joint ventures etc. Iron & steel industry also was not an exception to this mood.

In the wake of increasing world demand, steel companies continued to run their plants at the optimum level till September 2008, but soon after, steel companies across the globe were forced to drastically cut their production in view of worldwide destruction in demand and credit crunch prevailing in the market. Global economic slowdown triggered decline in demand for steel as well as its prices, while the raw material prices remained high, consequently affecting the viability of the industry. Huge inventories lying at various stock yards became another worrying factor. Major steel producers withhold their expansion plans and their decision impacted the country's overall economy and employment.

The problem was more serious in the developed world as their economies were already stagnated and the jolt of recession was too hard to get absorbed. A lot of capacities became unviable due to stagnant markets and ever rising operating costs. Many steel companies had completely stopped their production and even started manpower reduction.

Company Performance :

- Gross Turnover – Rs.11,672 Million
- Profit before Taxation – Rs.15 Million
- Profit after Taxation – Rs.33 Million

Turnover includes Trading Turnover of Rs.1,899 Million and Manufacturing Turnover of Rs.9,773 Million.

Manufacturing turnover includes sale of Rolled Products, As Cast Blooms, Pig Iron, Misc. Sales and Conversion Charges received. The Company sold 112,433 tonnes of 'Rolled Products' aggregating Rs.5,870 Million, 20,002 tonnes of 'As Cast Blooms' aggregating Rs.614 Million and 28,953 tonnes of 'Pig Iron' aggregating Rs.996 Million. Misc. Sales amounted to Rs.715 Million and Conversion Charges received were Rs.1,578 Million. The Manufacturing Turnover includes exports of 9,938 tonnes of steel, aggregating Rs.696 Million.

Internal Control Systems and their adequacy :

The Company has adequate and effective system of internal controls designed to provide a high degree of assurance regarding the effectiveness and efficiency of operations, the adequacy of safeguards of assets, the reliability of financial controls and compliance with applicable laws and regulations.

The Company has also implemented suitable controls to ensure that all resources are utilised optimally and financial transactions are reported with accuracy.

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 is privileged to have an excellent pool of human resources working with it. The Company considers the quality of its human resources to be its most important asset and places great emphasis on training and development of employees at all levels. Communication exercises are treated as continuous process to keep the employees informed of the challenges being faced by the Company and also motivate them to take up higher responsibilities, in tune with the requirements of the Company.

As on 31st March, 2009 the Company has 55 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.

Opportunities, Threats and Future Outlook :

The Indian economy is largely domestic consumption led and accordingly it has been less affected by the deceleration in global economic growth as compared to other countries. Despite the strong adverse impact of global economic meltdown, Indian steel demand remains better than in many countries.

Though automobile, capital goods and industrial productions received a set back due to global downturn, Indian economy is expected to recover soon and for the long term as well, owing to domestic demand from infrastructure and construction industries.

All major players in the steel industry have to adopt a collaborative and competitive approach to create distribution channels in semi-urban and rural areas, share best practices to become cost effective, efficiently tackle environment issues, focus on development of skills of steel industry personnel and develop products that are best suited to the needs of Indian steel users. Keeping global standards in mind, industry should strive towards increasing per capita consumption of steel than the present level.

Although Indian Steel companies are better equipped to deal with market turbulence, in view of their lowest manufacturing cost, they will have to overcome disadvantages like lack of latest technology, low manpower productivity, absence of collaborative and competitive approach, demand creation and distribution channel problems.

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 is committed to good Corporate Governance and is in full compliance with the requirements under Clause 49 of the Listing Agreement with the Stock Exchanges. The basic philosophy of Corporate Governance is to achieve business excellence and dedicate itself for increasing long-term shareholder value.

The SEBI Code on Corporate Governance has been incorporated in the Listing Agreement of Pune Stock Exchange Limited (PSE), Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE), with whom Equity Shares of Kalyani Steels are listed. Certain provisions in the Companies Act, 1956, also deal with Corporate Governance.

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 2008-09.

1. BOARD LEVEL ISSUES

COMPOSITION OF THE BOARD :

As on 31st March, 2009, the Board of Directors of Kalyani Steels comprised eight directors. The Board consists of the Chairman, who is Promoter Non-Executive Director, one Executive Director and six Non-Executive Directors, of which four are Independent. Details are given in Table 1.

NUMBER OF BOARD MEETINGS :

During the year 2008-09, the Board of the Company met seven times on 28th April, 2008, 6th June, 2008, 23rd July, 2008, 27th August, 2008, 24th October, 2008, 14th January, 2009 and 31st January, 2009. 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	4	Yes	14	3	2
Mr.Amit B. Kalyani	Non-Executive	7	5	Yes	15	4	—
Mr.S.S. Hiremath	Non-Executive	7	5	Yes	1	1	—
Mr.S.M. Kheny	Non-Executive	7	6	Yes	13	2	1
Mr.S.S. Vaidya	Non-Executive	7	6	Yes	10	5	5
Mr.B.B. Hattarki	Non-Executive	7	6	Yes	11	4	2
Mr.M.U. Takale	Non-Executive	7	6	Yes	3	—	—
Mr.C.G. Patankar Executive Director	Executive	7	7	Yes	12	5	—
Mr. Suresh Pandey* Wholetime Director (Technical)	Executive	7	6	Yes	2	—	—

* Ceased to be Director w.e.f. 31st January, 2009

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 :

Among others, information supplied to the Board includes :

- Annual operating plans and budgets, capital budgets and any update thereof
- Quarterly results for the Company
- Minutes of meetings of committees
- Details of Joint Venture / Collaboration Agreement
- Non-Compliance of any regulatory, statutory nature or listing requirements etc. if any
- Materially important show cause, demand notices if any

KALYANI STEELS

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.

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 2008-09.

AUDIT COMMITTEE :

As on 31st March, 2009, 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 2008-09 Audit Committee met on 28th April, 2008, 6th June, 2008, 23rd July, 2008, 24th October, 2008 and 31st January, 2009. 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	4
Mr.B.N. Kalyani	Promoter Non-executive	5	3
Mr.S.M. Kheny	Independent	5	5
Mr.S.S. Hiremath	Independent	5	4

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 / 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 :

The Board has constituted Remuneration Committee during the year to recommend / review the remuneration packages of the Executive Director(s). The Remuneration Committee of Directors consists of three independent directors, namely Mr.S.M. Kheny, Mr.S.S. Vaidya and Mr.M.U. Takale. The Chairman of the Remuneration Committee is Mr.S.M. Kheny. The Committee met twice in the year on 23rd January, 2009 and 31st January, 2009 when all the members were present.

The Executive Director is paid remuneration as per the terms approved by the Remuneration Committee. The remuneration of the Executive Director comprised of Salary and Perquisites besides contributions to provident fund, superannuation and gratuity and leave encashment facility.

Service Contracts is entered into with the Executive Director in terms of the resolutions governing his 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 during the financial year 2008-09, 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.)	No. of Shares held
Mr.B.N. Kalyani	**	34,000	N.A.	1,118
Mr.Amit B. Kalyani	**	10,000	N.A.	31,694
Mr.S.S. Hiremath	None	18,000	N.A.	50
Mr.S.M. Kheny	None	30,000	N.A.	10,914
Mr.S.S. Vaidya	None	20,000	N.A.	—
Mr.B.B. Hattarki	None	88,000	N.A.	—
Mr.M.U. Takale	None	12,000	N.A.	2,500
Mr.C.G. Patankar	None	N.A.	6,464,300	4,770
Mr. Suresh Pandey***	None	N.A.	2,811,167	—

* 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.

*** Ceased to be Director w.e.f. 31st January, 2009

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.N. Kalyani, Mr.Amit B. Kalyani 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. Mr.C.G. Patankar, Executive Director has been re-appointed for the further period of three years w.e.f. 1st April, 2009. Details of directors to be re-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, Kalyani Carpenter Special Steels, Kalyani Carpenter Metal Centres, Meritor HVS (India), BF Utilities, Nandi Economic Corridor Enterprises, Khed Developers and BF-NTPC Energy Systems. Mr.Kalyani is retiring by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

Mr.Amit B. Kalyani, born on 26th July, 1975, is an Executive Director of Bharat Forge Limited. Mr.Amit B. Kalyani, has received his bachelor's in Mechanical Engineering from Bucknell University, Pennsylvania, U.S.A. Mr.Amit B. Kalyani serves on the Board of Kalyani Net Ventures, BF Utilities, Kalyani Infotech Solutions, Nandi Economic Corridor Enterprises, Nandi Infrastructure Corridor Enterprises, Bhalchandra Investment, Forge Investment, Mundhwa Investment, Jalkamal Investment and Finance, Jalkumbhi Investment and Finance, KPIT Cummins Infosystems, Khed Developers and BF-NTPC Energy Systems. Mr.Amit B. Kalyani is retiring by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

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 Capital Company, Hospet Steels, Hikal, Hospet Power and Bangalore Turf Club. Mr.Kheny is retiring by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

Mr.C.G. Patankar, Executive Director of the Company has been re-appointed for the period of three years from 1st April, 2009 to 31st March, 2012 on the terms and conditions mentioned in the notice convening the ensuing Annual General Meeting. Mr.Patankar, born on 6th June, 1956, holds a Bachelors Degree in Science and he is a Chartered Accountant, having a rich experience of 31 years. Mr.Patankar also serves on the Board of Kalyani Carpenter Special Steels, Kalyani Carpenter Metal Centres, Kalyani Thermal, Kalyani Mukand, Kalyani International, Hospet Steels, Bharat NRE Coke, Chakrapani Investments and Trades, Surajmukhi Investment and Finance, Gladiolla Investments and Spice Islands Apparels.

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 Business Standard (All Editions) and Loksatta (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.sebiedifar.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 2008-09, the Shareholders' / Investors' Grievance Committee met on 28th April, 2008, 23rd July, 2008, 24th October, 2008 and 31st January, 2009. 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



KALYANI

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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.

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
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
27th August, 2008	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. 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, 26th August, 2009 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, 17th August, 2009 to Wednesday, 26th August, 2009 (both days inclusive), as an Annual Closure for the Annual General Meeting.

LISTING :

National Stock Exchange of India Limited (NSE), Bombay Stock Exchange Limited (BSE), Pune Stock Exchange Limited (PSE)

STOCK CODES :

NSE : KALSTEELS
BSE : 500235
PSE : KALST 6091
ISIN in NSDL and CDSL : INE907A01018