

KALYANI STEELS LIMITED



KALYANI

DRIVING INNOVATION

BOARD OF DIRECTORS

Mr. B. N. Kalyani
Chairman

Mr. Amit B. Kalyani

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 Dhule 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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37TH ANNUAL GENERAL MEETING

Day : Wednesday
Date : 25th August, 2010
Time : 11.00 a.m. (I.S.T.)
Place : Registered Office,
Kalyani Steels Limited,
Mundhwa,
Pune - 411 036

**MANAGEMENT DISCUSSION AND ANALYSIS**

The Board takes pleasure in presenting your Company's Thirty-Seventh Annual Report for the year 2009-10 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 Indian Steel Industry weathered the global economic crisis fairly well. Even in the tough times of economic slowdown, the Industry succeeded to sustain its positive growth momentum on the strong fundamentals of domestic demand from construction, automobile and infrastructure sectors.

Emerging out of the world economic crisis with only minor bruises, the industry is poised to enter a growth phase and is on the threshold of a major transformation. In terms of demand, Indian Steel Industry is fortunately placed and this should spur its growth.

The path to economic development is very much linked to development of infrastructure. As of now, there has been under investment in infrastructure sector, which is most likely to change in coming years. Demand for steel will expand as the investments in infrastructure increases. Additionally, as the economy grows, the per capita steel consumption which currently stands at 44 kg per year compared to China's 250 kg would drastically go up. These would significantly escalate demand for steel and its products in India.

Growth in manufacturing sector especially in automobile and construction, is expected to result in additional steel demand.

Company Performance :

- Gross Turnover – Rs.11,535 Million
- Profit before Taxation – Rs.501 Million
- Profit after Taxation – Rs.433 Million

Turnover includes Trading Turnover of Rs.2,541 Million and Manufacturing Turnover of Rs.8,994 Million.

Manufacturing turnover includes sale of Rolled Products, As Cast Blooms, Pig Iron, Misc. Sales and Conversion Charges received. The Company sold 158,239 tonnes of 'Rolled Products' aggregating Rs.6,616 Million, 26,090 tonnes of 'As Cast Blooms' aggregating Rs.722 Million and 199 tonnes of 'Pig Iron' aggregating Rs.4 Million. Misc. Sales amounted to Rs.261 Million and Conversion Charges received were Rs.1,391 Million. The Manufacturing Turnover includes exports of 8,848 tonnes of steel, aggregating Rs.285 Million.

Internal Control Systems and their adequacy :

The Company strongly believes that Internal Control Systems are necessary for good Corporate Governance and that the freedom of management should be implemented through the framework of proper checks and balances.

The Company has in place an effective system of internal controls to ensure that all assets are properly safeguarded and protected and used optimally and financial transactions are reported accurately.

As a part of the internal control system, the Company has engaged services of the professional firm to carry out independent internal audit and to monitor the entire operations and functions on a regular basis. The top management and the Audit Committee of the Board review the findings and recommendations of the internal audit and ensure that the recommendations of the internal audit are implemented effectively.

Human Resources :

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 continues 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.

In order to sustain the competitive edge, the Company has been taking various initiatives for improving the human resource strength and creating a conducive work atmosphere.

As on 31st March, 2010 the Company has 65 employees. 979 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 :

In the steel industry, cost is the main driver for competitiveness and the majority of the cost of production is contributed by raw materials, mainly iron ore and metallurgical coke. Prices for these raw materials, are increasing significantly in the last few months, leading to increased cost of steel production.

Indian automotive production has increased by 26% in 2009-10 on YOY basis. This has resulted into increased demand for automotive steels. Domestically, new capacities have been added. These new plants, with latest technologies, have economies of scale leading to cost competitiveness. Increased availability of steel, resulting in short term supply / demand mismatch, could pose challenges to the steel industry.

To cope up with these challenges and to achieve cost competitiveness your Company has also taken several initiatives like long term arrangements for iron ore and coke, setting up captive power plant etc. In addition to this, the Company has also taken steps for getting allocation of iron ore and coal mines.

Medium to long term outlook for the steel sector remains positive, commensurate with economic growth.

While Indian Steel Industry has cut costs and have reasonably healthy bottom lines, their challenges lies in modernising the existing plants. They must invest in enabling technologies that includes automation, improving skills of human assets and providing them necessary technology tools. This would enhance their ability to compete with global steel producers.

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.



CORPORATE GOVERNANCE

The Company's philosophy of Corporate Governance aims at establishing and practicing a system of good Corporate Governance, which will assist the management in managing the Company's business in an efficient and transparent manner towards fulfilling the corporate objectives. The Company recognises that good Corporate Governance is a continuing exercise and is committed to follow the best practices in the overall interest of the stakeholders.

The Company 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 2009-10.

1. BOARD LEVEL ISSUES

COMPOSITION OF THE BOARD :

As on 31st March, 2010, the Board of Directors of Kalyani Steels comprised seven directors. The Board consists of the Chairman, who is Promoter Non-Executive Director, one Executive Director and five Non-Executive Directors, of which four are Independent. Details are given in Table 1.

NUMBER OF BOARD MEETINGS :

During the year 2009-10, the Board of the Company met nine times on 5th May, 2009, 1st June, 2009, 3rd July, 2009, 28th July, 2009, 12th August, 2009, 26th August, 2009, 31st October, 2009, 3rd November, 2009 and 27th January, 2010. 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	9	7	Yes	14	3	3
Mr.Amit B. Kalyani	Non-Executive	9	8	Yes	12	4	—
Mr.S.S. Hiremath*	Non-Executive	3	1	N.A.	1	1	—
Mr.S.M. Kheny	Non-Executive	9	5	Yes	13	2	1
Mr.S.S. Vaidya	Non-Executive	9	9	Yes	10	5	5
Mr.B.B. Hattarki	Non-Executive	9	9	Yes	9	2	4
Mr.M.U. Takale	Non-Executive	9	9	Yes	4	—	—
Mr.C.G. Patankar Executive Director	Executive	9	9	Yes	10	4	—

* Ceased to be Director w.e.f. 3rd July, 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 :

Information Supplied to the Board

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
- Scheme of Arrangement
- 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

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 2009-10.

AUDIT COMMITTEE :

As on 31st March, 2010, 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.B.B. Hattarki 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 2009-10 Audit Committee met on 5th May, 2009, 1st June, 2009, 28th July, 2009, 31st October, 2009 and 27th January, 2010. 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	3
Mr.S.M. Kheny	Independent	5	3
Mr.S.S. Hiremath*	Independent	2	1
Mr.B.B. Hattarki**	Independent	2	2

* Ceased to be Director w.e.f. 3rd July, 2009

**Co-opted on the Audit Committee w.e.f. 28th July, 2009

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.

**REMUNERATION POLICY :**

The Remuneration Committee has been constituted 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. No meeting of the Remuneration Committee was held during the year 2009-10.

The Executive Director is paid remuneration as per the terms approved by the Remuneration Committee and 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 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 2009-10, 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	**	32,000	N.A.	1,118
Mr.Amit B. Kalyani	**	16,000	N.A.	31,694
Mr.S.S. Hiremath***	None	4,000	N.A.	50
Mr.S.M. Kheny	None	22,000	N.A.	10,914
Mr.S.S. Vaidya	None	28,000	N.A.	—
Mr.B.B. Hattarki	None	80,000	N.A.	—
Mr.M.U. Takale	None	18,000	N.A.	2,500
Mr.C.G. Patankar	None	N.A.	11,683,302	4,770

* 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. 3rd July, 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.

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

Mr.B.B. Hattarki and Mr.S.S. Vaidya, 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.B.B. Hattarki born on 10th October, 1941, is a Metallurgical and Mechanical Engineer. He also serves on the

Board of BF Utilities, Automotive Axles, Kalyani International, Kalyani Mukand, Kalyani Investment Company, Hospet Steels, BF Investment 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 29 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, Nandi Highway Developers and Kalyani Investment Company. Mr.Vaidya is retiring by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

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.

Letters and Transfer Deeds received from shareholders are replied and acted upon 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 2009-10, the Shareholders' / Investors' Grievance Committee met on 5th May, 2009, 28th July, 2009, 31st October, 2009 and 27th January, 2010. 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	3
Mr.C.G. Patankar	Executive	4	4
Mr.B.B. Hattarki	Independent	4	4

During the year two complaints were received, which were 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.

**KALYANI**

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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
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
26th August, 2009	11.00 a.m.	Annual General Meeting	Registered Office of the Company at Mundhwa, Pune – 411 036	4*
20th January, 2010	10.30 a.m.	Meeting as per the Directions of the Hon'ble High Court of Judicature at Bombay	Registered Office of the Company at Mundhwa, Pune – 411 036	1**

* Special Resolutions passed were : i) Payment of Minimum Remuneration to Mr.C.G. Patankar, Executive Director for the period of one year from 1st April, 2008 to 31st March, 2009; ii) Re-appointment of Mr.C.G. Patankar, Executive Director for the period of three years from 1st April, 2009 to 31st March, 2012; iii) Payment of Minimum Remuneration to Mr.Suresh Pandey, Wholtime Director (Technical) for the period from 1st April, 2008 to 31st January, 2009; and iv) Consent for Payment of Commission to Directors other than Executive / Wholtime Directors.

** Special Resolution was passed, under Section 100 of the Companies Act, 1956, for Reduction of Capital

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, 25th August, 2010 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, 16th August, 2010 to Wednesday, 25th August, 2010 (both days inclusive).

DIVIDEND DATE :

Dividend of Rs.1.25/- per Equity Share of Rs.5/- each (25%) would be payable on and from 6th September, 2010

LISTING :

National Stock Exchange of India Limited (NSE)

Bombay Stock Exchange Limited (BSE)

Pune Stock Exchange Limited (PSE)

STOCK CODES :

NSE : KSL

BSE : 500235

PSE : KALST 6091

ISIN in NSDL and CDSL : INE907A01026