

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

Mr. R.K. Goyal

Managing 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 : investor@kalyanisteels.com

WORKS

Hospet Road, Ginigera

Tal. & Dist. Koppal

KARNATAKA - 583 228

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38TH ANNUAL GENERAL MEETING

Day : Friday
Date : 12th August, 2011
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-Eighth Annual Report for the year 2010-11 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 :

World crude steel production reached a level of 1,413 Million MTs in 2010, out of which India's share was 66.84 Million MTs. India has retained its position as the fifth largest steel producer in 2010 and recorded a growth of 11.3 percent as compared to 2009.

With global acquisitions by Indian Steel giants, setting up of new state-of-the-art steel mills, continuous modernisation and up-gradation of existing plants, improving cost and energy efficiency and backward integration into global raw material sources, India has acquired a central position on the global steel map. As per steel ministry reports, Indian steel production is expected to increase by 30 Million MTs in the next two years.

The growth was largely driven by sharp recovery in automobile, construction and white goods sectors and was supported by infrastructure spending, including housing. The demand for steel is expected to further increase with major international automobile manufacturers setting up manufacturing facilities in India.

Taking advantage of these opportunities, Indian steel manufacturers are also carrying out huge expansion plans and are hoping to achieve substantial share from the additional growing steel requirements.

Company Performance :

- Gross Turnover - ₹14,187 Million
- Profit before Taxation - ₹686 Million
- Profit after Taxation - ₹523 Million

Turnover includes Trading Turnover of ₹2,511 Million and Manufacturing Turnover of ₹11,676 Million.

Manufacturing turnover includes sale of Rolled Products, As Cast Blooms, Misc. Sales and Conversion Charges received. The Company sold 168,990 tonnes of 'Rolled Products' aggregating ₹8,411 Million, 23,991 tonnes of 'As Cast Blooms' aggregating ₹949 Million. Misc. Sales amounted to ₹336 Million and Conversion Charges received were ₹1,980 Million. The Manufacturing Turnover includes exports of 4,624 tonnes of steel, aggregating ₹187 Million.

Internal Control Systems and their adequacy :

The Company maintains adequate Internal Control Systems, which provides amongst other things reasonable assurance of recording the transactions of its operations in all material respects and of providing protection against misuse or loss of Company's assets. These controls have been framed to provide reasonable assurance with regard to maintaining of proper accounting controls, monitoring of operations, compliances with regulations and for ensuring reliability of financial reporting.

The internal control system is supplemented by extensive independent internal audit by the professional firm. 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 :

Human Resources are an important and integral part of any organisation. People play a central role and human capital forms the critical part of an organisation's portfolio of privileged assets. The Company continued its commitment to acquiring, developing and enhancing human potential. The Company's strategy of empowering people at all levels to take decisions and encouraging free flow of information and ideas has helped strengthening of its human capital.

As on 31st March, 2011 the Company has 72 employees. 976 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 :

India is one of the very few economies in the world which is growing at a commendable speed and promises a huge opportunity for core industries like steel. The economy is expected to grow by more than 9% in the fiscal 2011-12. If this comes true, it will surely give big boost to the steel consumption in the country.

Government's intention to boost economic growth by injecting funds in various industries, like construction, infrastructure, power etc. will drive the demand for steel. The average per capita consumption of steel in India is 46 kgs, compared to the global average of 198 kgs thus; there is huge scope for increasing steel production in India.

In spite of rising demand from various sectors coupled with increased government spending on infrastructure, the Indian Steel Industry is likely to face severe challenges. The main challenge steel producers would face from high raw material prices, putting pressure on operating margins. India, being mostly dependent on imports for coking coal, is more likely to be affected by the volatility in coking coal prices.

Major applications of alloy steel long products are in Automobile, Oil and Gas, Power & Engineering Industry. All the user industries are witnessing strong growth, much higher than GDP growth of Indian economy. This is expected to result into strong demand for alloy steels.

In India, the nature of alloy steel manufacturing industry is undergoing a change from large number of small capacity (between 1 to 2 lacs tonne per annum) mills to few, but large capacity (between 5 to 10 lacs tonne per annum) steel companies operating in the industry. This could lead to structural changes in the industry over next few years paving exit for small / uneconomical operators.

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

Corporate Governance is about commitment to values and ethical business conduct. Kalyani Steels has always focused on good Corporate Governance, which is a key driver of sustainable corporate growth and long term value creation. 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 2010-11.

1. BOARD LEVEL ISSUES

COMPOSITION OF THE BOARD :

As on 31st March, 2011, the Board of Directors of Kalyani Steels comprised eight Directors. The Board consists of the Chairman, who is Promoter Non-Executive Director, two Executive Directors and five Non-Executive Directors, of which four are Independent. Details are given in Table 1.

NUMBER OF BOARD MEETINGS :

During the year 2010-11, the Board of the Company met seven times on 5th April, 2010, 27th April, 2010, 24th May, 2010, 27th July, 2010, 25th August, 2010, 25th October, 2010 and 17th January, 2011. 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 | 7 | Yes | 15 | 3 | 2 |
| Mr.Amit B. Kalyani | Non-Executive | 7 | 6 | Yes | 13 | 6 | — |
| Mr.S.M. Kheny | Non-Executive | 7 | 5 | Yes | 13 | 2 | 1 |
| Mr.S.S. Vaidya | Non-Executive | 7 | 7 | Yes | 10 | 5 | 5 |
| Mr.B.B. Hattarki | Non-Executive | 7 | 7 | Yes | 9 | 5 | 4 |
| Mr.M.U. Takale | Non-Executive | 7 | 6 | Yes | 5 | 2 | — |
| Mr.C.G. Patankar Executive Director | Executive | 7 | 7 | Yes | 9 | 5 | — |
| Mr.R.K. Goyal* Managing Director | Executive | 1 | 1 | N.A. | 1 | — | — |

* Appointed as Managing Director w.e.f. 17th January, 2011

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 of 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

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 2010-11.

AUDIT COMMITTEE :

As on 31st March, 2011, 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 2010-11 Audit Committee met on 24th May, 2010, 27th July, 2010, 25th October, 2010 and 17th January, 2011. 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 | 4 | 4 |
| Mr.B.N. Kalyani | Promoter Non-Executive | 4 | 4 |
| Mr.S.M. Kheny | Independent | 4 | 4 |
| Mr.B.B. Hattarki | Independent | 4 | 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.
- Approval of appointment of CFO after assessing the qualifications, experience & background etc.
- 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 in place 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. During the year 2010-11 two meetings of the Remuneration Committee were held respectively on 24th May, 2010 and 17th January, 2011.

The Executive Director and Managing Director are 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 and Managing Director comprises of Salary, Commission and Perquisites besides contributions to provident fund, superannuation and gratuity and leave encashment facility. On joining of the Company, Sign on Bonus was paid to the Managing Director. 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 ₹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 2010-11, their shareholding in the Company and relationship with other directors, if any :

| Name of Director | Relationship with other directors | Sitting fees* (₹) | Salaries and perquisites | Commission** | Total | No. of Shares held |
|--------------------|-----------------------------------|-------------------|--------------------------|--------------|------------|--------------------|
| Mr.B.N. Kalyani | *** | 38,000 | — | — | 38,000 | 1,118 |
| Mr.Amit B. Kalyani | *** | 12,000 | — | — | 12,000 | 31,694 |
| Mr.S.M. Kheny | None | 30,000 | — | — | 30,000 | 10,914 |
| Mr.S.S. Vaidya | None | 26,000 | — | — | 26,000 | — |
| Mr.B.B. Hattarki | None | 90,000 | — | — | 90,000 | — |
| Mr.M.U. Takale | None | 16,000 | — | — | 16,000 | 2,500 |
| Mr.C.G. Patankar | None | N.A. | 8,069,660 | 3,750,000 | 11,819,660 | 4,770 |
| Mr.R.K. Goyal**** | None | N.A. | 7,295,241 | 1,472,585 | 8,767,826 | — |

* Sitting fees include payment for board level committee meetings.

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

*** 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.

**** Appointed as Managing Director w.e.f. 17th January, 2011

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.N Kalyani and Mr.M.U. Takale, Directors of the Company are retiring by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. Mr.R.K. Goyal, has been appointed as Managing Director of the Company for the period of five years w.e.f. 17th January, 2011 to 16th January, 2016. Details of directors to be re-appointed / appointed, are given below :

Mr.B.N. Kalyani is Chairman and Managing Director of Bharat Forge Limited and Executive Chairman of Kalyani

Carpenter Special Steels Limited. Mr.Kalyani, born on 7th January, 1949, is a Mechanical Engineer from the Birla Institute of Technology, Pilani. He is also M.S. from the Massachusetts Institute of Technology, U.S.A. Mr.Kalyani also serves on the Board of Automotive Axles, Hikal, Nandi Infrastructure Corridor Enterprises, Kalyani Heys Lemmerz, Kalyani Carpenter Special Steels, Meritor HVS (India), BF Utilities, Nandi Economic Corridor Enterprises, BF-NTPC Energy Systems, BF Investment, Kalyani Alstom Power, Alstom Bharat Forge Power and BF Infrastructure. Mr.Kalyani 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 Infotech Solutions, Kalyani Carpenter Special Steels, BF Investment and Kalyani Net Ventures. Mr.Takale is retiring by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

Mr.R.K. Goyal, has been appointed as Managing Director of the Company for the period of five years w.e.f. 17th January, 2011 to 16th January, 2016, on the terms and conditions mentioned in the Notice convening the ensuing Annual General Meeting. Mr.Goyal, born on 18th May, 1958, is an Engineering Graduate and M.B.A., having more than 30 years of rich experience, in Steel Industry, particularly in stainless steel, for more than 25 years. Before joining the Company, Mr.Goyal was working as Director - Strategy and Corporate Affairs in JSL Stainless Limited and was responsible for performance management of companies in JSL Group, Overall Growth Strategy Formulation, Mining Business, Strategic Alliances, Mergers & Acquisitions and Indirect Taxation.

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 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 2010-11, the Shareholders' / Investors' Grievance Committee met on 24th May, 2010, 27th July, 2010, 25th October, 2010 and 17th January, 2011. 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 | Independent | 4 | 4 |

During the year four 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.

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 |
|--------------------|------------|---|---|---------------------------|
| 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** |
| 25th August, 2010 | 11.00 a.m. | Annual General Meeting | Registered Office of the Company at Mundhwa, Pune - 411 036 | None |

* 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 : Friday, 12th August, 2011 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, 6th August, 2011 to Friday, 12th August, 2011 (both days inclusive).

DIVIDEND DATE :

Dividend of ₹2/- per Equity Share of ₹5/- each (i.e. 40%) would be payable on and from 22nd August, 2011

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