

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. Arun P. Pawar

Mr. C.G. Patankar

Mr. R.K. Goyal
Managing Director

COMPANY SECRETARY

Mrs. Deepti R. Puranik

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

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

The Hongkong and Shanghai

Banking Corporation 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

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39TH ANNUAL GENERAL MEETING

Day : Saturday
Date : 28th July, 2012
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-Ninth Annual Report for the year 2011-12 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 :

In 2011, the World crude steel production reached a level of 1,527 Million MTs and showed a growth of 6.8% over 2010. China remained the world's largest crude steel producer, followed by Japan and USA. India occupied the 4th position with a production level of 72.2 Million MTs.

India is now a reputed name in the world steel industry. The country's steel industry is catching pace and luring the steel majors from all over the world. Indian growth story, although driven by inherent demand potential and sustained economic growth, has many other facets also, which are typical, as in any other part of the globe.

On the demand side, Indian steel industry probably holds the top spot as the fundamentals for economic growth in India are better than most parts of the world. The potential in the Indian steel industry growth is also reflected in scope of increase in usage from the large gap between the current per capita consumption vis a vis global average.

The steel industry has gained the strength from strong sectors like infrastructure, construction and automobile. New innovations are also taking place in the Industry for cost reduction and production maximisation.

The Steel Industry has enough potential to grow at a much accelerated pace in the coming years due to continuity of the development projects around the world. Indian steel majors have taken lead in creating capacities and the result is visible now. Many more projects are underway and in next two to three years, they are likely to come on stream propelling India to number two spot globally.

Company Performance :

- Sales, Gross - ₹ 11,716 Million
- Profit before Taxation - ₹ 224 Million
- Profit after Taxation - ₹ 220 Million

Sales, Gross includes Trading Revenue of ₹ 619 Million and Manufacturing Revenue of ₹ 11,097 Million.

Manufacturing Revenue consists of sale of Rolled Products, As Cast Blooms, Misc. Sales and Conversion Charges received. The Company sold 150,707 tonnes of 'Rolled Products' aggregating ₹ 8,129 Million, 14,568 tonnes of 'As Cast Blooms' aggregating ₹ 693 Million. Misc. sales amounted to ₹ 322 Million and Conversion Charges received were ₹ 1,953 Million. The Manufacturing Turnover includes exports of 8,918 tonnes of steel, aggregating ₹ 497 Million.

Internal Control Systems and their adequacy :

Internal control systems have been a core focus for the Company. Internal audits and process checks are carried out regularly in important areas, which provide amongst other things reasonable assurance of recording the transactions of its operations in all material respects and of providing protection against significant misuse or loss of Company's assets.

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 :

The Company considers the quality of its human resources to be its most important asset and focuses on attracting, motivating and retaining the best talent. 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, 2012 the Company has 81 employees. 970 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 :

There is no doubt that Indian Steel Industry has a bright future and the country has a potential to become leader in the steel sector. The axis of growth is gradually shifting from the developed economies to developing economies in Asia. India is well placed to meet future growing demand because of its high competitiveness.

The biggest opportunity before Indian Steel Industry is that there is enormous scope for increasing consumption of steel in all sectors in India. Secondly, Steel is yet to touch the lives of millions of people in India. Per capita consumption of steel in India is only 55 kg and has to go a long way to reach world average of 206 kg and consumption levels of around 324 kg in developed countries.

The Indian rural population is fairly unexposed to multi-faceted use of steel. No forceful steps are yet taken to penetrate this segment. Enhancing applications in rural areas assumes a much greater significance now for increasing per capita consumption of steel.

Policy initiatives taken by Government towards interest rate rationalisation shall be helpful for both economic growth as well as boosting the automotive and construction industry, which will have positive impact on the steel industry.

While one can remain confident of the growing demand, the principal deterrent to the steel industry's growth could be raw material availability.

The ban put by the Hon'ble Supreme Court Order on the mining activities in the iron ore rich state of Karnataka, due to increasing environmental degradation of the area and illegal mining has resulted into sharp decline in the iron ore production. Thereafter the Hon'ble Supreme Court has relaxed some of the restrictions on the ban by allowing state run NMDC to mine 1 (One) Million Tonne iron ore per month in Bellary Region and auctioning of stocks of iron ore, which are lying in the mines and stockyards. But this too is not sufficient to meet industry requirements.

Secondly, the country does not have adequate infrastructural facilities. The supply of iron ore, coking coal, the availability and price of imported coke and substitutes for steel, gaining strong footholds in the metal market are also some big challenges for the industry.

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.



REPORT ON CORPORATE GOVERNANCE

Kalyani Steels recognises that good Corporate Governance is a continuing exercise and is committed to pursue higher standards of Corporate Governance in the overall interest of all the stakeholders. The Company is in full compliance with the requirements under revised Clause 49 of the Listing Agreement with the Stock Exchanges.

This chapter of the report, plus the information given under 'Management Discussion and Analysis' and 'Shareholder Information' constitutes the compliance report of the Company on Corporate Governance during the year 2011-12.

1. BOARD LEVEL ISSUES

COMPOSITION OF THE BOARD :

As on 31st March, 2012, 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 five are Independent. Details are given in Table 1.

NUMBER OF BOARD MEETINGS :

During the year 2011-12, the Board of the Company met eight times on 20th April, 2011, 25th May, 2011, 29th July, 2011, 12th August, 2011, 25th October, 2011, 23rd December, 2011, 21st January, 2012 and 26th March, 2012. 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	8	8	Yes	15	3	2
Mr.Amit B. Kalyani	Non-Executive	8	8	Yes	14	5	—
Mr.S.M. Kheny	Non-Executive	8	8	Yes	12	2	1
Mr.S.S. Vaidya	Non-Executive	8	7	Yes	11	5	5
Mr.B.B. Hattarki	Non-Executive	8	7	Yes	9	3	4
Mr.M.U. Takale	Non-Executive	8	7	Yes	5	2	—
Mr.Arun P. Pawar *	Non-Executive	4	4	N.A.	1	—	—
Mr.C.G. Patankar Executive Director	Executive	8	7	Yes	7	4	—
Mr.R.K. Goyal Managing Director	Executive	8	8	Yes	3	1	—

* Co-opted as an Additional Director w.e.f. 25th October, 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 for the Company
- Minutes of meetings of committees
- Details of Joint Venture / Collaboration Agreement
- Sale of material nature of investments, assets, which is not in normal course of business
- 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 2011-12.

AUDIT COMMITTEE :

As on 31st March, 2012, 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, Internal 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 2011-12 Audit Committee met on 20th April, 2011, 25th May, 2011, 29th July, 2011, 25th October, 2011 and 21st January, 2012. 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	5
Mr.S.M. Kheny	Independent	5	5
Mr.B.B. Hattarki	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 / 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 internal auditors on any significant findings and follow up thereon.
- Reviewing the findings of any internal investigations by the internal 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 2011-12 one meeting of the Remuneration Committee was held on 26th March, 2012.

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. 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 2011-12, 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	Father of Mr.Amit B. Kalyani	46,000	—	—	46,000	1,118
Mr.Amit B. Kalyani	Son of Mr.B.N. Kalyani	16,000	—	—	16,000	31,694
Mr.S.M. Kheny	None	36,000	—	—	36,000	10,914
Mr.S.S. Vaidya	None	24,000	—	—	24,000	—
Mr.B.B. Hattarki	None	86,000	—	—	86,000	—
Mr.M.U. Takale	None	16,000	—	—	16,000	2,500
Mr.Arun Pawar **	None	8,000	—	—	8,000	—
Mr.C.G. Patankar	None	N.A.	***8,061,350	—	8,061,350	4,770
Mr.R.K. Goyal	None	N.A.	****25,607,400	—	25,607,400	—

* Sitting fees include payment for board level committee meetings.

** Co-opted as an Additional Director w.e.f. 25th October, 2011.

*** Subject to approval of the members by way of Special Resolution and of Central Government.

**** Subject to approval of the members by way of Special Resolution.

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.Amit B. Kalyani, Mr.S.M. Kheny and Mr.C.G. Patankar, Directors of the Company are retiring by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. Mr.Arun P. Pawar, has been appointed as an Additional Director of the Company w.e.f. 25th October, 2011, is seeking an appointment as Director pursuant to the Notice received from the Member of the Company, signifying their intention to propose Mr.Arun P. Pawar, as candidate for the office of Director. Details of directors to be re-appointed/appointed, are given below :

Mr.Amit B. Kalyani, born on 26th July, 1975, is an Executive Director of Bharat Forge Limited. Mr.Amit B. Kalyani, after

having his initial education in Pune, graduated in Mechanical Engineering from Bucknell University, U.S.A. He was in U.S.A. for a number of years and besides obtaining degree in engineering, has had considerable exposure to technological advancements in various fields and especially in Information Technology. He also has work experience in Speciality Steel Manufacturing Industry in U.S.A. Mr.Amit B. Kalyani serves on the Board of Kalyani Investment Company, BF Utilities, Kalyani Infotech Solutions, Nandi Economic Corridor Enterprises, Nandi Infrastructure Corridor Enterprises, KPIT Cummins Infosystems, Khed Developers, BF-NTPC Energy Systems, BF Investment, Kalyani Alstom Power, BF Infrastructure and Hikal. Mr.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 and Hospet Power. Mr.Kheny is retiring by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

Mr.C.G. Patankar, born on 6th June, 1956, holds a Bachelor's Degree in Science and he is a Chartered Accountant, having a rich experience of more than 35 years. Mr.Patankar also serves on the Board of Kalyani Thermal, Kalyani Mukand, Kalyani International, Hospet Steels, Kalyani Investment Company and Spice Islands Apparels. Mr.Patankar is retiring by rotation at the ensuing Annual General Meeting and being eligible, offers himself for re-appointment.

Mr. Arun P. Pawar born on 17th September, 1950, holds a Bachelor's Degree in Science and he has worked in the Indian Revenue Service (IRS:75), in the Income Tax Dept., for 36 years, having varied experience in Income Tax Assessment and Investigation along with General Administration. As Chief CIT & Commissioner, he had worked in Maharashtra (Thane & Mumbai) and in other states like Karnataka, Tamilnadu & Andhra Pradesh.

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.R.K. Goyal, Managing Director and Mr.B.B. Hattarki, Director. During the year 2011-12, the Shareholders' / Investors Grievance Committee met on 20th April, 2011, 29th July, 2011, 25th October, 2011 and 21st January, 2012. 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	2	2
Mr.R.K. Goyal**	Executive	2	2
Mr.B.B. Hattarki	Non-Executive	4	4

*Ceased to be member w.e.f. 29th July, 2011

**Co-opted as member w.e.f. 29th July, 2011

During the year Three 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.R.K. Goyal, Managing 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 Resolutions Passed
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
12th August, 2011	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 : Saturday, 28th July, 2012 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, 21st July, 2012 to Saturday, 28th July, 2012 (both days inclusive).

DIVIDEND DATE :

Dividend of ₹ 1/- per Equity Share of ₹ 5/- each (i.e. 20%) would be payable on and from 9th August, 2012

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