KALYANI STEELS LIMITED

KALYANI

DRIVING INNOVATION

41ST ANNUAL REPORT
2013-2014

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

CORPORATE IDENTITY NUMBER (CIN)
L27104MH1973PLC016350

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Tal. & Dist. Koppal
KARNATAKA - 583 228

CHIEF FINANCIAL OFFICER
Mr. B. M. Maheshwari

COMPANY SECRETARY
Mrs.Deepti R. Puranik

AUDITORS
M/s. P. G. BHAGWAT
Chartered Accountants
Suite No. 2, "Orchard",
Dr. Pai Marg, Baner,
Pune - 411 045

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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41ST ANNUAL GENERAL MEETING

Day	:	Friday
Date	:	5th September, 2014
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 Forty-First Annual Report for the year 2013-14 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.

Global Economy

As per IMF, World GDP growth marginally slowed to 3% in 2013 as compared to 3.2% in 2012. The growth forecast for near future is optimistic with World GDP expected to grow at 3.6% in 2014 and accelerate further to 3.9% in 2015.

Real GDP growth (%)

Year	2011	2012	2013	2014 (p)	2015 (p)
World	3.90	3.20	3.00	3.60	3.90
Advanced Economies	1.70	1.40	1.30	2.20	2.30
Emerging Markets & Developing Economies	6.30	5.00	4.70	4.90	5.30

All numbers are in percentages

(p) Refers to projections

Source : IMF

Advanced Economies

The uptrend in the global economy is primarily due to recovery from advanced economies. A major impulse to the global growth has come from United States where annual growth in 2014 & 2015 is expected to be substantially higher than that in 2013.

Similarly, the Euro area has also turned positive with signs of growth in Germany, France, United Kingdom and Italy. Japan is also expected to get a boost from some underlying growth drivers, notably private investment and exports. But Japan's overall economic activity is projected to slow down moderately in response to the government's stance to tighten the fiscal policy in 2014-15.

Emerging Markets & Developing Economies

Emerging Markets & Developing Economies continue to contribute more than two-thirds of global growth. The GDP growth in these countries is expected to increase marginally from 4.7% in 2013 to 4.9% and 5.3% in 2014 and 2015 respectively.

In particular, China is expected to keep its momentum whereas India is expected to strengthen its GDP growth.

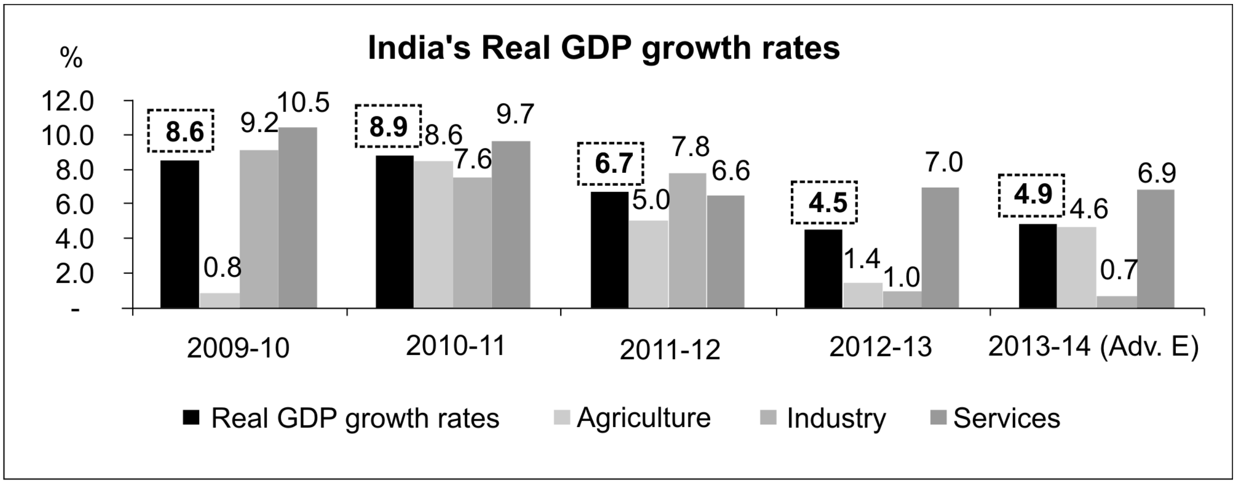
Indian Economy

As per the Planning Commission, Government of India's provisional estimates, India's GDP has grown at 4.9% in FY 2013-14 as compared to 4.5% in FY 2012-13.

However, it is worthwhile to note that this increase in headline GDP growth masks the underlying weakness in the economy as the growth is primarily driven by stronger agriculture due to a good monsoon in 2013.

In FY 2013-14, Agriculture Sector has grown at 4.6% whereas, in contrast, Industry Sector has slowed down to 0.7%.

Also, slowdown in Industrial growth and slow recovery in advanced economies caused Services Sector's growth rate to drop below 7% in FY 2013-14.



(Adv. E) refers to 'Advance estimates'
Source : Planning Commission of India

Weaknesses such as persistent high inflation, fiscal imbalances and bottlenecks to investment still loom large in the economy.

However, industry and research organisations opine that a normal monsoon and a stable Government with a strong reform agenda should result into overall GDP growth of 5.5% in FY 2014-15.

World Steel Industry

In 2013, World Crude Steel production reached 1,607 Million MTs, with a growth of 3.5% over that in 2012.

	2012	2013
World Crude Steel	**1553**	**1607**
y-o-y growth %		*3.5%*
China	725	779
y-o-y growth %		*7.5%*
EU (27)	169	166
y-o-y growth %		*-1.8%*
Japan	107	111
y-o-y growth %		*3.2%*
USA	89	87
y-o-y growth %		*-1.9%*
India	77	81
y-o-y growth %		*5.1%*

All numbers are in Mil Tonnes except percentages.
Source : World Steel Association, Jan, 2014

China, the leading producer of steel, contributed 48% of the global output at 779 Million MTs, showing a 7.5% annual growth.

The European Union (EU) recorded a decrease of 1.8% over 2012, producing 166 Million MTs of crude steel in 2013.

Production in Japan increased 3.2% y-o-y to 111 Million MTs.

United States produced 87 Million MTs of crude steel, which is 1.9% lower than its production level a year earlier.

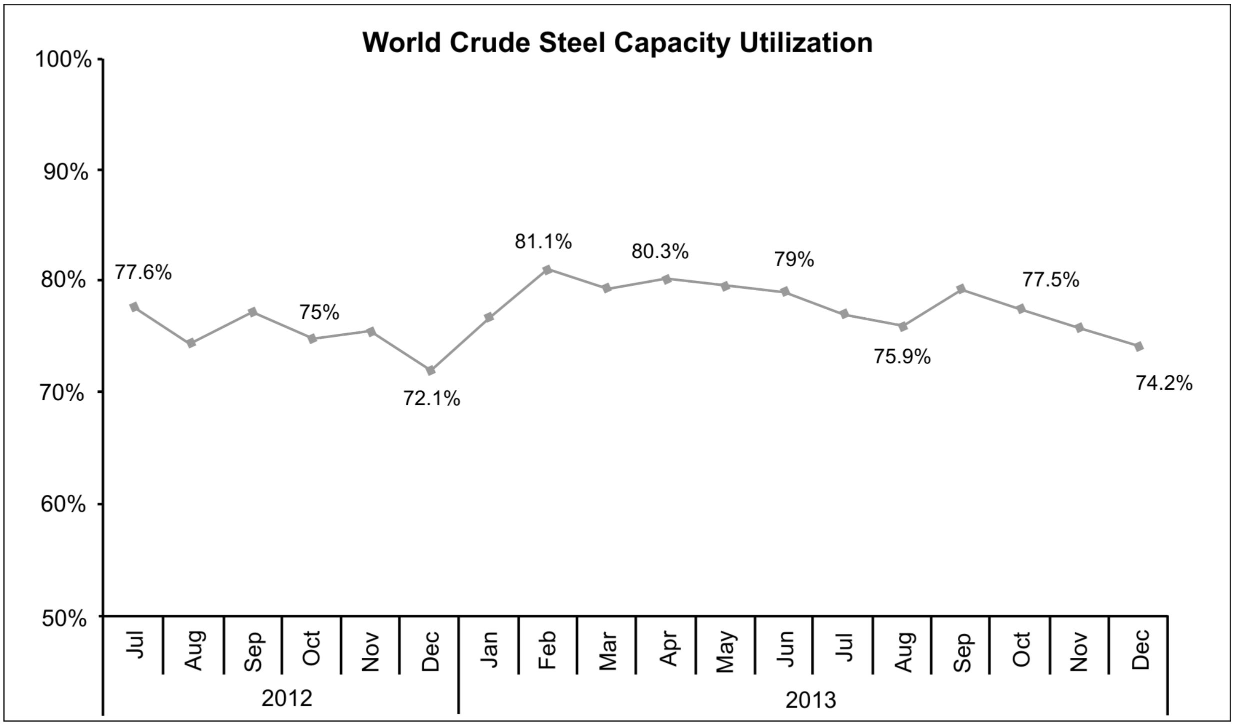
In 2013, India's crude steel production increased by 5.1% y-o-y to 81 Million MTs.

With Chinese Government's focus expected to shift from infrastructure spending to stimulating domestic consumption, Chinese demand for steel is unlikely to grow at the historical high rates, we have seen in the past.

Consequently, the World Steel Association predicted a slower growth rate of around 3% in 2014 for the global crude steel production.

Global Crude Steel Capacity Utilisation

Globally, the crude steel capacity utilisation has seen an overall downward trend from February, 2013 till December, 2013 due to capacity additions against modest growth in demand.



Source : World Steel Association, Feb, 2014

Indian Steel Industry

The domestic steel industry has gone through a downturn due to weak demand from downstream industries and higher cost of production due to weak rupee and higher domestic raw material prices.

As per World Steel Association, crude steel production growth in India has slowed down from 6.9% in CY 2012 to 5.1% in CY 2013.

Crude Steel Production (Carbon + Alloy Steel)	**CY2011**	**CY2012**	**CY2013**
Production (Mil T)	72	77	81
Growth (%)	-	6.9%	5.1%

Source : World Steel Association

Steel demand growth in India is expected to be 3.3% in CY 2014 and 4.5% in CY 2015.

On the supply side, there are many players who are having serious expansion plans adding to the overall capacity.

Also, with a stable Government at the center, industry is optimistic about a revival in the overall economy and hence, in steel industry in the coming years.

Raw Material Prices Trend

Iron Ore

Due to ban on illegal mining in July/August, 2011 by Hon'ble Supreme Court, in the State of Karnataka, there is an acute shortage of iron ore in the state. Since then, iron ore prices have increased substantially.

The Hon'ble Supreme Court has vide its Judgment and Order dated 18th April, 2013 passed in Writ Petition No.562/2009, permitted re-opening of 45 Category 'A' mines and 72 Category 'B' mines. The Hon'ble Supreme Court also issued directions for cancellation of leases of 49 Category 'C' mines.

However, reopening of Category 'A' and 'B' mines is subject to statutory approvals that include clearance from Indian Bureau of Mines, Forest Department, Environment Ministry, State Pollution Control Board and Hon'ble Supreme Court appointed Central Empowered Committee (CEC).

In FY 2013-14, calibrated iron ore prices in Karnataka did not see major movement though the prices were much higher as compared to those before the mining ban.

In contrast to calibrated iron ore, iron ore fines prices have seen an uptrend due to increased demand for the same.

Coking Coal & Coke

Global coking coal prices have come down due to over supply of coking coal in the global market.

Also, in 2013, China removed the 40% export duty on coke. This has increased competition in the global market and has brought down coke prices.

Given this macro economic scenario, the coking coal and coke prices are expected to remain under pressure in near future.

Industry Profitability Outlook

FY 2013-14 has seen weak price trends, weakening of currency and a slower demand growth. This has put pressure on operating profitability of the steel sector.

While some players in flat product industry announced price hikes in recent past, it is to be seen whether a weak steel market can absorb the price hike.

Also, a more favorable raw material pricing scenario will help to improve industry profitability.

Initiatives taken by the Company

The Company is in continuous pursuit of creating more value for all its stakeholders. The Company's various functional teams have taken some remarkable initiatives to not only strengthen its profitability in near future but also gain medium to long-term competitive advantage over its peers.

Marketing Initiatives

- The Company has expanded its product mix to cover industries such as Energy, Petroleum and Bearings. Apart from this, significant focus is being given on developing clean steels (with very low oxygen levels and best in class SAM D rating) as part of the Company's product portfolio. This will help in improving component life, resulting into increased business.
- The Company has also increased its customer base with addition of new customers to its existing portfolio. This has helped in protecting the profitability.

Cost Reduction Initiatives

Use of Sinter Plants

- The Company has commissioned its second Sinter Plant in the beginning of FY 2013-14.
- Sinter Plants enabled the Company to use fines (≤ 10 mm) instead of expensive calibrated lump Ore (10 mm - 40 mm).
- Apart from the cost reduction, use of Sinter Plants has also enhanced operational flexibility of the current manufacturing facilities.
- It has also helped in increasing productivity and lower coke consumption.

Pulverized Coal Injection (PCI)

- PCI is used to partially replace high cost coke in the blast furnace operation.

Hot Blast Stoves

- The Company commissioned Hot Blast Stoves for one of the blast furnaces. This has helped to increase the temperature of hot air blown in the blast furnace resulting in substantial fuel rate reduction.
- The Company is also planning to enrich combustion air of Hot Blast Stoves with diluted oxygen to further increase the temperature of hot air blown in the furnace.

Energy Optimisation

- Improving Power Plant efficiency : By various initiatives, the Company improved the thermal efficiency of its Power Plant from 22% to 27% - making its facility one of the most efficient BF gas based Power Plants of this capacity.
- Reheating Furnace for Rolling Mill : Until July 2013, Rolling Mill was running on costly furnace oil. In pursuit to reduce costs and utilise by-products efficiently, furnace oil in Reheating Furnace was replaced with blast furnace gas.

  The Company is now amongst the very few players who are running Reheating Furnaces on 100% blast furnace gas (i.e. with zero furnace oil and zero natural gas usage).
- Blast Furnace gas for Ladle Pre-heaters : The Company has now replaced expensive furnace oil by using blast furnace gas as fuel in Ladle Preheater.
- Waste Heat recovery from EOF : The Company is currently in process to establish Waste Heat recovery system to generate steam which will be used in Steam network. This will help to reduce the operating cost.

"Iron In, Iron Out" Policy

As per this policy, the Company has decided to stop any loss of Fe through waste material and to extract maximum value from the by-products (waste) from steel making process which were earlier disposed. These wastes now add much larger value due to in-house use.

Accordingly, following steps have been taken in various divisions :

- Overall Iron Balancing
  - The Company has started analysing total Fe content coming in the plant and tries to minimise the Fe wastage through by-products and wastes.
  - The Company collects wastes such as skull powder, flue dust etc. and recycles the same in Sinter Plants.
  - Target is to achieve nearly zero Fe loss in the plant.
- SMS Division
  - EOF Slag - Iron bearing material is extracted from EOF slag and is recycled in the EOF.
- Blast Furnace Division
  - Granulated Slag -The Company is planning to convert blast furnace slag into ground granulated BF slag to be sold to ready mix concrete players or cement consumers.
  - Skull Powder/ Flue Dust - Used in-house in Sinter Plants

Company Performance

- Sales, Gross - ₹ 13,959 Million
- Profit before Taxation - ₹ 895 Million

Sales, Gross includes Manufacturing Revenue of ₹ 13,875 Million and Trading Revenue of ₹ 84 Million.

Manufacturing Revenue consists of sale of Rolled Products, As Cast Blooms, Misc. Sales and Conversion Charges received. The Company sold 170,776 tons of 'Rolled Products' aggregating ₹ 9,302 Million, 36,055 tons of 'As Cast Blooms' aggregating ₹ 1,707 Million, Misc. sales amounted to ₹ 84 Million and Conversion Charges received were ₹ 2,782 Million. The Manufacturing Turnover includes exports of 4,610 tons of Steel aggregating ₹ 249 Million.

Internal Control Systems and their adequacy

The Company employs an adequate and effective system of internal control commensurate with its size and nature of business that provides for :

- Assurance of the efficiency of operations
- Security of Company's assets
- Accurate and prompt recording of transactions
- Efficient Management Information Systems
- Compliance with prevalent statutes, accounting standards, listing agreement requirements, management policies and procedures

The internal control system is further supplemented by extensive review by internal auditors, who periodically present their observations to the Audit Committee of Directors. The Audit Committee reviews the observations made by internal auditors along with status of actions thereon.

SAP Implementation

The Company is implementing SAP to streamline and optimise its business processes. This will give multiple benefits such as :

- Integration of all business processes
- Online information of stock
- Enhancement of access and information security
- Quality of decision making

SAP implementation is in the stage of realisation and is expected to go live soon.

Human Resources

The Company is as good as its people. Your Company is privileged to have an excellent pool of human resources working for 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.

As on 31st March, 2014 the Company has 57 employees. 1,039 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 Koppal, Karnataka.

The Company has put a lot of stress on employee welfare and development :

- The Company has an open-door policy whereby any employee can directly share new ideas/ views/ thoughts directly with the top management without any hierarchical constraints.
- The Company regularly organises knowledge sharing sessions for better knowledge management and to enhance employee capabilities.
- Quarterly meetings are held to give employees a platform to share their ideas and to discuss new initiatives/ strategies of the Company.

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 statues, 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 Shareholders. The Company has adopted practices mandated in Clause 49 of the Listing Agreement with the Stock Exchanges.

This chapter of the report, along with the information given under 'Management Discussion and Analysis' and 'Shareholder Information' constitutes the compliance report of the Company on Corporate Governance during the year 2013-14.

1. BOARD LEVEL ISSUES

COMPOSITION OF THE BOARD :

As on 31st March, 2014, the Board of Directors of Kalyani Steels comprised nine Directors. The Board consists of the Chairman, who is Promoter Non-Executive Director, one Executive Director and seven Non-Executive Directors, of which five are Independent. Details are given in Table 1.

NUMBER OF BOARD MEETINGS :

During the year 2013-14, the Board of the Company met five times on 24th May, 2013, 24th July, 2013, 30th October, 2013, 8th February, 2014 and 21st March, 2014. 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	5	4	No	13	2	2
Mr.Amit B. Kalyani	Non-Executive	5	5	Yes	12	3	—
Mr.S.M. Kheny	Non-Executive	5	5	Yes	9	3	1
Mr.S.S. Vaidya	Non-Executive	5	5	Yes	8	8	4
Mr.B.B. Hattarki	Non-Executive	5	4	Yes	9	4	5
Mr.M.U. Takale	Non-Executive	5	5	Yes	4	2	—
Mr.Arun P. Pawar	Non-Executive	5	5	Yes	1	—	—
Mr.C.G. Patankar	Non-Executive	5	5	Yes	7	3	—
Mr.R.K. Goyal Managing Director	Executive	5	5	Yes	3	2	—

As detailed in the table above, none of the Directors is a member of more than ten Board level Committees of public limited companies in which they are Directors or a Chairman of more than five such Committees.

BOARD PROCEDURE :

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
- 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