KALYANI STEELS LIMITED

KALYANI

DRIVING INNOVATION

42ND ANNUAL REPORT
2014-2015

BOARD OF DIRECTORS

Mr. B. N. Kalyani
Chairman

Mrs. Sunita B. Kalyani

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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E-mail : investor@kalyanisteels.com

PLANT LOCATION
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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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42ND ANNUAL GENERAL MEETING

Day	:	Thursday
Date	:	13th August, 2015
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-Second Annual Report for the year 2014-15 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 remained almost constant at 3.4% in 2014 as compared to that in 2013. The growth forecast for near future is slightly optimistic with World GDP expected to grow at 3.5% in 2015 and accelerate further to 3.8% in 2016.

Real GDP growth (%)

Year	2013	2014	2015 (p)	2016 (p)
World	3.4	3.4	3.5	3.8
Advanced Economies	1.4	1.8	2.4	2.4
Emerging Markets & Developing Economies	5.0	4.6	4.3	4.7

All numbers are in percentages

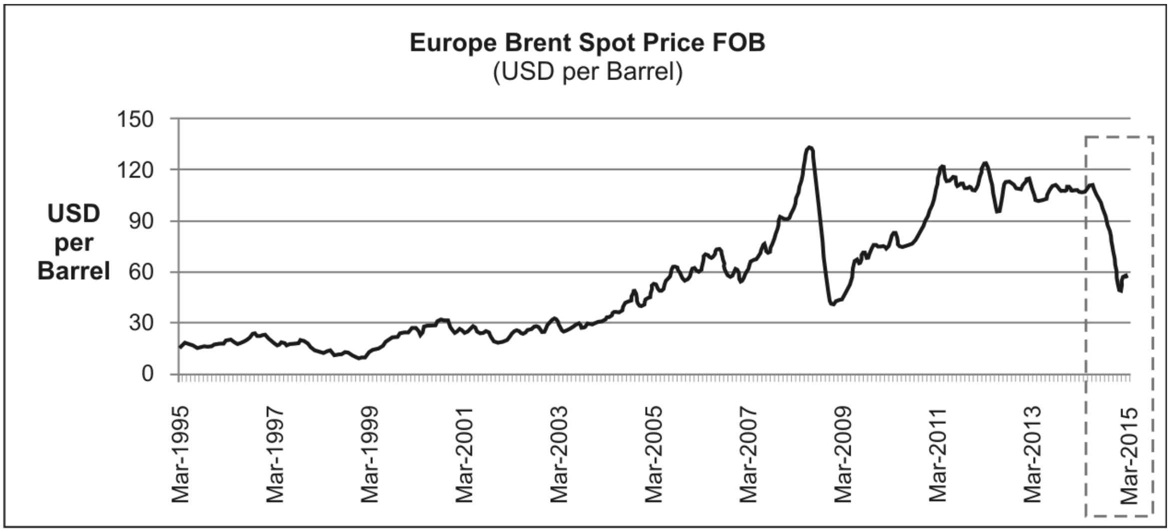
(p) Refers to projections

Source : IMF

While discussing the Global Economy, it is important to note the remarkable development in oil prices recently. The sharp decrease in the oil prices can be majorly attributed to :

a. Trend in Supply - Demand : Since 2011, US shale oil production has consistently surpassed production expectations whereas the global oil demand failed to match pace with supply due to weak economic growth.

b. Change in OPEC objective : OPEC traditionally used to modify its supply to maintain oil prices in a specified range. However, in November, 2014, OPEC decided to maintain the production, in turn keeping its market share, instead of targeting the oil price band.



Source : US Energy Information Administration (EIA)

The sharp decrease in oil prices, as shown in the chart above, has significant effect on the Global Economy and its constituent economies.

Advanced Economies

IMF has projected a sharp increase in Advanced Economies in 2015 based on benefit accrued from lower oil prices - which are expected to remain subdued in near future.

Growth in the United States is projected to pick up in 2015 & 2016, supported by gradual increase in domestic demand supported by lower oil prices, fiscal adjustments and continued support from monetary policy.

After weak 2014, growth in the Euro area is showing signs of picking up, supported by lower oil prices, low interest rates, and a weaker Euro.

Growth in Japan is also projected to pick up, sustained by a weaker Yen and lower oil prices.

Emerging Markets & Developing Economies

In case of Emerging Markets & Developing Economies' group as a whole, GDP growth is expected to slow down from 4.6% in 2014 to 4.3% in 2015. This is primarily due to subdued prospects of some large emerging market economies and weaker activity in some major oil exporters because of the sharp drop in oil prices.

The authorities in China are now expected to put greater weight on reducing vulnerabilities from recent reckless credit and investment growth. China is expected to witness a slowdown in investment, particularly in real estate.

The outlook for Brazil is affected by a drought and weak private sector sentiment.

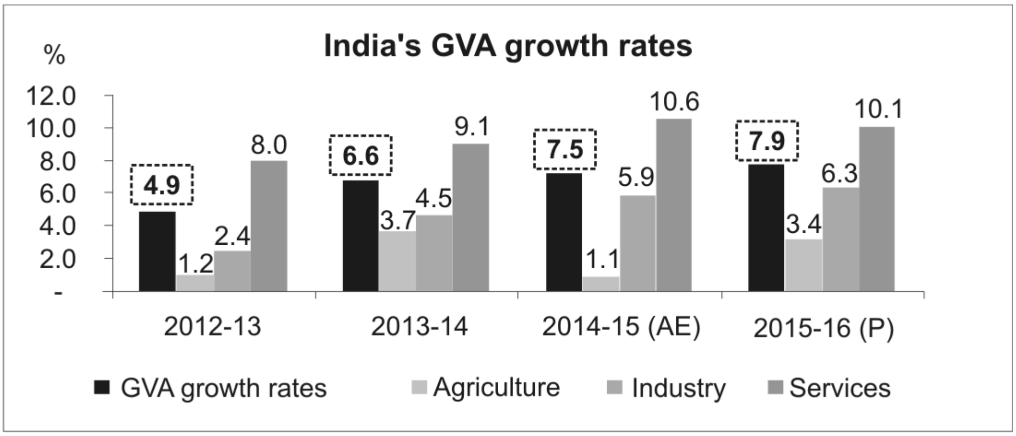
The growth forecasts for Russia reflect the economic impact of sharply lower oil prices and increased geopolitical tensions.

For commodity exporters, lower oil and other commodity prices are projected to take a toll on growth.

However, for oil importing countries such as India, the current decrease in oil price means reduced inflation and more room to strengthen fiscal position.

Indian Economy[1]

As per Ministry of Statistics and Programme Implementation (MoSPI), Government of India's Advance Estimates (AE), Indian Gross Value Added (GVA) grew by 7.5% in FY 2014-15 as compared to FY 2013-14.



AE: Advance Estimates
P: Projections
Source:
1. MoSPI, Govt. of India, Press Notes dated 30th Jan, 2015 & 9th Feb, 2015
2. RBI's Survey of Professional Forecasters dated 7th Apr, 2015

[1]Via Press Note released on 30th Jan, 2015, Ministry of Statistics and Program Implementation (MoSPI), Government of India has released a new series of National Accounts, revising the base year from 2004-05 to 2011-12.
Also conceptual changes as recommended by the international guidelines, statistical changes like revisions in the methodology of compilation, adoption of latest classification systems and inclusion of new and recent data sources are made in "New Series" of National Accounts.
Further, industry-wise estimates will be presented in terms of "Gross Value Added (GVA) at base prices" instead of "GDP at factor prices".
Please note that GDP = GVA + Taxes on Products - Subsidies on Products

As shown in the chart, India's GVA growth was fuelled by growth in Services which grew by 10.6% in FY 2014-15. However, Agriculture growth slowed down from 3.7% in FY 2013-14 to 1.1% in FY 2014-15. Industry growth was pegged at 5.9% in FY 2014-15 as compared to 4.5% in the previous year.

Going forward, India's economy is expected to witness 7.9% growth in FY 2015-16. Here, Agriculture and Industry sectors are expected to accelerate growth to 3.4% and 6.3% respectively. The Services sector is expected to see marginal decrease in growth to 10.1%.

It is important to note that agricultural growth of 3.4% is assuming a normal monsoon, however as per the Indian Meteorological Department's (IMD) 2015 forecast, it is highly likely that the monsoon rainfall will be below its 50 year average.

In such a scenario, the Agricultural growth would be impacted which will partly translate into lower than expected overall GVA growth.

World Steel Industry

In 2014, World Crude Steel production reached 1,661.5 Million MTs, with a growth of 1.2% over that in 2013.

	CY 2013	CY 2014
World Crude Steel	1,642.2	1,661.5
y-o-y growth %		*1.2%*
China	815.4	822.7
y-o-y growth %		*0.9%*
EU (28)	166.3	169.2
y-o-y growth %		*1.7%*
Japan	110.6	110.7
y-o-y growth %		*0.1%*
USA	86.9	88.3
y-o-y growth %		*1.6%*
India	81.3	83.2
y-o-y growth %		*2.3%*

All numbers are in Mil Tonnes except percentages.
Source : World Steel Association (WSA), Jan, 2015

China, the leading producer of steel, contributed 49.5% of the global output at 822.7 Million MTs in 2014, showing a 0.9% annual growth over previous year.

The European Union (EU) recorded an increase of 1.7% over 2013, producing 169.2 Million MTs of crude steel.

Production in Japan increased marginally by 0.1% y-o-y to 110.7 Million MTs.

United States produced 88.3 Million MTs of crude steel, which is 1.6% higher than its production level a year earlier.

In 2014, India's crude steel production increased by 2.3% y-o-y to 83.2 Million MTs.

According to World Steel Association (WSA), Chinese steel demand in 2014 saw negative growth for the first time since 1995 due to the government's rebalancing efforts that had a major impact on the real estate market. This situation is likely to remain unchanged in the short term and Chinese steel use will continue to record negative growth of 0.5% in both 2015 and 2016.

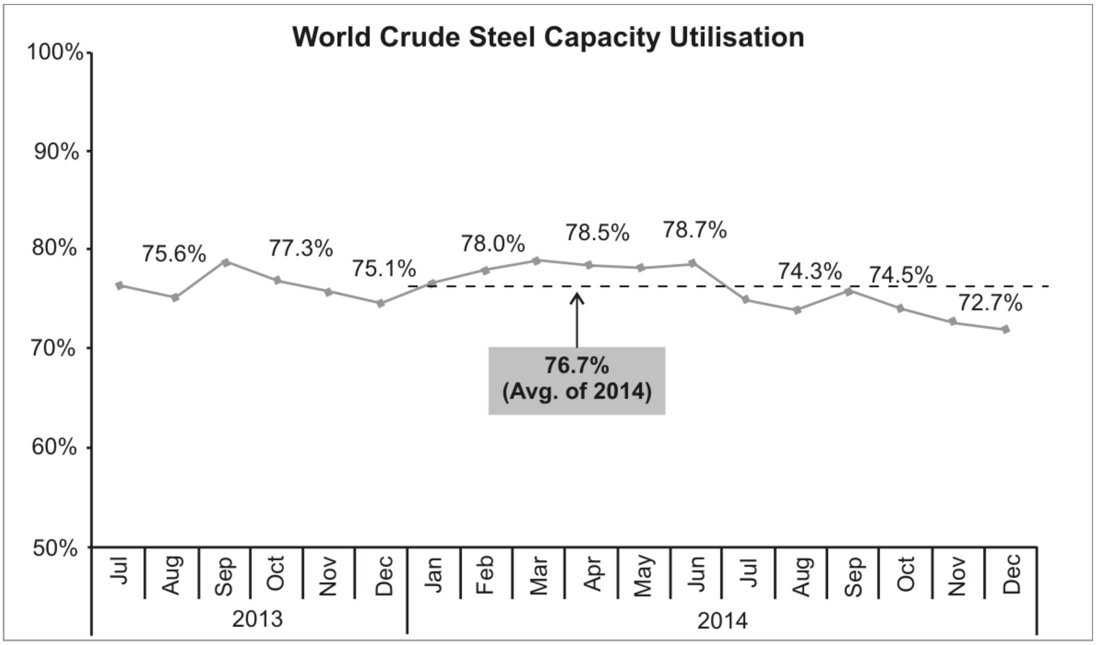
On the back of negative demand growth in China, which is the biggest steel consumer, WSA has projected global steel demand growth of 0.5% in 2015 and 1.4% in 2016.

Globally, because of the lower oil prices, investments in oil industry are reduced, which in turn has reduced steel demand from the sector.

Global Crude Steel Capacity Utilisation

Global steel industry still suffers from excess capacity and the situation has worsened in 2014 as compared to 2013.

The average capacity utilisation in 2014 fell to 76.7% as compared to 78.4% in 2013.



Source : World Steel Association, Jan, 2015

Indian Steel Industry

As per World Steel Association, crude steel production growth in India has slowed down from 5.2% in CY 2013 to 2.3% in CY 2014.

Crude Steel Production (Carbon + Alloy Steel)	CY 2012	CY 2013	CY 2014
Production (Mil T)	77.3	81.3	83.2
Growth (%)	—	5.2%	2.3%

Source : World Steel Association

However, going forward World Steel Association is optimistic about India's apparent Steel demand growth which is expected to be 6.2% in CY 2015 and 7.3% in CY 2016. Although India's steel demand is expected to increase, it is yet to be seen whether projections of WSA can really be reached.

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

After declaring ban on illegal mining in 2011, the Supreme Court, in April, 2013, permitted re-opening of Category "A" and Category "B" mines. The Apex Court also issued directions for cancellation of leases of 51[2] Category "C" mines.

The Supreme Court further ordered to auction these Category "C" mines to end-users and directed the State Government to prepare and submit a scheme for auction and submit the same for its approval.

[2]At the time of classification of mines, 49 mines were included in Category "C". However, 2 mines from Category "B" were moved to Category "C". Thus, total of 51 Category "C" mines' leases have been cancelled.

Following the directive from Supreme Court, the State Government has appointed CRISIL for developing the auction methodology of iron ore mines. Based on the report from CRISIL, State Government has submitted an Affidavit in the Supreme Court about the methodology of auction and is awaiting approval / order on the same.

The State Government has also entrusted work relating to getting details of reserves of 15 iron ore mines with Mineral Exploration Corporation Limited (MECL), who has submitted its report to State Government.

At present, only 18 mines from Category "A" including two mines of NMDC and 9 mines from Category "B" are operational.

Overall, in FY 2014-15, iron ore lumps and fines prices in Karnataka softened because of global price correction, coupled by import of Iron Ore by major players in the region.

Coking Coal & Coke

Global Coking Coal prices have receded due to lower consumption by China due to its slowing economy.

Also, a slowing Chinese economy has resulted in lower demand for Coke which manifested in lower Coke prices.

Going forward, it is yet to be seen whether current levels of Coking Coal & Coke prices are sustainable in the long run.

Industry Profitability Outlook

FY 2014-15 has been a mixed bag for steel makers with marginal softening of raw material prices, fluctuating (INR/USD) exchange rate and a slow steel demand growth.

Although, on the input side, the raw material prices are expected to be subdued, the steel industry faces multiple challenges on the output side :

- Chinese over capacity resulting into substantial increase in Chinese exports into India - resulting in pressure on domestic steel prices
- Slow pick-up in steel demand in the domestic market - making it difficult to improve capacity utilisation
- Increased domestic rail logistics costs for Iron ore and coal - resulting in higher cost of landed raw material. Also, the import duty on coke has been increased, which will negatively affect the steel companies importing coke.

Hence, it is becoming more and more important to focus on cost reduction to remain competitive in current market and to maintain margins.

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

Your Company has chalked out clear roadmaps for Approvals and New Product Development with major OEMs in Domestic and International spaces. Further, the Company is expanding presence in value added steel (Quenched & Tempered, Annealed, Peeled etc) through in-house facilities for competitive edge and better margins.

Your Company has also participated in various promotional activities (Defense Expo and India Steel Exhibition organised by Steel Ministry & FICCI) for increased visibility and reach across various segments.

Cost Reduction & Quality Improvement Initiatives

Iron Making Division

- Reduction in fuel consumption in Sinter Plant by reducing % micro-fines in Coke Fines by use of a pre-screener before crushing.
- Reduction in fuel consumption in Blast Furnaces by reducing moisture from Coke & Iron Ore by use of drying system before the material is charged in the furnace.
- Diluted Oxygen enrichment in combustion air of Sinter Plant & Blast Furnace which results into increased temperature which in turn reduces consumption of costly solid fuel (e.g. Coke Fines / Coke)

Steel Melt Shop

- Developed capability to produce new grades with stringent quality norms which helped in acquiring new customers.

Rolling Mill

- Replacement of costly furnace oil by Blast Furnace gas in Rolling Mill - II by installing a new Regenerative Furnace.
- Reduction in Blast Furnace gas consumption in Rolling Mill - I by operational improvement measures in the existing Regenerative Furnace.

Company Performance

- Sales, Gross - ₹ 15,459 Million
- Profit before Taxation - ₹ 1,240 Million

Sales, Gross includes Manufacturing Revenue of ₹ 15,386 Million and Trading Revenue of ₹ 73 Million.

Manufacturing Revenue consists of sale of Rolled Products, As Cast Blooms and Pig Iron, Misc. Sales, Sale of Services and Conversion Charges received. The Company sold 201,770 tons of 'Rolled Products' aggregating ₹ 11,676 Million, 16,047 tons of 'As Cast Blooms' aggregating ₹ 648 Million, 2,312 tons of 'Pig Iron' aggregating ₹ 67 Million, Misc. sales amounted to ₹ 83 Million, Sale of Services amounted to ₹ 20 Million and Conversion Charges received were ₹ 2,892 Million. The Manufacturing Turnover includes exports of 6,184 tons of Steel aggregating ₹ 333 Million.

Internal Control Systems and their adequacy

The Company has well established internal control systems commensurate with its size and nature of business which provides for efficient use and safeguarding of resources, accurate recording of transactions and custody of assets, compliance with prevalent statutes, adherence to applicable accounting standards and policies and IT systems which include controls for facilitating the above.

The internal control is supplemented by an extensive review by internal auditors. Their observations are subject to periodic review and compliance monitoring. The Audit Committee of Directors reviews the significant observations made by internal auditors along with status of action thereon.

SAP Implementation

The Company has successfully implemented SAP at Head Office and partially at Plant. The total implementation at all locations is expected to be completed before end of first quarter of current financial year.

Multiple benefits as below have started flowing in and would further improve with the complete implementation :

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

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, 2015 the Company has 81 employees. 1,061 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.

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

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 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 2014-15.

1. BOARD LEVEL ISSUES

COMPOSITION OF THE BOARD

As on 31st March, 2015, the Board of Directors of Kalyani Steels comprised ten Directors. The Board consists of the Chairman, who is Promoter Non-Executive Director, one Executive Director and eight Non-Executive Directors, of which five are Independent. Details are given in Table 1.

NUMBER OF BOARD MEETINGS

During the year 2014-15, the Board of the Company met six times on 29th May, 2014, 23rd July, 2014, 5th September, 2014, 20th October, 2014, 3rd February, 2015 and 30th March, 2015. 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 other Public Limited Companies***		
		Number of Board Meetings		Last AGM	Directorships	Committee Memberships	Committee Chairmanships
		Held	Attended				
Mr.B.N. Kalyani Chairman	Promoter Non-Executive	6	6	Yes	8	2	1
Mrs.Sunita B. Kalyani*$	Non-Executive	1	1	N.A.	1	—	—
Mr.Amit B. Kalyani$	Non-Executive	6	3	Yes	7	3	—
Mr.S.M. Kheny**	Non-Executive	6	3	No	8	1	1
Mr.S.S. Vaidya	Independent	6	6	Yes	6	3	3
Mr.B.B. Hattarki	Independent	6	6	Yes	8	2	5
Mr.M.U. Takale	Independent	6	4	No	3	2	—
Mr.Arun P. Pawar	Independent	6	6	Yes	—	—	—
Mr.C.G. Patankar	Independent	6	6	Yes	6	3	—
Mr.R.K. Goyal Managing Director	Executive	6	6	Yes	1	—	—

* Appointed with effect from 30th March, 2015

** Independent till 29th March, 2015, became Non-Executive Non-Independent with effect from 30th March, 2015.

*** Directorships do not include alternate Directorships, Directorships of private limited companies, Section 8 companies and of companies incorporated outside India. In accordance with Clause 49 of the Listing Agreement, Memberships / Chairmanships of only Audit Committee and Stakeholders Relationship Committee in all public limited companies (excluding Kalyani Steels Limited) have been considered.

$ Relative of Promoter

As mandated by Clause 49 of the Listing Agreement, the Independent Directors on Kalyani Steels Limited's Board :

- are person of integrity and possesses relevant expertise and experience;
- (i) are not a Promoter of the Company or its holding, subsidiary or associate company;
  (ii) are not related to promoters or directors in the Company, its holding, subsidiary or associate company;
- apart from receiving director's remuneration, has or had no material pecuniary relationship with the Company, its holding, subsidiary or associate company, or their promoters, or directors, during the two immediately preceding financial years or during the current financial year;