

KALYANI STEELS LIMITED



KALYANI

DRIVING INNOVATION

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

REGISTERED OFFICE

Mundhwa, Pune - 411 036

Phone : +91-020-26715000 / 66215000

Fax : +91-020-26821124

Website: www.kalyanisteels.com

E-mail : investor@kalyanisteels.com

PLANT LOCATION

Hospet Road, Ginigera

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

CONTENTS

Management Discussion and Analysis	2
Corporate Governance	7
Shareholder Information	16
Directors' Report	19
Auditor's Report	39
Balance Sheet	44
Statement of Profit and Loss	45
Cash Flow Statement	46
Notes forming part of the Financial Statements	48
Auditor's Report on Consolidated Financial Statements	71
Consolidated Balance Sheet	74
Consolidated Statement of Profit and Loss	75
Consolidated Cash Flow Statement	76
Notes forming part of the Consolidated Financial Statements	78

43RD ANNUAL GENERAL MEETING

Day : Thursday
Date : 11th August, 2016
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-Third Annual Report for the year 2015-16 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 decelerated to 3.1% in 2015 as compared to that in 2014. The growth forecast for near future is slightly optimistic with World GDP expected to grow at 3.2% in 2016 and accelerate further to 3.5% in 2017.

Real GDP growth (%)

Year	2013	2014	2015	2016 (p)	2017 (p)
World	3.4	3.4	3.1	3.2	3.5
Advanced Economies	1.4	1.8	1.9	1.9	2.0
Emerging Markets	5.0	4.6	4.0	4.1	4.6

All numbers are in percentages

(p) Refers to projections

Source : IMF, World Economic Outlook, April, 2016

Advanced Economies

Global economic growth slowed down with Advanced Economies just managing to better their growth record in 2015. The Advanced Economies are expected to maintain 1.9-2.0% growth rate till 2016 and 2017. This can be attributed to soft demand, unfavorable demographic trends, low productivity growth and prolonged after-effects of the global financial crisis.

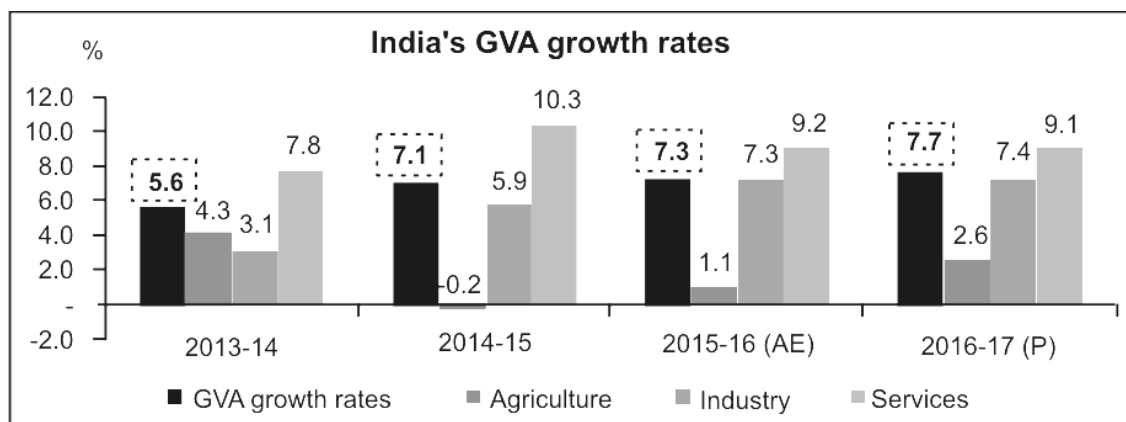
Emerging Markets

Given the situation of Advanced Economies, majority of the global growth is expected to be driven by Emerging Markets. However, the growth prospects across Emerging Markets remain uneven and generally weak. In particular, few large emerging markets including Brazil and Russia are still in recession. There are signs of distress in other commodity exporting countries due to fall in commodity prices.

In addition to this, there are concerns about the global impact of overcapacities or excesses in China's economy as it moves towards consumption led economy after almost a decade of investment fueled growth.

Indian Economy

As per Ministry of Statistics and Programme Implementation (MoSPI), Government of India's Advance Estimates (AE), Indian Gross Value Added (GVA) grew by 7.3% in FY 2015-16 as compared to FY 2014-15.



AE : Advance Estimates from MoSPI

P : Projections from RBI

Source :

1. MoSPI, Govt. of India, Press Note dated 8th February, 2016
2. RBI's Survey of Professional Forecasters dated 5th April, 2016

As shown in the chart, India's overall GVA growth was fuelled by Services & Industry Sectors which grew by 9.2% & 7.3% respectively in FY 2015-16. Agriculture Sector grew by 1.1% in FY 2015-16 after marginally shrinking by 0.2% in the year earlier.

Due to Government's various efforts, the "Ease of Doing Business" in India has improved with the country standing at 130th rank in 2015, as compared to 142nd in 2014 as per the World Bank.

Going forward, India's economy is expected to witness 7.7% growth in FY 2016-17. Here, Agriculture and Industry Sectors are expected to grow at 2.6% and 7.4% respectively. The Services Sector is expected to see marginal decrease in growth to 9.1%.

Due to insufficient irrigation, Indian Agriculture Sector is still largely dependent on monsoon. Fortunately in 2016, as per Indian Meteorological Department (IMD), the monsoon seasonal rainfall is likely to be 106% of the Long Period Average (LPA) i.e. above normal. This will boost the Agriculture Sector and the overall rural economy.

World Steel Industry

In 2015, World Crude Steel production decreased by 2.8% to 1,623 Million MTs from 1,670 Million MTs in 2014.

	CY 2014	CY 2015
World Crude Steel	1,670.2	1,622.8
<i>y-o-y growth %</i>		-2.8%
China	822.8	803.8
<i>y-o-y growth %</i>		-2.3%
EU (28 countries)	169.3	166.2
<i>y-o-y growth %</i>		-1.8%
Japan	110.7	105.2
<i>y-o-y growth %</i>		-5.0%
USA	88.2	78.9
<i>y-o-y growth %</i>		-10.5%
India	87.3	89.6
<i>y-o-y growth %</i>		2.6%

All numbers are in Million Tonnes except percentages.

Source : World Steel Association (WSA), January, 2016

In 2015, all the major steel producing countries (except India) saw a decrease in crude steel production.

China, the leading producer of steel, contributed 49.5% of the global output at 803.8 Million MTs in 2015, showing 2.3% de-growth over previous year.

The European Union (EU) recorded a decrease of 1.8% over 2014, producing 166.2 Million MTs of crude steel.

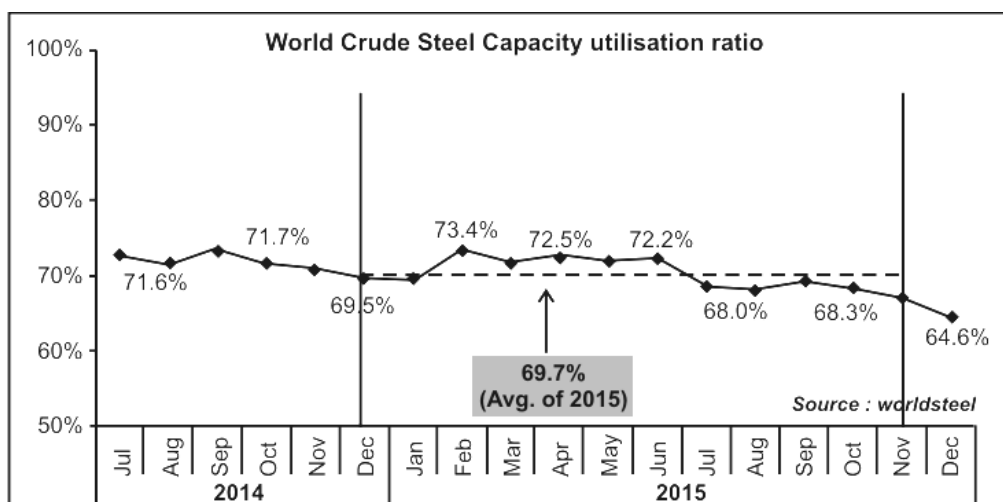
Japan's crude steel production decreased by 5% in 2015 to 105.2 Million MTs.

United States' crude steel production saw a huge decrease of 10.5% to 78.9 Million MTs.

India saw an increase in crude steel production to 89.6 Million MTs in 2015 with 2.6% growth over that in 2014.

**Global Crude Steel Capacity Utilisation**

Global steel industry still suffers from excess capacity and the situation worsened in 2015 as compared to 2014. Overall global capacity utilisation saw a downtrend in 2015 and touched 64.6% in December, 2015.



However, as per latest data from World Steel Association, the global capacity utilisation has seen an increasing trend in 2016 to reach 70.5% in March, 2016.

Indian Steel Industry

As per World Steel Association, crude steel production in India increased by 2.6% in 2015 as compared to 2014.

Crude Steel Production (Carbon + Alloy Steel)	CY 2014	CY 2015
Production (Million Tonnes)	87.3	89.6
Growth (%)		2.6%

Source : World Steel Association

It is interesting to note that in 2015 out of the top 10 global steel producers, only India managed to increase its crude steel production.

In 2015, Indian steel companies faced stiff competition due to dumping from China, Korea and Japan. Against this backdrop, Indian Government in February, 2016 imposed Minimum Import Price (MIP) ranging from \$341 to \$752 per tonne on 173 steel products (mainly flat products). Apart from the MIP, Government also raised the import duty to 10% for flat products and 7.5% for long products.

India has overall positive economic prospects due to the Central Government's reform momentum and policies to increase infrastructure and manufacturing output. Low oil prices are also benefitting India as majority of India's crude oil is imported.

Due to these positive factors, India's steel demand is expected to increase by 5.4% in both 2016 as well as 2017.

Industry Profitability Outlook

FY 2015-16 has been a challenging year for Indian Steel industry with shrinking profitability due to sluggish demand, onslaught of imports and highly leveraged balance sheets.

Even though the raw material prices have gone down in FY 2015-16, the same was not enough to maintain margins given the decrease in steel prices.

Going forward, the industry profitability is expected to witness more challenges and risks as follows :

- Possibility of revocation of MIP : MIP has been imposed for 6 months. It is unclear whether this will be extended further. Even currently, various institutions in steel user industries have objected to this decision.
- Chinese overcapacity : As China shifts towards a consumption led economy, Chinese steel industry will be forced to export more and more steel to maintain its capacity utilisation.
- Increasing Iron Ore prices : Globally, Iron Ore prices have seen an uptrend recently. Even in India, especially Karnataka, the Iron Ore prices are increasing rapidly.
- Increasing Coke prices : Indian Metallurgical Coke Manufacturers' Association (IMCOM) has filed an application to Department of Commerce alleging dumping of Low Ash Metallurgical Coke originating in or exported from China and Australia. IMCOM has also demanded imposition of anti-dumping duty on Coke. If such anti-dumping duty is applied by the Indian Government, it will negatively impact companies without captive Coke ovens.

Apart from this, recently there has been a visible increase in imported coke prices, mainly due to the increased demand in Chinese market.

- Slow demand pick-up : Even though the Government has initiated many infrastructure and policy reforms, the pick-up in steel demand in the domestic market has been slower than expected, making it difficult to improve capacity utilisation.

Given the above scenario, 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

Your 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 roadmap for Approvals and New Product Development with major OEMs in Domestic and International spaces.

Your Company has continued focus on niche segments such as critical components in Automotive and Engineering, where the product range is less susceptible to global market fluctuations. Moreover, our efforts to improve service levels and close co-ordination with all stakeholders allowed us to consolidate our position as the preferred supplier to our customers.

Cost Reduction & Quality Improvement Initiatives

Your company continued its efforts for Cost reduction and Quality improvement. The details of the same are mentioned in Annexure 'A' to the Directors' Report.

Company Performance

- Sales, Gross - ₹ 14,542 Million
- Profit before Taxation - ₹ 1,742 Million

Sales, Gross includes Manufacturing Revenue of ₹ 14,430 Million and Trading Revenue of ₹ 112 Million.

Manufacturing Revenue consists of sale of Rolled Products, As Cast Blooms and Pig Iron, Misc. Sales and Conversion Charges received. The Company sold 201,566 tonnes of 'Rolled Products' aggregating ₹ 10,530 Million, 17,157 tonnes of 'As Cast Blooms' aggregating ₹ 605 Million, 13,420 tonnes of 'Pig Iron' aggregating ₹ 248 Million, Misc. sales amounted to ₹ 148 Million and Conversion Charges received were ₹ 2,899 Million. The Manufacturing Turnover includes exports of 6,462 tonnes of Steel aggregating ₹ 442 Million.

**Internal Control Systems and their adequacy**

The Company has well established internal control systems commensurate with its size and nature of business. These systems have been designed to provide a reasonable assurance with regard to maintaining of proper accounting controls for ensuring reliability of financial reporting, monitoring of operations, protecting assets from unauthorised use or losses and compliance with regulations. The systems provide for well-defined policies, guidelines and authorisations and approval procedures.

The internal control is supplemented by an extensive review by internal auditors. The prime objective of internal audit is to test the adequacy and effectiveness of the internal controls laid down by the management and to suggest improvements. Observations of the internal auditors 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.

Human Resources

The Company is privileged to have an excellent pool of human resources working with 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. 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, 2016 the Company has 101 employees. 1,084 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 statutes, litigations, labour relations and interest costs.

REPORT ON CORPORATE GOVERNANCE

Kalyani Steels has always focused on good Corporate Governance, which is a key driver of sustainable corporate growth and long-term value creation. The basic philosophy of Corporate Governance is to achieve business excellence and dedicate itself for increasing long-term shareholder value.

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 2015-16.

1. BOARD LEVEL ISSUES

COMPOSITION OF THE BOARD

As on 31st March, 2016, 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 2015-16, the Board of the Company met six times on 21st May, 2015, 22nd July, 2015, 13th August, 2015, 30th October, 2015, 13th February, 2016 and 2nd March, 2016. All the meetings were held in such manner that the gap between two consecutive meetings was not more than one hundred and twenty days.

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 as on 31st March 2016		
		Number of Board Meetings		Last AGM	Directorships*	Committee Memberships**	Committee Chairmanships**
		Held	Attended				
Mr.B.N. Kalyani Chairman	Promoter Non-Executive	6	2	No	8	3	1
Mrs.Sunita B. Kalyani	Non-Executive	6	3	Yes	2	—	—
Mr.Amit B. Kalyani	Non-Executive	6	5	Yes	8	3	—
Mr.S.M. Kheny	Non-Executive	6	3	No	9	1	1
Mr.S.S. Vaidya	Independent	6	5	Yes	7	2	2
Mr.B.B. Hattarki	Independent	6	6	Yes	9	4	5
Mr.M.U. Takale	Independent	6	6	Yes	4	3	—
Mr.Arun P. Pawar	Independent	6	5	Yes	1	—	—
Mr.C.G. Patankar	Independent	6	4	Yes	7	3	—
Mr.R.K. Goyal Managing Director	Executive	6	6	Yes	2	3	—

* excludes directorships of private limited companies, foreign companies, companies incorporated under Section 8 of the Companies Act, 2013 and alternate directorships.

** In accordance with Regulation 26 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Memberships / Chairmanships of only Audit Committee and Stakeholders Relationship Committee in all public limited companies have been considered.

As mandated by Regulation 16(1)(b) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, the 'Independent Director' on Kalyani Steels Limited's Board :

- is a person of integrity and possesses relevant expertise and experience;
- is or was not a promoter of the Company or its holding, subsidiary or associate company;
- is 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;



- none of whose relatives has or had pecuniary relationship or transaction with the Company, its holding, subsidiary or associate company, or their promoters, or directors, amounting to two per cent or more of its gross turnover or total income or fifty lakh rupees or such higher amount as may be prescribed from time to time, whichever is lower, during the two immediately preceding financial years or during the current financial year;
- who, neither himself nor any of his relatives :
 - (i) holds or has held the position of a key managerial personnel or is or has been employee of the Company or its holding, subsidiary or associate company in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed;
 - (ii) is or has been an employee or proprietor or a partner, in any of the three financial years immediately preceding the financial year in which he is proposed to be appointed, of :
 - (A) a firm of auditors or company secretaries in practice or cost auditors of the Company or its holding, subsidiary or associate company; or
 - (B) any legal or a consulting firm that has or had any transaction with the Company, its holding, subsidiary or associate company amounting to ten per cent or more of the gross turnover of such firm;
 - (iii) holds together with his relatives two per cent or more of the total voting power of the Company; or
 - (iv) is a Chief Executive or director, by whatever name called, of any non-profit organisation that receives twenty-five per cent or more of its receipts from the Company, any of its promoters, directors or its holding, subsidiary or associate company or that holds two per cent or more of the total voting power of the Company;
 - (v) is a material supplier, service provider or customer or a lessor or lessee of the Company;
- is not less than 21 years of age.

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 Audit Committee and other committees of the Board and minutes of meetings of Subsidiary Company.
- The information on recruitment and remuneration of senior officers just below the level of the Board, including the appointment or removal of Chief Financial Officer and Company Secretary.
- Show cause, demand, prosecution notices and penalty notices, if any, which are materially important.
- Fatal or serious accidents, dangerous occurrences, any material effluent or pollution problems.
- Any material default in financial obligations to and by the Company, or substantial non-payment for goods sold by the Company.
- Any issue, which involves possible public or product liability claims of substantial nature, including any judgement or order which, may have passed strictures on the conduct of the Company or taken an adverse view regarding another enterprise that can have negative implications on the Company.
- Details of any Joint Venture / Collaboration Agreement.
- Transactions that involve substantial payment towards goodwill, brand equity, or intellectual property.
- Significant labour problems and their proposed solutions. Any significant development in Human Resources / Industrial Relations front like signing of wage agreement, implementation of Voluntary Retirement Scheme etc.
- Sale of investments, subsidiaries, assets which are material in nature and not in normal course of business.
- Quarterly details of foreign exchange exposures and the steps taken by management to limit the risks of adverse exchange rate movement, if material.
- Non-compliance of any regulatory, statutory or listing requirements and shareholders service such as non-payment of dividend, delay in share transfer etc.
- General Notices of interest by Directors.
- Formation / Reconstitution of Committees of the Board.
- Dividend declaration.
- Appointment and fixing remuneration, of the Auditors as recommended by the Audit Committee.
- Annual Financial Results of the Company, Auditors' Report and the Report of the Board of Directors.
- Compliance certificates for all the laws as applicable to the Company.