

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

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44TH ANNUAL GENERAL MEETING

Day : Tuesday
Date : 1st August, 2017
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-Fourth Annual Report for the year 2016-17 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 2016 as compared to 3.4% in 2015. The growth forecast for near future is optimistic with World GDP expected to grow at 3.5% in 2017 and improve further to 3.6% in 2018.

Real GDP Growth (%)

Year	2015	2016	2017 (p)	2018 (p)
World	3.4	3.1	3.5	3.6
Advanced Economies	2.1	1.7	2.0	2.0
Emerging Markets	4.2	4.1	4.5	4.8

All numbers are in percentages

(p) Refers to projections

Source : IMF, World Economic Outlook, April, 2017

Advanced Economies

Global economic growth slowed down with Advanced Economies' growth decreasing to 1.7% in 2016. The Advanced Economies are expected to maintain around 2% growth rate till 2017 and 2018. This can be attributed to soft demand, unfavorable demographic trends and low productivity growth.

It is important to note that the growth forecast (for Advanced Economies) is uncertain in light of potential changes in the policy stance of the United States under the new administration.

For other economies such as Germany, Japan, Spain and United Kingdom, economic growth is expected to be better in coming years than in 2016 primarily because of stronger than expected economic performance in second half of 2016.

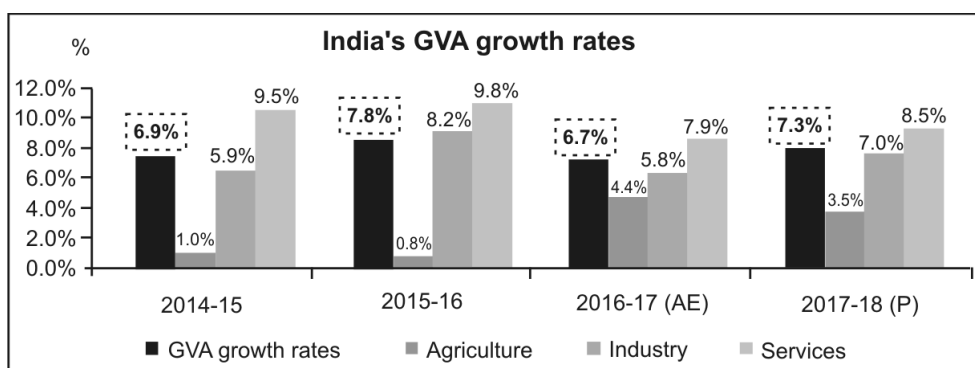
Emerging Markets

Given the situation of Advanced Economies, majority of the global growth is expected to be driven by Emerging Markets. Economic performance across emerging markets and developing economies has remained mixed.

Whereas China managed more than 6.5% growth due to continued policy support, activity has slightly slowed in India, because of the impact of demonetisation in the later part of the year. Further, Brazil is still mired in a deep recession and is expected to return to positive growth in 2017. Activity remained weak in fuel and non-fuel commodity exporters more generally, while geopolitical factors held back growth in parts of the Middle East and Turkey.

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 6.7% in FY 2016-17 as compared to FY 2015-16.



AE : Advance Estimates from MoSPI

P : Projections from RBI

Source :

1. MoSPI, Govt. of India, Press Note dated 28th February, 2017
2. RBI's Survey of Professional Forecasters dated 6th April, 2017

As shown in the chart, India's overall GVA growth decreased to 6.7% in FY 2016-17 from 7.8% in FY 2015-16. This was primarily due to slower growth rates in Industry & Services Sectors in FY 2016-17 as compared to previous year.

However, Agriculture Sector saw a steep jump in growth from 0.8% in FY 2015-16 to 4.4% in FY 2016-17.

Due to Government's continued efforts, India has maintained the "Ease of Doing Business Rank" at 130th place in 2017 as compared to 131st in 2016 as per the World Bank. Further Indian Government has set an aggressive target to achieve 90th rank in Ease of Doing Business in 2018.

Going forward, India's economy is expected to witness 7.3% growth in FY 2017-18. Here, Industry and Services Sectors are expected to grow at 7.0% and 8.5% respectively. The Agriculture Sector is expected to see decrease in growth to 3.5%.

Due to insufficient irrigation, Indian Agriculture Sector is still largely dependent on monsoon. In 2017, as per Indian Meteorological Department (IMD), the monsoon seasonal rainfall is likely to be 96% of the Long Period Average (LPA) i.e. near normal rainfall. In 2016, monsoon rainfall was 97% of the Long Period Average (LPA).

World Steel Industry

In 2016, World Crude Steel production increased marginally by 0.8% to 1,628 Million MTs from 1615 Million MTs in 2015.

	CY 2014	CY 2015	CY 2016
World Crude Steel	1670.2	1615.4	1,628.5
y-o-y growth %		-3.3%	0.8%
China	822.8	798.8	808.4
y-o-y growth %		-2.9%	1.2%
EU (28)	169.3	166.1	162.3
y-o-y growth %		-1.9%	-2.3%
Japan	110.7	105.1	104.8
y-o-y growth %		-5.1%	-0.3%
USA	88.2	78.8	78.6
y-o-y growth %		-10.7%	-0.3%
India	87.3	89.0	95.6
y-o-y growth %		1.9%	7.4%

All numbers are in Million Tonnes except percentages.

Source : World Steel Association (WSA), January, 2017

In 2016, all the major steel producing countries (except India and China) saw a decrease in crude steel production.

China, the leading producer of steel, contributed 49.6% of the global output at 808.4 Million MTs in 2016, showing 1.2% growth over previous year.

The European Union (EU) recorded a decrease of 2.3% over 2015, producing 162.3 Million MTs of crude steel.

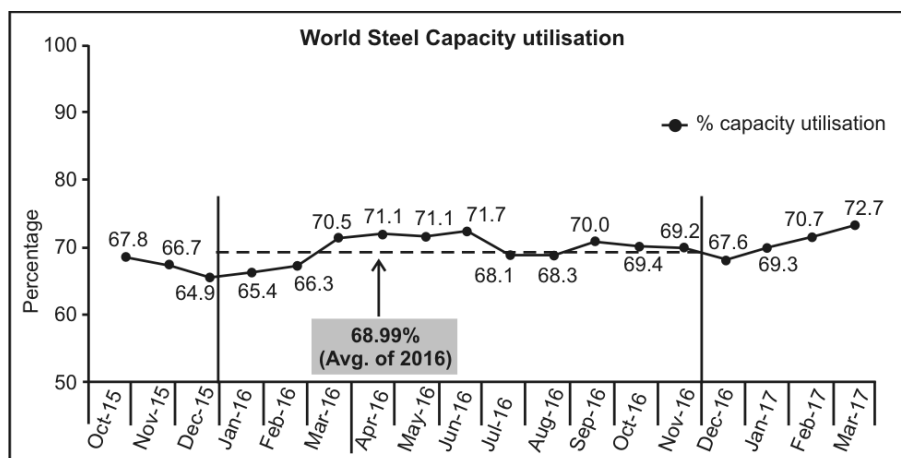
Japan's crude steel production decreased by 0.3% in 2016 to 104.8 Million MTs.

United States' crude steel production was marginally lower by 0.3% at 78.6 Million MTs in 2016 as compared to that in 2015.

India saw an increase in crude steel production to 95.6 Million MTs in 2016 with 7.4% growth over that in 2015.

**Global Crude Steel Capacity Utilisation**

As global steel industry still suffers from excess capacity, overall average global capacity utilisation was 68.99% in 2016.



However, early 2017, the global capacity utilisation has seen an increasing trend to reach 73% in March, 2017.

Indian Steel Industry

As per World Steel Association, crude steel production in India increased by 7.4% in 2016 as compared to 2015.

Crude Steel Production (Carbon + Alloy Steel)	CY 2014	CY 2015	CY 2016
Production (Mil T)	87.3	89.0	95.6
Growth (%)		1.9%	7.4%

Source : World Steel Association

It is interesting to note that in 2016 India clocked the highest growth in crude steel production amongst major steel producing countries.

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.

Even as Indian economy adjusts to the effects of Demonetisation, the World Steel Association (WSA) in its short-range outlook projected that steel demand growth (for finished steel) in India will be 6.1% and 7.1% in 2017 and 2018 respectively - which is the highest amongst major steel consuming nations.

Industry Profitability Outlook

FY 2016-17 has been a challenging year for Indian Steel industry with continued low profitability due to sluggish demand, steel imports and highly leveraged balance sheets.

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

- Increasing Iron Ore prices : NMDC's iron ore floor price for Iron Ore Lumps* and Fines* have increased by around 34% and 36% between March, 2016 to April, 2017.

Such steep increase in Iron ore prices has affected negatively steel industry especially in Karnataka.

*Reference:

Lumps : NMDC Karnataka E-auction data for 64% Fe Iron Ore Lumps

Fines : NMDC Karnataka E-auction data for 60.2% Fe Iron Ore Fines

- Increasing Coke prices : Prices of Metallurgical Coke** and Coking Coal** have increased by around 90% and 70% respectively between March, 2016 to April, 2017.

Further, in November, 2016, the Department of Commerce has imposed an anti-dumping duty on Low Ash Metallurgical Coke at 25.2 USD/T and 16.29 USD/T for imports from China and Australia respectively.

Such anti-dumping duty coupled with rising global Coke & Coking Coal prices has severely affected Indian steel Industry.

**Reference :

Coke : Low Ash Metallurgical Coke CFR India prices from Platts report

Coking Coal : Hard Coking Coal FOB India prices from Platts report

- 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. Further, there are doubts whether we will see Chinese steel capacity decreasing in near future.

On the other hand, Government of India is pushing for use of domestic steel for government projects. However, in the short to medium term, it may not have any major gain for domestic steel companies as the imported steel used in government projects is relatively low as compared to total Indian steel demand.

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

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 to 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 coordination 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 - ₹ 17,215 Million
- Profit before Taxation - ₹ 2,382 Million

Sales, Gross includes Manufacturing Revenue of ₹ 16,135 Million and Trading Revenue of ₹ 1,080 Million.

Manufacturing Revenue consists of sale of Rolled Products, As Cast Blooms and Pig Iron, Misc. Sales and Conversion Charges received. The Company sold 232,693 tonnes of 'Rolled Products' aggregating ₹ 11,554 Million, 21,220 tonnes of 'As Cast Blooms' aggregating ₹ 753 Million, 26,686 tonnes of 'Pig Iron' aggregating ₹ 506 Million, Misc. sales amounted to ₹ 248 Million and Conversion Charges received were ₹ 3,074 Million. The Manufacturing Turnover includes exports of 3,974 tonnes of Steel aggregating ₹ 201 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 and compliance with prevalent statutes, accounting standards.

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 recognises the importance of human resources in realising its growth ambitions and believes in nurturing talent within the organisation to take up leadership positions. The Company believes in investing in people development and process improvements, aligned with Company's vision and values.

As on 31st March, 2017 the Company has 80 employees. 1,048 employees are on the rolls 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

CORPORATE GOVERNANCE PHILOSOPHY

Kalyani Steels has been practicing the principles of good Corporate Governance over the years and lays strong emphasis on transparency and proper disclosures. The Company believes that timely disclosures, transparent accounting policies and strong Board go a long way in protecting shareholders' trust while maximising long term corporate value.

The Company is in compliance with the requirements stipulated under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 with regard to Corporate Governance, applicable for the Financial Year 2016-17.

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.

1. BOARD LEVEL ISSUES

COMPOSITION OF THE BOARD

As on 31st March, 2017, 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 2016-17, the Board of the Company met five times on 24th May, 2016, 25th July, 2016, 6th September, 2016, 21st October, 2016 and 9th February, 2017. 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 and Committee Memberships / Chairmanships held in Indian Public Limited Companies, including the Company :

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, 2017		
		Number of Board Meetings		Last AGM	Directorships	Committee Memberships*	Committee Chairmanships*
		Held	Attended				
Mr.B.N. Kalyani Chairman	Promoter Non-Executive	5	4	Yes	7	3	1
Mrs.Sunita B. Kalyani	Non-Executive	5	5	Yes	2	—	—
Mr.Amit B. Kalyani	Non-Executive	5	5	Yes	8	1	—
Mr.S.M. Kheny	Non-Executive	5	4	Yes	9	2	—
Mr.S.S. Vaidya	Independent	5	5	Yes	5	2	2
Mr.B.B. Hattarki	Independent	5	5	Yes	8	4	5
Mr.M.U. Takale	Independent	5	5	Yes	4	2	1
Mr.Arun P. Pawar	Independent	5	4	Yes	1	—	—
Mr.C.G. Patankar	Independent	5	4	Yes	6	3	—
Mr.R.K. Goyal Managing Director	Executive	5	5	Yes	3	3	—

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

INDEPENDENT DIRECTORS

As mandated by Regulation 25 and as defined by Regulation 16(1)(b) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and the Companies Act, 2013, the 'Independent Directors' on Kalyani Steels Limited's Board :

- are persons of integrity and possess relevant expertise and experience;
- are or were not a Promoter of the Company or its holding, subsidiary or associate company;
- are not related to promoters or directors in the Company, its holding, subsidiary or associate company;
- apart from receiving director's remuneration, have 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 have 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 themselves nor any of their 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;
- are not less than 21 years of age.

None of the Directors is a member of more than ten Board level Committees of Indian 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.