

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 (upto 18th May, 2018)

Mr. B. B. Hattarki

Mr. M. U. Takale

Mr. Arun P. Pawar

Mr. C. G. Patankar (upto 11th August, 2017)

Mr. S. K. Mandlik (w.e.f. 9th November, 2017)

Mr. S. K. Adivarekar (w.e.f. 18th May, 2018)

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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45TH ANNUAL GENERAL MEETING

Day : Tuesday
Date : 21st August, 2018
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-Fifth Annual Report for the year 2017-18 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 picked up to 3.7% in 2017 as compared to 3.1% in 2016. The growth forecast for near future is slightly optimistic with World GDP expected to grow at 3.9% in both 2018 and 2019.

Real GDP Growth (%)

Calendar Year	2016	2017	2018 (p)	2019 (p)
World	3.1	3.7	3.9	3.9
Advanced Economies	1.7	2.3	2.5	2.2
Emerging Markets	4.1	4.8	4.9	5.1

All numbers are in percentages

(p) Refers to projections

Source : IMF, World Economic Outlook, April, 2018

Advanced Economies

Advanced Economies' growth accelerated to 2.3% in 2017 as compared to 1.7% in 2016. The Advanced Economies are expected to grow further by 2.5% in 2018 and 2.2% in 2019.

However, the Advanced Economies will have continued overhang of soft demand growth, ageing population (mainly in Japan and Europe) and low productivity growth.

Emerging Markets

Emerging Market economies are expected to increase their growth rate marginally from 4.8% in 2017 to 4.9% and 5.1% in 2018 and 2019 respectively.

Within Emerging Markets, China's GDP growth is expected to decelerate from 6.9% in 2017 to 6.6% and 6.4% in 2018 and 2019 respectively. Beyond 2019, China's growth is expected to gradually slow down to 5.5% due to continued shift from investment led growth (supported by government policies) to consumption led growth.

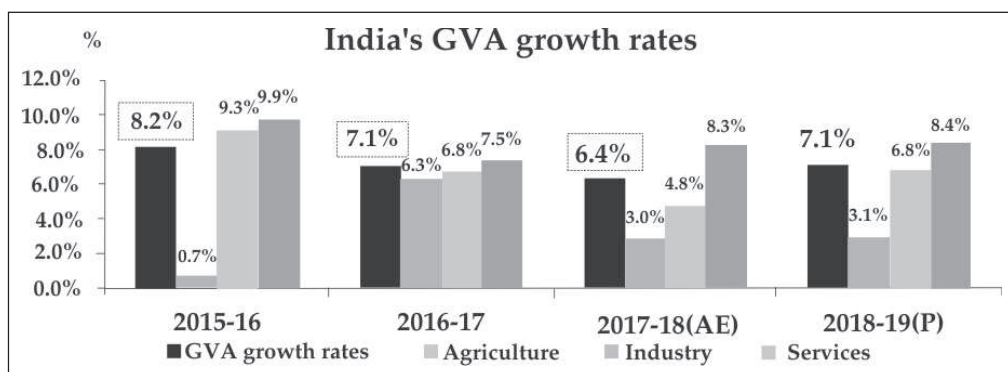
Other countries in Emerging Markets showed positive signs. India's economic growth is expected to accelerate as the country recovers from transitory effects of demonetisation initiative and implementation of GST. Further, the Indian domestic consumption story remains intact.

Other Asian countries (Indonesia, Malaysia, Philippines, Thailand and Vietnam) have stable growth prospects.

It should also be noted that in 2017, Brazil and Russia have returned to growth of 1% and 1.5% respectively after facing deep recessions for the past 2-3 years.

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 6.4% in FY 2017-18 as compared to previous year.



AE : Advance Estimates from MoSPI

P : Projections from RBI

Source :

1. MoSPI, Govt. of India, Press Note dated 28th February, 2018
2. RBI's Survey of Professional Forecasters dated 5th April, 2018

As shown in the chart, India's overall GVA growth decreased to 6.4% in FY 2017-18 from 7.1% in FY 2016-17 due to slower growth rates in Agriculture and Industry. However, Services Sector's growth increased to 8.3% in FY 2017-18 as compared to 7.5% last year.

Going forward, India's economy is expected to witness 7.1% growth in FY 2018-19. Here, Agriculture, Industry and Services Sectors are expected to grow at 3.1%, 6.8% and 8.4% respectively.

India moved to 100th rank in 2017 from 130th in 2016 in the World Bank's "Ease of Doing Business" global rankings on the back of sustained business reforms over the past several years. Due to such a jump of 30 ranks, the World Bank recognised India as one of the top 10 improvers in 2017. Indian Government now aims to be in the top 50 countries in 2018.

Due to insufficient irrigation, Indian Agriculture Sector is still largely dependent on monsoon. In 2018, as per Indian Meteorological Department (IMD), the monsoon seasonal rainfall is likely to be 97% of the Long Period Average (LPA) i.e. near normal rainfall. This should augur well for the economy in general and rural economy in particular. In 2017, monsoon rainfall was 95% of the Long Period Average (LPA).

World Steel Industry

In 2017, World Crude Steel production increased by 5.3% to 1,691 Million MTs from 1606 Million MTs in 2016.

	CY 2016	CY 2017	Y o Y%
World Crude Steel	1606.3	1,691.2	5.3%
China	786.9	831.7	5.7%
EU (28)	162.1	168.7	4.1%
Japan	104.8	104.7	-0.1%
USA	78.5	81.6	3.9%
India	95.5	101.4	6.2%

All numbers are in Million Tonnes except percentages.

Source : World Steel Association (WSA), January, 2018

In 2017, all the major steel producing countries (except Japan) saw positive steel growth.

China, the leading producer of steel, contributed 49% of the global output at 831.7 Million MTs in 2017, showing 5.7% growth over previous year.

The European Union (EU) recorded an increase of 4.1% in 2017 over 2016, producing 168.7 Million MTs of crude steel.

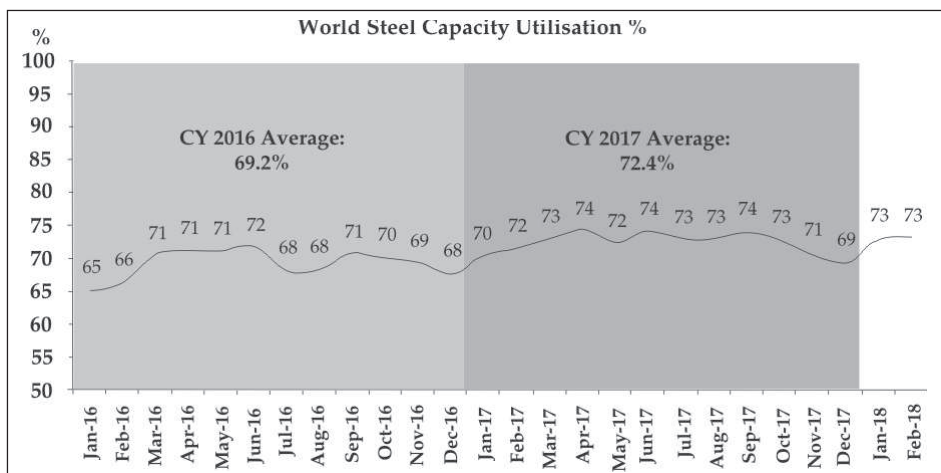
Japan's crude steel production continued its decrease and was down by 0.1% in 2017 to 104.7 Million MTs.

USA's crude steel production increased by 3.9% at 81.6 Million MTs in 2017 as compared to that in 2016.

India produced 101.4 Million MTs in 2017 with 6.2% growth over that in 2016.

Global Crude Steel Capacity Utilisation

As global steel industry still suffers from excess capacity, overall average global capacity utilisation was 72.4% in 2017.



In early 2018, the global capacity utilisation has seen an increasing trend to reach 73% in February, 2018.

Indian Steel Industry

As per World Steel Association, crude steel production in India increased by 6.2% in 2017 as compared to 2016.

Crude Steel Production	CY 2016	CY 2017	YoY %
Production (Mil T)	95.5	101.4	6.2%

Source : World Steel Association

It is interesting to note that in 2017 India clocked the 3rd highest growth in crude steel production among major steel producing countries – after Turkey (13.1%) and Brazil (9.9%).

On the steel consumption side, India's finished steel consumption increased by 4.4% from 83.5 Million Tonnes in 2016 to 87.2 Million Tonnes in 2017.

Finished Steel Consumption	CY 2016	CY 2017	YoY %
Production (Mil T)	83.5	87.2	4.4%

Source : World Steel Association

Going forward, India's finished steel consumption is expected to grow to 92 Million Tonnes in 2018 and 97.5 Million Tonnes in 2019 showing 5.5% and 6.0% growth in 2018 and 2019 respectively. However, even stronger steel demand growth may be seen when private investment cycle kicks in.

Industry Profitability Outlook

FY 2017-18 has been a challenging year for Indian Steel industry with slow demand pickup, 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 increased the floor prices of Iron Ore Lumps* & Fines* by 31% and 23% respectively between April, 2017 and March, 2018.

Such steep increase in Iron ore price has severely affected Karnataka steel industry

Lumps : NMDC Karnataka E-auction data for 63.0% Fe Iron Ore Lumps

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

- Increasing Coke prices : Prices of Metallurgical Coke** remained volatile during FY 2017-18.

Between April, 2017 and March, 2018, the CFR India LAM Coke prices have increased by around 12%, which directly affected steel companies not having captive coke ovens.

Further, in November, 2016, the Department of Commerce had 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

- Chinese overcapacity : As China shifts towards a consumption led economy, Chinese steel industry is being forced to export more and more steel to maintain its capacity utilisation.

It is pertinent to note that even though there were various talks of China cutting its steel capacity, in reality, the Chinese crude steel production has increased by 5.7% in CY 2017.

Given the above scenario, it is becoming more and more important to focus on cost reduction and quality improvement 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

The Company has chalked out clear road map for Approvals and New Product Development with major OEMs in Domestic and International spaces.

The 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

The 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

- Revenue from Operations – ₹ 13,870 Million
- Profit before Taxation – ₹ 1,746 Million

Revenue from Operations includes Manufacturing Revenue of ₹ 13,000 Million, Trading Revenue of ₹ 675 Million, and other Operating Revenue of ₹ 195 Million.

Manufacturing Revenue consists of sale of Rolled Products, As Cast Blooms and Rounds and Pig Iron. The Company sold 234,989 tonnes of 'Rolled Products' aggregating ₹ 12,215 Million, 14,533 tonnes of 'As Cast Blooms and Rounds' aggregating ₹ 679 Million, 4,095 tonnes of 'Pig Iron' aggregating ₹ 106 Million. The Manufacturing Turnover includes exports of 5,568 tonnes of Steel aggregating ₹ 584 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, 2018 the Company has 69 employees. 1,043 employees are on the roll 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 believes that good Corporate Governance is a pre-requisite for attaining sustainable growth in the competitive world. The philosophy can be described as observing of business practices with the ultimate aim of enhancing long-term shareholders value and commitment of high standard of business ethics.

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 2017-18.

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, 2018, the Board of Directors of Kalyani Steels comprised Ten Directors. The Board consists of the Chairman, who is a 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 2017-18, the Board of the Company met four times on 25th May, 2017, 11th August, 2017, 9th November, 2017 and 5th February, 2018. 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, as on 31st March, 2018 :

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, 2018		
		Number of Board Meetings		Last AGM	Directorships	Committee Memberships*	Committee Chairmanships*
		Held	Attended				
Mr.B.N. Kalyani Chairman	Promoter Non-Executive	4	4	No	7	3	—
Mrs.Sunita B. Kalyani	Non-Executive	4	4	No	2	—	—
Mr.Amit B. Kalyani	Non-Executive	4	3	Yes	8	1	—
Mr.S.M. Kheny	Non-Executive	4	4	Yes	8	2	1
Mr.S.S. Vaidya	Independent	4	4	Yes	5	2	2
Mr.B.B. Hattarki	Independent	4	4	Yes	8	4	5
Mr.M.U. Takale	Independent	4	4	Yes	4	2	1
Mr.Arun P. Pawar	Independent	4	2	Yes	2	—	—
Mr.Sachin K. Mandlik**	Independent	1	1	N.A.	1	—	—
Mr.R.K. Goyal Managing Director	Executive	4	4	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.

** Appointed as an Additional Independent Director with effect from 9th November, 2017

INDEPENDENT DIRECTORS

As mandated by Regulation 17 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.
- Appointment, remuneration and resignation of Directors.
- 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.
- Making of loans and investments of surplus funds.
- 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, declarations of Independent Directors at the time of appointment / annual declarations.
- 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.
- CSR activities carried out by the Company and expenditure made thereon.