

# KALYANI STEELS LIMITED



**KALYANI**

DRIVING INNOVATION

## BOARD OF DIRECTORS

**Mr. B. N. Kalyani**  
Chairman

**Mr. Amit B. Kalyani**

**Mr. S. S. Hiremath**

**Mr. S. M. Kheny**

**Mr. S.S. Vaidya**

**Mr. B.B. Hattarki**

**Mr. M.U. Takale**

**Mr. C.G. Patankar**  
Executive Director

**Mr. Suresh Pandey**  
Wholetime Director (Technical)

### AUDITORS

Dalal & Shah  
Chartered Accountants  
49-55, Bombay Samachar Marg  
Fort, Mumbai - 400 023

### BANKERS

Bank of Baroda  
Union Bank of India  
Canara Bank  
HDFC Bank Limited  
State Bank of India

### REGISTRAR & TRANSFER AGENTS

MCS Limited  
116, Akshay Complex  
Off Dhole Patil Road  
Near Ganesh Mandir  
Pune - 411 001

### REGISTERED OFFICE

Mundhwa, Pune - 411 036  
Phone : 91-020-26715000,66215000  
Fax : 91-020-26821124  
Website: [www.kalyanisteels.com](http://www.kalyanisteels.com)  
E-mail : [ksl@kalyanisteels.com](mailto:ksl@kalyanisteels.com)

### WORKS

Hospet Road, Ginigera  
Tal. & Dist. Koppal  
KARNATAKA - 583 228

**CONTENTS**

Management Discussion and Analysis

Corporate Governance

Shareholder Information

Directors' Report

Auditors' Report

Balance Sheet

Profit & Loss A/c

Cash Flow Statement

Schedules forming part of the  
Financial Statements

Notes forming part of the Financial Statements

Balance Sheet Abstract & Company's  
General Business Profile

Consolidated Financial Statements

**33RD ANNUAL GENERAL MEETING**

Day : Saturday

Date : 26th August, 2006

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 Thirty-Third Annual Report for the year 2005-06 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.

### Industry Structure and Development :

The steel sector in the country is on a roll. The buoyancy in the sector continued for the third year in a row by strong growth in demand in various user sectors such as automobiles, infrastructure and capital goods etc. These user sectors are doing well and would need additional steel in coming years. As a result, many steel business houses have announced ambitious expansion plans while many others are going ahead with Greenfield expansion.

With abundant iron ore resources and well-established base for steel production in the country, steel sector is poised for growth in the coming decades. Production has increased from 17 million tonnes in 1990 to 35 million tonnes in 2005 and 66 million tonnes is targeted for 2011. While steel will continue to have a stronghold in traditional sectors such as construction, housing and infrastructure, special steels will be increasingly used in hi-tech engineering industries such as forging, automobile, aeronautics, power generation, petrochemicals, fertilizers etc. Steel will continue to be the most popular, versatile and dominant material for wide ranging applications.

On the Global front, World Crude Steel output reached the level of 1129.4 Million Metric Tonnes in 2005, which is 5.9% more than the previous year. The top steel producing country in 2005 was China, followed by Japan and USA. India occupied the 8th position. On global level, in terms of consumption, the construction industry was the highest consumer of steel i.e. 39%, while the automobile industry consumed 14% of the steel produced.

The International Iron and Steel institute (IISI) in its forecast for 2006, has confirmed that the trend of recent years, is of an increase in steel use, in line with general economic growth and with the fastest growth occurring in the countries with the highest GDP growth such as India and China. This growth is estimated to continue until 2015 at a rate of approximately 4% per year. However, the cost of raw materials and energy would continue to represent a major challenge for the world steel industry.

### Company Performance :

- Gross Turnover ~ Rs.7,546 Million
- Profit before Taxation ~ Rs.1,354 Million
- Profit after Taxation ~ Rs.1,010 Million

Turnover includes Trading Turnover of Rs.231 Million and Manufacturing Turnover of Rs.7,315 Million. Trading Turnover was mainly on account of sale of iron ore and coke.

Manufacturing turnover includes sale of Rolled Products, As Cast Blooms, Pig Iron, Misc. Sales and Conversion Charges received. The Company sold 99,465 tonnes of Rolled Products aggregating Rs.3,978 Million, 37,964 tonnes of As Cast Blooms aggregating Rs.1,187 Million and 10,678 tonnes of Pig Iron aggregating Rs.164 Million. Misc. Sales amounted to Rs.326 Million and Conversion Charges received were Rs.1,660 Million. The Manufacturing Turnover includes exports of 951 tonnes aggregating Rs.49 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 a programme of audits by management auditors who periodically

present their observations to the Audit Committee. The Audit Committee of Directors reviews the significant observations made by management auditors along with status of action thereon.

**Human Resources :**

The Company believes that the competence and commitment of its people are the key drivers for growth of any organisation. Conscious efforts are made by the management towards the development of employees. Employees are sponsored for various external seminars and other development programmes. Courses are designed to keep employees acquainted with the latest trends in management. Emphasis is laid on creativity, innovation, achievement and motivation for excellence, developing initiative and leadership qualities. As on 31st March, 2006 the Company has 191 employees. 776 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.

**Opportunities, Threats and Future Outlook :**

Steel is yet to touch the lives of millions of people in India. Per capita consumption of steel in India is only 35 kg and has to go a long way to reach world average of 140 kg. and consumption levels of around 400 kg in developed countries like USA.

There is also need to continue the current thrust in infrastructure related activities and extend them to rural India. The opportunity to increase usage of steels in these areas through projects such as rural housing, roads will show an increasing appetite for steel in the years to come.

While growing demand and the need for ample capacity to service is not in question, what has cast a shadow of doubt over the steel industry is the specter of over capacity as well as the feeble outlook on prices. Shortages of inputs may result in pushing up the costs for the steel industry. There is an urgent need to develop raw material resources for inputs like iron ore and coal within or outside the country.

Adequate enabling infrastructure such as power, ports, roads, rail transport is pre-requisite for the Indian Steel Industry to remain competitive, is also required to be developed.

Barring these factors, the overall near outlook for the domestic as well as global steel industry remains positive in the year 2006. The industry is likely to see a normal and healthy year with prices remaining stable.

**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's global or domestic or both, significant changes in political and economic environment in India, applicable statutes, litigations, labour relations and interest costs.

## 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 stakeholders. The Company is in full compliance with the requirements under revised Clause 49 of the Listing Agreement with the Stock Exchanges.

This chapter of the report, plus the information given under Management Discussion and Analysis and Shareholder Information constitutes the compliance report of the Company on Corporate Governance during the year 2005-06.

### 1. BOARD LEVEL ISSUES

#### COMPOSITION OF THE BOARD :

As on 31st March, 2006, the Board of Directors of Kalyani Steels comprises eight directors. The Board consists of the Chairman, who is Promoter Non-Executive Director, three Executive Directors and four Non-Executive Directors, of which three are Independent. Details are given in Table 1.

#### NUMBER OF BOARD MEETINGS :

During the year, seven Board Meetings were held. These were held on 27th April, 2005, 20th June, 2005, 11th July, 2005, 26th July, 2005, 22nd August, 2005, 30th October, 2005 and 23rd January, 2006. 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 Director	Category	Number of meetings held	Number of meetings attended	Whether attended last AGM	Number of Directorships of public limited companies	Materially significant pecuniary or business relationship with the Company
B.N. Kalyani Chairman	Promoter Non-executive	7	5	Yes	12	None
Amit B. Kalyani	Promoter Non-executive	7	7	Yes	12	None
S.S. Hiremath	Non-executive	7	6	Yes	2	None
S.M. Kheny	Non-executive	7	6	Yes	14	None
Ajeet Prasad*	Non-executive	3	2	No	8	None
S.S. Vaidya**	Non-executive	1	1	N.A.	8	None
C.G. Patankar Executive Director	Executive	7	7	Yes	12	N.A.
Suresh Pandey Wholetime Director (Technical)	Executive	7	5	Yes	1	N.A.
B.B.Hattarki Wholetime Director	Executive	7	7	Yes	10	N.A.

\* UTI Asset Management Company Private Limited, has withdrawn, Mr. Ajeet Prasad, their Nominee Director, on the Board of the Company, w.e.f. 24th August, 2005.

\*\* Co-opted on the Board w.e.f. 30th October, 2005.

Notes :

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, as included for the purposes of Corporate Governance laid down by SEBI and Listing Agreement.

**INFORMATION PLACED BEFORE THE BOARD :**

The Board of the Company is presented with all the relevant information on various vital matters affecting the working of the Company as well as those matters, which require deliberation at the highest level. Among others, information to the Board includes :

- Annual operating plans and budgets, capital budgets, updates.
- Sales and financial performance statistics.
- Quarterly results for the Company and its operating divisions.
- Minutes of the meetings of audit committee and other committees of the Board.
- Minutes of the Board Meetings of the unlisted subsidiary companies and statement of significant transactions and arrangements entered into by the unlisted subsidiary companies.
- Information on recruitment and remuneration of senior officers just below the Board level, including significant development in human resources / industrial relations front.
- Compliances of any regulatory, statutory nature or compliances relating to listing requirements and shareholders services.
- Details of show cause, demand notices, if any.
- Details of any Expansion plans / Joint Venture / Collaboration / Amalgamation / Scheme of Arrangement including amendments thereof.
- Sale of material nature of investments, subsidiaries, assets, if any, which is not in normal course of business.
- Share transfer and demat compliances.
- Status of shareholders / investors grievances.

The Board of Kalyani Steels is presented with detailed notes on various vital matters along with the agenda papers well in advance of the meeting.

**DIRECTORS WITH MATERIALLY PECUNIARY OR BUSINESS RELATIONSHIP WITH THE COMPANY :**

There has been no materially relevant pecuniary transactions or relationship between the Company and its non-executive and / or independent Directors for the year 2005-06.

**AUDIT COMMITTEE :**

The Company has an Audit Committee comprising four members, three of them including Chairman are Independent Directors. All the members have relevant accounting, finance and audit exposure. The Chairman of the Audit Committee is Mr.S.S. Vaidya. Mr.B.N. Kalyani, Mr.S.M. Kheny and Mr.S.S. Hiremath are the other members of the Committee.

The representatives of the Statutory Auditors, Management Auditors and remaining Board Members are permanent invitees to the Audit Committee Meetings. The Secretary of the Company also acts as the Secretary of the Audit Committee.

During the year Audit Committee met on 20th June, 2005, 26th July, 2005, 30th October, 2005 and 23rd January, 2006. Particulars relating to the attendance at the Audit Committee meetings held during the year are given below :

Name of Director	Category	Number of Meetings held	Number of Meetings attended
S.S. Vaidya, Chairman	Independent	1	1
B.N. Kalyani	Promoter Non-executive	4	3
S.M. Kheny	Independent	4	4
S.S. Hiremath	Independent	4	4
Ajeet Prasad, UTI Nominee*	Independent	2	1

\* Ceased to be the Chairman and member of the Audit Committee w.e.f. 24th August, 2005, as UTI Asset Management Company Private Limited, has withdrawn, Mr.Ajeet Prasad, their Nominee Director, from the Board of the Company.

Terms of reference :

The terms of reference for the Audit Committee as specified by the Board of Directors of the Company consists of the following :

- 1) Oversight of the Company s financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- 2) Recommending to the board, the appointment, re-appointment and if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
- 3) Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
- 4) Reviewing, with the management, the annual financial statements before submission to the board for approval.
- 5) Reviewing, with the management, the quarterly financial statements before submission to the board for approval.
- 6) Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
- 7) Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official, heading the department, reporting structure, coverage and frequency of internal audit.
- 8) Discussions with management auditors on any significant findings and follow up thereon.
- 9) Reviewing the findings of any internal investigations by the management auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board.
- 10) Discussions with statutory auditors before audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
- 11) To look into the reasons for substantial defaults, if any, in the payment to the depositors, debentureholders, shareholders (in case of non-payment of declared dividends) and creditors.
- 12) Carrying out any other function as is mentioned in the terms of reference of the audit committee.

### **REMUNERATION POLICY :**

As all decisions regarding the remuneration of Executive and Non-executive Directors are taken by the entire Board of Directors ( the Boardf) of the Company, no formal Remuneration Committee has been constituted.

The Executive Director and the Wholetime Directors are paid remuneration as per the terms approved by the Board and confirmed by the Shareholders of the Company. The remuneration of the Executive Director comprises of Salary, Commission and Perquisites besides contributions to provident fund, superannuation and gratuity and leave encashment facility. The remuneration of the Wholetime Directors comprises of Salary, Perquisites and leave encashment facility.

Services Contracts are entered into with the Executive Director and the Wholetime Directors in terms of the resolutions governing their appointment and the terms of remuneration. In terms of the said contracts either party may terminate the Contract by giving to the other party a three month s notice and do not contain any provision for payment of severance fees. The Company does not have any stock option scheme.

The Non-executive Directors are paid sitting fees for attending each meeting of the Board and of the Committees thereof as specified by the Board. Each of the Non-executive Directors is paid sitting fee of Rs.2,000/- per meeting attended by him. The Non-executive Directors also draw remuneration in the form of commission based on net profits of the Company, as determined by the Board.

**REMUNERATION OF DIRECTORS :**

Table 2 : The details of the remuneration package of Directors, their shareholding in the Company and relationship, if any.

Name of Director	Relationship with other directors	Sitting fees* (Rs.)	Salaries and perquisites (Rs.)	Commission*** (Rs.)	Total (Rs.)	No. of Shares held
B.N. Kalyani	**	42,000	N.A.	700,000	742,000	1,118
Amit B. Kalyani	**	14,000	N.A.	700,000	714,000	31,694
S.S. Hiremath	None	20,000	N.A.	50,000	70,000	50
S.M. Kheny	None	28,000	N.A.		28,000	10,890
Ajeet Prasad****	None	4,000	N.A.		4,000	Nil
S.S. Vaidya	None	4,000	N.A.	50,000	54,000	Nil
C.G. Patankar	None	N.A.	4,166,050	6,500,000	10,666,050	4,770
Suresh Pandey	None	N.A.	2,397,400		2,397,400	Nil
B.B. Hattarki	None	N.A.	1,482,443		1,482,443	2,360

\* Sitting fees include payment for board level committee meetings.

\*\* None of the employees / directors are related to any of the Directors except Mr.Amit B. Kalyani, who is a son of Mr.B.N. Kalyani, Chairman.

\*\*\* Commission proposed and payable after the adoption of accounts by shareholders, in the ensuing Annual General Meeting.

\*\*\*\* UTI Asset Management Company Private Limited, has withdrawn, Mr.Ajeet Prasad, their Nominee Director, on the Board of the Company, w.e.f. 24th August, 2005.

None of the employees are related to any of the Directors of the Company.

**2. MANAGEMENT**
**MANAGEMENT DISCUSSION AND ANALYSIS :**

This Annual Report has a detailed chapter on Management Discussion and Analysis.

**DISCLOSURES BY MANAGEMENT TO THE BOARD :**

All disclosures relating to financial and commercial transactions where Directors may have a potential interest are provided to the Board and the interested Directors do not participate in the discussions nor they vote on such matters.

**3. SHAREHOLDERS**
**DISCLOSURES REGARDING APPOINTMENT OR RE-APPOINTMENT OF DIRECTORS :**

Mr.B.N. Kalyani, Mr.B.B. Hattarki and Mr.Suresh Pandey, Directors of the Company are retiring by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. Mr.S.S. Vaidya and Mr.M.U. Takale, appointed as an Additional Directors, on 30th October, 2005 and 26th June, 2006 respectively, are seeking appointment as Directors pursuant to the Notices received from the Members of the Company, signifying their intention to propose Mr. S.S. Vaidya and Mr.M.U. Takale, as candidate for the office of Director. Details of directors to be re-appointed / appointed are given below :

Mr.B.N. Kalyani is Chairman and Managing Director of Bharat Forge Limited and Executive Chairman of Kalyani Carpenter Special Steels Limited. Mr.Kalyani, born on 7th January, 1949, is a Mechanical Engineer from the Birla Institute of Technology, Pilani. He is also M.S. from the Massachusetts Institute of Technology, U.S.A. Mr.Kalyani also serves on the Board of Automotive Axles, Ugar Sugar Works, Hikal, Nandi Infrastructure Corridor Enterprises, Kalyani Lemmerz,

Kalyani Carpenter Special Steels, Kalyani Carpenter Metal Centres, Meritor HVS (India), BF Utilities and Nandi Economic Corridor Enterprises. Mr.Kalyani is retiring by rotation at the ensuing Annual General Meeting and being eligible, offer himself for re-appointment.

Mr.B.B. Hattarki born on 10th October, 1941, is a Metallurgy and Mechanical Engineer. He serves on the Board of Kalyani International, Kalyani Mukand, Hospet Steels, BF Utilities, Automotive Axles, Precision Seals Manufacturing, Chakrapani Investments and Trades, Surajmukhi Investment and Finance and Gladiolla Investments. Mr.Hattarki is retiring by rotation at the ensuing Annual General Meeting and being eligible, offer himself for re-appointment.

Mr.Suresh Pandey born on 5th November, 1943, is a Metallurgical Engineer, from the Indian Institute of Technology, Kanpur having 41 years rich experience in the steel industry. Mr.Pandey is also re-appointed as Wholetime Director (Technical) for the period of two years from 1st February, 2006 to 31st January, 2008, on the terms and conditions mentioned in the notice convening the ensuing Annual General Meeting. Mr.Pandey is retiring by rotation at the ensuing Annual General Meeting and being eligible, offer himself for re-appointment.

Mr.S.S. Vaidya born on 9th August, 1955 is a Chartered Accountant. He is a partner of M/s Kunte & Vaidya, Chartered Accountants, Pune. He has been in practice for over 25 years and has vast experience in Corporate & Legal field, Tax Laws, Company Law, Foreign Exchange Laws etc. Mr.Vaidya also serves on the Boards of Sharp India, Sahyadri Hospitals, Bosch Chassis Systems India, BF Utilities, Nandi Economic Corridor Enterprises, Nandi Infrastructure Corridor Enterprises and Nandi Highway Developers.

Mr.M.U. Takale, born on 18th August, 1960, is a Mechanical Engineer having more than 23 years experience in forging and automotive related industries. Mr.Takale, after having his initial graduation in Pune, completed his MS in Industrial and Systems Engineering from Columbia University, New York, U.S.A. and MBA from Western Carolina University, NC, U.S.A. He was in U.S.A. for six years and besides obtaining degree in Engineering and Management, has had considerable exposure to technological advancements in automotive field. He also has work experience in Automotive Industry in U.S.A. Mr.Takale serves on the Board of Kalyani Net Ventures.

### **COMMUNICATION TO SHAREHOLDERS :**

Kalyani Steels has its own Website and all vital information relating to the Company and its performance, including quarterly, half yearly, annual results, official news releases and presentation to analysts if any, is put on the Website for the benefit of the public at large. The Company s Website address is [www.kalyanisteels.com](http://www.kalyanisteels.com).

Quarterly, half yearly, annual results and information relating to convening of Annual General Meeting / Extraordinary General Meeting(s) is also published in leading newspapers and is also notified to the Stock Exchanges as required under the Listing Agreements.

In addition to this, the Company has also filed quarterly, half yearly, annual results, quarterly shareholding patterns on the Electronic Data Information Filing and Retrieval (EDIFAR) Website ([www.sebiedifar.nic.in](http://www.sebiedifar.nic.in)) maintained by National Informatics Centre (NIC), online, in the manner, format and within such time as prescribed by SEBI.

Letters and Transfer Deeds received from shareholders are acted upon and replied promptly.

### **INVESTOR GRIEVANCES :**

The Company has in place Shareholders / Investors Grievance Committee for redressing Shareholders / Investors complaints. The Committee comprises of Mr.S.M. Kheny (Chairman), Mr.C.G. Patankar, Executive Director and Mr.B.B. Hattarki, Director. During the year 2005-06, the Shareholders / Investors Grievance Committee met on 20th June, 2005, 26th July, 2005, 30th October, 2005 and 23rd January, 2006. During the year ten complaints were received, which were redressed. The status of complaints is also reported to the Board of Directors, as an agenda item. Mrs.D.R. Puranik, Company Secretary, is the Compliance Officer.

**SHARE TRANSFER :**

There is Share Transfer Committee of the Board, which meets twice a month to look after share transfers, transmissions, consolidation, sub-division and issue of duplicate certificates and requests for dematerialisation of Company's shares.

**DETAILS OF NON-COMPLIANCE :**

There have been no instances of non-compliance on any matter relating to the capital market during the period under report.

**GENERAL BODY MEETINGS :**

Particulars of General Body Meetings held for the last three years are given below :

Date	Time	Type of Meeting	Venue
30th July, 2003	10.30 a.m.	Annual General Meeting	Training Centre, Bharat Forge Limited, Mundhwa, Pune ~ 411 036
29th November, 2003	2.00 p.m.	Extraordinary General Meeting	Training Centre, Bharat Forge Limited, Mundhwa, Pune ~ 411 036
28th August, 2004	11.00 a.m.	Annual General Meeting	Registered Office of the Company at Mundhwa, Pune ~ 411 036
22nd August, 2005	11.00 a.m.	Annual General Meeting	Registered Office of the Company at Mundhwa, Pune ~ 411 036

No Special Resolution was put through postal ballot in the last year.

This year no resolution is proposed to be taken up through postal ballot.

**SHAREHOLDER INFORMATION****ANNUAL GENERAL MEETING :**

Date : 26th August, 2006 at 11.00 a.m.

Venue : Registered Office of the Company at Mundhwa, Pune ~ 411 036

**FINANCIAL CALENDAR :**

1st April to 31st March

**BOOK CLOSURE :**

The books will be closed from Saturday, 19th August, 2006 to Saturday, 26th August, 2006 (both days inclusive).

**DIVIDEND DATE :**

Dividend of 30% i.e. Rs.3/- per Equity Share would be payable on and from 4th September, 2006.

**LISTING :**

Pune Stock Exchange Limited and Bombay Stock Exchange Limited

**STOCK CODES :**

Pune Stock Exchange Limited : KALST 6091

Bombay Stock Exchange Limited : 500235

ISIN in NSDL and CDSL : INE907A01018

**STOCK DATA :**

Table below gives the monthly high and low prices and volumes of trading of Equity Shares of the Company at Bombay Stock Exchange Limited for the year 2005-06.

Month	High (Rs.)	Low (Rs.)	Volume (No. of Shares Traded)
April, 2005	159.90	131.50	3,515,527
May, 2005	145.95	122.00	1,275,947
June, 2005	151.50	122.25	3,437,537
July, 2005	187.45	134.50	2,272,440
August, 2005	244.00	165.15	3,285,108
September, 2005	286.80	215.05	3,852,060
October, 2005	345.00	225.00	3,523,845
November, 2005	284.90	241.00	898,022
December, 2005	294.90	242.00	1,850,879
January, 2006	315.00	267.00	2,309,530
February, 2006	288.00	263.10	1,815,835
March, 2006	294.00	255.50	2,944,248

**REGISTRAR AND TRANSFER AGENTS AND SHARE TRANSFER SYSTEM :**

M/s. MCS Limited, Akshay Complex, Near Ganesh Mandir, Dhole Patil Road, Pune - 411 001 are the Registrar and Transfer Agents of the Company and carry out the share transfer work on behalf of the Company. The Equity Shares of the Company are traded on the stock exchanges compulsorily in demat mode.

**PATTERN OF SHAREHOLDING BY OWNERSHIP AS ON 31.03.2006 :**

Category	No. of Equity Shares held	Shareholding %
Promoters	23,158,244	55.07
Financial Institutions	19,400	0.05
Mutual Funds	2,055,025	4.89
Insurance Companies	570,675	1.36
Banks	27,286	0.07
FII's	792,556	1.86
Bodies Corporate	6,937,198	16.50
NRI's / OCB's	139,784	0.33
Indian Public	8,352,892	19.87
<b>TOTAL</b>	<b>42,053,060</b>	<b>100.00</b>

**PATTERN OF SHAREHOLDING BY SHARE CLASS AS ON 31.03.2006 :**

Shareholding Class	No. of Shareholders	No. of Shares held	Shareholding %
Up to 500	26,025	2,859,486	6.80
501 to 1,000	1,252	989,233	2.35
1,001 to 2,000	461	720,315	1.71
2,001 to 3,000	177	452,926	1.08
3,001 to 4,000	68	243,996	0.58
4,001 to 5,000	81	390,175	0.93
5,001 to 10,000	116	853,274	2.03
10,001 and above	183	35,543,655	84.52
<b>TOTAL</b>	<b>28,363</b>	<b>42,053,060</b>	<b>100.00</b>

**DEMATERIALISATION :**

As on 31st March, 2006, dematerialised shares accounted for 63.51% of the total equity.

**SITE LOCATION :**

The Integrated Steel Plant of the Company is located at Village Ginigera, Taluka and District Koppal, in the State of Karnataka. The Pig Iron Making Facility taken on lease by the Company is situated at Village Honarhalli and Halekote, Taluka Siruguppa, District Bellary, in the State of Karnataka.

**INVESTORS CORRESPONDENCE ADDRESS :**

- |                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                     |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1) MCS Limited,<br>(Registrar & Transfer Agents)<br>116, Akshay Complex, Off Dhole Patil Road,<br>Near Ganesh Mandir, Pune ~ 411 001<br>Telefax : 020-26129597 / 32906685<br>E-mail : <a href="mailto:mcsnpune@vsnl.net">mcsnpune@vsnl.net</a> | 2) Kalyani Steels Limited,<br>Secretarial Department<br>Mundhwa, Pune ~ 411 036<br>Phone No. 020-26715000 / 66215000<br>Fax No. 020-26821124<br>E-mail : <a href="mailto:investor@kalyanisteels.com">investor@kalyanisteels.com</a> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

**Declaration under Clause 49 I (D)(ii) by the Executive Director of affirmation by the Board of Directors and Senior Management, of Compliance with the Code of Conduct**

The Shareholders,

I, C.G. Patankar, Executive Director of the Company do hereby declare that all the Board Members and Senior Management Personnel have affirmed compliance with the Code of Conduct adopted by the Board at its meeting held on 23rd January, 2006, applicable to the Board of Directors and Senior Management of the Company.

Place : Pune  
Date : 26th June, 2006

Sd/-  
C.G. Patankar  
Executive Director

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TO THE MEMBERS OF KALYANI STEELS LIMITED  
CERTIFICATE BY THE AUDITORS ON CORPORATE GOVERNANCE

We have examined the records concerning the Company's compliance of the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement entered into by the Company with the Stock Exchanges of India for the financial year ended on March 31, 2006.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our review was limited to procedures and implementation thereof, adopted by the Company for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of an opinion on the financial statements of the Company. We have conducted our review on the basis of the relevant records and documents maintained by the Company and furnished to us for examination and the information and explanations given to us by the Company.

Based on such a review, and to the best of our information and according to the explanations given to us, in our opinion, the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the Listing Agreement of the Stock Exchanges of India except for the fact that the Chairman of the Audit Committee was unable to attend the Annual General Meeting.

We further state that such compliance is neither an assurance as to the future viability of the Company nor to the efficiency with which the management has conducted the affairs of the Company.

For and on behalf of  
Dalal & Shah  
Chartered Accountants

Place : Mumbai  
Date : 26th June, 2006

Anish Amin  
Partner  
Membership No.40451

## DIRECTORS' REPORT

Dear Shareholders,

The Directors have pleasure in presenting their Thirty-Third Annual Report on the business and operations of the Company and the Audited Accounts for the year ended 31st March, 2006.

### 1. Financial Highlights :

		(Rs. in Million)
	<u>2005-06</u>	<u>2004-05</u>
Sales and Income from Operations	7,635.572	9,286.432
Excise Duty	2,107.706	1,599.477
Net Sales and Income from Operations	5,527.866	7,686.955
Power generated, captively consumed	200.262	21.778
Profit on Sale of Long Term investment	315.273	
Other Income	29.169	9.935
Total Income	6,072.570	7,718.668
Total Expenditure	4,490.848	6,798.393
Interest	46.227	76.587
Depreciation & Write offs	181.609	194.931
Profit for the year	1,353.886	648.757
Less : Trial Run Income net of expenditure	0.380	3.572
Profit / (Loss) before tax	1,353.506	645.185
Provision for Taxation	343.332	215.097
Net Profit / (Loss)	1,010.174	430.088
Dividend on Equity Share Capital	126.159	84.113

### 2. Dividend :

The Directors recommend a Dividend of 30% on the Equity Shares, for the year ended 31st March, 2006.

### 3. Proposed Expansion :

To avail market opportunities and to reduce response time to changing situations, the Company has redrawn its strategy for expansion. Setting up of a New Greenfield Project needs more time and therefore in order to reduce the gestation period, the Company has decided to go for a Brownfield Expansion of its existing facilities at Ginigera, Taluka & District Koppal, in the State of Karnataka, in following manner :

- The Company will commission 350m<sup>3</sup> capacity Mini Blast Furnace (MBF), with Power Plant of 6 MW capacity, which will utilise energy of flew gases generated by MBF. Setting up of this third MBF is being started and MBF is expected to be operational by June, 2007. This will result in increasing the hot metal capacity by 250,000 MTs.
- Steel Melting Shop (SMS) and Rolling Mill Shop (RMS) will be upgraded to handle the extra hot metal generated by addition of aforesaid MBF. Upgradation of SMS / RMS facilities would be implemented by June, 2007. This would increase steel availability / capacity by 250,000 MTs per annum from Ginigera plant, out of which the Company's share will be 100,000 MTs per annum. Although capacity will be augmented by June, 2007, the actual production will increase in phased manner and the Company expects to reach full enhanced incremental capacity by 2008-09.
- The Company will develop Railway Siding at Ginigera. The siding will be used for movement of coke / coal to the Plant from port / plant of Bharat NRE Coke Limited. This siding can also be used for movement of finished goods to various destinations / ports, a more economical method for transportation of steel. This will result in reduction in the cost of transportation and handling wastages. Higher fine generation, by multiple handling of coke / coal by truck movement, will be avoided.

The total cost of the expansion is estimated at approx. Rs.1,740 Million, out of which Company's share will be Rs.720 Million, to be financed by way of internal accruals and borrowings.

### 4. Coke Oven Batteries Project :

Bharat NRE Coke Limited (BNCL), a company incorporated, in terms of an agreement between Kalyani Steels Limited (KSL) and Gujarat NRE Coke Limited (GNCL), has set up eight coke oven batteries at Dharwad, in the State of Karnataka. All the batteries are commissioned and fully operational and produce approx. 324,000 MTs of coke per annum. Around 40% of the said production is supplied to the Company.

BNCL proposes to set up Stamp Charging Equipment at Dharwad. With stamp charging equipment, BNCL would be able to use soft coal upto 30% of the total charged mix. This would enable BNCL to reduce the cost of finished product by approx. 25%. Stamp Charging Equipment is expected to be commissioned by August, 2006.

BNCL and /or KSL propose to set up 12 MW Power Plant by using flue gases generated by coke oven batteries. The power generated will be captively used / exported to the grid.

In order to facilitate speedy coal / coke handling with reduced handling losses, BNCL proposes to develop Railway Siding at Kyarkoppa Station, on Londha-Hubli railway line, which is approx.15 Kms. from Dharwad. This siding will be used for transportation of Coal from Goa Port to Dharwad and also for transportation of coke from Dharwad to KSL s plant at Ginigera. This will facilitate bulk handling of materials with saving in time and cost of transportation. These initiatives will facilitate assured supply of coke to KSL, at the reduced costs.

**5. Pig Iron Making Facility :**

Pig Iron Making Facility taken on lease by the Company from M/s Shree Ram Electrocast Private Limited, commenced its operations from July, 2005. The facility produces 90,000 TPA of Pig Iron, major part of which is for captive consumption by the Company.

**6. Fixed Deposits :**

As on 31st March, 2006, deposits aggregating Rs.1,015,000/- (89 depositors) remained unclaimed. Subsequently, deposits aggregating Rs.136,000/- (14 depositors) were claimed.

**7. Directors :**

Mr.Ajeet Prasad, Nominee Director, of UTI Asset Management Company Private Limited, ceased to be the Director of the Company, with effect from 24th August, 2005. The Board puts on record their appreciation of the valuable guidance given by Mr.Ajeet Prasad, during his tenure as Director of the Company.

Mr.B.B. Hattarki ceased to be Wholetime Director of the Company, with effect from 21st May, 2006. The Board puts on record their appreciation of the valuable guidance given by Mr.B.B. Hattarki, during his tenure as Wholetime Director of the Company.

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Company, Mr.B.N. Kalyani, Mr.B.B. Hattarki and Mr.Suresh Pandey, Directors of the Company retire by rotation and being eligible, offer themselves for re-appointment.

Mr.S.S. Vaidya and Mr.M.U. Takale who were appointed as an Additional Director on the Board, with effect from 30th October, 2005 and 26th June, 2006 respectively, hold office till the ensuing Annual General Meeting. Notices proposing appointments of Mr.S.S. Vaidya and Mr.M.U. Takale as Directors having been received, the matter is included in the Notice for the ensuing Annual General Meeting.

These appointments form part of the Notice of the Annual General Meeting and the Resolutions are recommended for your approval. Profiles of these Directors, as required by the Corporate Governance Code (Clause 49 of the Listing Agreement), are given in the report on Corporate Governance.

**8. Directors' Responsibility Statement :**

Pursuant to the requirement under Section 217(2AA) of the Companies Act, 1956, with respect to Directors Responsibility Statement, it is hereby confirmed :

- i) That in the preparation of the accounts for the financial year ended 31st March, 2006, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- ii) That the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that were reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for the year under review;
- iii) That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv) That the Directors have prepared the annual accounts for the financial year ended 31st March, 2006, on a going concern basis.

**9. Auditors :**

You are requested to re-appoint the Auditors of the Company for the Current Year to hold office from the conclusion of the ensuing Annual General Meeting until the conclusion of the next Annual General Meeting.

**10. Subsidiaries :**

In terms of the approval granted by the Government of India, Ministry of Company Affairs under Section 212(8) of the Companies Act, 1956, copies of the Balance Sheet, Profit and Loss Account, Directors Report and the Report of the Auditors of the subsidiary companies viz. Chakrapani Investments and Trades Limited, Surajmukhi Investment and Finance Limited and Gladiolla Investments Limited have not been attached with the Balance Sheet of the Company. The Company will make available these documents / details upon request made by any shareholder of the Company interested in obtaining the same and the same can also be inspected at the Registered Office of the Company as well as of the subsidiaries. Pursuant to the approval, a statement of the summarised financials of all the subsidiaries is attached along with the Consolidated Financial Statements. Pursuant to Accounting Standard (AS) - 21 issued by the Institute of Chartered Accountants of India, Consolidated Financial Statements presented by the Company includes the financial information of its subsidiaries.

**11. Particulars of Employees :**

As required under the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended, the names and other particulars of the employees are set out in the Annexure to the Directors Report. However, in terms of the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and the Accounts is being sent to all Shareholders of the Company excluding the aforesaid Annexure. Any Shareholder interested in obtaining a copy of said Annexure may write to the Company Secretary at the Registered Office of the Company.

**12. Conservation of energy, technology absorption and foreign currency exchange earnings & outgo :**

The information required under the provisions of Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the report of the Board of Directors) Rules, 1988 and forming part of the Report is annexed hereto.

**13. Consolidated Financial Statements :**

The Consolidated Financial Statements, pursuant to Clause 32 of the Listing Agreement are attached to the Accounts of the Company.

**14. Quality and Safety :**

Your Company accords high priority to quality, safety, training, development, health and environment. The Company endeavors to ensure continuous compliance and improvements in this regard.

**15. Employees :**

The Management acknowledges the exemplary dedication and contribution of the employees at all levels, which were responsible for the improved performance. Industrial relations continued to be cordial throughout the year.

Your Directors would like to place on record their appreciation of the co-operation received from the Central Government, Government of Maharashtra, Government of Karnataka, Karnataka Industrial Area Development Board, M.S.E.B., M.I.D.C., Financial Institutions and the Bankers.

for and on behalf of the Board of Directors

Place : Pune  
Date : 26th June, 2006

B.N. Kalyani  
Chairman

**INFORMATION AS PER SECTION 217(1)(e) OF THE COMPANIES ACT, 1956, READ WITH COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 AND FORMING PART OF THE DIRECTORS' REPORT FOR THE YEAR ENDED 31ST MARCH, 2006**

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**I. CONSERVATION OF ENERGY :**

- a) Energy Conservation measures taken :
- Fuel additives were used
  - Reduction in excess air and increase in pre-heat temperature
  - Replaced mechanical air actuators with efficient pneumatic controlled actuators
  - Better operational practices, has achieved reduction in power consumption in iron making
  - Waste gases of mini blast furnaces are used as fuel for Power Plant
- b) Additional investments and proposals, if any, being implemented for reduction of consumption of energy :
- New recuperator with superior design to deliver higher preheat temperature to combustion air in reheat furnace to be installed
  - Installation of coke drying system
- c) Impact of the measures at (a) & (b) above for reduction of energy consumption and consequent impact on the cost of production of goods :
- Improvement in flame homogeneity and superior atomisation of fuel oil. Both resulted in reduction of specific fuel oil consumption to the tune of 2.5 Ltrs. per MT.
  - Power generated by Power Plant is captively used, thus resulting in savings in power bill.
- d) Total energy consumption and energy consumption per unit of production as per Form - A of the Annexure to the Rules in respect of Industries specified in the Schedule thereto :

	2005-06	2004-05
A) Power & Fuel Consumption :		
1. Electricity :		
a) Purchased		
Unit (Kwh in thousands)	10,291	48,337
Total amount (Rs. in Million)	47.333	211.473
Rate / Unit (Rs. / Kwh)	4.60	4.38
b) Own generation		
I) Through Diesel Generator		
Unit (Kwh in thousands)	2,150.934	30.150
Units per Ltr. of HSD (Kwh / Ltrs)	2.107	2.241
Cost / Unit (Rs. / Kwh)	13.57	4.65
II) Through Steam Turbine / Generator Unit		
Unit (Kwh in thousands)	66,008.072	6.226
Units per NM <sup>3</sup> (Blast Furnace Gas) (Kwh / NM <sup>3</sup> )	0.140	0.144
Cost / Unit (Rs. / Kwh)	1.16	1.84
2. Coke :		
Quantity (Tonnes)	119,836	219,393
Total Cost (Rs. in Million)	1,332.183	4,014.753
Average Rate (Rs. / MT)	11,117	18,299
3. Furnace Oil :		
Quantity (K. Ltrs.)	10,076.288	7,139.439
Total Amount (Rs. in Million)	161.192	77.254
Average Rate (Rs. / Ltrs.)	16.00	10.82
HSD :		
Quantity (K. Ltrs.)	1,003.632	55.448
Total Amount (Rs. in Million)	28.651	1.207
Average Rate (Rs. / Ltrs.)	28.55	21.77
4. Others :		
LDO		
Quantity (K. Ltrs.)	99.170	30.983
Total cost (Rs. In Million)	2.345	0.573
Rate (Rs. / K. Ltrs.)	23.65	18.50

B) Consumption per unit of production :

	Unit	2005-06	2004-05
Hot Metal			
Electricity	KWH	127.452	122.887
HSD	Ltrs.	2.417	0.070
Coke	M.T.	0.702	0.667
LDO	Ltrs.	0.239	0.085
Furnace Oil	Ltrs.	2.067	
Steel Making			
Electricity	KWH	56.82	61.610
Furnace Oil	Ltrs.	47.13	51.000

## II TECHNOLOGY ABSORPTION :

Efforts made in technology absorption as per Form - B of the Annexure to the Rules

1. Research & Development (R & D) :

- a) Specific area in which R & D carried out by the Company :
  - Development of new sections for the rolling mill.
  - Development of crankshaft quality steels for exports.
- b) Benefits derived as a result of the above R & D :
  - Development of flat and round sections has increased the market penetration.
- c) Future plan of action :
  - Development of new sizes for flats, rounds and squares.
- d) Expenditure on R & D :

	Rs.	Rs.
	2005-06	2004-05
(i) Capital	—	
(ii) Recurring	—	
(iii) Total	—	
(iv) Total R&D expenditure as a percentage of total turnover	—	

2. Technology absorption, adaption and innovation :

- a) Efforts in brief, made towards technology absorption, adaptation and innovation :  
Technology developed in house through extensive trials.
- b) Benefits derived as a result of the above efforts, for product improvement, cost reduction, product development, import substitution etc. :
  - Energy consumption reduced resulting consequent reduction in the cost of production.
  - Successfully rolled and marketed all the sizes and exported crankshaft quality materials.
- c) In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year)  
No technology was imported during the last five years.

## III. FOREIGN EXCHANGE EARNINGS & OUT GO :

- a) Activities relating to exports, initiatives taken to increase exports, development of new export markets for products and services and export plans :  
Concerted efforts are underway to develop export market.
- b) Total foreign exchange used and earned : (Rs. in Million)  
Used : Rs.1,664.550                      Earned : Rs.48.917

for and on behalf of the Board of Directors

Place : Pune  
Date : 26th June, 2006

B.N. Kalyani  
Chairman

**REPORT OF THE AUDITORS TO THE MEMBERS OF KALYANI STEELS LIMITED**

We have audited the attached Balance Sheet of **KALYANI STEELS LIMITED**, as at 31st March, 2006 and also the annexed Profit and Loss Account and the Cash Flow Statement of the Company for the year ended on that date. These Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Financial Statements based on our Audit.

- (1) We conducted our audit in accordance with auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free of material misstatements. An Audit includes examining, on a test basis, evidence supporting the amounts and disclosures in Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
- (2) As required by the Companies (Auditor's Report) Order, 2003 (CARO, 2003), issued by the Central Government of India in terms of Section 227(4A) of the Companies Act, 1956, we annex hereto a Statement on the matters specified in paragraphs 4 of the said Order.
- (3) Further to our comments in Annexure referred to in paragraph 2 above, we report that :
  - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit.
  - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of the Books of the Company.
  - (c) The Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with by the report are in agreement with the Books of Account of the Company.
  - (d) In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in Section 211 (3C) of the Companies Act, 1956, to the extent applicable.
  - (e) On the basis of the written representations received from the Directors as on 31st March, 2006 and taken on record by the Board of Directors, we report that none of the Directors is disqualified as on 31st March, 2006 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
  - (f) In our opinion and to the best of our information and according to the explanations given to us, the said Financial Statements, read together with the notes thereon, give the information required by the Companies Act, 1956, in the manner so required and present a true and fair view in conformity with the accounting principles generally accepted in India :
    - (i) In the case of the Balance Sheet, of the state of the affairs of the Company as at 31st March, 2006;
    - (ii) In the case of the Profit and Loss Account, of the Profit for the year ended on that date; and
    - (iii) In the case of the Cash Flow Statement, of the Cash Flows of the Company for the year ended on that date.

For and on behalf of  
DALAL & SHAH  
Chartered Accountants

Mumbai  
26th June, 2006

Anish Amin  
Partner  
Membership No.40451

### ANNEXURE TO THE AUDITORS' REPORT :

#### Statement referred to in Paragraph 2 of the Auditors' Report of even date to the Members of KALYANI STEELS LIMITED on the Financial Statements for the year ended 31st March, 2006

On the basis of the records produced to us for our verification/perusal, such checks as we considered appropriate and in terms of information and explanations given to us on our enquiries, we state that :

- i)
  - (a) The Company has maintained proper records showing full particulars including quantitative details and situation of fixed assets.
  - (b) As explained to us, all the fixed assets have been physically verified by the management at reasonable intervals in a block of three years, so as to ensure that all the assets are covered. According to the information and explanations given to us and the records produced to us for our verification, discrepancies noticed on such physical verification were not, in our opinion, material and the same have been properly dealt with in the Books of Account.
  - (c) As per the information and explanation given to us on our enquiries the disposal of assets during the year were not substantial and would not have an impact on the operations of the Company.
- ii)
  - (a) The inventories have been physically verified by the management at reasonable intervals during the year and partially at the close of the year.
  - (b) The procedures of physical verification of inventories followed by the management as explained to us are, in our opinion, reasonable and adequate in relation to the size of the Company and the nature of its business.
  - (c) According to the records produced to us for our verification, the discrepancies noticed on physical verification of inventories referred to above, as compared to book records, though not material, have been properly dealt with in the books of account.
- iii) As per the information and explanations given to us and the records produced to us for our verification, the Company had not granted loans, secured or unsecured, to any companies, firms or other parties covered in the register maintained under Section 301 of the Companies Act, 1956. The Company has not taken any loans, secured or unsecured from companies, firms or other parties, covered in the Register maintained under Section 301 of the Companies Act, 1956.
- iv) In our opinion and according to the information and explanations given to us, there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to the purchase of inventory and fixed assets and also for the sale of goods and services. As per the information given to us, no major weaknesses in the internal controls have been identified by the management during the year. During the course of our audit, nothing had come to our notice that may suggest a major weakness in the internal control systems of the Company.
- v) On the basis of the audit procedures performed by us and according to the information and explanations given to us on our enquiries on this behalf and the records produced to us for our verification, there are no transactions required to be entered into the register in pursuance of Section 301 of the Companies Act, 1956.
- vi) In our opinion, the Company has complied with the directives issued by the Reserve Bank of India and the provisions of Section 58A of the Companies Act, 1956, other relevant provisions of the said Act including the Companies (Acceptance of Deposits) Rules, 1975, where applicable with regard to the deposits accepted by it from the public. Since the Company has not defaulted in repayments of deposits, compliance of Section 58AA or obtaining any order from the Company Law Board, National Company Law Tribunal or Reserve Bank of India or any other Court or Tribunal, does not arise.
- vii) On the basis of the internal audit reports broadly reviewed by us, we are of the opinion that, the Company has an adequate internal audit system commensurate with the size and nature of its business.
- viii) We have broadly reviewed the Books of Account maintained by the Company pursuant to the rules made by the Central Government for the maintenance of Cost Records under Section 209(1)(d) of the Companies Act, 1956 and are of the opinion that prima facie the prescribed accounts and records have been made and maintained. We have, however, not made a detailed examination of the records with a view to determine whether they are accurate.
- ix)
  - (a) According to the records of the Company, the Company has been regular in depositing undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Customs Duty, Excise duty, Cess and other Statutory dues with the appropriate authorities.

- (b) According to the records of the Company and the information and explanations given to us upon our enquiries in this regards, disputed dues in respect of Sales Tax, Income-tax, Wealth-tax, Service Tax, Customs Duty and Excise Duty/Cess unpaid as at the last day of the financial year, are as follows :

	STATUTES	FORUMS BEFORE WHOM PENDING				
		Commissioner Appeals	Tribunal	High Court	Supreme Court	Total
		Rs.	Rs.	Rs.	Rs.	Rs.
1)	Sales Tax					
2)	Income Tax					
3)	Service Tax					
4)	Wealth Tax					
5)	Customs Duty					
6)	Excise	49,915,740	263,710		13,976,371	64,155,821

- x) The Company has not defaulted in repayment of dues to banks, financial institutions or debentureholders.
- xi) The Company has, in our opinion, maintained proper records and contracts with respect to its investments where timely entries of transactions are made in the former. All investments at the close of the year are generally held in the name of the Company.
- xii) The Company has not given any guarantees for loans taken from financial institutions and/or banks by others.
- xiii) The Company has applied the funds raised by way of term loans towards the purposes for which they have been raised.
- xiv) The Company has not applied any short-term funds for long-term investments.
- xv) As per our examination of the records of the Company, securities have been created in respect of Secured Debentures issued, in the manner set out in Note No. 8(a) in Schedule 20 to the Financial Statements.
- xvi) As per the information and explanations given to us on our enquiries on this behalf, there were no frauds on or by the Company which have been noticed or reported during the year.

In view of the nature of business carried on by the Company Clause No. (xiii) of CARO, 2003 is not applicable to the Company. Further in view of the absence of conditions prerequisite to the reporting requirement of Clauses (iii) (b), (c), (d), (f) and (g), (x), (xii), (xviii) and (xx), the said Clauses are, at present, not applicable.

For and on behalf of  
DALAL & SHAH  
Chartered Accountants

Mumbai  
26th June, 2006

Anish Amin  
Partner  
Membership No.40451



# 33rd Annual Report 2005-2006

## BALANCE SHEET AS AT 31ST MARCH, 2006

	Schedule	Rs.	Rs.	As at 31st March, 2005 Rs.
<b>I. SOURCES OF FUNDS :</b>				
1. Shareholders Funds :				
a) Capital	1	420,909,667		420,909,667
b) Reserves and Surplus	2	<u>2,896,814,903</u>		<u>2,031,416,703</u>
			3,317,724,570	2,452,326,370
2. Loan Funds :				
a) Secured Loans	3	849,696,020		1,317,598,093
b) Unsecured Loans	4	<u>105,969,319</u>		<u>85,981,060</u>
			955,665,339	1,403,579,153
3. Deferred Tax Adjustment (Refer Note No.17)				
Deferred Tax Liabilities		463,700,909		471,447,205
Deferred Tax Assets		<u>2,342,749</u>		<u>233,521,048</u>
			461,358,160	237,926,157
	TOTAL		<u>4,734,748,069</u>	<u>4,093,831,680</u>
<b>II. APPLICATION OF FUNDS :</b>				
1. Fixed Assets :	5			
a) Gross Block		2,893,972,992		2,816,968,999
b) Less : Depreciation etc.		<u>997,974,575</u>		<u>817,594,121</u>
c) Net Block		1,895,998,417		1,999,374,878
d) Capital Work-in-Progress, Expenditure to date (Refer Note No.19)		<u>95,838,867</u>		<u>104,672,254</u>
			1,991,837,284	2,104,047,132
2. Investments	6		911,931,257	807,919,286
3. Current Assets, Loans and Advances :				
a) Inventories	7	999,684,728		587,317,212
b) Sundry Debtors	8	1,103,840,173		1,328,572,775
c) Cash and Bank balances	9	85,432,259		81,082,914
d) Other Current Assets	10	62,037,142		55,771,123
e) Loans and Advances	11	<u>1,737,634,738</u>		<u>914,717,776</u>
		3,988,629,040		2,967,461,800
Less : Current Liabilities and Provisions :				
a) Liabilities	12	1,833,921,502		1,636,022,720
b) Provisions	13	<u>323,728,010</u>		<u>149,573,818</u>
		2,157,649,512		1,785,596,538
Net Current Assets			1,830,979,528	1,181,865,262
	TOTAL		<u>4,734,748,069</u>	<u>4,093,831,680</u>
Notes forming part of the Financial Statements	20			

As per our attached Report of even date

For and on behalf of  
DALAL & SHAH  
Chartered Accountants

Anish Amin  
Partner

Mrs.D.R. Puranik  
Company  
Secretary

On behalf of the Board of Directors

C.G. Patankar  
Executive  
Director

B.N. Kalyani  
Chairman

Mumbai  
Date : 26th June, 2006

Pune  
Date : 26th June, 2006

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006**

	Schedule	Rs.	Rs.	Previous Year Rs.
<b>INCOME :</b>				
Sales, Gross	14 (a)	7,546,482,590		9,230,188,514
Less : Excise duty		<u>2,107,705,856</u>		<u>1,599,477,254</u>
Net Sales		5,438,776,734		7,630,711,260
Power generated, captively consumed		200,262,113		21,778,011
Operating Income	14 (b)	<u>89,089,729</u>		<u>56,243,793</u>
			5,728,128,576	7,708,733,064
Divestment of Interest (See Note No.20) :				
Profit on Sale of Long Term Investments			315,272,877	
Other Income	14 (c)		<u>29,169,325</u>	<u>9,934,647</u>
			<u>6,072,570,778</u>	<u>7,718,667,711</u>
<b>EXPENDITURE :</b>				
Materials consumed and manufacturing expenses	15	3,782,570,647		6,304,905,863
Employees emoluments	16	170,870,364		110,773,625
Other expenses	17	537,406,659		382,713,027
Interest	18	46,227,488		76,587,048
Depreciation and Write Offs etc.	19	<u>181,608,637</u>		<u>194,931,431</u>
			4,718,683,795	7,069,910,994
<b>Profit for the year</b>			<u>1,353,886,983</u>	<u>648,756,717</u>
Less : Trial Run Income net of expenditure (Refer Note No.10)			<u>380,128</u>	<u>3,571,647</u>
<b>Profit for the year, before Taxation</b>			<u>1,353,506,855</u>	<u>645,185,070</u>
Provision for Taxation :				
- Current Tax (Including Wealth Tax Rs.300,000/- Previous Year Rs.225,000/-)		118,300,000		48,725,000
- Deferred Tax (Refer Note No.17)		223,432,003		166,372,520
- Fringe Benefit Tax		<u>1,600,000</u>		
			343,332,003	215,097,520
<b>Profit after Taxation</b>			<u>1,010,174,852</u>	<u>430,087,550</u>
As per last Account			312,541,874	25,116,736
Adjustments in respect of previous year expenses			<u>(922,948)</u>	<u>(305,121)</u>
			1,321,793,778	454,899,165
Transferred from Debenture Redemption Reserve			<u>11,600,000</u>	<u>3,350,000</u>
<b>Amount available for Appropriation :</b>			<u>1,333,393,778</u>	<u>458,249,165</u>
Transferred to General Reserve			140,000,000	50,000,000
Interim Dividend on Equity Shares		—		21,032,876
Proposed Dividend on Equity Shares		126,159,180		63,079,590
Tax on Dividend		<u>17,694,524</u>		<u>11,594,825</u>
			143,853,704	95,707,291
Balance carried to Balance Sheet			<u>1,049,540,074</u>	<u>312,541,874</u>
<b>Earnings per Share</b>				
(Face Value of Rs.10/-)				
Net Profit after Taxation			1,010,174,852	430,087,550
Prior Period Adjustments			<u>(922,948)</u>	<u>(305,121)</u>
Net Profit after Prior Period Adjustments			1,009,251,904	429,782,429
Number of Shares Issued and Subscribed			42,053,060	42,053,060
Basic and diluted			24.00	10.23
Notes forming part of the Financial Statements	20			

As per our attached Report of even date

For and on behalf of  
DALAL & SHAH  
Chartered Accountants

On behalf of the Board of Directors

Anish Amin  
Partner

Mrs.D.R. Puranik  
Company  
Secretary

C.G. Patankar  
Executive  
Director

B.N. Kalyani  
Chairman

Mumbai  
Date : 26th June, 2006

Pune  
Date : 26th June, 2006

## CASH FLOW STATEMENT FOR THE FINANCIAL YEAR 2005-2006

	Year ended		Year ended	
	31st March, 2006		31st March, 2005	
	Rs.	Rs.	Rs.	Rs.
<b>A. Cash Flow From Operating Activities :</b>				
Profit for the year before Taxation		1,353,506,855		645,185,070
Add: Adjustments for Depreciation / Interest / Other Non Cash Expenses :				
Depreciation (including Leasehold Land amortised)	181,608,637		194,931,431	
Bad Debts, Advances and Sundry Debit balances written off	48,980,315		2,969,658	
Provision for Diminution in the value of Investment	—		2,217,250	
Interest Charged (Net of Capitalised)	129,268,053		138,565,882	
Loss on Sale of Assets (Net)	936,608		187,966	
		360,793,613		338,872,187
Less: Adjustments for Dividend / Interest / Other Income :				
Investment Income				
Dividend	(33,511,725)		(37,627,351)	
Profit on Sale of Investments (Net)	(365,256,571)		(16,770,849)	
Interest : Other than Finance and Investment Activity	(83,040,565)		(61,978,834)	
Provision no longer required	(9,099,468)		(1,150,234)	
Provision for doubtful advances written back	(6,469,182)		(328,755)	
Sundry Credit balances appropriated	(1,563,805)		(1,498,925)	
Prior Year adjustments	(922,948)		(305,121)	
		(499,864,264)		(119,660,069)
Operating Profit before Working Capital changes		1,214,436,204		864,397,188
Changes in Working Capital :				
Inventories	(412,367,516)		(229,145,271)	
Sundry Debtors	69,414,773		(449,710,314)	
Other Current Assets, Loans and Advances	(209,717,604)		26,366,557	
Trade Payables	193,308,056		430,077,972	
		(359,362,291)		(222,411,056)
Cash generated from Operations		855,073,913		641,986,132
Direct Taxes Paid		(114,131,335)		(63,189,607)
<b>Net Cash from Operating Activities (A) :</b>		<u>740,942,578</u>		<u>578,796,525</u>

**CASH FLOW STATEMENT FOR THE FINANCIAL YEAR 2005-2006 (Continued)**

	Year ended		Year ended	
	31st March, 2006		31st March, 2005	
	Rs.	Rs.	Rs.	Rs.
<b>B. Cash Flow from Investing Activities :</b>				
Purchase of Assets	(80,189,422)		(53,640,653)	
Capital Work in progress	8,833,387		(135,450,176)	
Sale of Assets	1,020,638		268,524	
Advance for Capital Goods for Projects	20,524,462			
Loans to Wholly Owned Subsidiaries	(529,022,359)		(293,069,805)	
Receivable against Sale of Assets	106,337,514		25,100,000	
(Purchase) / Sale of Investments	261,244,600		17,304,233	
Dividend received	33,511,725		37,627,351	
Interest received	76,631,420		40,982,001	
<b>Net Cash used in Investing Activities (B) :</b>	<b>(101,108,035)</b>		<b>(360,878,525)</b>	
<b>C. Cash Flow from Financing Activities :</b>				
Proceeds from Borrowings	(445,917,434)		(95,690,222)	
Interest paid	(117,946,653)		(179,045,661)	
Dividend paid	(71,621,111)		(23,788,309)	
<b>Net Cash from Financing Activities (C) :</b>	<b>(635,485,198)</b>		<b>(298,524,192)</b>	
<b>Net changes in Cash and Equivalents (A+B+C)</b>	<b>4,349,345</b>		<b>(80,606,192)</b>	
<b>CASH &amp; EQUIVALENTS As on 31st March, 2005</b>	<b>81,082,914</b>		<b>161,689,106</b>	
<b>CASH &amp; EQUIVALENTS As on 31st March, 2006</b>	<b>85,432,259</b>		<b>81,082,914</b>	

As per our attached Report of even date

For and on behalf of  
DALAL & SHAH  
Chartered Accountants

Anish Amin  
Partner

Mumbai  
Date : 26th June, 2006

Mrs.D.R. Puranik  
Company  
Secretary

On behalf of the Board of Directors

C.G. Patankar  
Executive  
Director

B.N. Kalyani  
Chairman

Pune  
Date : 26th June, 2006

**SCHEDULE NOS. : '1' to '20' annexed to and forming part of the Financial Statements for the year ended 31st March, 2006**

	Rs.	As at 31st March, 2005 Rs.
<b>SCHEDULE '1' : SHARE CAPITAL :</b>		
<b>AUTHORISED :</b>		
47,500,000 Equity Shares of Rs.10/- each	475,000,000	475,000,000
3,010,000 Cumulative Redeemable Preference Shares of Rs.100/- each	301,000,000	301,000,000
2,400,000 Unclassified Shares of Rs.10/- each	<u>24,000,000</u>	<u>24,000,000</u>
	<u><b>800,000,000</b></u>	<u><b>800,000,000</b></u>
<b>ISSUED :</b>		
42,159,380 Equity Shares of Rs.10/- each	421,593,800	421,593,800
	<u><b>421,593,800</b></u>	<u><b>421,593,800</b></u>
<b>SUBSCRIBED &amp; PAID UP :</b>		
* 42,053,060 Equity Shares of Rs.10/- each, fully paid	420,530,600	420,530,600
Total Subscribed and fully paid up	<u>420,530,600</u>	<u>420,530,600</u>
106,320 **Add : Forfeited Equity Shares (Amount Paid up)	<u>379,067</u>	<u>379,067</u>
<b>TOTAL</b>	<u><b>420,909,667</b></u>	<u><b>420,909,667</b></u>

\* Of the above shares -

- a. 3,843,750 Equity Shares of Rs.10/- each were issued as fully paid bonus shares by way of Capitalisation of Reserves.
- b. 12,000,000 Equity Shares allotted on 13th March, 2004 to shareholders of erstwhile Kalyani Ferrous Industries Limited, pursuant to a Scheme of Arrangement, constituting an amalgamation in the nature of a merger of Kalyani Ferrous Industries Limited with the Company as approved by High Court of Judicature at Bombay, vide its Order dated 15th January, 2004.

\*\* Amount received on Equity Shares forfeited on 25th February, 1997 on account of non-payment of allotment / call money.

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**KALYANI STEELS**

	Rs.	Rs.	As at 31st March, 2005 Rs.
<b>SCHEDULE '2' : RESERVES AND SURPLUS :</b>			
Capital Redemption Reserve			
As per last Account		<b>100,000,000</b>	100,000,000
Debenture Redemption Reserve			
As per last Account	<b>31,700,000</b>		35,050,000
@ Less : Transferred to Profit and Loss Account	<b>11,600,000</b>		<u>3,350,000</u>
		<b>20,100,000</b>	31,700,000
General Reserve			
As per last Account	<b>1,587,174,829</b>		1,716,249,044
Add : Transferred from Profit & Loss Account	<b>140,000,000</b>		<u>50,000,000</u>
	<b>1,727,174,829</b>		<u>1,766,249,044</u>
Less : Provision for Impairment of Assets	<u>—</u>		<u>179,074,215</u>
		<b>1,727,174,829</b>	1,587,174,829
Surplus as per annexed Account		<b>1,049,540,074</b>	<u>312,541,874</u>
		<b>2,896,814,903</b>	<u>2,031,416,703</u>
	TOTAL		

@ On part Redemption of Debentures during the year.

	Rs.	Rs.	As at 31st March, 2005 Rs.
<b>SCHEDULE '3' : SECURED LOANS :</b>			
<b>DEBENTURES :</b>			
1,000,000			
13% Secured Non-Convertible Redeemable Debentures (Eleventh Series) of Rs.100/- each (For Security See Note No.8(a)(i))			
As per last Account	26,800,000		40,200,000
Less : Part amount redeemed during the year	<u>13,400,000</u>		<u>13,400,000</u>
		<b>13,400,000</b>	<b>26,800,000</b>
100			
8.5% Secured Non-Convertible Redeemable Debentures (Sixteenth Series) of Rs.1,000,000/- each (For Security See Note No.8(a)(ii))			
As per last Account	100,000,000		100,000,000
Less : Part amount redeemed during the year	<u>33,000,000</u>		<u>100,000,000</u>
		<b>67,000,000</b>	<b>100,000,000</b>
		<b>80,400,000</b>	<b>126,800,000</b>
<b>TERM LOANS :</b>			
<b>RUPEES LOANS :</b>			
From Banks :			
Canara Bank (For Security Refer Note No.8(b)(i))	130,194,025		170,494,025
Bank of Baroda (For Security Refer Note No.8(b)(ii))	56,600,000		35,000,000
Union Bank of India (For Security Refer Note No.8(b)(iii))	21,500,000		29,000,000
The Jammu & Kashmir Bank Limited (For Security Refer Note No.8(b)(iv))	133,335,293		166,664,002
<b>FOREIGN CURRENCY TERM LOANS :</b>			
From Banks :			
Union Bank of India (For Security Refer Note No.8(c)(i))	7,347,427		14,456,910
State Bank of India (For Security Refer Note No.8(c)(ii))	79,978,931		120,014,311
Bank of India (For Security Refer Note No.8(c)(iii))	230,924,000		230,924,000
Bank of Baroda (For Security Refer Note No.8(c)(iv))	108,445,312		151,823,437
Interest accrued and due on secured loans	<u>417,650</u>		<u>837,885</u>
		<b>768,742,638</b>	<b>919,214,570</b>
<b>OTHERS :</b>			
From ICICI Bank Limited against hypothecation of Vehicles		553,382	1,363,499
From The United Western Bank Limited (against hypothecation of 1,070,970 Equity Shares of Hikal Limited)		—	199,984,024
From Banks, against hypothecation of stores, raw materials, stocks in process, finished goods and book debts :			
Foreign Currency Demand Loan		—	70,236,000
		—	70,236,000
<b>TOTAL</b>		<b>849,696,020</b>	<b>1,317,598,093</b>

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**KALYANI STEELS**As at 31st  
March, 2005  
Rs.

	Rs.	Rs.	Rs.
<b>SCHEDULE '4' : UNSECURED LOANS :</b>			
Fixed Deposits :			
From Shareholders	619,000		619,000
From Others	<u>19,143,000</u>		<u>37,805,000</u>
	<u>19,762,000</u>		<u>38,424,000</u>
Add : Interest accrued and due on cumulative fixed deposits	<u>2,108,964</u>		<u>3,685,109</u>
		<b>21,870,964</b>	<b>42,109,109</b>
From Banks :			
Rupee Term Loan		<b>70,000,000</b>	<b>30,000,000</b>
Sales Tax Deferral Liability, as special incentives and concessions under the Karnataka Sales Tax Act, 1957		<b>14,098,355</b>	<b>13,871,951</b>
		<u><b>105,969,319</b></u>	<u><b>85,981,060</b></u>
	<b>TOTAL</b>		

**SCHEDULE '5': FIXED ASSETS :**

	Leasehold Land	Buildings	Plant & Machinery	Power Line	Electrical Installation	Furniture / Office Equipments	Vehicles & Aircrafts	As on 31st March, 2006 Total	As on 31st March, 2005 Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Gross Block At Cost :									
As at 31st March, 2005	35,646,689	218,171,155	2,178,690,656	28,100,000	318,192,553	16,214,116	21,953,830	2,816,968,999	2,508,709,521
Additions		23,390,785	37,761,073		2,893,283	5,220,442	11,303,967	80,569,550	313,147,671
Deductions & Adjustments			327,884		52,244		3,185,429	3,565,557	4,888,193
<b>As at 31st March, 2006</b>	<b>35,646,689</b>	<b>241,561,940</b>	<b>2,216,123,845</b>	<b>28,100,000</b>	<b>321,033,592</b>	<b>21,434,558</b>	<b>30,072,368</b>	<b>2,893,972,992</b>	<b>2,816,968,999</b>
Depreciation :									
Upto 31st March, 2005	12,449,338	36,585,529	642,586,641	19,201,667	94,566,440	8,453,188	3,751,318	817,594,121	623,522,746
Deductions & Adjustments							1,228,183	1,228,183	860,056
For the year	1,568,256	7,664,160	145,245,740	2,810,000	18,879,706	2,330,552	3,110,223	181,608,637	194,931,431
<b>Upto 31st March, 2006</b>	<b>14,017,594</b>	<b>44,249,689</b>	<b>787,832,381</b>	<b>22,011,667</b>	<b>113,446,146</b>	<b>10,783,740</b>	<b>5,633,358</b>	<b>997,974,575</b>	<b>817,594,121</b>
<b>Net Block :</b>									
<b>As at 31st March, 2006</b>	<b>21,629,095</b>	<b>197,312,251</b>	<b>1,428,291,464</b>	<b>6,088,333</b>	<b>207,587,446</b>	<b>10,650,818</b>	<b>24,439,010</b>	<b>1,895,998,417</b>	<b>1,999,374,878</b>
As at 31st March, 2005	23,197,351	181,585,626	1,536,104,015	8,898,333	223,626,113	7,760,928	18,202,512	1,999,374,878	

a) Refer Statement of Significant Accounting Policies - 2.

b) Represents amortisation of Premium paid on Leasehold Land over the lease period.

c) Cost incurred by the Company. Ownership vests with Karnataka Electricity Board, amortised over 10 years.

d) Includes Aircraft value of Rs.6,440,000/- jointly owned with other companies.

e) Represents Net Trial Run Income of Power Project, Refer Note No.10



		Rs.	Rs.	Rs.	As at 31st March, 2005 Rs.
<b>SCHEDULE '6' : INVESTMENTS, AT COST (continued) :</b>					
	Brought over ..		14,160,896	417,812,320	473,118,281
5,000	Fully paid Equity Shares of Rs.5/- each of Sterlite Optical Technologies Limited		1,437,500		1,437,500
500	Fully paid Equity Shares of Rs.5/- each (Previous Year Face Value of Rs.10/- each) of Kirloskar Ferrous Industries Limited		7,500		7,500
150,000	Fully paid Equity Shares of Rs.10/- each of Kalyani Thermal Systems Limited		6,000,000		6,000,000
\$\$ 5,155,650	Fully paid Equity Shares of Rs.10/- each of Hikal Limited		<u>65,610,549</u>		<u>65,610,549</u>
				<b>87,216,445</b>	<b>546,173,830</b>
Unquoted :					
A) Trade :					
10,750,000	(6,540,000) Fully paid Equity Shares of Rs.10/- each of Bharat NRE Coke Limited			<b>107,500,000</b>	<b>65,400,000</b>
B) Other than Trade :					
22,000	Fully paid Equity Shares of Rs.100/- each of Dandakaranya Investment & Trading Limited		2,200,000		2,200,000
22,000	Fully paid Equity Shares of Rs.100/- each of Hastinapur Investment & Trading Limited		2,200,000		2,200,000
22,000	Fully paid Equity Shares of Rs.100/- each of Dronacharya Investment & Trading Limited		2,200,000		2,200,000
220,000	Fully paid Equity Shares of Rs.10/- each of Campanula Investment & Finance Limited		2,200,000		2,200,000
220,000	Fully paid Equity Shares of Rs.10/- each of Cornflower Investment & Finance Limited		2,200,000		2,200,000
245,000	Fully paid Equity Shares of Rs.10/- each of Kalyani Carpenter Metal Centres Limited	2,462,250			2,462,250
	Less : Provision for Diminution	<u>2,217,250</u>			<u>2,217,250</u>
			<b>245,000</b>		<b>245,000</b>
1,000,000	Fully paid Equity Shares of Rs.10/- each of Kalyani Mukand Limited		10,050,000		10,050,000
49,997	Fully paid Equity Shares of Rs.10/- each of Hospet Steels Limited		<u>499,970</u>		<u>499,970</u>
				<b>21,794,970</b>	<b>21,794,970</b>
In Preference Shares :					
Unquoted :					
	(1,000,000) 12% Cumulative Redeemable Preference Shares of Rs.100/- each of The Indian Seamless Metals Tubes Limited (Allotted on conversion of Optionally Fully Convertible Debentures, under a Scheme of Arrangement between The Indian Seamless Metals Tubes Limited and Kalyani Seamless Tubes Limited, share certificates yet to be received )		—		100,000,000
	Less : Diminution in the value of investments adjusted against Securities Premium Account, effected in prior year as per the Scheme of Arrangement		—		<u>70,544,514</u>
				—	<u>29,455,486</u>
	Carried over ..			<b>634,323,735</b>	<b>662,824,286</b>

## KALYANI STEELS

As at 31st  
March, 2005  
Rs.

### SCHEDULE '6' : INVESTMENTS, AT COST (continued) :

	Rs.	Rs.	Rs.
Brought over ..		634,323,735	662,824,286
In Debentures :			
Unquoted :			
In Wholly Owned Subsidiaries :			
\$ 312,850 Zero percent Optionally Fully Convertible Debentures of Rs.100/- each of Chakrapani Investments & Trades Limited	31,285,000		31,285,000
\$ 717,100 Zero percent Optionally Fully Convertible Debentures of Rs.100/- each of Surajmukhi Investment & Finance Limited	71,710,000		71,710,000
		<u>102,995,000</u>	<u>102,995,000</u>
		737,318,735	765,819,286
In Mutual Funds :			
Current Investments :			
Quoted :			
1,584,776 ( ) Units of Rs.10/- each of HDFC Cash Management Fund - Saving Plus Plan - Growth	24,000,000		
1,500,000 ( ) Units of Rs.10/- each of Prudential ICICI FMP - Monthly Plan - Cumulative XXVII	15,000,000		
10,261,483 ( ) Units of Rs.10/- each of Reliance Liquidity Fund - Growth Option	107,229,643		
2,013,698 ( ) Units of Rs.10/- each of Kotak Liquid (Institutional Premium) - Growth	28,382,879		
		<u>174,612,522</u>	
		911,931,257	765,819,286
Share Application Money		—	42,100,000
TOTAL		<u>911,931,257</u>	<u>807,919,286</u>

	C O S T		M A R K E T V A L U E	
	( Net of determined diminution in the value of Investment)			
	As at 31st March, 2006 Rs.	As at 31st March, 2005 Rs.	As at 31st March, 2006 Rs.	As at 31st March, 2005 Rs.
<b>Quoted **</b>	261,828,967	128,326,510	# 3,599,609,605	# 2,954,033,378
<b>Unquoted</b>	650,102,290	637,492,776		
	<u>911,931,257</u>	<u>765,819,286</u>		

\* Received, after sale of 652,500 Equity Shares of The Indian Seamless Metal Tubes Limited, during the year consequent to the Scheme of Arrangement between The Indian Seamless Metal Tubes Limited (ISMTL) and Indian Seamless Steels and Alloys Limited (ISSAL), in the ratio of 5 Equity Shares of ISSAL for every 4 Equity Shares of ISMTL. Name of ISSAL is changed to ISMT Limited.

\$ \$ 518,500 No. of Equity Shares are pledged with UTI Bank Limited for loan taken by another company.

\$ The holders of these Debentures had the option to convert the entire amount outstanding into Equity Shares at par on or before three years from the date of allotment. The Debentures which have not been converted into Equity Shares on or before three years from the date of allotment shall be redeemed.

# Included in the market value at the future Contracted Sale Price.

\*\* Refer Note No.13

Following investments are purchased and sold during the year :

Particulars	No. of Units	Face Value Rs.	Cost Price Rs.
HDFC Cash Management - Saving Plan - Growth	84,941,559	10	1,195,683,401
Prudential ICICI Liquid Plan Institutional Plus - Growth Option	28,373,312	10	476,850,000
Reliance Fixed Maturity Fund - Monthly Plan - Series II - Growth Option	1,500,000	10	15,000,000
Reliance Floating Rate Fund - Growth Plan	2,175,959	10	22,568,850
Reliance Treasury Plan Institutional Option - Growth Option	672,437	10	11,000,000
Reliance Liquid Cash Plan - Growth Option	13,714,504	10	166,596,443
Kotak Liquid (Institutional) - Growth	7,393,253	10	100,700,000
UTI Liquid Cash Plan Institutional - Growth Option	273,614	1,000	307,296,800
UTI Floating Rate Fund - Short Term Plan (Growth Option)	8,834,647	10	99,023,663

	Rs.	Rs.
		As at 31st March, 2005
<b>SCHEDULE '7' : INVENTORIES :</b>		
Stores, spares etc., at cost		64,359,984
Stock - in - Trade :		
Raw materials, at cost	593,856,373	273,176,166
Finished goods, at cost or market value whichever is lower	281,321,545	156,721,809
Scrap at estimated realisable value	46,537,031	7,660,406
As valued and certified by the Executive Director	921,714,949	437,558,381
Goods in transit, at cost to date	—	85,398,847
	<u>921,714,949</u>	<u>522,957,228</u>
<b>TOTAL</b>	<u><b>999,684,728</b></u>	<u><b>587,317,212</b></u>
<b>SCHEDULE '8' : SUNDRY DEBTORS, UNSECURED, GOOD :</b>		
(a) On Operations :		
i) Outstanding over six months	23,846,698	55,277,322
ii) Others, Good	1,021,743,359	1,108,707,823
	<u>1,045,590,057</u>	<u>1,163,985,145</u>
(b) On Sale of Assets	58,250,116	164,587,630
	<u>1,103,840,173</u>	<u>1,328,572,775</u>
<b>TOTAL</b>	<u><b>1,103,840,173</b></u>	<u><b>1,328,572,775</b></u>
<b>SCHEDULE '9' : CASH AND BANK BALANCES :</b>		
Cash on hand		154,517
Cheques on Hand		47,999,828
Bank balances :		
With Scheduled Banks :		
In Current & Cash Credit Accounts	33,713,859	76,312,897
In Fixed Deposits (Receipts of the value of Rs.615,500/- pledged in favour of Government Authorities)	3,615,500	4,615,500
	<u>37,329,359</u>	<u>80,928,397</u>
<b>TOTAL</b>	<u><b>85,432,259</b></u>	<u><b>81,082,914</b></u>
<b>SCHEDULE '10' : OTHER CURRENT ASSETS :</b>		
Income Receivable	61,908,408	55,499,263
Export Incentives Receivable	128,734	271,860
	<u>62,037,142</u>	<u>55,771,123</u>
<b>TOTAL</b>	<u><b>62,037,142</b></u>	<u><b>55,771,123</b></u>

## KALYANI STEELS

As at 31st  
March, 2005

	Rs.	Rs.	Rs.	Rs.
<b>SCHEDULE '11' : LOANS AND ADVANCES, UNSECURED, GOOD (UNLESS OTHERWISE STATED) :</b>				
Loans to wholly owned subsidiaries		1,122,706,695		593,172,370
Loans to other companies (formerly subsidiaries under Section 4(1)(c) of the Companies Act, 1956)		3,367,300		3,367,300
Dues from companies, promoted by this Company		—		511,966
@ Inter Corporate Loans		21,335,000		21,335,000
* Advances recoverable in cash or in kind or for value to be received. (Amounts recoverable from the companies promoted by this Company)				
Good		104,956,661		73,423,841
Doubtful advances	2,035,343			8,504,525
Less : Provision	<u>2,035,343</u>			<u>8,504,525</u>
		<u>                    </u>		<u>                    </u>
		104,956,661		73,423,841
Advances for capital goods for Projects under Implementation		15,855,466		36,379,928
Advance receivable under an Arrangement		13,423,117		
Sundry Deposits		194,054,869		80,844,999
Balance with Excise Department		70,127,426		18,432,503
Tax paid in advance		<u>191,808,204</u>		<u>87,249,869</u>
TOTAL		<u><u>1,737,634,738</u></u>		<u><u>914,717,776</u></u>

\* Includes interest free loans amounting to Rs.9,180,000/- (Previous Year Rs.9,180,000/-) to Seven Trusts connected with the welfare of employees and Rs.Nil (Previous Year - Rs.3,000,000/-) to Employees Provident Fund Trust.

\* Includes amount due from the Officer of the Company Rs.190,862/- (Previous Year Rs.Nil) Maximum balance outstanding during the year Rs.201,986/- (Previous Year Rs.Nil)

@ Represents interest free loans aggregating Rs.21,035,000/- (Previous Year Rs.21,035,000/-) given to Six Private Limited companies formed with the same purpose and obligation as the Six Employees Welfare Trusts under a scheme in terms of clause (b) of the proviso to Section 77(2) of the Companies Act, 1956, which in the opinion of an eminent counsel falls within the purview of the said proviso to the above mentioned Section.

### SCHEDULE '12' : LIABILITIES :

Acceptances		105,872,796		256,097,228
Deposits		54,177,433		1,342,840
Sundry Creditors				
Due to Small Scale Industrial Undertakings (Refer Note No.12)		7,134,617		13,127,831
Others		<u>1,453,857,061</u>		<u>1,126,001,735</u>
		<u>                    </u>		<u>                    </u>
		1,460,991,678		1,139,129,566
Advance against Order		—		29,007,415
Part amount received under an arrangement against sale of project promoted by the Company		52,717,415		52,717,415
Trade Advance		113,896,645		125,004,168
Amounts received from a Company under a strategic alliance		19,449,788		19,449,788
Investor Education & Protection Fund, since paid		186,593		269,019
Unclaimed Dividends		832,048		525,955
Interest accrued but not due on loans		<u>25,797,106</u>		<u>12,479,326</u>
TOTAL		<u><u>1,833,921,502</u></u>		<u><u>1,636,022,720</u></u>

	Rs.	Rs.	As at 31st March, 2005 Rs.
<b>SCHEDULE '13' : PROVISIONS :</b>			
Provision for Octroi Duty, earlier disputed		—	8,099,308
Provision for Taxation	179,875,000		69,548,000
Proposed Dividend	126,159,180		63,079,590
Tax on Proposed Dividend	17,693,830		8,846,920
TOTAL	<u>323,728,010</u>		<u>149,573,818</u>
	Rs.	Rs.	Previous Year Rs.
<b>SCHEDULE '14' : SALES, OPERATING &amp; OTHER INCOME :</b>			
<b>(a) Sales, Gross :</b>			
Sales (See Note No.22)	5,916,176,639		8,634,793,409
Less : Returns	—		272,883
	<u>5,916,176,639</u>		<u>8,634,520,526</u>
Miscellaneous Sales	326,081,083		179,828,722
Jobwork Receipts	<u>1,304,224,868</u>		<u>415,839,266</u>
		<b>7,546,482,590</b>	<b>9,230,188,514</b>
<b>(b) Operating Income :</b>			
i) Related to Manufacturing Activity :			
Export Incentives received	418,508		548,305
Income from Mining Activity	5,175,802		1,297,288
	<u>5,594,310</u>		<u>1,845,593</u>
ii) Related to Finance and Investment Activity (Net) :			
Income earned during the year from Dividend, other than Trade, Gross	33,511,725		37,627,351
Profit on Sale of Investments, net	49,983,694		16,770,849
	<u>83,495,419</u>		<u>54,398,200</u>
		<b>89,089,729</b>	<b>56,243,793</b>
<b>(c) Other Income :</b>			
Interest other than from Finance & Investment Activity :	83,040,565		61,978,834
Less : Adjusted against Interest & Commitment Charges in Schedule 18	<u>83,040,565</u>		<u>61,978,834</u>
Miscellaneous receipts	10,152,079		5,319,930
Bad Debts/ Sundry Debit balances previously written off, now recovered	1,800,000		1,636,803
Provision for Doubtful Advances Written back	6,469,182		328,755
Profit on Sale of Assets	84,791		
Provision no longer required	9,099,468		1,150,234
Sundry Credit balances appropriated	<u>1,563,805</u>		<u>1,498,925</u>
		<b>29,169,325</b>	<b>9,934,647</b>
TOTAL	<u>7,664,741,644</u>		<u>9,296,366,954</u>

## KALYANI STEELS

	Rs.	Rs.	Previous Year Rs.
<b>SCHEDULE '15' : MATERIALS CONSUMED AND MANUFACTURING EXPENSES :</b>			
<b>a) Raw materials consumed :</b>			
Stocks at commencement	273,176,166		170,044,260
Add : Purchases	2,812,360,543		5,328,044,017
Add/(Less) : Foreign Exchange Fluctuation	6,450,470		27,508,297
	<u>3,091,987,179</u>		<u>5,525,596,574</u>
Less : Sale of Raw Material	142,425,247		133,785,875
Less : Stocks at close	593,856,373		273,176,166
		<u>2,355,705,559</u>	<u>5,118,634,533</u>
<b>b) Manufacturing expenses :</b>			
Stores and spares consumed	211,398,198		119,754,543
Job work and Manufacturing Charges	668,784,474		683,961,890
Power and Fuel	443,348,783		318,873,700
Building and Road repairs	11,542,010		6,661,317
Machinery repairs	30,466,040		17,620,063
		<u>1,365,539,505</u>	<u>1,146,871,513</u>
<b>c) Goods Purchased for Trade</b>		<b>201,106,945</b>	<b>40,866,776</b>
<b>d) Excise Duty :</b>			
On Closing Stock	51,642,579		27,947,580
Less : On Opening Stock	27,947,580		9,141,746
		<u>23,694,999</u>	<u>18,805,834</u>
<b>e) (Increase) / decrease in Stocks :</b>			
Stocks at close :			
Finished goods	281,321,545		156,721,809
Scrap	46,537,031		7,660,406
	<u>327,858,576</u>		<u>164,382,215</u>
Less : Stocks at commencement :			
Finished goods	156,721,809		131,908,845
Scrap	7,660,406		12,200,577
	<u>164,382,215</u>		<u>144,109,422</u>
		<u>(163,476,361)</u>	<u>(20,272,793)</u>
<b>TOTAL</b>		<u><b>3,782,570,647</b></u>	<u><b>6,304,905,863</b></u>

### SCHEDULE '16' : EMPLOYEES' EMOLUMENTS :

(Including Executive and Wholtime Directors Remuneration)

Salaries, Wages, Gratuity, Bonus etc.	155,349,105		99,434,166
Contribution to Provident and other Funds etc.	7,662,479		6,193,736
Welfare expenses	7,858,780		5,145,723
<b>TOTAL</b>		<u><b>170,870,364</b></u>	<u><b>110,773,625</b></u>

	Rs.	Rs.	Previous Year Rs.
<b>SCHEDULE '17' : OTHER EXPENSES :</b>			
Rent		1,577,010	1,035,010
Rates & Taxes		127,486	57,254
Lease Rent		—	3,813,603
Insurance (including Key Man Insurance)		9,095,183	5,625,003
Legal & Professional charges		18,397,918	8,252,842
Miscellaneous expenses		81,120,443	54,216,983
Donation :			
Prime Minister s National Relief Fund	—		2,000,000
Others	800,000		120,690
		<u>800,000</u>	<u>2,120,690</u>
Freight Outward		182,669,448	162,113,595
Brokerage and Discount		33,529,020	15,286,310
Commission on Sales		16,793,137	24,087,250
Audit Fees and expenses		1,940,860	1,869,148
Directors fees and Travelling Expenses		1,110,004	1,230,517
Executive Director s Commission		6,500,000	4,000,000
Commission to Directors other than Executive Director and Wholetime Directors		1,500,000	1,000,000
Loss on Foreign Exchange Fluctuation		3,237,868	21,265,084
Loss on Assets sold or scrapped		1,021,399	187,966
Bad debts, Advances and Sundry Debit balances written off		48,980,315	2,969,658
Facility charges under Strategic Alliance		69,736,517	71,364,864
Facility charges for plant taken on lease		59,270,051	
Provision for Diminution in the Value of Investments		—	2,217,250
TOTAL		<u>537,406,659</u>	<u>382,713,027</u>
<b>SCHEDULE '18' : INTEREST :</b>			
Interest & Commitment Charges :			
On Debentures	11,673,808		13,721,227
On Fixed Loans	82,933,447		93,953,516
Others	34,660,798		30,891,139
		<u>129,268,053</u>	<u>138,565,882</u>
Less : Interest adjusted as per contra	83,040,565		61,978,834
		<u>46,227,488</u>	<u>76,587,048</u>
TOTAL		<u>46,227,488</u>	<u>76,587,048</u>
<b>SCHEDULE '19' : DEPRECIATION AND WRITE OFFS ETC. :</b>			
Depreciation		177,230,381	190,553,175
Leasehold land amortised		1,568,256	1,568,256
Power HT line amortised		2,810,000	2,810,000
TOTAL		<u>181,608,637</u>	<u>194,931,431</u>

**SCHEDULE '20' : Notes forming part of the Financial Statements as at 31st March, 2006**

	As at 31st March, 2006 Rs.	As at 31st March, 2005 Rs.
1. Contingent Liabilities not provided for in respect of :		
a) Claims against the Company not acknowledged as debts	14,388,055	38,388,657
b) Excise demands, matter under dispute	64,155,821	64,353,641
2. Estimated amount of Contracts remaining to be executed on Capital Account and not provided for (Net of Advances)	89,950,010	22,233,992
3. Payment to Auditors :		
i) As Statutory Auditors	1,250,000	1,250,000
ii) In other capacity -		
- For Tax Audit	230,000	230,000
- For Certification	290,000	303,900
	1,770,000	1,783,900
iii) For expenses	170,860	85,248
	1,940,860	1,869,148

4. Details of Raw Materials Consumption :

a) RAW MATERIALS CONSUMED :

	2005-06		2004-05	
	MTs	Rs.	MTs	Rs.
Coke	*72,700	836,636,528	219,393	3,863,817,809
Iron Ore	350,755	218,040,074	605,233	264,898,182
Coal (Converted into Coke)	83,492	484,552,140	34,432	158,492,327
Ferro Alloys		579,234,528		565,810,365
Others		237,242,289		265,615,850
TOTAL		2,355,705,559		5,118,634,533

\* Excludes 47,136 MTs Coke from Coal Conversion Activity.

b) IMPORTED AND INDIGENOUS RAW MATERIALS CONSUMED : (See Note No.11)

	2005-06		2004-05	
	Rs.	Percentage	Rs.	Percentage
Imported (Direct imports only)	1,234,030,533	52%	3,812,772,335	75%
Indigenous	1,121,675,026	48%	1,305,862,198	25%
TOTAL	2,355,705,559	100%	5,118,634,533	100%

## SCHEDULE '20': Notes forming part of the Financial Statements as at 31st March, 2006 (continued)

### 5. Details of Licensed and Installed Capacity, Production, Stocks and Turnover:

Class of Goods	Licensed capacity (Maximum utilisation basis)		(a) Installed capacity		(b) Production for Self		Production for Job work		Purchase for Goods traded in		Stocks at Commencement		Stocks at Close		Turnover (Net of Excise Duty)		Process Loss Excess / Shortage (e)
	MTs	MTs	MTs	MTs	MTs	MTs	MTs	Value Rs.	Qty. MTs	Value Rs.	Qty. MTs	Value Rs.	Qty. MTs	Value Rs.	Qty. MTs	Value Rs.	
<b>1. PIG IRON / LIQUID PIG IRON</b>																	
Financial year ended 31st March, 2006	240,000	(g) 240,000	(f) 168,106	240,147	—	—	—	—	—	64,462	1,654	24,018,783	(d) 10,678	141,158,091	—	—	
Financial year ended 31st March, 2005	240,000	(g) 240,000	326,526	37,353	—	—	—	—	622,472	4	4	64,462	(d) 166,847	2,487,773,538	—	—	
<b>2. BLOOMS &amp; ROUNDS</b>																	
Financial year ended 31st March, 2006	(c)	(c)	147,889	—	—	—	—	—	—	71,477,540	5,017	126,852,748	(d) 37,964	1,022,976,799	—	—	
Financial year ended 31st March, 2005	(c)	(c)	153,186	—	—	—	—	—	51,903,714	2,387	2,387	71,477,540	(d) 39,165	1,078,200,969	25	25	
<b>3. ROLLED PRODUCTS</b>																	
Financial year ended 31st March, 2006	250,000	250,000	(h) 103,217	64,965	—	—	—	—	—	83,998,052	4,610	128,890,144	(d) 99,465	3,396,384,803	1,540	1,540	
Financial year ended 31st March, 2005	250,000	250,000	(h) 109,773	51,341	—	—	—	—	74,681,683	3,351	2,669	83,998,052	(d) 108,667	3,710,568,771	1,672	1,672	
<b>4. POWER</b>																	
Financial year ended 31st March, 2006	8 MW	8 MW	(f) 7.02 MW	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Units (Kwh) ( 000 )	60,000	60,000	52,651	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Financial year ended 31st March, 2005	60,000	60,000	5,458	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>5. GOODS TRADED IN</b>																	
<b>BLOOMS &amp; ROUNDS</b>																	
Financial year ended 31st March, 2006	—	—	—	—	914	31,097,338	—	—	—	1,181,755	43	1,559,870	48	47,417,309	—	—	
Financial year ended 31st March, 2005	—	—	—	—	76	1,975,597	—	—	—	—	43	1,181,755	43	1,269,349	—	—	
<b>IRON ORE &amp; IRON ORE FINES</b>																	
Financial year ended 31st March, 2006	—	—	—	—	63,200	47,868,580	—	—	—	—	—	—	—	63,200	57,547,145	—	—
Financial year ended 31st March, 2005	—	—	—	—	65,036	24,863,340	—	—	—	—	—	—	—	65,036	58,720,451	—	—
<b>COKE</b>																	
Financial year ended 31st March, 2006	—	—	—	—	15,000	103,407,259	—	—	—	—	—	—	—	15,000	107,265,772	—	—
Financial year ended 31st March, 2005	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>OTHERS</b>																	
Financial year ended 31st March, 2006	—	—	—	—	—	18,733,768	—	—	—	—	—	—	—	—	15,766,066	—	—
Financial year ended 31st March, 2005	—	—	—	—	—	14,027,839	—	—	—	4,700,976	—	—	—	—	23,268,581	—	—
<b>6. SCRAP</b>																	
Financial year ended 31st March, 2006	—	—	—	—	—	—	—	—	—	7,660,406	—	46,537,031	—	(f) 301,180,686	—	—	
Financial year ended 31st March, 2005	—	—	—	—	—	—	—	—	12,200,577	—	—	7,660,406	—	(f) 167,668,434	—	—	
<b>7. JOBWORK ACTIVITY</b>																	
Financial year ended 31st March, 2006	—	—	—	—	—	—	—	—	—	—	—	—	744	304,367	352,080,063	—	—
Financial year ended 31st March, 2005	—	—	—	—	—	—	—	—	—	—	13	—	13	88,681	103,241,167	—	—
<b>Financial year ended 31st March, 2006</b>																	
<b>Financial year ended 31st March, 2005</b>																	
<b>TOTAL</b>																	
<b>TOTAL</b>																	

a) As certified by the Chief of MBF and Rolling Mill Shop, being a technical matter accepted by the Auditors as correct.

b) Production is net of Plant returns.

c) Manufactured by a third party on Conversion Basis/f under Strategic Alliance.

d) Excludes captively consumed:

Pig Iron / Liquid Pig Iron : 155,778 MTs (Previous Year 159,738 MTs)

Blooms & Rounds : 107,295 MTs (Previous Year 114,231 MTs)

Rolled products : 271 MTs (Previous Year 116 MTs)

e) Excess/shortage are on account of handling of goods amongst the strategic alliance partners which are made good.

f) Includes Sale of Iron Ore fines Rs.185,938,037/- (Previous Year Rs.76,765,701/-) and Coke Fines Rs.32,398,288/- (Previous Year Rs.22,152,892/-)

g) Production has surpassed initially certified installed capacities, as a result of constant modifications, better efficiencies & refinements to manufacturing processes over the past years.

h) Includes material sent for manufacture at third party on Conversion Basis 20,759 MTs. (Previous Year 21,114 MTs.)

i) Includes 20,050 MTs pig iron produced in Sriruggappa Plant/facility taken on lease.

j) Net Power generated & captively consumed.

**SCHEDULE '20' : Notes forming part of the Financial Statements as at 31st March, 2006 (continued)**

**6. MANAGERIAL REMUNERATION:**

a) Computation of Net Profit in accordance with Section 198(1) and 349 of the Companies Act, 1956 :

	2005-06 Rs.	2004-05 Rs.
Profit as per Profit & Loss Account, after Taxation	1,010,174,852	430,087,550
Add: Remuneration to Executive Director & Wholetime Directors including perquisites	14,545,893	11,580,041
Commission to Directors other than Executive Director & Wholetime Directors	1,500,000	1,000,000
Provision for Taxation	343,332,003	215,097,520
	<u>359,377,896</u>	<u>227,677,561</u>
	1,369,552,748	657,765,111
Less : Profit on sale of investments in terms of Section 349(3)(c)	365,256,571	16,770,849
Provision for doubtful advances written back	6,469,182	328,755
Provision no longer required	9,099,468	1,150,234
	<u>380,825,221</u>	<u>18,249,838</u>
Net Profit / (Loss)	<u>988,727,527</u>	<u>639,515,273</u>
Profit on which commission is payable	988,727,527	639,515,273
Commission to Executive Director, as determined by the Board of Directors	6,500,000	4,000,000
Commission to Directors other than Executive Director & Wholetime Directors	1,500,000	1,000,000

b) Details of payment and provisions on account of remuneration to Executive Director and Wholetime Directors included in Financial Statements are as under :

	Executive Director 2005-06 (Rs.)	*Wholetime Director (Technical) 2005-06 (Rs.)	Wholetime Director 2005-06 (Rs.)	TOTAL 2005-06 Rs.	TOTAL 2004-05 Rs.
Salary	2,682,000	1,818,000	1,212,000	5,712,000	5,542,322
Contribution to Provident and other Funds	847,920			847,920	758,880
Perquisites	636,130	579,400	270,443	1,485,973	1,278,839
Commission	6,500,000			6,500,000	4,000,000
Total	10,666,050	2,397,400	1,482,443	14,545,893	11,580,041

\* Re-appointment and remuneration w.e.f. 1st February, 2006, pursuant to resolution passed by the Board Directors on 23rd January, 2006, is subject to approval of the shareholders at the ensuing Annual General Meeting.

Note : As the employee-wise breakup of personal insurance premium is unascertainable, the amount relatable to the Directors has not been included above.

	2005-06 Rs.	2004-05 Rs.
<b>7. C.I.F. Value of Imports, Expenditure and Earnings in Foreign Currencies :</b>		
a) C.I.F. Value of Imports :		
Direct imports only : (including goods in Bonded Warehouse and in transit, if any) [See Note No.11]		
Raw Material :		
- Coke	773,107,939	1,682,802,347
- Coal	646,697,297	218,676,965
- Ferro Alloys	87,892,229	34,349,935
Goods Traded in :		
- Coke	103,407,259	
- Scrap	—	13,752,573
b) Expenditure in Foreign Currency :		
Interest	50,952,544	43,105,447
Commission	—	49,961
Other matters	2,493,119	2,978,597



**KALYANI**

## 33rd Annual Report 2005-2006

**SCHEDULE '20' : Notes forming part of the Financial Statements as at 31st March, 2006 (continued)**

	2005-06	2004-05
	Rs.	Rs.
c) Earnings in Foreign Currencies :		
- FOB Value of Exports	48,151,186	18,221,238
- Insurance and Freight on Exports	765,635	136,470
d) Exchange differences on account of fluctuation in foreign currency rates :		
i) Relating to Exports during the year as a part of Sales	—	307,261
ii) Relating to Imports during the year as a part of Raw Material Loss / (Gain)	6,450,470	27,508,297
iii) Other foreign exchange gains / (losses) recognised on settlement of current assets, liabilities and borrowings		
a) Adjusted to the cost of assets	—	
b) Recognised in Profit and Loss account	(3,237,868)	(21,265,084)

e) Foreign Exchange Derivatives and Exposures not hedged at close of the year :

a) Foreign Exchange Derivatives :

Nature of Particulars	Currency	Particulars	31st March, 2006	31st March, 2005
i) Forward Contracts	USD	Purchase	5,138,985	1,318,235
	USD	Sale	—	
ii) Option Contracts	USD	Loan	9,085,750	10,895,250

All derivative contracts stated above are for the purpose of hedging the underlying foreign currency exposure.

b) Exposure not hedged :

Nature of Instrument	Currency	31st March, 2006	31st March, 2005
i) Receivable	USD	53,508	131,700
ii) Payable	USD	12,054,891	11,090,119
iii) Loan	USD	164,667	329,333

8. a) i) 1,000,000 ~ 13% Secured Non-Convertible Redeemable Debentures (Eleventh Series) of Rs.100/- each, privately placed with Bank of Maharashtra. Installment due in April, 2006, was prepaid by the Company during the year. Outstanding balance of Rs.13.40 Million is to be redeemed in April, 2007.
- ii) 100 ~ 8.5% Secured Non-Convertible Redeemable Debentures (Sixteenth Series) of Rs.1,000,000/- each, privately placed with Housing Development Finance Corporation Limited. The first redemption installment of Rs.330,000/- per debenture was paid by the Company in February, 2006. Remaining two installments of Rs.330,000/- and Rs.340,000/- per debenture, to be redeemed in the month of February over subsequent two years.

Above Debentures are secured by mortgage of Company's immovable properties consisting of land together with all buildings and structures thereon and all plant and machinery, attached to the earth or permanently fastened to anything attached to the earth, both present and future and hypothecation of whole of the moveable fixed assets / properties of the Company, including its movable plant and machinery, machinery spares, tools and accessories and other movables fixed assets, both present and future, ranking pari passu with charges created and / or to be created in favour of the Banks / Financial Institutions for their term / foreign currency loans.

b) Rupee Term Loans :

- i) Canara Bank ~ Term Loan  
 ii) Bank of Baroda ~ Term Loan  
 iii) Union Bank of India ~ Term Loan  
 iv) The Jammu & Kashmir Bank Limited ~ Term Loan

Above loans are secured by mortgage of Company's immovable properties consisting of land together with all buildings and structures thereon and all plant and machinery, attached to the earth or permanently fastened to anything attached to the earth, both present and future and hypothecation of whole of the moveable fixed assets / properties of the Company, including its movable plant and machinery, machinery spares, tools and accessories and other movables fixed assets, both present and future, ranking pari passu with charges created and / or to be created in favour of the Trustees for Debenture holders and Banks / Financial Institutions for their term / foreign currency loans.

c) Foreign Currency Term Loans

- i) Union Bank of India - Foreign Currency Term Loan, Outstanding balance USD 164,667  
 ii) State Bank of India - Corporate Term Loan in the form of FCNR(B) Term Loan, Outstanding balance USD 1,742,000

**SCHEDULE '20' : Notes forming part of the Financial Statements as at 31st March, 2006 (continued)**

iii) Bank of India - Foreign Currency Term Loan, Outstanding balance USD 5,000,000

iv) Bank of Baroda - Foreign Currency Term Loan, Outstanding balance USD 2,343,750

Above Foreign Currency Term Loans are secured by mortgage of Company s immovable properties consisting of land together with all buildings and structures thereon and all plant and machinery, attached to the earth or permanently fastened to anything attached to the earth, both present and future and hypothecation of whole of the moveable fixed assets / properties of the Company, including its movable plant and machinery, machinery spares, tools and accessories and other movables fixed assets, both present and future, ranking pari passu with charges created and / or to be created in favour of the Trustees for Debentureholders and Banks / Financial Institutions for their term / foreign currency loans.

d) Guarantees aggregating Rs.900,000/- (Previous Year Rs.3,086,000/-) given by the Company s Bankers under the Non-Fund based Working Capital Limits are secured together with the Fund based Working Capital Limits against hypothecation of stores, raw materials, stock in process, finished goods and book debts.

9. Debenture Redemption Reserve has been created in accordance with the Circular No.9/2002 dt.18th April, 2002, issued by Department of Company Affairs, Ministry of Law, Justice & Company Affairs, Government of India.

10. Summary of amount transferred to Capital Account being trial run expenses in connection with Power Generation Plant / Project for the period :

	1st April, 2005 to 19th April, 2005 Rs.	11th February, 2005 to 31st March, 2005 Rs.
Materials consumed and manufacturing expenses	1,699,262	14,047,122
Employees Emoluments	594,128	107,248
Other expenses		963,434
Interest	576,855	940,829
Depreciation and Write Offs	703,254	2,147,731
	3,573,499	18,206,364
Less : Trial Run Income :		
Estimated amount of Power generated, captively consumed	3,953,627	21,778,011
Net Trial Run Income	380,128	3,571,647

11. In furnishing information under Note 4(b) and 7(a), the view has been taken that particulars are required only in respect of items that are incorporated in the Finished Goods produced and not for such material used for maintenance of Plant & Machinery.

12. i) On the basis of information available with Company, there were no amounts payable to Small Scale and Ancillary Industrial Undertakings, as defined by The Interest on Delayed Payments to Small Scale and Ancillary Industrial Undertaking Act, 1992f which were overdue and outstanding at the close of the year, nor were there any delays in payments to the said Industrial Undertakings during the relevant period.

ii) On the basis of information available with the Company, following are the names of Small Scale Industrial Undertakings to whom the Company owes sums, which are outstanding for more than 30 days :

Sr.No.	Name of SSI Unit	Sr.No.	Name of SSI Unit
1.	Anand Offset Printers	12.	Precision Engineering Products
2.	Balaji Enterprises	13.	Shri Shankar Industries
3.	Daneshwari Engineering Corporation	14.	Tejas Engineers
4.	Essar Industries	15.	Air Auto Industries
5.	Essen & Co.	16.	Ace Refractories
6.	G.S.Palrecha	17.	Fluidmac
7.	Hamika Power Controls	18.	H.Guru Instrument
8.	Howrah Wire Netting Concern Pvt. Ltd.	19.	Rajesh Industries
9.	Hubli Oxygen Pvt. Ltd.	20.	Siddhi Vinayak Metal Pressing Works
10.	Karnataka Industrial Gases Pvt. Ltd.	21.	Unique Saws and Machinery Pvt. Ltd.
11.	Maheshwari Engineering	22.	J.K. Enterprises

13. Diminution in the value of quoted investments, if any, are not considered to be of a permanent nature and thus in the opinion of the Management, no provision for the same is necessary to be made. Moreover, investments made are intended

**SCHEDULE '20' : Notes forming part of the Financial Statements as at 31st March, 2006 (continued)**

to be held for a long term. However appropriate adjustments are made for diminution which in the opinion of the management are not of a temporary nature.

14. In the absence of balance confirmations, the balances in respect of third parties are as per Books of Account only. Adjustments having an impact of revenue nature, if any, will be made in the year in which the same are confirmed and reconciled.
15. Segment information, based on the Consolidated Financial Statements of the Company and its subsidiaries, has been set out in a separate statement annexed to this Schedule.
16. Related party disclosures have been set out in a separate statement annexed to this Schedule. The related parties, as defined by Accounting Standard 18 Related Party Disclosures issued by the Institute of Chartered Accountants of India, in respect of which the disclosures have been made, have been identified on the basis of disclosures made by the key management persons and taken on record by the Board.
17. The Company has recognised Deferred Taxes which result from timing differences between the Book Profits and Tax Profits as under :

Particulars	Balance carried as at 31st March, 2005 Rs.	Arising during the year Rs.	Balance carried as at 31st March, 2006 Rs.
<b>Deferred Tax Liabilities :</b>			
On account of Timing Differences :			
Depreciation	471,447,205	(7,746,296)	463,700,909
<b>TOTAL</b>	<b>471,447,205</b>	<b>(7,746,296)</b>	<b>463,700,909</b>
<b>Deferred Tax Assets :</b>			
On account of Timing Differences :			
Disallowance u/s 43B of the Income Tax Act	153,716	1,503,937	1,657,653
Unabsorbed Depreciation and carry forward Business Losses	230,504,709	(230,504,709)	
Provision for doubtful advances	2,862,623	(2,177,527)	685,096
<b>TOTAL</b>	<b>233,521,048</b>	<b>(231,178,299)</b>	<b>2,342,749</b>
<b>Net Deferred Tax Liability/(Asset)</b>	<b>237,926,157</b>	<b>223,432,003</b>	<b>461,358,160</b>

18. a) The Company has entered into agreements in the nature of leave and license agreement with different licensors for the purpose of establishments of premises. Disclosures required as per Accounting Standard 19 with regard to the above are as under :
- i. Payment under leave and license agreement for the period :
    1. Not later than One year Rs.Nil
    2. Later than One year but not later than Five years Rs.Nil
    3. Later than Five year Rs.Nil
  - ii. There are no transaction in the nature of sub-lease.
  - iii. Payment recognised in the Profit and Loss Account for the year ended 31st March, 2006 is Rs.Nil.
- b) Disclosures required as per Accounting Standard 19 with regard to the assets taken on lease are :
- i. Payment under agreement for period :
    1. Not later than One year Rs.72,000,000/-
    2. Later than One year but not later than Five years Rs.18,000,000/-
    3. Later than Five year Rs.Nil
  - ii. There are no transaction in the nature of sub-lease.
  - iii. Payment recognised in the Profit and Loss Account for the year ended 31st March, 2006 is Rs.49,786,863/-.

**SCHEDULE '20' : Notes forming part of the Financial Statements as at 31st March, 2006 (continued)**

19. The Company had purchased a Billet Mill, which was to be installed as a part of its facility at Ginigera. However due to delayed implementation schedules, the same continues to be classified as Capital Work In Progress and disclosed as such in the Financial Statements and carried at its realisable / impaired value amounting to Rs.85,085,445/-. The implementation of the said project, of which the said machinery would form a substantial part, is definitive in the near future.
20. The Company, alongwith other companies within Group, have divested their interest in Kalyani Brakes Limited. Accordingly, the profit on sale of said investments earned by the Company aggregating to Rs.315,272,877/- has been disclosed as an exceptional item of Income in the Profit and Loss Account.
21. Disclosures required as per Clause 32 of the Listing Agreement have been set out in a separate statement annexed hereto.
22. i) The supply and procurement of the products between the constituents of the composite manufacturing facility at Ginigera, under a strategic alliance arrangement are carried out on Conversion Basis for the full year as against Sales for the 10 months of the comparative period (i.e. April, 2004 to January, 2005). Hence, the revenues and components of cost of goods sold in respect of the year as a whole are not strictly comparable with those of comparative period. However, this has no effect on the profit for the year.
- ii) The Company has during the year, taken on lease a manufacturing facility to enhance its production of Pig Iron. The said lease has been contracted for a period of 22 months commencing 1st June, 2005 upon terms and conditions specified in the agreements dated 21st April, 2005. The results of the said operation of this facility are incorporated in the Financial Statements in the year ended 31st March, 2006.
- iii) Previous year s figures have been regrouped wherever considered necessary.
23. Reference is invited to Statement of Significant Accounting Policies annexed hereto.

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As per our attached Report of even date

For and on behalf of  
DALAL & SHAH  
Chartered Accountants

Anish Amin  
Partner

Mumbai  
Date : 26th June, 2006

On behalf of the Board of Directors

Mrs.D.R. Puranik  
Company  
Secretary

C.G. Patankar  
Executive  
Director

B.N. Kalyani  
Chairman

Pune  
Date : 26th June, 2006

**ANNEXURE REFERRED TO IN NOTE NO.23 OF NOTES FORMING PART OF FINANCIAL STATEMENTS :  
STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES FOLLOWED BY THE COMPANY**

**1] SYSTEM OF ACCOUNTING :**

- i) The Company generally follows the Mercantile system of accounting and recognises income and expenditure on an accrual basis except those with significant uncertainties.
- ii) Financial statements are based on historical cost. These costs are not adjusted to reflect the impact of the changing value in the purchasing power of money.
- iii) Estimates and Assumptions used in the preparation of the Financial Statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the Financial Statements, which may differ from the actual results at a subsequent date.

**2] FIXED ASSETS AND DEPRECIATION :**

**A. FIXED ASSETS:**

Fixed Assets are carried at cost of Acquisition (including cost of specific borrowings upto date of installation) or Construction, less accumulated Depreciation (except freehold land) and Amortisation (of cost of Acquisition). In respect of Projects implemented by the Company, Fixed Assets include all duties, non-refundable taxes, levies and costs incurred (which are directly attributable) for bringing Assets into working condition for its intended use, including expenses during construction period, Trial period etc.

**B. DEPRECIATION:**

**a) LEASEHOLD LAND AND POWER LINE-**

Cost of Leasehold land is amortised over the period of lease and expenditures on power line is amortised over a period of ten years.

**b) OTHER FIXED ASSETS-**

Depreciation on additions to assets upto 31st August, 1987 is being provided on Straight Line Method; pursuant to Circular No.1/1/1986-CLB No.15(50)84 CL-VI dt. 21.05.86 issued by the Department of Company Affairs in accordance with the provisions of Section 205(2)(b) of the Companies Act, 1956, at the rates (inclusive of Multiple Shift Allowance) applicable under the Income Tax Rules in force at the time of acquisition / installation of the assets and depreciation on additions on and after 1st September, 1987 is provided on Straight Line Method in accordance with Schedule-XIV to the Companies Act, 1956 as amended from time to time except if the life of any asset is less than that computed with reference to the rates prescribed under Schedule-XIV of the Companies Act, 1956, the same is written off over the economic life of the asset.

**c) Depreciation on sale / deduction from Fixed Assets is provided for upto the month of sale, deduction, discardment as the case may be.**

**3] FOREIGN CURRENCY TRANSACTIONS :**

Foreign Currency transactions are initially recorded at exchange rates prevailing on transaction dates. All Foreign Currency loans, Current Assets and Current Liabilities outstanding on the date of Balance Sheet are converted at the appropriate rates of exchange prevailing on the date of the Balance Sheet except those covered by Forward Contracts if any, which are accounted for at the Contracted Rate representing the amount required to meet the liability. Exchange difference arising from foreign currency fluctuations are dealt with in the Profit and Loss Account (except for differences in respect of Foreign Currency Liabilities for acquisition of Fixed Assets, which are adjusted to the cost of Fixed Assets).

Derivative instrument to hedge foreign exchange exposures are simulated for maturity / closure at the close of the year. Losses arising on such simulation on account of fluctuations in exchange rates during the reporting period are recognised in the Profit and Loss Account. Gains, if any, are postponed for a recognition on final determination.

**4] TECHNICAL KNOW-HOW :**

Expenditure on Technical Know-how in connection with production facilities is capitalised to the cost of the plant whereas process know-how is amortised over a period of six years in equal installments.

**5] INVESTMENTS:**

Investments are valued at cost of acquisition less diminution in the value, if determined to be of a permanent nature.

**6] INVENTORY VALUATION :**

Costs of inventories have been computed to include all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

**A. Finished Goods and Materials in Process :**

- a) Finished Goods and Materials in Process are stated at their cost or market / realisable value, whichever is lower.
- b) Cost of Finished Goods (including Trial Run product) includes all allocable overheads and excise duties but excludes interest.

**ANNEXURE REFERRED TO IN NOTE NO.23 OF NOTES FORMING PART OF FINANCIAL STATEMENTS (continued) :**

- B. Raw Materials :  
Raw Materials are stated at their Historical Costs computed at the weighted average price.
- C. Stores & Spares :  
Stores and spares are valued at their weighted average prices.
- D. Scrap is valued at estimated realisable value.
- E. Raw Material in transit is stated at actual cost up to the date of Balance Sheet.

**7] DEBENTURE / SHARE ISSUE EXPENSES :**

- a) Debenture Issue Expenses :  
Debenture issue expenses incurred in respect of debentures raised by the Company will be written off against the balance in the Securities Premium Account in accordance with Section 78 of the Companies Act, 1956 and in the event of inadequacy of balance in Securities Premium Account the same will be written off against the profits of the Company, in equal annual installments over a period of ten years or over the tenure of the Debentures whichever is less, from the date of commencement of commercial production of the concerned project for which they have been raised.
- b) Share Issue Expenses :  
Share Issue Expenses incurred in respect of shares raised by the Company will be written off from the date of allotment against the balance in the Securities Premium Account in accordance with Section 78 of the Companies Act, 1956 and in the event of inadequacy of balance in Securities Premium Account the same will be written off in ten equal annual installments against the profits of the respective years.

**8] PREMIUM ON REDEMPTION OF DEBENTURES :**

From the year ended 31st March, 1992 onwards, premium payable on redemption of debentures will be provided for against balance lying in the Securities Premium Account on the date of redemption in accordance with Section 78 of the Companies Act, 1956. In the event of inadequacy of balance in the Securities Premium Account, the same will be provided for against the profits equally over the tenure of the debentures.

**9] A. EXPORT SALES :**

Sales for exports are accounted on the date of issue of the Mate s Receipt.

**B. EXPORT INCENTIVES :**

Export incentives are accounted for on export of goods if the entitlements can be estimated with reasonable accuracy and conditions precedent to claim are fulfilled.

**10] EMPLOYEE BENEFITS :**

- a) Gratuity :  
Payment for present liability of future payment of gratuity is being made to approved gratuity funds which fully cover the same under Cash Accumulation Policy of the Life Insurance Corporation of India. However in view of the revision to the Accounting Standard 15 Employee Benefits which is mandatory in its application from 1st April, 2006 , Gratuity being a defined benefit plan, the deficit in the Plan Assets over the actuarial liability determined in accordance with the Standard, if any, would be adjusted to the General Reserve as at 1st April, 2006 and thereafter to the Profit and Loss Account.
- b) Superannuation :  
Defined contribution to Superannuation Fund are being made to Life Insurance Corporation of India as per the scheme of the Company.
- c) Provident Fund :  
Provident Fund Contributions (defined) are made to KSL Non-Bargainable Staff Provident Fund Trust in respect of Staff and in respect of Workers (Bargainable) the same is deposited with the Government Provident Fund Authority.
- d) Employees Pension Scheme :  
Defined contributions to Employees Pension Scheme, 1995 are made to the Government Provident Fund Authority.
- e) Privilege Leave Benefits :  
Liability for privilege leave benefits, in accordance with the rules of the Company is provided for at prevailing salary rate for the entire unavailed leave balance as at the balance sheet date.

ANNEXURE REFERRED TO IN NOTE NO.23 OF NOTES FORMING PART OF FINANCIAL STATEMENTS (continued) :

**11] RESEARCH AND DEVELOPMENT EXPENDITURE :**

Research and Development expenditure is charged to Revenue under the natural heads of account in the year in which it is incurred. However, expenditure incurred at development phase, where it is reasonably certain that outcome of research will be commercially exploited to yield economic benefits to the Company, is considered as an intangible asset.

**12] STRATEGIC ALLIANCE AT GINIGERA :**

The expenses incurred by the Joint Venture Company viz. Hospet Steels Limited, formed with the specific purpose of managing and operating the Composite Steel Manufacturing Facility at Ginigera, in the course of carrying out its objectives are, as agreed upon, to be shared by the alliance components in the pre-determined mutually agreed sharing ratio . Such expenses billed for reimbursement by Hospet Steels Limited have been booked into their natural heads of accounts and presented as such in the accounts.

**13] BORROWING COST :**

Borrowing costs are recognised in the Profit and Loss Account except interest incurred on borrowings, specifically raised for projects are capitalised to the cost of the asset until such time that the asset is ready to be put to use for its intended purpose.

**14] TAXATION :**

Provision for Taxation is made on the basis of the Taxable Profits computed for the current accounting period in accordance with the Income Tax Act, 1961. Deferred Tax resulting from timing difference between Book Profits and Tax Profits is accounted for at the applicable rate of tax to the extent the timing differences are expected to crystallise, in case of Deferred Tax Liabilities with reasonable certainty and in case of Deferred Tax Assets with virtual certainty that there would be adequate future taxable income against which deferred tax assets can be realised.

**15] IMPAIRMENT OF ASSETS :**

The Management, from this year, assesses for any impairment of assets or cash generating units, if indicators, external or internal, suggests possibilities of reduction in net realisable value of assets or value in use of cash generating units below its carrying costs. Impairments, if any, are recognised in the transitional year, against General Reserve and thereafter, if any, in the Profit and Loss Account.

**ANNEXURE REFERRED TO IN NOTE NO.15 OF NOTES FORMING PART OF THE FINANCIAL STATEMENTS :**  
Disclosure of Segment information as required by AS 17 Segment Reporting  
Segment Reporting as required by Accounting Standard 17 :

Sr. No.	Particulars	Year ended 31st March , 2006 Rupees	Year ended 31st March , 2005 Rupees
1	Segment Revenue :		
	a) Steel Making Division	4,640,753,289	4,928,126,247
	b) Iron Making Division	2,473,286,839	5,009,941,663
	c) Power Generation	200,262,113	21,778,011
	d) Finance and Investments	432,018,490	62,833,196
	e) Others	150,390,490	100,556,081
	Total	<u>7,896,711,221</u>	<u>10,123,235,198</u>
	Less : Inter Segment revenue - at Cost	<u>1,647,868,266</u>	<u>2,283,078,665</u>
	Net Sales / Income from Operations	<u>6,248,842,955</u>	<u>7,840,156,533</u>
2	Segment Results :		
	Profit / (Loss) (before interest & tax from each segment)		
	a) Steel Making Division	816,565,116	545,000,985
	b) Iron Making Division	94,033,782	138,814,184
	c) Power Generation	127,912,334	4,512,478
	d) Finance and Investments	389,299,658	57,310,787
	e) Others	103,076,359	109,765,181
	Total Profit before Interest & Tax	<u>1,530,887,249</u>	<u>855,403,615</u>
	Less :		
	1 Interest	119,963,959	124,877,010
	2 Other un-allocable expenditure net of un-allocable income	<u>(12,574,181)</u>	<u>611,232</u>
	Profit for the year	<u>1,423,497,471</u>	<u>729,915,373</u>
	Less : Trial Run Income net of Expenditure	<u>380,128</u>	<u>3,571,647</u>
	Total Profit before Tax	<u>1,423,117,343</u>	<u>726,343,726</u>
3	Total carrying amount of Segment Assets :		
	a) Steel Making Division	2,377,119,869	2,210,815,324
	b) Iron Making Division	1,869,106,949	1,606,526,936
	c) Power Generation	240,619,205	256,204,887
	d) Finance and Investments	1,921,917,028	1,371,849,793
	e) Others	590,478,917	406,704,716
	f) Un-allocable	315,992,910	389,248,143
	Total	<u>7,315,234,878</u>	<u>6,241,349,799</u>
4	Total amount of Segment Liabilities :		
	a) Steel Making Division	678,546,109	620,715,715
	b) Iron Making Division	1,127,109,117	898,594,777
	c) Power Generation	14,791,544	20,031,286
	d) Finance & Investments	16,819,476	12,068,350
	e) Others	36,724,322	27,894,040
	f) Un-allocable	337,528,142	246,254,760
	Total	<u>2,211,518,710</u>	<u>1,825,558,928</u>
5	Capital Employed (Segment Assets - Segment Liabilities) :		
	a) Steel Making Division	1,698,573,760	1,590,099,609
	b) Iron Making Division	741,997,832	707,932,159
	c) Power Generation	225,827,661	236,173,601
	d) Finance & Investments	1,905,097,552	1,359,781,443
	e) Others	553,754,595	378,810,676
	f) Un-allocable	<u>(21,535,232)</u>	<u>142,993,383</u>
	Total	<u>5,103,716,168</u>	<u>4,415,790,871</u>
6	Total Cost incurred during the year to acquire Segment Assets that are expected to be used during more than one period :		
	a) Steel Making Division	42,990,963	48,677,061
	b) Iron Making Division	36,557,774	7,593,686
	c) Power Generation	1,020,813	256,876,922
	d) Finance & Investments		
	e) Others	<u>4,690,920</u>	<u>5,376,380</u>
	Total	<u>85,260,470</u>	<u>318,524,049</u>
7	Depreciation :		
	a) Steel Making Division	87,259,037	85,044,983
	b) Iron Making Division	80,945,128	107,097,333
	c) Power Generation	12,763,089	2,147,731
	d) Finance & Investments		
	e) Others	<u>1,684,596</u>	<u>1,243,227</u>
	Total	<u>182,651,850</u>	<u>195,533,274</u>

**ANNEXURE REFERRED TO IN NOTE NO.16 OF NOTES FORMING PART OF THE FINANCIAL STATEMENTS :**  
Disclosure of Transactions with Related Parties as required by Accounting Standard 18 :

Nature of Transaction	Subsidiaries Rs.	Associates & Joint Ventures Rs.	Key Management Personnel Rs.	Relatives of Key Management Personnel Rs.
Conversion Charges Paid For the year 2005-06 For the year 2004-05		58,674,640		
Sale of Goods For the year 2005-06 For the year 2004-05		21,289,698		
Dividend Received For the year 2005-06 For the year 2004-05		33,511,725 30,933,900		
Receiving of Services For the year 2005-06 For the year 2004-05		188,233,478 118,926,140	14,545,893 11,580,041	
Finance Provided (Loans & Investment / Share Application Money) For the year 2005-06 For the year 2004-05	529,534,325 293,069,805	94,700,000		
Finance Received (Loans, Investment & Deposit) For the year 2005-06 For the year 2004-05	60,854,000		2,877,067	
Interest Received For the year 2005-06 For the year 2004-05	73,618,282 48,236,153			
Rent Paid For the year 2005-06 For the year 2004-05				210,000 180,645
Receivables as on 31st March, 2006 31st March, 2005	1,700,527,246 1,150,558,127	183,210,549 118,111,966		
Payables as on 31st March, 2006 31st March, 2005		33,904,982 24,985,107	9,377,067 4,000,000	

Note : Names of related parties and description of relationship

Description of Relationship	Names of Related Parties
Subsidiaries	Chakrapani Investments and Trades Limited Surajmukhi Investment and Finance Limited Gladiolla Investments Limited
Associates & Joint Ventures	Hospet Steels Limited Kalyani Mukand Limited Hikal Limited Bharat NRE Coke Limited
Key Management Personnel	Mr.C.G. Patankar Mr.Suresh Pandey Mr.B.B. Hattarki
Relatives of Key Management Personnel	Mrs.Sunanda Hattarki

**ANNEXURE REFERRED TO IN NOTE NO.21 OF NOTES FORMING PART OF THE FINANCIAL STATEMENTS :**  
Disclosures required as per Clause 32 of the Listing Agreement

Name of the Company	Loans and Advances				Investments	
	Amount outstanding as on		Maximum balance		Amount outstanding as at	
	31st March, 2006 Rs.	31st March, 2005 Rs.	Outstanding 2005-06 Rs.	During The Year 2004-05 Rs.	31st March, 2006 Rs.	31st March, 2005 Rs.
<b>Subsidiaries : ( * )</b>						
Surajmukhi Investment and Finance Limited	354,654,976	228,693,476	354,654,976	228,693,476	198,662,300	198,662,300
Chakrapani Investments and Trades Limited	402,844,738	213,687,470	402,844,738	213,687,470	144,285,000	144,285,000
Gladiolla Investments Limited	365,206,982	150,791,424	394,132,832	152,291,424	177,810,020	177,810,020
<b>Associates :</b>						
Kalyani Mukand Limited \$		511,966	511,966	511,966	10,050,000	10,050,000
Hospet Steels Limited					499,970	499,970
Hikal Limited					65,610,549	65,610,549
Bharat NRE Coke Limited					107,500,000	65,400,000
<b>Formerly Subsidiaries *</b>						
Campanula Investment & Finance Limited	533,500	533,500	533,500	533,500	2,200,000	2,200,000
Cornflower Investment & Finance Limited	583,500	583,500	583,500	583,500	2,200,000	2,200,000
Dandkaranya Investment & Trading Limited	833,500	833,500	833,500	833,500	2,200,000	2,200,000
Dronacharya Investment & Trading Limited	583,300	583,300	583,300	583,300	2,200,000	2,200,000
Hastinapur Investment & Trading Limited	833,500	833,500	833,500	833,500	2,200,000	2,200,000
<b>Other Companies * \$</b>						
Sprekelia Investment & Finance Limited	4,125,000	4,125,000	4,125,000	4,125,000		
Oleander Investment & Finance Limited	3,985,000	3,985,000	3,985,000	3,985,000		
Alocasia Investment & Finance Limited	3,985,000	3,985,000	3,985,000	3,985,000		
Acorus Investment & Finance Limited	4,100,000	4,100,000	4,100,000	4,100,000		
Khiphafia Investment & Finance Limited	3,985,000	3,985,000	3,985,000	3,985,000		
Poinsettia Investment & Finance Limited	855,000	855,000	855,000	855,000		
India International Limited	300,000	300,000	300,000	300,000		
<b>Advances in the nature of loans * \$</b>						
KSL Executive Welfare Share Option Trust I	1,450,000	1,450,000	1,450,000	1,450,000		
KSL Executive Welfare Share Option Trust II	1,450,000	1,450,000	1,450,000	1,450,000		
KSL Executive Welfare Share Option Trust III	1,450,000	1,450,000	1,450,000	1,450,000		
KSL Executive Welfare Share Option Trust IV	1,450,000	1,450,000	1,450,000	1,450,000		
KSL Executive Welfare Share Option Trust V	1,450,000	1,450,000	1,450,000	1,450,000		
KSL Executive Welfare Share Option Trust VI	930,000	930,000	930,000	930,000		
KSL Group Welfare Share Option Trust	1,000,000	1,000,000	1,000,000	1,000,000		
KSL Non - Bargainable Staff Provident Fund		3,000,000	3,000,000	3,000,000		

**Notes :**

1. There are no loans and advances in the nature of loans, to firms /companies in which directors are interested.

\* 2. No repayment schedule.

\$ 3. No interest.

**Investment by Loanee in the Shares of the Company :**

Name of the Loanee	No. of Shares held	
	31st March, 2006	31st March, 2005
Sprekelia Investment & Finance Limited	83,960	83,960
Oleander Investment & Finance Limited	83,960	83,960
Alocasia Investment & Finance Limited	83,960	83,960
Acorus Investment & Finance Limited	83,960	83,960
Khiphafia Investment & Finance Limited	84,152	84,152
Poinsettia Investment & Finance Limited	50,998	50,998
KSL Executive Welfare Share Option Trust I	40,000	40,000
KSL Executive Welfare Share Option Trust II	40,000	40,000
KSL Executive Welfare Share Option Trust III	40,000	40,000
KSL Executive Welfare Share Option Trust IV	40,000	40,000
KSL Executive Welfare Share Option Trust V	40,000	40,000
KSL Executive Welfare Share Option Trust VI	25,000	25,000



# Consolidated Financial Statements

## 2005-2006

**TO THE BOARD OF DIRECTORS  
KALYANI STEELS LIMITED  
REPORT OF THE AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS**

We have examined the attached Consolidated Balance Sheet of **KALYANI STEELS LIMITED** and its Subsidiaries, Associates and Joint Venture as at 31st March, 2006, and the Consolidated Profit and Loss Account and the Cash Flow Statement for the year then ended.

These Financial Statements are the responsibility of Kalyani Steels Limited's management. Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in India. These standards require that we plan and perform the audit to obtain reasonable assurance whether the Financial Statements are prepared, in all material respects, in accordance with an identified financial reporting framework and are free of material misstatements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Statements. We believe that our audit provides a reasonable basis for our opinion.

We did not audit the Financial Statements of the following Subsidiaries having total assets, total revenue and cash flows for the year ended on 31st March, 2006, as detailed below :

			Rupees
Name of the Subsidiary	Total Assets	Total Revenues	Cash inflows/(Outflows)
Chakrapani Investments & Trades Limited	548,509,275	22,115,475	(389,669)
Surajmukhi Investment & Finance Limited	550,739,599	25,306,357	(123,864)
Gladiola Investments Limited	539,578,946	26,938,366	(41,177)

These Financial Statements have been audited by other auditors whose reports have been furnished to us and our opinion, is based solely on the report of other auditors.

We did not audit the Financial Statements of the following Associates which have been accounted in Consolidated Financial Statements dealt with by this report having total assets, total revenues and cash flows for the year ended on 31st March, 2006, as detailed below :

			Rupees
Name of the Associate	Total Assets	Total Revenues	Cash inflows/(Outflows)
Hikal Limited	3,717,523,074	2,614,893,926	350,468,947
Bharat NRE Coke Limited	665,174,565	217,778,662	7,782,053

These Financial Statements have been audited by other auditors whose reports have been furnished to us and our opinion, is based solely on the report of other auditors.

We did not audit the Financial Statements of the following Joint Venture which have been accounted in Consolidated Financial Statements dealt with by this report having total assets, total revenues and cash flows for the year ended on 31st March, 2006, as detailed below :

			Rupees
Name of the Joint Venture	Total Assets	Total Revenues	Cash inflows/(Outflows)
Hospet Steels Limited	535,470	NIL*	1,035,310

\* as the expenses are reimbursed in terms of Strategic Alliance Agreement

These Financial Statements have been audited by other auditors whose reports have been furnished to us and our opinion, is based solely on the report of other auditors.

We report that the Consolidated Financial Statements have been prepared by the Company in accordance with the requirements of Accounting Standards issued by the Institute of Chartered Accountants of India viz. Accounting Standards AS 21 ~ Consolidated Financial Statements, AS 23 ~ Accounting for investments in Associates in Consolidated Financial Statements and AS 27 ~ Financial Reporting of interest in Joint Ventures and on the basis of the separate audited financial statements of Kalyani Steels Limited, its Subsidiaries, Associates and Joint Venture included in the Consolidated Financial Statements.

On the basis of the information and explanations given to us and on the consideration of the separate audit reports on individual audited Financial Statements of Kalyani Steels Limited, its aforesaid Subsidiaries, Associates and Joint Venture we are of the opinion that :

- (a) The Consolidated Balance Sheet gives a true and fair view of the consolidated state of affairs of Kalyani Steels Limited and its Subsidiaries, Associates and Joint Venture as at 31st March, 2006;
- (b) The Consolidated Profit and Loss Account gives a true and fair view of the consolidated results of operations of Kalyani Steels Limited and its Subsidiaries, Associates and Joint Venture for the year then ended; and
- (c) The Consolidated Cash Flow Statement, gives a true and fair view of the cash flows of Kalyani Steels Limited and its Subsidiaries, Associates and Joint Venture for the year then ended.

For and on behalf of  
DALAL & SHAH,  
Chartered Accountants

Place : Mumbai  
Date : 26th June, 2006

ANISH AMIN  
Partner  
Membership No.40451

**KALYANI****Consolidated Financial Statements****2005-2006****CONSOLIDATED BALANCE SHEET AS AT 31ST MARCH, 2006**

	Schedule	Rs.	Rs.	As at 31st March, 2005 Rs.
<b>I. SOURCES OF FUNDS :</b>				
1. Shareholders Funds :				
a) Capital	1	420,909,667		420,909,667
b) Reserves and Surplus	2	<u>3,257,755,173</u>		<u>2,324,554,053</u>
			<b>3,678,664,840</b>	<u>2,745,463,720</u>
2. Loan Funds :				
a) Secured Loans	3	852,302,355		1,320,404,851
b) Unsecured Loans	4	<u>112,586,066</u>		<u>113,578,308</u>
			<b>964,888,421</b>	<u>1,433,983,159</u>
3. Deferred Tax Adjustment (Refer Note No.17 in Schedule 20 of Financial Statements of Kalyani Steels Limited)				
Deferred Tax Liabilities		463,700,909		471,447,205
Share in Deferred Tax Liabilities of Joint Venture		<u>444,376</u>		<u>188,166</u>
		<u>464,145,285</u>		<u>471,635,371</u>
Deferred Tax Assets		2,342,749		233,521,048
Share in Deferred Tax Assets of Joint Venture		<u>718,929</u>		<u>542,731</u>
		<u>3,061,678</u>		<u>234,063,779</u>
			<b>461,083,607</b>	<u>237,571,592</u>
	<b>TOTAL</b>		<u><b>5,104,636,868</b></u>	<u><b>4,417,018,471</b></u>
<b>II. APPLICATION OF FUNDS :</b>				
1. Fixed Assets :	5			
a) Gross Block		2,906,603,396		2,824,908,483
b) Less : Depreciation etc.		<u>1,000,604,809</u>		<u>819,181,142</u>
c) Net Block		1,905,998,587		2,005,727,341
d) Capital Work-in-Progress, Expenditure to date (Refer Note No.19 in Schedule 20 of Financial Statements of Kalyani Steels Limited)		<u>95,838,867</u>		<u>104,672,254</u>
			<b>2,001,837,454</b>	<u>2,110,399,595</u>
2. Goodwill arising on Consolidation			<b>480,245</b>	480,245
3. Investments			<b>2,473,926,615</b>	1,746,346,723
4. Current Assets, Loans & Advances :				
a) Inventories	7	999,684,728		587,317,212
b) Sundry Debtors	8	1,128,835,571		1,351,292,674
c) Cash and Bank balances	9	86,542,571		82,230,385
d) Other Current Assets	10	4,979,065		19,151,291
e) Loans and Advances	11	<u>618,948,629</u>		<u>344,131,674</u>
		<u>2,838,990,564</u>		<u>2,384,123,236</u>
Less : Current Liabilities and Provisions :				
a) Liabilities	12	1,887,442,804		1,675,629,095
b) Provisions	13	<u>324,075,906</u>		<u>149,929,833</u>
		<u>2,211,518,710</u>		<u>1,825,558,928</u>
Net Current Assets			<b>627,471,854</b>	558,564,308
5. Miscellaneous Expenditure to the extent not written off or adjusted	14		<b>920,700</b>	1,227,600
	<b>TOTAL</b>		<u><b>5,104,636,868</b></u>	<u><b>4,417,018,471</b></u>
Notes forming part of the Consolidated Financial Statements	21			

As per our attached Report of even date

For and on behalf of  
DALAL & SHAH  
Chartered AccountantsAnish Amin  
PartnerMrs.D.R. Puranik  
Company  
Secretary

On behalf of the Board of Directors

C.G. Patankar  
Executive  
DirectorB.N. Kalyani  
ChairmanMumbai  
Date : 26th June, 2006Pune  
Date : 26th June, 2006

## Consolidated Financial Statements

2005-2006

### CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2006

	Schedule	Rs.	Rs.	As at 31st March, 2005 Rs.
<b>INCOME :</b>				
Sales, Gross	15 (a)	7,696,873,080		9,330,744,595
Less : Excise duty		<u>2,107,705,856</u>		<u>1,599,477,254</u>
Net Sales		5,589,167,224		7,731,267,341
Power generated, captively consumed		200,262,113		21,778,011
Operating Income	15 (b)	<u>129,863,254</u>	5,919,292,591	<u>81,238,493</u>
Divestment of Interest (See Note No.20 in Schedule 20 of Financial Statement of Kalyani Steels Limited)				7,834,283,845
Profit on Sale of Long Term Investments			315,272,877	
Other Income	15 (c)	<u>29,169,325</u>		<u>10,145,792</u>
			<u>6,263,734,793</u>	<u>7,844,429,637</u>
<b>EXPENDITURE :</b>				
Materials consumed and manufacturing expenses	16	3,782,570,647		6,304,905,863
Employees emoluments	17	236,063,189		162,270,501
Other expenses	18	622,428,504		436,758,562
Interest	19	119,963,959		124,877,010
Depreciation & Write Offs etc.	20	<u>182,651,850</u>		<u>195,533,274</u>
			<u>4,943,678,149</u>	<u>7,224,345,210</u>
<b>Profit for the year</b>			<u>1,320,056,644</u>	<u>620,084,427</u>
Less : Trial Run Income net of expenditure ( Refer Note No.10 in Schedule 20 of Financial Statements of Kalyani Steels Limited)			380,128	3,571,647
<b>Profit for the year, before Taxation</b>			<u>1,319,676,516</u>	<u>616,512,780</u>
Income from Associates			103,440,827	109,830,946
Provision for Taxation :				
- Current Tax (Including Wealth Tax Rs.300,000/- Previous Year Rs.225,000/-)			118,322,896	48,740,247
- Deferred Tax (Refer Note No.17 in Schedule 20 of Financial Statements of Kalyani Steels Limited)			223,432,003	166,372,520
Share in Deferred Tax of Joint Venture			80,012	108,919
Fringe Benefit Tax			1,600,000	
Share in Fringe Benefit Tax of Joint Venture			<u>1,704,659</u>	
			<u>345,139,570</u>	<u>215,221,686</u>
<b>Profit after Taxation</b>			<u>1,077,977,773</u>	<u>511,122,040</u>
As per last Account			491,335,334	123,439,031
Adjustments in respect of previous year :				
Expenses			<u>(922,949)</u>	<u>(382,434)</u>
			<u>1,568,390,158</u>	<u>634,178,637</u>
Minority Interest				
Profit attributable to consolidated group			1,568,390,158	634,178,637
Transferred from Debenture Redemption Reserve			11,600,000	3,350,000
<b>Amount available for Appropriation :</b>			<u>1,579,990,158</u>	<u>637,528,637</u>
Transferred to General Reserve			140,000,000	50,000,000
Transferred to Reserve Fund in terms of Section 45IC of Reserve Bank of India Act, 1934			49,391	486,012
Interim Dividend on Equity Shares			—	21,032,876
Proposed Dividend on Equity Shares			126,159,180	63,079,590
Tax on Dividend			<u>17,694,524</u>	<u>11,594,825</u>
			<u>143,853,704</u>	<u>95,707,291</u>
Balance carried to Balance Sheet			<u>1,296,087,063</u>	<u>491,335,334</u>
<b>Earnings per Share</b>				
(Face Value of Rs.10/-)				
Net Profit after Taxation			1,077,977,773	511,122,040
Prior Period Adjustments			<u>(922,949)</u>	<u>(382,434)</u>
Net Profit after Prior Period Adjustments			<u>1,077,054,824</u>	<u>510,739,606</u>
Number of Shares Issued and Subscribed			42,053,060	42,053,060
Basic and diluted			25.61	12.15
Notes forming part of the Consolidated Financial Statements	21			

As per our attached Report of even date

For and on behalf of  
DALAL & SHAH  
Chartered Accountants

Anish Amin  
Partner

Mrs.D.R. Puranik  
Company  
Secretary

On behalf of the Board of Directors

C.G. Patankar  
Executive  
Director

B.N. Kalyani  
Chairman

Mumbai  
Date : 26th June, 2006

Pune  
Date : 26th June, 2006

**CONSOLIDATED CASH FLOW STATEMENT FOR THE FINANCIAL YEAR 2005-2006**

	Year ended		Year ended	
	31st March, 2006		31st March, 2005	
	Rs.	Rs.	Rs.	Rs.
<b>A Cash Flow From Operating Activities :</b>				
Profit for the year before Taxation		1,423,117,343		726,343,726
Income from Associates		(103,440,827)		(109,830,946)
Add : Adjustments for Depreciation / Interest / Other				
Non Cash Expenses				
Depreciation (including Leasehold Land amortised)	182,651,850		195,533,274	
Bad Debts, Advances and Sundry Debit balances written off	48,980,315		7,736,053	
Deferred Revenue & Amortisation of Miscellaneous Expenses	306,900		721,932	
Interest Charged (Net of Capitalised)	129,461,189		138,668,073	
Loss on Sale of Assets (Net)	936,608		187,966	
Provision for Diminution in the value of Investment	—		2,217,250	
		<u>362,336,862</u>		<u>345,064,548</u>
Less : Adjustments for Dividend / Interest / other income				
Dividend	(74,285,250)		(62,622,051)	
Profit on Sale of Investments (Net)	(365,256,571)		(16,770,849)	
Interest : Other than Finance & Investment Activity	(9,497,230)		(13,791,063)	
Provision no longer required	(9,099,468)		(1,150,234)	
Provision for doubtful advances written back	(6,469,182)		(328,755)	
Sundry Credit balances appropriated	(1,563,805)		(1,498,925)	
Prior Year adjustments	(922,949)		(382,434)	
		<u>(467,094,455)</u>		<u>(96,544,311)</u>
Operating Profit before Working Capital changes		<u>1,214,918,923</u>		<u>865,033,017</u>
Changes in Working Capital :				
Inventories	(412,367,516)		(229,145,271)	
Sundry Debtors	67,139,274		(464,833,095)	
Other Current Assets, Loans & Advances	(188,490,250)		33,163,144	
Trade Payables	207,222,982		447,811,981	
		<u>(326,495,510)</u>		<u>(213,003,241)</u>
Cash generated from Operations		<u>888,423,413</u>		652,029,776
Direct Taxes Paid		<u>(116,004,219)</u>		<u>(62,527,505)</u>
<b>Net Cash from Operating Activities (A)</b>		<u><u>772,419,194</u></u>		<u><u>589,502,271</u></u>
<b>B. Cash Flow from Investing Activities :</b>				
Purchase of Assets		(84,880,342)		(59,017,032)
Capital Work in progress		8,833,387		(135,450,176)
Sale of Assets		1,020,637		268,524
Intercorporate Deposits		18,511,966		
Receivable against Sale of Assets		106,337,514		25,100,000
(Purchase) / Sale of Investments		(292,394,218)		(239,251,850)
Dividend received		107,796,975		93,555,951
Interest received		23,526,330		7,342,765
<b>Net Cash used in Investing Activities (B)</b>		<u><u>(111,247,751)</u></u>		<u><u>(307,451,818)</u></u>

## Consolidated Financial Statements

### 2005-2006

#### CONSOLIDATED CASH FLOW STATEMENT FOR THE FINANCIAL YEAR 2005-2006 (continued)

	Year ended 31st March, 2006	Year ended 31st March, 2005
	Rs.	Rs.
<b>C. Cash Flow from Financing Activities :</b>		
Proceeds from Borrowings	(467,098,358)	(159,273,734)
Interest paid	(118,139,789)	(179,147,852)
Dividend paid	(71,621,110)	(23,788,309)
<b>Net Cash from Financing Activities (C)</b>	<u>(656,859,257)</u>	<u>(362,209,895)</u>
Net changes in Cash & Equivalents (A+B+C)	4,312,186	(80,159,442)
CASH & EQUIVALENTS As on 31st March, 2005 :	82,230,385	162,389,827
CASH & EQUIVALENTS As on 31st March, 2006 :	86,542,571	82,230,385

As per our attached Report of even date

For and on behalf of  
DALAL & SHAH  
Chartered Accountants

Anish Amin  
Partner

Mrs.D.R. Puranik  
Company  
Secretary

On behalf of the Board of Directors

C.G. Patankar  
Executive  
Director

B.N. Kalyani  
Chairman

Mumbai  
Date : 26th June, 2006

Pune  
Date : 26th June, 2006



KALYANI

## Consolidated Financial Statements 2005-2006

SCHEDULE NOS. : '1' to '21' annexed to and forming part of the Consolidated Financial Statements for the year ended on 31st March, 2006

As at 31st  
March, 2005

	Rs.	Rs.	Rs.
<b>SCHEDULE '1' : SHARE CAPITAL :</b>			
<b>AUTHORISED :</b>			
47,500,000		475,000,000	475,000,000
3,010,000		301,000,000	301,000,000
2,400,000		24,000,000	24,000,000
		<u>800,000,000</u>	<u>800,000,000</u>
<b>ISSUED :</b>			
42,159,380		421,593,800	421,593,800
		<u>421,593,800</u>	<u>421,593,800</u>
<b>SUBSCRIBED &amp; PAID UP :</b>			
*42,053,060		420,530,600	420,530,600
		420,530,600	420,530,600
106,320		379,067	379,067
	TOTAL	<u>420,909,667</u>	<u>420,909,667</u>

\* Of the above shares -

- a. 3,843,750 Equity Shares of Rs.10/- each were issued as fully paid bonus shares by way of Capitalisation of Reserves.
- b. 12,000,000 Equity Shares allotted on 13th March, 2004 to shareholders of erstwhile Kalyani Ferrous Industries Limited, pursuant to a Scheme of Arrangement, constituting an amalgamation in the nature of a merger of Kalyani Ferrous Industries Limited with the Company as approved by High Court of Judicature at Bombay, vide its Order dated 15th January, 2004.

\*\* Amount received on Equity Shares forfeited on 25th February, 1997 on account of non-payment of allotment / call money.

### SCHEDULE '2' : RESERVES AND SURPLUS :

Capital Redemption Reserve			
As per last Account		100,002,200	100,002,200
Debenture Redemption Reserve			
As per last Account	31,700,000		35,050,000
@ Less : Transferred to Profit & Loss Account	<u>11,600,000</u>		<u>3,350,000</u>
		20,100,000	31,700,000
Reserve Fund in terms of Section 45IC of Reserve Bank of India Act, 1934			
As per last Account	2,814,721		2,328,709
Add : Set aside this year	<u>49,391</u>		<u>486,012</u>
		2,864,112	2,814,721
General Reserve			
As per last Account	1,698,701,798		1,833,566,013
Transitional and other Adjustments for share of accumulated Profit of Associates	—		(5,790,000)
	<u>1,698,701,798</u>		<u>1,827,776,013</u>
Add : Transfer from Profit and Loss account	140,000,000		50,000,000
Less : Provision for Impairment of Assets	—		179,074,215
		1,838,701,798	1,698,701,798
Surplus as per Annexed Account		<u>1,296,087,063</u>	<u>491,335,334</u>
	TOTAL	<u>3,257,755,173</u>	<u>2,324,554,053</u>

@ On part Redemption of Debentures during the year.

# Consolidated Financial Statements

**2005-2006**

	Rs.	Rs.	As at 31st March, 2005 Rs.
<b>SCHEDULE '3' : SECURED LOANS :</b>			
<b>DEBENTURES :</b>			
1,000,000	13% Secured Non-Convertible Redeemable Debentures (Eleventh Series) of Rs.100/- each (For Security Refer Note No.8(a)(i) in Schedule 20 of Financial Statements of Kalyani Steels Limited) As per last Account	26,800,000	40,200,000
	Less : Part amount redeemed during the year	<u>13,400,000</u>	<u>13,400,000</u>
			26,800,000
100	8.5% Secured Non-Convertible Redeemable Debentures (Sixteenth Series) of Rs.1,000,000/- each (For Security Refer Note No.8(a)(ii) in Schedule 20 of Financial Statements of Kalyani Steels Limited) As per last Account	100,000,000	100,000,000
	Less : Part amount redeemed during the year	<u>33,000,000</u>	<u>100,000,000</u>
			67,000,000
		<u>80,400,000</u>	<u>126,800,000</u>
<b>TERM LOANS :</b>			
<b>RUPEE LOANS :</b>			
	From Banks :		
	Canara Bank (For Security Refer Note No.8(b)(i) in Schedule 20 of Financial Statements of Kalyani Steels Limited)	130,194,025	170,494,025
	Bank of Baroda (For Security Refer Note No.8(b)(ii) in Schedule 20 of Financial Statements of Kalyani Steels Limited)	56,600,000	35,000,000
	Union Bank of India (For Security Refer Note No.8(b)(iii) in Schedule 20 of Financial Statements of Kalyani Steels Limited)	21,500,000	29,000,000
	The Jammu & Kashmir Bank Limited (For Security Refer Note No.8(b)(iv) in Schedule 20 of Financial Statements of Kalyani Steels Limited)	<u>133,335,293</u>	<u>166,664,002</u>
			341,629,318
			401,158,027
<b>FOREIGN CURRENCY TERM LOANS :</b>			
	From Banks :		
	Union Bank of India (For Security Refer Note No.8(c)(i) in Schedule 20 of Financial Statements of Kalyani Steels Limited)	7,347,427	14,456,910
	State Bank of India (For Security Refer Note No.8(c)(ii) in Schedule 20 of Financial Statements of Kalyani Steels Limited)	79,978,931	120,014,311
	Bank of India (For Security Refer Note No.8(c)(iii) in Schedule 20 of Financial Statements of Kalyani Steels Limited)	230,924,000	230,924,000
	Bank of Baroda (For Security Refer Note No.8(c)(iv) in Schedule 20 of Financial Statements of Kalyani Steels Limited)	<u>108,445,312</u>	<u>151,823,437</u>
	Interest accrued and due on secured loans	<u>417,650</u>	837,885
			427,113,320
			518,056,543
<b>OTHERS :</b>			
	From ICICI Bank Limited against hypothecation of Vehicles Share in Joint Venture	553,382	1,363,499
		<u>2,606,335</u>	<u>2,806,758</u>
			3,159,717
	From The United Western Bank Limited against hypothecation of 1,070,970 Equity Shares of Hikal Limited	—	4,170,257
	From Banks, against hypothecation of stores, raw materials, stocks in process, finished goods and book debts : Foreign Currency Demand Loan	—	199,984,024
			70,236,000
			<u>70,236,000</u>
	<b>TOTAL</b>	<u><b>852,302,355</b></u>	<u><b>1,320,404,851</b></u>
<b>SCHEDULE '4' : UNSECURED LOANS :</b>			
<b>Fixed Deposits :</b>			
	From Shareholders	619,000	619,000
	From Others	<u>19,143,000</u>	<u>37,805,000</u>
		19,762,000	38,424,000
	Add : Interest accrued and due on cumulative fixed deposits	<u>2,108,964</u>	<u>3,685,109</u>
			21,870,964
	From Banks :		
	Rupee Term Loan	70,000,000	30,000,000
	Loan from companies	6,616,747	27,597,248
	Sales Tax Deferral Liability, as special incentives and concessions under the Karnataka Sales Tax Act, 1957	<u>14,098,355</u>	<u>13,871,951</u>
			112,586,066
	<b>TOTAL</b>	<u><b>112,586,066</b></u>	<u><b>113,578,308</b></u>



KALYANI

# Consolidated Financial Statements

## 2005-2006

### SCHEDULE '5' : FIXED ASSETS :

	Leasehold Land	Buildings	Plant & Machinery	Power Line (c)	Electrical Installation	Furniture / Office Equipments	Vehicles & Aircrafts (d)	As on 31st March, 2006 Total Rs.	As on 31st March, 2005 Total Rs.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
<b>Gross Block At Cost :</b>									
As at 31st March, 2005	35,646,689	218,171,155	2,178,690,655	28,100,000	318,192,553	19,354,758	26,752,673	<b>2,824,908,483</b>	2,511,272,627
Additions / Adjustments		23,390,785	37,761,073		2,893,283	5,220,442	11,303,967	<b>80,569,550</b>	313,147,670
Share in Joint Venture						2,899,932	1,790,988	<b>4,690,920</b>	5,376,379
Deductions & Adjustments			(e) 327,884		(e) 52,245		3,185,428	<b>3,565,557</b>	4,888,193
<b>As at 31st March, 2006</b>	<b>35,646,689</b>	<b>241,561,940</b>	<b>2,216,123,844</b>	<b>28,100,000</b>	<b>321,033,591</b>	<b>27,475,132</b>	<b>36,662,200</b>	<b>2,906,603,396</b>	<b>2,824,908,483</b>
<b>Depreciation :</b>									
Upto 31st March, 2005	12,449,338	36,405,590	642,792,592	19,201,667	94,540,428	9,558,776	4,232,751	<b>819,181,142</b>	624,507,924
Deductions & Adjustments							1,228,183	<b>1,228,183</b>	860,056
For the year (a)	1,568,256	7,664,160	145,245,740	2,810,000	18,879,706	2,330,552	3,110,223	<b>181,608,637</b>	194,931,431
Share in Joint Venture						465,862	577,351	<b>1,043,213</b>	601,843
<b>Upto 31st March, 2006</b>	<b>14,017,594</b>	<b>44,069,750</b>	<b>788,038,332</b>	<b>22,011,667</b>	<b>113,420,134</b>	<b>12,355,190</b>	<b>6,692,142</b>	<b>1,000,604,809</b>	<b>819,181,142</b>
<b>Net Block :</b>									
<b>As at 31st March, 2006</b>	<b>21,629,095</b>	<b>197,492,190</b>	<b>1,428,085,512</b>	<b>6,088,333</b>	<b>207,613,457</b>	<b>15,119,942</b>	<b>29,970,058</b>	<b>1,905,998,587</b>	<b>2,005,727,341</b>
As at 31st March, 2005	23,197,351	181,765,565	1,535,898,063	8,898,333	223,652,125	9,795,982	22,519,922	<b>2,005,727,341</b>	

- a) Refer Statement of Significant Accounting Policies - 2 in Schedule 20 of Financial Statement of Kalyani Steels Limited.  
b) Represents amortisation of Premium paid on Leasehold Land over the lease period.  
c) Cost incurred by the Company. Ownership vests with Karnataka Electricity Board amortised over 10 years.  
d) Includes Aircraft value of Rs.6,440,000 - jointly owned with other companies.  
e) Represents Net Trial Run Income of Power Project, Refer Note No.10 in Schedule 20 of Financial Statement of Kalyani Steels Limited.

	Rs.	Rs.	As at 31st March, 2005 Rs.
<b>SCHEDULE '6' : INVESTMENTS, AT COST :</b>			
In Government Securities		50,000	85,000
In Equity Shares :			
Associate :			
Long term (At cost)	553,281,221		441,252,118
Others	<u>1,703,177,872</u>		<u>1,043,033,919</u>
In Preference Shares		2,256,459,093	1,484,286,037
In Debentures		11,500,000	40,955,486
In Mutual Funds		31,305,000	178,920,200
		<u>174,612,522</u>	<u>—</u>
Share Application Money		<u>2,473,926,615</u>	<u>1,704,246,723</u>
		—	42,100,000
<b>TOTAL</b>		<b><u>2,473,926,615</u></b>	<b><u>1,746,346,723</u></b>
<b>SCHEDULE '7' : INVENTORIES :</b>			
Stocks, spares etc., at cost		77,969,779	64,359,984
Stocks - in - Trade :			
Raw materials, at cost	593,856,373		273,176,166
Finished goods, at cost or market value whichever is lower	281,321,545		156,721,809
Scrap at estimated realisable value	<u>46,537,031</u>		<u>7,660,406</u>
	<u>921,714,949</u>		<u>437,558,381</u>
Goods in transit, at cost to date		—	85,398,847
		<u>921,714,949</u>	<u>522,957,228</u>
<b>TOTAL</b>		<b><u>999,684,728</u></b>	<b><u>587,317,212</u></b>
<b>SCHEDULE '8' : SUNDRY DEBTORS, UNSECURED, GOOD :</b>			
(a) On Operations :			
i) Outstanding over six months	23,846,698		55,277,322
ii) Others, Good	<u>1,021,743,359</u>		<u>1,108,707,823</u>
		1,045,590,057	1,163,985,145
iii) Share in Sundry Debtors, Others, Good of Joint Venture		24,995,398	22,719,899
(b) On Sale of Assets		58,250,116	164,587,630
<b>TOTAL</b>		<b><u>1,128,835,571</u></b>	<b><u>1,351,292,674</u></b>

# Consolidated Financial Statements

**2005-2006**

	Rs.	Rs.	Rs.	As at 31st March, 2005 Rs.
<b>SCHEDULE '9' : CASH AND BANK BALANCES :</b>				
Cash on hand		106,655		158,100
Share in Cash of Joint Venture		<u>58,441</u>		<u>21,065</u>
			165,096	179,165
Cheques on hand			47,999,828	
Bank balances :				
With Scheduled Banks :				
In Current & Cash Credit Accounts		34,193,844		77,347,592
Share in Current & Cash Credit Accounts of Joint Venture		568,303		88,128
In Fixed Deposits				
(Receipts of the value of Rs.615,500/- pledged in favour of Government Authorities)		<u>3,615,500</u>		<u>4,615,500</u>
			<u>38,377,647</u>	<u>82,051,220</u>
TOTAL			<u>86,542,571</u>	<u>82,230,385</u>
<b>SCHEDULE '10' : OTHER CURRENT ASSETS :</b>				
Income Receivable			4,850,331	18,879,431
Export Incentives receivable			<u>128,734</u>	<u>271,860</u>
TOTAL			<u>4,979,065</u>	<u>19,151,291</u>
<b>SCHEDULE '11' : LOANS AND ADVANCES, UNSECURED, GOOD (UNLESS OTHERWISE STATED) :</b>				
Loans to other companies (formerly subsidiaries under Section 4(1)(c) of the Companies Act, 1956)			3,624,220	3,624,220
Dues from companies, promoted by this Company			—	511,966
@ Inter Corporate Loans			21,335,000	39,335,000
* Advances recoverable in cash or in kind or for value to be received (Amounts recoverable from the companies promoted by this Company)				
Good		105,482,653		74,557,065
Share in advances of Joint Venture		722,944		781,361
Doubtful Advances	2,035,343			8,504,525
Less : Provision	<u>2,035,343</u>			<u>8,504,525</u>
			<u>106,205,597</u>	<u>75,338,426</u>
Advances for capital goods for Projects under Implementation			15,855,466	36,379,928
Advance Recoverable under an Arrangement			13,423,117	
Sundry Deposits			194,054,869	80,844,999
Share in Sundry Deposits of Joint Venture			372,192	409,435
Balance with Excise Department			70,127,426	18,432,503
Tax paid in advance			<u>193,950,742</u>	<u>89,255,197</u>
TOTAL			<u>618,948,629</u>	<u>344,131,674</u>
* Includes interest free loans amounting to Rs.9,180,000/- (Previous Year Rs.9,180,000/-) to Seven Trusts connected with the welfare of employees and Rs.Nil (Previous Year - Rs.300,000/-) to Employees Provident Fund Trust.				
* Includes amount due from the Officer of the Company Rs.190,862/- (Previous Year Rs.Nil) Maximum balance outstanding during the year Rs.201,986/- (Previous Year Rs.Nil)				
@ Includes interest free loans aggregating Rs.21,035,000/- (Previous Year Rs.21,035,000/-) given to Six Private Limited companies formed with the same purpose and obligation as the Six Employees Welfare Trusts under a scheme in terms of clause (b) of the proviso to Section 77(2) of the Companies Act, 1956, which in the opinion of an eminent counsel falls within the purview of the said proviso to the above mentioned Section.				
<b>SCHEDULE '12' : LIABILITIES :</b>				
Acceptances			105,872,796	256,097,228
Deposits			54,177,433	1,342,840
Sundry Creditors				
Due to Small Scale Industrial Undertakings (Refer Note No.12 in Schedule 20 of Financial Statements of Kalyani Steels Limited)		7,134,617		13,127,831
Others		1,470,676,537		1,137,745,086
Share in Others of Joint Venture		<u>36,701,826</u>		<u>27,863,024</u>
			1,514,512,980	1,178,735,941
Advance against Order			—	29,007,415
Part amount received under an arrangement against sale of project promoted by the Company			52,717,415	52,717,415
Trade Advance			113,896,645	125,004,168
Amounts received from a Company under a Strategic alliance			19,449,788	19,449,788
Investor Education & Protection Fund, since paid			186,593	269,019
Unclaimed Dividends			832,048	525,955
Interest accrued but not due on loans			<u>25,797,106</u>	<u>12,479,326</u>
TOTAL			<u>1,887,442,804</u>	<u>1,675,629,095</u>



# Consolidated Financial Statements

## 2005-2006

	Rs.	Rs.	As at 31st March, 2005 Rs.
<b>SCHEDULE '13' : PROVISIONS :</b>			
Provision for Octroi Duty, earlier disputed		—	8,099,308
Provision for Taxation		180,200,400	69,873,000
Share in Provision for Taxation of Joint Venture		22,496	31,015
Proposed Dividend		126,159,180	63,079,590
Tax on Proposed Dividend		17,693,830	8,846,920
TOTAL		<u>324,075,906</u>	<u>149,929,833</u>
<b>SCHEDULE '14' : MISCELLANEOUS EXPENDITURE TO THE EXTENT NOT WRITTEN OFF OR ADJUSTED :</b>			
a) Miscellaneous Expenditure			
As per last Account	1,227,600		1,949,532
Less : Written off during the year	<u>306,900</u>		<u>721,932</u>
TOTAL		<u>920,700</u>	<u>1,227,600</u>
		<u>920,700</u>	<u>1,227,600</u>
<b>SCHEDULE '15' : SALES, OPERATING AND OTHER INCOME :</b>			
a) Sales, Gross :			
Sales (See Note No.9)	5,916,176,639		8,634,793,409
Less : Returns	—		272,883
	<u>5,916,176,639</u>		<u>8,634,520,526</u>
Miscellaneous Sales	326,081,083		179,828,722
Jobwork Receipts	1,304,224,868		415,839,266
	<u>7,546,482,590</u>		<u>9,230,188,514</u>
Share in Reimbursement of Expenses of Joint Venture	150,390,490		100,556,081
		7,696,873,080	9,330,744,595
b) Operating Income :			
i) Related to Manufacturing Activity :			
Export Incentives received	418,508		548,305
Income from Mining Activity	5,175,802		1,297,288
	<u>5,594,310</u>		<u>1,845,593</u>
ii) Related to Finance and Investment Activity (Net)			
Income earned during the year from :			
Dividend , other than Trade, Gross	74,285,250		62,622,051
Profit on Sale of Investments, net	49,983,694		16,770,849
	<u>124,268,944</u>		<u>79,392,900</u>
		129,863,254	81,238,493
c) Other Income :			
Interest other than from Finance and Investment Activity :	9,497,230		13,791,063
Less : Adjusted against Interest and Commitment Charges in Schedule 19	<u>9,497,230</u>		<u>13,791,063</u>
Miscellaneous receipts	10,152,079		5,531,075
Bad Debts/ Sundry Debit balances previously written off, now recovered	1,800,000		1,636,803
Provision for Doubtful Advances Written back	6,469,182		328,755
Provision no longer required	9,099,468		1,150,234
Profit on Sale of Assets	84,791		
Sundry Credit balances appropriated	<u>1,563,805</u>		<u>1,498,925</u>
		29,169,325	10,145,792
TOTAL		<u>7,855,905,659</u>	<u>9,422,128,880</u>

# Consolidated Financial Statements

## 2005-2006

	Rs.	Rs.	Previous Year Rs.
<b>SCHEDULE '16' : MATERIALS CONSUMED AND MANUFACTURING EXPENSES :</b>			
a) Raw materials consumed :			
Stocks at commencement	273,176,166		170,044,260
Add : Purchases	2,812,360,543		5,328,044,017
Add / Less : Foreign Exchange Fluctuation	<u>6,450,470</u>		<u>27,508,297</u>
	3,091,987,179		5,525,596,574
Less : Sale of Raw Material	142,425,247		133,785,875
Less : Stocks at close	<u>593,856,373</u>		<u>273,176,166</u>
		2,355,705,559	5,118,634,533
b) Manufacturing expenses :			
Stores and spares consumed	211,398,198		119,754,543
Job work and Manufacturing Charges	668,784,474		683,961,890
Power and Fuel	443,348,783		318,873,700
Building and Road repairs	11,542,010		6,661,317
Machinery repairs	<u>30,466,040</u>		<u>17,620,063</u>
		1,365,539,505	1,146,871,513
c) Goods Purchased for Trade		201,106,945	40,866,776
d) Excise Duty			
On Closing Stock	51,642,579		27,947,580
Less : On opening Stock	<u>27,947,580</u>		<u>9,141,746</u>
		23,694,999	18,805,834
e) (Increase)/ decrease in Stocks :			
Stocks at close :			
Finished goods	281,321,545		156,721,809
Scrap	<u>46,537,031</u>		<u>7,660,406</u>
	327,858,576		164,382,215
Less : Stocks at commencement :			
Finished goods	156,721,809		131,908,845
Scrap	<u>7,660,406</u>		<u>12,200,577</u>
	164,382,215		144,109,422
		<u>(163,476,361)</u>	<u>(20,272,793)</u>
TOTAL		<u>3,782,570,647</u>	<u>6,304,905,863</u>
<b>SCHEDULE '17' : EMPLOYEES' EMOLUMENTS :</b>			
(Including Executive and Wholtime Directors Remuneration of Kalyani Steels Limited)			
Salaries, Wages, Gratuity, Bonus etc.		155,349,105	99,434,166
Share in Salary and Wages of Joint Venture		54,166,562	43,233,355
Contribution to Provident and other Funds etc.		7,662,479	6,193,736
Share in Contribution to Provident Fund of Joint Venture		4,945,023	3,982,022
Welfare Expenses		7,858,780	5,145,723
Share in Welfare Expenses of Joint Venture		<u>6,081,240</u>	<u>4,281,499</u>
		236,063,189	162,270,501
TOTAL		<u>236,063,189</u>	<u>162,270,501</u>
<b>SCHEDULE '18' : OTHER EXPENSES :</b>			
Rent		1,577,010	1,035,010
Share in Rent of Joint Venture		82,733	67,245
Rates and Taxes		127,486	57,254
Lease Rent		—	3,813,603
Share in Lease Rent of Joint Venture		—	274,078
Insurance (including Key Man Insurance)		9,095,183	5,625,003
Share in Insurance of Joint Venture		469,957	386,432
Legal and Professional charges		18,397,918	8,252,842
Share in Legal and Professional charges of Joint Venture		1,141,068	1,447,690
Miscellaneous Expenses		81,282,295	54,225,772
Share in Miscellaneous Expenses of Joint Venture		82,736,682	46,158,284
Donation :			
Prime Minister's National Relief Fund		—	2,000,000
Others	<u>800,000</u>		<u>120,690</u>
		800,000	2,120,690
Share in Donation of Joint Venture		18,746	146,428
Freight Outward		182,669,448	162,113,595
Brokerage and Discount		33,529,020	15,286,310
Commission on Sales		16,793,137	24,087,250
Audit Fees and Expenses		1,975,031	1,894,443
Share in Audit Fees and Expenses of Joint Venture		69,736	42,967
Directors fees and Travelling Expenses		1,110,004	1,230,517
Executive Director s Commission		6,500,000	4,000,000
Commission to Directors other than Executive Director and Wholtime Directors		1,500,000	1,000,000
Loss on Foreign Exchange Fluctuation		3,237,868	21,265,084
Loss on Assets sold or scrapped		1,021,399	187,966
Bad debts, Advances and sundry debit balances written off		48,980,315	7,736,053
Facility charges under Strategic Alliance		69,736,517	71,364,864
Facility charges for plant taken on lease		59,270,051	
Provision for Diminution in the value of Investments		—	2,217,250
Miscellaneous Expenditure written off		<u>306,900</u>	<u>721,932</u>
		622,428,504	436,758,562
TOTAL		<u>622,428,504</u>	<u>436,758,562</u>



KALYANI

# Consolidated Financial Statements

## 2005-2006

	Rs.	Rs.	Previous Year Rs.
<b>SCHEDULE '19' : INTEREST :</b>			
Interest and Commitment Charges :			
On Debentures	11,673,808		13,721,227
On Fixed Loans	82,933,447		93,953,516
Others	34,660,798		30,891,139
Share in Interest others of Joint Venture	193,136		102,191
	<u>129,461,189</u>		<u>138,668,073</u>
Less : Interest adjusted as per contra	9,497,230		13,791,063
		<u>119,963,959</u>	<u>124,877,010</u>
TOTAL		<u>119,963,959</u>	<u>124,877,010</u>
<b>SCHEDULE '20' : DEPRECIATION AND WRITE OFFS ETC :</b>			
Depreciation		177,230,381	190,553,175
Share in Depreciation of Joint Venture		1,043,213	601,843
Leasehold land amortised		1,568,256	1,568,256
Power HT line amortised		2,810,000	2,810,000
		<u>182,651,850</u>	<u>195,533,274</u>
TOTAL		<u>182,651,850</u>	<u>195,533,274</u>

### SCHEDULE '21' : Notes forming Part of the Consolidated Financial Statements of Kalyani Steels Limited, Subsidiaries, Associates and Joint Venture :

1. The Consolidated Financial Statements include results of all the subsidiaries of Kalyani Steels Limited, Associates and one Joint Venture. The names, country of incorporation or residence, proportion of ownership interest is as under :

a. Subsidiaries :

Name of the Company	Country of Incorporation	% Shareholding of Kalyani Steels Limited
Surajmukhi Investment and Finance Limited	India	100%
Chakrapani Investments and Trades Limited	India	100%
Gladiolla Investments Limited	India	100%

b. Associates :

Name of the Company	Country of Incorporation	% Shareholding of Kalyani Steels Limited
Hikal Limited	India	34.19%
Bharat NRE Coke Limited	India	40%

c. Joint Venture :

Name of the Company	Country of Incorporation	% Shareholding of Kalyani Steels Limited
Hospet Steels Limited	India	49.99%

However, since the Company's investments in a Joint Venture viz. Kalyani Mukand Limited (KML) has been committed for sale to a third party, subject to obtaining approvals for transfer of certain rights available with KML, the same has not been consolidated as a part of these Consolidated Financial Statements of Kalyani Steels Limited.

Kalyani Steels Limited, directly or through its subsidiaries holds more than 20% in Dandakaranya Investment & Trading Limited, Hastinapur Investment & Trading Limited, Dronacharya Investment & Trading Limited, Campanula Investment & Finance Limited and Cornflower Investment & Finance Limited, however Management is of the opinion that it does not have any significant influence on these companies and therefore the same are not considered for consolidation.

- Consolidated Financial Statements have been prepared substantially in the same format as adopted by the parent to the extent possible, as required by Accounting Standard AS-21 (Consolidated Financial Statements) issued by the Institute of Chartered Accountants of India.
- As required by Accounting Standard AS - 23 on Accounting for Investments in Consolidated Financial Statements issued by the Institute of Chartered Accountants of India, the carrying amount of investments in Associate at the beginning of the year has been restated by applying Equity Method of accounting from the date of acquisition of the Associate and corresponding adjustment has been made to the retained earnings at the beginning of the year.
- Notes to these Consolidated Financial Statements are intended to serve as a means of informative disclosure and a guide to better understanding of the consolidated position of the companies. Recognising this purpose, the Company has disclosed only such Notes from the individual Financial Statements, which -
  - are necessary for representing a true and fair view of the Consolidated Financial Statements and
  - the notes involving items, which are considered to be material.
- The significant accounting policies have been reviewed in respect of each of the consolidated entities for material differences. No material differences have been observed and thus no adjustments have been made.
- Disclosure of transactions with Related Parties, as required by Accounting Standard AS-18 Related Party Disclosures has been set out in a separate statement annexed to this Schedule. Related parties as defined under Clause 3 of the Accounting Standard have been identified on the basis of representations made by key managerial personnel and information available with the Company.

## Consolidated Financial Statements

### 2005-2006

7.	Contingent Liabilities not provided for in respect of :	<b>As at 31st March, 2006</b>	As at 31st March, 2005
		<b>Rs.</b>	<b>Rs.</b>
	a) Claims against the Company not acknowledged as debts	14,388,055	38,388,657
	b) Excise demands, matter under dispute	64,155,821	64,353,641
	c) Dividend on Cumulative Redeemable Preference Shares	—	160,619,016

8. The Company had applied to the Government of India, Ministry of Company Affairs for approval under Section 212 (8) of the Companies Act, 1956 for not attaching the accounts of all its subsidiaries under section 212(1) of the Companies Act, 1956.

The Government of India, Ministry of Company Affairs vide its letter dt. 27th February, 2006, had granted the said approval and directed the Company to disclose the following information in aggregate for each of the subsidiaries :

(Figures in Rupees)			
Sr. No.	Particulars	Surajmukhi Investment & Finance Limited	Chakrapani Investments & Trades Limited
			Gladiolla Investments Limited
1.	Capital	126,952,300	113,000,000
2.	Reserves	714,400	583,812
3.	Total Assets	550,739,599	548,509,275
4.	Total Liabilities	430,086,724	437,024,738
5.	Details of Investment (Except in case of investment subsidiaries)	573,711,953	570,018,096
6.	Turnover	25,306,357	22,115,475
7.	Profit before Taxation	70,407	20,792
8.	Provision for Taxation		400
9.	Profit after Taxation	70,407	20,792
10.	Proposed Dividend		147,390

9. (i) The supply and procurement of the products between the constituents of the composite manufacturing facility at Ginigera, under a strategic alliance arrangement are carried out on Conversion Basis for the full year as against Sales for the 10 months of the comparative period (i.e. April, 2004 to January, 2005). Hence, the revenues and components of cost of goods sold in respect of the year as a whole are not strictly comparable with those of comparative period. However, this has no effect on the profit for the year.
- (ii) Kalyani Steels Limited has during the year, taken on lease a manufacturing facility to enhance its production of Pig Iron. The said lease has been contracted for a period of 22 months commencing 1st June, 2005 upon terms and conditions specified in the agreements dated 21st April, 2005. The results of the said operation of this facility are incorporated in the Consolidated Financial Statements in the year ended 31st March, 2006.
- (iii) Previous year's figures have been regrouped wherever considered necessary.

For and on behalf of  
DALAL & SHAH  
Chartered Accountants

Anish Amin  
Partner

Mumbai  
Date : 26th June, 2006

On behalf of the Board of Directors

Mrs.D.R. Puranik  
Company  
Secretary

C.G. Patankar  
Executive  
Director

B.N. Kalyani  
Chairman

Pune  
Date : 26th June, 2006

**ANNEXURE REFERRED TO IN NOTE NO.6 OF NOTES FORMING PART OF CONSOLIDATED FINANCIAL STATEMENTS**

Disclosure of Transactions with Related Parties as required by Accounting Standard 18 :

Nature of Transaction	Associates & Joint Venture	Key Management Personnel	Relatives of Key Management Personnel
	Rs.	Rs.	Rs.
Conversion Charges Paid			
For the year 2005-06	58,674,640	—	—
For the year 2004-05	—	—	—
Sale of Goods			
For the year 2005-06	21,289,698	—	—
For the year 2004-05	—	—	—
Dividend Received			
For the year 2005-06	33,511,725	—	—
For the year 2004-05	30,933,900	—	—
Receiving of Services			
For the year 2005-06	188,233,478	14,545,893	—
For the year 2004-05	118,926,140	11,580,041	—
Finance Provided (Loans & Investment / Share Application Money)			
For the year 2005-06	—	—	—
For the year 2004-05	94,700,000	—	—
Finance Received (Loans, Investment & Deposit)			
For the year 2005-06	—	2,877,067	—
For the year 2004-05	—	—	—
Rent Paid			
For the year 2005-06	—	—	210,000
For the year 2004-05	—	—	180,645
Receivables as on			
31st March, 2006	183,210,549	—	—
31st March, 2005	118,111,966	—	—
Payables as on			
31st March, 2006	33,904,982	9,377,067	—
31st March, 2005	24,985,107	4,000,000	—

Note : Names of related parties and description of relationship

Description of Relationship	Names of Related Parties
Associates & Joint Venture	Hospet Steels Limited Kalyani Mukand Limited Hikal Limited Bharat NRE Coke Limited
Key Management Personnel	Mr.C.G. Patankar Mr.Suresh Pandey Mr.B.B. Hattarki
Relatives of Key Management Personnel	Mrs.Sunanda Hattarki

# **KALYANI STEELS LIMITED**

MUNDHWA, PUNE - 411 036  
MAHARASHTRA, INDIA.