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growing stronger

KEI Industries Limited ■ Annual report 2005-06

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About us

Business overview

KEI Industries, which was formerly known as Krishna Electrical Industries is an established player in the power cables segment and is the second largest power cable company in India. Manufacturing low-tension cables since its inception, the company has recently forayed into High Tension cables as well and today features as the preferred supplier to a number of customers.

Product range

The company's product portfolio includes low tension cables, control & instrumentation cables, specialty cables, rubber cables, flexible & house wires and high tension cables addressing the myriad demands of a cross section of sectors.

Manufacturing

KEI's three manufacturing units are located in New Delhi, Bhiwadi (Alwar) and at Silvassa. KEI's combined current manufacturing capacity is 32,000 km per annum. The current capacity stands at 13,000 km per annum for LT power cables, 8,000 km per annum for control cables, 5,000 km per annum for instrumentation cables, 3,000 km per annum for rubber cables and 3,000 km for HT power cables.

Quality measures

KEI's products are tested as per international standards by BRE (UK), LLOYDS REGISTER, BVQI, DNV, KVERNER POWERGAS, CPRI, SRIRAM TEST HOUSE, ERDA, IDEMI, EIL, PDIL and MECON ensuring high quality products.

Financial performance

In 2005-06, the company has achieved a stupendous performance by reporting the revenues of Rs. 3.4 bn and profit after tax of Rs. 260 mn compared to revenues of Rs. 2.30 bn & profit after tax of Rs. 83.89 mn. In the year under review, almost 90% of the revenues accrued from the domestic market and the balance from exports across various countries.

Listing

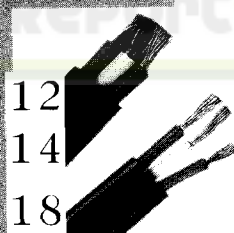
KEI is listed on NSE, BSE as well as the Delhi and Kolkata exchanges. The company has also issued Global Depository Receipts (GDR) and is thereby listed on the Luxembourg stock exchange as well.

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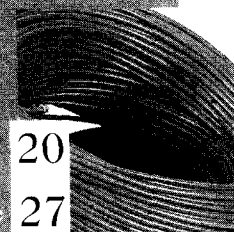
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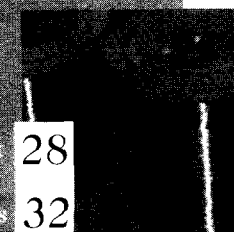
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BOARD OF DIRECTORS

Mr. Anil Gupta

Chairman-cum-Managing Director

Mr. Sunil Gupta

Director

Mrs. Archana Gupta

Director

Mr. Pawan Bholusaria

Director

Mr. K.G Somani

Director

Mr. Vijay Bhushan

Director

Mr. Vikram Bhartia

Director

Mr. Rajeev Gupta

Executive Director (Finance)

COMPANY SECRETARY & COMPLIANCE OFFICER

Mr. Kishore Kunal

AUDITORS

M/s. Jagdish Chand & Co.

Chartered Accountants

New Delhi

BANKERS

DENA BANK

PUNJAB NATIONAL BANK

ING VYSYA BANK LTD.

STATE BANK OF HYDERABAD

YES BANK LTD.

ICICI BANK LTD.

BANK OF INDIA

SHARE TRANSFER AGENT

MAS SERVICES PVT. LTD.

AB-4, Safdarjung Enclave

New Delhi - 110 029.

Tel.: 26104142, Fax: 26181081

REGISTERED OFFICE

D-90 Okhla Industrial Area,

Phase-I, New Delhi - 110 020.

WORKS OFFICE

• D-90 Okhla Industrial Area, Phase-I,
New Delhi - 110 020.

• SP-919-920 RIICO Industrial Area, Phase-III,
Bhiwadi Dist., Alwar (Raj.) - 301019.

• 99/2/7 Madhuban Industrial Estate,
Village Rakholi, Silvassa (D&H) - 396240.

KEI MANAGEMENT PERSONNEL

Mr. Pawan Aggarwal

Vice President

Mr. Manoj Kakkar

Vice President (Mktg)

Mr. S.K. Mohanty

Senior General Manager (Mktg)

Mr. M.Kanak Rajan

General Manager (Mktg-South-Cable)

Mr. K.C. Sharma

Senior General Manager (Works-Cable)

Mr. P.K. Ghose

General Manager (Works)

Mr. Alok Maity

General Manager (Works)

Mr. Alok Shah

Deputy General Manager (Mktg-East-Cable)

Mr. Ravi Kumar

Deputy General Manager (Mktg)

Mr. Ajit Dinesh Durve

Deputy General Manager (Mktg)

Mr. Ajay Mehra

Deputy General Manager (Works)

If there is one phrase that succinctly and accurately characterises the year 2005-06, it is "growing stronger".

India continues to be an ongoing success story, eclipsing the growth of almost all other countries around the world. To grow stronger, India needs world-class infrastructure facilities of which power is a critical element.

By 2012, India will need 240000 MW almost twice its current capacity. Government has accorded top priority to augment India's power generation capacity, transmission and distribution and has chalked out aggressive plans for it. Setting the stage for strong demand for power cables. In economic terms, 1 MW of power entails an investment of Rs. 30-40 mn of which cables form 2-3 per cent.

Exponential industrial expansion and power cogeneration also generates demand for power cables, be it high tension, medium tension or low-tension cables, and accounting for an estimated 2 - 2.5 per cent of the total capex. 1 per cent of the investment as the share of cables translates in a demand valued at Rs. 87.5 .

Economic prosperity has also augured well for Indian realty, an industry growing at 30 per cent and expected to touch USD 45-50 bn in just five years. In turn, it is expected to generate demand of Rs. 2.3 bn in power cabling.

Total demand for cables across the economy is estimated at Rs. 396.9 bn.

Against this backdrop, KEI has grown stronger by

1 rapidly converting opportunities into business, focusing on markets and geographies that offer the greatest potential for growth, targeting industry leaders who are expanding their capacities with the growing economy, reaching out to the smallest requirement of the retail customers across the country,

2 maximising operational efficiencies, undertaking capacity expansions, entering high value segments, embarking on developing new products and niche customised offerings and by constantly monitoring and managing raw material and interest costs.

We are proud to state in our annual report 2005-06, that the multiple strategies deployed by us has helped KEI Industries not only witness a growth of 50 per cent on a Y-O-Y basis but enabled our profitability to grow three-fold.

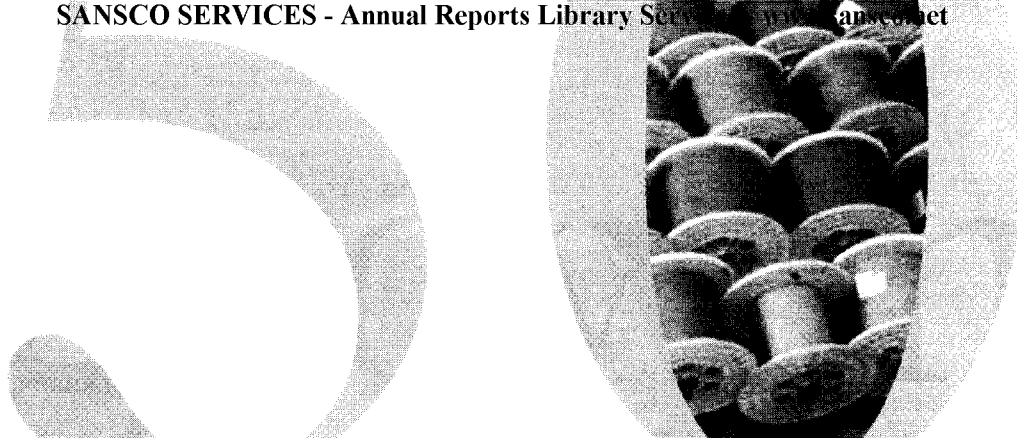
With the vision and strategy in place, KEI is likely to move up one notch and emerge as the largest cable company in India and evolve even stronger with a solid foundation, sturdy balance sheet and a promising future for all our stakeholders.



Capacity expansion, entry into the high volume, high value HT segment and restructuring of our product portfolio has been the cornerstone of our long-term growth and we have made significant strides in this area.

Report Function

1KV



Dear Shareholders,

The year 2005-06 has been one of the most exciting times in the corporate history of KEI, as we fortified our position as one of the leading and most versatile one-stop power cable manufacturing company in the country. While the industry grew by 10 per cent over the previous fiscal, I am proud to state that your company emerged a frontrunner and grew faster than the industry by clocking a 50 per cent growth over the FY05 revenues with the profits increasing by more than three fold.

Your company's strong financial results are a clear testament to the company's inherent business strengths, the successful expansion and restructuring of our product portfolio, opportune foray into high tension (IIT) power cable plant which completes the breadth of our product offerings, acquiring new orders from renowned customers who are today shaping the economic development of our country, catering to the growing retail demand, strengthening our foothold in the Gulf and never losing focus on improving profitability through a continuous monitoring of raw material and interest costs, improving utilisation levels and

maximising operational efficiencies.

Business highlights

ROBUST EXPANSIONS AND EXTENSIONS

One of our biggest achievements was the successful re-engineering and conversion of the idle JFTC manufacturing capacities at the Silvassa plant to now manufacture power cables. This exercise was necessary due to the transition in the telecom sector where optical fibres were preferred to JFTC and the increased domestic demand for power cables. I am happy to report that our new re-engineered plant generated revenues of over Rs. 1,000 mn for KEI, in turn making our revenues stronger.

We have also completed the setting up of our IIT power plant at Bhiwadi in a record time of 8 months. KEI can now manufacture high-value HT cables upto 33KV, which enable us to garner higher value contract, offer more products to our existing clients who in addition to LT cables also need a high amount of HT cables, allows us to expand our global footprints and also sets the foundation to execute high-value EPC contracts. With the additional HT

capacity and our existing capacities to manufacture LT, instrumentation, control cables, rubber cables and house wires and additionally execute customised orders, we have now become a one-stop company offering all varieties of power cables.

MAPPING SPECIALISED NEEDS

Over the years, our focused endeavour to manufacture specialised, high-end, complex, niche and customised products to the exacting needs of our valued customers has yielded fruitful results. In FY 05-06, KEI developed specialised cables worth Rs. 25 mn to extract trapped gas in Abu Dhabi for Gas Injection project. This prestigious order carried out through L&T is the first of its kind to have been imported from India. By executing this project, we have not only expanded our product bandwidth but also demonstrated our customisation and complex manufacturing capabilities. We are confident that this order will put us in the status of a preferred vendor for specialty cables to many large customers in league with the engineering giant L&T.

KEI has developed the technical

prowess to manufacture specialised and niche cables for wind energy sector.

With the Indian government according top priority to generate power from renewable sources of energy such as wind power, we foresee a huge demand for cables accruing from this sector in the future. The company has already demonstrated its competence in this area explicit from the fact that it acquired and executed a prestigious order valued at Rs. 280 mn for Suzlon Energy Ltd., Asia's strongest growing fully integrated wind power company which is also ranked amongst the top ten in the world. KEI also executed an order worth Rs. 60 mn of specialised wind power cables project for Enerecon, the market leader in Germany.

Thus, the successful execution of these two projects in the rapidly growing engineering and wind power sector credibly display KEI's ability to serve the market leaders, who themselves have strong order books and very high value projects, will also result in increased demand for specialisation cables. To further leverage on such opportunities, KEI is building additional capacities for cables required in wind power projects at its Bhiwadi plant which is likely to be operational by July 06 and would generate revenues

to the tune of Rs. 800-900 mn.

RETAIL FOCUS

In addition to executing institutional orders, your company augmented its focus on retail sales where margins are higher than the institutional segment and help address smaller sized and regular orders. KEI is continuously strengthening its distribution network and investing in building a credible brand which coupled with the capacity expansion in Silvassa for house wires, will further boost revenues from this segment in the future.

STRENGTHENING MARGINS

During the last year, one the biggest challenges faced by the power cable sector was the spiralling prices of copper, a key raw material. To safeguard our profitability, we were able to address this by putting in place a team to monitor the movement of copper prices on a day-to-day basis and through the use of forward contracts for hedging purposes. To further control our cost of production, we are implementing backward integration by setting up plants to produce PVC/XLPE compounds and aluminium properzi, which is expected to be operational by September 2006 and will

enable us to reduce our costs by Rs. 40 - 50 mn on an annual basis.

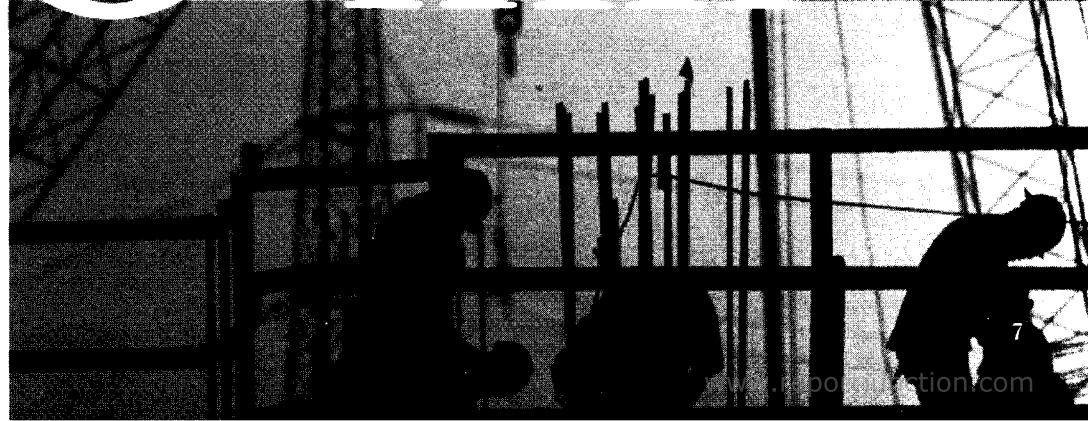
SERVICING BLUE CHIP CLIENTS

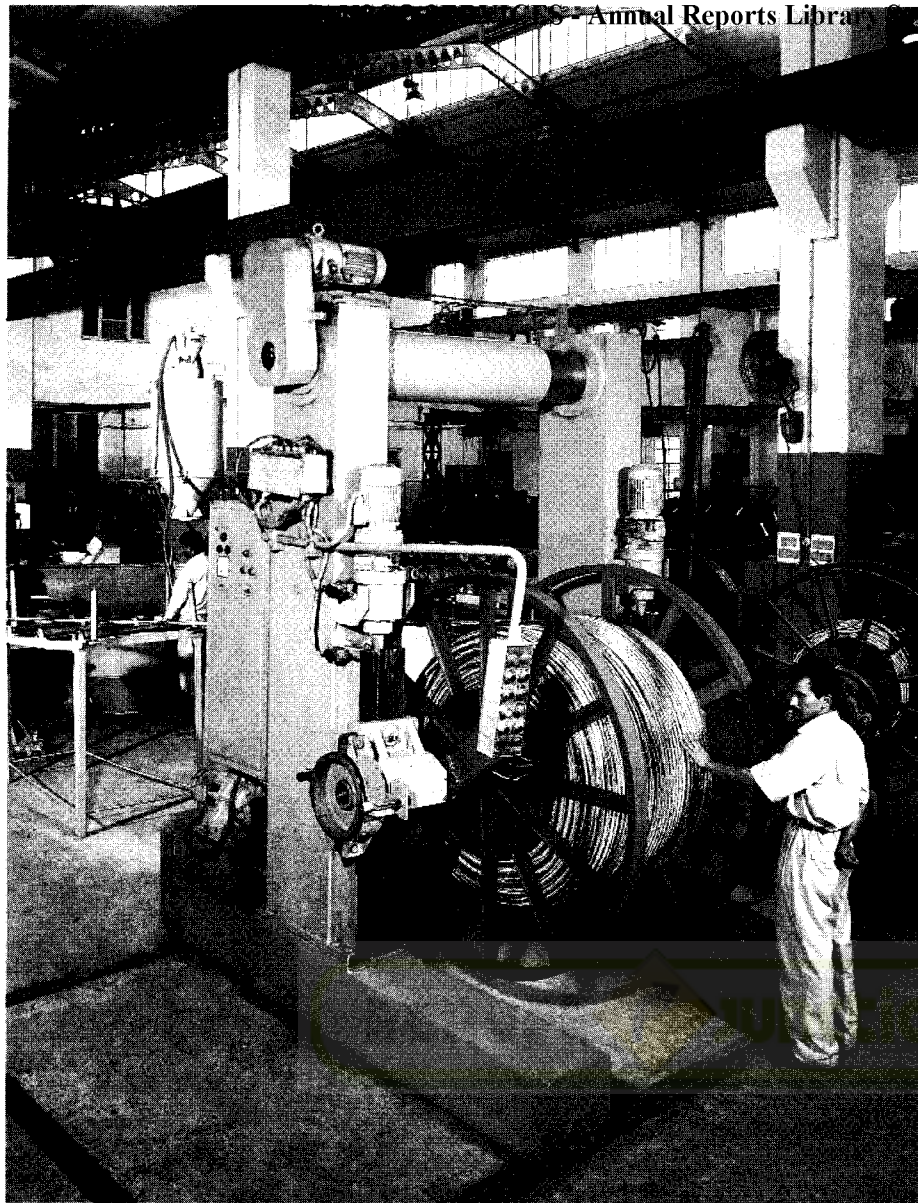
Our success for the year can be attributed to the concerted efforts of our marketing team, superior quality standards, product approvals from reputed international EPC players, top-of-the-line power generation and distribution companies and other renowned manufacturing companies, timely delivery schedules and the unmatched service to our customers. This has resulted in bagging an enviable list of clients such as Suzlon, L&T, BHEL, NTPC, Essar and Jindal Power. These clients between them contributed 25 per cent to the company's revenues. The company has also been able to maintain its existing clients and receive high

KEI is continuously strengthening its distribution network and investing in building a credible brand which coupled with the capacity expansion in Silvassa for house wires, will further boost revenues from retail segment in the future.



from wind power projects





revenues