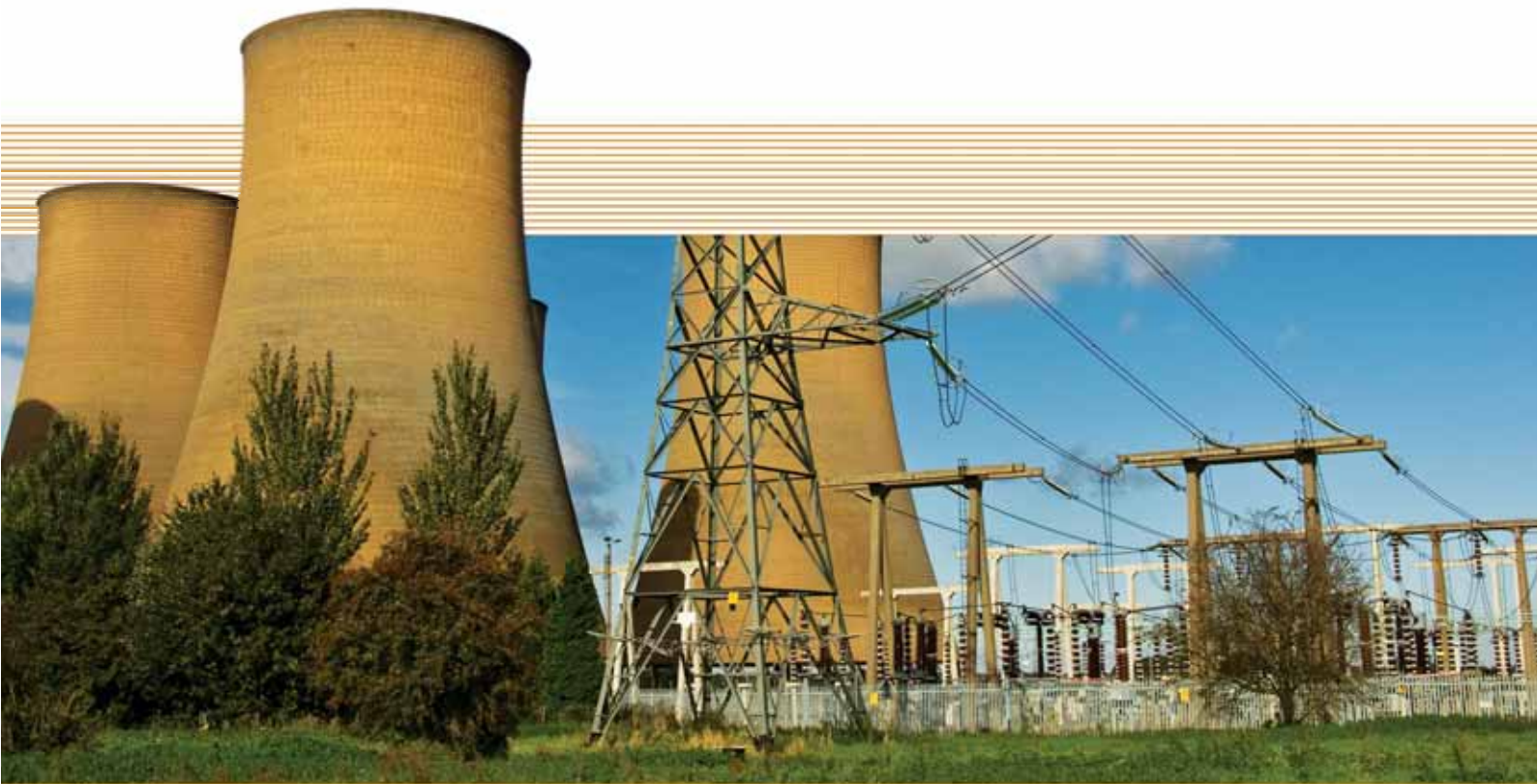




KEI Industries Limited

Annual Report 2009-10



Primed for performance





Contents

Corporate information 1 | KEI at a glance 4 | Chairman's letter 6 |
Seven year financial performance 9 | Management discussion and analysis 10 |
Director's report 24 | Report on corporate governance 29 | Auditor's report 39 |
Financials 43 |

Corporate information

BOARD OF DIRECTORS

Mr. Anil Gupta, *Chairman-cum-Managing 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.

Standard Chartered Bank

ICICI Bank Ltd.

Bank of India

HSBC Bank Ltd.

HDFC Bank Ltd.

RBS (earlier ABN Amro Bank)

State Bank of Patiala

SHARE TRANSFER AGENT

MAS Services Ltd.

T-34, 2nd Floor, Okhla Industrial Area, Phase - II,
New Delhi - 110 020

Ph: +91-11-26387281/82/83

Fax: +91-11-26387384

email: info@masserv.com

website: www.masserv.com

CORPORATE & REGISTERED OFFICE

D-90 Okhla Industrial Area

Phase-I, New Delhi - 110 020

Ph: +91-11-26818840/8642

Fax: +91-11-26811959/7225

email: keiind@vsnl.com

website: www.kei-ind.com

KEY MANAGEMENT PERSONNEL

Mr. Rakesh Markhedkar, *Chief Executive Officer (EPC Division)*

Mr. S.L. Kakkar, *President*

Mr. Manoj Kakkar, *Sr. Vice President (Marketing)*

Mr. P.K. Aggarwal, *Vice President*

Mr. K.C. Sharma, *Vice President (Operation)*

Mr. Arvind Shrowty, *Corporate Advisor*

Mr. A.K. Maity, *Sr. GM (Works)*

Mr. Munishvar Gaur, *GM (Head-Marketing, North)*

Mr. N.K. Bajaj, *GM (Wires & Flexibles)*

Mr. Alok Saha, *GM (Marketing)*

Mr. M.V. Gananath, *GM (Marketing)*

Mr. Keshav K. Mitra, *GM (Marketing)*

Mr. Deepak Manchanda, *GM (Business Development)*

Mr. Ajit Dinesh Durve, *GM (International Business)*

Mr. Naval Singh Yadav, *GM (Quality Control)*

Mr. Dilip Barnwal, *GM (Works - Silvassa)*

Mr. Dayanand Sharma, *GM (Works - Chopanki)*

Mr. Ajay Mehra, *GM (Works - SS Wires)*

WORKS OFFICE

- SP-919-920, 922 RIICO Industrial Area, Phase-III, Bhiwadi, Dist. Alwar (Rajasthan) - 301 019
- 99/2/7 Madhuban Industrial Estate, Village Rakholi, Silvassa (D&H) - 396 240
- Plot No. A-280-284, RIICO Industrial Area, Chopanki, Dist. Alwar (Rajasthan) - 301 019

Performance that spans every facet of our business.
Performance that is rooted in a legacy of perfection.
Performance that comes from a differentiated business model.
Performance that extends beyond boundaries.



That is the kind of performance that we have always believed in and which we are constantly striving to deliver.



Which is why:

When the going was difficult across the industry, we decided to get tough on carving a sustainable and competitive niche.

When the industry called for cost efficiency strategies, we embarked on differentiator-creating initiatives.

When the sector employed a conservative and cautious approach, we undertook one of the most aggressive brand building and awareness creation campaigns in the cables industry.

When the segment boasted of multi-product players, we went a step ahead to emerge as a multi-product, multi-location and services company.

When the business required de-risking and diversification, we redefined our portfolio and presence with one of the widest coverage of sectors, customers, markets and geographies.

Just some of the things that characterised the year 2009-10 for KEI.

A year of strengthening our edge, underpinning our skill sets, widening our portfolio and enhancing our brand recall. So that as the demand scenario turns positive, KEI, armed with its proactive strategies and differentiated positioning, is ready for the quantum leap and primed to deliver record performance.

About us

KEI INDUSTRIES LIMITED IS INDIA'S LEADING POWER CABLES & WIRES MANUFACTURER



Our business

Servicing the entire spectrum of cabling requirements, KEI manufactures and markets Low Tension, High Tension and Extra High Voltage cables, along with control & instrumentation cables, specialty cables, rubber cables, flexible and house wires, submersible cables, PVC/poly wrapped winding wires and stainless steel wires.

Our edge

At the forefront of India's cable industry with niche technological prowess and experience, KEI is amongst the few cable

manufacturing companies that have the wherewithal and expertise to manufacture specialty cables, including braided cables, fire survival and zero halogen cables.

KEI's expertise has been acknowledged and endorsed by a prestigious clientele spanning industry stalwarts across diverse sectors, namely power utilities, cement, steel, industrial, railways and refineries, amongst others.

Always looking forward and keenly establishing strategic competitive barriers, KEI has recently signed a crucial Know-how & Trademark License Agreement, which makes it one of the very few cable manufacturing companies in India with the technological know-how and manufacturing capability to produce EHV cables.

Our value spectrum

By virtue of understanding the cabling requirements of various sectors and with the aim of providing an integrated, one-point solution, KEI has developed a dedicated and specialised EPC division, spreadheaded by senior and experienced personnel from the field. This combination of EHV and EPC solutions has placed KEI on the threshold of the exponential opportunity space that is likely to unfold in the power sector in the coming years.

KEI, branded as “the power behind the power”, is also an established and trusted name in the domestic retail segment. This feat has been achieved in a short span of time due to its ability to reach out to retail customers across the length and breadth of the country through a planned marketing strategy and well-networked distribution network.

Our manufacturing prowess

KEI has world-class, multi-product manufacturing facilities at Bhiwadi (Rajasthan), Silvassa (D&N H) and Chopanki (Rajasthan) with installed capacity for 60,000 km of LT cables and 5,600 km of HT/EHV cables.

Our presence

Endeavouring to service cabling demand on a pan India basis, KEI's sales & distribution function covers all major Metros & "A" Class Cities.

With an extensive international footprint across 30 countries, KEI's excellent price proposition, coupled with its capability to deliver specialty cables, has helped it edge out an enviable market position for itself.





Chairman's letter

Dear Stakeholders,

After a year of tremendous upheaval and financial downturn, the global economy as a whole has shown positive trends to stage a steady comeback. On its part, India has weathered the global crisis relatively well and is expected to grow at over 9 per cent in the coming year.

The favourable policy environment will help sustain the industrial recovery and growth momentum of the economy in general and the manufacturing sector in particular. Having said that, continued financial prudence, hands-on operational excellence and a cautious strategic approach to business expansion will be axiomatic for corporate success, going ahead. An approach that we steadfastly continue to follow at KEI.

Review 2009-10

To me, the year 2009-10 was an average or, candidly put, a below average one for your company, where profitability continued to be under tremendous pressure although we reported improvement in our production and sales in volume terms.

On a macro level, our financial performance scorecard was below expectations, primarily on the back of an evident oversupply in the industry, leading to cut-throat competition, lower capacity utilisations and immense pressure on pricing and margins.

On the industry front, the entire year witnessed lacklustre or flat demand for cables, although a definite trace of silver lining appeared towards the end of the year with a clear pick-up in demand.

To give you a better perspective of this scenario, let me take you through the industry demand-supply developments and dynamics in detail. The onslaught of the global economic recession, with its significant impact on the Indian economy, caused most expansion plans to be put on hold indefinitely. However, with a gradual recovery underway, combined with political & economic stability and positive direction in the Indian economic landscape, business activity received a sizeable fillip across verticals and expansion plans got underway towards implementation.

“It also gives me great pleasure to share with you that, in line with our promise to make rapid strides in the high margin EHV cables segment, your company, in January 2010, entered into a Know-how & Trademark License Agreement with Switzerland-based M/s Brugg Kabel AG, a dominant cable systems player having over 100 years of experience and expertise in manufacturing EHV cables ranging from 66kV to 550 kV.”

Currently, though cables forms an integral part of every industrial capex project, the requirement for the same accrues only after 50% of the industrial project is complete. Hence, while most cable companies have completed their expansion plans, leading to excess capacities and severe price war in the short-term, the demand for this incremental cables supply will accrue only from the second/third quarter of FY2011, the positive trend for which is already evident in the demand pick-up from the last quarter of FY2010.

Given these circumstances, I am confident that, on the back of solid economic fundamentals and brisk pace of growth, the demand-supply balance will most certainly shift in favour of cable companies going forward. Fortified by amongst the widest range of cables from LT to HT to EHV to specialised cables, coupled with incremental capacities and turnkey offerings in place, your company is ready for take off to new levels of growth and prosperity.

Operational highlights

Production & new orders

Amongst the key highlights that transpired for your company in the year under review was the receipt of prestigious orders for the supply of high value HT cables for the Mumbai Monorail Project and HPCL Mittal Refinery, Bhatinda.

In addition, in line with the spurt in economic and industrial output in the year under review, your company recorded good sales in the power and utilities vertical along with strong order inflows from the industrial segment - especially steel and cement. I am confident that this development will help your company further strengthen its leadership positioning in the power sector and enhance presence in the industrial segment.

Signing of Technical Collaboration

It also gives me great pleasure to share with you that, in line with our promise to make rapid strides in the high margin EHV cables segment, your company, in January 2010, entered into a Know-how & Trademark License Agreement with Switzerland-based M/s Brugg Kabel AG, a company having over 100 years of experience and expertise in manufacturing EHV ranging from 66 kV to 550 kV.

Strengthening EHV segment presence

Before I share with you the myriad benefits accruing from this collaboration, let me take you in brief through the rationale and strategic intent for strengthening our presence in the EHV space.

The Extra High Voltage cables segment enjoys both excellent demand prospects evident from its estimated market size of Rs 1400 crore in FY 2011, growing at approximately 30%, and is also marked by higher margins to the tune of 30-40%.



It is against this background that our full technical collaboration with BRUGGS assumes importance as it will also enable us to entrench our positioning in the EHV space by virtue of our ability to provide invaluable design and process solutions to our customers in executing EHV turnkey contracts. We expect the commercial production of EHV Cables to commence by September 2010.

Climbing up the value spectrum

What makes this collaboration even more significant for your company is that it promises to catapult KEI's positioning amongst the top three companies addressing the 220 kV EHV space, boost our preparedness and pre-qualifications to participate in large utility tenders and also give a firm impetus to our turnkey EPC business, which consumes significant portion of EHV cables.

We believe that, going forward, our focus on this sparsely competitive cable space will significantly and positively impact the fortunes of your company as the average EHV contracts is significantly higher than orders from other segments.

Your company is confident that with its clear focus on this segment, coupled with its proactive and strategic initiatives and strengths to grow its presence in this space, almost 10% of your company's revenues in FY12 will accrue from this segment.

Turnkey solutions

Another important development in the year under review is the further augmentation of your company's capability and presence in the EPC space through the set-up of a full-fledged team led by an experienced, professional Chief Executive Officer. After a year of presence in this field, your company is now focusing on bidding for large tenders. Building on our enhanced competencies and proven track record in this space, we expect to register revenues of over Rs 100 crore by FY12 from EPC contracts.

Retail – domestic house wires

One of the biggest defining moments in your company's working in the year under review was the phenomenal performance of the domestic house wires division. During the last three years the domestic house wires segment has shown tremendous growth. The encouraging results clearly reinforce your company's excellent product and quality offering, endorse its cables' specialist

positioning and also vindicate the myriad 360 degree brand communication and distribution & dealer enhancement initiatives undertaken over the last few years. Having reached so far, your company is all set to increase house wire sales contribution to over Rs 200 crore in the coming fiscal by further augmenting distribution network and strengthening brand building activities.

Exports

Following the complete meltdown in key market of presence, sales declined from Rs 163 crore in FY09 to Rs 93 crore in FY10. With the global recovery underway and a definite spurt in demand, I expect improved performance of KEI in this segment.

Specialised cables

Another tipping point in your Company's performance in FY10 was the receipt of approvals for specialised rubber mining cables and ship building wires. With substantial investment in strengthening ship yards and ports infrastructure, this development will play a critical role in your company's entry into a new segment and further expand its sector coverage.

Strategic direction & outlook

As I look ahead at 2010-11, the future looks bright and promising. As mentioned earlier in my letter, the demand for cables has already picked up and is expected to get a positive impetus with expansion projects reaching mid-way. I see a positive scenario for your company in view of the overall macro-economic indicators and indices prevailing currently. Armed with enhanced capacities, turnkey solution offerings, focused approach in its domestic house wires and EHV segment, your company, I am confident, is well positioned to deliver exceptional growth and success going forward.

As always, your continued faith and support has helped us take path-breaking decisions that promise to propel your company to higher echelons of success and glory.

Sincerely

Anil Gupta

