

**Corporate Governance Rating**

**CGR 3**

**Rating**

A **CGR 3 (Three)** rating has been assigned to the corporate governance practices of KEI Industries Ltd. (KEI). This is on a rating scale of CGR1 to CGR6 where CGR 1 denotes the highest rating. The rating of CGR 3 implies that, in CARE's opinion, the company has adopted corporate governance practices which would provide its stakeholders **average** level of comfort on the degree of corporate governance.

*The rating reflects KEI's clear and distinctly identifiable ownership pattern, well defined organisational structure with experienced professionals at the top, delegation of powers with good clarity and purpose, adequate MIS suitable to the business of the company, good track record of debt servicing and general compliance with statutory and regulatory requirements. The rating also factors in the scope for improving the level of participation of independent directors in formulation of business goals, policies and strategies and improving oversight of the Board.*

CARE's Corporate Governance Rating (CGR) is an opinion on the relative standing of an entity with regard to adoption of corporate governance practices. It provides information to stakeholders as to the level of corporate governance practice of an entity. CARE's CGR rating is not a certificate on statutory compliance and is not a recommendation to buy or sell securities issued by the entity.

**Board Composition and Functioning**

KEI's current Board of Directors consists of 8 members. Two of the Directors (i.e., CMD and ED) are in Executive capacity, while six directors are non executive including four Independent Directors. The post of Chairman & Managing Director is combined into one.

All the Directors on the board are well qualified and eminent professionals/ experienced persons. Most of the directors have rich experience in business and have expertise in their respective fields. Apart from Mr. Anil Gupta, CMD who is the promoter director there are two other directors from promoter group viz. Mrs. Archana Gupta and Mr. Sunil Gupta.



The Board composition complies with the regulatory requirement with regard to the number of Independent Directors. All the Directors on the board are well qualified and eminent professionals/ experienced persons. Most of the directors have rich experience in business and have expertise in their respective fields.

Their level of participation in Board meetings and attendance has been satisfactory.

All the four independent directors are on the Board for more than nine years which may potentially affect their independent functioning and discharging of responsibilities.

The number of board and board committee meetings held during the financial year meet the statutory requirements. The Board agenda papers were provided in a timely manner.

The decisions at the Board level are more relating to overall policy making and review. The decisions relating to project, business plans etc are initiated by CMD. The contribution from board members especially independent directors is more in the nature of guidance about industry practices with respect to regulations, accounting standards etc. However, scope exists for increasing the level of participation of independent directors in formulation of business goals, policies and strategies and improving oversight of the Board

The Board processes are satisfactory and deliberations at the Board meeting are understood to be generally participative in nature. Board members have access to the management of the company for seeking clarifications or more information. However, there is no practice of formal presentation by functional heads of Technical, Marketing departments. As such the second line of management does not have adequate exposure to the Board especially to the Independent Directors. While the CMD frequently visits the plant /production facilities, there is no formal system of periodic visits by the Board members to various facilities.

KEI has three board committees namely – Audit committee, Remuneration and Compensation committee and Shareholder Grievances committee. In addition Share Allotment Committee has been constituted recently in June 2007. KEI does not have a Nomination Committee.

Audit Committee consists of three independent directors. Mr. Pawan Bholusaria is a Chartered Accountant and heads the Committee. He is a senior partner with P.Bholusaria & Co. and has been in professional service since 29 years.

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The Audit Committee discusses all issues related to accounts and internal controls.

The number of meetings was is in line with the statutory compliances. All issues related to accounts and internal controls are discussed in the presence of Executive Director Finance, Statutory Auditors and Internal auditors. All information pertaining to business as also the financial performance are provided to Audit Committee (AC) by way of formal agenda papers along with Board agenda. It may also be noted that the existing statutory auditors have been with the company since its inception.

Shareholder Grievances committee consists of three independent directors and is chaired by Mr. Vijay Bhushan, an ex- President of Delhi Stock Exchange. Regular meetings of the Committee are convened to review the investors' complaints and redressal of the same. The Company Secretary is the Compliance Officer.

Although it is not mandatory requirement, KEI has constituted Remuneration and Compensation Committee to function as Remuneration committee within the meaning of Clause 49 of Listing Agreement and formulate suitable employees stock option scheme in terms of SEBI Guidelines and oversee implementation of the same. The committee consists of three independent directors as members. KEI has constituted Share Allotment Committee in June 2007 mainly for consideration and allotment of shares upon conversion of FCCBs, ESOP and any other convertible securities issued by company. So far no meeting has taken place.

The promoter has routed his investments in KEI through six investment companies. KEI also has an associate company, namely KEI International Limited. (KEI holds 40%) This company had no operations and has continued to exist for some time without any purpose.

KEI does not have any business transactions with any of the above companies, also the subsidiary, KEI International, although non operational would require formal oversight by independent directors to monitor any subsequent developments with the company.

#### **Ownership structure**

KEI's ownership pattern was analysed to understand the shareholding structure of the company and to determine the holding of promoter, persons acting in concert if any, holding through companies controlled by promoters and equitable treatment of shareholders.

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KEI's shareholding structure is transparent, with major shareholders being clearly identifiable. Private corporate bodies hold a small percentage of shares individually. Mr. Anil Gupta, CMD is the sole in-charge of the day-to-day affairs of the company. His wife, Mrs. Archana Gupta is actively involved in certain business segments and is generally aware about the operations of the company. Mr. Sunil Gupta, brother of Mr Anil Gupta, is on the Board but does not participate in day to day affairs of company. Nevertheless, an operational management team which is highly professional is in place with roles and responsibilities well defined and well laid out systems and procedures.

There are no apparent cross holdings.

#### **Organizational structure and Management Information Systems**

KEI's organization operates under the following functions:

- (i) Production, Quality Control and Maintenance **headed by President (Cables)**. Production function is sub divided into two segments Cables and Stainless Steel wires. Each manufacturing unit has its own head responsible for production, quality and maintenance of the unit.
- (ii) Marketing **headed by a Vice President (Mktg)** stationed in Mumbai.
- (iii) Finance and Accounts **headed by Executive Director (F)**.
- (iv) Personnel and Administration **headed by a Vice President** at Delhi.

KEI has clear organisation structure with well defined roles and responsibilities. The top management has experienced professionals and the quality of MIS generated within the organisation is adequate for the size of the company. Information flow to the Board is comprehensive and relevant. The company has a system of internal checks and controls. Company has framed KEI Employee Stock Option Schemes, 2006 for its employees & Directors. KEI's employee strength as on July 30, 2007 stood at 587.

#### **Shareholder Relationship**

The company's Registrar and Share Transfer Agent is M/s MAS Services Pvt Ltd. Company has an appropriate web site in place [www.kei-ind.com](http://www.kei-ind.com) with provision for receiving investors' response/feedback. The shareholders can directly send their complaints to the Company Secretary or the Registrar & Transfer Agent (RTA) of the



Company. The Company treats the grievances of shareholders as urgent and takes necessary follow up with them either through e-mail or telephone (if such information is provided in the complaint). Generally, the day-to-day complaint is looked after by RTA, MAS Services Limited. The company's complaint redressal mechanism appears satisfactory.

The quarterly, half-yearly un-audited and annual results are published in national level English newspaper(s) as well as Hindi newspaper(s). The results are also displayed on the company's website [www.kei-ind.com](http://www.kei-ind.com).

KEI's website gives details of its corporate profile, Board of Directors, clients, Financials (Annual as well as Quarterly), products range and has sufficient information for a shareholder or a prospective investor.

#### **Disclosure and Transparency**

KEI adheres to the accounting policies and practices as specified by the Institute of Chartered Accountants of India (ICAI). Wherever there are deviations proper disclosures have been made.

There have been no qualifications in the audit report related to accounts. Off balance sheet items have been disclosed. Disclosures made by the company regarding investment/loans, etc. to group companies and related party transactions are adequate. In the Annual report, segment wise results are published in detail.

The information provided in the Annual Report to the shareholders under "Management Discussion and Analysis" is satisfactory.

#### **Financial Prudence**

The company has been growing consistently over past few years in terms of its turnover and profits. Over the years, company has capitalized on its core strength in power cables, and has gradually added range of products to its portfolio enabling the company to increase its presence across various product markets, however expansion have not been heavily debt funded. The company's capital structure was not skewed towards debt. During FY'07, KEI issued 1% FCCBs aggregating USD 36 million convertible into equity shares between December 2006 and October, 2011 to fund its expansion plans (overall gearing 2.09 as on March 31, 2007).

The company total operating income has been growing at CARG 85% for the period from FY04-FY'07. Subsequently, ROCE and ROE has been high over the years.



Returns to shareholders have grown over the years.

#### **Statutory and Regulatory Compliance**

KEI is overall compliant with clause 49 of the listing agreement and other statutory and regulatory requirements. It is a certified ISO 9001:2000 company.

#### **Company Background**

KEI Industries Ltd (KEI) was established in 1968 as a partnership firm under the name Krishna Electrical Industries, with prime business activity of manufacturing house-wiring rubber cables. The firm was converted into public limited with the corporate name KEI Industries Ltd. (KEI) in December 1992. In 1996, KEI acquired Matchless, a company under same management, which was engaged in manufacture of stainless steel wire.

Currently, KEI manufactures and sells variety of cables namely High Tension (HT) and Low Tension (LT) power cables, control & instrumentation cables, other specialty cables, rubber insulated power, control and instrumentation cables. KEI also manufactures and sells wide range of steel wires which have various applications such as manufacturing of springs and fastenings.

The company is headquartered in New Delhi and has four manufacturing plants at Delhi, Bhiwadi (two units) & Silvassa. The installed capacity as on March 31, 2007 stands at 40,000 km p.a. for cables, 48,00,000 kg for stainless steel wire and 2,50,000 km for winding, flexible & house wiring.

The day-to-day affairs of the business are managed by various heads under the supervision of Mr. Anil Gupta, the Chairman and Managing Director of the company. Mr. Anil Gupta has about 25 years of experience in the industry and has been associated with the company since beginning - originally as a partner of Krishna Electrical Industries, and later as CMD of KEI.

KEI has eight marketing offices all over the country and one overseas office at Dubai. KEI has been a leading supplier of cables to EPCs, PSUs and infrastructure sector. The company is also qualified as a registered vendor by more than 100 large Indian companies across various industrial sectors. Close to 80% of company's sales are to the institutional clients. The clientele includes companies like ABB, Siemens, Suzlon, TATA power, IOC, BPCL, IFFCO, and SAIL etc. Company also sells the cables in retail segment; house wires for domestic use to real estate developers, electrical contractors & interior designers. KEI exports cables & SS wires to over 24 countries

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including USA, Canada, France, UK and is a registered cable vendor for international EPC contractors such as Alstom, McDermott, BHEL and L&T.

During the year FY'07, KEI recorded sales of Rs.668 crore (net operating) with PBILDT of Rs.87.4 crore and PAT of Rs.40 crore. Export sales stood at Rs.83 crore during FY'07. The company did not have any subsidiary as on March 31, 2007.

During FY'06 KEI had raised USD 10 million by way of GDRs, whereby each GDR is represented by one equity share. The GDR are listed at Luxemborg Stock Exchange. During the same year, company had issued and allotted 17 lakh ZCC warrants of Rs.10/- each at a price of Rs.138/- each which as on date stand converted into equity shares. During FY'07, KEI issued 1% FCCBs aggregating USD 36 million convertible into equity shares between December 2006 and October, 2011.

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**Draft press release**

**KEI Industries Limited**

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Mr. Anil Gupta is the sole in-charge of the day-to-day affairs of the company as on date. Nevertheless, the operational management team is professionally qualified and experienced with roles and responsibilities well defined and with well laid out systems and procedures.

KEI has clear organisation structure with well defined roles and responsibilities. The top management has professionals and MIS generated within the organisation is adequate for the size of the company.

Company has an appropriate web site in place [www.kei-ind.com](http://www.kei-ind.com) with provision for receiving investors' response/feedback

During the year FY'07, KEI recorded sales of Rs.668 crore (net operating) with PBILDT of Rs.87.4 crore and PAT of Rs.40 crore.

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