Management Discussion and Analysis

COMPANY OVERVIEW

KEI Industries Limited (hereinafter 'the Company''/ ''KEI'') is one of the leading manufacturers and suppliers of power and other industrial cables in India. Having an unmatched portfolio of 400 products, KEI has established a niche in addressing demands of customers across a myriad of sectors. The diversified and de-risked business model of KEI has made it one of the most trusted brands in providing wiring solutions to both retail and institutional clients across domestic and international markets. Over the years, KEI has earned a remarkable reputation in nurturing relationships, strengthening consumers trust and timely execution of orders. Moreover, the Company is continuously investing in upgrading its R&D capabilities to deliver operational excellence in all its offerings and to provide innovative technologies.

The Company primarily operates in three segments: Cables, Stainless Steel Wires and Turnkey Projects. It provides wiring and turnkey solutions to both private and public sector clients engaged in industries such as power, oil refineries, railways, automobiles, cement, steel, real estate, textile and fertilizers. Moreover, KEI is amongst the top cable manufacturing companies in India owing to its diversified product range and uncompromised commitment to quality.

The Cable division of the Company comprises a wide array of products including Extra High Voltage (EHV), High Tension and Low Tension (HT & LT), Control and Instrumentation Cables, Specialty Cables, Rubber Cables, Flexible and House Wires and Submersible Cables. It also offers a unique range of Specialty Cables like fire survival cables, zero halogen cables and braided cables.

In 2010, the Company ventured into manufacture of EHV cables (ranging from 66kV to 400kV) in collaboration with Switzerland-based BRUGG Kables at its Chopanki (Rajasthan) facility. The Company is geared to serve mega power plants, transmission companies and metro cities through EHV cables. KEI has a strong manufacturing base with state-of-the-art manufacturing facilities located at Pathredi, Chopanki, Bhiwadi and Silvassa.

The Stainless Steel Wire division of KEI offers a comprehensive range of specialty wires finding applications in several industries.

In its endeavour to further expand the opportunity horizon, the Company forayed into Engineering, Procurement and Construction (EPC) business in 2008. In this segment, it provides integrated turnkey solutions including design, engineering, material procurement, field services, construction and project management services. The offerings include execution of power transmission projects (of 66kV to 400kV sub-stations) on a turnkey basis, EPC Projects of EHV and HV cable systems, conversion of overhead underground cabling systems, RE Projects etc. to Government and Private Utility.

KEI is well-positioned to exploit the upcoming growth opportunities with an aim to become the undisputed industry leader.

ECONOMIC OVERVIEW

World Economy

The global economy witnessed a significant rebound in global trade, primarily driven by investment recovery in advanced economies, continued strong growth in emerging Asia, a notable upswing in emerging Europe and signs of recovery in several commodity exporters. Resultantly, the world economy registered a growth of 3.8% in 2017, the strongest since 2011. Two-thirds of the countries accounting for about three-fourths of global output experienced a faster growth in 2017 than in the previous year. The upsurge in global trade was mainly pronounced in Emerging Market and Developing Economies (EMDEs) (with trade growth rising from 2.2% in 2016 to 6.4% in 2017), reflecting higher investments in stressed commodity exporters as well as investment recovery in advanced economies.

Across EMDEs, growth was driven by acceleration in private consumption and higher fixed investment growth. Moreover, firming activity in commodity exporters and continued growth in commodity importers led to a 4.8% growth across EMDEs in 2017. Emerging economies in Asia further strengthened owing to vibrant manufacturing activities and surging trade flows during the year. Furthermore, IMF has forecasted the EMDEs to grow by 4.9% in 2018.

Advanced Economies recorded a 2.3% growth in 2017, led by stronger investments, accommodative monetary policies, reviving financial health and turnaround of inventories. Broad-based revisions, reflecting strengthening economic prospects for the Euro area and Japan and spillover effects of expansionary fiscal policy in the U.S. are expected to buoy the Advanced Economies, pegging growth at 2.5% in 2018.

Moving ahead, favourable market sentiments, accommodative financial conditions, expansionary fiscal policy in the U.S. and partial recovery in commodity prices are expected to trigger global economy, with a forecast to grow by 3.9% in both 2018 and 2019.

(Source: IMF World Economic Outlook, April 2018)

Indian Economy

The year 2017 observed some major structural reforms with an aim to strengthen Indian economic growth. The economy, in early 2017 suffered a setback due to the short-term challenges faced by the implementation of demonetisation and Goods & Services Tax (GST) leading to a GDP growth of 6.7% in FY 2017-18. However, the economy started recovering as 2018 set in. Resultantly, the GDP reached an impressive 7.7% in the fourth quarter of FY 2017-18.

According to Central Statistics Office (CSO) and International Monetary Fund (IMF), India's position as one of the fastest growing economies in the world continues to be led by strong democracy and partnerships. India's Index of Industrial Production (IIP) grew by 7.5% in January 2018 while retail inflation stood at 4.4% in February 2018. The upgradation of India's credit rating to Baa2 by Moody's Investor Services, jump in World Bank's Ease of Doing Business Report by 30 ranks to reach the 100th position, rapid increase in Nikkei India manufacturing Purchasing Managers' Index (PMI) to reach 54.7 in December 2017 and other factors contribute to the growth trajectory of the Indian economy.

(Source: https://www.ibef.org/economy/indian-economy-overview)

Implementation of GST was a revolutionary move adopted by the Government, primarily to overcome the multiple taxation structure by rolling out a unified tax reform. The initial phase of GST witnessed various regulatory issues by small and medium businesses. With more clarity and stability in the laws and regulations, GST is expected to enhance productivity, stimulate corporate investments and benefit the economy in the long run. Additionally, appropriate measures undertaken to resolve Non-Performing Assets (NPA) related problems, further liberalisation of FDI, implementation of RERA, recovery in investment levels are all improving the country's economic performance.

(Source:http://mofapp.nic.in:8080/economicsurvey/pdf/001027 Chapter 01 Economic Survey 2017-18.pdf)

Favourable indicators such as moderate inflation levels, smoother implementation of GST regime, on-going structural reforms and growth of the industrial sector are all expected to stimulate India's growth potential. On the back of initiatives such as Make in India, Digital India, Skill India etc., the government has envisaged plans to boost the manufacturing sector, improve digital infrastructure and spur development of the economy. Organisation for Economic Co-operation and Development (OECD) has forecasted the country's GDP at 7.4% in FY 2018-19 and 7.5% in FY 2019-20. The IMF is even more bullish on Indian economy, speculating the country's GDP at 7.4% in FY 2018-19 and 7.8% in FY 2019-20 in its World Economic Outlook Report.

(Source: https://www.ibef.org/economy/indian-economy-overview)

INFRASTRUCTURE AND POWER SECTOR SCENARIO

Infrastructure is one of the key growth drivers of the Indian economy and has received significant push from the Government of India. Infrastructure sector includes power, bridges, dams, roads and urban infrastructure development. According to the Department of Industrial Policy and Promotion, the construction development sector witnessed Foreign Direct Investment (FDI) worth USD 24.67 billion from April 2000 to December 2017. Moreover, a massive investment of USD 92.22 billion was allocated to the sector in the Union Budget 2018-19. Indian infrastructure space is emerging to be of notable interest to international investors and requires an investment worth ₹ 50 trillion (USD 777.73 billion) by 2022 to boost the economic development of the country.

Some significant investments in the sector include:

1. CY 2017 witnessed 91 M&A deals worth USD 5.4 billion in Indian infrastructural sector.
2. Private equity and venture capital investments in the infrastructure sector reached USD 3.3 billion with 25 deals during January-May 2018.

(Source: https://www.ibef.org/industry/infrastructure-sector-india.aspx)

According to IBEF, India is the world's third largest producer and fourth largest consumer of electricity in the world. The country witnessed electric production of 1,201.5 billion units (BU) in FY 2017-18, recording a growth of 55.72% over the previous fiscal year. With the strengthening of the economy, the demand for power is also expected to go in the upward direction.

(Source: https://www.ibef.org/industry/power-sector-india.aspx)

India's power sector is one of the most diversified in the world. Recognised by the Government as a key focus area, the sector holds immense potential to boost industrial growth. As on March 31, 2018, the country's total installed capacity of power stations stood at 3,44,002.39 Megawatt (MW). The Central and State projects together accounted for 55% of total installed capacity whereas, the private sector occupied a 45% share. This is further classified as under:

All India Installed Capacity (MW) Region-wise as on 31.03.2018:

Thermal					Nuclear	Hydro	RES	Grand Total
Region	Coal	Gas	Diesel	Total				
Northern	52,939.20	5,781.26	0.00	58,720.46	1,620.00	19,753.77	12,873.22	92,967.45
Western	70,608.62	10,806.49	0.00	81,415.11	1,840.00	7,447.50	20,446.38	1,11,148.99
Southern	45,782.02	6,473.66	761.58	53,017.26	3,320.00	11,808.03	34,369.28	1,02,514.57
Eastern	27,321.64	100.00	0.00	27,421.64	0.00	4,942.12	1,038.40	33,402.16
North-East	520.02	1,736.05	36.00	2,292.07	0.00	1,342.00	282.56	3,916.63
Islands	0.00	0.00	40.05	40.05	0.00	0.00	12.56	52.61
ALL INDIA	1,97,171.50	24,897.46	837.63	2,22,906.59	6,780.00	45,293.42	69,022.39	**3,44,002.39**

(Source: http://www.cea.nic.in/reports/monthly/executivesummary/2018/exe_summary-03.pdf)

All India Installed Capacity (MW) Sector-wise as on 31.03.2018:

Sector	Thermal				Nuclear	Hydro	RES	Grand Total
	Coal	Gas	Diesel	Total				
State	64,670.50	7,078.95	363.93	72,113.38	0.00	29,858.00	2,003.37	1,03,974.75
Private	75,546.00	10,580.60	473.70	86,600.30	0.00	3,394.00	65,516.72	1,55,511.02
Central	56,955.00	7,237.91	0.00	64,192.91	6,780.00	12,041.42	1,502.30	84,516.63
All India	1,97,171.50	24,897.46	837.63	2,22,906.59	6,780.00	45,293.42	69,022.39	**3,44,002.39**

(Source: http://www.cea.nic.in/reports/monthly/executivesummary/2018/exe_summary-03.pdf)

India achieved 45.29 GW of hydro power generating capacity and 20 GW of installed solar capacity as on the financial year ended 2018. The solar capacity installation is expected to reach 30 GW in FY 2018-19 and FY 2019-20 each. Besides this, the Government endeavours to reinstate the stalled hydro power projects and increase the wind energy production target from the current 20 GW to 60 GW by 2022.

(Source:https://www.ey.com/Publication/vwLUAssets/ey-infra-insights-q1-cy2018/$File/infra-insights-q1-cy2018-final.pdf)

To provide a further boost to the sector, the Government is considering making an investment of ₹ 11.56 lac Crore in power generation sector over a period of 5 years between 2017 and 2022 across thermal, hydro, nuclear and renewable segment. The Central Electricity Authority (CEA) has envisaged plans for a total capacity addition of 58,384 MW from conventional sources comprising 47,855 MW of coal-based power stations, 406 MW of gas-based power stations, 6,823 MW of hydropower stations and 3,300 MW of nuclear stations.

(Source: https://energy.economictimes.indiatimes.com/news/power/india-to-attract-rs-1155652-crore-investment-in-power-generation-through-2022/63678485)

Moving forward, the Government's major reform of allowing 100% FDI in the power and renewable energy sector has facilitated the growth of this sector. Resultantly, the industry attracted FDI worth USD 12.97 billion between April 2000 and December 2017, accounting for 3.52% of the total FDI inflows in the country. Through its 'Deendayal Upadhyaya Gram Jyoti Yojana' (DDUGJY) scheme, the Government aims to strengthen power scenario in the rural areas.

(Source: https://www.ibef.org/industry/power-sector-india.aspx)

Renewable Energy- growing significance:

According to International Renewable Energy Agency (IRENA), global renewable generation capacity registered a growth of 8.3% over last year, amounting to 2,179 GW at the end of 2017. Wind and solar energy, together accounted for 85% of new capacity installation in 2017. Asia emerged as the fastest growing region, occupying 64% share of new renewable capacity.

(Source: IRENA; https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2018/Mar/RE_capacity_highlights_2018.pdf?la=en&hash=21795787DA9BB41A32D2FF3A9C0702C43857B39C)

In 2017, Indian renewable energy sector was the second most attractive renewable energy market in the world. As per the Renewable Energy Investment Report 2018, India was ranked fourth for new investments in this sector during 2017. During FY 2017-18, India added record 11,788 MW of renewable energy capacity. Rising urbanisation and per capita energy consumption, economic growth is driving the energy demand of the country. The renewable energy sector is being looked upon to fulfil the energy demand of the country, which is speculated to reach 15,820 TW by 2040. India has very low conventional energy resources compared to the rising energy needs of growing population and improved economies. This scenario of exhausting conventional energy resources can be tackled by exploiting the country's huge potential in solar and hydro power sectors. Backed by improved economies and government thrust, this sector is increasingly being eyed by both domestic and foreign investors. Besides this, the Government of India, through its extensive projects and initiatives, has been targeting to achieve its ambitious and sustainable green energy mission.

(Source: https://www.ibef.org/industry/renewable-energy.aspx)

Power Transmission-on a firm footing

Power transmission sector in India is crucial for supplying electricity to the consumers. Development of a robust and non-collapsible transmission infrastructure drives growth of the power sector. Launch of 'Saubhagya' scheme for electrifying all rural households and rising share of renewable capacity demands addition in transmission infrastructure of the country.

(Source: https://enincon.com/wp-content/uploads/2018/01/Flyer-Power-Transmission-in-India-2018.pdf)

The Central Electricity Authority (CEA) has evaluated an investment requirement of ₹ 2.6 lac crore till 2022 owing to the significant growth in the power transmission sector. This estimate requires 1,00,000 ckm of transmission lines and 2,00,000 MVA transformer capacity of substations at 220 kv and above which are expected to be added in the 13th Five-Year Plan (FYP) (2017-2022). Along with this, inter-state lines with capacity of around 56,000 MW are being planned by the end of the 13th FYP.

(Source: https://www.business-standard.com/article/economy-policy/power-transmission-investment-likely-to-be-rs-2-lakh-cr-in-next-plan-cea-117010201016_1.html)

Transmission Lines added during Apr'16 to Mar'17 and Apr'17 to Mar'18 (ckms):

Voltage Level	Apr 16- Mar 17	Apr 17- Mar 18
+/- 500 KV HVDC	0	0
+/- 800 KV HVDC	2,574	0
765 KV	5,705	3,819
400 KV	10,012	13,813
220 KV	5,292	5,487
All India	**23,583**	**23,119**

(*Source: http://www.cea.nic.in/reports/monthly/executivesummary/2018/exe_summary-03.pdf*)

During FY 2017-18, the country added 23,119 ckm of transmission lines which surpassed the planned transmission lines of 23,086 ckm during the period, signifying a robust growth in the sector. The private and state entities have contributed significantly in the achievement of transmission lines addition i.e. 2,307 and 11,602 ckm respectively.

Target and Achievement of Transmission lines during FY 2017-18:

Particulars	Programme	Achievement
Central	9,279	9,210
State	11,545	11,602
Private	2,262	2,307
TOTAL	**23,086**	**23,119**

(*Source: http://www.cea.nic.in/reports/monthly/executivesummary/2018/exe_summary-03.pdf*)

Rural electrification gets a boost

Government's ambitious target of electrifying 18,452 un-electrified villages by May 2018 under 'Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY)' has been well achieved before the deadline. Up to 30th April, 2018, 17,181 villages have been electrified. The remaining villages are either uninhabited or are located in remote and inaccessible areas with lack of basic electrical infrastructure.

(Source: https://www.jagranjosh.com/current-affairs/all-villages-in-india-are-now-electrified-pm-narendra-modi-1525073483-1)

UDAY Scheme

One of the major challenges faced by the Indian power sector is the financial health of the state-owned power distribution companies (DISCOMs). In 2015, the Government introduced the landmark '**UDAY**' scheme for the operational and financial turnaround of the discoms. With an aim to mitigate interest burden, cost of power and power losses in distribution sector, this reform is expected to realise the Government's vision of affordable 'Power for All'.

The financial losses of the discoms have reduced by ₹ 17,352 Crore or 50% for the financial year ended 2018, but their outstanding dues to power generators have risen by over 150% to ₹ 32,071 Crore. However, the loss reduction of the discoms was attributed to factors such as savings in interest cost, power purchase cost, establishment cost and tariff rationalisation.

(Source: https://www.financialexpress.com/economy/uday-scheme-discoms-cut-losses-but-their-dues-to gencos-mount/1200937/)

Till now, 27 states and 4 Union Territories have joined the remarkable scheme. With the effective implementation of UDAY programme, the Government aims to bring down the Aggregate Technical and Commercial (AT&C) losses to 15% and eliminate the average cost of supply (ACS)-average revenue realised (ARR) gap completely by FY 2018-19. This, in turn, would lead to operationally and financially stable distribution utilities, thereby reducing the stressed assets in the system. Moreover, the adaptation of UDAY scheme is stringently monitored through a dedicated web portal and mobile applications for enhanced transparency and accountability of the discoms.

(Source: https://www.iitk.ac.in/ime/anoops/FOR-17/FOR-17%20photos/PPTs/IITK%20Outreach%20Centre%20Day%201/ppt/UDAY_Challenges%20and%20Way%20Forward_KPMG%20.pdf)

Union Budget 2018-19 Highlights

- Envisaged the development of infrastructure sector by allocating ₹ 5.97 lac Crore for the sector.
- The ambitious '**Bharatmala Pariyojana**' has been approved to provide seamless connectivity between interior and backward areas and India's borders, with an aim to develop around 35,000 km of roads in Phase-I at an estimated cost of ₹ 5,35,000 Crore.
- The Railways' Capex for 2018-19 has been pegged at ₹ 1, 48,528 Crore.
- Planned to commission around 18,000 kms of railway lines, compared to 4,000 kms that were targeted in Budget 2017-18.
- Announcement of the path-breaking '**Saubhagya**' scheme with the objective of providing last mile electrical connectivity to four crore household connections with an outlay of ₹ 16,000 Crore.
- Proposed investment of ₹ 4,200 Crore to increase capacity of Green Energy corridor project along with other wind and solar power projects.
- Ambitious target to electrify a network of 4,000 km of railways in 2018-19.

(Source: https://www.ibef.org/industry/infrastructure-sector-india.aspx & https://www.pwc.in/assets/pdfs/budget/2018/sectoral-analysis-india-riding-the-growth-wave.pdf)

Thrust on Renewable Energy

The Government has set an ambitious goal of achieving 175 GW of capacity in renewable energy consisting of 100 GW of solar power, 60 GW of wind power, 10 GW of biomass power and 5 GW of small hydro power by 2022. Aligned to this objective, it is undertaking significant measures such as offering various incentives, capital and interest subsidies, fiscal incentives, etc. Apart from the financial support, other initiatives include setting up of exclusive solar parks; development of power transmission network through Green Energy Corridor Project; procurement of solar and wind power target through tariff based competitive bidding process, etc.

(Source: https://www.business-standard.com/article/news-cm/government-is-on-its-way-to-achieving-175-gw-target-for-installed-renewable-energy-capacity-by-2022-117122700308_1.html)

Challenges

Thermal power generation capacity has been significantly hit by the momentous shift towards the renewable energy sector. Various thermal power plants are either stuck in various stages of construction or lack Power Purchase Agreements (PPAs). This, along with the mounting idle capacity of thermal power stations and higher tariffs has resulted in the withdrawal of thermal power plants and reduced the bidding for the power. Furthermore, the reduction in Plant Load Factor (PLFs) for coal and lignite based power and non-requirement of new coal-based generation capacity addition till 2027, would lead to the technical unviability of the thermal plants. Another major parameter impacting the thermal power sector in the long run is the recent decline in the renewable power bid price, owing to the availability of renewable non-polluting energy at a cheaper price than thermal power.

Though, the discoms have reduced their losses under UDAY scheme, their outstanding dues to the power generators have been rising. This coupled with irregular and delayed payments by discoms have resulted in stressed private generation assets, including rising NPAs of power projects.

(Source: https://www.financialexpress.com/economy/uday-scheme-discoms-cut-losses-but-their-dues-to-gencos-mount/1200937/)

Outlook

The energy demand in India is likely to accentuate in the years to come on the back of sustained economic growth, rising urbanisation and per capita energy consumption. By 2040, India's energy consumption is expected to grow at the fastest pace among all major economies of the world at 4.2% p.a. The robust demand is likely to bolster renewable energy development in the near future.

(Source: https://www.bp.com/content/dam/bp/en/corporate/pdf/energy-economics/energy-outlook/bp-energy-outlook-2018-country-insight-india.pdf)

The outlook for the country's renewable energy sector, powered by the solar and wind sector is positive as per India Ratings. Growth in renewable power is being driven by numerous incentives to local solar panel manufacturers, exploring wind-solar hybrid projects, offshore wind projects, etc. To boost the growth of hydro projects in the country, a New Hydropower Policy for 2018-28 has been formulated. Besides this, the Ministry of New and Renewable Energy is considering providing custom and excise duty benefits to the solar rooftop sectors, thereby lowering the cost of setting as well as generating power. Additionally, renewable energy has the potential to create significant employment opportunities in the country. The Government of India, in its submission to the United Nations Framework Convention on Climate Change has speculated that India will attain 40% cumulative electric power capacity from non-fossil fuel based energy resources by 2030.

(Source: https://www.ibef.org/industry/renewable-energy.aspx)

Over the past decade, the cables and wires industry has evolved from a small to a large-scale industry. The Government's focus on Power for All, rural electrification, improving infrastructure, robust spur in the number of households, improved life-styles and new opportunities are propelling the demand of domestic cables/wires and electrical items. Evidently, this segment has grown exponentially by 13% over the past 5 years, with an expectation to clock a momentous 14.5% growth over FY 2017-22. The organised sector accounts for 60% share of the cables and wires industry. This is expected to grow significantly and reach 66% by FY 2021-22.

(Source: Edelweiss Consumer Durables Report)

BUSINESS OVERVIEW

During the year under review, the Company's gross revenue stood at ₹ 3,496.42 Crores, registering a growth of 23.44% from ₹ 2,832.43 Crores recorded in FY 2016-17. The Company's net profit grew by 54% and reached ₹ 144.56 Crores during FY 2017-18.

The Company continued to maintain a robust topline growth led by a healthy execution in its EPC division and strong retail sales. In the domestic market, the Company continued its thrust to expand its network across the country and managed to increase the dealer base. Strong performance of EPC and EHV divisions, exports, expanding dealer network, brand promotions to drive retail sales, strong order book are the factors having contributed to the strong revenue growth of the Company.

KEI witnessed 18% volume growth in Cable division during FY 2017-18. The Company's cable division clocked an impressive revenue of ₹ 2,648 Crores as against ₹ 2,116 Crores achieved last year, reflecting a growth of 25.15%. Within the cable division, the revenue of EHV segment increased from ₹ 102 Crores to ₹ 168 Crores. The new capacity of EHV cables production line commissioned at Chopanki unit with a capability of upto 400 kV and a healthy order book is stimulating the revenue growth in this segment. The sales of LT and HT cables together accounted for ₹ 1,916 Crores in FY 2017-18 i.e. a growth of 20.81% over last year. To keep up with the rising demand, the Company commissioned an LT cable expansion facility at Pathredi near the Chopanki unit entailing an investment of approximately ₹ 50 Crores. This massive power project has the potential to generate revenue of approximately ₹ 300 Crores per year at full utilisation. Besides, the Company is also undertaking 2nd phase of expansion for HT cables at Pathredi unit which could enhance the annual capacity by approximately ₹ 200 Crores.

Furthermore, the EPC segment saw an increase in revenue from ₹ 423 Crores to ₹ 654 Crores in FY 2017-18. This was led by an increased focus on execution of its strong order book.

Transmission and distribution sectors continue to remain the major growth drivers of the Company aided by Government thrust on renewable energy and rural electrification. KEI is expected to benefit due to higher demand from transmission and distribution companies. With over 92% of the power consumption states adopting Ujwal Discom Assurance Yojana (UDAY), state Distribution companies are expected to improve their T&D infrastructure through renewed capex, thereby benefitting KEI. EHV division has benefitted profusely from these developments and is expected to continue delivering commendable performance in the coming years.

Going forward, driven by these initiatives, the Company expects the Cable division to grow by 18-20% in terms of volume by FY 2018-19. Moreover, the Company holds immense potential to cater to the rising demand through its well-equipped and enhanced capacities.

Retail Division

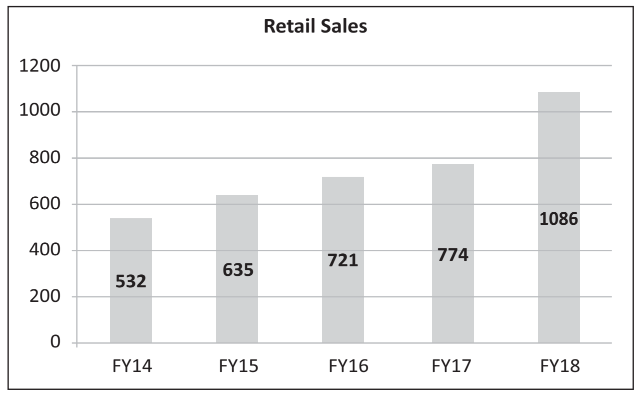
The retail segment of the Company comprises Household wires as well as LT & HT cables and contributes to around 32% of the Company's revenue. The retail sales grew significantly by 40% from ₹ 774 Crores in FY 2016-17 to ₹ 1,086 Crores in FY 2017-18.

The Company has a significant pan-India presence in the retail division and has achieved phenomenal progress in this segment over the past few years. Moreover, strong focus on branding and promotions via different media and expansion in the dealer network has led to the growth trend in this segment. Aggressive advertising campaigns, outdoor marketing activities and high-profile sponsorships have enhanced the brand visibility of KEI.

KEI has a pan-India distribution network of dealers, which it intends to expand in order to strengthen its reach to potential customers. During FY 2017-18, it added 137 dealers in its distribution base, taking the total count of active dealers to 1,284 as on March 31, 2018. This reflects a significant growth of 12% in dealer base over last year. As a fair remuneration policy, the Company formulated attractive incentive schemes for dealers. Empowered with the prestigious Superbrand status for five consecutive years (2011-2016), KEI has gained consumers' trust and confidence for the brand.

For the past few years, KEI has been proactively engaged in brand building initiatives and has been spending considerably in ads across Media-Print, Air, Audio-visual and Digital platforms. Besides, with the successful sponsorship of IPL team Rajasthan Royals, engagement in various regional exhibitions, the Company aims to further the customer connect and augment the share of the retail business. To boost the brand awareness, the Company released an ad by partnering with celebrity Irrfan Khan. Leveraging Irrfan Khan's repute, impeccable status and credibility, the campaign was successful in reaching out to customers effectively. KEI has also undertaken a multimedia campaign to target larger audience through television, social media channels, etc.

Moving ahead, owing to the low working capital requirements and better realisations, the retail segment is emerging to be the backbone of the Company's growth model. With this, KEI expects to increase the contribution of the retail segment from the present 30% to 40% of the Company's revenue in the next few years.



Institutional Business

The EPC and EHV segments of the Company posted strong numbers during the year under review. Growth in EPC and EHV segments was 54.61% and 64.70% respectively. EPC segment has been bagging large projects under Deendayal Upadhyaya Gram Jyoti Yojana (DDUGJY) and Integrated Power Development Scheme (IPDS) schemes. The Company is currently executing IPDS orders in Jammu & Kashmir and Gujarat and have bid for orders in West Bengal and Bihar. Greater spending by state transmission companies and railways augur well for the segment's growth. KEI is among the only three companies in India to manufacture EHV cables. Spurred by government initiatives like improved power availability, rural electrification, etc., the EHV segment of the Company is poised for a robust revenue expansion in the near future.

Outlook

Led by the government's sharpening focus on power generation, transmission and distribution sectors, demand for cables as part of T&D equipment is expected to expand significantly. Key government initiatives in infrastructure and real estate sector such as 'Housing for All', 'UDAY', 'Power for All', oil & gas, ship building and others are expected to benefit KEI largely in the coming years. The state discoms are increasingly focused on setting up of transmission lines, thereby providing strong growth opportunities for the EPC players. Moreover, the government's aim to lower the AT&C losses is likely to result in higher capex by the discoms. KEI's expertise in delivering excellent EPC projects, strong order book and enviable track record is likely to fuel growth for the Company in the coming years.

Exports

Exports account for a considerable portion of the Company's earnings. KEI is a trusted name in the international market. It has a substantial global presence a more than 45 countries with focus on the Oil & Gas and utilities segment. It offers wide range of cables viz. EHV (66kV to 400kV), MV (11kV to 33kV) and LV (< 11kV) cables to the overseas customers. Moreover, the Company offers competitive pricing and customised solutions. With an aim to expand its presence in the international markets, the Company has set up marketing offices at Abu Dhabi, Singapore and Nigeria. It also has set-up representative offices in South Korea, Gambia, South Africa and Kazakhstan. It also operates through a subsidiary in Australia. Recently, the Company obtained approvals for large projects in Middle East, South Africa, Nigeria and Australia. The export market is expected to grow tremendously. KEI's participation in various international exhibitions to establish new connections and demonstrate its commitment and exclusive brand quality has further strengthened its presence in the overseas market.

During the year under review, the exports revenue jumped by 21% to ₹ 454 Crores.

Opportunities in major segments

Power & Infrastructure: The Government has announced ambitious plans for infrastructure development in the years to come. Infrastructure spending is estimated at USD 1 trillion in the next five years. Estimated FDI in infrastructure sector is USD 250 billion while USD 750 billion is expected to be mobilized locally. Resultantly, the demand for cables is expected to receive a significant boost. Demand for cables is estimated at USD 3 billion (including EHV, MV and LV cables) to be used for transmission and distribution purposes.

EPC: The EPC industry has witnessed a commendable transformation from a small segment to a mammoth industry over the past decade. EPC industry is projected to be a multi-million dollar industry on the back of rapidly growing economy and huge scale of infrastructural opportunities. Consumption of cables in EPC power project account for around 20 to 25% of the total project cost.

Building and Construction: Demand for Urban Premium Housing is set to grow from ₹ 116 billion in FY 09 to ₹ 757 billion in FY 20. IT/ITES and BFSI sectors are expected to contribute to increased net absorption of office space. Besides, office space is forecasted to grow at a CAGR of 29.5% from 19.6 million sq. ft in 2009 to 42.6 million sq. ft in 2013. Also, demand for wires is expected to witness a tremendous growth at a CAGR of 13% over the next 7-8 years.

RISKS AND CONCERNS

Risk management is an inherent feature of any business. KEI operates in a highly competitive environment which is largely affected by the fluctuations in currency rates and changes in Government policies and regulations. Moreover, the business of the Company is much dependent on commodities. This, along with longer collection period in the turnkey projects and stiff competition makes risk management a crucial exercise across the organisation.

Some of the key risks identified by the Company and the mitigation strategies adopted are as follows:

Changing Government Policies Risk

Issues & Concerns:

The two most predominant segments of the Company's business i.e. EPC and EHV divisions are likely to be affected by Government policies. These segments generally perform well under a steady policy regime and vice-versa.

Mitigation Strategy:

The Company continues to strengthen and expand the retail business as it remains unaffected by the changes in Government policies.

Cyclical Risk

Issues & Concerns:

The Company primarily serves power utilities, infrastructure, real estate and industrial sectors. These businesses are often cyclical in nature. Thus, Company's revenue and demand of its products are subject to interest rate fluctuations and capex cycles.

Mitigation Strategy:

- The Company diversifies its operations across sectors to minimise this risk.
- The Company hedges the cyclical risk prevalent in the local market by exploring opportunities overseas.

Competition Risk

Issues & Concerns:

A majority of the Company's products are highly competitive in nature and face strong threat from other players.

Mitigation Strategy:

- The Company firmly believes in strengthening existing business by offering premium and quality products, thereby boosting its brand.
- It has an extensive distribution base and is constantly striving to reach out to potential customers through aggressive marketing initiatives with an aim to accentuate the brand visibility.
- It follows a proactive strategy in responding to competitors, which is extremely important in a competitive market.

Raw Material Price Fluctuation Risk

Issues & Concerns:

- Excessive volatility in the prices of most critical raw materials – copper and aluminium tend to severally impact the profitability of the Company.
- Though the Company tries to offset the rise in raw material prices either through hiking the selling price of products or by hedging, there is no assurance that it can do so successfully in the future.

Mitigation Strategy:

- The Company regularly monitors the movement in raw material prices and adopts stringent strategies to address the volatility.
- It has inculcated price escalation clauses for large orders and three-month policy validity clause for smaller projects in an effort to mitigate this risk.
- It maintains close to 90 days of inventories of raw materials, WIP and finished goods and counterbalances it with procuring orders. This, in turn, creates a natural hedge in buying and selling.

Currency Fluctuations Risk

Issue & Concerns:

- The Company imports raw materials to a large extent. The raw material costs can be adversely affected by extreme exchange rate fluctuations, thereby weakening the profitability.
- With exports being a key contributor to the Company's revenue, excessive volatility in the currency rates can significantly impact the profitability.

Mitigation Strategy:

- The Company tracks the currency movements and adjusts its order book accordingly.
- It maintains close to 90 days of inventories of raw materials, WIP and finished goods and counterbalances it with procuring orders. This, in turn, creates a natural hedge in buying and selling.

Human Resources Risk

Issues & Concerns:

Efficient human resources are critical to the operations of the Company. Thus, in the absence of quality human resources, the ambitious growth plans of the Company may not be successfully implemented.

Mitigation Strategy:

The Company has well-versed HR policies and practices in the industry in order to develop, nurture and retain talented personnel.

HUMAN RESOURCES

The Company firmly believes that people are the assets of the organisation, contributing to its growth and long term business sustainability. The Company's human resource policies are formulated with an objective of developing a professional, productive and dedicated workforce. Aligned to this vision, the employees are time and again provided with various skill and personal development trainings to keep them motivated. This also ensures significant growth in their competencies. The Company also places strong emphasis on maintaining a safe, conducive, stimulating and energetic work environment to boost employee morale and enhance their productivity. The Company's learning and development program is well-established to ensure that the employees remain updated of the internal and external changes. Besides this, the Company has strategically collaborated with various stakeholders to promote organisational excellence and secure support for employees.

As the Company is becoming more consumer-oriented, it strives continually to put in place the best HR practices for ensuring a congenial atmosphere for employees and nurturing them to deliver best results.

DISCLAIMER CLAUSE

The statement in the Management Discussion & Analysis describing the Company's objectives, projections, estimate, expectations are 'forward–looking statements' within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. Important factors that could make a difference to the Company's operations and include economic conditions affecting demand/supply and price conditions in the domestic and overseas markets in which the Company operates, changes in the government regulations, tax, corporate and other laws and another related factor.