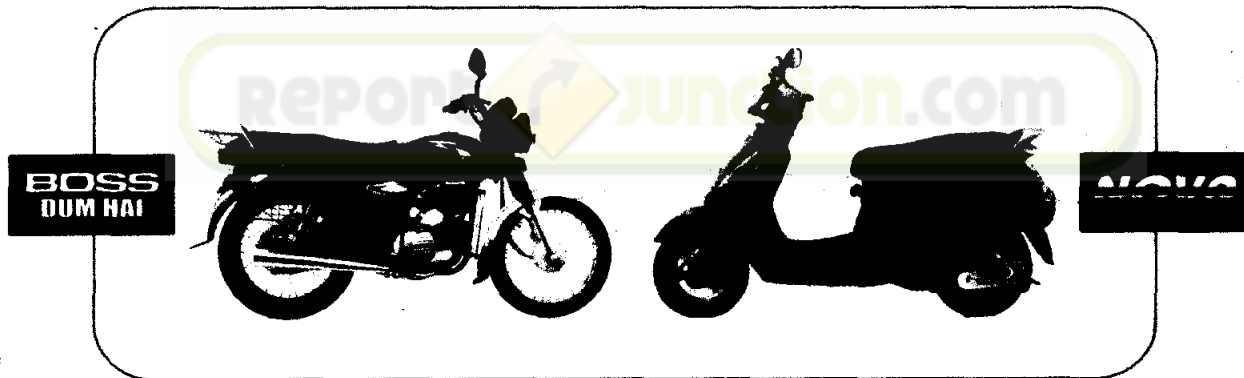


KINETIC ➡

KINETIC FINANCE LIMITED

12TH ANNUAL REPORT
2001-2002



KINETIC FINANCE
Friends Indeed

KINETIC FINANCE LIMITED

BOARD OF DIRECTORS

Mr. A.H. FIRODIA	Chairman
Air Chief Marshal H. MOOLGAVKAR (RETD.)	
Mr. A.P. BHAGWAT	
Mr. P.C. JAIN	
Ms. VISMAYA FIRODIA	
Mr. V.S. MEHTA	
Mr. A.H. MUNOT	
Mr. V.R. SABOO	
Mr. R.R. MOHAN KHANNA	CEO & Director (Operations)
Mr. VSR SWAMY	Executive Director
Ms. S.F. MOTWANI	Managing Director

Company Secretary

Ms. Samita Lahiri

BANKERS

Allahabad Bank
Bombay Mercantile Co-operative Bank Ltd.
Bank of Baroda
Bank of Maharashtra
The Bank of Rajasthan Ltd.
Bharat Overseas Bank Ltd.
Bank of India
Cosmos Co-operative Bank Limited
Canara Bank
Corporation Bank
Development Credit Bank Ltd.
Federal Bank
IDBI Bank Ltd.
Punjab National Bank
State Bank of India
State Bank of Hyderabad
State Bank of Mysore
Tamilnad Mercantile Bank Ltd.
The Catholic Syrian Bank Ltd.
The United Western Bank Ltd.
The Jammu & Kashmir Bank Ltd.
Union Bank of India
UTI Bank Ltd.

AUDITORS

M/s. Lakhani & Company
Chartered Accountants
Mumbai.

REGISTERED OFFICE

4704, Pune Mumbai Road
Pimpri Chowk, Pimpri
Pune - 411 018.

KINETIC FINANCE LIMITED**NOTICE**

NOTICE is hereby given that the **Twelfth** Annual General Meeting of the Members of the Company will be held on **Saturday, the 28th day of September, 2002 at 11.30 A.M. at D-1 Block, Plot No.18/2, Chinchwad, Pune – 411 019** to transact the following business :

ORDINARY BUSINESS :

1. To consider and adopt Directors' Report, Audited Balance Sheet as at 31.03.2002 and Profit and Loss Account for the year ended as on that date and the Auditors' Report thereon.
2. To appoint a Director in place of Mr. R.R. Mohan Khanna, who retires by rotation, and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Mr. V.S. Mehta, who retires by rotation, and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. A. P. Bhagwat, who retires by rotation, and being eligible, offers himself for reappointment.
5. To appoint Auditors and fix their remuneration.

SPECIAL BUSINESS :

6. To consider and if thought fit, to pass, with or without modification(s), the following Resolution as a Special Resolution :

"RESOLVED THAT pursuant to the provisions of Section 31 and other applicable provisions, if any, of the Companies Act, 1956, the Articles of Association of the Company be and are hereby altered in the manner and to the extent set out below :

- a. In existing Article 2 of the Articles of Association, under the heading "Interpretation", the following definition of "Dividend" be substituted :

"Dividend" includes Bonus and Interim Dividend.

- b. In existing Article 2 of the articles of Association, under the heading "Interpretation", the following new definition be inserted after the definition of "Person".

"Postal Ballot" includes voting by electronic mode.

- c. Existing Article 73 of the Articles of Association be substituted as follows :

(i) 73A : Notwithstanding anything contained in any other Articles, key decisions as may be prescribed by the Central Government/Stock Exchanges where the shares of the Company are listed/SEBI/any other Competent Authority, may be decided only by postal ballot, instead of transacting such key decisions in General Meetings of the Company.

(ii) 73B : Subject to 73A as given above, decision on other matters may be taken by voting either personally or by an attorney or by proxy or, in the case of a body corporate by a representative duly authorised under Section 187 of the Act.

- d. Existing Article 87 of the Articles of Association be substituted as follows :

87 : Subject to the provisions of Section 255 of the Companies Act, 1956, Kinetic Engineering Limited can nominate upto two Directors on the Board of Directors of the Company, who shall not be liable to retirement by rotation and shall not be removed without the consent of Kinetic Engineering Ltd. (KEL), so long as KEL is a shareholder.

- e. After existing Article 112(a) of the Articles of Association, the following new Article 112(1)(a) be inserted :

12th ANNUAL REPORT 2001-2002

112(1)(a) : A Director who is a Member/Chairman of a Committee shall inform the Company about the Committee positions he occupies in other Companies and notify changes as and when they take place.

f. Existing Article 117 of the Articles of Association be substituted as follows :

117 : Questions arising at any Meeting of the Board or Committee thereof shall be decided by a majority of votes and in case of an equality of votes, Chairman shall have a second or casting vote.

g. Existing Article 126 of the Articles of Association be substituted as follows :

126 : Subject to the provisions of Section 267, 269, 316 and 317 and all other applicable provisions, if any of The Act (including any statutory modification(s) or reenactments thereof for the time being in force), the Board may, from time to time, appoint one or more Director(s) to be the Managing Director(s) or Wholetime Director(s) or Executive Director(s) of the Company and may from time to time (subject to the provisions of the Act and /or any contract between him or them and the Company) remove or dismiss him or them from office and appoint another or others in his or their place(s).

h. After existing Article 143 of the Articles of Association, the following new Article 143A be inserted :

143A : The warrant in respect of the dividend declared by the company shall be posted within 30 days from the date of the declaration or such other period as may be in force, as per the provisions of Companies Act, 1956 or Listing Agreement, to the members/beneficial owners entitled to the payment of the same."

NOTES :

1. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 setting out material facts concerning the items of Special business is annexed hereto.
2. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE SAID MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER.**
3. Register of Members and Share Transfer Books of the Company will remain closed from Monday, the 16th of September, 2002 to Saturday, the 28th of September, 2002 (both days inclusive).
4. Members desirous of obtaining any information concerning the accounts or operations of the Company are requested to write to the Company at least 10 days before the date of the Annual General Meeting so that the information may be made available to the meeting.
5. Members are requested to advise immediately to the Company's Registered Office quoting their Registered Folio Number / their Depository Participants (in respect of their electronic share accounts) of any change in their address / residential status.
6. The unclaimed dividend upto the year ended 30.04.1994 have been transferred to the General Revenue Account of the Central Government. Those members who have not encashed their Dividend Warrants for the years 1994-95 and thereafter are requested to approach the Company immediately for revalidation of their unclaimed Dividend Warrants as in accordance with the provisions of Section 205C of the Companies Act, 1956 the amount of unpaid / unclaimed dividend would be transferred to the Investor Education and Protection Fund at the end of seven years respectively and no claims shall lie against the Fund or the Company in respect of individual amounts thereafter.
7. Information required to be furnished under Clause 49 of the Listing Agreement entered into with the Stock Exchanges regarding Directors to be reappointed on retirement.

Mr. R.R. Mohan Khanna :

Mr. R.R. Mohan Khanna joined the Company as a Whole Time Director designated as CEO & Director (Operations) on 22.08.1999. He is a Mechanical Engineer from Delhi College of Engineering and Post Graduate Diploma in Management from IIM Calcutta. He has a good academic record having won several scholarships. He has over twelve years experience covering sectors like automobile and financial services. He was earlier with Transamerica Apple Distribution Finance Ltd. as the Chief Operating Officer of the Company. Mr. R.R. Mohan Khanna is also a director with Kinetic Marketing & Services Ltd and is a member of the Shareholders Grievance Committee of the Company.

KINETIC FINANCE LIMITED**Mr. V.S. Mehta :**

Mr. V.S. Mehta has been associated with the Company for a long time He is a B.E. (Mechanical) and had done well in his academic career right through to his M.E. (Refrigeration and Air Conditioning) where he had stood first class first. He has an experience of over thirty years in automobile industry and is also one of the top dealers of the Kinetic group for several years. Mr. V.S. Mehta is also a Director with Mehta Automobiles Pvt. Ltd., Kino Finance Pvt. Ltd. and Tempo Finance (W) Pvt. Ltd.

Mr. A.P. Bhagwat :

Mr. A.P. Bhagwat has been associated with the Company for a long time. He is a member of the Institute of Chartered Accountants of India with a brilliant academic career being a rank holder in both the intermediate and final examinations. He is at present the senior partner of M/s. P.G. Bhagwat, Chartered Accountants one of the more reputed Chartered Accountant firms in the city. He is also the Managing Trustee of a charitable trust doing charitable work in the area of education and medical help. He is a member of the Remuneration Committee of the Company.

BY ORDER OF THE BOARD OF DIRECTORS
For KINETIC FINANCE LIMITED



A.H. FIRODIA
CHAIRMAN

Place : Pune
Date : 27th June, 2002

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956**Item No. 6**

The Government has amended Companies Act, 1956 through Companies Amendment Act, 2000 which has been made effective from 13th December, 2000. The Listing Agreement with Stock Exchanges has also been amended to incorporate the requirements of Corporate Governance which have been implemented by the Company.

In order to bring the Articles of Association of the Company in conformity with both the amendment made to Companies Act, 1956 as well as amendments to Listing Agreements with the Stock Exchanges and also to incorporate the requirements of Corporate Governance, the existing articles are proposed to be amended.

The Board recommends the Special Resolution for approval of the members.

None of the Directors may be deemed to be concerned or interested in the passing of the said Resolution. A copy of the Memorandum and Articles of Association of the Company alongwith the proposed amendments would be available for inspection at the Registered Office of the Company between 11.00 a.m. and 1.00 p.m. on any working day till the date of the Annual General Meeting.

BY ORDER OF THE BOARD OF DIRECTORS
For KINETIC FINANCE LIMITED



A.H. FIRODIA
CHAIRMAN

Place : Pune
Date : 27th June, 2002

12th ANNUAL REPORT 2001-2002**DIRECTORS' REPORT**

To
The Members
Kinetic Finance Limited

Your Directors present the **Twelfth** Annual Report of the business and operations of the Company together with the audited accounts for the year ended 31st March, 2002.

Financial Results :

The financial results of your Company for the year ended 31st March, 2002 as compared to the previous period have been summarised below :

	31.03.2002 (Rs. in Lacs)	31.03.2001* (Rs. in Lacs)
Gross Income	8421.59	6151.19
Gross Profit before Provision for Tax	470.18	512.44
Provision for Tax	199.58	258.25
Profit after Tax	270.59	254.19
Provision for Tax (earlier years)	(5.55)	-
Prior Period Adjustments	(3.19)	(3.16)
Balance brought forward from Previous year	13.40	145.60
Transfer from General Reserve	-	186.00
Appropriations :		
Statutory Reserve Fund	52.43	50.21
Preference Capital Redemption Reserve	16.87	13.00
Debenture Redemption Reserve	192.86	387.00
Proposed Preference Dividend	-	13.53
Proposed Equity Dividend	-	94.47
Tax on Proposed Dividend	-	11.02
Balance carried to Balance Sheet	13.08	13.40

* Previous Period's figures being for a period of nine months are exactly not comparable with the current year.

Dividend :

In an effort to strengthen the financial position of the Company the profits of the Company are being ploughed back and as such your Directors do not recommend any dividend for the year ended 31.03.2002.

However as per the terms and conditions of 11% Redeemable Cumulative Preference Shares of Rs.10/- each, the accumulated dividend would be paid in the year of profit.

The year under review :

During the year under review your Company has financed 90,069 vehicles with a gross value of Rs.210.15 crores as against 70904 vehicles with a gross value of Rs.138.60 crores in the previous period.

The Gross Income for the year under review is Rs.84.22 crores as compared to Rs.61.51 crores in the previous period. The Gross profit for the year is at Rs.19.11 crores as compared to Rs.16.11 crores in the previous period. After providing for Depreciation and amortisation, the Company has reported pre tax profit of Rs 4.70 crores. A provision of Rs. 1.99 crores has been made for tax. The profit after tax of the Company is at Rs 2.71 crores.

KINETIC FINANCE LIMITED

Your Company during the year under review has continued with the robust business performance with an excellent disbursement growth in the year. One of the important developments in the year under review has been the tie up arrangements with renowned private sector banks whereby your company assures business to the tie up partners at a guaranteed return and also benefits in the process by tapping business opportunities without investing funds while still earning an income. Your Company has shown aggressive growth in the tie up disbursements wherein the business has more than doubled in the year and this has been a major thrust area for your Company in the year under review.

During the year under review the Company has continued with its overall focus on collection and maintenance of high standard asset quality. Recognising the despair of many second hand two wheeler buyers and realising that used vehicle sales is a significantly large untapped market, your Company has launched "Kinetic Renew" shopees along with dealers and sub dealers who have set up these shopees where repossessed vehicles are sold under finance after proper servicing and refurbishing. The Kinetic Renew Shoppees have already been launched at about thirty five locations in Gujarat, Maharashtra and Madhya Pradesh and the same would be extended to cover about 50 locations across the Country shortly. The initial response has been positive and with the support of a dedicated and specialised distribution channel this segment has the potential to grow and it is expected that this initiative would become a major national channel.

Service Tax :

In line with the finance bill your Company has got the Service Tax registration.

Insurance :

One of the major development in the year under review has been the entry of your Company into the emerging field of insurance. Your company has entered into an Administration and Service agreement to this effect with Bajaj Allianz General Insurance Company Limited to function as Service Providers. Your Company has several advantages over other companies in the field of insurance and insurance related activities as your Company has a captive business source in all the vehicles financed by it as well as Kinetic vehicles sold on cash and which are compulsorily insured. The entry of your company into the field of insurance related activities would be a natural extension of business for your Company. Your Company has the requisite infrastructure and therefore no additional expenditure would be involved. The undertaking of insurance agency by your Company would also benefit your Company and can be conveniently and advantageously combined and would also be complimentary to the present business of the Company.

However your Company would be continuing with the present business of financing vehicles manufactured by the Kinetic group and would be undertaking this activity in addition as related activity only. Your Company has started providing services in distribution of insurance related products in the area of non life insurance. All the 28 branch offices of your Company have been equipped with the required software facility and manpower at all these branches have been trained and about 25,000 policies have already been processed in the first four months of the year under review. This additional line of business is expected to be a major revenue earner for your Company in the year ahead.

Resources :

During the year your Company has reduced its average cost of borrowing by 121 basis points over the previous period. During the year under review your Company has raised Rs.113 crores from various banks and financial institutions by way of Cash Credit, Term Loans, Securitisation and Non Convertible Debentures.

Fixed Deposits :

As on 31.03.2002 there were 791 depositors holding Rs.95.38 lacs which had matured but remained unclaimed of which 199 depositors having deposits amounting to Rs.27.47 lacs have since been renewed / repaid.

The Board of Directors are taking suitable steps for repayment of the amount due to the depositors and remaining unclaimed.

As a prudent business policy your Company has decided to reduce its exposure on Fixed Deposits and accordingly the Board of Directors have resolved to voluntarily stop acceptance / renewal of Fixed Deposits of your Company with effect from the 1st of May, 2002. Your Company had accordingly taken all steps to comply with the same. Your Company however continues to retain the existing deposit base and the same would be repaid to the existing depositor(s) at the time of their respective maturity.

Your Company has always adhered to all the guidelines as notified by the Reserve Bank of India in this respect.

12th ANNUAL REPORT 2001-2002**Rating :**

The Annual review of the ratings assigned to the various instruments of the Company has been carried out by Credit Analysis & Research Ltd.(CARE) during the year under review and CARE has retained the rating of CARE AA- to the Fixed Deposit programme and Non Convertible Debentures of the Company.

Current Operations and Future prospects :

As a matter of judicious business policy, it has been decided that in the current year, your Company would be reducing the dependence on fund based business and would be enhancing the business under tie up arrangements thereby enabling your Company to tap business opportunities and earn income without investing funds. It is expected that with the entry of your Company into the field of Insurance and Insurance related activities, there would be a new revenue stream for your company and it is expected that this would be a major contributor to the revenue of the Company in the future.

It is expected that the motorcycle segment would continue to lead the demand for two-wheelers in the coming years and overall two wheeler industry sales are expected to increase by 20% in the coming years. The four-stroke scooters however would add new dimension to the two-wheeler segment in the coming future. As incomes grow and people feel the need to own a private means of transport, sales of two-wheelers is expected to rise significantly. The response to the new motorcycles viz Kinetic Challenger and GF 125 launched by Kinetic Engineering Ltd have been positive. Kinetic NOVA the four stroke scooter launched last year is making significant and rapid strides. With the marked preference shown by the customers for Kinetic vehicles, it is expected that your Company will continue its sturdy business growth in the future leading to a substantial increase in the number of vehicles financed by your Company.

Depository System :

As per the directions given by the Securities and Exchange Board of India, the Equity Shares of the Company are compulsorily traded in demat mode with effect from 2nd January, 2002. Intime Spectrum Registry Pvt. Ltd., Mumbai continue to provide connectivity in a Depository Mode with both National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Limited (CDSL). The Registrar and transfer activity for shares held in physical form however continues to be carried out in-house.

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 that :

- i) in the preparation of the annual accounts for the year ended 31.03.2002, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- ii) the directors had selected such accounting policies and applied them consistently and made judgements 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 year and of the profit of the Company for the year under review;
- iii) the directors had 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) the directors had prepared the accounts for the year ended 31st March, 2002 on a "going concern" basis.

Directors :

Mr. V.S. Mehta, Mr. A.P. Bhagwat and Mr.R.R. Mohan Khanna retire by rotation at the ensuing Annual General Meeting and being eligible offer themselves for reappointment.

Auditors :

M/s. Lakhani & Co., Chartered Accountants, Mumbai Auditors of the Company hold office until the conclusion of the ensuing Annual General Meeting and being eligible, have given their consent for reappointment.

The observations of the Auditors in 2(a) of the Auditors' Report dated 27th June, 2002 have been explained in Note No. 28 of the Notes to the Account.

KINETIC FINANCE LIMITED**Corporate Governance :**

As per the Listing Agreement with the Stock Exchanges, your Company was required to implement various requirements of Corporate Governance by 31st March, 2002. Your Company had taken adequate steps to ensure compliance of the requirements of Corporate Governance. A separate Report on Corporate Governance is given in Annexure – "B".

Particulars of Employees :

Particulars of employees as required under Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules 1975, forms a part of this report. However as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956 the report and the accounts are being sent to the shareholders of the Company excluding the statement of particulars of employees under Section 217(2A) of the Companies Act, 1956. Any shareholder interested in obtaining a copy of the said statement may write to the Secretarial Department at the Registered Office of the Company.

Information as per Section 217(1)(e) of the Companies Act, 1956 :

The Company has no activity relating to the conservation of energy or technological absorption and also there was no foreign exchange earnings and outgo.

Acknowledgement :

Your Directors place on record their grateful appreciation to the Company's Bankers, Financial Institutions, Customers, Dealers, depositors, Kinetic Engineering Limited, Kinetic Motor Company Limited, Kinetic Marketing & Services Ltd. and Shareholders for their continued and whole hearted support extended to the Company and also express their appreciation for the dedicated service rendered by the employees of the Company.

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS



A.H. FIRODIA
CHAIRMAN

Place : Pune
Date : 27th June, 2002



MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Kinetic Finance Ltd (KFL) is engaged in finance business since 1990. Initially it had explored various financing opportunities available in the market i.e. financing of car, Equipment Finance, Corporate Lease along with two wheeler finance. However over the last three years, Kinetic Finance Limited has concentrated one hundred percent of its business and resources in financing the two wheelers manufactured by the Kinetic group. The following Management Discussion and Analysis Report presents the Company's strategy to increase the number of vehicles to be financed by further capturing the market share by offering better services to the customers.

The Industry :

A growing middle class with increasing purchasing power, increasing willingness of the customers to borrow, an improvement in the number and quality of financial products and a more sophisticated and consumer friendly product delivery system has lead to the growth in the retail financial sector. Recognising the importance of retail finance banks and financial institutions are entering the retail finance business by either leveraging their existing infrastructure or acquiring the infrastructure to attract the retail customers. After housing finance and credit cards, vehicle financing is another area that is booming in our country.

The retail finance industry has undergone a major change. Until recently a prerogative of the select few with high service charges and limited distribution reach, the rising income levels and a change in the social behaviour towards borrowing has led to a proliferation of Non Banking Finance Companies in the retail finance sector.

One of the key retail finance product which is attracting the average customer and is expected to grow aggressively is two wheeler financing. Two wheelers are the entry level personal transport vehicle for a very large percentage of India's population. Their low price and operating costs relative to cars make it an ideal buy for almost forty per cent of India's households. The poor state of public transport in India and the increasing urbanisation are also contributors to the demand for two wheelers.

Currently the market share of two wheeler finance companies is largely controlled by the manufacturer promoted finance companies. Though few large finance companies and private sector banks are entering this small ticket high volume retail finance segment, it remains a largely untapped market for key players.

The two wheeler segment has grown by 15% in the last year. With the economy showing signs of revival and the two wheeler industry being directly influenced by the growth rate of economy, it is expected that the two wheeler industry would do well.

Opportunities, threats, risks and concerns :

Traditionally a fragmented industry, the retail finance industry has undergone considerable consolidation and restructuring which has left the industry with a few select players. The retail finance industry has grown exponentially due to intense involvement of foreign banks, private sector and public sector banks.

Competition is intense in all segments of the two wheeler industry with fuel efficiency and price being crucial considerations for success. In the recent past, a manufacturer's ability at product innovation and opening new market niches have also been crucial for the growth of the industry.

The motorcycles are increasingly penetrating the rural markets and it is expected that the motorcycle segment would continue to lead the demand for two-wheelers in the coming years. With the increasing preference of consumers to own a personal means of transport, it is expected that the sales of two wheelers would rise significantly leading to an increase in the retail finance industry.

Improvement in product range, access to vehicle financing schemes and deficiencies in urban public transport will aid market expansion. Sales of all two wheeler segments is growing at a healthy pace. The recent growth in sales has been influenced by stable prices of vehicles and an upsurge in demand from the semi-urban rural segment. The importance of this segment will increase in the future as will the availability of vehicle financing schemes.

The entry of the banks in the two wheeler financing segment would lead to the reduction in the margins. It is expected that there would be a drop in the interest rates. It is expected that this segment would witness keen competition with the increased attention from the large private and foreign sector banks. Moreover since the Company is mainly in the business Hire Purchase Finance of Kinetic vehicles, the prospects of the Company is directly linked to the sale of Kinetic vehicles.