

Annual Report 2002-2003



Chairman's Message



A. H. FIRODIA
Chairman

Dear Shareholder,

As the financial year 2002-03 draws to a close, I write to you with mixed feelings. While the balance sheet has not yet reflected growth, we have been taking steps and getting closer to fulfilling our goal of transformation from a moped company to a motorcycle manufacturing one. Several key initiatives that we undertook last year were carried out successfully. These initiatives which include brand building in motorcycles, strengthening of distribution network, cost reduction, work on improving product portfolio, improving the company's policies and systems, increasing exports, reducing debt etc., are aimed at paving the way for the company to emerge stronger in the coming year. The underlying strategy is to make a strong foray into motorcycles, while maintaining mopeds at the current levels.

To quickly recap, last year we signed on legendary cricketer Kapil Dev to be our brand ambassador for our motorcycle *Kinetic Boss*. Kapil's association with the *Boss* was built right to the grassroots level by organizing a series of his visits across the country from Aurangabad to Gorakhpur. We also launched a special 250cc cruiser with breakthrough V-twin technology *Kinetic Aquila*. The *Aquila* has been appreciated as the most premium and overall superior motorcycle available in India. These two initiatives, combined with a total motorcycle sales growth of 45.97% have gone a long way into establishing Kinetic as a motorcycles manufacturer.

In addition, this year, we expanded our distribution network by 430 numbers, largely by adding sales points in the rural areas, an important factor for motorcycle sales in the country. Cost reduction was achieved through a series of cost cutting measures including vendor base rationalization and renegotiation of our debt. We have also been working on expanding our product portfolio and have three important products lined up for the next year, exciting performance bike GF 170 (in two variants City and Sport), an executive bike and also a mini-bike designed for load carrying. We also achieved a significant growth in our export volumes(129.36%) and opened new overseas markets. Special highlights include our growing presence in US market, where we reached a milestone of over 25,000 units exported since we began. US being a very tough market in its expectations of quality, this is a significant achievement. New markets of Mexico, Sri Lanka, Bangladesh and African countries have also responded very enthusiastically to us.

I believe that with this groundwork laid out, our company is now ready to capture a significant market share in the motorcycles market. As we know, India is the second largest two wheeler market in the world and motorcycles have emerged as a passion and a must-have in the country, resulting in a growth of 25.35%. Last year, a total of 32.95 lakh motorcycles were sold. I believe that this is a very good industry to be present in today. And I am confident that next year, we will see ample growth and success in this segment.

Thank you,

Arun Firodia,
Chairman

Year 2002-03 Highlights

► Record export of 25,000 vehicles to United States

Kinetic Engineering recently reached a milestone figure of 25,000 vehicles exported to United States. Export units in mopeds segment include Luna and V2 and in scooter segment, Style (rechristened as Milano for US market.)

► Launch of the 250cc V-twin true cruiser Aquila

Last year, the motorcycle enthusiasts took notice as Kinetic launched a truly exciting cruiser the *Kinetic Aquila* in collaboration with Hyosung Motors, Korea. The *Aquila 250* is a "true" cruiser bike with a 250cc, V-twin, oil cooled engine with 4 valves per cylinder. The output is a stunning 26 bhp of power with a top speed easily crossing 130 kph. The *Aquila* gives exceptional stability and balance, and is designed for highly comfortable cruising. The *Kinetic Aquila* was sold as a limited edition at select locations with a price tag of Rs. 1.45 lakh.

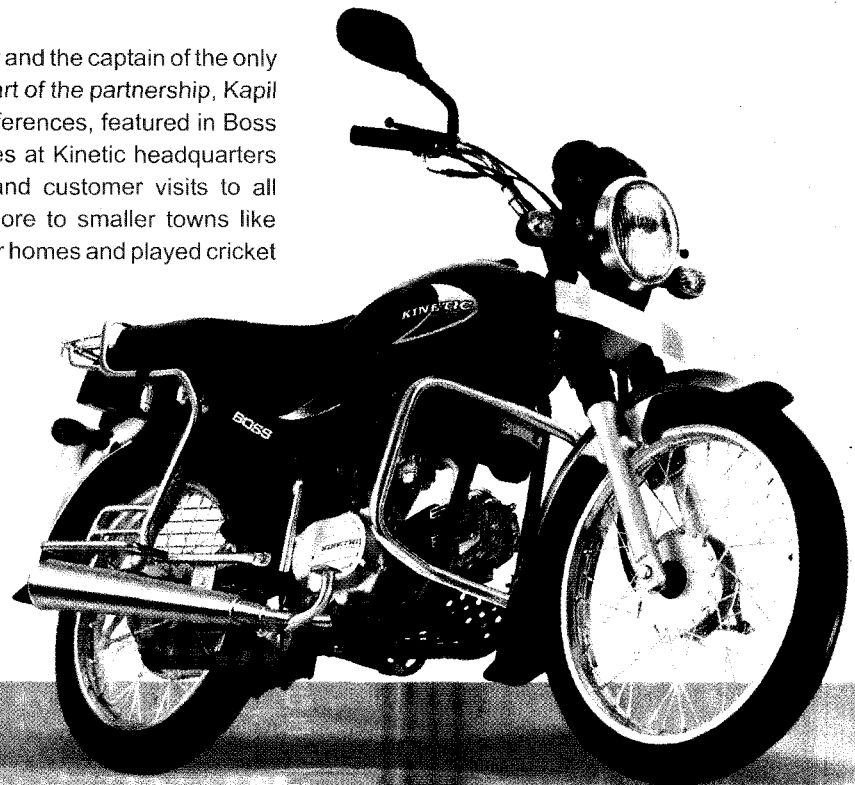
► Kinetic expands motorcycle range with launch of rugged "Kinetic Boss"

Kinetic boosted its portfolio and entered the important entry-level bikes segment with the launch of "Boss" a four-stroke motorcycle in the economy segment. The motorcycle is made with a view to satisfy the needs of long distance commuters who require high fuel efficiency, riding comfort, sturdiness and durability. In addition to a high fuel efficiency 89 kmpl (USTC), Kinetic Boss has distinguished styling in its class and a host of features such as a double cradle chassis, hyper suspension shock absorbers, engine guard, full steel front and rear mudguards, a large wheelbase for good road hold, wider seats for added comfort, a unique footboard for the pillion rider and multi-focal reflector headlamp, tail lamp and side indicators for better illumination.

To coincide with the World Cup fever that had gripped the nation, Kinetic also launched a cricket inspired variant of motorcycle Boss at hands of Kapil Dev. Combining the enduring passion for cricket with the emerging passion for motorcycling in the country, the bike serves as a goodwill message to the Indian cricket team, and is dedicated to Kapil Dev, the only Indian captain to have brought home the World cup so far. The special edition comes in the blue colour of the Indian cricket team, features a special rearguard and a windshield, and is accompanied by a set of cricket bat and ball signed by Kapil Dev himself. It is designed to catch the fancy of the Indian cricket fans.

► Kinetic Boss endorsed by Kapil Dev

Kinetic signed on legendary ace Indian cricketer and the captain of the only Indian World cup winning team Kapil Dev. As part of the partnership, Kapil Dev addressed press conferences, dealer conferences, featured in Boss TV and press advertising, motivated employees at Kinetic headquarters and plants and made extensive dealership and customer visits to all corners of the country from cities like Bangalore to smaller towns like Aurangabad and Rewa, MP. He visited customer homes and played cricket with the participants of a test ride contest.





Ms. Sulajja Firodia Motwani
Jt. Managing Director

Special Achievements

- ▶ **Our Jt. Managing Director Ms. Sulajja Firodia Motwani is selected as a Global Leader of Tomorrow by the prestigious World Economic Forum.**
The World Economic Forum nominates "Global Leaders of Tomorrow" from across the globe based on potential to influence and shape the future agenda of their communities and countries. This international award is very rare and a prestigious honour, and serves as recognition of Ms. Motwani's achievements.
- ▶ **Ms. Motwani also won the Society Achievers Award in the business category.**

Board of Directors

Mr. A. H. FIRODIA	Chairman
Dr. N. A. KALYANI	
Mr. S. C. SHAH	
Dr. K. H. SANCHETI	
Mr. P. P. CHHABRIA	
Mr. S. R. SANGHI	
Mr. S. R. KOTECHEA	
Mr. M. K. KHERA	Joint Managing Director
Mrs. SULAJJA FIRODIA MOTWANI	Joint Managing Director

DGM (Commercial) & Company Secretary

Mr. R. RAMKUMAR

Auditors

M/s. P. G. BHAGWAT
Chartered Accountants, Pune

Cost Auditors

M/s. DHANANJAY V. JOSHI & CO.
Cost Accountants, Pune

Bankers

STATE BANK OF INDIA
STATE BANK OF INDORE
ICICI BANK
PUNJAB NATIONAL BANK
BANK OF BARODA
IDBI BANK

Registered Office

D1 BLOCK, PLOT NO. 18/2,
CHINCHWAD, PUNE-411 019.

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NOTICE

NOTICE is hereby given that the 33rd Annual General Meeting of the Members of KINETIC ENGINEERING LIMITED will be held on Saturday, 20th September, 2003, at 2.30 p.m. at the Registered Office of the Company at D1 Block, Plot No. 18/2, Chinchwad Pune : 411019, to transact the following business :

ORDINARY BUSINESS

- 1 To consider and adopt Directors' Report, Audited Balance Sheet as at 31st March, 2003, and Profit & Loss Account for the year ended on that date and the Auditors' Report thereon.
- 2 To appoint a Director in place of Mr.S C Shah, who retires by rotation, and being eligible, offers himself for re-appointment.
- 3 To appoint a Director in place of Mr. S R Kotecha, who retires by rotation, and being eligible, offers himself for re-appointment.
- 4 To appoint Auditors and fix their remuneration.

NOTES:

1. 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 PROXY NEED NOT BE A MEMBER. THE PROXY SHOULD BE LODGED WITH THE COMPANY AT ITS REGISTERED OFFICE ATLEAST 48 HOURS BEFORE THE TIME OF THE MEETING.
2. Register of Members and Share Transfer Books of the Company will remain closed from 08/09/2003 to 20/09/2003 (both days inclusive), for ascertaining :
 - a) As per the Register of Members, Members of the Company after giving effect to all valid share transfers in physical form lodged with Company on or before 07/09/2003, and
 - b) As per the Statement of Beneficial Owners, beneficial owners in respect of shares held in electronic form, with NSDL / CDSL, as on 07/09/2003.
3. Claim for unencashed dividend upto the Company's Financial year 1994-95 may be made by application in the prescribed form to the Registrar of Companies, Maharashtra, 3rd Floor, PMT Commercial Building, Deccan Gymkhana, Pune 411004.
4. Those members/beneficial owners of shares who have so far not encashed dividend warrants for the Financial Year 1995-96 and thereafter, and those depositors who have so far not encashed their refund orders/interest warrants may immediately approach the Company for replacement thereof, as the amount of dividend, refund and interest remaining unclaimed for a period of 7 years shall be transferred to the Investor Education and Protection Fund as per provisions of Section 205C of the Companies Act, 1956.
5. Members desirous of obtaining any information concerning the accounts or operation of the Company are requested to write to the Company at least 10 days before the date of Annual General Meeting so that the information may be made available at the meeting.
6. Members are requested to advise immediately any change in their address to the Company's Registered Office quoting their registered folio number. Shareholders holding shares in dematerialised form shall address their communication to their respective depository participant only.

By Order of the Board of Directors,
for **Kinetic Engineering Limited**

R. Ramkumar
DGM (Commercial) &
Company Secretary

Pune
27th May, 2003

INFORMATION REQUIRED TO BE FURNISHED UNDER THE LISTING AGREEMENT**Item No.2**

Mr. Shantilal C Shah is B.com and is practicing Tax Consultant for over 50 years. He deals with Income Tax, Wealth Tax, Sales Tax, Value Added Tax and other indirect taxes. He authored 16 books on taxation and religious subjects. He is currently Chairman of State level taxation committee of MCCIA. He was twice member of Sales Tax Advisory Committee.

He visited France under Friends of France Association and gave lectures on Sales Tax both in France as well as in Dubai.

Mr. Shantilal C Shah is a Director of the Company since 1989. He is also Chairman of all the three Committees of the Board namely Audit Committee, Remuneration Committee and Shareholders' Grievance Committee.

Item No.3

Mr. Shirish R Kotecha is MS Automobiles from Kansas State University, USA. He has 24 years working experience in manufacture of auto components. He was for 10 years Executive Director of Kinetic Engineering Ltd. and has handled Accounts, Finance & Commerce.

He is Chairman of Champ Engineering Pvt. Ltd. of which Engineering division manufactures auto components. He has published research papers on crop agronomy and has done research on innovative farming methods. He is President of Indian Tissue Culture Association.

Mr. S R Kotecha is a Director of the Company since 1987. He is also a Member of all the three Committees of the Board, namely Audit Committee, Remuneration Committee and Shareholders' Grievance Committee.





DIRECTORS' REPORT 2002-2003

To
The Members,
Kinetic Engineering Limited

Your Directors present the 33rd Annual Report and audited accounts of your Company for the year ended 31st March, 2003.

FINANCIAL HIGHLIGHTS :

	2002-2003	2001-2002 (Rs.in Lakhs)
Sales, Other Income & Rebates	29900	35831
Gross Profit	1214	2287
Depreciation	1317	1179
Profit/(Loss) before tax	(103)	1108
(Provision)/Credit for taxation	61	(394)
Profit/(Loss) after tax	(42)	714
Proposed Dividend & Additional tax	—	102
Transfer to General Reserve	—	200
Profit Carried forward		
Last year	7873	7461
This year	7831	7873

YEAR IN RETROSPECT :

Gross Profit during the year under review was at Rs.1214 lakhs, as compared to Rs.2287 lakhs in the previous year. There was a small net loss after depreciation, interest and tax during the year at Rs.42 lakhs as compared to net profit of Rs.714 lakhs in the previous year. The fall in profit can be attributed to the decline in the overall moped market. Your Company is presently in the process of converting itself from a moped making Company into a motorcycle making Company. This transition process is continuing and is expected to be completed in the current financial year.

DIVIDEND :

Due to losses incurred, your Directors do not recommend any dividend.

EXPORTS AND FOREIGN EXCHANGE EARNINGS AND OUTGO :

Your Company has exported 7005 vehicles during the year for a turnover of Rs 12.97 crores against 3916 Vehicles for a turnover of Rs 7.51 crores during the previous year. Your Company opened new markets in Australia, Benin, Congo, Cyprus, Kenya, Korea, Mauritius, Mozambique, Nigeria, Paraguay and Yugoslavia. Your Company has also launched in the export market new vehicles such as Boss, GF-125, Nova and Zing.

Total foreign exchange earnings and outgo during the year under review were as follows :

Earnings Rs. 988.32 lakhs

Outgo Rs. 696.90 lakhs

RESEARCH & DEVELOPMENT AND TECHNOLOGY ABSORPTION :

During the year under review :

The R & D Department

- carried out research on variants on Kinetic Boss, GF-150, GF-170 and King.
- also upgraded TFR (USA-II) and V2 "XL" Mopeds, both meant for export markets.
- also is developing new models such as Boss-115, GF-185cc, 'Velocity' an exciting motorcycle in fast growing executive segment and also in addition, an entry level motorcycle.

33rd Annual Report 2002 - 2003

Your Company incurred expenditure on R & D during the year as follows :

Revenue	: Rs. 344.62 lakhs
Capital	: Rs. 3.37 lakhs
Total	: Rs. 347.99 lakhs
% of total turnover	: 1.26

CONSERVATION OF ENERGY :

Some of the measures for energy conservation undertaken during the year under review were :

- Power factor was monitored through out the year;
- Maximum demand of MSEB load was controlled by staggering of load in Chassis shop;
- Air booster was installed for CNC Machines;
- Air leakages were reduced by replacing hose pipe to pipe fitting in vehicle assembly; and
- Energy efficient compressor was installed with auto on / off electronic unit.

The above measures taken by your Company have resulted in substantial savings in the energy cost.

Our future energy conservation plans are as follows :

- Use of LDO in place of HSD by modifying burner for power coating plant;
- Refractory powder coating for SQF furnace in HT;
- Reduction of transformer losses by maximum utilisation of transformers by adjusting load and switching off one no. of transformers out of five;
- Control of maximum demand maintaining unity power factor;
- Installation of automatic on / off lighting for tool room / chassis shop;
- Use of Flx – max (dipole magnets) on fuel line for LPG on SQF furnace;
- Use of Flx – max (dipole magnets) on fuel line for LDO on the thermopac / burner;

LABOUR SITUATION :

Labour relations at all the Plants of the Company are cordial.

DIRECTORS' RESPONSIBILITY STATEMENT :

Your Directors confirm that :

- in the preparation of Annual Accounts, the applicable Accounting Standards have been followed;
- in selecting and applying Accounting Policies, consistency has been followed and that in judgements and estimates, due care has been taken that the same are 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 financial year and of the profits of the Company for that period;
- proper and sufficient care has been taken 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; and
- the annual accounts have been prepared on the principle of a "going concern" basis.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT :

Management Discussion and Analysis Report, pursuant to Clause 49 of the Listing Agreement, forms a part of this report and the same is Annexed as Annexure - 1.

SINGLE POINT SHARE REGISTRY :

As per directions of SEBI, w.e.f. 1/4/2003, your Company has entrusted physical share transfer to M/s. Intime Spectrum Registry Ltd., who were already having electronic connectivity for your Company's dematted equity shares.

Your Company's subsidiary M/s. Kinetic Motor Company Ltd. (KMCL) has applied for licence to function as Registrar and Share Transfer Agent. On KMCL commencing function as Registrar and Share Transfer Agent, both your Company's physical transfers as well as electronic connectivity for dematted shares would be done by KMCL.



REPORT ON CORPORATE GOVERNANCE :

A separate report on Corporate Governance alongwith certificate from Auditors on its compliance is annexed as Annexure-2.

SUBSIDIARY COMPANY AND CONSOLIDATED ACCOUNTS :

The Report and Accounts of the subsidiary company "Kinetic Motor Company Ltd." are annexed to this report alongwith the statement under Sec. 212 of the Companies Act, 1956. However taking into consideration the mandatory requirement under Clause 32 of the Listing Agreement to present consolidated accounts which provides members with a consolidated position of the Company including its subsidiary, members are provided with the report and accounts of the Company treating these as abridged accounts as contemplated by Sec.219 of the Companies Act, 1956. Members desirous of receiving the audited annual accounts of Kinetic Motor Company Ltd. may write to the Company Secretary at the Registered Office of the Company for a copy of the same. This will help save considerable cost with printing and mailing of the Annual Report.

FIXED DEPOSITS :

158 Deposits amounting to Rs. 17.99 lakhs were matured and unclaimed as on 31st March, 2003, out of which 77 deposits amounting to Rs.10.19 lakhs have since been either renewed or refunded. During the year, your Company has offered premature redemption of entire Fixed Deposits. 1241 depositors opted for prepayment of FD amounting to Rs. 176.13 lakhs which have been duly paid by the Company.

COST AUDITORS :

The Board of Directors appointed M/s.Dhananjay V Joshi & Co., as Cost Auditors of the Company u/s. 233 B of the Companies Act, 1956, for the year 2003-2004. The approval of the Central Govt. is yet to be received.

DIRECTORS :

Mr. V A Datar, Director, resigned w.e.f. 27/05/2003. Mr. J M Vakil, Director, expired on 27/05/2003. The Board noted the valuable services rendered by them during their tenure of association with the Company as Directors. Mr. S C Shah and Mr. S R Kotecha, Directors, retire by rotation at the ensuing Annual General Meeting, and being eligible, offer themselves for re-appointment. Mr. A P Pande ceased to be the Managing Director of the Company w.e.f. 10/07/2002.

AUDITORS :

Your Auditors M/s. P G Bhagwat, Chartered Accountants, retire at the forthcoming Annual General Meeting and, being eligible, have given their consent for re-appointment.

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, form 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. Any shareholder interested in obtaining a copy of the said statement may write to the Company Secretary at the Registered Office of the Company.

ACKNOWLEDGEMENT :

Your Directors express their sincere thanks to the Financial Institutions, Banks, Dealers, Suppliers and Stakeholders for the support extended to the Company and also wish to place on record their appreciation of the dedicated services rendered by the employees of the Company.

For and on behalf of the Board of Directors

Pune
27th May, 2003


A H Firodia
Chairman