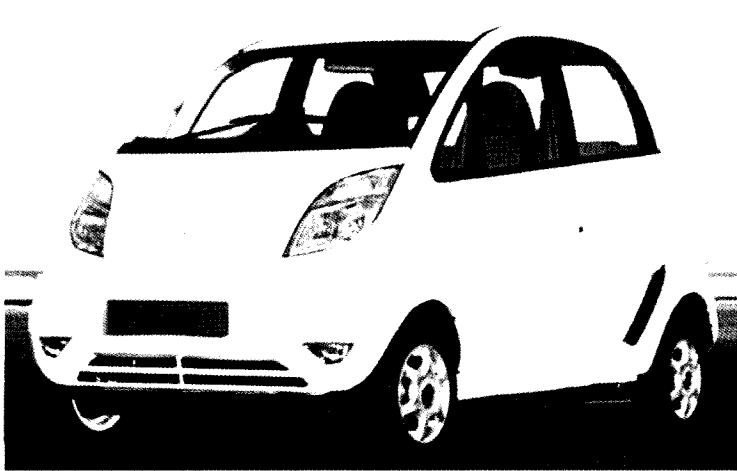


# **Kinetic Engineering Limited**

## **ANNUAL REPORT**

### **2008-2009**

# ***Kinetic in the Tata Nano***



*Tata Nano*

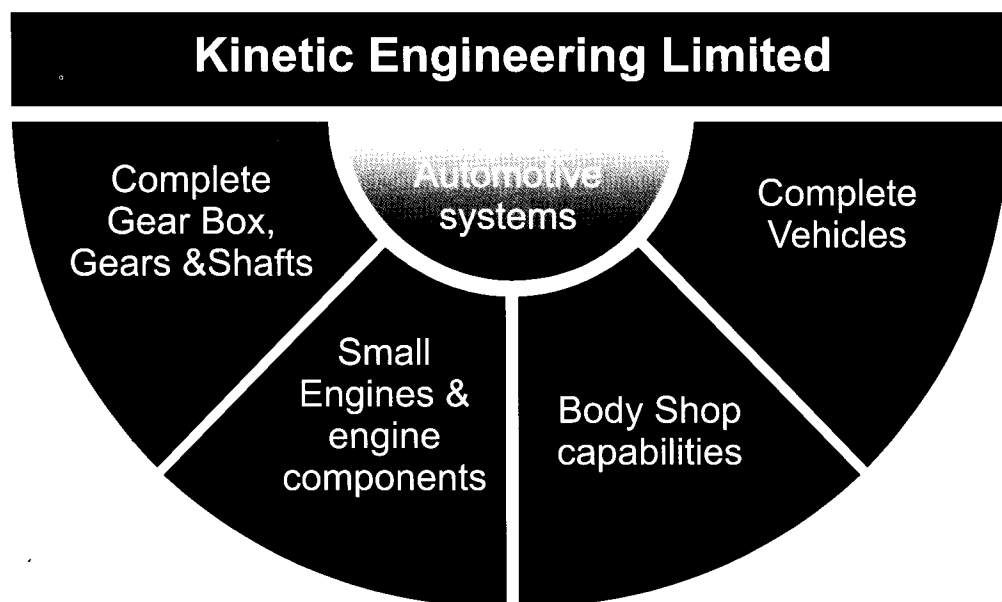


*Kinetic's new state-of-the-art facility*

The recently launched Nano car from Tata Motors is a technologic marvel appreciated across the entire world, for its breakthrough design, technology & price. Kinetic is proud to be associated with the Nano as its partner for development of the transmission gears.

Satisfied with Kinetic's commitment & supply for gearboxes for their other programmes, and with the confidence in Kinetic's technical capability, Tata Motors has selected Kinetic to supply transmission gears & shafts for their prestigious Nano car. Kinetic has begun supplies of transmission gears to Tata Nano during 2009.

Accordingly, Kinetic has set up a complete new state-of-the-art gear manufacturing facility with the latest equipment for ensuring the best quality product for Tata Nano.



## KINETIC ENGINEERING LIMITED

### Board of Directors

Mr. ARUN H. FIRODIA	.... Chairman
Mr. AJINKYA A. FIRODIA	.... Managing Director
Dr. N. A. KALYANI	
Mr. S. C. SHAH	
Dr. K. H. SANCHETI	
Mr. S. R. SANGHI	
Mr. S. R. KOTTECHA	
Mrs. SULAJJA FIRODIA MOTWANI	
Mr. ASHISH KUMAR	
Mr. SANTOSH SENAPATI	

### Auditors

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

### Registered Office

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

### Works

Nagar-Daund Road, Ahmednagar, PIN - 414001

### Contents

- Notice of the Annual General Meeting
- Directors' Report
- Report on Corporate Governance
- Auditors' Report
- Balance Sheet, Profit & Loss Account (with Schedules and Notes)
- Cash Flow
- Balance Sheet Abstract and Company's General Business Profile
- Attendance Slip & Proxy Form

# KINETIC ENGINEERING LIMITED

## NOTICE

NOTICE is hereby given that the 38<sup>th</sup> Annual General Meeting of the shareholders of KINETIC ENGINEERING LIMITED will be held on Wednesday, 31st March, 2010 at 11.00 a.m., at the Registered Office of the Company at D-1 Block, Plot No. 18/2, MIDC, Chinchwad, Pune 411 019, to transact the following business :

### ORDINARY BUSINESS

1. To receive, consider and adopt the Audited Balance Sheet as at 30th June, 2009 and the Profit and Loss Account for the 15 months period ended on that date, together with the Reports of Auditors and Directors thereon.
2. To appoint a Director in place of Dr. K. H. Sancheti, who retires by rotation and is eligible for re-appointment.
3. To appoint a Director in place of Mr. S. R. Kotecha, who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Mrs. Sulajja Firodia Motwani, who retires by rotation and is eligible for re-appointment.
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 an Ordinary Resolution:  
 "RESOLVED that Mr. Ajinkya A. Firodia, who was appointed by the Board of Directors as an Additional Director of the Company with effect from 6.4.2009, and who holds office upto the date of the forthcoming Annual General Meeting of the Company, in terms of the provisions of Section 260 of the Companies Act, 1956 (the Act), and in respect of whom the Company has received a notice in writing from a Member under Section 257 of the Act, proposing his candidature for the office of a director of the Company, be and is hereby appointed a director of the Company."
7. To consider and if thought fit, to pass with or without modification(s) the following resolution as an Ordinary Resolution:  
 "RESOLVED FURTHER THAT, subject to the provisions of Sections 198, 269, 309, 310, 314 and 316, and all other applicable provisions, of the Companies Act, 1956, and subject to the approval by the Central Government, the appointment of Mr. Ajinkya A. Firodia, as the Managing Director of the Company with effect from the close of working hours on 20.4.2009, for a period of 5 years, with powers to control the whole or substantially whole of the day to day operations of the Company, subject to the overall superintendence, control and directions of the Board of Directors, as well as and the fixation of the remuneration (inclusive of salary, allowances, perquisites and other benefits payable, and including the minimum remuneration payable in the event of loss or inadequacy of profits) by the Remuneration Committee, as given below, be and is hereby approved.

#### Remuneration (per annum)

Salary	Rs. 18,00,000 (with 10% increase every year)
HRA	Rs. 6,00,000 (with 10% increase every year)
LTA	Rs. 50,000
Medical Exp. Reimb.	Rs. 15,000
Variable Pay	1.5% of Operating Profit (EBITDA)

#### Benefits

Provident Fund	As per the Rules of the Company
Superannuation	
Gratuity	
Personal Accident & Mediclaim Benefits	
Other privileges, facilities, perquisites, benefits and amenities	
Club membership	One club
Provision of cars	2 cars - one car with driver for office use and one car with driver for private use
Telephone facility	Telephone at residence, and a mobile phone
Watchman at residence	One round-the-clock watchman at residence

**Minimum Remuneration** In the event of loss or inadequacy of profits, the aforesaid remuneration shall be payable as the minimum remuneration

*38<sup>th</sup> Annual Report 2008-2009***Other terms**

Tenure	5 years w.e.f. 20.4.2009
Duties and responsibilities	Subject to the superintendence, control and direction of the Board of Directors, Mr. Ajinkya A. Firodia is entrusted with substantial powers of management and shall be responsible for the general conduct and management of the business and affairs of the Company as enumerated in the Agreement dated 20.4.2009, and shall exercise the powers conferred on him by the Agreement or such other powers as may be delegated to him by the Board from time to time, subject to such restrictions and limitations as the Board may impose.

**NOTES:**

- 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. The Proxy as per the format included in the Annual Report should be returned, duly completed, to the Registered Office of the Company not less than FORTY-EIGHT HOURS before the time for holding the Meeting. Proxies submitted on behalf of limited companies, societies, partnership firms, etc. must be supported by appropriate resolution / authority, as applicable, issued by the member organization.
- The Explanatory Statement setting out the material facts concerning the Special Business mentioned at item nos. 6 & 7 of Notice of the Meeting, as required under the provisions of Section 173 of the Companies Act, 1956, and setting out the information in respect of the Directors seeking appointment / re-appointment at the Annual General Meeting (Item Nos. 2, 3, & 4 of the Notice), as per Clause 49 of the Listing Agreement, is annexed hereto.
- The Register of Members and Share Transfer Books of the Company will be closed from Friday, the 26th March, 2010 to Wednesday, the 31st March, 2010 (both days inclusive), in accordance with the requirements of Clause 16 of the Listing Agreement.
- Pursuant to the provisions of Sections 205A and 205C of the Companies Act, 1956, inter-alia, all unclaimed / unpaid dividend, remaining unclaimed / unpaid for a period of 7 years from the date those are transferred to the special account in terms of the provisions of the said Sections, have been transferred to the Investors Education and Protection Fund (IEPF) established by the Central Government.
- Members desirous of obtaining any information concerning the accounts or operations of the Company are requested to address their queries to Secretarial Department so as to reach the Company at least 10 days before the date of the meeting.

By Order of the Board of Directors  
For KINETIC ENGINEERING LIMITED

Anil Kale  
Company Secretary

Pune, 2nd March, 2010

**Registered Office :**  
D1 Block, Plot No. 18/2, MIDC, Chinchwad  
Pune - 411019

# KINETIC ENGINEERING LIMITED

## Annexure to Notice

### EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956

#### Item No. 6 & 7

Mr. Ajinkya A. Firodia was appointed as Additional Director in accordance with the provisions of Section 260 of the Companies Act, 1956, on the Board of Directors of the Company, and holds office as such director up to the forthcoming Annual General Meeting.

The Company has received a notice under the provisions of Section 257 of the Companies Act, 1956, from a member, proposing the candidature of Mr. Ajinkya A. Firodia for the position of director of the Company. The details relating to Mr. Ajinkya A. Firodia, as required under Clause 49 of the Listing Agreement, are given below.

Further, Mr. Ajinkya A. Firodia has been appointed by the Board of Directors as the Managing Director w.e.f. 20.4.2009, and the Remuneration Committee of the Board of Directors has fixed the remuneration payable to Mr. Ajinkya A. Firodia. The present resolution at Item No. 7 seeks shareholders approval to the said appointment and the remuneration.

Mr. Ajinkya A. Firodia is related to directors Mr. Arun H. Firodia and Mrs. Sulajja Firodia Motwani. None of the directors, except Mr. Arun H. Firodia, Mrs. Sulajja Firodia Motwani and Mr. Ajinkya A. Firodia, are to be considered as interested in the said resolution.

The directors recommend the passing of the resolution at Item No.s 6 & 7.

#### DETAILS OF DIRECTORS RETIRING BY ROTATION AND SEEKING RE-ELECTION, AND THOSE SEEKING APPOINTMENT AS A DIRECTOR AT THIS ANNUAL GENERAL MEETING (Item Sr. No.s 2, 3, 4 & 6 of the Notice)

Name	Dr. K.H.Sancheti **	S.R.Kotecha **	Sulajja Firodia Motwani **	Mr. Ajinkya A. Firodia*
Date of Birth & Age	24.7.1936(73)	3.9.1951 (58)	26.8.1970 (39)	24.10.1979 (30)
Appointed on	27.5.1989	27.11.1987	4.5.1996	6.4.2009
Qualifications	MBBS,D.ORTHO,FCPS, M.S.(ORTHO), F.I.C.S.,F.A.C.S PH.D	MS Automobiles	Master of Science in Industrial Administration (MBA)	Bachelor of Engg. & Economics from Brown University, USA
Expertise / experience	37 years as a surgeon	27 years of manufacturing activities. Research on innovative farming methods.	Vast experience in the areas of Marketing, Finance, strategic planning and Corporate restructuring.	Worked with J. P. Morgan in New York for 2 years. Joined Kinetic Group in 2003 and worked as a member of the Senior Management Team
Directorship in other public companies	Envair Electrodynne Limited.	Kinetic Motor Company Limited,	MD- Kinetic Motor Company Limited, Kinetic Marketing and Services Limited	Kinetic Marketing and Services Limited
Chairmanship / membership of committees of public companies	Member of Audit, Remuneration and Shareholders Grievance Committee of Kinetic Engineering Limited	Member of Audit, Remuneration and Shareholders Grievance Committee of Kinetic Engineering Limited	Member of Audit Committee in Kinetic Motor Company Limited	
Shareholding	241	95660	Nil	28049

\* Seeking fresh appointment

\*\* Seeking re-appointment

By Order of the Board of Directors  
For KINETIC ENGINEERING LIMITED

Anil Kale  
Company Secretary

Pune, 2nd March, 2010

**Registered Office :**  
D1 Block, Plot No. 18/2, MIDC, Chinchwad  
Pune - 411019



*38<sup>th</sup> Annual Report 2008-2009***DIRECTOR'S REPORT 2008-09  
(including Management Discussion & Analysis)**

To  
The Members,  
KINETIC ENGINEERING LIMITED

The Directors present their 38th Annual Report on the business and operations of the Company and the audited financial accounts for the 15 months period ended 30th June, 2009.

**FINANCIAL HIGHLIGHTS**

The accounts of the Company have been made for a period of 15 months ending 30th June, 2009. (period under review)

During the year, the accounts for the period under review have been prepared after giving effect to the merger of Auto Division of Jaya Hind Sciaky Limited with the Company; and as such the current year results are not comparable with the previous year results. The gross income from operations was Rs.9228.31 lac, while the loss before tax was Rs.3133.47 lac.

The merger has added value to KEL, by way of strengthening of the balance sheet as well as assets and net worth position of the Company, due to the transfer of the assets from Jaya Hind Sciaky Limited. Furthermore, the merger will also add to the Auto Component business of the Company, by way of addition of the Variator manufacturing business of Jaya Hind Sciaky Limited, which will add to the top line and bottom line of the Company for years to come.

**Business Overview**

After transferring the loss making two-wheeler business, the Company has started focusing on the promising new Auto Components business, specially on Power Train Components and Assemblies. The Company is aiming to cover the wide spectrum of auto components business, by positioning primarily as a Tier-I supplier of the complete assemblies of gear box and engines, and also of related components that involve significant engineering and machining skills.

During the year ended 30.6.2009 (period under review), the Company has made good progress in the direction of its strategic focus. The Company has been awarded contract for the supply of Fully Assembled Transmission Gearboxes required for a new LCV Platform, to be launched by one of the country's largest automobile manufacturers, in joint venture with an American company. The full utilisation level of the contract is expected to generate revenues close to Rs.200 million annually.

The Company has been building up orders for Auto Components and received orders from leading Automotive Companies like Tata Motors, Force Motors, Mahindra Group and Carraro in India and from renowned international clients like BRP, Tomos and Rockford from Europe and USA.

Most notably, during this period, the Company was able to secure a prestigious order for manufacture of all transmission gears from Tata Motors for its NANO Car and also completed major portion of the project development work during the same period. Company has invested in setting up a new state-of-the-art gear manufacturing and processing line for the NANO car that will allow the Company to produce next generation technology gears. This new set up will also augment the overall technological base and expertise of your Company.

With a quality system set up in tune with the requirements of ISO 9001, and with ISO/TS 16949:2002 certification, the Company plans to leverage its skills in domestic as well as international market, by further striving for total customer satisfaction through relationship building and providing superior products and technological solutions to its customers.

## KINETIC ENGINEERING LIMITED

### Finance Overview

During the period under review, the Company has been investing in building up its technological base for the Nano project as well as other projects. The company's sales and orders were also affected due to the delay in implementation and start up of the Tata Nano car project on account of shifting of the project from Singur. Company also faced a short term set back due to sudden drop in schedules from its customers during the period October 2008 to March 2009, on account of global recession. Owing to all these factors, the Company has made a loss before tax of Rs. 3133.47 Lacs for the period.

However the Company has taken various steps to improve its business and financial outlook for future during this period including, but not limited to, a) business development, resulting in new orders, b) progress on completion and readiness to supply state-of-the-art technology gears to Tata Motors and completion of the Scheme of Merger with Jaya Hind Sciaky Limited.

During the year, the Hon'ble Bombay High Court approved a Scheme of Arrangement between Jaya Hind Sciaky Limited (the Transferor Company), Kinetic Engineering Limited (the Transferee Company) and Kaygee Auto Products Private Limited (the Resulting Company), and their respective shareholders. Pursuant to the said Scheme, the Auto Component business and Investments (the Remaining Undertaking) of Jaya Hind Sciaky Limited has been merged with Kinetic Engineering Limited.

Subsequent to the close of the period under review, pursuant to the said Scheme of Merger, the Company has issued and allotted 17,82,774 equity shares to the shareholders of Jaya Hind Sciaky Limited. The equity share capital of the Company has also been enhanced due to the conversion of 16,44,231 Compulsorily Convertible Cumulative Preference Shares earlier allotted to the investor AIG, the conversion of 8,65,784 Optionally Convertible Cumulative Preference Shares earlier allotted to Micro Age Instruments Pvt. Ltd., as well as due to the preferential allotment of 1,14,750 equity shares to Micro Age Instruments Pvt. Ltd.

During November, 2009, the Company has sold-off its property situated at Chinchwad, Pune, a non-core asset. The proceeds from the above transaction, of approximately Rs. 44 crores, have been primarily used for pre-paying a substantial part of the debt of the Company, thereby reducing the interest burden and for improving the working capital. The outstanding secured debt as at the commencement of the period under review, of Rs.95 crore, has been substantially reduced to Rs.32 crore (approx.) by the end of December 2009.

### Industry Overview

The Indian auto component industry is one of India's high growth industries with good future prospects owing to the expected growth in the Indian auto industry as well as cost competitiveness of Indian manufacturing from a global supply point of view. From a low-key supplier providing components to the domestic market alone, the industry has emerged as one of the key auto components centres in Asia and is today seen as a significant player in the global automotive supply chain. India is now a supplier of a range of high-value and critical automobile components to global auto makers such as General Motors, Toyota, Ford and Volkswagen, amongst others.

As per an Automotive Component Manufacturers Association of India (ACMA) report, the turnover of the auto component industry was estimated at over US\$ 18 billion in 2007-08, an increase of 27.2 per cent since 2002. It is likely to touch US\$ 40 billion, increasing India's share in the global auto component market from 1 per cent to 3 per cent by 2015-16.

Aided by a 7 per cent growth in the original equipment manufacturers (OEM) segment and an 8.5 per cent rise in exports and after-market segment, it is expected that auto ancillary production would grow by 8.2 per cent in 2009-10, according to a report by the Centre for Monitoring Indian Economy (CMIE).



*38<sup>th</sup> Annual Report 2008-2009***Future Outlook**

The automotive industry is witnessing tremendous and unprecedented changes these days. This industry is slowly and gradually shifting towards Asian countries, mainly because of saturation of automobile industry in the western world. The principal driving markets for Asian automotive industry are China, India and ASEAN nations.

Low cost vehicles namely scooters, motorcycles, mopeds and bicycles have led to the massive growth of some of the fastest developing economies like China and India. The future of automotive industry in the Asian countries such as Thailand, Philippines, Indonesia, and Malaysia is bright and promising because of the ASEAN free trade area under which the export tariffs are very less.

Most of the major automotive players are shifting their production facilities in these emerging markets with the main purpose of gaining better access and reduction in their production costs. The various factors such as cheap financing and prices discounts, rising income levels and infrastructure developments will assist in the growth and development of automotive sector in the majority of Asian nations.

Your company is well positioned to tap into these growth opportunities and exploit its technological as well as locational advantage. Your company plans to remain diversified across various sectors including Indian as well as global industry and focus on commercial vehicles, two wheelers, three wheelers, tractors as well as certain non auto sectors such as recreational vehicles, to prevent cyclical swings in its growth pattern.

In this regard, Company has been able to tap into such new opportunities during the recent period. Company has started supplies of transmission gears for Tata Nano from September 2009. This car is expected to be sold in high volumes especially when the facility of Nano at Sanand, Gujarat will come up. Your company will benefit from this development. The Company has also begun supplies of various parts to Mahindra Two Wheelers limited, an associate company of Kinetic Motor Company Limited (where Kinetic Motor Company Limited holds a 20% equity stake). Sales of two wheelers by Mahindra Two wheelers Limited are showing an upward trend and are expected to contribute to top and bottom line of the Company. Further the company has won new contracts from prestigious Indian and International auto companies, including orders for development of complete gear box from Piaggio (Italian auto major) and Mahindra Navistar Company (a JV between M&M of India and Navistar of USA). These projects are under development and are expected to be completed during the middle of 2010. They are expected to contribute significantly to company's growth in the coming years.

**Opportunities, threats, risks and concerns**

The automotive industry is witnessing tremendous and unprecedented changes. This industry is slowly and gradually shifting towards Asian countries, mainly because of saturation of automobile industry in the western world. The principal driving markets for Asian automotive industry are China, India and ASEAN nations.

Low cost vehicles namely scooters, motorcycles, mopeds and bicycles have led to the massive growth of some of the fastest developing economies like China and India. The future of automotive industry in the Asian countries such as Thailand, Philippines, Indonesia, and Malaysia is bright and promising because of the ASEAN free trade area under which the export tariffs are very less.

Owing to these factors, while the opportunities for auto component industry is expected to continue to grow, rising competition may impact margins of various players in long run.

Availability of large pool of skilled manpower and low cost labour in India have lured many new entrants from the country and abroad in manufacture of Auto Components thereby intensifying competition, which in long run will reduce margins.

With the well established infrastructure after the consolidation of auto components business post-merger, and with the availability of required resources, the Company is geared up to meet new challenges and competition. Company is also building a diversified pool of orders from customers in various sectors such as Commercial Vehicles, Two Wheelers, Three Wheelers, Automobile (Passenger cars) as well as segments like Snow mobiles and ATV to lower its risk of wide fluctuations in its business owing to cyclical impact on any particular segment.

## KINETIC ENGINEERING LIMITED

However, any significant recession in the economy, continuous rise in raw material costs, and falling prices of US dollar may have adverse impact on margins.

### Internal Control System

The company has adequate internal control system commensurate with its size and nature of business for ensuring efficiency of operations and protection of company's assets. The company's Audit Committee periodically reviews compliance with Company's policies, procedures and laws.

### Cautionary Statement

The report contains estimates and expectations, which could be 'forward looking'. Actual results, however, might differ from estimates and expectations, as the same are affected by many uncertainties.

### RESEARCH & DEVELOPMENT AND TECHNOLOGY ABSORPTION

Research and development is viewed as crucial for development of the Company. These activities aid in expanding and upgrading the product portfolio and improving the offerings to the customers.

Total amount spent on Research & Development (R&D) during the period under review was Rs. 88.42 lacs, which represents 1 % of the Company's turnover.

### CONSERVATION OF ENERGY

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

1. Additional Power capacitors installed for improving the power factor
2. Transparent roof sheets (in place of cement sheets) fitted on all shop floors, to save day-time electricity consumption
3. Energy efficient Tube lights fittings installed in Nano Machine shop
4. Air leakages arrested in the Gear hobbing and gear shaving line
5. Low CFM compressors installed to operate second and third shifts, avoiding running of high CFM compressors.

The above measures have resulted in significant saving in energy cost.

### FOREIGN EXCHANGE EARNINGS AND OUTGO

The information on foreign exchange earnings and outgo is contained in Schedule-16 Notes to the Accounts (Point Nos. 13 & 14)

### SUBSIDIARY COMPANY

Company did not have any subsidiary, during the period under review.

### DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors confirm that:

1. In preparation of the accounts for the period under review, the Company has followed the applicable accounting standards
2. Appropriate accounting policies have been selected and applied consistently and the judgments and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the company as on 30th June, 2009.
3. 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