

KINETIC ENGINEERING LIMITED

BOARD OF DIRECTORS

ARUN H. FIRODIA CHAIRMAN
AJINKYA A. FIRODIA MANAGING DIRECTOR
DR. N. A. KALYANI	
S. C. SHAH	
DR. K. H. SANCHETI	
S. R. SANGHI	
S. R. KOTECHEA	
SULAJJA FIRODIA MOTWANI	
ASHISH KUMAR	
SANTOSH SENAPATI	

COMPANY SECRETARY

ANIL KALE

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	PAGES
• NOTICE OF THE ANNUAL GENERAL MEETING	2 - 3
• DIRECTORS' REPORT	4 - 9
• REPORT ON CORPORATE GOVERNANCE	10 - 18
• AUDITORS' REPORT	19 - 22
• BALANCE SHEET, PROFIT & LOSS ACCOUNT AND CASH FLOW	23 - 26
• SCHEDULES AND NOTES TO ACCOUNTS	27 - 45
• BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE	46
• ATTENDANCE SLIP & PROXY FORM	47

KINETIC ENGINEERING LIMITED

NOTICE

NOTICE is hereby given that the 39th Annual General Meeting of the shareholders of KINETIC ENGINEERING LIMITED will be held on Friday, 17th September, 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 31st March, 2010 and the Profit and Loss Account for the Financial Year (9 months period) ended on that date, together with the Reports of Auditors and Directors thereon.
2. To appoint a Director in place of Mr. Ashish Kumar, who retires by rotation and is eligible for re-appointment.
3. To appoint a Director in place of Mr. Santosh Senapati, who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Dr. N. A. Kalyani, who retires by rotation and is eligible for re-appointment.
5. To appoint Auditors and fix their remuneration.

NOTES:

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE 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.
2. The information in respect of the Directors seeking 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.
3. The Register of Members and Share Transfer Books of the Company will be closed from Wednesday, the 15th September, 2010 to Friday, the 17th September, 2010 (both days inclusive), in accordance with the requirements of Clause 16 of the Listing Agreement.
4. 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, 12th August, 2010

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

**INFORMATION RELATING TO THE DIRECTORS RETIRING BY ROTATION AND SEEKING RE-ELECTION AT THE ENSUING ANNUAL GENERAL MEETING
(in terms of the requirements of Clause 49 of the Listing Agreement)**

(Item Sr. No.s 2, 3 & 4 of the Notice)

Name	Dr. N. A. Kalyani	Mr. Ashish Kumar	Mr. Santosh Senapati
Date of Birth & Age	20.8.1928 (82)	6-Mar-1972 (38)	30.7.1962 (48)
Appointed on	29.4.1978	14.2.2008	14.2.2008
Qualifications	Doctorate in science	B-Tech. (Comp. Sci. and Engg.), PGDM (IIM Ahmedabad)	BTech (Mining Machinery, Indian School of Mines, Dhanbad) & MBA (IIM, Ahmedabad)
Expertise / experience	Promoted a sugal factory; pioneering work in co-op. movement	Over 10 years in financial services	Over 20 years in investment, project finance & cross border advisory services, including in pharmaceutical & healthcare sectors, oil & exploration sectors; in corporate and structured finance
Directorship in other public companies	Kalyani Forge Ltd. HCC Ltd. Kirkoskar Oil Eng. Ltd. Sudarshan Chem. Ind. Ltd.	Uniparts India Ltd.	Avasarala Technologies Ltd. Skil Infrastructure Ltd.
Chairmanship / membership of committees of public companies	HCC Ltd. Sudarshan Chem. Ind. Ltd.	Member of Audit committee of Uniparts (I) Ltd.	Nil
Shareholding	Nil	Nil	Nil

By Order of the Board of Directors
For KINETIC ENGINEERING LIMITED

Anil Kale
Company Secretary

Pune, 12th August, 2010

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

KINETIC ENGINEERING LIMITED

DIRECTORS' REPORT 2009-10 (including Management Discussion & Analysis)

Dear Members,

Your Directors have pleasure in presenting the 39th Annual Report on the business and operations of **KINETIC ENGINEERING LIMITED (KINETIC)** and the Audited Financial Accounts for the 9 months period ended 31st March, 2010.

FINANCIAL HIGHLIGHTS

For the Financial Year, the gross income from operations was Rs.8584 lac, while the net profit after tax was Rs.235 lac.

The accounts of the Company have been made for a period of 9 months ending 31st March, 2010 (the Financial Year). The results for the current Financial Year are not strictly comparable with the results for the preceding Financial Year, for the following reasons :

- The current Financial Year is a period of 9 months, whereas the preceding Financial Year was a period of 15 months.
- The preceding Financial Year results were announced incorporating the effect of the merger of the Auto Components and Investment division of erstwhile Jaya Hind Sciaky Limited, which was approved by the high court on 27.07.2009 and the Company announced audited consolidated results effective 01.04.2005

Business Overview

During the year, your company made significant progress in establishing itself as a specialized manufacturer of high technology components and assemblies with a focus on Powertrain assemble. This year has seen a significant production ramp-up in existing programs won earlier and recorded a growth in monthly revenues from Rs. 40 million p.m. in Oct 2009 to Rs. 70 million p.m. in March 2010. The Key initiatives have been :

- Commencement of mass volume production for gear sets for Tata Nano, the lowest priced car in the world. The supply of gear-sets for Tata Nano has commenced (earlier, the project was delayed due to the last minute shifting of the project from Singur to Sanand). During 2010-2011, with the anticipated increased production of Tata Nano, we expect this programme to grow further
- Ramp up of supply of key powertrain components and assemblies for different scooter models of Mahindra Two Wheelers Limited (MTWL), a company in which Kinetic Motor Company Limited, (an entity promoted by your Company and where it holds a substantial equity) holds 20% equity stake. MTWL scooter volumes have crossed a volume of 12,000 per month, within 10 months of launch. We are confident of continued growth going forward.
- Development of Arvin Meritor program for supply of transmission components and commencement of supplies.

Continued growth in the Indian automotive industry gives a confidence to your Directors that the Company would continue to see revenue increase from existing programs, though at a pace lower than the last year.

In addition, your company won a number of prestigious new contracts strengthening its position and future potential as a specialized Powertrain manufacturer. These include orders from well established and prestigious auto companies i.e. Tata Motors, Mahindra & Mahindra, Mahindra Navistar and Piaggio, for the development and

manufacture of fully assembled gear boxes and parts. These orders are expected to be productionised during 2010-2011, and upon full ramp up, the annualised value of these orders is expected to be about Rs.500-600 million per year.

Together with continued ramp-up in existing programs, and a strong order book from present & new customers, your Company is likely to see revenues touch Rs. 100 mn p.m. mark by June, 2010 and Rs.160 mn p.m. by March, 2010. At this level of operations, your Directors expect the Company to report healthy cash profits and be net profit positive.

Further, the Company has also received additional order for a second engine from Tomos (a moped manufacturer in Europe), which is under development.

Auto Component Industry is looking forward to a continuous growth as it has a direct bearing on the performance of the Auto Companies. In India, automobile sales have been increasing at a rapid rate which augurs well for the future of Auto Component Industry.

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. In the coming years, the Company will focus on strengthening its technological base and customer relationships to establish its position as a leading Powertrain components and assemblies specialist.

Finance Overview

The current Financial Year has been a year of consolidation for the Company, after merging the auto components business, as transferred from the erstwhile Jaya Hind Sciaky Limited.

Significant steps were taken by your Company to reduce debt during the current year:

During November, 2009, the Company has sold a non core asset, a property situated at Chinchwad, Pune. The proceeds from the above transaction, of Rs. 44.07 crores, have been primarily used for pre-paying a substantial part of the debt of the Company, thereby substantially reducing the interest burden of the Company. The secured debt outstanding as at the commencement of the period under review, of Rs.71.2 crore, has been substantially reduced to Rs.25.6 crore by the end of March, 2010. The Company has also divested some of its financial investments in shares, to raise funds for servicing and reduction of debt as well as to augment working capital required for its growth. During the Financial Year, the equity share capital of the Company has increased due to the conversion of 16,44,231 Compulsorily Convertible Cumulative Preference Shares, earlier allotted to the investor AIG. Also, during the Financial Year, the Company has issued and allotted 17,82,774 equity shares to the shareholders of Jaya Hind Sciaky Limited, pursuant to a Scheme of Merger, as approved by the Hon'ble Bombay High Court, a provision in respect of was already made in the financial statements of the preceding Financial Year.

As a result of the above steps taken during the year, Company's debt-equity has reduced from 2.2 multiple to 1.7 multiple. A large proportion of this debt is unsecured debt, which is in the form of Foreign Currency Optionally Convertible Bonds that are convertible into equity of the Company up to February 2013. Conversion of these bonds into equity will further reduce debt of the company substantially.

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, India has emerged as one of the key auto components centres in Asia and is today seen as a favorite destination of global auto majors. 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.

KINETIC ENGINEERING LIMITED

As per an Automotive Component Manufacturers Association of India (ACMA) report, the turnover of the auto component industry was estimated at over US\$ 19.2 billion in 2009-10, a CAGR of 19.2 per cent since 2003-04. It is likely to touch US\$ 40 billion, increasing India's share in the global auto component market from 1 per cent to 3 percent, by 2015-16.

Future Outlook

The global 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.

Entrance of new manufacturers into the small car market and new launches of low cost vehicles namely scooters, motorcycles, mopeds and bicycles have led to the massive growth of domestic automotive industry. For focused auto component players like KINETIC, this provides an opportunity to grow revenues with multiple OEM customers. KINETIC, with its large infrastructure and strong engineering skills, is uniquely positioned to provide Powertrain solutions to the end customer. India is already the 2nd largest two-wheeler market in the world and is expected to cross annual sales of 10 mn vehicles in 2011.

Your company is well positioned to tap into these growth opportunities and exploit its technological as well as locational advantage and is confident to meet the increased demand. 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, small cars as well as certain non auto sectors such as recreational vehicles, to prevent cyclical swings in its growth pattern.

In this regard, Company's execution of the auto component strategy over the past two years has started to bear fruit. It has won prestigious programs from stable and growing customers like Tata Nano, Mahindra and Mahindra, Mahindra Navistar, Arvin Meritor, etc. Some of these programs are already in production and as more of these programs go into production, your Company expects to grow rapidly going forward. In fact, revenues for April to June 2010 are up by 75% over the corresponding period in last year, reflecting the maturing of the Company's growth plan.

The outlook of your company is promising with continuous growth in terms of value and volume.

In the coming years, the Company will focus on further strengthening of its technological base and customer relationships to establish its position as a leading Powertrain components and assemblies specialist.

Opportunities, threats, risks and concerns

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. 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. Your company continues to move up the value chain to differentiate itself and increase margins going forward.

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, Tractors, Automobile (Passenger cars) as well as segments like Recreational Vehicles to lower its risk of wide fluctuations in its business owing to cyclical impact on any particular segment.

However, any significant recession in the economy, rising inflation resulting in lower purchasing power, withdrawal of stimulus measures by Government, continuous rise in raw material costs & crude oil prices, and fluctuation in the value of US dollar may have adverse impact on margins. The other risk factors include bad monsoon affecting rural economy, non availability of easy finance to auto sector and its customers and adverse change in law pertaining to excise duty, income tax, Sales Tax, VAT, Customs duty, Service Tax and any other Central / state levy etc, or government policy.

Internal Control System

The company has adequate internal control system commensurate with its size and nature of business for ensuring efficiency of operations, adherence to management policies and protection of company's assets. The company's Audit Committee periodically reviews the internal control systems and 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 expressed or implied in this report, as the same are affected by many other uncertainties. including raw material availability & prices, changes in Government regulations, tax regimes, economic developments and other incidental factors.

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. 69 lacs, which represents 1.4 % 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
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.
6. Oil leakages arrested in Variator line machine shop
7. Instead of individual Endo Gas generator, studied the process and succeed to run both the CGC Furnace and SQF furnace on one ENDO Gas generator. Resulting in LPG Gas saving.
8. A 200 CFM separate compressor kept off and run the CGC furnace on Main compressor in regular working days. Saving 50,000 units per year.

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

KINETIC ENGINEERING LIMITED

Foreign Exchange Earnings and Outgo

The information on foreign exchange earnings and outgo is contained in Schedule-15 Notes to the Accounts (Point Nos. 13 & 14)

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 31st March, 2010 and of the profit of the company for the year ended on that date.
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
4. The annual accounts for the period under review have been prepared on a 'going concern' basis

Corporate Governance

Pursuant to Clause 49 of the Listing Agreement with Stock Exchanges, a report on Corporate Governance with certificate of the Auditors of your company on Compliance with the conditions of Corporate Governance is given as annexure to the Directors' report.

Fixed Deposits

During the period under review fixed deposits amounting to Rs.0.65 lac were repaid on maturity. The balance as on 31.3.2010 standing in the fixed deposit account was Rs.1.10 lac.

Directors

In accordance with the provisions of the Companies Act, 1956 as well as the Articles of Association of the Company, Dr. N. A. Kalyani, Mr. Ashish Kumar and Mr. Santosh Senapati retire at the ensuing Annual General Meeting, and are eligible for re-appointment.

The directors Mr. Arun H. Firodia, Mr. Ajinkya A. Firodia & Mrs. Sulajja Firodia Motwani are related to each other.

Auditors

The auditors M/s P. G. Bhagwat, Chartered Accountants, hold office until the ensuing Annual General Meeting, and have furnished a certificate in terms of Sec. 224(1) of the Companies Act, 1956, about their eligibility.

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 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 at the Registered Office of the Company.

Acknowledgement

The directors express their sincere thanks to Reliance Capital Limited, Clearwater Capital Partners India Limited, banks, 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

Arun H. Firodia
Chairman

Pune, 12th August, 2010

KINETIC ENGINEERING LIMITED

ANNEXURE TO DIRECTORS' REPORT

REPORT ON CORPORATE GOVERNANCE FOR THE 9 MONTHS PERIOD ENDED 31ST March, 2010.

1. Corporate Governance Philosophy

Corporate Governance, in essence, is a set of systems and procedures which aims to ensure that the Company is managed to suit the best interest of all its stakeholders with an objective to maximize their wealth. The stakeholders may be Promoters, Shareholders, Customers, Lenders, Vendors, Government or Employees. The concept of Corporate Governance hinges on total transparency, integrity and accountability of the Management. Kinetic Engineering Limited (KEL) believes in total transparency in sharing all relevant information with all its stakeholders and the Company is quite confident that the information shared would in turn contribute to improve the overall performance of the Company and further would strengthen relationship of the Company with all above.

2. Board of Directors

2.1 Presently, the Board of the Company comprises ten members, out of which eight are Non-Executive Directors and out of eight Non-Executive Directors, five are Independent Directors. The Non-Executive Directors of the Company are highly experienced professionals in their fields and in the corporate world.

2.2 The Board is headed by an Executive Chairman.

2.3 The Composition of Directors on the Board of the Company is as under:

Category	No. of Directors	No. of Directors required under clause 49
Executive Directors	02	--
Non-Executive Directors	08	05
Independent Directors	05	05

2.4 The Category of Directors on the Board of the Company is as under:

Name of the Director	Category	No. of other Directorships in Public Ltd. Companies	Committee positions	
			Member	Chairman
Mr. A. H. Firodia	Promoter/ Executive	6	Nil	Nil
Mr. Ajinkya Firodia	Promoter / Executive	4	Nil	Nil
Mr. Ashish Kumar	Nominee	1	2	Nil
Mr. Santosh Senapati	Nominee	2	Nil	Nil
Dr. N. A. Kalyani	Independent	4	1	1
Mr. S. C. Shah	Independent	Nil	Nil	Nil
Dr. K. H. Sancheti	Independent	Nil	Nil	Nil
Mr. S. R. Sanghi	Independent	3	2	2
Mr. S. R. Kotecha	Independent	1	1	Nil
Mrs. S. F. Motwani	Promoter	4	1	Nil