

BOARD OF DIRECTORS

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

COMPANY SECRETARY

MR. ANIL KALE

AUDITORS

M/S. P. G. BHAGWAT
CHARTERED ACCOUNTANTS, PUNE

REGISTERED OFFICE

D1 BLOCK, PLOT NO. 18/2,
CHINCHWAD, PUNE - 411019.

WORKS

NAGAR-DAUND ROAD, AHMEDNAGAR, PIN - 414001

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KINETIC ENGINEERING LIMITED

N O T I C E

NOTICE is hereby given that the 40th Annual General Meeting of the shareholders of KINETIC ENGINEERING LIMITED will be held on Thursday, 25th August, 2011 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, 2011 and the Profit and Loss Account for the financial year ended on that date, together with the Reports of Auditors and Directors thereon.
2. To appoint a Director in place of Mr. S. C. Shah, who retires by rotation and is eligible for re-appointment.
3. To appoint a Director in place of Dr. K. H. Sancheti, who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Mr. S. R. Sanghi, 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 Tuesday, the 23rd August, 2011 to Thursday, the 25th August, 2011 (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, 30th May, 2011

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

Annexure to Notice

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. K. H. Sancheti	Mr. S. C. Shah	Mr. Sudhir Sanghi
Date of birth & Age	24.7.1936(74)	23.1.1924(88)	15.12.1950 (60)
Appointed on	27.5.1989	14.4.1989	31.10.1995
Qualifications	MBBS, D.ORTHO, FCPS, M.S.(ORTHO), F.I.C.S., F.A.C.S, PH.D	Commerce graduate	Commerce graduate. Adv. dip. in international business, marketing mgt. & agriculture
Expertise/Experience	39 years as a Surgeon	59 years as a Tax consultant	Instrumental in conceiving, promoting & launching diverse products
Directorship in other Public companies	N.A.	N.A.	Sanghi Spinners (I) Ltd. Sanghi Polyesters Ltd. Sanghi Ind. Ltd. Sanghi Cements Ltd.
Chairmanship / membership of Committees of public companies	Member of Audit, Remuneration and Shareholders Grievance Committee of Kinetic Engineering Limited	Member of Audit, Committee and Chairman of Remuneration and Shareholders Grievance Committee of Kinetic Engineering Limited	Chairman of Shareholders Grievance Committee of Sanghi Polyesters Ltd., Chairman of Investors Grievance Committee of Sanghi Ind. Ltd., Member of Audit Committee & Chairman of Investor Grievance Committee of Sanghi Spinners India Ltd.
Shareholding	241	Nil	Nil

By Order of the Board of Directors
For Kinetic Engineering Limited

Anil Kale
Company Secretary

Pune, 30th May, 2011

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

KINETIC ENGINEERING LIMITED

DIRECTOR'S REPORT 2010-11 (including Management Discussion & Analysis)

Dear Members,

Your Directors have pleasure in presenting the 40th Annual Report on the business and operations of **Kinetic Engineering Limited** and the Audited Financial Accounts for the financial year ended 31st March, 2011.

FINANCIAL HIGHLIGHTS

For the Financial Year, the net income from operations was Rs.91.17 crore, while the net loss after tax was Rs.10.91 crore.

The results for the current financial year are not strictly comparable with the results for the preceding financial year, as the current financial year is a period of 12 months, while the preceding financial year was a period of 9 months.

The company has crossed a gross revenue of Rs.90 cr. for the financial year 2010 – 2011. As you may be aware, your company entered the field of auto-components few years ago, after totally restructuring its operations from manufacture of two- wheelers to manufacture of various automotive components, and assemblies; and hence this marks a landmark in the company's continued vision to become a substantially large player in the auto-component field.

Some Highlights:

	2010 – 2011 (12 months)	2009 – 2010 (9 months)	
Net Sales and Income from Operations	Rs. 9117 lac	Rs. 4920 lac	Increase in operating income
Material Cost	67%	78%	Substantial decrease in material cost as a percent of sales
Employment cost	19%	24%	Decrease in employment cost as a percent of sales

Due to the same, the company has registered a EBITDA of Rs. 284 lacs during the said period. The Company has registered a net loss of Rs. 1091 lacs; largely due to the high depreciation costs (Rs. 799 lacs) incurred on basis of capex initiatives for new programs.

Business Overview

During the year, your company continues to consolidate its position as a specialized manufacturer of high technology components and assemblies with a focus on Power Train Components and assemblies. This year there has been a good progress in the ramp-up of existing production programs and development of new programs.

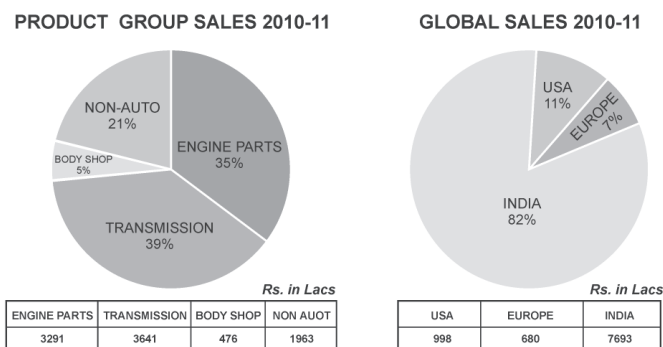
As a result, there has been substantial growth in company's sales revenues. This has been largely led by:

- Commencement and ramp up 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 which had commenced last year, saw a significant ramp-up this year.. Your Company has set up a world class manufacturing facility with the best in class equipments to manufacture high quality components in large volumes. Your Company is well positioned to grow production in line with the anticipated increased production of Tata Nano and, we expect this program to grow further in the coming years.

- Ramp up of supply of key power-train 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 a 20% equity stake. Your company supplies various engine and transmission assemblies to MTWL, one of India's fastest growing forces in the Indian 2 wheeler field. Start up for programmes for transmission components for Mahindra Farm Equipment Sector (FES), the worlds largest producer of tractors.
- Start up for programmes for Mahindra Auto Sector, one of country's largest and fastest growing automobile companies
- Start up of relationship with Enfield, one of country's premium manufacturer of top end motorcycles by supplying painted parts to the company.

As a result of the above, KINETIC's revenues have increased from Rs.49.19 cr. in the financial year 2009-10 (9 months) to Rs.91.17 cr. in the financial year 2010-11 (12 months).

Continued growth in the Indian automotive industry gives the 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. Your company remains diversified in its product category and customer base. The representation is as follows :



In addition, your company has made significant progress on development of prestigious new contracts, namely: complete Gear box assembly development for Mahindra Navistar & Piaggio.

These new programs have been under development and testing during 2010-11 and they are now nearing completion. Being large and complex programmes, company expects them to start in the coming financial year and gain momentum in the 3rd quarter of the year, to be productionised during 2011-12, Further, the Company continues to add more parts from its existing customers including Mahindra and Mahindra, Carraro, Tata Motors as well as Tomos SPA. Once the new programs are in full production and based on projections given by our customers, company is confident of further increasing its revenues

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. Your Company would also like adopt best manufacturing practices and has appointed the TPM club of India to embark upon the journey of TPM to meet its objectives of zero breakdowns, quality improvements, efficiency maximization and cost savings.

Finance Overview

After achieving a significant reduction in debt in the preceding year, the Company has been successful in obtaining working capital limits of Rs.10 crore, from Saraswat Co-operative Bank Ltd.

KINETIC ENGINEERING LIMITED

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.

As per an Automotive Component Manufacturers Association of India (ACMA) report, the turnover of the auto component industry was estimated at over US\$ 26 billion in 2010-11, a CAGR of 21 per cent since 2004-05.

Statistics of the Indian Automobile Industry

AUTOMOBILE SALES (DOMESTIC + EXPORT) (Number of Vehicles)						Growth Over 2009-10
Sr. No.	Category	2007-08	2008-09	2009-10	2010-11	
1	Passenger Vehicles	1768283	1888432	2397478	2973900	24%
2	Commercial vehicles	549488	426819	577730	752705	30%
3	Three Wheelers	506006	497793	613606	795989	30%
4	Two Wheelers	8068991	8441793	10511009	13329895	27%
	Grand Total	10892768	11254837	14099823	17852489	27%

Forecast : Automobile Segments	2011-12 growth over 2010-11 (Percent)
Passenger cars	16-18%
Utility Vehicles	12-14%
LCV (Goods)	18-21%
MHCV (Goods)	10-12%
Commercial Vehicles (Buses)	08-10%
Motorcycles	11-13%
Scooters	15-17%
Three Wheelers (Cargo)	04-06%
Three Wheelers (Passengers)	10-12%
Automobile Industry	12-15%

Source : SIAM

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. SIAM (society of Indian Automobile manufacturers) have forecasted a 18 – 21% growth for Light Commercial Vehicles, a 16 – 18% growth for Passenger Cars, a 12 – 14% growth for Utility vehicles and a 10 – 12% growth for heavy Commercial vehicles in 2011 – 2012 over the previous year. The 2 wheeler industry continues to grow at a large pace.

Your company is manufacturing components and assemblies to all the above segments, in addition to non-auto segments such as tractors, recreational products and other construction requiring equipment. Its customer base includes many major Indian players like Force Motors, TATA motors, Mahindra & Mahindra as well as various export customers from Europe and USA and hence is slated to make complete use of this opportunity.

Your company has a large infrastructure and a diversified rich technical experience that it can utilize to capture this growth trend of the auto industry.

Thus, 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 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.

KINETIC ENGINEERING LIMITED

Research & Development

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. 102.45 lacs, which represents 1.13 % of the Company's turnover.

Conservation of energy

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

1. Unity Power factor maintained through out the year, saving Rs.45 lacs as an Incentive in electricity bills.
2. 600 CFM Godrej make Sulair compressor installed replacing 1000 CFM Reciprocating type compressor saving 50000 units per year.
3. CFL Street lights installed of capacity 36 watt replacing 70 watt Sodium Lamps.
4. Energy efficient tube fittings installed in Hall No.22 instead off 250 watt Mercury lamps, results in 8000 units saving per year.
5. Sursulf furnace converted in to gas fire instead of electrical heating. saving of Rs 5 lacks per year in heat treatment section.
6. Arrested oil leakages in Nano gear line machine shop.
7. Air line leakages arrested by new PU pipe and fittings
8. Air Compressor running pattern study and adjusted accordingly saving 1,20000 unit.
9. 20 Watt CFL spiral lamps fitted in Administration building and 40 watt tube fittings removed Save Rs.1 lac per year.
10. In variator line energy efficient tube fittings installed in Hall No.9A replacing 250 watt mercury lamps. Saving 30000 units per year.
11. Thermopac TPB 10 operate during load period instead of continious. Saving 40000 units per year.
12. Treated waste water from Effluent Treatment Plant 60000 liters of water used for Gardening and tree plantation.
13. From Coolent treatment plant 8000 liters oil extracted from the coolent on yearly basis.

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

Awards and Recognitions

Your company has received the prestigious Regional Award as "Star Performers in Product Group Trophy" in the category of Large Enterprises by EEPCLIndia (Enginerring Export Promotion Council). This award recognizes your company's efforts in successfully increasing exports from India and has come due to the increased volume, ability to meet stringent quality parameters, and on time delivery and other performance related parameters.

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)

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, 2011 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.0.25 lac were repaid on maturity. The balance as on 31.3.2011 standing in the fixed deposit account was Rs.0.85 lac.

Directors

In accordance with the provisions of the Companies Act, 1956 as well as the Articles of Association of the Company, Dr. K.H.Sancheti, Mr. S. C. Shah and Mr. S. R. Sanghi, directors, 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.

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

A. H. Firodia
Chairman

Pune : 30th May, 2011

Registered Office :

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

KINETIC ENGINEERING LIMITED

ANNEXURE TO DIRECTORS' REPORT

REPORT ON CORPORATE GOVERNANCE FOR THE 12 MONTHS PERIOD ENDED 31st March, 2011.

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	5	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	2	Nil
Mrs. S. F. Motwani	Promoter	4	1	Nil

2.5 None of the Directors of the Company holds membership of more than 10 Board Committees or holds Chairmanship of more than 5 Board Committees