

Annual Report 2012-2013



KINETIC
in every
automobile

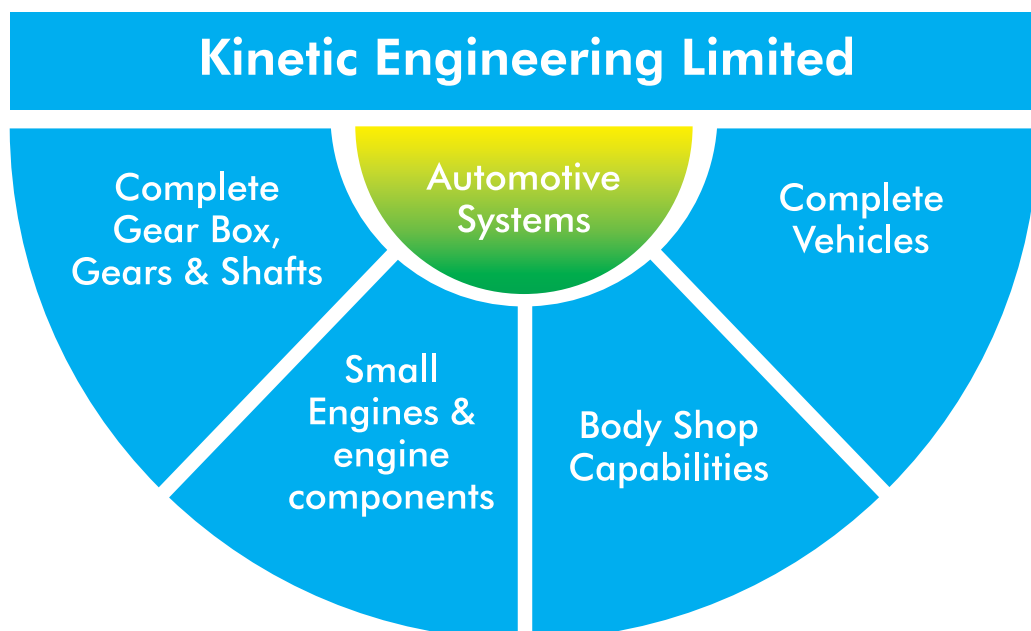


Kinetic Engineering Limited



"The Company has bagged **"Star Performer Award"** for last four consecutive years from 2008-2009 to 2011-2012 for its export excellence and outstanding contribution towards Engineering exports, from Engineering Export Promotion Council [EEPC India]

Company has a large infrastructure and a diversified rich technical experience that it can further utilise and excel in its exports to various customers from Europe and USA and strive to be a star performer in the years to come as well ."



BOARD OF DIRECTORS

MR. ARUN H. FIRODIA CHAIRMAN
MRS. SULAJJA FIRODIA MOTWANI VICE-CHAIRPERSON
MR. AJINKYA A. FIRODIA MANAGING DIRECTOR
DR. N. A. KALYANI	
MR. JINENDRA H. MUNOT	
DR. K. H. SANCHETI	
MR. S. R. SANGHI	
MR. S. R. KOTECHA	
MR. HARJIT SINGH BHATIA	
MR. ASHISH KUMAR	

COMPANY SECRETARY

MR. PRANVESH TRIPATHI

AUDITORS

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

REGISTERED OFFICE

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

REGISTRAR & TRANSFER AGENT

LINK INTIME INDIA PRIVATE LIMITED
BLOCK NO. 202, AKSHAY COMPLEX, NEAR GANESH TEMPLE, OFF DHOLE
PATIL ROAD, PUNE – 411001
PHONE NO. : 020 – 26160084, 26161629,
TELE FAX NO : 020 – 26163503
E-MAIL ID : pune@linkintime.co.in

WORKS

NAGAR-DAUND ROAD, AHMEDNAGAR, PIN - 414001

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KINETIC ENGINEERING LIMITED

NOTICE

NOTICE is hereby given that the 42nd Annual General Meeting of the shareholders of KINETIC ENGINEERING LIMITED will be held on Saturday 28th September, 2013 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, 2013 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. R. Sanghi, who retires by rotation and is eligible for re-appointment.
3. To appoint a director in place of Mr. Ashish Kumar, who retires by rotation and is eligible for re-appointment.
4. To appoint a director in place of Dr. K. H. Sancheti, 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. Harjit Singh Bhatia, who was appointed as Additional Director, in terms of the provisions of Sec. 260 of the Companies Act, 1956, and who holds office as such director till this Annual General Meeting, and in respect of whose candidature as a director, a notice has been received by the Company from a member, in terms of the provisions of Sec. 257 of the Companies Act, 1956, be and is hereby appointed as a director whose office shall be liable to retirement by rotation.

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

RESOLVED THAT subject to the provisions of Sections 269, 309, 310, 311, 314, 316 and other applicable provisions, if any, of the Companies Act, 1956, subject to the approval by the Central Government, Mrs. Sulajja Firodia Motwani, director, be and is hereby appointed to the executive position of Vice-Chairperson of the Company, for a period of 5 years, with effect from 1.1.2012, with substantial powers of management in relation to the day to day operations of the Company, subject to the overall superintendence of the Board of Directors on such remuneration as set out herein below and the said remuneration also be paid to Mrs. Sulajja Firodia Motwani in the event of loss or inadequacy of profit during any financial year:

Remuneration (per annum)	
Salary	Rs. 27,60,000
HRA	Rs. 9,95,000
LTA, Medical Exp. Reimb., Provident Fund, Superannuation, Gratuity, Personal Accident & Mediclaim Benefits, Other privileges, facilities, perquisites, benefits and amenities	As per the Rules of the Company
Other Benefits	
Club membership	Two clubs
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

RESOLVED FURTHER THAT Mr. Pranvesh Tripathi, Company Secretary, be and is hereby authorised to submit necessary application and do all such things as are necessary, for seeking the approval of Central Government, to the terms of appointment and remuneration of Mrs. Sulajja Firodia Motwani, as the executive Vice-Chairperson.

8. To consider, and if thought fit, to pass [with or] without modification(s) the following resolution as a Special Resolution:
- “RESOLVED THAT pursuant to section 31 of the Companies Act, 1956 and all other applicable provisions, if any, of the Companies Act, 1956, (including any statutory modification or re-enactment thereof for the time being in force), the Articles of Association (AOA) of the Company be altered as set out below:
- “RESOLVED THAT existing interpretation of the definition “Shareholders Agreement” in the AOA of the Company be substituted by following new interpretation:
- “Shareholders Agreement” shall mean the shareholders agreement dated 7 February 2008 including Amendment Agreement dated 18 April, 2013 executed by the Company, the Sponsors and the Investors.”
- “RESOLVED FURTHER THAT existing interpretation of the definition “Investors” in the AOA of the Company be substituted by following new interpretation:
- “Investors” shall mean Pinebridge Asia Partners II, L.P., (formerly known as AIG Asian Opportunity Fund II, L.P.), AIA Company Limited (formerly known as American International Assurance Company, Limited), AIA International Limited (formerly known as American International Assurance Company (Bermuda) Limited).”
- “RESOLVED FURTHER THAT the references to “14-02-2013” in Article 114 and Article 157 shall be replaced and substituted by 14 February 2014.
- “RESOLVED FURTHER THAT Mrs. Sulajja Firodia Motwani, Director of the Company or Mr. Pranvesh Tripathi, Company Secretary of the Company, be and are hereby severally authorized to file the revised AOA with the relevant Registrar of Companies (ROC) and to make the necessary filings with the relevant ROC including Form 23, together with all relevant documents and to do all such acts, deeds, matters and things as may be necessary in this regard.”

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. Pursuant to Circular No. 17/95/2011 CL-V, dated 21-04-2011, issued by the Ministry of Corporate Affairs, Government of India, as a part of green initiative in the Corporate Governance, the Companies have been permitted to send notices/ documents to the members through email. Accordingly, the Company proposes to send notices/ documents like the annual report in electronic form to the members who would register their email address with the depositories, the Registrar and Transfer Agent or the Company. The members are requested to register their email addresses by sending their details to the Registrar and Transfer Agent, Link Intime India Pvt. Ltd, Block No. 202, Akshay Complex, Near Ganesh Temple, Off Dhole Patil Road, Pune – 411001 or to the Company at Kinetic Engineering Ltd., D1 Block, Plot No. 18/2, MIDC, Chinchwad, Pune- 411019. Service of notices/ documents to the members whose email addresses will not be registered with the depository or the Company or the Registrar and Transfer Agent will be effected by mode of service as provided under section 53 of the Companies Act, 1956.
3. The information in respect of the directors seeking appointment/ re-appointment at the Annual General Meeting (Item Nos. 2, 3, 4, 6 & 7 of the Notice), as per Clause 49 of the Listing Agreement, is annexed hereto.
4. The Register of Members and Share Transfer Books of the Company will be closed from Thursday, the 26th September, 2013 to Saturday, the 28th September, 2013 (both days inclusive), in accordance with the requirements of Clause 16 of the Listing Agreement.
5. 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.
6. The Explanatory statement pursuant to section 173(2) of the Companies Act, 1956, in respect of the Special Business as set out above is annexed hereto.

By Order of the Board of Directors
For **Kinetic Engineering Limited**

Pranvesh Tripathi
Company Secretary

Pune, 28th May, 2013

Registered Office :

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

KINETIC ENGINEERING LIMITED

Annexure to Notice

INFORMATION RELATING TO THE DIRECTORS SEEKING ELECTION/ RE-ELECTION AT THE ENSUING ANNUAL GENERAL MEETING

(in terms of the requirements of Clause 49 of the Listing Agreement)

(Item Sr. Nos. 2, 3, 4, 6 & 7 of the Notice)

Name	S. R. Sanghi	Ashish Kumar	Dr. K. H. Sancheti	Sulajja Firodia Motwani	Harjit Singh Bhatia
Date of birth (Age)	15.12.1950 (63)	6.03.1972 (41)	24.7.1936 (77)	26.8.1970 (43)	08.10.1949 (64)
Appointed on	31.10.1995	14.2.2008	27.5.1989	4.5.1996	13.02.2013
Qualifications	Commerce Graduate. Adv. Dip. in International Business, Marketing Mgt. & Agriculture	B. Tech. (Comp. Sci. and Engg.), PGDM (IIM Ahmedabad)	MBBS, D.ORTHO, FCPS, M.S. (ORTHO), F.I.C.S., F.A.C.S PH.D	Master of Science in Industrial Administration (MBA)	Master of Business Administration (MBA), & M.COM.
Expertise/ Experience	Instrumental in conceiving, promoting & launching diverse products	Over 13 years in financial services	41 Years as a surgeon	Vast experience in the areas of Marketing, Finance, strategic planning and corporate restructuring.	40 Years of experience in private equity, corporate finance and investment banking.
Directorship in other Public companies	Sanghi Polyes- ters Limited Sanghi Ce- ments Limited Sanghi Spinners India Limited	Skil Infrastruc- ture Limited Uniparts India Limited Avasarala Technologies Limited	IFGL Bio Ceramics Limited	Kinetic Market- ing and Services Limited Kinetic Auto Limited Kinetic Green Energy and Power Solutions Limited	Indu Projects Limited Avasarala Technologies Limited
Chairmanship/ membership of Committees of public companies	3	2	NIL	NIL	NIL
Shareholding (as on 31.03.2013)	NIL	NIL	241	616	NIL

By Order of the Board of Directors
For **Kinetic Engineering Limited**

Pranvesh Tripathi
Company Secretary

Pune, 28th May, 2013

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

Item No. 6

Mr. Harjit Singh Bhatia was appointed as an Additional Director by the Board of Directors, and holds office as such director until the ensuing Annual General Meeting. The Company has received a notice u/s 257 of the Companies Act, 1956, proposing the candidature of Mr. Bhatia as a director of the Company.

Mr. Harjit Singh Bhatia holds MBA degree from the University of Delhi and Master of Commerce Degree from the University of Allahabad. He is also a Certified Associate of the Indian Institute of Bankers as well as holder of "Green Belt" Certification under GE's Six Sigma Quality Program. He is Managing Partner and Chief Executive of PineBridge Asia Partners. He has more than 40 years of experience in Private Equity, Corporate Finance and Investment Banking.

The Board of Directors of the Company recommends passing of the resolution.

None of the directors of the Company, except Mr. Harjit Singh Bhatia, are concerned and/ or interested in the proposed resolution.

Item No. 7

Mrs. Sulajja Firodia Motwani was appointed as Vice-Chairperson of the company by the Board of Directors in their Meeting held on 9.12.2011 for a period of 5 years with effect from 1.1.2012 .

She has been an integral part of the senior management team of Kinetic. She is energetic member of the senior management team and the Board of Directors. The Remuneration Committee after taking into consideration the industry benchmarks, profile of Mrs. Sulajja Firodia Motwani and the responsibilities shared by her, considered her appointment as the Vice-Chairperson and decided the proposed remuneration.

The Board of Directors of the Company recommends passing of the special resolution.

Mrs. Sulajja Firodia Motwani is related to Mr. Ajinkya A. Firodia and Mr. Arun H. Firodia. None of the other directors are concerned and/ or interested in the proposed resolution.

Item No. 8

Members have earlier approved issue of Compulsorily Convertible Cumulative Preference Shares to investors (i.e. PineBridge Asia Partners II, L.P. (formerly known as AIG Asian Opportunity Fund II, L.P.), AIA Company Limited (formerly known as American International Assurance Company, Limited), AIA International Limited (formerly known as American International Assurance Company (Bermuda) Limited) on preferential basis. The Company has entered into Subscription Agreement and Shareholders Agreement with said Investors. Under the said agreements, the Company and the Investors are having certain rights and obligations and the same is required to be reflected in Articles of Association of the Company. Further, the Company has entered into Amendment Agreement with the said Investors dated 18 April 2013 whereby the term of the subscription agreement and the shareholder agreement got extended by 1 (One) year and that the said amendment shall come into effect from 14 February 2013. In order to reflect the same in Articles of Association of the Company, alteration/amendment of Articles of Association of the Company is proposed in the manner set out in the resolutions at item no. 8 of the notice of the meeting.

The Board of directors recommends passing of the special resolution.

None of the Directors (other than Mr. Harjit Singh Bhatia and Mr. Ashish Kumar), are, in any way, concerned or interested in the resolution.

By Order of the Board of Directors
For **Kinetic Engineering Limited**

Pranvesh Tripathi
Company Secretary

Pune, 28th May, 2013

Registered Office :

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

KINETIC ENGINEERING LIMITED

DIRECTOR'S REPORT 2012-'13 **(including Management Discussion & Analysis)**

Dear Members,

Your Directors present the 42nd Annual Report on the business and operations of **Kinetic Engineering Limited** and the Audited Financial Accounts for the financial year ended 31st March, 2013.

Financial Highlights

During Financial Year 2012-13, the total revenue was Rs. 101.80 crore, while the net loss after tax was Rs. 13.56 crore.

During Financial Year 2012-13, the materials cost increased from 64.68 % to 69.22 % over the last year.

In financial Year 2012-13 the company registered an EBITDA of Rs. 4.15 crore. The Company posted on operating cash loss Rs. 497 Lac as compared to an operating cash profit of Rs. 154 Lac in financial year 2011-12

During the Financial Year 2012-13 there was a marginal reduction of the revenue from operations - Rs. 80.21 crore in FY 2012-13 against Rs. 83.07 crore in FY 2011-12. This reduction has been due to a few temporary reasons - mainly due to the reduction in demand from Mahindra Two Wheelers Limited, as well as from the Tata Motors. The demand from both these customers is expected to normalise and increase in the coming months.

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.

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. In order to gain a strong technology base, Company has entered into a Technical Agreement with the global leader Magna Styr India Pvt. Ltd. (MSIA). MSIA is a part of the \$30 billion Magna Group, one of the largest auto component manufacturers based out of Pune and has a strength of over 260 engineers focusing on the design, development, prototyping and testing of automobile components and assemblies. This strength combined with KEL's expertise in low cost high quality manufacturing of transmission components & gearbox assemblies as well as small engines provides a complete solution for KEL. KEL, part of Firodia Group, is already a major supplier to various Indian and international OEMs.

The scope of the Technical Agreement includes but not limited to:

- Gears & Shafts
- Complete Manual Gearbox Assemblies
- Complete AMT (automated manual gearbox) assemblies
- Hybrid & Electric technologies
- Other products as required by the customer

The Companies may work on customer existing design or a modification of the same, in addition to serving a requirement of a completely new design as follows:

- Providing a design to manufacture solution for the customer
- Provide a development to manufacture solution as per customer design
- Provide value added services including cost reduction through value engineering, problem analysis or quality enhancement solutions for the customer

In addition to the above, your Company has now started two prestigious programmes;

- (1) Complete Gear box for Mahindra Navistar Automotives Limited (MNAL) for it's top end HCV model , having 85 kilogram weight with torque of 450 NM. and have already supplied more than 2500 Gear boxes to MNAL.
- (2) Development of complete Gear box for Piaggio Vehicles Private Limited (PVPL) LCVs having 40 kilogram weight with the torque of 150 NM. This LCV is soon to be launched. With the launch of this LCV, PVPL is expected to perform very well in the market.
- (3) Your Company has also bagged an order for manufacturing Gears and Shafts for PVPL's three wheeler diesel and petrol passenger and goods vehicle which is a high volume business and established leading market.
- (4) Your Company has also got an LOI for Tata Nano's diesel version car.
- (5) Company plans to expand it's business with Magna (MSIA), a global automotive giant and has bagged good business worth thousands no. of supplies.
- (6) To reduce material costs and better control of inventory schedules of customers, your Company started manufacturing its own forgings, established by taking on rent all the assets of one of its suppliers and thereby Company managed to gain better control and reduction in costs of raw materials by at least 5% - 6%.

To summarise, the year under review has seen a good progress in the development of new programmes continued from last year.

Continued growth in the Indian automotive industry gives the confidence to your Directors that the Company would continue to see revenue increase from existing programmes, though this year the revenues did not show increase due to fluctuating market conditions for major product lines and overall depressed Automotive sector in India .

Many new programmes have been under development and testing during 2012-13 and they are now nearing completion. Being large and complex programmes, company expects them to start in the coming financial year and gain momentum within the first few quarters of the year, to be productionised during 2013-14, Further, the Company continues to add more parts from its existing customers including Mahindra and Mahindra, Carraro, Tata Motors as well as is exploring aggressively export business once the new programmes 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 Power train components and assemblies specialist. Your Company would also like to adopt best manufacturing practices and has already started practising an internal Quality initiative called "KQAA" (Kinetic Quality Assessment and Awards") which reviews and rewards exceptional practices in Quality at each cell.

Finance Overview

Company had already achieved a significant reduction in secured debt last year and , further, the Company has been successful in getting a short term working capital limit of Rs. 2 Crore from Saraswat Co-operative Bank Ltd apart from existing credit limits.

The outstanding FCCBs (USD 18 million) were due for redemption in February, 2013, (unless converted earlier). However, considering the overall economic & financial situation, the Board of Directors of the Company has decided to seek extension for the term of the FCCB by 12 months, and accordingly the Company has sought approval to the stated extension, from the Bond holders and the RBI. RBI through its letter dated 24.12.2012 has approved the extension of FCCBs by one year due February, 2014 (unless converted earlier). Bondholders have also approved the extension of the term of FCCBS by a 100% favourable voting.

This measure is expected to improve the return to the FCCB holders.

KINETIC ENGINEERING LIMITED

High Court Approval to the Scheme of merger of Kinetic Motor Limited (KMCL) Company with Kinetic Engineering Limited (KEL)

In December, 2011, the Board of Directors of both the Companies decided to amalgamate KMCL with KEL and have approved a Scheme of Amalgamation. The Scheme has been finally approved by the Hon'ble Bombay High Court on 8th February, 2013.

The Scheme has been considered to be in the interest of the shareholders of both KEL & KMCL. The KMCL's stake in Mahindra Two Wheelers Limited, is being considered as a valuable asset, and is expected to strengthen the financials of KEL, and thereby benefitting the shareholders of KMCL also who would become shareholders of KEL. Merger will result in value addition to shareholders of both the companies. Thus, the amalgamation of Kinetic Motor Company Limited with Kinetic Engineering Limited would enhance the shareholders value and allow focused course of action apart from creating additional wealth to the shareholders.

Industry Overview

Global economic slowdown affected growth of Indian economy. In order to contain fiscal-deficit, the Government had to rationalize its Expenditure and took some austerity measures, which further affected aggregate demand in the economy. Investor and business confidence was low throughout the year.

The overall Commercial Vehicles segment registered de-growth of (-) 2.02 percent in April-March 2013 as compared to the same period in 2011-12. While Medium & Heavy Commercial Vehicles (M&HCVs) declined by (-) 23.18 percent, Light Commercial Vehicles grew at 14.04 percent. In March 2013, M&HCVs sales further declined by (-) 26.16 percent over March 2012.

Financial-performance of the Company was also affected by the overall uncertain macro-economic environment, recessionary economy coupled with high interest rates, stalled infrastructure projects etc.

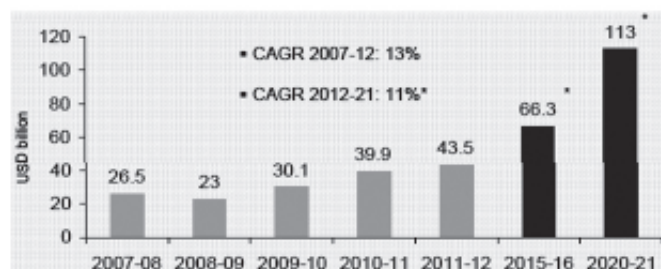
In spite of some current concerns, the growth forecast for the Indian economy remains healthy. With the resulting increase in income levels and lifestyle aspirations, the potential size of the Indian passenger vehicle market in the next five years is likely to be as large as 4-5 million vehicles with a conservative growth rate of 10-12% per year. Similarly, the growth in agriculture and industrial production, the spread of organised retail and the growing prevalence of the hub-and-spoke model for transportation of goods will lead to a significant expansion of the overall market size. The expected introduction of more stringent norms related to overloading of goods vehicles and roadworthiness and vehicle age will also lead to considerable expansion in the market for CVs.

India has emerged as one of the key auto components centers 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. Industry needs to expand into adjacent markets including Defence, Aerospace, Railways, Farm Implements & Construction Vehicles to sustain growth.

As per an Automotive Component Manufacturers Association of India (ACMA) report, the turnover of the auto component industry was measured about US\$ 43.4 billion in 2012-13 registering 15.7% over the previous year and a CAGR of 19 % over past five years. The projected turnover is about US\$ 115 billion by 2020.

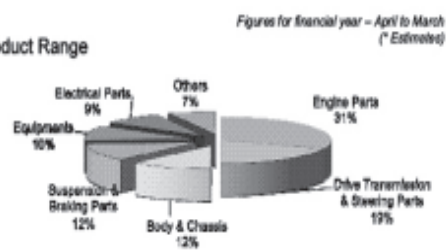
Auto Component Industry Profile

Turnover



Comprehensive Product Range

ACMA



* Source : ACMA