

KINETIC ENGINEERING LIMITED
(the flagship company of **Firodia** Group)

Pune, India : March 5th, 2010

Improved performance

Business:

After carrying out a restructuring of its business, KINETIC is now focused on high technology power-train components i.e., gear-boxes, engines and related components. KINETIC is equipped to supply the entire spectrum of gear-boxes, engines and related components, thereby carving itself a unique position. KINETIC's competence has its roots in its rich historical performance - with more than 55 lac 2 wheelers and engines production to its credit.

Starting 2007, the auto components business in KINETIC was being incubated, with initial orders being quite fluctuating. The business got a fillip in 2008, with KINETIC setting up a dedicated state-of-the-art facility for the manufacture of transmission sets for Tata Nano.

Performance Improvement Measures

As part of the business re-focus, a number of measures have been undertaken :

- a) Reducing the break-even, through a combination of cost and manpower rationalization during 2009.
- b) Targetting new business and productionizing existing projects.
- c) Significantly reducing the debt by monetizing non-core assets.
- d) Merging of the variator business of Jaya Hind Sciaky, a Firodia group entity, into KINETIC, thereby consolidating all power-train businesses of Firodia Group under KINETIC.

All these measures have yielded a significant contribution to the revenues & margins.

In the last few months, KINETIC has bagged some prestigious contracts, strengthening its position as a leading power-train manufacturer. One such contract is for the development and supply of fully assembled gearboxes for a new LCV platform to be launched in 2010 by Mahindra Navistar. It has also been awarded a contract for the supply of fully assembled gear-boxes to Piaggio (which is now about to be productionised), as also a contract from Mahindra & Mahindra for the supply of Transmission Gears for its CV platforms.

These contract-orders are expected to be productionised during 2010, and the annualised value of these orders on fully operationalised basis, is expected to be Rs.800-900 mn.

KINETIC is further bidding for a number of new contracts, which are expected to fructify over the next few months.

Year 2010 has also witnessed the beginning of ramping-up of some of the existing projects. The supply of Gear-sets for Tata Nano have commenced, with to-date supply exceeding 12000 sets (earlier, this was delayed due to Singur related issues). These numbers are expected to go up, with the increased production of Tata Nano.

KINETIC is a key supplier for the different scooter models of Mahindra Two Wheelers Limited (MTWL). With the launching 2 new models of scooters in Sep, 2009 by MTWL, the supply volumes have been picking up strongly. Presently, the production volumes for different sets have crossed a volume of 12,500 numbers per month, which are expected to continue to grow.

As a result of the above, KINETIC's revenues have increased from Rs.40 mn per month in Oct, 2009 to Rs.70 mn per month as of today. With a strong order book from present and new customers, these are expected to touch Rs.100 mn per month by June 2010 and Rs.150 mn per month by Dec 2010.

Debt reduction

In addition to the business focus, KINETIC has also targetted a reduction of its secured debt including a pre-payment of its debt obligations, with a view to reduce the interest burden and to strengthen its balance sheet. KINETIC has reduced its secured debt from Rs.950 mn in March 2008, to Rs.700 mn as on March 2009 and further to Rs.270 mn as on today. This has been achieved through the monetisation of the excess space in its Corporate campus, as also of certain other non-core assets.

Future plans

The completion of its extensive restructuring from a two-wheeler company to an auto-components company, focused on power-train components and assemblies, has paved the way for a strong future growth for KINETIC, going forward. KINETIC patronises a list of highly successful and reputed customers like Tata Motors, Mahindra Group, Carraro Group, Arvin Meritor, BRP, etc. From amongst these, the business volumes resulting from the key existing projects of Tata Nano and MTWL, which are already in production and productionization, would be the substantial contributors to the revenue growth.

Ajinkya Firodia, MD of KINETIC, commented -- "Over the last year, KINETIC has established itself as a leading manufacturer of gear-boxes and engine assemblies. KINETIC has won 3 major orders from 3 different market-leading OEM's in the last 6 months and reflects a strong value proposition, which KINETIC offers to its customers. These new orders, once fully operational, are expected to contribute approximately Rs.700 to Rs.800 million per annum to our top line. Development, approval and productionization of orders of this nature is expected to take 9-12 months. Existing programs continue to ramp-up well in line with the demand from end-customers. Together with the reduction in debt and fixed costs, KINETIC expects that it should achieve break-even at EBITDA level in the current quarter. KINETIC expects to achieve revenues of Rs.100-110 mn per month by June 2010, which is expected to bring KINETIC out of the red."

Apart from the positives of the existing core business, KINETIC holds a majority stake in Kinetic Motor Company Limited (KMCL), which in turn holds 20% equity stake in Mahindra Two Wheelers Limited (MTWL), which creates a high potential value to KINETIC. In September 2009, MTWL has launched 2 new scooter models, which have been received well by the market. During the last 3 months, with these new launches, the business volumes of MTWL have started improving. MTWL has reported volumes of 10,000 scooters in January 2010, with a market share of 10% in the scooter market. This has been achieved by MTWL within 6 months of its national launch. With overall improvements expected in the Indian two wheeler market, in the coming periods, as well as with the specific initiatives taken by MTWL, KINETIC remains optimistic on the future prospects of MTWL. This would benefit, both, by way of additional business as a supplier to MTWL, as also in the increased value of its strategic investment in MTWL, done through KMCL.
