

Kinetic Engineering

Rs 87
Set to turnaround

BSE Sensex: 34,154

Nifty-50: 10,559

FINANCIALS

	NET SALES	OPM (%)	OP	OTHER INCOME	PBIDT	INTEREST	PBDT	DEPRN	PBT	EO	PBT AFTER EO	TOTAL TAX	PAT	EPS*
1603(12)	60.38	-13.00	-7.86	4.22	-3.64	3.65	-7.29	8.64	-15.93	14.75	-1.18	0	-1.18	-
1703(12)	79.6	-8.50	-6.73	3.98	-2.75	3.28	-6.03	8.14	-14.17	0	-14.17	0	-14.17	-
1803(12P)	111.69	2.50	2.75	4.11	6.86	3.39	3.47	7.79	-4.32	0	-4.32	0	-4.32	-
1903(12P)	145.19	6.00	8.71	5.5	14.21	2.71	11.5	8.18	3.32	0	3.32	0	3.32	1.6
2003(12P)	181.49	9.00	16.33	5.75	22.08	2.17	19.91	8.83	11.08	0	11.08	0	11.08	5.4

* Annualized on fully diluted Equity Of Rs 20.34 crore of face value of Rs 10 each, assuming full conversion of all the outstanding preference shares. *The final equity share capital will depend upon the amount of preference capital getting converted into equity capital and the diluted equity share capital can be less or more than Rs 20.34 crore of face value of Rs 10 each. EO: Extraordinary Items, (P) : Projections. EPS is calculated after excluding EO and Relevant Tax. Figures In Rs crore. Source: Capitaline Database

Kinetic Engineering (KE) is a part of Firodia group of companies which were pioneer in Automobile industry in 80's with the famous tagline of "Chal Meri Luna". Since 2009, under the leadership of Mr. Arun Firodia, KE has transformed its business from a 2W company to an auto component player.

KE manufactures all transmission components (gears, shafts, axles etc), engine components (crankshafts, cylinder heads, camshafts etc), complete gearbox & engine assemblies for auto & non auto products. It's among few auto ancillary that makes a complete gearboxes. KE is in a unique position wherein it is equipped to supply the entire spectrum of gear boxes and related components.

The company serves commercial vehicles industry, tractor industry, passenger cars and off road vehicles.

The company has large manufacturing base in Ahmednagar. It also has pres, weld, and paint shop to cater to the client's needs.

Notable customers

Company's notable customer list includes Renault, American Axle. TATA motors. Mahindra & Mahindra, Ashok Leyland, Magna power train, Carraro India, Tomos (Slovenia), Bombardier recreational products (USA) and many others.

In collaboration with technical partner Magna Styer, KE has designed and developed gear boxes for commercial vehicles of Ashok Leyland.

Ready for growth post restructuring

Post restructuring, various initiatives have started yielding results. The company has started supplies and ramp up for major businesses from international customers in FY 17. This includes;

- KE successfully ramped up sleeves and dog teeth components for Renault Nissan which are used in Renault Kiwid and Nissan Redi Go. It is further developing components for AMT and 100 NM versions along with commencing its exports.
- Developed and supplied high value components for American Axles. Volumes reached to around 45000 components per month and are expected to reach to 58000 in coming time frame. This business has a potential to generate around Rs 60-75 crore of net sales every year.



STOCK DATA

BSE Code	:	500240
BSE Group	:	ST
NSE Code	:	Not Listed
Bloomberg	:	KNEL IN
Reuters	:	KNTE.BO
Par Value	:	Rs 10
52-week High/Low(Rs)	:	112/ 60
Sector	:	Auto Ancillaries

SHAREHOLDING PATTERN*

Category	% of equity
Foreign	: 3.96
Institutions	: 0.86
Corporate Holding	: 17.6
Promoters	: 44.81
Public & Others	: 32.77
Total	: 100

* as on 30/09/2017.

Source: Capitaline Databases

- Commercialized production of mass gear box of 380 NM to be supplied to Ashok Leyland.

The company has successfully completed its entire backward integration into forgings. Company makes more than 95% of its requirements of forging in house as compared to past and produces around 400 tons of forged components per month in FY 17 as compared to 300 tons in FY 16 and can increase the production further depending upon the business growth. The company now runs 2 hammer forgings and 1*1300 ton press forgings which it purchased in FY 16.

The company has successfully transformed from a 2W company to an auto component player. It sold off all the noncore assets which lead to repayment of debts while cost cutting initiatives along with rising execution of orders, lead the transformation at operating levels from July 17 quarter onwards.

Strong focus on exports

Exports currently accounts for around 20% of total sales as compared to around 10% in FY 15.

The company has developed products like spine yoke, stuh shafts, sleeves and flanges for customers in the US.

In H1 FY 18, it won a major export order of Rs 30 crore.

Going forward exports is expected to be around 25-28% of total sales.

Cash flows to improve going forward

The company has successfully cleared its long term debt of Rs 130 crore in 2 years. In FY 16, it paid the entire FCCB that was due as well as loan from Reliance Capital resulting in debt reduction of around Rs 77.50 crore.

KE is now left with working capital limits and ICDs from promoters and is free from external long term debt.

Thus, the company can use the surplus cash towards business and future capex for some strategic initiatives.

It has its production facilities spread across 50 acres of land in Ahmednagar. It has surplus land left which can be further monetized if required or can be used for expansion depending upon future business initiatives and requirements.

Turnaround already visible at operating levels

For Sep 17 quarter, net sales were up by 47% to Rs 26.30 crore. OPM stood at 2.5%, as compared to negative 11.3% for Sep 16 quarter, thus resulting in a OP of Rs 0.66 crore as compared to loss at OP level of Rs 2.02 crore.

Other income was flat at Rs 1.42 crore. Interest cost was higher by 6% to Rs 1.24 crore and depreciation was lower by 8% to Rs 1.89 crore, resulting in a loss at PBT and PAT level of Rs 1.05 crore as compared to loss at PBT and PAT level of Rs 3.82 crore for Sep 16 quarter.

For H1 ended Sep 17, net sales were up by 41% to Rs 49.89 crore. OPM stood at 0.6%, as compared to negative 7.5% for H1 ended Sep 16, thus resulting in a OP of Rs 0.28 crore as compared to loss at OP level of Rs 2.65 crore.

Other income was higher by 3% to Rs 2.86 crore. Interest cost was higher by 2% to Rs 2.44 crore and depreciation was lower by 4% to Rs 3.89 crore, resulting in a loss at PBT and PAT level of Rs 3.19 crore as compared to loss at PBT and PAT level of Rs 6.33 crore for H1 ended Sep 16.

Kinetic Engineering's notable customer list includes Renault, American Axle. TATA motors. Mahindra & Mahindra, Ashok Leyland, Magna power train, Carraro India, Tomos (Slovenia), Bombardier recreational products (USA) and many others

The company has successfully transformed from a 2W company to an auto component player. It sold off all the noncore assets which lead to repayment of debts while cost cutting initiatives along with rising execution of orders, lead the transformation at operating levels from July 17 quarter onwards

Mr. Ajinkya Firodia MD KE commented on the performance:

“KE has a large infrastructure in its 50 acre plant in Ahmednagar, along with vast technical knowledge of making gearboxes and engine components. We undertook a major challenge to restructure our operations from being a moped manufacturer to this growing segment of auto-components and systems.

I am happy to announce that on the back of our experience and strategy KE today is one the fastest growing companies in this field; and has turned the corners by recording cash profits. This was achieved by a strategy designed 3 years ago which included; building a high volume export business through prestigious customers, focusing on complete gearbox assemblies and material cost reduction program including a backward integration into forgings.

We also focused on long term debt reduction/elimination and have brought down the same from Rs 140 crores in the year 2014 to Rs 10 crores today. I strongly believe that we are moving in the right direction and the potential for our business is growing immense day by day.”

Valuation

We expect the company to register net sales and loss at PAT level of Rs 111.69 crore and Rs 4.32 crore for FY 18. For FY 19, we expect the company to register net sales and PAT of Rs 145.19 crore and PAT of Rs 3.32 crore for FY 19. For FY 20, we expect net sales and PAT of Rs 181.49 crore and Rs 11.08 crore respectively. This gives an EPS of Rs 1.6 and Rs 5.4 for FY 19 and FY 20 respectively. At current market price of Rs 87, the scrip trades at 16.1 times its FY 20 projected earnings.

The company has successfully cleared its long term debt of Rs 130 crore in 2 years. In FY 16, it paid the entire FCCB that was due as well as loan from Reliance Capital resulting in debt reduction of around Rs 77.50 crore

KINETIC ENGINEERING: RESULT

	1709(03)	1609(03)	VAR. (%)	1709(06)	1609(06)	VAR. (%)	1703(12)	1603(12)	VAR. (%)
Net Sales	26.30	17.84	47%	49.89	35.46	41%	79.60	60.38	32%
OPM (%)	2.5%	-11.3%		0.6%	-7.5%		-8.5%	-13.0%	
OP	0.66	-2.02	LP	0.28	-2.65	LP	-6.73	-7.86	-14%
Other Income	1.42	1.42	0%	2.86	2.77	3%	3.98	4.22	0%
PBIDT	2.08	-0.60	LP	3.14	0.12	999%	-2.75	-3.64	-24%
Interest	1.24	1.17	6%	2.44	2.39	2%	3.28	3.65	-10%
PBDT	0.84	-1.77	LP	0.70	-2.27	LP	-6.03	-7.29	-17%
Depreciation	1.89	2.05	-8%	3.89	4.06	-4%	8.14	8.64	-6%
PBT	-1.05	-3.82	-73%	-3.19	-6.33	-50%	-14.17	-15.93	-11%
EO	0.00	0.00	0%	0.00	0.00	0%	0.00	14.75	0%
PBT after EO	-1.05	-3.82	-73%	-3.19	-6.33	-50%	-14.17	-1.18	999%
Total Tax	0.00	0.00	0%	0.00	0.00	0%	0.00	0.00	0%
PAT	-1.05	-3.82	-73%	-3.19	-6.33	-50%	-14.17	-1.18	999%
EPS*	#	#		#	#		-	-	

* Annualized on fully diluted Equity Of Rs 20.34 Crore of face value of Rs 10 each. EO: Extraordinary Items. EPS Is Calculated After Excluding EO And Relevant Tax. Var.(%) exceeding 999 is restricted to 999. PL: Loss to Profit, PL: Profit to Loss. Figures In Rs crore. Source: Capitaline Database