

Hidden Gems By Ashish Chugh - 8th Jan 2007

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Kinetic Motor Company Ltd.

CMP - Rs.40 NSE Symbol - KINETICMOT BSE Code -505190

Dark Horse.....

Kinetic Motor Company Limited is a part of the Kinetic group. The company began in 1984 as a Joint Venture with Honda Motor Co. of Japan, to manufacture and market advanced scooters in India. In 1998, the Indian promoters bought out the stake of Honda and the arrangement with Honda Motor was realigned as a technical collaboration.

Kinetic Motor manufactures a wide range of scooters at different price and power points. The company has a state of the art manufacturing facility - at Pithampur, near Indore. It is ISO 9001 certified for all models and activities. The company has a strong dealer network of over 400 dealers and authorized service centers across the country. Kinetic Motors is a leading exporter of vehicles across the globe with thousands of vehicles exported to countries like USA, Canada, Latin America, Europe, Africa, Middle East and South Asia. The company enjoys "Export House" status and has won the Exports Excellence award nine consecutive years.

Product Range

Kinetic has brought to the fore superior technology to the scooters by introducing things like auto choke, auto fuel cork and improved suspension. It also brought in gearless scooters in the country. Kinetic Honda was quite a rage among women who preferred the convenience and easy maneuverability of a gearless scooter than a geared one.

Some products of Kinetic Motors are as follows

- Kinetic Comet
- Kinetic Aquila
- Kinetic Challenger
- Kinetic Nova
- Kinetic Marvel
- Kinetic Zoom
- Kinetic Zing
- Kinetic Blaze

Italiano Range - New Launches

The company recently unveiled its new range of Italian Series scooters - the *Italiano* Range. As per the company, these Italian designed scooters break new ground in two wheelers in India, with a range that is a real departure from so-far accepted traditional scooter formats; and could be the most important product line-up of any two wheeler company in India.

The *Italiano* series comprises seven new scooter designs that have previously been bestsellers abroad and will now come to India for the first time. They offer a complete range from classic, futuristic, sporty, radical to vintage retro designs and engine specifications will range from 50cc all the way up to 250cc.

The company believes that the Italiano series will create new market segments, present revolutionary designs and possibly alter the face of the Indian two wheeler market.

Kinetic Blaze - Blazes Ahead in Design Contest

The recently launched motoscooter under the Italiano Range - Kinetic Blaze, a 165 cc scooter has recently won the award for "Best Design Automobile" for the year 2006, instituted by the auto magazine Top Gear.

Strategic Investment - by San Yang Motor, Taiwan

Last year, \$ 1 billion San Yang Motor Industry Co. Ltd. (SYM), Taiwan took a 11% stake in the company at a price of Rs.66 per share.

SYM has its headquarters in the Hsin Chu Industrial Park in Taiwan. Its three major production bases are in Taiwan, China and Vietnam. SYM produces more than 600,000 motorcycles from 50 to 500 cc, including electric scooters and fuel injection technology vehicles.

Kinetic has also entered into a technical collaboration with SYM, for technology and manufacturing of its models in India.

Financial Investments - by Bennett Coleman and Citigroup

The company had in November 2005 14.18 lakh Equity shares to **Bennett Coleman & Co.** at a price of Rs.70.52 per share.

In June 2006, the company issued 80 Lakh secured redeemable non-convertible debentures with a face value of Rs.100, offering 9.5-per cent interest; 21.5-lakh secured redeemable convertible debentures with a face value of Rs.65 and 15 lakh warrants convertible into equity within 18 months from the date of issue, to **Citigroup**.

The fully convertible debentures are to be converted into equity shares within 12 months from the date of issue at Rs.65 per share (Rs.10 face value and Rs.55 premium).

Financials

The latest financials of the company are given as under :-

QUARTERLY - LATEST RESULTS - Kinetic Motor Company Ltd (Curr: Rs in Cr.)

Particulars	Quarter Ended	Quarter Ended	Quarter Ended	Year Ended	Year Ended
	(Sep 06)	(Sep 05)	(% Var)	(Sep 06) (12)	(Sep 05) (18)
Sales	46.76	33.46	39.7	131.71	205.08
Other Income	1.43	5.83	-75.5	3.24	11.68
PBIDT	-12.34	-0.82	-1404.9	-37.51	-29.47
Interest	1.89	1.26	50	5.72	6.67
PBDT	-14.23	-2.08	-584.1	-43.23	-36.14
Depreciation	1.61	1.97	-18.3	6.33	10.01

PBT	-15.84	-4.05	-291.1	-49.56	-46.15
Tax	0.1	-0.23	LP	-0.42	-0.14
Deferred Tax	0	0	-	0	0
PAT	-15.94	-3.82	-317.3	-49.14	-46.01

**Latest Data As On
05/01/2007**

Latest Equity(Subscribed)	18.57
Latest Reserve	-39.41
Latest Bookvalue -Unit Curr.	-11.22
Latest EPS -Unit Curr.	0
Latest Market Price -Unit Curr.	39.55
Latest P/E Ratio	0
52 Week High -Unit Curr.	70.2
52 Week High-Date	1/12/2006
52 Week Low -Unit Curr.	35.2
52 Week Low-Date	11/20/2006
Market Capitalisation	73.44
Stock Exchange	BSE
Dividend Yield -%	0

The share price chart is given as under :-



Financial Restructuring

The company has accumulated losses of over Rs.20 crores at the end of FY ended Sep 05, which have increased at the end of FY ended Sep 06. The company is undertaking steps for financial restructuring including negotiating with the lenders for a one time settlement and offering increased moratorium. The funds infusions by various financial investors have been towards that objective.

Conclusion

The stock of Kinetic Motors has been a laggard over the last few years and has been a gross underperformer compared to the peer group and the markets. The company's plant operated at low capacity utilization and the last few years have been characterized by falling sales and mounting losses.

The possible triggers for the stock could be the success of the newly launched models by the company and completion of financial restructuring with the lending institutions.

The tie-up with SYM, Taiwan will enable the company to introduce new models and also benefit from the SYM's technical expertise. For SYM, the investment in Kinetic may be more than just a financial investment - it may be a precursor to its entry into the Indian markets and greater participation by SYM in future is a possibility. SYM already has manufacturing operations in China, Taiwan and Vietnam - the equity infusion in Kinetic provides it an entry into the Indian two wheeler market.

Moreover, fresh funds infusions by various investors have taken place at a price which is 60-70% more than the current market price of the stock.

The company is getting aggressive with new product launches with better technology. With new product launches and financial restructuring, the company may be on a comeback path. Even though it is too early to say whether the new launches will succeed or not, it seems the worst is behind the company.

THE STOCK MAY TURN OUT TO BE A DARK HORSE