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Twentieth Annual Report 2005-06

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HBL NIFE POWER SYSTEMS LIMITED

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HBL NIFE POWER SYSTEMS LIMITED

Board of Directors

Dr. A J Prasad, Chairman & Managing Director
Mr. Ashok Nagarkatti, Director
Ms. Kavita Prasad
Mr. P Ganapathi Rao
Dr. Bernd T Gans
Dr. (Smt.) D Chitra Rao (IDBI nominee Director)

Mr. E Sudhakar, Company Secretary

Audit Committee

Mr. P Ganapathi Rao, Chairman of the Committee
Ms. Kavita Prasad
Dr. (Smt.) D Chitra Rao

Auditors

M/s Satyanarayana & Co.,
Chartered Accountants
Secunderabad

Registered Office

8-2-601, Road # 10
Banjara Hills
Hyderabad – 500 034

Bankers

State Bank of India
State Bank of Hyderabad
IDBI Bank
State Bank of Indore.

NOTICE

NOTICE is hereby given that the Twentieth Annual General Meeting of the Members of HBL NIFE POWER SYSTEMS LIMITED will be held at K.L.N. Prasad Auditorium, Federation of Andhra Pradesh Chambers of Commerce and Industry, 11-6-841, Red Hills, Hyderabad 500 004 on Saturday, the 30th day of September, 2006 at 4.00 P.M. to transact the following business.

ORDINARY BUSINESS:

1. To receive, consider and adopt Audited Balance Sheet as at 31st March, 2006 and the Profit and Loss Account for the year ended on 31st March, 2006, together with the Director's Report and the Auditors' Report thereon.
2. To declare Dividend for the year ended 31st March, 2006.
3. To appoint a Director in place of Mr. Ashok Nagarkatti, who retires by rotation and being eligible offers himself for re-appointment.
4. To appoint Auditors for the period till the conclusion of the next Annual General Meeting and to authorize the Board to fix their remuneration. M/s Satyanarayana & Co., Chartered Accountants, the retiring auditors are eligible for re-appointment.

SPECIAL BUSINESS:**(A) TO CONSIDER AND IF THOUGHT FIT TO PASS WITH OR WITHOUT MODIFICATION THE FOLLOWING RESOLUTIONS AS SPECIAL RESOLUTIONS:****5. To Change the Name of the Company:**

"RESOLVED THAT as per section 21 of the Companies Act, 1956, and other applicable provisions if any and subject to any other statutory approval as may be required the name of the Company be changed from "HBL NIFE POWER SYSTEMS LIMITED to "HBL POWER SYSTEMS LIMITED".

6. Delisting of the Company with the Hyderabad Stock Exchange Limited:

"RESOLVED THAT as per the provisions of SEBI (Delisting of Securities) Guidelines 2003 and other applicable provisions if any and subject to other regulatory approvals as may be required, is here by approved the delisting of the equity shares of the Company from The Hyderabad Stock Exchange Limited.

(B) TO CONSIDER AND IF THOUGHT FIT TO PASS WITH OR WITHOUT MODIFICATION THE FOLLOWING RESOLUTION AS ORDINARY RESOLUTIONS:**7. To revise the borrowing powers of the Board :**

"RESOLVED THAT the Board of Directors of the Company be and are hereby authorised under Section 293(1)(d) of the Companies Act, 1956 to borrow money from time to time up to a limit not exceeding in aggregate an amount of Rs.200.00 crores (Rupees two hundred crores only) notwithstanding that the money to be borrowed by the Company together with the monies already borrowed by the Company (apart from temporary loans obtained from the Company's bankers from time to time in the ordinary course of business) will exceed the aggregate of the paid-up capital of the Company and its free reserves i.e. to say reserves not set apart for any specific purpose."

By order of the Board

Place: Hyderabad
Date : 31st July, 2006

E. Sudhakar
Company Secretary

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.
2. Proxies, in order to be effective, should be completed, stamped and signed and must be deposited at the Registered Office or Investor Service Department of the Company not less than 48 hours before the commencement of the meeting.
3. The Explanatory Statement, as required by Section 173(2) of the Companies Act, 1956 in respect of item No.5 to 7 set out above is annexed hereto.
4. The Register of Members and Share transfer books of the Company shall remain closed from 25th September, 2006 to 30th September, 2006 (both days inclusive).
5. The dividend, if any declared will be paid to those members whose names appear on the Register of Members of the Company as on 25th September, 2006.

HBL NIFE Power Systems Limited

6. Members are requested to intimate immediately their change of address to the Company, quoting Registered Folio Number, Change in the address, if any, with the Pin Code Number.
7. Members desirous of making nomination in respect of their shareholding may approach the Company for obtaining prescribed form and return the same duly filled in and signed for registration with the Company.
8. Members holding shares in physical form are requested to notify changes, if any, in their address immediately to the Company or to its Registrars and Share Transfer Agents, M/s Karvy Computershare Private Limited, 46, Avenue 4, Street # 1, Banjara Hills, Hyderabad – 500 034 and those who hold shares in the dematerialised form are requested to notify their Depository Participants (DP) their change of address, if any, and change in bank mandate on or before 23rd September, 2006.
9. In case of Members holding shares in electronic form i.e. through Demat Account, their address, dividend mandate and the particulars of the Bank, branch and bank account number, etc. available with the DP as on 25th September, 2006 would be taken into consideration for the purpose of distribution of dividend, if declared at the meeting.
The Members who are holding their shares in physical form may either give a dividend mandate or opt for Electronic Clearing Service (ECS).
10. Members attending the meeting are requested to bring with them the Attendance slip attached to the Annual Report duly filled in and signed and hand over the same at the entrance of the hall.

EXPLANATORY STATEMENT**(Pursuant to Section 173(2) of the Companies Act, 1956)****Item No. 5.**

Since the original technical collaboration Agreement with M/s SAB NIFE AB, Sweden has ceased long time back your company proposes to delete the word NIFE from the name of the Company. Your consent for the new name to be adopted as HBL POWER SYSTEMS LIMITED is requested.

Your Directors commend the Resolution for the approval of the Shareholders as an Special Resolution.
None of the directors are interested in this resolution.

Item no. 6

As your Company's share are not being traded in The Hyderabad Stock Exchange Limited, your Directors felt that its shares be delisted from the Exchange. As the Company's shares are already being traded at National level by being listed in the Bombay Stock Exchange Limited, it would not be violating the rules as framed under the SEBI (Delisting of Securities) Guidelines, 2003. Your Directors commend the Resolution for the approval of the Shareholders as an Special Resolution.
None of the Directors are interested in this resolution.

Item No. 7

To borrow funds to meet the needs of capital expansion activities of the Company your directors sought your approval for the proposed enhanced borrowing powers.
Your Directors commend the Resolution for the approval of the Shareholders as an Ordinary Resolution.
None of the Directors are interested in this resolution.

By order of the Board

Place: Hyderabad
Date : 31st July, 2006

E. Sudhakar
Company Secretary

BRIEF PARTICULARS OF DIRECTORS PROPOSED FOR APPOINTMENT AT THE ENSUING ANNUAL GENERAL MEETING

(In pursuant to clause 49 of the Listing Agreement)

Name of the Directors	Mr. Ashok Nagarkatti
Date of Birth	20.05.1950
Date of first appointment	11.05.2000
Qualification	M. Tech from IIT, Mumbai
Expertise in specific Functional Area	Designing and developing of various batteries.
Details of other Directorships	HBL NIFE (UK)
Details of Committee and membership status	-NA-

DIRECTORS' REPORT**Dear Members,**

Your Board of Directors take pleasure in presenting the Annual Report for the financial year ended on 31st March 2006. The financial performance is presented below.

(Rs In lacs)

	Particulars	2005-06	2004-05
1.	Net Sales	36798	28380
2	Operating Profit before interest, depreciation and extra-ordinary items	5847	4262
3	Other Income	294	219
4	Finance Cost	1324	969
5	Depreciation	668	567
6	Extra-ordinary losses/non-recurring cost		136
7	Provision for tax & tax adjustment	1134	552
8	Deferred tax liability	95	193
9	Net Profit	2625	1845
10	Transfer to General Reserve	1500	1200
11	Earnings per Share (Rs.)	11.89	9.19
12	Dividend Provided	15%	15%

Performance Review 2005-06:

Overall Sales of the Company for the year 2005-06 has recorded Rs. 36798 lacs compared to previous year of Rs. 28380 lacs. This represents an increase of 30%. This increase is because of increased Sales Volumes both in VRLA Batteries in Telecom Sector and Nicad Batteries, particularly in exports.

The demand for your Company's products is continuing. The demand has necessitated an increase of capacities for manufacturing of VRLA and NCPP batteries. This is being met by expansion in existing units as well as setting up of new units at Vizianagaram and VSEZ, both in the VIZAG area on the East Coast of India.

Dividends:

Your Directors are pleased to recommend a dividend of Rs.1.50 per equity share of Rs.10/-fully Paid up share @15% (Previous Year 15%) for the Financial Year 2005-06, subject to the approval of the members at the ensuing Annual General Meeting. The proposed dividend including Corporate Dividend Tax will absorb Rs.377.51 lakhs. As the Company is in the process of issuing rights shares the allotment of which might conclude before the forthcoming AGM, there can be a situation that an additional outflow of Rs 40.00 Lakhs would have to be provided for in order to accommodate the New Shares/Shareholders.

Proceeds from Preferential Issue and Rights Issue:

The Extra-ordinary General Meeting held on 24th October 2005 approved for issuing of Equity Shares on Preferential basis to FII's and Other Bodies Corporate along with a Rights issue to the Existing shareholders. The very purpose of proceeding with these specific issues were for complying with 25% minimum public shareholding so as make the company eligible for continual listing on the Stock Exchanges which is a mandatory condition as per the Listing agreement. These issues were also needed for raising long term funds for expansion of existing industrial undertakings and also setting up of new units at various other locations. The long-term funds as raised would also be for partly meeting the additional working capital needs of the Company.

HBL NIFE Power Systems Limited**Preferential issue:**

The Company has allotted 20,00,000 lacs equity shares on preferential basis and raised Rs. 51.00 crores on 28.10.2005. The allottees are as under:

a) Allottees Particulars:

Sr. No	Name of the shareholder	Status of allottees	Number of shares allotted
1	L G Asian Plus Limited	FII	800000
2	The India Fund Inc.	FII	600000
3	Sonata Investment Ltd	Body Corporate	200000
4	Unit Trust of India Investment Advisory Services Limited - A/c Ascent India Fund	Mutual Fund	400000

b) Utilisation of funds received out of Preferential issue: Funds are raised for backward and forward expansion and for part of working capital of the Company.

The Utilisation upto 31.03.2006 is as under:

Particulars	Rs. In Crores
Capital expenditure	9.32
Working Capital	5.16
Temporary reduction of WCDL on pending utilisation	20.00
Temporary investment in SBI Mutual Funds pending utilisation	16.50
Current account Bank Balance	0.02
Total	51.00

Rights issue:

The Right Issue of Rs. 22.07 Crores was fully subscribed with a slight amount of over subscription. The shares have been allotted as per SEBI and BSE approvals & procedures on 24th August, 2006.

Subsidiary Companies:

HBL NIFE (UK) Limited a 100% subsidiary in UK has had a Trademark violation case initiated against it as a First Defendant and the Parent company as a Second Defendant. The legal claims have created a situation wherein the accounts could not be finalized and audited. In absence of any authentic information because of the operational difficulties we are unable to consolidate the accounts of the subsidiary with the parent company. In the opinion of the management of your company the impact of this legal action is not significant. As on date of this report, the UK company complied with a UK court order not to use NIFE on its products or literature in the UK.

HBL NIFE (M) SDN BHD a subsidiary company in Malaysia has reported a profit of Rs. 10.40 lacs for the year and accumulated loss of Rs. 24.27 lakhs up to 31.03.2006. This loss is considered temporary as it is a trade loss and hence no provision is made in the accounts for the fall in the value of investment. Further a sum of Rs. 16.24 lakhs remitted towards share capital during the year is shown under loans and advances in the parent company's books, as the shares have not been allotted.

BHAGIRATH ENERGY SYSTEMS PVT. LIMITED a wholly owned subsidiary in Nepal is in process of winding up. Provision for diminution in the value of investment has been made based on official liquidator's certificate of available cash as on 31.03.2005. No further provision is considered necessary. As the Company is under liquidation-audited statement are not available as on 31.03.2006.

HBL NIFE Power Systems Limited**Directors' Responsibility Statement:**

In Compliance with the Provisions of Section 217(2AA) of the Companies Act, 1956, your Directors wish to place on record -

1. That in preparing the Annual Accounts, all applicable Accounting Standards has been followed
2. That the Accounting Policies adopted are consistently followed 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 at the end of the financial year and the profit and loss account of the Company for the financial year under review:
3. That the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing/detecting fraud and other irregularities; and
4. That the Annual Accounts have been prepared on a going concern basis.

Corporate Governance:

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, a separate section titled "Report on Corporate Governance" is attached to the Annual Report.

Consolidation of Accounts:

In accordance with the requirements of Accounting Standard AS-21 prescribed by the Institute of Chartered Accountants of India, the Consolidated Accounts of the Company and its Subsidiaries is annexed to this Annual Report. The consolidated accounts included HBL NIFE (M) SDN BHD, Malaysia and Bhagirath Energy Systems Pvt. Ltd. Nepal.

HBL NIFE (UK) Limited, UK : This Subsidiary company faced legal action for use of "NIFE" in its name and on its product literature & website. SAFT acquired NIFE in 1992, and the NIFE name was dropped by SAFT after a few years. Certainly, it was not actively used. UK lawyers advised us that as the trademark was unused for over 5 years, it lapses. When SAFT denied this, and compiled evidence of use, the company orally agreed with SAFT demands and asked for time to make changes. SAFT however, went to the court and got an order to stop our use of "NIFE". SAFT have then claimed costs for their legal expenses and damages. Consequent on all this, the UK subsidiary could not get its accounts audited on time. The operations of the UK subsidiary are miniscule and have no material impact on the Indian Company's financial results.

A statement pursuant to Section 212(1) of the Companies Act, 1956 in respect of HBL NIFE (M) SDN BHD, Malaysia and Bhagirath Energy Systems Pvt. Ltd., Nepal is appended to the Annual Report.

Auditors' Report:

The Board noted the contents of the Auditors Report. The Board has considered the observations/queries as raised by the Statutory Auditors and the explanations are as under.

1. Point No 4 (a): Reference is invited to note 3(e), (f) and (g) Schedule 20 regarding disputed demands of Income Tax and Excise Duty and Sales Tax pending in Appeals aggregating to Rs.412.44 lacs. The ultimate liability, if any, that may devolve on the Company on settlement of cases/appeals is not ascertainable at this stage.

Our Reply:

The Company has been in the practice of accounting liabilities on a known basis or on the actual liability settlement basis. In these cases since there is every chance for the company to get relief 'no provision' was considered necessary.

2. Point No 4 (b): Reference is invited to note 4 Schedule 20 regarding legal case for infringement of 'Trade Mark' against wholly owned subsidiary in UK and the Company which is also mentioned as 2nd defendant and the claim of UK Pounds 200,000 towards damages which is not provided for, for the reasons explained in the notes referred to the above. We are not in position comment on the same as the matter is 'sub-judice'. The audited financial statement of UK subsidiary as on 31st March, 2006 are also not received till date, in the absence of which we are not in position to comment on the impact on the amounts invested in the subsidiary of Rs.72.29 lacs as share capital of which Rs.30.95 lacs appearing as advance for investment in subsidiary pending issue of capital and Rs. 225.58 lacs due from subsidiary on account of supplies made by the Company, the year ended

balances appearing in the books of the Company.

Our Reply:

The Company was facing a claim for infringement of the Trade Mark in UK. It is because of these issues that the accounts for the period ending 31st March, 2006 of the subsidiary company could not be prepared, compiled or audited in time so as to meet the statutory declaration schedule as applicable under the Listing Agreement.

3. Point No 4 (c): Note no 13 Schedule 20 regarding the balances appearing under debtors and creditors, advances to the suppliers customers, claims recoverable which are subject to confirmation/review /reconciliation and consequential adjustments, the impact of which is not ascertainable.

Our Reply:

Letters of confirmation of balances as appearing under sundry debtors, sundry creditors, advances to the suppliers and others have been sent by the Company. Some of the parties have replied confirming the balances.

4. Annexure (i)(a) : The Company has maintained detailed record of Fixed Assets showing quantitative, location and other particulars. There were instance of (a) shifting and relocation of certain production and other facilities to new premises, (b) sale and disposal of certain assets and (c) internal transfer of assets from one division to other, which however are yet to be recorded in the assets register, and thus the records do not show assets location wise. Further, considering the increasing investment in fixed assets, manufacturing and other activities at different locations and number of items of assets at each location, adequate steps are to be taken to update the assets register showing all the relevant particulars, location wise and activity wise and for numbering of assets to facilitate identification at the time of physical verification.

Our reply:

The Board has taken note of the suggestions in improving the maintenance of such records. Necessary steps have been taken to implement the suggestions made by the Auditors.

5. Annexure (i) (b) : The fixed assets have not been physically verified by the management. Pending physical verification, we are not in a position to comment on discrepancies between physical and book balances.

Our reply:

The Company is taking steps to complete the physical verification of assets in phased manner. We do not foresee any material differences between book balances and physical balances.

6. Annexure (vii) The Company has appointed a firm of Chartered Accountants for carrying out internal audit. In our opinion, the scope and coverage needs to be enlarged so as to be commensurate with the size of the company and nature of its business, particularly in the areas of verification of compliance with service tax rules both as to input and output services review of vendors and customers accounts, identifying the relevant components of costs incurred on fixed assets for capitalization on commissioning /put to use and linking of date of commissioning.

Our reply:

The Board has noted the Auditor's point of view and necessary steps have been taken so as to have a more realistic and concerted effort in minimizing the deficiencies.

7. Annexure (ix)(a) : The company is regular in depositing with appropriate authorities undisputed statutory dues including Provident Fund, Investor Education Protection Fund, Employee's State Insurance, Income Tax, Sales Tax, Wealth Tax, Service Tax, Custom Duty, Excise Duty, Cess and other material statutory duties applicable to it. According to the information and explanations given to us, no undisputed amounts payable in respect of Income Tax, Wealth Tax, Service Tax, Sales Tax, Custom Duty, Excise Duty and Cess were in arrears, as at 31.03.06 for a period more than six months from the date they became payable. However, output service tax payable as per service tax rules needs to be properly linked up with collection of dues of such service related bills.

Our reply:

HBL NIFE Power Systems Limited

The Board is taking necessary steps to link output service tax payable as per service tax rules with collection of dues of such service related bills.

Directors:

Mr. P Satish Kumar has resigned as Director on 30th November 2005.

Mr., Ashok Nagarkatti, Director retiring by rotation and being eligible, offers himself for re-appointment.

Auditors:

M/S Satyanarayana & Co., Chartered Accountants, Auditors of the Company retires at the forthcoming Annual General Meeting and is eligible for re-appointment. Audit Committee has recommended for the re-appointment of M/s Satyanarayana & Co., Chartered Accountants as our Auditors at the ensuing Annual General Meeting. The Company has received a letter from them to the effect that their appointment, if made, by the Company for the year 2006-07 will be within the limit prescribed under Section 224(1-B) of the Companies Act, 1956.

The Board of Directors commends their re-appointment.

Cost Auditor

Your company proposes to re-appoint the cost auditors M/s K. Narashima Murthy & co., Hyderabad, subject to the approval from Central Government.

Personnel & Industrial Relations:

Your Company continues to enjoy cordial relations with the employees.

There were no employees covered by the provisions of Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended.

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings & Out go:

The information required under Section 217(1)(e) of the Companies Act, 1956, read with Rule 2 of the Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules, 1988 are given in a separate statement attached hereto and forms part of this report.

Acknowledgements:

Your Directors take this opportunity to thank all the Company's Bankers and Financial Institutions, the concerned Central and State Government departments, agencies for their support and co-operation. The Board has special appreciation for the employees for their dedicated services.

The Board of Directors thanks all its Shareholders for the confidence reposed in the Management.

For and on behalf of the Board

Place: Hyderabad
Date : 28th August, 2006

Dr. A J Prasad
Chairman and Managing Director