

TRANS FORMATION

HBL[®]

HBL Power Systems Limited
Annual Report 2015-16

"CHANGE BEFORE YOU HAVE TO."

Jack Welch

Forward-looking statements

This document contains statements about expected future events and financial and operating results of HBL Power Systems Limited, which are forward-looking. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that the assumptions, predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause assumptions, actual future results and events to differ materially from those expressed in the forward-looking statements. Accordingly, this document is subject to the disclaimer and qualified in its entirety by the assumptions, qualifications and risk factors referred to in the management's discussion and analysis of the HBL Power Systems Limited annual report 2015-16.

Contents

Corporate identity	02
Our manufacturing facilities	06
Highlights, FY16	07
Statement from the management team	08
Competitive advantage	12
Our performance ambition	13
Management Discussion and Analysis	14
Corporate Information	24
Notice	25
Directors' Report	30
Report on Corporate Governance	50
Financial Statements	63

The competitiveness index of an organisation is shaped by its ability to respond to the dynamic business environment; to remain relevant despite fast changing needs and solutions and to sustain profitability despite economic headwinds

At HBL, despite being in niche spaces, possessing cutting-edge technology and having pioneered unique products, our sales and profitability under-performed potential.

We needed to change. To be relevant.
To be sustainable.

Thus began our transformation journey.

We are changing our opportunity identification policy; restructuring the organisation; reinforcing infrastructure; altering shop-floor practices; adding new product verticals; focusing on continuous improvements and strengthening product out-reach strategies. We are recalibrating our performance analysis.

In short, we are changing the way we look at business – from a simple product and solution development focus to a profitable growth perspective.

All driven by the objective to double revenues in five years and grow profits even faster.

HBL Power Systems Limited

Research-led

Technology driven

Develops batteries and electronics for demanding customers

Customers that represent national lifelines

What is good for HBL is good for India



Positioning

HBL Power Systems Limited is best described as a research-based manufacturing company.

Location

Headquartered in Hyderabad (India), HBL has five fully integrated manufacturing units with 2,24,900 sq. mtrs built-up area

Portfolio

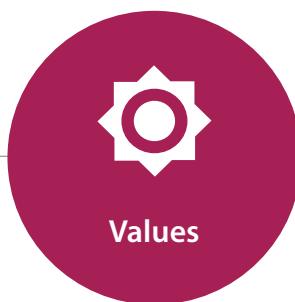
The Company's first product was aircraft batteries and now offers the country's widest range of batteries with diverse specialised applications. HBL has extended into new businesses like railway electronics, defence electronics, power electronics and other engineered products.



Vision

To organise India's engineering talent into a globally competitive business whether in manufacturing or services.

Our choice is to be in businesses with technological challenges / engineering intensity.



Values



Distinctiveness

- World's second largest manufacturer of Ni-Cd batteries
- India's second largest supplier of telecom batteries
- Only Indian company to possess Pure Lead Tin (PLT) battery technology
- Major Indian company to be approved for supply of batteries for varied defence applications
- Supplier of batteries for aviation applications – fighter and civil aircraft, helicopters and UAV applications
- Approved by FAA and EASA for the supply of batteries to multinationals – Boeing and Airbus
- Pioneered a Train Collision Avoidance System for Indian Railways
- Developed a Train Management System

for Indian Railways

- Developed advanced brush-less DC motors for traction and efficient grid tied string inverter for solar application

Management

This is the original Make in India story inspired by promoter Dr. A.J. Prasad who completed his doctoral thesis in 1976 from Columbia University (New York) titled 'Export of Technology from India.' This was followed by the incorporation of Hyderabad Batteries Limited in 1977.

The Company's operations are managed by an experienced team of more than 2,100 personnel (including 500+ engineers).

HBL re-organised its business into strategic business units – Batteries, Electronics and Defence.

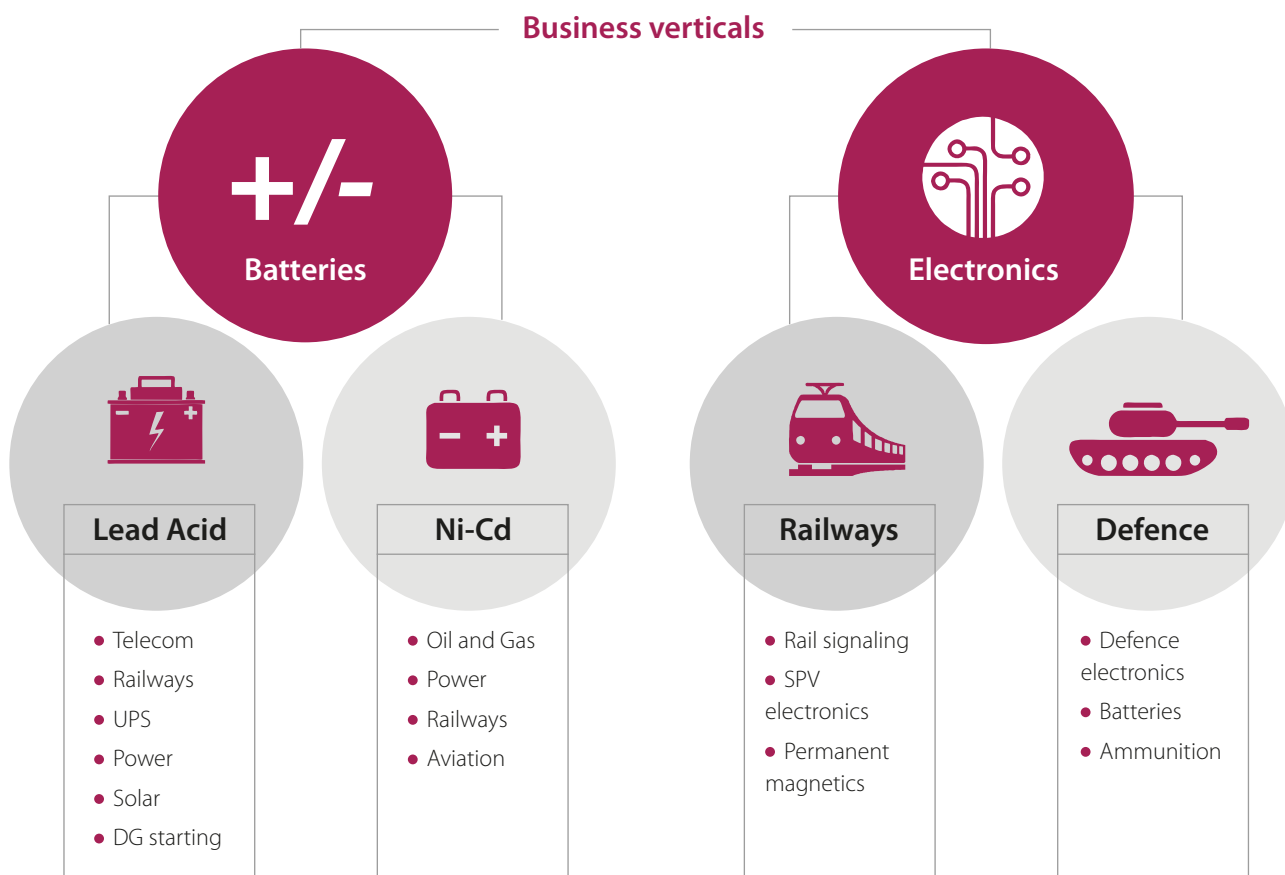
Battery revenues accounted for 77% of overall revenues; emerging businesses accounted for the rest in 2015-16.

Footprint

The Company's products are marketed in India and 80+ countries. Exports account for nearly 14% of revenues. These exports are managed through two wholly-owned subsidiaries (in Germany and North America), agents, distributors and re-sellers.

Listing

The Company's shares were listed in 1992 and are traded on the Bombay Stock Exchange and National Stock Exchange. The Company enjoyed a market capitalisation of ₹920 crore as on March 31, 2016



Our evolution

Incubation

- Established in 1977 as Hyderabad Batteries Ltd (HBL)
- Focused on defence batteries, reinforcing India's self-reliance
- JV with SAB NIFE, Sweden for Ni-Cd batteries in 1986
- Developed lead acid batteries (AGM-VRLA) for telecom applications in 1998
- Merged HBL and SAB NIFE Power Systems in 1999

Growth

- Established large capacities for telecom and Ni-Cd batteries
- Leveraged the telecom boom in India
- Expanded exports through overseas subsidiaries and agency network
- Developed and established the only Indian PLT battery facility
- Deployed resources in infrastructure and new business development

Challenges

- Over dependence on telecom business – slowdown in demand
- Strain on cash – continued investment in R&D
- Excessive investment in factory infrastructure for anticipated growth, which led to under-utilisation of investments; affected by debt and interest burden
- Operational inefficiency, inadequate management bandwidth

Consolidation

- Creation of focused business verticals
- Focus on operational efficiency
- Emphasis on processes, capabilities and quality
- Future-ready and market relevant products
- Focus on lower fixed costs, headcount, working capital and debt
- Attempt to monetise surplus non-core assets

Our manufacturing facilities



NANDIGAON,
Near Hyderabad, Telangana

Area: 74 acres site; 76,130 sq.mtrs built-up area and 51 acres of greenery

Product line: 12V Monobloc – AGM, PLT, Gel and Flooded variants and SPV modules

Certifications: ISO 9001 : 2008; EMS and OHSAS



VIZIANAGARAM,
Near Visakhapatnam, Andhra Pradesh

Area: 64 acres site; 67,629 sq.mtrs built-up area and 42 acres of greenery

Product line: 2V – AGM VRLA and Tubular Gel

Certifications: ISO 9001:2008; EMS and OHSAS



SHAMIRPET,
Hyderabad, Telangana

Area: 65 acres site; 40,612 sq.mtrs built-up area and 53 acres of greenery

Product line: Ni-Cd and specialty batteries, and power electronics

Certifications: ISO 9001:2008; EMS; OHSAS; IRIS and EASA



SPECIAL ECONOMIC ZONE,
Visakhapatnam

Area: 18 acres site; 36,318 sq.mtrs built-up area and 5 acres of greenery

Product line: Ni-Cd batteries and power electronics (for exports)

Certifications: ISO 9001:2008; EMS and OHSAS



THUMKUNTA,
Hyderabad, Telangana

Area: 13 acres site; 4,220 sq.mtrs built-up area and 12 acres of greenery

Product line: Electronics

Certification: ISO 9001:2008



YAPRAL,
Hyderabad, Telangana

Area: 1,340 sq.mtrs

Product line: R&D Center

Certification: ISO 9001:2008

HBL took small steps in FY16, towards a larger goal

Organisation

- Created Strategic Business Units – Batteries, Electronics and Defence
- Embarked on business consolidation
- Applied for merger of holding company with HBL Power Systems Ltd to reduce debt and increase liquidity of the scrip

Products

- Developed power back-up system (batteries with box) for use in rail system for Siemens Germany
- Introduced PLT variant (PLT-Vented) for DG cranking applications
- Commercialised advanced 2V-VRLA range for the telecom sector and exports
- Introduced e-rickshaw batteries for field trials
- Built prototype of 10KW solar grid tied inverter and brush-less DC motor for e-mobility

Approvals, Awards & Certifications

- Obtained approval for kilo class submarine battery from Indian Navy
- Submitted Scorpene class submarine battery for approval
- Developed a new range of PLT battery for Indian Airforce; submitted battery for evaluation
- Received EN 15085 certification from TUV-Nord for battery box manufacturing facility
- Received Best Supporting Partner award for FY16 from ZTE Telecom India Private Ltd
- Obtained DGS&D (Green Channel) approval

Market Development

Batteries

- Expanded customer base in telecom segment
- Exported 2V-VRLA batteries for critical Floating Production Storage & Offloading application in the oil and gas segment
- Secured a large order from Reliance Industries for the supply of 2V-VRLA and PLT batteries for its data centre
- Secured export orders for defence batteries used in battle tanks and torpedoes
- Entered into a contract with Siemens for the supply of power back-up system for a rail project in Germany

- Selected as sole partner for the supply of power back-up system for Delhi Metro (third phase expansion) and Kochi Metro projects
- Reported an encouraging start in the channel business, marked by about ₹45 crore revenues in the first year

Engineering technology

- Commissioned the Train Collision Avoidance System (TCAS) for field trials by Indian Railways
- Executed part of a large prestigious Indian Defence order for the supply of Integrated Communication System for battle tanks

Financial improvements

- Improved profits; profit after tax at ₹1,943 lakh – 33% increase over FY15
- Operating cash flow, adjusted for entire interest cost, was ₹183 crore – 45% higher over FY15
- Repaid debt amounting to ₹119 crore in FY16; debt-equity ratio improved from 1.16x in FY15 to 0.94x in FY16
- Considerable savings in finance cost – by ₹18 crore
- Substantial reduction in inventory holding – by ₹117 crore; improved trade working capital

STATEMENT FROM THE **MANAGEMENT TEAM**

HBL is at the cusp of a positive transformation that promises to grow business profitably over the medium term

