



FOCUSED

HBL[®]

HBL Power Systems Limited
Annual Report 2016-17

“When the
WHY is clear,
the **HOW** is
easy.”

Contents

About HBL 02	Statement from the management 04	The progress made so far... 06
The reverse merger 07	Management discussion and analysis 08	Responsibility beyond business 22
Corporate Information 25	Notice 26	Directors' Report 31
Report on Corporate Governance 49	Standalone Financial Statements 62	Consolidated Financial Statements 120

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 2016-17

In today's highly competitive and increasingly dynamic business environment, transformation is no longer a 'once and done' initiative.

Successful transformation necessitates a multi-faceted change - fundamental business model change, cultural change and operational change.

And for this to transpire, an organisation must create an encouraging internal environment and multiple mechanisms to continuously evolve and respond to the external environment.

Hence, transformation at the start is a painful prospect, yet very satisfying in retrospect.

At HBL, we have made meaningful progress in this journey.

We are unlearning the old and imbibing the new.

We are implementing changes, small and large, in pockets and organisation-wide.

We are celebrating learnings from successes and failures alike.

While we realise that our ongoing efforts are yet to deliver the desired returns, we remain passionately committed to achieve the change we envisaged at the start.

At HBL, the operative phrase now is... being focused – on the chosen transformation journey.

Living the **'Make in India'** purpose for the last four decades



HBL, incorporated in the year 1977, is the original "Make in India" story. Dr. A.J. Prasad, who completed a doctoral thesis in 1976 from Columbia University, New York, titled "Export of technology from India", founded the organisation with this purpose.

HBL Power Systems Limited (HBL) specialises in developing and manufacturing products and solutions for industrial, railways and defence applications. Having successfully developed aircraft batteries as its first product, the Company currently offers the country's widest range of batteries

with diverse applications.

Based out of Hyderabad, (India) the Company has five fully integrated manufacturing units with 2,25,000 sq. mtrs built-up area that houses diverse batteries, electronics and engineered products, which are all in-house developed

The Company has leveraged its engineering knowledge and technological expertise to extend its business horizon, beyond batteries, into challenging niche business verticals namely railway electronics, defence

electronics, industrial power electronics and other engineered products. The Company's operations are managed by an enthusiastic team with an average age of 37 years – representing a prudent mix of experience and energy.

HBL's products are marketed in India and 80+ countries. The exports are managed through its wholly-owned subsidiaries (in Germany and North America), agents, distributors and re-sellers.

The Company's shares were listed in 1992 and are traded on the Bombay Stock Exchange and National Stock Exchange.

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.

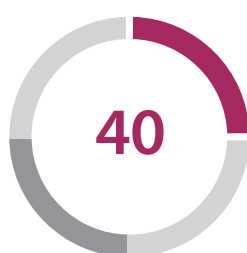
Values

- Fairness to all
- Innovative spirit
- Craftsmanship
- Entrepreneurial opportunism
- Development of individuals
- Harmonious co-existence

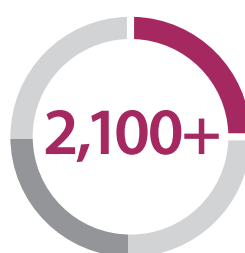
Did you know?

HBL is the only company in India to offer all battery technologies used in industrial applications under one roof

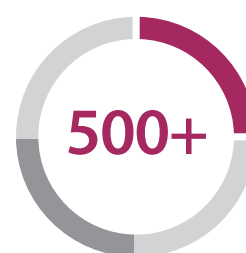
HBL is the world's second largest manufacturer of Nickel Cadmium batteries with Pocket Plate, Sintered Plate and Fibre Plate technologies



Years in business



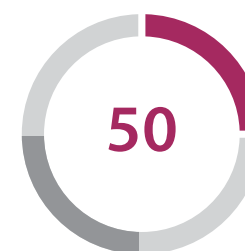
Team size



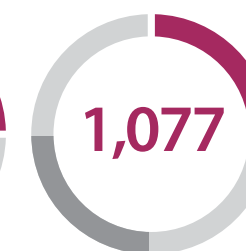
Engineers



Revenue,
2016-17
(₹ crore)



Profit Before Tax,
2016-17
(₹ crore)



Market capitalisation,
March 31, 2017
(₹ crore)

Distinctiveness

India's second largest supplier of telecom batteries

Only Indian entity to possess Pure Lead Tin (PLT) battery technology

Major domestic supplier of varied defence batteries

Supplier of batteries for aviation – fighter and civil aircrafts, helicopters and UAVs

Approved by FAA and EASA for supply of batteries to OEMs – Boeing and Airbus

Pioneered a Train Collision Avoidance System for Indian Railways

Developed Train Management System for Railways

Developed grid tie inverters for solar application

Developing permanent magnet machines for various applications

“Our transformation journey,
which commenced in the year
2015-16, has gained traction
within the organisation.”



Dear shareholders,

We are happy to report that the journey we embarked on in the previous year – one of business and organisational transformation – has made encouraging progress during the year under review.

Our satisfaction stems from the business and profitability growth achieved over the previous year. While income grew by about 10% over the previous year, net profit leapfrogged. And this is a heartening achievement considering the challenging external environment that prevailed during the year under review – consolidation and disruptive offerings in the telecom segment and a subdued industrial and manufacturing sector.

This motivating performance is the

outcome of the team's unwavering focus on meeting the near-term goals despite all odds. We grew market share for our existing products – telecom batteries being a case in point, where we significantly reduced the gap with our peer. We are improving shop floor metrics by altering and fine tuning operational systems and processes. We are focusing on refurbishing the facilities to support our growth trajectory. We continue to explore possibilities of monetising

surplus assets to improve cash-flows. We successfully completed the reverse merger, which helped significantly to reduce the debt and improve debt-equity ratio.

This gives us the confidence that our transformation journey, which commenced in the year 2015-16, has gained traction within the organisation.

The core of our transformation journey is pivoted on a single objective – a ROR (Return on Resource) focus. This has emerged as the critical prism through which we will filter emerging opportunities, business strategies and operational realignments.

Having made a heartening beginning, we continue to remain focused on working towards our medium-term goals – sustaining profitable business growth over the foreseeable future.

In this endeavor, we expect our growth and profitability drivers to undergo complete transformation even as we continue to live by our core ethos of filling in technology gaps prevalent in India with our expertise and energy.

Currently our batteries vertical is the critical catalyst for revenue growth and profitability. In the medium term, this would change. For we expect our technology-solutions verticals – railway electronics and defence – to emerge as future vehicles for shifting the organisation into a higher orbit.

This optimism is based on important realities. In our railway electronics vertical, we are readying ourselves for the commercial installation of our TCAS and TMS systems, which have been successfully inspected and approved by the end user – Indian Railways. This will open up a large market over the coming years.

Having demonstrated our capability in successfully delivering cutting-edge solutions to the Indian defence forces, we have positioned ourselves as a dependable supplier to the armed forces.

Further, we have made significant headway in establishing ourselves as the partner of choice for key components (such as inverters and batteries) to organisations focused on garnering a sizeable share of India's large solar power opportunity.

To succeed in these high-value high-growth businesses, which, we expect will take off in the next 18-24 months, we are planning to enhance our investments. For this, we will need to augment cash flows and strengthen our people capability.

With this focus, we are moving up the battery value chain – into uncluttered space – with considerable success. We have successfully secured approvals for submarine battery variants and established ourselves as an approved battery supplier to the aerospace sector with a product approval from Bombardier.

We are getting into new opportunity spaces with customised products as well. We have developed superior batteries customised for large Data Centre applications and vehicles used by the Indian army at high altitude and low temperature terrains. We are working on establishing a meaningful presence in the e-mobility space in the current year. We have re-engineered products for improved performance suited for UPS applications targeted at the BFSI and IT-ITES sectors.

In addition, we are working on building markets for existing products. We are expanding our channel network for a wider and deeper penetration into the domestic market even as our international business development team continues to focus on widening our global footprint.

These factors should scale revenues and strengthen cash flow from operations which will be prudently deployed in building our future businesses.

We understand that the difference between success and failure of business strategy is people – the key differentiator in today's highly competitive business

environment – for intellectual capital is the key resource that can transform well-thought out business strategies into successful on-ground realities.

It gives us great satisfaction to note that our first step towards people empowerment – creating strategic business units to be headed by professional leaders – has paid rich dividends. In keeping with our resolve to empower our team, we will continue to invest in the intellectual capital of our team – through engagement and internal training - which will strengthen their capability in undertaking more challenging assignments.

Currently our batteries vertical is the critical catalyst for revenue growth and profitability. In the medium term, this would change. For we expect our technology-solutions verticals – railway electronics and defence – to emerge as future vehicles for shifting the organisation into a higher orbit.

Message to shareholders

At HBL, we look forward to exciting times. Investment-inducing and business-strengthening Government policies promise to open a plethora of growth opportunities. We have aligned our business strategies with national priorities; growth, we believe, will be a natural corollary. In view of this, we are confident of delivering significant value for our stakeholders over the foreseeable future.

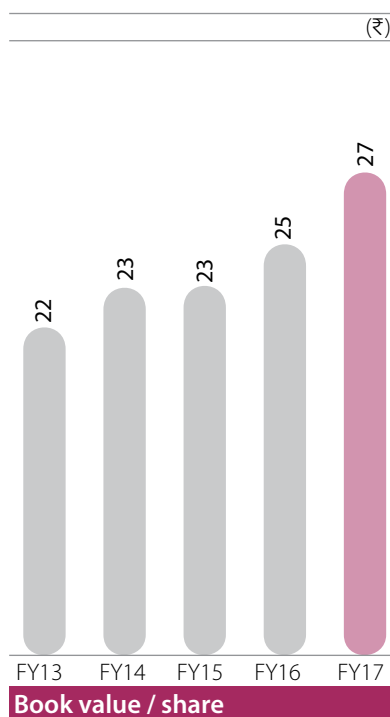
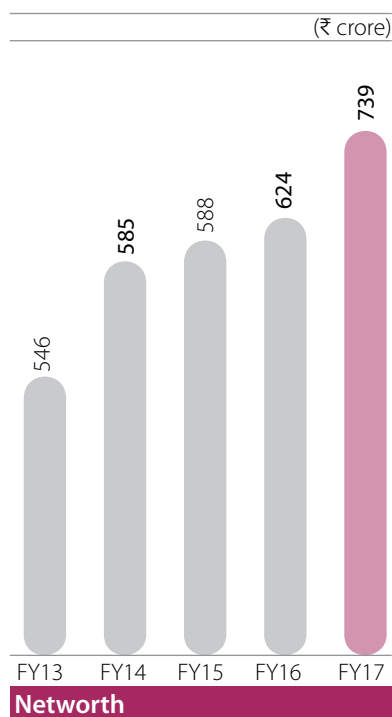
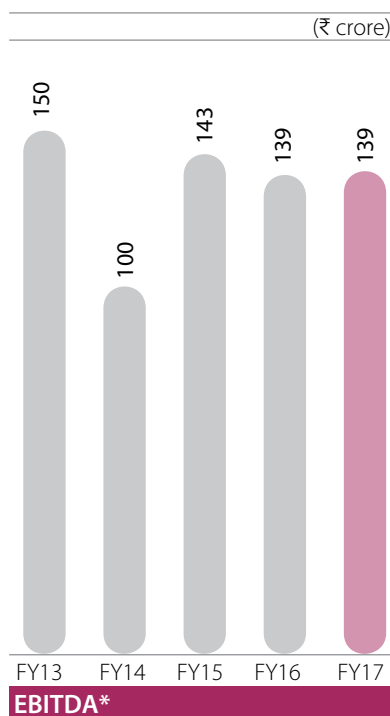
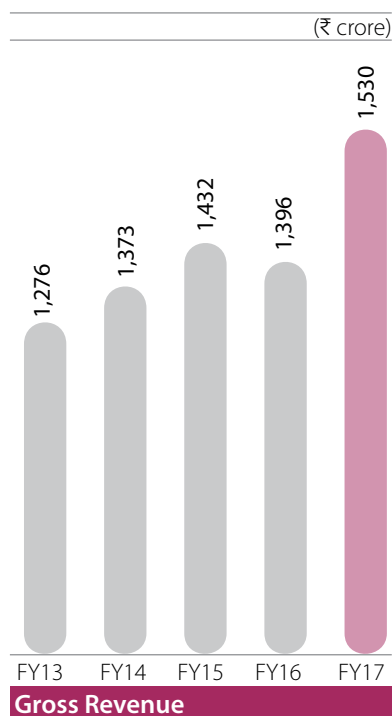
On behalf of the Company, we take this opportunity to convey our sincere appreciation to all stakeholders, governments and shareholders for their unstinted support in taking the Company forward.

Warm regards,

The management team

The **progress** made so far...

(Numbers of standalone metrics)



* EBITDA excludes profit/loss on sale of investments and impairment in value of investments

Highlights, 2016-17

Corporate

- Gross income grew by ~10% from ₹1,408 crore to ₹1,547 crore
- Improved profit before tax significantly from ₹20 crore to ₹50 crore
- Reduced net debt from ₹489 crore to ₹433 crore; debt-equity ratio strengthened from 0.78 to 0.59
- Completed the reverse merger with the holding company

Batteries

- Secured UL certification for 2V-VRLA batteries
- Introduced improved punched grid profile for few variants of PLT batteries
- Received original fitment business from Bombardier for Ni-Cd aircraft batteries
- Associated with a reputed aircraft battery company in North America for securing approval from American Airworthiness Authority and marketing aircraft batteries
- Improved the battery manufacturing infrastructure through refurbishment and commissioning of imported equipment

Electronics

- Shipped the first consignment of power-backup systems to Siemens Germany for a rail project in Germany
- Secured safety integrity level 4 certification for TCAS from Italcertifier, Italy
- Completed assessment for conformity to safety integrity level 4 for Electronic Interlocking System by Italcertifier, Italy
- Completed designs for 30 KW alternator for use in LHB coaches and 300 KW motor for torpedoes propulsion

Defence

- Obtained approval for Scorpene-class submarine battery from Indian Navy
- Received approval for PLT battery for use in BAE Hawk aircrafts from Indian Air Force
- Achieved 100% indigenisation of electronic fuzes for artillery guns.

The **reverse** merger

On March 23, 2016, the Board of Directors approved a scheme of arrangement for amalgamation of Beaver Engineering and Holdings Private Limited ("Beaver") and HBL Power Systems Limited ("HBL"), effective April 1st, 2016 (appointed date). This was approved by Hon'ble National Company Law Tribunal (NCLT), Hyderabad Bench on May 9, 2017. SBI Capital Markets Limited, an independent merchant banker, had evaluated the scheme and provided a fairness opinion.

Beaver was the holding company of HBL with equity holding of about 59%. Beaver had supported HBL with an interest free unsecured loan of ₹138

crore for furtherance of its business in FY13.

The rationale behind the merger was to enable shareholders (larger investors and promoters) of Beaver to hold listed shares of HBL (a listed entity), simplify the Group structure, de-leverage the financial statements and enhance floating stock of shares (public holding increased from 26% to 44%), which would facilitate increase in shareholder value over the medium term.

In exchange for equity shares held and conversion of debt given by Beaver to HBL, equity shares of HBL were allotted, which resulted in net increase in equity shares by 2,41,94,946.

HBL Power Systems Limited	No. of shares
Equity shares – ₹1/- each (before amalgamation)	25,30,00,000

Issues to shareholders of Beaver consequent to scheme of amalgamation	No. of shares (₹1/- each)
3,883 shares against 10 Equity shares of ₹10/- each	11,83,25,104
3,753 shares against 10 Compulsory Convertible Preference Shares of ₹10/- each	2,89,59,273
3,901 shares against 10 Optionally Convertible Redeemable Preference Shares of ₹20/-each	2,68,10,012
Total shares issued to shareholders of Beaver	17,40,94,389
Less: Cross holding of shares (promoters)	(14,98,99,443)
Net Share Capital after the scheme	27,71,94,946

