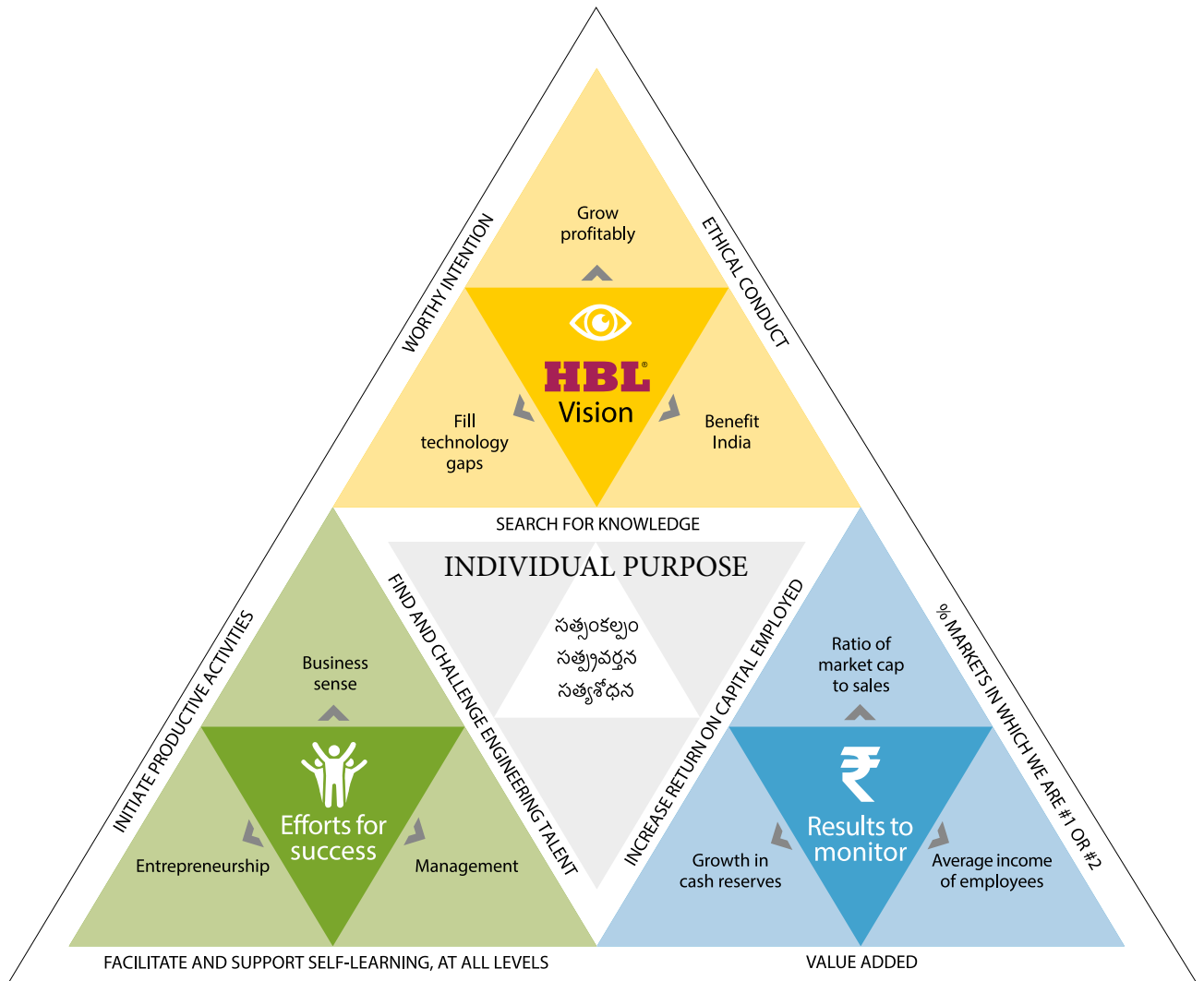




HBL[®]

HBL Power Systems Limited

Annual Report 2017-18



The triangle encapsulates the essence and being of HBL.
It crisply showcases the **'Who', 'Why', 'How'** and **'Where'** of the organisation.

- | | | |
|--------------------------------------------------------------------|--------------------------------------------|--------------------------------------------------|
| ▶ Who we are and Why we do what we do are embodied in the 'vision' | ▶ How is captured in 'Efforts for Success' | ▶ Where reminds us of the results to be achieved |
|--------------------------------------------------------------------|--------------------------------------------|--------------------------------------------------|

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Nobody said it'd be easy

Nothing worth its salt ever is. And indeed, the transformation journey that we began two years ago met with its fair share of ups and downs as well.

And even as we started the year 2017-18 on a positive note, our progress was challenged by strong headwinds that completely altered the eco-system of India's telecom sector. We too were sucked into the whirlwind.

But then as is always said, whatever the circumstance, we always have a choice.

The choice to remind ourselves of the **"why"** behind the journey. The choice to keep our eyes on the **"where"** we aimed to reach. The choice to not doubt the **"how"** we decided to follow.

And most importantly, the choice to stay true to the **"who"** we have always been, deep within.

As the universal laws state: So without, so within.

Everything is a mirror. What we feel and believe inside is what manifests on the outside.

Hence, in spite of every reason being there to let concern feed on our mind, we chose to stand our ground, have faith in our journey and stay positive.

For we believe, the real battleground is always the mind. When we emerge victorious there, nothing in the world can impede our progress.

Nobody said this'd be easy. But certain journeys are worth the work!

Snapshot

HBL Power Systems Limited (HBL) specialises in developing and manufacturing products and solutions for telecom, industrial, railways and defence applications.

Headquartered in Hyderabad (India), the Company's five fully integrated facilities manufacture batteries, electronics and engineered products based on in-house developed technologies. Its operations are spearheaded by Dr. A.J. Prasad and managed by an energetic team of enthusiasts.

In addition to catering to niche sectors namely telecom, UPS, solar, defence and railways in India, the Company's products are marketed across its expansive global footprint spanning 80+ countries. The export operations are managed by its wholly-owned subsidiaries (in Germany and North America), and ably supported by agents, distributors and re-sellers.

The Company's shares are listed on the BSE Limited and The National Stock Exchange of India Limited.



NANDIGAON,

Near Hyderabad, Telangana

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



VIZIANAGARAM,

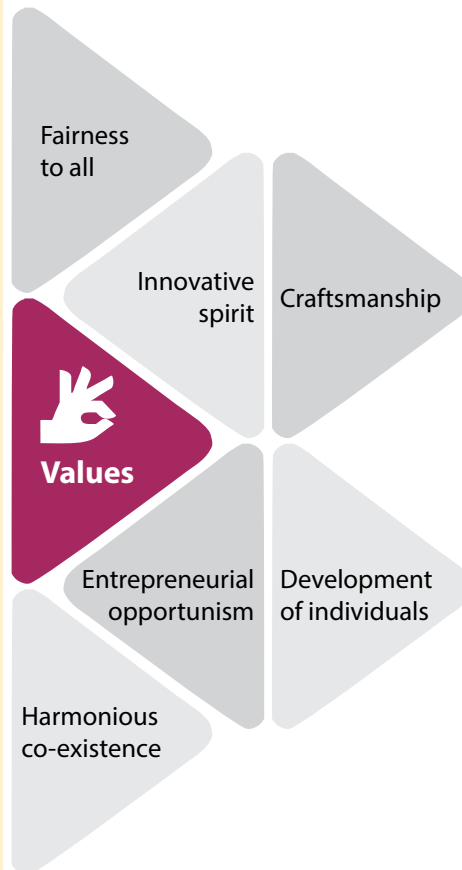
Near Visakhapatnam, Andhra Pradesh

Product line: 2V – AGM VRLA and Tubular Gel



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.



Distinctiveness

- ▶ World's second largest supplier of Ni-Cd batteries
- ▶ Large supplier of telecom batteries in India
- ▶ Possess unique Pure Lead Tin (PLT) thin plate technology
- ▶ Major domestic supplier of batteries for varied defence applications
- ▶ Supplier of batteries for aviation – both civil and military aircrafts
- ▶ Pioneered a Train Collision Avoidance system and Train Management System for Railways
- ▶ Developed high precision artillery fuses
- ▶ Developing high efficiency Drive Train solution for e-buses
- ▶ Developing advanced technology power solutions for Light and Heavy weight torpedoes



SHAMIRPET,
Hyderabad, Telangana

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



THUMKUNTA,
Hyderabad, Telangana

Product line: Electronics



SPECIAL ECONOMIC ZONE,
Visakhapatnam

Product line: Ni-Cd batteries (for exports)

Our efforts, towards making our existing business stronger and our emerging business bigger, should deliver interesting returns going forward.



Dear share holders,

IT WAS A VERY INTERESTING YEAR FOR HBL.

WE STARTED THE YEAR ON A POSITIVE NOTE, REGISTERING HEALTHY GROWTH IN BUSINESS AND PROFITABILITY IN THE FIRST HALF OF THE FISCAL. BUT THE SECOND HALF WAS SUBDUED OWING TO THE IMPACT OF DISRUPTIVE CHANGES IN THE TELECOM SECTOR, WHICH CAST ITS SHADOW ON THE TELECOM BATTERY SPACE. AS A RESULT, DEMAND DECLINED AND COMPETITIVE PRICING ASSUMED CENTER STAGE. THE COMBINATION OF THESE FACTORS IMPACTED THE MAIN STREAM BUSINESS AND ITS PROFITABILITY.

Despite these realities, we ended the year with HBL touching new highs-

- ▶ Highest revenue in our corporate journey
- ▶ Highest revenue from the telecom battery business
- ▶ Highest revenue from the mono-block batteries
- ▶ Market share in the telecom battery business inched up a few notches

However, the net profit remained at previous year level owing to the increased competitive intensity in telecom battery space.

We are pleased to mention that despite the prevailing volatility in the external eco-system, we improved business liquidity (cash flow from operations

increased from Rs 42 crore in 2016-17 to Rs 157 crore in 2017-18) and strengthened organisational solidity (reduced debt by Rs 109 crore during the year with debt : equity of 0.43 times).

This satisfying performance was primarily owing to the on-going transformation initiatives focusing on fine tuning operational systems and processes at the shop floor, eliminating avoidable costs and unearthing new demand pockets.

Moving ahead on our journey

Interestingly, fiscal 2017-18 was very satisfying not only from a performance perspective but also from a strategic standpoint. For the year gone by, highlighted the critical relevance of the transformation journey for HBL's survival, success and sustainability. It highlights the need for flanking business verticals to

cushion adversities arising out of volatility in the core business unit, which we believe, will continue for the next couple of years.

It gives us immense satisfaction to state that we have made significant progress in our journey despite the prevailing volatility in the external eco-system.

Batteries: In 2017-18, we secured seismic certification from a US consulting firm for our 2V-VRLA batteries, an essential watermark of global acceptance of our products. This widens our opportunity canvass beyond the Indian shores and would de-risk our telecom battery business, which currently depends only on the Indian market for its progress. Moreover, we are exploring the opportunity of consolidating our capacities to increase fungibility. This will allow us to swing capacity in favour of products which are in high demand.

Electronics: We take great pride in mentioning that our team successfully commissioned the country's first ever indigenous Train Management System (TMS) in the Howrah division of Eastern Railways. This success showcases our unwavering commitment to our core ethos of filling in technology gaps prevalent in India with our expertise and energy. We are hopeful of securing larger business based on this showpiece from other divisions of the Indian Railways.

Further, having secured all necessary approvals for our pioneering Train Collision Avoidance System (TCAS), we are completely ready for participating in the upcoming tender from the Indian Railways. The satisfying aspect being that after years of patient persuasion, the Indian Railways and the Government have finally decided to encourage TCAS as India's national train control system. This, over time, could be a game changer for HBL.

Defence: Having gained significant equity with the Indian Defence, we resolved to strengthen our ties further towards a more meaningful business relation. Towards this end, we are laying the foundation of a new business vertical which will manufacture rockets and other ammunition for the Indian Defence forces.

We appreciate the Board's approval of this project and their sanctioning an initial investment of Rs 50 crore for this initiative. We have purchased the land for the facility and civil works are in progress. We have also participated in a large tender

Staying Positive

Our efforts, towards making our existing business stronger and our emerging business bigger, should deliver interesting returns, going forward.

We are prudently strengthening our existing batteries business to make it more resilient to external vagaries, and aggressively developing our flanking businesses (electronics and defence) to transform them into an important growth catalyst over the coming years.

While we understand that returns from

WE APPRECIATE THE BOARD'S APPROVAL OF THIS PROJECT AND THEIR SANCTIONING AN INITIAL INVESTMENT OF RS 50 CRORE FOR THIS INITIATIVE. WE HAVE PURCHASED THE LAND FOR THE FACILITY AND CIVIL WORKS ARE IN PROGRESS. WE HAVE ALSO PARTICIPATED IN A LARGE TENDER FOR SUPPLY OF ROCKETS AND ARTILLERY FUSES TO INDIAN ARMY

for supply of rockets and artillery fuses to Indian Army and remain positive on securing volumes from this opportunity. Going forward, we would also explore opportunities for developing and delivering ammunition needs of defence forces of several other countries.

E-mobility: In keeping with our philosophy of identifying technology-gaps for developing sustainable business verticals, we have identified e-mobility as the next strategic direction for HBL. This is especially interesting as this business space promises a plethora of opportunities which cannot be completely envisioned today. As a start, we will focus on the public transport buses. We plan to develop and offer complete drive train solutions comprising motors, controllers, batteries and battery chargers.

battery business vertical is currently challenged, and that returns from the strategic initiatives will not be immediate, we are staying positive that the ultimate outcome, aided by our transformation journey, would reposition HBL into a new growth orbit.

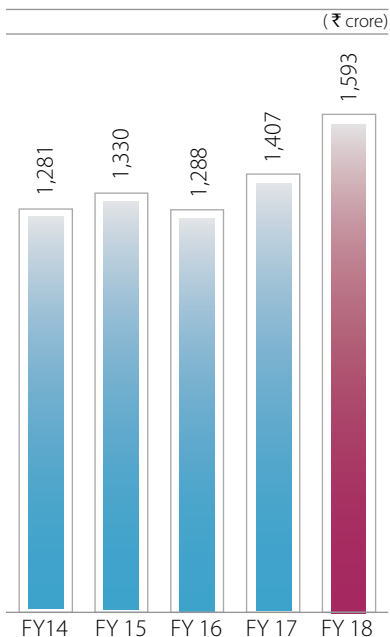
We take this opportunity to extend our sincere appreciation to our valued customers, suppliers, employees, selling agents, shareholders, bankers and the state and central government for the support, encouragement and motivation extended to us. We also thank our colleagues on the Board for their invaluable advice and guidance.

Warm regards,

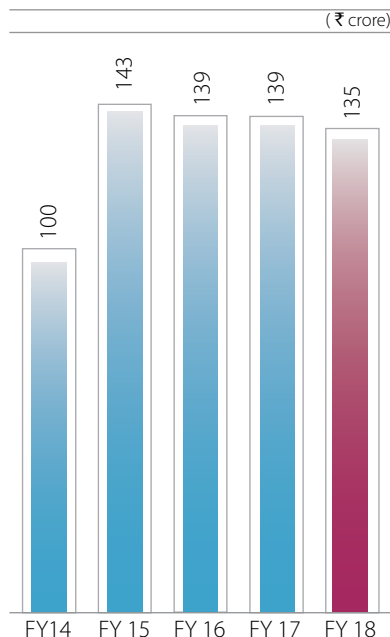
The management team

Highlights, 2017-18

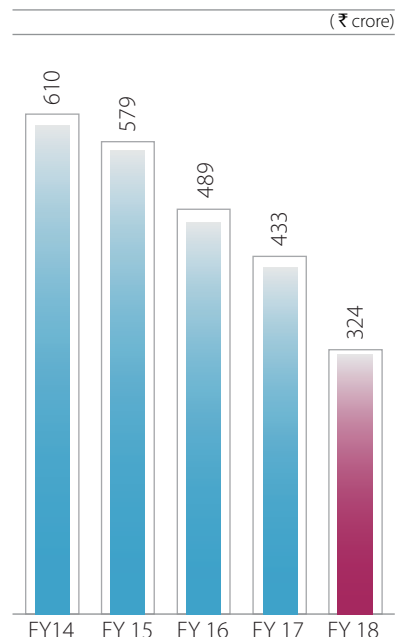
Financial highlights



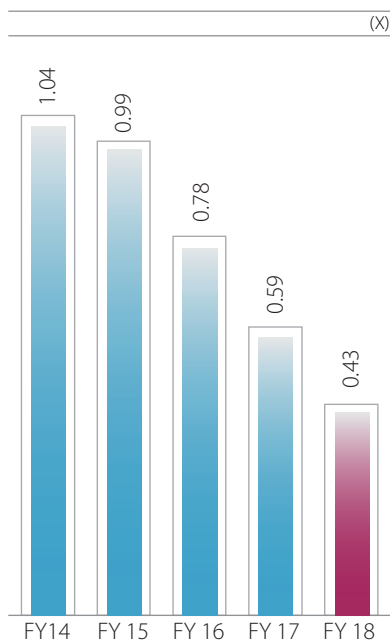
Net Revenue



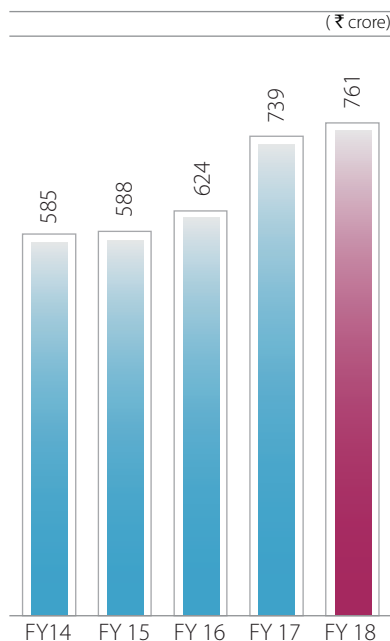
EBITDA*



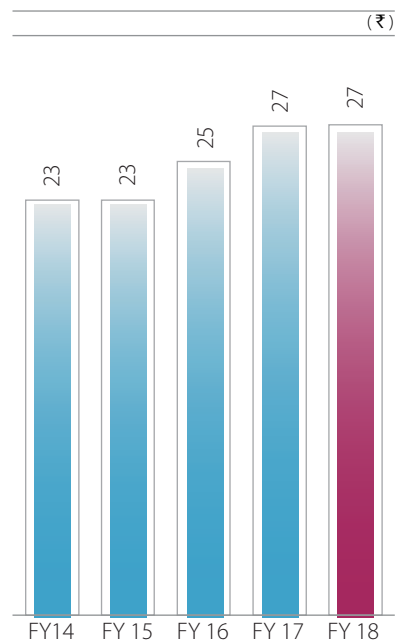
Net Debt



Debt: Equity



Network



Book value

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

Net revenue grew by 13% to ₹ 1,593 crore – the highest in the history of the Company

Net profit before tax remained stable, despite cost escalation and price erosion, aided by enhanced efficiency

Reduced net debt from ₹ 433 crore to ₹ 324 crore; debt-equity ratio improved from 0.59 to 0.43

Cash flow from operations has significantly improved in 2017-18 – stood at ₹ 157 crore against ₹ 42 crore in 2016-17, despite strain on working capital due to higher GST @ 28% on batteries.

2,000+

Team Size

1,593

Revenue, 2017-18
(Rs crore)

135

Operating Profit
2017-18 (Rs crore)

52

Profit Before Tax
2017-18 (Rs crore)

1,218

Market capitalisation,
March 31, 2018 (Rs crore)

761

Net worth, March 31, 2018
(Rs crore)

Business highlights



Batteries

- ▶ Net revenue from the batteries vertical grew by 17%
- ▶ Enhanced market share in telecom, despite stiffer competition
- ▶ Touched ₹ 125+ crore sales through Channel
- ▶ Secured seismic certification from US consulting firm for 2V-VRLA batteries, to support exports
- ▶ Received certification for Ni-Cd battery for use in Bombardier business jet(s) to be introduced in CY 2018
- ▶ Sustained the focus on battery manufacturing infrastructure improvements



Electronics

- ▶ Secured all approvals for Train Collision Avoidance System (TCAS) readying the Company for participation in upcoming tender from Indian Railways
- ▶ Commissioned the country's first ever indigenous Train Management System (TMS) in Howrah division of Eastern Railways
- ▶ Developed proto-type of battery charger (meant for charging stations) for E-Vehicles
- ▶ Made substantial progress in developing the drive train solution for electric buses
- ▶ Completed the last phase of execution of Digital Control Harness (DCH) orders for 7,000 armoured vehicles from Indian Army



Defence

- ▶ Secured first order for PLT aircraft battery from Indian Airforce for BAE Hawk Mk-132 Aircrafts
- ▶ Participated in a large tender for supply of rockets and artillery fuses to Indian Army
- ▶ Made good progress in developing advanced technology power solutions for Light and Heavy weight torpedoes for Indian Navy

Management discussion and analysis



Economic overview

Fiscal 2017-18 was a defining year for the Indian economy.

India took the bold step of completely resetting its indirect tax system to a comprehensive GST regime. While this path-breaking change led to a short-term decline in India's economic progress, the nation bounced back aggressively to report a 7%-plus growth in the second half of the year, and ~7.7% in the three months ended 31 March 2018, signaling a strong turnaround and reclaiming its position as the fastest growing major economy of the world. Gross fixed capital formation, a proxy for investment demand in the economy, expanded at a double-digit pace (14.4%) after a gap of seven quarters, signaling a revival in investment activities.

Despite the economic resurgence, headwinds faced by the telecom sector intensified owing to free call and data regime (for a fixed amount) initiated by the most recent entrant in the telecom space. This has resulted in reduced

revenue, growing losses and a huge debt pile in telecom sector and has forced a consolidation in the telecom space - 10+ service providers from a year ago have shrunk to only four.

Inflation concerns have forced the Reserve Bank of India to raise the repo rate two times in the first half of the current year. The move makes money more expensive in the world's fastest growing major economy.

While maintaining GDP growth projection at 7.4% in 2018-19, the central bank raised its inflation estimates to 4.8% from 4.7% for the second half of 2018-19 and 5% inflation rate for first quarter of 2019-20.

Going forward, the investment climate in the country is expected to remain tepid, owing to the possibility of the Government initiatives being deferred due to the forthcoming General Elections in May 2019.