



# HBL

**HBL Power System Limited**

— 15th November, 2023 —

Q2 FY 24



India's Best Performing and Most Customer Centric PMS

Established in 1983, HBL Power System Ltd has emerged as a prominent player in the realm of battery manufacturing and servicing, catering to various industries and sectors. The company's diverse business verticals showcase its commitment to innovation and excellence, making a formidable presence in the market.

**INDUSTRIAL BATTERIES: Meeting the Energy Demands of the Future:** In the age of rapid technological advancement, HBL Power System Ltd has witnessed a surging demand for its industrial batteries, particularly from the telecom sector, driven by the widespread rollout of 5G technology. The company's significant achievements include executing substantial orders for 12V-VRLA batteries, contributing to electrification projects under the ambitious Bharat Net initiative. Moreover, HBL Power System Ltd achieved a remarkable milestone by securing a single, substantial order valued at H31 crore for Ni-Cd batteries, earmarked for the prestigious Indradhanush Gas Grid Limited (IGGL) pipeline project in the Northeast. International recognition followed suit, with export orders flowing in for supplies to renowned entities such as the New York City Transit (NYCT) and Siemens Via Rail in Canada.

**DEFENCE: Powering National Security:** HBL Power System Ltd plays a vital role in supporting national defense by completing the type approval process for Type-II batteries designed for HDW German (Shishumar) class submarines. The company secured manufacturing clearance for these crucial components. Notably, HBL Power System Ltd stepped up to the task of developing and supplying thermal batteries to the Advanced Systems Lab (ASL) of DRDO for the Agni Prime Strategic Missile, receiving a production order that further underscores its significance in defense technology.

**ELECTRONICS: Revolutionizing Transportation and Safety:** In the electronics realm, HBL Power System Ltd continues to break new ground. The company secured four substantial contracts for the deployment of Kavach TCAS (Train Collision Avoidance System) in vital rail routes, cumulatively valued at H807 crore. This cutting-edge technology is poised to enhance railway safety significantly. Furthermore, HBL Power System Ltd secured a contract for the supply of 46 Kavach TCAS systems to the Integral Coach Factory, reinforcing its commitment to safety in train travel. The deployment of the Train Management System (TMS) in the Sealdah Division of Eastern Railway is also in progress, signaling further advancements in rail technology. Field trials for the Electronic Interlocking System are currently underway, further cementing HBL Power System Ltd's reputation as a pioneer in the electronics sector.

HBL Power System Ltd's journey is a testament to its unwavering dedication to providing innovative energy solutions that have left an indelible mark on industrial batteries, defense technology, and electronics. As we move into an era characterized by rapid technological advancements and evolving energy demands, the company stands at the forefront, ready to power a brighter and more secure future. With a commitment to quality, a portfolio of groundbreaking products, and a global presence, HBL Power System Ltd remains a driving force in shaping the energy landscape and enhancing the safety and efficiency of various sectors.

| Stock Data          |             |
|---------------------|-------------|
| CMP                 | 321.95      |
| 52 Week High/Low    | 329.5/86.15 |
| Face Value          | 1           |
| Market Cap (In Crs) | 21,438      |
| NSE                 | HBLPOWER    |
| BSE                 | 517271      |
| Bloomberg           | HBPS:IN     |
| Sector              | Batteries   |

| Shareholding Pattern (in %) |         |         |
|-----------------------------|---------|---------|
|                             | June-23 | Sept-23 |
| Promoter                    | 59.10%  | 59.11%  |
| FII                         | 2.63%   | 2.23%   |
| DII                         | 0.14%   | 0.08%   |
| Public                      | 38.14%  | 38.58%  |

| Price Performance (in%) |        |         |         |
|-------------------------|--------|---------|---------|
| (%)                     | 1M     | 6M      | 1Yr     |
| Nifty 50                | -0.38% | 7.43%   | 7.22%   |
| HBL Power               | 10.16% | 216.88% | 213.49% |

| Key Ratios     |        |
|----------------|--------|
| P/E            | 50     |
| PEG Ratio      | 2.33   |
| Debt To Equity | 0.1    |
| ROE            | 10.70% |
| ROCE           | 13.70% |
| Dividend Yield | 0.14%  |

## Q2 FY 24 Result Update

| Q2 FY24 Result Comparison (In Rs Cr) |         |         |         |     |      |
|--------------------------------------|---------|---------|---------|-----|------|
|                                      | Q2 FY24 | Q1 FY24 | Q2 FY23 | QOQ | YOY  |
| Revenue                              | 557     | 467     | 314     | 19% | 77%  |
| Operating Profits                    | 101     | 78      | 33      | 29% | 206% |
| Profit Before Tax                    | 91      | 69      | 30      | 32% | 203% |
| Net Profit                           | 68      | 52      | 20      | 31% | 240% |
| EPS                                  | 2.48    | 1.87    | 0.72    | 33% | 244% |

## Result Highlights

HBL Power has reported a robust performance in Q2 FY24, as indicated by the latest financial results. The company has shown an impressive upward trajectory across all key financial metrics, revealing a strong growth pattern and operational excellence.

**Revenue Growth:** HBL Power's revenue has seen a significant jump. In Q2 FY24, it reached ₹557 Cr, marking a sharp increase of 19% from the previous quarter and an even more striking year-over-year (YoY) growth of 77%. Such an expansion in revenue is indicative of the company's growing market presence and the successful acquisition of new business or expansion of sales in existing markets.

**Operating Profits and Profitability:** The operating profits for Q2 FY24 stand at ₹101 Cr, which is a substantial increase of 29% from Q1 FY24, and an impressive 206% YoY growth. Profit Before Tax (PBT) and Net Profit echo this positive trend, showing QoQ growth of 32% and 31% respectively, and remarkable YoY growths of 203% and 240%. These figures reflect not only HBL Power's ability to scale up its operations effectively but also point to excellent cost management and potentially higher margins on its products or services.

**Earnings Per Share (EPS):** The company's EPS has increased from ₹1.87 in Q1 FY24 to ₹2.48 in Q2 FY24, showing a 33% growth QoQ and a substantial 244% YoY increase. This substantial rise in EPS reflects the company's profitability and is a strong indicator of value creation for shareholders.

**Financial Strategy and Stability:** HBL Power's financial strategy is underscored by a positive credit rating from Care Edge, with a Long-term rating of A (Positive) and a Short-term rating of A1. This reflects the company's financial stability and its consistent record of meeting all bank obligations for 40 years without any rescheduling, signaling a robust financial discipline and credibility in the eyes of lenders and investors.

**Debt Management:** The company's prudent approach to debt is highlighted by its current negative debt position. It is projected that the Total Debt/Net worth ratio may stand at around 0.2 by the end of FY 24, considering the planned capex of ₹90 Cr and an investment of ₹150 Cr in Tonbo, along with borrowing for working capital needs to fuel the anticipated growth during FY24. Such a low leverage ratio suggests that HBL Power is managing its growth with a conservative financial approach, ensuring long-term sustainability.

**Dividend Policy:** Aligned with its financial stability and growth, HBL Power has committed to a dividend policy that aims to increase the dividend by 5% every year. This policy not only underlines the company's confidence in its financial health but also its commitment to providing consistent returns to its shareholders.

## HBL Power Investor's Presentation – Q2 FY24 Review

HBL Power's Q2 FY24 review presents a company poised to capitalize on several macroeconomic tailwinds that bode well for its product demand and future growth.

### Macroeconomic Tailwinds:

- **Stable Demand for Batteries:** HBL Power's batteries are essential for infrastructure, implying that their demand is likely to remain stable, independent of economic fluctuations. This positions the company to have a steady revenue stream even in times of economic uncertainty.
- **Railway Investment:** With railways prioritizing electronic signaling to enhance track utilization and safety, HBL Power stands to benefit as a supplier for these critical components, aligning with public sector investment trends.
- **Defence Indigenization:** As the nation takes defence indigenization seriously, HBL Power is well-placed to capture opportunities arising from increased local procurement by the defence sector.
- **Electric Mobility Push:** The move towards electric mobility, partly driven by the need to reduce petroleum imports and address rising diesel prices, especially from the transportation sector, suggests a growing market for HBL Power's products.

### Business Strategy Insights:

- **R&D and Working Capital:** HBL Power indicates a strategic shift with lower R&D expenditure in the coming years, focusing more on increasing working capital. This reflects a transition from research phase to commercialization and market expansion.
- **Capex Strategy:** The company notes that the high capital expenditure of FY24 is not anticipated to recur in the near future. This suggests a move away from large Capex-intensive projects, which aligns with their goal to minimize volatility in financial performance.
- **High-Value Technology Focus:** Emulating the success of Germany's Mittelstand firms, HBL Power aspires to be a high-value, technology-based business. This ambition speaks to a focus on quality, niche markets, and technological leadership.
- **Engineering and Technology Talent:** The company emphasizes its commitment to organizing engineering talent to fill technology gaps, reaffirming its purpose and focus on innovation and tech-driven solutions.

## Business Segmented By Expected Growth Rate

| INDUSTRIAL BATTERIES<br>Low Growth<br>Decent EBITDA                          | DEFENCE & AVIATION BATTERIES<br>Decent Growth<br>Good EBITDA                             | INDUSTRIAL ELECTRONICS<br>Rapid Growth<br>Good EBITDA                |
|------------------------------------------------------------------------------|------------------------------------------------------------------------------------------|----------------------------------------------------------------------|
| All Lead Batteries                                                           | Batteries for Torpedoes,<br>Submarines and other underwater applications                 | RAIL SIGNALING ELECTRONICS<br>Kavach, Electronic Interlock, TMS      |
| All Nickel Batteries<br>except Aviation                                      | Nickel Aviation Batteries                                                                | DEFENCE ELECTRONICS :<br>Electronic Fuzes for Ammunition             |
| Lithium Batteries for Small Energy Storage<br>Systems and E-Trucks           | Lithium Missile Batteries                                                                | INDUSTRIAL ELECTRONICS :<br>Motors & Controllers for Electric Trucks |
| R&D currently in progress. Results may appear only in FY 2027                |                                                                                          |                                                                      |
| Advanced Chemistry<br>Stationary Batteries for B2B Energy<br>Storage Systems | State of the Art batteries for Torpedoes.<br>Lithium batteries for defence and aviation. | Power Electronics needed for<br>B2B Energy Storage Systems           |

**Telecom Tower Batteries:** HBL has leveraged its in-house developed technology to create Valve Regulated Lead Acid batteries for the telecom sector, catering to both private operators and BSNL through B2B and tender-based approaches. Despite the consolidation of telecom firms in India, HBL remains a key player. The advent of 5G and the resumption of replacement schedules for older towers are anticipated to drive demand growth from FY 24 onwards.

**Rail & Metro Coaches / Loco Batteries:** Recognized both domestically and internationally, HBL is a major supplier of Lead Acid and Nickel Cadmium Alkaline Batteries for rail and metro coaches. Notably, it stands as the second-largest global producer of Industrial Nickel Cadmium Batteries. Significant partnerships include being an OEM supplier for Siemens.

**Batteries for Oil and Gas and Utility Industries:** In the Oil and Gas industry, where reliability and safety are paramount, HBL's Nickel Cadmium Pocket Plate Batteries are the choice for industry leaders like Reliance Industries at their Jamnagar Refinery. HBL's three decades of successful exports underscore its global competitiveness.

**DC Power Back up Systems:** HBL's Pure Lead Tin batteries, serving diverse applications from stationary engine starting to tanks and army trucks, highlight its leadership in high-power short-duration batteries. HBL, as India's sole producer and the world's second, has also penetrated export markets and data center applications.

**Torpedo Batteries:** As one of two suppliers for the Indian Navy's torpedo propulsion batteries, HBL has demonstrated its strategic role in defense. With contracts from NSTL/DRDO for state-of-the-art Al AgO batteries, HBL is aligning itself with global leaders in torpedo battery technology.

**Missile Batteries:** HBL's dominance is further established in missile batteries, being the designer, developer, and manufacturer for Indian defense needs, including the prestigious Agni V missile. Its export markets extend to Israel and UAE, showcasing its niche manufacturing capabilities on an international scale.

**Aircraft Batteries:** Over six years, HBL developed Sintered Plate Nickel Cadmium Batteries, now supplying almost all batteries for the Indian Air Force and exploring opportunities with commercial aircraft, evidenced by certifications from FAA and EASA.

**Submarine Batteries:** Specializing in "Tubular plate flooded lead acid" batteries, HBL competes with Exide through tenders to supply the Indian market and explores export opportunities. It's also venturing into Li-ion batteries for submarines, highlighting its innovative edge.

**KAVACH (Train Collision Avoidance System):** Pioneering TCAS with RDSO, HBL is set to capitalize on the Indian Railways' plan to install the system across 30,000km of track, signifying its long-term commitment to rail safety technology.

**Train Management System (TMS):** As the sole approved Indian provider for TMS and with a system inaugurated by the Eastern Railway, HBL is positioned to address the growing demand for advanced rail management systems.

**Electro-Optics – Equity Investment:** Investing in Tonbo Imaging India Pvt Ltd, HBL is branching out into electro-optics and imaging systems for defense applications, tapping into the indigenization drive and the global market for surveillance and reconnaissance technology.

**Electronic Drive Trains For Trucks:** HBL's R&D in motors and controllers for EVs, with a plan to test products in 2024, is aimed at revolutionizing the electric truck market in India, marking its entry into sustainable transportation solutions.

**Grenades with Electronic Fuzes:** With approval from the Ministry of Home Affairs for grenade sales and the only supplier of electronic fuzes in India, HBL is expanding its footprint in the defense sector.

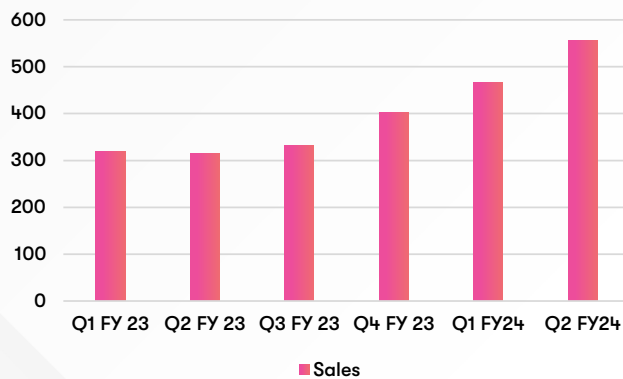
**Electronic Fuzes for Guns, Rockets, Bombs:** Developing 100% indigenized electronic fuzes, HBL is poised to become a key player in the domestic artillery market and a potential exporter given its unique position in a niche global market.

**Defence Electronics Capabilities:** HBL's manufacturing prowess in complex defense electronics is exemplified by products like Digital Control Harness for armored vehicles and Integrated Platform Management Systems for submarines, confirming its capability and potential for growth in defense technology.

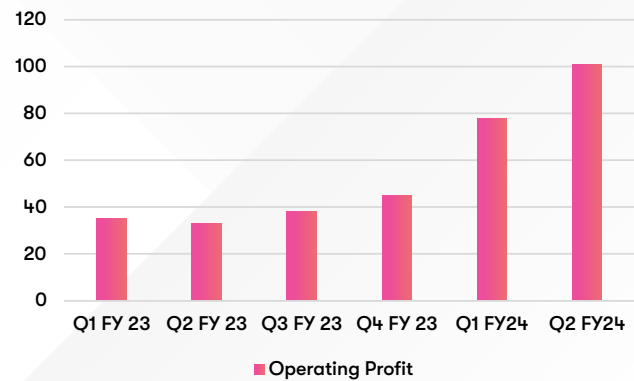
### Potential Sales By Business Segment, Over Next 3 Years

| Year        | Traditional Low Growth<br>Industrial Batteries | Established Moderate Growth<br>Defence & Aviation Batteries | Established Rapid Growth<br>FY 24, Plus Industrial Electronics | TOTAL SALES                                             | EBIDTA | EBIDTA % |
|-------------|------------------------------------------------|-------------------------------------------------------------|----------------------------------------------------------------|---------------------------------------------------------|--------|----------|
| FY 23       | 1027                                           | 205                                                         | 118                                                            | 1350                                                    | 167    | 12       |
| Capex FY 24 | 37                                             | 18                                                          | 35                                                             | Excluding equity Investment in Tonbo Imaging Ltd of 150 |        |          |
| FY 24       | 1060                                           | 220                                                         | 470                                                            | 1750                                                    | 262    | 15       |
| FY 25       | 1100                                           | 250                                                         | 950                                                            | 2300                                                    | 414    | 18       |
| FY 26       | 1160                                           | 300                                                         | 1440                                                           | 2900                                                    | 522    | 18       |

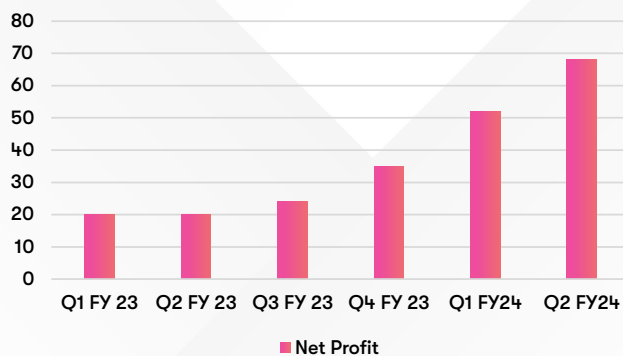
#### Revenue



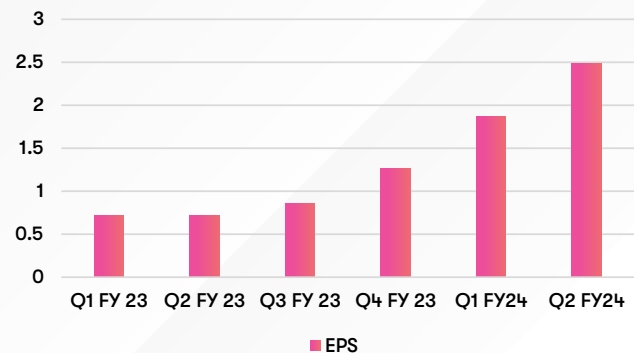
#### Operating Profits



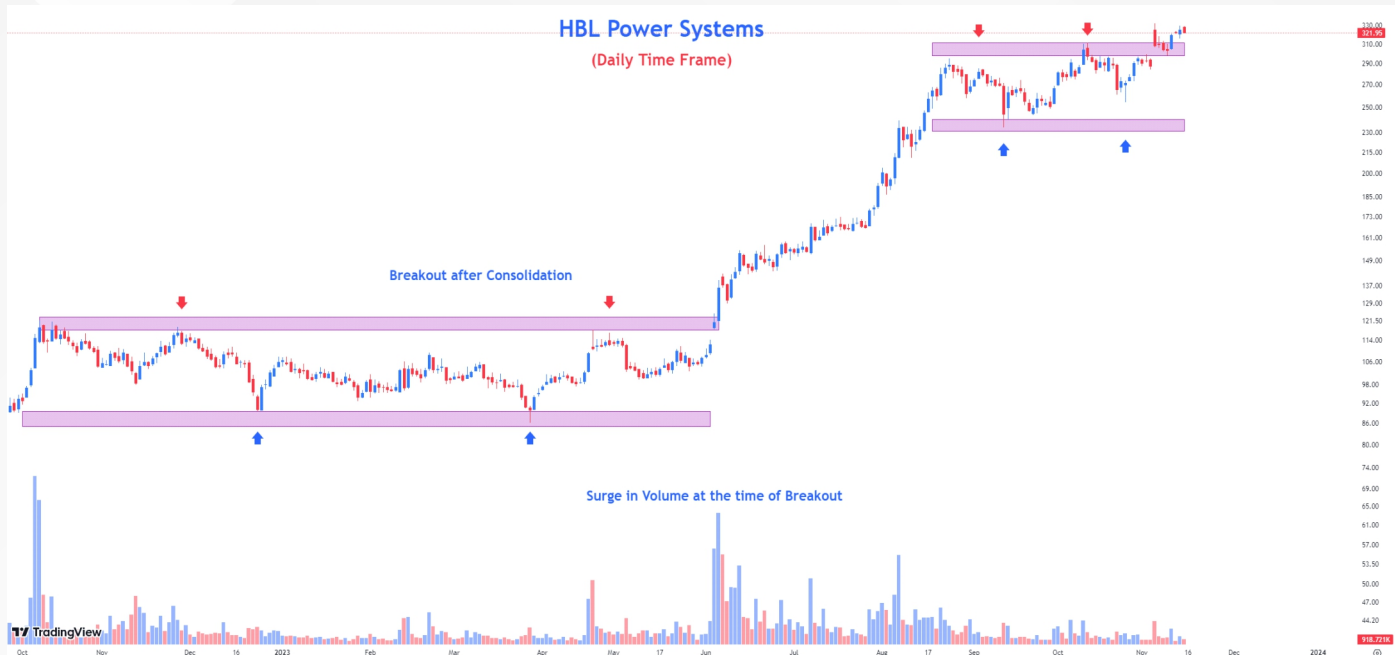
#### Net Profit



#### EPS



## Technical Outlook



HBL Power Systems exhibited a notable breakout following a period of consolidation, and a similar resurgence is anticipated upon the detection of a substantial increase in trading volumes.

The 5DMA>10DMA>20DMA>50DMA>100DMA>200DMA shows strong bullish momentum in the stock on both higher and lower time frames. Also, Daily and Weekly RSI above 60 suggest bullishness in the stock.

| Moving Averages Days | Simple Moving Average | Exponential Moving Average |
|----------------------|-----------------------|----------------------------|
| 5                    | 318.30                | 318.40                     |
| 10                   | 309.31                | 311.04                     |
| 20                   | 296.46                | 301.23                     |
| 50                   | 281.45                | 280.14                     |
| 100                  | 241.66                | 245.97                     |
| 200                  | 174.36                | 199.62                     |

| Pivot Levels : FIBONACCI |              |           |  |
|--------------------------|--------------|-----------|--|
| R1 330.37                | Pivot 317.42 | S1 304.47 |  |
| R2 338.37                |              | S2 296.47 |  |
| R3 351.32                |              | S3 283.52 |  |

| Relative Strength Index (RSI) | Daily | Weekly |
|-------------------------------|-------|--------|
|                               | 64.76 | 79.15  |

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