

HBL

HBL Power Systems Limited

4th September, 2023

HBL Power Systems Limited (HBL), established in 1986 by Dr. A.J. Prasad, is a pioneering presence in the power systems sector. The company is proudly listed on both the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE), embodying its commitment to excellence.

At HBL, innovation and quality are the cornerstones of operations. Specializing in cutting-edge solutions for diverse sectors like telecom, industrial, railways, and defence, HBL operates with seven integrated facilities, manufacturing batteries, electronics, and engineered products based on proprietary technologies. HBL's impact extends across industries in India, from telecom and solar to defence and railways, while its global reach spans 80+ countries, including America, Europe, and the Middle East. Strategic expansion is facilitated by its subsidiaries, HBL America Inc. and HBL Germany GMBH, bolstering international services.

HBL's success stems from unwavering dedication to technological advancement and quality. With a rich history and a vision for the future, HBL Power Systems Limited emerges as a trusted partner for state-of-the-art powersolutions worldwide.

Investment Rationale

- **Long proven track record of operations:** HBL, established in 1986 by Dr. A.J. Prasad, boasts a proven track record. Dr. Prasad's extensive experience, spanning over three decades, and research prowess in battery and related sectors, solidify HBL's leadership. With Ms. Kavita Prasad, a skilled team, and three decades of industry presence, HBL serves vital sectors like telecom, railways, and power.

- **Diversified revenue base across multiple user industries:** HBL has emerged as a key player in battery, electronics, and engineered products, built on proprietary technologies. Its portfolio caters to specialized sectors like telecom, UPS, solar, defense, and railways in India. Notably, Ni-Cad batteries and electronics constitute significant revenue sources, while strategic expansion targets defence and railways segments.

- **New Capex For Lithium Ion Cells and Electric Drive Trains (EDT)** HBL Power to set up its manufacturing facility at Hyderabad to manufacture Lithium Ion cells and Electric Drive Train (EDT). The proposed capex is expected to be around Rs 110 Cr and to be completed in two phases. The Proposed capex is to be funded through term debt of Rs.80 crore and balance through internal accruals.

- **Outlook & Valuation:** At a CMP of Rs 265 stock is trading at a TTM P/E of 56.3 to its TTM EPS of Rs 4.7. We are positive on the company backed by an established track record of operations, diversified revenue profile, healthy leverage and coverage indicators, reputed client base, comfortable order book position

Stock Data	
CMP	281
52 Week High/Low	294.90/79.65
Face Value	1
Market Cap (In Crs)	7811
NSE	HBL Power
BSE	517271
Bloomberg	HBLPOWER:IN
Sector	Battery

Shareholding Pattern (in %)		
	Mar-23	June-23
Promoter	59.08	59.10
FII	0.91	2.63
DII	0.0	0.14
Public	40.00	38.14

Price Performance (in%)			
(%)	1M	6M	1Yr
Nifty 50	- 1.18%	11.75%	11.16%
HBL POWER	40.12%	179.68	252.32%

Key Ratios	
P/E	59.91
Debt To Equity	0.1
ROE	10.7%
ROCE	13.6%
Dividend Yield	0.2%

Company Overview

HBL Power Systems Ltd. (HBL) has established itself as a prominent player in the power systems industry since its inception in 1986 by Dr. A.J. Prasad. With a notable presence on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE), HBL Power Systems Limited is recognized for its specialized expertise in the development and manufacturing of cutting-edge products and solutions catering to a range of sectors including telecom, industrial applications, railways, and defence. Driven by a commitment to excellence and innovation, HBL operates from seven fully integrated facilities. Within these facilities, the company manufactures batteries, electronics, and engineered products that are rooted in in-house developed technologies. This integrated approach allows HBL to ensure the highest standards of quality and precision across its product range.

HBL's product portfolio is designed to address specific needs in niche sectors such as telecom, UPS systems, solar power, defense, and railways. The company's offerings resonate both within India and across borders, with its products marketed across 80+ countries globally. Notably, HBL has achieved a remarkable global presence in regions including America, Europe, and the Middle East, facilitated by its subsidiaries HBL America Inc. and HBL Germany GMBH.

One of HBL's defining attributes lies in its mission to bridge technological gaps through the harnessing of engineering talent. This overarching purpose is manifest in a strategic framework comprising six pillars, all of which are rooted in the founder's background in learning, teaching, and the practical application of both technology development and management principles.

In the pursuit of this strategic mission, HBL initially directed its efforts towards Specialized Batteries for Defence and Industry. This marked the company's first successful application of its technology gap-filling strategy. Over time, HBL extended this approach to encompass other critical domains including Defence Electronics, Railway Signaling, Artillery Fuzes, and Electric Truck Drive. This expansion underscores HBL's adaptability and commitment to innovation, effectively addressing the evolving needs of diverse sectors.

With a history rooted in technology and management prowess, HBL Power Systems Limited has positioned itself as a beacon of innovation in the power systems sector. Its visionary approach, dedication to specialized solutions, and global reach firmly establish HBL as a pivotal player on the international stage. Through strategic subsidiaries and a commitment to filling technology gaps across various domains, HBL stands as a beacon of innovation, offering cutting-edge solutions for the modern world. With a legacy of excellence and an unwavering commitment to advancing technology, HBL Power Systems Limited continues to shape the future of the power systems industry.

Business segmented by expected growth rate

Traditional; Low Growth	Established; Moderate Growth	Emerging ; Rapid Growth	Future FY 25 Plus
Industrial Batteries for	Defence Batteries for	FY 24 Plus Electronics for Rail & Defence	Electronic Fuses and Electric Drive Trucks
Telecom Towers, Rail Coaches, UPS (VRLA)	Torpedoes	Train Collision Avoidance Systems (Kavach)	EV Motors for E-Trucks
Engine Starting, Data Centres (PLT)	Missiles	Train Monitoring Systems (TMS) Armoured Vehicle Communication Systems (DCH)	Electronics for ETrucks
Oil & Gas, Utilities, Metro Coaches (Nickel)	Aircraft	Electro Optics Products (Made for Tonbo Imaging)	Batteries for E-Trucks
Battery Backup Systems (Lithium)	Submarines	Grenades, Electronic Fuzes, Reserve Batteries	Electronic Fuzes for Artillery Guns, Rockets, Bombs

Company Overview

Potential sales by business segment, over next 3 years

Year	Traditional low growth Industrial Batteries	Established Moderate Growth Defence Batteries	Emerging rapid growth FY24 Plus Electronics for Rail & Defence	Future FY25 Plus Electric Drive Trains. Electronic Fuzes.	Total Sales	EBIDTA	EBIDTA%
FY23	959	183	65	-	1308*	170	13
Capex FY24	37	18	12	23	Excluding equity Investment in Tonbo Imaging Ltd of 150 cr		
FY24	1060	220	420	50	1750	262	15
Fy25	1100	250	800	150	2300	414	18
FY26	1160	300	1200	240	2900	522	18

*Including sales of Rs 101 cr of products not shown in any of three segments

Business verticals- The Company operates its business under three primary verticals namely - Battery, Electronics & Defence

Batteries	Electronics	Defence
Only Indian player in the market to have high powered Pure Lead Thin Plate (PLT) battery	Offered the first ever Train Collision Avoidance System (TCAS) for Indian Railways	One of the leading suppliers of batteries for various defence applications
World's second -largest manufacturer of Nickel - Cadmium batteries with Pocket Plate, Sintered Plate and Fibre Plate technologies	Developed Train Management System (TMS) for the Indian Railways- first time ever by a private sectorentity	Developing Lithium Ion battery for defence applications
64% contribution of total revenue	10% contribution of total revenue	24% contribution to total revenue

Business Highlights

Electronics	Defence	Batteries
Completed the deployment of TCAS over 347 km in South Central Railway	Continued manufacture and supply of Type-I batteries for Kilo class submarine and Varunasthra torpedo batteries for the Indian Navy	Established PLT batteries as the preferred back-up energy source for Data Centers

Business Segment

Business Segment: Telecom tower batteries: Most telecom batteries today are Valve Regulated Lead Acid. HBL developed the technology in-house. This is a B2B procurement by private telecom operators; and tender based by BSNL. There are now only three firms in the Telecom market in India, versus six firms about 10 years ago. Amara Raja has the highest share, followed by Exide and then by HBL. ARBL and Exide both expanded capacities only to find that the demand had declined. This excess capacity depressed prices and the margins are still low. Addition of 5G towers and return to normalcy on replacement schedules of batteries for older towers (which was deferred when the operators were impacted by JIO) will increase demand with effect from FY 24.

Rail & Metro coaches/Loco batteries: Every rail/ metro coach needs a battery. These are made as Lead Acid or Nickel Cadmium Alkaline Batteries. HBL has been a recognised supplier in India and in export markets of both types. HBL is the second largest producer of Industrial Nickel Cadmium Batteries, globally. Siemens – Germany has selected HBL as the OEM supplier for their new generation of coaches, called RRX. Siemens – America has bought HBL batteries for coaches they sold to Canada.

Batteries for oil & gas & utility industry: There are many industries where Nickel Cadmium Pocket Plate Batteries are used because reliability and safety are of paramount importance. Oil and Gas is one such industry. Reliance Industries Jamnagar Refinery has been using HBL batteries since its inception. HBL has been successfully exporting these batteries for thirty years.

DC power Backup systems: Pure Lead Tin batteries are Lead batteries designed to deliver higher power (more than automotive) for short durations. They are being used for stationary engine starting (Cummins resells HBL made batteries under its brand). Also used for Tanks, Army trucks operating at -30°C temperature etc. These batteries are now also being preferred for Data Centers. HBL is the only producer in India and the second in the world, based on in-house development of technology. HBL also has export markets. Lithium Ion battery packs supplied with imported cells and HBL made Battery Monitoring Systems are a market where HBL brand has value.

Torpedo Batteries: HBL is one of two suppliers in India which have been supplying batteries for Torpedo Propulsion to the Indian Navy. HBL also exports these batteries in limited numbers. HBL has two contracts from NSTL/ DRDO for development of state of the art AI AgO Torpedo Batteries. Only two companies in the world make such batteries today.

Missile Batteries: Most of the Missile Batteries used in India are designed, developed and manufactured by HBL. Including for the Agni V. HBL exports Missile Batteries to Israel and UAE. There are very few manufacturers of such batteries globally.

Aircraft batteries : HBL took six years from 1977 – 1983, to develop technology for Sintered Plate Nickel Cadmium Batteries. Today, HBL supplies almost all the batteries used by the Indian air force. Globally, there are perhaps four other companies in this market. The FAA and EASA had certified HBL batteries as acceptable for Boeing 737 and Airbus 320 series of aircraft. But sales have not yet occurred, because companies insuring aircraft want OEM's to approve the batteries used. However, OEMs are indifferent to the cost saving by buying from HBL.

Submarine Batteries: All submarine propulsion batteries in India are “Tubular plate flooded lead acid”. HBL and Exide supply the same types of batteries. Tenders decide who gets the business. The average life of a submarine battery is four years; and indicative cost about Rs. 15 crores. The market in India is small, but should grow. HBL also has export opportunities because there are less than ten companies globally, making such batteries. HBL has been awarded a contract by NSTL / DRDO to develop prototype modules for Li Ion batteries for Submarine application

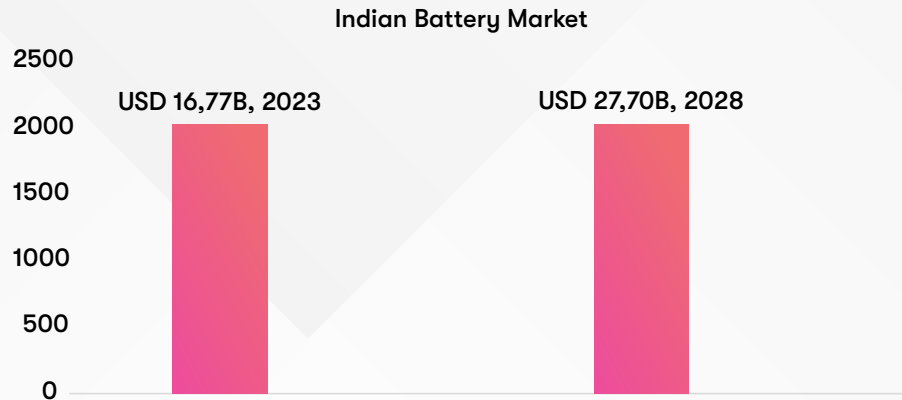
Electro Optics : HBL has committed to invest in the equity capital of Tonbo Imaging India Pvt Ltd, as informed to NSE and BSE on 13 Feb 2023. Tonbo Imaging is an Indian company that indigenously designs and manufactures electro-optics and imaging systems for surveillance, reconnaissance and targeting. Electro-optics and imaging subsystems are “the eyes” and “the brain” of surveillance platforms and weapon systems. Over the last 10 years, Tonbo Imaging has built a large portfolio of products addressing the needs of land, air, and missile systems. It counts among its customers, global military forces, special forces and international Tier I defense manufacturers.

Train Management System : A Train Management System is a master control centre where a huge display panel shows the status of all trains in the territory of that system. There are very few systems in use today in India; a few imported and two from HBL. HBL is the only approved and proven Indian company for TMS. Depending on size and traffic, each railway zone would need at least one system. Demand is expected to slowly grow from FY 2024. Compared to TCAS, the value of business is small; at most 200 crs per year. A typical price per system would be 40 to 50 crs.

Industry Analysis

The Battery Industry in India: A Growth Story

The battery industry in India has been witnessing remarkable growth, driven by technological advancements, increasing demand for clean energy sources, and the rising adoption of electric vehicles (EVs). The market is segmented by technology, including lithium-ion batteries, lead-acid batteries, and other technologies, as well as by application, covering automotive batteries, industrial batteries, portable batteries, SLI batteries, and other applications.



The Indian battery market is expected to experience substantial expansion, with a projected size of USD 27.70 billion by 2028, representing a Compound Annual Growth Rate (CAGR) of 10.56% during the forecast period of 2023-2028. However, the industry faced challenges due to the COVID-19 pandemic, which disrupted manufacturing units and impacted shipping routes, particularly for lithium-ion and lead-acid batteries.

The automotive segment is poised for significant growth within the Indian battery market. The country's burgeoning adoption of electric vehicles is a major driver in this regard. With the government's support and local manufacturing initiatives for lithium-ion batteries, the cost of EVs is expected to decrease over time. This reduction in cost, coupled with a decrease in dependency on imports, presents a promising opportunity for the lithium-ion battery market in India.

The automotive sector in India holds immense potential, boasting one of the largest automobile markets globally. Passenger vehicle production reached a staggering 2,59,31,867 units in 2022, with the two-wheeler segment leading the market. While organized companies offer branded batteries with warranties, unorganized players sell recycled batteries at a discounted price. This dichotomy illustrates the dominance of the lead-acid battery market in the Indian automotive replacement battery sector.

Maruti Suzuki India, the country's leading automaker, witnessed a substantial increase in wholesales, demonstrating the growth potential of the automotive industry. With a burgeoning population and accessible financing options, the sector is projected to experience significant expansion, with electric vehicle sales playing a pivotal role in this growth trajectory.

Electric vehicles are expected to be a driving force behind the battery industry in India. The government's goal to achieve a 30% electric vehicle adoption rate by 2030, along with the electrification of two-wheelers, three-wheelers, and commercial vehicles, is a testament to the country's commitment to clean energy sources. As of December 2022, there were over 1.8 million electric vehicles in India, with more than half being three-wheelers. The rapid transformation of India's electric vehicle market suggests that the automobile industry could become fully electric by 2035.

International companies, including Renault and Nissan, have also recognized India's potential in the EV market. These companies are investing heavily in production, R&D activities, and introducing electric vehicles, further bolstering the growth of the battery industry in the country.

In conclusion, the battery industry in India is poised for significant growth, driven by the increasing demand for electric vehicles, policy support from the government, and technological advancements. The automotive segment, particularly the electric vehicle market, holds immense promise for the future, making India a key player in the global battery industry.

Comprehensive Investment Rationale

Long proven track record of operation: HBL Power Limited, founded by Dr. A. J. Prasad in 1986, boasts a long and distinguished track record of operations in the battery and related segments. Dr. Prasad's extensive experience and commitment to the industry, spanning over three decades, have been instrumental in the company's growth and success. Together with Ms. Kavita Prasad, the whole-time Director, and a team of seasoned professionals, HBL Power Limited has positioned itself as a reliable and innovative player in the market.

One of the key aspects that underscores the strength of HBL Power Limited's track record is its unwavering focus on delivering quality products and services. The company has built a strong reputation by catering to the requirements of core sectors such as telecom, railways, power, defense, and more. This diversified portfolio of clientele speaks volumes about the company's ability to adapt to the unique demands of each sector, demonstrating its versatility and competency.

Furthermore, HBL Power Limited's commitment to research and development (R&D) has been a significant driver of its success. Dr. Prasad's emphasis on continuous innovation and his extensive research in the battery and related segments have enabled the company to stay ahead of the curve in a rapidly evolving industry. This proactive approach to R&D has not only allowed the company to develop cutting-edge solutions but has also fostered a culture of innovation within the organization.

Another crucial factor contributing to the company's impressive track record is the strong leadership provided by Dr. A. J. Prasad, Ms. Kavita Prasad, and the experienced team of professionals. Their collective expertise, strategic vision, and dedication to excellence have guided the company through various market fluctuations and challenges, consistently delivering value to shareholders and stakeholders alike.

In addition to its experienced leadership, HBL Power Limited has established a robust operational framework that emphasizes efficiency, quality, and customer satisfaction. This commitment to operational excellence has been a cornerstone of the company's enduring success. By aligning its processes with industry best practices, HBL Power Limited has not only maintained its position as a reliable supplier but has also gained a competitive edge in the market.

The long-standing relationships that HBL Power Limited has cultivated within the core sectors it serves further demonstrate the company's ability to meet and exceed customer expectations. The fact that the company continues to serve these sectors, which are crucial to the nation's infrastructure and development, is a testament to the trust and reliability it has established over the years.

HBL Power Limited's long proven track record of operations is built on a foundation of experienced leadership, a commitment to quality and innovation, and a diverse and loyal customer base. Dr. A. J. Prasad's vision and dedication, combined with the expertise of the leadership team, have propelled the company to the forefront of the industry. As the company continues to adapt to changing market dynamics and invest in research and development, its solid track record positions it as a promising investment opportunity with the potential for sustained growth and value creation. HBL Power Limited's ability to navigate through economic fluctuations and industry challenges is a testament to its resilience and adaptability. Over the years, the company has weathered various market conditions, demonstrating its ability to remain profitable even in the face of adversity. This resilience is rooted in the company's prudent financial management, which has ensured a strong financial position, efficient capital allocation, and the ability to make strategic investments when opportunities arise. Furthermore, HBL Power Limited's focus on technology and innovation continues to drive its competitive edge. The company has consistently invested in upgrading its manufacturing facilities, adopting advanced production techniques, and leveraging the latest technological advancements in the battery and related segments. This dedication to staying at the forefront of technological progress ensures that the company can deliver products and solutions that meet the evolving needs of its customers. A critical aspect that differentiates HBL Power Limited is its emphasis on maintaining stringent quality standards. The company's products are designed to meet the highest quality benchmarks, ensuring reliability, safety, and durability. This commitment to quality not only enhances customer satisfaction but also positions HBL Power Limited as a trusted and preferred supplier in the market.

Comprehensive Investment Rationale

Diversified revenue base across multiple user industries: HBL Power Limited's investment proposition is fortified by its robust and diversified revenue base, spanning across multiple user industries. As a prominent player in the battery, electronics, and engineered products sectors, the company has leveraged its proprietary technologies to establish a strong presence in specialized areas, including telecom, UPS (Uninterruptible Power Supply), solar, defense, and railways in India. This diversified portfolio not only showcases the company's adaptability but also positions it for sustained growth and value creation.

One of the key strengths of HBL Power Limited is its dominance in the Ni-Cad (Nickel-Cadmium) batteries and electronics segments, which serve as significant revenue generators. Ni-Cad batteries are renowned for their durability and reliability, making them a preferred choice in critical applications such as aviation, defense, and industrial use. HBL's expertise in this area not only attests to its technological prowess but also highlights its ability to cater to high-demand sectors that require consistent and dependable power solutions. As these sectors continue to evolve and expand, HBL's Ni-Cad batteries are poised to remain in strong demand, providing a steady stream of revenue.

The company's focus on electronics further complements its diversified revenue strategy. In a world increasingly reliant on electronic devices, HBL's engineered electronic products hold immense value. Whether it's providing power management solutions for telecom infrastructure, creating efficient UPS systems, or contributing to solar power installations, HBL Power Limited is at the forefront of innovation in this critical sector. The growing demand for electronics in various industries, combined with the company's ability to tailor solutions to meet specific needs, enhances its revenue potential.

HBL Power Limited's strategic expansion efforts are targeted at the defense and railways segments, two integral pillars of India's infrastructure and security. These segments offer immense growth opportunities, and HBL's pursuit of these markets signifies its forward-looking approach. As a supplier to the defense sector, the company contributes to national security by providing reliable power solutions for critical defense applications. The railways, a lifeline of transportation in India, also present substantial demand for high-quality power products. By tapping into these segments, HBL not only diversifies its revenue sources but also aligns itself with sectors that are essential to the country's progress.

The company's ability to cater to a diverse range of specialized sectors demonstrates its adaptability and responsiveness to market needs. This adaptability is a hallmark of a resilient and forward-thinking organization. As industries evolve and new technologies emerge, HBL Power Limited's diversified revenue base ensures that it remains relevant and can quickly pivot to capitalize on emerging opportunities.

Moreover, the company's commitment to strategic expansion indicates a proactive approach to growth. By targeting sectors with substantial potential, such as defense and railways, HBL positions itself for long-term success. These segments are not only significant in terms of revenue generation but also carry a higher degree of stability, providing a cushion against market volatility.

HBL Power Limited's diversified revenue base across multiple user industries, combined with its technological expertise, strategic expansion into vital sectors, and commitment to innovation, creates a compelling investment case. The company's ability to cater to specialized segments, such as Ni-Cad batteries, electronics, defense, and railways, provides a resilient platform for sustained growth.

As the Indian economy continues to progress, the demand for reliable and efficient power solutions will only escalate, benefiting HBL Power Limited. The company's proven track record of delivering quality products, its adaptability to evolving market dynamics, and its focus on critical sectors underscore its potential to generate consistent revenue and drive shareholder value.

Investing in HBL Power Limited not only aligns with the nation's infrastructure development but also taps into the innovative prowess of a company that has emerged as a key player in the power and technology landscape. With its diversified revenue streams, strategic expansion, and commitment to excellence, HBL Power Limited represents a promising opportunity for investors seeking exposure to a dynamic, adaptable, and forward-looking company with a strong foundation for growth.

Comprehensive Investment Rationale

New Capex for Lithium Ion Cells and Electric Drive Trains (EDT) HBL Power Limited's decision to embark on a new capital expenditure (capex) initiative by establishing a state-of-the-art manufacturing facility in Hyderabad for Lithium Ion cells and Electric Drive Trains (EDT) represents a strategic move that holds significant promise for the company's growth trajectory. This ambitious endeavor, with a proposed capex of approximately Rs. 110 crore to be executed in two phases, underscores HBL's commitment to innovation, market diversification, and sustainable technological advancement. The proposed funding mix, with a combination of term debt and internal accruals, showcases prudent financial planning while providing the necessary resources to realize this visionary undertaking.

The primary driver behind this capex initiative is the growing demand and immense potential in the lithium-ion battery and electric drive train segments. As the world shifts towards cleaner and more sustainable energy solutions, the demand for lithium-ion cells has experienced exponential growth, driven by applications in electric vehicles, renewable energy storage, and consumer electronics. HBL Power Limited's decision to enter this arena positions the company at the forefront of a burgeoning market, one that is expected to play a pivotal role in the future of energy storage and electric mobility.

By venturing into the production of Electric Drive Trains (EDT), HBL Power Limited further cements its strategic vision. Electric drive trains, a crucial component of electric vehicles, are expected to witness tremendous demand as governments worldwide implement policies to reduce carbon emissions and promote eco-friendly transportation alternatives. HBL's foray into this sector aligns perfectly with this global trend, offering the company a substantial growth avenue while contributing to the transition towards a cleaner and more sustainable transportation ecosystem.

The funding approach, with a significant portion sourced from term debt (Rs. 80 crore) and the balance from internal accruals, showcases a balanced and prudent capital structure. By utilizing term debt, HBL Power Limited takes advantage of the current low-interest-rate environment, optimizing its cost of capital. Simultaneously, leveraging internal accruals demonstrates the company's strong financial health and its ability to support growth initiatives while maintaining a robust balance sheet.

The phased implementation of the capex ensures a strategic and manageable execution. The staggered approach allows HBL to monitor and adjust its operations based on real-time market feedback, reducing operational risks and optimizing resource allocation. This flexibility is a testament to the company's commitment to quality and its emphasis on delivering superior products to its customers.

Furthermore, the decision to house this new manufacturing facility in Hyderabad reflects HBL's strategic thinking. Hyderabad's status as a burgeoning technology and industrial hub provides access to a skilled workforce, a supportive business environment, and proximity to key markets. This location is poised to provide HBL Power Limited with a competitive advantage, facilitating efficient production and distribution of lithium-ion cells and electric drive trains.

HBL Power Limited's move to invest in a new manufacturing facility for Lithium Ion cells and Electric Drive Trains (EDT) is a strategic leap into the heart of the clean energy and electric mobility revolution. This bold step aligns perfectly with global trends and presents a significant growth opportunity.

The demand for Lithium Ion cells, driven by electric vehicles, renewable energy storage, and electronics, represents a promising market. HBL's entry into this space showcases its technological prowess and forward-thinking approach. As the world seeks greener energy solutions, HBL's Lithium Ion cells are poised to play a pivotal role.

The decision to produce EDTs is equally visionary, aligning with the global shift towards electric mobility. This diversification not only broadens HBL's revenue streams but also strengthens its position in a sector with tremendous growth potential.

The funding mix, with term debt and internal accruals, demonstrates HBL's financial acumen, optimizing costs while maintaining a strong balance sheet. The phased implementation approach showcases operational prudence and a commitment to quality.

The choice of Hyderabad as the facility's location leverages the city's tech ecosystem and workforce availability, positioning HBL for success.

Overall, this initiative underscores HBL Power Limited's readiness to shape the future, making it an attractive investment prospect for those seeking exposure to a forward-looking company at the forefront of sustainable energy and electric mobility solutions.

Comprehensive Investment Rationale

Indigenously Developed TCAS System Deployment with Indian Railways: HBL Power Limited's strategic collaboration with Siemens for the indigenously developed Train Collision Avoidance System (TCAS) is a groundbreaking achievement that holds immense promise for the company's growth trajectory. This innovative endeavor, aimed at enhancing safety and efficiency in the Indian Railways (I.R) network, underscores HBL's technological prowess, market diversification, and commitment to a sustainable future. The deployment of TCAS on the prestigious "Vande Bharat Express" and the significant order worth Rs. 672 crores from the Government of India (GOI) highlight the company's potential to benefit substantially from this opportunity while contributing to advanced safety functions.

The historical dependence on imported TCAS for Indian Railways has posed challenges, both in terms of costs and the country's strategic self-reliance. By indigenously developing the TCAS system in collaboration with Siemens, HBL Power Limited has not only overcome this dependence but has also positioned itself as a key player in providing advanced safety solutions to the railway sector. This strategic shift aligns perfectly with the 'Make in India' initiative, promoting domestic manufacturing, and enhances the country's self-sufficiency in critical technology areas.

The order worth Rs. 672 crores for deploying TCAS in the "Vande Bharat Express" is a testament to the quality and reliability of HBL's TCAS system. This landmark project showcases the company's ability to deliver high-value, mission-critical solutions to prestigious government projects. It establishes HBL Power Limited as a trusted partner for implementing advanced safety measures in the country's flagship railway endeavors, setting the stage for further collaborations and a strong foothold in the sector.

The mandate from the Government of India (GOI) to deploy the TCAS system in a planned manner across the railway network is a clear demonstration of the nation's commitment to raise safety standards in the rail sector. This commitment bodes well for HBL Power Limited, as it positions the company at the forefront of fulfilling a critical national objective. The sustained demand for TCAS deployment is expected to provide HBL with a steady revenue stream, making it a beneficiary of this safety-driven initiative in the long run.

Moreover, the TCAS system's deployment aligns with broader global trends in rail safety enhancement. As railways worldwide seek innovative solutions to prevent collisions, improve efficiency, and ensure passenger safety, HBL's indigenously developed TCAS system stands as a competitive offering in this growing market. The company's expertise in this domain, coupled with its collaboration with Siemens, gives it a strong competitive advantage, positioning HBL Power Limited to tap into the global demand for cutting-edge rail safety solutions.

The sustainability aspect of this opportunity is crucial. As the railway network expands and modernizes, the demand for TCAS systems is expected to persist and grow. HBL Power Limited, as a pioneer in this field, is well-positioned to cater to this demand sustainably. The deployment of TCAS contributes not only to passenger safety but also to the overall efficiency of the rail network, which is crucial for the country's economic progress. This alignment with national goals and global safety trends solidifies the investment case for HBL Power Limited.

In addition to the immediate revenue potential from TCAS deployment, this endeavor opens doors for HBL Power Limited to diversify its offerings in the railway sector. Building on its success with TCAS, the company can explore collaborations for other safety-related technologies, signaling systems, and innovations that can further strengthen its presence in this critical industry.

HBL Power Limited's pioneering efforts in developing and deploying the TCAS system with Indian Railways exemplify a strategic leap towards a safer and self-reliant rail network. The company's collaboration with Siemens, the substantial order for the "Vande Bharat Express," and the GOI's mandate for planned deployment underscore HBL's integral role in shaping the future of rail safety in India.

As the railway sector evolves, driven by safety imperatives and modernization efforts, HBL Power Limited is well-positioned to not only capitalize on the immediate revenue potential but also to expand its presence in this dynamic market. The sustained demand for TCAS systems, the alignment with global rail safety trends, and the broader scope for diversification within the railway industry enhance the investment appeal of HBL Power Limited.

Investing in HBL Power Limited signifies more than just a financial opportunity; it's a commitment to supporting a company at the forefront of innovation, safety, and national progress. With its indigenously developed TCAS system, HBL Power Limited stands as a beacon of self-reliance, resilience, and growth potential, making it a compelling choice for investors seeking to be part of a transformative journey in the critical rail safety sector.

Comprehensive Investment Rationale

Leading the Future of Complex Defence Electronic Manufacturing In the realm of modern defense technology, the importance of sophisticated and reliable electronic systems cannot be overstated. As global security challenges evolve, the demand for advanced electronic solutions that facilitate seamless communication, precise control, and efficient management on the battlefield has grown exponentially. HBL Power Systems Limited (HBL), a distinguished player in this landscape, boasts a proven track record in the manufacturing of complex defense electronic products. This investment rationale highlights the compelling reasons for considering an investment in HBL's capabilities for producing intricate defense electronic systems. Leveraging their demonstrated expertise and strategic positioning, HBL stands poised to be a leader in the development of cutting-edge defense technologies.

1. A Legacy of Excellence in Complex Defence Electronics

HBL's journey in the defense electronics sector is highlighted by the creation of the Digital Control Harness (DCH) in partnership with ELBIT, a renowned Israeli defense electronics company. This collaboration resulted in the installation of over six thousand DCH units in armored vehicles, playing a pivotal role in battlefield communication. The noteworthy aspect is that all new armored vehicles are mandated to incorporate HBL's DCH as original equipment, a testament to the industry's unwavering faith in HBL's capabilities.

In addition, HBL's pivotal role in crafting the Integrated Platform Management System and Steering Consoles for four Scorpene (P75) submarines underscores their technical prowess. These systems, constructed to precise specifications, have been seamlessly integrated into submarines operated by Naval Group, a premier French defense contractor. The operational success of these submarines reinforces HBL's credibility and proficiency in delivering critical defense electronics components.

2. Strategic Alignment and Offset Commitment

HBL's designation as a registered "offset" supplier underscores its commitment to aligning with defense procurement policies. While the pursuit of offset contracts might not have been exhaustive, it signifies HBL's capacity to contribute to defense supply chains. This strategic alignment positions HBL as a reliable and trustworthy participant in the defense electronics domain.

3. Advancing Beyond Licensing and Technology Ownership

In a swiftly evolving technological landscape, HBL acknowledges the constraints associated with relying solely on licensed foreign technology. Licensing often results in prolonged importation of crucial high-value components, hindering localized production and self-reliance. HBL's decision to pivot away from this approach is significant. Their aspiration to engage in businesses where they not only develop but also own the technology showcases their forward-thinking strategy aligned with the imperative of technological independence.

4. Navigating Niche Markets for Strategic Advantage

While the conventional wisdom might champion targeting broader markets for growth, HBL's emphasis on niche markets holds unique promise. In the defense sector, particularly within the realm of complex electronic products, a focused approach can yield considerable advantages. By carving a niche, HBL can establish itself as a leader in these specialized markets, capitalizing on reduced competition and fostering enduring relationships with key stakeholders.

5. Agility in the Face of Technological Evolution

The defense electronics landscape is characterized by relentless evolution, with innovations in fields such as artificial intelligence, cybersecurity, and autonomous systems redefining possibilities. HBL's ability to manufacture complex defense electronic products reflects their adaptability and skill in integrating emerging technologies. This dexterity positions HBL to seize opportunities in nascent defense trends, thereby augmenting their growth trajectory.

HBL Power Systems Limited's proficiency in manufacturing intricate defense electronic products is underpinned by a proven track record, strategic alignment, commitment to technology ownership, focus on niche markets, and adaptability. Through exemplars such as the Digital Control Harness and Integrated Platform Management System, HBL has solidified its reputation as a dependable and innovative partner within the defense industry. With an ambitious vision to steer clear of technology licensing and instead drive innovation and ownership, HBL is primed to be at the forefront of shaping the future of defense electronics. For potential investors evaluating HBL's potential for sustained growth and pioneering innovation in the defense sector, a compelling case emerges to support HBL's journey as a key player in manufacturing intricate defense electronic products.

Strengths

A Brands catering to different customers segments within Electronic Instr. & Controls segment - HBL Power Systems Ltd extensive product offerings have helped the company to penetrate different customer segments in Electronic Instr. & Controls segment. It has also helped the organization to diversify revenue streams.

B Market Leadership Position - HBL Power Systems Ltd has a strong market leadership position in the Electronic Instr. & Controls industry. It has helped the company to rapidly scale new products successes.

C Talent management at HBL Power Systems Ltd and skill development of the employees - Human resources are integral to the success of HBL Power Systems Ltd in Electronic Instr. & Controls industry.

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Weaknesses

A Business Model of HBL Power Systems Ltd can be easily imitated by the competitors in the Electronic Instr. & Controls industry. To overcome these challenges CompanyName needs to build a platform model that can integrate suppliers, vendors and end users.

B High cost of replacing existing experts within the HBL Power Systems Ltd. Few employees are responsible for the HBL Power Systems Ltd's knowledge base and replacing them will be extremely difficult in the present conditions.

C Loyalty among suppliers is low - Given the history of HBL Power Systems Ltd coming up with new innovations to drive down prices in the supply chain.

W

Opportunities

A Increasing customer base in lower segments - As customers have to migrate from un-organized operators in the Technology industry to licensed players. It will provide HBL Power Systems Ltd an opportunity to penetrate entry level market with a no-frill offering.

B Lowering of the cost of new product launches through third party retail partners and dedicated social network. HBL Power Systems Ltd can use the emerging trend to start small before scaling up after initial success of a new product.

C Trend of customers migrating to higher end products - It represents great opportunity for HBL Power Systems Ltd, as the firm has strong brand recognition in the premium segment, customers have experience with excellent customer services provided by HBL Power Systems Ltd brands in the lower segment. It can be a win-win for the company and provides an opportunity to increase the profitability.

O

Threats

A Changing demographics - As the baby boomers are retiring and new generation finding hard to replace their purchasing power. This can lead to higher profits in the short run for HBL Power Systems Ltd but reducing margins over the long run as young people are less brand loyal and more open to experimentation.

B Shortage of skilled human resources - Given the high turnover of employees and increasing dependence on innovative solution, Company name can face skilled human resources challenges in the near future.

C Changing political environment with US and China trade war, Brexit impacting European Union, and overall instability in the middle east can impact HBL Power Systems Ltd business both in local market and in international market.

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Quarter1 FY24 Result Analysis

Particulars Rs in Cr	Q1 FY24	Q1FY23	Q4 FY23	YoY	QoQ
Net Revenue	467	320	403	45.9%	15.8 %
EBITDA	78	35	45	122.8%	73.3%
PAT	52	20	35	160%	48.5%

Revenue from operation grew by 45.9% YoY and 15.8% QoQ to Rs 467 cr led by growth in Industrial battery and electronics segment.

EBITDA grew by 122.8% YoY and 73.3% QoQ to Rs 78 cr margin expanded by 600 bps YoY and QoQ to 17% led by lower material cost and lower employee cost

PAT grew by 160% YoY and 48.5% QoQ to Rs52 cr, Led by higher operating profit& top line growth.

Key Risk & Concerns

- **Timely Completion of Proposed Capex:** The company's expansion plan involves setting up a manufacturing facility for Lithium Ion cells and Electric Drive Train (EDT) in two phases. Ensuring timely completion of both phases without significant time or cost overruns is crucial for maintaining creditworthiness.
- **Environmental Risks in Lead-Recycling:** Lead, a toxic raw material in battery manufacturing, necessitates adherence to strict pollution control norms. Evolving regulations and environmental activism add pressure on maintaining compliance and sustainable practices.
- **Volatile Raw Material Prices:** The company's dependence on indigenous and imported raw materials exposes it to volatile price fluctuations. Fluctuating prices impact profitability margins, even though cost increases can be passed on to customers with a time lag.
- **Competitive Business Landscape:** Success in the battery manufacturing sector hinges on securing tenders and winning orders. The company's growth prospects are intricately tied to its ability to outperform competitors and secure new contracts.
- **Technology Adoption and Innovation:** The rapid evolution of battery technologies and manufacturing processes presents a risk of the company's offerings becoming obsolete. Staying at the forefront of technological advancements is essential to remain competitive and relevant in the market.
- **Geopolitical and Trade Risks:** Importing raw materials exposes the company to geopolitical and trade uncertainties. Sudden policy changes, tariffs, or disruptions in supply chains can disrupt operations and increase costs.
- **Regulatory Compliance Challenges:** The battery manufacturing industry is subject to stringent regulations and standards. Keeping up with evolving compliance requirements can be resource-intensive and failure to do so may result in legal and financial consequences.
- **Dependency on Key Suppliers:** Reliance on a limited number of suppliers for critical raw materials or components can create vulnerabilities in the supply chain. Supplier disruptions can lead to production delays and affect the company's ability to fulfill orders.

HBL Power Limited's strategic expansion plan carries promising growth potential but is accompanied by these significant risks and concerns. Addressing these challenges proactively through effective mitigation strategies will be vital in ensuring the company's sustained success and resilience in the industry.

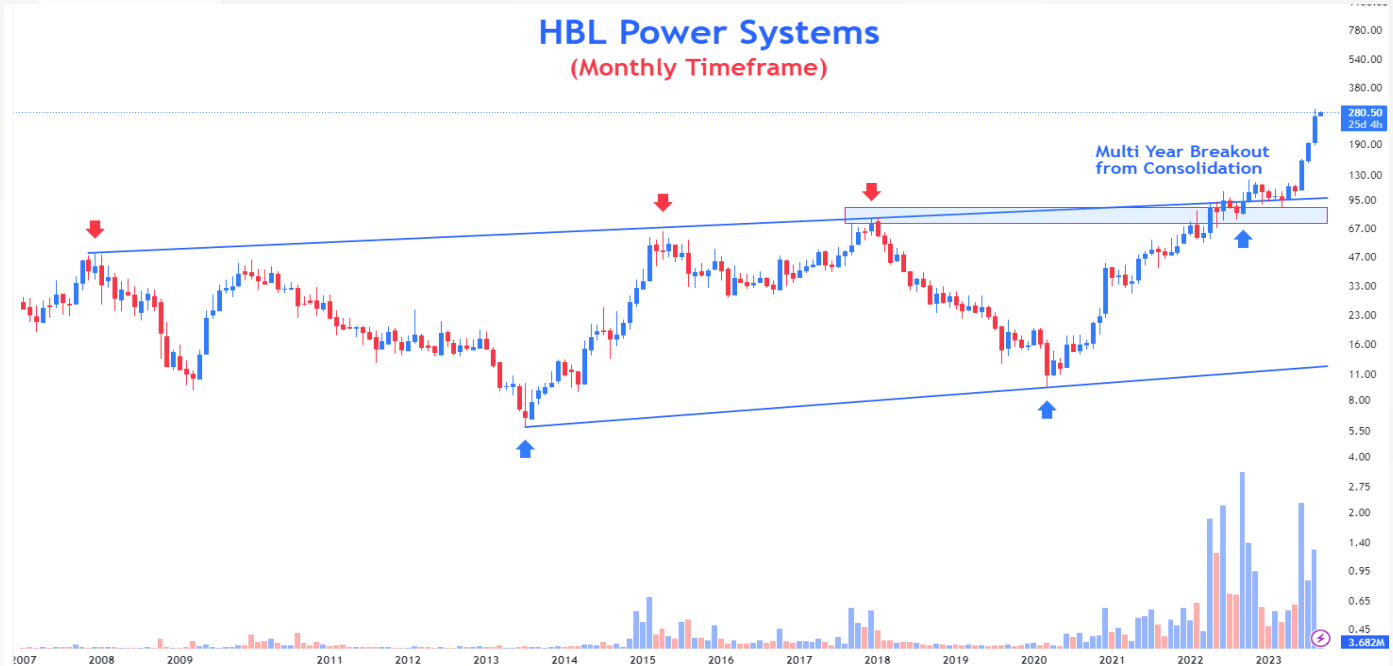
Peer Comparison on TTM basis

	HBL Power System	Eveready Industries Limited	Indo National Limited
CMP (Rs) (18-08-2023)	281	354	410
Revenue (Rs in cr)	1,516	1,356	573
EBIDTA (Rs in cr)	194	112	18
PAT (Rs in cr)	130	31	-7
EBIDTA Margin %	13%	8%	3%
PAT Margin %	8.5%	2.2%	-1.2%
ROCE %	13.6%	12.9%	0.8%
ROE %	10.7%	8.9%	-2.4%
Debt To Equity (x)	0.0	1.3	0.7
EPS (Rs)	4.7	4.2	-5.5
Diluted EPS (Rs)	4.7	4.2	-5.5
P/E(x)	59.91	84.2	-74.5
P/B (x)	8.22	8.0	1.3
P/S (x)	4.8	1.9	0.5
Enterprise value (Rs in cr)	7277	2960	416
EV/EBIDTA (x)	34.4	24.1	17.3
Market cap (Rs in cr)	7337	2569	308
Current ratio (x)	3.0	1.1	1.4
Book Value (Rs)	34.3	44	309
Dividend Yield %	0.17	0.0	1.2
Interest Coverage (x)	22.5	1.7	0.5
Asset T/O (x)	1.1	1.4	1.1
RoA %	8.0	2.8	-1.6

Financial Snapshot

Particulars	FY 20	FY 21	FY 22	FY 23
Financial Position				(In Cr)
Equity Share Capital	28	28	28	28
Reserve & Surplus	745	754	838	924
Net worth	773	782	866	951
Borrowing	161	70	63	86
Fixed Asset	304	279	265	345
Total Asset/Liability	1103	1036	1133	1294
Operating Results				(In Cr)
Revenue	1092	912	1236	1369
Operating Expenditure	1011	845	1097	1217
EBIDTA	81	67	139	151
Interest	22	15	7	7
Depreciation	41	39	35	35
Profit/(Loss) Before Tax	40	19	122	128
Provision For Tax	14	5	28	30
Profit/(Loss) After Tax	26	14	94	98
Cash Flow				(In Cr)
Cash flow from Operation	149	121	62	122
Cash flow from Investing	-6	-32	-17	-50
Cash flow from Financing	-114	-104	-22	10
Net cash flow	29	-14	23	82
Ratios				
EBIDTA Margin	7%	7%	11%	11%
PAT Margin	2.3%	1.5%	7.6%	7.1%
ROE	3.3%	1.8%	11.4%	10.7%
ROCE	6.4%	3.9%	14.8%	13.6%
D/E	0.2	0.0	0.1	0.1
P/E	294	530	77.9	73.6
EPS	0.9	0.5	3.4	3.6

Technical Outlook



HBL Power Systems Ltd has broken out of a multi-year channel consolidation on the charts and is setting new highs every month. The stock looks in a strong momentum backed by improvement in fundamentals.

Daily RSI is trading above 65 and Weekly RSI is trading above 80 indicating strength in the buying.

The MACD histogram has displayed a robust increase in momentum alongside the stock's upward price movement, reinforcing the strength of the bullish trend.

Moving Averages Days	Simple Moving Average	Exponential Moving Average
5	273.10	272.60
10	276.30	269.20
20	255.10	253.20
50	201.90	212.90
100	158.50	177.10
200	130.30	145.10

Pivot Levels : FIBONACCI			Relative Strength Index (RSI)	Daily	Weekly
R1 275.64	Pivot 273.0	S1 270.36		69.36	88.49
R2 277.26		S2 268.74			
R3 279.90		S3 266.10			

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