

# HBL<sup>®</sup>

**Buy Range** ₹270-280

**Target** ₹340-350

**Recommendation** BUY

## Highlights

- **HBL Power Systems Ltd (HBL)** specialises in the design, development and manufacture of **batteries** and **electronic solutions** for challenging applications for key user sectors such as Telecom, UPS, Railways, Power, Oil & Gas, Industries, and Defence, among others. HBL is promoted by Mr. A. J. Prasad since 1986 with products marketed across +30 countries. HBL has its headquarters at Hyderabad and five integrated manufacturing facilities located in Telangana and Andhra Pradesh.
- The **battery vertical** is the major revenue contributor for the company at **74% as on FY23 (Q1FY24 at 69.4%)**, followed by **defense at 13.4% as on FY23 (Q1FY24 at ~7%)** and the **electronics** segment at **~10% as on FY23 (Q1FY24 at 17%)**. Order Book as on 30 June 2023 at ₹16.1bn v/s ₹5.94bn YoY. The share of exports for Batteries and Electronics was at ~15% in FY23 (FY22 at 20%) of the total revenue, with share of export of Batteries was at ~15% in FY23 (FY22 at 19.2%) of total revenue and ~98% in FY23 (FY22 at 94%) of overall exports. HBL exports Missile Batteries to Israel and UAE.
- **World's second-largest manufacturer of Nickel-Cadmium (Ni-Cd) batteries** with Pocket Plate, Sintered Plate, and Fibre Plate technologies. HBL bagged its single largest order for Ni-Cd batteries from IGGL (Indradhanush Gas Grid Limited) pipeline project in the Northeast, which is under execution. Additionally, it successfully converted lead acid battery demand to Nickel Cadmium Pocket Plate (NCP) batteries in several Power sector and Metro Rail applications. HBL witnessed the highest-ever NCP sales in FY23, witnessed strong demand from Railways (Indian Railway and Metro Rail) sectors - Oil & Gas pipeline projects, Indian Railways electrification efforts and Metro Rail projects.
- **HBL is working to position its Nickel Cadmium Fibre Plate (NCFP) batteries as a reliable and cost-effective solution for rail rolling stock application.** Additionally, HBL is putting in concerted efforts to position NCFP batteries as the preferred option in Indian Metros backed by performance referrals from outside India. Secured healthy orders to supply its Nickel Cadmium Fibre Plate (NCFP) batteries for railway applications for customers in the US and Canada.
- **NICKEL CADMIUM SINTERED PLATE BATTERIES (NCSP)** is HBL's specialised batteries find application in Military & Civil aircraft and helicopters and Unmanned Aerial Vehicles (UAVs). The division caters to the requirement of the entire Indian Airforce covering various makes of aircraft and helicopters. In FY23, made further inroads into establishing its capabilities with the Indian Defence agencies. It was awarded the **Approval of the Firm and its Quality Management Systems certificate by the Ministry of Defence, Government of India, for supplies with self-inspection.** Received the clearance certificate for its product induction in PILATUS, P8-I and V5 aircraft. It plans to commence commercial production of the batteries in FY24. During FY23, continued to export batteries to Bombardier for use in Global 7500 aircraft and to Israel Aerospace Industries (IAI) for use in UAVs.
- **All submarine propulsion batteries in India are "Tubular plate flooded lead acid".** HBL also has export opportunities because there are less than ten companies globally, making such batteries. Awarded a contract by NSTL / DRDO to develop prototype modules for Li-Ion batteries for Submarine application. Achieved the type approval process for Type-II batteries meant for use in HDW German (Shishumar) class submarines securing manufacturing clearance.
- **Only Indian player in the market and 2<sup>nd</sup> in the world to have high powered Pure Lead Thin Plate (PLT) battery in their product basket used in Data Centers and Telecom towers.** 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. It 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.
- **Offered the Train Collision Avoidance System (TCAS – "Automatic Train Protection" (ATP) systems)** and developed **Train Management System (TMS)** - an integrated real-time Traffic Management System that offers monitoring and control of train movements) for the Indian Railways- first time ever by a private sector entity
- HBL has signed 4 contracts for **"KAVACH"** (Train Collision Avoidance System) with the Indian Railways in FY23. It also expects growth from its train monitoring systems (TMS), electro optics products, grenades, electronic fuzes for defense applications and electric drive trains.
- The company focus is on creating a presence in niche categories where competition is limited and the business earns a good return on investment like **investment worth ₹866.7mn in Tonbo Imaging India Pvt Ltd, that indigenously designs and manufactures electro-optics and imaging systems for surveillance, reconnaissance and targeting.**
- **HBL is also developing technology for motors and controllers for EV Trucks in India.** The company plans to convert old diesel trucks into electric drive using electric drive trains. Sales may begin in FY25 after the company completes the testing.

**HBL POWER SYSTEMS LTD**
**Company Background**

**HBL Power Systems Ltd (HBL)** specialises in the design, development and manufacture of **batteries** and **electronic solutions** for challenging applications for key user sectors such as Telecom, UPS, Railways, Power, Oil & Gas, Industries, and Defence, among others. **HBL is promoted by Mr. A. J. Prasad since 1986 with products marketed across +30 countries.** HBL has its headquarters at Hyderabad and five integrated manufacturing facilities located in Telangana and Andhra Pradesh. The battery vertical is the major revenue contributor for the company at **74% as on FY23 (Q1FY24 at 69.4%)**, followed by **defense at 13.4% as on FY23 (Q1FY24 at ~7%)** and the **electronics segment at ~10% as on FY23 (Q1FY24 at 17%)**. Order Book as on 30 June 2023 at **₹16.1bn v/s ₹5.94bn YoY**. The share of exports for Batteries and Electronics was at **~15% in FY23 (FY22 at 20%)** of the total revenue, with share of export of Batteries was at **~15% in FY23 (FY22 at 19.2%)** of total revenue and **~98% in FY23 (FY22 at 94%)** of overall exports. HBL exports Missile Batteries to Israel and UAE. It's world's second-largest manufacturer of Nickel-'s Cadmium (NCP) batteries with Pocket Plate, Sintered Plate, and Fibre Plate technologies. It's only Indian player in the market and 2<sup>nd</sup> in the world to have high powered Pure Lead Thin Plate (PLT) battery in their product basket used in Data Centers and Telecom towers. 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. It 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. Although batteries continue to remain the major revenue contributor for HBL, the company is gradually working to reduce its dependence on telecom batteries and increasing its focus towards defense and railways. Offered the Train Collision Avoidance System (TCAS - "Automatic Train Protection" (ATP) systems) and developed Train Management System (TMS - an integrated real-time Traffic Management System that offers monitoring and control of train movements) for the Indian Railways- first time ever by a private sector entity. The company has signed 4 contracts for "KAVACH" (Train Collision Avoidance System) with the Indian Railways in FY23. It also expects growth from its train monitoring systems (TMS), electro optics products, grenades, electronic fuzes for defense applications and electric drive trains. The company focus is on creating a presence in niche categories where competition is limited and earns a good return on investment like investment worth ₹866.7mn for 34% stake in Tonbo Imaging India Pvt Ltd, that indigenously designs and manufactures electro-optics and imaging systems for surveillance, reconnaissance and targeting. HBL is also developing technology for motors and controllers for EV Trucks in India. The company also plans to convert old diesel trucks into electric drive using electric drive trains. Sales may begin in FY25 after the company completes the testing.

**Investment Rationale**

- Traditional business of Industrial batteries to remain the mainstay with opportunities in telecom, Data centres, railways (primarily metros), oil & gas pipelines and Flue Gas Desulphurisation (FGD)**

HBL's battery division is its primary revenue earner and growth driver contributing about 70-75% to the company's topline. The company's expertise in deploying diverse technologies to develop batteries suited for multiple applications differentiates it from others in the battery business. The **Lead-Acid** and **Nickel-Cadmium batteries (meant for stationary and rolling stock applications)** are the major contributors to the division's prominence. The division's batteries basket comprises a wide range of industrial batteries that cater to a wide array of user sectors, namely Telecom, UPS, Railways, Solar, Oil & Gas and Power sectors. In FY23 for Lead Acid Batteries, the telecom business registered stellar growth driven by strong demand from the telecom sector due to 5G rollouts. Secured a large order from BSNL for use in their tower network after a considerable period of time. HBL received sizeable orders for the supply of 2V VRLA batteries for the Indian Army Data Center under the NFS project. Executed large orders for the supply of 12V- Valve Regulated Lead Acid (VRLA) batteries for Wi-Fi connectivity network as a part of the Bharat Net project in FY23. HBL bagged its single largest order for Ni-Cd batteries from IGGL (Indradhanush Gas Grid Limited) pipeline project in the Northeast, which is under

**Important Data**

Nifty	19,647
Sensex	65,973
<b>Key Stock Data</b>	
CMP	₹288.6
Market Cap (bn)	₹80.0
52W High/Low	₹295/86
Shares o/s (mn)	277.2
Daily Vol. (3M NSE Avg.)	5,129,475
BSE Code	517271
NSE Code	HBLPOWER
Bloomberg Code	HBPS:IN

**Shareholding Pattern (%) – Jun'23**

Promoter	59.1
DIs	0.1
FIs	2.6
Public	38.1

**Financials**

(₹ mn)			
Particulars	FY20	FY21	FY22
Revenue	10,918	9,120	12,362
EBITDA	805	674	1,390
EBITDA Margin (%)	7.4	7.4	11.2
Net Profit	262	137	939
EPS (₹)	0.9	0.5	3.4
DPS (₹)	0.3	0.4	0.4
RoE (%)	3.4	1.8	10.8
RoCE (%)	5.0	3.5	11.3
P/E (x)	305.1	582.8	85.2
EV/EBITDA (x)	100.3	118.8	55.5
P/BV (x)	10.4	10.2	9.2

Particulars	FY23	FY24E	FY25E
Revenue	13,687	17,489	22,131
EBITDA	1,514	2,618	4,063
EBITDA Margin (%)	11.1	15.0	18.4
Net Profit	987	1,732	2,777
EPS (₹)	3.6	6.2	10.0
DPS (₹)	0.5	0.5	0.5
RoE (%)	10.4	16.8	23.2
RoCE (%)	11.5	17.2	24.4
P/E (x)	81.1	46.2	28.8
EV/EBITDA (x)	52.4	30.5	21.7
P/BV (x)	8.4	7.2	5.7

Source: Company, Way2Wealth

**Relative Performance**

Return (%)	1 Yr	3Yr	5 Yr
HBLPOWER	180.2	1,676.0	928.9
Nifty 50	13.4	64.9	87.6
Sensex	13.3	62.9	89.9

Source: Company, Way2Wealth

**Jayakanth Kasthuri**

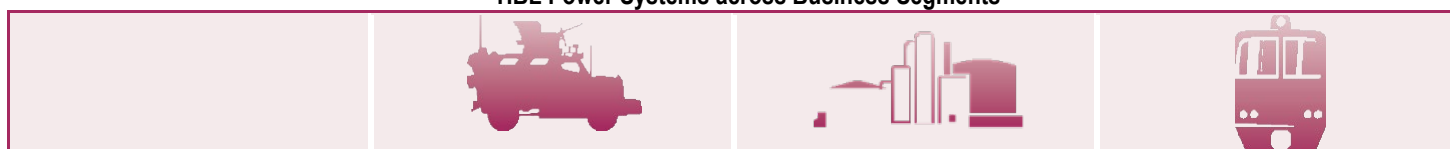
jayakanthk@way2wealth.com

91-22-4019 2914

**execution.** Additionally, it successfully converted lead acid battery demand to NCPP batteries in several Power sector and Metro Rail applications. HBL witnessed the highest-ever Nickel Cadmium Pocket Plate (NCPP) sales in FY23, witnessed strong demand from Railways (Indian Railway and Metro Rail) sectors - Oil & Gas pipeline projects, Indian Railways electrification efforts and Metro Rail projects. **HBL is working to position its Nickel Cadmium Fibre Plate (NCFP) batteries as a reliable and cost-effective solution for rail rolling stock application. Additionally, HBL is putting in concerted efforts to position NCFP batteries as the preferred option in Indian Metros backed by performance referrals from outside India. Secured healthy orders to supply its Nickel Cadmium Fibre Plate (NCFP) batteries for railway applications for customers in the US and Canada.**

**HBL's PURE LEAD THIN PLATE BATTERIES (PLT) batteries gained considerable ground positioning as the most suitable one for Data Centre applications aided by its high- rate discharge capability, attractive total cost of ownership, reliable performance & safety.** It completed 84 MW of installations during FY23. **Received the approvals from the Indian Army for the deployment of its PLT batteries in battle tanks and heavy trucks to address challenges faced in high-temperature and very low-temperature regions of the country. This was the highlight of the year. Also, Defence Research & Development Laboratory (DRDL) approved the company's PLT batteries for application in Akash and other missile launchers as a reliable power backup.** Demand for HBL's PLT batteries for battle tank applications continued to grow in Middle East and South-East Asian countries.

#### HBL Power Systems across Business Segments



BUSINESS SECTOR HBL CAPABILITIES	DEFENCE	INDUSTRY	MOBILITY
<b>Industrial Batteries</b>	Aircraft, Missiles, Torpedoes, Battle Tanks, Submarines	Nickel Cadmium & Lead Acid in various technologies	Lithium-ion (LFP, Pouch)
<b>Electronics</b>	Communication equipment for Army artillery and other fuzes	Battery chargers, Energy storage systems, Battery Management System (BMS)	Train Protection & Train Management Systems, Motor & Vehicle controllers and EV Charging systems
<b>Motors</b>	Torpedo motors	Energy Saving Motors (IE4)	Switched Reluctance Motors & Permanent Magnet Motors for traction

Source-Company, Way2Wealth

#### VERTICALLY INTEGRATED FACILITIES

Location	State	Product Line
<b>VIZIANAGARAM</b>	Andhra Pradesh	2V/12V-AGM VRLA and Tubular Gel
<b>VISAKHAPATNAM (SEZ)</b>	Andhra Pradesh	Ni-Cd batteries
<b>THUMKUNTA</b>	Telangana	Electronics
<b>SHAMIRPET</b>	Telangana	Ni-Cd & Specialty batteries and power electronics
<b>NANDIGAON</b>	Telangana	PLT, Lithium-Ion and Submarine Batteries
<b>YAPRAL (DEVELOPMENT CENTRE)</b>	Telangana	Product development initiatives

Source – Company, Way2Wealth

**The Indian Lead acid battery is expected to register a CAGR of more than 9% during 2023-28, the market has reached pre-pandemic levels.** The growing demand from telecommunication and data centres coupled with the increasing applications in industries such as railways are expected to drive business volumes during the forecast period. Meanwhile, alternate technologies, mainly lithium-ion, are expected to make in-roads into the market, and the progress will be gradual. Alongside new chemistries, new advancements in lead-acid are expected to create increased opportunities for the lead-acid battery market.

**TELECOM** – The rollout of the fifth- generation (5G) telecom service in India, which started in Oct'22, has been the fastest in the world, with the rollout of 270k 5G sites within nine months. The sector is expected to add another 450k towers to improve latency and quality of 5G coverage.

**UPS & DATA CENTRES** – The increasing adoption of cloud computing, the growth of big data, the rise of the Internet of Things (IoT), and the proliferation of smart mobile devices & 5G services have contributed to the increasing demand for data centres. By 2025 India's data centre capacity will have doubled to 1,700-1,800 MW, as predicted by CRISIL. Over the long term, India is expected to augment additional data centre capacity of over 4,000 MW in the next five to six years.

**RAILWAYS** – A “metro revolution” is happening in the country, with the number of cities having a transport network rising to twenty from five in 2014. And the number is rising even faster, with the Centre generously funding metro projects in metros and Tier 1 cities. Further, a revolution in the Indian Railways segment will be witnessed with the launch of 'Vande Metro' by the end of 2023, which will run over short distances, along with the Vande Bharat Express. The Government envisions providing comfortable, affordable and safe commute opportunities to all. **The Railways have planned to fully electrify its network, opening an array of opportunities for NCPP & NCFP batteries.**

**OIL & GAS pipelines** – India is among the top five developers of Oil & Gas pipelines. The country is constructing 1,630 km long oil transmission pipelines, ranking second globally in the pipelines under construction category. In India, about 22,335 km of natural gas pipeline is operational and close to 12,995 km of the gas pipeline is under construction. The country aims to increase the pipeline coverage by ~54% to 34,500 km by 2024-25 and to connect all the states with the trunk natural gas pipeline network by 2027.

**FLUE GAS DESULPHURISATION (FGD)** – The Ni-Cd battery is preferred in this system to provide backup power and UPS control. While India had initially set a deadline of 2017 for installing FGD units in all thermal power plants located near a million plus population, it was extended up to 2022 and further extended to 2025.

**Opportunity in Lithium-ion batteries which is likely to witness high demand in solar renewable power projects.** Many renewable industry experts believe that the growth of renewables in India is incomplete without energy storage systems, and lithium batteries offer the most cost-effective integration. India's battery energy storage system (BESS) market is estimated to be at US\$ 3.1bn by the end of this year and is projected to reach US\$5.27bn in the next five years, registering a CAGR of over 11.2% during the forecast period.

Lithium solar batteries are a rechargeable energy storage solution that can be paired with a solar power system to store excess solar power. India's installed solar energy capacity stood at around 71.67 GW as of 31st August 2023, and the government has planned many projects to reach its ambitious target of increasing the grid connected solar share to 450 GW by 2030. But due to the intermittency of solar power supply, many private players have planned solar plus energy storage projects to ensure a continuous power supply to the grid. In June 2023, Tata Group subsidiary Agratas Energy Storage Solutions Private Limited signed an agreement with the Gujarat government to set up India's first gigafactory for Lithium-Ion batteries in the state. The company is expected to invest USD 1.57 billion initially to set up a 20-gigawatt (GW) unit Tata Power Solar Systems Limited (Tata Power Solar) bagged a solar plus storage project from Solar Energy Corporation of India Ltd (SECI) in Chattisgarh. The project includes EPC services for a 100 MW solar power plant with a utility-scale Battery Energy Storage System (BESS) of 120 MWh capacity. The total outlay of the project was approximately USD 115 mn. It is likely to get commissioned in the second half of 2023. Due to such developments, the lithium-ion battery segment is expected to hold the largest market share in the medium to long term. Additionally, the Union Cabinet in Sep'23 approved the scheme for viability gap funding (VGF) for the creation of a robust storage system for excess wind and solar power produced.

A total of 4,000 megawatt hours (MWh) of Battery Energy Storage System (BESS) projects will be developed by FY31 under the scheme. An initial outlay of ₹94bn, including budgetary support of ₹37.6bn, has been provided under the scheme. The VGF will be provided over a three-year period from FY24 to FY26 and will be capped at 40% of the capital cost. Simply put, while the BESS projects will be sanctioned during the initial three-year period, funds will be allocated based on milestones achieved till FY31.



The selection of BESS developers for VGF grants will be carried out through a competitive bidding process involving both public and private sector entities. The stored energy can be utilised to meet the supply gap during peak hours. This will also help in cutting down on carbon emissions as well as help further reduce the country's dependency on fossil fuels. The main purpose of this scheme is to Minimise wastage, optimise transmission network utilisation. The scheme not only seeks to enhance the integration of renewable energy into the electricity grid but also minimise wastage while optimising the utilisation of transmission networks. This will significantly obviate the need for costly infrastructure upgrades. An important aspect of the scheme is that consumers of distribution companies will be among its first beneficiaries. Companies availing VGF for setting up BESS infrastructure are required to give 85% of the power to distribution companies. The rest can then be shared with other consumers. By introducing the energy storage scheme, the energy storage systems' capacity could be factored into such projects, whether through co-location or integration into a storage system already planned. The scheme could make such projects more compelling from an investment development perspective.

Over the medium term, factors such as declining prices of lithium-ion batteries and government initiatives to promote energy storage deployment are likely to drive the India battery energy storage systems market in the forecast period. The uptake in the BESS is largely dependent on the projected price reduction and establishment of a global supply chain. Current costs have prohibited the Indian utilities and developers from scaling up BESS deployment. The VGF scheme for the development of BESS is a much-required intervention towards mobilising the first wave of BESS projects and enabling larger renewable installations for meeting the country's growing energy need. On the other hand, the uncertainty in the rules governing energy storage operations and ownership will likely hinder the growth of the India battery energy storage systems (BESS) market. Nevertheless, technological advancements in new battery technologies to store energy and India's target to reach around 500 GW of renewable capacity by 2030 will likely create lucrative growth opportunities for companies like HBL in the India BESS market.

## 2. DEFENCE BATTERIES a three-decade story and still evolving

With the advent of new-age sophisticated automated weapons, and electronic warfare where **even mechanical devices are using electronic sensors, it is crucial for any defence establishment to invest in a reliable energy storage system.** HBL has made considerable headway in creating a vast array of specialised batteries for diverse critical applications such as submarines, torpedoes, battle tanks, missiles, fuzes, fighter aircraft, etc. In doing so, HBL is consistently making a defining contribution to Atmanirbhar Bharat's defence capabilities. HBL deploys niche technologies and chemistries to manufacture batteries for diverse applications. It has compartmentalised its operations according to these technologies for efficient business management.

**NICKEL CADMIUM SINTERED PLATE BATTERIES (NCSP)** – HBL's specialised batteries find application in Military & Civil aircraft and helicopters and Unmanned Aerial Vehicles (UAVs). The division caters to the requirement of the entire Indian Airforce covering various makes of aircraft and helicopters. In FY23, made further inroads into establishing its capabilities with the Indian Defence agencies. It was awarded the **Approval of the Firm and its Quality Management Systems certificate by the Ministry of Defence, Government of India, for supplies with self- inspection.** Received the clearance certificate for its product induction in PILATUS, P8-I and V5 aircraft. It plans to commence commercial production of the batteries in FY24. During FY23, continued to export batteries to Bombardier for use in Global 7500 aircraft and to Israel Aerospace Industries (IAI) for use in UAVs.

**SILVER (TORPEDOES & MISSILES) BATTERIES** – Silver batteries are primarily used by the Indian Navy. Product portfolio comprises Primary and Secondary Silver Oxide Zinc batteries, and primary Silver Chloride Magnesium batteries for torpedoes and guided missiles. **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.** In FY23, this segment was muted as its defence customer deferred the offtake of batteries for its torpedo applications. Focus is on developing batteries for Light Weight and Heavy Weight torpedo applications moved closer to completion.

**THERMAL BATTERIES** – These are lithium-based batteries that are used in explosive applications. These batteries provide the highest capacity per unit of volume with a substantial power density, making them suitable for a wide range of environments.

**SUBMARINE BATTERIES** – All submarine propulsion batteries in India are “Tubular plate flooded lead acid”. HBL also has export opportunities because there are less than ten companies globally, making such batteries. Awarded a contract by NSTL / DRDO to develop prototype modules for Li-Ion batteries for Submarine application. Achieved the type approval process for Type-II batteries meant for use in HDW German (Shishumar) class submarines securing manufacturing clearance.

### 3. HBL is one of the 3 OEMs for KAVACH approved by the Research Designs & Standards Organisation (RDSO) (Bagged 4 EPC contracts worth ~₹6.9bn)

HBL is the lead member of a consortium with Siemens, signed the first contract under Mission Raftar project, with Eastern Railway for deployment of KAVACH (TCAS – Train Collision Avoidance System) over 260 kms of track and 120 locomotives, from Howrah to Pradhankhanta in Sep'22. The contract price is ₹2.9bn of which HBL's work share is ₹2.1bn; the contract is scheduled to be completed in 700 days.

Integral Coach Factory (ICF) is manufacturing the Vande Bharat trainsets, designed to run at 160 kmph. HBL also received a purchase order from ICF for the supply of 46 sets of Kavach, to be installed at the time of manufacture of the trainsets, at a total price of ₹316.6mn. Deliveries began in Nov'22 and were expected to be completed by Jul'23.

HBL, as the lead member of a consortium with Shivakriti International, was declared as the lowest bidder in two other tenders in West Central Railway and Western Railway, on the Delhi-Mumbai route. The tender in West Central Railway is for deployment of Kavach over 549 kms of track and 87 locomotives, for a bid price of ₹3.5bn. The tender in Western Railway is for deployment of Kavach over 96 kms of track, for a bid price of ₹8.2bn.

HBL has also entered into a contract with Ashoka Buildcon Ltd (ABL) for supply of the Kavach part of an EPC contract won by ABL in Sep'22. The ABL contract with East Central Railway, is for ₹2.2bn (incl 18% GST) for deploying Kavach and OFC network over 417 km and 60 locomotives, between Pradhankhanta in Jharkhand and Deen Dayal Upadhyay station in Uttar Pradesh. The ABL contract with HBL is for ₹1.4bn (inclu. 18% GST) for delivery and commissioning of all equipment involved in KAVACH to be completed in 18 months.

Type testing and field trial of Electronic Interlocking System is in progress (to ensure that conflicting signals are not sent, resulting in more than one train ending up on the same section) as Government of India is planning to cover ~+30,000 kms of railway tracks with KAVACH by 2027-28. With only 3 OEMs (HBL Power, Kernex Micro and Medha Servo drives) approved by the RDSO, this opens up a huge addressable market for HBL.

### 4. HBL's two rail traffic management system is used by Indian railways

HBL offered its Train Collision Avoidance System (TCAS – “Automatic Train Protection” (ATP) systems) and developed Train Management System (TMS– an integrated real-time Traffic Management System that offers monitoring and control of train movements) for the Indian Railways- first time ever by a private sector entity.

The TMS (Train Management System) is designed for efficient track utilisation. It 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. HBL's TMS System is certified for SIL – 2 by Bureau Veritas Spain. HBL's Train Management System (TMS) has been inaugurated by the General Manager of the Eastern Railway in Sealdah division of Eastern Railway on 31 August 2023. Demand for TMS is expected to slowly grow from FY24. Compared to TCAS, the value of business is small; at most ₹2bn per year. A typical price per system would be ₹4-5bn.

## 5. Defence Electronics proven capability with development and investments in new products

HBL has facilities and licenses for handling explosive materials. **HBL is the only Indian supplier for the Electronic Fuzes, and can also supply to other firms making the rest of the grenades. A fuze is a complex device that ignites ammunition. Electronic Fuzes are essential for reliability and safety. Electronic Fuzes are preferred to mechanical fuzes because they are much more reliable. ECIL (DAE) and BEL (MoD) have been supplying Electronic Fuzes for artillery, with import content of about 80% of Bill of Materials. MoD wants to be Atma Nirbhar in electronic fuzes.**

Over the last 15 years, HBL has developed 100% in-house technology for Electronic Fuzes for grenades and other ammunition, including Artillery guns. **HBL is the only Indian company with 100% indigenisation.** Under a "Development cum Production Partner" contract with ARDE/ DRDO, grenades made by HBL have been approved by the Ministry of Home Affairs for use by the paramilitary forces. **Sales to MHA are expected to begin FY 24 and increase rapidly. HBL fuzes have already been tested on army guns many times. Eligibility for bulk supply is expected end FY24.** The market is huge and there are very few companies in this area globally. So, exports are expected.

**It has proven capability for manufacturing complex Defence Electronics products.** This capabilities are (1) **Digital Control Harness (DCH)** - A HBL/ELBIT (Israel) developed product has been installed in nearly six thousand armoured vehicles, to be used for communications in the battlefield. All new armoured vehicles being built will use this DCH as original equipment. **HBL is the only supplier.** The market is not very big as of now.

(2) **Integrated Platform Management System and Steering Consoles for four Scorpene (P75) Submarines, were built to print by HBL and supplied to the OEM – Naval Group; France. All these submarines are now in operation.**

**Investment in Tonbo Imaging to enhance presence in defence electronics management** – Tonbo Imaging Pvt Ltd is an Indian company that indigenously designs and manufactures electro-optics and imaging systems for surveillance, reconnaissance and targeting. The ability to see better at night and over longer ranges to engage targets effectively is a much needed and sought-after technology. Tonbo has supplied advanced electro-optics systems in over 25 countries. It is also a supplier to the Indian Ministries of Defence and Home Affairs.

## 6. HBL has developed Electric Drive Train (EDT) kits for retrofitting light commercial vehicles and passenger buses

Apart from Li-Ion cells, India currently imports motors & controllers for most EVs made in India. **HBL has been investing on in-house development of all parts of the technology for Motors and Controllers since 2017 and plans to test products on the highways in 2024. The business plan is to convert old diesel highway trucks to Electric Drive using HBL made motors and batteries.** The solution does not need subsidy. The benefit to the operator varies based upon his use conditions. Customers will be by invitation.

**HBL has developed Electric Drive Train (EDT) kits for retrofitting light commercial vehicles and passenger buses. HBL has secured approval from ICAT for one rating; the rest will be offered for testing by ICAT. During FY23, the company conducted road trials of its EDT solution on a 7.5T truck.** The trials demonstrated encouraging results with desired performance and energy efficiency. This reinforced the company's belief that the solution is commercially viable without financial subsidy by the Government for commercial truck operators. The team continues to develop solutions for larger trucks.

As per the management expectation the sales may begin in FY25. The number of old trucks is very large, but the HBL solution will only be viable for a small percentage of them. Even so, the scope is huge. At this time there are no competitors, because there is no subsidy for electric trucks.

**KEY RISKS**

- **The battery segment could face increased competition from the incumbents.** Excess capacity could lead to price competition and lower margins for all players in the segment. The company has faced this issue in the telecom segment in the past.
- **The power electronics and integrated power supply (IPS) business require very low initial capital investment.** Therefore, it attracts entrepreneurial engineers to start as small-scale industries. In IPS, HBL sees increased competition, which will depress sales and profits. The company has demerged these businesses into a separate company and has plans to invite entrepreneurs as co-owners. (Proposed sale of the Power electronics and IPS business to MOEBIUS Power Electronics Pvt Ltd was deferred).
- The company operates in a working capital-intensive industry, which is characterised by a **stretched operating cycle. The company has to maintain its inventory for longer and takes a long time to collect its receivables.** The company, however, has been funding the inventories from its internal cash flows and reliance on bank borrowings has been.
- Lead, which is a highly toxic and polluting material, is the primary raw material for manufacturing batteries. Hence, **handling lead requires adherence to pollution control norms.** Changes in environmental policies may also lead to additional costs for the company.
- The company **faces risk of cost price escalation as the prices of raw material** are market driven and are volatile in nature, affecting the margins of the company. Certain raw material are also imported, exposing the company to foreign exchange fluctuating risks too.
- There could be delays in adopting the KAVACH system, which could slow the growth trajectory of the company. HBL could also get lesser share of the government's order book of KAVACH roll out. However, this is unlikely, as the recent train accident would mean accelerated deployment of the system.
- **HBL has entered into an agreement with Tonbo Imaging, committing to invest ₹1.5bn in multiple tranches. This amounts to ~15% of the current networth of HBL.** Returns from investment in Tonbo imaging are uncertain in terms of timelines and the quantum of benefit that will be derived.

**VIEW**

HBL has an established presence in the batteries segment, which continues to grow moderately every year. Since the batteries are replaced every few years, demand is expected to remain stable. Electronic signaling and safety is a priority investment for the railways and will be a growing segment for the company. Defense indigenisation will also help the company's products, which have been developed in-house. The electronics segment of the company is a high margin business and will be the incremental driver in coming years as it is developing new defence electronics products along with EV kits for Passenger and Commercial vehicles with sales likely to pick up in FY25 onwards. **Hence, we recommend it as a BUY stock with Target Range of ₹340-350 trading at P/E 28.8x FY25E EPS of ₹10.0.**

**Q1FY24 Revenue/EBITDA/PAT grew 46.2%/2.2x/2.6x YoY**

Revenue for the quarter grew 46.2% YoY to ₹4674.3mn v/s ₹3197mn in Q1FY23. Revenue from Industrial batteries stood at ₹3245.9mn (~+51% YoY), defence and aviation batteries revenue stood at ₹322.4mn (-53.3% YoY) and from Electronics stood at ₹799.9mn (+199.1% YoY). Contribution from each segment stood at 69.4%, ~7% and 17.1% respectively. EBITDA for the quarter stood at ₹779.2mn v/s ₹350mn; EBITDA margin expanded by 572 bps from 10.9% in Q1FY23 to 16.7% in Q1FY24. PAT came in at ₹517.2mn v/s ₹201.7mn in the corresponding quarter last year.



**Q1FY24 FINANCIALS**

(₹ mn)

Particulars	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
<b>Revenue</b>	<b>4,674.3</b>	<b>3,197.0</b>	<b>46.2</b>	<b>4,026.1</b>	<b>16.1</b>	<b>13,686.8</b>	<b>12,362.1</b>	<b>10.7</b>
Cost of Matl	2,583.2	1,789.0	44.4	2,625.4	(1.6)	8,309.9	7,585.1	9.6
Stock Purchases	-	5.3	(100.0)	(36.6)	(100.0)	10.8	21.0	(48.7)
(Increase)/Decrease of Finished, WIP & Stock in trade Goods	(24.6)	182.0	(113.5)	(104.7)	(76.5)	6.4	(74.8)	(108.5)
Raw Matl Cost	2,558.5	1,976.3	29.5	2,484.0	3.0	8,327.1	7,531.2	10.6
Employee Exps	304.6	250.4	21.7	293.6	3.7	1,103.8	999.1	10.5
Other Exps	1,032.0	620.3	66.4	800.8	28.9	2,741.5	2,442.0	12.3
<b>EBITDA</b>	<b>779.2</b>	<b>350.0</b>	<b>122.6</b>	<b>447.7</b>	<b>74.1</b>	<b>1,514.4</b>	<b>1,389.8</b>	<b>9.0</b>
<b>EBITDA Margin (%)</b>	<b>16.7</b>	<b>10.9</b>	<b>572</b>	<b>11.1</b>	<b>555</b>	<b>11.1</b>	<b>11.2</b>	<b>(18)</b>
Other Income	27.3	32.9	(17.0)	50.8	(46.3)	176.8	143.7	23.0
Depreciation	95.0	82.8	14.8	100.1	(5.0)	354.6	350.8	1.1
Finance Cost	20.8	8.6	140.1	25.5	(18.6)	65.5	74.8	(12.4)
Exceptional Items - Income/(Exps)	0.1	(1.3)	(105.3)	(11.5)	(100.6)	13.3	107.3	(87.6)
JV & Associates - Profit/(Loss)	2.2	(0.0)	36,263.9	0.6	278.4	13.5	8.8	53.9
PBT	692.9	290.1	138.9	362.0	91.4	1,298.0	1,224.0	6.0
Tax	175.7	90.4	94.4	12.0	1,366.7	313.5	286.9	9.3
Minority Interest - Profit/(loss)	-	(0.6)	(100.0)	2.0	(100.0)	(2.07)	(1.9)	7.7
<b>Net Profit</b>	<b>517.3</b>	<b>200.4</b>	<b>158.2</b>	<b>348.0</b>	<b>48.6</b>	<b>986.5</b>	<b>939.0</b>	<b>5.1</b>
EPS (₹)	1.9	0.7	158.2	1.3	48.6	3.6	3.4	5.1
<b>Adjus.Net Profit</b>	<b>517.2</b>	<b>201.7</b>	<b>156.5</b>	<b>359.5</b>	<b>43.9</b>	<b>973.2</b>	<b>831.7</b>	<b>17.0</b>
Adjus.EPS (₹)	1.9	0.7	156.5	1.3	43.9	3.5	3.0	17.0

As % of Sales	Q1FY24	Q1FY23	YoY (BPS)	Q4FY23	QoQ (BPS)	FY23	FY22	YoY (BPS)
Raw Matl Cost	54.7	61.8	(708)	61.7	(696)	60.8	60.9	(8)
Gross Profit	45.3	38.2	708	38.3	696	39.2	39.1	8
Employee Exps	6.5	7.8	(131)	7.3	(78)	8.1	8.1	(2)
Other Exps	22.1	19.4	267	19.9	219	20.0	19.8	28

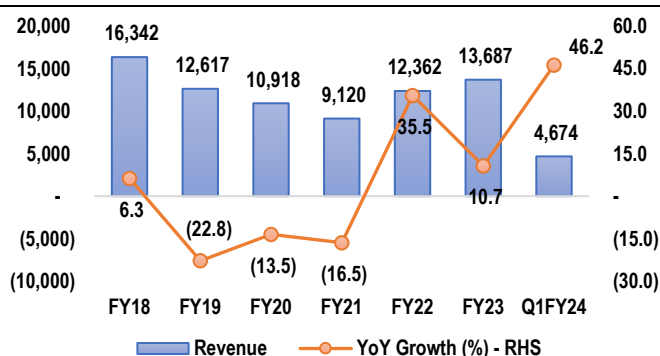
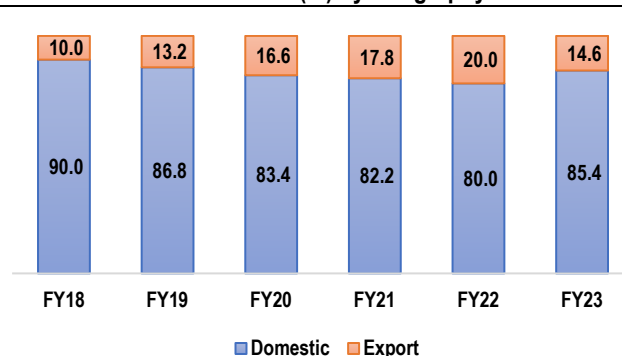
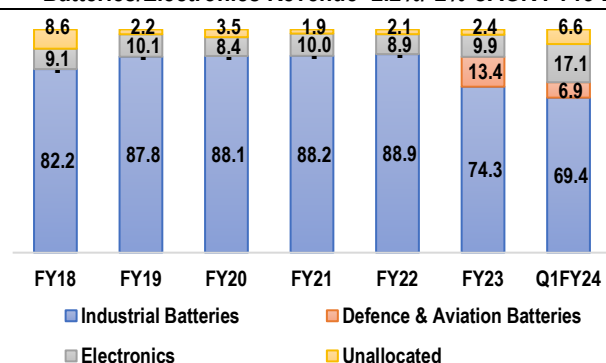
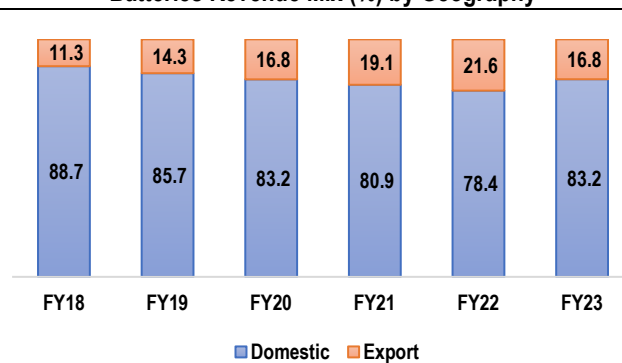
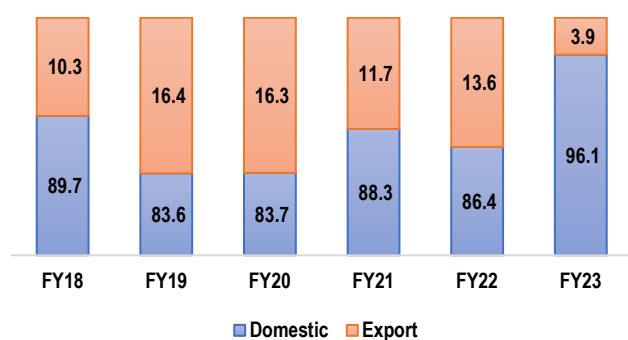
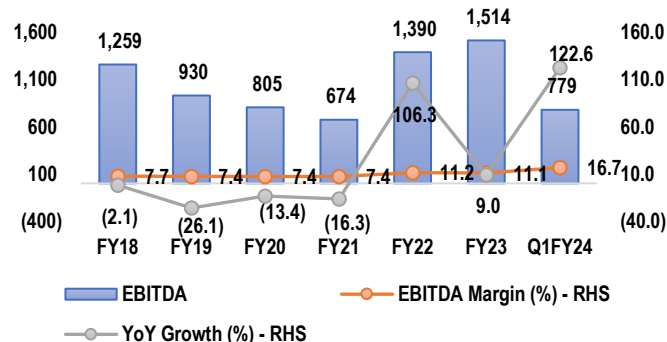
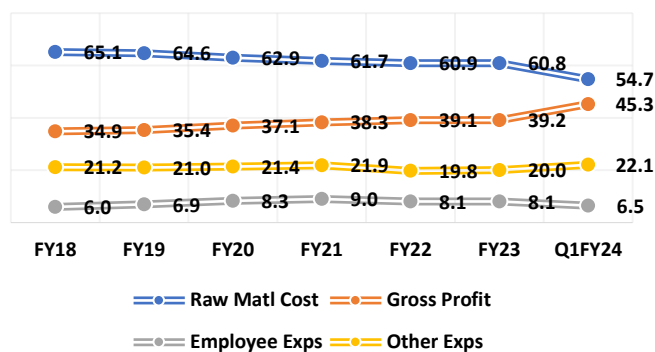
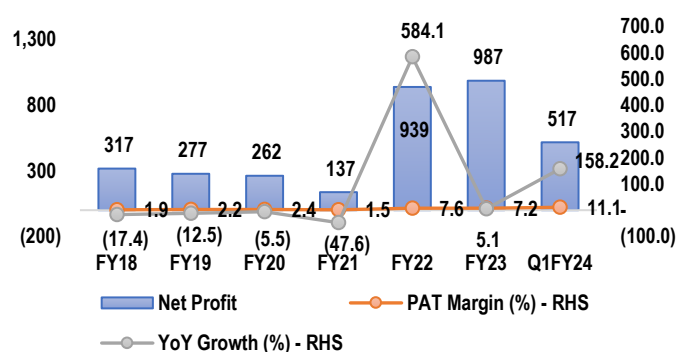
Segmental Revenue (₹ mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
<b>Industrial Batteries</b>	<b>3,245.9</b>	<b>2,154.2</b>	<b>50.7</b>	<b>2,982.1</b>	<b>8.8</b>	<b>10,174.9</b>	<b>10,994.3</b>	<b>(7.5)</b>
<b>Defence &amp; Aviation Batteries</b>	<b>322.4</b>	<b>690.0</b>	<b>(53.3)</b>	<b>368.5</b>	<b>(12.5)</b>	<b>1,832.1</b>	<b>-</b>	<b>NA</b>
<b>Electronics</b>	<b>799.9</b>	<b>267.5</b>	<b>199.1</b>	<b>550.3</b>	<b>45.3</b>	<b>1,355.1</b>	<b>1,104.7</b>	<b>22.7</b>
Unallocated	313.8	101.6	208.7	140.0	124.1	400.6	314.9	27.2
(Intersegment)	(7.6)	(16.4)	(53.6)	(14.9)	(48.9)	(75.8)	(51.7)	46.6

Revenue Mix (%)	Q1FY24	Q1FY23	YoY (BPS)	Q4FY23	QoQ(BPS)	FY23	FY22	YoY (BPS)
<b>Industrial Batteries</b>	<b>69.4</b>	<b>67.4</b>	<b>206</b>	<b>74.1</b>	<b>(463)</b>	<b>74.3</b>	<b>88.9</b>	<b>(1,459)</b>
<b>Defence &amp; Aviation Batteries</b>	<b>6.9</b>	<b>21.6</b>	<b>(1,469)</b>	<b>9.2</b>	<b>(226)</b>	<b>13.4</b>	<b>-</b>	<b>1,339</b>
<b>Electronics</b>	<b>17.1</b>	<b>8.4</b>	<b>875</b>	<b>13.7</b>	<b>344</b>	<b>9.9</b>	<b>8.9</b>	<b>96</b>
Unallocated	6.6	2.7	388	3.1	344	2.4	2.1	24

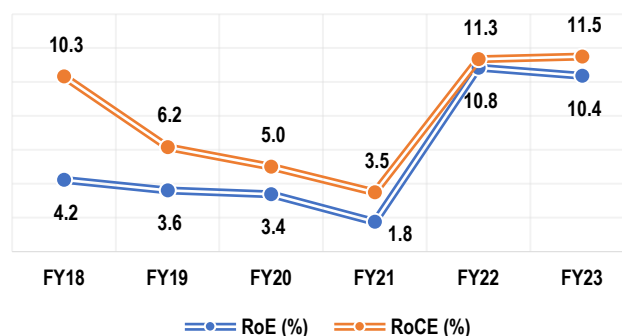
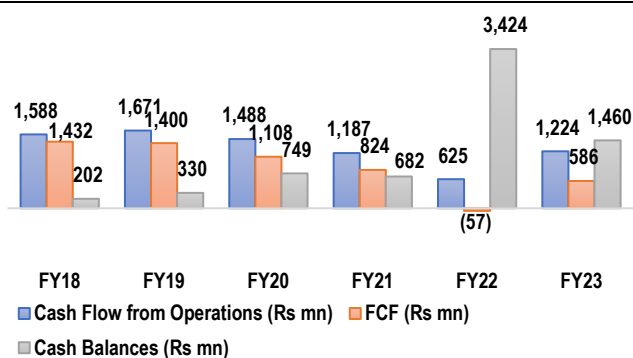
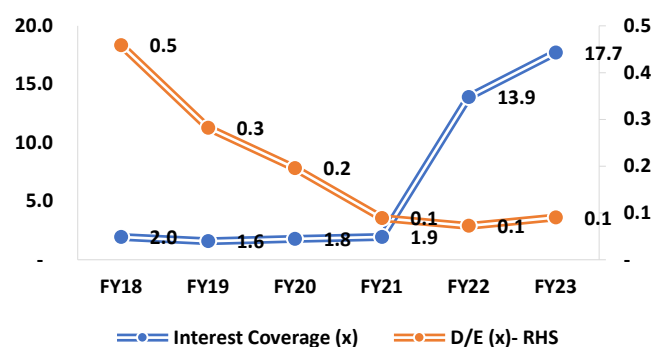
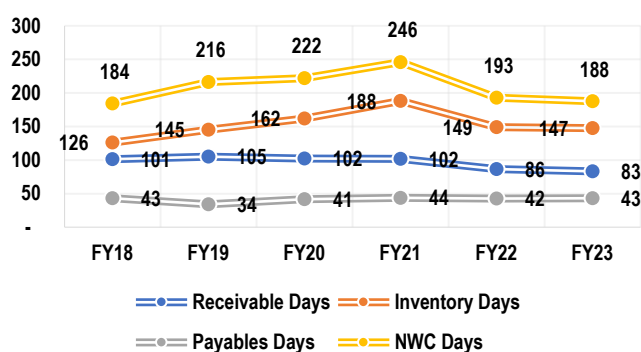
EBIT (₹ mn)	Q1FY24	Q1FY23	YoY (%)	Q4FY23	QoQ (%)	FY23	FY22	YoY (%)
<b>Industrial Batteries</b>	<b>577.3</b>	<b>173.4</b>	<b>233.0</b>	<b>260.9</b>	<b>121.2</b>	<b>1,059.4</b>	<b>1,363.1</b>	<b>(22.3)</b>
<b>Defence &amp; Aviation Batteries</b>	<b>98.0</b>	<b>189.5</b>	<b>(48.3)</b>	<b>104.3</b>	<b>(6.1)</b>	<b>528.6</b>	<b>-</b>	<b>NA</b>
<b>Electronics</b>	<b>68.9</b>	<b>6.3</b>	<b>996.1</b>	<b>30.7</b>	<b>124.6</b>	<b>9.6</b>	<b>116.6</b>	<b>(91.8)</b>
Unallocated	56.3	6.7	738.8	(28.3)	(298.8)	(96.6)	(34.9)	176.4

EBIT Margin (%)	Q1FY24	Q1FY23	YoY (BPS)	Q4FY23	QoQ (BPS)	FY23	FY22	YoY (BPS)
<b>Industrial Batteries</b>	<b>12.4</b>	<b>5.4</b>	<b>693</b>	<b>6.5</b>	<b>587</b>	<b>7.7</b>	<b>11.0</b>	<b>(329)</b>
<b>Defence &amp; Aviation Batteries</b>	<b>2.1</b>	<b>5.9</b>	<b>(383)</b>	<b>2.6</b>	<b>(50)</b>	<b>3.9</b>	<b>-</b>	<b>386</b>
<b>Electronics</b>	<b>1.5</b>	<b>0.2</b>	<b>128</b>	<b>0.8</b>	<b>71</b>	<b>0.1</b>	<b>0.9</b>	<b>(87)</b>
Unallocated	1.2	0.2	99	(0.7)	191	(0.7)	(0.3)	(42)

Source: Company, Way2Wealth

**PAST PERFORMANCE**
**Revenue -3.5% CAGR FY18-23**

**Revenue Mix (%) by Geography**

**Batteries/Electronics Revenue -2.2%/-2% CAGR FY18-23**

**Batteries Revenue Mix (%) by Geography**

**Electronics Revenue Mix (%) by Geography**

**EBITDA ~+4% CAGR FY18-23**

**Electronics Revenue Mix (%) by Geography FY18-23**

**PAT ~26% CAGR FY18-23**


Source: Company, Way2Wealth

**Significant improvement in WC mgmt enabling lower debt, delivering robust cash flows and return ratios**


Source: Company, Way2Wealth

**FINANCIALS & VALUATIONS**

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Industrial Batteries</b>	13,439.8	11,073.3	9,619.3	8,042.0	10,994.3	10,174.9	12,609.6	15,491.7
<b>Defence &amp; Aviation Batteries</b>	-	-	-	-	-	1,832.1	2,535.9	3,430.3
<b>Electronics</b>	1,491.9	1,270.1	919.4	908.4	1,104.7	1,355.1	1,906.3	2,633.6
<b>Unallocated</b>	1,452.9	392.8	341.7	188.6	314.9	400.6	437.2	575.4
<b>Revenue</b>	<b>16,342.0</b>	<b>12,617.4</b>	<b>10,917.8</b>	<b>9,120.4</b>	<b>12,362.1</b>	<b>13,686.8</b>	<b>17,489.0</b>	<b>22,131.0</b>
<b>EBITDA</b>	<b>1,259.3</b>	<b>930.5</b>	<b>805.4</b>	<b>673.7</b>	<b>1,389.8</b>	<b>1,514.4</b>	<b>2,618.3</b>	<b>4,063.2</b>
<b>EBITDA Margin (%)</b>	<b>7.7</b>	<b>7.4</b>	<b>7.4</b>	<b>7.4</b>	<b>11.2</b>	<b>11.1</b>	<b>15.0</b>	<b>18.4</b>
<b>Net Profit</b>	<b>317.0</b>	<b>277.3</b>	<b>262.2</b>	<b>137.3</b>	<b>939.0</b>	<b>986.5</b>	<b>1,732.1</b>	<b>2,776.7</b>
<b>EPS (₹)</b>	1.1	1.0	0.9	0.5	3.4	3.6	6.2	10.0
<b>DPS (₹)</b>	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.5
<b>RoE (%)</b>	4.2	3.6	3.4	1.8	10.8	10.4	16.8	23.2
<b>RoCE (%)</b>	10.3	6.2	5.0	3.5	11.3	11.5	17.2	24.4
<b>Cash Balances</b>	202	330	749	682	3,424	1,460	1,503	1,847
<b>FCF</b>	1,432	1,400	1,108	824	(57)	586	(1,319)	1,428
<b>Receivable Days</b>	101	105	102	102	86	83	75	74
<b>Inventory Days</b>	126	145	162	188	149	147	140	135
<b>Payable Days</b>	43	34	41	44	42	43	44	45
<b>Net Debt/ Equity (x)</b>	0.4	0.2	0.1	0.0	(0.3)	(0.1)	0.1	0.1
<b>P/E (x)</b>	252.4	288.4	305.1	582.8	85.2	81.1	46.2	28.8
<b>EV/EBITDA (x)</b>	66.1	87.9	100.3	118.8	55.5	52.4	30.5	21.7
<b>P/BV (x)</b>	10.7	10.4	10.4	10.2	9.2	8.4	7.2	5.7

Source: Company, Way2Wealth

**PEER COMPARISON**

COMPANY	CMP	MCAP	Revenue (Rs mn)					EBITDA (Rs mn)					EBITDA Margin (%)					PAT (Rs mn)				EPS (Rs)		
	(Rs)	(Rs mn)	FY21	FY22	FY23	Q1FY24	FY21	FY22	FY23	Q1FY24	FY21	FY22	FY23	Q1FY24	FY21	FY22	FY23	Q1FY24	FY21	FY22	FY23	FY21	FY22	FY23
HBL Power	288.6	79,998.50	9,120	12,362	13,687	4,674	674	1,390	1,514	779	7.4	11.2	11.1	16.7	137	939	987	517	0.5	3.4	3.6			
Exide Inds	259.3	2,20,362.50	1,00,408	1,24,101	1,45,919	40,730	13,556	13,983	15,680	4,320	13.5	11.3	10.7	10.6	7,582	8,430	9,036	2,420	8.9	9.9	10.6			
Amara Raja Batteries	642.9	1,09,798.30	71,497	86,958	1,03,859	27,699	11,159	10,226	13,552	3,535	15.6	11.8	13	12.8	6,470	5,112	6,944	1,925	37.9	29.9	40.7			

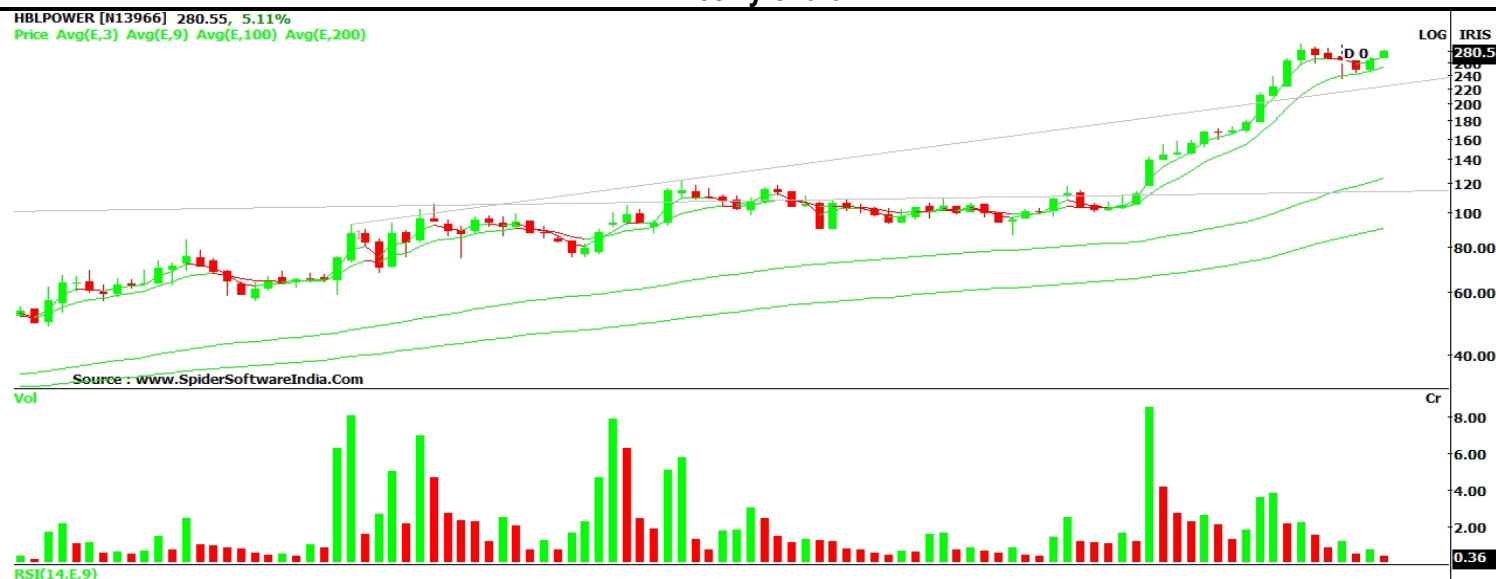
COMPANY	CMP	MCAP	DPS (Rs)			RoE(%)			RoCE (%)			P/E (x)			EV/EBITDA (x)			P/BV (x)			MCAP/Sales (x)		
	(Rs)	(Rs mn)	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
HBL Power	288.6	79,998.50	0.4	0.4	0.5	1.8	10.8	10.4	3.5	11.3	11.5	582.8	85.2	81.1	118.8	55.5	52.4	10.2	9.2	8.4	8.8	6.5	5.8
Exide Inds	259.3	2,20,362.50	2	2	2	11	6.9	8.1	21.1	12.2	12.8	29.1	26.1	24.4	16.4	16	14.4	3	2.1	2	2.2	1.8	1.5
Amara Raja Batteries	642.9	1,09,798.30	11	4.5	6.1	16.4	11.8	17.2	16.5	11.7	14.8	17	21.5	15.8	9.8	10.8	8.1	2.6	2.4	2.1	1.5	1.3	1.1

COMPANY	CMP	MCAP	Cash flow from Operations (Rs mn)			FCF (Rs mn)			Cash Balances (Rs mn)			Net D/E (x)			Interest Coverage (x)			NWC Days		
	(Rs)	(Rs mn)	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23	FY21	FY22	FY23
HBL Power	288.6	79,998.50	1,187	625	1,224	824	-57	586	682	3,424	1,460	0	-0.3	-0.1	1.9	13.9	17.7	246	193	188
Exide Inds	259.3	2,20,362.50	14,134	122	8,484	10,750	-5,690	4,991	914	1,612	681	-0.1	-0.1	-0.1	8.6	24	23.2	103	92	101
Amara Raja Batteries	642.9	1,09,798.30	8,020	6,329	9,259	3,056	-1,268	4,800	967	536	998	0	0	0	83.9	72.9	65.4	75	75	59

Source: Company, Way2Wealth



**TECHNICAL VIEW**
**Weekly Chart**


HBL POWER has signaled breakout on medium term chart above ascending resistance line after prices crossed 121.75 and the medium-term price pattern resembling to an uptrend move. The stock has given a short-term bullish breakout on the weekly chart suggesting upward movements may continue above all time high of 294.90. Another positive indication support our buying argument is bullish crossover in MACD above the reference line which could ignite buying momentum in near term and yet to another any overbought position. Technically HBLPOWER is likely to remain positive bias and it has found the key resistance level of 295. Break out of 295 levels would invite further buying and then the stock may face the upside targets of 340 and 358 levels. On the lower side, the support lies at 263 and 240 levels. Breakdown of 240-235 levels on closing basis would negate the short to medium term uptrend.

**Technical Indicators/Overlays**

Bollinger Bands (Upper - Lower)	320.25 - 213.55
Short Term - 20 & 50 Days EMA	146 & 95
Long Term - 100 & 200 Days EMA	67 & 48
Annualised Volatility	66.1
ADX	57.19
MACD	49
RSI	88
Average True Range(ATR)	54
AD Line	49.85 Cr
Standard Deviation	65.39
Pivot Levels - R1, R2	285 & 290
Pivot Point	277
Pivot Levels - S1, S2	272 & 264
ROC (%)	165.42

**S. Devarajan**

Head – Technical &amp; Derivatives Research

[devarajan.s@way2wealth.com](mailto:devarajan.s@way2wealth.com)

91-22-4019 2996

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### Disclosure of Interest Statement HBL Power System Ltd (HBL Power) as on 06<sup>th</sup> October 2023

Name of the Security	HBL Power System Ltd (HBL Power)
Name of the analyst	Jayakanth Kasthuri
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Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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