

HONEYWELL AUTOMATION INDIA

BLUE CHIP INVESTMENT

Retail Desk

26 April 2018

Rating	Buy		
CMP (₹)	19000		
Rating	Overweight		
Sector	Electronics		
Key Data			
BSE Code	517174		
NSE Code	HONAUT		
Reuters code	HONE.BO		
Bloomberg Code	HWA IN		
Sensex(25/04/2018)	34501		
Face Value (₹)	10		
Mcap (₹ Cr.)	16796		
52 week H/L (₹)	21899/10211		
2 Wk Avg Qty	147		
Share holding, March'18			
	Holding %		
Promoters	75.0		
DIs	15.3		
Corporates	0.2		
Foreign	0.4		
Public	9.1		
Performance (%)			
	3M	6M	12M
Stock -HAIL	11.9	22.3	77.3
BSE 200	-4.2	4.0	15.0
BSE 500	-4.5	3.2	14.0

Company Description:

HAIL was set up in 1984 as a joint venture with Tata group. In 2004, the joint venture ended with Honeywell buying out the entire Tata stake. HAIL has its manufacturing, design and engineering facilities in the industrial city of Pune. Honeywell now has seven state-of-the-art manufacturing facilities and five technology development and engineering centers in India with 2 million sq. ft. of combined built-up area. Its manufacturing locations are in Chennai, Dehradun, Gurgaon, Pune and Vadodara. HAIL's five technology and engineering centers are in Bangalore, Gurgaon, Hyderabad and Madurai. HAIL has close to 15,000 employees, including 8,000 engineers, across 50 cities. HAIL is having more than 3,000 technology products, solutions, and applications engineered in India.

HAIL basically manufactures products as well as provides process solutions to improve business efficiency. It provides knowledge based process solutions to various process industries including Refining, Oil & Gas, Pulp, Paper & Printing, Power Generation, Metals and Sugar etc. HAIL's process solutions reduce operational cost, bring in efficiency and reduce downtime for any particular business.

Promoters:

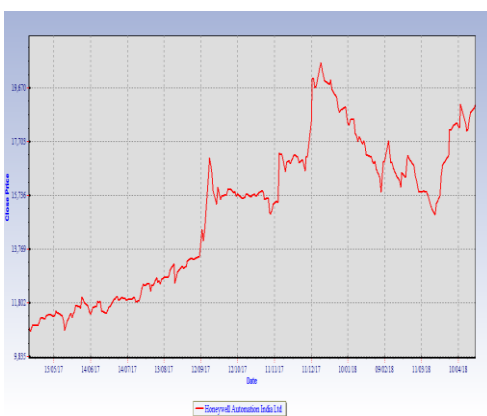
HAL is promoted by Honeywell, USA. The over \$30 billion, Honeywell (www.honeywell.com) is a Fortune 100 diversified technology & manufacturing leader, serving customers worldwide with aerospace products and services; control technologies for buildings, homes and industry; turbochargers; and performance materials. Honeywell is ranked 75th in the Fortune 500. Honeywell, USA holds 75% share in the equity.

Honeywell has a global workforce of approximately 1, 30,000, of whom approximately 58,000 are employed in the United States. HAIL has presence in 70 countries and offers products and services around aerospace, defence, automation, control systems, performance materials and transportation systems. The company offers product manufacturing solutions & services to overseas customers.

Key Financial: (Consolidated)

(₹ crore)

Year-March	9MFY18A	9MFY17A	FY17A	FY18E	FY19E	FY20E
Sales	2050.22	1817.83	2410.07	2685.0	2953.5	3322.7
Other Income	20.61	29.94	38.03	NA	NA	NA
PBIDT	303.99	240.37	323.92	402.75	448.93	505.05
Interest (net)	0	0.01	0.26	0	0	0
PBDT	303.99	240.36	323.66	402.75	448.93	505.05
Depreciation	10.95	12.24	16.35	14.70	14.70	16.0
PBT	293.04	228.12	307.31	388.05	434.23	489.05
Tax	101.68	80.53	137.86	147.44	152.0	180.95
PAT	191.36	147.59	169.45	240.61	282.23	308.10
Equity			8.84	8.84	8.84	8.84
Reserves			1171.44	1412.05	1694.28	2002.3
Book Value (₹)			1335.1	1607.34	1926.61	2275.0
EPS (₹)	216.5	167.0	191.7	272.18	319.20	348.53
CEPS (₹)	228.9	180.8	210.2	288.81	335.80	366.63
PBIDT Margin (%)	14.8	13.2	13.4	15.0	15.2	15.2
PAT Margin (%)	9.3	8.2	7.0	9.0	9.5	9.3
P/E				69.8	59.5	54.5

Price Chart: (One-Year)
<http://www.honeywellautomationindia.com>

Vijay Dave
vijaydave@sunidhi.com



Business Verticals

The company's business is divided across five business verticals namely Honeywell Process Solutions (HPS), Honeywell Building Solutions (HBS), Global Engineering Services, Environment & Combustion Control (E&CC) and Sensing & Control.

Automation & Control Solutions

HAIL's environmental controls, energy management systems, life safety devices, security and fire systems, sensors, scanners, and mobile products are at work in homes, buildings, and public and private utilities around the world, keeping our customers comfortable, protected, and productive.

Honeywell Aerospace (AERO)

With comprehensive offerings ranging from wheels and brakes and propulsion to cockpit systems and satellite communications, HAIL's mechanical and electrical innovations are used on virtually every commercial and defense aircraft platform. It also provides world-class turbochargers that help enable vehicle performance and fuel efficiency.

In India, Honeywell has been supporting the country's defense, civil aerospace and automobile industries for more than 40 years. Honeywell Aerospace products and services are found on virtually every commercial and defense aircraft, and its turbochargers are used by most automakers in country.

Home and Building Technologies (HBT)

Honeywell Home and Building Technologies (HBT) is a global business with more than 38,000 employees worldwide. HBT creates products, software and technologies found in more than 150 million homes and 10 million buildings worldwide. We help homeowners stay connected and in control of their comfort, security and energy use.

Commercial building owners and occupants use its technologies to ensure their facilities are safe, energy efficient, sustainable, and productive. Honeywell's home and building technologies have been helping make homes, and commercial and industrial buildings in India safer, more secure, energy efficient, productive, and connected, for more than 25 years.

Safety & Productivity Solutions (SPS)

Honeywell's solutions enhance productivity and safety for more than half a billion workers annually. Its productivity solutions include a mix of products, from rugged mobile computers, voice-enabled software and workflows, bar code scanners, and printing solutions.

HAIL is a global leader in the industry with a wide portfolio of personal protective equipment, including connected products that track the locations and status of workers and first responders in hazardous locations.

Performance Materials & Technologies (PMT)

HAIL develops advanced materials, chemicals, process technologies, and industrial software and automation solutions that reduce emissions, improve operational efficiency, enable production of cleaner fuels, increase capacity in oil refineries, and increase the strength of ballistic materials and fibers and protect medicines.

Honeywell PMT has been a leader in oil and gas refining technologies, and developing and manufacturing advanced materials in India for more than 80 years. It also provides integrated industrial process automation, instrumentation, and control solutions for oil and gas and other industries.

User Industries

HPS segment serves various process industries including Refining, Oil and Gas, Pulp, Paper & Printing. HBS segment of the company provides building automation products and solutions which include HVAC control systems, Fire Detection Systems, Security Systems - Access Control Systems, CCTV Systems & Perimeter Control Systems.

Global engineering services segment provides quality engineering services in the field of automation and control, and offers solutions such as basic design, functional & detailed design and testing and plant commissioning.



HAIL also provides various standalone and centralized solar water heating system solutions. HAIL's solar water heating systems are suitable for varied projects, right from bungalows, apartments to large townships, hotels, swimming pools commercial buildings and industrial applications.

Sensing & Control business includes more than 50,000 products which include electromechanical switches, electronic sensors, machine safety, controls, monitoring & lighting products. These products are used in transportation, aerospace and medical industries.

Q3FY18, 9MFY18 & FY17 Results

During Q3FY18, net profit fell 3% to ₹62.3 crore on 7% higher sales of ₹721.5 crore. Q3FY18 EPS is ₹70.5. During 9MFY18, net profit rose 30% to ₹191.4 crore on 12.8% higher sales of ₹2050.2 crore. 9MFY18 EPS is ₹216.7. During FY17, net profit rose 20% to ₹169.5 crore on 10% higher sales of ₹2410 crore. FY17 EPS was ₹192.0. A dividend of 100% was maintained.

Financial

With equity capital of ₹8.8 crore and reserves of ₹1171.4 crore, the book value of the share is ₹1523. While debts are zero, investments, cash and loans given etc stood at ₹1052 crore. The gross block stood at ₹109 crore.

Expansion

During FY14-15, Honeywell launched its seventh manufacturing facility in India. This 75,000 sq. ft. state-of-the-art facility was built for HAIL and has significantly expanded the company's manufacturing capabilities in the country.

Honeywell said on 19 April 2018, it will expand manufacturing capacity of its Fulgaon facility in Pune to meet increased local and global demand of automation solutions. The expansion would be by way of doubling operational space to 1,51,000 square feet. The expansion of the plant will further allow it to commercialise new technologies that are researched and developed in Honeywell technology development centres here in India and globally and with that to widen its product range and meet future customer demand.

Honeywell's flagship product, Experion Process Knowledge System (PKS)—a solution that integrates control and safety systems along with other crucial manufacturing processes, will be assembled at the facility. Some of the other products to be manufactured in this facility include hybrid programmable logic controllers (PLC), load computers, smart transmitters, industrial burners, gas trains, smart meters, sensors, shifters, and switches.

Prospects

Automation and process industries' prospects are closely linked to the overall environment prevailing in industrial production, Capex spend on process industries and the anticipated growth in commercial and infrastructure construction.

Considering the increasing state of India's infrastructure, government spending on key areas like roads and airports is likely to present huge opportunities in the construction segment. Again, investment up cycle in power, transmission & distribution, and oil exploration projects throws up huge opportunities in the near term. Strong demand in the automobile segment and improvement in global environment could further add fillip to the overall demand scenario.

Outlook

HAIL is expected to benefit substantially owing to growing investments in industrial automation space, overall industrial recovery, smart cities including surveillance systems, and outsourcing from parent. It is well placed to benefit and grow on the back of wide and deep portfolio of products and services, strong support from parent, with emphasis on innovation. HAIL has benefited from global product development, acquisition, local product development with access to Honeywell Technology Solution (parent's subsidiary) and strong reach in 20 cities directly and over 50 cities through distributors.

**Investment Perspectives**

The burgeoning macro-economic trends such as industrial production, capital spending on process and building automation, commercial and infrastructure construction, commodity prices augur well for the future prospects of the company.

A well balanced product & services portfolio and a strong niche in the process solutions industry make HAIL one of the preferred plays in the integrated automation and engineering solutions space. Furthermore, the company has a strong balance sheet, high returns on capital and healthy cash flows. Ability to consistently generate cash flows and improving fundamentals augurs well.

During FY18, HAIL is expected to register an EPS of ₹319 in FY19 and ₹349 in FY20. The share is a good long term investment proposition.

Sunidhi Securities & Finance Ltd.

Kalpataru Inspire Unit 2, 8th Floor, Opposite Grand Hyatt, Santacruz (E), Mumbai-400 055.

Disclosures and Disclaimer for Research Report

Disclosures and Disclaimers: This Report is published by Sunidhi Securities & Finance Limited (hereinafter referred to as "Sunidhi") for private circulation. Sunidhi is a registered Stock Broker with National Stock Exchange of India Limited, BSE Limited and Metropolitan Stock Exchange of India Limited in cash, derivatives and currency derivatives segments. It is also having registration as a Depository Participant with CDSL. Sunidhi has applied for registration as Research Analyst under SEBI (Research Analyst) Regulations, 2014. Sunidhi has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

Sunidhi or its associates has not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. Sunidhi or analyst or his relatives do not hold any financial interest in the subject company. Associates may have such interest in its ordinary course of business as a distinct and independent body. Sunidhi or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the company covered by Analyst.

Sunidhi or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. Sunidhi or its associates has not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of subject company and Sunidhi / analyst has not been engaged in market making activity of the subject company.

Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report. Sunidhi or its associates may have investment positions in the stocks recommended in this report, which may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report. However, Sunidhi is maintaining Chinese wall between other business divisions or activities. Analyst has exercised due diligence in checking correctness of details and opinion expressed herein is unbiased.

This report is meant for personal informational purposes and is not be construed as a solicitation or financial advice or an offer to buy or sell any securities or related financial instruments. While utmost care has been taken in preparing this report, we claim no responsibility for its accuracy. Recipients should not regard the report as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without any notice and this report is not under any obligation to update or keep current the information contained herein. Past performance is not necessarily indicative of future results. This report accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this report. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Sunidhi or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Sunidhi has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Sunidhi endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Neither Sunidhi Securities nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Analyst Name: Vijay Dave; Tel No: 91-22-6677 1681; Email ID: vijaydave@sunidhi.com

Sunidhi Securities & Finance Ltd.

Bombay Stock Exchange (BSE)	National Stock Exchange of India Ltd (NSE)	Metropolitan Stock Exchange of India (MSEI)
INB010676436	INB230676436	INE260676436
		INB260676433
Compliance Officer	Mr. Mahesh Desai	Tel No: 91-22-6677 1608
Email ID	researchcare@sunidhi.com	