

Honeywell Automation India Ltd

BUY

CMP Rs30,600

Target Rs36,310

Upside 19%

HIGHLIGHTS	<ul style="list-style-type: none"> ✓ HWA once again reported resilient set of results with beat on EBITDA (+17% vs our est.) with margin at 19% (+80bps yoy) ✓ Revenues came in at Rs7.6bn, up 3.2% qoq & down 8.2% yoy. ✓ Gross margin was at ~50.4%, expansion of ~151bps yoy led by better sales mix. HWA continues to focus on rationalization of discretionary spends, productivity drives etc. ✓ Other income declined by 45% yoy to Rs144mn (-49% vs our est.). However, lower tax expenses (-19% yoy) negated the impact of decrease in other income partially. Tax rate stood at 25.7% vs 27.8% in Q2FY20. PAT marginal beat (+4% vs our estimates) & it came in at Rs1,1bn, down 10% yoy.
Our View	<ul style="list-style-type: none"> ✓ Domestic revenue CAGR of 13% over FY21E-23E led by, i) Capex on Data Center, Metro, Airport & Smart Infra projects, ii) Focus on double digit connected software growth, iii) Major beneficiary of India's move to build energy security, drive gas-based economy by encouraging digital solutions & iv) Medium term outlook strong for Pharma & Chemical sectors ✓ Export revenue CAGR of 20% over FY21E-23E driven by, i) Business integration with Parent's entities by leveraging cost efficient services, ii) New portfolios, offerings and geographic expansion supporting Honeywell's global growth agenda & ii) Supply chain localization ✓ We like HWA based on its ongoing product portfolio upgradation, focus on software industrial business model, faster adoption of automated solutions by domestic market post Covid-19 episode & relentless execution on cost control. ✓ Average OCF/EBITDA ratio was strong at 0.67x (one of the best in industry) during FY15-20, expect it to ~1x by FY22E.
Valuation	<ul style="list-style-type: none"> ✓ HWA's continued earnings outperformance among its peers, asset light tech model & robust return ratios (RoE ex-cash/RoIC at 71%/58% in FY20) justify its valuations. Retain 'BUY' with TP of Rs36,310 at 50x FY22E EPS.
Risk to view	<ul style="list-style-type: none"> ✓ Slowdown in orders from process automation.

Exhibit 1: Financial Summary

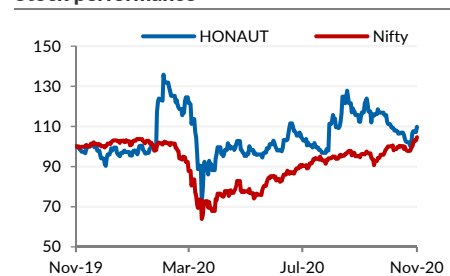
Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Revenues	26,900	31,747	32,900	31,813	37,496
yoy growth (%)	11.6	18.0	3.6	(3.3)	17.9
EBITDAM (%)	13.5	15.9	19.3	19.2	20.5
PAT	2,497	3,588	4,915	4,823	6,410
yoy growth (%)	47.4	43.7	37.0	(1.9)	32.9
EPS (Rs)	282.5	405.9	556.0	545.6	725.1
P/E (x)	108.3	75.4	55.0	56.1	42.2
P/BV (x)	19.1	15.5	12.4	10.3	8.4
EV/EBITDA (x)	71.9	51.3	40.1	41.2	32.0
Net D/E (x)	(0.6)	(0.7)	(0.7)	(0.7)	(0.8)
ROE (%)	19.2	22.7	25.0	20.1	22.0
ROIC (%)	39.8	52.9	58.3	50.8	63.9

Source: Company, YES Sec - Research

Stock data (as on November 10, 2020)

Nifty:	12,461
52 Week h/l (Rs)	39525 / 20149
Market cap (Rs/USD bn)	270 / 3.6
Outstanding Shares (mn)	9
6m Avg t/o (Rs mn):	138
Div yield (%):	0.2
Bloomberg code:	HWA IN
NSE code:	HONAUT

Stock performance



	1M	3M	1Y
Absolute return	(1.4%)	(1.3%)	9.9%

Shareholding pattern (As of Sept'20 end)

Promoter	75.0%
FII+DII	14.6%
Others	10.4%

Δ in earnings estimates

	FY21e	FY22e
EPS (New)	546	725.1
EPS (Old)	530	726.2
% change	3%	0%

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Exhibit 2: Result table

(Rs mn)	Q2FY21	Q2FY20	% yoy	Q1FY21	% qoq
Total sales	7,597	8,275	(8.2)	7,362	3.2
EBITDA	1,443	1,505	(4.1)	1,279	12.8
EBITDAM (%)	19.0	18.2	80.3	17.4	161.8
Depreciation	(114)	(87)	30.4	(116)	(1.8)
Interest	(18)	(14)	29.4	(15)	15.8
Other income	144	261	(45.0)	174	(17.6)
PBT	1,455	1,666	(12.7)	1,322	10.0
Tax	(374)	(463)	(19.2)	(342)	9.5
Adjusted PAT	1,081	1,202	(10.1)	980	10.2
Exceptional item	0	0		0	
Reported PAT	1,081	1,202	(10.1)	980	10.2
PATM (%)	14.2	14.5	(30.5)	13.3	90.6
EPS (Rs)	122	136	(10.1)	111	10.2

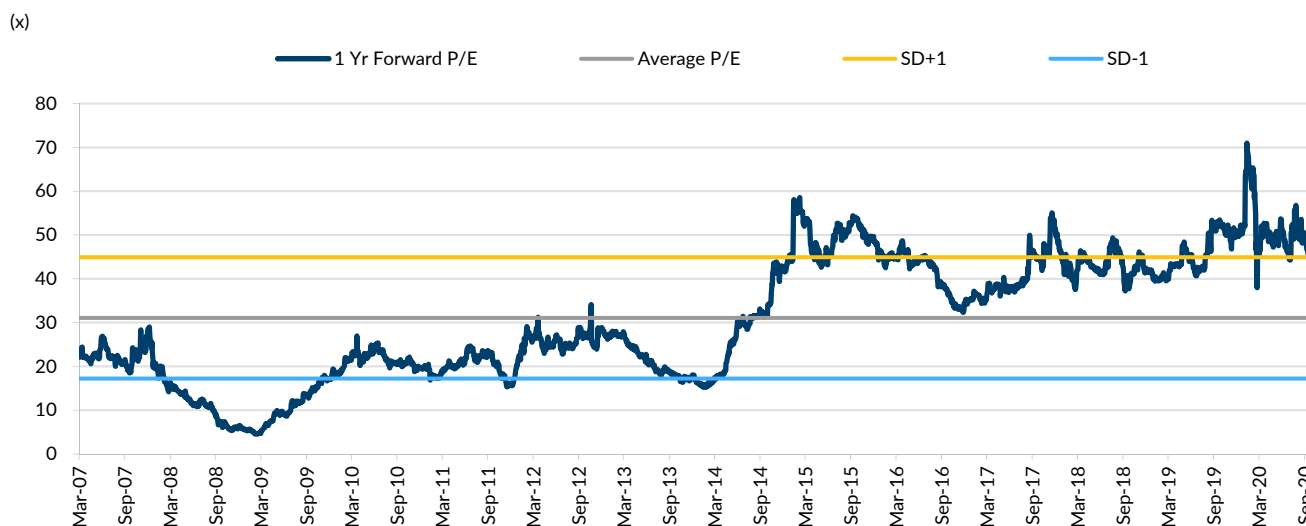
Source: Company, YES Sec - Research

Exhibit 3: Cost analysis

As a % of net sales	Q2FY21	Q2FY20	bps yoy	Q1FY21	bps qoq
COGS	49.6	51.1	(151.2)	49.0	59.4
Employee cost	17.9	16.7	117.5	18.1	(20.0)
Other expenses	13.5	14.0	(46.5)	15.5	(201.2)
Total costs	81.0	81.8	(80.3)	82.6	(161.8)

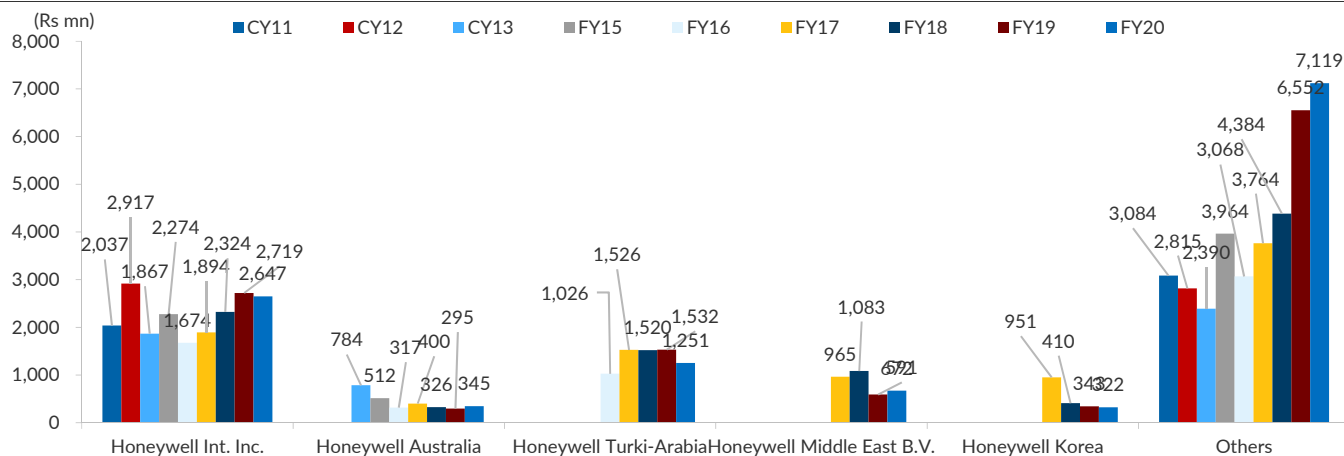
Source: Company, YES Sec - Research

Exhibit 4: Significant valuation re-rating post FY14 with sharp jump in returns



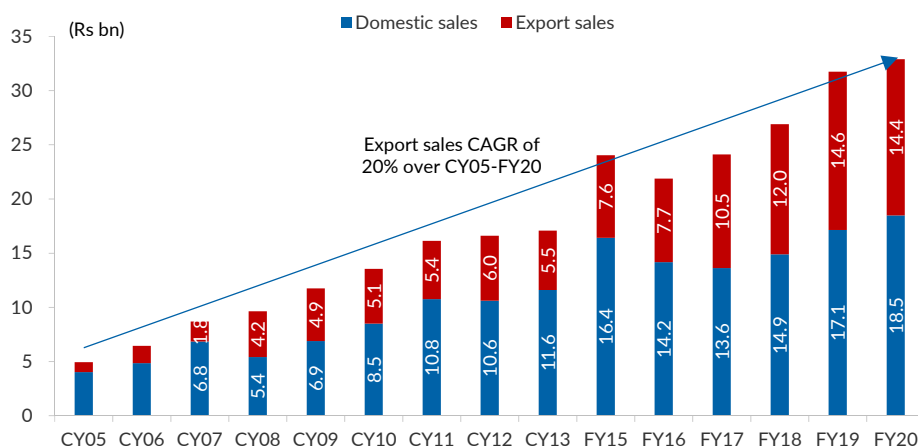
Source: Company, YES Sec - Research

Exhibit 5: HWA has benefitted by supplying to several global Honeywell entities



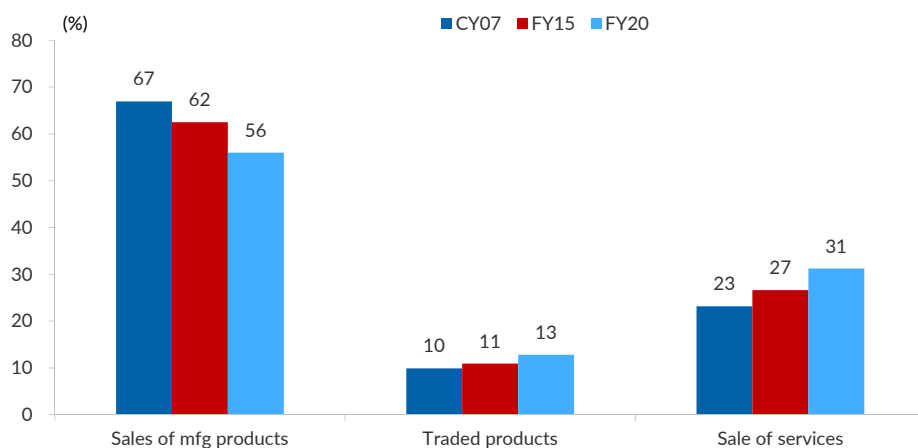
Source: Company, YES Sec – Research

Exhibit 6: Topline growth driven by exports



Source: Company, YES Sec – Research

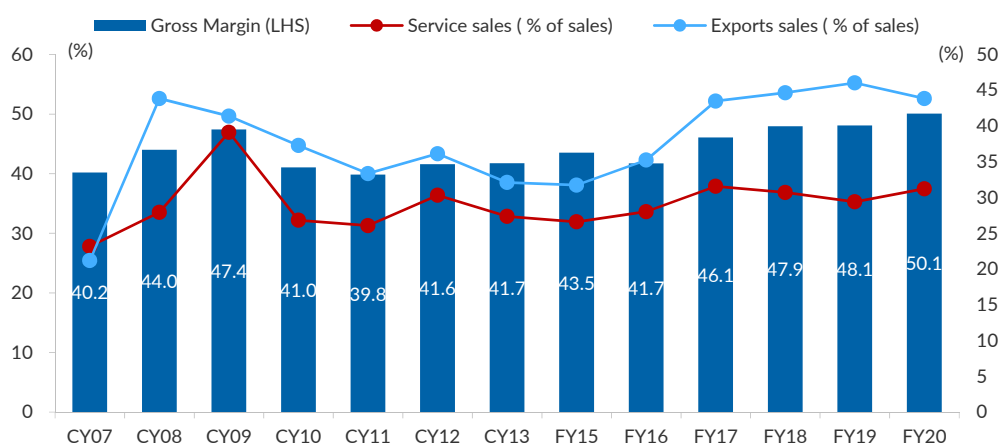
Exhibit 7: Services revenues contribution is increasing at a steady pace



Source: Company, YES Sec – Research

Honeywell Automation India Ltd

Exhibit 8: Gross margin expansion led by better mix



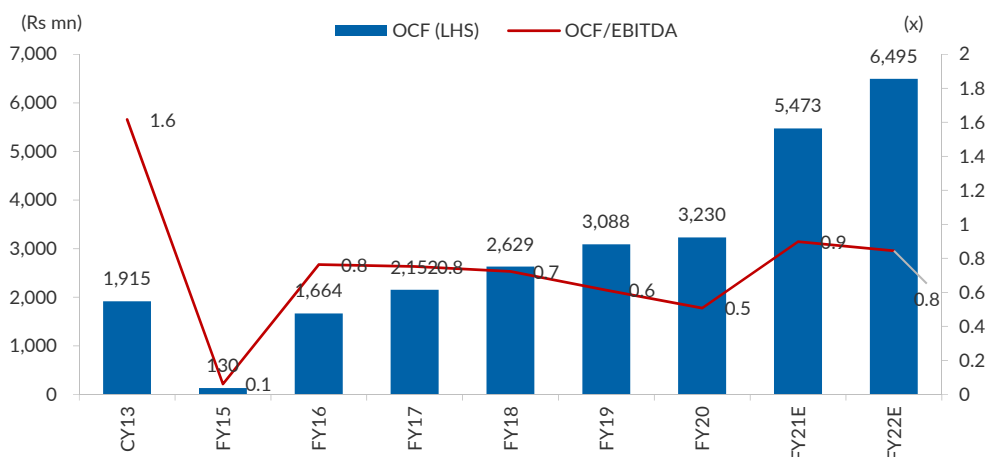
Source: Company, YES Sec - Research

Exhibit 9: HWA has better ability to keep control over costs as 75%+ of other expenses are variable in nature

Other Expenses (Rs mn)	CY13	FY15	FY16	FY17	FY18	FY19	FY20
Travelling and conveyance	1,014	1,636	1,472	1,670	2,178	2,367	2,517
Professional fees	160	379	241	278	302	251	297
Rates and taxes	115	131	90	159	131	184	60
Rent	179	255	212	225	226	236	74
Power & Fuel	87	111	85	84	91	114	122
Corporate overhead allocations	616	853	810	1,101	1,069	1,107	1,117
Others	736	691	447	584	679	570	372
Total	2,906	4,056	3,356	4,101	4,675	4,829	4,559
% of sales	17.0	16.9	15.3	17.0	17.4	15.2	13.9

Source: Company, YES Sec - Research

Exhibit 10: Asset light tech model to lead strong & sustainable OCF



Source: Company, YES Sec - Research

FINANCIALS

Exhibit 11: Income statement

Year ending March	FY18	FY19	FY20	FY21E	FY22E
Total operating revenues	26,900	31,747	32,900	31,813	37,496
Growth (%)	11.6	18.0	3.6	(3.3)	17.9
EBITDA	3,636	5,034	6,364	6,093	7,687
EBITDA margin (%)	13.5	15.9	19.3	19.2	20.5
Growth (%)	27.2	38.4	26.4	(4.3)	26.2
Depreciation & amortization	152	159	406	458	469
EBIT	3,484	4,875	5,958	5,635	7,218
EBIT margin (%)	13.0	15.4	18.1	17.7	19.2
Interest	3	35	69	63	48
Other income	331	709	977	898	1,400
Profit before tax	3,812	5,549	6,866	6,470	8,570
Tax	1,315	1,961	1,951	1,647	2,160
Reported net profit	2,497	3,588	4,915	4,823	6,410
Extraordinary items	0	0	0	0	0
Adjusted net profit	2,497	3,588	4,915	4,823	6,410
Adjusted net margin (%)	9.3	11.3	14.9	15.2	17.1
Diluted EPS (Rs)	282.5	405.9	556.0	545.6	725.1
Growth (%)	47.4	43.7	37.0	(1.9)	32.9

Exhibit 12: Balance sheet

Year ending March	FY18	FY19	FY20	FY21E	FY22E
SOURCE OF FUNDS					
Share capital	88	88	88	88	88
Reserve & Surplus	14,098	17,386	21,694	26,120	32,088
Total shareholder's funds	14,187	17,475	21,783	26,208	32,176
Debt	-	-	-	-	-
Deferred tax liabilities/(assets)	140	374	1,099	799	699
TOTAL	14,327	17,849	22,882	27,007	32,875
APPLICATION OF FUNDS					
Gross block	1,260	1,387	2,875	3,275	3,875
Less: Depn. and amort.	421	536	942	1,399	1,868
Net block	839	852	1,933	1,876	2,007
Capital WIP	11	80	139	100	100
Other long term assets	2,754	2,830	2,936	2,975	2,975
Inventories	798	1,051	1,209	1,569	1,541
Debtors	5,911	5,171	7,236	7,496	8,424
Cash & cash equivalents	9,192	12,245	15,139	19,514	24,866
Other current assets	4,814	6,678	5,983	4,330	6,131
Creditors	7,708	8,310	8,480	7,670	9,759
Other current liabilities	2,284	2,747	3,213	3,181	3,409
Net current assets	10,723	14,087	17,873	22,057	27,794
TOTAL	14,327	17,849	22,882	27,007	32,875

Exhibit 13: Cash flow statement

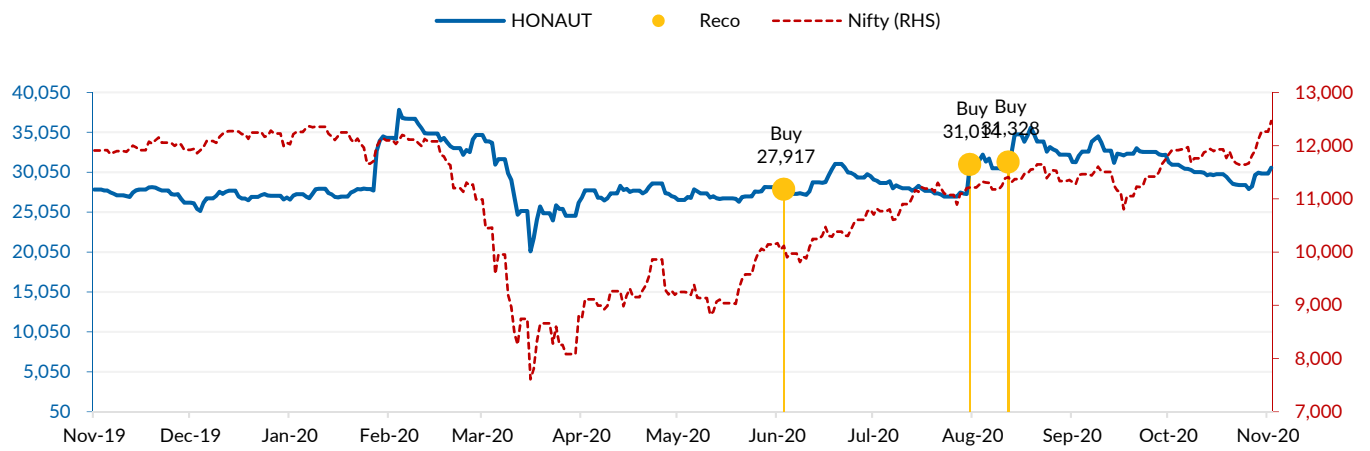
Year ending March	FY18	FY19	FY20	FY21E	FY22E
PBT	2,497	3,588	4,915	6,470	8,570
Depreciation	152	159	406	458	469
Others	1,069	1,152	888	800	800
Tax Paid	(1,602)	(2,113)	(2,018)	(1,647)	(2,160)
Changes in Working Capital	513	302	(961)	192	(385)
Net Cash from Operations	2,629	3,088	3,230	6,273	7,295
Capex	(179)	(202)	(591)	(400)	(600)
Change in Investment	(1,745)	(4,684)	(2,411)	0	0
Others	182	458	736	(0)	0
Net Cash from Investing	(1,742)	(4,428)	(2,266)	(400)	(600)
Change in debt	0	0	0	0	0
Change in Equity	0	0	0	0	0
Others	(106)	(341)	(695)	(1,498)	(1,342)
Net Cash from Financing	(106)	(341)	(695)	(1,498)	(1,342)
Net Change in Cash	781	(1,681)	269	4,375	5,353
Ending Cash Balance	9,192	12,245	15,139	19,514	24,866
Free cash flow (FCF)	2,416	2,587	2,103	4,472	4,770

Exhibit 14: Ratio analysis

Year ending March	FY18	FY19	FY20	FY21E	FY22E
PROFITABILITY RATIOS					
EBITDA Margin (%)	13.5	15.9	19.3	19.2	20.5
Adjusted net margin (%)	9.3	11.3	14.9	15.2	17.1
Return on invested capital (%)	39.8	52.9	58.3	50.8	63.9
Return on equity (%)	19.2	22.7	25.0	20.1	22.0
EFFICIENCY RATIOS					
Asset Turnover	31.6	34.1	15.9	16.1	17.8
Debt to equity	0.0	0.0	0.0	0.0	0.0
Net debt to equity	(0.6)	(0.7)	(0.7)	(0.7)	(0.8)
Interest coverage	1,244.3	140.1	86.7	89.7	150.4
Debtor days	80.2	59.4	80.3	86.0	82.0
Inventory days	10.8	12.1	13.4	18.0	15.0
Payable days	104.6	95.5	94.1	88.0	95.0
PER SHARE DATA					
Diluted EPS (Rs)	282.5	405.9	556.0	545.6	725.1
Book value per share (Rs)	1,604.8	1,976.8	2,464.1	2,964.7	3,639.9
DPS (Rs)	32.0	45.0	45.0	45.0	50.0
VALUATION RATIOS					
P/E	96.8	67.4	49.2	56.1	42.2
P/BV	17.0	13.8	11.1	10.3	8.4
EV/EBITDA	63.9	45.6	35.6	41.2	32.0
Dividend Yield (%)	0.1	0.2	0.2	0.1	0.2

Honeywell Automation India Ltd

Recommendation Tracker



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