Sharekhan by BNP PARIBAS

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Stock Update

Honeywell Automation India Limited

Growth momentum to continue; reiterate buy

Capital Goods	Sharekhan code: HONAUT	Company Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 36,962**	
Price Target: **Rs. 44,312**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

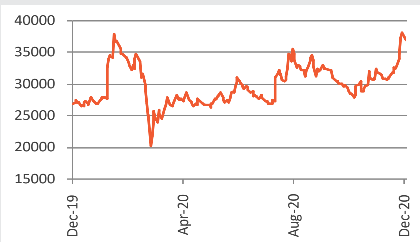
Company details

Market cap:	Rs. 32,680 cr
52-week high/low:	Rs. 39500/20142
NSE volume: (No of shares)	4,562
BSE code:	517174
NSE code:	HONAUT
Free float: (No of shares)	0.2 cr

Shareholding (%)

Promoters	75.0
FII	1.3
DII	14.2
Others	9.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16	13	21	36
Relative to Sensex	8	-12	-15	21

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy rating on Honeywell Automation India with a revised price target of Rs. 44,312, rolling forward our valuation multiple to FY2023E.
- Management expects FY2021 performance to be better than FY2020, backed by execution capabilities and growing demand for industrial automation and software solutions.
- Company likely to benefit from domestic growth, driven by rising technological capabilities with large opportunities in the oil & gas, smart cities infrastructure, new upcoming airports and building solutions.
- Exports is expected to remain steady with opportunities arising from global group entities; Large orders remain intact.

Honeywell Automation India Limited (Honeywell), being a leader in providing integrated automation and software solutions, including process solutions and building solutions. The company remains at the forefront to reap benefits from industrial software solutions, automation and government initiatives such as AtmaNirbhar Bharat. After the pandemic, the company has been witnessing greater automation/digitisation demand from industries. The company expects further changes in industrial software solutions with a greater focus towards industrial cyber security and expects orders for the same. Further, Honeywell is witnessing opportunities in the oil & gas sector, especially in gas (infrastructure for gas pipelines, equipment for storage and distribution being required), upcoming airports and smart cities where the company has significant presence and expects huge growth. It also foresees new business opportunities in the building segment wherein it expects infrastructure and higher capex for 'healthy buildings' with solutions for maintaining social distancing, safety and security remains there. Honeywell's global parent expects a sequential improvement in sales across all segments as access to customer sites improves. Honeywell is expected to benefit from its global parent's focus on driving sales in areas that have not been impacted by the current downturn, including defence & space, warehouse automation and personal protective equipment, while making it a premier industrial software company. On the exports front (~45% of sales), the business remains buoyant and the company indicated that all the large orders from clients have not been cancelled and remains intact with some delays in certain orders. However, with a new strain of COVID-19 reinforcing a lockdown in certain countries, Honeywell remains cautious but is well prepared to meet challenges as usual. Overall, the company expects FY2021 to be better than FY2020 backed by its execution capabilities and expects the bifurcation between exports and domestic to be in similar lines. Honeywell is expected to benefit from domestic growth driven by increasing technological capabilities and steady export opportunities from global group entities. Going ahead, the company's focus on development of new products and services, forays into new industries apart from core industries and addressing the growing mass mid-market is expected to maintain its healthy net earnings growth trend (23% CAGR over FY2021E-FY2023E). Currently, the stock is trading at a P/E of 41.6x its FY2023E earnings. We shift our valuation multiple to FY2023, and revise the PT of Rs. 44,312. We maintain a Buy rating considering its strong business fundamentals.

Our Call

Valuation - Retain Buy with revised price target of Rs. 44,312: The company has multiple domestic growth levers like government's infrastructure investments such as smart cities, upcoming airports over the next five years, RERA, industrial internet of Things (IIoT), AatmaNirbhar Bharat initiatives which we believe would help the company in maintaining its healthy growth trend going ahead. An asset-light model (zero debt), strong cash position healthy operating cash flow generation, strong return ratios consistent dividend paying record justify the stock's premium valuation. Currently, the stock is trading at a P/E of 41.6x its FY2023E earnings. We shift our valuation multiple to FY2023E and revise the PT of Rs. 44,312. We maintain a Buy rating considering its strong business fundamentals.

Key Risks

- A significant proportion of revenue and profits come from Honeywell International and its affiliates.
- Softening of investments domestically as well as globally, increase in crude oil prices and volatility in foreign exchange rate would affect business operations.

Valuation (Standalone) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	3,175	3,290	3,414	3,877	4,455
OPM (%)	15.9	19.3	20.0	21.6	21.8
Adjusted PAT	359	491	523	649	786
% Y-o-Y growth	43.7	37.0	6.3	24.3	21.0
Adjusted EPS (Rs.)	405.9	556.0	591.2	734.7	888.7
P/E (x)	91.1	66.5	62.5	50.3	41.6
P/B (x)	18.7	15.0	14.7	11.6	9.2
EV/EBIDTA (x)	62.5	49.0	45.8	36.7	30.8
RoNW (%)	22.7	25.0	23.8	25.7	24.6
RoCE (%)	32.3	31.4	30.2	32.4	29.7

Source: Company; Sharekhan estimates

Performance for FY2021 to be better than FY2020: Honeywell India remains at the forefront to reap benefits from industrial automation and government initiatives such as AtmaNirbhar Bharat. After the pandemic the company has been witnessing lot more automation/digitisation demand from industries and expects further changes in the industrial software with lot more focus towards industrial cyber security, from where it is expecting orders. Further, it is witnessing opportunities in oil & gas specially in gas (infrastructure for gas pipelines, equipment for storage and distribution being required), upcoming new airports and smart cities where it expects large area for growth. It also foresees new business opportunities in the building segment wherein it expects infrastructure and capex to grow for healthy buildings wherein tools for maintaining social distancing, safety and security remains there. Honeywell's global parent expects a sequential improvement in sales across all segments as access to customer sites improves. Honeywell is expected to benefit from its global parent's focus on driving sales growth in areas that have not been impacted by the current downturn, including defense and space, warehouse automation and personal protective equipment, while making it a premier software industrial company. Overall the company expects FY2021 performance to be better than FY2020 and expects the bifurcation between exports and domestic to be in similar lines.

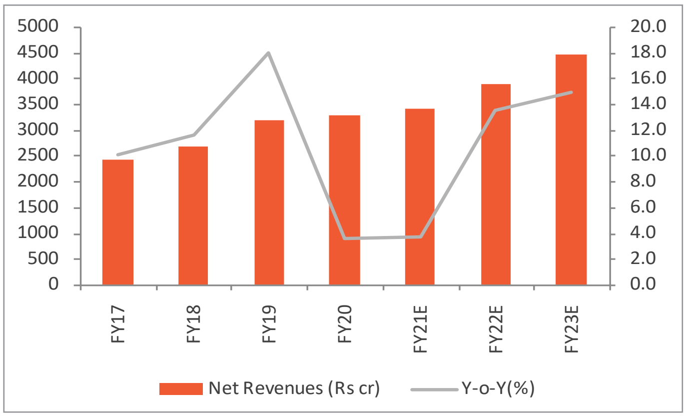
Exports to remain steady: On the exports front (~45% of sales), business remains buoyant and the company indicated that all the large orders from clients have not been cancelled, though there might be some delays in certain orders. However, with a new strain of the Coronavirus leading to fresh lockdowns, the company remains cautious but well prepared to meet challenges as it has during the current pandemic. Hence, we expect Honeywell to continue to benefit from export opportunities from its global group entities along with increasing technological capability in the domestic market.

Domestic/Exports sales trend

Source: Company, Sharekhan Research

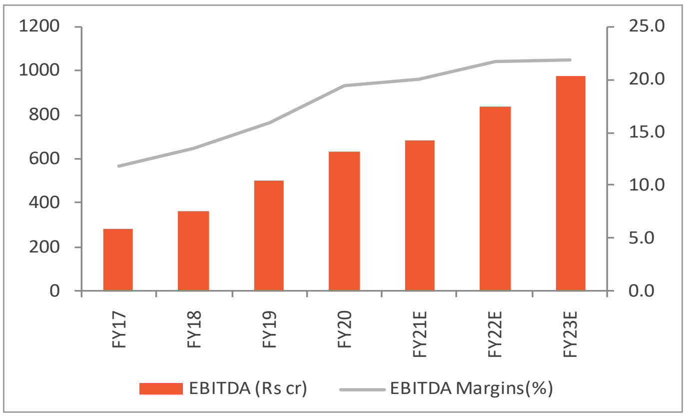
Financials in charts

Revenue trend



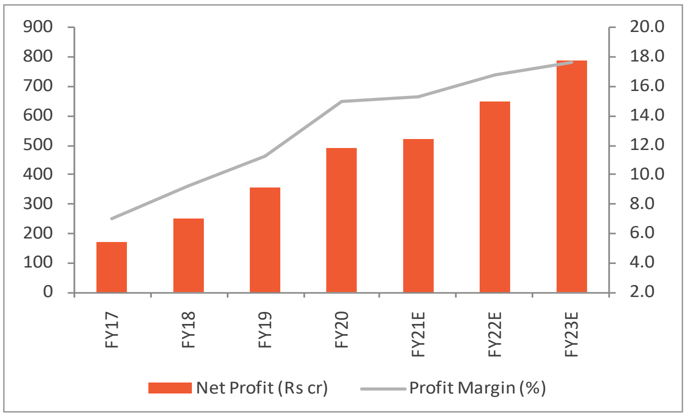
Source: Company, Sharekhan Research

EBITDA trend



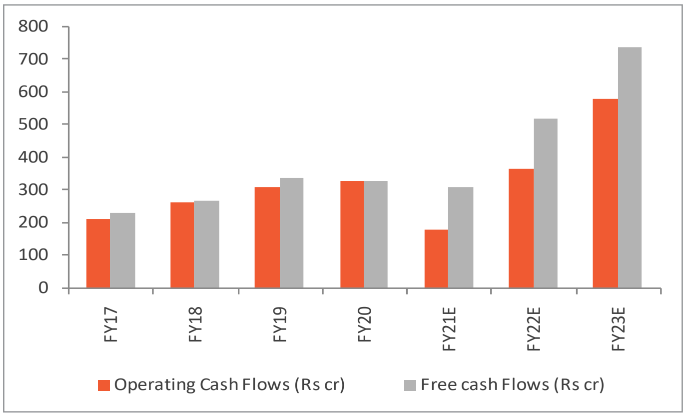
Source: Company, Sharekhan Research

Net Profit trend



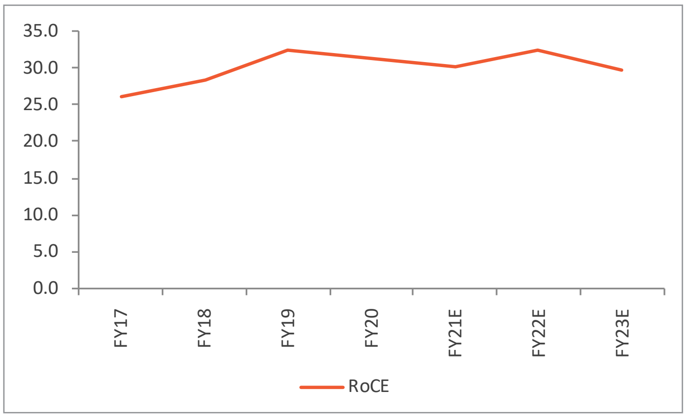
Source: Company, Sharekhan Research

OCF/FCF trend



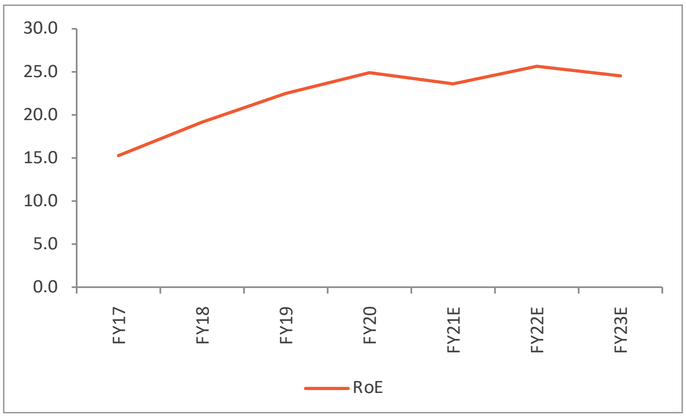
Source: Company, Sharekhan Research

RoCE trend



Source: Company, Sharekhan Research

RoE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Multiple structural growth enablers to drive growth

India's focus on turning itself into a manufacturing hub through 'Make in India', huge investments in infrastructure across sub-sectors through the National Infrastructure Pipeline (NIP) over FY2020-FY2025 and ensuring energy security through increased share of renewable energy are key growth levers for Honeywell, which has positioned itself across various industries viz. oil & gas, chemical/petrochemicals, metals & mining, infrastructure and residential and commercial construction. The Indian's ambition is tied with its increasing requirement of adopting automation technologies such as artificial intelligence (AI), IoT (connected devices), cloud services and industrial internet of things (IIoT) that can support and transform its existing and upcoming infrastructure and industrial projects. The COVID-19 pandemic has opened further opportunities in healthcare and pharmaceuticals sectors through expected rise in capacity additions.

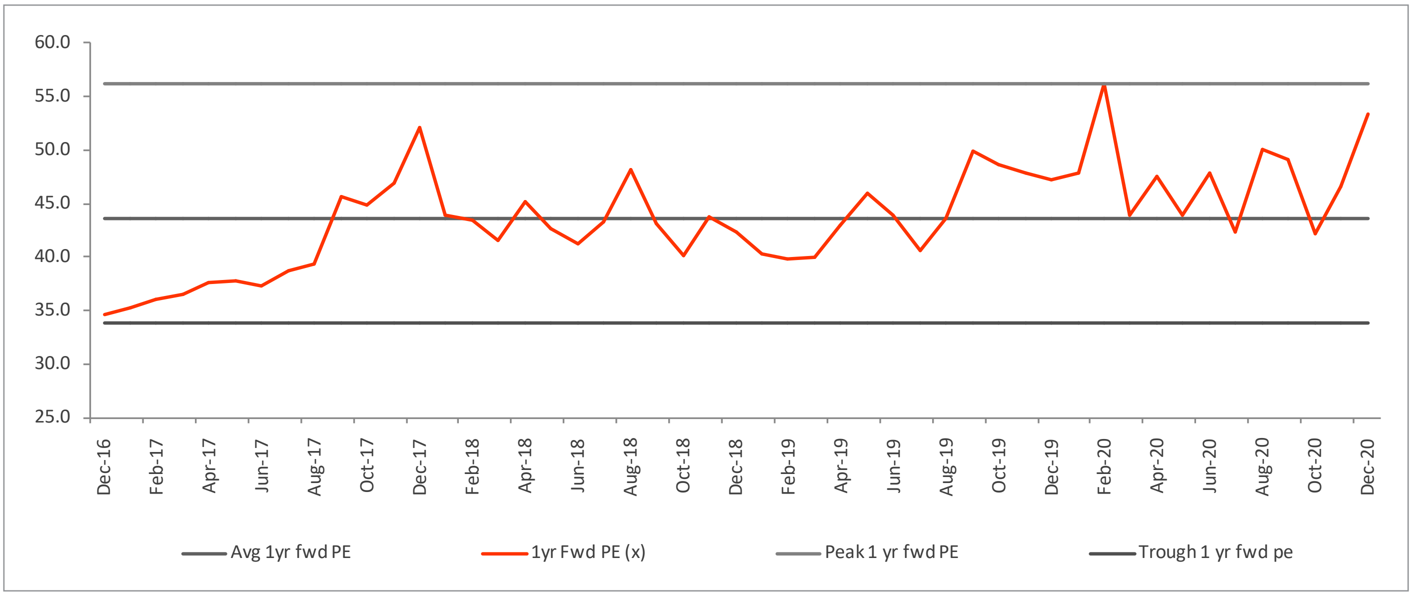
■ Company outlook - Long-term growth levers intact

The company's focus on development of products and services, foraying into new industries and addressing the growing mass mid-market is expected to maintain a healthy earnings growth trend. Further, the company is expected to benefit from domestic long term growth levers viz. smart city development, modernisation of railway stations, metro projects, airport expansions, RERA, GST, Industrial Internet of Things (IIoT) and 'Make in India" initiatives.

■ Valuation - Retain Buy with revised price target of Rs. 44,312

The company has multiple domestic growth levers like government's infrastructure investments such as smart cities, upcoming airports over the next five years, RERA, industrial internet of Things (IIoT), AatmaNirbhar Bharat initiatives which we believe would help the company in maintaining its healthy growth trend going ahead. An asset-light model (zero debt), strong cash position healthy operating cash flow generation, strong return ratios consistent dividend paying record justify the stock's premium valuation. Currently, the stock is trading at a P/E of 41.6x its FY2023E earnings. We shift our valuation multiple to FY2023E and revise the PT of Rs. 44,312. We maintain a Buy rating considering its strong business fundamentals.

One year forward P/E (x) band



Source: Sharekhan Research

About company

Honeywell Automation India Limited (HAIL) is a leader in providing integrated automation and software solutions, including process solutions and building solutions. It has a wide product portfolio in environmental and combustion controls, and sensing and control, and also provides engineering services in the field of automation and control to global clients. A Fortune India 500 company, HAIL has more than 3,000 employees based in nine offices across India – Pune, Baroda, Bangalore, Hyderabad, Mumbai, Chennai, Gurgaon, Kolkata, and Jamshedpur.

Investment theme

Honeywell Automation India Limited (Honeywell), a step down subsidiary of Honeywell International (a diversified technology and manufacturing company) is a leader in providing integrated automation and software solutions, including process solutions and building solutions. The company has positioned itself across various industries diversifying sector specific risk and to a greater extent shielding itself from economic downturn. The company's focus on development of new products and services, venturing into new industries apart from core industries and addressing the growing mass mid-market is expected to maintain its healthy earnings growth trend. The company's asset light model, strong cash position, strong cash flow generation, healthy return ratios, consistent dividend paying record are some of its salient features.

Key Risks

- Good percentage of revenue and profits come from Honeywell International and its affiliates
- Softening of investments domestically as well as globally, increase in crude oil prices and volatility in foreign exchange rate affects its business operations.

Additional Data

Key management personnel

Mr. Ashish Gaikwad	Executive Director-MD
Amit Kumar Tantia	Chief Financial Officer
Mr. Davies Walker	Director
Mr. Suresh Senapaty	Non-Executive - Independent Director-Chairperson

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Hail Mauritius	75.00
2	AdityaBrila Sun Life AMC	5.56
3	AdityaBrila Sun Life Trustee Co. Pvt Ltd	5.52
4	Reliance Capital Trustee Co. Pvt Ltd	4.03
5	Sundaram AMC	0.81
6	CanaraRobeco AMC /India	0.67
7	UTI Asset Management Company	0.58
8	Dimensional Fund Advisors	0.28
9	L&T Mutual Fund Trustee Ltd/India	0.26
10	Axis Asset Management Ltd	0.19

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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