

Initiating Coverage | Other Electrical Equipments/Product

# Honeywell Automation Ltd.

13 Jan 2020

**Sector: Industrial IT** 



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Investors are advised to refer through important disclosures made at the last page of the Research Report.

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# **Company Overview**

# **About**

# **Honeywell**

### Honeywell Auto Ltd.

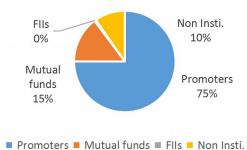
- Honeywell Automation India Limited provides integrated automation and control systems India and offers internationally. The company process control, safety, optimization, and simulation, as well as connected Industrial Internet of Things and cyber security solutions.
- It also provides building management systems, fire detection and alarm systems, access control systems, video surveillance systems, and integrated security and building management systems, as well as aftermarket services for various control systems; and utilities' operations and maintenance services for mechanical and electrical systems in buildings.
- In addition, the company offers products in environmental and combustion controls, and sensing and control, as well as engineering services in the field of automation and control. The company was incorporated in 1984 and is based in Pune, India. Honeywell Automation India Limited is a subsidiary of HAIL Mauritius Limited.

Rating: <b>BUY</b>	Target: <b>36,400</b>		
Horizon: 18 months	Potential upside: 35%		

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Latest Date	13-Jan-20
Latest Price (Rs)	27028.00
52 Week High (Rs)	29499.00
52 Week Low (Rs)	20700.00
Face Value(Rs)	10.00
Industry PE	56.25
Price/BV(x)	12.41
EV/TTM EBIDTA(x)	34.46
EV/TTM Sales(x)	6.86
Dividend Yield%	0.17
MCap/TTM Sales(x)	7.23
Market Cap (Rs in Cr. )	23896.91
EV (Rs)	22672.39
Latest no. of shares (in Cr.)	0.88

#### **Shareholding Pattern**



Exchange: BSE BSE Code:517174 Current Market Price: 27028.00 Date: 13-01-2020

## **Investment Rationale**

### Dynamic management:

Management of the company believes in and has been taking the advantage of being the first mover in identifying and capitalizing on the upcoming trend both domestically and internationally. Rather than following the traditional way of carrying out businesses and sticking with the established solutions and fashion, they are always on the move to differentiate themselves in the market.

### Diversified Business model:

Company deals in varied range of products and services that serves across several industries in an economy. Starting from switches to high-end software solutions to consultation and repairing, company has ensured that it doesn't leave out any opportunity in being a participant in serving all the productive sectors of an economy.

### Strong parental support:

Honeywell International Inc. being the parent company comes at aid to HAIL in several forms. From providing business to helping HAIL with its top notch advanced technologies ensures that the company is able to serve its customers more efficiently than other players.

#### Market position:

Honeywell International Inc. is a market leader in all its 4 business segments- Process solutions, building controls, building solutions, home comfort controls and HAIL also is a dominant player domestically in several of its undertakings- process solutions, building solutions, sensing and control.

#### Healthy Financial position:

Company comes with a clean balance sheet with no debt, high return ratios with RoCE in the range of 30-35%, RoE in 20-25%. Profit has grown at a CAGR of over 25% in last 5 years and company also enjoys negative CCC with unstuck working capital and comfortable liquidity. Along with impressive return on incremental capital, company has also been posting regular free cash flows.

### Geographical "hedge":

Following its export strategy company has regularly been proving its calibre in being successful in international markets. After creating and coming out with solutions for Indian market companies, HAIL take those products and services to markets of other countries that share some similarities with that of Indian market. Over the years, company has increased its export share from 20% in 2015 to 45% currently.

# Concerns and Risks

### Parental 'support' may become 'dependency':

HAIL has a constant support of its parent company that various times enables it to deliver superior services to its clients using expertise and technologies owned by the parent. This somewhere helps HAIL to keep its balance sheet light.

### Slowdown in Private Capex:

Owing to the prolong slowdown spread all across the globe, developed, developing and under-developed countries experienced and (some) are still experiencing a dent in private expenditure. As company's performance is directly related to macro factors such as government and private sector investment, consumer demand, manufacturing activity level, interest rates, etc, extension in improvement of these factors can deter company's growth. Although, management claims that because of its wide product portfolio and diversified business the impact of such negative factors is not significant. And it also has been a major beneficiary of transition from capex to opex by private sector.

### Inability or failure in identifying upcoming trends:

A substantial portion of success of the company's business lies in identifying and preparing itself for the forthcoming movements in the business world. Faulty strategies and game plan can result in futile investment and wastage of resources and lead to making the company fall behind its competitors in the league.

## Related party transactions growing faster than domestic sales:

Over the years, company's exports have grown at a faster pace than its domestic sales with overall sales growing at a constant pace implying company's has been falling short in expanding its business in the domestic market. But seems like company has laid out its road map and started rolling out its plans for domestic market and has also received several orders.

# **Industry Overview**

**Industrial automation** is the use of various control devices used to have control on various operations of an industry without significant intervention from humans and to provide automatic control performance. In industries, control strategies use a set of technologies which are implemented to get the desired performance or output, making the automation system most essential for industries.



Industrial Automation is **needed to** reduce periodic and manual checking, to increase productivity, reduce production cost, improve product quality, increase flexibility, it is operator friendly and enhances safety.

Three years ago, L&T digitally transformed construction its business, which is 60% the company. "We've connected 9,600 more than pieces of equipment at over 400 project sites, by installing sensors and gateways which give us real time data and visibility," Sayana (CDO) said.

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Today's leaders also believe that it is the **manufacturing sector** and not services that will provide jobs for millions of unemployed Indians. Young Indians need manufacturing jobs as not everyone can work as a software engineer or BPO executive. To take advantage of the countries' "demographic dividend", the government, it is felt, needs to create manufacturing jobs that pay well enough for young men and women to support their families. Currently, many leaders in India hope to create jobs and attract Foreign Direct Investment in India, transforming India into the next China. The mantra is that companies can sell anywhere they want but they should make in India first. A multi-billion dollar defence deal wherein a French Aircraft manufacturer was awarded a contract to supply fifth-generation fighter jets to the IAF, only if it agreed to procure certain inputs

from within India, shows the importance the country's leaders place on nurturing domestic manufacturing. India's leaders have set a target to increase the share of manufacturing to 25 percent of GDP by 2025 from its current 16 percent. Furthermore, it is also estimated that by 2025 India's manufacturing sector can grow to be a \$1 trillion dollar sector.

Conventional wisdom tells us that automation steals manufacturing jobs. Yet the industrial automation industry in India is expected to touch \$3.5 billion by 2020, and by then the manufacturing sector alone is expected to create 90 million new jobs. It is widely agreed that automation makes manufacturing processes more efficient and leads

Ashok Leyland recently automated its cab panels pressing plant in Hosur, Tamil Nadu. It upgraded the dies existing and with presses automated solutions. Soon, output increased two-fold.

to fewer defects. It is this increase in efficiency that is leading many Indian manufacturers to automate processes. **Demand for factory automation** has given an impetus to the industrial

automation industry in India. Industries in India like the automotive, chemicals, and mining industry are automating processes and making such processes more innovative.

**Growth** in the market is **anticipated on account of** growing deployment of various factory automation systems in automotive, chemicals, and other manufacturing units, along with various government initiatives aimed at increasing domestic manufacturing.

**Factory automation market** in India has been growing at a considerable pace over the last few years, owing to the growing need for a reliable and cost effective method of production, which results in minimization of waste. In addition to making the process more controlled and streamlined, automation solutions also provide better productivity compared to manual labor. On account of these benefits, the deployment of factory automation solutions in various factories is projected to increase during the forecast period.

In automaker
Mahindra and
Mahindra's shop
floor, 70% of the body
shop methods are
robotic, from the
earlier manual-only
workflow.

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"Factory automation market in India is exhibiting significant growth

due to growing demand from automotive hubs across the country. Further, the Make in India initiative is also expected to play an important role in boosting the adoption of factory automation solutions in the country. With major investments expected in the manufacturing sector in India in the upcoming years, the demand for factory automation solutions in the country is also anticipated to **rise over the next five years.**", said Mr. Karan Chechi, Research Director with TechSci Research, a global management consulting firm.

**Indian shop floors are going smart.** Manufacturing, a typically labour-intensive process, is adopting technology to boost productivity and save costs. It is automating core processes to improve quality and stay competitive.

The industrial automation market in India is worth \$2 billion, according to industry estimates. The degree of automation, however, varies across sectors.

"We believe that the enabling ecosystem for adoption of technology is critical," said Vijay Kalra, chief of manufacturing operations – auto sector at M&M.

Consumer goods makers have adopted **Internet of Things (IoT)** to track processes and deployed robots on the shop floor.

The high cost of investment may be a deterrent, but **cost savings are proving to be attractive** for manufacturers. The automation initiative is **only expected to quicken from here on**, as per an industry expert.

NEWS18 ➤ TECH

(\) 4-MIN READ

# SMEs Contributing Most to Industrial Automation Growth in India: Universal Robots

Pradeep David, general manager of South Asia for Universal Robots, also revealed that the next expansion phase for cobots may come from different industries, such as food and hospitality.

Shouvik Das | News18.com Updated: July 10, 2019, 7:02 PM IST







# **Business of the Company**

#### **OVERVIEW**

Honeywell Automation (India) is a **subsidiary** of Honeywell (Mauritius) which further is a subsidiary of Honeywell International Inc.

The **ultimate parent company** has more than 140 subsidiaries and sub-subsidiaries spread all over the world.

Honeywell Automation, in very simple words, is a **company of smart and top-notch group of engineers** from varied fields, namely, mechanical, IT, electrical, aeronautical, chemical etc.

The **main business** of the company is to ease living and operations of its customers by automating the process chain, ensuring safety, enhancing

productivity by employing various tools like advanced software, products that solve issues of the modern world. It is a **leader** in sphere of integrated automation and software solutions, making it

an industrial IT company.

Security

It is a business model that helps in upgrading the level, in transitioning the under-developed to developing and developing to developed and prepares developed for the future trends. Company considers itself responsible for identifying the upcoming needs and necessities of the developing and advancing world and be the first one in the league to be able to meet those requirements by being ready

with the know how of the technologies in advance.

It is a **go-to company** for process automation and now it is having its eyes on analytics and smart cities. It majorly works as a **B2B company** but has also taken entry into consumer segment by introducing **air purifiers** in past years Although, the company implanted its footings in the B2C segment but is expecting B2B to be its core for years to come.

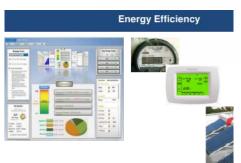
**Productivity** 





**Sector: Industrial IT** 

Company engineers over **3000 products** in India. Indian



divisions work in **collaboration** with the global engineering division of the company located in India to conceive, design and manufacture products for the Indian market.

Company has a rich portfolio of products and services that are used in different types of **industries** such as oil and gas, chemical/petrochemical, metals and mining, infrastructure, commercial construction, residential etc.

Some of its customers include Reliance, NOCL, IOCL, HPCL,

OPAL, Vedanta, TCS, AIIMS, Delhi airport, ITC, Formula 1, ESIC hospitals, Mahindra & Mahindra, Kirloskar oil engines, etc.

### **BUSINESS AND INDUSTRY SERVED**

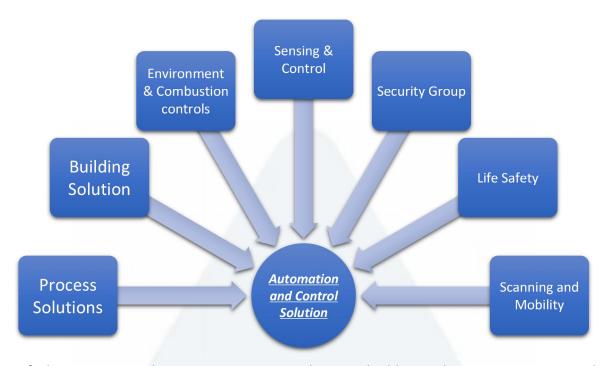


Honeywell in India operates through **4 strategic business groups (SBG)** - Automation and control solutions (ACS), Aerospace, Performance Materials and Technologies (PMT), Transportation systems (TS).

It manufactures and operates in various products and services that without much of modification can be used by different kinds of industries.



◆ <u>Automation and Control solutions</u> further has 7 different strategic business units (SBUs) and is the largest segment of the company.



Out of these strategic businesses, process solutions, building solutions, environmental and combustion controls and sensing and control stand as the major contributor in company's business.

#### 1) Process Solutions:

Company has a wide portfolio of industrial automation products and solutions in order to help customers operate safe, reliable, efficient, sustainable and more profitable facilities.

Due to significant automation required, **oil and refining** accounts as the main business for the company. **New offerings** that company has come up with include process control, process safety, process optimization, process simulation, connected IIOT solutions and industrial cyber security. After providing solutions to the clients, company also gets into annual service contracts ensuring **regular income**.



**Sector: Industrial IT** 

**Channel** of service and products **distribution** is both direct and though intermediaries.

Apart from its core industry of oil and refineries, company also plans to explore **pharmaceuticals** and specialty chemicals industries.

It is also focusing on products for mass mid section.



#### **II) Building Solutions Business:**

The following segment provides automation and control technologies to help make **buildings more green**, **safe and productive**.

As a part of its Intelligent building suite, it provides building management system, fire detection and alarm systems, access control systems, videc surveillance systems, integrated security systems and integrated building management system.

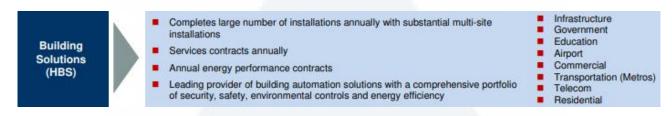
It also provides **after sales services** for various control systems, maintenance systems for mechanical and electrical systems in buildings.



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Company has a track record in infrastructure, transportation, 100 smart cities, IT, pharma, commercial spaces.

Solution types that company provides include Instant alert, Mobile apps, cyber security, integrated solutions, intelligent building, HVAC and building management systems etc.



#### III) Environmental and Combustion Controls (ECC):

This segment of the company produces and sells air conditioning sensors, air conditioning controllers, valves, solar controllers, and other products.



- Building Management Systems installations since launch in 2006; multi-brand multi-channel approach
- Wide variety of field products valves, actuators, BTU meters
- New drive into solar water heaters for commercial and residential
- Pan-India distribution and customer support network



Industrial



#### IV) Sensing and Control (S&C):

The product profile include:

**Sensors:** heaters, hour meters, humidity, pressure, proximity and temperature meters.

**Switches:** electro-mechanical switches, applied in sealed, wireless and hazardous locations.

**Controls and monitors:** vehicle controls and monitors - hour meters, shifters, turn signals, etc

**Test and Measurement products**: pressure transducers, load cells, accelerometer.

Barcode scan engines and decoding software.

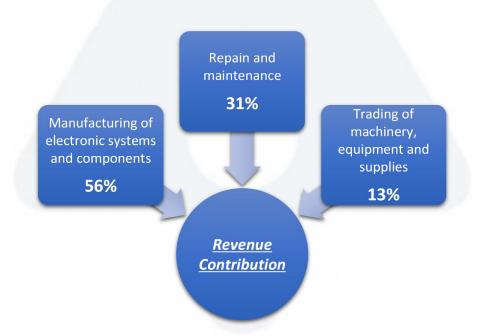




- Engaged with leading off-highway / construction equipment manufacturers
- Pursuing multiple programs with many defense and aerospace agencies
- Offering sensors and switches with extreme duty applications and a globally proven track record
- Pan-India distribution and customer support network

- Transport
- Aerospace
- Defense
  - Medical Industrial
- Test and Measurement

- Aerospace is a supplier of products, software and services for aircrafts that it sells to original equipment manufacturers (OEM) and other customers in a variety of end markets including: air transport, regional, business and general aviation aircraft, airlines, aircraft operators and defense and space contractors. Aerospace products and services include auxiliary power units, propulsion engines, environmental control systems, integrated avionics, wireless connectivity services, electric power systems, engine controls, flight safety, communications, navigation hardware, data and software applications, radar and surveillance systems, aircraft lighting, management and technical services, advanced systems and instruments, satellite and space components, aircraft wheels and brakes, repair and overhaul services and thermal systems. Aerospace also provides spare parts, repair, overhaul and maintenance services (principally to aircraft operators) and connected solutions and data services for the aftermarket.
- Performance Materials and Technologies segment develops and manufactures high-quality performance chemicals and materials, process technologies and automation solutions. Advanced Materials manufactures a wide variety of high performance products, including fluorocarbons, hydrofluoroolefins, specialty films, waxes, additives, advanced fibers, customized research chemicals and intermediates, and electronic materials and chemicals.



The company doesn't provide data bifurcating revenue contribution from particular business segments.

### **Export Portfolio**

#### **Global Manufacturing business:**

This segment supplies products and project solutions to global Honeywell entities and also to Indian market.

Company is continuously adding new manufacturing lines, new products, acquiring new customers, expanding its footprints. For its existing product lines also company is adding capacity to enhance volume growth and cover more global regions.

#### Global Manufacturing (1) (GM)

**Sector: Industrial IT** 

#### Export

- Project automation solutions: Experion and safety system
- Field products and solutions, pressure, temperature transmitter, flow controllers
- Airport solutions

#### **Global Engineering Services:**

Global Engineering Services (1) (GES)

#### Exports

- Process automation
- Field instrumentation and design
- Building automation/ commercial controls
- Development and software engineering services

It provides project engineering services, product customization, and software development, driving

productivity and cost competitiveness to several global Honeywell entities. This includes complete project management, systems design, engineering, sourcing, manufacturing, and testing undertaken at Company's Pune facility. Global Services is making investments in talent development and retention strategies in the consultancy space for accelerated growth through newer verticals, Software and IIoT. It has increased its footprint globally through new portfolios, offerings and geographic expansion supporting Honeywell's global growth agenda.





In last 4 years, sales has grown at a rate of 13%, whereas, export % of sales has been growing at a substantially higher rate of 24%.

This implies that company's exports which majorly is its business with parent company and its subsidiaries (related party transactions) has been taking over its sales.

But management calls it as a strategy they use to hedge their domestic business position and is expecting this to remain consistent in future and also is confident about growth opportunity in domestic market.

[East 4 Rest strategy - it is an export oriented strategy used incorporated by the company. It is modification of products and services provided in India to some extent in order to make it suitable for exporting them to other countries where competitiveness and price points are different. Countries that have market somewhat similar to that Indian markets but yet under-penetrated or less developed.

Percentage

Sales Export =

For instance, the terminal automation solution for the oil and gas industry is being implemented in markets such as Ghana and Nigeria. This strategy has also been one of the reasons for increasing exports percentage in the overall sales figure.]

Now, along with **private capex**, the company is looking at **government led initiatives** such as the Digital India initiative and 100 Smart Cities Mission as top opportunistic plays in the Indian market. It has already **bagged contracts** in Bhubneshwar, Jharkhand, Bhopal and Aurangabad. The company is and will be working on traffic junction improvement for the smart and other roads which would have integrated traffic signal and speed violations along with adaptive traffic control (based on the traffic density on a road which can glow based on dimness of daylight), CCTV surveillance, public announcement system, variable message signboards (informing public of traffic snarls and other important information) and environment monitoring system (display of real time environment data on air quality and weather at selected locations), fire prevention and police departments.

Management is also having its eyes at **opportunities** such as metro projects and distribution of utilities which will include power, gas and water.

Along with proving software and technological solutions to the smart cities projects, company is also aiming for the smart and technical products like meters which the company will manufacture locally with the technical expertise of its parent.

Company has been successfully able to identify the upcoming trends in the growth story of the market. For the **coming decade**, company foresees IIOT (industrial internet of things) as the big trend. IIOT is about various sets of hardware such as sensors, devices and machines working together to enhance both manufacturing and industrial processes. Company expects to play a substantial role in connected plants where the process, equipment and people will be integrated with each other.

### **UPCOMING PROJECTS**

Due to the growing need of the time, company has come out with **air purifiers** to cater the B2C market.

Company is also focusing on **SMEs market** to cater demands and changing requirements of small and medium scale businesses under its **mass-mid section strategy**. Company believes that contribution of these businesses will increase in the overall GDP of the country and being ready to help them flourish by empowering them with all the infrastructure, software and tools needed to enhance their productivity at affordable prices and then taking forward these solutions to other parts of the world such as Latin America, ASEAN etc that share similar demands under its East to Rest strategy will prove rewarding. Along with this, management is also keeping various government initiatives such as Digital India, Make in India, Smart Cities, etc under its radar.

Some of the sectors that would be in highlight for the coming years are oil and gas, pharmaceuticals and life science, infrastructure, to name a few.

The key challenges that company expects to face are finance and investment, and infrastructure.

"In developing countries like India, SMEs are the backbone of manufacturing sector positively impacting the job market, entrepreneurship, innovations and GDP ontribution. In India SMEs constitute around 90% rganisations contributing around 45% of GDP. And all of this is achieved with least or no automation in SMEs." Honeywell Automation India Limited.

**Sector: Industrial IT** 

Company has also introduced a new strategy plan and product - **Honeywell Forge**.

It is a software that would allow the company to extract data from the solutions, facilities and technologies installed in clients' premises and organize and evaluate them collectively in order to guide the respective clients to help them further enhance productivity, safety and efficiency.

One of the key trends that company is expecting to play out in a huge way in coming future is **IIOT** - **Industrial Internet of Things.** 

It is about unifying all the data generated from a manufacturing plant and take accurate decisions to improve productivity, reliability and efficiency of the plant.

And it is important because

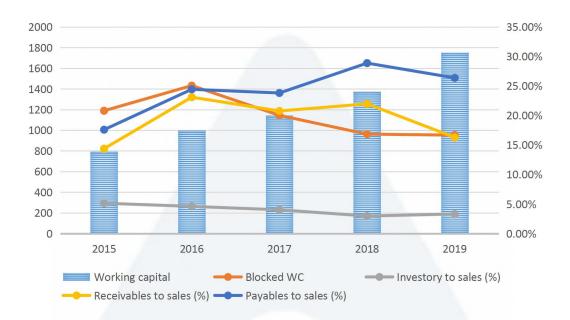
Company is extremely positive about it and believes the various government initiatives to be the core reasons for it.

"If the Indian industry wants to become the best in class manufacturer, globally competitive, every manufacturer knows that it is not going to happen the traditional way. They have to invest in technology, services and solutions. By 2025, the market for IIoT in India is expected to grow to USD 15 billion, and this is a huge potential. Honeywell has the solutions. When we talk about IIoT it is a combination of the latest digital transformation and the past experience, which is where Honeywell scores heavily. We have IIoT solutions for secure collaboration, data management, advanced analytics as well as cyber security – and all these are vendor agnostics. So are at the high table of the game." - Honeywell Automation India Limited.

### **MAKING SENSE OF NUMBERS**

### **Working capital**

#### **WC to Sales**

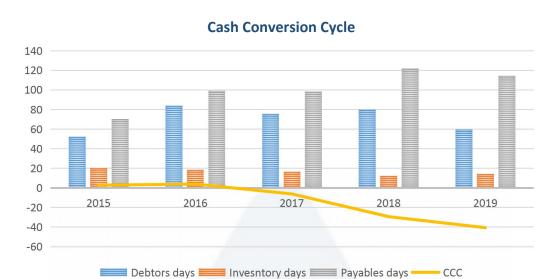


Company has always been in a comfortable level of working capital dependency, which has further improved over the years.

The per cent of working capital to the sales that has remained blocked over the past 5 years has come down from ~20 to ~16. It means that company is always left with substantial level of working capital to further ramp up its business and face no risk of getting into requirement of short term debt.

Along with this, percentage of payable to sales is more than other constituents of working capital, namely, inventory and receivables, implying that company is able to use the credit money to run its business, i.e. company gets to operate business activities to some extent without employing additional fund from company's reserves.

Negligible level of inventory in working capital further confirms company's new tag of "Software Industrial Technology Company"



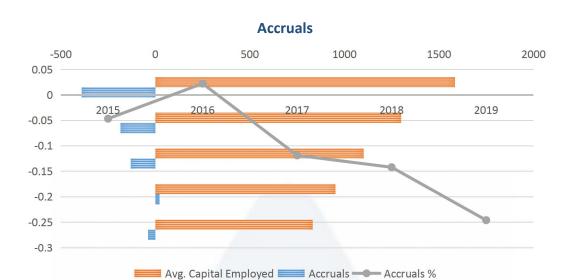
Rising payable and falling receivables days indicate towards strong brand and further, dominating credit policy of the company.

Both the graphs (rising payable contribution and negative cash conversion cycle) clearly shows that company has been earning float (receiving money in advance) since some past years now.



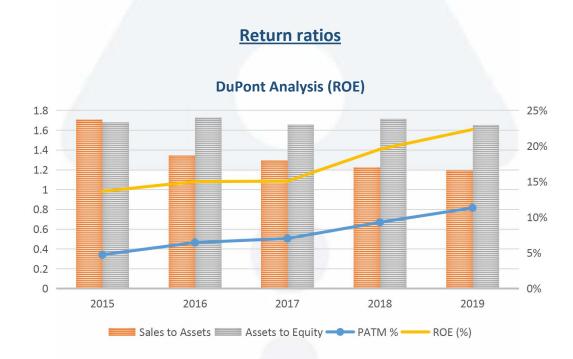
Around half the balance sheet of the company is liquid. The proportion of total liquidity to total assets has risen from 15-20% to 40-45% in last 5 years.

With nil investments and continuously rising cash position in liquidity can provide comfort to investors but from business point of view this also indicate towards poor decisions as company is regularly losing out on its opportunity earn investment income. On the other side, this also points out towards the possibility of company accumulating cash and getting ready for a significant investment(s) (like a war chest for acquisitions) in near future.



Negative accruals signify company is actually earning money from its operations and not getting its money stuck in the business processes.

Although, in some way it gets clarified from the above charts also, the following chart shows accruals ratio (accruals by capital employed) being falling which is a strong positive signal.



Return on Equity has gone up from 15% in 2015 to over 22% in 2019. This improvement has mainly been due to improving margins and stagnant assets to equity. Sales to assets has been deteriorating due to rising concentration of cash in balance sheet which isn't yielding any return to the company.

60%

50%

40%

30%

20%

10%

0%

2015

2016

ROCE -

2018

- ROE (%)

ROIC = return on incremental capital

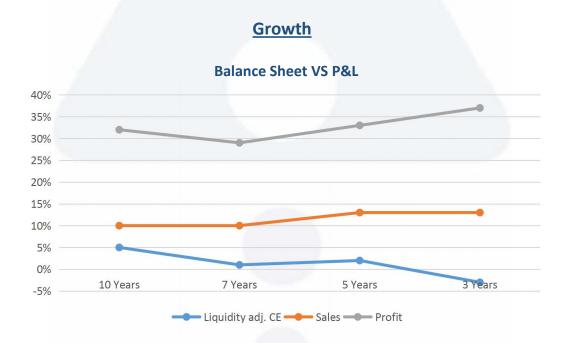
2019

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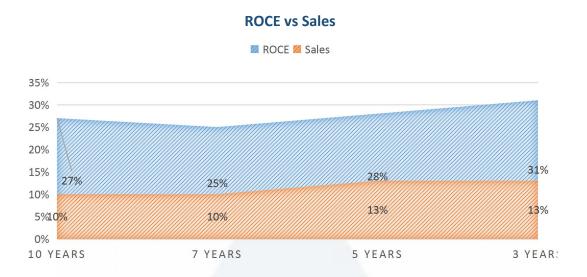
Company has been improving its operational efficiency consistently. Return on Incremental Capital of 30-50% over the years have led to rising return on equity and capital employed and it also justifies company's policy of giving out negligible dividends.

2017

ROA ROIC



The growth of new capital employment in the company has gone down whereas both sales and profit have been faring on the upper side. This shouts about effective and enrich capability of the management to identify, evaluate, implement and carry out opportunities and projects.



The Return on Capital Employed has continuously been more than the sales growth. This shows that company won't need any support of borrowings to ramp up its operations. Company has significant room in the areas of reserves and earning capacity to be used as primary options for funding purposes.

# **Peer Comparison**

There are 2 competitors of the company in the listed space of Indian equity market: ABB and Siemens.



**Siemens** is one of the largest engineering companies in Europe. The major activities of this company include infrastructure, energy, automobile and industry. This company stands for innovation, engineering excellence, and reliability. Siemens is a pioneer in infrastructure and energy solutions, as well as automation and software for industry. Being one of the world's biggest producers of energy-efficient, resource-saving technologies, this company provides laboratory diagnostics, medical imaging equipment, and clinical IT.

==> The products that the company manufactures include:

- Turbo compressors
- Steam Turbines
- High-voltage switchgear (circuit breakers, disconnectors and gas-insulated switchgear)
- Switchboards
- Remote Monitoring Systems (RMS)

ABB is the leading technological and Automation Company that provides innovating digitally connected and enabled industrial equipment and systems. This company is popular for manufacturing robotics. ABB operated in more than 100 countries and employs around 132, 000 people. Our industries are utilized by industries such as Aluminium, Automotive, Buildings and Infrastructure, Cement, Chemical, Data Centres, Energy Efficiency, Food and Beverage, OEM and Panel Builders, Oil and Gas.

==> The product range of ABB includes:

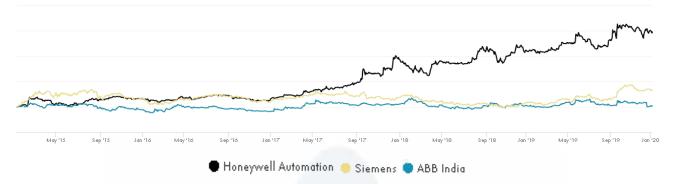
- Control Room Solutions, Drives
- High Voltage Products
- Low Voltage Products and Systems
- Measurement and Analytics
- Mechanical Power Transmission Products
- Medium Voltage Products

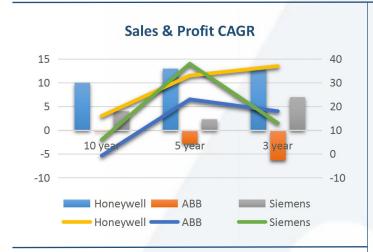
**Honeywell** process solutions produces a variety of commercial and consumer products. This American based company offers services in the field of aerospace engineering. It has pioneered process automation control for more than 40 years with a continuous evolution from legacy process control systems to today's leading innovations such as Experion® PKS, protecting our customers' investments in automation assets.

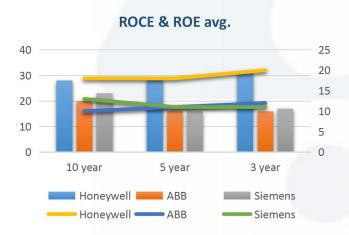
The products of Honeywell process solutions include:

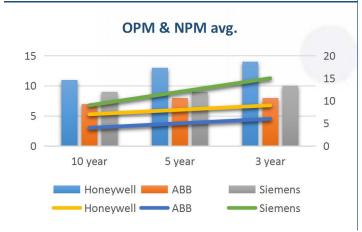
- Advanced Software, Wireless, Marine
- Control, Monitoring and Safety Systems
- Energy & Emissions Management
- Gas Measurement & Regulation
- Industrial Security, Instrumentation

#### **Price movement**









The mentioned companies aren't similar in all the aspects.

**Sector: Industrial IT** 

ABB stands as a competitor of Honeywell in the process automation products and solutions segment and Siemens share environmental and combustion controls, security and life safety products, building solutions and services, and process automation products and solutions as similar segments.

Honeywell has been consistent in growing its sales and profit, whereas, both Siemens and ABB have failed to perform comparatively with Siemens having fluctuating sales figures and ABB getting sales growth in negative.

In utilizing and earning **return on capital** (both owned and borrowed), Honeywell has proved its superiority since years.

Comparatively more uniform growth in margins and profit reflects Honeywell's dominance in the following markets. Other two have either deteriorated or remained close to stagnant.

# **Financial Outlook**

# **Balance Sheet**

Report Date	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Equity Share Capital	9.00	9.00	9.00	9.00	9.00
Reserves	873.54	1013.15	1171.56	1410.15	1739.23
Borrowings	0	0	0	0	0
Other Liabilities	603.14	743.45	774.54	1014.45	1145.75
Total	1485.58	1765.60	1954.10	2433.60	2893.98
Net Block	85.70	84.05	79.47	84.54	85.97
Capital Work in Progress	7.65	2.45	3.54	1.44	8.45
Investments	76.12	79.04	83.45	78.45	0.00
Other Assets	1317.16	1600.54	1790.74	2270.54	2799.44
Total	1485.58	1765.60	1954.10	2433.60	2893.98
Receivables	345.64	505.33	500.32	591.12	517.08
Inventory	123.57	100.63	96.91	79.77	105.06
Cash & Bank	218.68	371.58	578.47	841.43	1224.52
Face value	10	10	10	10	10

# **Cash Flow Statement**

Report Date	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Cash from Operating Activity	13.02	166.37	215.19	262.89	308.77
Cash from Investing Activity	-139.84	46.20	-84.60	-174.21	-442.82
Cash from Financing Activity	-10.77	-13.30	-10.64	-10.63	-34.08
Net Cash Flow	-137.59	199.27	119.95	78.05	-168.13

# Profit & Loss

Report Date	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Sales	2403.67	2187.62	2410.07	2689.98	3174.74
Raw Material Cost	1362.69	1270	1294.09	1392.75	1663.95
Power and Fuel	11.12	8.52	8.4	9.05	11.39
Other Mfr. Exp	12.58	10.57	9.43	10.53	11.26
Employee Cost	428.51	358.97	413.93	458.35	539.8
Selling and admin	9.09	6.14	2.68	7.17	14.88
Other Expenses	121.01	104.5	149.49	146.94	154.32
Other Income	22.44	29.63	41.5	33.83	94.51
Depreciation	16.86	15.4	16.35	15.2	15.89
Interest	0.44	3.2	2.75	3.8	6.49
Profit before tax	177.22	226.16	307.31	381.23	554.89
Tax	63.02	84.97	137.86	131.5	196.05
Net profit	114.2	141.19	169.45	249.73	358.84

# **Key Ratios**

Report Date	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	
Operational & Financial Ratios						
Earnings Per Share (Rs)	129.19	159.72	191.69	282.50	405.93	
CEPS(Rs)	148.26	177.14	210.18	299.69	423.90	
Adjusted EPS (Rs.)	129.19	159.72	191.69	282.50	405.93	
Book NAV/Share(Rs)	997.59	1156.12	1332.02	1600.44	1970.85	
Adjusted Book Value (Rs)	997.59	1156.12	1332.02	1600.44	1970.85	
Tax Rate(%)	35.56	37.57	44.86	34.49	35.33	
Dividend Pay Out Ratio(%)	9.68	6.26	5.22	11.33	11.09	

Report Date	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19		
Performance Ratios							
ROA (%)	6.76	7.18	7.34	8.96	10.49		
ROE (%)	13.74	14.83	15.41	19.27	22.73		
ROCE (%)	21.37	24.09	28.16	29.63	35.46		
Asset Turnover(x)	1.45	1.13	1.06	0.97	0.93		
Inventory Turnover(x)	20.89	19.82	24.75	30.54	34.35		
Debtors Turnover(x)	6.98	5.22	4.86	4.94	5.73		
Sales/Fixed Asset(x)	13.93	15.33	23.49	22.91	23.86		
Working Capital/Sales(x)	4.43	3.03	2.75	2.53	2.25		

Report Date	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19		
Efficiency Ratios							
Fixed Capital/Sales(x)	0.07	0.07	0.04	0.04	0.04		
Receivable days	52.28	69.91	75.07	73.82	63.70		
Inventory Days	17.47	18.42	14.75	11.95	10.62		
Payable days	78.38	104.05	115.40	129.50	129.58		

**Report Date** 

Net Sales Growth(%)

EBIT Growth(%)

PAT Growth(%)

Interest Cover(x)

Core EBITDA Growth(%)

22.62

24.18

47.38

101.32

33.36

35.18

20.02

112.75

**Sector : Industrial IT** 

44.23

45.80

43.69

86.50

Report Date	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	
Financial Stability Ratios						
Total Debt/Equity(x)	0.00	0.00	0.00	0.00	0.00	
Current Ratio(x)	1.93	2.01	2.17	2.07	2.27	
Quick Ratio(x)	1.72	1.87	2.04	1.99	2.18	

403.77

Mar-15

40.81

71.08

44.24

32.54

**Growth Ratio** 

Mar-16

-8.99

4.36

29.10

23.63

71.68

Report Date	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Du Pont					
PATM (%)	7.37	10.34	12.75	14.17	17.48
Sales / Total Assets(x)	2849.98	2613.96	3067.42	3209.23	3728.41
Assets to Equity (x)	111.85	115.82	115.90	123.41	118.71
ROE (%)	13.74	14.83	15.41	19.27	22.73

# Scenario Analysis

Given the company is a growth story without having any kind of debt and high depreciation and also is without working capital issues on its balance sheet and is mainly driven by earnings, the method of Price to Earning has been used, multiple of which has been further derived by using PEG method which takes into account PE metric in relation to company's earnings growth.

Method - PE (& PEG)									
Sales	2020			Sales	2021				
3400				3800					
PE/NPM	13%	13.50%	14%	PE/NPM	13%	13.50%	14%		
56	28127	29209	30291	56	31503	32714	33926		
58	29132	30252	31373	58	32628	33883	35137		
60	30136	31295	32455	60	33753	35051	36349		
62	31141	32339	33536	62	34878	36219	37561		
(Remarks)	Sales and profit margin figures have been calculated on the basis of management								



10 year PE Chart

# Conclusion

# Recommendation

In today's time one needs to run very fast to not lose its current spot and retain its place. Businesses need to think and act before, along and after its competitors do. And this company helps one do exactly that.

It can be argued that there has been a steep rise in the competition in this space both domestically and internationally and a single customer may not require such services like building automation, software development etc on regular basis and thus, after a period of time all the company would be earning is recurring revenues (maintenance cost) and not capital revenues.

But being a leader in its departments and having a brand trusted worldwide will always fall in company's support as sensitive and critical services like fire automation, productivity enhancement etc are directly related with a company's identity and image, it would prefer going with a reputed and experienced player rather than taking its chances with a newbie, especially when services by both come at similar cost but vary in quality and after sales services (with Honeywell being at the superior end).

Also, company is now expanding its claws in the SME sector where the story would be more about scale than premium, i.e., volume more than value.

In last 2 years, almost all of the world economies saw slowdown in their business activities, consumption and expenditure by both government and private sector but still the company managed to grow in double digits and improve its margins unlike its competitors. And now with improving conditions where economies like the US, European nations, Japan etc are expected to come out of the long lasting curb in growth of economy driving factors due to easing of several geo-political tensions like trade war, uncertainty around Brexit and other macro factors like low inflation, favorable crude oil price, low interest rates etc, the company is poised to take major advantage of it and grow its operations significantly in terms of both value and volume. Company has revamped itself to cater to the standard pattern shift in capital goods and infrastructure opportunities. With the pace of capex in greenfield and brownfield projects falling, it has devised a new model to cater to industry's operating expenditure (opex) through digitalization and automation, and smart city infrastructure.

With Honeywell Automation, an investor gets a business that has a dynamic and experienced management which is always on the lookout for grabbing upcoming trends and opportunities, which is aggressive in identifying the needs of this advancing world and deploying sources and strategies to capitalize on it in efficient manner (reflected in high return ratios).

Investor also gets a company with a strong parent having its roots in more than 100 countries and business departments of which are considered as world leaders. A business model that is about the future and hence, runs on a negligible risk of ever going out of fashion and which sits on heavy liquidity and doesn't and probably won't ever need borrowings to grow and post regular free cash flows.

What an investor doesn't get is the comfort of complete transparency as the company doesn't seem to be posting a few critical information such as detailing of different business segments' operations in terms of revenue contribution, scope, sub-segments contributions etc. And also

doesn't make investors available with filings such as investor presentations and carries out conference calls.

In short, Honeywell stands high on impressive numbers and story front, bright future with able employees and management but at the same time keeps investors hanging with doubts related to complete business information.

Another parameter that comes to mind is its "high valuation in terms of PE". A dilemma of MNCs getting high valuation in comparison to its local peers. Though a PE range of 60 to 65 does appear expensive when viewed together with a PE range of 20 to 25 of local players but this doesn't come without firm and sensible justifications. Various factors that contribute to the following valuation is its dominant position in the market, strong parental support and financial standing, prosperous future in terms of value of upcoming projects, asset light business model (transition of capex to opex model), managements proven skills of allocating capital effectively, diversified product and service portfolio with a huge internationally rolled out market which also acts a hedge against negative domestic business sentiments and help it post regular and consist earnings in spite of weak domestic investments and demand, to name a few.

#### Valuation (CMP 27028)

Method	2020		20	021
PE	1	Ш	1	II
Estimated Price	28100	29200	35000	36400
CAGR from CMP	8%	16%	19%	22%

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Abbreviation	Full Form		
CAGR	Compound Annual Growth Rate		
CAPEX	Capital Expenditure		
COGS	Cost of Goods Sold		
EBIT	Earnings before interest and taxes		
EBITDA	Earnings before interest, tax, depreciation and amortization		
EPS	Earning Per Share		
EV	Enterprise Value		
FY	Financial Year		
HY	Half Year		
MCap	Market capitalization		
NAV	Net Asset Value		
NOI	Net Operating Income		
NPV	Net Present Value		
OCF	Operating Cash Flow		
OI	Operating Income		
P&L	Profit & Loss		
P/E	Price/Earnings Ratio		
PAT	Profit After Tax		
PATM	Profit After Tax Margin		
PBT	Profit Before Tax		
QOQ	Quarter on Quarter		
RE	Retained Earning		
ROA	Return on Assets		
ROCE	Return on Capital Employed		
ROE	Return on Equity		
ROI	Return on Investment		
ROIC	Return on Invested Capital		
TTM	Trailing Twelve Month		
YOY	Year over Year		

# **Report Gallery**







**Sector: Industrial IT** 

**Honeywell Automation India Ltd** 





Relaxo Ltd





Balkrishna Industies Ltd

**Hexaware Technologies Ltd** 

Sheela Foam Ltd







The Ramco Cements Ltd

Bajaj Finserv Ltd

Tata Elxsi Ltd







NOCIL Ltd.

**Crompton Greaves Consumer** Electricals Ltd

Emami Ltd







Narayana Hrudayalaya Ltd.

HDFC AMC Ltd

Lux Industries Ltd

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