

Current Reco	: BUY
Previous Reco	: BUY
CMP	: INR23,158
Target Price	: INR27,450
Potential Return	: 19%

Asiamoney Brokers' Poll 2019
✓ Vote for ANTIQUE
 Voting closes on 16th August

Dhirendra Tiwari
 +91 22 4031 3436
 dhirendra.tiwari@antiquelimited.com

Abhijeet Singh
 +91 22 4031 3414
 abhijeet.singh@antiquelimited.com

Market data

Sensex	:	37,582
Sector	:	Industrials
Market Cap (INRbn)	:	205.3
Market Cap (USDbn)	:	2.903
O/S Shares (m)	:	8.8
52-wk HI/LO (INR)	:	27892/17980
Avg Daily Vol ('000)	:	9
Bloomberg	:	HWA:IN

Source: Bloomberg

Valuation

	FY19	FY20e	FY21e
EPS (INR)	405.9	502.3	610.0
P/E(x)	57.1	46.1	38.0
P/BV(x)	11.7	9.4	7.6
EV/EBITDA(x)	38.8	32.0	26.2
Dividend Yield (%)	0.1	0.1	0.1

Source: Company, Antique

Returns (%)

	1m	3m	6m	12m
Absolute	(1)	(2)	7	7
Relative	2	(2)	4	8

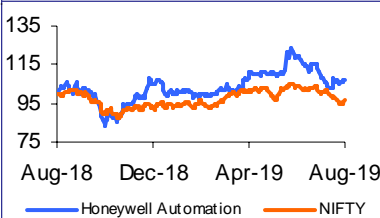
Source: Bloomberg

Shareholding pattern

Promoters	:	75%
Public	:	25%
Others	:	0%

Source: Bloomberg

Price performance vs Nifty



Source: Bloomberg Indexed to 100

1QFY20 RESULT REVIEW

Honeywell Automation India

A cut above the rest

Honeywell managed to completely buck the macro-economic headwinds showing extreme resilience as the performance stood significantly ahead of expectations. The company reported its highest ever quarterly EBITDA margin at 19.7% with a strong PAT growth of 31% YoY during 1QFY20. A sustained disproportionate growth in exports has led to continuous margin improvement over FY14-19 as exports revenue clocked 18% CAGR over the same period while the domestic business remained relatively sluggish (1% CAGR over FY14-19) on account of overall weak investment sentiment trickling into a industry-wide subdued capex pertaining to automation. While the process industries have been incurring efficiency related opex boosting the service revenue, government investments in Smart Infrastructure such as Smart City Projects, Expansion of airports, Railway Modernization, Metro has led to a turnaround in the domestic business. In the Smart City Projects space, the company has completed projects for 3 cities while it is executing for 7 others. With exports growing at a brisk pace and a renewed traction in the domestic business, we expect the company to clock 23% EPS CAGR over FY19-FY21e. Therefore, we maintain BUY on the stock with a target price of INR 27,450 based on 45x its FY21e earnings.

Key result highlights:

- The company reported exceptional performance during 1QFY20 with robust Sales/EBITA/PAT numbers. Revenue at INR 8.6bn grew 11% YoY ahead of our estimate of INR 8.5bn.
- EBITDA grew 40% YoY to INR 1.7Bn on the back of 170bps expansion in gross margin during the quarter. The company reported multi-year high EBITDA margin of 19.7% which expanded by ~400bps YoY. Other expenses saw a 7% YoY drop while employee costs grew 8% YoY during 1QFY20.
- PAT at INR 1.1Bn saw 24% YoY jump during the quarter mainly driven by improved operating performance growing slightly lower than EBITDA as other income saw a reduction of 25%. Tax rate remained stable at ~35%.

Honeywell 2019 AGM Highlights

- Management remains cautiously optimistic. In spite of macroeconomic headwinds, Honeywell's target markets remain relatively resilient. Domestic business is also turning up led by government spending where the smart city initiative has provided a big boost.
- The company has completed 3 smart city projects, is executing 7 and stares at a sizeable opportunity going forward from the segment.
- Significant focus lies on Honeywell Operating System (Manufacturing & Services). The company currently has a bronze rating and a move to higher level is expected to boost outsourcing business from parent. Honeywell is confident of sustaining exports growth.
- Profitability remains high partly supported by higher export sales and meaningful value initiatives adopted by the company.

Quarterly Financial highlights

(INR m)	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (%)	QoQ (%)	FY19	FY18	YoY (%)
Revenue	7,704	7,823	8,118	8,103	8,570	11.2	5.8	31,747	26,900	18.0
Raw Material	4,061	4,118	4,183	4,223	4,374	7.7	3.6	16,585	14,057	18.0
% of Sales	52.7%	52.6%	51.5%	52.1%	51.0%			52.2%	52.3%	
Employee Cost	1,296	1,292	1,310	1,466	1,406	8.4	(4.1)	5,365	4,529	18.5
% of Sales	16.8%	16.5%	16.1%	18.1%	16.4%			16.9%	16.8%	
Other Exp	1,187	1,088	1,443	1,169	1,104	(7.0)	(5.5)	4,887	4,716	3.6
% of Sales	15.4%	13.9%	17.8%	14.4%	12.9%			15.4%	17.5%	
Total Exp	6,544	6,499	6,936	6,858	6,883	5.2	0.4	26,837	23,302	15.2
EBITDA	1,160	1,325	1,182	1,245	1,687	45.5	35.5	4,911	3,598	36.5
EBITDA Margin (%)	15.1%	16.9%	14.6%	15.4%	19.7%			15.5%	13.4%	
Other Income	247	213	177	150	186	(24.5)	24.3	787	369	113.0
Interest	-	-	-	35	22			35	3	
Depreciation	38	39	39	43	85	123.9	98.8	159	152	4.5
PBT (before exceptional)	1,368	1,499	1,320	1,317	1,766	29.1	34.1	5,504	3,812	44.4
PBT (Reported)	1,368	1,499	1,320	1,317	1,766	29.1	34.1	5,504	3,812	44.4
Tax	496	525	463	476	625			1,961	1,315	
Tax rate (%)	36.3%	35.0%	35.1%	36.1%	35.4%			35.6%	34.5%	
Reported PAT	872	974	856	841	1,141	30.9	35.6	3,543	2,497	41.9
Adjusted PAT	872	974	856	841	1,141	30.9	35.6	3,543	2,497	41.9
PAT Margin (%)	11.3%	12.4%	10.5%	10.4%	13.3%			11.2%	9.3%	
EPS (Rs)	98.6	110.2	96.9	95.2	129.1	30.9	35.6	400.8	282.5	41.9

Source: Company, Antique

Financials

Profit and loss account (INRm)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
Net Revenue		24,101	26,900	31,747	36,509	43,811
Op. Expenses		21,242	23,264	26,714	30,500	36,612
EBITDA		2,859	3,636	5,034	6,009	7,199
Depreciation		164	152	159	165	166
EBIT		2,695	3,484	4,875	5,844	7,033
Other income		380	331	709	935	1,015
Interest Exp.		3	3	35	-	-
Extra Ordinary Items-gain/(loss)		(291)	-	-	-	-
Reported PBT		2,782	3,812	5,549	6,779	8,048
Tax		1,088	1,315	1,961	2,339	2,656
Reported PAT		1,695	2,497	3,588	4,440	5,392
Net Profit		1,695	2,497	3,588	4,440	5,392
Adjusted PAT		1,986	2,497	3,588	4,440	5,392
Adjusted EPS (INR)		224.6	282.5	405.9	502.3	610.0

Balance sheet (INRm)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
Share capital		88	88	88	88	88
Reserves & Surplus		11,714	14,098	17,386	21,667	26,847
Networth		11,803	14,187	17,475	21,755	26,935
Net deferred Tax liabilities		(684)	(767)	(745)	(745)	(745)
Capital Employed		11,118	13,420	16,729	21,010	26,190
Gross Fixed Assets		1,091	1,259	1,387	1,587	1,787
Accumulated Depreciation		301	421	536	701	867
Capital work in progress		27	11	80	80	80
Net Fixed Assets		817	849	932	967	1,001
Investments		828	778	-	-	-
Current Investments		828	778	-	-	-
Current Assets, Loans & Adv		17,185	21,926	27,229	32,302	39,638
Inventory		969	798	1,051	1,278	1,533
Debtors		5,003	5,911	5,171	7,302	9,638
Cash & Bank balance		5,785	8,414	12,245	16,162	19,810
Loans & advances and others		5,428	6,802	8,763	7,561	8,657
Current Liabilities & Prov		7,712	10,132	11,431	12,259	14,449
Liabilities		6,876	9,127	10,125	10,953	13,143
Provisions		836	1,005	1,306	1,306	1,306
Net Current Assets		9,473	11,793	15,798	20,044	25,189
Application of Funds		11,118	13,420	16,729	21,010	26,190

Per share data

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
No. of shares (m)		8.8	8.8	8.8	8.8	8.8
Diluted no. of shares (m)		8.8	8.8	8.8	8.8	8.8
BVPS (INR)		1,335.2	1,604.8	1,976.8	2,461.0	3,046.9
CEPS (INR)		210.2	299.7	423.9	521.0	628.8
DPS (INR)		10.0	10.0	12.0	15.0	20.0

Source: Company, Antique

Cash flow statement (INRm)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
PBT		3,073	3,812	5,549	6,779	8,048
Depreciation & amortisation		164	152	159	165	166
Interest expense		3	3	35	-	-
(Inc)/Dec in working capital		453	310	(174)	(330)	(1,497)
Tax paid		(1,088)	(1,315)	(1,961)	(2,339)	(2,656)
CF from operating activities		2,604	2,962	3,608	4,276	4,061
Inc/(Dec) in investments		862	(152)	(365)	(200)	(200)
CF from investing activities		862	(152)	(365)	(200)	(200)
Inc/(Dec) in share capital		(5)	(7)	(173)	-	-
Dividend Paid		(109)	(109)	(162)	(160)	(213)
Others		(1,284)	(64)	923	-	-
CF from financing activities		(1,398)	(180)	588	(160)	(213)
Net cash flow		2,069	2,630	3,831	3,916	3,649
Opening balance		3,716	5,784	8,414	12,245	16,162
Closing balance		5,784	8,414	12,245	16,162	19,810

Growth indicators (%)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
Revenue		8.5	11.6	18.0	15.0	20.0
EBITDA		31.2	27.2	38.4	19.4	19.8
Adj PAT		40.6	25.8	43.7	23.8	21.4
Adj EPS		40.6	25.8	43.7	23.8	21.4

Valuation (x)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
P/E		103.1	82.0	57.1	46.1	38.0
P/BV		17.3	14.4	11.7	9.4	7.6
EV/EBITDA		70.0	54.5	38.8	32.0	26.2
EV/Sales		830.7	736.5	615.9	527.2	430.4
Dividend Yield (%)		0.0	0.0	0.1	0.1	0.1

Financial ratios

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
RoE (%)		18.0	19.2	22.7	22.6	22.1
RoCE (%)		29.8	31.1	37.0	35.9	34.1
Asset/T.O (x)		3.0	2.8	2.8	2.5	2.3
EBIT/Interest (x)		1,183.0	1,362.5	160.4	-	-

Margins (%)

Year-ended	March 31	FY17	FY18	FY19	FY20e	FY21e
EBITDA Margin(%)		11.9	13.5	15.9	16.5	16.4
EBIT Margin		11.2	13.0	15.4	16.0	16.1
PAT Margin		8.2	9.3	11.3	12.2	12.3

Source: Company, Antique

Important Disclaimer:

This report has been prepared by Antique Stock Broking Limited (hereinafter referred to as ASBL) to provide information about the company(ies) and/or sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies).

ASBL is a Stock Broker having SEBI Registration No. INZ000001131 and Depository Participant having SEBI Registration No. IN-DP-CDSL726-2014 registered with and regulated by Securities & Exchange Board of India.

ASBL and its affiliates are a full-service, integrated investment banking, investment management, brokerage and financing group.

This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and ASBL is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur.

We and our affiliates have investment banking and other business relationships with some companies covered by our Research Department. Our research professionals may provide input into our investment banking and other business selection processes. Investors should assume that ASBL and/or its affiliates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material and that the research professionals who were involved in preparing this material may educate investors on investments in such business. The research professionals responsible for the preparation of this document may interact with trading desk personnel, sales personnel and other parties for the purpose of gathering, applying and interpreting information. Our research professionals are paid on the profitability of ASBL which may include earnings from investment banking and other business.

ASBL generally prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, ASBL generally prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover. Our salespeople, traders, and other professionals or affiliates may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing among other things, may give rise to real or potential conflicts of interest. ASBL and its affiliated company(ies), their directors and employees and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the affiliates of ASBL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report

Reports based on technical and derivative analysis center on studying charts company's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamental analysis. In addition ASBL has different business segments / Divisions with independent research separated by Chinese walls catering to different set of customers having various objectives, risk profiles, investment horizon, etc, and therefore may at times have different contrary views on stocks sectors and markets.

Unauthorized disclosure, use, dissemination or copying (either whole or partial) of this information, is prohibited. The person accessing this information specifically agrees to exempt ASBL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold ASBL or any of its affiliates or employees responsible for any such misuse and further agrees to hold ASBL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays. The information contained herein is based on publicly available data or other sources believed to be reliable. Any statements contained in this report attributed to a third party represent ASBL's interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed by the third party. This Report is not intended to be a complete statement or summary of the securities, markets or developments referred to in the document. While we would endeavor to update the information herein on reasonable basis, ASBL and/or its affiliates are under no obligation to update the information. Also there may be regulatory, compliance, or other reasons that may prevent ASBL and/or its affiliates from doing so. ASBL or any of its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. ASBL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This report is intended for distribution to institutional investors. Recipients who are not institutional investors should seek advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents.

ASBL and its associates may have managed or co-managed public offering of securities, may have received compensation for investment banking or merchant banking or brokerage services, may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

ASBL and its associates have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of ASBL or its associates during twelve months preceding the date of distribution of the research report

ASBL and/or its affiliates and/or employees and/or relatives may have interests/positions, financial or otherwise of over 1% at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report. To enhance transparency, ASBL has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

There are no material disciplinary action that been taken by any regulatory authority impacting equity research analysis activities

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of ASBL research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement Companies where there is interest

- Analyst ownership of the stock - No
- Served as an officer, director or employee - No

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ASBL & its group companies to registration or licensing requirements within such jurisdictions.

For U.S. persons only: This research report is a product of Antique Stock Broking Limited, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account. This report is intended for distribution by Antique Stock Broking Limited only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Antique Stock Broking Limited has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

SEBI Registration Number: INH000001089 as per SEBI (Research Analysts) Regulations, 2014.

CIN: U67120MH1994PLC079444

**Antique Stock Broking Limited**

20th Floor, A Wing, Naman Midtown
Senapati Bapat Marg, Elphinstone (West)
Mumbai 400013

Tel. : +91 22 4031 3444 • Fax : +91 22 4031 3445

www.antiquelimited.com