

ICICI Securities Limited
is the author and
distributor of this report

Q1FY22 result review
and earnings revision

Capital Goods

Target price Rs37,310

Earnings revision

(%)	FY22E	FY23E
Sales	↓ 2.1	↓ 2.1
EBITDA	↓ 5.2	↓ 5.1
EPS	↓ 4.8	↓ 4.7

Target price revision

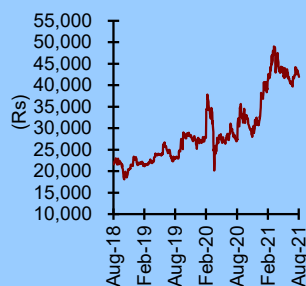
Rs37,310 from Rs39,008

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	75.0	75.0	75.0
Institutional investors	14.8	14.9	14.7
MFs and other	12.4	11.0	10.9
FIs/Banks	0.0	0.0	0.0
Insurance Cos.	1.4	1.8	1.7
FII	1.0	2.1	2.1
Others	10.2	10.1	10.3

Source: BSE

Price chart



Research Analysts:

Renjith Sivaram

renjith.sivaram@icicisecurities.com
+91 22 6637 7340

INDIA



Honeywell Automation India

REDUCE

Maintain

Rs41,500

Weak execution impacts earnings

Honeywell Automation India (HAIL) witnessed 7.2% YoY revenue decline and slight QoQ growth of 1.6% on low base to Rs6.8bn in Q1FY22, lower than our estimate of Rs8.5bn. Company reported an EBITDA margin of 17.1% (down 30bps YoY and 210bps QoQ) despite 130bps YoY decrease in raw material cost proportion to 47.7%. Other expenses declined 9% YoY and staff expenses increased 2.4% YoY, impacting the margins. Factoring-in the revenue slip, we cut our FY21E and FY22E earnings estimates by 4.8% and 4.7% respectively. Given the rich valuations and near-term uncertainty of growth, we maintain **REDUCE** with a revised target price of Rs37,310 (earlier: Rs39,008).

- **Maintain REDUCE on rich valuations and muted growth:** The long-term secular growth drivers in process automation, diversification towards building and cyber security, and constant improvement in the company's technical portfolio, will drive HAIL's long-term growth. However, given the near to medium term growth uncertainty and the increase in working capital during FY21, we maintain **REDUCE**. In view of the outsourcing nature of the export segment, the multiple we assign to it is different from the one to the domestic segment. We assign 70x FY23E earnings to the domestic business and 30x FY23E to export, thus arriving at an SoTP-based target price of Rs37,310. We assume the percentage contribution of exports in the earnings to be similar to that in the revenues.
- **Leadership in domestic process automation:** HAIL is engaged inter alia in 'smart city' solutions in the areas of traffic management, etc. Company also has a healthy market share in automation solutions for other process industries such as chemicals, paper, sugar, metals, thermal power, etc. HPCL Barmer related tenders are expected to be finalised in the next six months and, we believe, HAIL will be a key beneficiary of the same. Company is also a key player in building and infrastructure automation, hence can benefit from government spend.
- **FY21 witnessed higher decline of domestic vs exports despite pandemic:** In FY21, domestic revenues dropped 11% YoY to Rs16.3bn post a gap of 3 years impacted by covid, while exports fell 4% YoY to Rs13.8bn. Travel restrictions resulted in 29% YoY reduction in travel expenses to Rs1.8bn. However, Rs199mn of debt write-off and Rs127mn of forex loss impacted overall margins in FY21 by 60bps. Adjusted for the same, FY21 EBITDA margin would have been 20%.
- **Tapping into building automation:** HAIL is one of the major players in the domestic building automation market. The segment is expected to witness healthy growth given the general focus on security and safety.

Market Cap	Rs367bn/US\$4.9bn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	HONE.BO/HWA IN	Revenue (Rs mn)	32,900	30,427	34,991	39,762
Shares Outstanding (mn)	8.8	EBITDA (Rs mn)	6,364	5,889	6,998	8,102
52-week Range (Rs)	49050/27312	Net Income (Rs mn)	4,915	4,602	5,633	6,624
Free Float (%)	25.0	EPS (Rs)	556.0	520.6	637.3	749.3
FII (%)	0.8	P/E (x)	76.4	81.6	66.7	66.7
Daily Volume (US\$'000)	4,399	CEPS (Rs)	601.9	575.6	695.1	800.2
Absolute Return 3m (%)	(1.4)	EV/E (x)	56.7	60.7	50.3	50.3
Absolute Return 12m (%)	51.9	Dividend Yield	0.2	0.2	0.2	0.2
Sensex Return 3m (%)	12.6	RoCE (%)	25.3	19.5	20.1	20.1
Sensex Return 12m (%)	46.3	RoE (%)	25.0	19.3	20.0	20.0

Outlook and valuation

Honeywell Automation India (HAIL) is in a unique position as a secular play in the domestic process automation opportunity. It is also trying to hedge itself from the oil & gas industry by focusing on other areas such as building automation, 'smart city' solutions, cyber security, etc. Exports have been a major growth driver in the past 4-5 years.

Given the weak execution and the increase in working capital, we believe growth momentum has been impacted for the near term. Current valuations are high, hence we maintain **REDUCE**.

The three major focus areas in the near term are: (i) healthcare and pharma, (ii) air quality and hygiene products and solutions, and (iii) products and systems to ease remote working and connected buildings.

Given the diverse nature of its businesses, capabilities and returns of the outsourcing-based export segment and technology-based domestic process automation segment, we value the company by SoTP methodology. We assume the percentage contribution of exports in the earnings to be similar to that in the revenues (the company does not share these data points separately). We assign a multiple of 70x FY23E earnings for the domestic automation segment and 30x FY23E earnings for the outsourcing-based export business.

Table 1: SoTP valuation

SoTP	Contribution (%)	FY23E EPS (Rs)	Multiple (x)	Target price
Domestic	56	397	70	27,782
Export	44	318	30	9,528
Total		606		37,310

Source: Company data, I-Sec research

Table 2: Earnings revision

(Rs mn)						
	FY22E			FY23E		
	Earlier	Revised	YoY (%)	Earlier	Revised	YoY (%)
Revenue	34,991	34,250	(2.1)	39,762	38,924	(2.1)
EBITDA	6,998	6,635	(5.2)	8,102	7,691	(5.1)
PAT	5,633	5,361	(4.8)	6,624	6,316	(4.7)

Source: Company data, I-Sec research

Table 3: Quarterly financial highlights

(Rs mn)	Q1FY21	Q1FY22	YoY(%)	Q4FY21	QoQ(%)	I-Sec est	Var (%)	FY20	FY21	YoY(%)
Net Sales	7,362	6,832	(7.2)	6,727	1.6	8,467	(19.3)	32,900	30,427	(7.5)
EBITDA	1,279	1,167	(8.8)	1,292	(9.7)	1,876	(37.8)	6,364	5,889	(7.5)
Margin	17.4	17.1	-30bps	19.2	-213bps	22.2	-508bps	19.3	19.4	0bps
Depreciation	116	130	12.1	130	0.2	125	4.1	406	487	19.9
Finance Cost	15	18	24.3	17	11.5	15	24.3	69	60	(12.7)
Other Income	174	218	25.1	237	(8.1)	190	14.7	977	840	(14.0)
PBT	1,323	1,236	(6.5)	1,383	(10.6)	1,926	(35.8)	6,866	6,182	(10.0)
Tax	342	321	(6.2)	342	(6.3)	481	(33.4)	1,951	1,580	(19.0)
tax rate	25.8	25.0	-84bps	24.8	24bps	25.0	0bps	28.4	25.6	-290bps
Reported PAT	981	915	(6.7)	1,040	(12.0)	1,444	(36.6)	4,915	4,602	(6.4)
Adjusted PAT	981	915	(6.7)	1,040	(12.0)	1,444	(36.6)	4,915	4,602	(6.4)
Margin(%)	13.3	13.4	8bps	15.5	-207bps	17.1	-366bps	14.9	15.1	20bps
EPS	111.0	103.5		117.7		163.4		556.0	520.6	

Source: Company data, I-Sec research

Financial summary

Table 4: Profit & Loss statement
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Total Income	32,900	30,428	34,250	38,924
Operating Expenses	26,537	24,539	27,616	31,233
EBITDA	6,364	5,889	6,635	7,691
% margins	19.3	19.4	19.4	19.8
Depreciation & Amortisation	406	487	511	450
EBIT	5,958	5,403	6,124	7,241
Gross Interest	69	60	60	60
Other Income	977	840	1,084	1,240
PBT before exceptional	6,866	6,182	7,148	8,421
Add: Extraordinaries	-	-	-	-
/Exceptionals	0	-	-	-
Add: Share in associates	-	-	-	-
PBT	6,866	6,182	7,148	8,421
Less: Taxes	1,951	1,580	1,787	2,105
Less: Minority Interests	-	-	-	-
Net Income (Reported)	4,915	4,603	5,361	6,316
Adjusted Net Income	4,915	4,603	5,361	6,316

Source: Company data, I-Sec research

Table 5: Balance sheet
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	29,559	35,090	41,188	48,536
of which cash & cash eqv.	15,139	17,969	23,339	28,251
Total Current Liabilities & Provisions	12,758	13,737	15,262	17,184
Net Current Assets	16,801	21,354	25,926	31,352
Investments	-	-	-	-
Other Non-Current Assets	2,912	2,248	2,248	2,248
Net Fixed Assets	2,103	2,187	2,180	2,230
Goodwill	-	-	-	-
Total Assets	21,816	25,789	30,354	35,830
Liabilities				
Borrowings	34	-	-	-
Deferred Tax Liability	-	-	-	-
Minority Interest	-	-	-	-
Equity Share Capital	88	88	88	88
Face Value per share (Rs)	10	10	10	10
Reserves & Surplus	21,694	25,700	30,266	35,742
Net Worth	21,783	25,789	30,354	35,830
Total Liabilities	21,816	25,789	30,354	35,830

Source: Company data, I-Sec research

Table 6: Cashflow statement
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	4,222	4,330	4,848	5,586
Working Capital Changes	-922	-1,646	798	-514
Capital Commitments	-509	-674	-504	-500
Free Cashflow	2,791	2,009	5,142	4,572
Cashflow from Investing Activities	654	1,484	1,084	1,240
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	34	-34	-	-
Interest paid	-69	-60	-60	-60
Dividend paid	-663	-751	-796	-840
Extraordinary Items/Others	147	182	-0	0
Chg. in Cash & Bank balance	2,894	2,830	5,371	4,912

Source: Company data, I-Sec research

Table 7: Key ratios
(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (in Rs.)				
Diluted adjusted EPS	556	521	606	714.5
Recurring Cash EPS	602	576	664	765.4
Dividend per share (DPS)	75	85	90	95.0
Book Value per share (BV)	2,464	2,917	3,434	4,053.2
Growth Ratios (%)				
Operating Income	3.6	-7.5	12.6	13.6
EBITDA	26.4	-7.5	12.7	15.9
Recurring Net Income	37.0	-6.4	16.5	17.8
Diluted adjusted EPS	37.0	-6.4	16.5	17.8
Diluted Recurring CEPS	42.0	-4.4	15.4	15.2
Valuation Ratios				
P/E	74.5	79.5	68.3	68.3
P/CEPS	68.8	71.9	62.3	62.3
P/BV	16.8	14.2	12.1	12.1
EV / EBITDA	55.1	59.1	51.6	51.6
EV / Operating Income	10.7	11.4	10.0	10.0
EV / Op. FCF (pre -Capex)	106.3	129.7	60.7	60.7
Operating Ratios				
Raw Material/Sales (%)	49.9	50.3	51.0	51.0
SG&A/Sales (%)	13.9	13.1	12.8	12.8
Other Income / PBT (%)	14.2	13.6	15.2	15.2
Effective Tax Rate (%)	28.4	25.6	25.0	25.0
NWC / Total Assets (%)	0.1	0.1	0.1	0.1
Inventory Turnover (days)	13.4	11.4	14.2	14.2
Receivables (days)	82.4	114.7	95.0	95.0
Payables (days)	205.8	261.5	221.4	221.4
Net D/E Ratio (x)	-0.7	-0.7	-0.8	-0.8
Return/Profitability Ratios (%)				
Recurring Net Income Margins	14.9	15.1	15.7	15.7
RoCE	25.3	19.5	19.3	19.3
RoNW	25.0	19.3	19.1	19.1
Dividend Payout Ratio	0.1	0.2	0.1	0.1
Dividend Yield (%)	0.2	0.2	0.2	0.2
EBITDA Margins	19.3	19.4	19.4	19.4

Source: Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92, Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

ANALYST CERTIFICATION

I/We, *Renjith Sivaram, BE, MBA (Finance)*; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as an entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.