



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	■	↔

#### Company details

Market cap:	Rs. 32,086 cr
52-week high/low:	Rs. 59,700/35,510
NSE volume:	0.04 lakh (No of shares)
BSE code:	517174
NSE code:	HONAUT
Free float:	0.2 cr (No of shares)

#### Shareholding (%)

Promoters	75.0
FII	2.5
DII	12.5
Others	10.0

#### Price chart



Source: NSE India, Mirae Asset Sharekhan Research

#### Price performance

(%)	1m	3m	6m	12m
Absolute	-9.8	-13.4	-29.2	-5.6
Relative to Sensex	-9.7	-11.3	-25.8	-12.1

Source: Mirae Asset Sharekhan Research, Bloomberg

## Honeywell Automation India Ltd

### Disappointing quarter Q3; Downgrade to hold

Capital Goods	Sharekhan code: HONAUT		
Reco/View: Hold	↓	CMP: Rs. 36,290	Price Target: Rs. 39,000
↑ Upgrade	↔ Maintain	↓ Downgrade	

#### Summary

- ◆ Honeywell's Q3FY2025 numbers saw a miss on estimates on all fronts, impacted by weak execution, softer demand, and accounting treatment change.
- ◆ The company reported revenue/operating profit/Adj. PAT of Rs. 1091/142/132 crore for a growth of 2%/12%/3%, respectively.
- ◆ The company is a leading player and well positioned to drive growth in pharma, specialty chemicals, and cyber security.
- ◆ With the visibility of slower growth and premium valuations, we downgraded to Hold on Honeywell with a revised PT of Rs. 39,000. The stock is expected to report a revenue/PAT CAGR of 8%/14%, respectively, over FY2024-FY2027E.

**Honeywell's Q3FY2025 revenue and profitability were lower than estimates. Net revenue was barely up by 2% y-o-y due to weak execution and accounting treatment change, which adversely affected the company. The decline in revenue led to operating profit falling by 12% to Rs. 142 crore. OPM declined by 198 bps. The gross margin also saw a contraction of 50 bps and was below our estimates. The company's growth depends on its domestic business, while order visibility from the parent entity is slow. However, the business outlook seems to be improving in the domestic market, both on the process and building automation sides with a chunk of low gestation orders. Given the subdued 9M results, we meaningfully lower our estimates.**

#### Key negatives

- ◆ Results were weak on all the fronts.
- ◆ PAT was flat because of the decline in revenues and margins, which was compensated by higher income.

#### Our Call

**Valuation – Downgrade to hold with a PT of Rs. 39,000:** The government's focus on infrastructure sectors like oil and gas (O&G), refining, power, chemicals, metals, etc. will benefit the company. The company continues to focus on industrial digitalisation, automation, and sustainability, which is expected to drive revenue growth for longer period. A wide and rich portfolio of products, solutions, digital software, and services enables it to participate in multiple opportunities. Given the weakness in global economies and the slow pace of private capex in the Indian economy, we would like to remain cautious on the slow pace of private capex in the Indian front. We therefore downgrade our ratings from Buy to hold, factoring in Revenue/PAT CAGR of ~8%/~14% over FY2024-FY2027E.

#### Key Risks

Softening of investments globally and geopolitical uncertainty would affect business operations.

#### Valuation (Standalone)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	3,448	4,058	4,297	4,655	5,150
OPM (%)	15.0	14.5	13.0	15.0	16.0
Net Profit	438	501	490	606	745
YoY growth (%)	29.2	14.5	-2.2	23.5	23.1
EPS (Rs.)	495.5	567.2	554.6	685.1	843
PER (x)	85.9	75.0	76.8	62.1	50.5
P/BV (x)	9.0	7.9	7.1	6.2	5.4
EV/EBITDA (x)	54.2	43.8	48.8	38.4	31.8
ROCE (%)	15.5	15.8	13.0	14.5	16.0
ROE (%)	14.5	14.8	12.8	14.1	15.1

Source: Company; Mirae Asset Sharekhan estimates

## Results (Standalone)

Particulars	Q3FY25	Q3FY24	YoY (%)	Q2FY25	Rs cr QoQ (%)
<b>Total Revenue</b>	<b>1,091</b>	<b>1,071</b>	<b>1.8</b>	<b>1,024</b>	<b>6.5</b>
<b>Operating Profit</b>	<b>142</b>	<b>161</b>	<b>-11.6</b>	<b>130</b>	<b>9.7</b>
Other Income	50	28	77.9	41	21.4
Interest	2	1	57.1	1	57.1
Depreciation	14	13	7.8	14	2.2
<b>PBT</b>	<b>176</b>	<b>175</b>	<b>0.9</b>	<b>156</b>	<b>13.0</b>
Tax	44	47	-5.8	40	9.2
<b>Adj. PAT</b>	<b>132</b>	<b>128</b>	<b>3.3</b>	<b>116</b>	<b>14.3</b>
<b>Adj. EPS (Rs.)</b>	<b>149</b>	<b>144.6</b>	<b>3.3</b>	<b>130.2</b>	<b>14.7</b>
<b>Margin (%)</b>			<b>BPS</b>		<b>BPS</b>
OPM	13.0	15.0	(198)	12.6	37
NPM	12.1	11.9	17	11.3	82
Tax rate	24.9	26.7	(176)	25.8	(86)

Source: Company; Mirae Asset Sharekhan Research

## Outlook and Valuation

### ■ Sector Outlook – Multiple structural enablers to drive growth

India's focus on turning itself into a manufacturing hub through 'Make in India,' considerable investments in infrastructure across sub-sectors through the National Infrastructure Pipeline (NIP) over FY2020 to FY2025, and ensuring energy security through increased share of renewable energy are key growth levers. The company has positioned itself across various industries, including O&G, chemical/petrochemicals, metals and mining, infrastructure, and residential and commercial construction. India's aim is tied to its rising requirement for automation technologies such as artificial intelligence (AI), IoT (connected devices), cloud services, and IIoT, which can support and transform its existing and upcoming infrastructure and industrial projects. The COVID-19 pandemic has opened up further opportunities in the healthcare and pharmaceutical sectors through an expected rise in capacity additions.

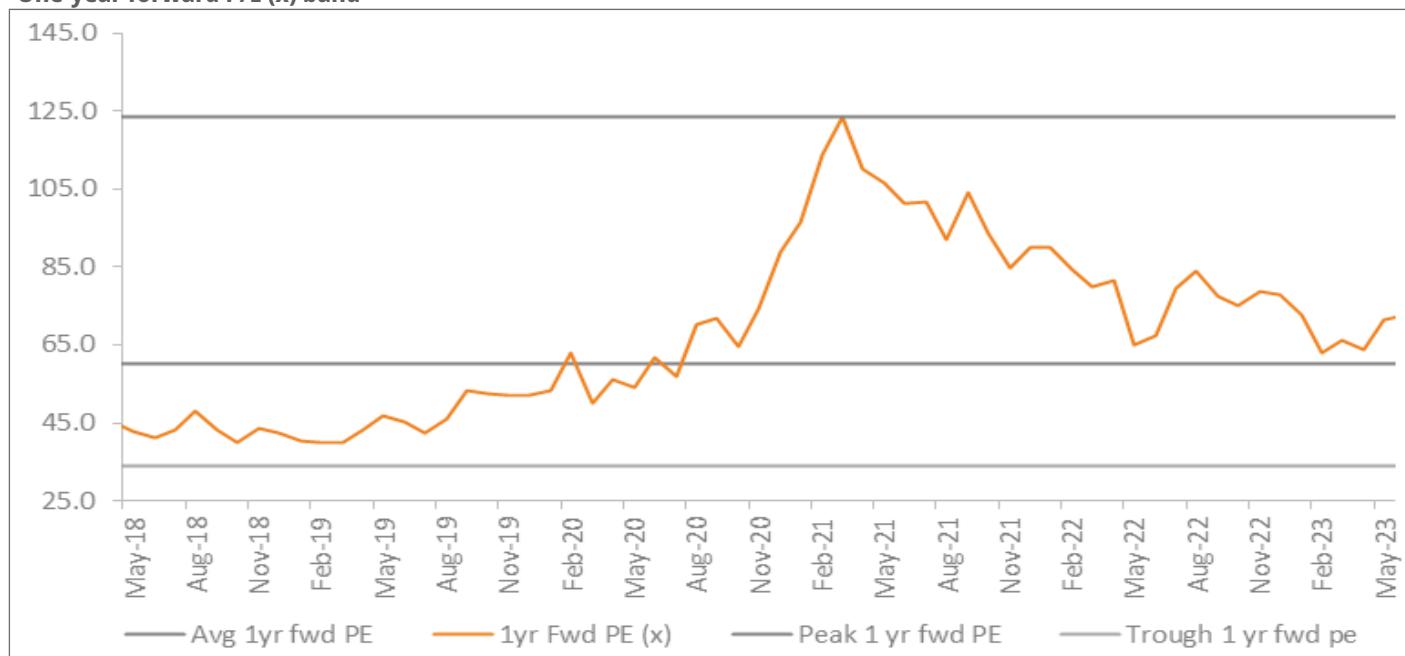
### ■ Company Outlook – Strong long-term growth levers

Honeywell's focus on developing the development of products and services, for a developing products and services, foraying into new areas besides core industries, and addressing a growing mass mid-market are expected to help it maintain a healthy earnings growth trend. Further, the company is likely to benefit from domestic long-term growth levers such as *Smart City* development, modernisation of railway stations, metro rail projects, airport expansions, RERA, GST, IIoT, and 'Make in India' initiatives.

### ■ Valuation – Retain BUY with a revised PT of Rs. 39,000

The government's focus on infrastructure sectors like oil and gas (O&G), refining, power, chemicals, metals, etc. will benefit the company. The company continues to focus on industrial digitalisation, automation, and sustainability, which is expected to drive revenue growth for longer. A wide and rich portfolio of products, solutions, digital-software, and services enables it to participate in multiple opportunities. Given the weakness in global economies and the slow pace of private capex in the Indian economy, we would like to remain cautious on the slow pace of private capex in the Indian front. We therefore downgrade our ratings from Buy to Hold, factoring in Revenue/PAT CAGR of ~8%/~14% over FY2024-FY2027E.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

## About the company

Honeywell is a leader in providing integrated automation and software solutions, including process and building solutions. The company has a broad product portfolio in environmental and combustion controls and sensing and control. The company also provides engineering services in automation and control to global clients. A Fortune India 500 company, Honeywell has more than 3,000 employees based in nine offices across India – Pune, Vadodara, Bengaluru, Hyderabad, Mumbai, Chennai, Gurgaon, Kolkata, and Jamshedpur.

## Investment theme

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 diversifying sector-specific risk and, diversifying sector-specific risk and, to a greater extent, diversifying sector-specific risk and shielding itself from the economic downturn. The company's focus on are developing new products and services, venturing into new sectors apart from core industries and addressing the increasing mass mid-market is expected to maintain its healthy earnings growth trend. The company's asset-light model, strong cash position, robust cash flow generation, healthy return ratios, and consistent dividend-paying record are some of its salient features.

## Key Risks

- A good percentage of revenue and profit comes from Honeywell International and its affiliates.
- Softening of investments domestically and globally and volatility in foreign exchange rates can affect its business operations.

## Additional Data

### Key management personnel

Atul Pai	Managing Director
Pulkit Goyal	Chief Financial Officer
Indu Daryani	Company Secretary

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	SBI Funds Management Ltd	3.69
2	Nippon Life India Asset Management	1.76
3	Aditya Birla Sun Life Asset Manage	1.74
4	Life Insurance Corp of India	1.03
5	Vanguard Group Inc/The	0.96
6	FundRock Management Co SA	0.86
7	Invesco Asset Management India Pvt	0.80
8	Axis Asset Management Co Ltd/India	0.43
9	Kotak Mahindra Asset Management Co	0.42
10	Norges Bank	0.28

Source: Bloomberg

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## Understanding the Mirae Asset 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 external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating 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: Mirae Asset Sharekhan Research

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