



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. 39,724 cr
52-week high/low:	Rs. 59,700 / 34,990
NSE volume: (No of shares)	0.06 lakh
BSE code:	517174
NSE code:	HONAUT
Free float: (No of shares)	0.2 cr

Shareholding (%)

Promoters	75.0
FII	2.7
DII	12.7
Others	9.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.2	-12.8	1.9	20.7
Relative to Sensex	-3.2	-12.8	-6.2	-2.8

Sharekhan Research, Bloomberg

Honeywell Automation India Ltd
Subdued Q2; Retain Buy

Capital Goods	Sharekhan code: HONAUT		
Reco/View: Buy	↔	CMP: Rs. 44,929	Price Target: Rs. 50,320
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- ◆ Honeywell's Q2FY2025 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. 1024/130/116 crore, down 7%/6%/5%, respectively.
- ◆ The company aims to grow at 2x GDP in India, while growth in exports may revive gradually. Focus would remain on industrial digitalisation, automation, and sustainability.
- ◆ We retain a Buy on Honeywell with a revised PT of Rs. 60,000. The stock is expected to report a revenue/PAT CAGR of 19%/26%, respectively, over FY2024-FY2026E.

Honeywell's Q2FY2025 revenue and profitability were lower than estimates. Net revenue fell 7% y-o-y due to weak execution and accounting treatment change effecting adversely. The decline in revenue led to operating profit falling by 6% to Rs. 130 crore vs. our estimate of Rs. 180 crore. OPM showed a marginal improvement of 10 bps. 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 parent entity is slow. However, the business outlook seems to be improving in the domestic market, both on the process automation and building automation side with a chunk of low gestation orders. Given the subdued first half results, we meaningfully lower our estimates.

Key positives

- ◆ OPM improved marginally by 12bps to 12.6%.

Key negatives

- ◆ Results were weak on all the fronts.
- ◆ PAT declined by 5% on account of the decline in revenue and higher tax outgo.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 50,320: The government's focus on infrastructure sectors like oil and gas (O&G), refining, power, chemicals, metals, etc. will benefit the company. The company is expected to see strong growth and is domestically aiming to grow twice that of GDP. The company continues to focus on industrial digitalisation, automation, and sustainability, which is expected to drive revenue growth for a longer period. A wide and rich portfolio of products, solutions, digital-software, and services enables it to participate in multiple opportunities. An asset-light model (nil debt), strong cash position, healthy free cash flow generation, and promising long-term growth prospects in the automation space justify the stock's premium valuation. We expect the company to clock a Revenue/PAT CAGR of ~16%/~21% over FY2024-FY2026E. Hence, we retain a Buy rating on the stock with a revised price target (PT) of Rs. 50,320.

Key Risks

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

Valuation (Standalone)

Particulars	Rs cr				
	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	3,448	4,058	4,678	5,380	6,349
OPM (%)	15.0	14.5	13.0	15.0	16.0
Net Profit	438	501	527	686	887
YoY growth (%)	29.2	14.5	5.1	30.2	29.3
EPS (Rs.)	495.5	567.2	596.1	776.1	1,004
PER (x)	107.2	93.6	89.1	68.4	52.9
P/BV (x)	9.0	7.9	7.0	6.1	5.2
EV/EBITDA (x)	54.2	43.8	44.9	33.2	25.8
ROCE (%)	15.5	15.8	14.2	16.8	19.1
ROE (%)	14.5	14.8	13.7	15.6	17.4

Source: Company; Sharekhan estimates