

HONEYWELL AUTOMATION

RESULT UPDATE



KEY DATA

Rating	REDUCE
Sector relative	Underperformer
Price (INR)	39,235
12 month price target (INR)	32,000
52 Week High/Low	55,408/31,025
Market cap (INR bn/USD bn)	347/4.0
Free float (%)	23.9
Avg. daily value traded (INR mn)	210.2

SHAREHOLDING PATTERN

	Jun-25	Mar-25	Dec-24
Promoter	75.00%	75.00%	75.00%
FII	2.76%	2.60%	2.50%
DII	12.15%	12.35%	12.51%
Pledge	0%	0%	0%

FINANCIALS

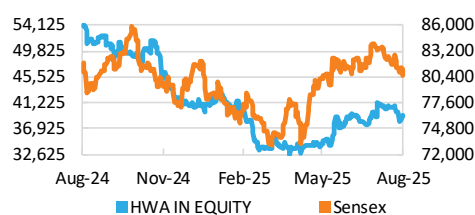
(INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Revenue	41,896	45,424	49,648	54,317
EBITDA	5,846	6,604	7,423	8,426
Adjusted profit	5,236	5,931	6,597	7,501
Diluted EPS (INR)	595.0	674.0	749.7	852.4
EPS growth (%)	4.4	13.3	11.2	13.7
RoAE (%)	13.7	13.9	13.9	14.2
P/E (x)	65.0	57.4	51.6	45.4
EV/EBITDA (x)	52.8	46.1	40.4	34.9
Dividend yield (%)	0.3	0.4	0.5	0.5

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	45,424	49,648	0.0%	0.0%
EBITDA	6,604	7,423	0.0%	0.0%
Adjusted profit	5,931	6,597	0.0%	0.0%
Diluted EPS (INR)	674.0	749.7	0.0%	0.0%

PRICE PERFORMANCE



Margin woes to continue

Honeywell Automation (HWA) reported strong ~23% YoY revenue growth in Q1FY26 to INR11.8bn, but GM deterioration led to a sharp 410bp YoY contraction in OPM to ~12%, likely driven by adverse product mix, high competition and lower exports mix, in our view. Margins continue to stay an overhang for the past few quarters now (*fierce competition due to limited TAM as core industrial capex is yet to pick up*), not to mention limited clarity on exports from parent co.

Maintain 'REDUCE' as enquiries to OI conversion and profitability remain key risks in the domestic market (O&G, refining, petrochem, etc), whereas exports growth is hazy. We rollover to Sep-27E and assign 40x (earlier 45x) for a revised TP of INR32,000 (from INR33,650).

Execution uptick; margins still a concern given competitive intensity

Revenue surged 23.2% YoY to INR11.8bn in Q1FY26. GM decreased 690bp YoY to 37.4% for the quarter (39.6% in Q4FY25) due to adverse product mix, supply constraints and a highly competitive domestic market, in our view. OPM dipped to 12% versus 16.1% in Q1FY25 (14.3% in the previous quarter). PAT margin contracted 370bp YoY to 10.5%, primarily due to subdued margins.

A heightened competitive environment in the domestic market (*private capex yet to pick up pace*) along with limited clarity on export mandates from parent co coupled with supply chain, disruptions pose significant challenges for HWA. These concerns are being actively addressed through focused initiatives on operational excellence, enhanced productivity and cost rationalisation as per the company.

HWA's portfolio consists of systems integration in process solutions, building/factory solutions along with distribution of specific building management systems and specific sensing solutions. The company's future growth is levered to two key industry shifts: i) rising automation across factories and buildings; and ii) accelerating push toward sustainability and energy transition. Once India's private sector factory capex reports a revival, HWA is strategically positioned to gain from capex across sectors such as oil & gas, renewables, utilities, metals, semiconductors, life sciences, giga-factories and infrastructure while exports pickup could be an added trigger.

Key variables to watch out for over next 12–24 months

Exports ramp-up (potentially *margin accretive* versus *domestic orders*) stays a key catalyst with HWA targeting ME, Europe and NA as priority regions. Moreover, OPM uptick, pickup in private capex, improved CUF rate, cost optimisation (including supply chain localisation), and favourable product mix are critical variables to track.

Financials

Year to March	Q1FY26	Q1FY25	% Change	Q4FY25	% Change
Net Revenue	11,831	9,604	23.2	11,145	6.2
EBITDA	1,415	1,542	(8.2)	1,594	(11.2)
Adjusted Profit	1,246	1,365	(8.7)	1,399	(10.9)
Diluted EPS (INR)	141.0	154.4	(8.7)	158.3	(10.9)

Financial Statements

Income Statement (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Total operating income	41,896	45,424	49,648	54,317
Gross profit	16,433	17,942	19,760	21,564
Employee costs	7,256	7,704	8,365	8,955
Other expenses	3,331	3,634	3,972	4,182
EBITDA	5,846	6,604	7,423	8,426
Depreciation	544	638	715	792
Less: Interest expense	67	70	74	78
Add: Other income	1,821	2,066	2,221	2,512
Profit before tax	7,056	7,962	8,855	10,068
Prov for tax	1,820	2,030	2,258	2,567
Less: Other adj	0	0	0	0
Reported profit	5,236	5,931	6,597	7,501
Less: Excp.item (net)	0	0	0	0
Adjusted profit	5,236	5,931	6,597	7,501
Diluted shares o/s	9	9	9	9
Adjusted diluted EPS	595.0	674.0	749.7	852.4
DPS (INR)	105.0	160.0	180.0	180.0
Tax rate (%)	25.8	25.5	25.5	25.5

Important Ratios (%)

Year to March	FY25A	FY26E	FY27E	FY28E
COGS (% of rev)	60.8	60.5	60.2	60.3
Employee cost (% of rev)	17.3	17.0	16.8	16.5
Other exp (% of rev)	8.0	8.0	8.0	7.7
EBITDA margin (%)	14.0	14.5	15.0	15.5
Net profit margin (%)	12.5	13.1	13.3	13.8
Revenue growth (% YoY)	3.2	8.4	9.3	9.4
EBITDA growth (% YoY)	(0.8)	13.0	12.4	13.5
Adj. profit growth (%)	4.4	13.3	11.2	13.7

Assumptions (%)

Year to March	FY25A	FY26E	FY27E	FY28E
GDP (YoY %)	6.3	6.3	6.3	6.3
Repo rate (%)	5.3	5.3	5.3	5.3
USD/INR (average)	82.0	82.0	82.0	82.0
Domestic rev gwth (%)	0.4	14.9	12.0	12.0
Exports rev gwth (%)	7.2	(0.1)	5.0	5.0
Gross margin (%)	39.2	39.5	39.8	39.7
EBITDA margin (%)	14.0	14.5	15.0	15.5
Tax rate (%)	25.8	25.5	25.5	25.5
Capex (INR mn)	859.0	500.3	700.0	700.0

Valuation Metrics

Year to March	FY25A	FY26E	FY27E	FY28E
Diluted P/E (x)	65.0	57.4	51.6	45.4
Price/BV (x)	8.4	7.6	6.8	6.1
EV/EBITDA (x)	52.8	46.1	40.4	34.9
Dividend yield (%)	0.3	0.4	0.5	0.5

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Share capital	88	88	88	88
Reserves	40,294	44,817	49,831	55,747
Shareholders funds	40,382	44,905	49,919	55,835
Minority interest	0	0	0	0
Borrowings	0	0	0	0
Trade payables	8,563	9,242	10,051	11,015
Other liabs & prov	5,104	5,405	5,720	6,052
Total liabilities	55,136	60,639	66,777	73,989
Net block	2,013	1,875	1,860	1,767
Intangible assets	0	0	0	0
Capital WIP	32	32	32	32
Total fixed assets	2,045	1,907	1,892	1,799
Non current inv	0	0	0	0
Cash/cash equivalent	32,912	37,560	41,913	47,397
Sundry debtors	10,710	11,612	12,692	13,885
Loans & advances	5,225	5,486	5,761	6,049
Other assets	3,170	2,946	3,336	3,616
Total assets	55,136	60,639	66,777	73,989

Free Cash Flow (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Reported profit	5,236	5,931	6,597	7,501
Add: Depreciation	544	638	715	792
Interest (net of tax)	50	52	55	58
Others	325	(18)	56	75
Less: Changes in WC	(31)	(13)	(676)	(525)
Operating cash flow	6,124	6,591	6,747	7,901
Less: Capex	859	500	700	700
Free cash flow	5,265	6,091	6,047	7,201

Key Ratios

Year to March	FY25A	FY26E	FY27E	FY28E
RoE (%)	13.7	13.9	13.9	14.2
RoCE (%)	18.6	18.8	18.8	19.2
Inventory days	28	30	28	29
Receivable days	87	90	89	89
Payable days	116	118	118	117
Working cap (% sales)	10.8	9.9	10.3	10.3
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.8)	(0.8)	(0.8)	(0.8)
Interest coverage (x)	79.1	84.8	90.8	98.4

Valuation Drivers

Year to March	FY25A	FY26E	FY27E	FY28E
EPS growth (%)	4.4	13.3	11.2	13.7
RoE (%)	13.7	13.9	13.9	14.2
EBITDA growth (%)	(0.8)	13.0	12.4	13.5
Payout ratio (%)	17.6	23.7	24.0	21.1

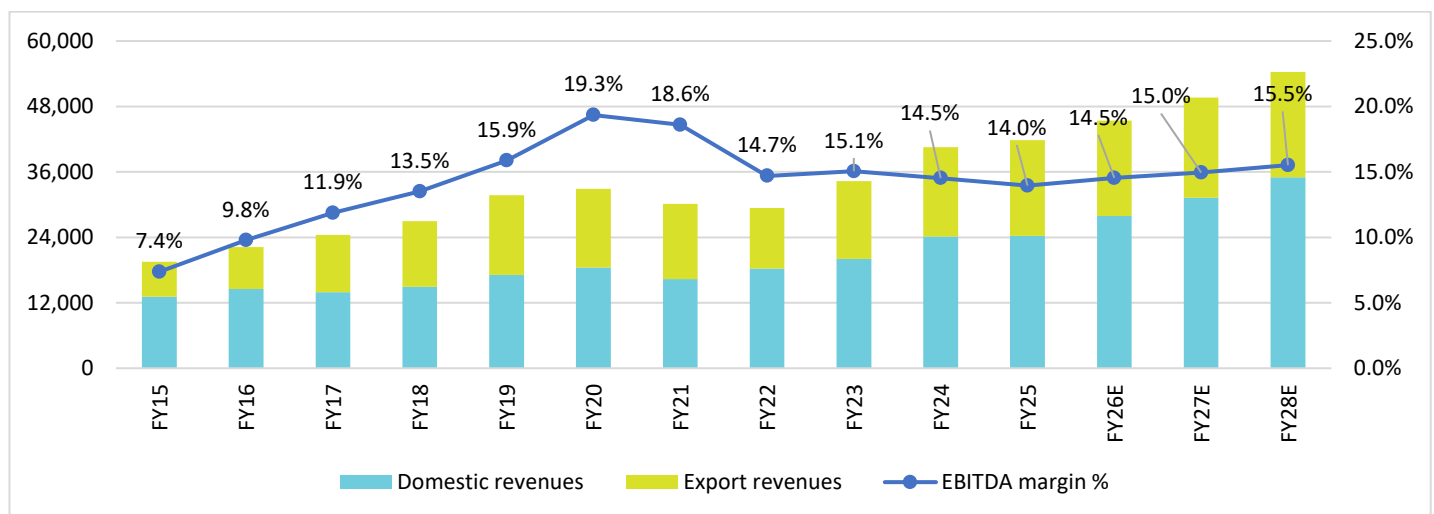
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Exhibit 1: Financial snapshot (INR mn)

Year to December	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	FY25A	FY26E	FY27E
Total revenues (net)	11,831	9,604	23.2	11,145	6.2	41,896	45,424	49,648
Direct cost	7,407	5,346	38.6	6,733	10.0	25,463	27,482	29,888
Staff cost	2,169	1,841	17.8	1,785	21.5	7,256	7,704	8,365
Other operating expenses	840	875	(4.0)	1,033	(18.7)	3,331	3,634	3,972
Total expenditure	10,416	8,062	29.2	9,551	9.1	36,050	38,820	42,225
EBITDA	1,415	1,542	(8.2)	1,594	(11.2)	5,846	6,604	7,423
Depreciation	134	132	1.5	139	(3.6)	544	638	715
EBIT	1,281	1,410	(9.1)	1,455	(12.0)	5,302	5,966	6,708
Interest	19	12	58.3	19	0.0	67	70	74
Other income	418	443	(5.6)	466	(10.3)	1,821	2,066	2,221
Exceptional items	0	0		0		0	0	0
PBT	1,680	1,841	(8.7)	1,902	(11.7)	7,056	7,962	8,855
Tax	434	476	(8.8)	503	(13.7)	1,820	2,030	2,258
Reported Profit	1,246	1,365	(8.7)	1,399	(10.9)	5,236	5,931	6,597
Adjusted Profit	1,246	1,365	(8.7)	1,399	(10.9)	5,236	5,931	6,597
Equity capital(FV:INR2)	88	88		88		88	88	88
No. of Diluted shares outstanding (mn)	9	9		9		9	9	9
Adjusted Dil. EPS	140.95	154.4		158.3		595.0	674.0	749.7
as % of net revenues								
Direct cost	62.6	55.7		60.4		60.8	60.5	60.2
Staff cost	18.3	19.2		16.0		17.3	17.0	16.8
Other operating expenses	7.1	9.1		9.3		8.0	8.0	8.0
EBITDA	12.0	16.1		14.3		14.0	14.5	15.0
Adjusted profit	10.5	14.2		12.6		12.5	13.1	13.3
Tax rate	25.8	25.9		26.4		25.8	25.5	25.5

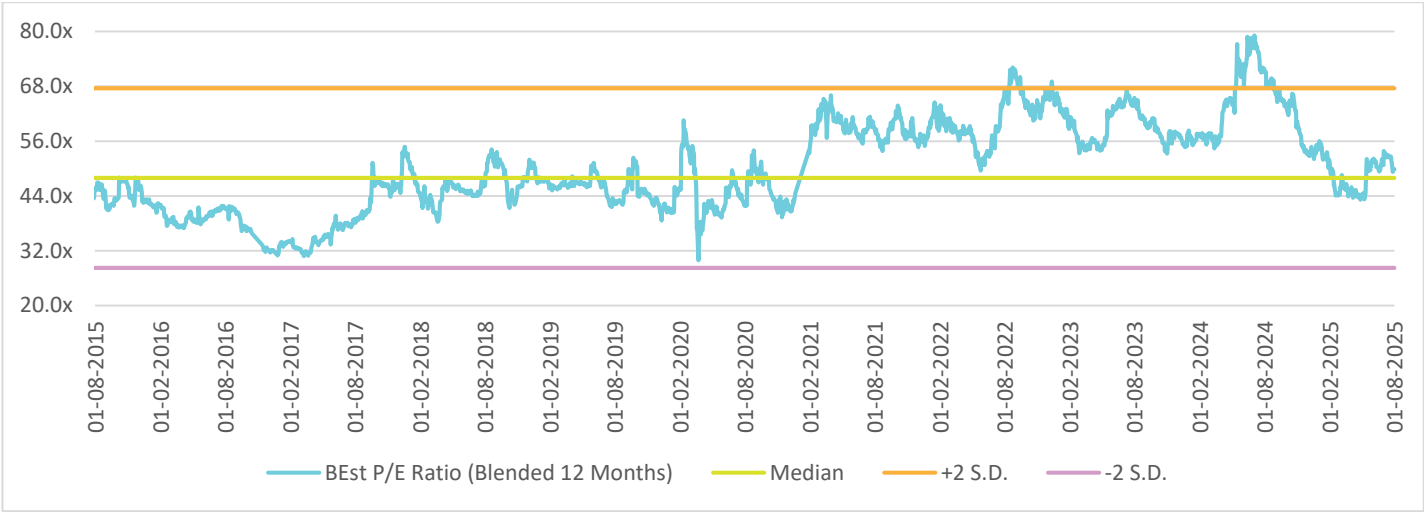
Source: Company, Nuvama Research

Exhibit 2: Limited clarity/mandate from parent group co coupled with highly competitive domestic market hampers outlook



Source: Company, Nuvama Research

Exhibit 3: One-year forward PE



Source: Bloomberg, Nuvama Research

Company Description

HAIL is a leader in providing integrated automation and software solutions, including process solutions and building solutions. It has a wide product portfolio in environmental and combustion controls, sensing and control, and provides engineering services in the field of automation and control to global clients. A Fortune India 500 company, HAIL has more than 3,300 employees based in nine offices across India—Pune, Baroda, Bengaluru, Hyderabad, Mumbai, Chennai, Gurgaon, Kolkata and Jamshedpur.

Investment Theme

Limited clarity on global mandate, risks to global growth: HAIL's growth in the past decade (11%/13% revenue/EBITDA CAGR) reflects a rising trend of greater reliance by parent on the Indian associate along with mandate for greater value addition, well reflecting in the company's overall sales/exports and EBITDA. However, weakening exports for past 3-4 quarters coupled with rising risk to global growth raise concerns wrt HAILs capability to post positive earnings surprise. In addition, in a post covid era, how does HAILs business flow from parent needs better clarity, in our view.

Limited impact of emerging segments & domestic cycle: HAIL's business in domestic market is concentrated around energy (oil n gas etc.), building solutions and process automation. Despite a healthy traction seen in many peers, HAILs business growth overall has been relatively far weaker suggesting limited impact of favourable domestic cycle. Additionally, HAILs exposure to emerging high growth segments (city gas, smart city, warehouse automation etc.) needs a better understanding in our view.

Key Risks

Additional global mandates in line with recent years: HAIL posted a significant ramp up in exports to parent/parent entities in past 4-5 years (barring FY22), which led to a material earnings & valuation re-rating. Any further ramp up in global mandate for HAIL remains an upside risk to our call. Significant momentum in global GDP: HAIL's business is highly linked to global business cycles, especially for energy and process industries. Any major uptick in global GDP could add to better earnings visibility. Rising share of emerging segments: Unlike parent, HAILs business in our view is still heavily skewed towards conventional segments (oil n gas, industrial automation etc.). Any material ramp up in new/emerging space like ware house automation, new energy, smart infra etc. might spur overall growth/return cycle for HAIL.

Additional Data

Management

Director & Chairman (Board)	Ganesh Natarajan
MD	Atul Vinayak Pai
CFO	Pulkit Goyal
CS and Compliance Officer	Indu Daryani
Auditor	Deloitte Haskins & Sells

Holdings – Top 10*

% Holding		% Holding	
SBI Funds Manag	5.11	Fundrock Manage	0.59
Nippon Life Ind	1.43	Axis Asset Mana	0.42
Aditya Birla Su	1.32	Kotak Mahindra	0.42
Vanguard Group	1.03	Norges bank	0.28
Invesco Asset M	0.84	ICICI Pru AMC	0.22

*Latest public data

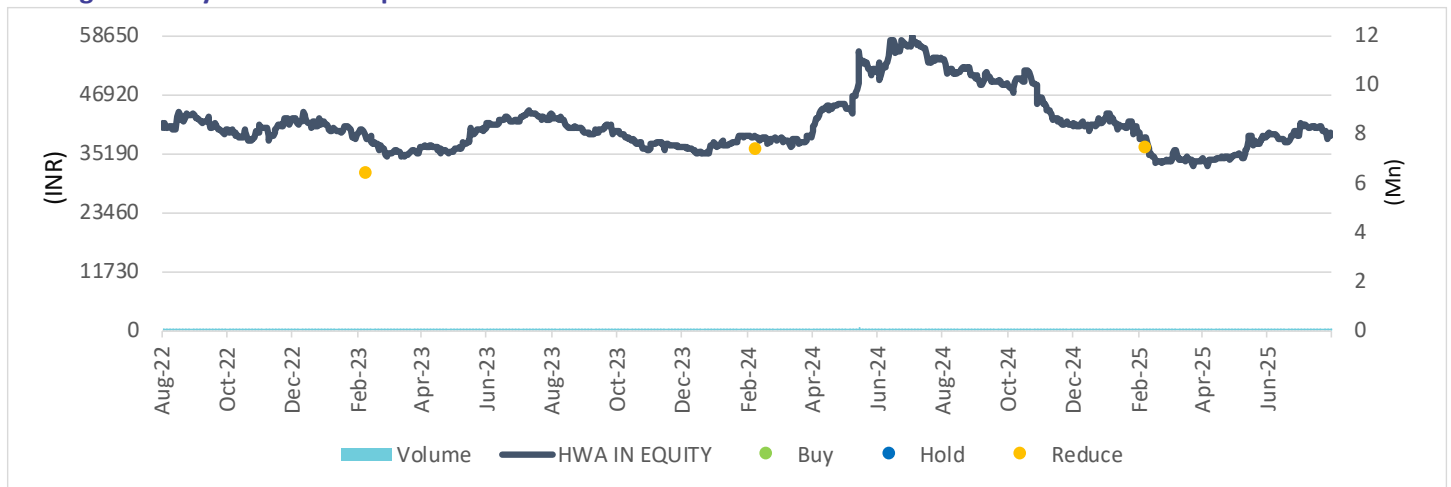
Recent Company Research

Date	Title	Price	Reco
13-May-25	Lacks near-term excitement...; <i>Result Update</i>	35,790	Reduce
07-Feb-25	Tempering growth; low visibility; <i>Result Update</i>	38,338	Reduce
29-Oct-24	Earnings uncertainty not over yet; <i>Result Update</i>	49,100	Reduce

Recent Sector Research

Date	Name of Co./Sector	Title
01-Aug-25	Thermax	PSI incentive lifts PAT; core OPM weak; <i>Result Update</i>
30-Jul-25	Hitachi Energy	Counting on better execution/margins; <i>Result Update</i>
29-Jul-25	KEC International	Gradual execution pickup beckons; <i>Result Update</i>

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	202
Hold	<15% and >-5%	66
Reduce	<-5%	36

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