

HONEYWELL AUTOMATION

RESULT UPDATE



KEY DATA

Rating	REDUCE
Sector relative	Underperformer
Price (INR)	36,745
12 month price target (INR)	32,000
52 Week High/Low	46,000/31,025
Market cap (INR bn/USD bn)	325/3.7
Free float (%)	23.9
Avg. daily value traded (INR mn)	139.4

SHAREHOLDING PATTERN

	Sep-25	Jun-25	Mar-25
Promoter	75.00%	75.00%	75.00%
FII	3.00%	2.76%	2.60%
DII	11.99%	12.15%	12.35%
Pledge	0.00%	0.00%	0.00%

FINANCIALS

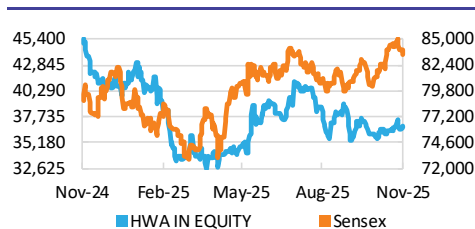
(INR mn)

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



Earnings outlook still clouded

Honeywell Automation (HWA) continued its underperformance of the last few quarters into Q2FY26 with revenue/EBITDA/PAT missing Street's estimate by 2%/16%/16%. While revenue expanded 12.3% YoY, margins slipped 120bp YoY (OPM at 11.4%). This performance, in our view, is driven by an adverse sales mix, subdued export contribution and heightened competition in the domestic market.

Currently, we have a 'REDUCE' rating with a TP of INR32,000, valuing the stock at 40x Sep-FY27E EPS as we see no upside potential despite factoring in a ~10% revenue CAGR over FY24–28E even with OPM inching up to ~15.5% by FY28E. This report marks our end of coverage on HWA.

Execution gains offset by margin strain in competitive landscape

Revenue expanded 12.3% YoY to INR11.5bn in Q2FY26. Gross margin fell 110bp YoY to 37.1% (versus 37.4% in Q1FY26), hurt by an adverse product mix, supply constraints and intensifying competition in the domestic market, in our view. H1FY26 revenue grew 17.5% YoY to INR23.3bn. OPM fell to 11.4% (12.6% in Q2FY25, 12% in Q1FY26), leading to an 80bp YoY decline in PAT margin to 10.4%, largely reflecting subdued profitability. OPMs for H1FY26 were 11.7% (versus 14.3% in H1FY25) while PAT margin for Q2 was 10.5% (down 220bp YoY). CC&E rose 6.7% YoY to INR35bn. CFO jumped ~3x YoY to INR2.4bn due to better working capital management.

A heightened competitive environment amid a delayed recovery in private capex and continued supply chain disruptions continue to weigh on performance. HWA, as per management, is taking targeted measures to counter these pressures through operational excellence programmes, productivity enhancements and cost rationalisation initiatives.

HWA's portfolio spans systems integration in process and building solutions along with select building management and sensing products. It is eyeing 2x GDP growth driven by focus on industrial digitalisation, automation and sustainability offering solutions for battery manufacturing, electrolyzers, ethanol fuel and BESS, in addition to O&G, refining, petrochemicals, pharma and infrastructure.

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

We believe a scale-up in exports is a key catalyst for the stock, which could take earnings up a notch, as Middle East, Europe and North America stay top overseas markets for HWA (exports being more margin accretive). Higher capacity utilisation rate, cost optimisation initiatives including localisation of supply chain, healthy order mix, etc, remain key variables.

Financials

Year to March	Q2FY26	Q2FY25	% Change	Q1FY26	% Change
Net Revenue	11,494	10,239	12.3	11,831	(2.8)
EBITDA	1,316	1,290	2.0	1,415	(7.0)
Adjusted Profit	1,195	1,151	3.8	1,246	(4.1)
Diluted EPS (INR)	135.2	130.2	3.8	141.0	(4.1)

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 %)	6.5	6.6	7.0	7.5
Repo rate (%)	6.3	5.0	4.5	5.5
USD/INR (average)	84.6	87.5	87.0	88.0
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

HONEYWELL AUTOMATION

Exhibit 1: Financial snapshot (INR mn)

Year to December	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	FY25A	FY26E	FY27E
Total revenues (net)	11,494	10,239	12.3	11,831	(2.8)	41,896	45,424	49,648
Direct cost	7,232	6,328	14.3	7,407	(2.4)	25,463	27,482	29,888
Staff cost	2,016	1,795	12.3	2,169	(7.1)	7,256	7,704	8,365
Other operating expenses	930	826	12.6	840	10.7	3,331	3,634	3,972
Total expenditure	10,178	8,949	13.7	10,416	(2.3)	36,050	38,820	42,225
EBITDA	1,316	1,290	2.0	1,415	(7.0)	5,846	6,604	7,423
Depreciation	129	135	(4.4)	134	(3.7)	544	638	715
EBIT	1,187	1,155	2.8	1,281	(7.3)	5,302	5,966	6,708
Interest	22	14	57.1	19	15.8	67	70	74
Other income	442	412	7.3	418	5.7	1,821	2,066	2,221
Exceptional items	0	0		0		0	0	0
PBT	1,607	1,553	3.5	1,680	(4.3)	7,056	7,962	8,855
Tax	412	402	2.5	434	(5.1)	1,820	2,030	2,258
Reported Profit	1,195	1,151	3.8	1,246	(4.1)	5,236	5,931	6,597
Adjusted Profit	1,195	1,151	3.8	1,246	(4.1)	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	135.80	130.8		141.6		595.0	674.0	749.7
as % of net revenues								
Direct cost	62.9	61.8		62.6		60.8	60.5	60.2
Staff cost	17.5	17.5		18.3		17.3	17.0	16.8
Other operating expenses	8.1	8.1		7.1		8.0	8.0	8.0
EBITDA	11.4	12.6		12.0		14.0	14.5	15.0
Adjusted profit	10.4	11.2		10.5		12.5	13.1	13.3
Tax rate	25.6	25.9		25.8		25.8	25.5	25.5

Source: Company, Nuvama Research

Company Description

HWA 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: HWA'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 few quarters coupled with rising risk to global growth raise concerns w.r.t. HWAs capability to post positive earnings surprise. In addition, in a post Covid era, how does HWAs business flow from parent needs better clarity, in our view.

Limited impact of emerging segments & domestic cycle: HWA'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, HWAs business growth overall has been relatively far weaker suggesting limited impact of favourable domestic cycle. Additionally, HWAs 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: HWA 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 HWA remains an upside risk to our call. Significant momentum in global GDP: HWA'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, HWAs 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 HWA.

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	5.15	Fundrock Manage	0.59
Nippon Life Ind	1.42	ICICI Pru AMC	0.44
Vanguard Group	1.05	Kotak Mahindra	0.42
Aditya Birla Su	1.02	Axis AMC	0.36
Invesco Asset M	0.92	Norges bank	0.27

*Latest public data

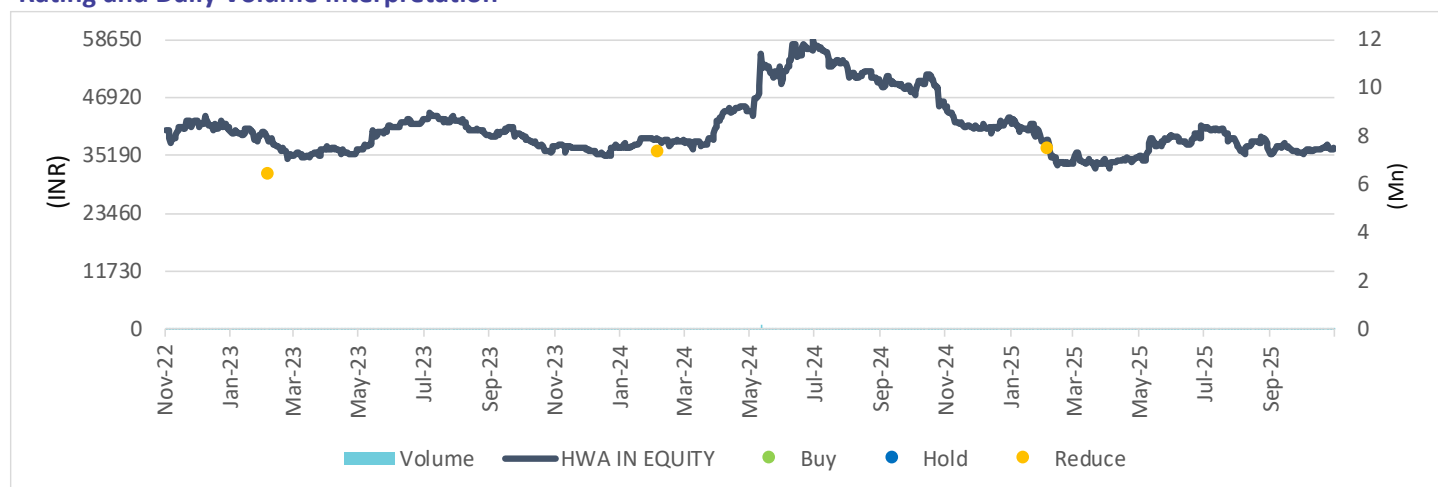
Recent Company Research

Date	Title	Price	Reco
01-Aug-25	Margin woes to continue; <i>Result Update</i>	39,235	Reduce
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

Recent Sector Research

Date	Name of Co./Sector	Title
03-Nov-25	GE Vernova T&D India	Running at full throttle; <i>Result Update</i>
01-Nov-25	Apar Industries	Near-term caution; secular story strong; <i>Result Update</i>
31-Oct-25	Kalpataru Projects	Strong execution underpins PAT beat; <i>Result Update</i>

Rating and Daily Volume Interpretation



Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	205
Hold	<15% and >-5%	68
Reduce	<-5%	37

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