

## Honeywell Automation India

Still lot of honey in the well

All the business segments this MNC subsidiary operates in continues to have encouraging outlook

Buy	Honeywell Automation India
BSE Code	517174
NSE Code	HONAUT
Bloomberg	THW@IN
Reuter	TTHO.BO
52-week High/Low	Rs 2003 /Rs 935
Current Price	Rs 1650 (as on 4th April 2007)

Related Tables
▶ <a href="#">Honeywell Automation India: Financials</a>
▶ <a href="#">Honeywell Automation: Standalone Results</a>

Honeywell Automation India is a 81% subsidiary of Honeywell, US. Honeywell International is a \$30 billion diversified technology and manufacturing leader, serving customers worldwide with aerospace products and services; control technologies for buildings, homes and industry; automotive products; turbochargers; and specialty materials. Based in Morris Township, N.J., Honeywell's shares are traded on the New York, London, Chicago and Pacific Stock Exchanges. It is one of the 30 stocks that make up the Dow Jones Industrial Average and is also a component of the Standard & Poor's 500 Index.

Honeywell Automation India has five major divisions viz. Honeywell Process Solutions (HPS), Honeywell Building Solutions (HBS), Environment & Combustion Control (ECC) Products, Sensing & Control (S&C) Products and Global Services (GS).

### Large orders to sustain high growth in Process Solutions business

Honeywell Process Solutions (HPS) business serves core industrial sectors of Refining, Oil & Gas, Pulp & Paper, Metal and Cement etc. General Industrial growth and increasing investments in power generation, new investments in metals and investments in refineries for expansion as well as Euro 3 and Euro 4 compliance projects are driving growth of this business.

The HPS business has won major contracts from Reliance, Hindustan Petroleum Corporation Ltd., Bongaigaon Refinery and Petrochemicals Ltd., Indian Petroleum Corporation Ltd., Indal, Hindustan Zinc, Steel Authority of India Ltd., Italcementi, Reliance Energy etc. HPS successfully expanded its project operations in Chennai and Jamshedpur to be closer to customer which is delivering results in faster project close outs and higher customer satisfaction.

In the calendar year 2006, the Company successfully automated about 200 petrol stations spread all over India for oil majors like Indian Oil Corporation Ltd., IBP Co. Ltd. and Hindustan Petroleum Corporation Ltd. Automation in petrol stations is a major initiative taken

by all the oil companies for the first time in India for consumer satisfaction and retention. It is an emerging market and the Company has largest market share in this segment. It has recently received confirmation from oil majors like Indian Oil Corporation Ltd., and Hindustan Petroleum Corporation Ltd., to go ahead with automation of their more than 1200 petrol stations to be completed in 2007. With success and valuable experience for petrol station automation, a new opportunity has opened not only for domestic market but also for looking at many global markets. This business has experienced good growth in last 3 years & is expected to show similar high growth in FY 2007.

### **Higher margin Building Solutions business will continue to grow at faster rate**

Honeywell Building Solutions (HBS) business provides solutions and services for facilities such as Commercial & Industrial Buildings, IT & ITES industry, Hospitals, Hotels, Airports, Mass Rapid Transit (MRT) etc. Solutions include, Fire automation, Security solutions, HVAC control, Integrated Building Management Systems, Energy reduction contracts and many other facility management services.

This business is the fastest growing business and earns the highest profit margins. The major orders won during 2006 include Tata Consultancy Services, Mandke Research, Magus, IBM, Flextronics, Regenesys etc. These orders were bagged across the entire offering range of Solutions, Services and Energy across major verticals of Office Space/IT Space, Healthcare, Hospitality, Drugs & Life Sciences, Retail, Infrastructure and Industrial Complexes. HBS was also recognized across the entire value chain by bagging 6 national level awards during the year from reputed organizations such as the Confederation of Indian Industry, MEDA, Frost & Sullivan and several other recognitions for its market leadership in this business.

This sector is witnessing high demand due to high growth of construction sector as well as increasing use of such modern solution in new upcoming buildings. Good opportunities for building automation are also seen in new investments that are taking place for Airport modernization and SEZ's.

### **Boom in high-end construction projects augurs well for ECC products business**

Environment & Combustion Control (ECC) Products business provides various products such as thermostats, valves, HVA controllers, etc., that are required for building automation. The ECC business division provides integrated product solutions in heating, ventilation, cooling & refrigeration, air purification, zoning, humidification, air conditioning, switches, sensors and controllers. From home to business, ECC offers a superior and complete portfolio of control products.

High growth of construction industry in India is fuelling growth in this business. The major orders received during 2006 were from Voltas, Prestige Builders and Parle Products. In 2006 NOVAR building management business was integrated successfully in ECC India as part of global acquisition. The Company is working actively to add System Integrators for Novar Building Control products to serve a wider market in the rapidly growing construction segment. It has already appointed 10 System Integrators and plans to continue to expand on this program in 2007.

The company expects this business to continue to grow rapidly.

### **New products to new clients to drive growth of S&C products business**

Sensing & Control (S&C) Products business provides various sensors and switches to manufacturing and automobile industry. This business serves primarily OEMs in various manufacturing industries such as auto, medical instrumentation, IT, etc. This business is

experiencing good growth due to growth of manufacturing industry as well as increasing use of sensors in various equipments.

During 2006, this business won major orders from Indfoss, Delta Engineer, Terex Vectra, Ashok Leyland and Escorts. Honeywell has started supplying Crank sensors and pressure sensors to Tata Motors. These sensors are installed on the engines and critical parts of the engines. Tata Motors has started using Honeywell sensors in their passenger car.

The Company has initiated S&C Transportation as a growth initiative. This initiative has started delivering results and it has won couple of projects, which will bring revenue growth year on year. Some of the major customers are Tata Motors, Escorts, BEML, Action Construction, Caterpillar, Larsen & Tubro Komatsu, Ingersol Rand, Godrej and Voltas etc.

### **Growing global business**

Global Services (GS) business, which offers solutions and services to overseas requirements of Honeywell and other customers, is showing strong growth due to increased flow of work from Honeywell and products exports.

The company's Forex earnings grew 56% to Rs 194 crore in 2006 on top of 100% growth recorded in 2005.

With a complete focus on quality engineering services in the field of Automation and Control, this business division offers solutions such as Basic Design, Functional & Detailed Design and Testing and Plant commissioning to Honeywell affiliates as well as other clients. The workforce includes specialists in industrial, manufacturing and building automation having strong domain knowledge and an innate ability to understand various platforms, processes, software applications, installations and implementations. Global Engineering Services has already exceeded 1 Million hours of engineering services spread across all continents.

The electronic systems export facilities initiated in 2005 were expanded to double its capacity and were utilized at 100% in the very first year of its commercial operations.

The Company last year had started activity of providing complete turn key solutions for some large overseas projects. First major order of this kind has been received by the company for a project in South Africa and this activity is picking up well with many more proposals underway.

### **Secure growth from Security Systems business**

The Honeywell Security Group (HSG) is one of the world's leading and most experienced manufacturers of electronic security systems protecting millions of homes, businesses and government facilities around the world. With over \$40 million a year invested in research and development, the division strives to bring out the best and most innovative security products. The best global technologies are leveraged at the Engineering Centre of Excellence in the US, China, India, Scotland and France. New commercial products include: Integrated Digital Video Manager (DVM), Enterprise Network Recorder (NVR), Rapid Eye LT and the LobbyWorks visitor management system. These new products are all designed to drive up revenues while making installations and maintenance easier.

The Company started the distribution of Honeywell Security Group (HSG) products in 2005. This initiative will continue to grow along with the synergies that exist with other solutions businesses like HBS and HPS.

### **Major investments in capacity expansion to go on stream by June 2007**

HPS is making major investments to expand its manufacturing facilities to cater to the envisaged high growth and expanded facilities are expected to be completed by June 2007. The project will create 1,70,000 sq. feet of additional space. Currently its manufacturing facilities are spread over 36,000 sq. feet only. This shows the kind of growth the company is expecting in future.

### Reasonable valuation

At current price of Rs 1650, FY 2006 actual EPS of Rs 68.4 is discounted 24 times and FY 2007 projected EPS of Rs 88.9 is discounted only 18.6 times.

### Honeywell Automation India: Financials

	0403 (12)	0412 (9)	0512 (12)	0612 (12)	0712 (12P)
Sales	330.30	280.90	493.00	643.90	811.31
OPM (%)	9.5	8.8	10.2	13.3	14.3
OP	31.30	24.70	50.50	85.80	116.02
Other inc.	5.10	1.90	2.10	4.20	8.00
PBIDT	36.40	26.60	52.60	90.00	124.02
Interest	3.70	1.80	3.50	2.20	1.00
PBDT	32.70	24.80	49.10	87.80	123.02
Dep.	9.20	7.40	11.10	10.20	11.22
PBT	23.50	17.40	38.00	77.60	111.80
EO	3.40	11.00	0.00	0.00	0.00
PBT after EO	20.10	6.40	38.00	77.60	111.80
Tax	-5.20	-4.00	3.80	17.40	33.54
PAT	25.30	10.40	34.20	60.20	78.26
PPT	0.00	1.90	0.10	2.20	0.00
PAT after PPT	25.30	8.50	34.10	58.00	78.26
EPS (Rs)*	26.7	#	38.9	68.4	88.9

\* On current equity of Rs 8.80 crore; Face Value: Rs 1 EPS is calculated after excluding EO and PPT (Prior period items)

# not annualised due to seasonal nature of business

(P): Projections

EO: Extraordinary items

Figures in Rs crore

Source: Capitaline Corporate Database

### Honeywell Automation: Standalone Results

	0612 (3)	0512 (3)	Var. (%)	0612 (12)	0512 (12)	Var. (%)
Sales	195.40	142.00	38	643.90	493.00	31
Operating Margins (%)	13.2	11.1		13.3	10.2	

Operating Profits	25.70	15.70	64	85.80	50.50	70
Other Income	2.80	1.10	155	4.20	2.10	100
PBIDT	28.50	16.80	70	90.00	52.60	71
Interest	0.20	0.60	-67	2.20	3.50	-37
PBDT	28.30	16.20	75	87.80	49.10	79
Depreciation	3.00	3.00	0	10.20	11.10	-8
PBT	25.30	13.20	92	77.60	38.00	104
Tax	7.90	2.10	276	17.40	3.80	358
Net Profit	17.40	11.10	57	60.20	34.20	76
Tax of Earlier Year	2.20	0.00		2.20	0.10	999
Net Profit Reported	15.20	11.10	37	58.00	34.10	70
EPS	#	#		68.4	38.9	

\* On current equity of Rs 8.80 crore; Face Value: Rs 10

(P): Projections

# not annualised due to seasonal nature of business

Figures in Rs crore

Source: Capitaline Corporate Database