Honeywell Automation India | ADD

Margins struggle till legacy projects continue

Gross margin pressure worsens in 1HFY26 from already weak levels in FY25. The wind down of legacy projects can however lead to partial margin recovery in FY27E. The stabilisation of provisioning in 1HFY26 vs FY25 provides us hope that legacy projects issue is stabilizing. HWA continues to secure marquee orders in airport lighting as well as for lithium Giga factory and has materially controlled discretionary costs. Stock price is flattish vs pre-Covid levels (Feb'20) largely reflecting EPS stagnation. Execution and margin issues continue to weigh and we expect a rebound only when the margin issue normalizes. We value HWA at 50x P/E (1HFY27) for our TP of INR39,780 and resume coverage with ADD rating.

- **Order inflows are decent over FY22-25 but execution issues continue to haunt:** HWA order inflow growth from third parties over FY22-25 has ranged between 11-31% (FY22: 31% FY23/FY24: 11% and FY25: 14%) which in our view is healthy. However, the sales growth CAGR from third-parties was 7% (FY22-25) and that from other Honeywell global affiliates were at 22% CAGR, resulting in overall revenue CAGR of 12%. Further, India growth CAGR at 10% trailed exports at 17% (FY22-25). This potentially highlights execution issues in India as related parties account for almost the entire exports.

- **HWA appears to be facing cost overrun issues at legacy projects for third parties:** HWA has increased provisioning for onerous contracts where it expects costs to complete projects. In FY25 INR1.0bn of fresh provisions were created taking overall provisions (net of use and reversals) to INR0.80bn (3% of third party sales /2% overall sales in FY25) which are at decadal peaks. In 1HFY26 the provision levels are stable vs. FY25 highlighting some stabilisation. If the trend persists in 2HFY26 the issue of legacy orders maybe behind for the time being (FY27+).

- **Order prospects are strong, resolution of legacy contracts and services recovery can revive margins:** HWA appears to have implemented cost controls reflected in falling other expenses levels (lower travel cost potentially reflecting slower 7% CAGR in services over FY22-25). Global management aspires for USD1.0bn revenues in CY25 from India (vs USD900mn in CY24) and double digit growth over next several years. HWA has secured marquee contracts among which is aircraft ground lighting at Noida airport, a lithium giga factory automation order among others. Management is focusing on automation in industrials and buildings and on energy transition and has highlighted strong prospects in the annual report.

- **1HFY26 witnessed execution and margin challenges that may persist into 2HFY26**: 2QFY26 sales at INR11.5bn (+12% YoY, -3% QoQ) missed our estimate by 3%. Gross margins at 37.1% (down 110bp YoY) is lower than historic levels of 40-50% highlighting legacy project issues. As a result EBITDA margin at 11.4% (down 100bp YoY) missed our estimate by 70bp. PAT at INR1.20bn (+4% YoY) missed our estimate by 5%. The margin challenges may persist into 2HFY26 as legacy orders wind down.

- **Value at 50x P/E 1HFY27, valuations reasonable but share price uptick maybe delayed till legacy issues are sorted**: Our P/E is at the lower end (-1 Stdev of 5Y average) of post Covid range of 50-65x to derive a TP of INR39,780. We resume coverage with ADD rating. With emerging clarity on margins and services rebound stock can rebound to INR50,000 levels (~60x P/E). Further rise in legacy project share in the orderbook mix leading to persistent weakness of gross margins is the key downside risk (up to 8-9% downside)

Financial Summary					(INR mn)
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	40,582	41,896	46,658	52,247	58,508
Sales Growth (%)	17.7	3.2	11.4	12.0	12.0
EBITDA	5,894	5,846	5,484	6,772	9,325
EBITDA Margin (%)	14.5	14.0	11.8	13.0	15.9
Adjusted Net Profit	5,014	5,236	4,936	6,012	8,047
Diluted EPS (INR)	567.1	592.2	558.2	680.0	910.1
Diluted EPS Growth (%)	14.5	4.4	-5.7	21.8	33.9
ROIC (%)	50.0	51.4	44.4	47.1	55.9
ROE (%)	14.8	13.7	11.6	12.8	15.2
P/E (x)	62.7	60.0	63.6	52.3	39.0
P/B (x)	8.7	7.8	7.1	6.4	5.6
EV/EBITDA (x)	49.5	49.1	51.8	41.5	29.6
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.4

Source: Company data, JM Financial. Note: Valuations as of 14/Nov/2025

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Recommendation and Price Target	
Current Reco.	ADD
Previous Reco.	NR
Current Price Target (12M)	39,780
Upside/(Downside)	12.0%
Previous Price Target	0
Change	NA

Key Data – HWA IN	
Current Market Price	INR35,530
Market cap (bn)	INR314.1/US$3.5
Free Float	24%
Shares in issue (mn)	8.8
Diluted share (mn)	8.8
3-mon avg daily val (mn)	INR158.6/US$1.8
52-week range	43,800/31,025
Sensex/Nifty	84,563/25,910
INR/US$	88.7

Price Performance			
%	1M	6M	12M
Absolute	-1.7	-6.2	-15.6
Relative*	-2.4	-8.7	-22.6

** To the BSE Sensex*

Results impacted by gross margin headwinds

- **Sales largely along expected lines**: Sales at INR11.49bn (+12% YoY, -3% QoQ) was modestly below our estimates but largely along seasonal trends.
- **Gross margin weakness continues resulting in EBITDA miss**: Gross margin at 37.1% (down 110bp YoY and 30bp QoQ) was weaker than our estimate of 37.5%. We believe continuing losses on "legacy" domestic orders is impacting margins (INR1.0bn+ of fresh provisions were made in FY25 on loss orders). This led EBITDA margin at 11.4% (down 115bp YoY, 50bp QoQ) missing our estimate of 12.1%. EBITDA at INR1.32bn (+2% YoY, -7% QoQ) thus missed our estimates by 8%.
- **PAT missed as well by 5%**: PAT at INR1.20bn (+4% YoY, -4% QoQ) thus missed our estimates. The miss was moderated by slightly higher other income levels

Exhibit 1. HWA results summary: Margin weakness still continues possibly driven by legacy domestic orders

INR mn	2QFY25	3QFY25	4QFY25	1QFY26	2QFY26	JMFe	% YoY	% QoQ	vs JMFe
Revenue	**10,239**	**10,908**	**11,145**	**11,831**	**11,494**	**11,831**	**12%**	**-3%**	**-3%**
COGS	6,328	7,056	6,733	7,407	7,232				
Gross profit	3,911	3,852	4,412	4,424	4,262	4,437	9%	-4%	-4%
Gross profit margin (%)	38.2%	35.3%	39.6%	37.4%	37.1%	37.5%	(112)	(31)	(42)
Employee expenses	1,795	1,835	1,785	2,169	2,016	2,150	12%	-7%	-6%
% of sales	17.5%	16.8%	16.0%	18.3%	17.5%	18.2%			
Other expenses	826	597	1,033	840	930	850	13%	11%	9%
% of sales	8.1%	5.5%	9.3%	7.1%	8.1%	7.2%			
EBITDA	**1,290**	**1,420**	**1,594**	**1,415**	**1,316**	**1,437**	**2%**	**-7%**	**-8%**
EBITDA margin (%)	12.6%	13.0%	14.3%	12.0%	11.4%	12.1%	(115)	(51)	(69)
DDA	135	138	139	134	129	135			
EBIT	**1,155**	**1,282**	**1,455**	**1,281**	**1,187**	**1,302**	**3%**	**-7%**	**-9%**
EBIT margin (%)	11.3%	11.8%	13.1%	10.8%	10.3%	11.0%	(95)	(50)	(67)
Finance costs	14.0	22.0	19.0	19.0	22.0	19.0			
Other income	412	500	466	418	442	400			
PBT	**1,553**	**1,760**	**1,902**	**1,680**	**1,607**	**1,683**	**3%**	**-4%**	**-4%**
PBT margin (%)	15.2%	16.1%	17.1%	14.2%	14.0%	14.2%	(119)	(22)	(24)
Taxes	402	439	503	434	412	424			
Tax rate (%)	25.9%	24.9%	26.4%	25.8%	25.6%	25.2%			
PAT	**1,151**	**1,321**	**1,399**	**1,246**	**1,195**	**1,259**	**4%**	**-4%**	**-5%**
PAT margin (%)	11.2%	12.1%	12.6%	10.5%	10.4%	10.6%	(84)	(13)	(25)
No of shares	8.84	8.84	8.84	8.84	8.84	8.84			
EPS	130.18	149.41	158.23	140.93	135.16	142.41			

Source: Company, JM Financial

Margin issues appear to be in domestic orders; potential margin revival from FY27E as provisioning levels seem to stabilise

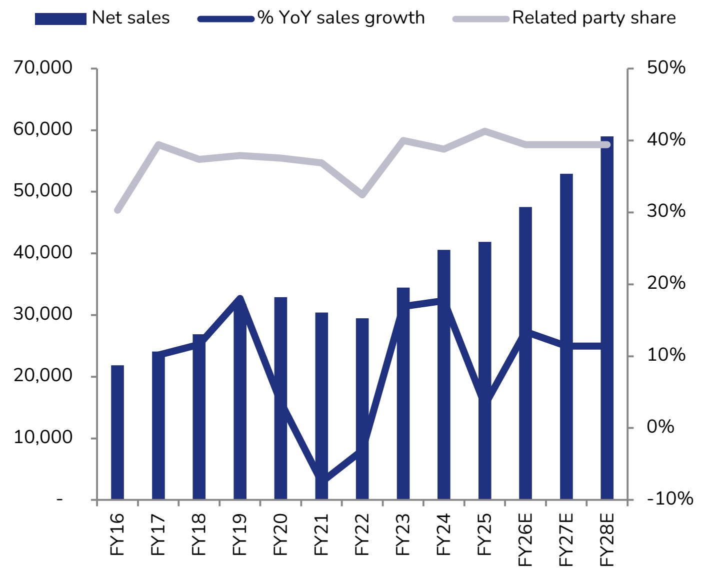
We have witnessed healthy increase in third party order inflows from FY22 to FY25. Third party ordering growth has ranged from peaks of 31% in FY22 to 11%-14% levels over FY23-25 (14% YoY in FY25) which in our view appears robust. Despite healthy growth in orders, execution in these orders has witnessed a modest CAGR of 7% over FY22-25 highlighting execution issues as the growth clearly trails ordering growth.

Sales to related parties are robust at 22% CAGR to INR17.3bn in FY22-FY25 supporting strong export CAGR of 17% ahead of domestic sales CAGR of 10% (FY22-25). Exports now appear to be entirely to global Honeywell entities. The services CAGR has been modest at 7% over FY22-25 to INR12bn highlighting growth is driven by product sales (even within exports product sales are robust).

Gross margins have fallen from peak levels of 45-50% prevailing earlier to 37% in 1HFY26. While declining service revenues in the mix is a reason it does not appear to be the principal driver. Rise in provisioning for legacy orders (fresh provisions of INR1.0bn made in FY25) suggest issues in domestic execution and significant cost overruns. The provision for legacy orders on 1HFY26 balance sheet appears stable vs. FY25 levels and thus on the margin, situation appears to be stabilizing (though not declining yet).

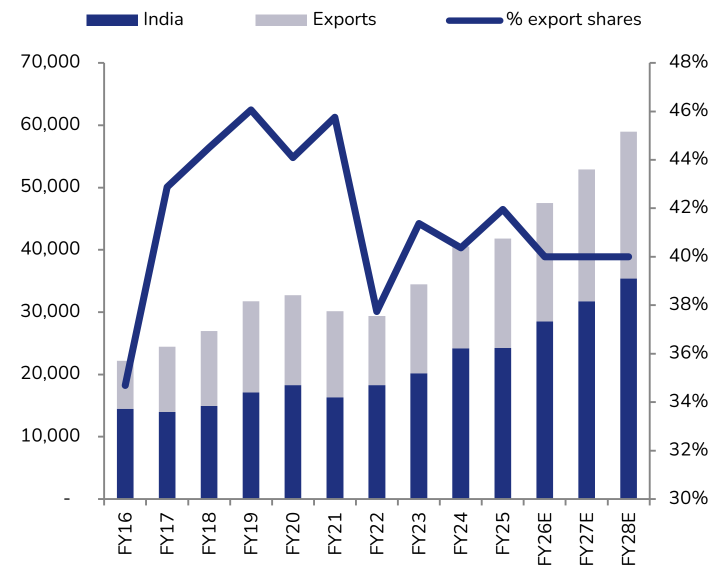
We believe once the issue of legacy orders are behind, gross margins can recover to 40-45% ranges which can drive potential re-rating. We note management has brought in cost controls which has reduced other discretionary expenses like travel and conveyance cost

Exhibit 2. Sales growth supported by Honeywell global entities



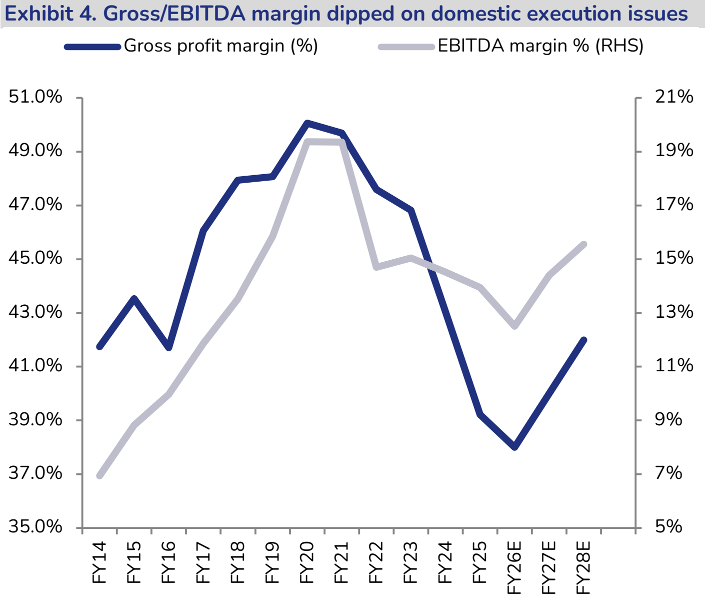
Source: Company, JM Financial

Exhibit 3. Growth supported by revival in exports, India sales soft



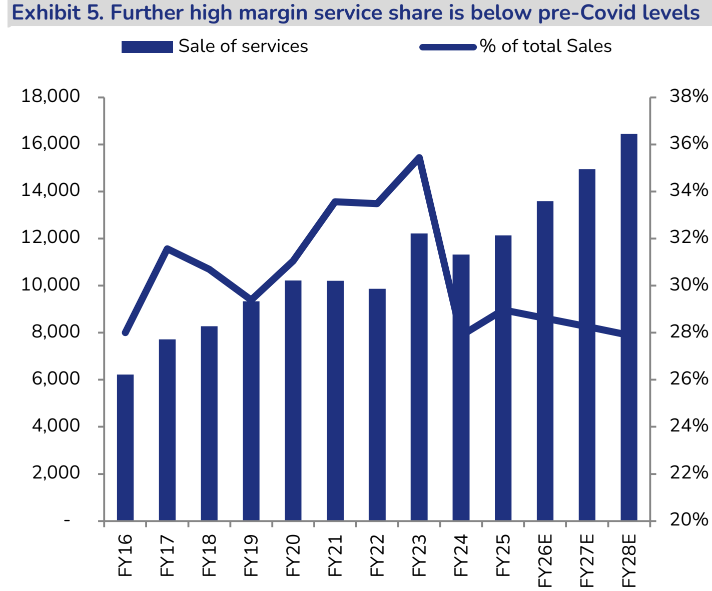
Source: Company, JM Financial

Exhibit 4. Gross/EBITDA margin dipped on domestic execution issues



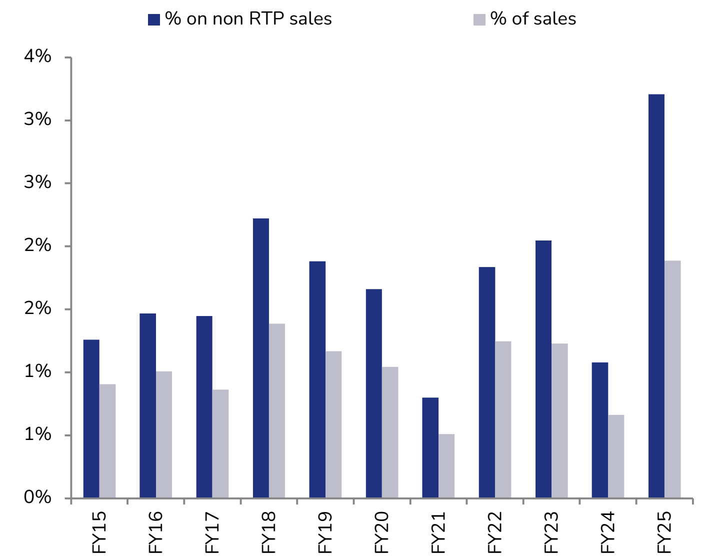
Source: Company, JM Financial

Exhibit 5. Further high margin service share is below pre-Covid levels



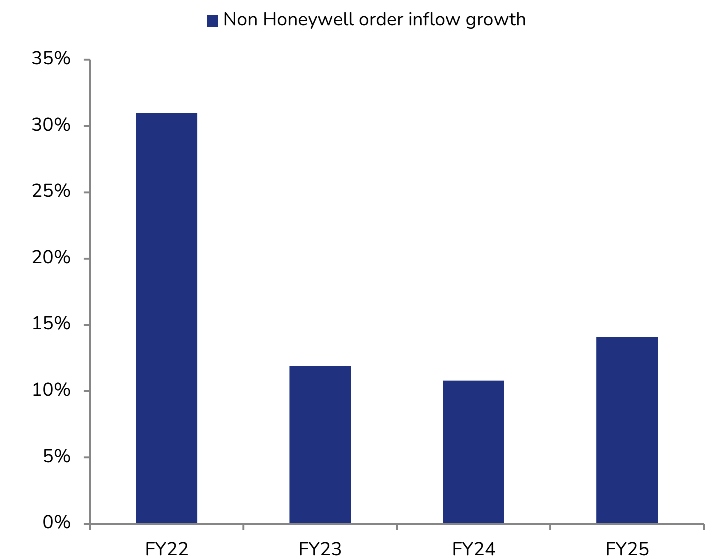
Source: Company, JM Financial

Exhibit 6. Loss order provisioning is impacting margins



Source: Company, JM Financial

Exhibit 7. Non Honeywell order inflows robust (double digits)



Source: Company, JM Financial

Ordering outlook robust; marquee orders secured for airports and lithium Giga factories secured

HWA has secured marquee contracts among which is aircraft ground lighting at Noida airport, a lithium Giga factory automation order among others. Management is focusing on automation in industrials and buildings and on energy transition and highlighted strong prospects in the annual report for FY25.

Further, global management has stated its intent to increase revenues from India (HWA is one part of it) to USD1.0bn in CY25 from USD0.9bn in CY24. Further, management expects double digit growth as well coupled with reviving software sales from India.

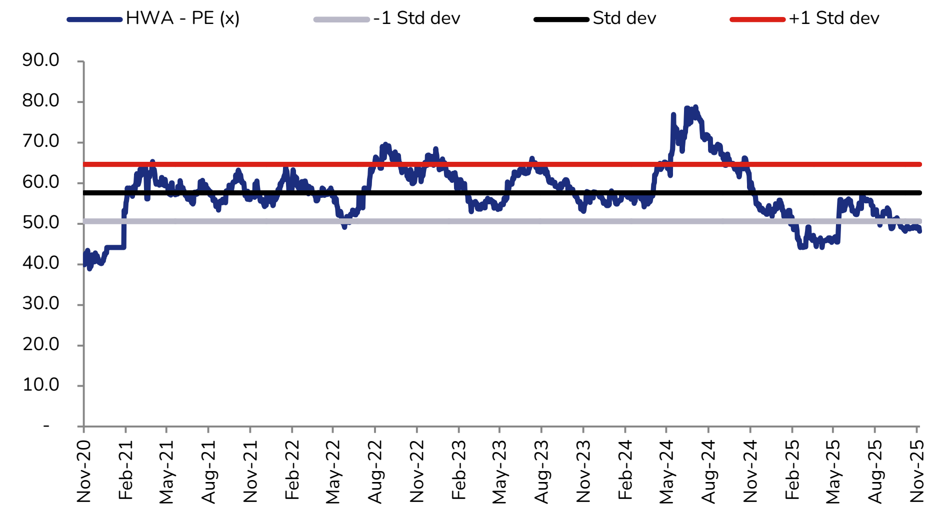
Value at 50x 1HFY27 P/E (in-line with SIEM/ABB); resume coverage with ADD rating; margin recovery can drive re-rating

Healthy third party order inflows over the years coupled with increased focus of Honeywell Inc. (HON US) on India as a high growth market should drive revenue growth. However, the weakness of gross margins is a key investor concern. We believe margins can recover once the legacy loss orders are completed and can normalize to 40-45% levels.

In the event gross margins normalize we should witness benefits of operating leverage (as cost structure is now leaner on controls over discretionary costs) on EBITDA margins (HWA had earlier achieved EBITDA margins around 18-21%). The **margin expansion can re-rate the stock to 60-70x (based on past trends) and can lead to stock trading close to INR50,000+ levels**.

Till such time we believe a 50x P/E in-line with peers SIEM and ABB appears justified and thus we derive a TP of INR39,780 and resume coverage with ADD rating.

Exhibit 8. HWA 1Y fwd P/E is currently at lower end of valuation range limiting downside risks



Source: Bloomberg

Investment risks

- Persistence of weak gross margins as loss order impact continues longer than expected.
- Decrease in sourcing by global Honeywell entities can impact exports and margins.
- Potential execution issue is large domestic order leading to further provisioning for loss orders.

Financial Tables (Standalone)

Income Statement (INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	40,582	41,896	46,658	52,247	58,508
Sales Growth	*17.7%*	*3.2%*	*11.4%*	*12.0%*	*12.0%*
Other Operating Income	0	0	0	0	0
Total Revenue	**40,582**	**41,896**	**46,658**	**52,247**	**58,508**
Cost of Goods Sold/Op. Exp	23,112	25,463	29,161	31,871	33,934
Personnel Cost	6,600	7,256	8,081	8,882	9,361
Other Expenses	4,976	3,331	3,932	4,723	5,887
EBITDA	**5,894**	**5,846**	**5,484**	**6,772**	**9,325**
EBITDA Margin	*14.5%*	*14.0%*	*11.8%*	*13.0%*	*15.9%*
EBITDA Growth	*13.6%*	*-0.8%*	*-6.2%*	*23.5%*	*37.7%*
Depn. & Amort.	537	544	569	555	565
EBIT	5,357	5,302	4,915	6,217	8,760
Other Income	1,428	1,821	1,803	1,952	2,151
Finance Cost	36	67	67	67	67
PBT before Excep. & Forex	6,749	7,056	6,651	8,101	10,844
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	6,749	7,056	6,651	8,101	10,844
Taxes	1,735	1,820	1,716	2,090	2,797
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	5,014	5,236	4,936	6,012	8,047
Adjusted Net Profit	**5,014**	**5,236**	**4,936**	**6,012**	**8,047**
Net Margin	*12.4%*	*12.5%*	*10.6%*	*11.5%*	*13.8%*
Diluted Share Cap. (mn)	8.8	8.8	8.8	8.8	8.8
Diluted EPS (INR)	**567.1**	**592.2**	**558.2**	**680.0**	**910.1**
Diluted EPS Growth	*14.5%*	*4.4%*	*-5.7%*	*21.8%*	*33.9%*
Total Dividend + Tax	840	840	840	1,023	1,369
Dividend Per Share (INR)	95.0	95.0	95.0	115.7	154.9

Source: Company, JM Financial

Balance Sheet (INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shareholders' Fund	36,062	40,382	44,478	49,467	56,144
Share Capital	88	88	88	88	88
Reserves & Surplus	35,974	40,294	44,390	49,379	56,056
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	0	0	0	0	0
Def. Tax Liab. / Assets (-)	-703	-910	-910	-910	-910
Total - Equity & Liab.	**35,359**	**39,472**	**43,568**	**48,557**	**55,234**
Net Fixed Assets	1,717	2,048	2,164	2,297	2,420
Gross Fixed Assets	3,385	3,927	4,427	4,927	5,427
Intangible Assets	0	3	0	0	0
Less: Depn. & Amort.	1,687	1,914	2,295	2,662	3,039
Capital WIP	19	32	32	32	32
Investments	0	0	0	0	0
Current Assets	46,531	53,088	58,037	63,908	71,303
Inventories	1,591	2,372	2,717	2,969	3,161
Sundry Debtors	9,347	10,860	12,077	13,506	15,106
Cash & Bank Balances	28,230	32,912	35,506	38,844	43,492
Loans & Advances	0	0	0	0	0
Other Current Assets	7,363	6,944	7,737	8,589	9,544
Current Liab. & Prov.	12,889	15,664	16,633	17,648	18,489
Current Liabilities	8,294	9,629	10,769	11,624	12,285
Provisions & Others	4,595	6,035	5,865	6,025	6,204
Net Current Assets	33,642	37,424	41,404	46,259	52,814
Total – Assets	**35,359**	**39,472**	**43,568**	**48,557**	**55,234**

Source: Company, JM Financial

Cash Flow Statement (INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Profit before Tax	5,014	5,236	4,936	6,012	8,047
Depn. & Amort.	537	544	569	555	565
Net Interest Exp. / Inc. (-)	36	67	67	67	67
Inc (-) / Dec in WCap.	-302	-31	-1,385	-1,518	-1,906
Others	-898	-1,553	-1,803	-1,952	-2,151
Taxes Paid	0	0	0	0	0
Operating Cash Flow	**4,387**	**4,263**	**2,383**	**3,164**	**4,621**
Capex	-320	-276	-685	-688	-688
Free Cash Flow	*4,067*	*3,987*	*1,698*	*2,476*	*3,933*
Inc (-) / Dec in Investments	0	-3	0	0	0
Others	1,396	1,737	1,803	1,952	2,151
Investing Cash Flow	**1,076**	**1,458**	**1,118**	**1,264**	**1,463**
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-840	-884	-840	-1,023	-1,369
Inc / Dec (-) in Loans	0	0	0	0	0
Others	-188	-155	-67	-67	-67
Financing Cash Flow	**-1,028**	**-1,039**	**-907**	**-1,090**	**-1,436**
Inc / Dec (-) in Cash	**4,435**	**4,682**	**2,594**	**3,337**	**4,648**
Opening Cash Balance	23,795	28,230	32,912	35,506	38,844
Closing Cash Balance	28,230	32,912	35,506	38,844	43,492

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Margin	12.4%	12.5%	10.6%	11.5%	13.8%
Asset Turnover (x)	1.2	1.1	1.1	1.1	1.1
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0
RoE	14.8%	13.7%	11.6%	12.8%	15.2%

Key Ratios

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
BV/Share (INR)	4,078.7	4,567.3	5,030.6	5,594.8	6,350.1
ROIC	50.0%	51.4%	44.4%	47.1%	55.9%
ROE	14.8%	13.7%	11.6%	12.8%	15.2%
Net Debt/Equity (x)	-0.8	-0.8	-0.8	-0.8	-0.8
P/E (x)	62.7	60.0	63.6	52.3	39.0
P/B (x)	8.7	7.8	7.1	6.4	5.6
EV/EBITDA (x)	49.5	49.1	51.8	41.5	29.6
EV/Sales (x)	7.2	6.8	6.1	5.4	4.7
Debtor days	84	95	94	94	94
Inventory days	14	21	21	21	20
Creditor days	80	87	86	84	83

Source: Company, JM Financial

APPENDIX I

JM Financial Institutional Securities Limited

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New Rating System: Definition of ratings	
Rating	**Meaning**
BUY	Expected return >= 15% over the next twelve months.
ADD	Expected return >= 5% and < 15% over the next twelve months.
REDUCE	Expected return >= -10% and < 5% over the next twelve months.
SELL	Expected return < -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

Previous Rating System: Definition of ratings	
Rating	**Meaning**
BUY	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
HOLD	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
SELL	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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