

**PERFORMANCE OF KEY FINANCIAL INDICATORS AND HIGHLIGHTS OF 2017-18:**

	<b>Year ended March 31, 2018</b>	<b>Year ended March 31, 2017</b>	<b>Variation</b>
Revenue from Operations (Rs. In Crores)	2,698	2,445	Up 10.4%
Profit before Tax (%)	14.1%	12.6%	Up 150 basis points

**INDUSTRY OUTLOOK AND OPPORTUNITIES:**

Your Company's operating results are significantly influenced by macro-economic trends such as industrial production, capital spending on process and building automation, commercial and infrastructure construction, commodity prices, and foreign exchange variations.

In the period 2017-18, the Government had implemented the Goods and Services Tax (GST) with effect from July 1, 2017. This together with the continuing effect of demonisation had a mixed impact on the Indian economy. The demonetisation announcement, and the cash shortages in the weeks that followed, created significant disruption leading to three-year low GDP figures of 5.7% in Q1 2017-18<sup>@</sup>. However, the economy bounced back as manufacturing revived and businesses adjusted to the new GST tax regime. India achieved 6.7% growth in 2017-18\*. Implementation of GST caused certain business disruptions during the year but in longer run it will have a far-reaching impact on profitability and pricing, and sourcing and distribution.

Improvement in Ease of Doing Business (100th spot) and an upgraded Moody's credit rating (Baa2) reaffirmed India's stable outlook as these pointed to India's growth potential and lauded Reserve Bank of India's monetary management.

India's Finance Minister presented Union Budget 2018, proposing spending shift to initiatives such as healthcare, education, and social protection. However, the Government's key programs such as 100 Smart Cities, Defense Modernisation, Euro 6 transition, Digital India and Make in India (raised import duties) are being actively implemented. The Government continues to lead investments in infrastructure and railways.

While growth has improved, investment activity across sectors, continued to remain soft. Economic and industry conditions impacting your Company's customers also have an impact on your Company's operations. Some of the important market conditions were:

- Investments in the refining and petrochemical sector provide an opportunity for Company's process solutions business. However, the slow pace of capital investments continued in most other areas that the Process Solutions business operates in. Most of the spending is taking place through operational expenditure, providing an opportunity for service, upgrades and migrations.
- Infrastructure investment by government in 100 Smart Cities and other public sector projects continues to be the key growth driver for the Company's building solutions business. The commercial sector, however, continues to show signs of cautious growth.
- Real estate has been significantly impacted by demonetisation, leading to sluggish growth in the residential sector; this downtrend is expected to continue. Inventory in the residential sector continues to be high and demand is expected to pick up only in 2019. However, RERA and GST are expected to gradually improve investor confidence in the real estate sector in the long run. These trends have impacted your Company's Building Management System business.
- Manufacturing activity in the core industrial sector is a critical driver for your Company's Sensing and IOT business.

Source @ Financial Express  
\* RBI Press Release

Several positive drivers including the Make in India initiative and Industrial Internet of Things (IIoT) will help drive a favourable trend in the near future.

**OPERATIONS:**

- Process Solutions business had a good year. It added new offerings, including Honeywell Connected Plant – an IIoT-based unified suite of software applications – to its wide portfolio. Its products and solutions provide customers with safer, reliable, efficient, sustainable, and more profitable plant operations. Its offerings include distributed control systems (DCS), transmitters, programmable logic controllers, emergency shutdown systems (ESD), quality controls systems (QCS), advanced software solutions, IIoT solutions, and comprehensive lifecycle services. The business won several prestigious projects last year in a highly competitive environment.

Process Solutions will need to stay focused on its core strategies to prevail over the economic environment, slow recovery in industrial production growth, and continued competitive pressure in the market. Greenfield opportunities, particularly in the refining / petrochemical sector look better in the coming years. Your Company sees a good opportunity in the government's BS-IV to BS-VI fuel regulation. Given the diversity of products and solutions, your Company will strive to sustain and enhance its performance. As India moves to build smart cities, drive a gas-based economy, and digital infrastructure for the future, Process Solutions is excited about the opportunities that will present themselves in the near future.

- Building Solutions business provides automation and control technologies that help make buildings green, safe, and productive. As part of its intelligent buildings suite, it provides building management systems, fire detection and alarm systems, access control systems, video surveillance systems, integrated security systems, and integrated building management systems based on Honeywell's Enterprise Buildings Integrator™. As part of its operational efficiency promise, it provides aftermarket services for various control systems as well as comprehensive utilities' operations and maintenance services for mechanical and electrical systems in buildings.

This business continued to demonstrate strong results through the year. Its track record in infrastructure, transportation, 100 Smart Cities, information technology, pharmaceutical, and commercial space verticals helped expand its presence in its markets of interest, while also positioning it well in this space.

- Building Management System business is a global leader in connected buildings space and maintains a leadership position in India with the widest range of building automation technologies. The solutions and products of this business are already present across multiple verticals in India that includes largest mission critical facilities, government infrastructure, airports, stadium, metro stations, IT and hospitality.

Building Management System has a varied business portfolio comprising of control solutions and global field devices.

A strong product portfolio coupled with extensive value chain mapping and key account management helped Building Management System business to drive growth.

Commercial excellence levers such as sales deployment, on-boarding, channel excellence, and pipeline management will ensure that your Company continues to grow via its existing product portfolio. Exciting new initiatives such as Connected Buildings and upcoming new product launches will help your Company grow in an evolving market.

- Market demand for construction equipment and industrial machinery, and new wins helped drive strong growth for Sensing and Internet of Things business. The packaged products portfolio performed well in 2017-18 with revenue upside for limit switches, construction equipment shifters, pressure switches and basic switches for vehicle body controls. The electronic sensing, and test and measurement lines of business grew on the back of strong demand for sensors. Steady demand for instruments / pollution monitoring equipment, and vending machines drove growth for our new gas sensor and OEM scan engine portfolios. Your Company remained focused on identifying and winning new sustainable business opportunities in key market verticals.

Your Company plans to include more industrial customers during this year. A dedicated channel management team deployed earlier is helping grow your Company's channel business and allowing Company's direct sales team to focus on key account management with a wider portfolio. There is an exciting range of global and locally-developed products that has been introduced in the Indian market. These include pressure sensors, temperature sensors, basic/limit switches, and particle sensors. Your Company will continue to remain focused on market verticals such as industrial, transportation, military, aerospace, and medical equipment.

- Global Services provides project engineering services, product customisation solutions, software development, and engineering services to several global Honeywell entities. It drives productivity, cost competitiveness, and customer satisfaction, delivering project engineering services to Honeywell's customers globally. Honeywell Operating System continues to be the backbone for this business, helping drive lean operations and efficiencies.

Your Company is also engaged in providing end-to-end project execution and delivery services to global customers. This includes complete project management, systems design, engineering, sourcing, manufacturing, and testing undertaken at your Company's Pune facility.

- The new global manufacturing facility at Fulgaon, Pune, will complete four years of operations in August 2018. Your Company has completed construction of phase two on the adjacent plot where the Customer Integration Center (CIC) and warehouse were consolidated under one roof. The operations commenced in April 2018. This consolidation at Fulgaon will help improve overall operational efficiency.

#### **LEADERSHIP AND TALENT:**

Your Company believes in the immense potential of its human capital, and continues to invest in technical and leadership capabilities as key enablers for business growth. Your Company leverages processes that have been the cornerstone of Honeywell's global growth. These include Honeywell Performance Development (HPD) and Management Resource Review (MRR). These foundational processes enable careful and continual review of leadership talent within the organisation, while promoting meritocracy, clarity in goals, providing structured feedback, development planning, and proactive succession planning for all key positions across the organisation. Developing leadership capability in employees is a key expectation of every business leader, and your Company actively promotes internal movements for career growth. Development plans help focus on capability building and skills development to enable leaders to take up larger roles. The HPD process ensures that there is a consistent framework to assess our employees on goals and behaviors, creating opportunities for objective feedback and discussions on development plans.

Your Company continues to invest in a multi-tiered framework to build leadership capability. This includes the India Leadership Connect (ILC) focused on development of top talent for senior leadership roles, the Leadership Skill Workshop (LSW) to build frontline managerial capability, the Honeywell HGR Leadership Forum focused on building self-awareness and networking among senior leaders in Honeywell India, and the Supervisory Development Program (SDP) to develop supervisory skills and capability. In addition, your Company invests in building sales capability of frontline sales employees through classroom and online learning modules. Your Company continues to work towards building systemic enablers through continuous training on diversity and inclusiveness to encourage diversity in the organisation.

As on March 31, 2018, the Company's employee strength was 3,205 as compared to 2,931 (full-time employees) as on March 31, 2017.

#### **FINANCIALS:**

Overall revenue from operations was 2,698 Crore (Net of excise Rs. 2,690 Crore), registering 10.4% growth. This growth was achieved despite competitive challenges on pricing. The domestic segment registered revenue of Rs. 1,497 crore for the current year as compared to Rs. 1,397 crore in the previous year. Revenue from exports was Rs. 1,201 crore,

registering a growth of 14.6% as over the previous year.

Overall profit after tax was Rs. 250 crore. Your Company delivered a return of 9.3% on sales for the year (Previous year: 6.9%, excluding income tax expense pertaining to earlier years 8.1%). Cost of Goods Sold (including excise duty) was 52.4% of Sales (Previous year: 54.6%).

Cash flow from operations was Rs. 263 crore, as compared to Rs. 215 crore in the previous year, reflecting higher profitability and better working capital management. Your Company will continue to focus on working capital performance and positive operating cash flows.

Related party transactions for the financial year ending March 31, 2018 are in compliance with Section 188 of the Companies Act, 2013, and Regulation 23 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.

### **RISKS AND CONCERNS:**

Your Company generates a significant percentage of its sales and profits from its business with Honeywell International Inc. and its affiliates. Your Company's ability to maintain or grow its business with Honeywell depends upon a number of performance factors, including its ability to (i) identify emerging trends and customer requirements, and develop product and service offerings superior to those of its competitors; (ii) meet or surpass the price, quality, and delivery requirements of Honeywell and its end-customers in a cost-effective and competitive manner; and (iii) develop and retain employees and leaders with the necessary expertise. Honeywell-specific business considerations (independent of its shareholdings in the Company), including changes in Honeywell's strategies regarding utilisation of alternative opportunities available to it to source products and services currently provided by your Company (including from alternative sources that Honeywell may acquire or develop within its own group), may also reduce the level and/or mix of Honeywell's business with the Company. Pricing pressures on sales of goods and services to Honeywell, or a reduction in the volume or change in the mix of orders or sales to Honeywell, can be expected to have a material adverse impact on the revenues and profits of your Company.

While your Company has diversified products, industries, and geographies, major macroeconomic indicators are soft around investments in the process and construction industries. Diversification is helping manage these trends. While the fundamentals appear to be strong and infrastructure investments will continue to be resilient, the overall competitive landscape is becoming more aggressive. Fiscal deficit target 3.5%, NPA overhang, rising crude prices (\$80 per barrel) continue to remain challenge for India.

### **INTERNAL CONTROL:**

Your Company conducts its business with integrity and high standards of ethical behavior, and in compliance with the laws and regulations that govern it and its business. Your Company has a well-established framework of internal controls in place, supported by policies, guidelines and procedures, including suitable monitoring procedures. In addition to external audit, the financial and operating controls of your Company are reviewed regularly by the internal audit team as per the annual plan approved by the Audit Committee.

All significant audit observations along with corrective actions thereon are tracked for resolution by the Management, reviewed by the internal audit function for closure, and communicated to the Audit Committee.

Your Company's Code of Conduct sets out the fundamental standards to be followed by employees in their everyday actions. Your Company also has a robust Integrity and Compliance programme, where all Company employees undergo communications and trainings on the Code of Conduct. It enables employees to become familiar with leadership expectations on behaviors and compliance, legal requirements, avoiding conflicts of interest, providing a healthy and safe work place, safeguarding Company property and information, appropriate use of information technology resources, and understanding how to report any suspected unethical or illegal conduct, without fear of retaliation. Your Company also has a formal process to receive and address incidents related to business conduct lodged by employees and other stakeholders.

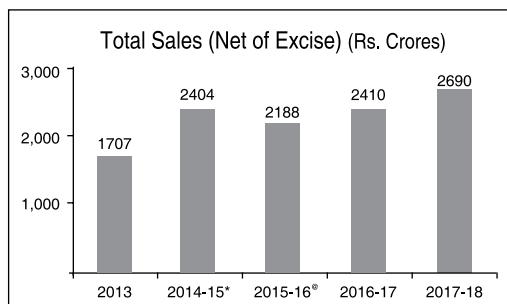
**SUMMARY:**

Your Company's mix of exports revenue increased as compared to the previous period. Overall revenue registered annualised growth of 10.4%. Net income was 9.3% of sales, as compared to 6.9% in the previous period. Increased competitive environment in both domestic and exports segments continues to be a challenge. This is being addressed through concerted efforts on operational excellence, driving productivity, and aggressive cost rationalisation. Your Company is continuously driving new productivity initiatives to remain committed to the journey of profitable growth.

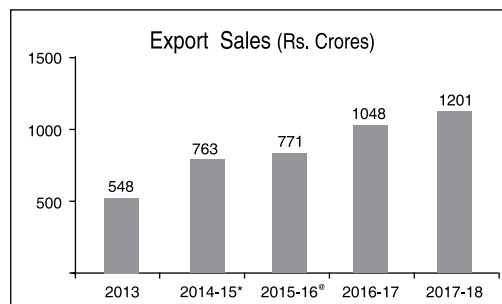
**For and on behalf of Board of Directors of  
Honeywell Automation India Limited**

**Suresh Senapaty**  
Chairman

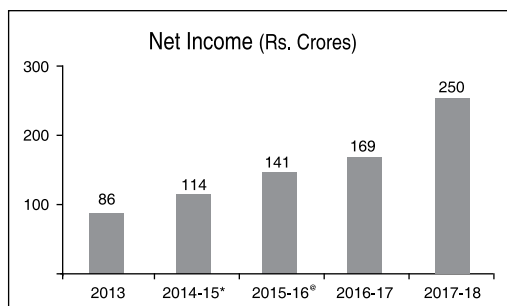
Pune, May 14, 2018



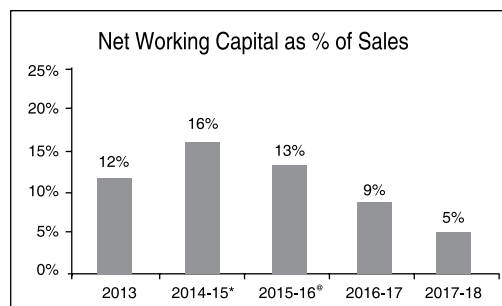
12% annualised sales growth delivered.



Exports sales were 45% of total sales, increased as compared to 15% in the previous year



Net income was 9.3% of sales, as compared to 6.9% in previous year.



Net working capital as % of sales witnessed reduction registering 5% in the year as compared to 9% in the previous year.

\*(2014-15, represents a 15-month period); other years represent a 12-month period  
@ Year 2015-16 is restated under IND AS