

PERFORMANCE OF KEY FINANCIAL INDICATORS AND HIGHLIGHTS 2019-20

INR in Crores

	Year ended March 31, 2020	Year ended March 31, 2019	Variation
Revenue from Operations	3,290	3,175	Up 3.6%
Operating Income (%)	22.3%	18.1%	Up 420 basis points
Net Income (%)	14.9%	11.3%	Up 360 basis points

INDUSTRY OUTLOOK AND OPPORTUNITIES:

Your Company's operating results are influenced by macro-economic developments including COVID-19 pandemic which can have effect on the trends such as industrial production, capital spending, commercial and infrastructure construction, commodity prices, and foreign exchange variations.

India Economic Overview

Global headwinds and challenges on the domestic front moderated the growth of Indian economy to 4.2% in FY20 down from 6.1% in FY19. The slowdown in FY20 resulted from a disruptive global trade environment, sluggish domestic demand, stress in the financial sector and from the COVID-19 outbreak in the last quarter. The government also took bold measures like tax cuts, sector relief packages and monetary easing to support the economy. While these measures were expected to lift the economy in FY21, the recent breakout of COVID-19 pandemic may delay the recovery. (MOSPI - Ministry of Statistics and Program Implementation)

As a result, India's growth in FY21 is estimated to drop drastically as we expect not only exports but also domestic demand to be impacted, largely due to Covid-19 situation. Government's relief package of INR 20 Lakh Crore is a welcome step and will go a long way in boosting the economy.

COVID 19 Update

The Company's principal sources of liquidity are cash, cash equivalents and the cash flow that is generated from operations. The Company continues to focus on operating cash flows, has no outstanding borrowings and it believes that the working capital is sufficient to meet its current requirements.

Current global economic conditions due to COVID-19 will adversely affect our customers who operate in oil and gas, real estate and automotive end markets. Further, supply chain disruptions including discontinued factory operations, customers delaying or freeing their discretionary spends, extended credit terms and logistical challenges has and may continue to add to the impact.

The Company has a diversified portfolio, The Company's business related to pharma, healthcare sector is likely to see a positive impact and Public Sector Undertakings (PSUs) /smart city projects are expected to witness an uptick after a temporary set-back.

We cannot accurately estimate the duration and the impact of the pandemic in the business; however we will continue to monitor and assess the situation on a regular basis. We have begun and will continue to act to offset revenue drop by managing our variable cost structure, rationalisation of discretionary spends, productivity drives etc.

Based on past performance, we expect that our operating cash flows will be sufficient to meet our future operating cash needs. Credit terms and liquidity constraints may impact our usual credit terms in short term but we believe that company has enough cash and liquidity to not allow disruption of business and continue to stay invested with our strategic partners, be it vendors or customers.

Employee Health & Safety

We continue to monitor the COVID-19 situation and its impact globally. We are prioritising the health and safety of our employees. Out of an abundance of caution for the health of our employees and to support local government initiatives to

stem the spread of the virus, we have implemented several precautions at our facilities in line with applicable WHO and/or Local Authority Guidelines:

- Limiting visitor site access to business essential purposes
- Enabling employees to work from home wherever required or possible
- Monitor social distancing and precautions as per the applicable guidelines

Industry Overview

Construction - The construction capex is estimated to have declined 1-2% decline in FY20 much lower than the 13-14% growth logged in FY19. Going forward, with the concerted efforts from the government to boost investments in infrastructure, the share of investment in projects such as roads, metro, smart cities, data centers, warehouses, water supply, railways & airports in construction is expected to rise in the coming years. Growth in building segment is likely to be moderate as the number of new project launches is still on the lower side. However, tax incentive for buyers in affordable housing segment & capital outlay of INR 25,000 Crore to complete stalled projects is a step in the right direction. The central government also unveiled the national infrastructure pipeline with an investment plan of INR 102 Lakh Crore from 2020-25. This policy of high govt spending in infra is likely to energise demand in other sectors and lead to more fund flows and asset creation. However, for FY21, delays in project award during Q4'20 and Q1'21 coupled with few challenges expected on people availability can impact demand in the current year. (Source – Union Budget, CRISIL, PIB)

Manufacturing - The Indian government has been prompt in realising the importance and value addition of manufacturing to India and has unlocked several investments to sustain its position in the global market, including the flagship 'Make in India' initiative. But, despite efforts from the government, the manufacturing sector contracted by 0.7% in FY20. Auto sector, an important sector for the Indian economy, witnessed a sharp decline of 18% YoY in sales for the year, with low rural income and strained credit availability affecting purchases. The slowdown is expected to sustain in most sectors till H1'21 while recovery will follow the improvements in the Covid-19 situation. We expect demand from healthcare and pharmaceuticals sectors to rise significantly as a larger share of investments will be directed towards capacity addition. (Source – NSO, SIAM)

Energy - India's achievements in recent years in the energy sector have been termed as outstanding by the International energy agency (India 2020 – IEA). The domestic energy demand is expected to double over the next two decades. This has made India an attractive destination for foreign investors looking to grab a share of India's growth story. India is also aiming to ensure energy security by increasing domestic production and reducing its import dependence. The government targets raising share of renewables at 40%, accelerating investments in solar and wind outpacing investment in fossil fuel. Additional reform plans include biofuel development, investment and policy support to petrochemicals, updated technical standards for power plants and vehicles, and clean fuel. Government also announced in FY21 budget about allotting \$3 Bn for power and renewable energy and development of 10,800 Km of national gas grid. (Source – IEA, Union Budget)

Government initiatives are promoting global investments, collaborations, and global companies to set up plants in India. This way the Indian manufacturing and services sectors will transcend into the realm of digital and connected era meeting international standards. The constant support from the government and the Foreign Direct Investment (FDI) has initiated the evolution of new partnerships that focuses on adoption of technologies associated with industrial internet of things (IIoT). Technology-driven processes will further offer customers visibility, transparency and security surging growth of the Indian manufacturing market to become a manufacturing hub and a knowledge center in the future.

A major driver for your Company is that the Indian market is gaining traction toward offering services and technology that aim to digitally support and transform the existing and upcoming infrastructure and industrial projects. With high returns expected from automation technologies such as artificial intelligence (AI), IoT (connected devices), cloud services and industrial software solutions. Businesses and Government must invest in adopting these technologies to experience their vast benefits.

OPERATIONS:

- Process Solution business has a wide portfolio of industrial automation products and solutions that help customers operate safe, reliable, efficient, sustainable, and more profitable operations. We have the expertise and breadth of resources to execute projects of every size and complexity in the oil and gas, refining, pulp and paper, industrial power generation, chemicals and petrochemicals, biofuels, pharma/ life sciences, and metals, minerals and mining industries. The Process Solutions business had a strong year driven by providing our customers leading technologies from the plant floor to the boardroom as well as comprehensive lifecycle services to ensure more productive and stable operations.

Process Solutions will continue 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. Given the diversity of products and solutions, your Company will strive to enhance its performance. As India moves to build energy security, drive gas-based economy, and encourage use of digital solutions, your Company is excited about the opportunities that will present themselves soon. Apart from the core markets and solutions your Company is well positioned to drive growth in areas such as pharmaceuticals, specialty chemicals, physical security and cyber security. Your Company is also enhancing its reach and coverage to serve the large and growing mass mid segment in India. To enable our growth in all these areas we will continue to focus on expanding our local engineering, product development, and manufacturing capabilities.

- 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™. 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 good results through the year. Its track record in infrastructure, transportation, Smart Cities, information technology, pharmaceutical, Industrial and commercial space verticals helped expand its presence in its markets of interest, while also positioning it well in this space. There has been a continued government funding on building core infrastructure such as airports, metro and railways and safe cities. In the future, value-added services like analytics, energy optimisation, healthcare is expected to be an evolution in critical operator segment. In addition, your Company is exploring the opportunities to create India-specific integrated products to cater to different sectors in India.

- Building Management Systems business is a global leader in the 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, which include large mission-critical facilities, government infrastructure like airports, stadiums, metro stations, IT, residential, industrial and hospitality buildings. Building Management Systems has a diverse business portfolio comprising of building control solutions and global field devices.

Building Management Systems business had a good business year. The portfolio was further enhanced with new product offerings like Mechanical PICVs, Variable Frequency drives and Piston type PRVs. Business will continue to stay focused on its core strategies through commercial excellence levers such as sales deployment, on-boarding, channel excellence and pipeline management. This 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.

- Sensing and Internet of Things (IOT) has multiple diversified customer accounts from Transportation, Aerospace, Medical, Industrial Verticals. This business was focused on market demand and new segment identification during 2019. The Electronic Sensing portfolio which includes board mount Pressure Sensors, Airflow Sensors, Hall ICs, Temperature Sensors etc. helped the business to win in Medical, EVs segment.

Sales team put extra efforts within Railways and Stationary Power segment to generate long term sustainable business for our Packaged Sensors covering Pressure and other critical parameters. Your Company plans to focus on consolidation of small business accounts to Masters distributors and continue to focus on demand generation during this year. 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 are being introduced in the Indian market. Localisation of Child parts for our transportation accounts for few products like Stalk controls, pressure switches is planned to roll out from Pune for leveraging local manufacturing, better control on supply chain and quality and increased customer satisfaction.

- Global Services is fostering innovation and engineering the future industries across verticals in Process and Buildings automation by transforming the solutions and services aligned to Enterprise Connected Vision. It provides project engineering services, product customisation, and software development, driving productivity and cost competitiveness to several global Honeywell entities. This includes complete project management, systems design, engineering, sourcing, manufacturing, and testing undertaken at your Company's Pune facility.

Your Company assures “First-Time-Right” quality, built on matured processes and a strong continuous improvement culture. It leverages its Lean thinking, DevOps and automation to assure quality, and responsive customer-centric strategy to enhance customer experience.

This business continues to deliver good results consistently over the years. It has increased its footprint globally through new portfolios, offerings and geographic expansion supporting Honeywell's global growth agenda. Global Services is making investments in talent development and retention strategies in the consultancy space for accelerated growth through newer verticals, Software and IIoT.

- Global Manufacturing business focuses on delivering high quality products and project solutions right and fast to India and global market. Your Company continues to invest in new product introductions, acquiring new customers and adding capacity through automation and digitization to support growth. Your Company continues to leverage localisation and other sourcing strategies to improve overall speed of delivery to customer and cost competitiveness. Your Company is focused on delivering quality product to customers through sustained efforts in area of build in quality and continuous improvement. The Company has recently setup line for face mask production at its Fulgaon factory in view of Covid-19 pandemic.

Global manufacturing continues to deliver good results year on year. Global Manufacturing Project business had a good growth year while the product business showed sustain growth. Your Company maintains high standards in area of HSE – Health, Safety and Environment compliance.

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 organization, 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, 2020 the Company's employee strength was 3,310 as compared to 3,251 (full-time employees) as on March 31, 2019.

FINANCIALS:

Overall revenue from operations was INR 3,290 Crore registering 3.6% growth. This growth was achieved despite competitive challenges on pricing. The domestic segment registered revenue of INR 1,847 Crore for the current year as compared to INR 1,714 Crore in the previous year. Revenue from exports was INR 1,443 Crore, registering a decline of 1.3% as over the previous year.

Overall profit after tax was INR 491 Crore. Your Company delivered a return of 14.9% on sales for the year (Previous year: 11.3%). Cost of Goods Sold (including excise duty) was 49.9% of Sales (Previous year: 51.9%).

Net Cash Flow from operations was INR 330 Crore, as compared to INR 312 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, 2020 follow 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 good 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. Overall aggressive competitive landscape, 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 and operates within varied industries, major macroeconomic developments pose some risks to growth which can have an impact on the performance. Diversification and strong industrial relations is helping manage these trends. Some of these trends are highlighted below:

1. The steep decline in global oil demand has increased volatility in oil prices as geopolitical uncertainties grow. This is going to impact the capital investment plans of upstream and downstream companies.
2. Public spending on infra creation is expected to uplift the subdued consumer spending, however, this will take time, given the COVID-19 situation. Greater emphasis is to be put on raising farm incomes as rural spending has stayed low in 2019.
3. Non-Banking Financial Company (NBFCs) are vital to the growth of Micro, Small, and Medium Enterprises (MSMEs) in India. As the amount of bad debt in banks' balance sheets remains high (9.2% in Sep'19), continued strain in India's banking system is causing limited liquidity available from banks. As a result, NBFCs are not in a good position to lend further thereby reducing the capex plans for realty players and MSMEs in manufacturing. (Source - FSG)

4. The ongoing global risk-off sentiment and likely steep monetary easing will pressure the rupee weaker, although this would be partially counteracted by a sharp plunge in oil prices. Over the long term, the rupee's overvaluation and structurally higher inflation relative to the US would exert downside pressure on the currency. (Source - Fitch)

INTERNAL CONTROL:

Your Company has established adequate internal control procedures which commensurates with the nature of its business and size of its operations. The internal control process of the Company has been effective and provides reasonable assurance on reliability of financial information, compliances with laws and regulations in force and optimisation of operations. It ensures documentation and evaluation of entity-level controls through existing policies and procedures, primarily to identify any significant gaps and define key actions for improvement. Your Company has continued its efforts to align all its processes and controls with global best practices. Even though we have not experienced any material impact to our internal control over financial reporting during the COVID-19 pandemic, we have enhanced our oversight and monitoring during the close and reporting process.

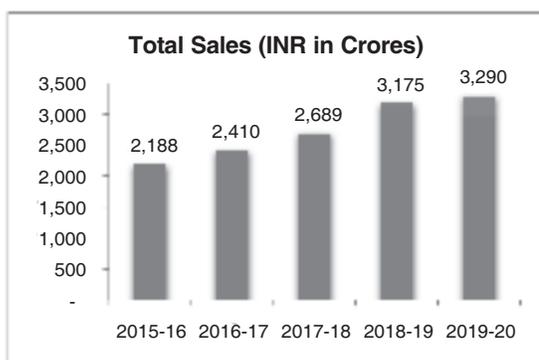
In addition to external audits, the financial and operating controls of your Company are reviewed regularly by the internal audit team as per the annual plan approved by the Audit Committee. All audit observations and follow-up actions thereon are tracked for resolution by the Internal Audit function and reported 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 program, in which 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.

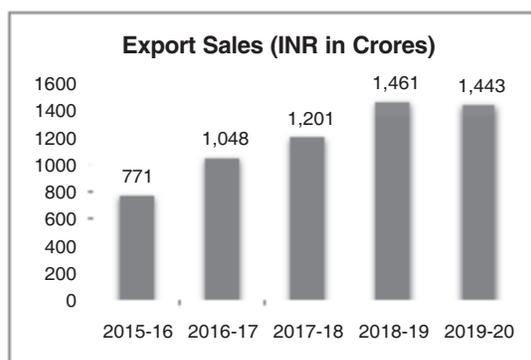
SUMMARY:

Your Company's mix of exports revenue increased as compared to the previous period. Overall revenue registered annualised growth of 3.6%. Net income was 14.9% of sales, as compared to 11.3% in the previous period. Increased competitive environment in both domestic and exports segments continue 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.

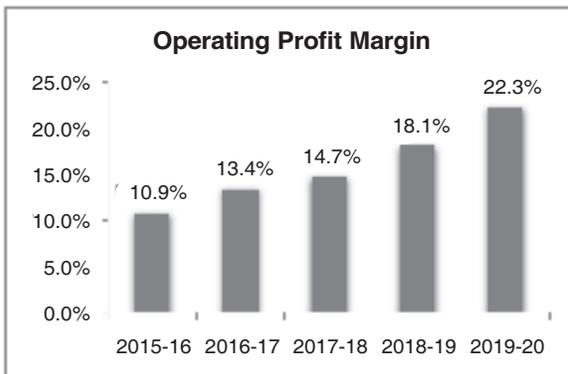
In accordance with SEBI (Amendment) Regulations 2018, the Company is required to give details of significant changes (change of 25% or more as compared to the immediately previous financial year). The relevant applicable information is as below. Further, the interest coverage ratio and debt equity ratio is not applicable to the Company as there is no debt.



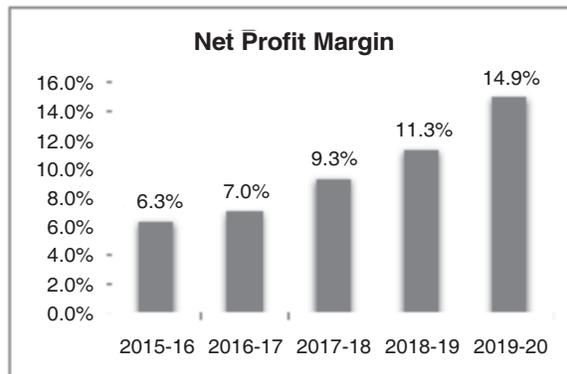
3.6% annualised sales growth delivered.



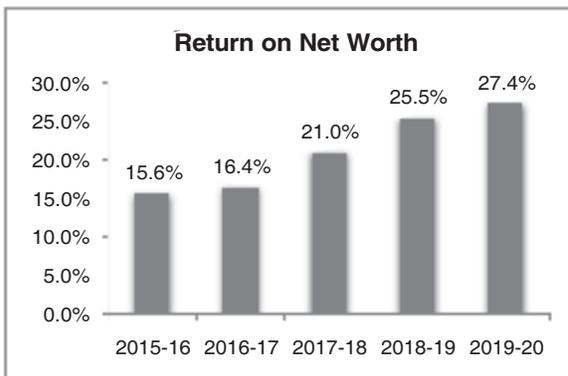
Exports sales 44% of total sales, decreased compared to 46% in the previous year



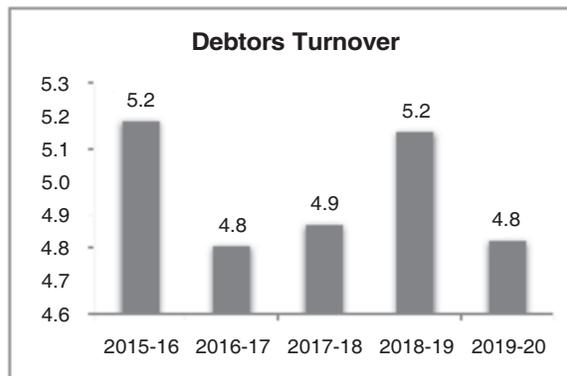
Operating profit margin increased by 4.2%



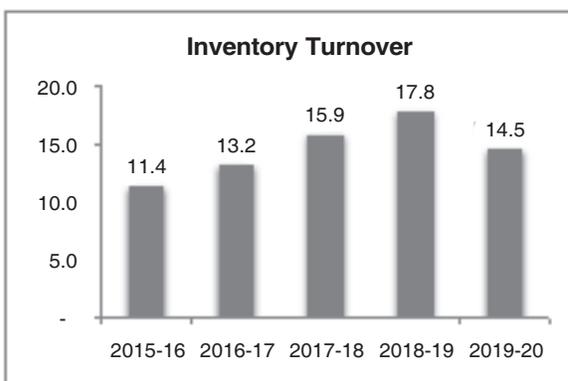
Net profit % increased by 360 bps as compared to previous year



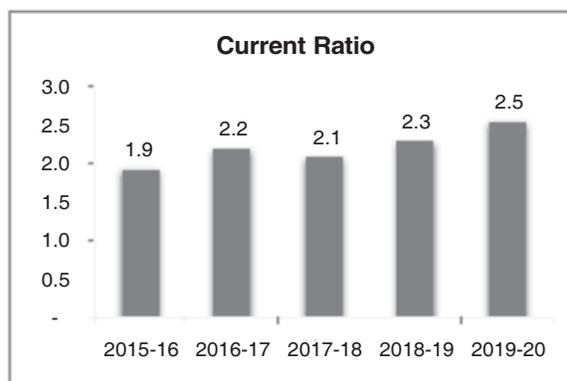
Return on Net Worth increased by 190 bps as compared to previous year



Debtors turnover ratio has reduced to 4.8 as compared to 5.2 in previous year



Inventory turnover reduced to 14.5 as compared to 17.8 in previous year



Current ratio increased to 2.5 as compared to 2.3 in previous year