

Honeywell

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Where it matters

2005

Annual Report

Where it matters

Our customers depend on us to develop technologies and innovations that improve the competitive landscape for them and their customers. Our focus on what matters most to our customers means on time delivery, eliminating defects and listening carefully to the voice of the customer. Our shareowners can be confident that we will continue to deliver consistent earnings growth, competitive returns on investment and superior financial performance driven by customer satisfaction and leadership in high-growth industries. We can make these commitments because we're focused where it matters.

Board of Directors (As on 07/02/2006)

Mr. J. R. Ellis	(Chairman)
Mr. G. Willis	(Vice Chairman)
Mr. H. M. Chitale	(Managing Director)
Mr. V. Kapur	(Executive Director)
Mr. M.N. Bhagwat	(Independent Director)
Mr. S.L. Rao	(Independent Director)

Ms. Sneha Padve (Company Secretary)

Contents

Notice	2-3
Directors' Report	4-9
Management Discussion & Analysis Report	10-12
Auditors' Report	13-15
Balance Sheet	16
Profit & Loss Account	17
Schedules 1 to 18	18-34
Cashflow Statement	35
General Business Profile	36-37
Corporate Governance Report	38-45

Senior Management Team (As on 07/02/2006)

Mr. H. Aparanji	Head - Human Resources and People Services
Mr. A. Bhargava	Head - Integrated Supply Chain
Mr. A. Maheshwari	Head - Security Group
Mr. A. Pai	Chief Financial Officer
Mr. S. V. Teje	Head - Control Products
Mr. A. G. Vaidya	Head - Six Sigma Plus & HSE
Mr. S. Vij	Head - Building Solutions

Registered Office

56 & 57, Hadapsar
Industrial Estate,
Pune 411 013

Auditors

Price Waterhouse & Co.
Chartered Accountants

Bankers

ABN-Amro Bank N.V.
Canara Bank
Bank of Baroda
State Bank of Travancore
HDFC Bank Ltd.
ICICI Bank Ltd.

Registrar & Transfer Agent :

Tata Share Registry Ltd. (TSRL)
Army & Navy Bldg., 148, Mahatma Gandhi Road, Fort, Mumbai-400 001.

Registry Offices

Bangalore	:	503, Barton Center, 84, M.G. Road, 5th Floor, Bangalore - 560 001. Tel.: 080-25320321/25580019
New Delhi	:	2/42, Sant Vihar, Ansari Road, Darya Ganj, New Delhi - 110 002. Tel.: 011-23271805
Jamshedpur	:	Bungalow No.1, 'E' Road, Northern Town, Bistupur, Jamshedpur - 831 001. Tel.: 0657-2426616
Kolkata	:	Tata Centre, 1st Floor, 43 Jawaharlal Nehru Road, Kolkata - 700 071. Tel.: 033-22883087/22883062

Notice**Honeywell Automation India Ltd.****Annual Report 2005**

NOTICE is hereby given that the **TWENTY-SECOND ANNUAL GENERAL MEETING** of **HONEYWELL AUTOMATION INDIA LIMITED** will be held at **3.30 p.m. on Friday, April 21, 2006** in **Hotel Le Meridien, Raja Bahadur Mill Road, Pune 411 001** to transact the following business:

ORDINARY BUSINESS:

1. To receive and adopt the Directors' Report and Audited Profit and Loss Account for the year ended December 31, 2005, the Balance Sheet as at that date.
2. To declare dividend on equity shares.
3. To appoint a Director in place of Mr. S.L. Rao who retires by rotation and is eligible for re-appointment.
4. To appoint a Director in place of Mr. Gerard Willis who was appointed a Director of the Company by the Board of Directors effective January 1, 2006 in the casual vacancy caused by the resignation of Mr. K.C. Lim, and who, in accordance with Section 262 of the Companies Act, 1956, holds office upto the date of the forthcoming Annual General Meeting of the Company, but is eligible for re-appointment and in respect of whom the Company has received a notice in writing from a member proposing his candidature for the office of Director pursuant to the provisions of Section 257 of the Act.
5. To appoint Auditors and to fix their remuneration.

NOTES:

- a) The Explanatory Statement pursuant to Section 173 of the Companies Act, 1956 in respect of Item no.4 set out above and the relevant details in respect of Item nos. 3 & 4 above, pursuant to Clause 49 of the Listing Agreements with the Stock exchanges are annexed hereto.
- b) The Company's shares are under the compulsory demat list. Shareholders are requested to utilise this facility to their advantage. Shareholders have been sent the ECS facility forms. Shareholders are requested to fill in the forms and take advantage of this facility.
- c) The Register of Members and Share Transfer Books of the Company will remain closed from Wednesday, April 5, 2006 to Wednesday, April 12, 2006 (both days inclusive) for payment of dividend on equity shares. In respect of shares held in electronic form, the dividend will be paid on the basis of beneficial ownership as per details furnished by the Depositories for this purpose. The Company will dispatch the dividend warrants from May 10, 2006 onwards.
- d) Members are requested to note that the Dividend Warrants are payable at par at the branches as printed overleaf of the Dividend Warrant with the initial validity period of 3 months. Thereafter, the Dividend Warrants can be revalidated only at Tata Share Registry Ltd.
- e) A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the Company.
- f) Members desiring any information about the Company's working are requested to write to the Company at an early date so as to enable the management to reply at the general meeting.
- g) Members are requested to promptly notify any change in their address to the Company's Registrars & Share Transfer Agents, namely, TATA SHARE REGISTRY LTD., Unit HAIL, Army & Navy Building, 148 M.G. Road, Mumbai 400 001.
- h) Pursuant to the provisions of Section 205A of the Companies Act, 1956, as amended, dividend for the financial year ended March 31, 1999 will be transferred to the Investor Education and Protection Fund of the Central Government this year. Shareholders who have not encashed the dividend warrant(s) so far for the financial year ended March 31, 1999 or any subsequent financial years are requested to make their claim to the Office of the Registrar and Transfer Agents; TATA SHARE REGISTRY LTD., Unit HAIL, Army & Navy Building, 148 M.G. Road, Mumbai 400 001.
- i) As per the provisions of the amended Companies Act, 1956, facility for making nomination is now available for shareholders, debenture-holders and fixed deposit holders in respect of the shares, debentures and deposits held by them. Nomination forms can be obtained from the Share Registrars of the Company.
- j) Shareholders are requested to bring their copy of Annual report to the meeting.

By order of the Board of Directors

Pune, February 7, 2006

Sneha Padve
Company Secretary

Registered Office:

56 & 57, Hadapsar
Industrial Estate,
Pune 411 013.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 OF THE COMPANIES ACT, 1956**Item No. 4:**

Mr. Gerard Willis was appointed a Director of the Company in the casual vacancy caused by the resignation of Mr. K.C. Lim. Pursuant to Section 262 of the Companies Act, 1956, Mr. Gerard Willis holds office only till the date upto which Mr. K.C. Lim, in whose place he was appointed would have held office, namely, till the date of the forthcoming Annual General Meeting of the Company. The Company has received a notice in writing from a member as required by Section 257 of the Act proposing the appointment of Mr. Gerard Willis as a Director of the Company.

Gerard Willis is the V.P. and Dy. General Counsel of Honeywell Asia Pacific Inc. He has completed his Law Degree from the New York University School of Law and has done his B.A. from Brown University and M.A. from George Washington University in International Affairs.

The Directors commend the Resolution for acceptance by the Members.

None of the Directors of the Company are interested in this Resolution except Mr. Gerard Willis.

Name of Director	Mr. S.L. Rao	Mr. Gerard Willis
Date of Birth	22.01.1936	27.12.1953
Date of Appointment	20.01.2002	01.01.2006
Expertise in specific functional areas	Professional Manager and applied Economist	Law
Qualifications	B.Com (Hons), M.A. in Economics.	New York University School of Law, 1986 Honors: Brown University BA, International Affairs Honors: George Washington University School of Public And International Affairs Washington, D.C.; MA, International Affairs
List of Public Companies in which outside Directorships held as on December 31, 2005	HEG Ltd. Rain Calcining Limited Kanoria Chemicals & Ind. Ltd. Reliance Energy Limited	Honeywell Systems Ltd. (Thailand)
Chairman/Member of the Committees of the Board of the Companies on which he is a Director as on December 31, 2005	Reliance Energy Limited Audit Committee – Member Remuneration Committee – Member Kanoria Chemicals & Ind. Ltd. Remuneration Committee – Member Rain Calcining Limited Audit Committee – Member Remuneration Committee – Member	

Directors' Report**Honeywell Automation India Ltd.****Annual Report 2005**

Dear Members,

The Directors present the **TWENTY-SECOND ANNUAL REPORT** with the audited statements of accounts of the Company for the year ended December 31, 2005.

1. FINANCIAL RESULTS :

Particulars	Year ended December 31, 2005 (Rs. in lacs)	9-months ended December 31, 2004 (Rs. in lacs)
Sales & Other Income	51464.39	27990.51
Operating Profit	5269.57	1570.32
Less: Interest	348.67	181.10
Depreciation	1097.86	681.58
Amortisation of	22.19	64.14
Miscellaneous Expenditure		
Profit for the year	3800.85	643.50
Provision for tax	410.68	343.05
Deferred Tax Adjustment	(18.03)	(548.76)
PROFIT AFTER TAX	3408.20	849.21
Profit brought forward from the previous year	1967.85	1718.49
Profit available for appropriations	5376.05	2567.70
APPROPRIATIONS		
General Reserve	1000.00	100.00
Proposed Dividend	707.32	442.08
Tax on proposed dividend	103.45	57.77
BALANCE CARRIED FORWARD	3565.28	1967.85

2. DIVIDEND :

Final dividend @ Rs.8.00 per share of Rs.10/- each was recommended by the Board in their meeting held on February 7, 2006.

3. INTEGRATION WITH HONEYWELL :

The last financial year was the first full financial year after the Company became a majority owned subsidiary of Honeywell. There was a task force that was set up during the early part of 2005 to help in integration of the Company into the Honeywell family. Integration was completed successfully. This entire transition has not seen any adverse impact on employee morale or retention, customer relationships as well as business in general. Your Company is now better aligned with Honeywell's global best practices in various areas such as Human Resources, Project management, Control and governance, etc. and is able to leverage them for the business benefits.

4. OPERATIONS :

During the year 2005, the Company performed well to post Order growth of 71% and Sales growth of 26% as compared to the year 2004. The business has moved to the desired mix thereby not only growing the top line but also improving the profitability.

The Integrated Supply Chain continues to focus on the reduction of Cost to Serve by localisation, value engineering and rationalisation of the Supplier. The Manufacturing group continues to drive the new product initiative suited to the Indian market.

The year 2005 saw an accelerated growth in the Indian manufacturing and capital goods industry. We have observed an upturn in the capital investment cycle with new capital expenditure projects announced by companies across the cross section of the industry. Various segments, where we have seen increasing investment activity were: oil and gas, power metals, cement, construction and service sector as a whole.

As a reflection of the overall industrial growth, the market for your Company's industrial solution business called Honeywell Process Solutions (HPS) had a healthy growth. Your Company's major wins in this segment included Retail Automation contracts from IOCL and HPCL, Automation contract for Tata Chemicals – Soda Ash Plant, Automation contract for refinery expansion at HPCL Mumbai, Contract for Automation for some of ONGC's platforms, Number of projects for CPP automation, Automation projects for expansions programs of many paper companies such as ITC Bhadrachalam, JK Paper, etc.

The Honeywell Building Solutions (HBS) business continued to show a very healthy growth. Some of the major wins include contracts from Nokia, Rashtrapati Bhavan, RBI, ONGC (for surveillance system), Voltas for various building control solutions for the Hyderabad International Airport (promoted by GMR Group), Delhi Metro Rail project for which automation was supplied by your Company was successfully commissioned.

After Market Services initiative started in HBS last year has also grown substantially with a number of contract for maintenance as well as upgrade and add on. A notable project in this regard has been the program awarded by TCS for access control and fire automation for all of their facilities.

During the year 2005, Control Products (CP) SBU has increased its market share in both Sensing & Control (S&C) and Environmental Combustion & Control (ECC). It received significant orders from various market segments. Some of the major wins included orders for automotive sensors from Tata Motors. This business unit also launched Trend and Allerton brands of Building Management Systems through a network of competent Channel partners. CP order booking has grown by 41 % over the last year for the same period and revenue has grown by 31% over the last year.

Your Company launched a new business called Honeywell Security Group (HSG). This business offers various Electronic security products and systems through a network of channel partners. This business has now taken roots and is poised for a healthy growth in time to come.

Global Services business unit grew its revenue by 15% in 2005. The engineering services work across Honeywell ACS grew significantly both in Process and Building solutions segments. The business faced challenge of profit margins due to fall/ volatility in exchange rate and increasing manpower costs, however actions have been taken to counter this increase through internal productivity to sustain the margins. A new initiative of providing turnkey project solutions to select overseas customer vertical was launched in 2005 by the Global Services Business Unit. This initiative has taken off successfully with some early wins secured in association with Honeywell entities in Middle East and Africa. To aid this initiative, your Company has set up a new Electronic Hardware Technology Park (EHTP), to facilitate manufacturing and export of Electronic systems.

In respect of the engineering services rendered On-site, the Management of the Company is evaluating the potential international tax liability in respect of services rendered by the Company to Honeywell entities in some of the foreign countries. Due to the complexities inherent in such evaluation, the amount of the potential international tax liability, if any, is yet to be qualified by the Management. In the opinion of the Management, the ultimate outcome is unlikely to significantly impact the results of the year as international tax implications, if any, is contractually recoverable from host Honeywell entity.

5. INITIATIVES DURING 2005 :

The organization continued to focus on Learning and Development at various levels by regularly conducting training programs for all the employees. More than 90% employees of the Company underwent at least one training and on an average 8 man-days were spent by every employee in training.

Six-Sigma continued to act as a strong enabler for growth and productivity improvement. Over 60 Six-sigma projects were completed in the year, with involvement and certification of over 400 employees. One of your Company's project called 'e-retail initiative' was selected as the best in the entire Asia Pacific, in an internal Honeywell competition.

The ERP and Digitization drive across the Company has helped to achieve better productivity. Your Company continued to invest in its digitization initiatives and many new workflows were digitized to reduce cycle time and increase efficiency.

Directors' Report (contd.)

Your Company was the first Company in the Automation space in India to receive both ISO 9001 as well ISO 14000 /OHSAS certification. We continued to make substantial investments in making our workplace, safer, more ergonomic and environmental friendly. Your Company has now adopted stringent Honeywell HSE (Health Safety and Environment) standards.

6. COMMUNITY DEVELOPMENT WORK :

The community development work under the employee engagement program called DISHA had launched a mentorship and education programme with an NGO called Hermann Gmeiner Social Centre (HGSC). HGSC works with street children to help them with education, vocational training and give them a firm foundation for a better life. This is an employee volunteer programme where employees spend time with the children helping them with their studies, especially in Science, Mathematics and spoken English. They also help them make and promote hand made items like paper bags, diyas, candles etc. that can provide alternate means of sustenance. Individual hand painted greeting cards made by these children are bought by Honeywell.

Volunteers also visit 'The School for the Handicapped Children' at Wanowrie. Computer classes are organized for these children, besides lessons in English speaking, Mathematics and Science.

A programme for employees' children towards computer awareness is also held every Saturday at the Company premises. Employee volunteers guide the children between 6 - 10 years through a predefined three-month module, comprising of uses and advantages of Word, Excel and PowerPoint.

The Company also continues to donate computers as and when available, to the government approved schools and needy institutions. This is our Corporate Social Responsibility mission towards 'Education'.

The senior management of your Company is involved in a mentorship programme called "WINGS" wherein they act as mentors to students from key engineering colleges. This aims at grooming them for the corporate level exposure.

7. DIRECTORS :

During the year under review and upto the date of this report, Mr. John O Higgins and Mr. K.C. Lim, resigned as Directors of the Company, consequent to their departure from Honeywell. The Board places on record its sincere appreciation for the services rendered by them towards the success of this Company.

Mr. John Ellis (who is the President – Asia Pacific of ACS Business of Honeywell) was appointed as a Director and the Chairman of your Company in place of the vacancy created by the resignation of Mr. John O'Higgins.

Mr. Gerard Willis (who is the VP and Dy. General Counsel of Honeywell) was appointed as the Vice Chairman and a Director of your Company in place of the vacancy created by the resignation of Mr. K.C. Lim.

As per the provisions of the Companies Act, 1956 and Articles of Association of the Company, Mr. S.L. Rao, retires by rotation and is eligible for reappointment. Mr. Gerard Willis, who has been appointed in the casual vacancy created by the resignation of Mr. K.C. Lim also holds office upto the date of the forthcoming Annual General Meeting of the Company, but is eligible for re-appointment and in respect of whom the Company has received a notice in writing from a member proposing his candidature for the office of Director pursuant to the provisions of Section 257 of the Act.

8. DIRECTORS' RESPONSIBILITY STATEMENT :

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors, based on the representations received from the Operating Management, confirm that -

- a) In the preparation of the annual accounts, the applicable accounting standards have been followed and that there are no material departures;
- b) They have, in the selection of the accounting policies, consulted the Statutory Auditors and have applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit of the Company for that period;
- c) They have taken proper and sufficient care, to the best of their knowledge and ability, for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- d) They have prepared the annual accounts on a going concern basis.

9. AUDITORS :

M/s. Price Waterhouse & Co., the Statutory Auditors, retire at the forthcoming Annual General Meeting and are eligible for reappointment. The Company has received the certificate from the retiring Auditors that the appointment, if made, will be in accordance with the limits specified in Section 224(1-B) of the Companies Act, 1956.

10. CEO/CFO CERTIFICATION :

The Managing Director and the Chief Financial Officer have certified to the Board that:

- (a) We have reviewed financial statements and the cash flow statement for the year and that to the best of our knowledge and belief:
 - (i) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - (ii) these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- (b) There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year, which are fraudulent, illegal or violative of the company's code of conduct.
- (c) We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of the internal control systems of the Company pertaining to financial reporting and we have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of internal controls, if any, of which they are aware and the steps they have taken or propose to take to rectify these deficiencies.
- (d) We have indicated to the auditors and the Audit Committee:
 - (i) significant changes in internal control over financial reporting during the year;
 - (ii) significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
 - (iii) instances of significant fraud of which they have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system over financial reporting.

11. OTHER INFORMATION :

Information as per Section 217 of the Companies Act, 1956, as amended, pertaining to conservation of energy, absorption of technology, foreign exchange earnings and outgo and particulars of employees, is given as an Annexure to this Report and forms part of it.

12. ACKNOWLEDGEMENT :

The Board would like to place on record its appreciation and thanks to all its employees for their contribution. The Board also wishes to acknowledge the support it has received from its Bankers and from the Financial Institutions.

Pune, February 7, 2006

For and on behalf of the Board
JOHN R. ELLIS
 Chairman

Registered Office :
 56 & 57, Hadapsar
 Industrial Estate,
 Pune 411 013.

Annexure to Directors' Report**A) CONSERVATION OF ENERGY :**

The Company continues its endeavour to improve energy conservation and utilization. The Company has received an award for the second time in a row for energy conservation from Maharashtra Energy Development Agency.

B) TECHNOLOGY ABSORPTION :**FORM B****Research and Development (R&D) :****1. Specific areas in which R&D is carried out by the Company :**

- Custody Transfer Solution software for HPI downstream.
- Localisation of products for various lines of business.

2. Benefits derived as a result of above R&D :

- Product development for un-addressed market for Asia Pacific region.
- Hardware and software design capability enhancement.
- Cost optimisation and imports substitution.

3. Future plan of action :

- Define Roadmap for terminal loading software and continued developments.
- Additional product development initiatives to be taken up in all lines of business.

4. Expenditure on R&D :

	2005 (Rs. In lacs)	2004 (Rs. In lacs)
(a) Capital	—	—
(b) Recurring	123.86	100.87
(c) Total	123.86	100.87
(d) Total R&D expenditure as a percentage of turnover	0.25%	0.35%

Technology Absorption, Adaptation And Innovation :

- Efforts, in brief, made towards technology absorption and innovation: : During the year localization of Field Bus Transmitters, Absolute Pressure Transmitters and Draft Range Transmitters was completed. Also manufacturing line for Throttle Position Sensors to cater to automobile industry was set up.
- Benefits derived as a result of the above efforts : Helped us to be Responsive to the delivery needs of the market and also made these products cost competitive in the market.
- In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year) following information may be furnished.
 - Technology imported
 - Global User Station
 - High Performance Process I/Os.
 - Year of Import
 - 2001-02
 - 2003-04
 - Has the technology been fully absorbed : Has been successfully absorbed.
 - If not fully absorbed, areas where this has not taken place, reasons therefore and future plans of action : Not Applicable

C) FOREIGN EXCHANGE EARNINGS AND OUTGO:

(Rs. In lacs)

(i) Foreign Exchange Earned	12,426
(ii) Foreign Exchange Used	16,107