ANANDRATHI

Hyundai Motor India Limited

10-October-24

SUBSCRIBE – Long Term

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Issue Details

Issue Details	
Issue Size (Value in ₹ million, Upper Band)	278,702.0
Fresh Issue (No. of Shares in Lakhs)	-
Offer for Sale (No. of Shares in Lakhs)	1,421.9
Bid/Issue opens on	15-Oct-24
Bid/Issue closes on	17-Oct-24
Face Value	Rs. 10
Price Band	1865-1960
Minimum Lot	7

Objects of the Issue:

- **Offer for sale: ₹ 278,702 million**

Book Running Lead Managers
Kotak Mahindra Capital Company Limited
Citigroup Global Markets India Private Limited
HSBC Securities and Capital Markets (India) Private Limited
J.P. Morgan India Private Limited
Morgan Stanley India Company Private Limited
Registrar to the Offer
KFin Technologies Limited

Capital Structure (₹ million)	Aggregate Value
Authorized share capital	14,000.00
Subscribed paid up capital (Pre-Offer)	8,125.41
Paid up capital (post-Offer)	8,125.41

Share Holding Pattern %	Pre-Issue	Post Issue
Promoters & Promoter group	100.0%	82.5%
Public – Selling Shareholders	0.0%	17.5%
Total	**100.0%**	**100.0%**

Financials

Particulars (₹ In million)	3M FY 25	FY24	FY23	FY22
Revenue from operations	**173,442**	**698,235**	**603,075**	**473,784**
Operating expenses	150,031	606,964	527,588	418,924
EBITDA	**23,412**	**91,271**	**75,488**	**54,860**
Other Income	2,238	14,733	11,291	5,876
Depreciation	5,290	22,079	21,899	21,696
EBIT	**20,359**	**83,924**	**64,880**	**39,040**
Interest	316	1,581	1,424	1,319
PBT	**20,043**	**82,343**	**63,456**	**37,721**
Tax	5137	21,798	16,363	8,706
PAT	**14,897**	**60,600**	**47,093**	**29,016**
EPS	18.3	74.6	57.9	35.7
Ratios	**3M FY 25**	**FY24**	**FY23**	**FY22**
EBITDAM	13.5%	13.1%	12.5%	11.6%
PATM	8.6%	8.7%	7.8%	6.1%
Sales growth		15.8%	27.3%	

Company description

Hyundai Motor India Limited are a part of the Hyundai Motor Group, the third largest auto original equipment manufacturer ("OEM") in the world based on passenger vehicle sales in CY2023. They have been the second largest auto OEM in the Indian passenger vehicles market since Fiscal 2009 (in terms of domestic sales volumes) according to the CRISIL Report. They have a track record of manufacturing and selling four-wheeler passenger vehicles that are reliable, feature-rich, innovative and backed by latest technology. This is demonstrated in their portfolio of 13 models across multiple passenger vehicle segments by body type such as sedans, hatchbacks, sports-utility vehicles ("SUVs") and battery electric vehicles ("EVs").

HMIL also manufacture parts, such as transmissions and engines. They have also been India's largest exporter of passenger vehicles from Fiscal 2005 to the first 11 months of Fiscal 2024, having exported the highest cumulative number of passenger vehicles for the same period. Since 1998 and up to March 31, 2024, they have cumulatively sold nearly 12 million passenger vehicles in India and through exports. The company's current market position is because of (i) their wide product offerings, stakeholder relationships and operations; (ii) the strong Hyundai brand in India; (iii) their ability to leverage new technologies to enhance operational and manufacturing efficiency; and (iv) their ability to expand into new businesses such as EVs through innovation. In CY2023, they were among the top three contributors to HMC's global sales volumes, and their contribution to HMC's sales volumes has increased from 15.48% in CY2018 to 18.19% in CY2023.

Valuation & outlook

HMIL has consistently held the position as the leading auto OEM in India by sales volume in the mid-size SUV sub-segment from Fiscal Year 2019 through the three months ending on June 30, 2024. HMIL's current range of passenger vehicles is designed to appeal to a wide variety of customers, providing options for everyone. Their portfolio consists of 13 models across key passenger vehicle segments by body type, including sedans (Aura and Verna), hatchbacks (Grand i10 NIOS, i20, and i20 N Line), and SUVs (Exter, Venue, Venue N Line, Creta, Creta N Line, Alcazar, Tucson, and IONIQ 5).

HMIL is dedicated to investing in R&D and introducing new passenger vehicles to enhance their market position and increase the appeal of their vehicles to customers. They aim to remain a key player in the Indian automobile market, offering options that cater to buyers across the entire range, from affordable to premium segments. HMIL follows a premiumization strategy, concentrating on selling higher-end trims with a higher average selling price (ASP) for their respective passenger vehicles. HMIL aims to align their EV strategy with market demands in India by carefully timing the launch of suitable EV models across various price segments.

At the upper band company is valuing at 26.2x its FY24 earnings along with being valued at 26.7x if we annualize FY25 earnings. Following the issuance of equity shares, the company's market capitalization stands at ₹15,92,581 million, with a market cap-to-sales ratio of 2.28 based on its FY24 earnings.

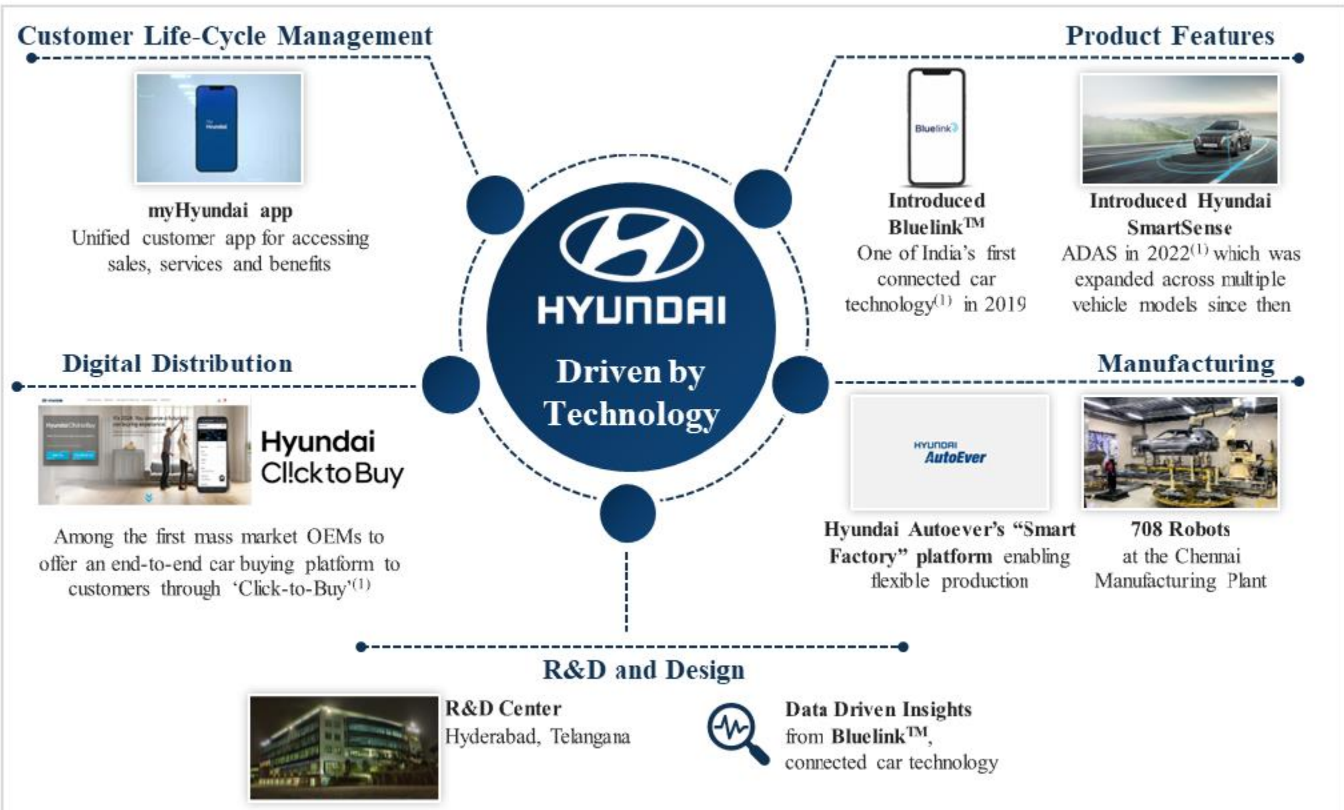
We believe that the issue is fully priced and recommend "**Subscribe – Long Term**" rating to the IPO.

Business Model

HMIL's business model is founded on the following fundamental pillars.

First, "strong parentage" of Hyundai Motor Group. They are a part of the Hyundai Motor Group, which is the third largest auto OEM in the world based on passenger vehicle sales in CY2023. They have the support of HMC in many aspects of their operations including management, R&D, design, product planning, manufacturing, supply chain development, quality control, marketing, distribution, brand, human resources and financing, among others. The company benefit from HMC's centralised R&D hub that oversees global R&D initiatives for the Hyundai Motor Group. HMC has invested an aggregate amount of ₹1,756.47 billion (KRW 28,486.21 billion or US$24.62 billion) towards global R&D from CY2014 to CY2023 including towards emerging mobility areas such as electrification, shared mobility and autonomous driving. They believe HMC's R&D capabilities, coupled with information flow within the Hyundai Motor Group on emerging global trends and latest customer preferences, enables them to identify customer preferences in a timely fashion. This further helps them introduce new passenger vehicles, technologies and features in India in a short time-to-market. They also benefit from implementing HMC's manufacturing practices and quality management system in their operations. HMC's exports network across more than 190 countries helps them pursue export opportunities which is an important revenue and profitability driver for them. Additionally, they benefit from the strong "Hyundai" brand. Globally, "Hyundai" is focused on delivering an outstanding customer experience, grounded in design leadership, engineering excellence and exceptional value in every passenger vehicle they sell, according to Interbrand. As per Interbrand's "Best Global Brands 2023", the Hyundai brand value has been growing for the past 13 years, and in 2023 Hyundai's brand value grew 18% year-on-year to reach ₹1,695.57 billion (US$20.41 billion) making it the 32nd most valuable brand globally, up three places from 2022. They also maintain close connections with other affiliates within the Hyundai Motor Group across the auto OEM value chain, creating synergies in supply, manufacturing, and product development. For example, Mobis India Limited ("Mobis"), their Group Company, supplies after-sale parts and accessories to their dealers, and Glovis India Private limited ("Glovis"), a company within the Hyundai Motor Group, provides transportation of their passenger vehicles to destinations such as dealerships and stockyards on an end-to-end basis.

Second, "advanced technology". The company deploys technology that is integrated across their operations, including in product design, manufacturing, and customer and dealer engagement. As a key part of the Hyundai Motor Group, they gain early access to global trends in automotive, technologies and features, including from HMC's dedicated technology arm covering passenger vehicle IT services, smart manufacturing, mobility services, data security services and enterprise IT services – Hyundai Autoever. They leverage global insights and their R&D capabilities to introduce technology, design and aesthetics in their passenger vehicles that are tailored for the Indian market. Their manufacturing plant located at Irrungattukottai, Sriperumbudur in Chennai, Tamil Nadu ("Chennai Manufacturing Plant") was HMC's first global integrated manufacturing plant outside Korea. The Chennai Manufacturing Plant had a production capacity of 824,000 units as of March 31, 2024. Leveraging Hyundai Autoever, HMC's "smart factory" platform, they can produce flexibly customised passenger vehicles and parts using automated manufacturing processes. Further, to digitise the sales network, they have launched end-to end digital platforms, such as the "myHyundai" app for customers and the "H-Smart" app for dealers in India. Some of their innovations are shown in the image below.



Third, "Hyundai brand". In addition to benefitting from the strength of the "Hyundai" brand globally, they have established "Hyundai" as a trusted brand in India. This is demonstrated by the more than 50 awards that their Company has received for the Hyundai brand and products in Fiscal 2024 alone. They have received the highest number of the Indian Car of the Year (ICOTY) awards over the years (based on data provided in the CRISIL report). The eight passenger vehicle models that have received this accolade are i10 (2008), Grand i10 (2014), Elite i20 (2015), Creta (2016), Verna (2018), Venue (2020), i20 (2021) and Exter (2024). Further IONIQ 5 also won the Green Car of the Year award in 2024. To connect with their customers as a trusted, aspirational and inclusive brand in India, they deploy innovative marketing initiatives across fashion, music, game shows and sports events. The company carefully select their celebrity brand endorsements of movie stars to sports persons, which include five Indian women endorsers (three women cricketers, one woman golfer and one-woman actor). They believe these efforts have helped them evolve as an inclusive brand in India, expand and diversify their customer base and bolster their connection with the youth. They have a social media community across platforms in India which allows them to connect with the youth. They strive to associate their brand with customer satisfaction from a 360-degree viewpoint across passenger vehicle purchase, insurance, maintenance and after-sale services.

Fourth, “Localization”. Their value proposition to customers is to manufacture passenger vehicles that are feature rich, reliable and innovative at a competitive price point. To achieve this and enhance profitability, they focus on localization of parts and materials. Under their localized supply chain ecosystem, they source majority of parts and materials from suppliers based in India. In Fiscal 2023 and in the nine months ended December 31, 2023, they sourced approximately 90% of their parts and materials in terms of purchase value in India from the four districts adjoining their Chennai Manufacturing Plant2. This leads to operational and cost efficiencies in their supply chain helping them enhance their profitability and build flexibility in their manufacturing process. As a result, they are able to follow a “Just in Time” concept for manufacturing where parts and materials are available to them in a short time frame, minimizing the need for and cost of holding inventory.

Hyundai’s Commitment to India

The company has invested ₹301.03 billion (US$5.09 billion) in India operations as of June 30, 2024, in tangible fixed assets and capital work in progress since their inception. With the support from HMC, they have built the first and second-largest manufacturing and supply chain ecosystem within the Hyundai Motor Group outside Hyundai’s home country, Korea. They believe that their large network of suppliers, dealers and other key stakeholders has helped create multiple job opportunities across the OEM value chain in India. They serve as a production and export hub for emerging markets for HMC, particularly for passenger vehicle models such as Verna and Venue. Their Chennai Manufacturing Plant had an annual production capacity of 824,000 units as of March 31, 2024. They are expanding their manufacturing capabilities in India with the recent acquisition of a manufacturing plant in Talegaon, Maharashtra (“Talegaon Manufacturing Plant”) which is expected to commence commercial operations partly in the second half of Fiscal 2026. They expect their annual production capacity across the Chennai and Talegaon manufacturing plants in aggregate to increase to 994,000 units when the Talegaon Manufacturing Plant is partly operational and to 1,074,000 units once the Talegaon Manufacturing Plant is fully operational. In line with their commitment to India, they are taking steps to develop an EV supply chain and manufacturing capabilities in India through EV parts localization and developing an EV platform in India. They are undertaking research and development on cost-effective green hydrogen energy in collaboration with the nodal agency for investment promotion of the Government of Tamil Nadu, India and the Indian Institute of Technology Madras. In January 2024, they entered into an arrangement with the Government of Tamil Nadu for the development of EV manufacturing infrastructure in the state pursuant to which they may receive incentives and subsidies from the Government of Tamil Nadu subject to them making a minimum investment in fixed assets within a specific period of time. For the Talegaon Manufacturing Plant, they received offer letters from the Government of Maharashtra under which they are required to make a minimum investment in fixed assets within a specific period of time to avail certain incentives including, but not limited to, electricity duty exemption, industrial promotion subsidy and stamp duty exemption. These initiatives involve an investment commitment from their Company of approximately ₹320.00 billion in aggregate.

A summary of their select operational metrics for the periods indicated are set forth below:

Particulars	As of Three Month ended	As of or Fiscal		
	2024	2024	2023	2022
Units unless otherwise specified				
Total Passenger Vehicle Sales Volume	192,055	777,876	720,565	610,760
Domestic	149,455	614,721	567,546	481,500
Exports	42,600	163,155	153,019	129,260
Sales and Service Outlets				
Sales outlets	1,377	1,363	1,336	1,282
Service outlets	1,561	1,549	1,498	1,422

Domestic:

Particulars	Three months ended June 30,				Fiscal					
	2024		2023		2024		2023		2022	
	Units	% of total domestic passenger vehicle sales volumes	Units	% of total domestic passenger vehicle sales volumes	Units	% of total domestic passenger vehicle sales volumes	Units	% of total domestic passenger vehicle sales volumes	Units	% of total domestic passenger vehicle sales volumes
Domestic sales volume by powertrain	149,455	100.0%	148,303	100.0%	614,721	100.00%	567,546	100.00%	481,500	100.00%
ICE (without CNG)	132,338	88.55%	132,634	89.43%	542,234	88.21%	506,249	89.20%	437,637	90.89%
CNG	17,000	11.37%	15,061	10.16%	70,367	11.45%	60,322	10.63%	43,732	9.08%
EV	117	0.08%	608	0.41%	2,120	0.34%	975	0.17%	131	0.03%
Eco-friendly passenger vehicles sales volume contribution (%)	17,117	11.45%	15,669	10.57%	72,487	11.79%	61,297	10.80%	43,863	9.11%

Exports:

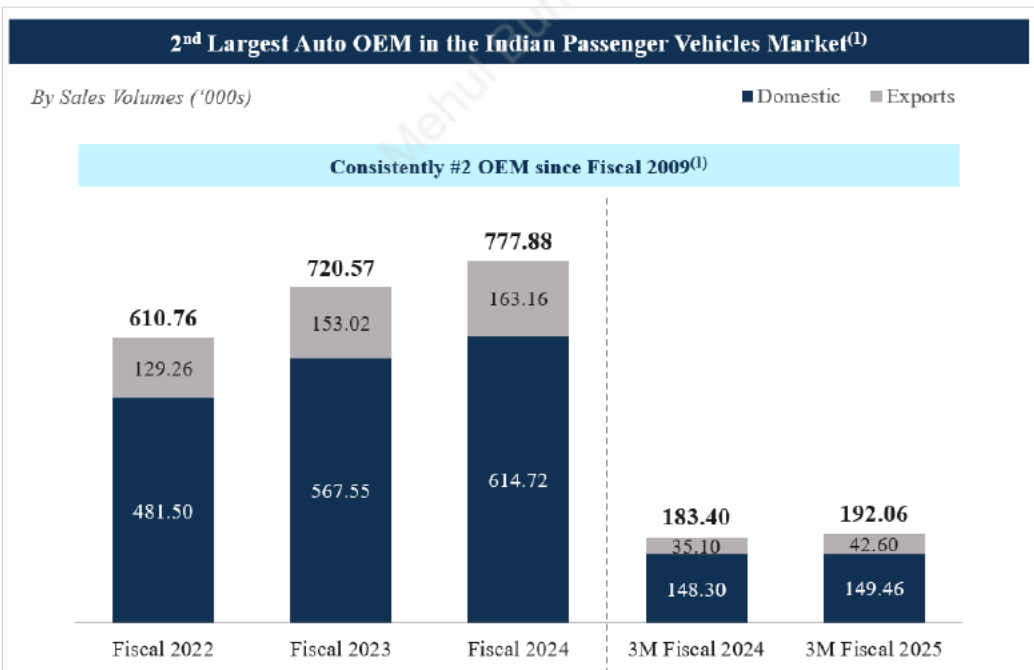
The following table sets forth the export sales volumes by powertrain for the periods indicated:

Particulars	Three months ended June 30,				Fiscal					
	2024		2023		2024		2023		2022	
	Units	% of total export passenger vehicle sales volumes	Units	% of total export passenger vehicle sales volumes	Units	% of total export passenger vehicle sales volumes	Units	% of total export passenger vehicle sales volumes	Units	% of total export passenger vehicle sales volumes
Export sales volume by powertrain	42,600	100.0%	35,100	100.0%	163,155	100.0%	153,019	100.0%	129,260	100.0%
ICE (without CNG)	42,600	100.0%	35,100	100.0%	163,155	100.0%	153,019	100.0%	129,260	100.0%
CNG										
EV										
Eco-friendly passenger vehicles sales volume contribution (%)										

Strengths:

HMIL are the second largest auto OEM in India and the largest exporter of passenger vehicles

They have been the second largest auto OEM in the Indian passenger vehicles market since Fiscal 2009 (in terms of domestic sales volumes).

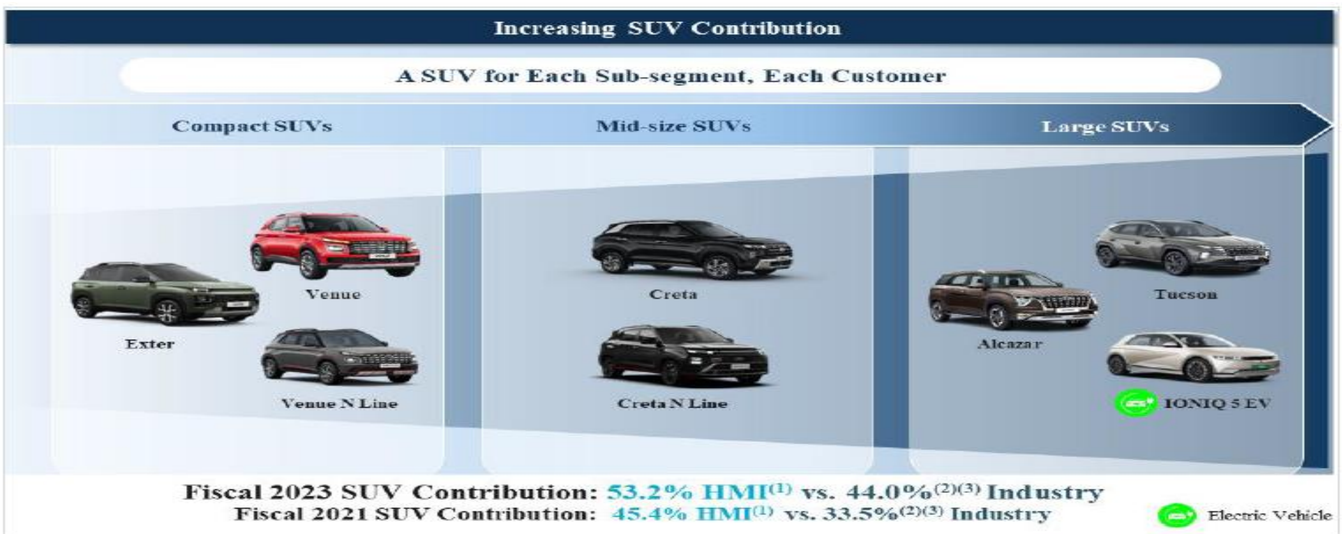


HMIL have consistently been the largest auto OEM in India by sales volume in the mid-size SUV sub-segment from Fiscal 2019 to the three months ended June 30, 2024. Their 2016 India Car of the Year (ICOTY) awardee, Creta had a market share of 38% in the mid-size SUV sub-segment in the three months ended June 30, 2024. Further, Verna was the top selling model in the premium sedans sub-segment in Fiscal 2024, and Aura was the second highest selling model in the sedans segment with 15% market share in the three months ended June 30, 2024. In 2023, they launched their first premium EV, IONIQ 5. As a result of their consistent scale and leadership, the company believes that they have garnered trust and loyalty for the Hyundai brand among existing and potential customers in India. Their scale and leadership position also gives them the ability to attract new dealers and derive economies of scale in sourcing and manufacturing operations. They have been India's second largest exporter of passenger vehicles from April 1, 2021, through June 30, 2024. Since their inception and up to June 30, 2024, they exported 3.61 million passenger vehicles to over 150 countries, including to countries in Latin America, Africa, Middle East, Asia, and others. The company serves as a production and export hub for emerging markets for HMC for passenger vehicles and parts, particularly for passenger vehicle models such as Verna and Venue. The exports market is a revenue driver for them as they earn higher average selling price ("ASP") for exports versus domestic products on an average. Exports also provide a natural hedge against foreign currency risk by virtue of their export sales offsetting their imports to an extent. For example, in December, which is a low sales season in India, they are able to manage their total sales relatively well by increasing exports during these months.

- **HMIL have a diverse portfolio of passenger vehicles across powertrains and major passenger vehicle segments**

HMIL's current portfolio of passenger vehicles caters to a diverse customer base offering "something for everyone". Their portfolio of 13 passenger vehicle models across major passenger vehicle segments by body type include sedans (Aura and Verna), hatchbacks (Grand i10 NIOS, i20 and i20 N Line) and SUVs (Exter, Venue, Venue N Line, Creta, Creta N Line, Alcazar, Tucson and IONIQ 5). Together, the passenger vehicle segments in which they are present in India accounted for approximately 89% of the total passenger vehicle sales volume in India in Fiscal 2023 and approximately 88% for the first 11 months of Fiscal 2024, based on the data provided in the CRISIL Report. Various passenger vehicle models have multiple engine fuel options across petrol, diesel, compressed natural gas ("CNG") and EV along with diverse transmission options (MT, AMT, AT, DCT and iVT). They also seek to become a significant player in the EV segment sustainably, and their future EV investments will be calibrated based on the expected growth of the Indian four-wheeler EV market. The following image provides an overview of their product portfolio.

They have sought to evolve their passenger vehicle portfolio in line with changing customer aspirations. According to the CRISIL Report, consumers in India are increasingly preferring mid-end or top end version of the vehicles moving away from the traditional fuel-efficient budget friendly small vehicles towards higher priced feature loaded larger vehicles which offer much more space, taller ride height, seamless connectivity, and improved performance. Consequently, they have expanded their SUV product line-up in the last few years. Currently, their offer eight SUV passenger vehicle models in India, across compact, mid-size and large SUV sub-segments, including one EV model, as shown in the image below.



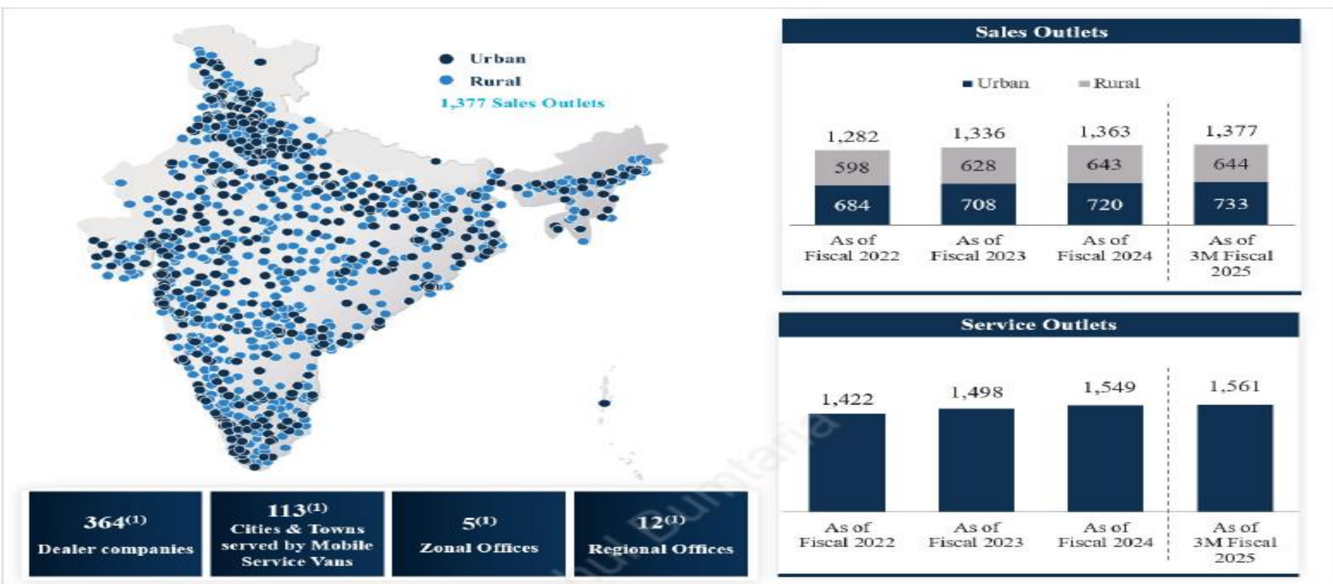
Before the company launch a passenger vehicle in India, they conduct several pre-market tests by inviting an identified target audience to evaluate their products and collect feedback, which becomes the cornerstone of their approach to tailor global passenger vehicles and features for Indian customers. They also solicit feedback from customers and the media to determine if any improvements are required after the launch of their passenger vehicles. The company also leverages data generated by their connected car technology to gain insights from customer experiences, which allows them to improve their products. Based on market demand and customer preference, the release upgrades and model changes. In the past, for certain of their passenger vehicle models, they have released upgrades in approximately four years of a passenger vehicles model's original launch, and a new full model change in approximately six years of a passenger vehicle model's original launch. Further, within a span of 15 months from January 2023 to March 2024, they launched an aggregate of eight upgrades and model changes.

- **Their ability to identify emerging market trends in a timely manner and introduce innovative passenger vehicles and technologies to meet customer needs in India**

They identify emerging market trends, latent customer needs and aspirations based on their and HMC's global network, in-depth market and product research. As a key part of the Hyundai Motor Group, they gain early access to the latest global trends in the automotive industry, technologies and features; and strive to be a front-runner in introducing passenger vehicles and technologies in India. They believe this is their unique competitive advantage. The company's R&D Centre in Hyderabad works closely with the HMC's centralized R&D hub at Namyang, Korea. This Centre in Hyderabad is being expanded to become the hub for global compact passenger vehicle R&D for HMC, including through proposed introduction of an automotive test tracking facility for their products (including EVs). This R&D Centre is owned by the subsidiary, Hyundai Motor India Engineering Private Limited ("HMIEPL"), which also provides technical expertise to support local customization. They tailor these global technologies and features to meet customer needs, design and aesthetic preferences in India. For example, the company have customized their Bluelink voice recognition system to understand Hinglish (Hindi-English) commands, in addition to English. Further, it can support embedded voice commands without an internet connection. Additionally, they offer audio video navigation and telematics across multiple of their passenger vehicles, among other features. Since their inception in 1998, they have introduced in aggregate 38 passenger vehicle models as of June 30, 2024, and have built a track record of introducing numerous innovations, as demonstrated by some examples in the table below:

- **Pan India sales, Distribution and after sale services network offered by their dealers**

As of June 30, 2024, the company had 1,377 sales outlets across 1,036 cities and towns in India and 1,561 service centres across India across 957 cities and towns in India. This has grown from 1,282 sales outlets across 974 cities and towns in India and 1,422 service centres across 905 cities and towns in India as of March 31, 2022. Their sales and service network were the second largest in India in terms of the number of customer touchpoints as of March 31, 2024. They sell all their passenger vehicles, except for IONIQ 5, through their dealer network. They facilitate the sale of IONIQ 5 through "Click to Buy" with support from select franchise dealers, which enables them to understand the premium electric SUV (E-SUV) space better from the direct customer feedback. As electrification in the passenger vehicle segment in India is still at a nascent stage, they consider this approach crucial for gaining first-hand market insight and calibrating their EV growth strategy.



- **Digitization across the value chain**

HMIL have digitized their customers and dealers' interactions with each other and with them. Through the "myHyundai" app and their website, customers can interact with them at every stage of the passenger vehicle purchase journey and access after-sale services. Their constant endeavor is to provide a 360-degree customer experience in passenger vehicle purchase, insurance, maintenance, and after-sales service. Customers can use the "Click to Buy" website and "myHyundai" app to browse new or pre-owned passenger vehicles, request for personalized shopping assistance from their sales consultants, schedule a test drive and locate a dealer nearest to them. After their customers have made their purchase, they can use the myHyundai app to access connected car features, book after-sale and maintenance services, renew or extend warranties and receive support from a 24/7 call center, among other services. The company has been enhancing the quality of their sales by leveraging various digital platforms, such as "myHyundai" and "H-Smart" apps. They support their dealers in managing their entire business operations through their Global Dealer Management System ("GDMS"). GDMS is a web application for their dealers to interact with them for their day-to-day operations, such as sales, services and "Hyundai Promise", among others. Through this software, dealers can place orders with them and monitor operational information like delivery timelines and inventory. In addition, "H-Smart" app, developed by them in India, is a unified-dealer app designed to streamline and simplify dealer interaction with customers. It enables the integration of various dealer activities such as managing leads, customer enquiry management, scheduling, monitoring sales and bookings, sourcing and evaluating "Hyundai Promise" enquiries, and handling sales complaints for enhanced efficiency and productivity. They initiated a hyperlocal digital marketing self-help platform to enhance sales for their dealers in India. Suppliers can use their VAATZ system to view orders from them, download the purchase orders, and view supply schedules.

- **The company's flexible and automated manufacturing capabilities**

The Chennai Manufacturing Plant was one of India's largest single location passenger vehicle manufacturing plants in terms of production capacity as of June 2024. Their passenger vehicles are based on five different platforms (four for internal combustion engine ("ICE") passenger vehicles and one for EVs). To enhance operational efficiency, they have a common platform architecture across the two manufacturing plants in Chennai and this enables them to manufacture eight different models in one plant and six different models in the other plant, with one model manufactured in both plants. As a result, based on market demand, selected models can be produced on multiple lines in parallel at the Chennai Manufacturing Plant. This flexibility of having a common platform architecture lowers their product development costs, reduces their time-to-market, streamlines their manufacturing process, allows higher capacity utilization and boosts agility in delivering new models. Their manufacturing operations are highly automated, and the Chennai Manufacturing Plant is optimized to manufacture their full range of 13 passenger vehicle models. Their plant operates in three shifts over 293 working days per year, six days per week, and on average, producing 131 passenger vehicles per hour, with a production rate of one passenger vehicle within 30 seconds. As of June 30, 2024, over 2,000 critical machines were connected with technologically advanced systems and 743 robots.

Their quality control systems are based on HMC's Global Quality Management System which monitors the quality of their products during all phases of the value chain, from product development, production, and sale to after-sales service. Seamless information flow across the organization helps minimize the response time for any issues that may arise in the normal course of operations. Further, they have established the India Quality Centre in Faridabad, Haryana to support their quality control initiatives. Their completed passenger vehicles go through rigorous quality checks. These tests include brake tests, real-time road tests, a shower test, and exterior body checks, among others.

Strategies

- **Leveraging their deep understanding of consumer preferences to successfully expand the company's passenger vehicle portfolio**

HMIL are committed to investing in R&D and new passenger vehicle launches in order to further strengthen their market position and to improve the attractiveness of their passenger vehicles to the customers. They intend to continue being one of the leading players in the Indian automobile market that is relevant for passenger vehicle buyers across the spectrum from affordable to premium segments. They intend to do this by identifying and addressing emerging global trends to deliver advanced technology, design, and quality, while customizing features based on customers' demands from both a "price" and "value" perspective. To stay prepared for and keep up with the evolving market trends and dynamics, they intend to innovate continuously, invest in their robust market research channels for the ongoing collection and integration of customer feedback and leverage HMC's global R&D, insights and advanced technologies. Further, their aim is to provide customers with alternate, sustainable fuel options such as hydrogen energy. They have entered into a memorandum of understanding with the nodal agency for investment promotion of Government of Tamil Nadu and Indian Institute of Technology Madras to undertake research on cost-effective green hydrogen energy ecosystem development. The company seeks to leverage the developments from this partnership to build upon their alternate fuel strategy in the future.

- **Focus on continued premiumization of their passenger vehicle portfolio**

HMIL has a premiumization strategy, where they focus on selling trims that have a higher average selling price ("ASP") for the respective passenger vehicles. With a growing share of younger buyers in India, there is an increasing awareness and preference towards parameters other than price such as exterior and interior design, driving experience, safety, advanced features and aesthetics resulting in inter-segmental shift towards SUVs as well as intra-segmental shifts towards the mid- to top-end variants. This is demonstrated by the growing ASP of passenger vehicles in India which increased at a CAGR of 7% to 8% between Fiscal 2019 and Fiscal 2023. In line with this trend, the contribution of passenger vehicles with ex-showroom ASP of greater than ₹1,000,000 to their domestic sales has been increasing from 43.4% in Fiscal 2022 to 48.5% in Fiscal 2024 and was 46.8% in the three months ended June 30,2024. Similarly, the contribution of passenger vehicles with ex-showroom ASP of greater than ₹1,500,000 to their domestic sales has been increasing from 13.9% in Fiscal 2022 to 19.8% in Fiscal 2024 and was 21.5% in the three months ended June 30,2024. Further, they consistently achieve SUV sales contribution that surpasses industry level by sales volumes in units. In Fiscals 2022 and 2024 and three months ended June 30,2024, the share of SUV sales volume to total passenger vehicle sales volumes in India was 41.1, 51.2% and 53.5%, respectively. On the other hand, their domestic SUV sales volumes accounted for 52.0%, 63.2% and 674% of their total domestic sales volumes in Fiscals 2022, 2024 and three months ended June 30,2024 respectively. The company intend to bolster their sales in the SUV segment and mid-to high range passenger vehicles in other segments through targeted passenger vehicle introduction across price points and powertrains.

- **Calibrated manufacturing capacity expansion and efficient capital allocation**

With years of operational expertise, the company believes that they are well positioned to calibrate capacity additions in line with market demand growth through efficient capital allocation. They plan to develop the Chennai Manufacturing Plant as a hub for their EV and SUV production. Further, with the addition of the Talegaon Manufacturing Plant, which is expected to start commercial operations partly in the second half of Fiscal 2026, they are expanding their manufacturing capacity to boost production volume and accelerate economies of scale to match the supply capabilities in line with the growing demand in the domestic market. The company's Chennai Manufacturing Plant had an annual production capacity of 824,000 units as of June 30, 2024. They expect their annual production capacity across the Chennai and Talegaon manufacturing plants in aggregate to increase to 994,000 units when the Talegaon Manufacturing Plant is partly operational and to 1,074,000 units once the Talegaon Manufacturing Plant is fully operational. By aiming to maintain capacity utilization above 90% with a healthy mix between domestic sales and exports, they plan to optimize operations across all plants, with a profit-centric approach. They also intend to continue to deepen their localized supplier network by adopting a localization strategy for the Talegaon Manufacturing Plant in India.

- **Focus on increasing EV market share**

HMIL seeks to calibrate their EV strategy and plan their EV timelines in line with market demands in India, by launching the appropriate EV models within each price segment. They are following a transition strategy having started with the launch of high-end, premium EVs and plan to transition towards the mass markets as the EV market and ecosystem scales up in India. In line with the same, they aim to launch four EV models in future including Creta EV in the last quarter of Fiscal 2025. The following table sets forth the sales volumes for EVs for the periods indicated:

Particulars	Three months ended June 30,				Fiscal					
	2024		2023		2024		2023		2022	
	Units	% of total passenger vehicle sales volumes	Units	% of total passenger vehicle sales volumes	Units	% of total passenger vehicle sales volumes	Units	% of total passenger vehicle sales volumes	Units	% of total passenger vehicle sales volumes
EV	117	0.06%	608	0.33%	2,120	0.27%	975	0.14%	131	0.02%

The company believes HMC's diversified xEV portfolio across battery EVs, hybrid EV, plug-in hybrid EVs, mild hybrid EVs and fuel cell EVs, will be a key enabler for their EV strategies. They believe that their experience in developing dedicated, localized ICE models will help the company leverage their know-how to develop localized xEV models for the Indian market. To maximize price competitiveness of their EV models, they intend to focus on securing local production capabilities for key parts such as cells, battery packs, power electronics, drivetrain and building a localized EV supply chain. They leased a section of the Chennai Manufacturing Plant to Mobis for the assembly of EV batteries which will be supplied to them, in turn reducing their import costs for battery packs. To maximize price competitiveness of their EV models, they intend to focus on securing local production capabilities for key parts such as cells, battery packs, power electronics, drivetrain and building a localized EV supply chain. They leased a section of the Chennai Manufacturing Plant to Mobis for the assembly of EV batteries which will be supplied to them, in turn reducing their import costs for battery packs.

Beyond EV manufacturing, the company aims to develop the EV infrastructure in India by constructing charging stations. As of March 31, 2024, they have established 11 fast charging stations in India. They intend to support the adoption of EVs by installing charging points across cities and highways in India. In collaboration with the Government of Tamil Nadu, they are installing public EV charging network across key highways and cities. Each fast-charging station has a DC 150 kW and DC 60kW charging points, with the ability to service up to three EVs per charging stations. In addition to above, their Company has entered into a memorandum of understanding with the Government of Tamil Nadu to install 100 units of high-speed charging stations across the state by 2027. These charging stations will be hosted on their own App based Charger Management System "EV Charge", for easy finding, pre-booking, digital payments and to check charging status. In May 2024, they inaugurated a 180 kW DC fast public EV charging station in Chennai, comprising of 150 kW and 30 kW connectors. They also intend to form partnerships with key players in the EV ecosystem for DC charging, battery recycling and AI-based infotainment and payment assistance, to strengthen their overall EV ecosystem, in line with the Government of India's electrification initiatives.

- **Further strengthening their position as the export hub for HMC**

The company intends to leverage their local manufacturing capabilities to set ourselves up as HMC's largest foreign production base in Asia. They aim to become an export hub for HMC for exports to emerging markets including South Asia, Latin America, Africa and Middle East with the potential to export to other global markets. Their aim is to be the global manufacturer and supplier of cost-optimized passenger vehicles including the Grand i10 NIOS, i20, Aura, Venue, Verna, Creta and Alcazar. They also intend to collaborate with their stakeholders in export countries with innovative sales strategies. For example, to benefit from incentives offered by Nepal, they recently collaborated with a distributor in Nepal to set up a local passenger vehicle assembly line, and they agreed to provide materials and parts for the assembly of the Venue passenger vehicle model.

- **Continue to enhance their brand as a trusted brand in India**

The company intend to continue to invest in targeted marketing campaigns with a strong India connect, through digital media initiatives, sponsorships, television advertisements, gaming shows and sporting events and carefully selected celebrity endorsements to position themselves as a trusted brand in India. They also intend to increase further their customer base by tapping into new markets in India, such as rural, tier-2 and tier-3 towns, to meet demands of customers. Specifically, the company intends to partner with their dealers to conduct outreach events to showcase their passenger vehicle portfolio to enhance brand awareness and generate interest. They also plan to continue undertaking inclusive initiatives such as "Samarth by Hyundai" and make their passenger vehicles accessible to all. By expanding their reach across age groups and geographies, they aim to continue to enhance the image of "Hyundai" as a trusted brand across India.

- **Further deepen their physical-and digital network for sales and services across India**

The company intends to continue to deepen their dealer network across India. With the expanding road infrastructure in India, they have been expanding their presence across rural areas by engaging with their existing dealers to expand the operations as well as to onboard new dealers. They are also taking steps to enhance allied businesses such as preowned passenger vehicle sales, conducting benchmarking studies and sharing of best practices with dealers, to boost efficiency and provide more business opportunities for their dealers. They also intend to continue focusing on sustainability at their dealer showrooms. For example, they now encourage some of their dealers to install solar power panels at their showrooms and service centres and give the option of dry wash for customers to clean their vehicles.

Industry Snapshot

Policies Impacting the Indian Automobile Industry

Government policies impacting the automobile industry, including those related to infrastructure and supply chain, self-reliant manufacturing, foreign direct investment, and tax related policies have an impact on vehicle manufacturing and supply. The Government of India has announced and implemented several initiatives such as National Infrastructure Pipeline, Gati Shakti Scheme and National Logistics Policy to improve the transportation infrastructure in the country.

Improving infrastructure for increasing efficiencies in logistics

The government's capex push has been focused largely on transport-related sectors, such as roads, railways, and urban infrastructure. This is being complemented with policies geared towards improving and integrating different segments of the logistics ecosystem. All these are expected to reduce bottlenecks and improve competitiveness of domestic production and trade via reduced logistics costs and improved connectivity.

Import duty on passenger vehicles

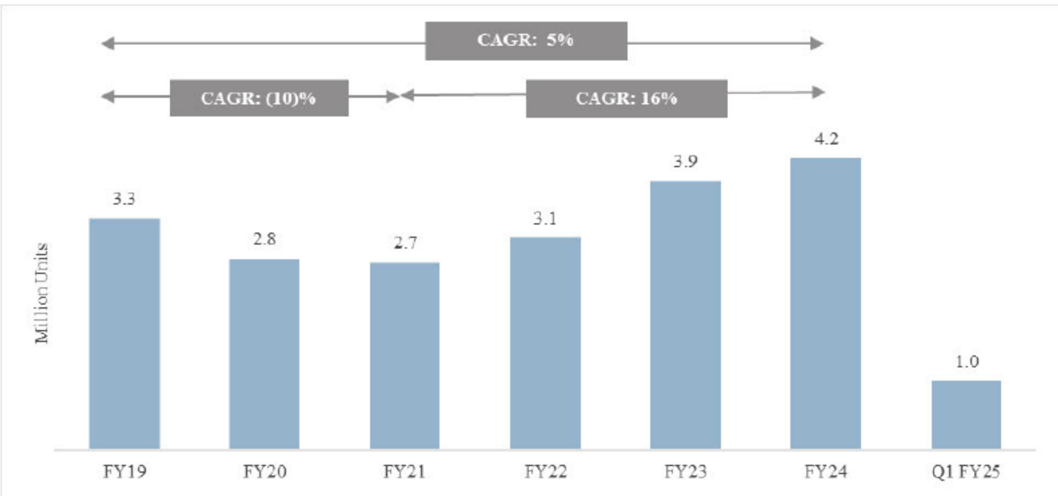
Import duty also known as import tax, import tariff or customs duty is an indirect tax levied by Indian authorities on goods purchased from a foreign country. Through import taxes, the price of imported goods increases and demand decreases. This propels domestic market growth, demand for indigenous products and protects Indian OEMs from foreign competitors.

Review of the Indian Passenger Vehicle Industry

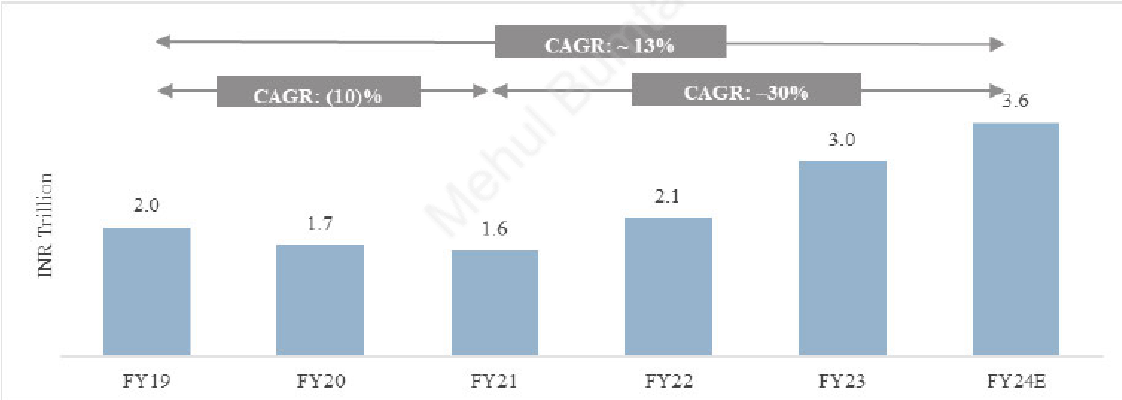
Review of the Indian Domestic PV Industry (Fiscal 2019 to Q1 Fiscal 2025)

Between Fiscals 2019 and 2024, India's domestic PV sales volume rose at 5% CAGR. This growth was despite the sales contraction (at 10% CAGR) witnessed during Fiscals 2019 to 2021. From the low base of Fiscal 2021, PV sales bounced back and grew at a healthy pace to reach a historic high of 3.9 million vehicles in Fiscal 2023. In Fiscal 2020, contraction of the economy put pressure on vehicle sales. Moreover, the Non-Banking Financial Company (NBFC) liquidity crisis and halting of BS-IV vehicle production amid mandatory implementation of BS-VI norms from Fiscal 2021 exerted added pressure during the year. The industry also lost nearly half a month's sales at fiscal year-end owing to outbreak of the COVID-19 pandemic and subsequent nationwide lockdown. In Fiscal 2021, domestic sales volume continued to be impacted by the first wave of the pandemic. A nation-wide lockdown, reduced mobility, and supply chain constraints leading to production cuts weighed on annual sales. Despite some improvement in sales with the reopening of the economy and increased demand for personal mobility during the second half of the year, sales contracted approximately 2.2% year-on-year owing to the additional price hikes due to implementation of the BS-VI norms. Fiscal 2022 began with a much severe second wave of COVID-19. State-imposed lockdowns, economic uncertainty, and a global shortage of semiconductor supply caused extended waiting periods that impacted sales, especially in the first half of the year. There was some improvement in the economic scenario with the reopening of markets in the second half of the fiscal. Pent-up vehicle demand, further increased need for personal mobility and improved supply scenario provided thrust to PV sales during the second half. After a two-year consecutive drop, PV sales rose 13% from a very low base of Fiscal 2021.

Review of the domestic PV sales volumes



Review of the PV industry by value



The PV industry value witnessed a healthy growth from Fiscal 2019 to 2024 period, growing at approximately 13% CAGR. The average vehicle factory prices (ex-factory prices) rose at 8% CAGR during Fiscals 2019 to 2024 period led by rising share of premium vehicles. Additionally, price hikes undertaken by OEMs for compliance with emission norms and due to increase in raw material costs provided an added push to average prices. Total sales (domestic + exports) volumes of the industry, on the other hand, grew at a subdued pace of 4% CAGR during the period. In fact, total vehicle sales (domestic + exports) dropped at 12.0% CAGR till Fiscal 2021 dragging the industry value down in Fiscal 2021. From this low base, total sales (domestic + exports) grew at 16% CAGR till Fiscal 2024 thrusting the industry revenues forward. A sharp rise at a CAGR of approximately 12% in average prices amidst premiumization trend lent further support to industry during Fiscal 2021-24 period, leading to growth of the industry value at approximately 30% CAGR, to reach an estimated INR 3.6 trillion by value.

Premiumization trend

The average selling price ("ASP") between Fiscals 2019 and 2024 increased at a CAGR of 7-9% because of premiumization trend as well as sharp rise in vehicle prices. Modern consumers in India are preferring mid-end or top end version of the vehicles moving away from the traditional fuel-efficient budget friendly small cars towards higher priced feature loaded larger cars which offer much more space, taller ride height, seamless connectivity, and improved performance. Further, there has been a major shift in customer preference with the launch of compact and mid-size SUVs. This was majorly driven by the shift in consumer sentiments towards newly launched feature rich vehicles in the SUV segment. Increase in spending from the upper middle class after pandemic led to more purchases of SUVs supported by higher number of models launches in the SUV category (which have higher profit margins) and increase in affordability with launch of compact SUVs led to cannibalization of hatchbacks and compact sedans.

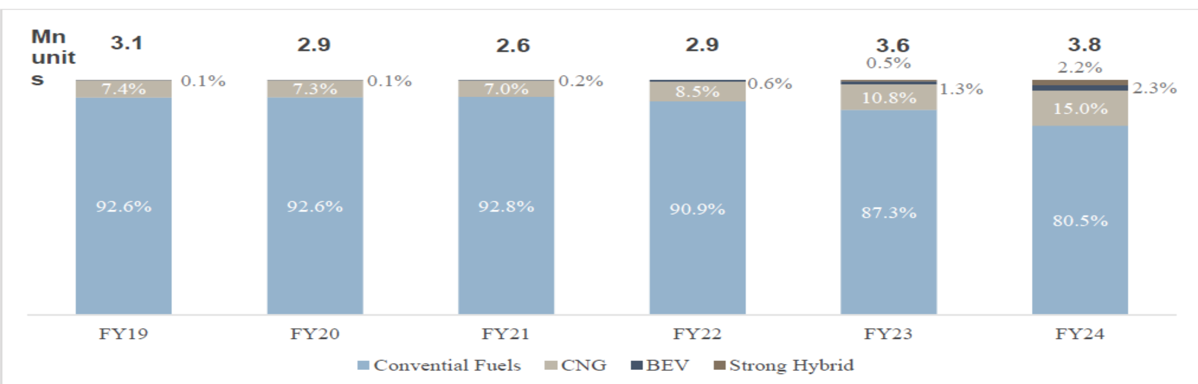
Seasonality of sales in the domestic PV industry

For the domestic passenger vehicle industry, the year end and festive (Dussehra/ Diwali) quarter is normally the best quarter from a retail perspective. Retails are typically highest during the festive period of Dusshera and Diwali. Industry also offers additional discounts during the festive period and also sometimes align new vehicle launches around the same. Hence a substantial amount of inventory built up is done by the industry starting from 1 to 2 months before the festive period (generally August to October), therefore pushing the second quarter sales (July – September). After the festive period, industry witnesses a dip in sales. Restricting dispatches for the year end is a major reason for the sales dip during the post festive month of December. OEMs usually offer higher discounts on the year end vehicles to encourage purchase and liquidate previous year dealer stocks in the months of December and January (next calendar year).

Changing Powertrain Mix in the Indian Passenger Vehicles Industry

Conventional fuel powertrains (Petrol and Diesel) have dominated the Indian passenger vehicle industry for decades. Petrol vehicles were the preferred choice primarily due to low acquisition cost as compared to diesel vehicles. This was despite diesel being cheaper than petrol, however, during Fiscal 2012 to Fiscal 2014 period, there was an increasing preference for diesel vehicles due to rising petrol prices and further increase in the price gap with diesel. This was also supported by the fact that diesel vehicles gave better mileage, and there was only a slight difference in acquisition cost for a diesel vehicle. However, considering the higher air pollution and environmental harm caused by diesel vehicles, the Supreme Court ordered a ban on diesel vehicles in the NCR region in order to reduce air pollution and improve the air quality. Moreover, higher price rise in diesel vehicles for the emission norms (BS-IV & BS-VI) implementation shifted consumer preference towards the petrol vehicles after Fiscal 2015. Subsequently, the share of diesel PV retails in the industry dropped from 48% in Fiscal 2015 to 37% in Fiscal 2019.

Powertrain mix trend of PV industry retails



Segmental Outlook

Growth in the domestic industry is expected to be led by the SUV and MPV segments while the hatchbacks, sedans and vans segments are expected to clock muted growth going ahead.

Segmental growth outlook

Segment	Fiscal 2019 - Fiscal 2024 CAGR	Fiscal 2024 - Fiscal 2029P CAGR
Hatchbacks	-6%	0.0 - 2.0%
Compact Hatchbacks	-8%	(1.0) -0.5%
Premium Hatchbacks	0%	1.5 - 4.0%
Sedans	-9%	0.5 - 2.0%
SUVs	23%	7.0 - 9.0%
Compact SUVs	23%	6.8 - 8.8%
Mid-Size SUVs	24%	7.8 - 10.0%
Large SUVs	21%	7.2 - 9.2%
MPVs	14%	6.4 - 9.4%
Vans	-5%	1.1- 2.0%
Total	**5%**	**4.5 - 6.5%**

Comparison With Listed Peers

Name of the Company	Face Value (₹ per share)	Revenue as of FY 24 (in ₹ million)	EPS as of FY'24	NAV as of FY'24	PE	RONW (%)
Hyundai Motor India Limited	10	698,290.6	**74.5**	131.3	**26.2**	56.8%
Listed peers						
Maruti Suzuki India Limited	5	1,418,582.0	429.0	2,723.7	29.7	15.7%
Tata Motors Limited	2	4,379,277.7	81.9	221.7	11.4	36.9%
Mahindra & Mahindra Limited	5	1,382,793.0	101.1	594.0	31.1	17.0%

*Note –: 1) P/E Ratio has been computed based on the closing market price of equity shares on NSE on Oct 09, 2024.
2) * P/E of company is calculated on EPS of FY24, and post issue no. of equity shares issued.

Key Risks

- Increases in the prices of parts and materials required for their operations could adversely affect their business and the results of operations.
- Two of their Group Companies, Kia Corporation and Kia India Private Limited, are in a similar line of business as them which may involve conflict of interests, which could adversely impact their business.
- HMIL depends primarily on their Group Company, Mobis India Limited (being a subsidiary of Hyundai Mobis Co., Ltd. which is specialized in after-sale parts business for HMC Group Companies), to supply spare parts for after sale services to them and their dealers. Further, they also depend on Mobis to supply modular parts to them that they use in the manufacturing process of passenger vehicles. Any failure by Mobis to supply these parts could adversely impact their business. Further, Mobis may engage in transactions with them and other HMC Group Companies that may give rise to conflict situations.
- They depend on a limited number of suppliers for parts and materials. Any interruption in the availability of parts and materials could adversely impact their operations. Further, any failure by the suppliers to provide parts and materials to them on time or at all, or as per their specifications and quality standards, could have an adverse impact on their ability to meet their manufacturing and delivery schedules.
- The company depends on HMC, their Promoter, for the operations, including for parts and materials (such as engines and transmission assembly) and research and development. Any adverse change in their relationship with HMC and the companies in the Hyundai Motor Group could have an adverse impact on their business, reputation, financial condition, and results of operations.
- They have entered into the Royalty Agreement with HMC, their Promoter, and termination of the Royalty Agreement could adversely impact their business and results of operations.
- Any increase in the royalty fee payable by their Company to HMC, their Promoter, under the Royalty Agreement, including up to and exceeding the limits of 5% of the annual consolidated turnover of their Company as prescribed under the SEBI Listing Regulations, could adversely impact their profitability metrics, including their earnings per share.

- The company's success depends on their and HMC's ability to identify market trends, including technological trends, and meet evolving customer demands, while maintaining or improving their profitability. If they are unable to do so, their sales volumes, business and results of operations would be adversely affected.

- A significant portion of their sales volumes are derived from the sale of non-EV passenger vehicles, and there is no assurance that they will be able to adopt their EV strategy successfully and cost-efficiently or at all.

- The company's global operations involve challenges and risks that could increase their costs, adversely affect the results of operations and require increased time and attention from their management. Any failure or delay by HMC or them in accessing the export markets could 44 have a material adverse effect on their results of operations and prospects.

Valuation & Outlook

HMIL has consistently held the position as the leading auto OEM in India by sales volume in the mid-size SUV sub-segment from Fiscal Year 2019 through the three months ending on June 30, 2024. HMIL's current range of passenger vehicles is designed to appeal to a wide variety of customers, providing options for everyone. Their portfolio consists of 13 models across key passenger vehicle segments by body type, including sedans (Aura and Verna), hatchbacks (Grand i10 NIOS, i20, and i20 N Line), and SUVs (Exter, Venue, Venue N Line, Creta, Creta N Line, Alcazar, Tucson, and IONIQ 5).

HMIL is dedicated to investing in R&D and introducing new passenger vehicles to enhance their market position and increase the appeal of their vehicles to customers. They aim to remain a key player in the Indian automobile market, offering options that cater to buyers across the entire range, from affordable to premium segments. HMIL follows a premiumization strategy, concentrating on selling higher-end trims with a higher average selling price (ASP) for their respective passenger vehicles. HMIL aims to align their EV strategy with market demands in India by carefully timing the launch of suitable EV models across various price segments.

At the upper band the company is valuing at 26.2x its FY24 earnings along with being valued at 26.7x if we annualize FY25 earnings. Following the issuance of equity shares, the company's market capitalization stands at ₹15,92,581 million, with a market cap-to-sales ratio of 2.28 based on its FY24 earnings.

We believe that the issue is fully priced and recommend "**Subscribe – Long Term**" rating to the IPO.

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