

<b>Retail Research</b>	<b>IPO Note</b>
<b>Sector: Auto OEM</b>	<b>Price Band (Rs): 1,865 – 1,960</b>
<b>10<sup>th</sup> October 2024</b>	<b>Recommendation: Subscribe for Long Term</b>

## Hyundai Motor India Ltd

### Company Overview:

**Hyundai Motor India Ltd. (HMIL)** is an integral part of the prestigious Korea-based Hyundai Motor Group and has firmly established itself as one of the top auto OEMs in India. HMIL currently has a portfolio of 13 models across multiple segments of body type such as sedans, hatchbacks, SUVs and battery electric vehicles. It is predominantly an SUV focused player with major presence across urban India.

### Key Highlights:

**1. Advanced technological integration:** The company uses integrated technology across its operations, including product design, manufacturing, and customer and dealer engagement. As part of the Hyundai Motor Group, the company has early access to global automotive trends, technologies and features through HMC's technology arm, Hyundai Autoever.

**2. Focus on localization:** HMIL focuses on localizing parts and materials, with ~93% of parts and materials in terms of purchase value sourced from suppliers in India located in the 4 adjoining districts close to the Chennai facility. This strategy enhances profitability and operational efficiency. In certain cases, the company imports specific parts from suppliers outside India, primarily from HMC or other companies within the Hyundai Motor Group.

**3. Strong Parentage:** The company is part of the Hyundai Motor Group, one of the largest auto OEMs in the world. It receives support from HMC in various operational areas and maintains close connections with other affiliates within HMC, creating synergies in management, R&D, design, product development, supply chain, manufacturing, quality control, marketing, distribution, brand, HR and financing. Group companies like Mobis India Ltd supply after-sale parts and accessories to the company's dealers and Glovis India Pvt Ltd provides transportation of passenger vehicles to dealerships and stockyards.

**4. Targeting growth through capacity expansion:** The company's Chennai manufacturing plant has an annual production capacity of 8.24 lakh units as of Jun'24. It also has a captive facility for manufacturing engines and transmission components. The company is expanding its manufacturing capabilities in India with the recent acquisition of a manufacturing plant in Talegaon, Maharashtra. The plant is anticipated to commence production partly in 2HFY26 and is expected to increase the company's aggregate production capacity to 10.74 lakh units once fully operational.

**Valuation:** HMIL has the 2<sup>nd</sup> largest market share in the Indian PV industry after Maruti Suzuki and is also the 2<sup>nd</sup> largest exporter of cars from India. SUVs (higher margin vehicles) contribute a large share of the company's volumes which reflects in the relatively higher material and operating margins as well as return ratios. Strong brand, blockbuster models such as Creta, Alcazar, Venue and Verna, advanced technology and high export potential are key differentiators. The capacity expansion at Talegaon will help HMIL in ramping up both domestic and export volumes. At the upper price band of Rs 1,960, HMIL is valued at 26.3x FY24 EPS. We recommend subscribing to the issue for long term investment horizon.

Issue Details	
Date of Opening	15 <sup>th</sup> October 2024
Date of Closing	17 <sup>th</sup> October 2024
Price Band (Rs)	1,865 – 1,960
Offer for sale (No. of shares)	14,21,94,700
Fresh Issue (Rs cr)	-
Issue Size (Rs cr)	27,870
No. of shares	14,21,94,700
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	1,51,539 – 1,59,258
BRLMs	Kotak Mahindra Capital Company Ltd, Citigroup Global Markets India Pvt. Ltd, HSBC Securities & Capital Markets Ltd, J.P. Morgan India Pvt. Ltd, Morgan Stanley India Company Pvt. Ltd
Registrar	Kfin Technologies Ltd
Bid Lot	7 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NII shares	15%

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	81,25,41,100	100.0
Public & Others	-	-
<b>Total</b>	<b>81,25,41,100</b>	<b>100.0</b>

Post Issue @ Lower Price Band	No. of Shares	%
Promoter & Promoter Group	67,03,46,400	82.5
Public & Others	14,21,94,700	17.5
<b>Total</b>	<b>81,25,41,100</b>	<b>100.0</b>

Post Issue @ Upper Price Band	No. of Shares	%
Promoter & Promoter Group	67,03,46,400	82.5
Public & Others	14,21,94,700	17.5
<b>Total</b>	<b>81,25,41,100</b>	<b>100.0</b>

Source: RHP, SSL Research

## Key Financials

Rs cr	FY22	FY23	FY24
Revenue from operation	47,378.4	60,307.6	69,829.1
EBITDA	5,486.1	7,548.8	9,132.6
PAT	2,901.6	4,709.3	6,060.0
EBITDA Margin (%)	11.6	12.5	13.1
PAT Margin (%)	6.1	7.8	8.7
ROE (%)	17.2	23.5	56.8
ROCE (%)	21.7	30.6	73.4
PE (x)*	54.9	33.8	26.3

*\*Note: Pre-issue PE based on upper price band  
Source: RHP, SSL Research*

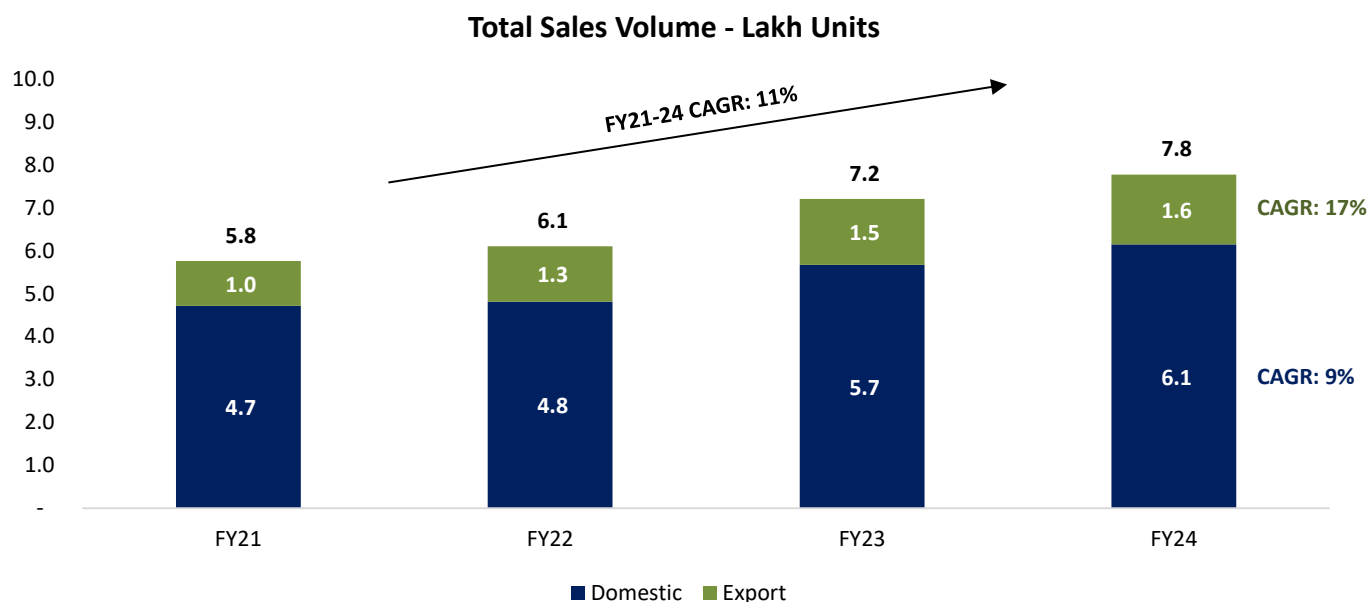
## Risk Factors

- Raw Material Sourcing:** The company's ability to manufacture passenger vehicles depends on the continuous availability of parts and materials, including precious metals such as palladium, platinum and rhodium, required for its manufacturing operations. The company sources parts and materials from a combination of domestic and foreign suppliers and any increases in the prices of these parts and materials could adversely affect its business and results of operations.
- Supplier Concentration:** The company relies on a limited number of suppliers for parts and materials, and strategically selects single-source suppliers located nearby or those that exclusively provide to them, thus ensuring consistent quality and quantity. The top 5 suppliers accounted for nearly 44% of the company's total raw material supply in FY24. Hence, any failure by the suppliers to provide materials on time or as per standards could impact Hyundai's manufacturing, delivery schedules, operations, reputation and pricing of its vehicles.
- Industry Slowdown:** The company operates in a highly competitive and cyclical industry. In the last five years, the competition in the Indian domestic passenger vehicle market has intensified amidst competitively priced feature-rich passenger vehicle launches by all players as well as recent entrants. Lack of efficiency in operations along with probable slowdown in both the domestic and international markets may lead to adverse impact on the company's business.
- Increase in the Royalty Rate:** Any potential increase in the royalty rate by the parent company on account of technology transfer or provision of critical components or services could impact future earnings of Hyundai Motor India Ltd.

## Growth Strategies

- To expand passenger vehicle portfolio by leveraging a deep understanding of consumer preferences
- To focus on the premiumization of the passenger vehicle portfolio
- To calibrate capacity expansion through efficient capital allocation practices
- To focus on increasing the EV market share

## Total Sales Volume (Lakh units)



Source: RHP, SSL Research

## Domestic Volume Mix – by Body Type

	FY21	FY22	FY23	FY24	CAGR (FY21-24)
SUVs	2,14,167	2,50,430	3,01,681	3,88,725	22%
% Mix	45.4%	52.0%	53.2%	63.2%	
Sedans	53,951	56,084	70,001	85,244	16%
% Mix	11.4%	11.6%	12.3%	13.9%	
Hatchbacks	2,03,417	1,74,986	1,95,864	1,40,752	-12%
% Mix	43.1%	36.3%	34.5%	22.9%	
<b>Total Domestic Volume</b>	<b>4,71,535</b>	<b>4,81,500</b>	<b>5,67,546</b>	<b>6,14,721</b>	<b>9%</b>

Source: RHP, SSL Research

## Domestic Volume Mix – by Powertrain

	FY21	FY22	FY23	FY24	CAGR (FY21-24)
ICE - Petrol/Diesel	4,48,278	4,37,637	5,06,249	5,42,234	7%
% Mix	95.1%	90.9%	89.2%	88.2%	
CNG	23,077	43,732	60,322	70,367	45%
% Mix	4.9%	9.1%	10.6%	11.4%	
EV	180	131	975	2,120	128%
% Mix	0.0%	0.0%	0.2%	0.3%	
<b>Total Domestic Volume</b>	<b>4,71,535</b>	<b>4,81,500</b>	<b>5,67,546</b>	<b>6,14,721</b>	<b>9%</b>

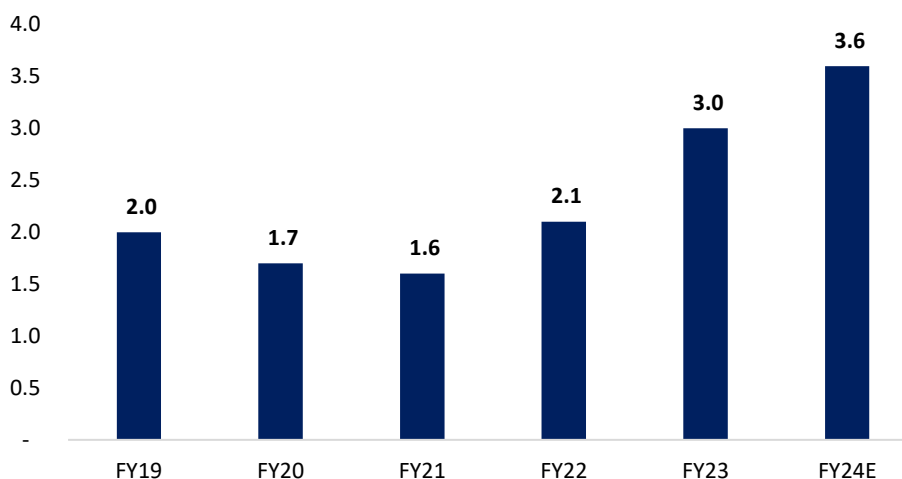
Source: RHP, SSL Research

## Industry Overview

### Indian Passenger Vehicle Industry:

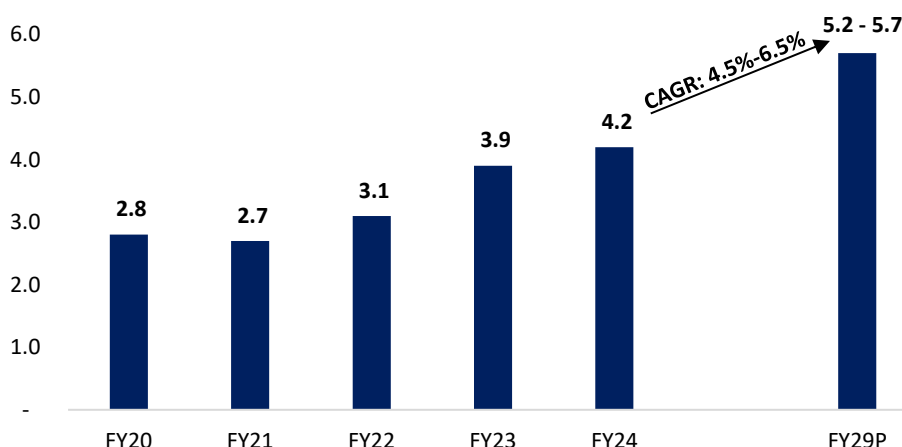
The domestic Passenger Vehicle industry experienced strong growth from FY19 to FY24, with a CAGR of ~13%. During the same period, the average ex-factory prices of vehicles increased at a CAGR of 8%, driven by a growing market share of premium vehicles.

#### Domestic PV Industry (Rs tn)



In FY24, the industry's sales volume growth continued at a slower pace, reaching a historic high of 4.2 million units, a growth of 8.4% from FY23. The industry is expected to grow at a CAGR of 4.5%-6.5% in terms of volumes during the forecast period of FY24 to FY29, reaching ~5.2 to 5.7 Mn units.

#### Domestic PV Sales Volumes (Mn units)

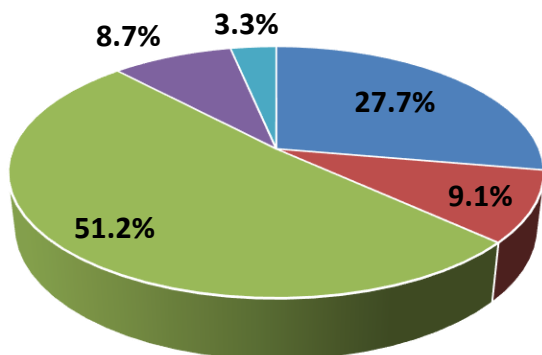


Source: RHP, SSL Research

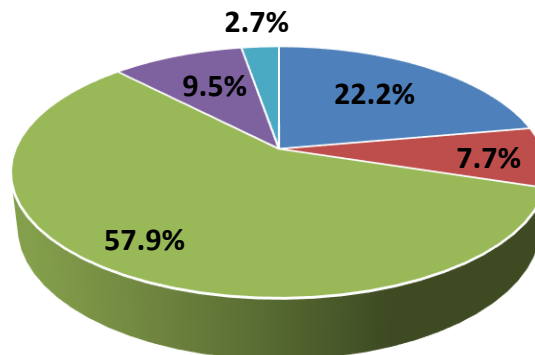
The passenger vehicle industry can be broadly classified based on body types into hatchbacks, sedans, Sports Utility Vehicles (SUVs), Multi Purpose Vehicles (MPVs), and vans. Traditionally, Indian passenger vehicle buyers have been cost-conscious, with mileage and initial vehicle buying cost being the two main pillars of decision-making. Therefore, the hatchbacks segment has been leading PV sales over the years primarily because of the lower ticket size and lower running costs, making them affordable to the average Indian customer.

However, younger car buyers are now considering factors beyond price, such as design, safety, and advanced features. This has led to a shift towards SUVs and higher-end car variants. Companies like Tata Motors and Hyundai Motor India are responding by prioritizing vehicle safety in their new releases and introducing advanced features in mid-range models. The SUV market has also benefited from the rise in disposable incomes.

**Industry Segment Split (FY24)**



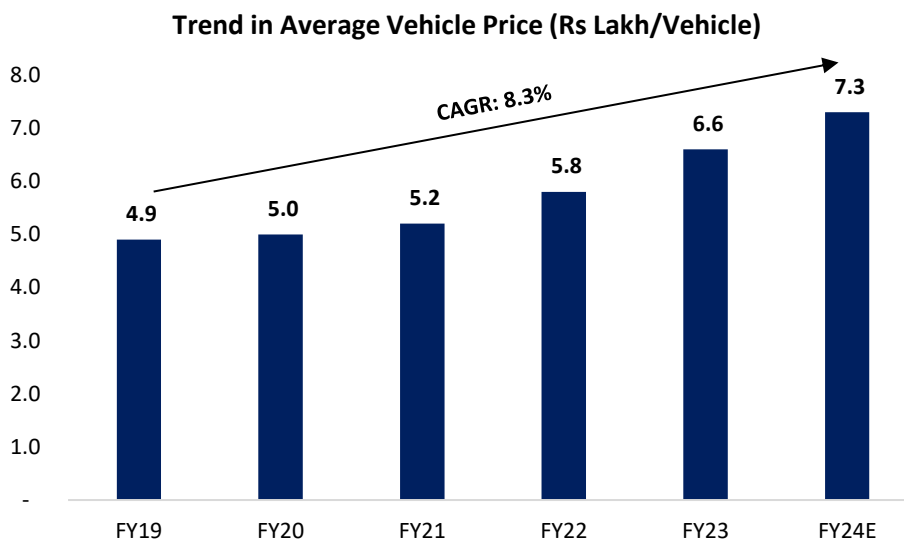
**Industry Segment Split (FY29P)**



■ Hatchbacks ■ Sedans ■ SUVs ■ MPVs ■ Vans

■ Hatchbacks ■ Sedans ■ SUVs ■ MPVs ■ Vans

**Trend in Average Vehicle Price (ASP):**

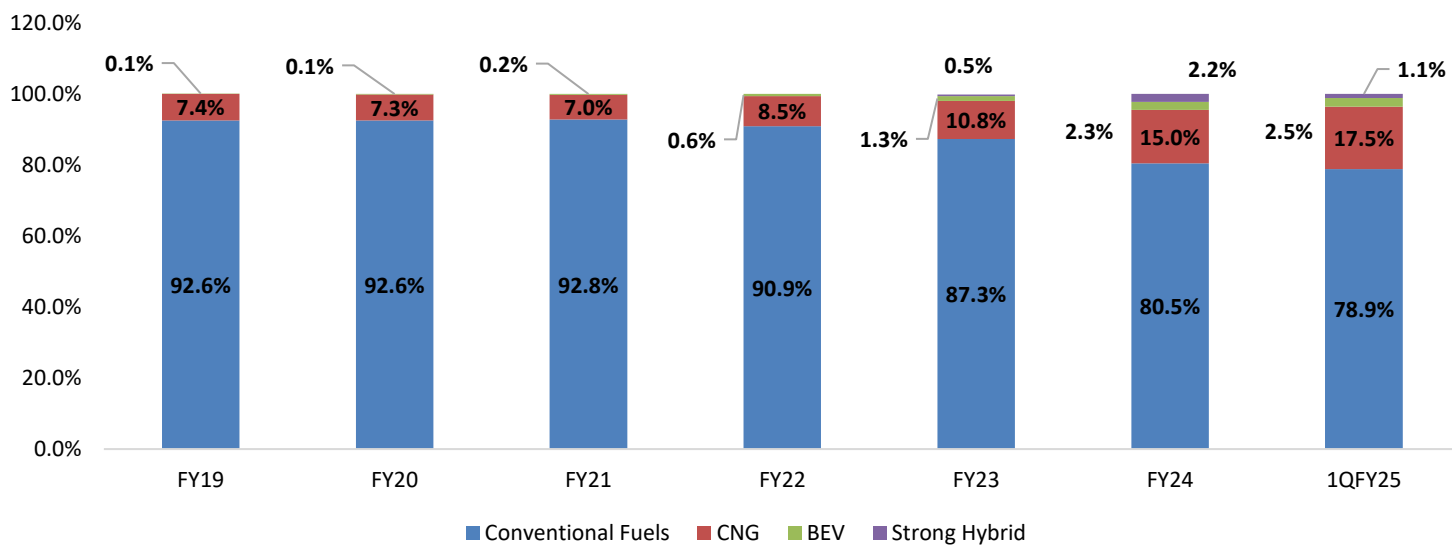


**Changing Powertrain Mix in the Indian PV Industry:**

The Indian passenger vehicle industry has seen a shift from petrol to diesel vehicles and back to petrol due to multiple factors. Diesel vehicles were preferred during FY12-14 due to higher price difference between petrol and diesel in addition to the higher mileage provided by diesel vehicles. However, post a sharp rise in diesel prices due to removal of subsidy and increase in prices of diesel vehicles post the implementation of the stricter emission norms, petrol vehicles found favour once again post FY15. The Supreme Court's ban on diesel vehicles in the NCR region also contributed to the shift away from diesel.

The share of diesel powertrains has declined to 18% and the share of petrol variants has risen to 63% by FY24. In 1QFY25, the share of petrol variants slightly dropped to 61% with the rise of CNG vehicles. Launch of CNG models by OEMs such as Maruti Suzuki, Tata Motors and Hyundai Motor India, expansion of CNG distribution infrastructure by city gas distribution players and better mileage of CNG vehicles has led to doubling of the share of CNG vehicles in the Indian PV industry during FY22-1QFY25.

### Powertrain Mix Trend of PV Industry Retails



Source: RHP, SSL Research

## Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY22	FY23	FY24
<b>Revenue from Operations</b>	<b>47,378</b>	<b>60,308</b>	<b>69,829</b>
<b>YoY growth (%)</b>	-	27.3%	15.8%
Cost Of Revenues (incl Stock Adj)	35,805	44,983	51,539
<b>Gross Profit</b>	<b>11,574</b>	<b>15,325</b>	<b>18,290</b>
<b>Gross margins (%)</b>	<b>24.4%</b>	<b>25.4%</b>	<b>26.2%</b>
Employee Cost	1,648	1,766	1,975
Other Operating Expenses	4,440	6,010	7,182
<b>EBITDA</b>	<b>5,486</b>	<b>7,549</b>	<b>9,133</b>
<b>EBITDA margins (%)</b>	<b>11.6%</b>	<b>12.5%</b>	<b>13.1%</b>
Other Income	588	1,129	1,473
Interest Exp.	132	142	158
Depreciation	2,170	2,190	2,208
<b>PBT</b>	<b>3,772</b>	<b>6,346</b>	<b>8,240</b>
Exceptional/Extraordinary item	-	-	-
Tax	871	1,636	2,180
<b>PAT</b>	<b>2,902</b>	<b>4,709</b>	<b>6,060</b>
<b>PAT margin (%)</b>	<b>6.1%</b>	<b>7.8%</b>	<b>8.7%</b>
<b>EPS</b>	<b>35.7</b>	<b>58.0</b>	<b>74.6</b>

BALANCE SHEET			
(Rs cr)	FY22	FY23	FY24
<b>Assets</b>			
Net Block	6,229	5,766	6,714
Capital WIP	529	1,337	653
Right of use assets	66	58	618
Intangible Assets	376	327	283
Other Non current Assets	1,078	1,724	1,958
<b>Current Assets</b>			
Inventories	2,881	3,422	3,316
Current Investment	-	-	-
Trade receivables	2,182	2,897	2,510
Cash and Bank Balances	14,139	17,741	9,017
Short-term loans and advances	15	66	-
Other Current Assets	862	1,235	1,281
<b>Total Current Assets</b>	<b>20,080</b>	<b>25,362</b>	<b>16,124</b>
<b>Current Liabilities &amp; Provisions</b>			
Trade payables	5,405	7,441	7,493
Other current liabilities	3,004	3,655	4,897
Short-term provisions	403	454	453
<b>Total Current Liabilities</b>	<b>8,812</b>	<b>11,549</b>	<b>12,843</b>
<b>Net Current Assets</b>	<b>11,268</b>	<b>13,813</b>	<b>3,282</b>
<b>Total Assets</b>	<b>19,546</b>	<b>23,024</b>	<b>13,507</b>
<b>Liabilities</b>			
Share Capital	813	813	813
Reserves and Surplus	16,044	19,242	9,853
<b>Total Shareholders Funds</b>	<b>16,856</b>	<b>20,055</b>	<b>10,666</b>
Minority Interest	-	-	-
<b>Total Debt</b>	<b>1,140</b>	<b>1,159</b>	<b>768</b>
Long Term Provisions	774	804	847
Lease Liabilities	38	31	65
Other Long Term Liabilities	738	976	1,161
Net Deferred Tax Liability	-	-	-
<b>Total Liabilities</b>	<b>19,546</b>	<b>23,024</b>	<b>13,507</b>

Cash Flow (Rs cr)	FY22	FY23	FY24
Cash flow from Operating Activities	5,138	6,564	9,252
Cash flow from Investing Activities	(905)	(1,412)	(10,090)
Cash flow from Financing Activities	(1,662)	(1,579)	(15,390)
Free Cash Flow	3,873	4,303	6,006

RATIOS			
	FY22	FY23	FY24
<b>Profitability</b>			
Return on Assets	10.2%	13.6%	23.0%
Return on Capital Employed	21.7%	30.6%	73.4%
Return on Equity	17.2%	23.5%	56.8%
<b>Margin Analysis</b>			
Gross Margin	24.4%	25.4%	26.2%
EBITDA Margin	11.6%	12.5%	13.1%
Net Profit Margin	6.1%	7.8%	8.7%
<b>Short-Term Liquidity</b>			
Current Ratio (x)	2.2	2.1	1.2
Quick Ratio (x)	1.9	1.8	1.0
Avg. Days Sales Outstanding	17	18	13
Avg. Days Inventory Outstanding	22	21	17
Avg. Days Payables	42	45	39
Fixed asset turnover (x)	7.6	10.5	10.4
Debt-service coverage (x)	3.1	5.0	9.1
<b>Long-Term Solvency</b>			
Total Debt / Equity (x)	0.1	0.1	0.1
Interest Coverage Ratio (x)	29.6	45.6	53.1
<b>Valuation Ratios*</b>			
EV/EBITDA (x)	26.7	18.9	16.5
P/E (x)	54.9	33.8	26.3
P/B (x)	9.4	7.9	14.9
EV/Sales (x)	3.1	2.4	2.2

*\*Valuation ratios are based on pre-issue capital at the upper price band*

*Source: RHP, SSL Research*



## Peer Comparison – FY24

Particulars (Rs cr)	Hyundai Motor	Maruti Suzuki	Tata Motors	Mahindra & Mahindra
CMP	1,960.0	12,761.0	939.0	3,153.0
Sales	69,829.1	1,40,933.0	4,37,928.0	1,01,219.0
EBITDA	9,132.6	16,449.0	59,538.0	15,122.0
Net Profit	6,060.0	13,209.0	31,807.0	10,718.0
Mkt Cap.	1,59,258.1	4,01,083.0	3,45,671.0	3,92,128.0
Enterprise Value	1,51,008.6	4,00,656.0	3,98,365.0	3,88,187.0
EBITDA Margin (%)	13.1	11.7	13.6	14.9
Net Margin (%)	8.7	9.4	7.3	10.6
PE (x)	26.3	30.4	9.9	36.6
EV/EBITDA (x)	16.5	24.4	6.7	25.7
RoE (%)	56.8	15.2	37.5*	20.5
RoCE (%)	73.4	15.7	17.3	19.9
EV/Sales	2.2	2.8	0.9	3.8

For Hyundai Motor Ltd, the Market Cap, PE (x), Enterprise Value, EV/EBITDA (x), and EV/Sales (x) are calculated on post-issue equity share capital based on the upper price band.

Figures for Maruti Suzuki Ltd and Mahindra & Mahindra Ltd represent Standalone numbers.

CMP of peer companies is as of 09<sup>th</sup> October, 2024.

\*FY24 PAT was higher on account of the company recognizing Deferred Tax Assets of Rs 1,248.9 cr. (3-year Avg ROE is 15%)

Source: RHP, SSL Research

**SBICAP Securities Limited**

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