Hyundai Motor India

Demand slowdown challenges overlooked

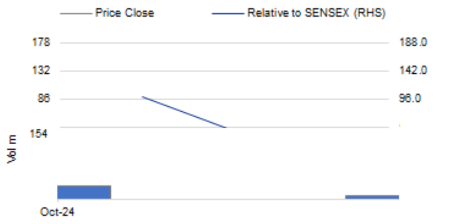
India

REDUCE *(Initiating coverage)*

Consensus ratings*:	Buy 6	Hold 0	Sell 1

Current price:	Rs1,897
Target price:	Rs1,585
Previous target:	NA
Up/downside:	-16.4%
EIP Research / Consensus:	-28.1%
Reuters:	
Bloomberg:	HYUNDAI IN
Market cap:	US$21,225m
	Rs1,541,269m
Average daily turnover:	US$0.0m
	Rs0.0m
Current shares o/s:	812.5m
Free float:	17.5%

**Source: Bloomberg*



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.0	0.0	0.0
Relative (%)	0.0	0.0	0.0

Major shareholders	% held
Hyundai Motors Company	82.5
Capital Group	0.5
GIC	0.3

- Hyundai IPO widens investor opportunity in low-penetrated Indian car industry and benefit from high operational efficiency, alternate powertrain capability.
- The car industry's weakness, of late, has worsened Hyundai's volume decline as competitors attack its SUV Creta's dominance even as its other models slip.
- Hyundai's valuation discount to global peers for a long period is needed in India as well. Initiate coverage with a REDUCE rating. Prefer Maruti Suzuki (ADD).

New model efforts impress, but revenue growth is short of the leader

Hyundai Motor India (HMI) is the second-largest OEM in the domestic passenger vehicle or PV market since FY09, & it was the largest exporter of PVs till FY22. It seems a better proxy to India's car market revenue growth of 11% witnessed in FY19-24, while the volume CAGR was just 5%. Considering the slow volume growth outlook of 6% till FY30F, its value play strategy with new launches (Fig. 9) will be helpful. While it has been instrumental in the new form factor evolution of India's car industry via Santro, I20, Creta and Elixir models, revenue CAGR for the last 5/7/15 years fails to beat the leader, Maruti Suzuki (Fig. 3).

Financial comparison with peers is a mixed bag

HMI has an edge over its peers in the ASP and export mix while comparing poorly in net working capital days (Fig. 34), warranty costs, R&D spending and local parts sourcing. HMI, we feel, is good in terms of high operational efficiency, management agility, superior execution and better future-ready status. While the profit ratios look better than its peers, the market leader, Maruti Suzuki, has recently caught up on EBITDA and the EBIT margin (Figs. 22 & 23). The leakage of revenue to Kia SUVs and Hyundai Mobis spare parts (Figs. 17 & 20) and high related-party transactions (Figs. 31 & 32) are areas of concern.

Low single-digit EPS CAGR disappointment likely over FY25-27F

HMI's peak financial performance in 4QFY24 and 1QFY25, leading to the best-ever EBITDA margin of close to 14% (aided by volume growth and higher gross margin) is impressive, despite an increased royalty rate. However, the sharp 9% yoy sales drop for the company in the Sep 2024 quarter, driven by exports (-17%) is a cause of concern. Hence, we build in an 8% EPS dip for the Jul 2024-Mar 2025F period. Due to capacity expansion and the launch of new models, we build in a 6% EPS CAGR over FY26F-27F.

Global valuation discount to prevail; initiate with 16% downside

Global management corporate governance challenges have been well captured by the consistent high discount of 25-50% for Hyundai Motor Corporation (HMC) vs. global peers on P/E and P/BV valuation fronts (Figs. 41 & 42). The current listing premium on P/E, P/BV and EV/EBITDA valuations vs. the leader, Maruti Suzuki, at just a 3% EPS CAGR over FY25-27F is an area of concern. We assign a target P/E of 20x (22% discount to Maruti Suzuki) to the company, leading to a target price of Rs1,585. We initiate coverage on it with a REDUCE rating. Upside risk: Success of new models and quick launch of hybrids.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	603,076	698,291	695,564	755,806	845,520
Operating EBITDA (Rsm)	75,488	91,326	92,840	99,393	107,040
Net Profit (Rsm)	47,093	60,600	58,512	62,115	66,160
Core EPS (Rs)	58.0	74.6	72.0	76.4	81.4
Core EPS Growth	62.3%	28.7%	(3.4%)	6.2%	6.5%
FD Core P/E (x)	32.73	25.43	26.34	24.81	23.30
DPS (Rs)	18.4	190.0	32.4	34.4	40.7
Dividend Yield	0.97%	10.02%	1.71%	1.81%	2.15%
EV/EBITDA (x)	18.27	16.02	15.98	14.87	13.75
P/FCFE (x)	27.50	21.40	224.14	44.77	38.43
Net Gearing	(81.0%)	(73.1%)	(41.5%)	(36.5%)	(33.8%)
P/BV (x)	7.69	14.45	11.10	8.91	7.48
ROE	25.5%	39.5%	47.7%	39.8%	34.9%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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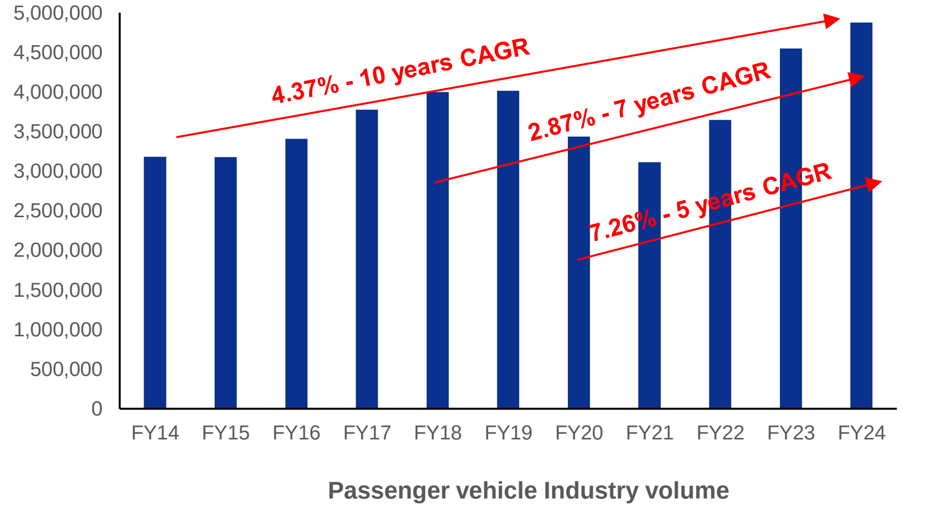
Demand slowdown challenges overlooked

Industry trend and outlook

Car industry's volume outlook muted due to rising compliance costs

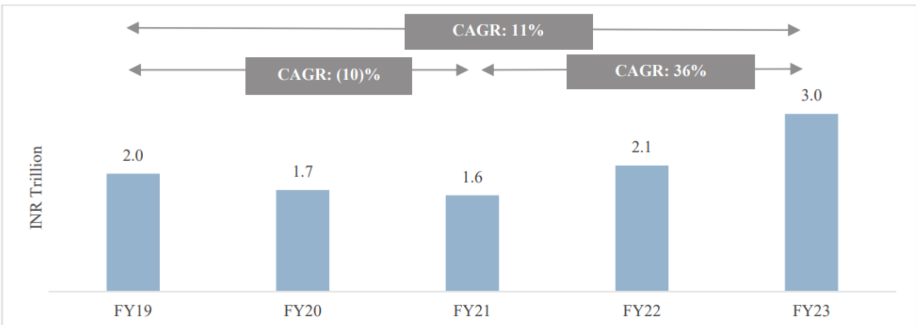
Indian car industry's sales volume has witnessed a 5% CAGR over the last 10 years and a 7% CAGR over the last 5 years on the back of a low base and improving per capita income. With just 29 cars ownership per 1,000 people, the long-term potential seems to be big. However, the significantly higher price inflation expected for CAFÉ (corporate average fuel efficiency) and safety compliance, vs. the traditional 2-3%, is leading to a sober growth outlook of 5-6% for FY24-30F. If the per capita income improves better than expected, we feel there is scope for better volume growth. However, value growth in double digits seems to be sustainable going ahead.

Figure 1: Passenger vehicle (PV) industry volume and growth trends



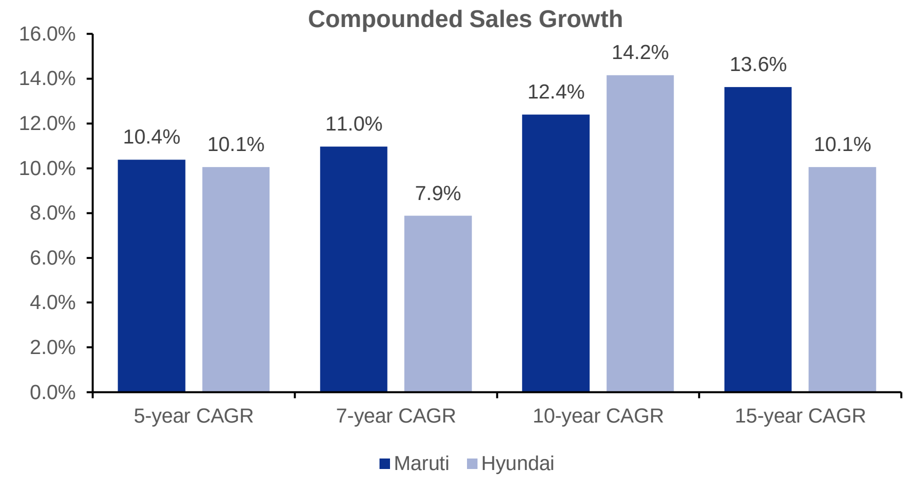
SOURCE: SOCIETY OF INDIAN AUTOMOBILE MANUFACTURERS (SIAM), INCRED RESEARCH, COMPANY REPORTS

Figure 2: PV industry's growth trend by value



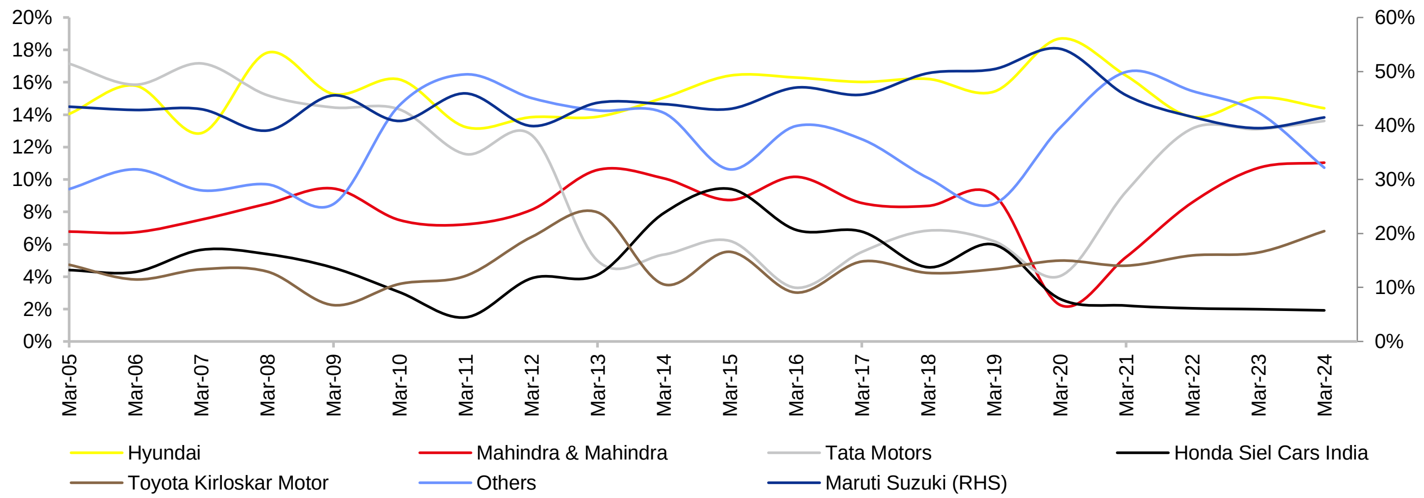
SOURCE: IPO DOCUMENT, CRISIL, INCRED RESEARCH, COMPANY REPORTS

Figure 3: Hyundai Motor India's revenue CAGR is in line or below Maruti Suzuki in the recent decade



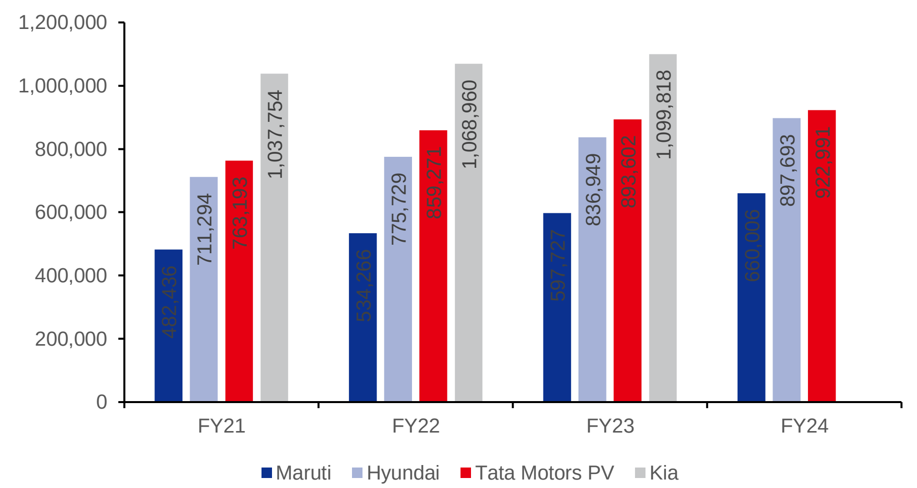
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Long-term market share trend in the domestic passenger vehicle sector - leaders challenged



SOURCE: SIAM, INCRED RESEARCH, COMPANY REPORTS

Figure 5: Kia and Tata Motors lead peers in average selling price per vehicle (in Rs)



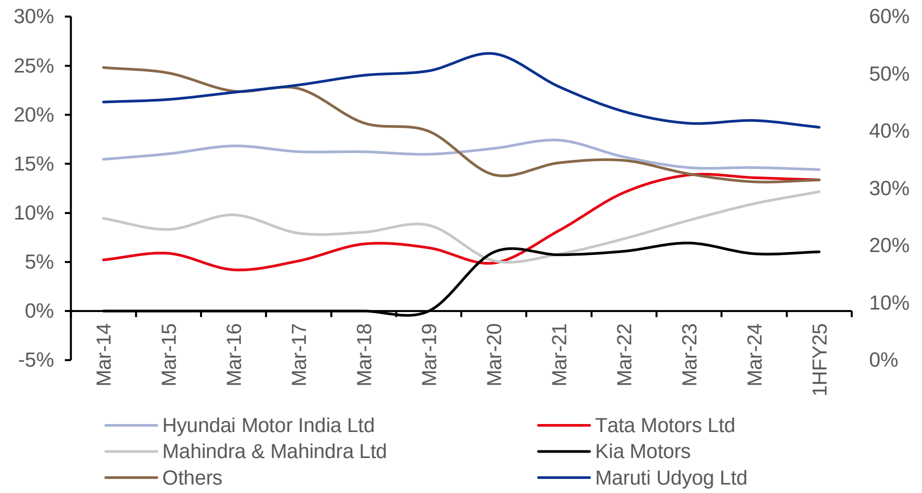
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Struggles to defend its second position now from being a mighty challenger to the leader, Maruti Suzuki, in early 2000s

Hyundai, starting in the year 1997, emerged strongly over the decade to challenge Maruti Suzuki's dominance in the Indian car industry by providing its attractive new global models. The company's quick rise to emerge as the leader in exports and the premium car segment raised hopes of it challenging Maruti Suzuki. However, in the last five years, the resurgence of Tata Motors and Mahindra & Mahindra (M&M) with electric vehicles or EVs and new models, have cornered Hyundai, which is now struggling to retain its No. 2 position in the domestic car industry. However, Hyundai scores over competition in the fast-growing sports utility vehicle or SUV segment, with five models on offer and leadership in mid-size SUVs via its Creta offering.

The Hyundai product mix is nearly 12% CNG, 18% diesel and the rest petrol engine vehicles. Rural markets account for 20% of its sales. The company's last man standing strategy in diesel vehicles, post BS-VI emission norms, helped it to gain an edge in the SUV segment.

Figure 6: Hyundai defends its market share from the assault by Tata Motors and M&M

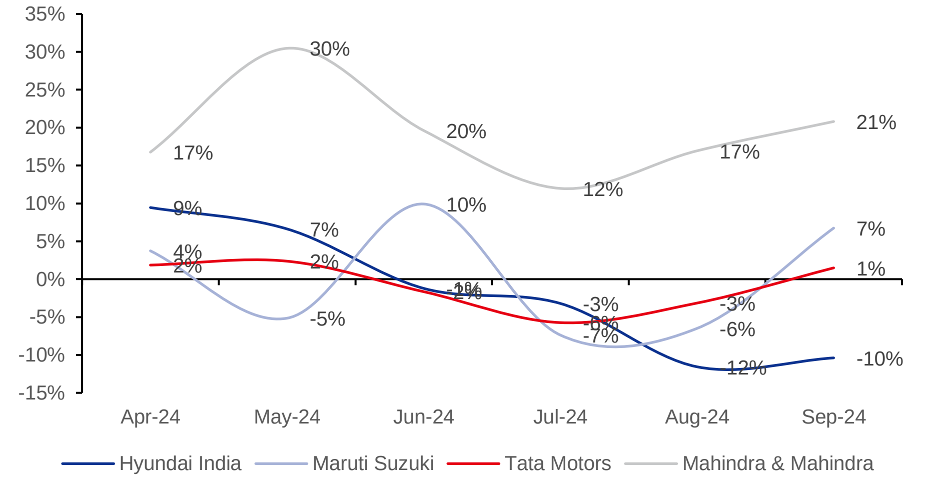


SOURCE: IPO PROSPECTUS, INCRED RESEARCH, COMPANY REPORTS

Recent industry volume slowdown impacts Hyundai the most among the top 4

- The yoy decline in passenger vehicle demand witnessed since Jul 2024 seems to be impacting Hyundai the most among the top 4 companies. This is accentuated by the slowdown in its exports also, while industry exports are still on the low single-digit growth path.
- Market share assault by Tata Motors and Mahindra & Mahindra or M&M in the last three years, especially with their new SUVs, had a minimal impact on Hyundai, as it continued to benefit from the SUV segment's expansion and new launches. However, the volume ramp-up by Hyundai's new SUVs (Exter, Tuscon and Alcazar) has been sober vs. peers.
- We feel Hyundai's management has to quickly act to improve its hit rate in new products, so that it can best make use of the 30% capacity expansion planned in CY26F. Considering the low gap of just 200bp market share among the No.2 to 4 OEMs in the Indian PV market, management's focus will be more to defend and expand the company's market share in coming years rather than profitability. The early launch of hybrid cars from its global portfolio can give Hyundai an edge vs. its immediate competitors.

Figure 7: Recent demand slowdown impacted Hyundai the worst among the top 4 car OEMs

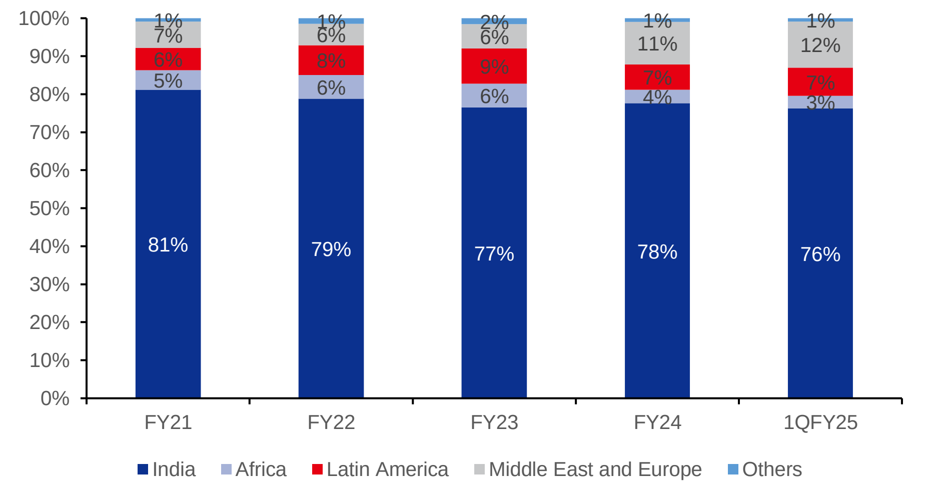


SOURCE: IPO PROSPECTUS, INCRED RESEARCH, COMPANY REPORTS

Export mix is impressive, but Maruti Suzuki is rising fast

Hyundai's export mix is impressive at 22% of its total sales, in volume terms, in FY23. Verna, Grand i10 and Aura are its top export models. Hyundai's India plant is a dedicated production base for the export of Verna and Venue models to emerging markets. Its top export destinations are South Africa, Saudi Arabia, Chile and Mexico. The superior ASP in exports and the Government of India or GoI's export incentives are an added attraction. However, since FY22, Maruti Suzuki's exports have overtaken Hyundai to emerge as the largest car exporter from India.

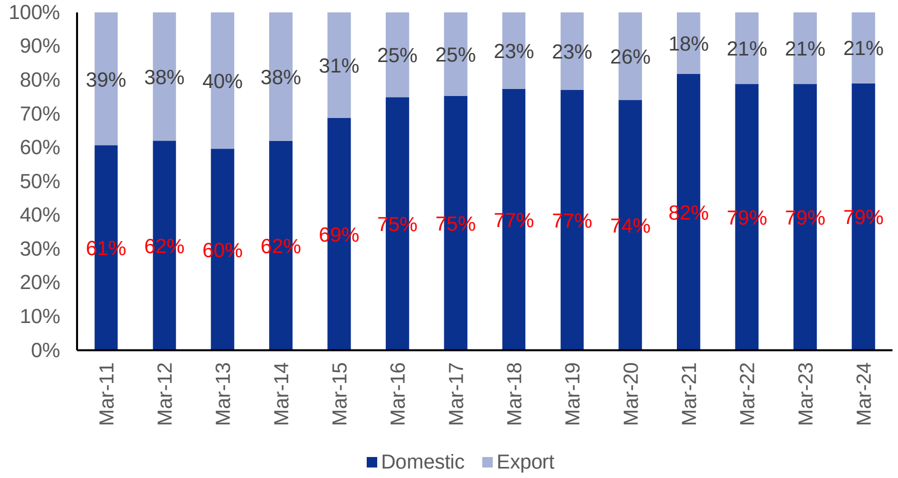
Figure 8: Geographical revenue mix



SOURCE: IPO PROSPECTUS, INCRED RESEARCH, COMPANY REPORTS

Management expects to hold on its current market share in the domestic market and maintain a 20% mix from exports. Considering that its India plant is an exclusive supplier to the Middle East and Africa markets, the company believes that exports can also sustain its growth.

Figure 9: Hyundai's export volume mix has shrunk in recent decade

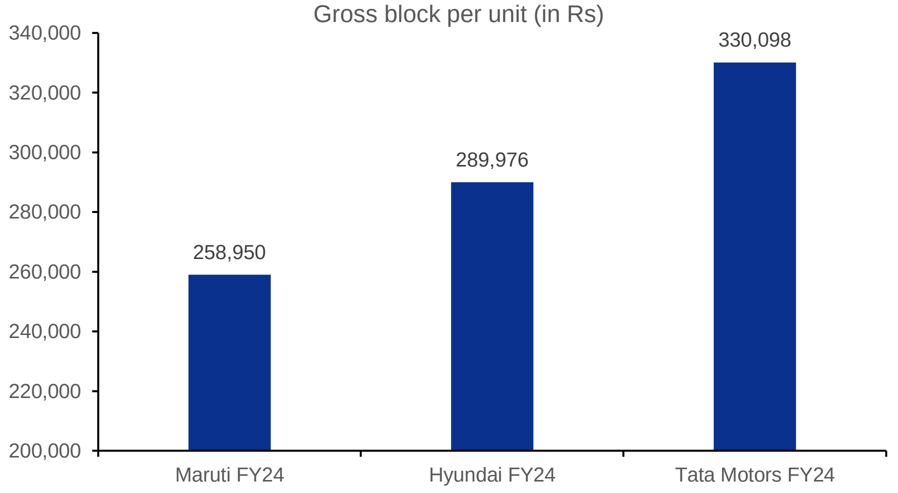


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Chennai plant's operational efficiency has risen over the last three decades

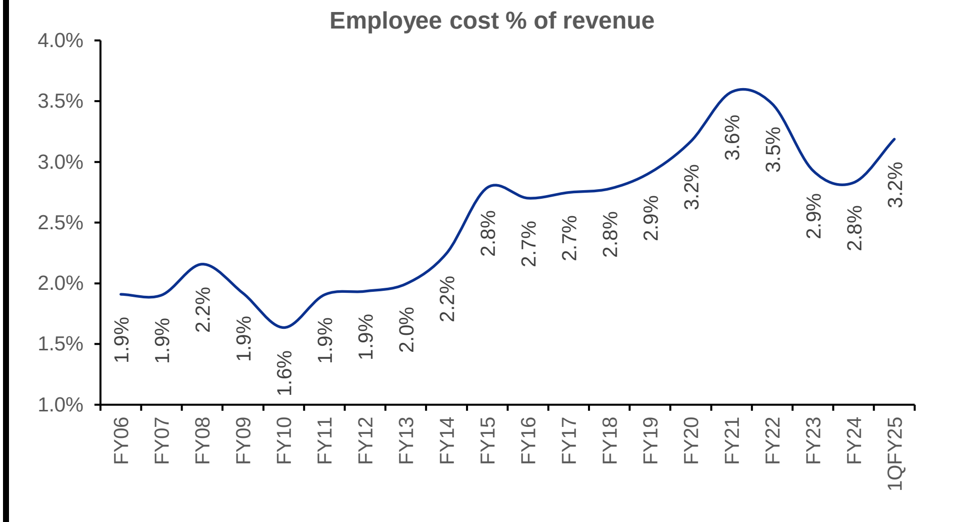
- The Chennai plant, spread across 540 acres, hosts Plant-1 and Plant-2, with each having a capacity of 412,000 units per annum on a three-shift basis.
- Plant-1 has a fully robotized body shop for preparing the outer body shell. With just 150 employees per shift, this plant produces one body shell in 50 seconds. These body shells are then transferred to the body shop. The final car assembly line is labour-intensive (1,000+ persons per shift), where the engine, transmission system, wheels, doors and dashboard are fitted to the car's body.
- Over the last 10 years, the robotization has increased in the body shop, leading to more than halving of the labour employed in the body shop. Advanced training programs with the use of virtual training have helped in better training of shop floor personnel and also productivity.
- The new Pune plant acquired from the GoI is on leased land with a planned capacity of 0.3m vehicles per annum. The company plans to set up a vendor park next to its plant, where 20 of the existing vendors at Chennai will also be setting up capacity. This plant will have non-overlapping car models for production vs. the Chennai plant in order to reap economies of scale.
- Higher reliance on the exclusive Korean vendor base for Hyundai and Kia vehicles is seen at the plants.

Figure 10: Gross fixed assets per car capacity is the lowest for Maruti Suzuki compared to the top 3 peers



SOURCE: IPO PROSPECTUS, INCRED RESEARCH, COMPANY REPORTS

Figure 11: Employee costs, as a proportion of sales, are on the rise, despite improved robotization



SOURCE: IPO PROSPECTUS, INCRED RESEARCH, COMPANY REPORTS

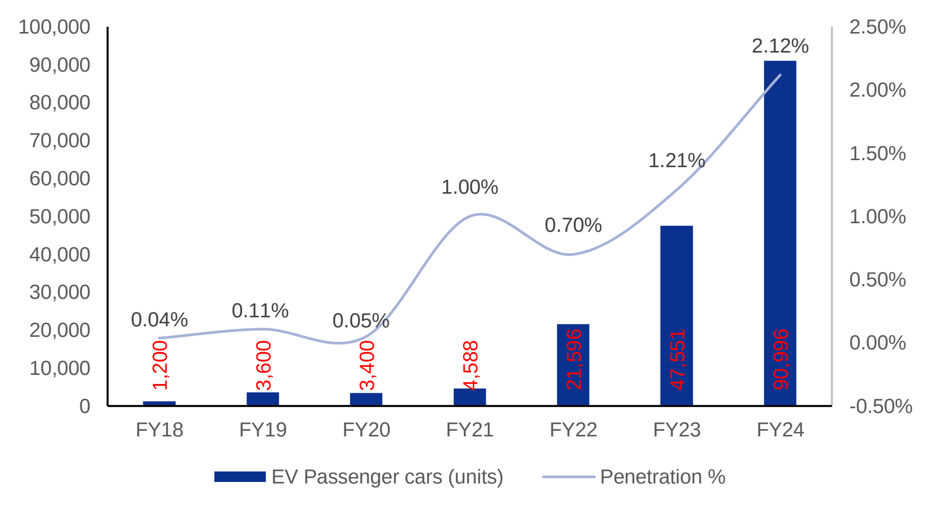
New capacity planned in 2HFY26F for growth

Hyundai's Chennai manufacturing plant had an annual production capacity of 824,000 units as of FY24-end, and it plans to expand it with the recent acquisition of a manufacturing plant at Talegaon in Maharashtra (Talegaon manufacturing plant), which is expected to commence commercial operations partly in 2HFY26F. This should help it increase the capacity to 9,94,000 units when the Talegaon plant is partly operational and to 10,74,000 units once the plant is fully operational in the next few years.

Small player in the upcoming electric vehicle or EV segment

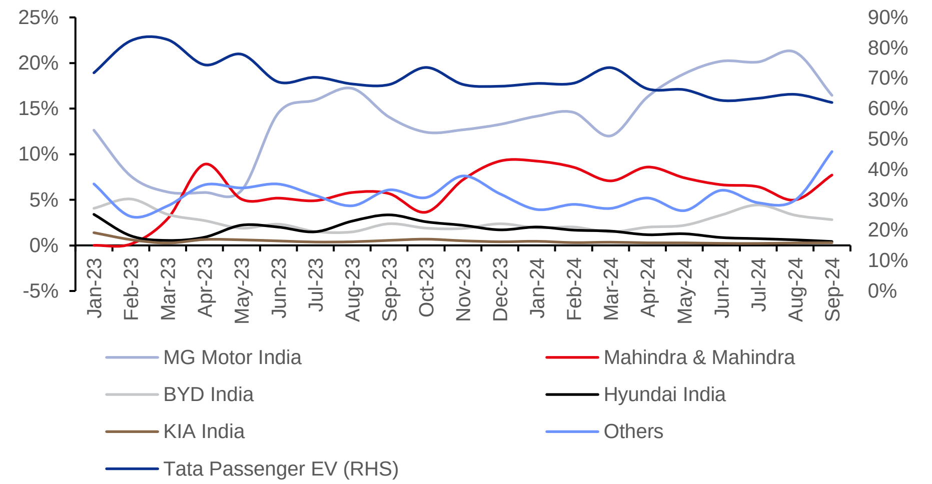
Indian electric car industry doubling its volume and penetration on a yoy basis in FY24, without major government demand or incentive support, is impressive. While the EV business holds the potential to accelerate, the government's frequent policy changes pose a challenge. With FAME-III scheme announced in Sep 2024 and the production-linked incentive or PLI benefits in FY25F, we feel the next few years will be key to watch out for. Hyundai, with the support of Korean battery/cell ecosystem, has a better right to win in the EV SUV space in the medium term vs. just a 2% market share currently in the PV EV segment dominated by Tata Motors and Chinese OEMs.

Figure 12: Industry electric car sales volume and market penetration trend



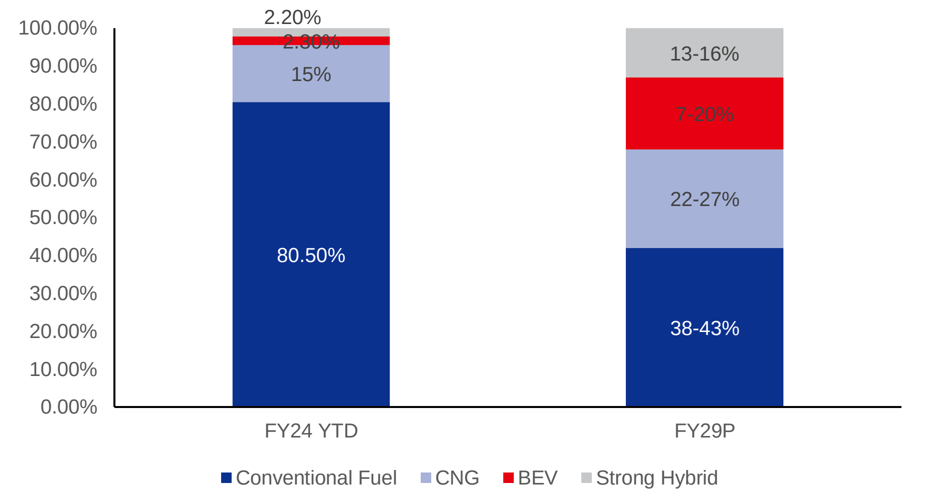
SOURCE: INCRED RESEARCH, SIAM

Figure 13: Market share in India's electric car industry



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: Fuel mix outlook for India's domestic passenger vehicle industry



SOURCE: IPO PROSPECTUS, CRISIL, INCRED RESEARCH

Hyundai's electric vehicle plan: The company launched Kona Electric in 2019, followed by Ioniq 5 in 2023. It offers NMC (nickel manganese cobalt) cell batteries to meet the high performance requirements. However, India's EV market is dominated by LFP (lithium ferrous phosphate) cell battery technology, where Korean OEMs have lagged globally. In Apr 2024, Hyundai Motor Company and Kia Corporation signed a Memorandum of Understanding or MoU with Exide Energy Solutions for a strategic cooperation to aid LFP cell battery localization efforts for their upcoming EVs which, we feel, will take around two years to be introduced in the cars.

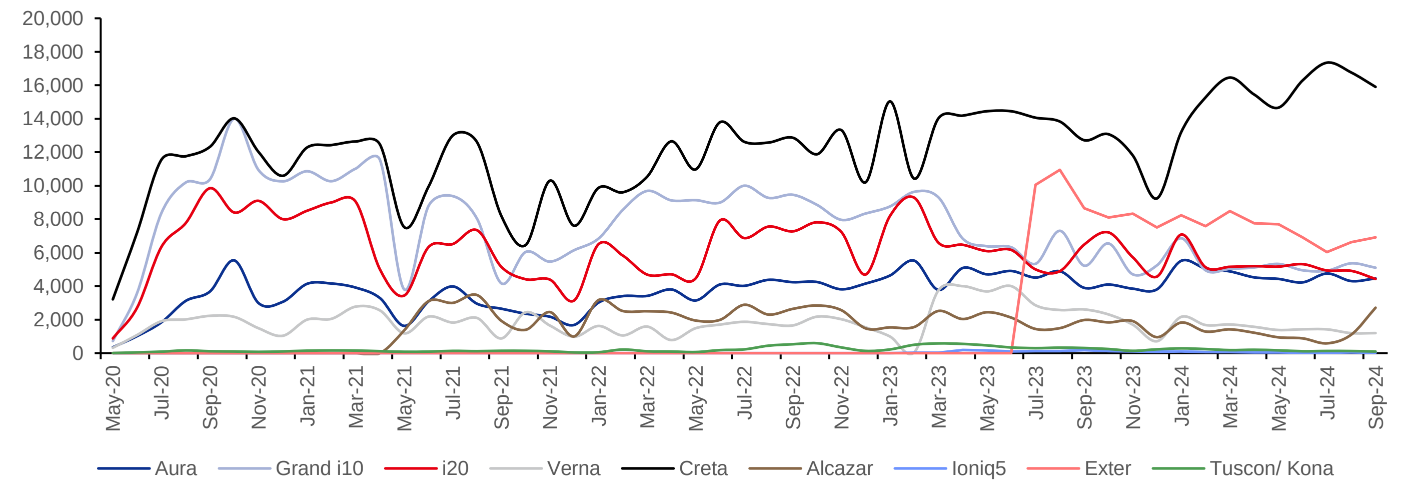
The company has developed a dedicated EV platform, E-GMP, and has a plan to launch four new EVs in India. Its management has signed an agreement with the government of Tamil Nadu to invest Rs200bn over the next decade (2023 to 2032F) for introducing new models of EVs, increase EV production capacity at its Chennai plant, set up a battery-packing assembly unit and install charging stations. The company has also invested in a battery assembly plant at Chennai in Tamil Nadu, which will have a capacity of around 75,000 battery packs annually, in the first phase, by 2025F.

Hyundai's wide model range and new plans

Hyundai has 13 models in India, spread across compact car to large SUV segments. While it has been expanding form factors in the compact car/SUV segments, it failed to develop core models with sustainable competitive advantage, as seen in the case of Maruti Suzuki, Mahindra & Mahindra and Toyota. This was despite the company being the first mover with its Santro, I10, I20 and Creta models for the Indian market.

Hyundai plans to launch four new EVs in the next seven years and relaunch its existing brands to make use of its 50% expanded capacity. HMC's plan to strengthen its hybrid portfolio in coming years augurs well for its India launches, as and when the policy favours hybrids. However, Maruti Suzuki, having access to Toyota's pioneering hybrid technology, will remain ahead of the race.

Figure 15: Hyundai's model-wise volume performance (units)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 16: Hyundai and Kia's new vehicle launch plan

Hyundai	Platform	Segment	CY24F	CY25F	CY26F	CY27F	CY28F
Aura	K1 PF	Sedan		Relaunch			
Verna							
Grand i10 NIOS	K1 PF	Hatchback		Relaunch			
i20	Unknown				Relaunch		
Exter							
Venue	K3 PF	SUV-C		Relaunch			
Creta	K3 PF	SUV-C		Relaunch			
Alcazar	Unknown	SUV-C				Relaunch	
Tucson	Unknown	SUV-C					Relaunch
IONIQ 5	eM PF	SUV-D					Relaunch
Kona	K3 PF		Relaunch				
EV	E-GMP	NA	Launch				
NEXO (FCV)	Unknown	SUV-C	Launch				
IONIQ 3 (EV)	eM PF	SUV-C				Launch	
Kia	**Platform**	**Segment**	**CY24F**	**CY25F**	**CY26F**	**CY27F**	**CY28F**
Sonet	Unknown	SUV-C			Relaunch		
Seltos	K3 PF	SUV-C	Relaunch				
Carens	Unknown	MPV					Relaunch
Carnival							
EV6	eM PF	D (upper medium)					Relaunch
EV	eM PF	NA		Launch			
Niro (EV) - SG2	K3 PF	SUV-C	Launch				
EV3 - CT1	E-GMP			Launch			

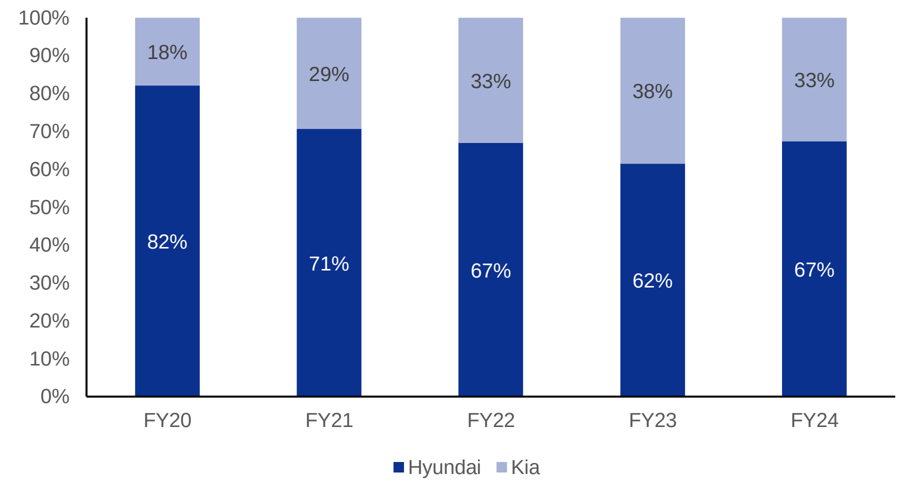
SOURCE: MARKLINES DATABASE, INCRED RESEARCH, COMPANY REPORTS

Conflict of interest with Kia's presence

Hyundai Motor Corporation or HMC's group company, Kia India Private Limited, is in a similar line of business in India, which may lead to a conflict of interest. While HMC Korea holds a 34.16% stake in Kia Corporation and Hyundai Motor India supplies engines to Kia, the success of Kia will be challenging to Hyundai Motor India's sales volume.

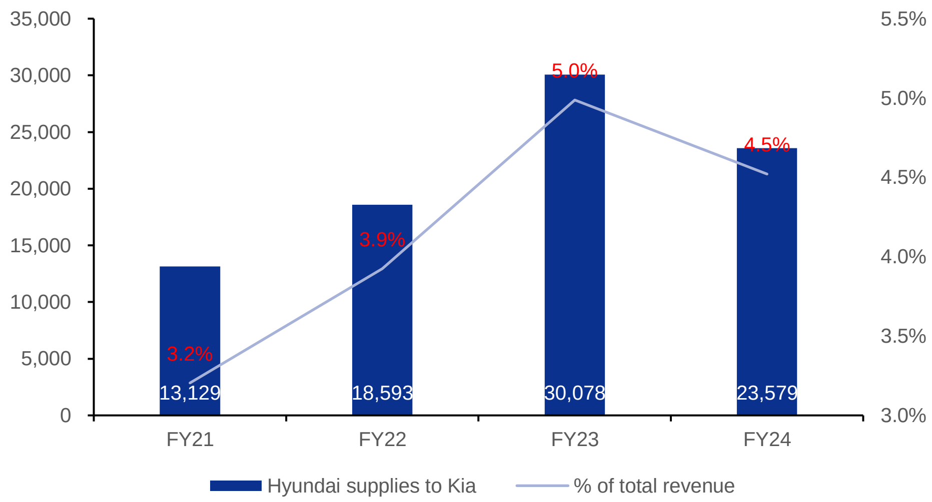
Kia traditionally accounted for around 30+% of the Hyundai group's sales volume in India but considering that only engines are supplied to Kia, it accounted for just 4-5% of Hyundai's India sales. The quick rise in Kia's EBITDA margin to match Hyundai is a cause of concern. Considering the global success of Kia in the SUV segment and the rising SUV mix in India, Kia is a challenger to Hyundai.

Figure 17: Hyundai and Kia's volume mix in domestic sales of the group



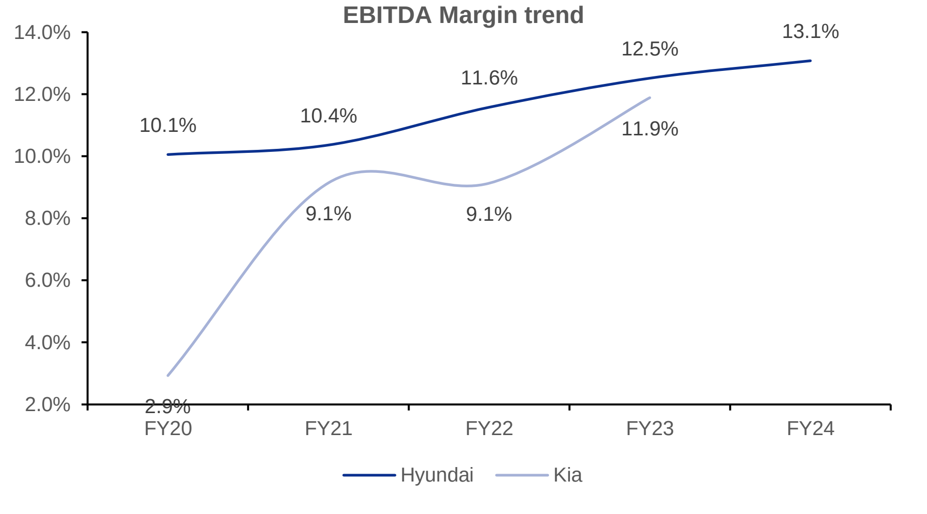
SOURCE: SIAM, INCRED RESEARCH, COMPANY REPORTS

Figure 18: Hyundai's supplies to Kia, as a percentage of its sales value, is meagre



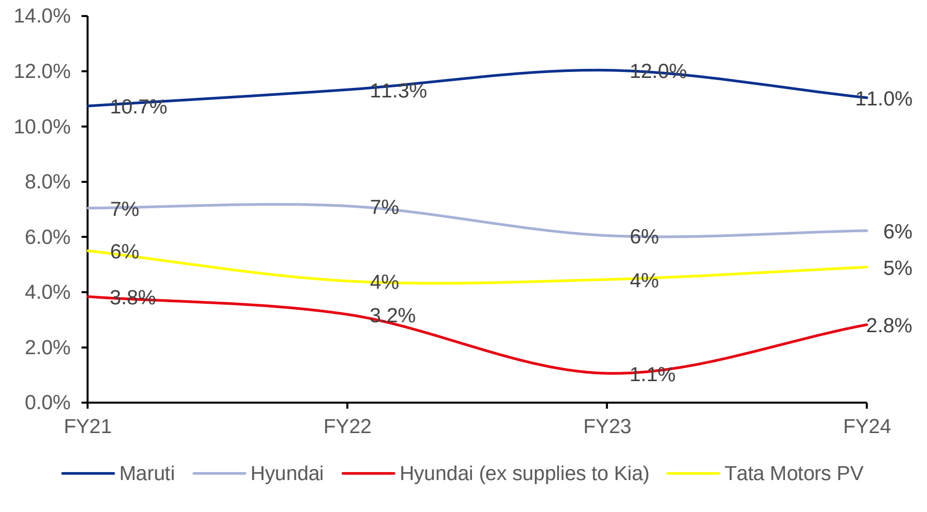
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 19: Kia's EBITDA margin quickly reaches Hyundai's level, despite a lower scale of operations



SOURCE: ACE EQUITY, INCRED RESEARCH, COMPANY REPORTS

Figure 20: Hyundai's spare sales proportion to revenue (adjusted for Kia supplies) is the lowest among peers



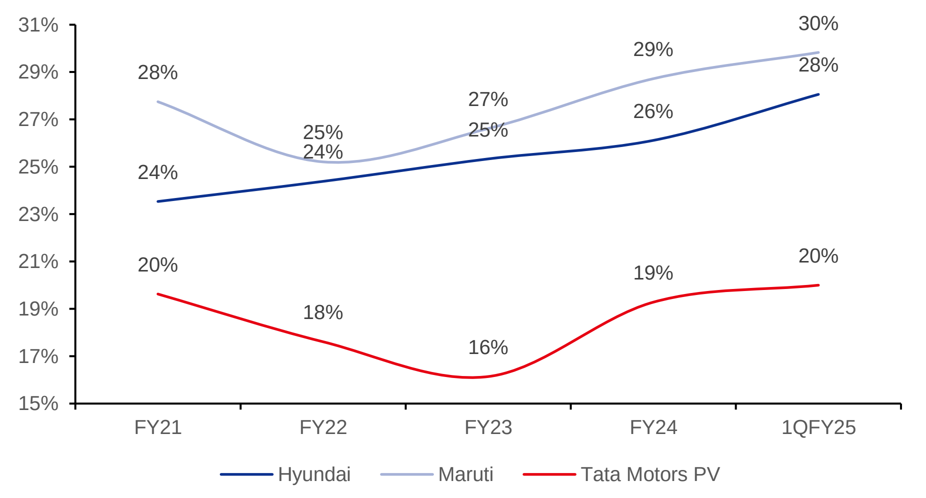
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Financials

Is the recent peak profitability sustainable?

- The DRHP release with financials of 4QFY24 and 1QFY25 are impressive on the profitability ratio front. Hyundai's EBITDA margin improvement in the 13.5-14% range, in recent quarters, has been driven primarily by a gross margin spike of 200bp, which is the steepest when compared to its peers. Considering the rising raw material costs in CY24F and the demand slowdown impact, sustainability of peak EBITDA margin may be difficult.
- In terms of EBIT margin, Maruti Suzuki, in recent quarters, has been able to catch up with Hyundai's industry-best EBIT margin of 10%, despite a lower SUV mix.
- We feel Hyundai's superior RoCE is driven by high fixed-asset turnover vs. peers, derived by a single-location plant and reliance on group companies to supply key components. So, the disadvantage of high amount of related-party transactions is overcome by superior asset turns to yield a strong RoCE.

Figure 21: Hyundai's recent gross margin expansion has been sharper than its peers

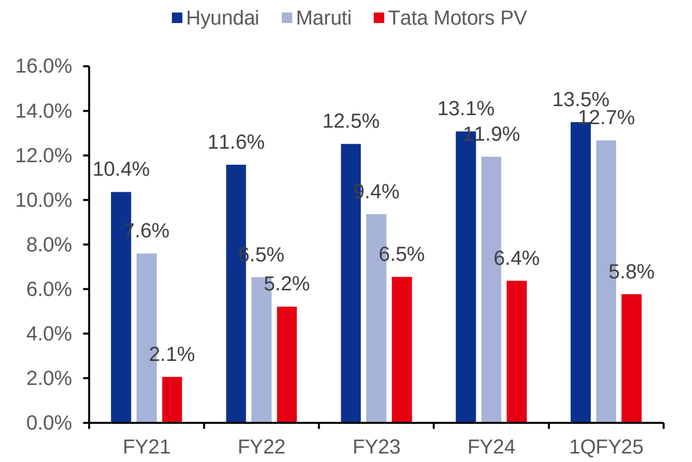


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Leads the pack with a superior margin profile, but new royalty payment disappoints

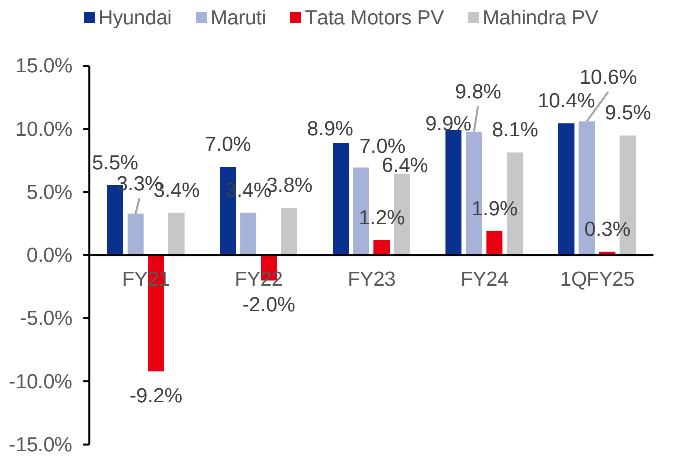
Hyundai leads its peers in terms of EBITDA and the EBIT margin. These are impressive, considering the lower scale of Hyundai's operations at 40% of that of the market leader, Maruti Suzuki. The high profit margin reflects a single-plant location, nearby sourcing, export incentives and higher operational efficiency. However, the cost-cutting initiatives by the leader, Maruti Suzuki, has helped it cover this gap significantly in recent quarters to almost near Hyundai's EBIT margin.

Figure 22: EBITDA margin trend comparison



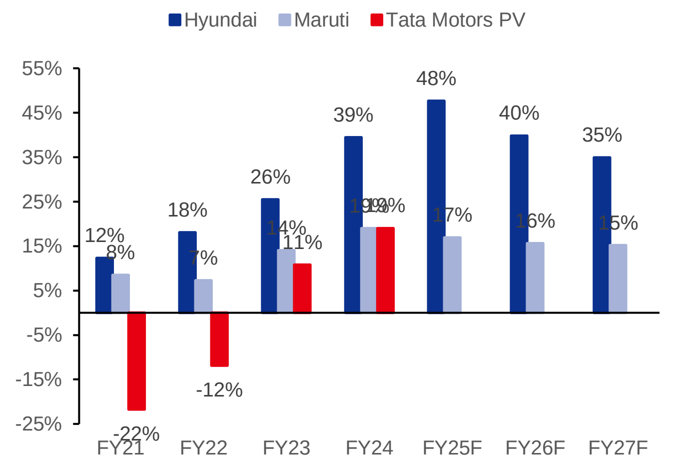
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 23: EBIT margin trend comparison



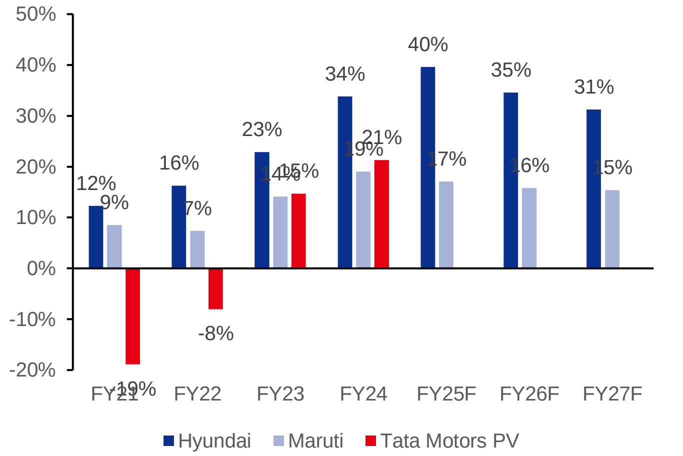
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 24: Hyundai's RoE superiority vs. peers



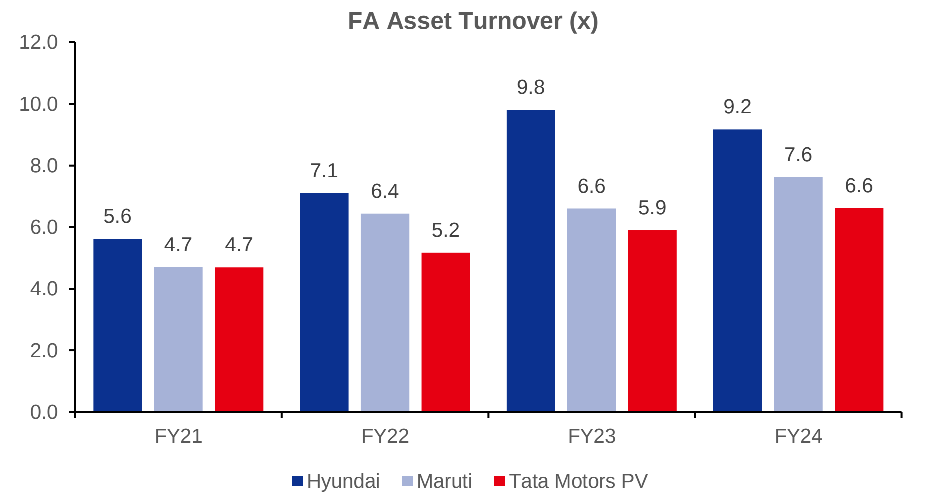
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 25: Hyundai's RoCE superiority vs. peers



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 26: Fixed asset turnover advantage of Hyundai may be at risk from its new plant capex

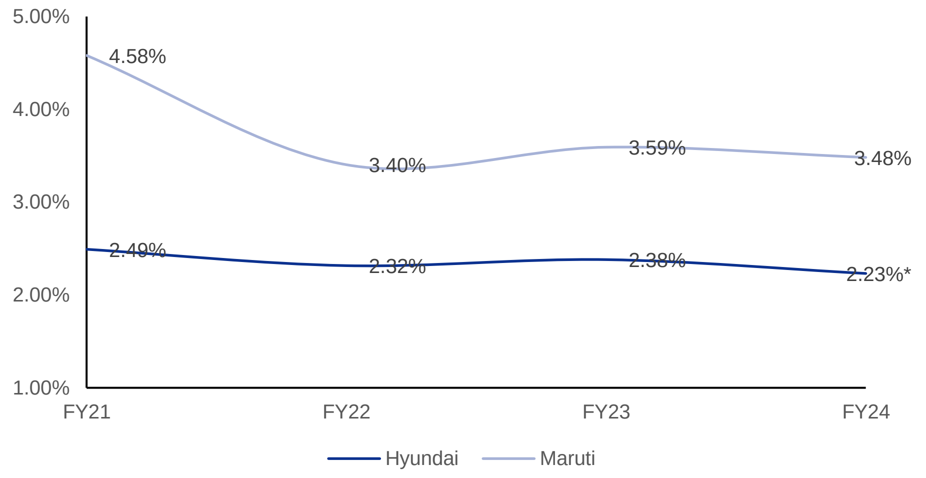


SOURCE: ACE EQUITY, INCRED RESEARCH, COMPANY REPORTS

Royalty agreement: The company has revised its royalty agreement to use HMC's trademarks and plans to pay 3.5% of sales now vs. the earlier spending range of around 2.5%.

While Hyundai's new agreement, effective Apr 2024, states royalty payment is at 3.5% of sales, it has a provision to adjust related-party imports within sales before charging this rate. Hence, management feels that effective royalty expenses will be around 2.7% of sales. 9MFY24 royalty rate was low at 1.9%, as the lumpsum royalty terms expired in FY23 and were not applicable in FY24. New royalty agreement doesn't have a provision for lumpsum payment and it will be only as a proportion of sales.

Figure 27: Maruti Suzuki's royalty payment vs. Hyundai's royalty payment as a proportion of sales



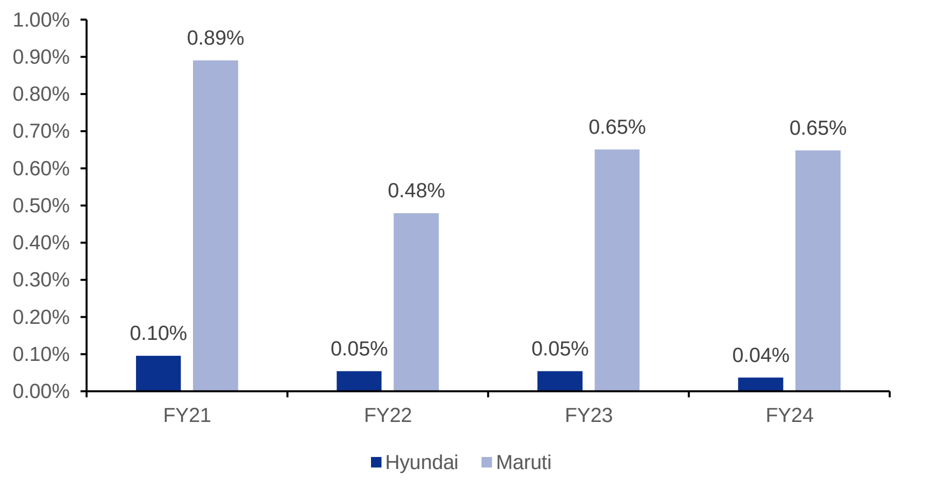
SOURCE: INCRED RESEARCH, COMPANY REPORTS

R&D dependence on the parent company and higher warranty costs are areas of concern

A few key spending areas of Hyundai are a cause of concern vs. peers, especially minimalistic R&D spending, which increases the dependence on the parent company, and higher warranty spending than its peers indicating the quality of its products. The large related-party spending is unique to Hyundai in India's car industry.

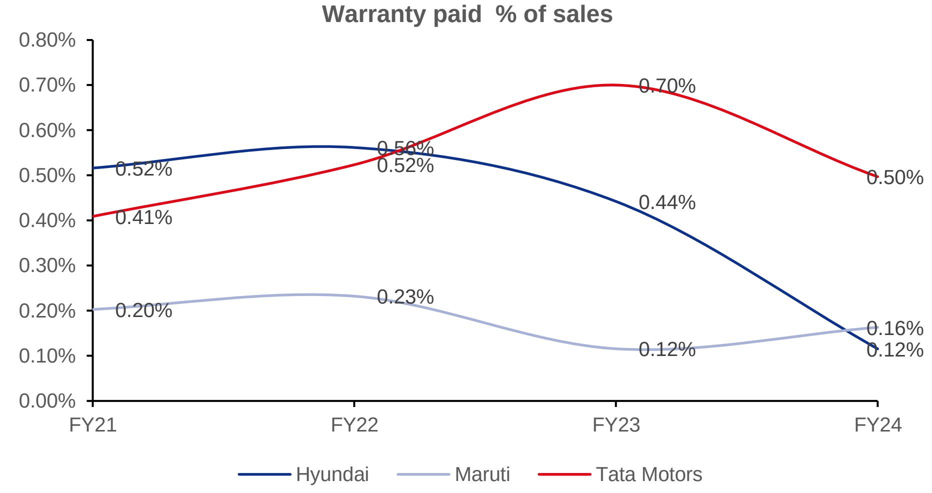
HMC has invested an aggregate amount of Rs1,756bn (KRW 28,486.21bn or US$24.62bn) towards global R&D from CY14 to CY23. However, Hyundai Motor India's R&D spending has been minimalistic, as it continues to depend on the parent.

Figure 28: R&D spending, as a proportion of sales, of Hyundai and Maruti Suzuki



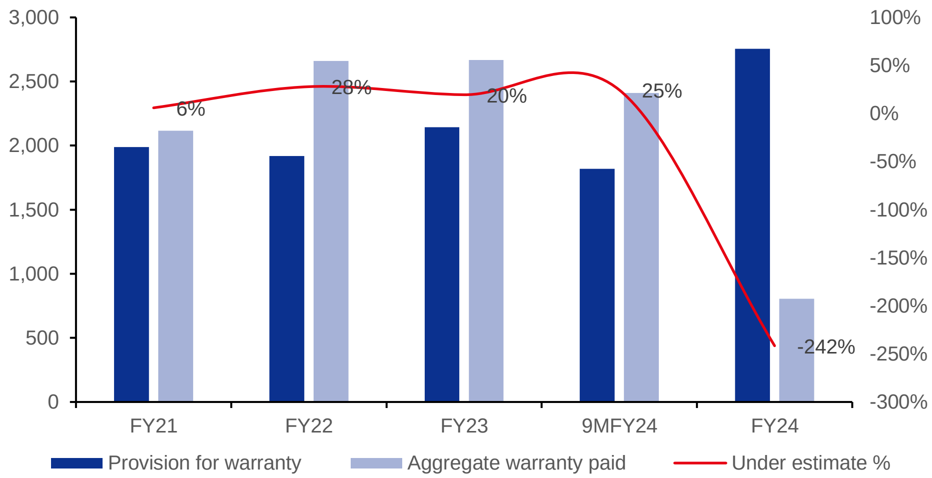
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 29: Tata Motors' warranty cost is higher than that of Maruti Suzuki and Hyundai



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 30: Hyundai's warranty spending has been consistently above its provisioning, except in 4QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 31: Large related-party transactions are a cause of concern

Rs m	FY21	FY22	FY23	FY24
Total income	**4,14,047**	**4,79,660**	**6,14,366**	**7,13,028**
Total income from related parties	34,451	44,902	56,642	59,117.99
Income from related parties as a % of total income	8.32%	9.36%	9.22%	8.29%
Total expenses	**3,88,644**	**4,41,938**	**5,50,911**	**6,30,625**
Expenses incurred with related parties	1,27,725	1,41,714	1,78,780	2,16,504.69
Expenses incurred in transactions with related parties as a % of total expenses	32.86%	32.07%	32.45%	34.33%

SOURCE: IPO DOCUMENT, INCRED RESEARCH, COMPANY REPORTS

Figure 32: List of suppliers, who account for 50% of its raw material requirement, are predominantly related parties

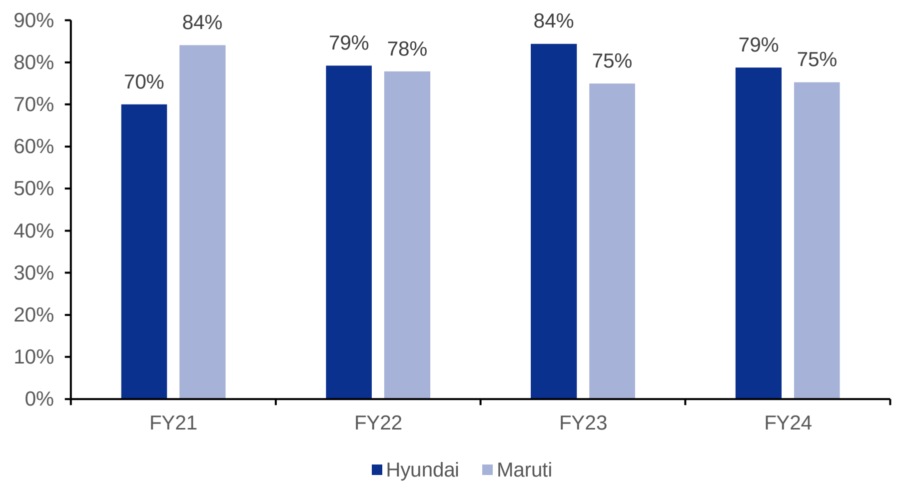
Name of supplier	% of total parts and materials supplied
Mobis India Limited*	*17.91%*
Hyundai Motor Company*	*7.45%*
Hyundai Steel India Private Limited	*6.78%*
Hyundai GLOVIS Co., Ltd.	*6.21%*
Kia India Private Limited*	*4.26%*
Hyundai Transys Lear Automotive India Private Limited*	*3.99%*
Seoyon E-Hwa Summit Automotive India Private Limited	*3.48%*
S L Lumax Limited	*3.48%*
BASF Catalysts India Private Limited	*2.41%*
PT Hyundai Motor Manufacturing Indonesia*	*2.01%*

SOURCE: (AS OF JUN 2024) * RELATED PARTIES OF OUR COMPANY, INCRED RESEARCH, COMPANY REPORTS

Balance sheet is healthy to support volume growth

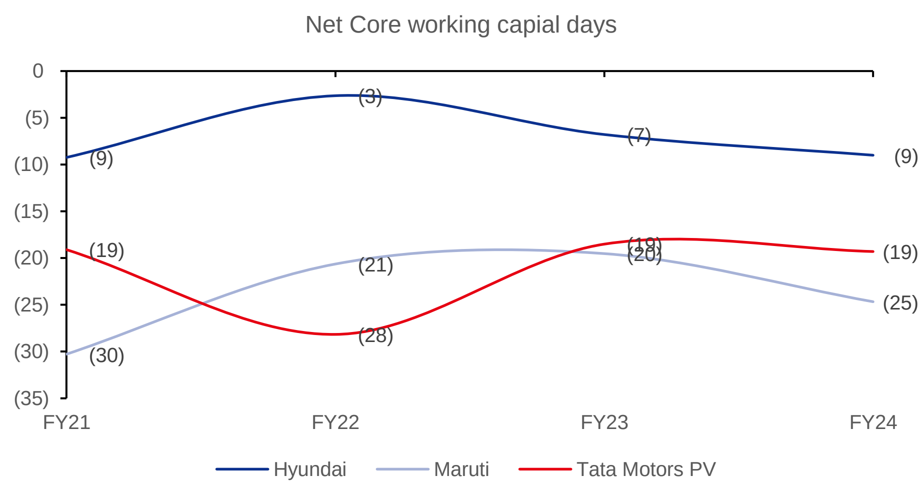
Hyundai's balance sheet is healthy with a surplus cash of Rs96.8bn as of Mar 2024-end. But it may need to make a payment for the Talegaon plant acquisition, which may consume half of the surplus cash. However, Hyundai's net working capital is poorly managed vs. peers, as it generates just nine days of sales as cash vs. peers' 20+days.

Figure 33: Cash, as a proportion of the balance sheet, of Maruti Suzuki vs. Hyundai



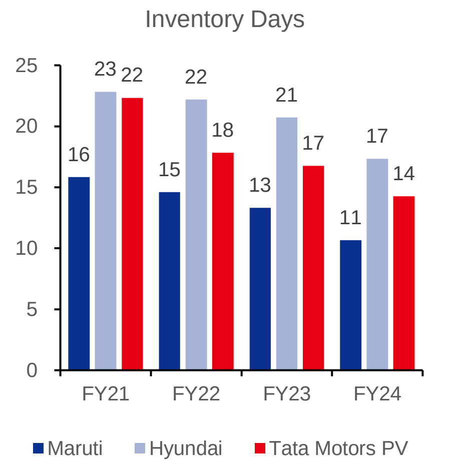
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 34: Net core working capital days



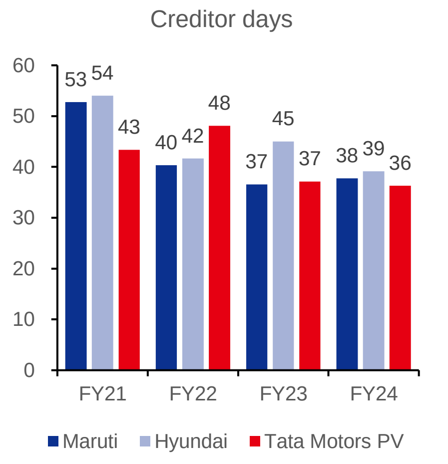
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 35: Inventory days remain the highest for Hyundai



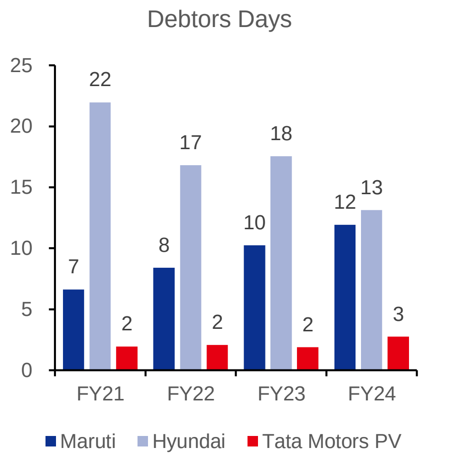
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 36: Creditor days are in line with that of Maruti Suzuki



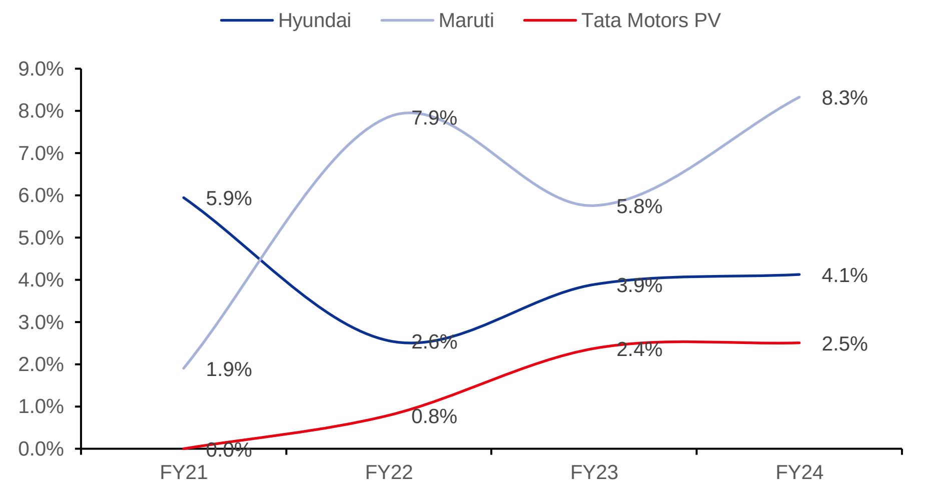
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 37: Debtor days are in line with that of Maruti Suzuki



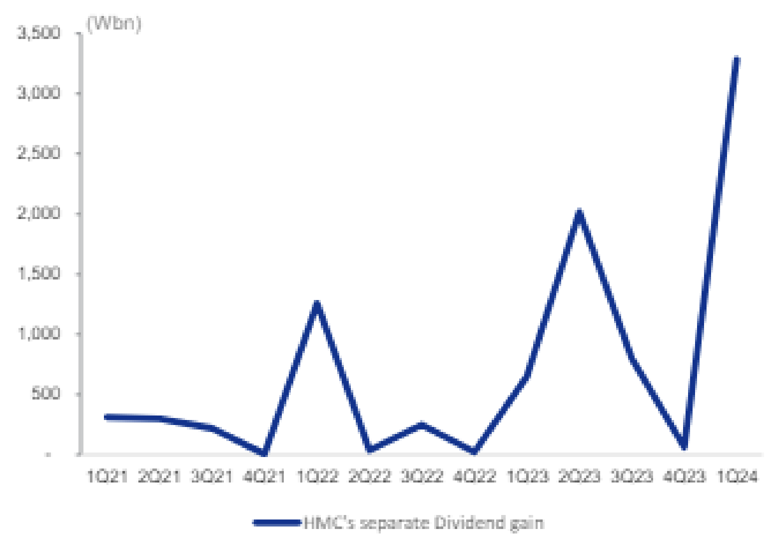
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 38: Capex, as a percentage of sales, trend for peers



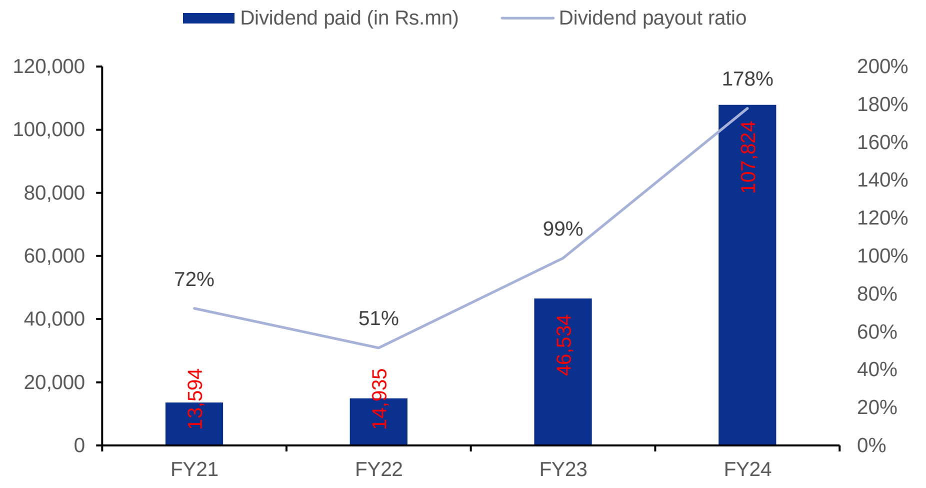
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 39: Hyundai Motor Corporation's last two-year dividend receipt aided by India operations' payout in FY23 and FY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 40: Hyundai Motor India's dividend and payout ratio trend



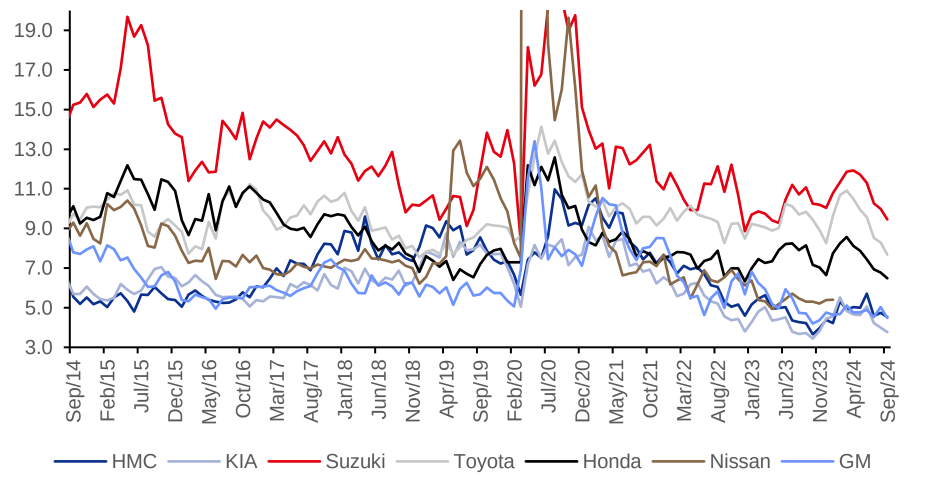
SOURCE: INCRED RESEARCH, COMPANY REPORTS

HMI's valuation premium unwarranted

Why does Hyundai Motor Corporation traditionally trade at a deep discount to its peers ?

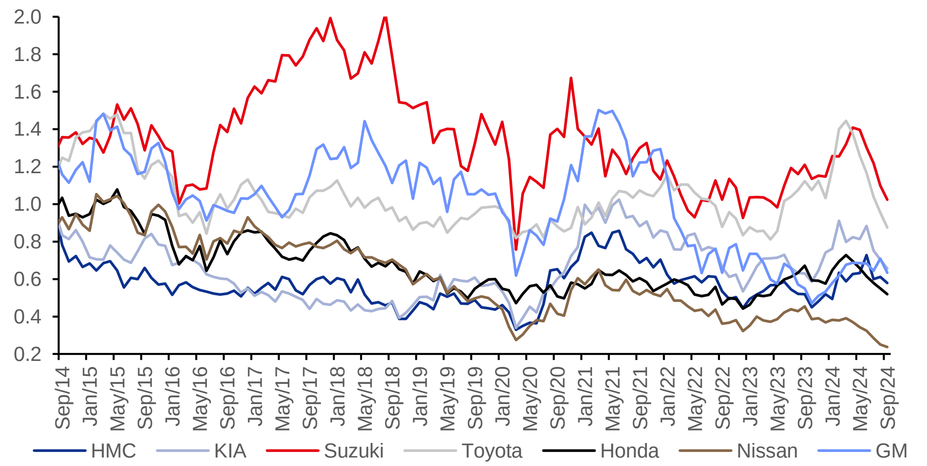
Hyundai globally has been a laggard on the valuation front, despite its success in the global car industry's market share in SUVs and recently, in EVs. The sharp discount to global peers may be partially due to large non-core investments like Kia Motors, Hyundai E&C, Hyundai Wia, Hyundai Rotem and others held by the listed entity. Considering a 30% discount to the holding company's market value, these investments form around 15-20% of the market-cap valuation. But a large gap in its valuation to global peers, at 23-48%, is a cause of concern, which requires Hyundai Motor India management's explanation and a walk-the-talk on shareholder-friendly policies. While Suzuki Corporation, Japan leads the peers in the valuation pack, Hyundai and Kia, Korea consistently have been at the lowest end of peers.

Figure 41: Global auto OEM P/E comparison for the last 10 years



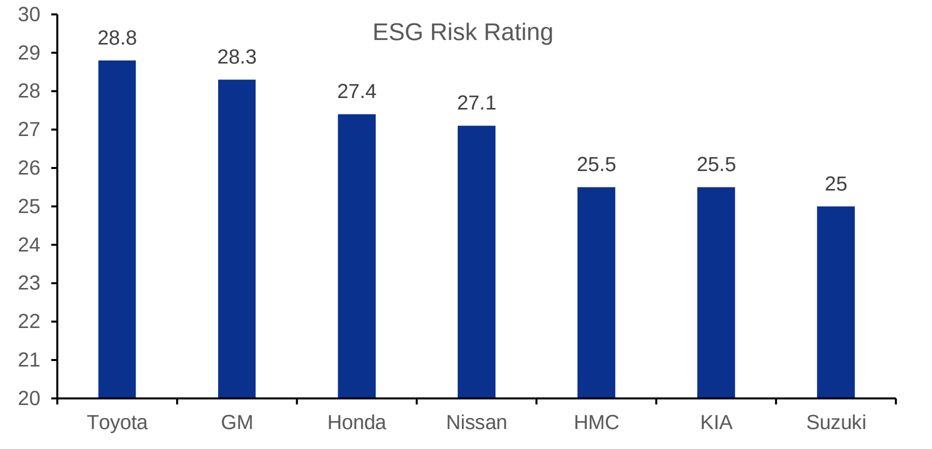
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 42: Global auto OEMs' P/BV comparison for the last 10 years



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 43: ESG risk rating for global OEMs



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SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 44: Global valuation matrix comparison

Company	BBG Ticker	Curr.	Price (local curr.)	Mkt Cap (US$ m)	P/E(x) FY24	P/E(x) FY25F	P/E(x) FY26F	P/BV(x) FY24	P/BV(x) FY25F	P/BV(x) FY26F	RoE (%) FY24	RoE (%) FY25F	RoE (%) FY26F	EV/EBITDA (x) FY24	EV/EBITDA (x) FY25F	EV/EBITDA (x) FY26F	Dividend Yield (%) FY24	Dividend Yield (%) FY25F	Dividend Yield (%) FY26F
Korea																			
Hyundai Motor Co.	005380 KS	KRW	235,000	35,677	4.2	4.3	4.2	0.6	0.5	11.8	14.6	12.5	8.5	8.8	8.7	8.5	5.3	5.6	5.7
Kia Corp.	000270 KS	KRW	92,100	26,698	3.4	3.5	3.4	0.7	0.6	15.2	19.5	16.6	2.2	2.2	2.3	2.2	6.1	7.0	7.3
Japan																			
Suzuki Motor Corp.	7269 JP	JPY	1,496.5	19,490	10.8	8.9	9.0	1.2	1.0	10.3	10.7	11.3	5.4	5.7	5.7	5.4	2.3	2.5	2.7
Toyota Motor Corp.	7203 JP	JPY	2,549	2,66,897	7.0	7.9	7.8	1.0	0.9	10.9	14.4	11.6	10.7	5.8	10.8	10.7	1.8	3.4	3.8
Honda Motor Co.	7267 JP	JPY	1,518.5	53,150	6.7	6.7	6.5	0.6	0.5	7.8	8.6	8.0	6.9	6.9	7.0	6.9	4.8	4.6	4.8
Nissan Motor Co.	7201 JP	JPY	398.7	9,816	3.6	6.0	5.1	0.2	0.2	4.5	6.9	4.0	1.3	1.0	1.4	1.3	5.0	6.1	6.2
US																			
Ford Motor Co.	F US	USD	10.88	43,251	5.9	6.1	6.2	1.0	0.9	13.4	16.2	14.7	3.3	3.0	3.0	3.3	5.5	6.7	6.7
General Motors Co.	GM US	USD	48.93	54,994	4.9	4.9	5.0	0.8	0.7	11.4	16.5	13.4	2.5	2.5	2.7	2.5	0.9	1.3	1.7
Europe																			
Volkswagen Ag	VOW GR	EUR	94.85	50,619	4.0	3.5	3.1	0.3	0.3	7.7	6.4	7.1	1.1	1.3	1.2	1.1	9.5	8.7	9.8
Bayerische Motoren Werke Ag	BMW GR	EUR	74.88	51,478	5.7	5.4	5.0	0.5	0.5	9.4	8.8	9.2	1.9	2.1	2.1	1.9	8.0	6.8	7.2
Daimler Truck Holding Ag	DTG GR	EUR	37.78	33,644	9.1	8.3	6.9	1.3	1.2	16.3	14.8	14.9	3.1	3.9	3.6	3.1	5.0	5.3	6.3
Renault Sa	RNO FP	EUR	40.56	12,979	4.2	3.4	3.2	0.4	0.3	9.6	8.4	9.6	1.4	1.6	1.5	1.4	4.6	8.4	9.9
Peugeot Invest	PEUG FP	EUR	75.6	2,039	15.3	15.4	15.4	0.4	0.4	2.6	2.6	2.6	19.0	18.7	18.9	19.0	4.3	5.1	5.4
China & Hong Kong																			
Byd Co. -A	002594 CH	CNY	307.02	1,18,702	24.0	18.8	15.4	5.3	4.3	22.4	22.0	22.7	4.7	6.8	5.6	4.7	1.0	1.4	1.8
Great Wall Motor Co.-A	601633 CH	CNY	27.65	28,276	19.6	16.4	14.1	3.0	2.7	16.5	15.5	16.2	4.5	6.0	5.2	4.5	1.1	2.2	2.5
Dongfeng Motor Grp Co.-H	489 HK	CNY	2.5	2,654	16.1	13.0	12.5	0.1	0.1	1.1	0.8	1.0	2.5	4.8	3.9	2.5	0.0	2.9	2.2
Baic Motor Corp.-H	1958 HK	CNY	2.07	2,134	4.8	5.3	5.5	0.3	0.3	4.8	5.8	5.1	0.6	0.5	0.6	0.6	6.7	7.2	7.0
Guangzhou Automobile Group-A	601238 CH	CNY	8.18	9,544	21.8	19.5	17.9	0.7	0.7	3.8	3.3	3.5	4.5	8.4	5.8	4.5	1.6	1.7	1.8
Saic Motor Corp.-A	600104 CH	CNY	13.17	21,400	11.8	10.9	10.1	0.5	0.5	4.7	4.3	4.6	8.1	8.9	8.2	8.1	2.8	2.7	2.7
Chongqing Changan Automob-A	000625 CH	CNY	13.78	16,826	17.7	13.8	12.3	1.8	1.6	12.1	10.0	11.7	0.5	0.6	0.5	0.5	2.5	1.9	2.2
India																			
Maruti Suzuki India	MSIL IN	INR	11,899.05	44,503	27.7	24.5	21.9	4.5	3.9	15.8	16.1	15.9	17.7	21.0	20.2	17.7	1.1	1.2	1.3
Tata Motors	TTMT IN	INR	882.1	43,956	10.8	13.9	11.2	4.0	3.2	22.2	37.0	22.8	40.4	7.4	42.2	40.4	0.7	0.6	0.7
Mahindra & Mahindra	MM IN	INR	2,938	43,466	29.0	25.7	25.3	6.7	5.7	19.2	23.2	22.2	18.8	14.2	21.6	18.8	0.7	0.8	0.9

SOURCE: PRICE UPDATED ON 22 OCT 2024, BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Is Maruti Suzuki's valuation at risk from alternative options?

The Hyundai IPO in CY24 and Tata Motors' car division demerger in CY25F will improve investment choices in the under-penetrated segment of the automobile industry. In the near term, the industry growth slowdown is better handled by Maruti Suzuki in the Sep 2024 quarter vs. peers like Hyundai Motor India and Tata Motors. Maruti Suzuki's precision marketing helps it outperform in tough market conditions.

For the medium term, considering the aggressive capacity build-up plan of Maruti Suzuki and the company trying to bring its best and most suitable products like hybrid EV to India at a scalable level, we feel, the key attraction of Maruti Suzuki will remain vs. its peers.

Maruti Suzuki, over the decades, has built niche products with a large moat, ex-Eritga, Eco, Wagon R and CNG variants, which keeps it ahead of the competition. Short-term challenges from the new powertrain technology, we feel, will be addressed with EVs soon to ease investors' concerns and sustain the premium valuation of Maruti Suzuki.

Considering the long history of HMC's valuation discount to peers, we build in a valuation scenario based on premium/discount to Maruti Suzuki's FY24 trading multiple for EPS and BVPS.

Hyundai's premium valuation at peak profitability performance

- Hyundai IPO initial talk started with a valuation indication of US$12bn (US$2bn raise for a 17.5% stake), which was raised gradually to US$17bn in recent months, making the best of IPO excitement post general elections in India. The final pricing of US$19bn seems priced to perfection, with the risk-reward ratio unfavourable.
- The spike in valuation, despite the weakening car industry demand trend, is an area of concern. With Hyundai's revenue CAGR not being different than that of the leader, Maruti Suzuki, in the last 15-year period, it may not be able to provide a play on value growth of the car industry for the coming five years, as volume growth is expected to ease to single digit, as per the Society of Indian Automobile Manufacturers or SIAM.
- We feel that Hyundai's superior EBIT margin and RoCE may be difficult to sustain, as its management embarks on expanding its market share gap with immediate peers Tata Motors and M&M, along with the new royalty rate impact (50bp). Capacity expansion at a new location may put the return ratios under pressure in FY26F-27F vs. the one-plant location benefit for the last 25 years.
- The global valuation difference of 25-40% for Hyundai global vs. Japanese car makers on P/E or P/BV basis can't be overlooked, as it emerges from management practice challenges. Rich valuation will demand big responsibility from management, which will be a learning curve for investors.
- The Hyundai group being better prepared for future technologies is attractive, but a premium valuation on all matrices (P/E, P/BV and EV/EBITDA) for just 3% EPS/ 5% EBITDA CAGR is unjustified. Large dividend outflow makes the P/BV valuation at a 152% premium to that of Maruti Suzuki.
- We assign a P/E of 20x one-year forward EPS (Oct 2026F), which is a 22% discount to Maruti Suzuki's target P/E for FY27F, leading to a target price of Rs1,585. At our target price, EV/EBITDA will be nearly at a 30% discount to that of Maruti Suzuki.
- Maruti Suzuki (ADD) and Mahindra & Mahindra (HOLD) are our preferred plays in the India PV market.

Figure 45: Our target price methodology

	One-year forward
EPS (Rs.) (one-year forward)	79.3
P/E(x)	20.0
Target price (Rs)	**1,585**

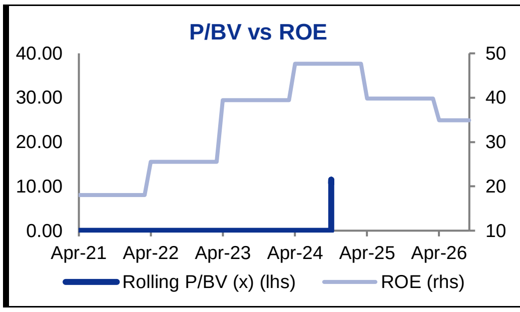
SOURCE: INCRED RESEARCH, COMPANY REPORTS

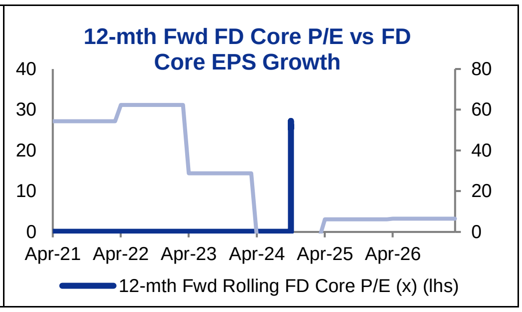
Figure 46: Peer set valuation

EPS (Rs.)	Maruti	M&M	Tata Motors	Hyundai India	vs Maruti
-FY24	435.9	93.2	61.1	74.6	
-FY25F	517.6	101.5	60.4	72.0	
-FY26F	565.6	109.6	73.4	76.4	
-FY27F	609.7	124.2	83.0	81.4	
BVPS (Rs.)					
-FY24	2,671.2	470.8	221.6	131.3	
-FY25F	3,437.0	549.5	275.9	170.9	
-FY26F	3,812.6	632.1	341.4	212.9	
-FY27F	4,220.6	724.0	424.3	253.6	
AT CMP (Rs.)	**12,020**	**2,455**	**831**	**1,820**	
P/E ratio					
-FY24	27.6	26.4	13.6	24.4	
-FY25F	23.2	24.2	13.8	25.3	*9%*
-FY26F	21.3	22.4	11.3	23.8	*12%*
-FY27F	19.7	19.8	10.0	22.4	*13%*
P/BV					
-FY24	4.5	5.2	3.8	13.9	
-FY25F	3.5	4.5	3.0	10.7	*205%*
-FY26F	3.2	3.9	2.4	8.5	*171%*
-FY27F	2.8	3.4	2.0	7.2	*152%*
EV/EBITDA					
-FY24	19.1	17.4	5.9	15.3	
-FY25F	15.4	15.3	5.0	15.3	*-1%*
-FY26F	13.4	14.0	4.3	14.2	*6%*
-FY27F	11.9	11.9	3.7	13.2	*11%*
At target price (Rs.)	**15,541**	**2,455**	**831**	**1,585**	
P/E ratio					
-FY24	35.7	26.4	13.6	21.3	
-FY25F	30.0	24.2	13.8	22.0	*-27%*
-FY26F	27.5	22.4	11.3	20.7	*-25%*
-FY27F	25.5	19.8	10.0	19.5	*-24%*
P/BV					
-FY24	5.8	5.2	3.8	12.1	
-FY25F	4.5	4.5	3.0	9.3	*105%*
-FY26F	4.1	3.9	2.4	7.4	*83%*
-FY27F	3.7	3.4	2.0	6.3	*70%*
EV/EBITDA					
-FY24	25.2	19.4	5.1	13.3	
-FY25F	20.5	17.0	4.3	13.3	*-35%*
-FY26F	17.8	15.6	3.7	12.3	*-31%*
-FY27F	15.8	13.3	3.1	11.4	*-28%*

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS





Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	**603,076**	**698,291**	**695,564**	**755,806**	**845,520**
Gross Profit	**152,777**	**182,361**	**194,758**	**210,870**	**234,209**
Operating EBITDA	**75,488**	**91,326**	**92,840**	**99,393**	**107,040**
Depreciation And Amortisation	(21,899)	(22,079)	(23,625)	(26,460)	(30,429)
Operating EBIT	**53,589**	**69,247**	**69,215**	**72,933**	**76,611**
Financial Income/(Expense)	9,867	13,152	9,430	10,554	12,313
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)					
Profit Before Tax (pre-EI)	**63,456**	**82,399**	**78,645**	**83,488**	**88,924**
Exceptional Items					
Pre-tax Profit	**63,456**	**82,399**	**78,645**	**83,488**	**88,924**
Taxation	(16,363)	(21,798)	(20,133)	(21,373)	(22,765)
Exceptional Income - post-tax					
Profit After Tax	**47,093**	**60,600**	**58,512**	**62,115**	**66,160**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**47,093**	**60,600**	**58,512**	**62,115**	**66,160**
Recurring Net Profit	47,093	60,600	58,512	62,115	66,160
Fully Diluted Recurring Net Profit	**47,093**	**60,600**	**58,512**	**62,115**	**66,160**

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	75,488	91,326	92,840	99,393	107,040
Cash Flow from Invt. & Assoc.					
Change In Working Capital	7,793	5,462	(18,262)	5,730	492
(Incr)/Decr in Total Provisions	6,346	12,390	(12,198)	4,226	6,126
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(505)	659	(800)	(100)	(100)
Net Interest (Paid)/Received	9,867	13,152	9,430	10,554	12,313
Tax Paid	(16,363)	(21,798)	(20,133)	(21,373)	(22,765)
Cashflow From Operations	**82,626**	**101,191**	**50,877**	**98,430**	**103,106**
Capex	(24,766)	(29,881)	(40,000)	(60,000)	(50,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1,824)	716	(4,000)	(4,000)	(13,000)
Cash Flow From Investing	**(26,590)**	**(29,166)**	**(44,000)**	**(64,000)**	**(63,000)**
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(6,596)	(154,358)	(26,330)	(27,952)	(33,080)
Preferred Dividends					
Other Financing Cashflow	(4,295)	(12,683)	(1,045)	(1,075)	(774)
Cash Flow From Financing	**(10,891)**	**(167,042)**	**(27,375)**	**(29,027)**	**(33,854)**
Total Cash Generated	45,145	(95,016)	(20,498)	5,403	6,252
Free Cashflow To Equity	**56,036**	**72,026**	**6,877**	**34,430**	**40,106**
Free Cashflow To Firm	**57,460**	**73,606**	**8,497**	**36,030**	**41,406**

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS…cont'd

Balance Sheet

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	177,411	90,173	67,879	71,923	74,311
Total Debtors	28,972	25,100	34,302	35,202	39,380
Inventories	34,224	33,156	41,924	43,485	46,330
Total Other Current Assets	8,473	9,371	10,800	11,900	13,100
Total Current Assets	**249,080**	**157,801**	**154,905**	**162,509**	**173,121**
Fixed Assets	74,871	82,673	99,048	132,588	152,159
Total Investments	7,370	6,654	10,654	14,654	27,654
Intangible Assets					
Total Other Non-Current Assets	14,413	16,364	17,300	18,300	19,000
Total Non-current Assets	**96,653**	**105,691**	**127,002**	**165,542**	**198,813**
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	74,408	74,931	74,638	82,828	90,343
Other Current Liabilities	43,169	56,699	43,830	47,626	53,279
Total Current Liabilities	**117,578**	**131,629**	**118,468**	**130,454**	**143,623**
Total Long-term Debt	15,031	12,211	10,211	8,711	4,711
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	**15,031**	**12,211**	**10,211**	**8,711**	**4,711**
Total Provisions	26,989	29,360	31,595	34,025	36,297
Total Liabilities	**159,598**	**173,200**	**160,274**	**173,190**	**184,631**
Shareholders Equity	200,548	106,657	138,838	173,001	206,081
Minority Interests					
Total Equity	**200,548**	**106,657**	**138,838**	**173,001**	**206,081**

Key Ratios

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	27.3%	15.8%	(0.4%)	8.7%	11.9%
Operating EBITDA Growth	37.6%	21.0%	1.7%	7.1%	7.7%
Operating EBITDA Margin	12.5%	13.1%	13.3%	13.2%	12.7%
Net Cash Per Share (Rs)	199.84	95.95	70.97	77.79	85.66
BVPS (Rs)	246.82	131.26	170.87	212.91	253.63
Gross Interest Cover	37.63	43.81	42.73	45.58	58.93
Effective Tax Rate	25.8%	26.5%	25.6%	25.6%	25.6%
Net Dividend Payout Ratio	31.7%	254.7%	45.0%	45.0%	50.0%
Accounts Receivables Days	15.37	14.13	15.59	16.78	16.10
Inventory Days	25.55	23.83	27.36	28.60	26.81
Accounts Payables Days	52.06	52.83	54.50	52.74	51.70
ROIC (%)	75.1%	105.5%	130.6%	56.8%	45.6%
ROCE (%)	30.9%	46.0%	53.2%	46.5%	42.0%
Return On Average Assets	12.9%	17.0%	19.2%	18.1%	16.6%

Key Drivers

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
ASP (% chg, main prod./serv.)	7.9%	7.3%	0.8%	2.7%	3.8%
Unit sales grth (%, main prod./serv.)	18.0%	8.0%	(1.2%)	5.8%	7.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
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