Management Discussion

Joseph George - Analyst, IIFL Capital
Thank you, Darvin. Good evening, everyone. We welcome you all to the Q1 Fiscal Year 2027 earnings conference call of Hyundai Motor India Limited. Today, we have with us Mr. Tarun Garg, Managing Director and Chief Executive Officer; Mr. Wangdo Hur, Chief Financial Officer; Mr. Dong Huwy Park, Chief Operating Officer; Mr. Gopalakrishnan C.S., Chief Manufacturing Officer; Mr. Saravanan T., Function Head, Finance; and Mr. K.S. Hariharan, Head of Investor Relations from Hyundai Motor India Limited. I would now like to inform you that the call is being recorded. I would like to invite Mr. K.S. Hariharan, Head of Investor Relations from Hyundai Motor India Limited. Over to you, sir.

K.S. Hariharan - Head of Investor Relations, Hyundai Motor India Limited
Thank you, Joseph. Good evening, everyone, and welcome to the Q1 Fiscal Year 2027 earnings conference call. Before we begin, I want to remind you of the safe harbor. We may be making some forward-looking statements that have to be understood in conjunction with the uncertainties and the risks that the company faces.The conference call will begin with our MD remarks on the business highlights, financial performance, and outlook, followed by a brief presentation by me on Q1 Fiscal Year 2027, after which we will be happy to receive your questions. Now, I hand over to our MD. Over to you, sir.

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
Thank you, Hari. Good evening, everyone. Before we discuss our quarterly results, let me begin by highlighting a landmark achievement in our journey. 2026 marks Hyundai's 30 years in India, celebrating three decades of trust, pride, and progress.From investing more than INR40,000 crores to surpassing 13.5 million sales cumulatively and making India a key global manufacturing and export hub, we continue to drive progress with purpose. This milestone is not just a celebration of our past achievements, but also a testament to the strong foundation we have built for continued growth and success in the years ahead.During this journey, Hyundai has helped shape India's automotive landscape through innovation, localization, and customer-centricity. As we enter the next phase of our growth, we remain committed to advancing technology and delivering future-ready mobility solutions for our customers.Moving on to our domestic business, Fiscal Year 2027 began on a very strong note. The first two months of the quarter reflected healthy momentum, with cumulative sales in April and May growing by 13% year-on-year, supported by favorable demand environment and our strategic product actions. However, the fire incident at one of our supplier facilities temporarily impacted vehicle production in June, constraining our ability to fully meet market demand. As a result, domestic volume growth for the quarter was 5.4% year-on-year, lower than our initial expectations.However, at Hyundai, agility has always been part of our DNA. Throughout our 30-year journey in India, we have successfully navigated various challenges through swift decision-making, strong execution, and close collaboration with our partners. The recovery from recent operational disruptions was yet another example of our resilience, enabling us to return our operations to normalcy within a very short period.

Saravanan Thiruvengadam - Function Head, Finance, Hyundai Motor India Ltd
Sorry to interrupt, sir, bu

Operator
Sorry to interrupt, sir, but you are not audible at this moment.

Operator
Ladies and gentlemen, we thank you for your patience. We have now reconnected with the management. Please go ahead, sir.

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
Okay. Extremely sorry about this network issue. I will quickly go through the presentation again. So anyway, I mentioned about the 30 years completing, INR40,000 crores investment, 13.5 million sales. Of course, domestic Fiscal Year 2027 began on a very strong note. However, the fire at our supplier facility constrained our growth to 5.4% in the quarter. But if you remember, we had said that we will recover this production within this quarter too. However, I am very happy to report that most of it has already been done within July itself. So I think this shows the strong resilience of Hyundai Motor India.So this is the other thing I talked about. Of course, there are some achievements like Hyundai Venue, highest-ever quarterly volumes; CNG contribution at 18%; rural contribution at an all-time high of 26%. So we are very confident that we are going to have 8% to 10% year-on-year volume growth for this year, which we had stated at the beginning of the year.In exports also, in addition to this disruption in production, Middle East was affected, but you would have seen that we have increased our exports to the other markets. And we have a very healthy order backlog, so now that the production is in full swing, we will start reflecting it in export sales right from July itself. Venue is also receiving a great response, and also Verna PE, Exter PE, and also the left-hand drive of Exter, we have already started the dispatches. So we are expecting very strong recovery in exports, and again, we are confident of delivering our stated full-year guidance of 8% to 10% year-on-year in exports as well.On CAFE update, I am pleased to inform you that as per our internal assessment, we will fully meet the compliance requirements and not incur any penalty at all under CAFE two for the period Fiscal Year 2023 to Fiscal Year 2027, and of course, Fiscal Year 2027 also is going great. So zero penalty on CAFE two. Also, we are fully aligned to the CAFE three draft notification, of course, we are waiting for the final notification to come in.Of course, profit margins year-on-year were impacted due to lower export volumes, of course, costs associated with the Pune plant, etc. But of course, our efforts to balance the calibrated pricing actions with disciplined cost management, I think they have helped us to minimize the impact. So we are again very confident that what we had informed you earlier of EBITDA margin between 11% to 14%, I think we are well on track to achieve that even in Fiscal Year 2027.So also, I am happy to report that Pune plant third shift we are starting from October itself. The earlier plan was mid of '28, but we are preponing it by two years because of the strong response received on the Venue in the domestic as well as in the export market. Also, the ICE mid-SUV is ready to be launched in the festive season. And of course, a lot of activities on the AI integration, whether it is in sales and marketing, the AI sales agent, the hygiene chatbot, dealer AI platforms; in service, VOC analytics, service automation; manufacturing and supply chain, we are also working towards multiple initiatives, including quality inspection, predictive maintenance.So our vision is to evolve AI from a productive tool into an intelligent co-worker that supports employees, augments decision-making, and accelerates innovation. And soon you will see in our products as well that we are advancing in-vehicle AI capabilities. So thank you very much for your continuous support to us, and I will now hand it over to Hari for a detailed review of the financial performance for the quarter. Thank you very much.

K.S. Hariharan - Head of Investor Relations, Hyundai Motor India Limited
Thank you, sir. Let me begin with our sales performance during the quarter. We achieved total sales of 178,082 vehicles in Q1 Fiscal Year 2027 compared to 180,399 vehicles in the corresponding quarter last year, a decline of 1.3% on a year-on-year basis. The impact on volumes was mainly due to the production disruption caused by supplier fire incident and geopolitical headwinds. In the domestic market, we sold 139,374 vehicles compared to 132,259 vehicles in the same quarter last year, a growth of 5.4% on a year-on-year basis. We exported 38,708 vehicles as compared to 48,140 vehicles same quarter previous year.Moving to the segment mix in domestic market, SUVs continue to be the core pillar in our portfolio, with a healthy mix of 70% during the quarter. And similar trend has been observed both in urban and rural markets. On fuel front, we also continue to see strong momentum in the CNG segment, with steady growth, reaching highest-ever contribution of 18.2% in a quarter in Q1 Fiscal Year 2027.Let me now share the financial numbers. Our revenue from operations stood at INR163,346 million in Q1 Fiscal Year 2027 as against INR164,129 million in the corresponding quarter previous year. Despite many headwinds, our calibrated pricing strategy and favorable exchange rate helped support our revenue, which remained largely flat year-on-year. EBITDA stood at INR15,117 million as compared to INR21,852 million in Q1 Fiscal Year 2026. EBITDA margin stood at 9.3% as compared to 13.3% in Q1 FY '26. EBIT stood at INR9,546 million for the quarter as against INR16,571 million in Q1 Fiscal Year 2026. EBIT margin stood at 5.8% in Q1 Fiscal Year 2027. PAT for the quarter was INR8,886 million as against INR13,692 million in the corresponding quarter. PAT margin for Q1 Fiscal Year 2027 stood at 5.4%.Our Q1 Fiscal Year 2027 margins were impacted by a combination of factors. Key common headwinds for both year-on-year and sequential basis were: number one, the production disruption which impacted the volumes, especially of certain high-margin models; number two, West Asia conflict impacting our export volumes; and number three, the commodity cost pressures. In addition to these, on a year-on-year basis, margins were also impacted by capacity stabilization cost. These pressures were partly offset by favorable exchange rate and our calibrated pricing strategy. On a sequential basis, margins were impacted by increase in discount levels and lower government incentives due to seasonality. While discounts increased sequentially, this was in line with the typical seasonal trend for the quarter. Importantly, our discount levels remained below the industry average and our Q1 Fiscal Year 2026 discount levels, reflecting our disciplined pricing approach. The sequential headwinds were partially mitigated by our continuous cost optimization initiatives and also absence of certain one-off expenses incurred in Q4 Fiscal Year 2026.This concludes my presentation. Thank you all for your time and attention. Now, we open the floor for Q&A. Thank you.

Operator
Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will now wait for a moment while the question queue assembles.Our first question comes from the line of Kapil Singh with Nomura. Please go ahead.

Questions & Answers

Kapil Singh - Analyst, Nomura
Yeah, good evening, sir, and congratulations on a strong performance. My first question is on the

margins. You know, we have seen very strong gross margins, you know, actually an improvement at a time when there was severe cost pressure. So can you just talk us through how much cost pressure we faced during the quarter and how we were able to mitigate that? And is there further cost pressure that we are envisaging on account of commodities and any price hikes we have taken thereof?

K.S. Hariharan - Head of Investor Relations, Hyundai Motor India Limited
Hi, Kapil. Hari here. So the commodity impact on our margins during the quarter was roughly 100 basis points on a Q-o-Q basis. In fact, the impact was largely seen in precious metals and copper. We could somehow minimize the impact on margins during this quarter to some extent, mainly supported by three factors: number one, our calibrated pricing strategy; number two, our cost reduction efforts; and also, if you remember, last time we indicated that there was certain one-off in commodity in Q4 of last financial year, so that also helped us to some extent during this quarter. Right? And your second question was on the price hike, right? So price increase is something, you know, normally we take a calibrated approach here. So far this calendar year, we have taken three price hikes, cumulatively around 100 basis points we have taken. Going forward, we will continue to see the commodity trend, the market condition, and other factors as well. Looking at all these factors, we will take a decision on the price increase. Thank you, Kapil.

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
And Kapil, we stay committed to our EBITDA guidance of 11% to 14% for the fiscal year. I think this is very important, so all our decisions are based on that we should -- we have -- this is what we have promised to the market. So we will take accordingly, and we have to have that balance between the volume aspiration and the margin. But one thing which you would have noticed is that year-on-year the discounts have also come down. Last year same quarter, discount was 3.4%; this year it is 2.8%. And when the new models come in, typically in the first year the discount levels are zero. So we believe that H2, which will see minimum two new models, should really help us in even managing, you know, within these discount levels and also help us to not really go for aggressive price hikes, you know, and maintain our EBITDA margins within this range, 11% to 14%. Hope I have answered your question. Thank you.

Kapil Singh - Analyst, Nomura
Yeah, sir. Actually, most of the OEMs are calling out very severe cost pressure of, let's say, around 300 to 400 basis points. So in that context, should we expect more cost pressure ahead or most of it is reflected in your financials? Just was trying to understand that.

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
Look, year-on-year, we had about 200 base points on the commodity. Like he said, quarter-on-quarter 100, but year-on-year 200. Now, what happens in the future is anybody's guess. It's very, very difficult, Kapil. But as of now, I mean, we are holding on, and we will see how the market goes. The demand looks good. We also have to understand that the base of last year will start coming up from October, you know. Till September, everything is looking much more better in industry growth because the base was very low. But the GST came in in September, so we are expecting that from October, industry growth will mute, and so I think we have to be conscious of that as well. So let's see, like I said, we will have a calibrated approach and do whatever is best in terms of volume and profit put together.

Kapil Singh - Analyst, Nomura
Sure, sir. And sir, second question was on demand side. What is the outlook for the industry? And for Hyundai, can we expect market share to pick up now, and in the second half do you expect Hyundai's growth to be higher than the industry?

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
For sure, you know, we, like I said, we are maintaining our 8% to 10% guidance, which means that we have to grow minimum 8% to 10% in the second half also, because we have grown by only 5.4% in quarter one. And frankly speaking, from H2, like I mentioned, the base effect will start coming in. What will work for Hyundai is two absolutely new models in a high-growth segment, which I think will be an edge for us over the others. The second thing which will help is the Venue third shift, which will mean more Venue volumes come up. So I think these are the two things which are really helping Hyundai versus the competition, which will help us to get back on the market share winning ways going forward. On the exports front also, like I mentioned, the back order is very strong, and also all these Exter left-hand drive, Exter PE, of course the Middle East, and all the effort which we have put in the Central and South American markets, you know, because of the problem in Middle East. I think now we'll have both the Middle East coming in as well as the strong CSA. And Venue is also adding up. So I think all these things should really help us in the coming quarters.

Kapil Singh - Analyst, Nomura
Thank you, sir, and best wishes.

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
Thank you. Thank you, Kapil.

Operator
Thank you. The next question is from the line of Binay Singh with Morgan Stanley. Please go ahead.

Binay Singh - Analyst, Morgan Stanley
Hi, team. Thanks for that. Just a clarification from the earlier question. So looking at all the cost pressures that you know of today, is where you still feel comfortable with the margin guidance, right? That is the way to read it?

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
Comfortable is not the word. Nobody can be comfortable in this kind of a scenario, but I think we feel that we are in charge of what we are doing. We know where we are, and what we are saying is that, you know, we will take actions as and when required to ensure that we are within the 11% to 14% EBITDA range. I think this is what we are saying to be very clear, Binay. So we don't like prices going up. At the same time, you see the uncertainty, you know. Even crude, you see one day it reaches 90, other day it is 73. So in this scenario, it's very difficult to really judge what's going to happen in the future. So, and frankly speaking, our internal assessment suggests that things are not going to be so tough on the raw material side. I think things will start cooling off, if not immediately, but definitely in the coming months they should cool off as well. And we will keep that in mind, you know, when we are taking a decision on price and volume. But discounts, of course, we will keep them in check like we have been able to do in the last couple of years. Thank you.

Binay Singh - Analyst, Morgan Stanley
Yeah, thanks. And secondly, on the new model launch, fair to assume that both the models will be

available for six months or one is available for six months of this year?

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
I think, like I said, the festive season it is coming, so H2 both the models will be available in H2. Now full H2 or how much, I can't really inform you the exact time of launch, but one model definitely, since it's coming in the festive season, it will be for almost the entire H2.

Binay Singh - Analyst, Morgan Stanley
And just lastly on electric vehicles, you know, this will be your first sort of a major EV launch in India. How do you see profitability of that versus the market? Because what we are seeing in your assumption is that you are probably launching an electric vehicle, still we are seeing margin trajectory moving up. So is it the global cost structure of Hyundai that is helping you position it, or you plan to price it in a premium side? Any thoughts on what will be your EV cost structure versus competitors? Do you have an edge over there?

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
While I will not like to comment exactly on the profitability or the cost structure, but couple of things which are very important is that one, we are gunning for the PLI for this new model. I think this is something which we have not been able to do so far. So this is a very big boost to our efforts in this. Number two, you know, we have been working very strongly on the localization. In addition to the battery packs, we are looking at the other elements on power electronics, etc., and making sure that, and of course as you know for the PLI we need a 50% domestic value addition as well. So I think that is something which is very important. Of course, HMC strength in the EVs is something which will help us. Also, we are looking, like I mentioned in my opening remarks, you know, this EV will not only be an EV, I think we will use AI in a big way. We're also working on the overall value proposition to the customer. You would have read, Binay, about our announcements on the myHyundai app, which gives customer access to 30,000 charging points. So I think a lot of things we are doing, you know, which will make our EV proposition a very strong one. And also this is the first mass-market dedicated EV from Hyundai. So I think we are building a very strong proposition for the customer, and we are quite confident that this should really give us volumes. On the profit and all, I would not like to make a comment, but these are some of the things which will help us to position it better. Thank you.

Binay Singh - Analyst, Morgan Stanley
Great, great. Thanks, team. Best wishes for the rest of the year.

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
Thank you.

Operator
Thank you. Ladies and gentlemen, in order that the management is able to address questions from all participants in the queue, we request you to please restrict yourselves to two questions only. You may rejoin the queue if you have any further questions. Our next question comes from the line of Chandramouli Muthiah with Goldman Sachs. Please go ahead.

Chandramouli Muthiah - Analyst, Goldman Sachs
Hi, good evening, and thanks for taking my questions. My first question is just around the current utilization rates at the Chennai and the Talegaon facilities. And just related to that, just want to

understand how much additional capacity do you see getting unlocked with the third shift on the Venue?

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
So just to explain to you, we have three plants, you know, two plants in Chennai, one in Pune. Okay, the Pune question, if you remember, we had said that phase one we will be 170,000, which is a three-shift operation. So currently we are working on two shifts, so now we are going to three shifts, which means that potential capacity can be 170,000. So we'll see how much of it we can use, starting from October of course, you know, so this will be in H2 of this year. So this is where Pune stands. The, but the most important thing is Plant 1 in Chennai, where this year, you know, because the Venue got shifted, the capacity is only 72% utilization. I think with the two new models coming in, we will reach the capacity utilization of 88% in Plant 1 of Chennai. And this is a major game changer for us in terms of optimizing the cost. So on two fronts, one is the Pune plant, where of course the third shift will help, and second is Plant 1 of Chennai, where you know, the capacity utilization will go up from 72% to minimum about 88%, 90%, 91%, you know, if not more. Hope I have answered your question. Thank you.

Chandramouli Muthiah - Analyst, Goldman Sachs
Hi, that's helpful. Second question is just on the exports business. So I think over the past four to five months, there's been a lot of disruption on the shipping lines into the Middle East, which is also an important part of your export business. So just want to understand the confidence that you're seeing on export volumes coming back. Just want to understand how the supply chain is looking, how the shipping channels are looking for you, and also just related to that, we've seen a big improvement in export ASPs, up about 7% Y-o-Y, 5% to 6% up Q-o-Q. So just want to understand what are the key models that are driving that ASP pickup. So just export volume pickup in the medium term, is that backed by visibility around shipping channels as well as ASP drivers, what are the key models that drive that?

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
Yeah, so let me give you some levers for exports and why are we confident. So first is the new Venue, you know, it has received a great reception. Already 29 markets are in, you know, they have started giving orders, and we are planning for 35 total markets in the near future. Then Exter LHD, which we have launched for the first time, the shipment is starting in this quarter, and 13 markets we will reach by quarter three. And Verna PE also from June we have started, and more than 25 markets we'll reach by Q3. So I think these are the three things. Yes, those challenges on freights, Straits of Hormuz, etc., you know, are still continuing. At the same time, along with our partner, logistics partner, we are finding ways, and you know, and we believe that -- and because the back order is very strong, so I think you will see in July itself, you know, the shipments of exports would have gone up, one because of things opening up in terms of Middle East in terms of orders, and number two because that incident is behind us and we have been able to do the production. Mexico, although there was challenges because of tariff, but it's still holding on, and we are receiving some good orders from Mexico as well. So I think CSA, the efforts done in CSA, Central and South America, in January to March quarter and April to June quarter will hold us in good stead going forward as well, you know, because the 23% year-on-year growth and the demand remains steady there. So I think that is why we are confident. On ASP, as more and more, you know, of course ASP, although it improved, but please understand because we had to shift from Middle East to CSA, the hatch contribution went up, you know, because CSA is more of hatch dominated. But the moment

Middle East opens, Verna opens up, and you know, so that will again give us more opportunity. Also, Middle East is mostly automatic, so that also increases the ASP. So I think that is what all those factors should really help us to increase exports, and maybe Hari will add some more things. Yeah, Hari.

K.S. Hariharan - Head of Investor Relations, Hyundai Motor India Limited
Yes, Chandru. So our broader strategy is we are looking at enhancing our SUV mix in exports as well. So domestic already we are very strong with 70% SUV contribution, but if you see exports, we have hardly 13%, 14% contribution. So clearly we can understand there is a lot of headroom here to improve the SUV mix. So that is the broader strategy, so we are working towards that. Thank you.

Chandramouli Muthiah - Analyst, Goldman Sachs
Got it. Thank you very much and all the best.

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
Thank you. Thank you, Chandru.

Operator
Thank you. The next question is from the line of Gunjan Prithyani with Bank of America. Please go ahead.

Gunjan Prithyani - Analyst, Bank of America
Yeah, hi. Thank you for taking my question. My first question is just clarification on this Venue third shift. Essentially, the entire Pune plant is going to be Venue plant, which means, you know, roughly 14,000-15,000 sort of per month production. That caters to both domestic as well as exports. So this third line will essentially cater to both domestic as well as exports. That's the way to think about it, right?

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
Absolutely. You're spot on.

Gunjan Prithyani - Analyst, Bank of America
Okay. And on the capacity utilization which you mentioned, you know, will go up from 72% to 88% in the Chennai plant. Is that something when both the launches are rammed up, or is it that we are expecting 88% in second half? How should I think about this number that you gave on the Chennai capacity utilization?

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
Yeah, so I talked about Plant one, and what I mentioned was that in 2026, in Plant one, broadly we are at about 72% capacity utilization. And we believe in 2027, we should be around 90%, 92%, maybe more in Plant one. You know, Plant one of Chennai. So, I mean, so this is where it is. So 2026 calendar 72%, in 2027 calendar 90%, 92%. Yeah, this is the best I can do to answer your question. I hope it helps you. Thank you.

Gunjan Prithyani - Analyst, Bank of America
No, this is helpful. Okay, and second question, Tarun, if you can give us a little bit more, if you can, you know, to whatever extent, give us a little bit more understanding on the positioning of the mid-size SUV that is due for launch during festive. And the reason for this question is, I mean, often we end up, you know, comparing mid-size Creta and another model in the same category. How

should we think about the positioning of this model and, you know, if, if you indeed with this launch worry about what happens to the Creta volume? So some, some thoughts around this.

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
Look, if you see this segment, mid-SUV segment is growing very sharply, and of course Creta continues to be the market leader here. At the same time, we believe that, you know, two models clearly has space for two models, and the positioning will be very different from the Creta, like I mentioned. It will be kind of a technology-first positioning. We are moving more and more into software-defined vehicles, connected mobility platform. Of course, we are having more and more Gen Z and digitally native customers. So a lot of things, you have to be more patient because I don't want to divulge too much of our marketing strategy, but we have a very, very clear differentiation with the Creta, don't worry about it. And like I mentioned, also if you see, there is a clear space, you know, between 4 meter and say 4.4 meter, you know. This, this segment is really, really opening up, and we have seen even the industry, you know, many more models coming in. So I think there is a very clear opening for us, and -- and that is why we have decided to get into this segment. Thank you.

Gunjan Prithyani - Analyst, Bank of America
Got it. And just last quick one if I can, on the Venue, if I remember in last call you mentioned you'll sort of come back with what is, you know, which are the markets that Venue can cater globally, because outside of India and Korea, Venue is, you know, roughly a 100,000 or 90,000 odd market size, but is it that we cater to entire market size outside of India and Korea, or is there any other way to think about in terms of the potential for target markets for Venue?

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
No, it's not so easy, because, you know, the regulations are very different in different markets. So if we want to really cater to some of those markets, then we will have to spend a lot in capex, etc., and then it increases the cost for the overall Venue. So we have to be very selective. At the same time, there are enough markets where, you know, like I mentioned, that we can do the Venue. We are already looking at doubling the Venue volumes at the minimum, and the response has been very good in fact from all the markets. So I think this is a new opportunity which is kind of opening up, but definitely no, answer to your question on developed markets taking this new Venue, I think the answer is a clear no, because the regulations will be very, very expensive for us to do as of now. But at the same time, we will continuously evaluate and see if there are more opportunities there. Thank you.

Gunjan Prithyani - Analyst, Bank of America
Got it. Thank you so much.

Operator
Thank you. The next question is from the line of Amin Pirani with J.P. Morgan. Please go ahead.

Amin Pirani - Analyst, J.P. Morgan Securities LLC
Yes, hi. Thanks for the opportunity. Most of the questions have been answered. But can you just give us a sense, given the demand has been so strong and your production had been impacted, what is the kind of dealer inventory levels that you are witnessing right now and how do you think about dealer inventory build-up as we go into the festive season and you prepare for the launch?

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
So obviously in June, the dealer inventory level came down because of the production disruption. We had a good growth in the retails and we were able to meet the retail numbers. But now we have to build, now the production is back, like I mentioned, most of the potential loss has been recovered. So we will continue to build inventory over July, August, and September for the festive season. At the same time, we are very prudent in that, you know, so we will take a balanced approach and not really burden the dealers with inventory. The good thing is that retail momentum continues to be high, and you would have seen that our discount levels also at 2.8% are lower than the year-on-year discount level of 3.4%. So I think we are maintaining a very prudent approach, and we will see that we have adequate inventory or optimum inventory as we enter the festive season in October. Thank you.

Amin Pirani - Analyst, J.P. Morgan Securities LLC
Okay, thanks for that, sir. I'll come back in the queue.

Operator
Thank you. The next question is from the line of Raghunandhan N.L. with Nuvama Research. Please go ahead.

Raghunandhan NL - Analyst, Nuvama Institutional Equities
Thank you, sir, for the opportunity. My first question was on the demand side. Good to see that you are retaining the domestic growth expectation at 8% to 10%. For the industry, when it comes to urban versus rural demand, are you seeing any signs of slowdown in rural? July Vahan registrations indicate that there is a slower growth in the rural markets versus that of urban markets. So trying to understand any initial signs of slowdown because of the El Nino impact or anything like that? Thank you.

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
Okay. So first thing is, of course, we are not seeing any slowdown in the rural markets. If you see Q1 of Fiscal Year 2026, Q1 of Fiscal Year 2026 rural contribution was 22.6%, whereas this year Q1 of Fiscal Year 2027 rural contribution has increased to 25.9% for us. In terms of growth, rural growth was 23.2% in this quarter year-on-year, urban growth was only 2.8%, and that is how the overall 5.4% growth came in. So I think we are seeing a good traction. That has also to do with our strategy on the rural, like I mentioned, six out of 10 outlets which are being given are in the rural areas, and that we have been doing now for three years. The mobile service vans which we are deploying, the acceptance of our SUVs in the rural markets is something which is again helping us. So I think we are seeing a continuous traction. El Nino and all, we have been hearing about it now for three-four years, but we have not seen that kind of an impact. And continuous, you know, because I think two-three things which have happened is one, the road infrastructure has improved dramatically in the rural areas. Number two, the dissemination of information because of, of course, the Jio and whatever, whatever. So rural customers now know about the new products, and that is why their demand for SUVs has really gone up. In fact, our SUV contribution in the rural areas is now equal to urban areas. And number three, not only more outlets, but the big focus on service is another thing which is giving the confidence to the rural areas or rural customers that, okay, they can buy a car because they will have somebody to look after it as well. So I think those things give us this confidence of rural markets, and it continues, you know, unabated as far as the rural traction is concerned. So we don't see too much of a pressure there as far as rural growth is concerned. Hope

I have answered your question. Thank you.

Raghunandhan NL - Analyst, Nuvama Institutional Equities
Yes, thank you, sir. That was comprehensive, thanks for that. My second question is on the cost side. Good to see the maintenance or the efficiency in the gross margin, but on the employee cost and other expenses, there has been an increase, 20% growth in the employee cost and 10% growth in the other expenses. Any one-offs or anything to call out in these cost items? And how should we see these items going forward?

K.S. Hariharan - Head of Investor Relations, Hyundai Motor India Limited
Raghunandhan, first of all, on the employee cost, year-on-year increase whatever we are seeing is mainly to do with the Pune plant commencement and of course the yearly salary revisions also get reflected in the employee cost. If you see the other expenses, other expenses actually year-on-year the increase is mainly attributed to increase in freight cost, especially for the export operations. But the point to be understood here is as far as freight is concerned, we generally don't see any impact on the margins because whatever is the increase, we generally recover from the distributors. Hope it clarifies, Raghunandhan.

Raghunandhan NL - Analyst, Nuvama Institutional Equities
Thank you, Hari. That was helpful.

Operator
Thank you. The next question is from the line of Ashish Jain with Macquarie India. Please go ahead.

Ashish Jain - Analyst, Macquarie India
Hi, sir. Good evening. Sir, my first question is, you know, the new model launches that we are seeing, is there any export opportunity of these that we are evaluating at this moment?

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
See, if you see, Ashish, right from the time we set foot in India 30 years back, export has been a key pillar of our strength. And our SOP normally is that we launch a model in the domestic market and after three months we launch it in the export markets. Also, if you see the emerging markets, you know, their economies, their customer preferences are very similar to India. So these two models we believe would have a good traction, both the mid-SUV as well as the EV in the export market. But at this point of time, I cannot give you some numbers or the markets. So at the right time, we will inform you about our plans for the export markets of these models as well. Yeah, thank you.

Ashish Jain - Analyst, Macquarie India
Okay. Sir, secondly, you know, you spoke about the difference between rural and urban growth in this quarter. Is it also reflecting, you know, the disruption in Creta sales? Is that a main reason, or even this is the core demand momentum was so divergent between rural and urban this quarter?

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
Like I mentioned, the SUV contribution in rural and urban is same, and Creta demand -- Creta only happened in June because of the disruption, you know. The majority of that 13,900 we lost was Creta. So that happened only in June. But generally, you know, we are seeing a same SUV contribution in urban and rural areas. So I don't think Creta has anything to do with it. Thank you.

Ashish Jain - Analyst, Macquarie India
Okay, okay. Yes, sir. Thank you so much, and that's it from my side.

Operator
Thank you. The next question is from the line of Pramod Kumar with UBS Securities. Please go ahead.

Pramod Kumar - Analyst, UBS Securities
Yeah, thanks a lot for the opportunity. Tarun, just a clarification. On the industry growth, what is our forecast for the full year? Just double checking.

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
Look, H2, like I said, H2 industry growth will be the real industry growth because that will come at a base which is real after GST. So let's see. It's anybody's guess. We are definitely looking at HMIL growth of 8% to 10%. My guess is industry growth should be in the lower single digits, you know, in H2. So because the base is really high, and we are seeing a lot of, of course, as you know, industry is seeing a lot of headwinds in terms of raw material cost, etc. So I think it should normalize to lower single digit in H2 FY '27. Thank you.

Pramod Kumar - Analyst, UBS Securities
So full year, consequently, will be what? Again 7%-8% kind of growth for the industry? Because so far it's 12% growth over there about July so far.

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
I wish, I wish I could really guess as good as you. But maybe, maybe 8%, let's see, maybe 8%, maybe 9%. Let's see. We don't know. Different, different companies are giving different projections. Still some people are sticking to 5% to 7%. Let's see. Let's see. It should be in the range of, I think, 6% to 8%, 9% is what my guess is.

Pramod Kumar - Analyst, UBS Securities
And okay, the industry growth can be a very different outcome, but what -- something which you can have reasonable confidence on the market share side, sir, with the launches and what is the exit kind of exit market share what you're looking at? Because we kind of paid a huge price on market share because of production issues and various other problems. Now with the launches also coming, capacity ramping up, what kind of exit market share would you aspire to have when you exit Fiscal Year 2027, sir?

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
Definitely, you know. So if you see the last fiscal, we ended with something around 12.3%, 12.35% market share. So we should do much better than that in terms of the exit market share, because by the time we exit this year, we would have both these two models up and running. So I think we should be doing fine in terms of market share. And like I mentioned, in H2, we will surely be outpacing the industry growth. This is, we are very confident about it. And two-three factors like I already mentioned: two new models, then the, then of course the fleet sales which are, and of course the Venue third shift. All these three factors are very, very specific to Hyundai, you know, and which should help us to outpace the industry growth in H2. Thank you.

All these 3 factors are very, very specific to Hyundai Motor India Ltd, you know, and which should help us to outpace the industry growth in H2. Thank you.

Pramod Kumar - Analyst, UBS Securities
And second is on the PLI, sir. You said the new model you aspire to have PLI, which I think will make the product pretty competitive. But do you expect it to be the case with from day one or do you expect it will happen over a period of time as, as you kind of ramp up the localization, or you are already starting the production with high localization and hence eligible for PLI from day one?

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
So as far as readiness is concerned, we are targeting day one. Administrative and all could take whatever time, but as far as we are concerned, we are targeting day one readiness on the PLI for the new EV.

Pramod Kumar - Analyst, UBS Securities
And finally, sir, Creta anything? Because we can see the volumes what Seltos is doing, of course Creta's holding its own, but the kind of bumper what Seltos has seen in demand, even without the hybrid coming, so just trying to understand what is the likely timeline, is it first half Fiscal Year 2028 where one should expect the new Creta or it could happen earlier?

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
You are always very hungry for information, so anyway, I think we have given enough information on the new launches, and don't worry, at the right time, we'll announce about the Creta FMC as well, you know. Right now, let's enjoy the new mid-SUV which is going to be launched in the festive season and the new dedicated EV which we are going to launch. I think they would be exciting enough. Thank you.

Pramod Kumar - Analyst, UBS Securities
Yeah. Thanks a lot. Best of luck, sir.

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
Thank you.

Operator
Thank you. Ladies and gentlemen, we request you to please restrict yourselves to two questions only. Our next question comes from the line of Yash Agarwal with Nirmal Bang Institutional Equities. Please go ahead.

Yash Agrawal - Analyst, Nirmal Bang Institutional Equities
Hi, sir. Thank you for the opportunity. Most of the questions have been answered. Just one question on rising CNG contribution. So basically, like CNG have a better margin profile than the ICE counterparts, and if the CNG contribution increases going forward, can we see a better product mix?

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
I will not like to comment on margins. I think you can say similar margins is much better to understand this. And CNG helps us in multiple ways, you know. Of course, it is the cheapest way to meet CAFE, and of course it helps us to increase volumes. And we have a technology-agnostic strategy, as you know. You know, we believe that in the lower segments, especially say in the less than 15-20 lakhs segment, CNG is a very potent weapon. We'll continue with that. And we have already announced, if you remember, that by 2030 we will have five or six CNGs, we will have about five hybrids, we will have four or five EVs. So we will have a very strong mix of all the technologies,

you know, all the clean technologies rather than sticking to one. So every year you will see improvement happening towards our goal of 2030-32 more than 50% through clean fuel. Thank you.

Raghunandhan NL - Analyst, Nuvama Institutional Equities
And although my second question is on the elevated staff and other costs, so can we expect -

Operator
Sorry to interrupt, Yash, but you're not clearly audible. Request you to please check the handset.

Yash Agrawal - Analyst, Nirmal Bang Institutional Equities
Is it better now?

Operator
Yes, please go ahead.

Yash Agrawal - Analyst, Nirmal Bang Institutional Equities
Yeah. So basically, I'm just asking, as the staff cost and other costs have been elevated in Q1, so can we expect them to moderate a bit, or they will remain at same level, like same percentage of sales going forward?

K.S. Hariharan - Head of Investor Relations, Hyundai Motor India Limited
See, of course, on the overall cost front, we have been continuously working for cost optimization efforts because employee cost is one, I already explained the reasons for the increase. Even commodity pressure we have discussed. So though these cost pressures are there on one side, we have been working on lot of other cost optimization efforts through improving our localization and value engineering activities, you know, to take care of the margins.

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
The staff cost is primarily because of the Pune plant, like we mentioned, you know. So more volume, so it comes at some cost. Yeah. Thank you.

Yash Agrawal - Analyst, Nirmal Bang Institutional Equities
Okay, sir. That's it. Thank you so much. Best of luck for next quarters. Thank you.

Operator
Thank you. The next question is from the line of Jyoti Singh with Haitong Securities. Please go ahead.

Jyoti Singh - Analyst, Haitong Securities
Yeah. Thank you for the opportunity. Just a follow-up question on export side. Like we have mentioned good export overall, so can we expect export volume to recover to the Q1 level, which was 48,000 somewhere, within the next two quarters? And what markets get you there? And another question on the AI side, like we have discussed in very detail in the PPT, so what kind of vision we are seeing over there, and can you quantify the actual P&L impact so far on the cost savings side, whether headcount avoidance or conversion uplift? So that will be very helpful. Thank you.

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
Okay. First question first. So 48,000 in a quarter is what you want, I think your aspirations are much lower. Our aspirations are much higher, so we will be better than that 48,000 quarter in the coming quarters on the exports front. I already gave you the reasons, so I will not repeat. On the cost control and all, I think I'll request Hari to say. On AI, you know, so many things are already happening in sales, service operations, and I already mentioned about manufacturing, supply chain. Something which you have not witnessed so far so much is on the product side, which you will soon start witnessing with our future product launches. What I can assure you is that Hyundai Motor India will take a lead in terms of AI in the automotive space, and it will be a 360-degree effect you will see, not only limited to one area. Hari, can you take the cost question?

K.S. Hariharan - Head of Investor Relations, Hyundai Motor India Limited
Yeah. So as I mentioned, we have been closely working towards improving our localization. We have been working with the supply chain. In fact, our localization level a couple of years ago, it used to be somewhere around 77%, 78%. But today, if you look at our number, it is quite healthy at 83%. And we have a mid-term target of reaching 90% localization by 2030, right? So quite clearly, you can understand, you know, we have been very aggressive in terms of improving the localization. Similarly, as I mentioned, value engineering activities also we have been continuously doing. We are working with the supply chain. Even at the plant level also, we encourage our employees to come out with cost reduction ideas, we motivate the employees. So these are all, you know, some of the activities we have been continuously doing to keep the costs under check. Thank you.

Jyoti Singh - Analyst, Haitong Securities
Sure. Thank you, sir. And another, any impact we are expecting in Q2 because of the June disruption, or we are fully caught up on production in July and August? Any expectation over there, sir?

Tarun Garg - Managing Director and Chief Executive Officer, Hyundai Motor India Limited
Fully caught up. In fact, almost everything has already been done in July. Whatever little is left will be done in August and September. So everything will be done within this quarter.

Jyoti Singh - Analyst, Haitong Securities
Okay. Thank you so much.

Operator
Thank you. We have no further questions, ladies and gentlemen. I would now like to hand the conference over to Mr. Joseph George for closing remarks. Over to you, sir.

Joseph George - Analyst, IIFL Capital
Thank you, Darvin. On behalf of the management of Hyundai Motor India Limited, I thank you all for joining the call. You may now disconnect your lines. Thank you.

Operator
[Closing Remarks]