

Hero MotoCorp | BUY



Strong quarter; New launches to aid volume growth

During 1QFY26, EBITDA margin for Hero MotoCorp (HMCL) stood at 14.4% (flat YoY, +20bps QoQ), 30bps above JMFe (16.8% margin for ICE business). Realisations grew by 6% YoY (-3% QoQ), primarily led by a favourable mix and pricing. Near-term domestic demand is expected to be driven by the upcoming festive season. HMCL expects the domestic 2W industry to grow by 6–7% in FY26, supported by rural recovery, a healthy monsoon, RBI rate cuts, reduction in income tax, and increased government spending. Management believes HMCL will outperform the underlying industry in both domestic and export segments, driven by its recent and upcoming product launches and expansion into new geographies. We are revising our estimates upwards, driven by launches (both in ICE and EVs) and improved operating efficiency. Volume estimates for FY26E/FY27E have been raised by 2%/4% respectively. Consequently, EPS estimates have been revised upward by 2%/5.2%. We maintain our BUY rating with a target price of INR 5,250, based on 17x FY27E earnings.

- 1QFY26 - margin above JMFe:** HMCL reported net sales of INR 95.8bn (-5.6% YoY, -3.6%QoQ), 3.6% below JMFe estimates. Volumes during 1Q declined 11% YoY (-1% QoQ) to c.1.34mn units. The decline was due to plant shutdown in Apr'25. Realisations, however, grew by 6% YoY (+3% QoQ), primarily led by favourable mix and price. EBITDA stood at INR 13.8bn (-5%YoY, -2% QoQ), marginally below JMFe. EBITDA margin stood at 14.4% (flat YoY, +20bps QoQ), beating JMFe estimates by 30bps. Despite adverse leverage, EBITDA margin stayed flat led by product mix, price and cost saving under LEAP. Adj. PAT stood at INR 11.2bn (flat YoY, +4.1% QoQ), 3.5% above JMFe. Spares revenue stood at INR 13bn (-16% QoQ) accounting for ~14% of revenue during 1Q.
- Demand outlook:** Management highlighted that HMCL continued to maintain its leadership position in retail sales. Its VAHAN market share (MS) recovered to 30.9% in 1QFY26 (+1% QoQ). The company witnessed a bounce-back in the entry-level segment, supported by a recovery in rural demand. Near-term domestic demand is expected to be driven by the upcoming festive season. Management expects the domestic 2W industry to grow by 6–7% in FY26, led by positive rural sentiment driven by a healthy monsoon, reduction in income tax, lower inflation, RBI rate cuts, and increased government spending. On the exports front, HMCL reported 27% YoY growth in 1QFY26, driven by strong performance in its top 10 geographies. Overall, HMCL expects to outperform the underlying industry in both domestic and export segments, supported by its recent and upcoming product launches and entry into new geographies.
- Update on new launches:** Overall HMCL's Vahan MS came at 30.9% (+100bps QoQ). HMCL indicated that it has gained 800bps (YoY) MS in the entry segment during 1QFY26 (11-quarter high), led by HF Deluxe Pro. In the scooter segment, HMCL attained MS of 9.7%, led by good response for new Destini 125 and recently launched Xoom 125 / Xoom 160. HMCL has a healthy pipeline of new launches with a new 125cc bike and a refreshed version of Xtreme 125cc in upcoming quarters.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	5,250
Upside/(Downside)	12.6%
Previous Price Target	4,700
Change	11.7%

Key Data – HMCL IN

Current Market Price	INR4,661
Market cap (bn)	INR932.2/US\$10.6
Free Float	57%
Shares in issue (mn)	199.7
Diluted share (mn)	200.0
3-mon avg daily val (mn)	INR2,855.1/US\$32.6
52-week range	6,246/3,323
Sensex/Nifty	80,623/24,596
INR/US\$	87.7

Price Performance

%	1M	6M	12M
Absolute	8.2	9.0	-11.1
Relative*	12.4	5.3	-13.0

* To the BSE Sensex

Financial Summary					
Y/E March	FY24A	FY25A	FY26E	FY27E	(INR mn)
Net Sales	3,74,557	4,07,564	4,59,232	5,08,800	5,54,818
Sales Growth	10.8%	8.8%	12.7%	10.8%	9.0%
EBITDA	52,557	58,677	67,048	77,412	85,744
EBITDA Margin	14.0%	14.4%	14.6%	15.2%	15.5%
Adjusted Net Profit	41,280	46,100	52,961	61,515	68,549
Diluted EPS (INR)	206.5	230.5	264.8	307.6	342.7
Diluted EPS Growth	41.8%	11.6%	14.9%	16.2%	11.4%
ROIC	69.7%	83.9%	102.7%	130.2%	142.7%
ROE	23.8%	24.4%	25.5%	26.5%	25.9%
P/E (x)	21.7	19.4	16.9	14.5	13.1
P/B (x)	5.0	4.5	4.1	3.6	3.2
EV/EBITDA (x)	16.1	14.1	12.0	10.1	8.8
Dividend Yield	3.1%	3.7%	3.7%	3.7%	3.7%

Source: Company data, JM Financial. Note: Valuations as of 07/Aug/2025

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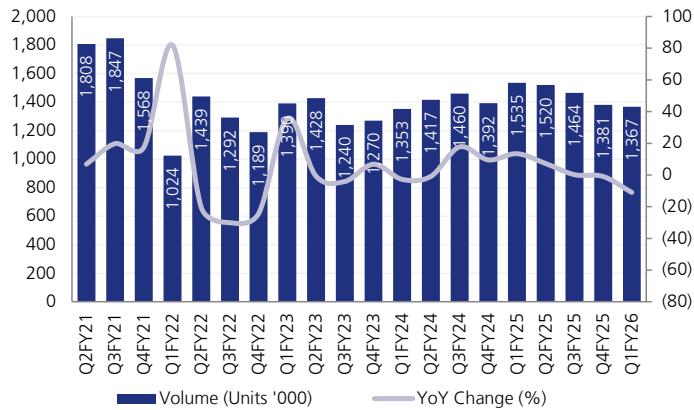
- Update on EV business:** HMCL exited Jun'25 with ~7% market share in the E2W segment (vs. 3.5% in Jun'24), driven by price interventions, brand-building initiatives, and the launch of VIDA V2. Further, its market share expanded to 10% in Jul'25. It launched the VIDA VX2 in Jul'25, pioneering the battery-as-a-service (BaaS) model. It received PLI certification for the VIDA V2 Pro in Jul'25 and is working on approvals for other models. Management expects profitability to be supported by volume ramp-up, localisation efforts, and PLI benefits, with breakeven expected at 25k-30k volumes per month. The company has also forayed into the E3W segment through the acquisition of a 34.1% stake in Euler Motors for INR 5.1bn. On the rare-earth magnet constraint, management indicated that they are covered in the short run and are continuing to work on finding alternatives.
- Outlook on profitability:** During 1Q, EBITDA margin remained flat YoY at 14.4% (+20bps QoQ). EBITDA margin for ICE business improved 70 bps QoQ to 16.8%, driven by a favourable product mix, price increases, and cost optimisation efforts. The company indicated that it will continue to invest in the EV business. It implemented a price hike of 2% in 1Q in line with OBD-2B norms, with the full impact expected to reflect in 2Q. Overall, the company expects higher operating leverage and a continued focus on cost-saving measures to support margin performance. Long-term margin guidance remains at 14-16%, with margins expected to remain at the lower end of the range in the short term.
- Other highlights:** 1) Channel inventory is currently at a higher level (~7 weeks) ahead of festive season. 2) Production was halted during 17-19th Apr'25 for maintenance and supply chain realignment, which has now normalised. 3) 2W financing penetration came to 65% in July, up from 50% in 4QFY25. While the management has witnessed pressure in some segments, it expects rate cuts to support the financing penetration going ahead. 4) Investment in the EV business stood at INR1.89bn in 1Q.

Exhibit 1. Quarterly financial results

INR Mn	Q1FY26	Q1FY25	% YoY	Q4FY25	% QoQ	Q1FY26E	% A/E
Operating metrics							
Total Volumes (Units)	1,367,070	1,535,156	-10.9	1,380,545	-1.0	1,367,070	0.0
Average Realisation (Net, INR)	70,069	66,076	6.0	71,991	-2.7	72,711	-3.6
Financial metrics (INR mn)							
Sales	95,789	101,437	-5.6	99,387	-3.6	99,401	-3.6
Cost of Goods Sold	63,904	68,671	-6.9	65,069	-1.8	65,107	-1.8
As a % of sales	66.7	67.7	-100bps	65.5	120bps	65.5	120bps
Staff Cost	6,260	6,083	2.9	6,711	-6.7	6,859	-8.7
As a % of sales	6.5	6.0	50bps	6.8	-20bps	6.9	-40bps
Other expenses	11,808	12,085	-2.3	13,451	-12.2	13,419	-12.0
As a % of sales	12.3	11.9	40bps	13.5	-120bps	13.5	-120bps
EBITDA	13,817	14,598	-5.3	14,156	-2.4	14,015	-1.4
EBITDA Margin	14.4	14.4	0bps	14.2	20bps	14.1	30bps
Other Income	3,037	2,317	31.1	2,237	35.7	2,500	21.5
Interest	56	48	16.6	47	18.6	50	12.2
Depreciation	1,928	1,932	-0.2	1,921	0.4	1,960	-1.6
Extraordinary	0	0	NA	0	NA	0	NA
PBT	14,870	14,935	-0.4	14,425	3.1	14,505	2.5
Tax	3,613	3,708	-2.6	3,615	-0.1	3,626	-0.4
Tax rate (%)	24.3	24.8	-50bps	25.1	-80bps	25.0	-70bps
PAT (Adjusted)	11,257	11,227	0.3	10,809	4.1	10,879	3.5
PAT Margin	11.8	11.1	70bps	10.9	90bps	10.9	80bps
EPS	56.3	56.2	0.2	54.0	4.1	54.4	3.5

Source: Company, JM Financial

Exhibit 2. Volumes declined c.11% YoY (-1% QoQ)



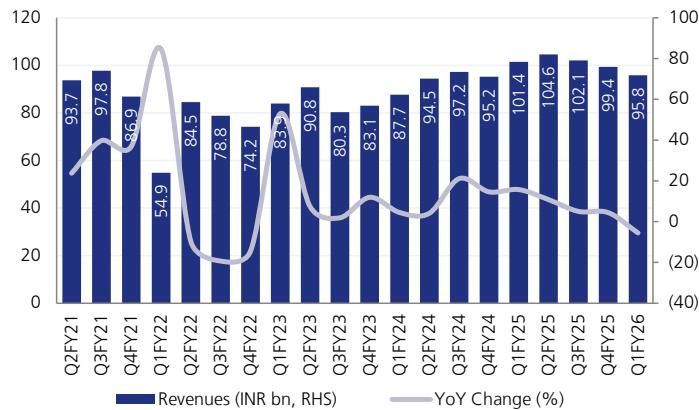
Source: Company, JM Financial

Exhibit 3. Realisation improved c.6% YoY (c.-3% QoQ)



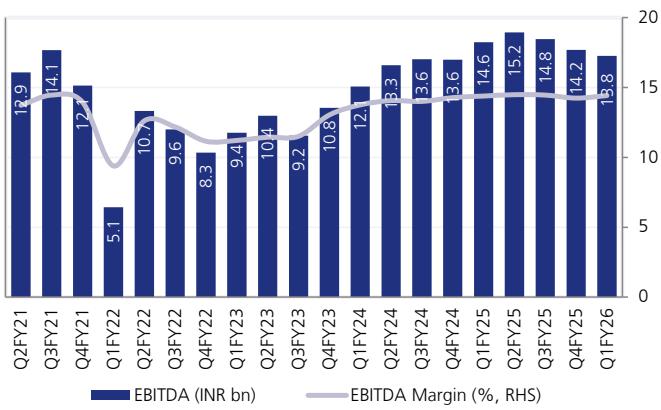
Source: Company, JM Financial

Exhibit 4. Revenue declined c.6% YoY (-4% QoQ)



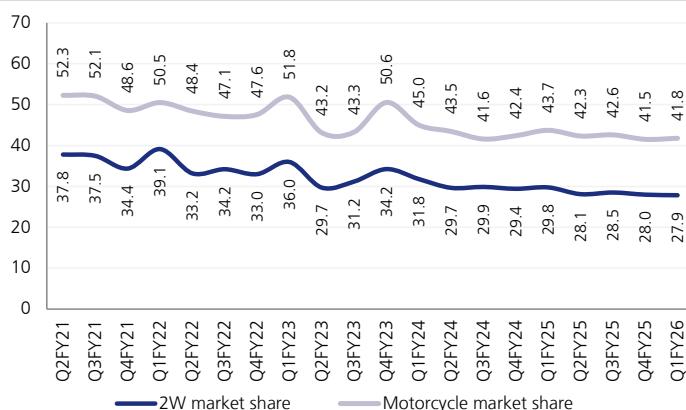
Source: Company, JM Financial

Exhibit 5. EBITDA margin remained flat YoY (+20bps QoQ)



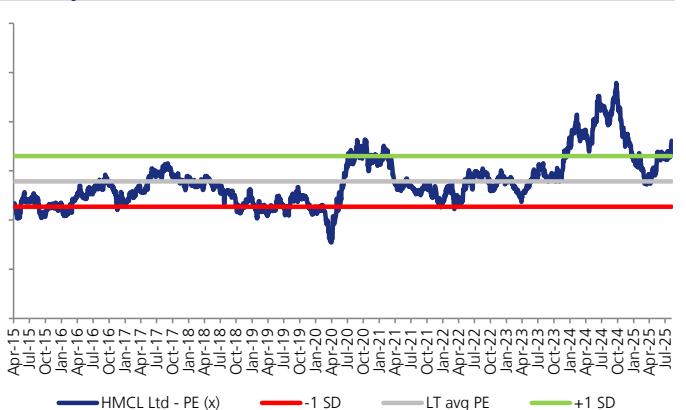
Source: Company, JM Financial

Exhibit 6. Market share trend



Source: Company, SIAM, JM Financial

Exhibit 7. 1yr fwd. PE chart



Source: Bloomberg, JM Financial

Exhibit 8. HMCL – change in assumptions

Particulars	New assumption			Old assumption			% Change		
	FY25A	FY26E	FY27E	FY25A	FY26E	FY27E	FY25A	FY26E	FY27E
Revenue (INR mn)	407,564	459,232	508,800	407,564	449,884	489,431	0.0%	2.1%	4.0%
Volume (mn units)	5.9	6.3	6.8	5.9	6.2	6.6	0.0%	2.1%	4.0%
EBITDA (INR mn)	58,677	67,048	77,412	58,677	65,683	73,415	0.0%	2.1%	5.4%
EBITDAM (%)	14.4%	14.6%	15.2%	14.4%	14.6%	15.0%	-	0bps	20bps
PAT (INR mn)	46,100	52,961	61,515	46,100	51,931	58,462	0.0%	2.0%	5.2%
EPS (INR)	230	265	308	230	260	292	0.0%	2.0%	5.2%

Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement						(INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E	Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Sales	3,74,557	4,07,564	4,59,232	5,08,800	5,54,818	Shareholders' Fund	1,79,862	1,98,069	2,18,030	2,46,544	2,82,093
Sales Growth	10.8%	8.8%	12.7%	10.8%	9.0%	Share Capital	400	400	400	400	400
Total Revenue	3,74,557	4,07,564	4,59,232	5,08,800	5,54,818	Reserves & Surplus	1,79,462	1,97,669	2,17,630	2,46,144	2,81,693
Cost of Goods Sold	2,54,308	2,70,687	3,05,848	3,37,962	3,67,703	Preference Share Capital	0	0	0	0	0
Personnel Cost	24,023	25,952	28,932	31,475	34,465	Minority Interest	0	0	0	0	0
Other Expenses	43,669	52,248	57,404	61,950	66,906	Total Loans	1,376	1,631	1,631	1,631	1,631
EBITDA	52,557	58,677	67,048	77,412	85,744	Def. Tax Liab. / Assets (-)	4,348	5,096	5,096	5,096	5,096
EBITDA Margin	14.0%	14.4%	14.6%	15.2%	15.5%	Total - Equity & Liab.	1,85,586	2,04,795	2,24,756	2,53,271	2,88,819
EBITDA Growth	31.8%	11.6%	14.3%	15.5%	10.8%	Net Fixed Assets	63,145	63,939	66,611	69,110	71,425
Depn. & Amort.	7,114	7,759	8,250	8,751	9,272	Gross Fixed Assets	1,61,882	1,70,315	1,80,739	1,91,661	2,02,911
EBIT	45,443	50,918	58,798	68,661	76,471	Intangible Assets	0	0	0	0	0
Other Income	8,926	10,559	11,569	13,035	14,542	Less: Depn. & Amort.	1,03,542	1,11,301	1,19,550	1,28,302	1,37,574
Finance Cost	185	199	220	220	220	Capital WIP	4,805	4,925	5,422	5,750	6,087
PBT before Excep. & Forex	54,184	61,278	70,147	81,476	90,793	Investments	1,30,861	1,49,096	1,66,596	1,84,096	2,01,596
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	Current Assets	61,709	66,166	76,262	92,842	1,16,520
PBT	54,184	61,278	70,147	81,476	90,793	Inventories	14,438	14,576	18,873	20,910	22,801
Taxes	12,904	15,179	17,186	19,962	22,244	Sundry Debtors	27,034	36,744	31,454	34,849	38,001
Extraordinary Inc./Loss(-)	-1,600	0	0	0	0	Cash & Bank Balances	6,089	3,532	13,692	23,852	41,416
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	Loans & Advances	2,346	979	1,081	1,176	1,282
Reported Net Profit	39,680	46,100	52,961	61,515	68,549	Other Current Assets	11,802	10,335	11,162	12,055	13,019
Adjusted Net Profit	41,280	46,100	52,961	61,515	68,549	Current Liab. & Prov.	70,130	74,406	84,713	92,777	1,00,721
Net Margin	11.0%	11.3%	11.5%	12.1%	12.4%	Current Liabilities	55,282	55,661	64,469	70,913	77,108
Diluted Share Cap. (mn)	200	200	200	200	200	Provisions & Others	14,848	18,745	20,244	21,864	23,613
Diluted EPS	206.5	230.5	264.8	307.6	342.7	Net Current Assets	-8,421	-8,240	-8,451	65	15,799
Diluted EPS Growth	41.8%	11.6%	14.9%	16.2%	11.4%	Total - Assets	1,85,586	2,04,795	2,24,756	2,53,271	2,88,819
Total Dividend + Tax	27,986	33,000	33,000	33,000	33,000						
Dividend Per Share (₹)	140.0	165.0	165.0	165.0	165.0						

Source: Company, JM Financial

Cash Flow Statement						(INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E	Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Profit before Tax	54,184	61,278	70,147	81,476	90,793	Net Margin	11.0%	11.3%	11.5%	12.1%	12.4%
Depn. & Amort.	7,114	7,759	8,250	8,751	9,272	Asset Turnover (x)	2.1	2.1	2.2	2.2	2.1
Net Interest Exp. / Inc. (-)	185	199	220	220	220	Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0
Inc (-) / Dec in WCap.	11,367	-2,739	10,372	1,644	1,830	RoE	23.8%	24.4%	25.5%	26.5%	25.9%
Others	0	0	0	0	0						
Taxes Paid	-12,904	-15,179	-17,186	-19,962	-22,244						
Operating Cash Flow	59,946	51,319	71,803	72,130	79,871						
Capex	-8,007	-8,552	-10,922	-11,250	-11,587						
Free Cash Flow	51,938	42,767	60,881	60,880	68,284						
Inc (-) / Dec in Investments	-20,757	-18,235	-17,500	-17,500	-17,500						
Others	-185	-199	-220	-220	-220						
Investing Cash Flow	-28,950	-26,986	-28,642	-28,970	-29,307						
Inc / Dec (-) in Capital	0	0	0	0	0						
Dividend + Tax thereon	-27,986	-33,000	-33,000	-33,000	-33,000						
Inc / Dec (-) in Loans	-187	255	0	0	0						
Others	-188	5,855	0	0	0						
Financing Cash Flow	-28,361	-26,890	-33,000	-33,000	-33,000						
Inc / Dec (-) in Cash	2,634	-2,558	10,161	10,160	17,564						
Opening Cash Balance	3,455	6,089	3,532	13,692	23,852						
Closing Cash Balance	6,089	3,531	13,692	23,852	41,416						

Source: Company, JM Financial

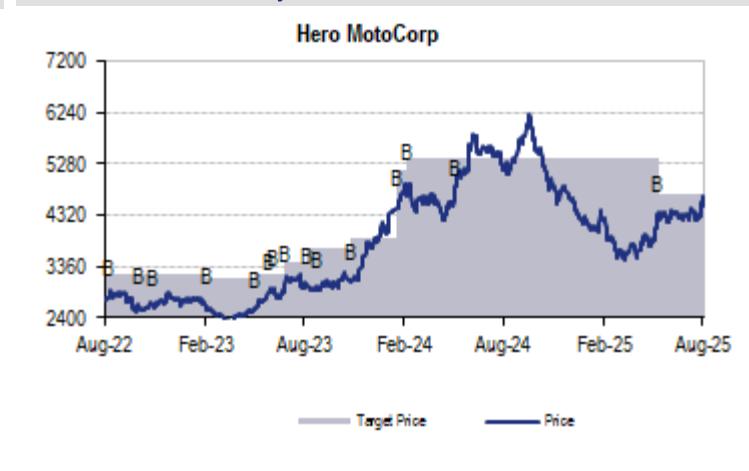
Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Margin	11.0%	11.3%	11.5%	12.1%	12.4%
Asset Turnover (x)	2.1	2.1	2.2	2.2	2.1
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0
RoE	23.8%	24.4%	25.5%	26.5%	25.9%
Net Debt/Equity (x)	-0.3	-0.3	-0.4	-0.5	-0.5
P/E (x)	21.7	19.4	16.9	14.5	13.1
P/B (x)	5.0	4.5	4.1	3.6	3.2
EV/EBITDA (x)	16.1	14.1	12.0	10.1	8.8
EV/Sales (x)	2.3	2.0	1.8	1.5	1.4
Debtor days	26	33	25	25	25
Inventory days	14	13	15	15	15
Creditor days	63	58	60	60	60

Source: Company, JM Financial

History of Recommendation and Target Price

Recommendation History

Date	Recommendation	Target Price	% Chg.
7-May-21	Buy	3,800	
13-Aug-21	Buy	3,600	-5.3
14-Nov-21	Buy	3,600	0.0
13-Feb-22	Buy	3,600	0.0
4-May-22	Buy	3,200	-11.1
14-Aug-22	Buy	3,200	0.0
9-Oct-22	Buy	3,200	0.0
4-Nov-22	Buy	3,200	0.0
8-Feb-23	Buy	3,150	-1.6
7-May-23	Buy	3,200	1.6
5-Jun-23	Buy	3,200	0.0
12-Jun-23	Buy	3,200	0.0
4-Jul-23	Buy	3,450	7.8
13-Aug-23	Buy	3,700	7.2
31-Aug-23	Buy	3,700	0.0
2-Nov-23	Buy	3,900	5.4
24-Jan-24	Buy	5,150	32.1
11-Feb-24	Buy	5,400	4.9
8-May-24	Buy	5,400	0.0
15-May-25	Buy	4,700	-13.0



APPENDIX I

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Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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