

**Focused Execution Drives Margin Gains and EV Growth Amid Global Realignment**

**CMP: INR 4,666**

**Rating: Buy**

**Target Price: INR 5,640**

**Stock Info**

BSE	500182
NSE	HEROMOTCO
Bloomberg	HMCL IN
Reuters	HROM.BO
Sector	Auto-2&3wheelers

Face Value (INR)	2
Equity Capital (INR Mn)	400
Mkt Cap (INR Bn)	931
52w H/L (INR)	6,245/ 3,323

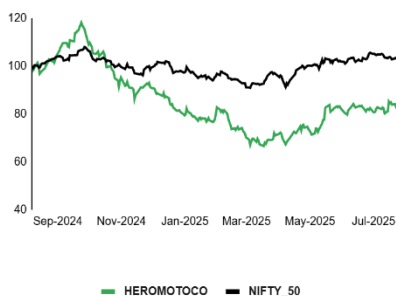
**Shareholding Pattern %**

(As on June 2025)

Promoters	34.75
FII	29.59
DII	18.0
Public & Others	19.2

Stock Performance (%)	1m	3m	12m
HMCL	8.2	20.4	-11.0
Nifty	-3.4	0.7	1.2

**HeroMotoCorp Vs Nifty**



Abhishek Jain  
[abhishek.jain@arihantcapital.com](mailto:abhishek.jain@arihantcapital.com)  
022 67114851

Jyoti Singh  
[jyoti.singh@arihantcapital.com](mailto:jyoti.singh@arihantcapital.com)  
022 67114834

Hero MotoCorp reported standalone revenue stood at INR 95,789 Mn, slightly below our estimate of INR 98,392 Mn registering a de-growth of 5.6% YoY/down 3.6% QoQ. EBITDA stood at INR 13,817 Mn, above our estimate of INR 13,300 Mn, Registering a de-growth of 5.3% YoY/ down 2.4%QoQ. On the margins front, EBITDA margin up by 3 bps YoY/ up 18bps QoQ to 14.2%, in line our estimate of 14.2% led by supported by strong demand for our entry & deluxe motorcycles and 125cc scooter segments. The company is witnessing good traction in our electric mobility business (VIDA), and global operations also remained ahead of industry, reflecting the strength of brand in international markets. With favourable customer sentiment, upcoming festive season and a robust pipeline of new product launches, company is confident of sustaining and driving growth in the coming quarters. Standalone PAT saw a growth of 0.3% YoY/ up 4.1%QoQ to INR 11,257 Mn above our estimate of INR 10,988 Mn. EPS stood at INR 56.28 in Q1FY26 against INR 54.06 in Q4FY25. Consolidated profit in Q1FY26 includes onetime gain of INR 7220 Mn on account of dilution of the Company's share of investment in associates consequent to public issue and private placement.

**Investment Rationale**

**Margin Resilience Despite Production Disruption:** EBITDA margin in the ICE segment, supported by premium product mix, OBD-II related price hikes, and LEAP cost-saving initiatives. Despite production cuts in April, gross margin improved ~100 bps YoY. The company continues to invest in brand and network strength, reflecting confidence in ICE profitability. The company consolidated EBITDA margin in the 14–16% range in the near term.

**Accelerating EV Market Penetration with Scalable Model:** The company's EV market share more than doubled YoY to 7%, and rose further to over 10% in July. Introduction of Vida V2 under Battery-as-a-Service (BaaS) made EVs more accessible. With growing retail offtake and expanding Vida network (~600 touchpoints), Hero is steadily building EV scale. The company expects continued EV market share gains in the coming quarters, backed by new launches and flexible models.

**Premiumization Strategy Gaining Traction:** ASP rose by 6% YoY, driven by improved mix and price realization. Hero expanded its 125cc and premium segments with HF Deluxe Pro, new Glamour, and upcoming 125cc tech-led launches. The Premia channel now covers over 40% of the premium footprint with 90 stores. The company aims to disrupt the 125cc segment and drive further gains in premium scooter and motorcycle categories.

**Steady Growth in International Business:** International volumes grew 27% YoY in Q1FY26. Hero expects ~10% of total volume/revenue to come from overseas markets in the coming years. The company is leveraging refreshed portfolios and brand push across geographies to capture untapped potential. Export momentum to sustain, with new model launches supporting global growth.

**Outlook and Valuation**

We anticipate continued growth momentum, supported by a strong festive season, improved rural sentiment, and a normal monsoon. The company expects to grow ahead of industry, with management guiding for **EBITDA margins in the 14–16% range**. Its Vahan market share improved to 30.9% in Q1, and in the EV segment, market share more than doubled YoY to 7%, exceeding 10% in July. Hero is seeing positive customer response to its Vida V2 BaaS model, aimed at expanding EV adoption. International business volumes grew 27% YoY, and management targets ~10% of revenue from exports going forward. The PAM business contributed INR 12,960 Mn, though ASP saw seasonal pressure. **Financing penetration recovered to 64–65% in July**, in line with prior-year levels. New launches in the 125cc and premium segments are expected to drive market share gains, supported by 90+ Premia outlets and a portfolio revamp. Despite a temporary production pause in April, operations have normalized and inventory stands at ~7 weeks, positioning the company well for festive sales. Hero continues to invest in EVs, ICE models, and digital retail, reinforcing its position for sustainable and profitable growth. As a result, we project a revenue and EBITDA CAGR of 8.4% and 10.3%, respectively, over FY25–28E. **We maintain our rating to Buy on the stock and value it SOTP valuation for a revised target price of INR 5,640 per share.**

Exhibit 2: Q1FY26 - Quarterly Performance

Standalone (INR mn)	Q1FY26	Q4FY25	Q1FY25	QoQ (%)	YoY (%)
Net sales	95,789	99,387	101,437	(3.6)	(5.6)
- Raw material	63,904	65,069	68,672	(1.8)	(6.9)
(% of net sales)	66.7	65.5	67.7	124bps	-99bps
Gross Profit	31884.8	34317.8	32765.7	(7.1)	(2.7)
(% of net sales)	33.3%	34.5%	32.3%	-1bps	1bps
- Staff expenditure	6,260	6,711	6,083	(6.7)	2.9
(% of net sales)	6.5	6.8	6.0	-22bps	54bps
- Other expenditure	11,808	13,451	12,085	(12.2)	(2.3)
(% of net sales)	12.3	13.5	11.9	-121bps	41bps
Total expenditure	81,972	85,231	86,840	(3.8)	(5.6)
EBITDA	13,817	14,156	14,598	(2.4)	(5.3)
EBITDA Margin (%)	14.4	14.2	14.4	18bps	3bps
Depreciation	1,928	1,921	1,932	0.4	(0.2)
EBIT	11,889	12,235	12,666	(2.8)	(6.1)
Interest	56	47	48	18.6	16.6
Other Income	3,037	2,237	2,317	35.7	31.1
PBT	14,870	14,425	14,935	3.1	(0.4)
Tax	3,613	3,615	3,708	(0.1)	(2.6)
Reported PAT	11,257.0	10,809.4	11,226.3	4.1	0.3
Adjusted PAT	11,257	10,809	11,226	4.1	0.3
Adjusted EPS (INR)	56.28	54.06	56.15	4.1	0.2
Total volumes (Nos)	1,367,070	1,380,545	1,535,156	(1.0)	(10.9)

	Q1FY26	Q4FY25	Q1FY25	QoQ (%)	YoY (%)
Motorcycles	1,273,911	1,259,246	1,440,956	1.2	(11.6)
Scooters	93,159	121,299	94,200	(23.2)	(1.1)
<b>Total</b>	<b>1,367,070</b>	<b>1,380,545</b>	<b>1,535,156</b>	<b>(1.0)</b>	<b>(10.9)</b>
Domestic	1,302,657	1,279,760	1,484,162	1.8	(12.2)
Exports	64,413	100,785	50,994	(36.1)	26.3
<b>Net realization (INR)</b>	<b>70,069</b>	<b>71,991</b>	<b>66,076</b>	<b>(2.7)</b>	<b>6.0</b>
EBITDA / vehicle (INR)	10,107	10,254	9,509	(1.4)	6.3

Source: Arianth Research, Company Filings

## HeroMoto Corp-Q1FY26 Concall KTAs

**Management remains confident of outpacing industry growth, backed by consistent investment in EVs, ICE models, and scooters, with expected rural demand revival. Financing penetration dipped temporarily in Q1 due to seasonality but recovered to 64–65% in July, aligning with last year's levels. Management guided EBITDA margin in the 14–16% range, with near-term margins likely to trend toward the lower end. Industry-wide 2W retail grew ~3% in Q1, with further acceleration expected during the festive period.**

The ICE (internal combustion engine) business reported a stronger EBITDA margin of 16.8%, supported by favorable product mix, pricing adjustments related to OBD-II norms, and LEAP savings. The company continued to invest in brand initiatives and new programs. After including investments of INR 1,890 Mn toward the EV division, overall EBITDA margin held steady at 14.4%.

**Average selling price (ASP)** increased by 6% YoY, primarily due to improved mix and pricing. On a sequential basis, however, ASP saw pressure from seasonal softness in the PAM (Parts, Accessories & Merchandise) business, which recorded INR 12,960 Mn in revenue this quarter.

Commodity costs rose by 5.5% YoY, though the company expects them to remain stable in Q2FY26. Consolidated profits were bolstered by a one-time gain of INR 7,220 Mn, resulting from dilution in associate investments post a public issue and private placement.

The company regained Vahan market share, rising 100 bps sequentially to 30.9%, with continued traction in the 100cc entry-level segment and electric vehicles. The HF Deluxe series expanded its category, achieving 800 bps market share growth, supported by the launch of the HF Deluxe Pro with segment-first features and increased marketing investments.

In the 125cc Deluxe category, Hero is preparing to disrupt the market with a new high-tech model and a refreshed version to reinforce its competitive edge. In scooters, the company hit a new high of 9.7% market share in June 2025, led by Destini 125 and Zoom 125.

### **Within the 125cc motorcycle lineup:**

Xtreme caters to performance,

Glamour targets style-conscious buyers,

Super Splendor focuses on efficiency and mileage.

Hero is reinforcing this portfolio across these vectors to drive a meaningful share gain in the segment.

The Premia premium retail channel is scaling well, reaching 90 outlets by Q1FY26, now covering over 40% of the premium market. The overall retail network exceeds 6,000 touchpoints, including 600+ Vida outlets in 400+ cities, delivered through Hero 2.0 and Premia formats.

### **International markets**

Hero reported 27% YoY volume growth, driven by product launches and share gains. In EVs, Hero's share rose to 7% in Q1 and exceeded 10% in July, with further gains anticipated. A key initiative was the launch of Vida V2 under a Battery-as-a-Service (BaaS) model, enabling customers to purchase the scooter with a low upfront cost and pay per km for battery usage—boosting affordability and flexibility. Early response has been encouraging.

Two-wheeler demand is expected to grow, aided by the festive season and favorable monsoons.

The April manufacturing suspension affected volumes, but operations are now back to normal.

While rare earth availability remains dynamic, short-term ICE and EV requirements are covered. The company is actively exploring alternatives.

Hero secured PLI certification for Vida V2 Pro in July and awaits approval for other EV models.

Inventory buildup for festive season is underway, currently around 7 weeks.

### **Leadership**

Hero appointed Kausalya Nandakumar as Chief Business Officer (Emerging Mobility), aligning with its EV growth focus. She brings deep experience in auto, EVs, and digital transformation.

**Hero FinCorp (HFCL)** grew its loan book by 4% YoY, although profitability was impacted by higher NPAs and credit costs, a trend consistent across the industry. Performance is expected to improve with falling interest rates and better collection efficiency.

Hero's collaboration with Harley-Davidson remains strong, with new launches planned this year and next. Looking ahead, ~10% of revenue and volume is projected to come from international markets.

The Ministry of Road Transport and Highways (MoRTH) has proposed mandatory ABS for all two-wheelers, regardless of engine size. Hero stated that while this is still a draft, the company is evaluating compliance strategies and remains committed to road safety standards.

Hero MotoCorp reported a YoY gross margin expansion of approximately 100 basis points, driven by price hikes and a shift towards a more premium product mix. However, the benefits were partially offset by negative operating leverage caused by lower sales due to a scheduled production halt in April. On the cost side, operating expenses declined slightly YoY, aided by continued cost-efficiency programs.

Key Financials

Profit & Loss Statement

YE: Mar (INR mn)	FY25	FY26E	FY27E	FY28E
<b>Net sales</b>	<b>407,564</b>	<b>436,680</b>	<b>472,746</b>	<b>519,605</b>
Growth, %	9	7	8	10
RM expenses	-270,687	-299,999	-323,831	-354,370
Employee expenses	-25,952	-27,292	-29,783	-32,735
Other expenses	-52,251	-46,221	-49,495	-53,809
<b>EBITDA</b>	<b>58,674</b>	<b>63,167</b>	<b>69,637</b>	<b>78,690</b>
Growth, %	12	8	10	13
Margin, %	14.4	14.5	14.7	15.1
Depreciation	-7,759	-8,643	-9,318	-9,993
<b>EBIT</b>	<b>50,915</b>	<b>54,524</b>	<b>60,319</b>	<b>68,697</b>
Growth, %	12	7	11	14
Margin, %	12.5	12.5	12.8	13.2
Interest paid	-199	-199	-199	-199
Other Income	10,559	10,770	10,986	11,206
Non-recurring Items	-	-	-	-
<b>Pre-tax profit</b>	<b>61,275.10</b>	<b>65,095</b>	<b>71,106</b>	<b>79,703</b>
Tax provided	-15,179	-15,297	-16,710	-18,730
<b>Profit after tax</b>	<b>46,097</b>	<b>49,798</b>	<b>54,396</b>	<b>60,973</b>
Others (Minorities, Associates)	-	-	-	-
<b>Net Profit</b>	<b>46,097</b>	<b>49,798</b>	<b>54,396</b>	<b>60,973</b>
Growth, %	16	8	9	12
<b>Net Profit (adjusted)</b>	<b>46,097</b>	<b>49,798</b>	<b>54,396</b>	<b>60,973</b>

Balance Sheet

YE: Mar (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Cash & bank	6,089	3,532	-7,994	5,529	25,501
Marketable securities cost	116,095	132,853	131,228	129,442	127,476
Debtors	27,034	36,744	39,369	42,621	46,845
Inventory	14,438	14,576	15,617	16,907	18,583
Loans & advances	457	519	576	621	680
Other current assets	7,408	5,156	5,672	6,239	6,863
<b>Total current assets</b>	<b>55,427</b>	<b>60,528</b>	<b>53,240</b>	<b>71,918</b>	<b>98,472</b>
Investments	14,766	16,243	17,867	19,654	21,619
Gross fixed assets	174,669	184,669	199,669	214,669	229,669
Less: Depreciation	-108,023	-115,781	-124,424	-133,742	-143,735
Add: Capital WIP	1,206	1,066	1,066	1,066	1,066
<b>Net fixed assets</b>	<b>66,646</b>	<b>68,887</b>	<b>75,245</b>	<b>80,927</b>	<b>85,934</b>
<b>Total assets</b>	<b>250,611</b>	<b>274,184</b>	<b>296,288</b>	<b>320,649</b>	<b>352,211</b>
Current liabilities	66,299	68,568	75,620	81,648	89,167
Provisions	4,708	7,058	8,815	10,192	11,170
<b>Total current liabilities</b>	<b>71,007</b>	<b>75,626</b>	<b>84,435</b>	<b>91,840</b>	<b>100,337</b>
Non-current liabilities	-257	490	490	490	491
<b>Total liabilities</b>	<b>70,749</b>	<b>76,116</b>	<b>84,925</b>	<b>92,330</b>	<b>100,828</b>
Paid-up capital	399.4	399.4	400.0	400.0	400.0
Reserves & surplus	179,462	197,669	210,962	227,918	250,983
Shareholders' equity	179,861	198,068	211,362	228,318	251,383
<b>Total equity &amp; liabilities</b>	<b>250,611</b>	<b>274,184</b>	<b>296,288</b>	<b>320,649</b>	<b>352,211</b>

Source: Arianth Research, Company Filings

## Cash Flow

YE: Mar (INR mn)	FY25	FY26E	FY27E	FY28E
<b>Pre-tax profit</b>	<b>61,275</b>	<b>65,095</b>	<b>71,106</b>	<b>79,703</b>
Depreciation	7,759	8,643	9,318	9,993
Chg in working capital	-2,292	-525	2,250	1,914
Total tax paid	-14,431	-15,297	-16,710	-18,730
<b>CFO</b>	<b>41,951</b>	<b>47,345</b>	<b>55,177</b>	<b>61,874</b>
Capital expenditure	-9,860	-15,000	-15,000	-15,000
Chg in investments	(18,234.70)	-	-	-
Other investing activities	10,559	11,206	11,328	11,452
<b>CFI</b>	<b>-17,536</b>	<b>-3,794</b>	<b>-3,672</b>	<b>-3,548</b>
Free cash flow	13,856	32,345	40,177	46,874
Debt raised/(repaid)	0	0	0	0
Dividend (incl. tax)	-35,100	-36,504	-37,440	-37,908
<b>CFF</b>	<b>-35,299</b>	<b>-36,703</b>	<b>-37,639</b>	<b>-38,107</b>
<b>Net chg in cash</b>	<b>(10,884)</b>	<b>6,847</b>	<b>13,866</b>	<b>20,219</b>
Opening cash balance	6,089	3,532	-7,994	5,529
<b>Closing cash balance</b>	<b>3,532</b>	<b>-7,994</b>	<b>5,529</b>	<b>25,501</b>

## Ratios

YE: Mar	FY24	FY25	FY26E	FY27E	FY28E
EPS (INR)	198.5	230.5	249.0	272.0	304.9
PER (x)	23.5	20.2	18.7	17.2	15.3
Price/Book (x)	5.2	4.7	4.4	4.1	3.7
EV/EBITDA (x)	15.4	13.6	12.8	11.5	9.9
EV/Net sales (x)	2.2	2.0	1.9	1.7	1.5
RoE (%)	22.9	24.4	24.3	24.7	25.4
RoCE (%)	31.4	32.5	31.8	32.4	33.2
Fixed Asset turnover (x)	2.1	2.2	2.2	2.2	2.3
Dividend Yield (%)	2.9	3.2	3.3	3.4	3.5
Receivable (days)	26	33	33	33	33
Inventory (days)	16	15	15	15	15
Payable (days)	63	58	60	60	60
Net D/E ratio (x)	(0.7)	(0.7)	(0.6)	(0.6)	(0.6)

Source: Arianth Research, Company Filings

## Arihant Research Desk

Email: [instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

Tel. : 022-42254800

### Head Office

#1011, Solitaire Corporate Park  
Building No. 10, 1<sup>st</sup> Floor  
Andheri Ghatkopar Link Road  
Chakala, Andheri (E)  
Mumbai – 400093  
Tel: (91-22) 42254800

### Registered Office

6 Lad Colony,  
Y.N. Road,  
Indore - 452003, (M.P.)  
Tel: (91-731) 4217100/101  
CIN: L66120MP1992PLC007182

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BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

### Absolute Return

Research Analyst  
Registration No.

Contact

Website

Email Id

INH000002764

SMS: 'Arihant' to 56677

[www.arihantcapital.com](http://www.arihantcapital.com)

[instresearch@arihantcapital.com](mailto:instresearch@arihantcapital.com)

## Arihant Capital Markets Ltd.

1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800

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**Arihant Capital Markets Ltd.**

1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800