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Equity Research on Hero MotoCorp Limited: A Fundamental and Valuation-Based Analysis of India's Two-Wheeler Market Leader

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ABSTRACT :

This study examines Hero MotoCorp Limited (NSE: HEROMOTOCO; BSE: 500182) through a combination of fundamental analysis and equity valuation. It applies the economy–industry–company (EIC) framework, supported by PESTEL and Porter's Five Forces analysis, to assess the Indian two-wheeler industry and Hero MotoCorp's competitive position. The financial assessment covers FY2021–22 to FY2025–26 and includes trend analysis and key profitability, liquidity, solvency and efficiency ratios. The valuation component combines peer-multiple analysis with an illustrative discounted cash flow (DCF) model. The study uses the company's audited consolidated financial statements, stock-exchange disclosures and other secondary sources available up to September 2026. The findings indicate that revenue grew at an approximate five-year compound annual growth rate (CAGR) of 12.5%, while profit after tax (PAT) grew at approximately 25.5%. This improvement coincided with stronger margins and a relatively low-debt balance sheet. At the same time, competition from Honda Motorcycle & Scooter India and TVS Motor Company has narrowed Hero MotoCorp's lead in the domestic two-wheeler market. The valuation analysis also suggests that the share-price re-rating during 2026 reduced the apparent undervaluation indicated by an earlier version of the DCF model. The paper therefore presents a balanced assessment of the company's financial performance, competitive position and valuation, while identifying limitations and areas for further research. It is an academic study and does not constitute investment advice.

Keywords: Hero MotoCorp; two-wheeler industry; equity research; fundamental analysis; ratio analysis; relative valuation; discounted cash flow (DCF); electric vehicles (EV); India.

Status of this document

This is a working paper / educational case study, not a research report issued by a SEBI-registered Research Analyst. It is presented as an applied illustration of equity-research methodology, using a real listed company as the subject, for readers studying fundamental analysis and valuation technique. It should not be relied upon as investment advice or as a substitute for SEBI-registered research (see Disclosures, below, and the Disclaimer at the end of the paper).

Disclosures and conflicts of interest

The author undertook a structured internship on the equity-research/broking desk of Aditya Birla Capital Limited (ABCL) between May and August 2026, during which an early version of this analysis was produced under mentor supervision as part of an academic On-the-Job Training (OJT) requirement. This paper is an independent academic output. It has not been reviewed, approved, endorsed, or issued by ABCL, and does not represent ABCL's official research views, house price targets, or house recommendation on Hero MotoCorp Limited or any peer company named herein.ABCL and its affiliates, in the ordinary course of a diversified financial-services business, may have had, or may currently have, research coverage, broking relationships, lending relationships, or other business dealings with Hero MotoCorp Limited, Bajaj Auto Limited, or TVS Motor Company Limited. The author had no role in, and no visibility into, any such institutional relationships beyond the training assignment described above. The author's personal financial holdings, if any, in Hero MotoCorp, Bajaj Auto, TVS Motor Company, or their peers are not disclosed in this version and should be assumed unknown by the reader; a corresponding-author update should add an explicit personal-holdings statement before formal submission or indexing. No funding, sponsorship, or compensation was received for the preparation of this paper.

1. Introduction

1.1 Background

Equity research involves examining a listed company's business model, industry position, financial performance and future prospects to assess its fundamental value. The process generally draws on two complementary areas:

i. fundamental analysis, a top-down examination proceeding from the macroeconomy to the industry and finally to the firm, and

ii. valuation, which converts that fundamental picture into a numerical estimate of fair value using relative methods (trading multiples such as P/E, P/B, and EV/EBITDA) and intrinsic methods (discounted cash flow analysis).

This paper applies that framework to Hero MotoCorp Limited, India's largest two-wheeler manufacturer, against the backdrop of an Indian two-wheeler industry that is simultaneously large, mature in its core internal-combustion-engine (ICE) segments, and undergoing a structural shift toward premiumisation and electrification.

1.2 Purpose and Scope

This study has two objectives. First, it assesses Hero MotoCorp's competitive position and financial performance using publicly available evidence. Second, it demonstrates the application of a conventional equity-research process, moving from industry analysis to company assessment, financial-statement analysis and valuation.

The scope is limited to Hero MotoCorp as the subject company, with the Indian two-wheeler industry as the reference sector. Financial analysis covers five fiscal years, FY2021-22 to FY2025-26 (FY22–FY26), on a consolidated basis, with reference to more recent quarterly disclosures (through Q1 FY2026-27) where relevant to the currency of the analysis. Peer comparison is restricted to the principal listed competitors Bajaj Auto Limited and TVS Motor Company Limited with Honda Motorcycle & Scooter India (HMSI, unlisted) referenced qualitatively. The paper does not constitute investment advice and should not be relied upon for actual trading or investment decisions; all figures are presented for research and educational purposes, with sources and "as of" dates disclosed throughout so a reader can independently verify or update them.

1.3 A Note on Data Currency and Verification

Financial and market data in a paper of this kind age quickly. Two conventions are used throughout to keep the paper honest about what is a verified fact versus a model assumption:

i. Historical financial statement data (FY22–FY26) are drawn from Hero MotoCorp's audited consolidated financial results as filed with the stock exchanges (the FY26 results were approved by the Board on 5 May 2026) and are corroborated against independent financial media and data platforms. These figures are treated as facts.

ii. Market price, market capitalisation, trading multiples, and the DCF valuation are inherently time-stamped: they are correct "as of" the date given (in most cases, early-to-mid September 2026) and will have moved by the time this paper is read. A reader intending to use any of this material for a live investment decision should refresh the market-dependent figures from a live data source before doing so.

2. Literature Review and Theoretical Framework

2.1 Fundamental Analysis and Intrinsic Value

The theoretical starting point for this study is the fundamental-analysis tradition associated with Graham and Dodd (1934), which holds that a security has an intrinsic value determined by the underlying business's earning power and asset base, and that market price can deviate from that intrinsic value for periods long enough to be economically exploitable. This is operationalised in modern practice through discounted cash flow analysis, in which intrinsic value is the present value of a firm's expected future free cash flows discounted at a risk-adjusted rate (Damodaran, 2012). The approach sits in productive tension with the Efficient Market Hypothesis (Fama, 1970), which holds that security prices rapidly and fully reflect available information; rather than adjudicate that debate, this paper treats EMH as the reason fundamental mispricing, where it exists, tends to be modest and temporary rather than large and permanent a pattern the valuation findings in Section 7 illustrate.

2.2 The Economy–Industry–Company (EIC) Framework

Security analysis practice conventionally decomposes the research problem into three nested layers the macroeconomy, the industry, and the individual company (the "EIC" approach; see Reilly & Brown, 2011) on the logic that a company's achievable returns are bounded first by macroeconomic conditions, then by industry structure, and only within that envelope by firm-specific execution. This paper follows that sequencing: Section 4 addresses the industry layer, Section 5 the company layer, and Sections 6–7 translate both into a financial and valuation view.

2.3 Industry Structure Analysis

At the industry layer, Porter's Five Forces framework (Porter, 1979, 2008) is used to assess the structural attractiveness and competitive intensity of the Indian two-wheeler industry, and a PESTEL framework maps the political, economic, social, technological, environmental, and legal forces acting on it. Both are standard tools in applied equity and strategy research precisely because they force an analyst to separate durable structural features of an industry (entry barriers, buyer/supplier power) from cyclical or company-specific noise a distinction that turns out to matter a great deal in Section 4.4, where this paper argues that Hero MotoCorp's apparent "leadership" is better understood as a closely contested position than a structural moat.

2.4 Company and Financial-Statement Analysis

At the company layer, a SWOT framework (Learned, Christensen, Andrews & Guth, 1965, as codified into common use) organises internal strengths/weaknesses against external opportunities/threats. Return on Equity is decomposed using DuPont analysis (three-factor form: net profit margin × asset turnover × financial leverage), a technique traceable to internal Du Pont Corporation practice in the early twentieth century and now standard in financial-statement analysis texts (Penman, 2013), used here to establish whether Hero MotoCorp's improving ROE (Section 6.2) is earnings-led or leverage-led.

2.5 Valuation Methods

The study uses two complementary valuation approaches, following established equity-valuation practice (Damodaran, 2012; Koller, Goedhart & Wessels, 2020):

i. Relative valuation benchmarks Hero MotoCorp's trading multiples (trailing P/E, P/B) against listed peers Bajaj Auto and TVS Motor Company, on the premise that comparable companies facing similar growth and risk profiles should trade at broadly comparable multiples, and that persistent divergence reflects either mispricing or a genuine difference in the market's growth/risk assessment (Section 7.1 finds evidence for the latter).

ii. Intrinsic valuation uses a Free Cash Flow to Firm (FCFF) discounted cash flow model, with cash flows discounted at the Weighted Average Cost of Capital (WACC) and a Gordon Growth (constant-growth perpetuity) terminal value, following the standard FCFF-DCF formulation set out in Damodaran (2012).

A methodological point that this paper treats as a finding (Section 7.2) is that DCF output is only meaningful relative to a stated reference price and date; textbook treatments of DCF sometimes underplay how quickly a valid model can flip conclusions purely through price movement, independent of any change in the underlying business.

3. Research Objectives and Methodology

3.1 Objectives

i. To examine the structure, growth drivers, and competitive dynamics of the Indian two-wheeler industry.

ii. To analyse Hero MotoCorp's financial performance over a five-year period using trend and ratio analysis.

iii. To evaluate Hero MotoCorp's competitive position relative to key listed peers (Bajaj Auto and TVS Motor Company).

iv. To value Hero MotoCorp's equity using relative valuation (peer multiples) and intrinsic valuation (DCF), and to assess how that valuation has evolved as the share price has moved through 2026.

3.2 Methodology

The research follows a descriptive and analytical design and relies exclusively on secondary data. It does not include primary interviews, dealer-level channel checks or consumer surveys. These omissions are acknowledged as limitations in Section 10. The principal data sources are:

i. Hero MotoCorp's audited annual and quarterly financial statements, investor presentations, and stock-exchange filings (NSE/BSE).
ii. Industry volume and market-share data compiled from monthly manufacturer dispatch/retail disclosures and industry trackers (SIAM-aligned reporting, FADA retail data).
iii. Independent financial-data platforms (e.g., Screener, INDmoney, exchange-listed peer-comparison tables) and financial media, used to cross-verify company-reported figures.
iv. Sell-side brokerage commentary, used only to characterise the range of current market opinion, not as a substitute for independent analysis.

Ratio analysis covering profitability, liquidity, solvency, and efficiency was performed on five years of consolidated financials. Relative valuation used trailing P/E, P/B, and EV/EBITDA multiples benchmarked against peer companies. A DCF model was built to estimate an illustrative intrinsic value per share, with explicit, disclosed assumptions and a sensitivity table.

4. Industry Overview: The Indian Two-Wheeler Sector

4.1 Structure

Two-wheelers (motorcycles, scooters, and mopeds) form by far the largest segment of India's automobile industry by volume. The sector is an oligopoly: Hero MotoCorp, HMSI, TVS Motor, and Bajaj Auto together account for roughly 85–90% of domestic industry volumes, alongside Royal Enfield (Eicher Motors), Suzuki Motorcycle India, and a growing group of EV-focused entrants (Ola Electric, Ather Energy, and the EV sub-brands of the larger OEMs). The industry can be segmented by product type (motorcycle/scooter/moped), by engine displacement (entry-level, executive, premium), and increasingly by powertrain (ICE versus electric).

For FY2025-26, combined domestic-plus-export volumes across the major listed two-wheeler brands totalled approximately 2.65 crore (26.5 million) units, up roughly 14.6% year-on-year a period of unusually strong growth aided by the GST 2.0 rate rationalisation in late 2025, a favourable monsoon, and strong festive-season demand.

4.2 Porter's Five Forces

i. Threat of new entrants Moderate. High capital intensity, dealer-network scale, and emission/safety compliance costs (BS-VI Phase 2, OBD2) protect incumbents in ICE two-wheelers, but the EV sub-segment has materially lowered entry barriers, drawing in Ola Electric, Ather Energy, and the EV-specific offerings of TVS (iQube) and Bajaj (Chetak).
ii. Bargaining power of suppliers Moderate. Traditional component suppliers are fragmented, but EV-specific inputs lithium-ion cells and battery-management systems are more concentrated and import-dependent (predominantly on China), raising supplier leverage for that part of the value chain.
iii. Bargaining power of buyers Moderate to high. Individual retail buyers have limited leverage, but the number of competing models and rising digital price transparency have increased buyer choice, particularly in the entry-level segment.
iv. Threat of substitutes Moderate. Public transport and, in cities, four-wheelers on attractive financing terms compete for the same household spending capacity, but two-wheelers remain the most cost-effective option for last-mile mobility in rural and semi-urban India.
v. Competitive rivalry High. Rivalry among Hero MotoCorp, HMSI, TVS, and Bajaj Auto has intensified further during 2026 as monthly market-share rankings have become genuinely contested (Section 4.4), rather than settled in Hero's favour as in earlier years.

4.3 PESTEL Summary

i. Political/Legal: Government schemes the PM E-DRIVE scheme (successor to FAME-II) and the Production Linked Incentive (PLI) scheme for automobiles and auto components actively subsidise electrification and domestic component manufacturing.

ii. Economic: GDP growth, rural income, monsoon performance, fuel prices, and financing rates are the principal demand drivers, since two-wheelers are a discretionary but high-frequency purchase for lower- and middle-income households.

iii. Social: Urbanization, rising aspirations, and growing female ridership continue to expand the addressable market.

iv. Technological: The shift to electric powertrains and connected-vehicle features is reshaping OEM product roadmaps.

v. Environmental: Tightening emission norms (BS-VI Phase 2/OBD2) and the wider decarbonisation agenda are accelerating the transition to EVs and, as an interim step, flex-fuel and CNG variants Hero MotoCorp launched its first flex-fuel motorcycles in June 2026.

4.4 Market Share: A Genuinely Contested Race in 2026

An important change from earlier drafts is the assessment of Hero MotoCorp's market position. Those drafts described the company as holding a stable market share of approximately 30–32%, with a substantial lead over its nearest competitor. The available FY2025–26 figures do not support that description for 2026.

For the full FY2025-26 year, combining domestic and export volumes across the major listed brands, Hero MotoCorp retained the top position with 64.69 lakh (6.469 million) units (≈24.4% share), narrowly ahead of Honda Motorcycle & Scooter India with 63.70 lakh units (≈24.0% share) a difference of less than half a percentage point. TVS Motor Company was the fastest-growing major player, with 56.70 lakh units (≈21.4% share, +23% year-on-year), and Bajaj Auto followed with 43.17 lakh units (≈16.3% share).

Table 1. FY2025-26 Two-Wheeler Sales by Manufacturer (Domestic + Export)

Manufacturer	FY26 Units (lakh)	FY25 Units (lakh)	YoY Growth	Approx. FY26 Share
Hero MotoCorp	64.69	58.99	+9.7%	~24.4%
Honda Motorcycle & Scooter India (HMSI)	63.70	54.04	+17.9%	~24.0%
TVS Motor Company	56.70	46.09	+23.0%	~21.4%
Bajaj Auto	43.17	39.82	+8.4%	~16.3%
Suzuki Motorcycle India	14.39	12.56	+14.6%	~5.4%
Royal Enfield (Eicher Motors)	12.39	10.10	+22.7%	~4.7%
Industry total (listed brands)	265.43	231.63	+14.6%	100%

Source: compiled from manufacturer dispatch/retail disclosures reported in industry trade media, cross-checked against company filings; figures are annual FY26 totals and are illustrative of relative scale rather than official SIAM totals, which classify volumes somewhat differently.

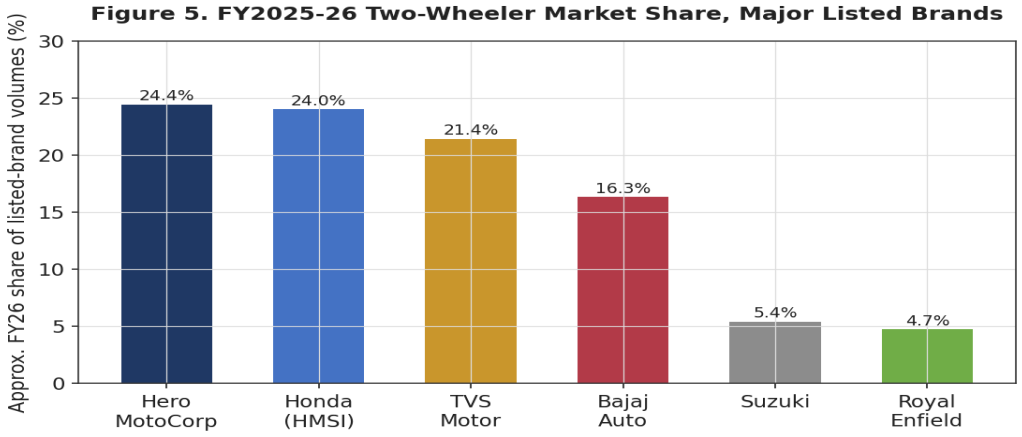


Figure 5. FY2025-26 two-wheeler market share, major listed brands

Source: BikeAdvice manufacturer sales compilation and company disclosures; clarify domestic-plus-export basis

The picture has continued to shift in Hero's favour and against it in different months since: Hero led May 2026 with a 25.2% combined share, slipped behind TVS in June 2026 (TVS 25.1%, Hero 24.0%), and lost the top spot outright to Honda in July 2026 dispatch/retail data. The takeaway for an investor is not that Hero has lost leadership outright full-year FY26 volumes still nominally favour Hero but that the "comfortable market leader" characterisation used in earlier drafts of this study materially overstates the durability of that lead going into FY2026-27. This is discussed further as a key finding in Section 8.

4.5 Key Trends

i. Premiumisation: rising demand for higher-cc motorcycles and feature-rich scooters is lifting average selling prices industry-wide.

ii. Electrification: electric two-wheelers remain a low-double-digit share of volumes but are the fastest-growing category; Hero's Vida brand posted its highest-ever monthly sales (21,434 units) in March 2026, a 154% increase year on year, though it remains behind TVS iQube, Bajaj Chetak, and Ather on absolute EV volumes.

iii. Rural cyclicality: a large share of volumes remains tied to monsoon outcomes and agricultural cash flows.

iv. Cost pressures: input-cost inflation and regulatory compliance costs (BS-VI Phase 2, OBD2) continue to weigh on margins; Hero's Q1 FY2026-27 results specifically flagged commodity headwinds compressing EBITDA margin.

v. Financing penetration and digitalisation: a large share of two-wheelers are financed on credit, and direct-to-consumer digital sales channels are gradually reshaping the traditional dealership-led purchase journey.

5. Company Overview: Hero MotoCorp Limited

5.1 Business Profile

Hero MotoCorp Limited, headquartered in New Delhi, traces its origins to 1984 as Hero Honda Motors, a joint venture between the Munjal family's Hero Group and Honda Motor Company of Japan. Following the dissolution of the joint venture in 2010–11, the company was renamed Hero MotoCorp in 2011. It is listed on both the NSE (HEROMOTOCO) and BSE (500182) and is a constituent of India's large-cap benchmark indices. The Munjal family remains the promoter group, holding approximately 34–35% of the equity as of early 2026.

Table 2. Hero MotoCorp Company Snapshot (as of September 2026)

Particular	Detail
Sector	Automobile Two-Wheelers
Founded	1984 (as Hero Honda); renamed Hero MotoCorp in 2011
Executive Chairman	Dr. Pawan Munjal
Chief Executive Officer	Harshavardhan Chitale (appointed CEO effective 5 January 2026, succeeding an interim period under acting CEO Vikram Kasbekar following Niranjan Gupta's resignation in April 2025)
Headquarters	New Delhi, India
Listing	NSE (HEROMOTOCO) & BSE (500182)
Manufacturing footprint	Multiple Indian plants (Haryana, Uttarakhand, Rajasthan, Gujarat) plus assembly/CKD operations in Colombia and Bangladesh; annual capacity of roughly 9–9.5 million units, with further capacity expansion under way
Key brands/segments	Splendor, HF Deluxe, Passion, Glamour, Xtreme, Karizma, Xpulse, Destini, Pleasure, Maestro, Vida (EV), and the Harley-Davidson X440 built through a partnership with Harley-Davidson
Market capitalisation	Approximately ₹1,06,700 crore (~US$12 billion), share price ≈₹5,300–5,340, as of early September 2026 down from an all-time high near ₹6,390 in late 2025/early 2026
Promoter holding	Approximately 34–35% (Munjal family and associates)

Note on the market-value figures: prices and market capitalisation move daily. The figures above reflect data available in early-to-mid September 2026 and are provided for context, not as a live quote.

5.2 Products and Recent Strategic Moves

Hero MotoCorp's core franchise remains entry- and executive-segment motorcycles (Splendor and HF Deluxe are the company's largest-selling and historically highest-margin products), extended by premium motorcycles (Xtreme, Karizma, the Xpulse adventure range, and the Harley-Davidson X440), scooters (Pleasure, Maestro, Destini), and the Vida electric two-wheeler range. Recent strategic developments include:

i. The Harley-Davidson partnership for the premium X440 platform, alongside distribution rights for select Harley-Davidson models in India.
ii. Continued build-out of the Vida EV business, including plans to roughly double EV production capacity by December 2026.
iii. A minority strategic stake in Ather Energy, and a growing stake in electric-commercial-vehicle maker Euler Motors (raised to approximately 36–37% through further investment in 2026), giving Hero indirect exposure to adjacent electric-mobility segments beyond its own Vida brand.
iv. Continued international expansion: the company's export business grew strongly through FY26 and into Q1 FY27, including new entries into the German and broader European/UK markets, taking Hero's international footprint to over 50 countries.
v. ₹1,500 crore of FY2026-27 capital expenditure guidance, focused on capacity for scooters, EVs, and premium products, alongside a separate ₹700 crore investment in a new global parts centre in South India.

5.3 SWOT Analysis

Table 3. SWOT Analysis of Hero MotoCorp Limited

Category	Key points
Strengths	Long-standing (though now more contested) leadership in entry/executive motorcycles; India's deepest rural and semi-urban dealer network; strong brand recall (Splendor, HF Deluxe); a virtually debt-free balance sheet; consistent, above-peer-average dividend yield; margin improvement through cost discipline.
Weaknesses	Historically lower exposure to the high-growth premium and scooter segments than HMSI and TVS; smaller EV franchise (Vida) than TVS iQube, Bajaj Chetak, or Ather; higher dependence on rural-demand cyclicality; recent CEO transition (new CEO since January 2026) introduces near-term strategic-execution uncertainty.
Opportunities	Scaling the premium portfolio via the Harley-Davidson X440/Xtreme/Karizma range; doubling Vida EV capacity by end-2026; export growth into new markets (Europe, Germany, Africa, Latin America); further monetising adjacent EV bets (Ather, Euler Motors).
Threats	Intensifying, now genuinely close-run competition from HMSI and TVS Motor for the volume-leadership position; input-cost and regulatory-compliance pressure on margins (confirmed in Q1 FY27 results); the market's valuation re-rating toward TVS Motor, whose market capitalisation has overtaken Hero MotoCorp's despite lower absolute profit, signalling that investors may be pricing in a structurally slower medium-term outlook for Hero relative to peers.

5.4 Corporate Governance and CSR

Hero MotoCorp maintains a board with executive, non-executive, and independent directors, along with the standard Audit, Nomination & Remuneration, Stakeholders' Relationship, and CSR committees, and has a track record of consistent dividend payouts (FY26 total dividend of ₹185 per share, the highest in the company's history). Its CSR programme, run under Section 135 of the Companies Act, 2013, focuses on road-safety education, skill development, and environmental and community initiatives.

6. Financial Statement Analysis (FY2021-22 to FY2025-26)

All figures below are on a consolidated basis unless stated otherwise, drawn from Hero MotoCorp's audited financial statements. Where standalone figures are separately quoted in public disclosures (notably for the FY26 headline results), both are shown to avoid ambiguity, since the two bases can differ meaningfully once the consolidated results include associates such as Ather Energy and Euler Motors.

Table 4. Five-Year Consolidated Financial Summary (₹ crore)

Particulars	FY22	FY23	FY24	FY25	FY26	FY22–FY26 CAGR
Revenue from operations	29,551.28	34,158.38	37,788.62	40,923.42	47,411.24	~12.5%
Profit before finance cost & depreciation*	3,999.78	4,662.78	6,204.17	6,989.92	8,103.26	~19.3%
Profit after tax (PAT)	2,329.05	2,799.90	3,742.16	4,375.81	5,775.70	~25.5%
Basic EPS (₹)	115.93	140.49	187.36	218.96	287.01	—
Two-wheeler volumes (million units)	4.944	5.329	5.621	5.899	6.469	—

*This is the company-disclosed "profit before finance cost, depreciation and amortisation" line, used here as an operating-profitability proxy rather than being presented as reported EBITDA, since it includes other income.

Separately, on a standalone basis, Hero MotoCorp reported record FY26 revenue of ₹46,830 crore (+14.9% year-on-year) and standalone PAT of ₹5,268 crore (+14.3% year-on-year), with standalone EBITDA of ₹6,871 crore (+17%). The gap between standalone PAT (₹5,268 crore) and consolidated PAT (₹5,776 crore, +32% year-on-year) is explained by the group's growing contribution from associates, notably a strong gain from the Ather Energy holding.

6.1 Trend Analysis

Revenue increased from ₹29,551 crore in FY22 to ₹47,411 crore in FY26, representing an approximate CAGR of 12.5%. Over the same period, PAT rose from ₹2,329 crore to ₹5,776 crore, equivalent to an approximate CAGR of 25.5%. The faster growth in PAT is consistent with improved profitability and operating leverage. However, the contribution of associates and other non-core items should also be considered when interpreting consolidated earnings growth.

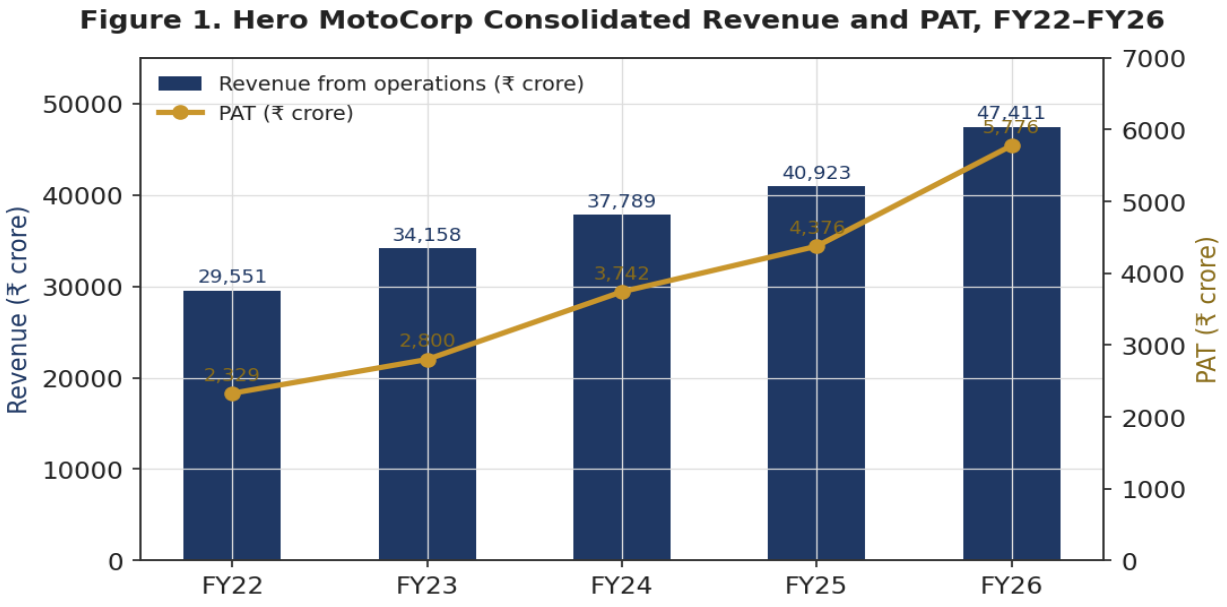


Figure 1. Hero MotoCorp consolidated revenue and PAT, FY22–FY26

Source: Author's calculations based on Tables 4 and 5

6.2 Profitability Ratios

Table 5. Consolidated Profitability Ratios (FY22–FY26)

Ratio	FY22	FY23	FY24	FY25	FY26
Operating profitability proxy margin (%)	13.3	13.4	16.1	16.7	16.7
PAT margin (%)	7.9	8.2	9.9	10.7	12.2
Return on Equity ROE (%)	15.0	17.1	21.6	23.5	28.0
Return on Capital Employed ROCE (%)	18.5	21.9	28.0	30.0	35.9

ROE improved from 15.0% to 28.0% over the period, driven predominantly by margin expansion rather than increased financial leverage consistent with Hero MotoCorp's low-debt balance sheet. Independent data platforms report a slightly lower trailing ROE of approximately 25.5% and ROCE of approximately 32.4% as of September 2026, reflecting the normal variation between full-year and trailing-twelve-month calculation windows.

Figure 2. Hero MotoCorp Consolidated ROE and ROCE, FY22–FY26

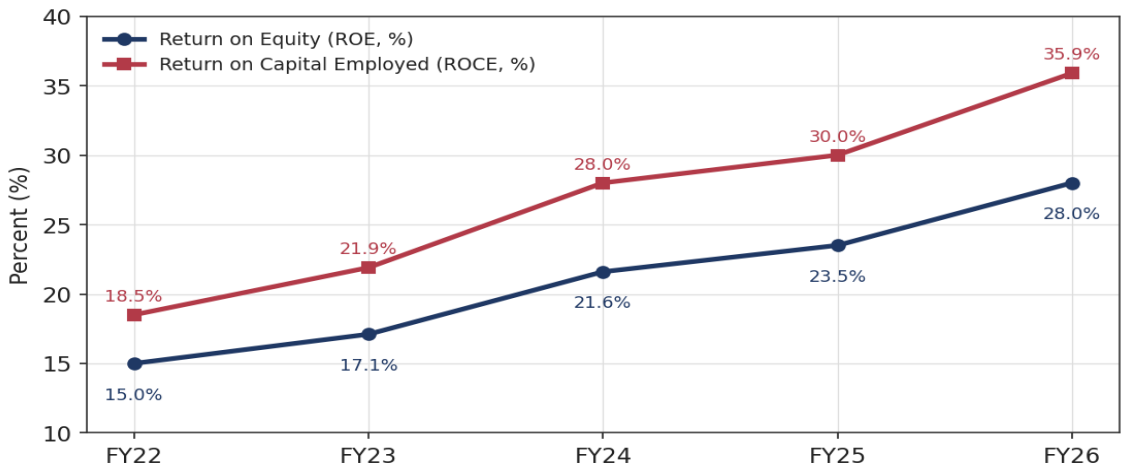


Figure 2. Hero MotoCorp consolidated ROE and ROCE, FY22–FY26

Source: Author's calculations based on Tables 4 and 5

Applying three-factor DuPont decomposition (ROE = net margin × asset turnover × equity multiplier) to the FY22 and FY26 endpoints shows the improvement is overwhelmingly margin-led: PAT margin roughly 1.5x'd (7.9%→12.2%) and asset turnover was broadly stable (~1.5x throughout), while the equity multiplier barely moved given the near-zero debt-to-equity ratio in Table 6. This confirms the profitability improvement documented in Section 6.1 is a genuine operating-efficiency gain rather than an artefact of increased balance-sheet leverage.

6.3 Liquidity, Solvency, and Efficiency

Table 6. Liquidity, Solvency, and Efficiency Ratios (FY22–FY26)

Ratio	FY22	FY23	FY24	FY25	FY26
Current ratio (x)	1.92	1.57	1.46	1.80	1.91
Quick ratio (x)	1.65	1.28	1.21	1.53	1.64

Debt-to-equity (x)	0.02	0.02	0.02	0.02	0.02
Asset turnover (x)	n.a.	1.47	1.51	1.50	1.53
Inventory days	19.0	19.2	17.0	17.0	20.4
Receivable days	26.7	29.1	25.4	26.6	22.1
Payable days	54	53	55	52	60

Hero MotoCorp's balance sheet remains virtually debt-free: total borrowings of ₹498.55 crore against total equity of ₹21,811 crore at FY26 year-end imply a debt-to-equity ratio of roughly 0.02x. This gives the company substantial financial flexibility to fund premiumisation, EV capacity, and shareholder returns without needing to raise debt.

6.4 First-Quarter FY2026-27 Update

Because a paper published in September 2026 should not stop at the FY26 year-end, it is worth noting the subsequent quarter. In Q1 FY2026-27 (April–June 2026), Hero MotoCorp reported consolidated revenue from operations of approximately ₹13,126 crore (+34.9% year-on-year), consolidated EBITDA of approximately ₹1,746 crore (+24% year-on-year), but consolidated PAT of approximately ₹1,418 crore, down from ₹1,706 crore in Q1 FY26 the decline attributable to a much smaller contribution from associates (Q1 FY26 had benefited from a one-off ₹722 crore gain on the Ather Energy listing) rather than any deterioration in the core operating business. On a standalone basis, Q1 FY27 EBITDA margin came in at approximately 13.3%, down roughly 120 basis points sequentially, with management attributing the compression to commodity cost pressure only partly offset by cost-control measures. This is a relevant subsequent data point: it shows top-line momentum continuing to accelerate (volume growth of 23% year-on-year) even as near-term margins face cost headwinds a nuance the FY26 annual figures alone do not capture.

7. Relative and Intrinsic Valuation

7.1 Relative (Peer) Valuation

Table 7. Peer Comparison Selected Metrics

Metric	Hero MotoCorp	Bajaj Auto	TVS Motor
Market capitalization (₹ crore, approx.)	~94,000–1,07,000	~2,70,000	~1,16,000
Trailing P/E (x, approx.)	~22	~33	~50
P/B (x, approx.)	~5.2	~10.3	~13.2
Dividend yield (%, approx.)	~3.0–3.7	~0.8	~0.3
FY25 revenue (₹ crore)	40,923	~50,995	~44,089
FY25 PAT (₹ crore)	4,376	~7,325	~2,380

Figures compiled from company disclosures and independent market-data platforms at various points in 2026; precise multiples move daily and should be refreshed from a live source before use.

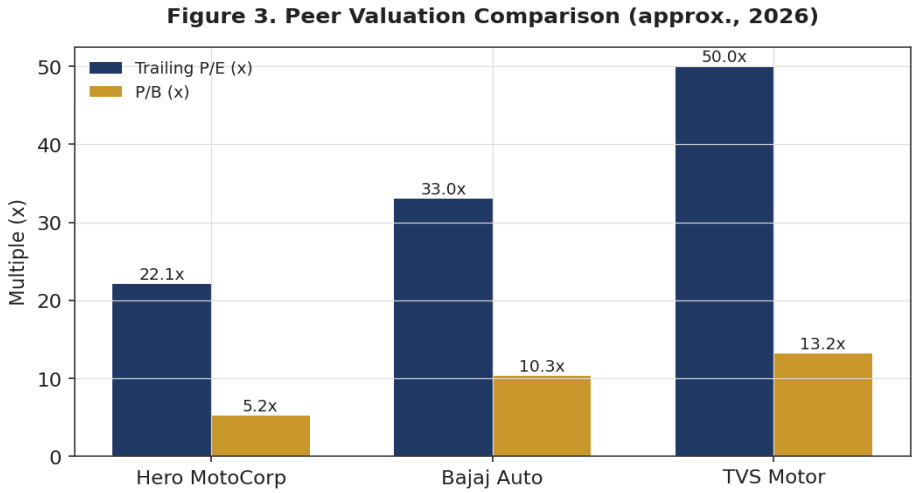


Figure 3. Peer valuation comparison, approx. 2026

Source: Company disclosures and market-data platforms, with observation dates

Two findings stand out. First, Hero MotoCorp continues to trade at a meaningful discount to both peers on P/E and P/B a discount that, on the surface, looks like it should favour Hero on relative-value grounds. Second, and in tension with the first point, TVS Motor Company's market capitalisation (~₹1,16,000 crore) now exceeds Hero MotoCorp's (~₹94,000–1,07,000 crore) despite TVS earning substantially lower absolute profit (FY25 PAT of ~₹2,380 crore for TVS versus ~₹4,376 crore for Hero). This is only possible because the market is willing to pay a far higher multiple for TVS's earnings a premium that reflects TVS's faster volume growth, stronger EV franchise (iQube), and greater scooter/premium exposure. In other words, Hero's "cheapness" on a P/E basis is not obviously a mispricing to be arbitraged; it plausibly reflects a reasoned market view that Hero's growth mix is less favourable than that of its faster-growing peers, which is consistent with the market-share trends described in Section 4.4.

7.2 Illustrative Discounted Cash Flow (DCF) Valuation

To supplement the relative-valuation view, an illustrative DCF model was constructed using a five-year explicit FCFF forecast (FY27–FY31), with revenue growth moderating from low double digits toward high single digits, EBITDA margin expanding gradually toward roughly 15–16% on operating leverage and premiumisation, and reinvestment needs calibrated to the company's historical asset turnover.

Table 8. DCF Valuation Key Assumptions and Output (Illustrative, Base Case)

Assumption / output	Value
Explicit forecast period	5 years (FY27–FY31)
Revenue CAGR (forecast period)	~9–10%
Terminal EBITDA margin	~15.5%
WACC	~11.5%
Terminal (perpetuity) growth rate	~4.0%
Enterprise value (base case)	~₹1,08,000 crore
Implied equity value per share (base case)	~₹5,100

A sensitivity analysis varying WACC (10.5%–12.5%) and terminal growth (3.0%–5.0%) produces a fair-value range of roughly ₹4,600 to ₹5,700 per share.

Figure 4. DCF sensitivity: fair value vs. WACC and terminal growth, with current market price overlaid

Figure 4 makes the point in Section 7.2 visually explicit: the September 2026 market price (dashed red line) now sits in the upper-middle band of the sensitivity grid rather than below it, which is the graphical expression of the "undervalued → fully valued" shift discussed below.

This is where the paper's conclusion must be updated relative to the original internship-period draft. That draft compared the base-case fair value (~₹5,100) against a reference market price of ~₹4,650 (the price prevailing in mid-2026 at the time the internship model was built) and concluded the stock was modestly undervalued, supporting an accumulate/buy stance. As of early September 2026, the share price (~₹5,300–5,340) sits comfortably inside the upper half of the sensitivity range and above the unchanged base-case fair value estimate. On the same DCF assumptions, therefore, the stock now screens as fully valued to modestly rich rather than undervalued a materially different conclusion driven entirely by price movement rather than by any change to the underlying model. This illustrates a general point about DCF-based research: the model output is not a fixed measure about the company but a moving target that must be re-run against the prevailing price, and any DCF-based conclusion presented without a clear "as of" date should be treated with caution.

7.3 Current Sell-Side Context

For balance, it is worth noting that professional sell-side opinion on Hero MotoCorp was mixed as of mid-2026: some brokerages maintained cautious "Sell" ratings citing margin headwinds and FY27 execution risk, while others upgraded to "Hold," citing a healthy industry demand outlook (an approximate 8% two-wheeler industry CAGR expected over FY26–29), an improving EV franchise, and a dividend yield of roughly 4% providing some downside support. This dispersion of professional opinion is itself informative: it suggests Hero MotoCorp is, at current levels, reasonably viewed as a company in transition rather than a clear-cut mispriced opportunity in either direction.

8. Findings and Discussion

i. The Indian two-wheeler industry is a large, oligopolistic market undergoing a structural shift toward premiumisation and electrification, supported by policy tailwinds (PM E-DRIVE, PLI) and a strong cyclical upswing in FY26 aided by GST rationalisation.

ii. Hero MotoCorp delivered strong, accelerating financial performance over FY22–FY26 (revenue CAGR ~12.5%, PAT CAGR ~25.5%), with margin expansion driven by cost discipline and product mix, on a virtually debt-free balance sheet.

iii. Hero MotoCorp's long-standing volume leadership has become genuinely contested during 2026. Its FY26 full-year share (~24.4%) narrowly exceeded Honda's (~24.0%), and it has already lost the top monthly spot to TVS and to Honda in mid-2026 a marked change from the ~30–32% "clear leadership" position often assumed in older company descriptions, and one that should materially inform any investment view going forward.

iv. Hero trades at a discount to peers on P/E and P/B, but TVS Motor's market capitalisation has overtaken Hero's despite lower absolute profit, indicating the market is pricing in a growth-mix differential rather than a simple mispricing.

v. The DCF-based fair-value conclusion is sensitive to the reference share price used: the same model that supported an "undervalued" view in mid-2026 (against a ~₹4,650 price) supports a "fully valued to modestly rich" view once the share price reached ~₹5,300 in September 2026, without any change to the underlying operating assumptions.

vi. Q1 FY2026-27 results show continued strong volume and revenue growth (+23% volume, +35% revenue) alongside near-term margin compression from commodity costs, and a leadership transition (new CEO since January 2026) that adds some execution uncertainty to the medium-term outlook.

Overall assessment: the evidence supports a picture of a fundamentally sound, well-capitalised market leader whose competitive moat has narrowed and whose valuation discount to faster-growing peers appears to be a rational reflection of that narrower moat rather than a straightforward value opportunity. A specific buy/hold/sell recommendation is deliberately not made here, both because this paper is a research and methodology reference rather than personalised investment advice, and because as Section 7.2 demonstrates any such conclusion is only valid as of a specific, disclosed share price and should be re-derived by the reader at the time of use.

9. Recommendations

For the company:

i. Accelerate the scale-up of the premium motorcycle portfolio (Xtreme/Karizma/X440) and the Vida EV business to defend and rebuild volume leadership against HMSI and TVS.

ii. Continue to broaden the EV price-point range (mirroring the multi-tier ICE portfolio strategy) and pursue the announced doubling of EV production capacity on schedule.

iii. Sustain the LEAP cost-efficiency programme to protect margins against continuing commodity-cost pressure.

iv. Continue to build out the export franchise (Europe, Germany, and other new markets), which has been a genuine bright spot in recent quarters.

For investors and analysts using this paper as a reference:

i. Treat the FY22–FY26 financial trend and ratio analysis in Sections 6.1–6.3 as a reliable historical base, since it is drawn from audited, cross-verified figures.

ii. Treat the relative-valuation and DCF figures in Section 7 as time-stamped illustrations of method rather than current facts, and refresh the market price, multiples, and DCF output from a live data source before drawing any investment conclusion.

iii. Monitor monthly market-share data (Section 4.4) as a leading indicator of competitive position, since it currently moves faster than the quarterly financial results.

iv. Track the FY27 margin trajectory closely, given the commodity-cost pressure flagged in Q1 FY27 results, as the key swing factor for whether the FY22–FY26 margin-expansion trend continues.

10. Limitations

i. The study relies entirely on secondary data; no primary interviews, dealer channel checks, or consumer surveys were conducted.

ii. Market price, market capitalisation, and trading-multiple figures are correct only as of the specific dates disclosed in the text and will have changed by the time this paper is read.

iii. The DCF valuation is inherently sensitive to forecast assumptions (growth, margin, WACC, terminal growth); actual outcomes may differ materially, particularly given the pace of change in the EV landscape.

iv. The peer set is restricted to two listed comparators (Bajaj Auto and TVS Motor); HMSI, the second-largest player by volume, is unlisted and could only be referenced qualitatively.

v. This paper does not constitute investment advice and should not be relied upon for actual trading or investment decisions.

11. Scope for Future Research

i. Extend the peer set to include HMSI (using whatever disclosures are available through its parent) and listed pure-play EV two-wheeler manufacturers as they mature.

ii. Build a dedicated valuation module for the EV segment (Vida, plus the Ather and Euler Motors stakes) given its distinct cost structure and growth trajectory, separate from the core ICE business.

iii. Incorporate primary research dealer channel checks and consumer surveys to supplement the secondary-data analysis used here.

iv. Re-run the relative and DCF valuation on a rolling quarterly basis against actual results, particularly through the FY2026-27 margin cycle described in Section 6.4.

12. Conclusion

Hero MotoCorp enters FY2026-27 as a financially strong, virtually debt-free market leader that has delivered accelerating profitability over the past five years, but whose competitive position is more contested than at almost any point in its recent history, with Honda and TVS Motor closing and, in several months of 2026, closing over the volume gap that once defined Hero's market leadership. Its valuation discount to faster-growing peers appears to be a reasoned market judgment on that narrower moat rather than a clear mispricing, and the stock's own re-rating during 2026 has already absorbed much of the "undervalued" case that a mid-2026 snapshot of the same model would have supported. The company's underlying financial discipline, dividend track record, and expanding premium and EV ambitions provide a credible platform for the medium term, but the near-term outcome will depend heavily on execution under new CEO leadership and on the company's ability to defend volume share while absorbing commodity-cost pressure. Readers using this paper for any live decision should treat Sections 6.1–6.3 as a durable factual base and re-derive Sections 7 and 8 against current market data.

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