

India

ADD (no change)

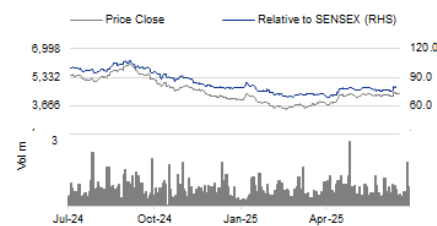
Consensus ratings*: Buy 23 Hold 12 Sell 7

Current price:	Rs4,661
Target price:	Rs5,231
Previous target:	Rs5,525
Up/downside:	12.2%
InCred Research / Consensus:	14.5%
Reuters:	HROM.NS
Bloomberg:	HMCL IN
Market cap:	US\$10,629m
	Rs932,213m
Average daily turnover:	US\$31.4m
	Rs2749.7m
Current shares o/s:	200.0m
Free float:	65.2%

*Source: Bloomberg

Key changes in this note

- FY26F-27F sales volume cut by 3%.
- FY26F-27F EBITDA cut by 5-6%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.2	20.5	(11.1)
Relative (%)	12.4	20.1	(13.0)

Major shareholders	% held
Hero Group	34.8
LIC of India	8.5
ICICI Prudential Fund	3.6

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Hero MotoCorp

Festive season-led demand revival hopes

- 1QFY25 EPS grew by 4% qoq to Rs56.3, beating our/Bloomberg consensus estimates by 5%, aided by a 36% qoq higher other income.
- Cut sales volume estimates by 3% due to weak demand in the domestic 2W industry, and cut EBITDA by 6% for prolonged drag from electric vehicle losses.
- With the recent sell-off correcting the forward valuation to below the 10-year mean level, we retain ADD rating with a lower SOTP-based TP of Rs5,231.

Sustains high EBITDA margin in 1QFY26

Hero MotoCorp's (HMCL) 1QFY26 EBITDA fell by 5% yoy and 2% qoq to Rs13.8bn, a 3% beat to our estimate, due to lower other expenses (-121bp qoq). Gross margin expansion (100bp qoq) was impressive. The sustained EBITDA margin uptick (18bp qoq) to 14.4% provides comfort, where management indicated that the electric vehicle or EV drag remains at around 160bp. PAT grew by 4% yoy but was flat qoq at Rs11.3bn, beating our/Bloomberg estimates by 5%.

New launches are likely to drive further market share gains

Management expects the retail 2W industry growth of 3.5% in 1QFY26 to improve during the festive season to achieve FY26F growth of 6%. During the quarter, its Vahan market share expanded by 100bp to 30.9%, and new launches are expected to drive market share further. It expects the EBITDA margin to stay within the 14–16% range, with the near-term likely at the lower end; commodity cost pressure up 0.5% but remains range-bound. Current inventory stands at seven weeks and is expected to ease during the festive season. Export volume rose by 27% yoy, with strong momentum in the top-10 focus markets. Management is comfortable on its rare earth material supply chain to sustain volume.

FY26F-27F EPS cut by 6%

We have cut our volume estimates by 3% for FY26F–28F, considering the weakness in recent months in the domestic two-wheeler industry. This led to a similar 3% cut in our revenue estimates for the same period. The EBITDA estimates for FY26F–27F have been reduced by 5–6%, largely due to the drag from EV investments, which is reflected in a slight EBITDA margin impact of 30–40bp during this period.

Market share gain provides comfort; maintain ADD rating

Retail market share gains in both ICE vehicle and EV segments, driven by refreshment of a few models and hopes on revival in two-wheeler demand during the festive season, provide comfort. However, the implementation of OBD (on-board diagnostics) norms and ABS (Jun 2026) requirements is likely to slightly offset these gains. We maintain our ADD rating on the stock with a lower SOTP-based target price of Rs5,231 (Rs5,525 earlier). The recent stock price correction has led P/E & P/BV valuations to ease below the 10-year mean level, which provides valuation comfort. Key downside risk: Demand weakness leading to price discounts..

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue (Rsm)	374,557	407,564	450,357	500,407	557,917
Operating EBITDA (Rsm)	52,557	58,677	64,982	71,178	79,202
Net Profit (Rsm)	41,280	46,099	51,021	55,964	62,214
Core EPS (Rs)	206.5	230.6	255.1	279.8	311.1
Core EPS Growth	41.6%	11.6%	10.6%	9.7%	11.2%
FD Core P/E (x)	22.57	20.22	18.27	16.66	14.98
DPS (Rs)	140.1	165.1	180.2	200.3	220.3
Dividend Yield	3.00%	3.54%	3.86%	4.29%	4.72%
EV/EBITDA (x)	15.12	13.28	11.88	10.63	9.39
P/FCFE (x)	31.57	36.78	26.43	20.41	19.88
Net Gearing	(76.1%)	(77.1%)	(75.0%)	(76.6%)	(76.2%)
P/BV (x)	5.18	4.71	4.37	4.07	3.77
ROE	23.8%	24.4%	24.8%	25.3%	26.1%
% Change In Core EPS Estimates			(5.60%)	(5.08%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Festive season-led demand revival hopes

Management conference-call highlights ►

- **Industry outlook:** Hero MotoCorp expects two-wheeler demand to remain strong in both urban and rural markets, with retail growth of 3.5% in 1Q expected to rise during the festive season to support FY26F growth of 6–7%.
- **Margin and cost guidance:** The EBITDA margin guidance is within the 14–16% range, with the near-term likely at the lower end; commodity cost pressure up 0.5% but remains range-bound.
- **Financial highlights:** The ICE vehicle business EBITDA margin improved to 16.8%, (actual 14.4%) supported by a better mix, price action, and cost-savings initiatives. Gross margin was up 100bp due to a better mix and pricing, although partially offset by operating deleverage. Average selling price (ASP) rose by 6% yoy, but declined to Rs1,900 qoq due to product mix and premium segment seasonality; OBD-compliant dispatches were spread over 4QFY25 and 1QFY26. Financing penetration, typically lower in 1Q, is expected to improve going ahead. A sum of Rs1.89bn was invested in the EV business.
- **Spare parts business:** Revenue stood at Rs12.96bn; the company also booked a Rs7.22bn gain from stake dilution in associate companies.
- **Market share:** Vahan market share improved to 30.9%, up 1% qoq and the EV business under the VIDA brand achieved a 7% market share in 1Q, doubling yoy, and rising to 10% in Jul 2025.
- **Premium portfolio:** Premia stores now scaled to 90 locations, covering 40% of the premium industry footprint. Hero MotoCorp and Harley are co-developing a new product for launch in 2QFY26F, with another launch targeted later in 2026F.
- **International business:** Export business reported a 27% yoy growth, with strong momentum in the top-10 focus markets.
- **EV space:** VIDA VX2 was launched with Battery-as-a-Service (BaaS) model offering pay-per-km pricing to reduce upfront costs and attract new customers. VIDA V2 Pro received PLI certification in Jul 2025, with more product approvals underway.
- **Inventory level and rare earth magnets:** Current inventory stands at seven weeks and is expected to ease during the festive season. The rare earth supply situation is evolving, and the company is working on alternative solutions.
- **Hero FinCorp:** Loan book reached Rs547bn, up 4% yoy, although the sequential performance was impacted by higher credit costs and rising non-performing assets; credit quality showed an improvement in Jul 2025.
- **Network:** Hero MotoCorp' total network stands at over 6,000 touchpoints, with VIDA now present in 400 cities through 600 Hero and Premia outlets.
- **Motorcycles**
 - HF Deluxe Pro: Upgraded entry-level bike with better mileage and features, addressing affordability and aspiration.
 - Xtreme 125: Refreshed with new variants and continues to gain share in the sporty 125cc segment.
 - Two new launches in 2QFY26F: Plans to expand the 125cc motorcycle portfolio and attract new customers.
 - 125cc Strategy: Xtreme for performance, Glamour for style, and Super Splendor for fuel efficiency and value.
 - Segment Update: Market share in 125cc motorcycles reached 9.1%, supported by new products and updates.
- **Scooters**
 - Destini 125 & Xoom 125: Recently launched models that helped scooter market share to rise to 9.7% in Jun 2025.

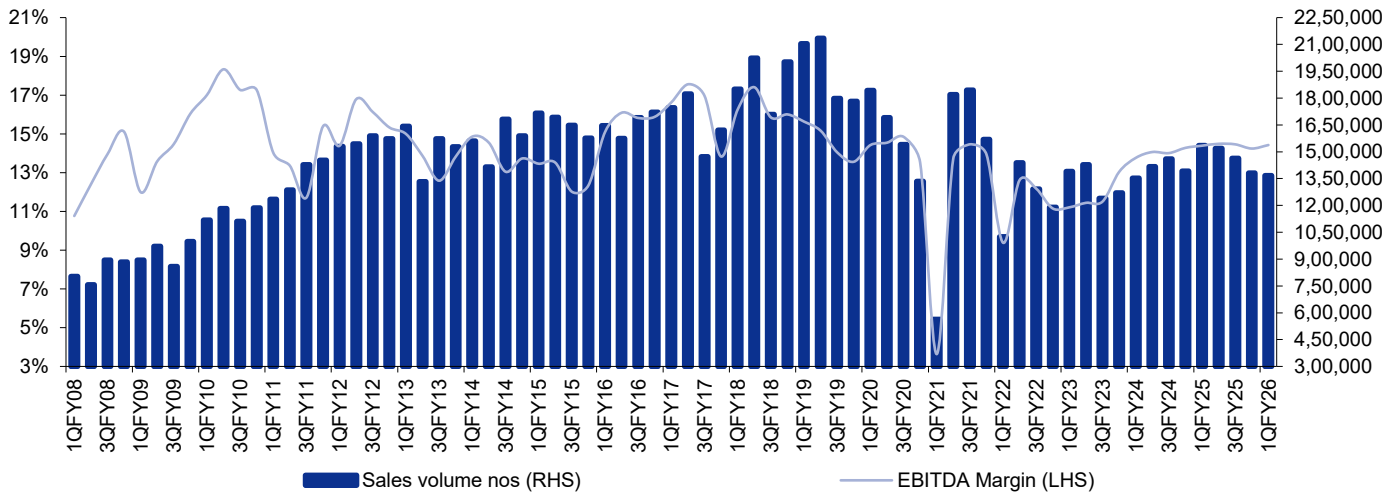
- Xoom 160 (upcoming): A new premium scooter aimed at further strengthening the scooter portfolio.

Figure 1: Quarterly results comparison

Y/E Mar (Rs m)	1QFY26	1QFY25	yoy % chg	4QFY25	qoq % chg	Comments
Revenue	95,789	1,01,437	(5.6)	99,387	(3.6)	In line with our estimate.
Raw material costs	63,904	68,672	(6.9)	65,069	(1.8)	
RM costs as a % of revenue	67	68	(98.5)	65	124.3	51bp above our estimate.
EBITDA	13,817	14,598	(5.3)	14,156	(2.4)	3% above our estimate.
EBITDA margin (%)	14.4	14.4	3.4	14.2	18.2	
Depreciation & amortization	1,928	1,932	(0.2)	1,921	0.4	
EBIT	11,889	12,666	(6.1)	12,235	(2.8)	
Interest expenses	56	48	16.6	47	18.6	
Other income	3,037	2,317	31.1	2,237	35.7	5% above our estimate.
Pre-tax profit	14,870	14,935	(0.4)	14,425	3.1	
Tax	3,613	3,708	(2.6)	3,615	(0.1)	
Tax rate (%)	24.3	24.8	(53.3)	25.1	(76.5)	
Normalized net profit	11,257	11,226	0.3	10,809	4.1	5% above our estimate.
Exceptional items	-	-	-	-	nm	
Other comprehensive Income	-	-	nm	-	nm	
Reported net profit	11,257	11,226	0.3	10,809	4.1	
Normalized EPS (Rs)	56.3	56.2	0.3	54.1	4.1	
Volume (nos)	13,67,070	15,35,156	(10.9)	13,80,545	(1.0)	
Net realization (Rs)	70,069	66,076	6.0	71,991	(2.7)	
EBITDA/vehicle	10,107	9,509	6.3	10,254	(1.4)	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: EBITDA margin on a consistent improvement path despite EV drag



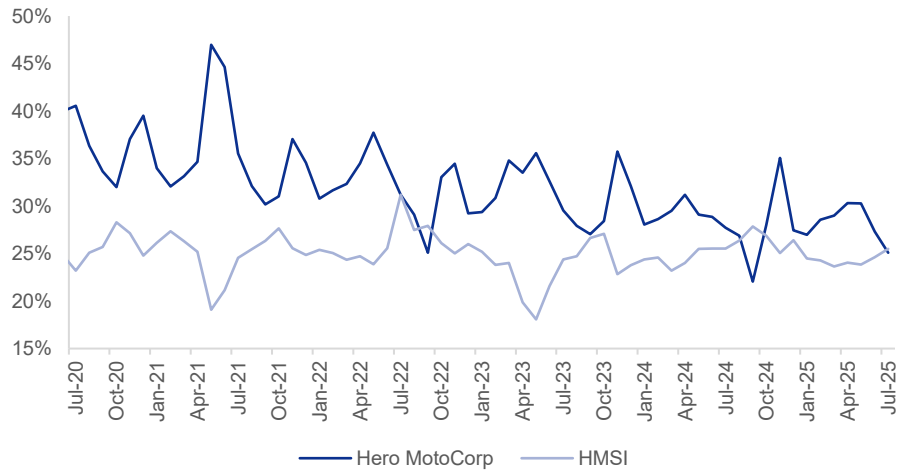
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Model-wise performance

Motorcycles	1QFY26	1QFY25	YoY (%)	4QFY25	QoQ (%)
Splendor Family	8,39,285	9,31,208	(9.9)	7,89,723	6.3
Passion Family	53,199	61,178	(13.0)	46,844	13.6
HF Deluxe	2,50,291	2,74,132	(8.7)	2,24,625	11.4
Glamour	14,471	61,934	(76.6)	28,489	(49.2)
Xtreme and Xtreme 125R	47,898	53,725	(10.8)	70,014	(31.6)
HD X440 & Mavrick 440	1,854	5,125	(63.8)	1,775	4.5
Others	138	2,147	(93.6)	39	253.8
Total motorcycles	12,13,371	13,98,773	(13.3)	11,66,909	4.0
Scooters					
Maestro	-	30	(100.0)	-	NA
Pleasure	21,438	26,872	(20.2)	39,718	(46.0)
Destini 125	39,551	35,164	12.5	28,852	37.1
Xoom	5,642	12,764	(55.8)	12,820	(56.0)
Vida	22,655	10,559	114.6	15,976	41.8
Total scooters	89,286	85,389	4.6	97,366	(8.3)
Total 2W domestic	13,02,657	14,84,162	(12.2)	12,64,275	3.0
Exports	64,416	50,992	26.3	63,176	2.0
Gross Total	13,67,073	15,35,154	(10.9)	13,27,451	3.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Retail market share of Hero MotoCorp and Honda Motorcycle and Scooter India (HMSI)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Our revised earnings estimates

Rs m	FY26F		FY27F	
	Old	New	Old	New
Sales Volume (nos)	64,92,434	62,70,674	69,94,160	67,60,340
% change		-3.4%		-3.3%
Net Sales	4,65,814	4,50,357	5,17,252	5,00,407
% change		-3.3%		-3.3%
EBITDA	68,624	64,982	75,603	71,178
% change		-5.3%		-5.9%
EBITDA Margin	14.7%	14.4%	14.6%	14.2%
bps change		-30		-39
PAT	54,020	51,021	58,930	55,964
% change		-5.6%		-5.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Our key assumptions

Key Assumptions	FY23	FY24	FY25	FY26F	FY27F	FY28F
Vehicle Sales Volume (units)						
Motorcycle	49,59,707	51,90,504	54,76,819	58,05,113	62,37,862	66,82,818
Growth (%)	7.2%	4.7%	5.5%	6.0%	7.5%	7.1%
Scooter	3,69,297	4,30,782	4,22,669	4,65,561	5,22,478	5,80,756
Growth (%)	16.7%	16.6%	-1.9%	10.1%	12.2%	11.2%
Total	53,29,004	56,21,286	58,99,488	62,70,674	67,60,340	72,63,574
Growth (%)	7.8%	5.5%	4.9%	6.3%	7.8%	7.4%
Net Realization Per Vehicle (Rs.)						
Motorcycle	52,680	55,947	58,129	60,454	62,267	64,758
Growth (%)	7.5%	6.2%	3.9%	4.0%	3.0%	4.0%
Scooter	53,920	56,077	58,937	61,884	63,740	66,927
Growth (%)	6.9%	4.0%	5.1%	5.0%	3.0%	5.0%
Total	52,766	55,957	58,187	60,560	62,381	64,931
Growth (%)	7.5%	6.0%	4.0%	4.1%	3.0%	4.1%
Net Realization	52,680	55,947	58,129	60,454	62,267	64,758
Growth (%)	7.5%	6.2%	3.9%	4.0%	3.0%	4.0%
Contribution	18,672	21,392	23,201	23,629	24,205	24,963
Growth (%)	9.7%	14.6%	8.5%	1.8%	2.4%	90036.7%
EBITDA	39,892	52,557	58,677	64,982	71,178	79,202
Growth (%)	18.5%	31.7%	11.6%	10.7%	9.5%	11.3%
EBITDA Margin (%)	11.8%	14.0%	14.4%	14.4%	14.2%	14.2%
Change (bp)	29	223	37	3	(21)	(3)
Net Profit	29,136	39,681	46,099	51,021	55,964	62,214
Growth (%)	17.9%	36.2%	16.2%	10.7%	9.7%	11.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Sum-of-the-parts or SOTP-based target price

Methodology	Multiple	Hero MotoCorp's stake	Value per share (Rs)
Core Business	DCF		4,907
Ather Energy	CMP	31%	181
Hero FinCorp	1.5 x FY25 P/BV	41%	143
SOTP-based valuation			5,231

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: We have used discounted cash flow or DCF methodology to value the company's core business

Economic Profit Valuation

	Rs m	%
Adjusted Opening Invested Capital	54318.0	7
NPV of Economic Profit During Explicit Period	93423.3	11
NPV of Econ Profit of Remaining Business (1, 2)	210828.0	26
NPV of Econ Profit of Net Inv (Grth Business) (1, 3)	467691.9	57
Enterprise Value	826261.1	100
Plus: Other Assets	0.0	0
Less: Minorities	0.0	0
Less: Net Debt (as at 07 Aug 2025)	-152627.2	-18
Equity Value	978888.3	118
No. Shares (millions)	199.5	
Per Share Equity Value	Rs 4907	

Discounted Cash Flow Valuation

	Rs m	%
Value of Phase 1: Explicit (2026 to 2028)	92496.1	11
Value of Phase 2: Value Driver (2029 to 2039)	446384.5	54
Value of Phase 3: Fade (2040 to 2050)	253874.2	31
Terminal Value	33498.6	4
Enterprise Value	826253.5	100
FCF Grth Rate at end of Phs 1 implied by DCF Valuation	6.8	
FCF Grth Rate at end of Phs 1 implied by Current Price	30.2	

Sensitivity Table

		No of Years in Fade Period				
		5	8	11	14	17
WACC	9.8%	4835	5326	5823	6325	6832
	10.8%	4505	4920	5334	5744	6151
	11.8%	4211	4562	4907	5243	5571
	12.8%	3948	4246	4533	4810	5075
	13.8%	3712	3965	4206	4433	4648

Performance Summary

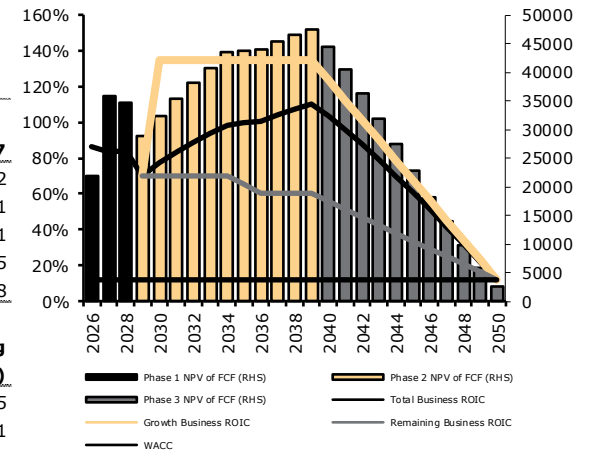
	2026	2027	2028	Phase 2 Avg (2029 - 2039)
Invested Capital Growth (%)	14.4	10.6	13.3	11.5
Operating Margin (%)	12.5	12.4	12.5	12.1
Capital Turnover (x)	9.2	8.9	9.0	7.3

Source: InCred Research

1. In periods following the Explicit Period i.e. Phase 2 and Phase 3

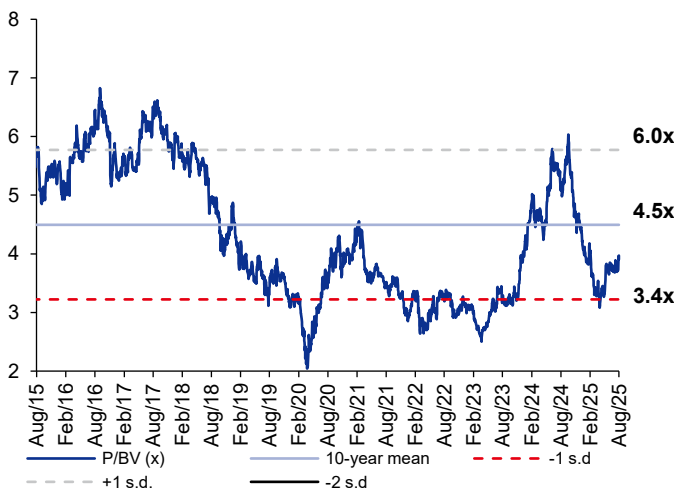
2. Remaining Business is defined as Capital as at the end of Phase 1 and capex = depreciation thereafter
Investment is defined as capex over and above depreciation after Phase 1

Returns, WACC and NPV of Free Cash Flow



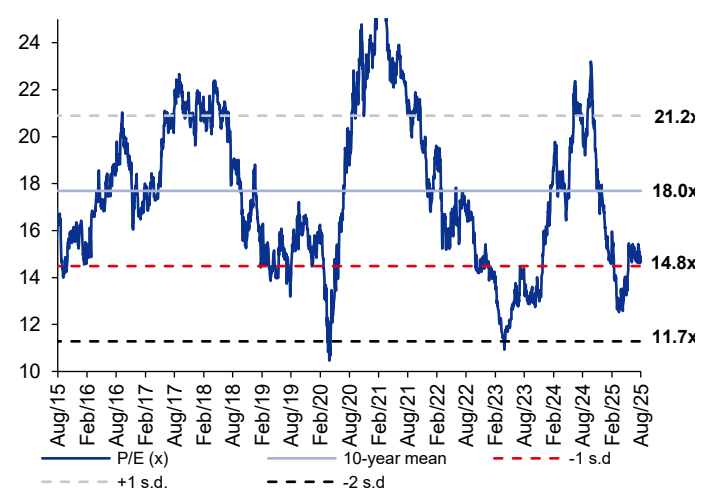
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: One-year forward P/BV below the 10-year mean level



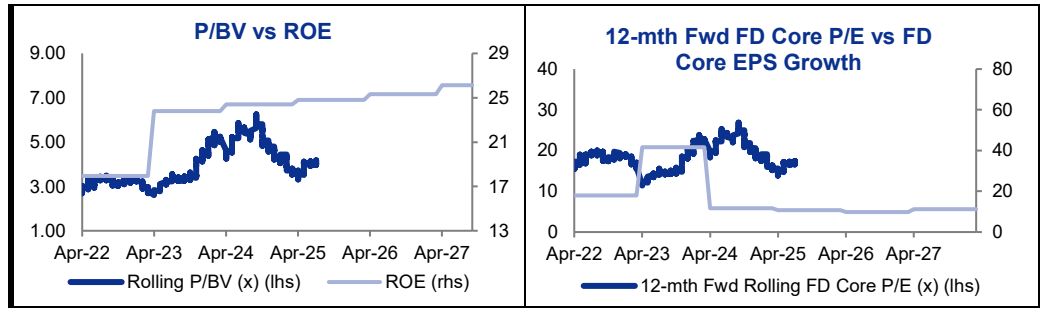
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: One-year forward P/E valuation near the -1SD level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Net Revenues	374,557	407,564	450,357	500,407	557,917
Gross Profit	96,226	110,924	120,139	132,802	147,409
Operating EBITDA	52,557	58,677	64,982	71,178	79,202
Depreciation And Amortisation	(7,114)	(7,759)	(8,581)	(8,993)	(9,443)
Operating EBIT	45,443	50,918	56,402	62,185	69,758
Financial Income/(Expense)					
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	8,741	10,360	11,626	12,434	13,193
Profit Before Tax (pre-EI)	54,184	61,278	68,028	74,619	82,952
Exceptional Items					
Pre-tax Profit	54,184	61,278	68,028	74,619	82,952
Taxation	(12,904)	(15,179)	(17,007)	(18,655)	(20,738)
Exceptional Income - post-tax					
Profit After Tax	41,280	46,099	51,021	55,964	62,214
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	41,280	46,099	51,021	55,964	62,214
Recurring Net Profit	41,280	46,099	51,021	55,964	62,214
Fully Diluted Recurring Net Profit	41,280	46,099	51,021	55,964	62,214

Cash Flow

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
EBITDA	52,557	58,677	64,982	71,178	79,202
Cash Flow from Invt. & Assoc.					
Change In Working Capital	9,088	(9,469)	(2,722)	(97)	(5,267)
(Incr)/Decr in Total Provisions	2,092	8,965	(4,542)	(200)	(500)
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	8,741	10,360	11,626	12,434	13,193
Tax Paid	(12,610)	(14,431)	(17,007)	(18,655)	(20,738)
Cashflow From Operations	59,868	54,102	52,338	64,660	65,890
Capex	(8,007)	(10,533)	(9,068)	(9,000)	(9,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(22,357)	(18,235)	(8,000)	(10,000)	(10,000)
Cash Flow From Investing	(30,365)	(28,768)	(17,068)	(19,000)	(19,000)
Debt Raised/(repaid)					
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(27,972)	(32,975)	(35,982)	(40,000)	(44,000)
Preferred Dividends					
Other Financing Cashflow	1,101	2			
Cash Flow From Financing	(26,871)	(32,974)	(35,982)	(40,000)	(44,000)
Total Cash Generated	2,633	(7,639)	(712)	5,660	2,890
Free Cashflow To Equity	29,504	25,334	35,270	45,660	46,890
Free Cashflow To Firm	29,504	25,334	35,270	45,660	46,890

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Cash And Equivalents	136,951	152,627	159,915	175,575	188,465
Total Debtors	27,034	36,744	39,483	42,500	48,913
Inventories	14,438	14,576	18,508	20,565	22,928
Total Other Current Assets	14,147	9,333	12,000	13,500	15,000
Total Current Assets	192,570	213,281	229,906	252,140	275,307
Fixed Assets	63,145	65,507	64,426	64,433	63,990
Total Investments					
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	63,145	65,507	64,426	64,433	63,990
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	55,282	55,661	59,610	64,587	68,096
Other Current Liabilities	16,224	20,375	18,500	19,800	20,800
Total Current Liabilities	71,506	76,037	78,110	84,387	88,896
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities					
Total Provisions	4,348	3,115	3,115	3,115	3,115
Total Liabilities	75,854	79,151	81,225	87,501	92,011
Shareholders Equity	179,862	198,069	213,108	229,072	247,286
Minority Interests					
Total Equity	179,862	198,069	213,108	229,072	247,286

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue Growth	10.8%	8.8%	10.5%	11.1%	11.5%
Operating EBITDA Growth	31.7%	11.6%	10.7%	9.5%	11.3%
Operating EBITDA Margin	14.0%	14.4%	14.4%	14.2%	14.2%
Net Cash Per Share (Rs)	685.10	763.14	799.58	877.88	942.33
BVPS (Rs)	899.76	990.34	1,065.54	1,145.36	1,236.43
Gross Interest Cover					
Effective Tax Rate	23.8%	24.8%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	67.8%	71.5%	70.5%	71.5%	70.7%
Accounts Receivables Days	26.81	28.56	30.89	29.90	29.90
Inventory Days	18.87	17.85	18.28	19.40	19.34
Accounts Payables Days	67.09	68.25	63.71	61.66	58.99
ROIC (%)	60.2%	81.1%	84.4%	82.8%	92.4%
ROCE (%)	30.5%	31.8%	32.6%	33.3%	34.4%
Return On Average Assets	16.9%	17.2%	17.8%	18.3%	19.0%

Key Drivers

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
ASP (% chg, main prod./serv.)	5.0%	3.7%	4.0%	3.1%	3.8%
Unit sales grth (% , main prod./serv.)	5.5%	4.9%	6.3%	7.8%	7.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.