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**ATHER ENERGY**

| Automobiles

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## Steadily spreading wings; improvement in margins expected

- **Distribution-led expansion and strong execution drove the broad-based market share gains across regions**
- **EL platform launch is expected to balance improved margins through lower BOM costs (~10%) and also expand Ather's addressable market**
- **Margin trajectory remains positive, aided by value engineering, higher software attach (93%) rate as well as pricing power**

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### We had a meeting with the management of Ather Energy Ltd. Highlights below:

**Near-term growth constrained, but momentum remains strong:** Ather highlighted that its growth momentum will remain healthy, driven by rapid network expansion (700 in FY26 vs 351 in FY25), improving market share across geographies and improvement in earnings. The upcoming EL platform is expected to be a key strategic catalyst, enabling the company's entry into lower affordability segments — expanding the addressable market and structurally reducing costs.

**Distribution channel expansion continues to drive market share gains:** Ather's market share improvement has been broad-based — South India: 23.5% (vs 22% YoY); Middle India: 17.3% (vs 9.5% YoY); Rest of India: 12.1% (vs 6.5% YoY). Ather highlighted the distribution expansion as the key growth driver, with significant white spaces available for showroom additions. Dealer expansion should expand once the EL platform is launched and new production capacity becomes operational.

**EL platform to significantly expand addressable market:** The upcoming EL platform is designed to address lower affordability segments while still improving profitability (exposure in premium segment). Ather indicated that Rizta, based on EL, may rationalise cost (~10% lower BOM cost) vs the current 450 platform. However, EL-platform-based premium variants unlikely to have price cuts, allowing most cost savings to flow through to margins.

**Short-term cost headwinds here to stay, partially mitigated by price hikes:** 40% of base metal prices and 100% of precious metals prices have inflated. Further, chips and semiconductors have become costlier. This will impact Ather Energy cost structure and will continue to be inflated for the next 3-4 quarters. Total cost inflation of 133% YoY till Q4FY26 and Q1FY27 the impact will be even more.

**Launch roadmap healthy on capacity addition in AURIC:** Mass-premium variant based on EL platform targeted around festive season FY27 and Premium variant by Q4FY27. Full EL portfolio rollout targeted by Q1FY28. Ather have plans to add a greenfield capacity at Aurangabad Industrial Corridor (AURIC) with Rs20bn investment helping capacity of 1mn in two phases of 0.5mn in FY27 and 0.5mn by FY29.



### Margin trajectory positive despite commodity headwinds

- Gross margin improvement has largely been driven through COGS reduction initiatives and value engineering. Component optimisation and measures such as adoption of low-resistance tyres will likely increase efficiency and reduce the battery size, reducing the cost.
- Management continues to see scope for further margin improvement through:
  - EL platform-led cost reduction
  - Improved scale benefits
  - Higher software pack monetisation
- AtherStack Pro attachment increased to ~93% from 89% (Q1FY25), supporting high-margin software revenue.
- Ather has demonstrated pricing power with cumulative hikes of ~Rs6,000 on scooters and ~Rs3,500 on software packages bringing total increase to ~Rs9,000.
- Management noted that peers have taken relatively lower price hikes in the Rs 3,500-5,000 range.

### Commodity inflation a likely headwind in FY27

- Commodity costs have risen sharply — aluminium up ~41% QoQ and precious metals up ~103% QoQ.
- Management expects the inflation impact to be felt primarily in FY27.
- Usage of semiconductors, memory chips and electronic components remains substantially higher than conventional 2Ws.
- EVs face a higher inflationary burden vs ICE due to significantly greater electronic content.
- Despite cost pressures, management believes a combination of pricing actions and ongoing cost optimisation should help protect profitability.

### Production constrained by capacity; demand remains healthy

- Current order book stands at approximately 2.5–3 months.
- Existing Hosur facility is operating near its capacity of ~34k units/month.
- Supply-side constraints (and not demand) remain the key limiting factor. Till the time capacity ramps up, Ather will struggle with market share.
- Management indicated that the preemptive depletion of PM E-Drive subsidy was primarily driven by stronger-than-anticipated industry demand and subsidy outflows.

### Aurangabad facility to support next growth phase

- Total planned capex stands at ~Rs20bn, spread over two phases.

- Aurangabad plant phase 1 is expected to commence operations around Q3FY27-end (November) with the addition of 1k unit capacity per month post operationalisation.
- Peak utilisation of 42k unit/ month is targeted around March 2027.
- Incentives remain attractive:
  - GST rebate benefits
  - ~30% capex refund (excluding land cost) over 15 years
  - Additional state-level incentives

### **Battery strategy focused on profitability and supply chain resilience**

- Around 35–40% of portfolio now uses LFP batteries.
- LFP adoption is driven by cost optimisation, supply chain diversification and reduced dependence on specific chemistries
- Additionally, customers have displayed indifference to the offered hardware as long as the underlying performance offered is same
- Management highlighted that battery cell sourcing continues to remain concentrated in China due to superior quality and cost competitiveness.

### **Charging ecosystem remains a key competitive advantage**

- Approximately 95% of customers charge at home, reaffirming home charging as the dominant use case.
- Ather has developed proprietary charging technology and has begun licensing the charging technologies to external operators.
- Charging infrastructure continues to act as an important brand differentiator despite low public charging dependence.

### **Strong positioning in premium categories**

- Market share remains dominant in higher-end categories: premium segment ~85% and mass-premium segment ~65%
- Combined premium and mass-premium categories account for roughly 25% of the overall scooter market.
- Management sees substantial opportunity to penetrate lower-price mass segment through EL while maintaining leadership in premium categories.

### **Technology differentiation remains a key focus**

- Management believes performance differentiation vs peers remains significant.
- Ather continues to emphasise its mid-drive architecture and software-led ecosystem vs hub-motor-based offerings used by peers.
- Software engagement remains strong, aided by navigation, connected services and premium feature adoption.

**Limited near-term interest in motorcycles and exports**

- No immediate plans to launch motorcycles despite the earlier platform discussions.
- International expansion remains an eventual opportunity, but not a near-term priority.
- Management believes India offers sufficient growth headroom and superior returns vs overseas expansion at this stage.

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