

Management Discussion

Murali Sashidharan - Head of Public and Government Relations, Ather Energy Limited

Thank you. Good evening, everyone, and welcome to Ather Energy Limited Q1 FY '27 earnings conference call. From the management team, we have with us today Mr. Tarun Mehta, Executive Director and Chief Executive Officer; and Mr. Sohil Parekh, Chief Financial Officer.

Before we begin, let me draw your attention to the fact that today's discussions may include certain forward-looking statements, which are predictions, projections, or other estimates about future events. These statements reflect management's current expectations about future performance of the company and are subject to various risks and uncertainties that may cause actual results to differ materially.

With that, I would like to request Mr. Tarun Mehta, Executive Director and CEO, Ather Energy, to share his opening remarks. Following his comments, we will open the forum for Q&A, questions. Over to you, Tarun.

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Hey, thanks, Murali. So, welcome, everybody. Welcome to our first earnings call for FY '27. We're doing this call in the midst of a pretty massive change and pretty massive transformation for the EV industry, which is reflective in the overall e-two-wheeler penetration. For a while, people were wondering if e-two-wheeler penetration had slowed down or if it was not growing fast enough. We've been guiding for the last few quarters that underlying demand is strong, and there is growth that we are seeing.

But in the last three to four months, given larger macro shifts, numbers have really changed. E-two-wheeler penetration is up by 44%, at 11% in the two-wheeler industry, and electric penetration in the scooter industry is upwards of, I believe, 25% now. This is also reflective in how searches have gone up. If you look at an industry level, EV -- searches for electric vehicles are up almost 75%, and Ather brand searches are up almost 118%.

What's underpinning all of these are some macro shifts. First, transport electrification, as hailed by the Prime Minister himself, is now accelerating as a national agenda. We've got to electrify cooking and transport, and this is really making this mission mainstream today. Second, there is very clear and strong policy support. Obviously, PM E-DRIVE, that has always been around, but the recent announcements and the plans with the Delhi EV Policy, I think they are playing a pretty massive role in driving consumer confidence in electric vehicles up. We believe that if this policy plays out positively as it looks like now, this will have a pretty massive impact across multiple states.

Third is -- and this is an interesting one. There are now availability concerns on petrol and diesel, and they are shifting consumer sentiment. There was a point, I remember, a few years ago, when somebody would, even a diehard EV family, would always say that, [Foreign Speech]. We are now moving to a place, and this was a fun colloquial thing, a fun thing that I had heard, [Foreign Speech], really capturing the sentiment in a beautiful manner. It's not petrol prices that have shifted demand up. People are moving towards electric because, for the first time probably ever, people genuinely fear how accessible and available fossil fuels would be. Electricity is seen generally as a more available commodity than petrol today, and this is why EV demand is now starting to surge.

And finally, obviously, you cannot deny this. Rising petrol prices in India particularly are definitely improving the overall total cost of ownership for electric vehicles. So, these are four macro shifts that are really driving structure -- become really structured tailwinds for our industry today.

Every demand proxy that you can think of is inflecting upwards. Industry registrations are up 68% in the last one year, hitting 525,000 in Q1 '27. Inquiries for Ather that we are receiving on a daily basis, they are up 95% in the same time. In Q1 '27, we received more than 7 lakh inquiries for our products. And Ather pre-orders, these are paid pre-orders that are captured across the country, they were up 158%, hitting a first-ever seen 1.5 lakh pre-orders in Q1 '27, really capturing how massive the demand for our vehicles -- for electric vehicles in general, and Ather particularly, has been in recent times. And this is reflecting in very strong financial results.

For example, our wholesale volume grew 81%, from 46,000 units in Q1 FY '26 to 83,000 units in Q1 FY '27. This has happened despite production constraints and multiple supply challenges during Q1. We were navigating the labor crisis, the West Asia war-induced crisis at the start of the quarter, which is why April volumes were still soft. April production was still soft at 24,000 units. But we have month-on-month ramped up, from 24,000 units in April to 28,000 units in May to 31,000 units in June. Our current facilities have a max production capacity of 35,000 units, and I am happy to announce that we are almost at 100% utilization as we speak now. So, the ramp-up took a couple of months, but we are now there.

And this surge is best captured when you see our year-on-year registration growth. So, year-on-year wholesale growth was 81%, but year-on-year registration growth was even sharper at 102%. Registrations for Ather grew from 44,900 units in Q1 to more than 90,000 units in Q1 FY '27. In fact, this is once again another quarter where retail has outpaced wholesale, driving the urgency and the need for us to ramp up both supply and capacity on a war footing.

In sales, Middle India continues to be our growth driver, driving the highest growth among all zones for us. Middle India are the five zones of Gujarat, Maharashtra, MP, Chhattisgarh, and Odisha, which grew 141% in retail from Q1 last year to Q1 this year, followed by Rest of India at 118%, followed by South India at 76%.

Another way to -- just to give context about where demand is and how big the opportunity for the industry and Ather today is, we have this slide in the presentation also, where we have shown how inquiries have ramped up, how pre-orders that we're capturing have now crossed 50,000 on a monthly basis. And may I just call out, this is 50,000 pre-orders, despite the fact that in many states now, our dealers are no longer even accepting new pre-orders because the waiting times are now hitting two months or even higher. So, the underlying demand, we strongly believe, is very, very high. We believe today that of the 30,000 units that we retail average in Q1, we could have probably sold an incremental 13,000 to 15,000 units extra every month. That's the unrealized retail potential for us.

And this unique -- it's a bittersweet situation to be in because obviously a brand would want to be in a place where they have more demand than they can satiate. And this is best captured by looking at our dealer channel inventory. Our dealer stocks are down from 14 days to now three days, as of Q1 FY '27.

So, how do we solve for this new demand reality? Our current production out of Hosur maxes out at 35,000 units per month or about 4.2 lakh units per annum, which is roughly where we are already now getting into in Q2. We've already invested -- we are in the midst of finishing our investment in Aurangabad, Chhatrapati Sambhaji Nagar, which is a new factory. Phase 1 of this new factory unlocks 5 lakh units, which is what we are all laser-focused on. Go-live of AURIC will take our total capacity up from 4.2 lakh units to 9.2 lakh units later this calendar year. But we believe demand is ramping up very fast. 9.2 lakh units per annum is only 77,000 units a month. We believe on current

demand trajectories, even this may be tight in the coming quarters, which is why I think we were lucky here.

When we took Aurangabad land, we took larger land capacity, and we had always planned for AURIC Phase 2. And there are some common facilities already that were planned for. With AURIC Phase 2, we can incrementally add another 5 lakh annual capacity, taking our total capacity up to 14.2 lakh units in the coming time. We haven't started any investments for AURIC Phase 2, but that presents a capturable opportunity by us, should the current demand trajectory continue to ramp up, which we are quite bullish about.

Also to fund it, recently, we finished closure of our INR1,300 crore QIP a few weeks ago with very strong participation from funds, both from India and abroad. We are also in the midst of seeking shareholder approval and closing a fundraise of another INR1,200 crores via preference issue, leading to a total fundraise of INR2,500 crores. This cash raise will serve us well as we respond to the fast-tracking that we need to do for this capacity, both at our end and our suppliers' end. It'll also help us as we will likely have to fast-track launch of new products because the market certainly is expanding faster than anybody anticipated, and will also give us the balance sheet resilience to be able to navigate some of the commodity crisis and the supply crisis that continue to exist globally.

Coming to challenges, there have been headwinds also while there have been very, very strong tailwinds. In the headwinds, the first one is the commodity challenge, which we've been highlighting for the last two quarters. Q1 '27 was not immune to it, and we saw an escalation in commodity costs across the board. The commodity index in the last five quarters has gone up by 46% for us, which is what we had roughly guided by last quarter also. In fact, in many ways, the hit from commodity cost was probably a little higher than even we anticipated in Q1. We do believe that there is still some more risk in the coming months of it escalating a bit more, but we are hopefully near the top rather than near the bottom right now. So, hopefully, the pain is not going to compound for too long.

To manage this, we've focused a lot. We obviously are increasing capacity, and that will be a big, big help as we can sell more. But in the near term, every crisis can open up some opportunity. We saw that many years ago when the pullback of subsidies pushed us at Ather to discover new monetization opportunities via things like AtherStack Pro. The current commodity crisis has definitely pushed us again, which reflects in how we've been able to navigate pricing. Happy to report that our teams have been able to drive very strong success on both added sales price increase and improved SKU.

The average sales price of Ather has now hit INR1.61 lakh across the country, up from about INR1.5 lakh as of last quarter. So, there's been a sharp increase there. This is a mix of, A, price hikes, which the market has been able to absorb, and B, improved SKU management on the ground. This is also reflective of the fact about how much pricing power the Ather brand today commands, and how much respect and confidence our customers continue to have in us on our quality, on our products, and overall brand promise. So, this, hands down, is probably the strongest success story for Ather in this quarter. All of this was also supported by very strong AtherStack Pro attach rates, which have gone up even this quarter. We saw 94% AtherStack Pro attach rates in Q1 '27.

So, if I see the overall adjusted gross margin story, AGM story, we exited Q4 '26 at 25.4%. There were structural gains that we were able to bake in between the price hikes, between SKU management, between AtherStack Pro attach rates, cost reductions, and many others. These are structural gains because most of it will survive even the current commodity crisis. In fact, all the structural gains are not fully accounted for because as I talked about the price hikes, the price hike

of -- the ASP increase of INR1.61 lakh happened by the end of Q1. So, there is still some more upside that we will continue to benefit out even in Q2. So, this is the structural gain that we've gotten out of this entire episode.

Obviously, more than canceling it out is the near-term commodity inflation that we're dealing with, which led to a 5.6% drop in gross margins. Net it out, we've landed up at 22.4% AGM for Q1 '27, a fairly respectable place, particularly looking at how strong the commodity hit was. But particularly, the good news, the silver lining in this entire thing is the structural gains will likely continue the commodity inflation -- they will likely outlast the commodity inflation cycle also.

And which brings us to the big financial success of this quarter. Despite the commodity crisis, despite tax pressure, we were able to manage our gross margins well. But more importantly, teams delivered an astounding amount of discipline on fixed costs, recognizing the strong demand that our products already had. We were able to run a really tight ship on fixed costs, particularly marketing and sales, and deliver our first ever positive EBITDA quarter. Our EBITDA came in at a INR9 crore margin for Q1 '27, which is roughly about 0.8%. It's a small number, but this is the first time ever we have delivered one, so very happy to report it. Challenges do continue for the coming quarters. So, there can still be some -- there will likely be, in fact, some ups and downs, but don't want to miss out on the opportunity to call this out when it does happen, which is a positive EBITDA quarter.

So, I spoke a lot about where growth is coming from and how strong demand is looking like -- how strong demand is overall looking like. Coming to the next big driver of growth, hopefully for us, and big driver of demand is our EL Scooter Platform. This is something that we had unveiled last year, and we are now getting ready to launch. EL Scooter is already under production. High volume trials have already begun. SOP has already begun. Homologation is already completed. Production has begun out of our Hosur facility for now and will run from here for a few months before it starts scaling up out of Aurangabad.

We are looking at scaling up our manufacturing capacity for the EL Scooter to about 60,000 units per month between Aurangabad and Hosur together. Obviously, it'll not be called EL. It'll be called -- it'll have a brand name. We'll be unveiling the brand name in a couple of days, so please do watch out for it. And finally, the product is going to be unveiled in our upcoming Ather Community Day, which has now become an annual affair. It's happening in 29th August in Bengaluru, and we look forward to seeing many of you there this time.

Between -- yeah, sorry. Going ahead, to deliver all this demand that we're already seeing and EL will likely bring in, the most critical piece now is the launch of our Factory 3.0 out of Aurangabad or Chhatrapati Sambhaji Nagar. We've shared a picture in the presentation outlining the progress on the site. It's tracking well for a go-live by later this calendar year. Assembly line has already been set up, and warehouse and utilities are coming up as we speak. Paint shop is under trial. So, things are looking good for a go-live in the coming few months.

Finally, coming to the fun event we're all excited about, Ather Community Day. The theme for this year is A New Dawn of Magic, which really -- has really strong correlation to the product that we will be launching, the EL Scooter that we'll be launching. It'll be happening in KTPO in Whitefield, Bengaluru. And we'll have a slew of announcements. The big ones, obviously, would be the launch of the scooter. But there will also be many announcements around the software stack, around charging infrastructure, and many other ownership products.

With that, we are at the end of my section. In summary, demand is up incredibly. Demand has really gone in a very different orbit altogether, up 158% compared to same time last year. And EL launch

later this month should further set us up for an even stronger demand in the coming quarters. Registrations, which is retail for us, are up strongly at 102%, supported enormously by really strong per unit revenue in Q1. And finally, production also up 79%. But the big upside here is awaited with Factory 3.0 going live in Q3 FY '27.

With that, folks, at the end of my section, we can now open this up for Q&A. Thank you.

Questions & Answers

Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] We take the first question from the line of Amyn Pirani from J.P. Morgan. Please go ahead.

Amyn Pirani - Analyst, J.P. Morgan

Yes. Hi. Thanks for the opportunity, and congratulations on a strong number even in a quarter which had so many challenges. So, my first question is actually on the margin itself. You did mention that commodity headwinds could continue. So, are you seeing a similar 5% to 6% further commodity headwind that you saw in this quarter? Or are you thinking more like it will be stable at these levels and then hopefully come down at a later part of the year?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Thanks, Amyn. I expect commodity hit to continue inching up because do remember these are quarterly average numbers, so they don't probably fully capture the hit from commodities that we would've seen by the end of the quarter. But I'm also not expecting like a 5%, 6% further drop from here. So, do expect that, like we've guided -- we've not guided, we've called out that the hit in this quarter was roughly about 5.6%. I would say there's probably another couple percentage points worth of risk left. There's also a possibility that this could start cooling, but that's extremely volatile and difficult to exactly predict when that happens.

But if nothing else changes, maybe there is still 100 bps, 200 bps of further hit left. For which, I think, if we've been able to absorb this, I'm more optimistic about absorbing or largely managing the rest because EL itself will start lowering our cost structures in the coming quarters, and annual cost reductions will anyways play a strong role.

Amyn Pirani - Analyst, J.P. Morgan

Sure. Thanks for that. And even on your employee and other expenses line, you've shown remarkable cost control. So, is this a new baseline and then EL helps us? Because I think when the new capacity comes in, these costs will go up, right? So, before the new capacity comes up, is this the new baseline, or was this quarter something exceptional that you did to control the costs which can go up in the future?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Well, I wouldn't call anything exceptional. By DNA, we have generally run a tight ship and we've been always fairly cautious. This year, even internally, our messaging was very clear that we have had a blowout year in FY '26, but in FY '27, we've got to be cautious. So, we've managed all expenses carefully. We've not been overly generous there, so that's true. But overall, I think it's a story of multiple cautious eyes landing this year. So, nothing exceptional that we have done. It's not like a one-time thing that's happened here or some additional positive surprise that's kicked in.

As AURIC starts going live, yes, there will be a cost that will go up. It may not go up immediately because some of that cost will likely get capitalized. But expect Q4 onwards that cost to come in. But by the time you'll see that cost hitting our P&L, you will also likely see volume output out of it. So, net-net, you may not see a meaningful shift in overall numbers.

Amyr Pirani - Analyst, J.P. Morgan

Sure. And just one last thing from my side. Are you expecting to hit a full ramp-up in AURIC Phase 1 by March? Or is that something which will happen sometime in fiscal year '28?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Amyr, I would like to hit in March, but honestly, difficult to predict the exact month. So, could spill over into the first few months of FY '28. But you can imagine the kind of pressure we have created for ourselves with this demand. So, everybody is completely focused and incentivized only and only to get AURIC live -- go live as quickly as possible.

Amyr Pirani - Analyst, J.P. Morgan

Okay. Great. All the best for that, and thank you for the opportunity.

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Thanks, Amyr.

Operator

Thank you. We take the next question from the line of Kapil Singh from Nomura. Please go ahead.

Kapil Singh - Analyst, Nomura Financial Advisory & Securities

Hi. Good evening, team, and congratulations. Firstly, just on the demand side, we have hit our ASP of INR160,000 now. It's firmly in the premium motorcycle segment category. So, just wanted to understand, what is the customer profile and demographics, any insights you might want to share? Is the market shifting towards scooters? And your views on that would be helpful.

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Yeah. Hi, Kapil. Thank you for reminding us of this interesting success. No, I was just checking with the team here while you were asking the question. No, our teams on ground don't believe that the customer profile has changed. It's basically the same customer. There is definitely some role of limited supply at play here, no doubt about it. That's definitely particularly helping us push the SKU in the direction that we like. But overall, we don't think the underlying customer profile has changed radically. Is it the motorcycle buyer buying a scooter today? We also don't think so. We think it is largely still the same scooter buyer.

What has to be called out is the continued success of retail finance in our overall scheme of things, which is really helping customers absorb this cost in an easier way. See, because you would appreciate this, that the TCO gain of electric is becoming incredibly powerful. So, though I listed that as the fourth point in the structural tailwinds, it does help a lot towards this factor that, you know what, an extra INR5,000, INR8,000 is probably fine because that's like maybe INR100, INR200 extra per month, but the petrol savings are just like enormous at this point. That, coupled with the E2O concerns, overall, I think create an environment where customers don't mind paying a little bit more for an EV because they are starting to appreciate the TCO quite a lot more now.

Kapil Singh - Analyst, Nomura Financial Advisory & Securities

Okay. Second question was on the margin side. What is happening on the PM E-DRIVE subsidy? And with the price hikes that you have taken, have they been able to cover up for the cost increases when we look at Q2 and beyond?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

So, we've been hearing that -- we've been hearing an intent by the government to find a way to extend PM E-DRIVE to continue supporting the larger electrification drive that they've been behind. As of now, we don't have one. We are awaiting clarity on it, but signs are strong is all I can say.

And have the price increases covered the inflation that we have seen in commodities? No, I won't say they're fully covered because if they had, we would've seen no margin loss at all. But there is one upside, which is that though I did say to MN in the previous question that I expect commodity inflation to increase a little bit more for another quarter, the reality also is in the structural gains bucket. Our price hikes haven't been fully factored in, in Q1 because our price hike happened actually reasonably backward, right? So, there is some more upside that will hit us from there also. So, for Q2, we may be in a decent position now on canceling the effect of commodity hikes. But yeah, we'll not fully capture on. We'll have to wait for commodities to cool down.

Kapil Singh - Analyst, Nomura Financial Advisory & Securities

Yeah, but subsidy is one element we will need to watch for, right? Because you would have got almost for the full quarter in Q1.

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Actually, no. Even for Q1, we didn't bake subsidies for the full quarter. Roughly about 15% to 20% of the vehicles may have been sold without subsidy. I'll just re-verify the exact numbers. Maybe more. For Q2, we'll have to see if subsidies are announced. Right now, as we speak, we don't know.

Kapil Singh - Analyst, Nomura Financial Advisory & Securities

Okay. And just finally wanted to check any thought given to AURIC Phase 2. Is it possible to bring it earlier if the demand momentum continues like this, especially with the new product launch?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Yeah, very good question, Kapil. So, that's what I was saying, that we did start thinking about this as a potential requirement, which is also what played a role in how we sized up our fundraise. So, the overall INR2,500 crores in our mind also gives us the watches to fast-track AURIC Phase 2 without necessarily waiting for more proof of Phase 1. So, we'll see in the coming couple of quarters if this trajectory holds up. I would not rule out a Phase 2 fast-tracking -- quite a material fast tracking.

Kapil Singh - Analyst, Nomura Financial Advisory & Securities

Okay. Brilliant. Thank you so much and best wishes.

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Thank you.

Operator

Thank you. We take the next question from the line of Gunjan from Bank of America. Please go ahead.

Gunjan Prithyani - Analyst, Bank of America

Yeah. Hi. Thanks for taking my question. Just continuing on similar lines, zooming in a little bit more on the capacity and the commodity bit. On the capacity, Tarun, you mentioned 30,000 [Phonetic] goes to 35,000 immediately. You've debottlenecked or ramped it up. By Q1, that gets to roughly 72,000. Is that what, 40,000 plus the 35,000, 75,000? Is that the way to think about it, by Q1 we'll be 75,000 of next year?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

By Q1 '28, you mean? Yeah, very high likelihood, yes.

Gunjan Prithyani - Analyst, Bank of America

Okay. And then, you mentioned that there is a 60,000 per month that you're allocating to EL. How do I read these two together? I mean, is it the fungible lines? Is there something else that I need to understand here?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

So, AURIC has been completely dedicated towards EL. What we've also done in Hosur is, yes, Hosur does have some amount of fungibility, but more importantly, Hosur does have additional capacity. So, we can either give EL the full 18,000 out of Hosur, or we can take it down because we already have the capacity to do 35,000 of Rizta and 450. We can play between these two. We can't add them up, so we can't do 35,000 plus 18,000 because that much line capacity we don't have. But with a little bit of heads up, we can choose that allocation. So, EL, with Phase 1 of AURIC, EL can have a net total capacity of 42,000 plus 18,000, 60,000.

Gunjan Prithyani - Analyst, Bank of America

Okay. Got it. Okay. That's clear. And on the acceleration of Phase 2, is there a timeline that you can put that how soon can it be done if you had to do at AURIC?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

I think difficult to say this quarter, Gunjan. Maybe by next quarter, I'll be a little bit more wise about it. The upsides are that the land was secured together, incentives were negotiated in one go. Some of the infra will also be common between both Phase 1 and Phase 2. So, Phase 2 should certainly take lesser time than it took Phase 1. Lot of the approvals are already in place also.

The downside is -- downside, or rather let me call out the watch out right now is, we don't want to start Phase 2 today or start giving a guidance or timeline today, because it just feels like we should be a little bit more cautious. Just see Phase 1 at least go live in the next few months, and then get going with Phase 2. So, right now we are in the planning stage for Phase 2. If all looks well, maybe in a quarter or two max, we'll have more firmer timelines and guidance to share.

Gunjan Prithyani - Analyst, Bank of America

Got it. And on the commodity increase, sorry, a little bit more discussion is happening on this. Just trying to get my head around. You'll have a 7.5% sort of commodity hit in Q1 and Q2 put together. Can you just give us some thought process on how much price hike has been taken? How would we look to sort of cover some of it through combination of price hike? Secondly, structural benefits that we have already accrued and we may potentially see from EL platform, any ballpark math around it? And of course, we'll hope that commodities cool off. But in absence of, let's say, commodities plateau out here, how do we look at the sort of covering up this 7%, 7.5% sort of RM headwind?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Yeah. So, in Q1, we started increasing our ASPs. The bulk of this ASP increase has come on the back of price increases, which are 100% margin accretive. I would say maybe about one-third was improved SKU management, which is not fully margin. It's maybe about 25% of that flows back into gross margins. So, we took our pricing up to -- so, we were INR1.5 lakh per vehicle in Q4. We went up to INR153,000 in April, INR153,000 in May, and INR161,000 in June. So, that's where for the quarter, we may have averaged out probably closer to INR155,000 or so. But the reality is, since June, our pricing is already -- or our ASP is already around INR1.61 lakh.

So, that benefit would be seen on a full quarter basis in Q2, and which is where I'm reasonably confident that further hits from commodity at this point may be largely mitigated by the price hikes that we've already done, which will reflect in our financials in Q2. So -- yeah. So, this 5.6% could only be partly absorbed, but any further increase can be more or less managed.

There's only one downside to ASP, by the way. As EL launches later this month and as it scales up in production, it will likely depress our ASPs a little bit. But on a whole, overall, margins will likely look quite fine. So, at a margin level, I think, we've already made a move, and in Q2, we should not see a material degradation from RM any further. And this point onwards, probably for the first time, I would say, hits from commodities are probably now -- like, there is a line of sight of where they are headed. I don't think they will continue getting worse with no end in sight. There's probably another 100 bps, 200 bps, which we can probably manage with our already announced price hikes.

Gunjan Prithyani - Analyst, Bank of America

Got it. That's super clear. And last question, Tarun, going back to the opening comments that you made, that we're seeing a pretty big change in the policy push for EVs, and you highlighted Delhi and you did mention a few more. I mean, is there something that you're seeing, with the sort of adoption we are seeing, is anything else coming from other states? The reason I ask is, Delhi faced a lot of skepticism, right? I mean, a small state, neighboring states, we can see registration. You sort of heard a lot of skepticism on whether it will be successful or not. Are you sort of hearing the similar sort of narrative from other states or at a central level as well, that there could be a more stringent policy push towards EVs now?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

I think all signs that we have seen are remarkably consistent from a policy perspective around the need to support electric vehicles, which is also why there's been an increased reach out to, for example, new-age EV players in order to take their inputs as to what role brands like us can play. There's been conversation around if PM E-DRIVE can be extended. Delhi EV Policy is obviously the strongest move yet. I think it will get a lot of debate in the coming quarters. But I feel now with some conviction that this policy is going to land. Yeah, there will be some parts which will probably get negotiated for a while or might get pushed out for a while. In some categories, there's not enough proof of success with electric vehicles yet, so there'll be rightfully some pushback temporarily on it. But overall, like something like in scooters, I think it'll be difficult to stop the tsunami of support. See, because, Gunjan, I think for the first time, and -- let me zoom out a little bit. Many years ago, Delhi tried the odd-even policy. But I think there was a lot of pushback on it, despite being probably a good one from a pollution perspective, because consumer support for the policy was not strong enough, probably. But I think what we are noticing with Delhi EV Policy this time is that the consumers' confidence and comfort that, yes, we have to move to electric, this has to be done, is

very high. And I think that's playing a big role in giving the confidence to authorities to then not back off and continue driving this.

We're also seeing other states, like Haryana now, following a similar trajectory or at least showing more support. And finally, irrespective of when these policies exactly play out, it's a sentiment that has changed really, which is why my first point really was, like the Prime Minister saying that electrify cooking and electrify transport. It's a very powerful thing because for a lot of people, that really sets the tone that then this is time for mainstream. This is the right thing. This is the nationalist thing to do. So, I think that is not playing a small role. That's playing a pretty powerful role.

Gunjan Prithyani - Analyst, Bank of America

Got it. Thank you. Thank you so much. Best wishes for the EL Platform.

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Thanks, Gunjan.

Operator

Thank you. We take the next question from the line of Mukesh Saraf from Avendus Spark. Please go ahead.

Mukesh Saraf - Analyst, Spark Capital Advisors

Yeah. Good evening, and thank you for the opportunity. My first question is regarding the AURIC Phase 1. How do you see the ramp-up of production happening? So, while the plant starts in November, how do you see the ramp-up there? The reason I am asking is that we are already about 15,000 short of production, and then we have the EL launching as well. So, just trying to understand how this scale-up can happen there.

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Yeah. Thanks. So, AURIC will -- equipment installation is ending in the next couple of months, and we will start trial productions from the festive period. Expect reliable daily output all throughout Q4, starting from 1 Jan itself. It's difficult for me to exactly pin down whether it is end of Q4 or into Q1 that the ramp-up to 42,000 units a month will finish, but it will finish sometime in that zip code. So, I would say the overall ramp-up from zero to 42,000 a month is somewhere in the vicinity of four to five months. So, that's how I would rate it.

Obviously, I recognize that there is a large gap for us to fill. But the good news is this is a big step-up that we are going to be experiencing. We don't have the upside of seeing linear increases every other month, but the big step-up will hopefully hold us steady for at least a few quarters, before, if required, we need to ramp up to Phase 2.

Mukesh Saraf - Analyst, Spark Capital Advisors

Right. And in continuation, this 18,000 units a month that you'll start off with at Hosur, in all probability, that would be coming off the Rizta, and you'll maintain the production of the 450X, or that's not how I should look at it?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Sorry, Mukesh. I missed your starting of the question. Can you repeat?

Mukesh Saraf - Analyst, Spark Capital Advisors

This 18,000 units a month that you're planning to first begin at Hosur within 35,000 that's available

right now, we should assume that the Rizta production will come off while EL goes up, and 450X, kind of, you'll look to maintain the production?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Correct. So, that's the flexibility that we will create for ourselves. While EL will have uninterrupted availability from the 42,000 units a month from AURIC Phase 1, it will also have the option to grow into another 18,000 in Hosur. But should Rizta demand continue to hold up meaningfully, we can allocate that supply to Rizta instead and let AURIC grow more organically only out of AURIC -- let EL grow more organically only out of AURIC. So, we'll decide this in a more fluid -- in a more dynamic manner as we see early demand trajectory through. But yes, directionally, it's Rizta that will likely see more cannibalization from EL rather than 450. 450 is unlikely to be impacted by EL's launch.

Mukesh Saraf - Analyst, Spark Capital Advisors

Got it. And just lastly, any updated targets you have on the dealer addition, given we are slightly short of capacities now and how the ramp-up there is going to be. So, dealer addition, any updated targets also on that?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Yeah. No. So, Mukesh, we've gone slow with new store opening in Q1 because exactly the point that you said. It is not prudent for us to ship out more inventory to build out new stores while existing stores are only meeting 50%, 60% of demand. So, we're waiting out a couple of quarters. But with EL going live and particularly AURIC go-live happening by festive, you will start seeing a surge in new store openings from our end once again, which is when we'll also bring the metric up and start giving more color on that.

Mukesh Saraf - Analyst, Spark Capital Advisors

Got it. All right. Thank you. I'll get back in the queue.

Operator

Thank you. We take the next question from the line of Yash Agarwal from Nirmal Bang Institutional Equities. Please go ahead.

Yash Agarwal - Analyst, Nirmal Bang Institutional Equities

Hi, sir. Thank you for the opportunity and great set of results. So, just wanted to know, the non-vehicle revenue has increased to 14% of operating revenue. What are our long-term targets, and what are the typical margin profiles for software, charging accessories, and other non-vehicle revenue?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Hey, thanks. So, non-vehicle revenue for us is -- the largest piece today for us is the AtherStack Pro, the software pack in our offering, which has done incredibly well for us, even better than we anticipated. The potential for growth, however, comes from two other parts, which are service revenues and accessory sales. Accessory sales actually have been quietly compounding. We haven't given color publicly this quarter, but maybe in a few quarters we will bring it up and give a little bit more color. But accessory business has been building out really well. But the biggest compounder of all would likely be the service revenues, because that's a function of fleet size.

For established businesses -- sorry, for established two-wheeler businesses, service revenues can be as high as 10% to 12% of their overall revenues. For us, that's more in the vicinity of a couple

percentage points, 2 percentage points, 3 percentage points. So, there is a tremendous amount of growth possible here over the next decade. So, we do expect this will continue increasing. In the short term, it has seen some support because of the price increases on AtherStack Pro. In the medium term, accessories will also play a material role. But in the long term, this is going to compound on the back of service revenues -- service and spares.

Yash Agarwal - Analyst, Nirmal Bang Institutional Equities

Okay. Okay, sir. And the second question is, like, several OEMs are preparing to launch their electric motorcycle in next 12 to 18 months. So, how do you see this segment evolving? Does Ather intend to participate meaningfully before -- like, in next one or two years? Or does any platform will take more than that to come up with its first product?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

So, at this point, we are rather focused on the EL platform and getting at least the first maybe two products -- maybe another product out on it in the next year. Motorcycles are starting to look interesting. That's true. But Ather may not be the pioneer this time. We may watch the market. We want to see how consumers respond, which segments show a willingness and an interest towards this segment, before we make our maiden launch here. So, this is, I would say, more than a year away for sure, probably two years plus.

Yash Agarwal - Analyst, Nirmal Bang Institutional Equities

Okay, sir. And the one last question on the, yeah, excellence center addition. So, how has the productivity of recently added stores evolved versus mature stores? And can you share any trend in average retail throughput per outlet?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Yeah. I'll not be able to share retail throughput per outlet, but even before the demand surge that we've seen in the last four, five months, a new store -- so, we look at stores on a quarterly cohort basis. So, stores that open in Q3 are tracked together. So, every cohort was showing operational profitability in less than six months -- five to six months on an average. So, while some stores might take seven, eight months, but the average was really, really rapid. In fact, it was much faster than we had guided to our own retail partners. So, in light of what's happening right now, honestly, as we ramp up more and more supplies, I would not be surprised if stores start becoming operationally profitable in as early as two months. So, that's also possible. But we've had a good track record on this, at least throughout FY '26.

Yash Agarwal - Analyst, Nirmal Bang Institutional Equities

Okay, sir. And just one last question on, like, what has been the breakup between Tier 1, Tier 2, and Tier 3 cities in terms of retail sales in last one or two quarters?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Sorry, I'm going to be going by memory here because we don't have it on our fingertips. But I do remember that Tier 2 or Tier 3 stores were becoming our biggest volume drivers, because obviously we're also adding a lot more cities and stores there. So, at least a year ago, I think -- or a year and a half ago, I think we had equal sales coming out of top 10 cities, and then the next 20, 30 cities, and then the next few hundred cities. Sorry, my bad. Top 20 cities and then the next 100 cities, and then the long tail of all cities after that. But I think it's becoming more Tier 3 heavy in terms of just absolute throughput in the recent few quarters. Also, the EV penetration is highest in Tier 2 and Tier

3 for a while now. So, it kind of stands to reason that we will see stronger traffic out there.

Yash Agarwal - Analyst, Nirmal Bang Institutional Equities

Okay, sir. That's it from my side.

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Sure. Thanks.

Operator

Thank you. We take the next question from the line of Nikhil Kale from Invesco. Please go ahead.

Nikhil Kale - Analyst, Invesco Mutual Fund

Yeah. Hi. Thanks. Thanks for taking my question. So, Tarun, just a couple of questions. One on the EL launch. So, how are you thinking about the launch in terms of -- would we be fair to assume that the launch will be more catered towards, say, Middle India or the northern part of the country initially?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

Very likely, Nikhil. There's been a lot of pull and customer interest for more favorably priced variants, in particularly the northern markets. So, expect us to have a slightly higher bent towards that. Particularly, there'll be a heavy bias towards that in the early few months, before we open up sales across the country. We followed a focused geo strategy even during Rizta's launch, starting from targeted markets in Middle India and then rest of India and then South India. The order might be a little different this time, more rest of India, then Middle India, and then South India. It also follows our larger -- sorry, please go on.

Nikhil Kale - Analyst, Invesco Mutual Fund

No. So, I mean, assuming that this will probably be at a slightly lower ASP, like you've mentioned that ASPs will trend down. So, I mean, the expectation for -- what's the expectation for, say, AtherStack Pro attach rates? Will they kind of trend down for this product, generally given that it will be slightly on the lower price point?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

I would like to guide so. However, having seen the track record over the last year and a half or so, maybe I'll be a bit more optimistic. I wouldn't guide very low. I would cautiously guide at least 75% attach rates with EL also, but I would hope for even higher.

Nikhil Kale - Analyst, Invesco Mutual Fund

Understood. And just lastly, you spoke about the fungibility at Hosur plant. But just theoretically, if Rizta kind of holds up the volume and if -- I mean, I hope it happens, that Rizta demand kind of surprises on the upside, then how do you kind of cater to that? Because -- is AURIC capable of also doing Rizta? And I think initially we had also spoken about moving Rizta to the EL Platform. So, what are the plans for that?

Tarun Sanjay Mehta - Executive Director and Chief Executive Officer, Ather Energy Limited

I think if that happens, the latter is the more likely outcome, because AURIC is built for the platform, EL. Sure, it can handle more products, but as a platform, AURIC is best suitable for the EL platform. So, if genuinely Rizta demand surprises us on the upside, expect us to find ways to build it on the EL platform in the more mid to long term. But in the short term, we are anyways well-capitalized on

capacity for the Rizta product and the platform as a whole out of Hosur, because Hosur can anyways do 35,000 a month, and we are also trying to push that up a little bit more.

Nikhil Kale - Analyst, Invesco Mutual Fund

Understood. Thank you. That's it from my side.

Operator

Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Murali Sashidharan for his closing comments.

Murali Sashidharan - Head of Public and Government Relations, Ather Energy Limited

Thank you, everyone. We sincerely appreciate all of you joining us today and for your continued engagement and support. We look forward to updating you on our developments in the coming quarters. So, wishing you all a great week ahead. Thank you.

Operator

[Operator Closing Remarks]