

Ola Electric Mobility

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Valuation ease, but volatility concerns

1. Early teen gross profit margin in FY24 and PLI approval for 2 of its scooters started accruing since January 2024 comfort. FAME III policy incentive will be key trigger to watchout for E2W segment.
2. Cut in IPO valuation to USD4bn ease valuation risk at 6.8x FY24 sales vs global EV peers at 3-8x CY23F.
3. We are constructive on IPO, however, quarterly volatility from policy, EV cell plant delay penalty risk and regular PE share sale to limit stock price gains. EV cell production success can extend an option value of Rs.7-10 per share.

Key highlights from IPO meet [DRHP analysis in Dec 2023](#)

- a) **Industry outlook:** Management expects EV2W sales to reach 41-56% penetration by FY28 from 4.5% in FY24.
- b) **Products:** It currently has 7 products in portfolio and management plan to launch 4 bikes in CY25. Nearly 50% of its sales volume are financed and have tie-ups with 12 financial institutions. Currently the company is producing scooters on Gen 2 platform, and likely to go to gen 3 platform which it feels can give further boost to cost reduction and performance enhancement.
- c) **Scooter capacity and network:** Currently has 1mn units capacity in the 2,000 acres of land, which can scale up to 4mn units of capacity. The company has 870 experience centers and 431 service centers and plan to double it in medium term.
- d) **R&D:** Ola has 1,000 employees in the R&D team, and they have invested ~Rs.10bn in the last 3 years, 75% of which capitalized, and the rest written off. Continuing to spend on R&D, it is expected to taper down to low single digit as revenue grows and was 7.34% in FY24.
- e) **Government incentives:** Currently the company has PLI EV manufacturing certificate on 2 of its scooters. PLI incentive is around 13-18% of determined sales value. FAME subsidy, management feels is likely to further taper in the medium term.
- f) **Market share:** Ola has a market share of ~40% in FY24, it wants to maintain market share led by tech, new launches, lower cost. Management plans to focus on increasing penetration in 2W industry over market share and profitability.
- g) **Battery business:** Early next year the company plans to start installing batteries in its own vehicle, which is currently in testing phase. Cell gigafactory of 1.4 GWh has been completed by March'24 and it is expected to increase to 5GWh by Feb'25, 6.4GW by Apr 25 and 20Gw by Jun 26. Management indicates global cell prices came down by 1/10th in the last 4-5 years and are currently at ~\$100/kWh. Management said, 5Gwh cell capacity can be used for fitment into 1.5mn units scooters production.
- h) **Cost structure** - Currently 37% content are imported in FY24 i.e majorly batteries. It has changed to Chinese imports in FY24 vs Korea in earlier years. The biggest cost component is battery at 32.4% of bill of materials and power electronics at 14.8%.
- i) **Financials:** Revenue grew by 90% yoy in FY24. Gross margin at 16.47% in FY24 vs 7.63% in FY23. Improving scale, tech and own battery to lead to margin expansion.
- j) **Hyper charging:** With hyper charging facility planned, the scooter is expected to charge upto 50% of battery capacity in 20-30 mins.

Figure 1: OLA Electric IPO Details

IPO Date	August 2, 2024, to August 6, 2024	
Face Value	Rs.10 per share	
Price Band	Rs.72 to Rs.76 per share	
Fresh issue	72 mn shares	Rs.55,000 mn
Offer for Sale	8 mn shares	Rs.6,456 mn
Total Issue Size	80 mn shares	Rs.61,456 mn

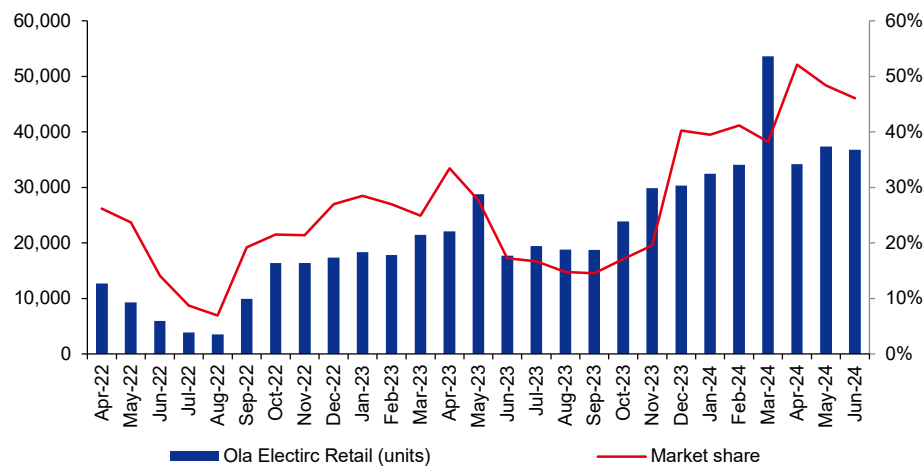
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 2: The Net Proceeds are proposed to be utilised in the following manner (Rs.in mn)

Particulars	Estimated amount
Capital expenditure to be incurred by our Subsidiary, OCT for the Project	12,276.4
Repayment or pre-payment, in full or part, of the indebtedness incurred by our Subsidiary, OET	8,000.0
Investment into research and product development	16,000.0
Expenditure to be incurred for organic growth initiatives	3,500.0
General corporate purposes	[•]
Total Net Proceeds	[•]

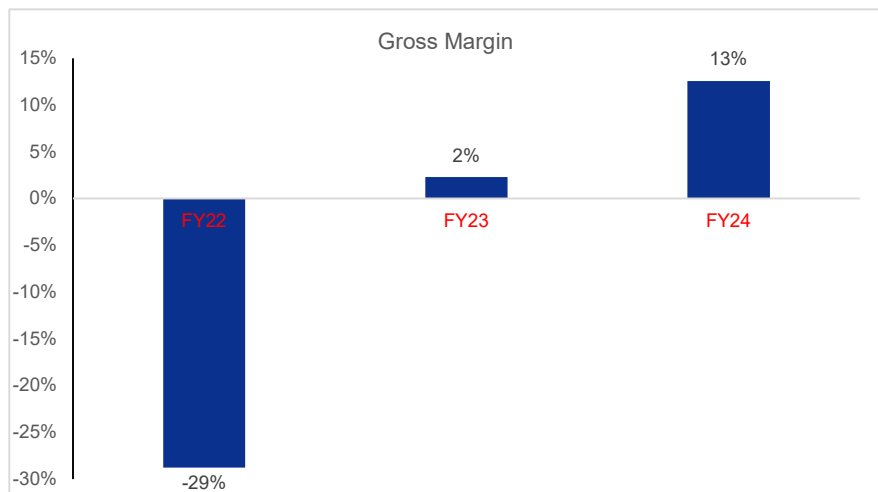
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Ola's retail volume sales and market share trend



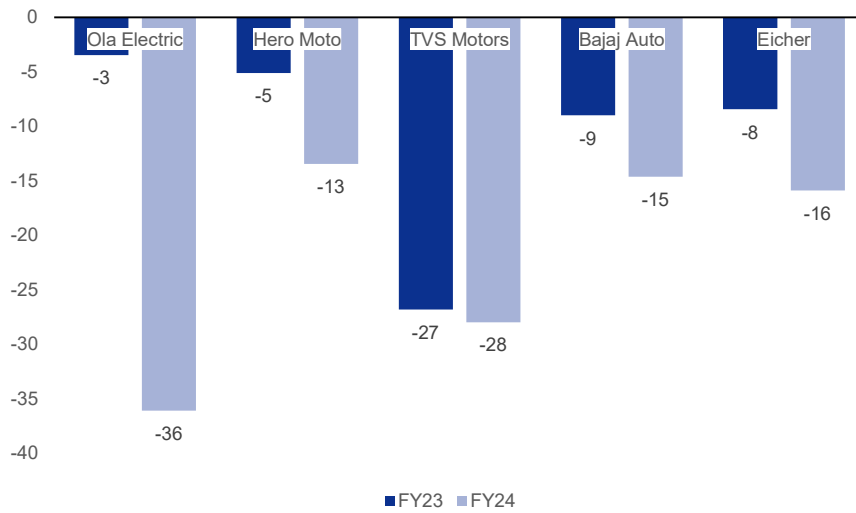
SOURCES: VAHAN, INCRED RESEARCH, OLA RHP

Figure 4: Gross margin trend



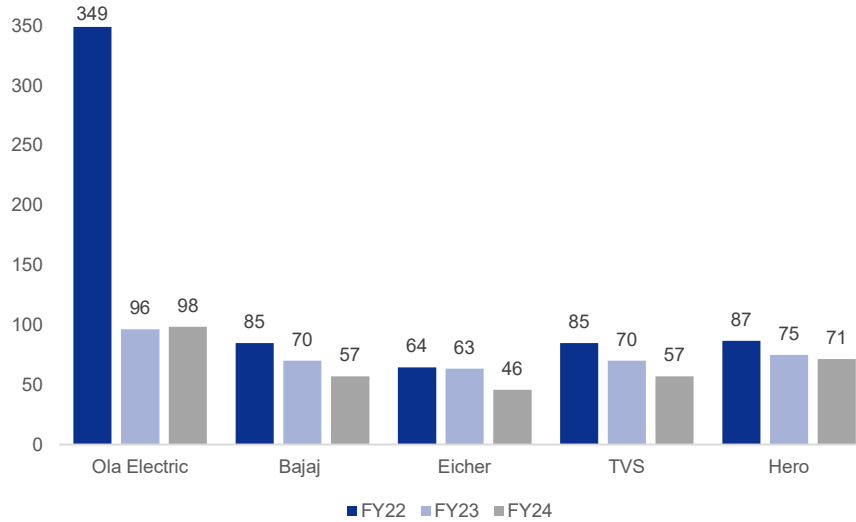
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Net core working capital days trend improves vs peers, difficult to sustain



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 6: but aided by high creditor days vs peer



SOURCES: INCRED RESEARCH, COMPANY REPORTS

*P.S. As it's a Quick Take, the document is not edited/formatted.

Thanks and Regards,

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