IPO OF OLA ELECTRIC

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OVERVIEW OF OLA ELECTRIC IPO

- The IPO of Ola Electric will be a historic event as it marks the first-ever initial public offering by an Indian electric vehicle (EV) company. Ola Electric has ambitious plans to expand its EV business and establish a facility for manufacturing lithium-ion cells.
- As Ola is a popular electric vehicle company, it is associated with a brief history of negative cash flow and losses. So, investors need to be aware of risk factors, issue details, objectives, price bands, etc., associated with it. In 2023, the Ola Electric Company led the electric-2-wheeler India market in revenue generation.
- Just last week, Ola Electric took a significant step towards its IPO by filing its draft red herring prospectus (DRHP) with the Securities and Exchange Board of India (SEBI). The IPO includes a fresh issue worth ₹5500 cr and an Offer-for-Sale (OFS) of 95,191,195 Equity Shares at a face value of ₹10. Ola Electric's founder Bhavish Aggarwal will sell up to 47.4 million shares, according to the draft papers dated December 22.The share allotment date and listing date are yet to be announced.

Objectives : As per the DRHP, net proceeds of up to ₹1226.4 cr. from the fresh issue will be used for capital expenditure to be incurred by the subsidiary, Ola Cell Technologies (OCT) for the Ola Gigafactory project. Along with this, ₹1,600 cr. will be used towards investment into R&D and ₹350 crore will be utilised for organic growth initiatives and general corporate purposes. Additionally, ₹800 cr. will be used to repay/pre-pay the indebtedness incurred by subsidiary, Ola Electric Technologies (OET).

OVERALL ELECTRIC VEHICLE MARKET

- Electric Two-Wheelers (E2Ws): On an annual basis, the sales for E2W segment recorded an increase of 210% in FY2023 over sales in FY2022. Ola Electric, Hero Electric, and Okinawa Autotech were the top 3 E2W players in FY2023, accounting for more than ~45% market share in registered vehicle category sales.

- Electric Three-Wheelers (E3Ws): On a yearly basis, the combined sales of both passenger and cargo (registered) E3Ws in FY2023 recorded an increase of 126% over sales in FY2022. Mahindra & Mahindra, YC Electric Vehicle, and Saera Electric were the top 3 E3W players in FY2023 with shares of 8.95%, 7.34%, and 5.46% respectively.

- Electric Cars (E-Cars): On a yearly basis, E-Car sales registered an increase of more than 150% in FY2023 over FY2022 sales. Tata Motors was the top E-Car player, accounting for more than 75% of the entire market share, followed by MG Motor which accounted for 10% of the market share.

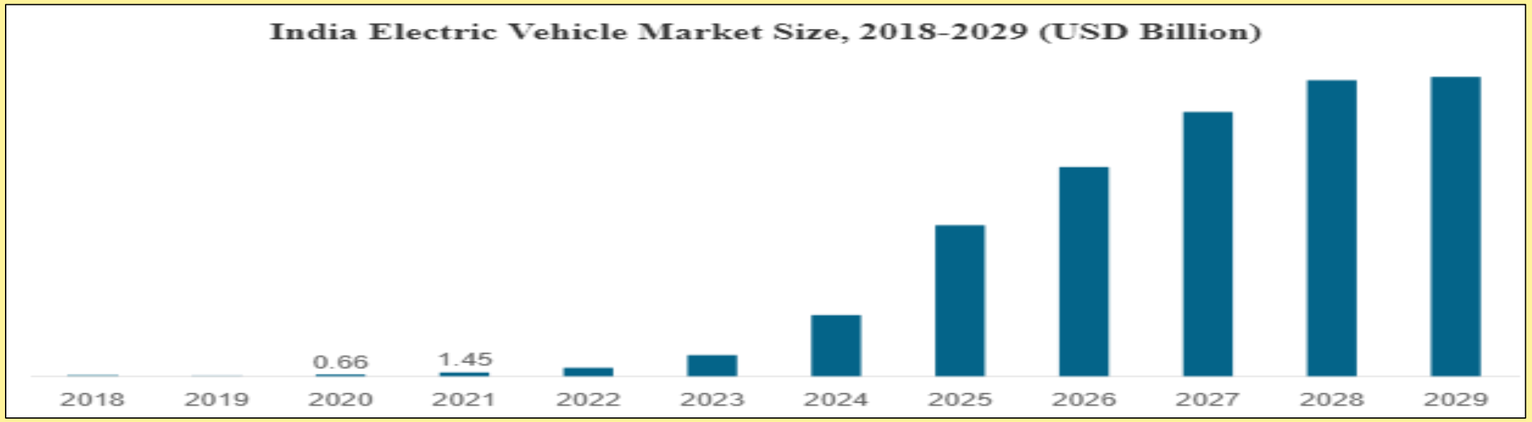
- Electric Buses (E-Buses): On an annual basis, E-Bus sales witnessed a jump of 62% in FY2023 over sales in FY2022. PMI Electro Mobility, Olectra greentech, and Switch Mobility (Ashok Leyland) were the top 3 E-Bus players accounting for 74% of the total E-buses sold in FY2023.

- Battery Packs: The report covers cumulative nameplate and operational capacities of key battery pack manufacturers as of FY2023. Nexcharge, Okaya, Inverted, JLNPhenix Energy, and Exicom, are the top players in terms of cumulative Nameplate capacities.

- Charge Points: The report includes installed slow and fast charge points of charge point operators (CPOs) as of FY2023. Tata, Charge+Zone, and Ather are the top 3 players in the fast-charging category while Bolt and EVRE are the top 2 players in the slow-charging category.

INDIA'S EV MARKET OUTLOOK

The Indian electric vehicle (EV) market was valued at USD 1.45 billion in 2021, and it is expected to surge from USD 3.21 billion in 2022 to USD 113.99 billion in 2029, with a robust CAGR of 66.52% during 2022-2029. Despite an 11.34% increase in 2020, the COVID-19 pandemic led to lower-than-expected EV demand in India. However, 2021 witnessed substantial growth, driven by government policies. Uttar Pradesh dominated EV sales, with 66,704 units, followed by Karnataka (33,302) and Tamil Nadu (30,036). Mahindra & Mahindra plans to launch 16 Battery Electric Vehicles (BEVs) by 2027. India, ranking fifth globally in the automobile industry, aims to be the third largest by 2030, fueled by surging EV demand due to population growth and the need to reduce reliance on imported oil. NITI Aayog targets 70% EV penetration by 2030, aiming for net zero carbon emissions by 2070. Over the past three years, around 0.52 million EVs were registered in India, according to the Ministry of Heavy Industries.



OVERVIEW OF OLA ELECTRIC

Ola Electric Mobility (stylized as OLΛ ELECTRIC) is an Indian electric two-wheeler manufacturer, based in Bengaluru, Karnataka, India. It is India's largest electric two-wheeler manufacturer valued around US$5.4 billion as of September 2023.

- Ola Electric achieved the highest revenue among Indian electric two-wheeler (E2W) manufacturers in Fiscal 2023, as reported by Redseer. Remarkably, within nine months of launching its first electric scooter in December 2021, Ola Electric became the best-selling E2W brand in India based on monthly registrations on the VAHAN Portal. OLA Electric brand has become the first EV company to sell over 2.5 lakh units in a year.
- As per analysis, currently, Ola electric company provides five scooter models and has a 31 % market share in the E2W segment. It shows the high recognition ad popularity of Ola electric vehicle company in Market. The company also exports electric vehicles to the international Market.

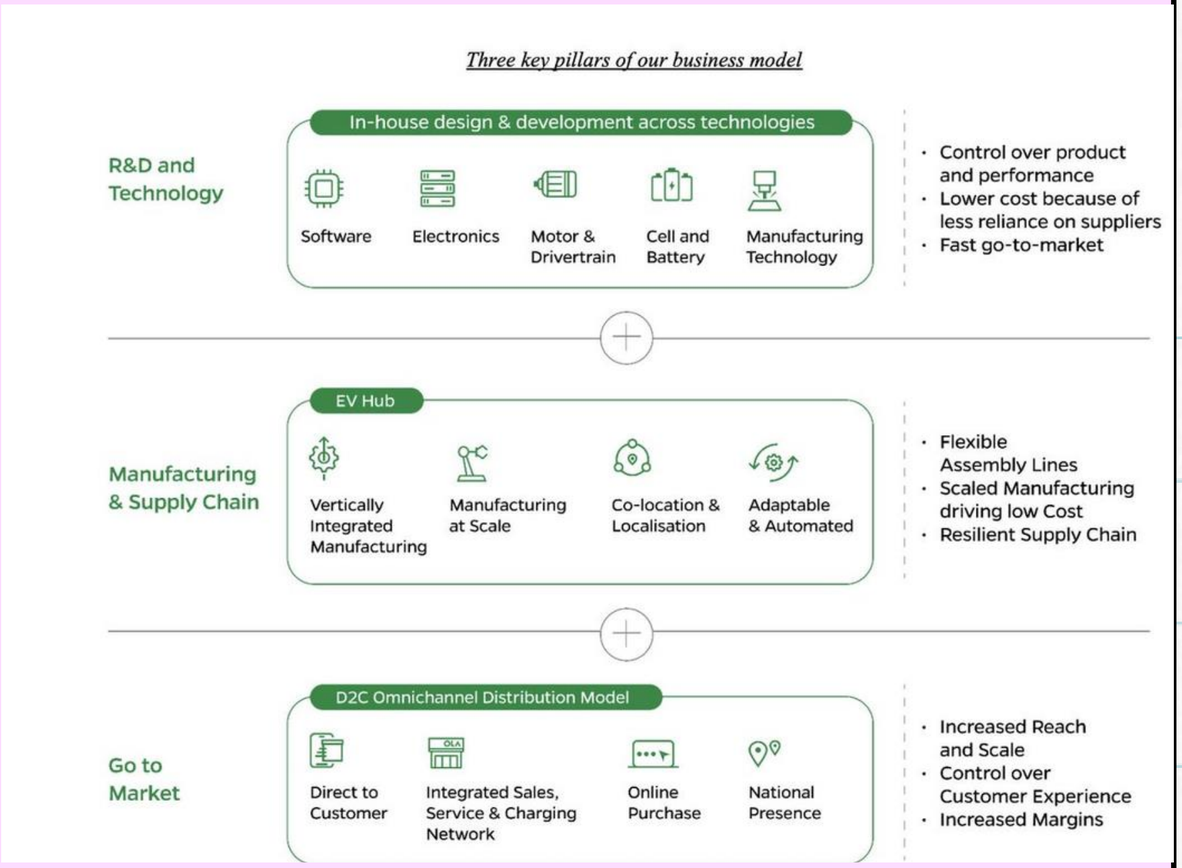
Products

Ola S1 Pro, in December 2021
Ola S1 in September 2022
Ola S1 Air in August 2023
Ola S1 X+ in December 2023
Ola S1 X (2 kWh) and the Ola S1 X (3 kWh) were announced in August 15, 2023

BUSINESS MODEL

The business model is founded on three key scalable platforms: (1) R&D and technology platform with in-house design and development across EV technologies and components, (2) adaptable manufacturing and supply chain platform, and (3) D2C omnichannel distribution platform. The model is VERTICALLY INTEGRATED across R&D and technology, manufacturing, supply chain, sales and service, and charging facilities showing positive effects on price , quality and margin.

- Ola Electric emphasizes research and development (R&D) and technology, focusing on in-house innovation for electric vehicle (EV) products and core components.
- Their R&D activities span India, the UK, and the US, with a particular emphasis on designing EV products and key components like battery packs and motors. The company is constructing an EV hub in Tamil Nadu, India, housing the Ola Futurefactory and the upcoming Ola Gigafactory. The Ola Futurefactory, recognized as India's largest automated electric two-wheeler manufacturing plant, produces EV scooters using in-house and third-party components.
- Ola Electric operates a direct-to-customer (D2C) omnichannel distribution network, including 935 experience centers and 414 service centers across India as of October 31, 2023. This network, the largest company-owned network of experience centers in India, provides a comprehensive customer service and distribution platform.



FINANCIAL ANALYSIS

EBITDA

The firm had reported an Ebitda loss of Rs 1,318 crore in FY23. Its total expenses flared up to Rs 3,383 cr. in FY23 as against expenditure of Rs 1,240 cr. in FY22. Although the EBITDA margin is negative but it has improved over the time from (157.27)% in the fiscal yr 2022 to (43.02)% in the fiscal year 2023 and was (14.38)% for the 3-months period ended June 30,2023.

REVENUE

Revenue from operation has shown a huge growth from 373.42 to 2630.92 cr where as for the 3-months period ended June 30,2023 it was accounted to 1242.74 cr.

EXPENSES

The total expenses year on year has been only increased from 284.9 cr -FY21 to 11,73.8 cr -FY22 to 38,83.3cr -FY23 and the expenses are expected to further rise in future due to R&D and because of the OLA Giga Factory.

OVERALL LOSS

The IPO-bound company's consolidated net loss during FY23 came in at Rs 1,472.08 cr. against a loss of Rs 784.15 cr. in FY22, as per the profit and loss statement provided in Ola Electric's draft red herring prospectus.

ADJUSTED GROSS MARGIN

Adjusted Gross Margin has improved over the years from (5.40)% -FF22 to 7.63% in FY23 where as for the 3-months period ended June 30,2023 it was accounted for 13.23%. A positive gross margin is a sign of further improvement over time.

CASH FLOWS

As of now there has been a negative net cash flow from the operating activities over the period of time stating (15,07.27) cr. FY-23(8,84.95) cr. FY-22(2,52.02) cr. FY-21 and it is expected to continue further as the company is currently investing in the business model, is expanding the product portfolio and scaling up the business.

RISKS ASSOCIATED

01. Problem With Giga Factory : As per the CEO, India's first large-scale gigafactory will be a manufacturing facility for rechargeable batteries for EVs and the initial capacity will be 5 GWh. At full scale, the factory will have 100 GWh capacity, which will also be the world's largest battery manufacturing unit. It might import the advance machinery for manufacturing the batteries but it has to rely on China for its major raw materials like Lithium and Cobalt and that can still be a problem and if they fail to meet their targets (1GWh by 2024, 5GWh by 2025, and so on) the Government Of India can deduct the subsidies leading to further rise in the price of the EVs.

02. Dependency for Raw Materials: While Ola's ambitious plan for its Ola Gigafactory aims to reach a substantial battery production capacity of 20 GWh by 2026, with intentions to potentially expand to 100 GWh according to reports by Economic Times, it's essential to note that OLA Electric has no control over the main raw materials like lithium and cobalt and it has to a Chinese domination and also the challenges faced by even well-resourced players in the industry like BYD, a major global battery manufacturer, established the largest battery manufacturing plant in 2018 with an initial capacity of 24 GWh. Despite having the advantage of sourcing lithium and cobalt from their own mines, BYD encountered significant hurdles in scaling up in production and how will Ola manage to achieve its production targets without full control over the entire supply chain of raw materials is the biggest question.

03. Revenue Solely from Limited EV Scooter Sales: As per the DRHP report, they conveyed that their existing revenue is solely generated through the sale of electric vehicle scooters, emphasizing that the success of their business is contingent on the market acceptance of these models. They informed about the commencement of deliveries for various EV models, including Ola S1 Pro, Ola S1, Ola S1 Air, and Ola S1 X+, the latter being priced more affordably. Additionally, they disclosed the recent announcement of the Ola S1 X (2 kWh) and Ola S1 X (3 kWh) models, aimed at the mass market and scheduled for delivery in the first half of Fiscal 2025. So if they do not good response in EV marker they might lose the market share.

04. Among the key risk factors to the IPO, Ola Electric said in its DRHP that it has a restricted operating record and has incurred losses and bad cash flows from operations. It adds that it may hold to incur losses in close to-term. Quality issues and defects affect the manufacturing timelines of the employer.

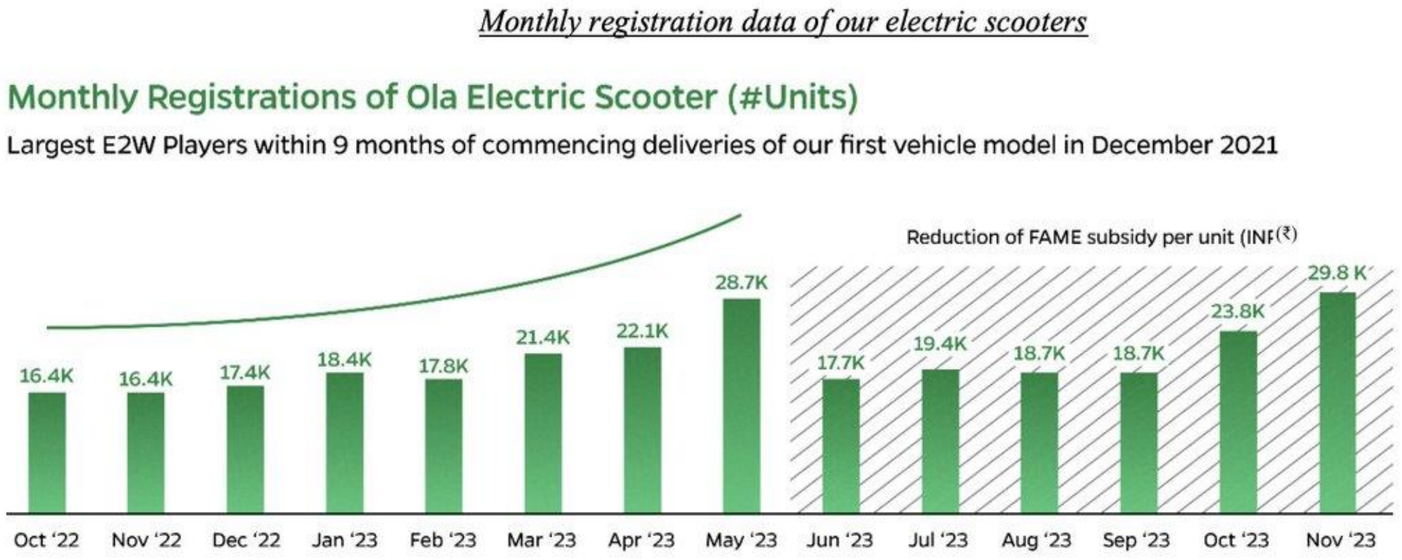
REMOVAL OF SUBSIDIES RESULTING TO INCREASE IN PRICE

Coming to the overall Total Addressable Market for 2Ws its 16-17Mn and the major chunk of the market of 5.3 Mn lies in the price range below 100k and the moment its above this price the market size drastically reduced to 0.45 Mn and further reduced to the market size of 0.2 to 0.3 Mn.

The drhp report clearly shows that the monthly registration for the ola electric roughly fell to 40% after the government subsidy FAME was reduced due of the increase price of ola EVs.

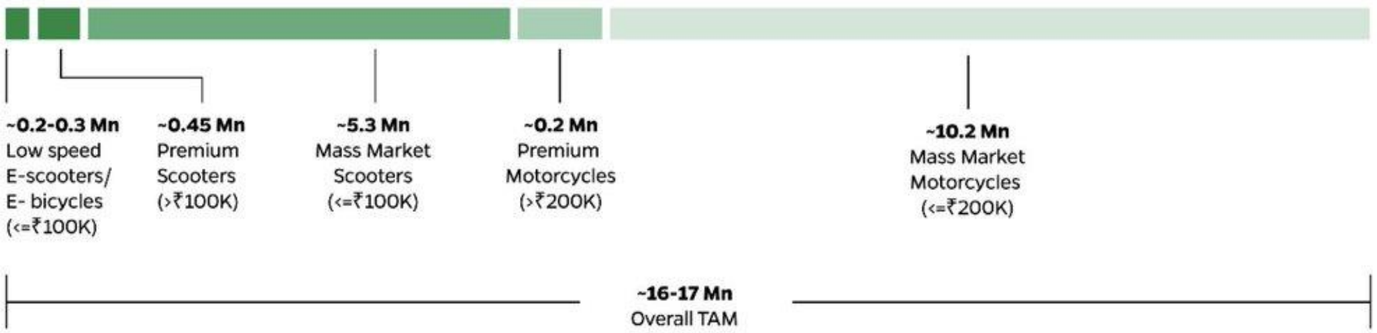
So if the government subsidies are further reduced it will inversely affect the price of the EVs and the demand for the EVs. Although it will affect the entire EV industry but the EV company which will be able to achieve the cost of production advantage would succeed in future.

Monthly registration data of our electric scooters



Source: Redseer Report

Total Addressable Market for 2Ws



DIFFERENT VERTICALS OF OLA

Ola runs more than half a dozen verticals including mobility, financial services, cab hailing business outside India, buying and selling of used cars, and food comprising cloud kitchen and food delivery.

The 13-year-old company saw losses with a notable increase of 36.4%, reaching Rs 1,522 crore in the fiscal year 2022 compared to Rs 1,116 crore in the previous fiscal year.

Talking about segment wise loss, Ola's ride-hailing business reported losses (EBITDA) of Rs 101 crore, while the financial services segment posted Rs 1.59 crore in losses. Other verticals recorded losses (EBITDA) of Rs 725.5 crore. Additionally, the company accounted for Rs 280.5 crore in exceptional items as adjustments for impairment loss reversal, contributing to the overall losses of Rs 1,522 crore.

And the overall losses for the fiscal year 2022 escalated to Rs 19,474 crore.

The company's operational cash outflows also worsened, experiencing a 67% increase to Rs 934 crore in the fiscal year 2022. The EBITDA margin and ROCE stood at -39.06% and -14.36%, respectively, for the year. At a unit level, Ola spent Rs 1.71 to generate one rupee of operating income in FY22.

The sustainability and profitability of Ola, particularly in various other verticals where losses have been incurred, raise significant questions about the overall profitability of the OLA's Electric Vehicle. The extent to which this vertical will be profitable is a substantial query, and only time will unfold the answers.

OLA FY21-FY22	FY21	FY22
EBITDA Margin	-25.81%	-39.06%
Expense/₹ of Op Revenue	₹ 2.04	₹ 1.71
ROCE	-21.18%	-14.36%

COMPETITORS OF OLA ELECTRIC

Ola Electric has 1320 competitors, of which 994 are active, 72 are funded and 18 have exited. Although Ola Electric ranks 1st among 1320 competitors and among its competitors, Ola offers the CHEAPEST 2W EV but it has really strong competitors in the market which can give a strict competition in the future include some of them are as follows:

- **Ather** is a popular electric scooter manufacturing company that already has Ather 450X 2020 and has remained a best-seller in its category to date as the vehicle simply packs some of the best features of its kind. The ex-showroom price of the vehicles starts from Rs 1,32,426 in Delhi.

- **TVS Motor Company**, a leading Indian motorcycle maker with over Rs 20,000 crores in revenue, has been making electric scooters since 2008. Its first electric scooter was the TVS Scooty Teenz, followed by the iQube in 2020. The iQube quickly became a top seller in India. It can go up to 40 kmph in just 4.2 seconds and travel 75 km on one charge, competing strongly with Ola's electric scooter.

- **Suzuki Motorcycle India**, part of Japan's Big Four bike makers, is set to enter the electric scooter market in India with its Suzuki Burgman Electric in December 2021. Aimed to compete with Ola Electric, this scooter is expected to reach speeds up to 80kmph and have a range of 125km, possibly featuring swappable batteries. While its petrol versions cost about Rs 1 lakh, the electric model might start at Rs 1.50 lakh.

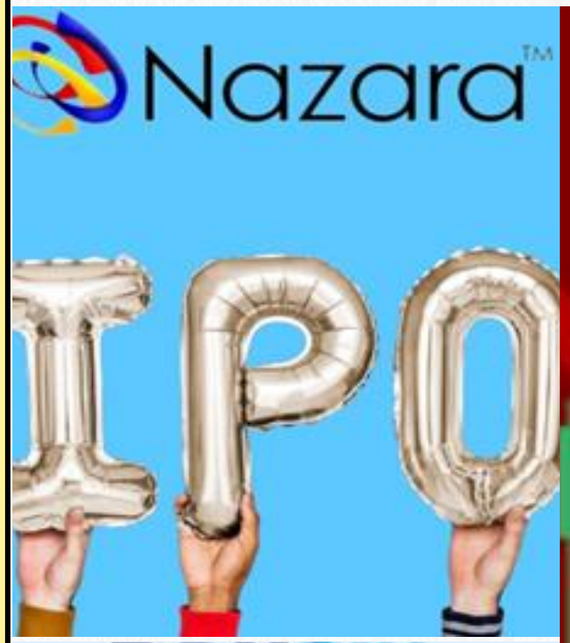
- **Simple Energy**, an electric startup from Bengaluru, plans to launch its first electric scooter, Simple One, in August 2021. This scooter can go 240km on a 70-minute charge and is expected to start at Rs 1,10,000, positioning it as a strong competitor to Ola Scooters.

CONCLUSION

The sentiment about IPOs in India over the past two years, from 2020 to 2022, has been quite positive, the number of IPOs in India has increased significantly during this period. In 2021 alone, there were over 80 IPOs in India, which raised a total of around $15 billion. This represented a sharp increase from the previous year, when there were just 41 IPOs in India that raised a total of around $4 billion. However, while the number of IPOs has increased, the performance of many of these offerings has been mixed. Some of the failed IPOs are:

- **Zomato**, a food delivery service, launched its IPO in July 2021 with a significant valuation but saw its stock price decline sharply post-listing, resulting in investor losses.
- **Sona BLW Precision Forgings**, an auto components manufacturer, went public in June 2021 but faced a disappointing stock performance, leading to investor losses.
- **Nazara Technologies**, entering the stock market in March 2021, couldn't captivate investor interest, making a dull debut.
- **UTI Asset Management** Company's IPO in October 2020 didn't attract expected investor demand, receiving a tepid response.
- **PAYTM**, a digital payments firm, also saw a lacklustre investor reception to its November 2021 IPO, failing to meet anticipated demand levels.

Although India's IPO market is in boom situation but its's not that all IPOs are successful so investors need to be careful not to overvalue companies based on their potential for growth or other intangible factors, and should instead focus on developing a realistic understanding of the company's fundamentals, including its revenue potential, cost structure, and competitive positioning. The OLA EV IPO is no doubt the 1st Ev company going for the IPO but only time will decide the future of the company.



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