Date: February10, 2025

To,
National Stock Exchange of India Ltd.,
Address: Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E), Mumbai-400051, Maharashtra, India.
NSE Scrip Symbol: OLAELEC

To,
BSE Limited
Address: Phiroze Jeejeebhoy Towers
Dalal Street Mumbai- 400001,
Maharashtra, India.
BSE Scrip Code: 544225

SUBJECT: TRANSCRIPT OF THE CONFERENCE CALL WITH ANALYST/INVESTORS CONDUCTED ON FEBRUARY 07, 2025.

Dear Sir/ Madam,

Pursuant to Regulation 30 read with Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are enclosing herewith a copy of transcript of the conference call with analyst/Investors conducted on Friday, February 07, 2025.

The same is also hosted on the website of the Company at https://cdn.olaelectric.com/sites/evdp/pages/investor/financials/OlaElectric-Earnings_Transcript_Q3FY2025.pdf

We request you to take the above on your record.

Thanking You,
Yours faithfully,
For and on behalf of OLA ELECTRIC MOBILITY LIMITED

PRITAM DAS MOHAPATRA
Digitally signed by PRITAM DAS MOHAPATRA
Date: 2025.02.10 20:29:41 +05'30'

Pritam Das Mohapatra
Company Secretary & Compliance Officer
M. No.: A24685
Place: Bengaluru

OLA ELECTRIC

Ola Electric Mobility Limited

Q3 FY25 Earnings Conference Call

February 07, 2025

Management:

Mr. Bhavish Aggarwal – Founder, Chairman and Managing Director, Ola Electric Mobility Limited

Mr. Harish Abichandani – Chief Financial Officer, Ola Electric Mobility Limited

Mr. Abhishek Chauhan – Director - Corporate Communications & PR, Ola Electric Mobility Limited

Moderator: Ladies and gentlemen, good day, and welcome to Ola Electric Q3 FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhishek Chauhan from Ola Electric Mobility Limited. Thank you, and over to you, Mr. Chauhan.

Abhishek Chauhan: Thank you. Good evening, and thank you for joining the earnings conference call of Ola Electric Mobility Limited for Q3 FY25. Before we begin a few quick announcements for the attendees. Anything said on this call, which reflects our outlook for the future or which could be construed as a forward-looking statement may involve risks and uncertainties. Such statements or comments are not guarantee of future performance, and actual results may differ from those statements.

To begin with, I would like to request Shri Bhavish Aggarwal, Chairman and Managing Director of Ola; and Harish Abichandani, CFO of the company, to take you through the results.

Bhavish Aggarwal: Thank you, Abhishek. This is Bhavish. I think what we will do is we have anyways published a shareholder letter. So and I'm assuming all of you have gone through it. This time unlike last time, we actually published it a few hours in advance. So we will directly jump into the questions. Maybe I will give a very high-level overview to begin with and then happy to just directly jump into questions.

This quarter was an important quarter in terms of many transformation things happening. We faced a much more intense, tougher competitive environment. And we saw through the quarter, despite that competition, we were number one. But obviously, as the quarter progressed, we -- our market share reduced. Now in January and continuing into February, we've actually been able to turn that around significantly. And that's because we've been focused a lot through last quarter and ongoing on the network transformation, which is expanding our network to about 4,000 touch points as well as transforming our service experience and service time lines.

Most of these initiatives are actually done, and there, we are seeing good outcomes from both the sales network as well as the service transformation. And that has resulted in this turnaround in terms of our market share as well as volumes in January.

Another important theme last quarter was product launches and product announcements. We announced a few products in the entry- level segment, the Gig, Gig+, Gen 3, as well as we had mentioned that our Gen 3 products will be pulled ahead. And you saw we actually launched and we are now delivering Gen 3 products this month, and they have been met with very strong response. In addition to that, our motorcycles are also on track. This month itself, we launched them and next month, deliveries start for the Roadster X product range. So that's another key takeaway that I want to share with everybody on last quarter and going into this quarter and ahead.

We have the financial numbers also. A few key themes on the financial numbers is a continued focus on gross margin improvement. And you can see while revenue dipped in Q3, our gross margin as a percentage actually slightly grew. And looking ahead, actually, January, our gross margin was significantly expanded, and we expect the same expansion of gross margin to continue into the rest of this quarter 4 as well as beyond, thanks to our Gen 3 platform as well as other cost savings on the cost structure of the vehicle activities.

On operational costs, I had mentioned to you that we will generally try and focus on keeping it flat or lower. So all operational costs, except for the new network that we've added has actually trended downwards. We've been -- we've optimized some head count about, I think, 15% of overall company head count has been -- 17% has been optimized. And we continue to do some optimizations without losing the R&D technology muscle.

So -- but that cost has been replaced by the network expanded cost. And the network expansion that we did, it's, in a way, an investment into the future because we -- our scooters are also selling into that, but that network is going to be very important as we scale up our motorcycle products across the country given that motorcycles sell a lot in rural market, sub-country markets and smaller towns.

Thirdly, in the last quarter, we had a negative impact of operating leverage because volumes came down. In our report, we've also highlighted that given our gross margin expansion as well as operational cost control, we can expect auto segment EBITDA breakeven at about 50,000 monthly sales. Now when we get there, it depends on market conditions as well as EV penetration. But we do feel in the next few quarters, we can get to about 50,000 monthly sales, which takes us to an auto segment EBITDA positive.

Finally, I want to just round up my opening remarks with just a reiteration of our strategy. There are three growth pillars of our strategy, and we remain committed to it, and we are executing on that strategy. First is product expansion to increase EV penetration across different product segments of the 2- and 3-wheeler market. Scooters, now entry-level motorbikes. We'll have mid-segment motorbikes coming from us later this year as well as 3-wheelers, and the entry-level Gig products.

So the product expansion is on or ahead of schedule, and you can see a list of products that we are coming out with over the next 12-odd months. Second part of our strategy is to continue to strengthen our distribution network across the country, which is both sales and service. We've now expanded touch points. And the new stores that we opened end of December are already starting to deliver good results.

Obviously, it will take a few months of being in the market for those stores to get to their optimal store sales count levels. And we expect that through this quarter and next quarter the sales from these stores will continue to increase. In addition to sales, service, also, like I mentioned, has been a big focus. We have used a lot of technology. We've scaled up our people numbers, our processes have been tightened.

And as a result, our average service time, the TAT of service, has come down from almost 2.5, 3 days at the -- in October, which is when our service issues were the highest down to 1.1 days. And actually, the trend is continuing downward. So we -- our service experience and SLAs are now pretty much best in class in the OEM industry.

The final part of our strategy is technology innovation and vertical integration. And you've seen us in the last quarter and in the last month, January and February, continue to move along on this journey. Our Gen 3 platform, which was launched about 10 days back, delivers a much higher performance at a much lower cost. And we've also showcased very -- a few interesting technologies like Brake By Wire, which is a patented technology. yours truly was also a little involved in that, as well as unique wiring harness all of that reduces cost, wage, etcetera, and improves performance.

So Gen 3 really denotes in a sense, the future of 2-wheeler technology platforms for India. And we believe this really strengthens and enhances our lead in terms of technology as well as gross margin profile compared to our peers.

Another key pillar of our technology and vertical integration is our cell. Our cell, we've guided before is on track for commercialization into our products by Q1 of next year, which is about the April to June timeline, and we are on track for that. We are seeing very good ramp-up of the testing. The testing results are coming out very well. We've already started testing our own cells in our own vehicle battery packs and vehicles.

And you saw that we also announced 2 vehicles in our Gen 3 and our Roadster X portfolio at the top end, which worked with the 4680 cell. And the benefit of the cell, obviously, is lower cost, which is our own production. But also because it's the next generation of cell, you can see that we're able to pack more energy and battery capacity into the vehicle. For example, the S1 Pro+ takes the battery capacity to 5.3 kilowatt hour, unthinkable in scooters before this.

And in Roadster X, the top end actually goes to 9.1 kilowatt hour. With the traditional 2170 cell, both these 2 levels were not possible. So our 4680 cell gives us a functional advantage also in addition to a cost advantage. And we've got very strong feedback from customers about our range in both the Gen 3 products as well as the Roadster X products. And it further sets Ola Electric apart in terms of product performance and technology.

That's pretty much it what the document covers. Happy to have questions.

Abhishek Chauhan: Thank you so much, Bhavish. With that, now we are ready to take the questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Arun from Kejriwal Research.

Arun: So just wanted to understand, we had a robust January in terms of vehicle sales. Looking at that, could you use a crystal ball and tell us how the quarter -- the remaining 2 months of the quarter and a sense of coming quarters could look like?

Bhavish Aggarwal: Sure, sir. January was robust. We reclaimed our number 1 position immediately, and momentum into February looks strong. Actually, the 2 new products that have launched after January ended are Gen 3 and the Roadster X. So all of the January performance is actually on the Gen 2 product. And now with the new products, we are seeing a much more stronger demand across our network of both Gen 3 as well as Roadster X products.

In terms of ramp-up, I do believe as we get into a little bit of the festive season towards the end of this quarter or early next quarter, we, with our new products of motor bikes as well as Gen 3, these numbers will continue to ramp up. Another vector which will take numbers higher is just the maturity of the new stores that we've opened. These stores are right now -- typically, it takes us about 4 to 6 months for our store to get to its ideal operating conditions in terms of sales per month per store. So these new stores, which were opened in end of December pretty much are still in their second month. So we are seeing good walk-ins. We're seeing good interest in the new products also, especially the motorbike in these new stores. So I do expect over the next 2, 3 months, that vector to also amplify.

Another point I want to highlight given this opportunity is actually our Gen 3 and Gen 2 coexistence strategy, which was new and we had not shared that before in the market before. So we have decided to keep the Gen 3 and Gen 2 products together in the market for the future. Gen 3 is a very aspirational product, and we have priced it also slightly higher than our Gen 2 yet in the same range as a market product, whereas its performance is much better than peer products.

And we have a lot of brand pull, product pull for the Gen 3 products, and it also delivers a very good margin for us. Gen 2, we have used to now focus on increasing penetration as well as gaining market share. And hence, this kind of pincer strategy allows us to both increase volumes as well as increase margins. So all these things put together, sir, we do expect the market share for us to trend upwards towards 30% to 35% over the course of this quarter.

Arun: One other question, Bhavish. You have given us a number that at around 50,000 vehicles a month you would breakeven and move towards EBITDA positive. Sometime in Q1 of FY26, you would also be launching your battery cells. Would that change this number of 50,000 to something lower because contribution from the battery, not in terms of revenue because on a consol basis, it's not going to make a big change, but total contribution to the company's sales would become significantly higher? If you could give us some thought.

Bhavish Aggarwal: So you're absolutely right. At a consolidated level, when our battery cell comes in, we will actually have an expansion of margin. The 50,000 is actually for auto EBITDA. We have 2 segments, auto and cell. So the auto segment EBITDA will achieve breakeven at that 50,000 unit level. The cell margins are booked in the cell segment. But at a consol level, actually, that will add to the overall benefit and that number might come in a little bit.

Moderator: The next question is from Gunjan Prithyani from Bank of America.

Gunjan Prithyani: I just wanted to follow up on the 50,000 breakeven number. Bhavish, I'm not sure -- I mean is it that we're expecting this to be breakeven when Gen 3 kicks in and battery localization benefit kicks in? Because as of now, certainly, at a volume level, which is higher than 50,000, we are -- the losses just seem very wide. So I'm just trying to make sense of this number, please?

Bhavish Aggarwal: So Gunjan, this is not a quarterly number, this is monthly number, 50,000 sales a month. The number you would have seen in the shareholders, that is a quarterly number. So just for benchmarking, in January, I think we had about 25,000 sales in the month of January. So when we get to 50,000, at a gross margin level at where we are today, about 25-odd percent that you saw in January, we will be auto segment EBITDA positive.

Gunjan Prithyani: And these factors in Gen 3 not the battery localization, to be clear, right?

Bhavish Aggarwal: The gross margin to achieve this is at that 25-odd percent. So gross margin remains at around the 25-odd percent. 50,000 is the EBITDA breakeven number. But that doesn't factor in the cell benefit. The cell benefit is on top of that.

Gunjan Prithyani: Okay. Got it. That is clear enough. I think Bhavish, I just also wanted to understand, when you look at the PLI benefit or PLI accruals, if you can quantify how much will that be? And just a little bit more direction on the Gen 3 because if I read the press release, it spoke about some 11% reduction in the core. Are there more cost reductions to be expected because I thought the number was -- because when this -- you've spoken about it last year or more clarity on that?

Bhavish Aggarwal: Sure. So let me answer the Gen 3 stuff first, and then Harish can take the PLI. See, on Gen 3, the press release, the 11% is a BOM cost reduction. That will happen over the course of this year. What we have launched with Gen 3 is the starting point of the Gen 3 platform, and there are many more cost reduction activities planned for over the course of this year. When all of those activities are complete, there will be about a 15- to 20-point gross margin benefit, which is in that 11% BOM cost reduction range.

Gunjan Prithyani: Okay. Got it. And on the PLI?

Harish Abichandani: Hi, Gunjan, Harish here. So on the PLI, this is the first quarter where all our products are covered under PLI. We had the X series getting PLI certified in the preceding quarter. And this quarter, we had all the entire range getting PLI approvals from this period. The total quantum of PLI approximately accrued in this quarter was around INR120 crores for all the range, both Pro, Air and the entire X series.

Gunjan Prithyani: Okay. Got it. And last question from my side, Bhavish, will be on the industry as a whole. If I look at last maybe few months, the adoption level has been at 6.5% or in that range of sub-6%. And it's not like they're in lack of products in the market now. There is a fairly large set of products available from yourselves as well as from the industry as a whole, and at price points, which are now fairly very competitive. Then what is it that is the crumbling drop on the adoption? What is it that you pick up the ground? Is it no confidence on the product performance or some thoughts around that?

Bhavish Aggarwal: See, like I always remarked, Gunjan, the 6.5% needs to be split into motorbikes and scooters. Motorbikes is two-thirds of the market, and there is no product there. Ours is the first product there, right? So let's keep aside motorbikes. In scooters, the penetration has been growing steadily. Right now, the EV penetration in scooters will be slightly higher than 20%. And if you see, we put a chart in our market commentary in the shareholder's letter, that shows that actually quarter-on-quarter, with a few blips here and there, the EV market is growing.

And if you take -- see, sometimes what happens is we see only this month versus 2 months ago. There are enough seasonalities, there are enough pain changes in amounts and all that keep moving it a few - a little -- a few points up and down on a monthly level. But if you see -- if you zoom out, you see year-on-year, calendar year '24 over calendar year '23, the scooter EV penetration has gone up from about 12%, 13% to about 17% to 20%, right?

And we are seeing continuous similar trends of penetration increase in scooters. So my feeling is in calendar year '25, we will go from about 20% to about a 25% to 30% penetration. This number can be slightly higher or slightly lower depending on how competitors also play. If competitors are more aggressive, it actually benefits penetration, and hence, in a strategic sense, it benefits us because we have the strongest play in electric.

As we have expanded distribution, for the first time, actually, these customers have a good product at a reasonable price. Before that they had our peer products, which were maybe not priced well or not as good in terms of functionality. And our distribution expansion will further increase scooter EV penetration. So anywhere between 25% to 30% is where I think towards the end of this year, we can be.

But there's another blip possible because FAME is reducing in April from 10,000 to 5,000. There might be, again, a 2, 3 month blip because of that. But generally, on a year-on-year basis, you should assume EV penetration growth of about 5 to 10 bps -- 5 to 10 percentage points.

On the other hand, I'll just complete my answer on the scooter commentary. On motorcycles, we actually expect a faster uptake compared to the scooter journey. The scooter journey, if you see started 3.5 years ago with us, then penetration was sub-1% in scooters. Now it is 20% -- it's taken 3.5 years to get here. In motorbikes, we actually expect to traverse the same journey in about half or two-third of the time.

And that's because there's generally more awareness about EVs. The basic foundations of the sales service network have already been laid out. Products have already improved 3 generations for us. Our motorcycles start from our Gen 3 platform. So all of those benefits already are into the starting point of motorcycles.

And motorcycles, as we all know, is about 2x the scooter market. So we are actually very, very encouraged by the response and interest we are getting on our motorbikes, and we actually feel this is going to be the real inflection point for the EV 2-wheeler, 3-wheeler industry in India, which is motorbikes gaining EV penetration, and it's all going to happen in the next couple of quarters.

Gunjan Prithyani: Okay. Got it. That's pretty useful. I think just last question, if I can squeeze in. Harish, I just wanted to get your cost from these expenses, which has been seeing a pretty big jump over the last 2 quarters. And last quarter, you did speak about the warranty costs being higher. And this quarter, again, that number has gone up. So if you can give us some sense on what's really driving the increase there both in terms of where are you on warranty costs? And secondly, what led to the step up in this quarter?

Bhavish Aggarwal: So Gunjan, I'll set some context and then Harish can be more specific on it. See, on warranty, the warranty and service related costs, so you see a onetime exceptional cost in this Q3. There will also be another one in Q4. This is largely linked to the service backlog we had. It is not all warranty. Part of it is also no questions asked goodwill that we did, given that we had a bad issue on service. All of that is now behind us. In terms of actual warranty cost in the product, we so far booked about 3,200, Harish?

Harish Abichandani: 3,250.

Bhavish Aggarwal: 3,250. Now we might revise this number in the next financial year as we just learned from our experience. The steady state actual warranty costs for us are not much higher than this 3200 number. Slightly higher, but not much higher. It is the one-offs which we had to solve for, which was linked to lower network scale and some goodwill that we had to do. So this should end in the next quarter or two in the one-offs. And going forward, we might revise our provisioning on warranty to the new level from this data.

Harish Abichandani: Just to add, Gunjan, I think if you look at the annualized level, last year we had a warranty cost of approximately 5% to 6% of our revenue. This year, we will be slightly higher, going into the closure of this year consequent to this one-off, and the last two quarters end in Q4, some part of it. But going ahead into FY26, as we review our provisions and with Gen 3 and other technology improvements, and with our investment and service side of it, these are expected to then start trending closer to the industry standards.

Bhavish Aggarwal: Actually, on that, with our Gen 3 platform, our forecast actually is that the warranty as a percentage of revenue might be around 2%. Yes, that's what we have tested for and planned for, and that's where Gen 3 is coming out in the testing also. So, we've done a lot of work on making sure Gen 3 is actually much lower on warranty costs.

So, 2% is where we are targeting with Gen 3. We might actually be slightly lower on that too. But we will still have a lot of this Gen 2, Gen 1 products, which will continue to have some level of warranty higher than this 2%, 2.5%. So the blended might be slightly higher for another year or two.

Moderator: Thank you. Next question is from Chandramouli Muthiah from Goldman Sachs. Please go ahead.

Chandramouli Muthiah: Hi, good evening and thank you for taking my question. I have two questions and I'll ask them upfront. First one is, just around the motorcycle launch, congratulations on that. I just want to understand at what stage will you potentially start sharing the team's numbers to the motorcycle community on the motorcycle product? And the second question is just around your battery strategy.

What sort of yields are we at at this stage as we approach the June sort of in-house battery usage in some of our products? And when do we expect the battery strategy to be accretive to our close margin profile versus buying sales externally?

Bhavish Aggarwal: So, on motorcycles, Chandru, we've had a very strong response to our launches. We are, you know, actually across all our stores now people are buying the motorcycles. We will not be sharing any numbers today.

Many people are also saying they've reserved it. Tens of thousands of people have reserved the bike, but they want to see the bike in the stores before they finally order, which will also happen in the month of March. So, motorcycles actually in terms of volumes will start reflecting in Q1 in a material way in our registrations as well as our revenues.

There will be some in this quarter, which will be towards the end of March. But in terms of volumes and revenue and registrations, it will come in in Q1. But the interest is very, very strong. And the product proposition also is obviously as good as it gets in EVs for this category. So, that's on motorbikes. And what we've launched right now is the Roadster X, which is the entry-level motorbikes.

We have a bunch of other motorcycle products lined up for the course of this year. We have the Roadster, then the Sportster and Arrowhead, which are sporty mid-segment bikes. And then later this year, we will have our premium segment bikes also.

So, all of that is lined up. So, we feel fairly good and confident about our motorcycle product lineup. On the battery, see, we are right now scaling up the entire production. Our yields are already up to about 70-odd percent. And we want to get to about 80-plus percent when we commence production next quarter. And each of these steps are being optimized for the right yield, as well as the right safety, quality, etc.

And all the testing that we're doing on the cells is to make sure whatever we are producing is at a certain safety standard. And also, the yields and the cost is also trending towards a high yield number. We will start our commercialization at around 80% yield.

And through the course of this year, get it to about 90-odd percent. The target eventually is a mid-90s percent. We have the best-in-class Giga factories run in the world, which will be somewhere early to mid-next year.

In terms of margins, at a BOM cost level, the cell is going to be on day one cheaper than buying it from outside. So the BOM cost of the cell, as well as the cost of production for us, including yield losses from the first quarter of commercial production itself, will be lesser than the cost of procuring cells from outside. And as we improve yields, as we get to a higher scale, our BOM will and the cost of production of the cell will further reduce.

At about a five gigawatt-hour level, the cell business will be also segment EBITDA positive directionally, about a five gigawatt-hour scale, which should happen by early next year. And so that's where the cell business will be at a consol level, EBITDA margin accretive. At a contribution margin, etc., it might happen earlier.

Chandramouli Muthiah: Got it. Thank you very much and all the best.

Bhavish Aggarwal: Another point, Chandru, I want to make here is, I don't know whether you all noticed that it was a small line in the end of our shareholder's letter, that what we are producing right now in the Giga factory is the Gen 1, Ola Gen 1 NMC cell. We are already working on our Gen 2 NMC cell, which will be out early next year. So that will be a better energy density than what we have with this one.

This one is about the 275 watt-hour per kg mark. That one will be slightly higher, which actually means every product of ours just gets 10% extra or 5% to 10% extra energy right out of the box without the vehicle changing anything. Another big thing here, which was again a small point, maybe you guys missed it, is we've also started commercializing LFP cells.

So we are making two LFP cells, one for our vehicles on the same 4680 format and one for battery storage applications. And we will be entering the battery storage industry also with a mega-pack kind of a product, which will be a container-sized battery. And in India, the battery storage market with all the government bids and all is just starting to ramp up.

And today, all the players in India import from outside. So we will be building these container-scale batteries within this calendar year through our own LFP cells, fully vertically integrated, and selling it to all these EPC companies instead of procuring from China, they can buy from us.

Chandramouli Muthiah: Got it. That's helpful. I'll call back.

Moderator: Thank you. Next question is from Rishi Vora from Kotak Securities. Please go ahead.

Rishi Vora: Hi. Thank you for the opportunity. My first question is just a clarification. Bhavish, you made a comment that by early next year, you expect the Gigafactory production to reach 5 gigawatt-hour, right? Is that correct?

Bhavish Aggarwal: Yes.

Rishi Vora: So essentially, what you are implying is that, you know, we'll roughly produce around one and a half million vehicles. And if you look at current run rate, you know, we are, let's say, roughly around 400,000-500,000 vehicles. So what you're implying is, we'll 3X our volumes in one year?

Bhavish Aggarwal: No, I'm not implying that. Let me unpack this for you, Rishi. There are two or three things here. Firstly, we will have installed capacity of 5 or above gigawatt-hour in the Giga factory. And the factory can produce that much. Second is how much automotive volumes will we have? From our two-wheeler business, we do expect getting last year was 400K.

Now this year, we are seeing again a bump in volumes turnaround of our volumes, motorcycles, etcetera. So maybe that 400 will through this year become 500, 600, 700 in that zone. I don't want to give a concrete forecast on that. But I do expect strong two-wheeler volume growths this year. And on top of that, we have our three-wheelers coming towards the second half of this year, which will actually have much higher battery capacity.

So all in all, let's say we have about 700, 800 kind of volumes towards run rate basis towards the end of this year. That means if I use a factor of 4 kilowatt to 5 kilowatt-hour per product, so that'll be about a 3 to 3.5 gigawatt-hour requirement by end of this year or early next year. And our Giga factory will be ready to produce all of that.

Then on top of this, we will also like I mentioned be making LFP cells for battery energy storage. So there will be a new segment that we will start working towards in the next, maybe in the next quarter or so, you'll start hearing more about it from us, which is this container scale batteries. So now that, again, is an early market in India, but we will have the capacity in our Giga factory to supply for that as the market scales up.

Rishi Vora: And have we started negotiation or like discussion with the customers for these LFP batteries or maybe you'll start from next quarter?

Bhavish Aggarwal: No, we've started some discussions. I don't want to share specifics today, but there are many discussions. And we are also really from an engineering standpoint, the containerized batteries also being made and discussions are being had with all types of customers across the value chain.

Rishi Vora: Understood. And if you look at keeping aside the market share trends which has been volatile. Our absolute volumes in 3Q were down almost 3%, roughly and even in January, the absolute volumes are around 25,000. So, despite us having in the scooter segment all the offerings across majority of the price points, what is it that is not resulting in the sharp uptick in volumes, because now TCOs is favorable, everything is there.

Why we are still for the industry and for us the volumes are not significantly scaling up despite all the positives in terms of pricing, product availability and distribution?

Bhavish Aggarwal: See, you'll have to give it some time, Rishi. We just expanded our distribution. Still then, we were only at about 750 stores. We've just expanded to be able to address almost every part of India. And it'll take 4 months, 5 months for that distribution to mature. And as that matures, you will see our volumes rise in those hinterland markets or new markets.

Secondly, there is definitely higher competition. So, while the market has grown there are the top three players are kind of fighting aggressively for it. The other two are losing money in their fight. We are actually growing our gross margin, expanding our gross margin. So, part of that competitive intensity also reflects in our market share. Market share in January was about 25%, 26%.

And like I've guided before in this call, we will aim to have a scooter EV market share of about 30% 35%. And we believe we can get there with our Gen 3 product as well as Gen 2 coexisting. The network expansion that we've done as well as the service issues that we have now solved and the brand image that had been that the issue that was there.

Actually, customer expectation, customer anecdotal feedback is all very positive now. So, that also we expect a positive tailwind to increase our market share. So, I expect our scooter EV market share to be around 30%, 35%. And the rate of growth of EV scooter like I said, right now penetration is 20. It might get to 30 by the end of this year. And that means if we have one-third of that market, we'll have 10% of the overall scooter market.

And that's how we are looking to play. The gross margin headroom that we have allows us to be more aggressive if competition is throwing money. And that's how we've been able to expand margins as well as expand market share.

Rishi Vora: Understood, Bhavish. And just one last question for Harish. What would be the cash outflow during this quarter and what would be the net cash on our balance sheet at the end of December?

Harish Abichandani: So, in the course of this quarter, you'll see EBITDA numbers in that. The overall cash balance at the end of the quarter would be around INR5000 crores plus on the balance sheet at our end. That will be the cash in hand at the end of the quarter.

Rishi Vora: As in hand what would be net cash number?

Harish Abichandani: Net cash number would be around 8% to 10% lower because of certain cash which are blocked in terms of bank guarantees, etcetera that would be the net cash.

Rishi Vora: Understood. Okay.

Moderator: Thank you. Next question is from Jinesh Gandhi from Ambit Capital. Please go ahead.

Jinesh Gandhi: My question pertains to our product quality. So, we have addressed our service quality quite considerably in the last few months. However, given we have several new product launches lined up between current month and 2Q and beyond, what are we doing to ensure that there are no teething troubles with our upcoming product launches and strengthen our brand equity?

Bhavish Aggarwal: See, the Gen 3 platform like I mentioned, already improves product quality by a very large degree. And there are a bunch of things we have done on the engineering side like moving away from hub motors. Hub motors was a major challenge in product quality before in the Gen 2 platform.

Now, with Gen 3, it's all our in-house made mid-mount motors which are much more, almost a logarithmic scale better in terms of product quality. We've also re-engineered the electronics, reduced the number of components in Gen 3. So, if you see the number of ECUs are all down to largely two, one in the head unit and one in the motor controller and one in the battery.

So, three, much more well-integrated, lesser number of parts that improves quality. In Gen 2, again, one of the major areas of quality issues was the motor controller where water used to leak in and these are all not our manufactured or designed parts. This was procured from suppliers.

So, now we have engineered these things ourselves, integrated them better into the vehicle. So, Gen 3, actually our own estimate like I said, is warranty as a percentage of revenue will be below 2%. And in addition to this engineering, we've also thoroughly tested this with lakhs of kilometers of riding these Gen 3 prototypes and early products. And after that is only when these are coming into market.

Jinesh Gandhi: Okay, got it. So, the testing side has also been far higher than the Gen 2 and Gen 1?

Bhavish Aggarwal: Yes, absolutely. Testing at both a vehicle level and a component level.

Jinesh Gandhi: Got it. And secondly the staff cost has seen reduction because of moderation in the count, but should we expect it to increase as we're going forward given the expansion of network or that won't be reflecting on our roles as such?

Bhavish Aggarwal: No, the network people will reflect in our P&L in a sense. They're not on rolls for us, they're off-roll, but they do reflect in our P&L, but in terms of people cost, if you think of on-role people that will actually, I don't know the specific number, but it would have reduced in Q3 over Q2 as well as Q4 over Q3 will be trending downwards. But if I even add the network people cost as a broader people umbrella cost, we will still generally hold steady because in network, we are adding, but in other places, we found a lot of efficiencies to commonized roles or use AI in our business processes and really reduce...

Jinesh Gandhi: Got it. And lastly, with respect to our capex guidance for this year, FY '25 and FY '26, how much do you plan to invest in both capacity and sales?

Moderator: Participants, please stay connected. We seem to have lost the line for the management. Please stay connected while we reconnect the line.

Management: Do you want to go ahead with your question...

Moderator: Next question is from the line of Ajox Frederick.

Ajox Frederick: Sir, I was asking about the distribution stores. So how many are active right now and...

Bhavish Aggarwal: Who is this? is this Ajox?

Ajox Frederick: Yes, this is Ajox from Sundaram Mutual. So I wanted to understand the distribution. So what is the current state of stores opened right now? And where are we focusing on? And incrementally, what is the per store count you are targeting more from a distribution strategy and status?

Bhavish Aggarwal: See, we are focused on the whole breadth of the country, Tier 1, Tier 2, Tier 3, rural, all of those because as let's call it, a multi- category general-purpose OEM. We want to be across all kind of customer segments. So that's why we initially until we announced and did this store expansion. We were only 750 stores, which was largely Tier 1, Tier 2 markets.

Now we are across pretty much every district and taluk of India. We don't expect us to have another store expansion in the near term, maybe towards the end of this year or early next year. There is still another scope of adding another couple of thousand stores to get to an equal level where ICE industry is. But for now, we feel this is enough to scale up the products that we have.

And in terms of customer base, also, our focus is across the segment, many of our products find resonance with different levels of customers. With our motorbikes especially, up country markets, we feel will be very relevant with our premium scooters, urban cities and slightly more upwardly mobile customers find it relevant. And with our mass market scooters, it's more a broader horizontal cut across peers.

Ajox Frederick: Okay, sir. And we saw your expenses go up, so can you help us on how much was spent in this network expansion costs? I'm assuming that's sitting in other expenses, right?

Bhavish Aggarwal: Network expansion is not in other expenses, Harish, right?

Harish Abichandani: The network expansion, which has happened over, say, December, and the significant cost actually will start coming in this quarter. It will be normal rentals, etcetera, are all lease, properties, etcetera. They will -- given the accounting standards, some of it actually goes below the EBITDA line because of the way the lease of these finances are accounted. That's the normal cost. Otherwise, cost -- incremental costs are fairly minimal on these network expansion.

Ajox Frederick: Okay. I was just looking at the other expenses spiking up. So I wanted some clarity on that on a Q-o-Q basis.

Harish Abichandani: Yes. So on the other expenses, which as I discussed earlier was on the call, some of these one-offs, which have been taken in this quarter towards warranty towards – rationalization etcetera, which is what we have taken. And that's why the spike you see in the quarter-on-quarter.

Ajox Frederick: Okay. Okay. Just a final question. You mentioned that Jan's gross margins are 25%. And for the last few quarters, we were hovering around 18%-odd or 19%. So what changed in Jan to deliver a 25% gross margins?

Bhavish Aggarwal: See, on Jan gross margins, there are 2 things. Firstly, our BOM cost has been reducing continuously. If you see, even in Q3 over Q2, we had, in our shareholder's said that has said that 1 point BOM cost reduction is contributing to gross margin. Same in Jan, another 1 point of gross margin improvement happened through BOM cost reductions.

Then on top of that, there was about a 3.5%-odd point improvement from no discounting because last quarter was the festive quarter so January was less intense in terms of discounting. But despite that, we actually gained market share back. So in that sense, we were able to gain by discounting lesser.

Now going ahead, we will see an expansion from further BOM cost reduction, thanks to the Gen 3 platform as well as margin expansion, thanks to the Gen 3 and Gen 2 products coexisting.

Moderator: Next question is from Shirish Guthe from Nippon India Mutual Fund.

Shirish Guthe: Sir, is it possible to share what capex we did in Q3 on tangibles and intangibles?

Harish Abichandani: See, the total capex, what we did around in Q3 was around INR300-odd crores. This is across both cell and auto. And the intangibles was R&D, etcetera, would be around INR60 crores to INR70 crores in that number.

Shirish Guthe: I'm trying to understand how much PLI we have recognized in this quarter as a percentage of revenue?

Harish Abichandani: So in this quarter, we recognized around INR120 crores of PLI for across all our product lineups.

Shirish Guthe: Okay. And, sir, I just want to get a clarification on the other income. The Q-o-Q cash has fallen, but other income is up. Is there any exceptional gains or anything in the other income? Or is it a normal run rate that we should expect?

Harish Abichandani: This is fairly normalized. There is no exception item as part of the other income.

Shirish Guthe: Understood. Thank you very much. I'll fall back in queue. Thank you, sir.

Moderator: Thank you. Next question is from Nikhil Kale from Invesco. Please go ahead.

Nikhil Kale: Yes, so I think, thanks for the opportunity. One question is on the staff side. I think you made a comment about 17% kind of an optimization. So, just wanted to understand, is that kind of the workforce percentage that you have kind of reduced? Or what is it? What is that number exactly?

Bhavish Aggarwal: That is the cost of the workforce. A number of people. Yes, that's the number of people we have reduced.

Nikhil Kale: Okay. And possible to highlight in what work areas have kind of the major reductions been done? Is it like marketing?

Bhavish Aggarwal: Sure, I'll take that up. Yes, so a lot of these are actually broad-based. Some in corporate functions also. We were fairly, because this company grew so fast in the last 3 years, there were many pockets of the company that were overstaffed because, we were in growth mode only. So, think of this as a one-time consolidation we are doing on our costs, removing inefficiencies in terms of structures of roles as well as, unfortunately, some people who might not be measuring up. So, this is mostly on that.

So, cross-corporate functions, even in field, some in the factory, but largely all the technology muscle, engineering muscle, manufacturing muscle is all fully intact. In fact, I would say the lean mass has gone up.

Nikhil Kale: Understood. And just wanted to get more clarity on the distribution model now. So, when we had like 750 stores, those were all our stores, right? So, now with this 4,000, I mean, where does that number stand? And now are we kind of looking closer to a dealer model? How is the distribution model now different versus when we were at 750?

Bhavish Aggarwal: Sure. See, our model still has the two things. First is our own stores. We now have about 3,000 plus our own stores and partner stores, which are not dealers, but think of them as agents, partners, multi-brand outlets. So, we have about 1,000 touchpoints through them. So, that's the 4,000 total.

Nikhil Kale: Understood. Thank you.

Moderator: Next question is from Jinesh Gandhi from Ambit Capital. Please go ahead.

Jinesh Gandhi: My question was on the capex side. So, what kind of capex do we expect to invest, including R&D in both autos and cell for FY '25 and FY '26?

Bhavish Aggarwal: So, I'll give you a directional commentary on that, Jinesh. I'll start with the cell. So, the cell capex, for the one and a half gigawatt hour, which is phase 1A, that's all largely invested. Maybe some tail end part of that is continuing in terms of cash flows. We will expand to five gigawatt hour, and that capex investment will come in into FY26. Now, that would mean about, let's say, maybe INR500 crores to INR1,000 crores, thereabouts.

The final negotiations are still happening, but thereabouts in terms of capex, closer to INR1,000 crores for the cell expansion. On the auto side, we will expand our factory as all these new products come in. Our factory production currently is about a million units a year.

But as we are bringing the 4680 cell, we will expand towards the 4680 battery pack investments, as well as take that 1 million upwards to 2 million to 3 million, especially as we bring our three-wheeler products online. So, that will have some capex again in the INR500-odd crores number, maybe slightly higher through the year.

Some of these will be actually backloaded in FY '26, not in the beginning. On top of this, the final intangible capex is the R&D. R&D continues at the same rate at which we are doing right now. No major changes there. Maybe incrementally, it will keep growing as our revenue grows.

Jinesh Gandhi: Got it. And with respect to -- you mentioned about warranty cost of 3250. What was that you're referring to? Just a clarification on that.

Bhavish Aggarwal: See, 3250 is the warranty provision we take right now on every product that we sell. But the actual cost this year was higher because of these one-time warranty and goodwill actions that we had to do last quarter. Going ahead, we are forecasting that with Gen 3 product, we might actually end up being lower than the 3250, closer to around 2% of product value as provision. And maybe for the current product, we might revise the current provisions upwards once we finish the financial year.

Jinesh Gandhi: Got it. That's all from my side. Thanks.

Moderator: Thank you very much. We'll take that as the last question. I would now like to hand the conference back to Mr. Chauhan for closing comments.

Abhishek Chauhan: Thank you. We appreciate your time and all of your questions during the call today. Thank you so much for joining us. And we look forward to meeting you all during our next earnings conference. Thank you. Have a good day.

Moderator: Thank you very much. On behalf of Ola Electric, that concludes the conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.