Insights Unwrapped

Analyzing Red Flags in New IPOs

TM

SPROUT Research

30th November 2024

Ola Electric Mobility Ltd

Sharp Surge in Warranty Costs and Provisions

Warranties have grown at a markedly faster pace than revenues. Over the past two years, warranty costs as a percentage of sales have increased significantly, rising from 3.4% to 5.9%. In absolute terms, the warranty provision has expanded by an astonishing 12.4x during this period. Notably, warranty utilizations have surged as well, climbing from INR 837 million to INR 1,786 million in FY24.

Particulars (INR mn)	FY22	FY23	FY24
Provision for warranties	129	447	1,593
Warranty expense	129	1,155	2,933
As a % of sales	3.4%	4.4%	5.9%
Opening balance	-	129	447
Add: Provision made during year	129	1,155	2,933
Less: Provision utilised	-	837	1,787
Closing balance	129	447	1,593

Source: IPO RHP

Waaree Energies Ltd

Related-Party Transactions with Promoters

Purchases of capital goods from related parties have surged significantly, increasing from INR 18.8 million in FY23 to INR 383.6 million in FY24 and INR 376 million in Q1FY25. Additionally, capital advances given to related parties amounted to INR 301.8 million in FY24 and INR 303.4 million in Q1FY25.

What stands out, however, is that in Q1FY25, the company extended capital advances directly to individual promoters. Specifically, INR 67.5 million was given to Ms. Rasila Doshi and INR 136.5 million to Mr. Chimanlal Doshi. This raises critical questions: **Why are capital advances being extended to individual promoters instead of being utilized for business-related purposes?**

Particulars (INR mn)	FY21	FY22	FY23	FY24	Q1FY25
Capital advances given- Related Parties	669	1,892	1,713	302	304
Total capital advances outstanding in books	903	671	1,112	3,073	2,055
Capital purchases- Related Parties	2	2	19	384	376
Capex	1,979	4,965	8,654	13,423	4,017

Source: IPO DRHP, RHP

Waaree Energies Ltd

Earnings Dominated by Non-Operational Income

Other operating income and other income have played a significant role in driving profits. Despite substantial growth in revenues and core operations over the years, these secondary revenue streams accounted for as much as 34.8% of total revenues in FY24 (FY23: 37.3%).

A notable portion of these income sources is non-recurring. For example, in FY24, the company booked INR 3.4 billion in order cancellation income from two customers as part of a settlement. This alone constituted 3% of revenue from operations and 19.7% of profit before tax (PBT). It is worth mentioning that this settlement occurred post the balance sheet date, yet the company recognized the revenue in FY24.

Particulars (INR mn)	FY21	FY22	FY23	FY24	Q1FY25
Other operating revenues	116	106	1,429	264	84
Other income	300	916	1,095	2,352	875
Order cancellation charges	-	-	-	3,413	-
Total	**415**	**1,022**	**2,524**	**6,029**	**959**
Profits before tax	665	1,184	6,772	17,342	5,305
Total Non operating income (as a % of PBT)	62.4%	86.3%	37.3%	34.8%	18.1%

Source: IPO DRHP, RHP

Disconnect Between Order Book and Balance Sheet Metrics

Premier Energies' order book has surged significantly in 9MF24, jumping from INR 9.9 billion to INR 47.1 billion. However, there appears to be a disconnect between this sharp increase in orders and key balance sheet items. For example, advances from customers have declined from INR 2.2 billion to INR 1.7 billion during the same period, while raw material inventory has also decreased.

Ideally, a substantial rise in the order book should be accompanied by an increase in customer advances and procurement of raw materials, suggesting a potential misalignment between reported orders and operational activity.

Particulars (INR mn)	F21	F22	F23	9MF24
Order book	4,265	3,170	9,860	47,059
Advance from customers	954	762	2,178	1,656
Inventory- RM	427	1,550	4,734	4,499
Inventory- FG	118	517	1,486	3,343
Purchases	4,732	5,110	14,289	15,426
Advance to suppliers	257	37	356	267

Source: IPO DRHP

Challenges in Cash Conversion

The company has struggled to convert its earnings into cash. Over the past four years, operating cash flows (OCF) have shown a significant disconnect from EBITDA, with the OCF/EBITDA ratio being erratic. In FY22 and FY23, this ratio was suboptimal at approximately 60%. However, the situation worsened in 9MF24, where OCF turned negative at INR-394.6 million despite an EBITDA of INR 2.9 billion. A substantial portion of cash remains tied up in working capital, particularly in inventories and receivables. **With subpar OCF and significant ongoing capital expenditures, the company's free cash flow position has been under considerable stress.**

Particulars (INR mn)	F21	F22	F23	9MF24
Cash from operations	2,369	50	367	-395
Less: Capex	-3,245	-1,987	-2,760	-3,544
Less: Finance cost	-219	-418	-625	-491
Less: Payment of leases	-3	-3	-3	-8
Free cash flows	-1,098	-2,359	-3,022	-4,438
Pre-tax OCF	2,507	169	470	-299
EBITDA	537	296	782	2,933
Cash conversion ratio	466.9%	57.0%	60.1%	-10.2%

Source: IPO DRHP

Honasa Consumer Ltd

Rising Slow-Moving Inventories and Claims/Rebates

The provision for slow-moving inventories increased sharply from 1.9% of gross inventory in FY22 to 8.0% in FY23. Additionally, INR 15 million provisions was transferred in Q1 FY24 from inventory to doubtful advances. Between June 30, 2023, and June 30, 2022, INR 15 million and INR 7 million, respectively, were reclassified from slow-moving inventory provisions to doubtful advances.

Claims and rebates have also grown significantly, reaching INR 1 billion in FY23 (6.5% of revenue), up from 2.7% in FY21. These trends signal increasing operational and financial pressures.

Inventories (INR Million)	Consolidated				Standalone
	As at June 30, 2023	**As at June 30, 2022**	**As at March 31, 2023**	**As at March 31, 2022**	**As at March 31, 2021**
(valued at lower of cost and net realizable value)					
Traded goods*	1,511.72	1,050.22	1,238.46	671.38	417.42
Less: Provision for slow moving inventories**	(98.15)	(32.64)	(99.19)	(12.86)	(3.95)
	1,413.57	**1,017.58**	**1,139.27**	**658.52**	**413.47**

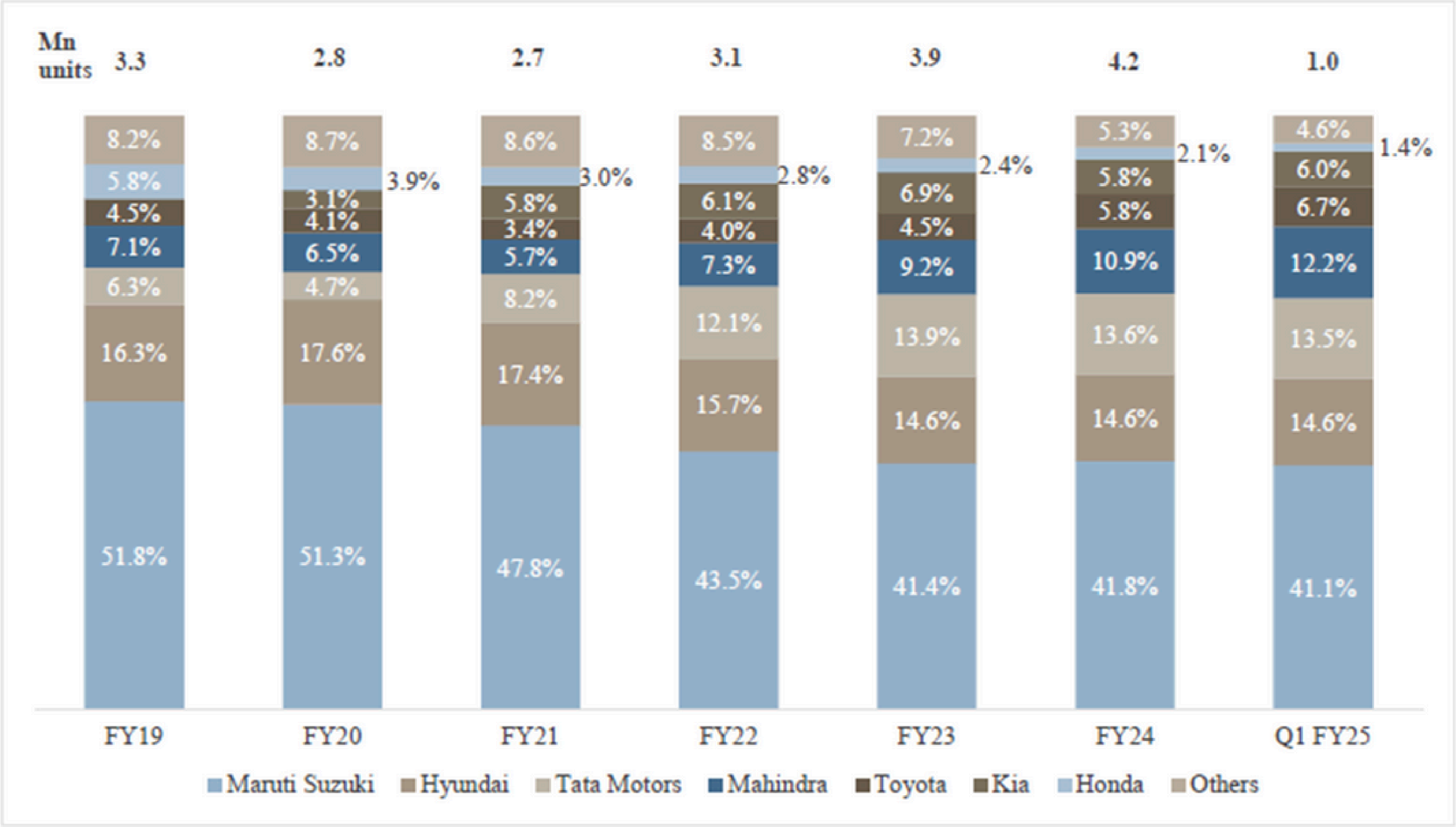
Source: IPO RHP

Hyundai Motor India Ltd

Potential Conflict of Interest

Kia achieved early success in the Indian market with models like the Seltos and Sonet, capturing a 6% market share by FY24. Meanwhile, Hyundai has seen its market share decline from 17.6% to 14.6%, with the Creta—once a dominant player—facing stiff competition from Kia's Seltos. It is important to note that Kia is a promoter company of Hyundai, which raises concerns about a potential conflict of interest, especially as the two brands increasingly compete in overlapping market segments.

PV Domestic market share across OEMs



Kia's market share, virtually nonexistent in FY19, soared to 6.0% by Q1 FY25. Meanwhile, Hyundai's market share declined from 16.3% in FY19 to 14.6% in the same period.

Source: SIAM, CRISIL MI&A

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