



Awfis Space Solutions Limited

Q4 & FY24

Earnings Conference Call

June 20, 2024

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MANAGEMENT:

MR. AMIT RAMANI – CHAIRMAN AND MANAGING DIRECTOR

MR. SUMIT LAKHANI – DEPUTY CHIEF EXECUTIVE OFFICER

MR. RAVI DUGAR – CHIEF FINANCIAL OFFICER

Moderator:

Ladies and gentlemen, good day and welcome to Awfis Space Solutions Limited Q4 and Full Year FY '24 Earnings Conference Call hosted by IIFL Securities Limited. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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 conference 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. Amit Ramani, Chairman and Managing Director from Awfis Space Solutions Limited. Thank you and over to you, sir.

Amit Ramani:

Good morning and a very warm welcome to everyone present on the call. Along with me, I have Mr. Sumit Lakhani, our Deputy CEO, Mr. Ravi Dugar, our Chief Financial Officer and SGA, our Investor Relations Advisors. To begin with, I would like to thank and congratulate all our stakeholders, investment bankers and business partners for helping us achieve a milestone of getting listed on the Indian Stock Exchanges.

We were delighted to see such a strong response to our IPO. Since this is our maiden earning call, I would like to take you through Awfis Space Solutions journey so far, broad industry update and strategies going forward, followed by our operational and financial highlights for quarter and the full year ended FY '24. Post that, we will open the floor for Q&A. We have also uploaded our Investor Presentation on Stock Exchanges and I hope everybody had a chance to go through the same.

Awfis started its business in 2015 and has since emerged as one of the leading flexible workplace solutions companies in India with network leadership. We identified three deficiencies in the Indian commercial real estate service sector which we aim to address by offering a comprehensive range of flexible workplace solutions tailored to meet the need of our various clients from individual freelancers to large multinational corporations. Awfis services include everything from individual flexible desk options to fully customized office spaces designed for startups, SMEs and large corporates.

The first aspect we focused on was transparency in pricing and tenure for office spaces. We realized that businesses often struggled with inconsistent pricing models and rigid lease terms. Awfis's Space Solutions are highly adaptable catering to diverse range of seat requirements. Clients can book anything from a single seat to multiple seats with flexible contracting periods that span from as short as one hour to several years. This flexibility allows Awfis to meet the dynamic and evolving needs of modern businesses. Over the years, Awfis has transitioned from being merely a co-working space provider to an integrated workplace solutions platform offering a broader array of services and solutions.

The second aspect was creating more accessibility towards space options. We understood that companies needed office spaces in a variety of locations including diverse micro markets to meet

their unique operational needs. Therefore, we expanded our footprint to ensure that businesses could find suitable office spaces in different parts of the city thereby enhancing their ability to operate efficiently and conveniently. The company's presence is widespread encompassing all Tier 1 cities and seven Tier 2 cities across India. In total, Awfis operates in 17 cities, 53 micro markets within the country. As of March 2024, Awfis has 181 centers across 17 cities totaling 1,10,540 seats. The company's total chargeable area amounts to 5.56 million square feet. Currently, 21 of these centers offering about 15,500 seats are under fit out.

The third aspect we addressed was flexibility. We recognize that businesses require flexible workplace solutions that can adapt to their changing needs. Our model allows clients to lease spaces for varying durations from short term to long term, from small offices to larger workspaces. Moreover, clients have the flexibility to upscale or downsize their space as their business needs evolve.

We provide three primary services. Our core offering is space solution, encompassing co-working solutions tailored for a client seeking flexible workspace options available by the day, week, month, or a year with a seat pricing structure and enterprise solutions customized for businesses needing tailored office setups, with fees based on service scope and client specification.

Additionally, we offer allied services like meeting rooms, day passes, ideal for temporary workspace needs, virtual office, virtual office plus solutions, which provide businesses location addresses and package handling services. Another service we offer is Awfis Transform, providing comprehensive design and build solutions for developing our centers, as well as assisting in development of external commercial offices for our clients.

And lastly, we have Awfis Care, through which we provide end-to-end property and facility management services for clients at their conventional offices. Awfis is the only platform across the globe, which provides complete integrated services of the CRE needs with great cross-selling opportunities across our service segments.

Now coming to our supply side of our business, we have a differentiated model for sourcing and procuring workspace. First, the Straight Lease model, and second is the Managed Aggregation model. Under the Straight Lease model, we typically enter into arrangement for a period of five to nine years and the capital expenditure for fitting out the property is entirely owned by Awfis. Under the Straight Lease model, the risk of capital occupancy buildup and preoperative operational burn is borne by Awfis, turning out to be a capex heavy model.

Under the Managed Aggregation model, our agreements are structured on a profit or revenue sharing model, making it risk-averse, and capital of fit-outs is largely being borne by the space owner, making the whole model capital-light. We typically provide a minimum guarantee to the space owner, payable generally starting anywhere from fifth to 13th month of operation, until the end of term of the contract. As of March 31, 2024, the minimum guarantee at the company's Managed Aggregation center was at an average of 46% of the micro-market rental.

Over the years, we have increased our focus on lower-risk, asset-light Managed Aggregation model and as of March 31, 2024, 64% of our centers are in the Managed Aggregation model.

We have increased the percentage of seats under the Managed Aggregation model from 46% in FY '21 to 66% in FY '24. We have the largest number of centers under the Managed Aggregation model among the organized workplace players as of March 31, 2024. The Managed Aggregation model allows for significant improvements in return ratios.

Due to the increasing share of Managed Aggregation in our total portfolio of 181 centers, this asset-light strategy will continue to enable us to rapidly scale our business, expand our footprint, and without being subjected to any high capital investment costs and fixed lease rental payment obligation resulting in a high return on capital employed. So, these two structures will help expand our capital light model and will diversify our risk.

While the MA model continues to be a key part of our supply strategy, we enter into Straight Lease arrangements primarily when it aligns with our strategic interest or client demand is clearly identified in advance. For instance, we may enter into arrangements under SL model in prime locations where our brand presence is crucial or when a client demand is already established in a certain site or a micro-market. At Awfis, we will continue to prioritize investments with sharp focus on return on capital employed.

Let me spend some time, a little bit of time on the industry. Our industry has witnessed accelerated demand post the pandemic. The penetration level of flexible work space sector in the office space non-SEZ segment has seen a steep jump from 9% in 2020 to 12.5% in December 2023. This is expected to rise to 16% on the expanded base in 2026, which means that one in six leases across the country will be in a flexible workspace model. The demand for seats in flexible workspaces has been continuously increasing in the last three to four years and growing at an average annual growth rate of 30% to 40% from 2019 to 2021.

The year-on-year seat take-up is increasing at a CAGR of approximately 42% from approximately 59,000 to 69,000 seats per year in 2019 to 1,67,000 seats to 1,77,000 seats per year in 2022 and expected to reach 3,35,000 seats to 3,45,000 seats per year by 2026. IT, technology, and software development sectors have been the major demand drivers for flexible workspace in the last three to four years, followed by banking, financial services and insurance, which has witnessed an increase in demand for space from flexible workspace operators over the years.

In addition, according to the CBRE report, the market size of the flexible workplace segment has more than tripled in the last three to four years from 20 million square feet before 2019 to approximately 62 million square feet as on December 31, 2023 in Tier 1 cities and approximately a total of 1.7 million square feet in 2019 to 5.7 million square feet as of December 31, 2023 in Tier 2 cities. The total projected market size in Tier 1 and Tier 2 cities for flexible workspace segment is projected to be approximately 105 million square feet by 2026.

We recently concluded our IPO of INR599 crores through a combination of fresh issue of INR129 crores and an offer for sale of INR471 crores by selling shareholders. We propose to

utilize the net proceeds from fresh issue towards funding capital expenditure towards establishment of new centers, funding our working capital requirements and general corporate purposes.

Awfis has been a continuous recipient of awards and accolades.

- We received the best co-working brand of the year at Economic Times Real Estate Conclave in 2024
- Received the co-working brand of the year award at Reality+ Flex Spaces Conclave & Excellence Awards in 2024
- Received the Managed Spaces Design of the Year Award at Reality+ Flex Spaces Conclave and Excellence Awards in 2024.

Let me conclude by saying that we strongly believe the co-working industry is at an interesting junction. With increased investment in India by MNCs, continuous growth of large corporates and SMEs and startup ecosystem, we are confident to strengthen our leadership position in flexible workspace segment in India.

Let me give you a brief on future growth strategies.

Point number one: Continue to build on industry-leading capital efficient model. This is where our managed aggregation model will come in focus because as the share of the business through MA model increases, it will have a positive impact on our return ratios and thereby on our ability to scale the business.

Point number two: Expand in a new and existing market. Our approach will be to have a controlled and methodical expansion of market. We will continue to invest in markets where we believe there are strong return in long term. Our experience of last many years coupled with strong understanding of our client needs, we will also make strategic early investments in Tier 2 cities.

Point number three: Enhance our product and service offering by applying our understanding of client needs and increasing focus on Awfis Transform, Awfis Care and allied services. Our efforts will also be geared towards widening the range of clients we cater to.

Point number four is to improve operational efficiency. Here we will build a strong vendor base, leverage on technological tools and improve employee learning and development.

Let me now hand over the call to Mr. Sumit Lakhani, our Deputy CEO to share Q4 operational highlights and guidance for FY25. Over to you, Sumit.

Sumit Lakhani:

Thanks, Amit. Good morning everyone and a very warm welcome to everyone. Let me give you a quick overview on our performance.

We ended FY24 with a revenue from operations of INR849 crores registering a growth of 56% on year-on-year basis. For Q4, we registered a growth of 46% on year-on-year basis and reported revenue from operations of INR232 crores.

In FY24, 73% of the revenues came from the co-working space on rent and allied services, 24% from construction and fit-out projects and the balance from others. On absolute basis for FY24, we witnessed 48% year-on-year growth in co-working space, 95% from construction and fit-out projects and 17% growth in rest of the business.

Our revenue base is extremely diversified. Top five clients contributed 13.8% to space revenues while the largest client stood at 4.9% share. Based on number of occupied seats, ~68% of client base belongs to large corporates or multinational companies, ~20% to small and medium enterprises and 11% to startups and the rest to freelancers.

We cater to all seat cohorts ranging from a single seat to multiple seats. Our cohort of over 100 seats has been steadily increasing and now it stands to 58% (was erroneously mentioned as 48% on earnings call) in FY24, from 50% in FY21 to 58% in FY24 demonstrating the growing confidence of our clients with larger cohorts in us.

An important metric in our business is the weighted average total tenure and weighted average lock-in tenure on the basis of seat cohorts. This metric indicates the revenue visibility in our business. Currently, total weighted average tenure of the portfolio is approximately 33 months while the total weighted average lock-in tenure is at 24 months. These two metrics are steadily increasing.

Our multi-channel approach of engaging real estate brokerages, digital media, advertising strategies and our in-house team coupled with strategically located centers and a high quality product allows us to be at these healthy levels for total tenure and lock-in tenure at a portfolio level.

As a commercial real estate player, occupancy levels are an important metric to assess the utilization level and plan future capex in our business. Currently, the overall or blended occupancy levels are at 71%.

Within this, it is important to note that the occupancy levels increase gradually as we launch a center. For instance, 85% of the centers launched since fiscal 2022 crossed 80% occupancy within 7.5 months of starting operations. Occupancy levels for centers with more than 12 months of operation stood at 84%. This explains the strong client sourcing practices at Awfis while also validates the selection of micro market and within micro market a specific office complex.

We manage demand for our services by employing various renewal and churn management strategies. For instance, we actively monitor our renewals through our 'Expiry 90' tool that gives us insight to forecast and monitor renewal of our clients during the next 90 days thereby enabling us to plan efficiently in advance for vacancies at our centers.

In terms of operational highlights for the quarter, operational number of centers increased from 119 in FY23 to 160 with an additional 21 centers under fit-outs and totaling to 181 centers in FY24.

For FY23, operational seats stood at 68,203. During the year, we added 27,490 operational seats. 15,510 seats are under fit-outs making the total seat count for FY24 at 110,540. We have also

signed LOI for 16,522 seats. Overall, operational centers and seats grew by 35% and 39% respectively from FY23 to FY24. During the year, we sold 36,857 new seats and for Q4 FY24, about 9,000 seats were sold.

For FY24, 66% of seats under managed aggregation model driving capital efficiencies for the business. Average monthly churn rate stood at 1.2% for FY24. As of March 24, we served a marquee customer base of 2,459 unique clients.

In terms of new openings during the quarter, 22 new centers were launched with 73% centers under managed aggregation model and 15,084 new seats were added with 69% seats in managed aggregation model.

In terms of new openings during the year, 43 new centers were launched with 79% centers under managed aggregation model and 27,490 new seats were added with 79% seats in managed aggregation model. Overall, 86% of the supply addition was in Tier 1 cities.

So, from our FY25 guidance perspective, as you can see, currently we have approximately 95,000 operational seats. We plan to add around ~40,000 new seats in FY25 reaching a total of ~135,000 seats by end of FY25.

As you would have observed that as of March 24, we already have approximately 15,500 seats in the fit outs and for approximately 16,500 seats we have signed LOI in place. So we have good comfort of delivering this growth. The supply team is continuing to engage with space owners for new supply opportunities. This is the supply growth and the increase in occupancy across our existing operational centers. We expect to grow our revenue by 30% in FY25.

Due to an increase in occupancy and operating leverage on costs, we should be able to improve our EBITDA margins by approximately 1.5% for FY25 versus FY24. Business will continue to see higher ROCEs at level higher than FY24.

This is all from my end. I now invite Ravi, our CFO for the financial discussion.

Ravi Dugar:

Thank you, Sumit. Good morning everyone and a very warm welcome to everyone. Let me give you a quick overview on our financial performance.

For FY24 our consolidated revenues from operations stood at INR849 crores a growth of 56% on a Y-o-Y basis. The EBITDA stood at INR271 crores which is a growth of 54% on a year-on-year basis. The margins stood at 31% for FY24 and at 31.5% for Q4 FY24.

The depreciation charge for FY24 stood at INR196 crores. Out of this INR55 crores was related to fixed assets depreciation and the balance INR141 crores was related to lease rentals accounting under IND-AS 116. Similarly, finance cost for FY24 stood at INR93 crores. Out of this INR4 crores was related to borrowings and other finance charges and the balance INR89 crores was related to lease rentals accounting under IND-AS 116.

For FY24 our cash EBIT which is EBITDA less the actual lease payments stood at INR97 crores which is a growth of 168% on a Y-o-Y basis and was INR36 crores in FY23.

We are a PAT positive company in Q4FY24 and the loss of our company has reduced from INR47 crores to INR18 crores in FY24 which is a significant improvement in the performance of the company driven by higher revenue and operating efficiencies.

As you would know that under IND-AS accounting, EBITDA does not include rental payments. Therefore, to give a complete clarity we are also sharing IND-AS 116 adjusted estimates. This is in a way equivalent to IGAAP accounting adjusted for lease accounting. On IND-AS 116 adjusted basis the EBITDA has improved to 10.4% in FY24 against a 4.3% in FY23 on the back of strong revenue growth and operating efficiencies.

Correspondingly, PBT has improved to 2.3% in FY24 against negative 3.9% in FY23. For Q4 FY24, EBITDA has improved to 11.7% against a 3.2% of Q4 FY23 again on the back of a strong revenue growth and operating efficiencies.

On a full year IND-AS116 adjusted if we have to further do an equivalent IND-AS to IGAAP accounting adjustments, the impact would be around INR5.8 crores largely coming from other IND-AS adjustments namely IND-AS 109 which is on financial instruments and IND-AS 102 which is on share based accounting payments.

As a result, an equivalent to EBITDA number would be around INR96.8 crores. Our debt at consolidated level stood at INR32 crores. Gross debt to equity is at 0.13. At the net level, we are a debt-free company and net debt to equity ratio is at minus 0.1. With IPO money is coming and further improvement in profitability, we further expect to cement our position in the market and continue with our growth aspirations.

Our ROCE stood at 43% for FY24 and on an annualized basis it is at 53% for Q4 FY24. Operating cash flows for FY24 stood at INR228 crores and accordingly OCF to EBITDA stood at 84% which indicates a very healthy cash conversion ratio. Our capex spends excluding the right of use assets for FY24 stood at INR142 crores while for FY25 we expect capex spends in a very similar range. This again will be a function of the mix/split between MA and SL.

In a business it is important to measure us on an annualized basis. We say this because there could be additions in capacity in specific quarters leading to upfront investments in infrastructure, manpower due to new centers, rollout or expansion in network which may have a short-term impact on margins. As we have showcased our occupancy levels trend improving by end of year we expect margins to move up and get benefit of operating leverage.

Having said this, as Sumit mentioned we are confident to deliver a margin improvement on an annualized basis of approximately 1.5% in FY25 over FY24.

This is all from our end. We now open the floor for Q&A.

Moderator: Thank you very much sir. We will now begin the question and answer session. The first question is from the line of Mohit Agrawal from IIFL Securities. Please go ahead.

Mohit Agrawal: Yes thanks for the opportunity and congratulations to the entire team on the listing. My first question is on Managed Aggregation model. So it's a bit - it's a longish question. So how do you

see in this 40,000 seats guidance that you have given for FY25? Is the mix of Managed Aggregation and SL going to be in the same two-third, one-third ratio?

And do you see any challenges in terms of -- do you see any challenges in terms of supply being a challenge in expanding under the Managed Aggregation model especially considering from a landlord perspective because they need to put in the capex? And lastly on this would be, in general do you see the industry moving towards the Managed Aggregation model? You've mentioned that you're the largest player. So some color on that considering that this is pretty ROCE accretive. So your thoughts on that?

Amit Ramani:

Thanks Mohit for the wishes and thank you for the question. So your first question was around the split. Our endeavor would be to continue the split as we have been able to achieve which is approximately 65% to 68% of MA, Managed Aggregation and the rest being Straight Lease. So we'll continue in that model.

Second, you said about sourcing supply. So Mohit clearly I think it's been a journey over the last 9 years. Clearly when we position the Managed Aggregation model to the landlords it seems a bit tough to start with, but clearly now us having presence in approximately 17 cities today 53 micro markets. In addition, today if you look at it out of the total 180 odd centers, almost 120 centers are in Managed Aggregation.

And this is across Tier 1 and Tier 2 cities. So we have proven ourselves as one of the best in class when it comes to partnering with our landlords and delivering returns. And we have also developed a very strong network of our both international property consultants and domestic property brokers, almost close to about 350 to 400 across India, that acts as our extended partners to help source that supply.

So to answer the question in a nutshell with this brand we have, with the credibility we have built, with the returns we have delivered to our landlords, we don't foresee any challenges. To your final question on will the other people in the industry look at it? Well, the reality today Mohit is that we are the largest. We do as I said almost 65%, 66% of our portfolio is in MA. We are the proven entity. Will other landlords partner with other operators?

I'm sure they will. But clearly we are on this journey. Sumit outlined the growth that we have for this year close to about 40,000 odd seats out of which almost 65% plus is going to be in MA model. So clearly we have a leg up on everybody else in the industry. When you want to partner with a brand you will go with the largest proven brand usually in this kind of model versus taking a bet with somebody entering new. So I hope I answered your question.

Mohit Agrawal:

Yes, sure. My second question is about, you know, you mentioned in your opening remarks about making investments in Tier 2 cities. So what kind of opportunity do you see there in terms of exposure? Where do you want to see, let's say, number of seats or revenue? What kind of opportunity do you see in the next 2 to three years? And what is also, if you could give some color on the kind of clients you would see there, will it be a similar mix, like you have mentioned about corporate MNCs having about 68% of your demand? So would it be similar in the Tier 2 markets as well?

Amit Ramani: So, Mohit, we were the first ones to expand into Tier 2 cities. Our first city was Chandigarh in 2018. And we strongly believed in the growth of the Tier 2 cities. Today, we are in eight Tier 2 cities. We will expand to a few more. We believe that the future of India from the 5 trillion to 10 trillion economy is going to be written across the nine metro cities and, you know, 10 or 11 Tier 2 cities of which we are already in eight.

We strongly believe that, you know, people are moving to Tier 2 cities because of the demand opportunity of talent. It is no other reason. Clearly, if you look at post COVID, if you did analysis of the large IT companies, about 65% of their talent went back to these eight odd cities where we are already present.

And we believe that many of those cities have great infrastructure, great lifestyle opportunities, and many people will probably end up staying back in those cities. And we are seeing some very, very strong demand across those cities. We also strongly believe that the demand ecosystem is going to be similar. A large portion of it is going to come from IT ideas or large corporates. And a subset will come from banking, finance, consulting, construction, many of those cities. And clearly, in FY '24, 14% of our cities, of our seats were launched in Tier 2 cities.

So, we are a strong believer. We have the largest presence in Tier 2 cities across the industry today. And we believe that the growth journey will continue across the nine metro cities where we have almost 90% of our seats and our Tier 2 cities where we are expanding fairly quickly.

Mohit Agrawal: So, 15% is what I heard, right? That's the number we should work with going forward as well?

Amit Ramani: Broadly, yes, Mohit. So, today, the portfolio split is 90-10. But if you look at Q4 FY '24, about 14% happened in Tier 2 cities. So, that will move closer across the years to 85-15 split.

Mohit Agrawal: Okay, understood. Thanks a lot, Amit. You know, those were my questions. If I have more, I'll join back to queue, but best wishes to your team for future quarters.

Amit Ramani: Thank you, Mohit.

Moderator: Thank you. The next question is from the line of Viral Shah from Enam Holdings. Please go ahead.

Viral Shah: Yes, thank you for the opportunity, and congratulations on a successful listing. I had a couple of questions. Firstly, just to clarify, Ravi did allude to this point earlier about the cash EBITDA. I think he was trying to state that FY '24 cash EBITDA is actually closer to INR90 odd crores. Can you just help us explain this part again? Because it was not fully clear.

Ravi Dugar: Yes, hi. Thank you, Viral. So, cash EBIT number for FY '24 is INR97 crores to be precise. And the way we calculate the cash EBIT is EBITDA less than the actual lease payments. And the reason for doing this is because as you are aware that under IND-AS, the lease payments are below the EBITDA line. So, what we do is essentially we subtract the actual lease payments from the EBITDA to arrive at the cash EBIT for us. So, that's how this number is INR97 crores, which is a growth of 168% year-on-year basis and was INR36 crores last year.

- Viral Shah:** Okay. So, this is cash EBIT or cash EBITDA?
- Ravi Dugar:** It's cash EBIT.
- Viral Shah:** Okay. Secondly, I just want to understand your strategy. It seems that you are more focused on the smaller cohort, both on the demand as well as the supply side. Now, if I look at this, this seems to be at a variance with your competitors. Can you just help us understand what is the rationale behind this?
- Ravi Dugar:** Sumit, you want to take this?
- Sumit Lakhani:** Yes. So, Viral it's the point around on the overall fundamental business model. So, let me give you a perspective from the demand side. The best way is to take an analogy of retail banking versus NBFC. Now, the advantage of a retail banking is a diversified portfolio of clients with a lower risk, while it takes longer to build and it's more hard to build but it's more sustainable from a long-term perspective.
- So, we have followed a similar approach by creating a larger number of centers. So that we can attract a larger segment of users. So, be it SME, mid-corporates, larger enterprises. There could be a situation where a small cohort of 25 seats could be taken by a larger enterprise as a starting point of relationship with the Awfis, but that same enterprise is taking almost about 300 or 400 seats with us in some other center after experiences those 25 seats with us.
- Secondly, what we have seen is a smaller cohort ends up getting a better pricing realization as compared to a larger cohort. That's why we love the aspect of catering to a smaller cohort. Third, it makes a churn more manageable and less risk averse. So, what we see is a typical center sizes of about 600 to 700 seats usually ends up having 20 to 25 different clients across various kind of cohort. So, across years as the companies keep moving out. So, it's very easy for us to manage the churn and create a more sustainable and risk-averse kind of a business model.
- It's a bit tough capability to build because it requires very strong operations processes and we're proud that we are one of the only players to deliver this capability at a scale and I think it's a mote and a tough one for a lot of players to replicate. So, that's the primary aspect on the demand side why we look at smaller cohorts. With respect to the supplier side, as you would see our center sizes are generally about 30,000 odd square feet with a lot of players looking at a large center. On the business model we have a perspective in the size. A mid-size center brings decent level of operating efficiencies in terms of the total operating costs. So, there is no kind of loss of operating efficiencies but it's a very risk-averse scenario. We are able to build the occupancy in a span of about seven to nine months to about 80% odd of the occupancy. So, it's easier to build the occupancy.
- Second, it's easier to manage the churn. Third, one can have a very strong kind of a larger network. So, that's the reason why we have now 181 centers across 17 cities. An interesting aspect over here is if you have a larger network, the network effect from customers also come in. As you would see, almost 30% plus of our customers have taken seats with us in more than one center. So, that's how a larger network with mid-size centers as a strategy has worked out well and our endeavor is to continue with this kind of a business model.

- Viral Shah:** Perfect. Thank you, Sumit. That's all from me.
- Moderator:** Thank you. The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.
- Adhidev Chattopadhyay:** Yes, good morning. Thank you for the opportunity. The first question is on your margin trajectory for FY '25, simulated that you're expecting a 150-bps sort of expansion next year. So, could you help us understand in Q4 what has been the exit churn rate for the month of March, right, which would give us some directional headroom? And for this margin expansion, what are the levers for this expansion to come in gradually? Yes, that's the first question.
- Ravi Dugar:** Thank you, Adhidev. So, for Q4, the EBITDA exit margin is at around 11.7. The levers for the improvement in margin, the 150 bps what you're talking about, will largely come from the operating efficiencies and the operating leverage. So, as we expand our network, we expect efficiencies to come in further.
- Adhidev Chattopadhyay:** Okay. Sir, if you're already at 11.7% in Q4, right, so for the full year '25, shouldn't this number be a little higher at 12% plus? It's looking at more operational efficiencies coming in as the new seats come into operation?
- Ravi Dugar:** We are also expanding very rapidly into new, you know as Amit mentioned, in few of the new cities and also, you know, we're expanding in some of the new centers in the existing cities. So, there'll be also an impact of, you know, new centers and the cost-related to that, coming in. So, what we are expecting is that at some point of time it will balance out with the improvement in the operating margins. And hence 1.5% is what we are taking as an improvement in the operating margin.
- Adhidev Chattopadhyay:** Okay, for the full year. So, then the second question and so just to follow on that, so then what would on absolute terms in the month of March what would be the EBITDA run rate we'll be doing monthly as we have exited March 24 on a monthly basis, if you could share that number?
- Ravi Dugar:** That number would be around INR9.5 crores, with all the IND-AS 116, 102, 109 accounted for. So, this is the EBITDA equivalent to an IGAAP kind of a scenario.
- Adhidev Chattopadhyay:** Okay, around INR9.5 crores for the month of March. And the second question is for the full year in 24 in your expenses either an IGAAP or IND-AS, are there any one-off expenses or gains which are part of the EBITDA, if you could just clarify that, please?
- Ravi Dugar:** There are no one-offs in the real sense. However, we had a couple of legal costs related to the selective capital reduction what we did and the fund raise what we did. So, there are one-offs pertaining to that. The fund raise and the selective capital reduction process what we went through.
- Adhidev Chattopadhyay:** Final question is obviously pre-IPO as of March 24, what is our net debt on books? Because there seems to be -- as per the reported cash and cash equivalents do not seem to reflect the total cash on books. So, you just help us understand the net debt as of March 24.

Ravi Dugar: The net debt would be around minus Rs. 25 crores net of cash. So, Rs. 32 crores is the gross and the net debt is around minus Rs. 25 crores as of March 24.

Adhidev Chattopadhyay: No, fine. That is clear. I will come back in the queue if I have more questions. Thank you.

Moderator: Thank you. The next question is from the line of Bhavik Dave from Nippon India Mutual Fund. Please go ahead.

Bhavik Dave: Yes. Hi. Good morning, sir. A couple of questions here. One is on pricing. So, just wanted to understand when we are adding incremental seats depending on the location maybe the top 10, 15 locations versus the tier 2 locations, how is the pricing moved incrementally in fourth quarter and how do you expect that to move in for FY '25 like to like basis?

Ravi Dugar: Sumit, do you want to take this?

Sumit Lakhani: Yes. So, Bhavik our pricing is a direct function of the input real estate cost. The way our financial models are built is we look at two parameters very strongly. One is the overall center EBITDA margin which could come around. And second is the payback period. This is the kind of capital which we are investing. So, these are the two primary drivers which is driving the pricing. So, within the same micro market two buildings could have a different rental and that is why we would have a different kind of pricing realization.

So, as you would see we already have a diversified kind of portfolio on supply side with micro markets like BKC and CBD in Bangalore with higher rentals to micro markets in Calcutta, which have a very low rental. So, our pricing of the product on a per seat basis ranges from about INR6,000 to INR18,000 per seat per month. We expect that we will follow a similar kind of rule and the financial metrics to determine the pricing.

In any case, the way we look at as we grow into tier two cities, we don't see that the blended average realizations will go down. Because the micro market rentals of tier two cities are also equivalent to the micro market rentals of the peripheral places of the larger towns. So, let's take an example.

Let's say if we end up being in a micro market in Jaipur the micro market rental could be also similar to the micro market rental of Navi Mumbai. So, our pricing would follow the similar the blended pricing of the whole portfolio will follow the similar trend but we focus more on the keeping the center EBITDA margins and payback periods intact.

Bhavik Dave: Sure. Just to make this simplified, when we look at FY '25 over '24, on a blended basis, you made a point that incrementally 15% of the seat addition or the outstanding would be tier two cities versus 10% today. So, like to like, if we have to compare FY '25 over '24 the blended realizations all else equal will be like zero to 5% higher than what they stand today, right? Like, considering all the escalations and the new additions and the mix shift everything included, the number should be 0% to 5% higher than what it is in FY '24 overall blended, right? Is that a fair assumption?

- Sumit Lakhani:** So, with respect to an existing center a customer, so on a client contract, we already have escalations being built in. Generally, for a larger cohort these escalations range from about 4% to 6%. And for a smaller cohort it ranges from about 5% to 8%. So, yes, from an existing center portfolio perspective there is going to be a like to like increase in the overall pricing.
- Bhavik Dave:** Understood. The second point is Sumit, when we look at our mix today on revenues, you highlighted 75%-76% is the co-working space and the remaining 20%-25% is the transform business or the build and fit out business. Do you expect this mix to remain broadly in this range or do you think that can change over the next couple of years? Like, if we look at two-year horizon will the mix of revenue remain similar or will it change?
- Amit Ramani:** So, from our standpoint, we offer this as a complete comprehensive solution. So, as I mentioned in my opening remarks that we are a solutions platform. So, clients come to us for co-working, for doing customized solution for them as well as for design and build, which is our Awfis Transform business. So, it is an integrated offering. Now, what we feel strongly is that we will continue to have about 75% of our business in co-working and about similar about 20%-25% in design and build. So, this will continue but we will continue to offer the comprehensive solutions. So, client can choose us for either taking co-working seats with us, managed office solutions or if they take up their own space then we can deliver a design solution for them.
- Bhavik Dave:** Sure. And the transform business, EBITDA margins are we optimized or do you think there is some bit of improvement there as well? And what would that range be today and if it can improve, how much more can it go up to?
- Amit Ramani:** So, currently this is about 14%-15% as you can see from our financial. We believe that as we continue with our scale, as we mentioned, we are doing 40,000 seats in our expansion for this year. In addition, obviously, this does not include the design and build business, which effectively will also translate to seats or buying power in the marketplace is very high. So, we believe through our procurement strategies through our efficiencies in terms of our delivery, in terms of our solutions we will probably be able to get another 1.5% to this 14%-15% margin for FY '25.
- Bhavik Dave:** Sure. I guess one last point or suggestion that I would request is if we can give us very clear last 2-3 year pre-IND-AS P&L balance sheet cash flow because it's very difficult to reduce the adjustment that we're trying to make because for last 2-3 years, if we can provide that kind of data every quarter from year on it will be very important because you, yourself are looking at the business on a pre-IND-AS basis. And from an investor perspective also, that will be very helpful if you can simplify the way we report our P&L balance sheet on a pre-index basis. That's a request. Thank you.
- Amit Ramani:** Sure.
- Moderator:** Thank you. The next question is from the line of Arpit Shah from Stallion Asset. Please go ahead.
- Arpit Shah:** Yes, congratulations on a super listing. I have a couple of questions. I just list out all my questions. I just wanted to understand the square feet breakup or the per seat kind of breakup or

capex in MA as well as in SL. That is my number one question. I just wanted to understand the INR30 crores cash debit number which you reported in Q4 FY '24.

Would you say this is a steady state number for the quarter or do you think there is some operating leverage which is going to play out in FY '25 and FY '26? And what would be the tax number for the quarter, if you have to include that? And I just want to understand what would be the ESOP expenses for FY '25 and FY '26, since you have just listed now to have some ESOP pool. And I believe there was some INR50 crores kind of a payout to Mr. Ramani on the IPO listing. And just want to understand how are we going to account for that number? What would be our corporate overheads on an annualized basis? Just wanted to understand that.

Amit Ramani: So, I will answer the last question that you had, and then I will request Sumit to discuss the MA and SL split. So, the number was not INR50 crores, it was INR5 crores to clarify. And as per the current committee, I have completely foregone that number. So, over to you Sumit on the capex part on MA and versus SL.

Sumit Lakhani: So, with respect to the total capex which we spend on centers, we end up spending about INR1,700-INR1,800 per square feet on the center capex. So, irrespective of that center being under managed aggregation or straight lease model, the difference generally in a capex varies from a bit site-to-site depending on the site condition. So, that's the kind of only 5% or 8% kind of variability across various kinds of sites where the whole capex would vary. So, that's the overall capex spent per square feet. Second, your question is around on the cash EBITDA basis. Can you just repeat that question on cash EBITDA?

Arpit Shah: Yes. So, we have reported about INR30 crores cash EBITDA in Q4 FY '24. So, is this a steady state number or we've already got it for 1.5% margin expansion. So, that I think includes a lot of operating leverage. So, this INR30 crores is a steady state number or you should see more, is there a downside to this number or this is a steady state number going ahead?

Sumit Lakhani: So, see going ahead, the absolute basis of the cash EBITDA will also change with the change in revenue. And for the full year, you will see a 1.5% improvement in the margins that could be distributed across multiple quarters. As we are giving more on annual guidance, I'll not be able to exactly give you a perspective whether Q1, how much improvement is going to come around. But on a blended for a full year basis, we will have a 1.5% improvement.

Arpit Shah: Got it. And what will be the ESOP expenses for FY '25, '26?

Ravi Dugar: So, the current unamortized pool for ESOP expenses is around INR6 crores between FY '25 and '26.

Arpit Shah: Okay. And the corporate overheads?

Ravi Dugar: So, let me split that - so essentially the corporate overheads is comprising of the employee expenses. Now, within the employee expenses, we have two ways of accounting for that. So, the employee expenses which are at the centre - is what we have, that is as part of the MA structure deal, part of the centre EBITDA margin. So, in the real sense that is not a corporate overhead

for us. The corporate overhead for that cost gets distributed between the landlord and us. On the other corporate overhead, which is the salary for the HO staff is in the range of 5%-6%.

Arpit Shah: 5%-6% of total revenues, right?

Ravi Dugar: Total revenues, yes.

Arpit Shah: Okay. And the 30% revenue growth that you have guided is on total revenues or is it on co-working business segment?

Amit Ramani: It is on total revenue.

Arpit Shah: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Bijal Shah from RTL Investments. Please go ahead.

Bijal Shah: Yes, hi. Thank you for the opportunity and congratulations on listing and building a very solid business over a period of time. My question relates to competition in the segment. Now, every day in the newspaper we read that there are multiple companies in the space and they are raising money also. In fact, 3-4 IPOs are also lined up. So, how do you see competition?

And in fact, in your industry report also, there are like 20 players operating, 80 players operating in a city like Bangalore and I didn't see anywhere more than 20 players operating. So, from a competitive perspective, do you see that there could be a demand supply mismatch and which can impact pricing or occupancy over the next two, three years?

Amit Ramani: So, as kind of we mentioned in our opening remark, the industry is fast growing, right? By 2026, it's projected to be almost 16% of total commercial real estate equaling to almost 105 odd million square feet. So, I think it's a sunrise sector. And I think healthy competition across the country has provided the right solution for the customer. I think just as in real estate, there are multiple developers who coexist and do well. I think in our industry also, competitors will all coexist and do well.

As far as we go, I think we clearly have differentiated ourselves. Obviously, being the largest when it comes to our network, 181 centers and projection is to grow by almost 40 plus centers in FY '25. The platform approach, which we believe is very unique, which is the ability to offer somebody one seat, 2000 seats, we can now design, we can build, we can maintain, we can operate, we can do all of that under one umbrella.

So, all commercial real estate requirements are fulfilled. Our differentiated supply model, I think we strongly believe that by having capital efficient model in our managed aggregation structure and diversifying our risk by partnering with the landlord completely differentiates us from everybody. And we have a very, very different scale, almost 120 odd centers out of 180 are in managed aggregation today. The size of centers matters. Sumit talked about the centers, typically about 30,000 square feet. As a result, we can have multiple locations across a city in cities like Mumbai and Bangalore.

Today, we have close to about 20 plus centers in each of these cities. So, kind of the size of the center matters and obviously reduces our preoperative burn, reduces the concentration risk. We cater to all kinds of customers. A large portion of India's demand is less than 100 seats. And we probably are one of the only branded players left in that space catering to that customer base. And even less than 100 seats, which is almost 50% of our demand today, it's split equally between 1-25, 25-50 and 50-100.

So, clearly, we cater to SMEs, mid-corporates, large corporates, startups, freelancers, every type of customer segment in this country. And clearly, when it comes to Tier 2 cities, we strongly believed in it and went into expansion in those cities. Today, we strongly believe that the Tier 2 strategy is a big differentiator for us when our ability to offer kind of solutions for our customers.

So, I think competition is great and is healthy. We welcome all other people to come to the public markets. But we currently believe that we are extremely differentiated business. And we believe that that's the reason that we obviously will continue to grow while mitigating the competitive landscape.

Bijal Shah:

So, just to understand, overall at industry level, you do not see much risk of oversupply. So, demand is really that strong that it can accommodate growth plans of most of the players who are there. And in fact, all of them are looking at significantly increasing their seat capacity. So, you think that demand is strong enough to accommodate all the players?

Sumit Lakhani:

Yes. See, primarily, if you look at the way we are generating demand, it's a primary shift of people choosing conventional offices to moving to flex spaces. The total amount of leasing which happens every year is anyway increasing and the percentage of flex space leasing is growing.

So, we are having the share because the customer preference is moving from conventional to flex spaces. So, that's why there is a very large demand, which a couple of players are catering to. Because the business doesn't have much entry barriers as it looks like to begin with, be it like even from a hospitality play, if you look at an example of hotels, there are a lot of branded players, there are a couple of branded players, a lot of players in the wing but ultimately, the larger market share is taken by the branded players.

This is exactly what is happening in our industry that the top five or six players are having a larger market share and they're growing with the network effect of the customers. So, we don't worry around on the large number of co-working players opening up in every city. Our customer base is increasing and the customer base preference is shifting from conventional office to flex office.

Bijal Shah:

Okay, got it. And so, right now, you explained that there is impact of newer properties on margins, but eventually, say, probably two, three years down the line, when the proportion of new property really reduces to a small number, what kind of steady state margin we can look at?

Sumit Lakhani:

See, while we are not giving a guidance right now for the overall steady state, margins over the next couple of years, but you are right, at least for the next couple of years, we see a strong

growth for the whole thing. As the percentage of existing centers versus new centers reduces, you will see a natural increase in our overall margin profile, is what I can say right now.

Bijal Shah: So, lastly, one request. See, it seems that the data which is available as per IND-AS this is significantly different from the way you yourself analyze the business. So, it would really help if you can split the employee cost into center and if you can give center level profitability for the quarter and then give us the corporate overheads and also spell out the exact number of rent amount and adjustment, it will really help not only for the quarter but probably for 2 years, 3 years so we can actually see the trend as somebody also pointed out. So, that would really help all the investors in better understanding a new company which is from new sectors. Thanks a lot.

Moderator: Thank you. The next question is from the line of Kunal Sharma from SP Capital. Please go ahead.

Kunal Sharma: Yes, thanks for the opportunity and congrats on the good set of number and the listing as well. So, I just wanted to ask on a cost front that our rental as a percentage of sales has stands at nearly 21%, 22% which has been increased from 7%, 6% over the last 3 years, 4 years. So, are we entering into a higher leasing property kind of thing over the last 2 years, 3 years? If you could just throw some light on it and what kind of the rental as a percentage of sales that we are going to maintain going forward?

Sumit Lakhani: See, when you look at the annual number, you are looking at a blended rental value irrespective of the blended occupancy percentage. The way we look at the rental percentage is for the center which has 12 months plus of occupancy, the rental percentage is generally in our business for straight lease centers range about 40-odd-percent and for managed aggregation business ranges about 50%, 53%.

Now, as of today, the percentage which you are mentioning is more of a blended percentage because there are a lot of centers which are less than 12 months old. But the general perspective which we look at for 85% plus of stable occupancy centers, it's about 40% for straight lease and 50%, 53% for managed aggregation. So, just one more point, on the managed aggregation, when I say rental, it's a rental and landlord share including because it's a variable model.

Kunal Sharma: So, on a blended, we can say that on MA side, we have a 40% and the SL side, we just have a 55% as a rental expense as a percentage of sales?

Sumit Lakhani: So, it's the other way around. On MA side, it's about 50%, 53% of rental and landlord share and on SL side, it is about 40%.

Kunal Sharma: So, are we going to maintain this kind of range or what?

Sumit Lakhani: See, this is the range which we have been working with over the last couple of years and that's what we at least internally also look at trying for any kind of a center.

Kunal Sharma: On the second question that we are depending 40% on brokers, right? So, don't you think it could be a risk driver going forward as those brokers must have a good amount of client-centric things? So, they can be competitors going forward, if you could throw some light on a particular thing?

Sumit Lakhani: So, see the way the overall real estate business is built, even if you look at from a commercial estate leasing developer perspective, the brokers provide a larger business. Rather for a lot of large developers, almost about 90%, 95% of the leasing would be driven through the brokers. The way we look at our business, we are not looking at brokers as a partner but more like a distributor than channel partners for us.

The business is built in collaboration with these consultants. What I would say is, without commenting a bit less on the competition, is the 40% dependence on brokers is probably the lowest in the industry and by far it is best in the industry with respect to the dependence. The 60% which we are doing on our own is one of the best metrics which you would see within the overall co-working segment.

And this has been built because we have built a very strong business development, account management and a sales engine, which is the whole demand engine in-house. So, from our industry perspective, it is a great metric if you would look at a couple of competition as well.

Kunal Sharma: So, we are comfortable with this 40% as well?

Sumit Lakhani: Yes, we are very comfortable and it is more of a collaborative approach where we look at them more like a partner.

Kunal Sharma: And lastly, last question on that. Firstly, just wanted to understand that on interior and office designing, are we outsourcing the partners and the vendors outside or what kind of approach we are applying while building a new office?

Amit Ramani: Yes, so we obviously developed this business to deliver extended services to our clients. From that standpoint, we built the in-house design and project management team and a very strong procurement team. So, all of the design, majority of the project management and all of the procurement happens in-house.

Then we leverage our extended partners who basically do the execution at site, which would be these trades delivering interior, Mechanical, Electrical, Plumbing Systems. All the procurement of bought-out items, which includes let us say Carpet, Lights, Furniture, Chairs, Loose Furniture, etc. is all done by us.

Hence, we get a lot of efficiencies there. But it is the internal team that designs and project manages the whole thing and then an extended partner network that delivers and executes at site. Currently, we have 150 plus in-house project managers, designers, which includes our MEP designers. A lot of the team members are currently LEED certified, WELL certified, and we have exclusive tie-ups with Factories for doing a lot of our Loose Furniture, and all the Modular Furniture as well.

Kunal Sharma: Thank you so much.

Moderator: Thank you. The next question is from the line of Akshay Jogani from Xponent Tribe. Please go ahead.

Akshay Jogani: Thank you for the opportunity and congratulations on the listing. I have a couple of questions. And pardon me if I'm repeating them because I got dropped off for a few minutes in between. When I see the DRHP, there is an illustration of return on capital in the two different models and margins on the two different models. If you could kind of that margin and the current margin has a reasonable gap.

So, I just want to understand that at what stage in the life of a center do we get to what is shown in the DRHP, as an illustration margin? And in our mix of centers, what is the mix of centers where we've already reached to an economic share versus where we have not? Yes, that's my question.

Sumit Lakhani: So, see, primarily, we have mentioned, the DRHP, the ideal margin for straight-leave centers for us very, between 30% to 35%. This is the center EBITDA margin. And for the managed aggregation centers, closer to about 23% to ~25% is the center EBITDA margin, which we look at for lead centers.

Now, these margins we are generally able to hit when we hit about more than 85% of stable occupancy, which we are able to hit after 9 months to 12 months of occupancy of that center. Suppose that we are able to. So, within our current portfolio, as we have mentioned, almost for about 12 month-plus centers, the blended occupancy is about 84%.

So, for a larger segment of our centers which are in greater than 12 months, we are already, hitting these kind of, numbers. I don't have the number of centers which are exactly hitting or meeting these kind of numbers, but you can very safely assume that a very large section of our greater than 12 months of centers are hitting these kind of numbers. As the greater than 12 month of vintage centers keeps on increasing, you will start seeing the overall impact of increasing the EBITDA margin also coming up.

Akshay Jogani: And then, would it be fair to assume that, let's say, 4 years, 5 years out, and not right now, but when we have a significantly larger scale, the overheads from the center to eventually like the blended, total EBITDA at the corporate level, the overheads will be significantly smaller and as a result, our longer term EBITDA margins will be 17%, 18% of such numbers as sort of from the current 9%, 10%, 11% that we are?

Sumit Lakhani: See, so you are correct. Over the next couple of years, as the base for the mature centers keep on increasing, our overheads as a percentage of the total sales will, keep on shrinking down and we will hit to, better EBITDA margins. While I'm not giving a specific guidance of, the exact percentages, but we also expect and we are working towards, a very significant improvement over the next couple of years.

Akshay Jogani: That's helpful. Thank you.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, that was the last question for today. I would now like to hand the conference over to Mr. Sumit Lakhani for closing comments. Over to you, sir.

Sumit Lakhani: So, we thank everyone for joining the call today. We hope we have been able to give you a detailed overview of our business and also answer your queries. Should you have further queries or clarifications, please feel free to reach out to SGA, our Investor Relations Advisors. Thank you and good day.

Moderator: Thank you, members of the management. On behalf of IIFL Securities Limited, that concludes this conference. We thank you for joining us and you may now disconnect your lines. Thank you.