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To, National Stock Exchange of India Limited ("NSE") Listing Department Exchange Plaza, C-1 Block G, Bandra Kurla Complex Bandra [E], Mumbai - 400051	To, BSE Limited ("BSE") Listing Department Corporate Relationship Department Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai - 400 001
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SUBJECT: Transcript of the conference call on financial results for quarter ended June 30, 2024

Dear Sir/Ma'am,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Please find enclosed the transcript of the conference call for the quarter ended June 30, 2024, conducted on August 14, 2024.

The above information is being made available on the website of the Company at <https://www.awfis.com/investorrelations>

We request you to kindly take this on your record.

This is for your information and record.

Thanking You,

For Awfis Space Solutions Limited


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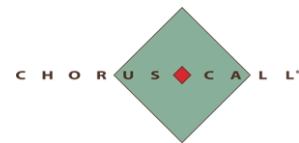
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“Awfis Space Solutions Limited
Q1 FY '25 Earnings Conference Call”

August 14, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 14th August 2024 will prevail.



MANAGEMENT: **MR. AMIT RAMANI – CHAIRMAN AND MANAGING
DIRECTOR – AWFIS SPACE SOLUTIONS LIMITED
MR. SUMIT LAKHANI -- DEPUTY CHIEF EXECUTIVE
OFFICER – AWFIS SPACE SOLUTIONS LIMITED
MR. RAVI DUGAR -- CHIEF FINANCIAL OFFICER –
AWFIS SPACE SOLUTIONS LIMITED**

MODERATOR: **MR. RUSHAD KAPADIA – ICICI SECURITIES**

Moderator: Ladies and gentlemen, good day and welcome to Awfis Space Solutions Limited Q1 FY25 earnings conference call hosted by ICICI Securities. 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 touch-tone phone.

Please note that this conference is being recorded. I now hand the conference over to Mr. Rushad Kapadia from ICICI Securities. Thank you and over to you, sir.

Rushad Kapadia: Thank you. Good morning, ladies and gentlemen, and welcome to the Q1 FY25 results conference call of Awfis Space Solutions Limited. We have with us from the management Mr. Amit Ramani, Chairman and Managing Director, Mr. Sumit Lakhani, Deputy Chief Executive Officer, and Mr. Ravi Dugar, Chief Financial Officer. So without further delay, I would now like to hand over the call to Mr. Amit Ramani for his opening comments. 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 CFO, and SGA., our Investor Relations Advisor. For Q1 results, we have uploaded our presentation on the exchanges and I hope everybody had an opportunity to go through the same.

Let me start with a brief overview of the business for the quarter. This was a strong quarter for our business, community, and the industry. For Q1 FY25, we are delighted to present a strong performance across all key metrics and segments of our business. Our reported revenue from operations reached INR258 crores, making an impressive 37% year-on-year growth. EBITDA stood at INR79 crores, also reflecting a robust growth of 56% year-on-year with an EBITDA margin of 30.7%. These results underscore our continued momentum and operational excellence.

In particular, our co-working and allied services segment demonstrated notable progress, achieving a growth rate of 33% to reach INR185 crores. This segment continues to be a cornerstone of our strategy, driven by growing demand for flexible workplace solutions. Our construction and fit-out projects, which encompasses our design and build business, have shown remarkable performance with a growth rate of 55%, culminating in a revenue of INR67 crores. This segment is gaining significant traction, buoyed by a healthy order pipeline and favourable market outlook.

As of June 30th, we proudly surpassed 1 lakh operational seats and expanded our footprint to 169 operational centers. Awfis operates in 17 cities and 54 micro-markets, encompassing 185 centers, 112,038 seats, and 5.6 million square feet of chargeable area that are either operational or are in the process of being fitted out.

Additionally, we have signed a letter of intent of 15,668 seats and 23 centers, building a robust pipeline of 1,27,726 seats across 208 centers. This achievement reflects our successful execution of growth strategies and our ability to scale effectively in response to market demand. Both the supply and demand side of our business are showing healthy growth. On the supply side, our managed aggregation and sourcing models are performing well, while on the demand side, we are witnessing increased customer interest across the various sectors.

We will continue to focus on three key areas of business, building an industry-leading capital-efficient managed aggregation model, expanding in new and existing markets, making strategic investments in tier 2 cities, enhancing our product and service offerings. We are seeing healthy growth in our design and build business and will continue being a key area of growth for us. Our efforts will also be geared towards further widening the range of clients we cater to with customized offerings for GCCs, large corporates, and SMEs.

Some other exciting things on the anvil for Awfis include a more enhanced user experience incenters and online with mobile app and website revamp, more focus on leadership and talent development through learning and development initiatives, improved operational efficiency by building a stronger and wider vendor base, leveraging our technological tools, and further streamlining allied services operations. The co-working industry stands at an exciting juncture.

The flexible space segment is experiencing rapid expansion with remarkable growth of 17% in tier 1 cities and 27% in tier 2 cities. This significant growth reflects a greater integration of flexible spaces with the broader commercial office market. In the first half of 2024, the industry saw a surge in office space absorption fuelled by continued expansion from global capability centers, domestic occupiers, flexible space operators, and firms in BFSI and technology sectors.

With substantial investments flowing into India from multinational corporations and the continuous expansion of corporate, SME, and startup ecosystems, we are confident in our ability to strengthen our leadership position in the flexible workplace segment. Our customer-centric approach, sustainable practices, and commitment to innovation position us for sustained success and growth in the evolving market landscape.

Let me hand over the call to Mr. Sumit Lakhani, our Deputy CEO, to share Q1 FY25 operational highlights.

Sumit Lakhani:

Good morning, everyone. I would like to share with you the operational highlights of Q1 FY25. On the supply side, we are pleased to report the addition of approximately 5,368 seats and nine centers during the quarter. In the last 12 months, we have added 30,156 seats and 48 new centers, marking the year-on-year growth of 43% and 40% respectively. We have increased our tier 2 presence by 90%, growing from 10 centers to 19 centers since June 23.

Out of the new seats added or under-fit out, 79% were under our asset-light managed aggregation model, reinforcing our commitment to this effective business model. We continue to maintain a strong portfolio of 67% seats under this risk-averse model. As of June 30, 2024, our total operational seats stand at 100,398 and we have 169 operational centers. We remain on track with our FY26 guidance to add 40,000 seats.

Currently, we have 11,640 seats under fit-out and letter of intent in place for 15,688 additional seats, providing us with strong visibility on achieving our growth targets. On the demand side, we signed demand contracts for 11,000 new seats in Q1 FY25. Our revenue base continues to be highly diversified.

In terms of occupied seats, approximately 65% of our client base consists of large corporates or MNCs, 22% are SMEs, 13% are startups and the remainder are freelancers. In our portfolio, we have 36% multi-centre clients. The contribution of 100-plus seat cohorts to our total cohort remains robust at 56%, reflecting the increasing confidence of clients in transitioning from traditional offices to flexible workspaces.

Our exit month occupancy rate was 71%, indicating strong demand for flexible workspaces, aligned with our supply additions. It is important to note that this is a blended occupancy level. Occupancy typically increases as new centers mature. For centers older than 12 months, the occupancy rate stands at 84%. The total average client tenure in our portfolio is 34 months, with a lock-in period of 24 months. For greater than 100-seat cohorts, the average tenure is 46 months, with a lock-in tenure of 34 months.

The tenure across portfolio demonstrates a strong long-term client commitment and providing us with excellent revenue predictability. During the quarter, we successfully serviced 2,684 active clients, supported by our extensive network and customer-centric approach. That concludes my update.

I will now hand over to Ravi, our CFO, for the financial discussion.

Ravi Dugar:

Thanks Sumit. Good morning everyone and a very warm welcome to everyone. Let me give you a quick overview on our financial performance. For Q1 FY25, on a reported basis, our consolidated operating revenue stood at INR258 crores, which is a growth of 37% on a year-on-year basis. The operating EBITDA stood at INR79 crores, which is a growth of 56% on a year-on-year basis. The margins stood at 30.7%.

This was 28.9% in Q4 of the last fiscal year, 2024, and we have seen an improvement of 1.8% quarter-on-quarter. This is broadly in line with our guidance on the operating margins given in the last earnings call. Reported PAT stood at INR3 crores, which was a loss of INR8 crores in Q1 of last financial year. On the IGAAP equivalent basis, which is adjusted for Ind AS 116 lease rentals and IndAS 109 and INDAS 102, our operating revenue stood at INR257 crores, which is a growth of 38% year-on-year.

Our operating EBITDA on IGAAP Equivalent basis stood at INR30 crores, which is showing a robust growth of 249% year-on-year. Our margins are at 11.5%. IGAAP equivalent depreciation stood at INR17 crores, and finance cost for Q1 FY25 is at INR1 crores, which is flat versus Q1 of FY24. Other income has been adjusted for Ind AS 109, which is arising due to fair valuation of security deposits under Ind AS 109.

PAT stood at INR15 crores, which was a loss of INR3 crores in Q1 of last year. On Ind AS basis for Q1 of FY25, our cash EBIT is at INR38 crores, which is a growth of 158% year-on-year. And this number was INR15 crores in the same period of last year. As of 30th June, our liquidity

position stood at a very comfortable INR185 crores. The gross debt at consolidated level stood at INR30 crores.

As a result, our debt-to-equity is INR0.08, which was INR0.20 in Q1 of FY '24. And our net debt-to-equity stood at negative INR0.41, which was negative INR0.13 in Q1 of last fiscal. We see a further decline in our debt-to-equity ratio as our profitability and liquidity situation continues to improve. Our ROCE has improved from 43% in FY'24 to 68% (on an annualised basis) for Q1 of the current financial year.

In our business, it is important to measure us on an annualised basis. We say this because there could be additions in capacity in specific quarters leading to upfront investments in infrastructure, manpower, which may have a short-term impact on markets. As we have showcased our occupancy levels trend improving by the end of year end, we expect the margins to further improve and get benefits of operating leverage.

That is all from our end. We now open the floor for question and answer.

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

Mohit Agarwal: Good morning, everyone, and congratulations on a good set of numbers. My first question is on your margins. In the presentation, you have given the IGAAP equivalent margins of about 11.5% for this quarter. Last quarter, you had guided to a full-year improvement of about 1.5 percentage points for the full year. Just trying to understand how to see these margins going forward. You mentioned in your opening remarks that over the year, this could improve further.

So, some color on should we assume a similar trajectory in terms of margins or we could see a gradual improvement for the full year from 11.5?

Ravi Dugar: Hi, Mohit. As you can see, our EBITDA margin has improved from 28.9% to around 30.7%, which in itself is a 1.8% improvement quarter-on-quarter. That said, we stick to our guidance of 1.5% for the year because we will keep on adding new centers and cities to our portfolio. And hence, there could be a short-term impact. But however, we continue with our guidance of 1.5% for the year as a whole.

Mohit Agarwal: Okay. So, for now, you are basically the Ind AS margins 30.7% and IGAAP equivalent 11.5%. You expect this to sustain for the full year?

Ravi Dugar: Yes.

Mohit Agarwal: Okay. The second question is on the pricing environment. We've seen like strong revenue growth of 37% year-on-year and also sequentially. A large part of it seems to be from the seat addition, right? So, how has been the pricing growth, especially on your old or mature centers? What kind of pricing growth have you seen and what is the outlook there? If you could give some color on that?

Sumit Lakhani: So, as you can see, we added about 15,000 new seats in Q4 FY24 and about 5,000 seats in Q1 FY25. So, one, the sale of these new seats added is driving the revenue growth. The occupancy rate of 71% was maintained over the larger base of seats and which has also helped us improve the margins. Now, the new seats which are being sold are being sold at 3% to 5% year-on-year escalation as compared to the earlier seats.

Similarly, what we see is annual escalation, which in our case ranges from about – on average about 5% for smaller cohorts between 5% to 8% and for larger cohorts between 3% to 5% is the kind of increase that also starts kicking in. So, this is how the overall seat price escalation happens for us.

Mohit Agarwal: Okay, perfect. And last question is on the construction and the fit-out business seems to be doing very well. You've mentioned that in your opening comments as well. Can you explain basically what is driving the growth? Is it the external clients, which is basically driving this or is it all led by the managed aggregation center? So, if you could just give some color on that and also what kind of profitability you are seeing in that segment?

Amit Ramani: So, Mohit, clearly, I think the India stack is doing really well, right? Clearly, the commercial real estate market is doing well. So, if you look at our business, which is the overall Transform business, about 50% comes from our landlords funding our centers, right? And there we are kind of in some ways capped out at about 15% gross margin in that segment of the business. If you look at the other part, which is obviously continuing to grow.

And both are growing quite healthy, which is basically our design and build services for third-party clients that is driven from the global capability centers coming to India, the Indian corporate growing, the SME and the startup ecosystem continuing to expand. So, I think all of that is coming from that side of the business.

And in that piece of business, the gross margin is between 18% to 20%. So, blended, then we arrive at somewhere around 16% to 17% blended margin for the business. Now, as the business grows, we believe in that business also, the design and build, which is third-party design and build will probably grow a bit faster.

And as a result, we see some margin improvement in that business as well.

Mohit Agarwal: Okay, perfect. Those were my questions. Thanks and all the best.

Moderator: Thank you. The next question is from the line of Trusha from Boring AMC. Please go ahead.

Trusha: Hi, congratulations on a good set of numbers. My question is related to Awfis transform, the construction and fit-out segment. So, I just wanted to understand how do we select projects because in the last quarter, we were not profitable in this segment. But ideally, when you select the interior or a fit-out project, you will keep your margin and then only if it is viable, will you do the project, right? So, just wanted to understand that business mentality?

Amit Ramani: So, I think the business has two parts, as I explained. One is the portion of the business, which comes from our current landlords where we are fitting out our centers, these co-working centers.

In that piece of the business, obviously, we see the margins are fixed in some ways. If we look at the other portion of our business, which is essentially the design and build business, there we are fairly selective.

We work with large grade A plus clients, which could be our co-working clients, could not be our co-working clients. But we maintain a very strong focus on the quality of the clients in that space because we believe that that space has a lot of volume.

But clearly, selection of the right type of clients that we work with is going to be important. In terms of the gross margin, at the gross margin level, as I mentioned earlier, we do about 15% to 16% on the Transform business, which is essentially coming primarily from our landlords, giving us the capital to fit-out our centers. And on the other part of the business, ranges between 18% to 20% at a gross margin level.

So, those are the numbers that we are seeing in that business.

Trusha: Okay. So, at the PBT level or the segmented profit level, it will take some time before it reaches a meaningful number, right?

Ravi Dugar: Yes. If you see our segment results on the construction and fit-out projects, our segment results have improved to a INR 0.49 million in the current quarter, from a negative INR 24 million of last quarter.

Trusha: Yes. Okay. -- Another thing was, I wanted to understand, so, what is the revenue on a quarterly basis, which you are looking at, like, or is it, is it in similar lines to Q1 or if we expect further growth, like, how would Q1 reflect the best quarter?

Amit Ramani: So, the overall guidance that we had given was that we will grow from about INR850-odd crores that we did for the full fiscal '24 by 30%. So, that guidance continues to remain. In terms of the, you know, quarter on quarter, I think it will flow in a similar manner, so that the year guidance of 30% we are able to meet.

Trusha: Okay. And just a last question, what is the capacity which you are expecting to reach by the year end?

Amit Ramani: Yes. So, we had, last earnings call, we had given a capacity addition of 40,000 seats. We had ended the year at 95,000 seats. We are looking to add about 40,000 additional to reach 1,35,000 seats total. As we mentioned in the overall commentary, we currently have , 100,000 seats as operational, about 11,500 seats are under fit-out. And we have another 15,500 seats that are essentially under LOI.

So, that puts us at a total of about 1,28,000 seats. So, we are fairly moving along well to our target of 1,35,000 seats being in the fifth month of the year.

Trusha: All right. Thank you.

Moderator: Thank you. The next question is from the line of Ashish Shah from HDFC AMC. Please go ahead.

Ashish Shah: Hi, good morning. So, just one question. Could you give a brief walk down on the cash flow, how that would have been for the quarter? If you can maybe start from the operating cash flow, capex, and interest expense, etcetera?

Ravi Dugar: Ashish, our cash EBIT is around INR38 crores. If you look at our EBITDA number on the Ind AS basis, operating EBITDA number is around INR79 crores. But if you look at our IGAAP equivalent number, it is INR30 crores, which is roughly translating into a cash EBIT of around INR38 crores, which includes the other income also. The cash EBIT element also has the other income included in it. So, that is how the cash flow is. On the capex side, we have done an operating cash outflow of around INR35 crores on the capex.

Ashish Shah: Sorry, could you come again? INR35 crores is the capex you are saying you have done?

Ravi Dugar: Yes, the cash flow on account of new capex we have done around INR35 crores. That is on the cash flow.

Ashish Shah: Sure. Thank you. Yes, that is all. Thank you.

Moderator: Thank you. The next question is on the line of Rishith Shah from Nuwama Wealth. Please go ahead.

Rishith Shah: Yes. Good morning, sir. Thank you for the opportunity and congrats on a great set of margins that you posted this quarter. The first question was regarding space as overall has been kind of seeing more traction on the managed area than the co-working space area. And our competition also in a way caters to a cohort of more than 200 to 500 seats. So, our strategy is the same. Can you elaborate on the strategy that we have over here?

Sumit Lakhani: Yes. See, if you look at the overall demand dynamics in India it is a mix of large corporates, SMEs and startups. A large portion of India's demand is less than 100 seats. And we are the leading player catering to these smaller seat cohorts. As you mentioned, the most of our competition is only focused on larger cohorts.

According to a CBRE report, the demand for flexible workspaces across these sub-500 seat cohorts, which is 1 to 50, 51 to 100 and 100 to 500 seats had been growing consistently with a CAGR of almost about 30%, 41% and 54% between 2020 and 2022.

Why we get excited about this cohort is because this cohort helps us with better price realization. Then we are able to manage it's a manageable churn and it leads to a lower risk. We focus on mid-size centers leading to a mix of personalization and operational efficiency.

Smaller seat cohorts generally require very strong operational processes. And we are the only player to deliver this capability at a scale. So it's a kind of a moat for us and it's tough for the competitors to replicate. We have developed a kind of an extensive network of 169 live centers and 1 lakh plus live seats. 36% of the clients have taken seats with us at more than one center. So enabling entities to move to a core plus flex strategy.

Secondly, if you see no single center, we are not dependent on any single kind of a center. So there's a massive diversity in terms of the number of centers as well. Now, we also focus on the managed office business, but we are a bit more selective.

We select customers based on the kind of lock-in tenures they're giving us and the continuity with which they do us. If you see, we would have signed up almost about 12 managed office centers also since June 23, which enabled large corporates and expanding their office networks.

Rishith Shah: Got it. Thank you so much for the answer. And secondly, we have a target of adding around 40,000 seats for the financial year of 2025 of which around 5,300 is already done. The remaining part, what is the expected capex given the mix of MA as well as SL? What are the capex that we expect for the rest of the year?

Sumit Lakhani: Sorry, can you repeat the second part of your question?

Rishith Shah: So given the mix of SL and MA, what kind of capex that you envisage for this whole year, for the remaining part of the year?

Sumit Lakhani: Okay. See, so as we mentioned that the overall guidance for us for the whole year is about 40,000 odd seats. Second, in terms of the overall portfolio, we continue to intend to maintain 65% to 68% of MA versus SL mix in the overall, so managed aggregation versus straight-lease mix in the overall portfolio for the complete year of FY '25. In Q1, the total capex outflow from a cash flow basis had been about Rs. 35 odd crores. And for the full year, also, we expect it to be in a similar kind of a range.

Rishith Shah: Got it. Thank you so much for the answer.

Ravi Dugar: So just to clarify, so the annualized number would be obviously 35 multiplied by 4. We had given a similar guidance on the capex as was last year. So last year was around in INR 142 crores. We gave a similar guidance on the capex for current year.

Moderator: Thank you. The next question is from the line of Chintan Shah from Girik Capital. Please go ahead.

Chintan Shah: Okay. Thanks for the opportunity. First question is on coworking and allied segment. If we look at our numbers the revenue has grown sequentially but the seed capacity as well has grown sequentially, while operating occupancy has remained steady sequentially. If you see the reported EBIT, we have seen a slight decline. Can you throw some light on why we saw profitability impacting on the sequential basis?

That's one. Second is if you can provide the quarterly rent expense that is the MA share for the quarter because that is also another significant line item equivalent to the transform subcontracting expense. That would be really helpful to understand how the share of profits are building up in the business that will drive the profitability going forward. So these are the two questions, and I will follow up with a couple of things as well.

- Ravi Dugar:** Yes. Hi, Chintan. This is Ravi. So on your first question, as you would have seen, our EBITDA has grown overall by 1.8%, vs the last quarter of last year. Now, specific to your question on the co-working space the segment results is showing a marginal decline. Now, if you look at our numbers, we have added around 20,000 seats in the last six months.
- The seats typically get filled up over a period. So we are seeing some impact maybe in the current quarter. And as I mentioned in my opening remarks that it has to be seen over a longer period. The quarter may not reflect the numbers. So in that sense...
- Chintan Shah:** Basically, the new seats are eating away the vintage profitability.
- Ravi Dugar:** It's not eating away. That new seats are getting added. So their impact on the profitability will come in the near course of time.
- Chintan Shah:** Okay. What I'm trying to understand is whether the MA or profitability or share has started in the vintage seats is also impacting that line item or not or the EBIT number or not. Or is it just the new seats which is getting added is tracking down the number overall?
- Ravi Dugar:** So largely, it is because of the 20,000 seats what we've added in the last six months. That has an impact on it. So we'll see a positive upside on that as the seats get filled up.
- Chintan Shah:** Correct. Got it. And second part?
- Ravi Dugar:** Second part, we continue to maintain our margins on... In fact, we have slightly improved our margins on construction business at the gross level. So it was around 15.5%, and now has increased to 16% and thereabouts. So there has been an uptick in the margin on the construction business.
- Chintan Shah:** Right. One thing I also wanted to understand is the split between the total seats MA and SL, can percolate into the operating seats as well? It will be similar, more or less?
- Amit Ramani:** So if you've looked at our guidance, we are basically saying that 65% towards managed aggregation and 35% towards straight lead. For this quarter, at a center level it was 64-36, MA versus SL. But if you look at the seats, it is 67% MA to SL.
- Chintan Shah:** Okay. And what is the proportion of the rental expense paid in the other opex numbers, if you can share?
- Ravi Dugar:** The lease payments, which are...
- Chintan Shah:** The MA share of rent expense?
- Ravi Dugar:** One second. I'll just give you that. That is around INR26 crores for the quarter.
- Chintan Shah:** INR26 crores. And what it was last year and last quarter?
- Ravi Dugar:** In the last year, it was INR84.6 crores.

- Chintan Shah:** Full year?
- Ravi Dugar:** Full year. Yes, FY '24 it was INR84.6 crores. And in the current quarter, which is June 30, 2024 it is INR26.0 crores.
- Chintan Shah:** I was asking if you can share quarterly. Now, we are just building up the quarterly numbers.
- Ravi Dugar:** Yes. One second. I'll just share it. Yes. So last year same quarter was INR25 crores.
- Chintan Shah:** Okay. And by when? June last year?
- Ravi Dugar:** June quarter last year was INR18.67 crores.
- Chintan Shah:** INR18.67 crores. I'll check back. Thank you and all the very best.
- Moderator:** Thank you. The next question is from the line of Bijal Shah from RTL Investments. Please go ahead.
- Bijal Shah:** Hi. Thanks for the opportunity. So my first question is on how do you see the demand at this point in time since you are adding 40,000 seats? Do you think that it will be possible to increase overall occupancy from say, 471%, which we have seen during the quarter by end of the year by a couple of percentage points at the overall level? Or you can see some similar level of occupancy or slightly lower?
- Sumit Lakhani:** Yes. Hi. So if you look at in Q1 of FY '25, we signed demand contracts for almost about 11,000 new seats. So the new seat demand is anyways going strong and much larger than the kind of supply we are looking to add for the year. In terms of the way we track the businesses, we are very focused in terms of greater than 12-month centre vintage occupancy. So that is closer to about 84% right now.
- And that is where our endeavour is to keep between 83% to 85% on a consistent basis for centers with 12-month vintage. On a blended portfolio level, it generally will vary from about 70% to 73% on a quarter-on-quarter basis depending on the number of seats which gets added or goes live in the overall quarter. So those are the kind of benchmarks we have for the next couple of quarters as we are going on a very high-growth trajectory.
- Bijal Shah:** Okay. Got it. Just a small follow-up on that. When you say you have done 11,000 new seats, so how do you calculate the new seat if somebody who is renewing his contract is not counted in this 11,000 new seats?
- Sumit Lakhani:** So basically, these are the new bookings which we make in the system. These primarily come from a new set of customers around and also factor in the expansions from the existing set of customers either in the same centre or in a different centre. As you would see, almost 36% of our customers are also multi-centre customers.
- So these are primarily the new incremental bookings which are adding to the revenue. Now these bookings the seat, the revenue start date could vary from, let us say a week later to almost about, let us say, five to six months later.

- Bijal Shah:** Okay. So these are absolutely incremental ones.
- Sumit Lakhani:** Yes.
- Bijal Shah:** Yes. Okay. Second question, I mean, just follow up on something else. So can you give us on the vintage portfolio on a blended basis, what price increase you actually realised in 1 Q FY '25 as compared to 1 Q FY '24? Because we understand that you look for some price increase but if you can give us an idea of what is the realised price increase on blended portfolio or on the vintage portfolio, it will be very useful.
- Sumit Lakhani:** See, I don't have the exact number but as I mentioned on an average basis around 5% is the kind of weighted average price increase which we would have on the overall portfolio from the existing set of customers. Now, this price increase generally happens once the contract for that set of customers would have completed 12 odd months. So in a single month there could be a lot of customers whose contract would be completing 12 months.
- So it does not happen from a particular kind of a date. It happens from the date of the contract of that customer. And here also, as I mentioned for a smaller cohort, which is generally less than 100 seater cohort the price increase is escalation is usually about 5% to 8%. And for a larger cohort it's about 3% to 5%. That's how the whole blend becomes about 5%.
- Bijal Shah:** Okay. And when you are managing somebody's office like a very large client with 300 kind of seats there also you have this kind of price hikes or where the price hike is in different fashion probably more linked to your cost increases?
- Sumit Lakhani:** No. So generally, it's an industry practice to have a price increase for even a larger cohort, let's say, like you mentioned about 300 seats to be in the range of a flat year-on-year escalation between 3% to 5%. Broad, you can say for a larger cohort the industry practice is closer to about 4 odd percent.
- Bijal Shah:** Thank you and all the best.
- Moderator:** Thank you. The next question is from the line of Raj Malhotra from Hemani Securities. Please go ahead.
- Raj Malhotra:** So thank you for giving me this opportunity. So I had a question. We are seeing constant increase in construction and fit-out business. So what is the major reason behind the same? And what kind of revenue can we expect from the same in FY '25?
- Amit Ramani:** So as we mentioned on the earlier question, a similar question was asked. The clear reason for the growth is obviously the India stack is growing, the growth of India. If you look at a subset, a large portion of the growth, almost about 35%, 40% comes from the IT sector. And those are three components, essentially. One is the global capability centers. Second is the IT offshoring business. And then the third piece is India IT offshoring that is growing.
- The corporate growth in India, the startup and SME expansion that is happening. So all of that is contributing to the overall growth. Today, if you look at our total co-working business, we

have about 2,600 clients that are live with us today. So that clearly gives us an opportunity to obviously offer them not just co-working services, but also offer them the design and build services. We are obviously very careful on the kind of customers that we are doing, we go after.

So one portion of the business is our client business, which essentially is a landlord business, which drives towards our center. This is the capital that our landlord partners are giving towards expanding our centers. In addition, the third-party business, we are obviously selective. We have also built a strong business development engine. We have a team that is specifically focused on expanding the design and build piece. So those are the reasons that we are continuing to expand.

The guidance for the year remains the same. So we had guided about 30% growth on our base of INR850 crores for fiscal '24. And the guidance remains the same.

Raj Malhotra: Okay, thank you. Sir, I have another question here. Have we added any specific lines in this business or are you willing to add any specific lines in this business?

Amit Ramani: I didn't understand the question. New business line?

Raj Malhotra: No, in this existing business, are there any specific lines you would like to mention?

Sumit Lakhani: So I would say this is focused around on commercial interiors. So more around on office spaces. If your question is are we going specifically into the design and build of warehouses or labs, the current focus for us is more on the office interiors.

Raj Malhotra: Okay, got it. Yes, thanks. That helps me. Thank you so much, sir.

Moderator: Thank you. The next question is from the line of Chintan Sheth from Girik Capital. Please go ahead.

Chintan Sheth: Thank you for the follow-up. One question only. On the seat addition guidance of 40,000, we added and operated this quarter somewhat around 5,000, 6,000 seats for the quarter. Is it just a timing issue? Because the pipeline for the post-June seems pretty strong, but moving from the fit-out to operating or from LOI to operating, this quarter seems a little soft in terms of addition, net addition. Is it just a timing issue or you are just tracking the demand which is leading to some deferment of new addition this quarter?

Sumit Lakhani: So it's primarily the timing because it's not going to be a steady quarter-and-quarter linear expansion of seats for us. If you look at on a trailing 12-month basis, we have added about 30,000 plus seats over the last 12 months. It's this particular quarter that the seat addition is looking low, but if you look at, we already have about 11,640 seats under fit-out and for almost about 15,688 seats, the LOIs are in place. So we feel pretty confident with respect to hitting the 40,000-seat number.

Chintan Sheth: No, the pipeline post-June seems strong. I'm just looking at this quarter being a little off, so I was just thinking whether you are tracking the demand, whether the demand is coming through, then you are kind of operating...?

Sumit Lakhani: No, it's not that way. It's not that way. It's primarily around the national course of a center fit-out getting completed, we're getting a position from the space owner, the certain dependencies on the project around completion of the project, so it's more around on that aspect.

Chintan Sheth: Okay, and second on the transform business, what is the typical cycle of a particular site getting from zero day to completion, handing over to the landlord or third party?

Amit Ramani: So that varies on the type of, I mean the size of the center as it goes forward. But typically, I would say the cycle starts off with our real estate teams engaging with the landlords that could take anywhere between two weeks to let's say six weeks to close the deal itself. And then typically once we get the possession, that would take anywhere between 60 to 90 days, depending on the size of the center for the fit-out to be completed.

And then obviously the occupancy buildup could be anywhere between three months to 12 months, depending on the location and the micro market.

Chintan Sheth: Okay, and last on the, if I look at less than one year tenure, it's around 11% in your pie chart presentation. This includes the very short cohort, very short time, short tenured contracts, or this is just certain contracts which are coming closer to the 12-month or six-month or three-month kind of period, which is leading to that seat, that falling into that pie, that share. Or if you can, if you can provide a proportion of smaller contracts in the overall seat occupancy.

Sumit Lakhani: If you look at the tenure bucket, we look at primarily from the seats signed up for the portfolio. About 70% of the tenure is where the customers have signed up for more than 24 months. Another 21% is where they have signed up between 12 to 23 months and 5% between 6 to 11, and 4% for less than five months.

So it's basically 9% of the customers where the tenures are less than 11 months. That's basically the use case of the customers. There are customers who would look at, who'd want to either start with a bit of a smaller tenure and then grow a bit longer tenures with us, or their original requirement is only for a kind of a shorter tenure.

Chintan Sheth: How should we manage churns for those short-tenured customers? Is it alarming or significant for us?

Sumit Lakhani: So this had been the nature of the business to an extent that over the last couple of years and quarters, we have seen the less than 12-month tenure getting reduced significantly. This number over the last couple of years would have been much higher for us. In terms of churn, we have had a consistent churn management around and it had varied consistently between 1.2% to 1.4%, and that we have been very comfortable around. Rather, we think with the behavioral change happening within the occupier, the overall lock-in tenures as well as the other tenures across every segment of cohort has increased significantly.

Chintan Sheth: Right. And whether we have seen, obviously there will be incidences, but whether we have seen churn in the landlord side, because certain centers doesn't perform as per either party's expectation and want to move out of it. And how should we manage the customers who will sign up for the centers and have to move to some other centers? How do we manage that as well?

Sumit Lakhani: Yes. See, here's our strategy to have mid-size centers and more larger number of mid-size centers helps a lot. As I mentioned earlier also, in terms of our own portfolio, it's about a portfolio of 169 plus centers. So, the dependence on a single center with respect to revenue contribution is very, very less. Generally, let's say if there's a churn on the center also, we are able to consolidate the occupancy of that center to nearby centers as well. So, we don't end up losing customers.

Rather, we are able to accommodate or bring them to any kind of a newer center in that micro-market. A lot of micro-markets across India, you would see more than of our centers available. Right.

Chintan Sheth: Okay. So, the better strategy is to have at least multiple centers in one micro-market so that eventually, at least we have some centers to help the client to get relocated or move to that center?

Sumit Lakhani: It's a diversification in terms of number of centers is a big differentiator. So, and there, we strongly have a very strong differentiation from the competition as well where they are set up very large centers in a single location.

Chintan Sheth: Correct. Correct. I agree. And yes, I think that's all from mine. Thank you.

Moderator: Thank you. The next question is from the line of Aman Vij from Astute Investment Management. Please go ahead.

Aman Vij: Good morning, sir. My first question is on this the tenure side only. So, this 30% bucket which is less than 24 months, how long does it typically take you to refill it once the tenure is over which is less than 24 months, say in 11 months or 15 months? So, what is the gap between trying to refill this?

Sumit Lakhani: So, I'll explain to you the kind of process we follow with respect to our renewal management. We have an in-house digital system which we call as expiry 90 to manage all the renewals. Generally, with respect to smaller cohorts, 90 days prior to basically three months prior to a kind of a customer lock-in period getting over, our teams have a decent level of probability whether the customer will renew or not renew and the engine shows up the kind of predictability around on it.

Now, this is that aspect the sales team get a kind of notice that this seat may go vacant. So, they already get about 90-day kind of head start. And then with respect to every customer, there's a notice period in their contract of ranging from about one to three months. This I'm talking specifically about smaller cohorts with them. So, the sales team generally have a head start of what you can say three months prior and then a notice period between one to three months to sell the seat. So, that gives them a sufficient kind of a time to fill up the seat.

And that's how the overall occupancy management is being done. With respect to larger cohorts, so that let's say greater than 100 seats or greater than 200 seats, the general notice period which we have for a customer ranges from about three to six months. So, the demand generation teams have a much longer kind of a period to generate the demands.

If you would see basically, the way we have been able to do consistently for centers which have greater than 12 months of occupancy, we have been able to maintain occupancy percentages of you know, 83% to 85%. So, that demonstrates that within the required kind of timelines, our teams are able to fill in these spaces and you know, replace them with a newer customer. We also look at churn in an interesting manner.

It's not that a churn is you know, generally bad. For a lot of centers which have become mature and let's say are more than 80% plus occupancy, if there is a churn of you know, smaller cohort, it also gives an opportunity for our demand teams to fill them with a seat realization which is higher than the average for that center and bring up you know, higher price realization for it. So, that's how we look at the business.

Aman Vij: And for the tenure which is greater than 24 months, typically how much is the notice period? Can the contract still be cancelled within the 24 months also?

Sumit Lakhani: So, no. So, every contract generally has a tenure and has a lock-in tenure and a notice period along with it. So, depending on the size of the cohort. So, let's say we talk about a 100 plus seater cohort and someone would have given us a tenure of 48 months and their lock-in is about let's say 36 months. So, a typical notice period we would have is about 6 months. So, the client is locked in for 36 plus 6 months with us.

If they want to terminate the contract before 42 months, they would have to pay us the remaining lock-in plus notice period value for that contract.

Aman Vij: Sure, sir. And if you can explain the same process for the supply side. So, what is our breakup in terms of the supply from our landlords in terms of the tenures?

Sumit Lakhani: Sure. So, we typically sign up you know, tenures with you know, a nine years kind of thing which is you know, five years of original tenure and then an extension tenure around. In a managed aggregation contract, the lock-in for both the parties between us and the space owner is about 60 odd months post which we both have the option to renew the contract. The obligation on the space owner is if they ask us to vacate the premises before the tenure, they have heavy kind of penalties with respect to the remaining lock-in tenure.

Similarly, with respect to us, we have to pay the written down value of the capex which the landlord has invested. I'm talking about you know, our general contracting scenario for managed aggregation. In an organic manner, because the space owner has invested capex, so they have a natural ability to renew the contract with us. Similarly, on the straight leases, the typical lock-in from the space owner side is generally five years and the lock-in from our side is three years.

Aman Vij: Sure. My final question is typically what is the rate of renewal in case of a managed aggregation versus a normal straight lease model? My understanding is that in managed aggregation, because they put in their own capex initially and it takes them a few years to recoup that, the lock-in, not lock-in, but the renewal rate should be much higher. But if you can explain what is the actual trend you are seeing in terms of renewal rate after the first amount of lease expires?

Amit Ramani:

So, as you rightly pointed out that in the managed aggregation, where the landlord partner has put down the capital, obviously, at the renewal point of five years, there is a better, a much higher chance because obviously with investing 25-30% more, you can have another five years of revenue from that center. So, we typically see very, very high rates of renewal when it comes to the managed aggregation centers. Now, on the straight lease side, I think it's two ways.

If we have a, let's say we built out a dedicated center for a client and for that center, at the end of that tenure, if the client is not renewing, then to us, we would want to, if it's a dedicated center, 100% to a client and he's not renewing, then we'll give up that center. But typically, because of the sizing of our centers and every center having a large portion of our portfolio, having centers where there are multiple clients, we are even in that scenario able to renew the straight lease. Obviously, it happens on market dynamics, whatever is the, at that point, the market rentals and so on and so forth.

But typically, we would want to renew that as well so that we get about a 10-year tenure in the straight lease ones. Very small portions of business where there are dedicated centers, where the client is not renewing at the end of it, we would then end up giving up that center.

Aman Vij:

So, just to complete this point, can you give some actual range in terms of renewal rate for a straight lease and for a managed aggregation as well as this dedicated center straight lease, just to give a range?

Amit Ramani:

I would not have exact numbers, but I would say in case of managed aggregation, this would be somewhere in the 90% plus range. In case of straight lease, this would be probably in the range of, I would say, between 80 to 90, somewhere in that range. I don't have the exact number with me, but I can get back to you on that.

Aman Vij:

Sure. So, this number is still quite high, 80% plus, even if I assume. Is this a normal trend for all such large coworking players or is it something we are able to get 80% plus kind of renewal rate?

Sumit Lakhani:

In terms of the way we have done, even in straight lease centers, actually, the renewal rates are much higher. It's primarily our will. If we don't intend to renew, it's when the landlord would want us to be out. Think it from a space owner perspective in straight lease. If an occupier gets changed for a property, they need to pay two months of property brokerage. Then they need to give a bit of a fit-out period to the new occupier.

So, a space owner ends up losing almost about five odd months in a break between two occupiers, even if they have a day one demand with it. Now, for us, because in a straight lease, we have put our capex. So, there is a kind of a very logical discussion which happens between us and the space owner with the guy on the other side going to lose about five odd months if we move out and we are ready to pay closer to market rental or the market rental.

So, there is no need for the space owner to vacate the center. So, that's why the renewal rates are much higher. So, from the way we look at it, we would want to renew almost every center unless and until we have a strong reason with respect to the demand, micro market or any kind of operational reason in that particular center to vacate.

Aman Vij: Thank you for answering the question.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. We have reached the end of our question-and-answer session. I would now like to hand the conference over to Mr. Sumit Lakhani, Deputy CEO, for closing comments.

Sumit Lakhani: 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 relation advisors. Thank you and good day.

Moderator: Thank you. On behalf of ICICI Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.