awfis

Date: 19/11/2024

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
NSE Scrip Symbol: AWFIS	BSE Scrip Code: 544181
ISIN: INE108V01019	ISIN: INE108V01019

SUBJECT: Transcript of the Earning call on financial results of Awfis Space Solutions Limited ('the Company') for quarter and half year ended September 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 financial results for the quarter and half year ended September 30, 2024.

The above information is being made available on the website of the Company at https://www.awfis.com/investor-relations

This is for your information and record.

Thanking You,

For Awfis Space Solutions Limited

AMIT KUMAR Digitally signed by AMIT KUMAR
Date: 2024.11.19 22:33:54 +05'30'

Amit Kumar
Company Secretary and Compliance Officer
M. No. A31237
Address: C-28 and 29 Kissan Bhawan, Qutub Institutional Area New Delhi 110016

"Awfis Space Solutions Limited Q2 & H1 FY'25 Earnings Conference Call"

November 12, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 12th November 2024 will prevail.

MANAGEMENT: **MR. AMIT RAMANI – CHAIRMAN & MANAGING DIRECTOR**
MR. SUMIT LAKHANI – DEPUTY CHIEF EXECUTIVE OFFICER
MR. RAVI DUGAR – CHIEF FINANCIAL OFFICER

MODERATOR: **MR. RISHITH SHAH – NUVAMA WEALTH PCG**

Moderator: Ladies and gentlemen, good day and welcome to the Awfis Space Solutions Limited Q2 & H1 FY'25 Earnings Conference Call.

As a reminder, all participants' line will be in 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rishith Shah from Nuvama Wealth PCG. Thank you and over to you, sir.

Rishith Shah: Good morning. On behalf of Nuvama Wealth PCG, I would like to Welcome You All to the Second Quarter Earnings Call with the Management of Awfis Space Solutions represented by Mr. Amit Ramani, the Chairman and the Managing Director, Mr. Sumit Lakhani, the Deputy CEO, and Mr. Ravi Dugar, the CFO.

So, without further ado, I'll now hand over the call to the "Management for their Opening Remarks" followed by a "Q&A Session." Thank you.

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.

For Q2 & H1 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." We are pleased to announce a strong financial performance in Q2 FY'25 with revenue growth of 40% year-on-year reaching Rs.292 crores. This growth was largely fueled by contributions from newly added seats as well as increased occupancy across our established centers. Our strategy to maximize utilization has proven effective with occupancy levels steadily rising in key locations.

Our Co-working and Allied Services segment grew by 43% reaching Rs.218 crores, driven by rising demand for flexible workplace solutions.

Similarly, our Construction and Fit-Out Projects, which includes our Design and Build business, saw a strong growth of 36%, reaching Rs.68 crores. This is supported by solid order pipeline and a favorable market condition.

Our EBITDA saw strong growth rising by 67% year-on-year to Rs.100 crores with an EBITDA margin of 34.3%. This reflects an improvement of 550 basis points compared to the same quarter last year. This margin expansion was primarily driven by strong revenue growth, occupancy improvement, increased contributions from enterprise clients, allied services, and operating efficiency.

As of September 2024, our overall exit monthly occupancy rate stood at 73% with centers having operational for more than 12 months, reaching an impressive 84%. This solid performance underlines the ongoing demand for our flexible workspace solutions and reaffirms our position as a preferred provider in this sector.

I would like to share that we have exceeded 110,000 operational seats across 180 centers, Pan India, a significant milestone in our growth journey. Including centers in fit-out stages and letter of intent stages, our total capacity now surpasses 1,50,000 seats across 224 centers covering an extensive 7.6 million square feet. This expansion underscores our commitment to meeting the growing demand for flexible workspaces and puts us firmly on track to achieve our target of 1,35,000 operational seats by March of 2025.

In response to the rising demand for flexible spaces in Tier-2 cities, we have significantly expanded our footprint in these emerging markets. We are present currently in Ahmedabad, Bhubaneswar, Chandigarh, Indore, Jaipur, Kochi, Nagpur, and our latest addition is in Guwahati which further strengthens our presence in these regions. Since September 2023, we have increased our footprint in Tier-2 cities by 43%, growing from 14 centers to 20 centers, underscoring our ongoing commitment to these high potential markets.

Now, let me “Highlight a Few Key Developments for this Quarter.” I am excited to announce the launch of our First Elite Center at Aurobindo Orbit in Hyderabad's renowned HiTECH City. Elite by Awfis redefines luxury in flexible workspace sector setting a new standard for premium work environments. This exceptional space blends elegance with functionality, creating a sophisticated and inspiring atmosphere. Built with the commitment to sustainability and well-being, Elite offers an environment that nurtures creativity and collaboration. Featuring carefully curated amenities, it is designed to be more than just a workspace, it is an environment where professionals can excel in both comfort and style.

I am happy to announce that Office has signed a mandate to design, build and manage over 1.65 lakh square feet new space for (NSE) National Stock Exchange at Adani Inspire in BKC. Mumbai. Awfis already operates a Coworking center in this building, and with this new deal it expands its footprint with two additional centers in the same building. This partnership demonstrates Awfis capability to deliver high quality workspace solutions tailored to clients’ business needs and employee well-being.

We are pleased to have built a strong partnership with Prestige, having collaborated with them on 16 centers that span 6,08,000 square feet of chargeable area.

Building on this foundation, we are excited to announce opening of three new Elite Centers in Mumbai, Delhi, and Bangalore. Expanding our total footprint to 8,13,000 square feet of chargeable area in total of these centers. Each of these centers is designed to be high end workspace, offering the very best in terms of location, design, and functionality. This expansion reflects our shared commitment to delivering exceptional workspaces and further strengthens our collaboration with Prestige.

In September 2024, we successfully divested Awfis Care, our facility management business, to SMS Integrated Facility Services, a company known for its technology-driven capability. The divestiture will enhance operational efficiency by reducing administrative and compliance tasks, allowing us to focus more on our core flexible workspace business. It also strengthens our financial position by improving cash flow and liquidity, enabling strategic reinvestment in growth and technology. The streamlined cost structure will enhance the ROC, optimize capital usage and deliver stronger returns. Furthermore, this move allows us to sharpen our focus on leadership and flexible workspace market, emphasizing innovation, customer experience and service excellence.

To conclude, I would like to highlight that the flexible workspace market in India is on strong growth trajectory, driven by changing workspace preferences, technological advances, and economic factors.

With current valuation at approximately Rs.108 billion, the market is projected to reach Rs.380 billion by 2028, reflecting a CAGR of round roughly 35% over the next four to five years. Awfis is well positioned to capture the demand with Grade-A workspace solutions in prime locations, offering premium design and project management.

Our Design and Build model deliver innovative workspaces, focuses on speed, quality, and flexibility, backed by advanced digital technology. With our expertise, operational efficiencies, and commitment to innovation, Awfis creates environments that meet high standards in design, functionality, and safety, ensuring success in evolving commercial real estate market.

Let me hand over the call to "Mr. Sumit Lakhani, our Deputy CEO, to share Q2 FY'25 Operational Highlights."

Sumit Lakhani: Thank you, Amit. Good morning, everyone.

I would like to share with you the "Operational Highlights for Q2 FY2025":

On the supply side, as of September 2024, we have successfully crossed 110,000 operational seats, marking a significant achievement in our growth trajectory. Since September 2023, we have launched

52 new centers, adding 35,651 new seats to our portfolio. This expansion has allowed us to broaden our presence into nine Tier-2 cities and seven new micro markets, further strengthening our footprint across key emerging regions. Including centers under fit outs, we have now reached a total supply of 205 centers with over 130,000 of seats and 6.6 million square feet of chargeable area. Our presence in Tier-2 cities have increased by approximately 43%, growing from 14 centers to 20 centers since September 2023, demonstrating our continued commitment to expanding in high potential markets.

We continue to expand our managed aggregation share with 76% of seats, including additions and those under fit-out signed under this model. This approach aligns with our focus on an asset light, risk averse supply strategy and aimed at maximizing return on investment.

We have a strong pipeline with signed letter of intents for 19 centers, adding almost 20,000 seats and 1 million square feet of chargeable area. This progress gives us confidence in achieving our target of 135,000 operational seats by March 2025.

On the "Demand" side, we have signed demand contracts for 14,000 new seats in Q2 FY'25 and 25,000 new seats in H1 of FY'25. To give you a perspective, we sold a total of 37,000 seats in the whole of financial year 2024. Our revenue base continues to be highly diversified.

We have signed service agreement for two floors spanning approximately 1.65 lakh square feet with National Stock Exchange at Adani Inspire in Bandra Kurla Complex, Mumbai. Partial revenue for this transaction is expected to flow in Q4 of FY'25 and full revenue will start from Q1 of FY'26.

In terms of occupied seats, approximately 66% of our client base consists of large corporates or multinational companies, 20% are SMEs and mid-corporates and 13% are startups and the remainders are freelancers.

In our portfolio we have 39% multi-center clients. The contribution of 100 plus seat cohorts to our total cohort remains robust at 57%, reflecting the increasing confidence of clients in transitioning from traditional offices to flexible workspaces.

Our blended exit month occupancy rate was 73%. Occupancy typically increases as new centers mature or centers older than 12 months the occupancy rate stands at 84%. The total average client tenure is 33 months with a lock-in period of 24 months, demonstrating strong long-term client commitment. Our client profile is well diversified with 2,877 active clients as on 30th September.

That concludes my update. I will now hand over to "Mr. Ravi Dugar, 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 Q2 of '25, our consolidated operating revenue stood at Rs.292 crores, which is a growth of 40% on a year-on-year basis. The operating EBITDA stood at Rs.100 crores, which is a growth of 67% on a year-on-year basis. The margins stood at 34.3% as against 28.8% in Q2 of last year, which is a growth of 550 bps.

For H1 FY'25, our operating revenue stood at Rs.550 crores, which is a growth of 39% on a year-on-year basis. The operating EBITDA stood at Rs. 179 crores, a growth of 62% on a year-on-year basis. The margins stood at 32.6% as against 28% in H1 of last year, a growth of 455 bps.

On the iGAAP equivalent basis, which is adjusted for INDAS 116 lease rentals and other Ind AS109 and Ind AS 102, for Q2'25, our consolidated operating revenue stood at Rs. 292 crores, a growth of 41% on a year-on-year basis. The operating EBITDA stood at Rs. 44 crores, which is a growth of 160% on a year-on-year basis. The margins stood at 14.9% as against 8.1% in Q2 of FY'24, which is a growth of 690 bps.

For H1 '25, our operating revenue stood at Rs. 549 crores, a growth of 40% on a year-on-year basis. The operating EBITDA stood at Rs. 73 crores, a growth of 191% on a year-on-year basis. The margins were at 13.3% as against 6.4% in H1FY24, a growth of 690 bps.

For Q2 of FY'25, iGAAP equivalent depreciation was at Rs. 19 crores and finance cost was at Rs. 1 crore. For H1 of '25 iGAAP equivalent depreciation stood at Rs. 35 crores and finance cost at Rs.2 crores.

On Ind AS basis for Q2 FY'25, our cash EBIT, which is operating EBITDA plus other income less the actual lease payments stood at Rs.52 crores, which is the growth of 115%, and this number for H1 FY'25 is at Rs. 90 crores, which is a growth of 131% on a year-on-year basis.

On PAT in Q2 of FY'25, (PAT excluding exceptional items) is Rs.15 crores versus the loss of Rs.4 crores in Q2 of last year. In H1, PAT excluding exceptional items is Rs.17 crores versus a loss of Rs.13 crores in H1FY24.

As of September 30th, our liquidity position is at a comfortable Rs.205 crores. The gross debt stood at Rs.28 crores. As a result, our debt-to-equity is 0.07, which was 0.14 in Q2 of last year. Our net debt-to-equity stood at (-0.42), which was (-0.17) in Q2 of last year. We see a further decline in our debt-to-equity ratio as our profitability and liquidity situation continue to improve. Our ROC on an annualized basis has improved from 68% in Q1 of FY'25 to 73% in Q2 of the current financial year.

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

Moderator: We will now begin the question-and-answer session. The first question is from the line of Rishith Shah from Nuvama Wealth PCG. Please go ahead.

Rishith Shah: So, I have actually three questions. So, the first question is regarding the design and build segment. So, we have highlighted that we have kind of received orders with about Rs. 175 crores in the first half. So, I just wanted to understand, of this Rs. 175 crores, what part would be executable in the second half and what would spill over to FY'26? Should I assume a part of this order book would also contain the NSE order?

Sumit Lakhani: So, with respect to the design and build, a portion of it will be booked around in H2. With respect to the overall guidance from D&B business, we have not specifically given any guidance with respect to the growth from FY'24 to FY'25, but our total guidance is about 30%-odd. So, you can expect the overall D&B business to also on a whole year grow at 30%-plus kind of a scenario. Just a clarification. With respect to the NSE, that will not be part of the design and build, that will primarily go into space revenues, it's a managed office kind of a transaction.

Rishith Shah: Sir, second question actually was on the Elite brand that we have kind of launched this quarter. So, I just wanted to understand the rationale behind creating this new luxury or higher more than a premium brand when we already have Awfis Gold, it's already a premium offering. And also as to how the unit economics will differ in case of Elite in terms of revenue per seat or the CAPEX or the margins?

Sumit Lakhani: See, if you look at, we launched Awfis Gold during the pandemic to cater to demand of large corporates who were adding flex to their portfolio. So, it delivers very strong value for customers seeking premium experience but with Elite what we are trying to do is, it is designed to offer an elevated workspace ecosystem for catering to larger demand and premium workspace segment with a focus on sustainable practices. The thought primarily stem from two key factors; one, we see is that the market size of premium workspace segment is showing very strong growth over the past few years, and it is projecting to grow even further; second is the sheer GCC demand in India, especially in the flex sector. So, with Elite, what we are trying to cater is the demand as a ready-to-move product for GCCs to experience and understand our capabilities before they take up a larger space with us. So, that is the primary goal and GCCs are the primary target customers. And as I mentioned that the market size of premium workspace is growing. So, we also see strong demand from consulting, BFSI and larger startups. In terms of the economics, primarily in a same micro market as compared to a flagship Awfis brand, Awfis Gold generally charges a premium of about 15% to 25%. From Elite we are expecting the seat realization, which will be about 40% to 45% higher than the Awfis product. In terms of the overall CAPEX, we are expecting the CAPEX to be about 20%, 25% higher than what we do for our base Awfis product and our contribution margin profile because the Elite centers can come across both straight lease as well as managed aggregation remains the same on what we have for the Awfis-based product.

Rishith Shah: Just to follow up on this. In terms of the centers, what is the future? So, we have already kind of started one center and planned another four. How do we kind of plan on taking this brand going forward?

Sumit Lakhani: So, see, the current plan is we will have these five centers, that we have selected across key micro markets where we see a strong GCC interest, we will continue adding a few of these centers across the country. Just from a perspective, we generally as a company are not very aggressive with our expansion in terms of centers. So, we will see how the response is across these centers and then we will take a call.

Rishith Shah: Regarding our strategy about targeting the Tier-2 space, this quarter we entered Guwahati also. So, can you tell us more about the strategy and how do we see the centers growing in this area and also how the center occupancy is expected to ramp up in Tier-2?

Amit Ramani: So, the rationale for selecting the location, clearly Guwahati acts as a frontier to northeast with huge opportunities. Guwahati also offers strategic location as it has an untapped market and obviously a market potential. It has lower operational costs and supportive government incentives, it makes it an attractive market for corporate offices. We feel that over the years we shall be able to get multiple centers in the city and cater to diverse ecosystem of demand. This center, obviously, the first one that we are going live in is about roughly 230 seats. We look to expand to another center shortly, making us almost 500 seats in this location. The first center is a managed office with a large IT, ITES client and hence obviously the occupancy in this specific center is fairly good, almost 100% day one. In terms of your other question on Tier-2 markets, we are fairly confident of the Tier-2 expansion strategy. As I mentioned in my earlier summary, we have gone from 14 centers to almost now 20 centers, expanding our footprint in eight plus Tier-2 cities today. We feel that the economics going from 5 trillion to 10 trillion economy is going to be built on some of these Tier-2 cities coming into the forefront and we have a market leadership position. As for occupancy goes, I think it follows a similar approach that happens in our Tier-1 market. There are two types of strategies that we follow there. There is one where there we do a straight lease. In that scenario we would have to have a portion of the demand, 50% to 100% of the demand with us day one. The second we follow is our managed aggregation strategy where we expand into these locations in partnership with our space owners. And the path to occupancy follows the similar approach if I have the ready client day one. If not, then it follows the same process of anywhere between. six to nine months to get to 80%-plus occupancy.

Moderator: The next question is from the line of Mohit Agrawal from IIFL Securities. Please go ahead.

Mohit Agrawal: My first question is your FY'25 guidance was a 30% year-on-year revenue growth and 1.5 percentage point improvement in margins. And I am talking about the iGAAP equivalent numbers and guidance on that. If I look at your first half numbers, it seems you've already achieved close to about 60% of what your guidance was at the EBITDA level, again on iGAAP equivalent. So, then in that context, how do you look at the second half performance? And in that case, do we see that this performance that we have delivered in the first half, especially the second half, is sustainable? And would that mean that your guidance stands revised or any comments that you want to share on that?

Sumit Lakhani: So, Mohit, you are right. We are witnessing a very good business momentum from H1, and this is actually accompanied by what we see as a consistent behavioral shift in the occupier segment towards the flexible workspace sector. As you would have noticed, I have mentioned around our total new seats sold in H1 of FY'25 versus what we did in the whole of FY'24. So, that would also reflect the kind of momentum we are talking about. With respect to the growth momentum and the overall occupier demand, it's very strong and consistently we expect it to happen over the next couple of quarters. With respect to the guidance, the one thing what I can only say is that we anticipate upside potential to the guidance which we have shared at the beginning of the financial year.

Mohit Agrawal: But with the second quarter performance of 40% revenue growth and close to 15% margins, is that a number that you expect probably to continue in the second half as well?

Sumit Lakhani: So, Mohit, I would probably not want to get into specifics, but what I would say is we are expecting consistency with respect to our numbers. And so from a full year's perspective, we are expecting that there would be upside potential to the overall guidance which we have given for the financial year.

Mohit Agrawal: My next question is on the seat pricing, and I was just trying to do some math here. What I am seeing is a meaningful increase in the monthly seat price even when I calculate it on a per square foot basis. Just trying to understand that have you taken some hike which is over and above the usual 5% or is it a case of mix or if you could explain that if my calculations are incorrect, but I am seeing more than a 5% year-on-year increase in the seat pricing?

Sumit Lakhani: See, if you look at the overall trend with respect to our seat pricing, our seat pricing has a direct correlation with the micro market rentals. And as the overall CRE demand has increased, the overall micro market rentals have increased and that is currently also reflecting in our seat pricing. So, in couple of our new contracts of clients as well as when they are getting completely renewed, we see a larger kind of a jump in our seat pricing realization. So, that is one reason what you see. Second, I would primarily say on a quarter-on-quarter, there could be an overall variation in what we see as a seat realization. It's also a function of the total number of new centers which went live in various kind of micro markets. To give you an example, if we go in a Tier-2 city micro market with a very low seat rental, you will see lot of seats which will reflect a kind of a lower seat pricing versus let's say if we set up centers in a higher rental micro market, then you will see kind of a higher kind of a seat price. So, it's primarily a function on that. But, yes, overall, there is a trend towards higher seat realization.

Mohit Agrawal: Do you think the higher seat pricing would have also contributed to the higher margins, or this would have been all offset in the way of higher rentals to landlords?

Sumit Lakhani: So, it is contributing because couple of centers with the higher realization from various customers have jumped in. One of the other reasons why contribution margins are getting impacted is because of the positive momentum we are getting from our alternate space revenue. So, that is also helping us with respect to the better margins apart from the overall seat price realization what you see.

Mohit Agrawal: One last clarification is on the Elite portfolio. The initial centers, could you share, are they all straight lease or managed aggregation or mix of both?

Sumit Lakhani: So, they are a mix of both, so they are straight lease and managed aggregation.

Mohit Agrawal: With the Prestige portfolio also, it's a mix of both or is it managed aggregation?

Sumit Lakhani: So, from a Prestige portfolio also, it's a mix of both, with respect to in few of them where there is the CAPEX contribution by Prestige and a share.

Moderator: The next question is from the line of Ashish Shah from HDFC Mutual Fund. Please go ahead.

Ashish Shah: Just a couple of questions. So, we did speak earlier about the guidance being broadly on the lines that we had indicated earlier. But this margin that we are seeing here of almost close to 15% for this quarter, is this how you would expect the margins to be going ahead given all the mix changes and diversification into Tier-2 towns, etc.,?

Amit Ramani: So, Ashish, I think obviously it's partly because of the operating efficiencies that we are able to drive in the business, a bit in operating leverage. So, as Sumit mentioned earlier, the guidance for the year obviously is going to be better than what we had given earlier and the margin profile obviously the business is continually looking to get these efficiencies and leverage into the mix. And I think we will be somewhere close to that itself for the rest of the year.

Ashish Shah: The blended occupancy is at about 73%. So, this is obviously better than close to 70% that we used to be earlier. And you think that given the rate of expansion that we are having, again, should one look at similar 73% plus/minus occupancy or do you think 70% still is a good benchmark to hold on to for the blended occupancy?

Amit Ramani: So, Ashish, for a year basis, I think the 70% blended would be a good benchmark to hold. Obviously, as you can see, we added about 10,000 seats in this quarter, but we also sold almost 14,000 seats. So, the momentum of sale of seats for the H1 is almost 25,000 and for the full last year FY'24 we were at about 37,000. So, I think the sales momentum is keeping up with the seat addition, but I think in terms of guidance, if you were to ask us, I think the 70% benchmark is a good benchmark for the whole year. This quarter, obviously, we have done much better than that.

Ashish Shah: Moving on to the cash flows, so this quarter we have done actually well; we have generated positive cash flow. What would be the CAPEX number for the full year? I think first half, you've done something like 83-odd crores. So, given your expansion plans, where would you put a year's CAPEX?

Ravi Dugar: So, Ashish, we will continue investing in CAPEX basis our ROC. We will exceed the CAPEX guidance what we have given at the start of Q1, but obviously looking at our growth needs, we will keep evaluating our CAPEX spends.

Ashish Shah: So, sorry, if I were to just recap the number, are we looking at Rs. 130, 140 crores if I recall, is that the number we have?

Ravi Dugar: Rs.140 crores was the guidance what we had given at the beginning of the year and keeping the CAPEX in line with our growth we will keep evaluating our capex expenses.

Ashish Shah: But for this year, for the plans that are already rolled out, 140 seems to be like a number that to go by?

Ravi Dugar: Yes.

Ashish Shah: Obviously, we are doing well, the sector itself is also doing well, but we see that there is obviously a lot of competition also building up, right, a lot of other players are getting funded, and we're hearing a lot of new names coming up. So, how are you seeing the impact of that competition coming in -- is that impacting our ability to lease at reasonable rates or some sort of distortion is happening there?

Sumit Lakhani: Ashish, the way we look at business is, in our business, the competition had always been since last seven to eight years. Now rather post-COVID what has happened is the top four players are taking a larger portion of the market and the whole competition has become more organized, which has become more interesting. So, we are not worried about the competition intensity because as of now what we see is, it has probably diluted a bit because it has become more organized and streamlined and because it's a kind of a physical brick-and-mortar business and the behavioral changes on the sector is there, so there is an extraordinary kind of demand across various micro markets, across various kind of products, which is driving it. Where we see our primary differentiation is a much larger network of centers, the ability to cater to multiple segment of occupiers, so someone requiring less than 25, 25 to 50 or 100 plus seats, ability to swim across various segment of customers or larger enterprises to startups, so these are the few differentiations which we think are strong votes for us and lot of our competition what we see players are very focused on one or two segments around. So, we feel very confident around on swimming across the current competitive intensity.

Amit Ramani: Plus, Ashish, clearly our supply strategy is completely differentiated, right. Hence our capital requirement is probably the lowest and hence we get to about 70% on the ROC numbers, right? So, I don't think if you get a great amount of capital, you can just continue to expand. It's a very execution-heavy business and I think capital has a role to play. But I think the ability to cater to the demand we have 2,700 plus customers today and obviously the ability to cater to multiple micro markets, we are in 57 micro markets across the country today. So, I think that it differentiates and our ability to cater on the supply, having a differentiated model, and on demand catering to less than 100 seats, being almost 50% of our business, I think clearly differentiates us from the competition and I think we will continue to have healthy growth in the business.

Moderator: The next question is from the line of Adhidev Chattopadhyay from ICICI Securities. Please go ahead.

A Chattopadhyay: Sir, the first question is on our expansion plans. We are around 150,000 seats with the pipeline. So, as we get into March of '25, any indicated number on the total operational plus pipeline which you are targeting?

Sumit Lakhani: So, in terms of the operational seats, we are expecting to close at about 135,000 live seats and at any single point of time, we have generally about 10,000 to 20,000 seats which are under fit-out and a similar kind of seats, where we have signed the LOI. So, in March '25, I expect that we will be in a similar kind of a situation where we will have about 135,000 live seats, large number of seats, 10,000 to 20,000 seats will be under fit-outs and then we will have signed LOIs of about another 10,000 to 20,000 seats.

A Chattopadhyay: So, to understand over the 135,000 seats would have another 40,000 seats or the under construction plus LOI seats, right, is that the right way of understanding it over and above -?

Sumit Lakhani: Yes, you can assume around 30,000 to 40,000 seats over and above 135,000 seats across the category of under fit-out and signed LOIs.

A Chattopadhyay: Second question is obviously on the margins you already highlighted for the quarter, sir. But on the rental costs and other things, are there any one-offs or any one-time savings will be built in which may again come back in the next few quarters over there? Just a clarification on that.

Ravi Dugar: This is Ravi this side. No, there is nothing of that sort, except for the Care transaction what was shown as an exceptional item.

A Chattopadhyay: Sir, next question is on our whatever ESOP policy that we have obviously highlighted now, any expected P&L impact over the next few years or next couple of years rather on that or has it all just taken the normal dilution level?

Ravi Dugar: Most of the vesting for the existing policy which is 2015 ESOP policy will get completed in the next two quarters and probably in the first quarter of the next year. So, after that, obviously, with the new policy coming in, we can expect a similar trend on the ESOP cost between the years.

Amit Ramani: So, to answer your question, there is no incremental impact, the impact that you see today has already been baked in.

A Chattopadhyay: Again, on the seat pricing, this is for obviously the normal Co-working which we do, right. So, any indication of year-on-year growth in the pricing of the seats which you would like to share for the normal Co-working which we do?

Sumit Lakhani: Primarily, most of our contracts generally have escalation clause built in. For larger enterprises, it ranges from about 4% to 5% for companies with smaller cohorts, about 5% to 7%, and this is how even our new sales are happening for this segment of customers. We expect it to continue in a similar line. Now, when we are signing up new centers completely on new clients, the seat pricing is a direct correlation with the base micro market rentals. And as of the current vantage point, what we see this CRE micro market rentals are growing up steadily, and that's why you see a kind of growth. I think for the upcoming couple of quarters at least internally we have a view that across major micro markets, there is a bit of supply constraint. So, the rentals will continue to be on a higher side.

A Chattopadhyay: Sir, I am just saying excluding the larger enterprises, right, for the normal retail, which we do, are we able to command now sort of higher pricing because obviously that would depend on the demand/supply, right, playing out in that specific micro market. So, -

Sumit Lakhani: Interestingly, if I can tell you and that's where our business becomes more interesting because a decent portion of our business, about 43% of our business also comes from less than 100 seats. The general trend we have over the last couple of years we have seen is the smaller cohort, the seat realization is always higher than the enterprise cohort. So, someone looking at 400 to 500 seats versus someone looking at 30-seater, the seat realization is always higher around for us. The competition in the less than 100 seat cohort is very limited. I am talking about the branded competition. So, we have good ability to get high realization in this segment, so prime leader in the Co-working segment, in the non-enterprise segment there because customers are looking at a very strong consistency of service within that segment as well.

Moderator: The next question is from the line of Saatvik Shetty from IIFL Securities. Please go ahead.

Saatvik Shetty: I have two questions. Firstly, sir, if you can talk about the current growth trends that you are seeing in the commercial real estate space and the flex market, and what's the outlook there in the coming years and how you as Awfis are looking to capitalize on the same? And secondly, if you can explain the rationale behind the sale of your Awfis Care segment and what benefits do you see coming out of these transactions for you?

Amit Ramani: Sure. So, on the first part, which is the growth trend, so we are witnessing obviously a dynamic shift in the sector. This is obviously marked by strong growth trends overall in the Indian office space market, which is projected to grow at about 6% to 8% CAGR. However, the flexible offices market is experiencing even more traction than the commercial real estate market. So, with the remarkable projected CAGR of 25% to 27% in the next five-odd years across Tier-1 and Tier-2 markets. In FY'24, the flex space leasing absorption was 25% of the total CRE absorption. Flex space industry size is looking to treble to about 380 billion by FY'28, right from the current about 108 which was in FY'24. The flex space workspace penetration is expected to increase to about 20% by FY'28 from the 10% currently. So, obviously, the key reasons that we see are - flexibility, customization, and the bespoke offering. Obviously, the rise of GCCs in the country continues its momentum and the core plus flex or the hub and spoke strategies that the companies are implementing right now are still strong. And as far as we go, obviously, we are among the top five players in the country across all organized players and when it comes to the network, we are the #1 in the country with the number of centers, plus clearly the strategy in terms of Tier-2, we have one of the largest coverages in Tier-2. We are also the only player to have a large portfolio of risk-averse supply, which is managed aggregation makes us capital efficient and risk mitigated. Last year, we had sold about 37,000 seats in a single year. This year in the first H1 itself, we have sold about 25,000 seats. So, very strong sales team that supports the supply acquisition team. And obviously we are one of the first players in the industry, we are the Pioneers in the Co-working space and so we believe that we can continue to keep that momentum and continue to differentiate ourselves in the space.

On the second part of your question on the Awfis Care transaction, we had strategically divested this transaction, to SMS, which is integrated facility management service company, strong in terms of technology and process. So, essentially, this is the transaction for about Rs. 27.5 crores. This move allows us to focus on our current business, position ourselves better in the flex workspace market, expand our network, and obviously drive innovation and the customer experience and technology integration. The benefit that we see in terms of the overall transaction, one, the divestiture will benefit us by reducing administrative overheads, a lot of compliances were required in terms of 3,000 plus people being directly on our rolls. It also enhances operational efficiencies while providing additional financial flexibility to invest in our growth and expansion. The transaction is expected to be cash flow-accretive, improving our working capital cycle, providing increased liquidity which will help positively impact the ROCE. This will also optimize the use of capital to generate higher and long-lasting returns for its shareholders. It reinforces obviously a commitment to delivering strong financial performance, operational excellence and exceptional service to our clients and creating value for our stakeholders. So, those are some of the things that we believe will have a positive impact.

Moderator: The next question is from the line of Pranav Shrimal from PINC Wealth Advisory. Please go ahead.

Pranav Shrimal: My question was that in the aggregation model, what can be the risk or what can go wrong with that model?

Sumit Lakhani: In a typical managed aggregation model, what we try to do is we try to create a win-win situation for us as well as the landlord. So, it's not a one-sided kind of an agreement. The primary risk we run in this managed aggregation model is that these are speculative centers. When I say speculative, that means that we need to build the occupancy of these centers post committing to sign up these centers. Now, the risk we run is whether we are able to build the occupancy in a right timeframe for these centers because if the occupancy is not built in the right timeframe, we will not be able to get the desired contribution margins for ourselves as well as the returns for the space owner. Generally to mitigate it, we spend a lot of time and resources in terms of running various kind of research of micro markets, buildings, and the potential demand in these markets. So, occupancy buildup risk is the primary risk in the managed aggregation supply sectors.

Pranav Shrimal: Sir, if vendor demand goes down, let's say over the time, so will this model be affected the most?

Sumit Lakhani: No. So, it works the other way around. The model will not be affected the most. Think of it this way, if we have a 700-seater straight lease center versus a similar size managed aggregation center and in the fourth or fifth year of operation of that center, the demand completely goes off in the micro market or the other aspect. In a straight lease, we will be more adversely impacted because we will have to continue paying the fixed rental. Now, in a managed aggregation, the impact of reduced demand or reduced occupancy is going to be shared between us and the landlord. So, we will be less impacted in managed aggregation versus in a straight lease kind of a center.

Moderator: The next question is from the line of Akshit from Niveshaay Investments Advisory. Please go ahead.

Akshit: So, first of all I would like to ask what will be the effect of Awfis Care cost? It has around 3,000 employees. So, would we reduce employee cost?

Amit Ramani: So, if I understood your question correctly, the question was with the Awfis Care reduction of 3,000 employees, will it have an impact on our employee cost, right?

Akshit: Yes.

Amit Ramani: So, see, in this Awfis Care business, the employee cost is kind of a cost of goods, right, in some way. So, technically, the business went away, and the cost went away, so I don't think overall on the employee cost, there would be a major impact. But, obviously we had certain impact where the staff was not billed to the client. So, to that effect it will have a positive impact to the overall employee cost. It will actually go down a little bit.

Ravi Dugar: But that cost will come under other expenses line.

Akshit: So, what number of seats are available under managed Awfis model and how many seats on the Co-working model?

Amit Ramani: You are asking under managed office and under Co-working, what is the split. Broadly speaking about 30% of our businesses from managed offices and about 70% of our business is from Co-working.

Moderator: The next follow up question is from the line of Rishith Shah from Nuvama Wealth PCG. Please go ahead.

Rishith Shah: Just one question in the Elite band. So, we have mentioned the number of centers that we are planning to go ahead with. But in terms of seats, if you can tell us what is the seat count in the Hyderabad center and also the four centers that we are planning?

Sumit Lakhani: So, the typical seats we are exploring is about 700 to 1,000 seats per center. So, that's the typical guideline with which the supply team is working. 700 seats is primarily across the Hyderabad center. With respect to a few other centers, a couple of them are a bit larger. Their seats ranges from about 1,000 to 1,300. But from our overall expansion in Elite, we are looking at a sweet spot about 700 to 1,000 seats per center.

Moderator: The next question is from the line of Krishna Shah from Ashika Stock Broking. Please go ahead.

Krishna Shah: One small question. Do we plan to launch a SM REIT at any point in time to raise funds?

Sumit Lakhani: So, as of now there is no plan.

Moderator: The next question is from the line of Simanto from HS Securities Private Limited. Please go ahead.

Simanto: Just wanted to know that in terms of seasonality, how it affects our business like QoQ or YoY if you can highlight on that?

Sumit Lakhani: So, from the overall seasonality perspective in terms of the demand of seats, we don't see any kind of a major impact, some minor impact we see is a bit of seat signing gets a bit deferred for few weeks during the festival seasons or the end of the calendar year, but it doesn't have any kind of meaningful impact on the business. On the cost side, there is a bit of impact on utilities. So, across various regions during the summer months, there is a bit larger impact and utility bills are a bit on a higher side.

Moderator: Ladies and gentlemen, due to time constraints, we will take that as the last question. I would now like to hand the conference over to the management 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 wish you all a very happy and prosperous day.

Moderator: On behalf of Nuvama Wealth PCG, that concludes this conference. Thank you for joining us and you may now disconnect your lines.