awfis

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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
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 nine months ended December 31, 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 nine months ended December 31, 2024 held on February 12, 2025.

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
Company Secretary and Compliance Officer
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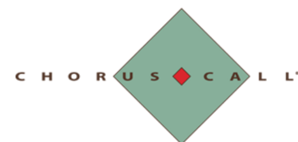
Awfis Space Solutions Limited

Q3 & 9M FY25

Earnings Conference Call

February 12, 2025

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 12th February 2025 will prevail.



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

MODERATOR: **MR. GIRISH CHOUDHARY – SPARK INSTITUTIONAL EQUITIES PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Q3 FY '25 Earnings Conference Call of Awfis Space Solutions Limited hosted by Spark Institutional Equities Private Limited. 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. Girish Choudhary from Spark Institutional Equities Private Limited. Thank you, and over to you, sir.

Girish Choudhary: Yes. Good morning, everyone. On behalf of Spark Institutional Equities, I would like to welcome you all to the third quarter earnings call of Awfis Space Solutions Limited. The company is represented by Mr. Amit Ramani, the Chairman and the Managing Director; Mr. Sumit Lakhani, the Deputy CEO; and Mr. Ravi Dugar, the CFO. I'll now hand over the call to the management for opening remarks, and then we can open up for Q&A. **Over to Mr. Amit Ramani, 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 Advisers. For Q3 and 9 months 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 report a strong financial performance in Q3 FY '25 with a revenue growth of 44% YoY to INR318 crores. This growth was driven by contribution from newly added seats, higher occupancy across the established centers.

Our strategic center selection backed by research and groundwork has been instrumental in maintaining high occupancy levels. Our focus on maximizing utilization continues to yield results with occupancy steadily increasing in key locations. As of December 2024, exit month occupancy stood at 73%, while centers operational for over 12 months reached 84%, reinforcing our strong demand and our leadership in both flexible workspaces.

During the quarter, our co-working and Allied Services segment grew by 52% to INR243 crores, contributing 77% to the total revenue. Meanwhile, the construction fit-out project, including our design and build business, experienced a robust growth of 35%, reaching INR73 crores and accounting for the remaining 23% of our revenue.

Our EBITDA registered strong growth, increasing by 59% YoY to INR107 crores with a margin of 33.8%, an improvement of 320 basis points over the same quarter last year. This expansion was driven by operating leverage from higher occupancy in mature centers, successful absorption of additional seats and increased contribution from enterprise clients and allied services.

I'm pleased to share that we have surpassed 120,000 operational seats across 193 centers nationwide, moving closer to our target of 135,000 seats operational by March of 2025. Including centers under fit-out and Letter Of Intent (LOI) stages, our total capacity now exceeds 160,000 seats across 237 centers, spanning an extensive 8.0 million square feet.

I'm excited to announce that as of today, we have surpassed the milestone of 200 operational centers. This achievement reflects our continued growth and commitment to delivering exceptional service.

The demand for workspaces in Tier 2 cities has risen significantly since the pandemic. While Tier 1 accounts for 80-85% of all commercial real estate demand, there is a growing trend in Tier 2 cities as well as e-commerce, quick commerce, IT services, both local and global, and many global capability centers are increasingly exploring these cities for talent.

We are proud to say that Awfis is the first one to go into Tier 2 cities. We believe that India's $5- to $10 trillion economy is going to be written in these cities. In line with this trend, we are further strengthening our presence by expanding into another Tier 2 city, Lucknow. Since December '23, we have grown our footprint in Tier 2 cities by 29%, increasing from 17 to 22 centers, reinforcing our commitment to these high potential markets.

We are highly optimistic about the co-working sector, fuelled by strong demand for flexibility, speed and quality. The increased adoption of hybrid work models, the rise of remote work and the company seeking satellite offices instead of relying solely on centralized headquarters will drive continued demand. These factors, along with others, are expected to propel growth in the co-working industry. Barring any unexpected macroeconomic challenges, we foresee the sector growing at an annual rate of about 20% to 25%.

Let me hand over the call to Mr. Sumit Lakhani, our Deputy CEO, to share Q3 FY '25 operational highlights. Over to you, Sumit.

Sumit Lakhani: Thank you, Amit. Good morning, everyone. I would like to share with you the operational highlights for Q3 FY '25.

On the supply side, since December 2023, we have significantly expanded our footprint by launching 55 new centers and adding 41,786 new seats, strengthening our presence across 9 Tier 2 cities and 6 new micro markets. This strategic expansion has enabled us to cater to the growing demand for flexible workspaces in emerging business hubs.

As a result, our total portfolio now stands at 214 centers, comprising 142,000 seats and covering 7.2 million square feet of chargeable area. This milestone underscores our commitment to scaling our operations and enhancing accessibility for businesses of all sizes.

Our YOY growth trajectory remains strong. Operational seats and centers grew by 52% and 40%, respectively. Total seats and centers increased by 36% and 27%, respectively. We have a strong expansion pipeline with signed LOIs for 23 new centers, adding 18,000 seats and approximately 0.8 million square feet of chargeable area.

On the demand side, we have signed demand contracts for 15,000 new seats in Q3 FY '25 and 40,000 new seats in 9 months of FY '25. Our revenue base continues to be highly diversified. Approximately 66% of our occupied seats are taken by large corporates and MNCs, while around 20% are occupied by SMEs and another 13% by start-ups with the remaining share attributed to freelancers. Additionally, 39% of our clients operate across multiple centers within our portfolio.

Our blended exit month occupancy has remained consistent at 73%. And for 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 approximately 24 months, demonstrating strong long-term client commitment. Our client profile is well diversified with more than 3,000 active clients as on 31 December 2024. This concludes my update.

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

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

For Q3 of FY '25, our consolidated operating revenue stood at INR318 crores, a growth of 44% on a YoY basis. The operating EBITDA stood at INR107 crores, which is a growth of 59% on a Y-o-Y basis.

The margin stood at 33.8% as against 30.6% in quarter 3 of last year, which is a growth of 320 basis points. In Q3 FY '25, our PAT, excluding exceptional items, is at INR14 crores versus a loss of INR6 crores in Q3 of last year.

On the IGAAP equivalent basis, which is adjusted for Ind AS 116 lease rentals, Ind AS 109 and Ind AS 102, our Q3 FY '25 consolidated operating revenue stood at INR317 crores, a growth of 45% on a Y-o-Y basis. The operating EBITDA stood at INR47 crores, which is a growth of 114% on a Y-o-Y basis. The margins stood at 14.7% as against 9.9% in Q3 of FY '24, which is a growth of 480 basis points.

For Q3 FY '25, IGAAP equivalent depreciation stood at INR22 crores and finance cost at INR2 crores.

On a 9-month basis for FY '25, our consolidated operating revenue stood at INR868 crores, a growth of 41% on a Y-o-Y basis. The operating EBITDA stood at INR286 crores, which is a growth of 61% on a Y-o-Y basis. The margins are at 33% as against 28.9% in 9 months of last year, which is a growth of 410 bps.

On the IGAAP equivalent basis, which is adjusted for again Ind AS 116 lean rental, Ind AS 109 and Ind AS 102, the 9-month operating revenue stood at INR866 crores, a growth of 41% on a Y-o-Y basis. The operating EBITDA stood at INR119 crores, a growth of 155% on a Y-o-Y basis. The margin stood at 13.8% as against 7.6% in 9 months of FY '24. This reflects a growth of around 615 bps.

For 9 months FY '25, IGAAP equivalent depreciation stood at INR57 crores and a finance cost was INR4 crores. In 9 months of FY '25, PAT, excluding exceptional items, is INR70 crores versus a profit of INR7 crores in 9 months of last year.

Our ROCE on an annualized basis has improved from 63% in Q3 of last year to 76% in Q3 of the current financial year. The company continues to have a comfortable liquidity position, remaining debt-free at the net level.

Our debt-to-equity ratio at the net level has improved to (0.29) as of December '24 from a (0.28) as of December '23. This is all from our end. We now open the floor for Q&A.

Moderator: The first question is from the line of Krishna Shah from Ashika Stock Broking.

Krishna Shah: So my first question is on the line of the construction and fit-out revenue is expected for this quarter now that we've already completed close to 45 days in this quarter.

Amit Ramani: Can you repeat the question? I didn't understand the question.

Krishna Shah: Yes. So my question is to understand the segmental revenue coming from construction and fit-out projects for Q4 FY '25 now that you've already completed close to 45 days of this quarter?

Amit Ramani: So our construction and fit-out business is in line with our guidance that we have given, which is roughly about 30%-odd growth. For this quarter, about 23% came from the construction and fit-out business and 77% came from our co-working business. This will continue in this -- almost in a similar kind of a ratio for the final quarter as well.

Krishna Shah: Okay. Got it. And can you just help me with what was the actual rental expense for the last quarter?

Ravi Dugar: One second. We'll give you that number, please give us 2 minutes.

Krishna Shah: Yes, sure.

Ravi Dugar: INR61 crores.

Krishna Shah: INR61 crores. And what was it for the 9 months of FY '25?

Ravi Dugar: INR169 crores.

Krishna Shah: Okay. And my last question is on the cost side. I just wanted to understand that cumulative, if we look at the employee expenses and other expenses have increased as a percentage of net revenue for the quarter passed by, so Q3. So can you just explain like what was -- what led to this increase in the cost?

Ravi Dugar: Sorry, you are saying in the quarter 3 of this year has increased versus what?

Krishna Shah: From the previous quarter as a percentage of net revenue?

Ravi Dugar: No, but we have seen a decline in this quarter versus the previous quarter.

Krishna Shah: For the other expenses?

Ravi Dugar: For employee benefits, you're saying?

Krishna Shah: Employee benefits have decreased majorly, I think, because…

Ravi Dugar Let me answer you. So what has happened is because of this transition of our Care business, the Awfis Facility Management business to an outside company, which is SMS integrated services, the employee expenses of the employees pertaining to that business, they have now -- the expense for that particular thing has moved to housekeeping and security services. So earlier, that expense was appearing as an employee benefit expense.

Now it is appearing as security and housekeeping expenses. That's why the other expenses have gone up, where at the same time, we see a decline in the employee benefit expenses.

Krishna Shah: Okay. And it will be -- it will continue in a similar manner going forward as well?

Amit Ramani: Yes. The accounting will continue to be in the similar manner. So this change has happened in Q3.

Krishna Shah: Got it. And in terms of the percentage of net revenue also will be on similar lines, right?

Amit Ramani: Yes.

Moderator: The next question is from the line of Akhil from Nuvama.

Akhil: Firstly congratulations to the management team on delivering such a strong set of numbers. I have 2 questions. First question is, could you please provide an update on the current status of the Awfis Care transaction?

Amit Ramani: Yes, you can go ahead Ravi.

Ravi Dugar: So as you are aware, our Facility Management division, namely Awfis Care were divested on a slump sale basis for a cash consideration of INR275 million, out of which we received INR255 million in quarter 2, which was recognized in the quarter 2 financials. Of the balance consideration of INR20 million to be received, basis certain milestones and fulfilment of certain terms and conditions as specified in the business transfer agreement.

INR17.21 million has been recognized during the current quarter ended 31 December '24. The same has been disclosed as an exceptional line item in Q3 and Q2 of FY '25 financial results. The remaining amount of INR3 million is expected to be received in the current quarter, which is quarter 4 of the financial year. So that will complete the transaction.

Akhil: Okay. Got it. Sir my second question is, so as we are seeing with several co-working space companies recently filing a DRHP, so how do you foresee the competitive landscape evolving? And what are the effects that these developments on the market position and the strategic plan? Additionally, how does Awfis perceive its position within this changing environment? And what potential impact could this increased competition have on your business?

Amit Ramani: So industry, obviously, as we can see, is growing at a very, very fast pace, right. India's gross leasing has been the highest, 77 million square feet, the highest ever in our history. Flex continues to be very, very strong with between 20% to 25% of the share on a YoY basis. So this makes us believe that there's a strong and a large market and enough room for everyone to operate.

While we continue to hold the market leadership with 200-plus centers and our network, we believe that our ability to service our client base is very, very strong because of our product portfolio. If you look at the network, that gives me the ability to service almost 100+ localities today. So that means we can service clients in Tier 1 and a large portion of Tier 2 cities today. Second, clearly, we have built our product portfolio in a multi-tiered product.

As we had mentioned, our flagship product, which is Awfis continues to be about 85% of our portfolio. Awfis Gold, which is a bit premium; and then Elite, which we had talked about last time in our earnings call is -- combined is about 15%. So today, we can service every size of cohort and every price point in this country. And we believe that this network with this multi-tiered kind of product portfolio creates a completely differentiated model.

Second, on our supply side, we have talked about the managed aggregation model which makes us risk mitigated when it comes to our occupancy build-up because in majority of our portfolios, almost 65% today, we are partnered with our landlord, which is in a profit share model and the minimum guarantee is typically about 50% of the market rental.

Second, a majority of the capital in this situation comes from our landlord partner. So this does 2 things. One, it makes us asset-light. And second, it mitigates a large portion of our risk. So on the supply side, that makes a big differentiator. And that results in a high return on capital employed for us. As Ravi mentioned earlier, it's about 75% plus. And we are one of the only few players, branded players, which are catering to all sizes of cohorts, right?

We have talked about almost 55% of our portfolio today is more than 100 seats, 45% is less than 100 seats and which we see as a big competitive advantage. Plus, we have the opportunity to have an integrated platform, which creates multiple upselling opportunities. We are expanding D&B and our tech led verticals.

So we are confident that we'll continue our upward trajectory based on these differentiating factors. And we believe the market is large enough that many large players can operate in this space.

Moderator: The next question is from the line of Chintan Sheth from Girik Capital.

Chintan Sheth: A great set of numbers. A couple of questions. If I look at the MA shift, when we say the 73% occupancy despite we adding significant seat addition, how do you feel the occupancy to sustain at this level given the demand which we are witnessing in the market?

Sumit Lakhani: See, we expect the occupancy rate to stay stable in the future as well because this aligns the occupancy and the demand aligns with the velocity of our supply addition and uptick in our sales velocity and lower churn. If you see in this financial year so far over the 9-month period, we

have sold closer to about 40,000 seats. In the full of last financial year, which is the financial year of '24, we sold closer to about 36,500 of our seats.

So there is a great increase in the overall new seats sold velocity. And at the beginning of the year, we gave the original guidance that the blended occupancy at the whole portfolio level was expected to be about 70% to 73%. The greater than 12-month center vintage occupancy is expected to be between 83% to 85%.

So we continue to track well on these numbers. Even the new centers which we are signing up, we see within 9 to 10 months that we are able to hit about 85% kind of occupancy. So with the growing portfolio, we are very confident with respect to maintaining the overall blended occupancies.

Chintan Sheth: Right. Great. And if I look at your average seat revenue on the occupied seats on the total specifically, even if I look at that, has stayed firm despite incrementally the Tier 2 centers are getting added in the system, right, which I presume has relatively lower rentals versus the metro or Tier 1 city. So incrementally, how do you see -- given that the model itself has a 5% escalation every year, how do you see your seat rentals likely to pan out going forward?

Sumit Lakhani: Yes. See, at a portfolio level, it's a very interesting kind of question. I'll probably give you a bit more deep dive into the way we look at the seat pricing and the whole -- the way model works. The seat pricing has a direct correlation to the micro market rental and the minimum guarantees, which we have signed up with the space owner or at that prevailing period of time.

In the existing client contracts for smaller cohorts, the general escalations, which we have tied in ranges from 5% to 8% in terms of the larger cohorts, the price escalations are usually between 4% to 6-odd percent. So at the time of renewals, we get these kind of price increases. But in an up rental kind of a cycle like what we are seeing right now, any new customer which comes in that center, we are able to get a much higher kind of seat realization because the seat realization is directly reflecting the current kind of rental trend.

Now because we are across 50-plus micro markets, over 100 localities, different buildings, which have very different kind of rental profile, the blended seat pricing prediction also becomes a bit of a challenge. But on an overall basis, when we look at building our financial models, we look at closer to about 85% of the business continues to come from our Tier 1 cities, about 10% to 15% is coming from Tier 2 cities.

And a couple of Tier 2 cities don't have lower rental profile as well. So at an overall level, at a seat realization thing, we expect the seat realizations to be on a similar kind of a trend.

Chintan Sheth: Great. Great. A couple of bookkeeping questions, Sumit. One is on the profit share rentals, if you can provide for the quarter and 9 months vis-a-vis last year, just to have that sense of profit share of rental. You provided the total rental cost, but if you can share the profit share under the MA model would be great.

And second is on the ancillary revenue. What is the percentage right now? Because in the opening remarks, you mentioned that ancillary revenue is one of the key driver for the growth.

If you can provide how that ancillary revenue has trended over the last 9 months or quarterly vis-a-vis last year.

Ravi Dugar: Just give us a minute, we'll give you these numbers.

Chintan Sheth: Sure. I'l come back in the question queue..

Moderator: Should we move on to the next question? The next question is from the line of Aman from Astute Investment Management.

Aman: Are you through with your calculation for the last question? Or should I wait...

Sumit Lakhani: No. Please go ahead with your question...

Aman: Yes. My first question is on our seat cohort. So we have around 3,000-odd customers. Could you talk about how many of these customers take, say, greater than 100 seats?

Sumit Lakhani: Yes. Almost about 58% of our customers have taken -- I'm talking from a seat basis, 58% of the customers have 100-plus seats.

Aman: That number I have, sir. I was talking in terms of number of customers.

Sumit Lakhani: In terms of the number of clients, I think that number is not handy with us currently in terms of the number of clients on a cohort-wise basis.

Aman: Okay. If you can share it in later part of the call.

Sumit Lakhani: Sure.

Aman: Yes. And my another question on this cohort of 100-plus seats could you also talk about -- because it is a very wide cohort, there will be some customer taking 300 seats, 500 seats. So is there a median in terms of number of seats that the customer take in this cohort because average won't be the right number to take. And what is the typical churn rate of in this type of customer?

Sumit Lakhani: Sorry, can you repeat the second part of the question? I could understand the first part where you're asking in a 100-plus seat cohort, what is the usual median of seats which we look at? What is the second part of the question you asked?

Aman: The second part was the churn because beyond the point, it might make sense for customers to look at their own centers. So just wanted to understand. Say, if a customer is above 300 seats to 500 seats, then it is more likely to churn. What kind of churn are we seeing in greater than 500 seats versus between, say, 100 to 300 seats?

Sumit Lakhani: Sure. Okay. So in terms of the average seats in 100-plus seat cohort, what we see is broadly is about 360 approximately in our current portfolio. To your question -- earlier question on the number of clients for greater than 100 seats is closer to -- it's about between 140 to 150 clients who would have taken more than 100 seats. Now it's a very interesting point where do a client

looks at setting up their own center versus continuing to be in co-working or continue to be a flex space.

Now the first part to this is we create a usual cost of ownership for a customer when -- in terms of choosing co-working versus their own space. Till about 200, 250-odd seats, the total cost of ownership if a customer ends up choosing a flex space is in favour of flex spaces versus setting up their own office and the savings ranges from about 3%-odd to 20%-odd. Smaller the cohort, it is better for the overall customer to do it.

In terms of the larger cohort of 200-plus or 250-plus seats, the customers are generally choosing flexible operators for multiple reasons. One, they are looking at tenure flexibility. If you set up your own space, one is looking at being in that space for almost 7 to 8 years and depreciating the whole asset. So CFOs of those companies prefer doing that.

Whereas if an operator like us is giving a 3- to 5-year kind of a lock-in also, it's serves a great kind of flexibility for these customers. So flexibility in terms of tenure is one reason why a larger cohort, let's say, 300, 500-seater cohort ends up choosing this.

Second, a lot of companies now are also not sure in terms of the overall business model, the growth and they want the option to upsize and downsize around. That's the other reason. The third, which is a massive reason and which brought about the behavioural change in the overall sector was the rise of distributed working.

Today, the companies are looking to set up more than one office location in a single city. And that's the reason why we are seeing that the average size, what we talked about is increasing in terms of the flex portfolio. So these are the kind of your 3 reasons.

Till about 3 years back, I would have given you a very clear answer that 300 to 400 seats is the cohort beyond which people will end up setting up their own convention office. But the kind of deals we are seeing in the market and the kind of customer profile, this number is going upward of 500 or 600. That's probably a kind of a cut-off in my mind where people should end up looking up their own offices.

Aman: Sure, sir. This helps. Just one clarification. The number you said 360, is it average? I was looking for the median number, which is the most common, not the average because...

Sumit Lakhani: Right. So the current available data point which I had was around on the -- we'll see if I can give you by end of the call.

Aman: My second question is on our MA model, sir. It is a very remunerative model for our company and even for landlord, it is good because ROCs and everything is quite good. So we have explained in previous call that -- so there are 2 returns that landlord gets. One is obviously the rental yield, but he's also getting a part of profit share. And we had explained that the yield on the capex that the landlord does is around 10%, 11%.

This is in addition to whatever return he's getting from the rental yield. So this question is on this capex and this 10%, 11% yield. So is my understanding correct if a landlord is entering in

an MA model and he's spending his own money, then he's getting 10%, 11% yield. So to get back that money, he will need 9 to 10 years of lease to get back the money he has spent on capex. Is my understanding correct?

Sumit Lakhani: See, the way I look at is the rental yield on a warm shell basis is closer to about 5% to 6%. Now in terms of the return on capex, I would say it is primarily the return on -- it's more like an interest he's earning on the capital he has spent, right? So that is -- when we say about 10% to 11%-odd is the kind of return on that capital they look.

On an overall basis, from a landlord perspective, their usual payback ranges between 4 years to 5 years for the capex or a bit lower than that.

Aman: Sorry, if the yield is 10%, how is the payback 4 to 5 years? You're including...

Sumit Lakhani: No, it's not the yield which is 10%. I'm saying, let's say, someone has spent about INR5-odd crores towards the capex. So the annual interest or the return they get on that INR10-odd crores, only just the principal amount itself is about INR40 lakh, INR50-odd lakhs -- sorry, yes, INR50-odd lakhs, 10%-odd.

And the overall payback period of the capital in which the total capital gets returned for the space owner is much lower in terms of the number of years because -- so that's how it works, right?

Moderator: The next question is from the line of Mohit Agarwal from IIFL Capital.

Ravi Dugar: So Mr. Chintan, here are the numbers what you wanted. Profit share for 9 months is INR59.4 crores. 3 months is INR19.4 crores for the current quarter. And ASR revenue for Q3 is INR31.5 crores, which in last year was INR15 crores for the quarter 3 of last year, which is a growth of 110%.**Mohit Agrawal:** Congratulations to the team on great set of numbers. My first question is on margins. And if I look at your iGAAP equivalent margins, you've been clocking in for the last 2 quarters, about 15%. Is this the new normal, at least in the near term? Or this margin number could be vulnerable to the kind of seat additions that you make?

So in the next -- to meet your guidance, you'll do almost 130,000 seats that we'll have to operationalize. So how do we look at the margins number? And if you could give some color on how do we expect this over the medium term?

Amit Ramani: So Mohit, I think clearly, when we started the year, the guidance that we had given was about 1.5%. And obviously, we have done much better than that. I think as far as the seat addition goes, I think the trajectory has been almost similar. As Sumit mentioned earlier, we're looking to add in terms of supply about 40,000 new seats by March of '25.

And the velocity of our seat sale has improved considerably from last year, where last year, we had -- for the full year, we had done about 36,000odd seats. We have already for the 9-month period, done about 40,000 seats. So obviously, our seat addition is in terms of our new seat sale are keeping in pace and they'll continue to be in that direction.

So we have seen our operational EBITDA growth from 9.9% in Q3 of FY '24 to currently approximately the 15-odd percent. which is obviously improvement. So this in itself is a significant improvement on back of our very strong revenue growth, occupancy, improvement in enterprise client, allied services, operating efficiency.

So at the beginning of the year, we had given the guidance of 1.5%. What we have achieved right now, I think we'll continue to maintain that for at least next quarter. And we will, at the end of next quarter in May, give the guidance for FY '26.

Mohit Agrawal: Okay. And actually, that was my next question, but just if you could give some color on what kind of seat addition considering the demand trends and the LOI sign, should we expect more or less the FY '25 is done? So just in FY '26, should we expect you to continue a 40,000 kind of a number in terms of seat addition? Could it accelerate? Just a broad color or directional color would be fine.

Amit Ramani: Yes. So Mohit, without going into specifics, I would just say we -- at the beginning of the call, we gave the guidance of about 120,000-odd seats that are operational today. In terms of under fit-out and with centers where we have signed an LOI, we have an additional 40,000 view. Our guidance for this full year was 135,000 seats. So we already -- operational seats.

So we have a clear visibility of another 25,000 seats on top. So for FY '26, we feel very, very strong about the continued growth of our supply addition of our seats. I would not want to make a specific comment on specific numbers. We will provide that at the next quarterly call.

Mohit Agrawal: Sure. That's fine. And one last question on the construction fit-out business...

Moderator: The next question is from the line of Ayush Saboo from Choice Equity.

Ayush Saboo: Can you give us some insights regarding the rent per seat for the MA model and the SL model and also the capex cost that we incur per seat for the MA and SA model?

Ravi Dugar: Yes. So the capex cost what we are incurring at this point of time is in the range what we gave in the prospectus. It is in the range of around 54,000 per seat kind of a thing.

Amit Ramani: So that's a blended between MA and SL. And obviously, an MA model, our side -- from our side, that's a lower number. And when you do a straight lease, that's a higher number.

Currently, managed aggregation is about 65odd percent of our portfolio and 35% is straight lease. So when you blend it together, it's that 54,000 odd that Ravi mentioned. And hence, our return on capital employed ends up being much higher around the 75% plus range.

Ayush Saboo: Okay. And also, can you differentiate between like if you have to say like rent per for the MA model and the SA model? So what would that be?

Amit Ramani: So that is not really relevant because when we establish a center, be it MA center or a straight lease center, the seat realization is a reflection of the micro market rental. It is not a reflection of the model that we are deploying. So that is neutral as far as it goes. It just depends on the micro market rental and obviously, the specific city and micro markets that we are operating in.

Ayush Saboo: Okay. So I mean, there's no way we can take an average rental per seat on a consolidated basis.

Ravi Dugar: That you can still do. The only thing for us, that rental is a function of the micro market where we operate in. But at the company level, you can calculate that number obviously.

Moderator: The next question is from the line of Yashowardhan Agarwal from Arthya Wealth & Investments.

Yashowardhan Agarwal: I had few questions on co-working as well as on construction about segment. So on the co-working question was that, what are the center level EBITDA margins in SL model versus MA model. And the other question had been answered. So the first question is on this?

Amit Ramani: So in terms of the -- as I think we have given the original guidance around it as well, when we do a straight lease, the margin -- the contribution margin at the center level ranges between 30% to 35%. When it comes to the MA model, this ranges between 20% to 24%, depending on the structure with the specific landlord and such and the amount of investment that is being put in. So that's where the blended then obviously comes somewhere in the range of about 24% to 25-odd percent.

Yashowardhan Agarwal: Got it, sir. And sir, on the construction and fit-out segment, so I want to know that how the segment is panning out. And out of the revenue that we have done in this quarter, let's say, the total revenue of D&B segment of these construction was around INR75 crores. So out of INR75 crores, what part of that has come from our own business, let's say, the capex that has been done by the landlord. And what is the revenue that has come from the third party? And how does the margin profile on both look?

Amit Ramani: Yes. So in terms of the revenue, it's almost a 50-50 split. 50% of the revenue comes from what the -- our landlord partners are giving to fit out the center and about 50% comes from third-party clients. At a contribution margin level, this business is somewhere in the -- about blended between 16% to 17% margin.

Yashowardhan Agarwal: Okay. And sir, how has the growth been for the third-party segment in this?

Amit Ramani: Growth has been fairly good. If you look at it on a YoY basis, it's about 40%-odd growth that has happened in this segment.

Yashowardhan Agarwal: Okay. Got it, sir. And sir, other question on construction fit-out is that what is the working capital requirement?

Amit Ramani: Sorry, can you repeat the question?

Yashowardhan Agarwal: Yes, sir. On the construction and fit-out segment, what is the working capital requirement?

Ravi Dugar: Onthe working capital requirement, you can get the number from the segment result. However, to answer your question, the requirement comes from as the construction progresses., We keep on billing the customer basis the agreement which has been signed with the customer. So it could be maybe a construction completion.

then we build to the customer once the construction is completed or there could be a milestone-based billing also. So the working capital requirement normally arises from that side. So until the time we bill to the customer, it consumes our working capital.

Moderator: The next question is from the line of Shubham Kadhi from 3A Financial Services.

Shubham Kadhi: Yes. So I can see that quarter-on-quarter, the PAT margin that is the profit before exceptional items, the margin has pretty much remained the same. So actually that has decreased a bit. So can we expect the same margins going on? Or what can be the guidance regarding the PAT margin?

Ravi Dugar: So at the beginning of the year, obviously, we gave a guidance, which was 1.5%, and we are delivering more than that. So in the next quarter, what we can say is we'll continue with the growth trajectory what we are seeing right now. However, for the next year margins, FY '26, we'll give a guidance maybe in the next quarter call.

Shubham Kadhi: Okay, sir. And the blended occupancy rate is around 75%, 74% to 75%. So do we see it increasing to around 80%, 85% in the next couple of years?

Sumit Lakhani: So in terms of the current next couple of quarters, we expect it to be in the range of about 70% to 73% on a blended basis. Over -- gradually over the next couple of years, you will obviously see the overall -- the blended occupancy going up higher because the 12-month plus blended occupancy ranges between 83% to 85% for us.

So centers with a vintage of 12 months plus. So as there are more centers as a percentage of the total portfolio, which are in 12-month plus vintage, you will see improvement in the overall blended occupancy as well.

Shubham Kadhi: And one of the questions asked by the previous analyst regarding the profit share in the MA model. Is that figure available to us right now?

Sumit Lakhani: Yes, I think we shared, right?

Ravi Dugar: Just to call out the numbers again. For 9 months, the profit share is INR59.4 crores and for the quarter, it is INR19.4 crores.

Moderator: The next question is from the line of Sabyasachi Mukerji from Bajaj Finserv.

Sabyasachi Mukerji: First question is on the cash flows. If you can provide the cash flow from operations number for 9 month FY '25, corresponding to the iGAAP equivalent EBITDA number of INR119 crores that I see in the presentation, that would be helpful.

Ravi Dugar: So Sabyasachi, I mean, there's no requirement to disclose the numbers in the 9-month period. However, we had done that in H1, and we'll be doing that in the full year earnings call.

Sabyasachi Mukerji: If you can disclose the H1 number?

Ravi Dugar: H1, please can you just give us a moment. Just give us a moment, we are opening the file for H1.

Sabyasachi Mukerji: Yes. Sure, sure. And also, if you can give the FY '24 number as well, full year number.

Ravi Dugar: Sure. We'll come back on this. Just give us a minute. We are opening the file over here.

Sabyasachi Mukerji: Sure.

Ravi Dugar: So for FY '24, the cash flow from operations, including the income taxes paid, the net cash flow was INR229 crores. And for the 6 months period, the net cash flow from operating activities was INR210 crores.

Sabyasachi Mukerji: No, no.

Ravi Dugar: All this is Ind AS.

Sabyasachi Mukerji: I'm asking for the iGAAP equivalent cash flow number because this cash flow number is inflated one, right?

Ravi Dugar: Yes. So the iGAAP EBIT number, cash EBIT, what we usually call it for H1 is INR90.4 crores.

Sabyasachi Mukerji: And for FY24

Ravi Dugar: For FY '24? One second. So meaning you want the H1 of last year.

Sabyasachi Mukerji: Full year.

Ravi Dugar: Okay. Just give us a second.

Sabyasachi Mukerji: Sure. The reason why -- I mean, in the meantime, the reason why I'm asking is I'm going through your annual report and cash flow statement -- consolidated cash flow statement, where it says that INR228 crores is the net cash flow from operations, but there is some -- there are 2 elements on the cash flow from financing activities, particularly on the payment of principal portion of lease liability and interest based on lease liability.

Both this put together is close to INR174 crores, INR175 crores. I believe this number has to be adjusted to derive at the true cash flow number. If my math suggests right, that number is somewhere around INR54 crores, INR55 crores for the full year '24.

Ravi Dugar: The cash EBIT number for the last financial year was INR97 crores and for H1, it was INR90 crores.

Sabyasachi Mukerji: Yes. But the true cash flow from operations number should be somewhere around INR54 crores, INR55 crores for FY '24. Am I correct?

Ravi Dugar: It was INR97 crores. cash EBIT, yes.

Sabyasachi Mukerji: Okay. Maybe I'll take this offline on the calculation front. But again, coming back to that number, so if it is INR97 crores on that number, we had done almost, I think, INR144 crores of capex last year. So basically, our free cash flow is negative for FY '24. And I believe H1 is also negative. So going ahead, what are our plans for the funding to sustain this kind of growth?

Ravi Dugar: So right now, as I mentioned, we are a net debt-free company. Our debt to equity is minus 0.29. So we are sufficiently funded on the -- and our liquidity position is very comfortable at this point of time. And our internal accruals are also very strong. So to answer your question, the first part, yes, last year, it was …. the net cash fund flow was a negative one.

We were managing part of the capex from our own sources, equity, not from the generations. However, this year, we'll be somewhere -- we'll be mostly meeting our capex requirements through our internal accruals, I mean given the kind of profitability what we're experiencing.

Sabyasachi Mukerji: Okay. So there will be no need for fund raise for the expansion plans?

Ravi Dugar: If you're talking Q4, obviously, no, we are not going anywhere for a fund raise. Next year, I'll not be able to comment at this point of time.

Moderator: The next question is from the line of Ashish Khurana from ANK Capital.

Ashish Khurana: So I had 2 broad questions around competitive intensity that we are seeing in this sector. So firstly, on the demand side. So as far as I can tell in the co-working space, there is no Indian brand with top of the mind recall, especially among the working population, probably because the sector is in an early stage. So now it can be argued that Awfis is uniquely positioned because, firstly, I think the sheer number of centers are high.

And secondly, I think because of addressing smaller cohorts as well, the company is relevant to a larger number of people in general. So my question on this was, do you think going forward in this industry or in this space, a consumer-facing brand with good recognition and identity would be of relevance?

And if so, what are the efforts that the company is putting in that regard? I mean, not just the efforts in terms of investments, but also in terms of execution, if we are conscious about that and putting specific efforts with regards to that?

Sumit Lakhani: Yes. Thanks, Ashish. It's a very interesting question, and you answered a part of it for us. So the way we looked at approaching the brand was also by touching base into a larger kind of a customer segment, both smaller, midsize and larger cohorts and creating a much larger kind of a network. Now the way we look at our overall brand positioning and strategy is similar to what we say as of a hospitality player.

If you look at -- we have created a multi-tiered approach in terms of product, Awfis, Awfis Gold and Elite. In our internal discussions, we look at similar to like a C chart by Marriott and JW kind of approach to life. Across every brand, every center, there is a very consistent kind of experience which a customer gets.

And this is where -- because we are catering to a B2B customer base and the relevant number of companies or the TAM for this in India is closer to about 10,000 to 15,000 companies. Now if we are able to provide them consistent experience to them in one particular city, then they are looking for expansion in other cities or other micro market, by default, they end up choosing us rather than any other regional or any other player around.

Because from a client perspective also, the B2B client perspective, they prefer working with at max 2 or 3 players who gets approved as a kind of a vendor and all. So those are -- that consistency in experience is one of the primary way we look at creating the brand. Apart from it, we, on a very regular basis, engage on various kind of B2B brand building as well as marketing activities.

We are very active on relevant forums of commercial real estate around like CoreNet and a couple of others, and we continue doing a lot of B2B marketing and brand building activities to create impact for this relevant segment of customers.

Ashish Khurana: Okay. Second one, again, with regards to competitive intensity on the supply side. So we target a certain profile of properties, a certain profile of landlords. And again, since there are many players competing for -- I mean, you could say kind of -- in a similar kind of a micro market, there can be only that much supply. And we have this additional risk of filling the centers after we have kind of taken up the property.

So would that mean that at a certain point, we'll face a supply constraint or we'll have to move at the fringes of the micro market to keep growing? Or I mean, there's something else which would be a workaround to that?

Sumit Lakhani: Yes. So Ashish, just from a competition intensity perspective, if I can say, from 2018 onwards, the sector had been fairly strongly competitive. The top 5 companies which you see within the sector had been fiercely competing since 2018 for both the chunk on demand and supply. We created our differentiation in terms of picking supply in a very different manner than most of the competition, one.

We look at partnering with the landlord, while it takes a bit more hard work and longer time, but we think it creates long-term value. Second, if you look at the way we have worked is we look at more midsized assets within the portfolio, whereas a larger portion of most players look at more larger sized assets. So this gives us a larger universe of available buildings in the key micro markets in India.

And it sounds easier that a strategy that anyone can copy and bring about more focus on creating more assets and more centers by creating -- picking up midsized assets. But on the back end, it's a very -- one needs to create a very large engine and a strong kind of processes to operate and run 200-plus centers to have simultaneously about 40 to 50 projects running around, to have simultaneously an engine which is driving a due diligence of almost about 25 to 30 different properties.

So the execution capability is a kind of a very large moat which we have created. And we think we have a great level of heads up with respect to competition in terms of following this strategy.

Now in terms of the overall supply availability as well, when we do our math and we pick up the stock which is available for supply in the next 1 to 2 years.

The target supply, especially of midsized assets available for us in terms of the available supply plus the supply, which is under construction in the micro markets, which we need to be there is almost about 300 million plus square feet. So I don't -- at least we internally don't have a kind of a challenge in terms of the availability of supply to be a hindrance for our growth around.

Ashish Khurana: And I mean, the execution capability and I assume that, I mean, the fair practices that you follow would probably -- and your size would probably attract more and more landlords to you anyway, right? So that should happen.

Sumit Lakhani: Yes. That's correct.

Moderator: Ladies and gentlemen, this was the last question for today's conference call. I now hand the conference over to the management for their closing comments.

Sumit Lakhani: So with urbanization accelerating in India and the growth of global capability centers in the country and a thriving services sector, we strongly believe the best is yet to come for the co-working space industry. The growth prospects are very promising, and we remain highly optimistic about the future.

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

Moderator: On behalf of Spark Institutional Equities Private Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.