

18 December 2024

India | Equity Research | Company Update

Awfis Space Solutions

Real Estate

Compounding firmly seated

In H1FY25, Awfis Space Solutions (Awfis) delivered on two of its main FY25 guidance parameters, viz. 30%-plus revenue growth for FY25 and expansion in IGAAP EBITDA margin upwards of 12% (H1FY25 YoY revenue growth of 39% and IGAAP EBITDA margin of 13.3%). With an overall operational and committed pipeline of 150,649 seats (over 110,000 operational) as of Sep'24, we expect continued growth ahead. We estimate CAGR of 35% in seat addition, 31% in revenue and 53% in IGAAP EBITDA (EBITDA post lease payments) over FY24–27E. We retain **BUY** with a revised target price of INR1,049 (earlier INR 979), as we roll forward to 25x Mar'27E IGAAP EBITDA (earlier Dec'26E) of INR 2.8bn and add net cash of INR 2.4bn. Key risks: Slowdown in office leasing and pricing competition.

Strong revenue and EBITDA CAGRs over FY24–27E

Awfis' strategy for expansion through the asset-light MA route, along with a combination of SL contracts, should enable the company to grow operational seats at 35% CAGR over FY24–27E. We assume minimal blended occupied seat price increase (4–5% like-to-like) over FY24–27E with a steady state operational portfolio occupancy of ~71% over FY25–27E, as new centres take 6-12 months to fully mature. We envisage the company delivering 31% revenue CAGR over FY24–27E driven largely by seat expansion across cities. At the same time, we estimate that it may clock 53% IND-AS 116 EBITDA CAGR over FY24–27E with EBITDA margin rising to 14.6% by FY27E, from 9.2%, as of FY24 – as the business sees operations of scale, higher contribution of non-seat revenue and cost-optimisation initiatives in existing centres.

Dual industry tailwinds of rising flex share/office leasing

As per CBRE, occupiers are integrating flexible office spaces in their portfolio as part of their "Core + Flex" strategies. As per CBRE's India Occupier Survey 2024, ~30% of the respondents identified expanding their presence in flexible office space as their primary portfolio strategy over the next 12 months. As per CBRE, flexible office space stock across India is expected to reach 80msf by Dec'24. It further added, Q3CY24 (Jul–Sep'24) saw flexible workspace operators having 17% share in overall leasing activity vs. 12% in Q2CY24 (Apr–Jun'24). Further, we estimate pan-India Grade A net absorption of 46.8msf in CY24E, 50.9msf in CY25E and 53.0msf in CY26E to drive growth.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	8,488	11,355	14,946	19,246
IGAAP EBITDA	780	1,468	2,052	2,816
IGAAP EBITDA Margin (%)	9.2	12.9	13.7	14.6
Net Profit	(176)	458	959	972
EPS (INR)	(2.8)	10.2	13.8	14.0
P/B (x)	NM	11.2	9.3	7.9
P/E (x)	NM	71.4	52.7	52.0
EV/IGAAP EBITDA (x)	NM	33.0	23.5	17.1
RoCE (%)	24.8	44.4	55.5	56.8
RoE (%)	(8.4)	13.0	20.3	17.2

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Market Data

Market Cap (INR)	52bn
Market Cap (USD)	607mn
Bloomberg Code	AWFIS IN
Reuters Code	AWFI.BO
52-week Range (INR)	946 /371
Free Float (%)	23.0
ADTV-3M (mn) (USD)	3.0

Price Performance (%)	3m	6m	12m
Absolute	0.3	50.5	NA
Relative to Sensex	3.2	45.7	NA

ESG Score	2022	2023	Change
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

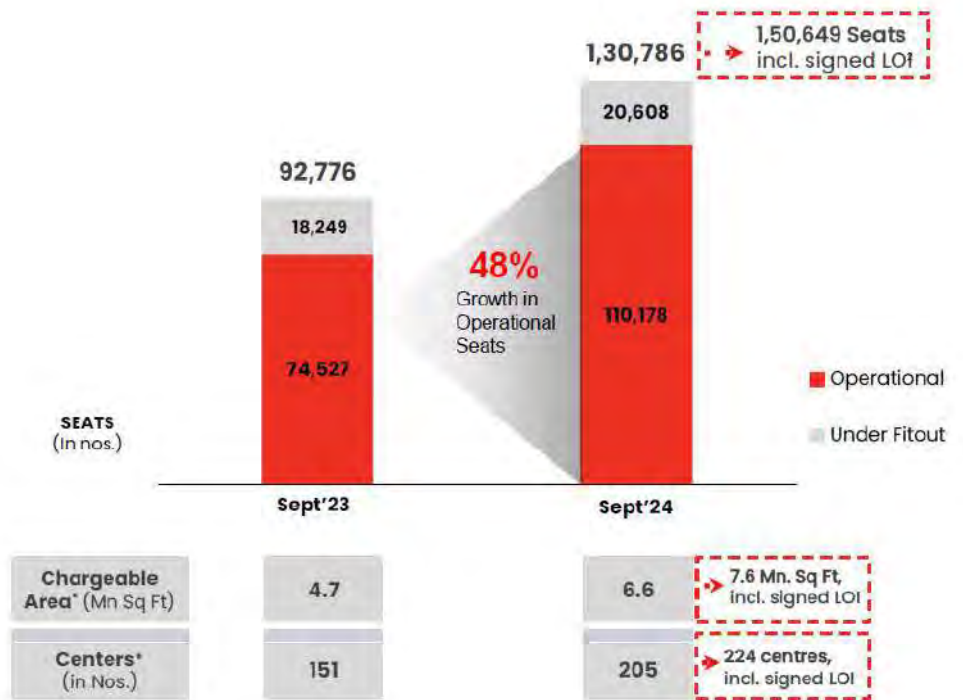
Source: SES ESG, I-sec research

Previous Reports

13-11-2024: [Q2FY25 results review](#)

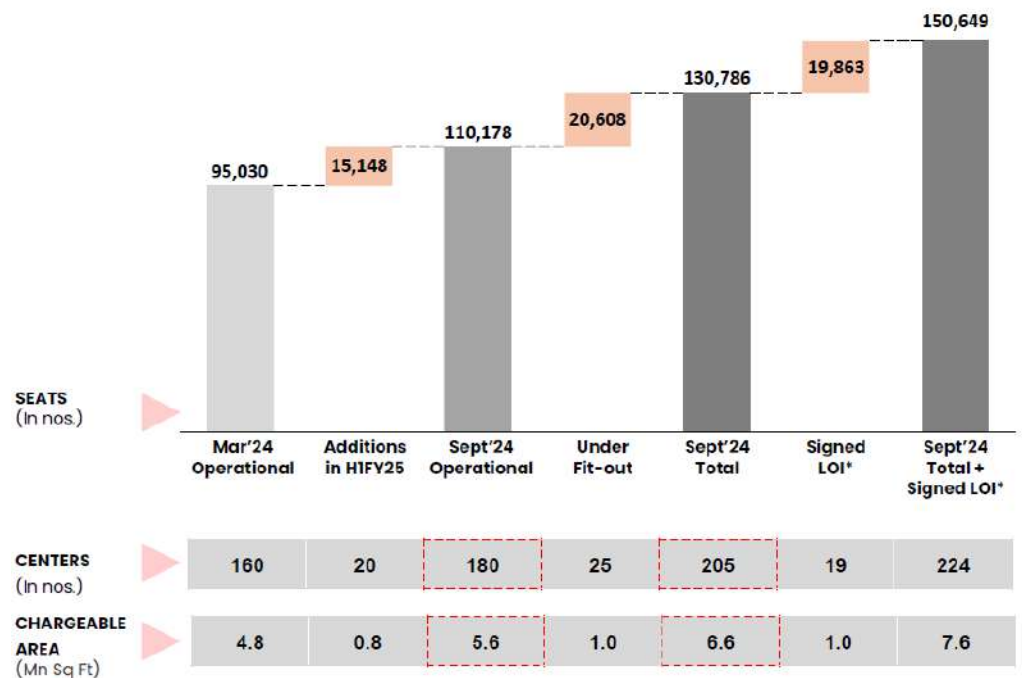
17-09-2024: [Company Update](#)

Exhibit 1: Awfis' Q2FY25 supply highlights



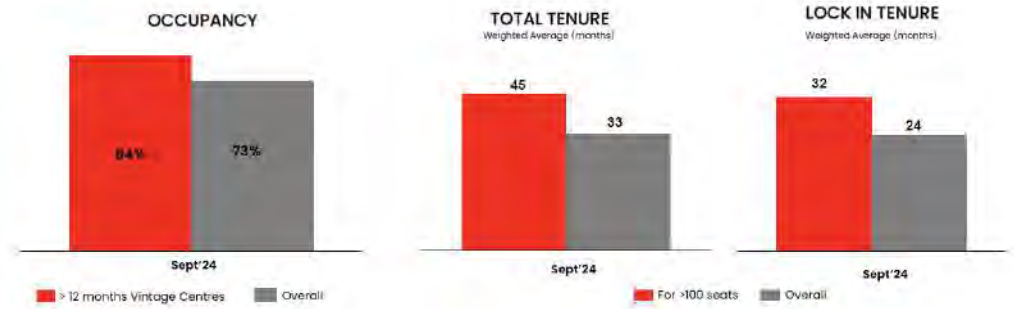
Source: Company, I-sec research, *Numbers are for Total Chargeable Area and Centres, which includes operational and under fitout, 2 LOI refers to Letters of Intent signed with space owners

Exhibit 2: Awfis' Q2FY25 supply walkthrough



Source: Company, I-sec research, *LOI refers to Letters of Intent signed with space owners

Exhibit 3: Awfis' occupancy and tenure profile



Source: Company, I-sec research

Exhibit 4: Awfis' Q2FY25 demand mix

Catering to all seat cohorts...

- 100+ Seats
- 51-100 Seats
- 1-50 Seats



... and tenure buckets

- >=24 months
- 12-23 months
- 6-11 months
- <=5 months



Creating a customizable solution that serves businesses of all types across industries

Diversified Client Mix

- Corporates/ MNCs
- SMEs
- Start-Ups
- Freelancers



Across various sectors

- IT
- Professional Services
- Consumer & Durables
- Healthcare & Pharma
- Financial Services
- Construction & Engineering
- Others*



Source: Company, I-sec research, Note: *Include Food and beverage, personal and household products, Real estate, Chemicals, construction and packaging materials, Telecommunication services, Energy and utilities and Others

Financial Analysis

Owing to the competitive nature of India's co-working/flex spaces market and as flex operators expand into tier-II cities as well, we believe space addition along with pre-leasing/tie-ups with enterprise clients would be key revenue drivers over the medium term. We also anticipate a sector consolidation story playing out in due course with larger organised and branded players taking up centres from smaller players as clients gravitate towards branded players across cities in India.

In this context, Awfis' strategy for expansion through the asset-light MA route along with a combination of SL contracts should enable the company to grow operational seats at 35% CAGR over FY24–27E. We assume minimal blended occupied seat price increase (4–5% like-to-like) over FY24–27E with a steady state operational portfolio occupancy of ~70% over FY25–27E, as new centres take 6–12 months to fully mature.

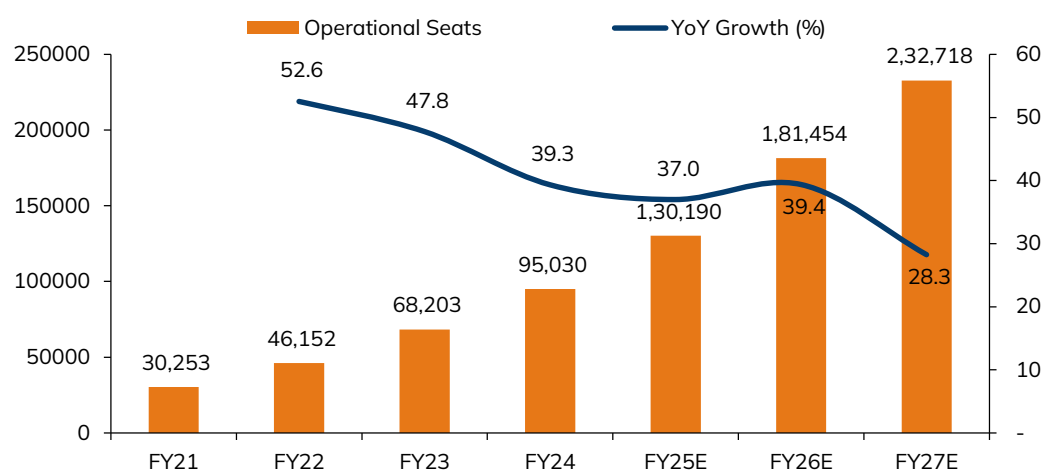
Note: As per the existing accounting standards under IND-AS, lease payment paid to space owners/landlords by co-working/flexible space operators is accounted below reported IND-AS EBITDA under line items of financial expenses and depreciation, which does not provide an accurate picture of EBITDA growth and EBITDA margin. Hence, we have calculated IGAAP EBITDA and EBITDA margin, which factors in the actual lease payments for the period.

Exhibit 5: Key assumptions of the company for occupancy and YoY growth (%)

(INR mn)	FY24	FY25E	FY26E	FY27E
End of Period # of Total Operational Seats	95,030	1,30,190	1,81,454	2,32,718
End of Period # of Occupied Seats	67,116	92,435	1,28,832	1,65,230
Blended Occupancy %	71%	71%	71%	71%
Avg. Monthly Price per Occupied Seat	7,866	8,023	8,104	8,185
YoY Growth (%)	8.1%	2.0%	1.0%	1.0%

Source: Company data, I-Sec research

Exhibit 6: Company's operational seats to grow at 35% CAGR over FY24–27E



Source: Company, I-sec research estimates

We estimate, the company may deliver 31% revenue CAGR over FY24–27E driven largely by seat expansion across cities. At the same time, we estimate it may clock 53% IGAAP EBITDA CAGR over FY24–27E with EBITDA margin rising to 14.6% by FY27E from 9.2%, as of FY24 as the business sees operations of scale, higher contribution of non-seat revenue and cost optimisation initiatives in existing centres.

With the company having an estimated net cash balance of INR 0.4bn, as of FY24, and IPO proceeds of INR 1.3bn in Q1FY25, we expect it to generate adequate IGAAP EBITDA each year between FY24–27E to match its capex; thereby, retaining an average annual net cash balance of over INR 2bn between FY25–27E.

Valuation

Awfis has a unique business model. While the company does not act as a land aggregator or landlord of office spaces, it focuses on providing services to its clients on demand side and also partners with space owners/landlords on supply side. With Awfis being the first co-working/flexible workspace company in India, there is also limited scope for comparison with industry peers. Hence, we believe Awfis is more comparable to listed hotel peers.

We believe that given Awfis' superior RoCE profile, which is likely to consistently range over 50% FY26E onwards and net cash balance sheet combined with an estimated 53% EBITDA CAGR over FY24–27E, an EV/EBITDA of multiple of 25x is justified in line with hotel peers.

We retain our BUY rating with a revised target price of INR 1,049 (earlier INR 979), as we roll forward to 25x Mar'27E IGAAP EBITDA (earlier Dec'26E) of INR 2.8bn and adding net cash of INR 2.4bn.

Key risks: Slowdown in overall office leasing across India; and pricing competition among co-working flexible workspace operators.

Exhibit 7: Valuation of Awfis

Mar'27E IGAAP EBITDA (INR mn)	2,816
Awfis Enterprise Value (EV) in INR mn (25x EV/EBITDA)	70,394
Add: Net Cash as of Mar'27E (INR mn)	2,404
Awfis Equity Value (INR mn)	72,798
Equity Value per Share (INR)	1,049

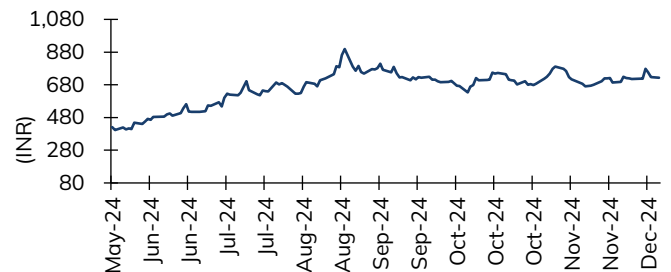
Source: Company data, I-Sec research

Exhibit 8: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	28.6	28.6	28.2
Institutional investors	28.0	36.1	32.6
MFs and others	6.7	11.3	10.1
FIs/Banks	3.9	1.6	1.7
Insurance	0.9	0.7	0.3
FIIIs	16.6	22.5	20.7
Others	43.4	35.3	39.2

Source: Bloomberg, I-Sec research

Exhibit 9: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	8,488	11,355	14,946	19,246
Operating Expenses	6,034	7,656	9,925	12,777
EBITDA	2,454	3,699	5,021	6,469
EBITDA Margin (%)	28.9	32.6	33.6	33.6
IGAAP Adjusted EBITDA	780	1,468	2,052	2,816
IGAAP Adjusted EBITDA Margin (%)	9.2	12.9	13.7	14.6
Depreciation & Amortization	1,960	2,208	2,580	3,044
Interest expenditure	930	1,306	1,719	2,213
Other Non-operating Income	260	273	286	301
Exceptional items	-	(250)	50	50
Recurring PBT Profit / (Loss) from Associates	(176)	708	959	1,463
Less: Taxes	-	-	-	491
PAT	(176)	708	959	972
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	(176)	708	959	972
Net Income (Adjusted)	(176)	708	1,009	1,022

Source Company data, I-Sec research, *post lease rental expenses

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	4,734	7,188	8,513	9,823
of which cash & cash eqv.	49	2,581	2,565	2,432
Total Current Liabilities & Provisions	4,130	4,996	6,673	8,260
Net Current Assets	604	2,192	1,840	1,563
Investments	-	-	-	-
Net Fixed Assets	3,364	3,790	4,939	7,222
ROU Assets	5,800	9,588	14,285	17,997
Capital Work-in-Progress	82	82	82	82
Total Assets	9,850	15,652	21,146	26,864
Liabilities				
Borrowings	322	472	372	222
Deferred Tax Liability provisions	-	-	-	-
other Liabilities	7,014	10,678	15,313	20,208
Equity Share Capital	193	227	227	227
Reserves & Surplus	2,321	4,275	5,234	6,207
Total Net Worth	2,514	4,502	5,461	6,434
Minority Interest	-	-	-	-
Total Liabilities	9,850	15,652	21,146	26,864

Source Company data, I-Sec research

Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	2,395	4,164	5,287	5,784
Working Capital Changes	(112)	611	(50)	486
Capital Commitments	(1,451)	(1,427)	(2,138)	(2,283)
Free Cashflow	832	3,348	3,098	3,987
Other investing cashflow	(169)	-	-	-
Cashflow from Investing Activities	(1,620)	(1,427)	(2,138)	(2,283)
Issue of Share Capital	887	1,280	-	-
Interest Cost	(807)	(1,248)	(1,748)	(2,258)
Inc (Dec) in Borrowings	213	150	(100)	(150)
Dividend paid	-	-	-	-
Others	(938)	(997)	(1,266)	(1,712)
Cash flow from Financing Activities	(645)	(815)	(3,114)	(4,121)
Chg. in Cash & Bank balance	18	2,532	(16)	(133)
Closing cash & balance	49	2,581	2,565	2,432

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Adjusted EPS (Diluted)	(2.8)	10.2	13.8	14.0
Cash EPS	28.4	42.0	51.0	57.8
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	40.0	64.8	78.7	92.7
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	55.7	33.8	31.6	28.8
EBITDA	680.0	88.2	39.8	37.2
EPS (INR)	NM	NM	120.5	1.3
Valuation Ratios (x)				
P/E	NM	71.4	52.7	52.0
P/BV	NM	11.2	9.3	7.9
EV / EBITDA	NM	33.0	23.5	17.1
EV / Sales	NM	4.3	3.2	2.5
Dividend Yield (%)	-	-	-	-
Operating Ratios				
IGAAP EBITDA Margins (%)	9.2	12.9	13.7	14.6
Net Profit Margins (%)	(2.1)	6.2	6.4	5.1
Net Debt / Equity (x)	0.1	(0.5)	(0.4)	(0.3)
Net Debt / EBITDA (x)	0.4	0.3	0.2	0.1
Profitability Ratios				
RoCE (%)	24.8	44.4	55.5	56.8
RoE (%)	(8.4)	13.0	20.3	17.2

Source Company data, I-Sec research

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