

17 September 2024

India | Equity Research | Company Update

Awfis Space Solutions

Real Estate

Compounding story on track

In Q1FY25, Awfis Solutions (Awfis) began to deliver on its two main FY25 guidance parameters: 30%+ revenue growth for FY25 and expansion in IGAAP EBITDA margin between 11.5-12%. With an overall operational + committed pipeline of 127,726 seats (over 100,000 operational), we expect continued growth ahead. We estimate 35% operational seat CAGR, 30% revenue CAGR and 48% IGAAP EBITDA CAGR (EBITDA post lease payments) over FY24-27E. Upgrade to **BUY** from Add with a revised TP of INR 839 (earlier INR 757) based on 26x Sep'26E IGAAP EBITDA of INR 2.2bn (earlier Jun'26E IGAAP EBITDA) and adding net cash of INR 1.7bn. Key risks: Slowdown in office leasing across India and pricing competition among co-working flexible workspace operators.

Strong revenue and EBITDA CAGR over FY24-27E

Awfis' strategy for expansion through the asset-light MA route and a combination of SL contracts may 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. We estimate the company to deliver 30% revenue CAGR over FY24-27E driven largely by seat expansion across cities. At the same time, we estimate it to clock 48% IND-AS 116 EBITDA CAGR over FY24-27E with EBITDA margin rising to 13.6% 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.

Sale of facility management division to free up working capital

The company in an exchange release dated Sep 9, '24, announced entering into a Business Transfer Agreement with SMS Integrated Facility Services Pvt. Ltd. (SMS) for divestiture of its facility management division – Awfis Care – for a total consideration of INR 275mn. Awfis Care contributed INR 239mn or 2.8% of the company's FY24 revenue with estimated single-digit EBITDA margin. With the transaction likely to fully consummate in FY25, it will lead to freeing up of working capital while facilities management across Awfis' operational and upcoming centres is handled by SMS, which currently manages over 5,000 sites across tier I-III cities and employs a workforce of more than 21,000 employees.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	8,488	11,120	14,395	18,528
IGAAP EBITDA	780	1,325	1,837	2,513
IGAAP EBITDA Margin (%)	9.2	11.9	12.8	13.6
Net Profit	(176)	315	852	1,026
EPS (INR)	(2.8)	4.5	12.3	14.8
P/B (x)	NM	12.0	9.9	8.2
P/E (x)	NM	156.3	57.7	47.9
EV/EBITDA (x)	NM	35.8	25.8	18.9
RoCE (%)	24.8	39.4	48.7	49.1
RoE (%)	(8.4)	9.5	18.8	18.7

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Market Data

Market Cap (INR)	50bn
Market Cap (USD)	593mn
Bloomberg Code	AWFIS.IN
Reuters Code	AWFI.BO
52-week Range (INR)	946 / 371
Free Float (%)	17.0
ADTV-3M (mn) (USD)	5.2

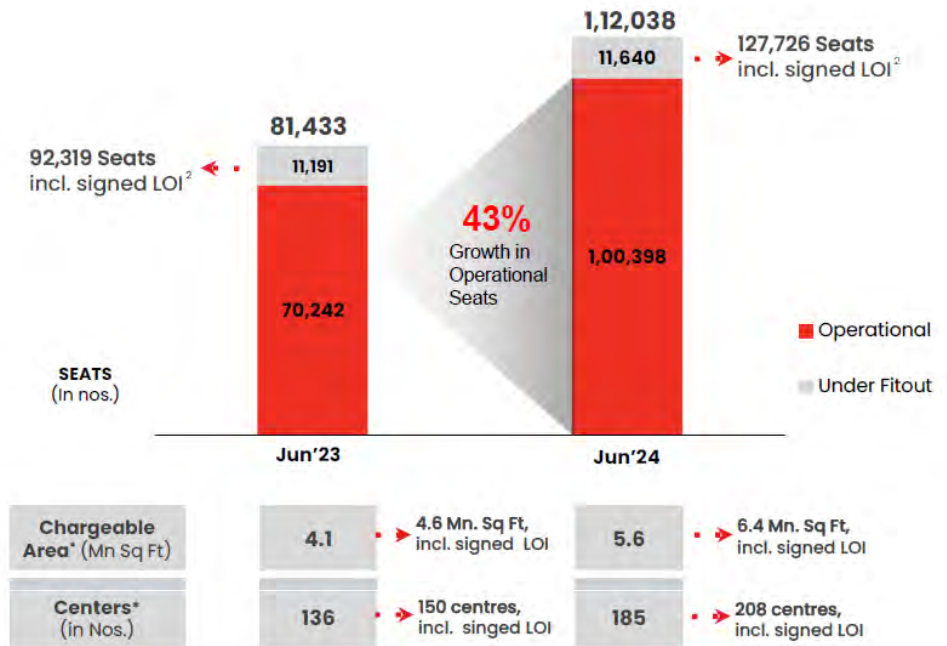
Price Performance (%)	3m	6m	12m
Absolute	46.5	0.0	0.0
Relative to Sensex	38.7	0.0	0.0

Previous Reports

16-08-2024: [Q1FY25 results review](#)

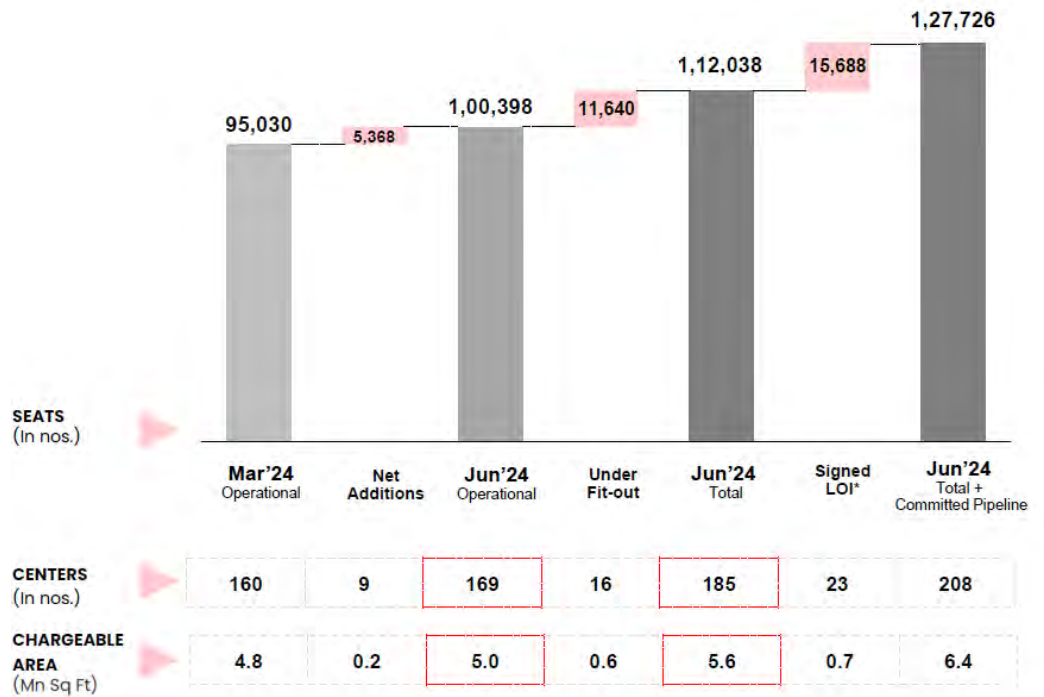
31-07-2024: [Initiating Coverage](#)

Exhibit 1: Company's Q1FY25 supply highlights



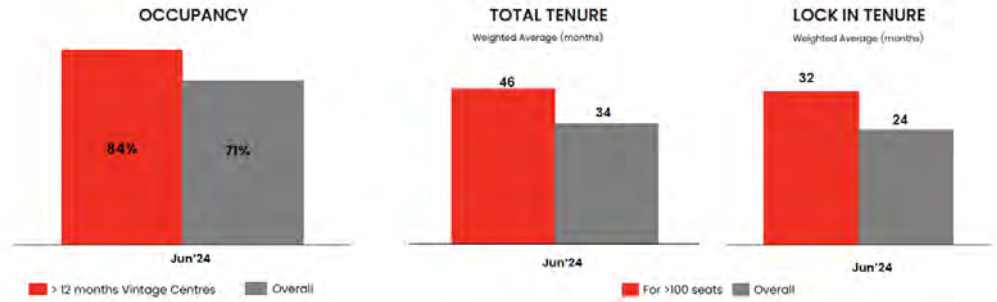
Source: Company, I-sec research, *Numbers are for Total Chargeable Area and Centres, which includes operational and under fitout, 2 LOI refers to Letters of Intent signed with space owners

Exhibit 2: Company's Q1FY25 supply walkthrough



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

Exhibit 3: Company's occupancy and tenure profile

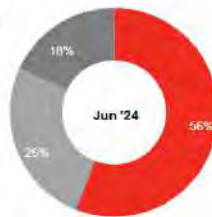


Source: Company, I-sec research

Exhibit 4: Company's Q1FY25 demand mix

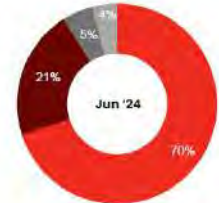
Catering to all seat cohorts...

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



... and tenure buckets

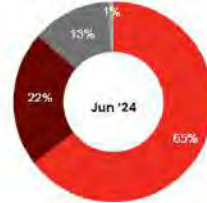
- >=24 months
- 12-23 months
- 6-11 months
- <=5 months



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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 the Indian co-working/flex spaces market and as flex operators expand into tier II cities as well, we believe space addition and pre-leasing/tie-ups with enterprise clients would be the key revenue driver over medium term. We also expect a sector consolidation story 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 could 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.

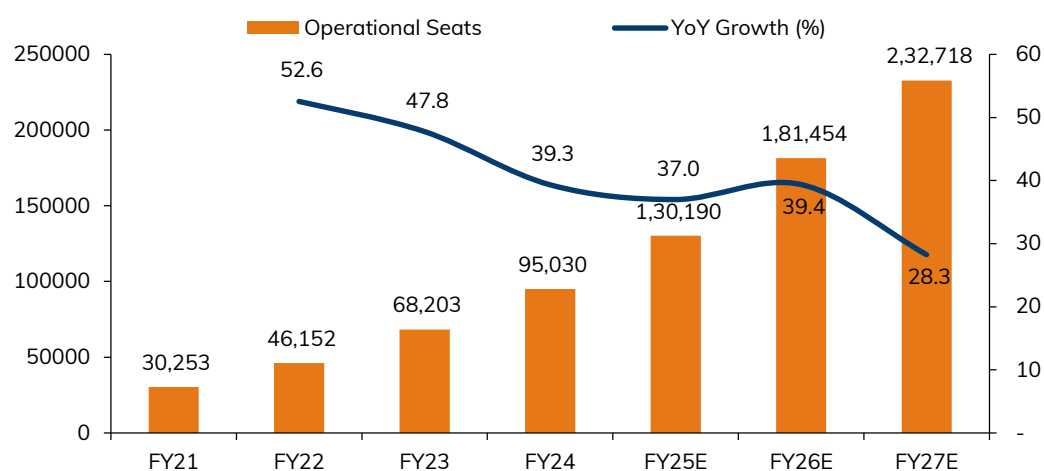
Note: As per the existing accounting standards under IND-AS, lease payment paid to space owners/landlords by co-working/flexible space operators is accounted below reported IND-AS EBITDA under line items of financial expenses and depreciation which does not give an accurate picture of EBITDA growth and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

Exhibit 5: Awfis' key assumptions

	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	91,112	1,27,438	1,62,903
Blended Occupancy %	71%	70%	70%	70%
Avg. Monthly Price per Occupied Seat (INR)	7,866	7,945	8,024	8,104
YoY Growth (%)	8.1%	1.0%	1.0%	1.0%

Source: Company data, I-Sec research

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

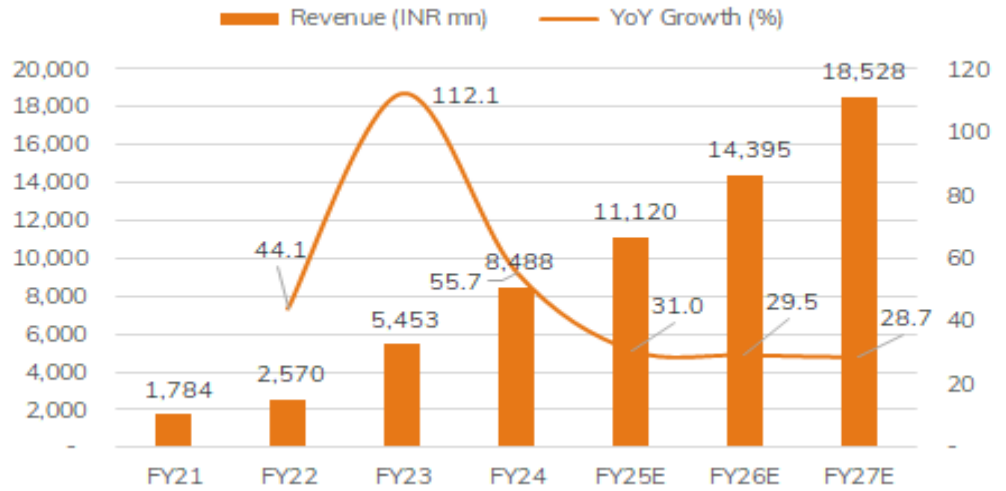


Source: Company, I-sec research estimates

We estimate the company may deliver 30% revenue CAGR over FY24-27E driven largely by seat expansion across cities. At the same time, we estimate it may clock 48% IGAAP EBITDA CAGR over FY24-27E with EBITDA margin rising to 13.6% 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.

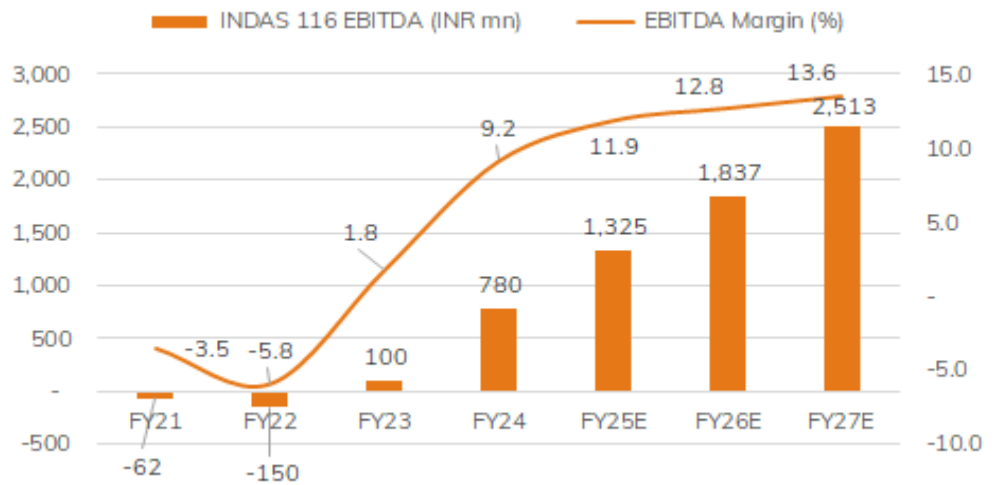
With the company having estimated net cash balance of INR 0.4bn as of FY24 and IPO proceeds of INR 1.3bn in Q1FY25, we expect it to generate adequate IGAAP EBITDA each year between FY24-27E to match its capex, and thereby, retain an average annual net cash balance of INR 1.7bn between FY25-27E.

Exhibit 7: Awfis' revenue to grow at 30% CAGR over FY24-27E



Source: Company, I-sec research estimates

Exhibit 8: Awfis' EBITDA to grow at 48% CAGR over FY24-27E



Source: Company, I-sec research estimates

Valuation

Awfis has a unique business model. While the company does not act as a land aggregator or landlord of office space, 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.

Given Awfis' superior RoCE profile, which may consistently range over 40% FY26E onwards and net cash balance sheet combined with an estimated 48% EBITDA CAGR over FY24-27E, we believe an EV/EBITDA of multiple of 26x (earlier 25x) is justified in line with hotel peers.

We upgrade our rating to BUY from Add with a revised target price of INR 839/share (earlier INR 757) based on 26x Sep'26E IGAAP EBITDA of INR 2.2bn (earlier Jun'26E IGAAP EBITDA) and adding net cash of INR 1.7bn.

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

Exhibit 9: Valuation of Awfis

Sep'26 INDAS116 EBITDA (INR mn)	2,175
Awfis Enterprise Value (EV) in INR mn (26x EV/EBITDA)	56,559
Add: Net Cash as of Sep'26 (INR mn)	1,698
Awfis Equity Value (INR mn)	58,257
Equity Value per Share (INR)	839

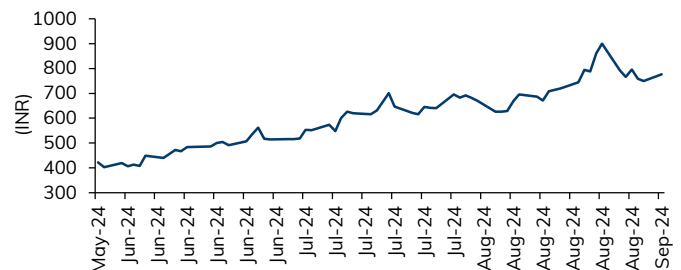
Source: Company data, I-Sec research

Exhibit 10: Shareholding pattern

%	Mar'24	Jun'24
Promoters	28.6	28.6
Institutional investors	28.0	36.1
MFs and others	6.7	11.3
FIs/Banks	3.9	1.6
Insurance	0.9	0.7
FIIIs	16.6	22.5
Others	43.4	35.3

Source: Bloomberg, I-Sec research

Exhibit 11: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	8,488	11,120	14,395	18,528
Operating Expenses	6,034	7,546	9,555	12,331
EBITDA	2,454	3,574	4,840	6,196
EBITDA Margin (%)	28.9	32.1	33.6	33.4
IGAAP Adjusted EBITDA	780	1,325	1,837	2,513
IGAAP Adjusted EBITDA Margin (%)	9.2	11.9	12.8	13.6
Depreciation & Amortization	1,960	2,203	2,570	3,034
Interest expenditure	930	1,279	1,655	2,131
Other Non-operating Income	260	273	286	301
Exceptional items	-	50	50	50
Recurring PBT Profit / (Loss) from Associates	(176)	315	852	1,283
Less: Taxes	-	-	-	257
PAT	(176)	315	852	1,026
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	(176)	315	852	1,026
Net Income (Adjusted)	(176)	315	852	1,026

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

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	4,734	6,811	7,983	9,286
of which cash & cash eqv.	49	2,221	2,088	1,982
Total Current Liabilities & Provisions	4,130	4,927	6,569	8,097
Net Current Assets	604	1,884	1,414	1,190
Investments	-	-	-	-
Net Fixed Assets	3,364	3,705	4,864	7,147
ROU Assets	5,800	9,588	14,285	17,997
Capital Work-in-Progress	82	82	82	82
Total Assets	9,850	15,258	20,645	26,416
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	3,882	4,734	5,760
Total Net Worth	2,514	4,109	4,961	5,987
Minority Interest	-	-	-	-
Total Liabilities	9,850	15,258	20,645	26,416

Source Company data, I-Sec research

Exhibit 14: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	2,395	3,766	5,169	6,061
Working Capital Changes	(112)	549	(49)	236
Capital Commitments	(1,451)	(1,327)	(2,138)	(2,283)
Free Cashflow	832	2,987	2,982	4,014
Other investing cashflow	(169)	-	-	-
Cashflow from Investing Activities	(1,620)	(1,327)	(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	2,172	(132)	(106)
Closing cash & balance	49	2,221	2,088	1,982

Source Company data, I-Sec research

Exhibit 15: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Adjusted EPS (Diluted)	(2.8)	4.5	12.3	14.8
Cash EPS	28.4	36.3	49.3	58.5
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	40.0	59.2	71.5	86.2
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	0.6	31.3	31.9	28.3
EBITDA	0.6	NM	39.9	37.0
EPS (INR)	(0.7)	NM	166.1	19.9
Valuation Ratios (x)				
P/E	(252.9)	156.0	58.6	48.9
P/BV	(252.9)	12.0	9.9	8.3
EV / EBITDA	(252.9)	35.7	25.5	18.6
P / Sales	-	4.3	3.2	2.5
Dividend Yield (%)	-	-	-	-
Operating Ratios				
IGAAP EBITDA Margins (%)	9.2	11.9	12.7	13.5
Net Profit Margins (%)	(2.1)	2.8	5.7	5.3
Net Debt / Equity (x)	0.1	(0.4)	(0.3)	(0.3)
Net Debt / EBITDA (x)	0.4	0.4	0.2	0.1
Profitability Ratios				
RoCE (%)	24.8	39.5	49.5	50.0
RoE (%)	(8.4)	9.5	18.5	18.5

Source Company data, I-Sec research

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