moneywise. be wise.

AWFIS SPACE SOLUTIONS LIMITED

May 21, 2024

awfis

SMC Ranking

★★☆☆☆ (2/5)

Issue Highlights

Industry	**Services**
Offer for sale (Shares)	12,295,699
Fresh Issue (Shares)	3,342,037
Net Offer to the Public	**15,637,736**
Issue Size (Rs. Cr.)	569-599
Price Band (Rs.)	364-383
Employee Discount	Rs 36 per share
Offer Date	22-May-24
Close Date	27-May-24
Face Value	10
Lot Size	39 Shares

Issue Composition

	In shares
Total Issue for Sale	15,637,736
QIB	11,728,302
NIB	2,345,660
Retail	1,563,774

Shareholding Pattern (%)

Particulars	Pre-issue	Post -issue
Promoters & promoters group	41.53%	30.01%
QIB	48.73%	55.09%
NIB	9.74%	12.65%
Retail	0.00%	2.25%
Total	**100.00%**	**100.00%**

*calculated on the upper price band

Objects of the Issue

The Company proposes to utilize the Net Proceeds towards funding the following objects (collectively, the "Objects"):.

Funding capital expenditure towards the establishment of new centres;

Funding the working capital requirements and

General corporate purposes

Book Running Lead Manager

- ICICI Securities Limited
- Axis Capital Limited
- IIFL Securities Limited
- Emkay Global Financial Services Limited

Name of the registrar

- Bigshare Services Private Limited

About the company

Incorporated in December 2014, Awfis Space Solutions Limited is a workspace solution provider in India. The company offers a wide range of flexible workspace solutions, catering to the needs of individuals, start-ups, SMEs, and large corporations. The company's core solution is co-working, including flexible workspaces, custom office spaces, and mobility solutions. Awfis Space Solutions Limited also provides supporting services such as food and beverages, IT support, infrastructure services, and event hosting. As of December 31, 2023, the company operates 169 centers across 16 cities in India, with a total of 105,258 seats and a chargeable area of 5.33 million sq. ft. Additionally, 31 centers with 25,312 seats are currently under fit-out, with a chargeable area totaling 1.23 million sq. ft. The company has expanded its business offerings and now provides in-house fit-out and facility management services at its centers. As of December 31, 2023, 81.66% of the company's centers are commercial assets, and 18.34% are alternate assets. As of December 31, 2023, the company has a team of over 100 employees with a background in hospitality servicing the needs of every client. The company has a team of 63 designers and project managers to enhance the industry experience.

Strength

Leadership in a large and growing marketplace: The total addressable market ("TAM") for the flexible workspace operators represents a sizeable opportunity of 282 million sq. ft. (in terms of area) and Rs. 474-592 billion (in terms of value) by 2026. This growth is driven by factors such as enterprise focus on flexibility, cost optimization, workforce fluidity, reverse migration, workplace evolution, focus on wellness, facilities and amenities, as well as growth of start-ups in Tier 1 222 and Tier 2 cities. The flexible workspaces segment can be considered as one of the fastest growing alternative real estate classes adding value to the entire commercial office ecosystem. The CAGR for leasing flexible workspaces between 2022 and 2026 is expected to be around 18 - 19% in Tier 1 cities. Further, Tier 2 cities in India are expected to witness strong demand for flexible workspace seats in line with the supply addition in these cities, which is expected to reach approximately 8.5 million – 9 million sq. ft. by 2026, which is approximately 1.7 times the supply as of December 31, 2023. As the largest flexible workspace solutions company in India as on December 31, 2023, based on total number of centers , the company believes it is well-positioned to benefit and capture this growth in the flexible workspace segment. As on December 31, 2023, it is ranked 1st among the top 5 benchmarked players in the flexible workspace segment with a presence in 16 cities in India.

Innovating in the flexible workspace industry with the adoption of its MA models: The company has reimagined workspace sourcing strategy with its distinctive MA model, and it is a paradigm shift in the conventional coworking industry. MA model continues to be a key part of its supply strategy and has increased the percentage of operational seats under the MA model from 46.37%, in Fiscal 2021 to 57.66% in Fiscal 2023. Further, as of December 31, 2023, 66.43% of its total seats are under the MA model, including seats that are under fit-out. It has the largest number of centers under the MA model among the organized flexible workspace players in India as of December 31, 2023. This increase is largely driven by its ability to identify suitable properties, manage space owner relationships, generate demand, manage its project delivery and operations, and its innovative design philosophy. The MA model enables the company to pivot away from the traditional capital-intensive liabilities that are often associated with real estate. As a result, it has been able to scale its business and network more rapidly and swiftly adapt to market fluctuations while ensuring resilience amidst market uncertainties. It believes that the MA model is beneficial for both the space owner and the company as the risks and rewards are often split between the space owner and the company. Its capital expenditure is shared with the space owner, and its space owners typically take a share of profit or revenue income from the center, to compensate the space owners for their capital expenditure. Its capital expenditure per seat was approximately Rs.50,000 in Fiscals 2022 and 2023 and nine months ended December 31, 2023, the average capital expenditure per seat in 2023 of top operators in India typically ranged between Rs.80,000 to Rs.200,000. Due to the high share of MA centers in its total portfolio of centers, its average capital expenditure per seat is lower than the average capital expenditure incurred by the top operators in India. With strong unit economics and its overall execution expertise, it believes that it have successfully leveraged the MA model as a key differentiator, setting it as apart from its peers.

Diverse space sourcing and demand strategies: Certain factors in the Indian office market positions the flexible office segment to grow at a faster pace in India than the APAC cities. These factors include the presence of a significantly large quantum of non-institutional office space and a large unorganized office market in India. Additionally, unlike many other countries where tenant improvement ("TI") largely falls in the ambit of the space owners, in India it is primarily undertaken by the tenants themselves. Therefore, flexible workspaces are positioned to perform relatively better in India. The company's diverse supply sourcing strategy targets all segments of the India commercial office market ranging from 223 organized to unorganized, institutional to non- institutional and across various grades and classes of properties. This grants it access to a large pool of properties and flexibility of center sizes for building centers and help maintain a strong supply pipeline. Further, it has transformed and upgraded several properties across its portfolio and launched flexible workspaces in unconventional assets such as malls. As a result of these supply sourcing strategies, it can cater to a wide spectrum of requirements and uplift the overall quality of available workspaces. This also positions it in a unique place to help bridge the gap between the unorganized and organized sectors of the Indian commercial real estate market.

Growth through an integrated platform approach: The company aims to provide well-suited solutions tailored to meet the needs of its diverse clientele spread across different demographics, seat cohorts and industry sectors. Its suite of flexible workspace solutions encompasses its space solutions, Awfis Transform and Awfis Care. Its integrated platform strategy spans the major facets of modern workspace requirements, i.e., through backward integration with Awfis Transform by offering design and build services to clients and through forward integration with Awfis Care by providing facility management services on behalf of space owners. This integrated platform strategy provides a network effect, wherein each segment not only serves its primary clientele but also complements its other segments. As a result, its clients and space owners are introduced to its wider ecosystem, thereby enhancing retention and driving cross-selling opportunities. For instance, a client engaged with its space solutions for their flexible office space requirements can be introduced to Awfis Transform for bespoke design and build services for their own office space, if any. When a space is designed for its client through Awfis Transform, they may also tend to opt for its facility management services through Awfis Care.

Strategies

Continue to build an industry leading capital efficient model: The company has increased the percentage of operational centers and seats under the MA model from 50.00% and 46.37%, respectively, in Fiscal 2021 to 55.46% and 57.66%, respectively, in Fiscal 2023. As on December 31, 2023, 63.31% of its total centers and 66.43% of its total seats are under the MA model. This includes 24 centers and 19,475 seats that are currently in the process of being fitted out. It intends to continue focusing on the lower risk, asset-light MA model for sourcing and procuring office space. It is also focused on developing mid-size centers. In order to strike an optimal balance between operational efficiency, optimal center margins, occupancy build-up and community engagement. The average size of its centers launched since April 2022 stands at 32,979 sq. ft. of chargeable area. It believes that this center size ensures optimal operating costs while creating an opportunity to facilitate a thriving community and enables it to foster closer interactions among clients.

Expand in new and existing markets: The company utilizes a growth strategy that is controlled and methodical. It evaluates potential locations and cities for expansion carefully, based on multiple criteria (including client demands, availability of office infrastructure and 227 demographic profiles). It will continue to invest in markets that provide strong returns on its investment over the long-term. Tier

1 cities in India are at the forefront of the growing demand for flexible workspaces in India. The cities have witnessed strong growth in demand for flexible office spaces as the leasing activity increased significantly post the COVID-19 pandemic. Further, there is an increasing trend for the need for flexible spaces in Tier 2 cities as companies aim to reduce costs, maintain proximity to their staff, and retain valuable employees by offering flexible work arrangements. The demand-side trends will further fuel the growth of the flexible workspace market with a rise in global capability centers, business process offshoring centers and off-shoring industries and increase in workspaces in Tier 2 cities. The company believes that it is well positioned to benefit from such trends due to its ability to provide flexible workspaces across its network in Tier 1 cities as well as the strategic advantage enjoyed from its early focus on Tier 2 cities. Its existing network, spread across nine Tier 1 and seven Tier 2 cities, provides a foundation that helps it to expand into new areas in a more feasible and efficient manner. It plans to further expand its network in high-demand micro-markets within these Tier 1 cities, thereby reinforcing its presence in these markets. Moreover, it has identified new Tier 2 cities such as Lucknow, Guwahati and Vijayawada to enter in the near future. It also intends to upgrade workspaces to higher-grade offices through its design and refurbishment activities in prime micro markets of Tier 1 cities.

Enhance its product and service offering: The company intends to use its understanding of its clients' needs to add a growing portfolio of flexible workspace solutions and services to its platform. Its objective is to cater to a wide demographic of clients and ensure that it provides a tailored workspace solution for each client that aligns to their unique needs. It also intends to increase its focus on Awfis Transform, allied services and Awfis Care, thereby broadening the reach of these services to a wider range of clients. In nine months ended December 31, 2023, its construction and fit-out services and others (facility management services and other services) segment as per Ind AS 108 contributed towards 23.89% and 2.94% of its revenue from contract with customers, respectively. Its construction and fit-out services are branded Awfis Transform and its facility management services are branded Awfis Care. It aims to enhance its workspace platform through several means, such as new design innovations including modern design and build practices, integration of technology and providing a wider variety of facility management services to its clients. By evolving and diversifying its product portfolio in line with the industry needs, the company aims to cement its position as a leader in the flexible workspace industry.

Improving operational efficiency: As the company scales its business, it intends to increase its focus on improving its operational efficiency. It aims to achieve this by building a stronger vendor base thereby providing cost efficiencies due to the scale of its business. Furthermore, it plans to leverage its tech-enabled processes and tools to streamline operations across all its departments and across its vast network of centers. It also aims to leverage new-age technologies to optimize its operations and service delivery. It aspires to build a leaner and a more agile operations management system that not only benefits it but also its clients. It also intends to improve on its human capital by providing training programs and workshops and it believe that will help increase the efficiency of its workforce and aid in improving its operational efficiency. It believes that this approach to improve its operational efficiency will not only bolster its business but also help enhance client satisfaction and retention and help consolidate its industry positioning.

Risk factor

- The company has a history of net losses, negative earnings per share ("EPS") and return on net worth ("RoNW").
- The company has experienced negative cash flows in previous Fiscals and may continue to have negative cash flows in the future.
- The company has entered into long-term fixed cost leases, i.e., SL for 1.94 million sq. ft. covering 62 total centers across 11 total cities and 9 states and 33.57% of its total seats as of December 31, 2023, which may result in adverse impact in its liquidity, results of operations, cash flows and profitability.
- The company has experienced delays in payment of certain statutory dues including employee state insurance corporation contributions, provident fund contributions and income tax payments in the past.

Peer comparison

No listed company

Valuation

the company is loss making, we are considering the P/Bv valuation, on the upper end of the price band of Rs.383, Pre - issue book value of Rs. 23.71 of P/Bvx 16.15x. Post issue, book value of Rs. 34.94 of P/Bvx 10.96x.

On the lower end of the price band of Rs.364, Pre issue book value of Rs. 23.71 of P/Bvx 15.35x. Post issue, book value of Rs. 34.94 of P/Bvx 10.42x.

Industry Outlook

India is a leading office market globally, backed by, among other things, a strong abled and skilled demography, well established and evolving infrastructure and real estate sector, ample support infrastructure and a strong economy backed by political stability. India's commercial office stock stands at 832 million sq. ft. as of December 31, 2023, and is concentrated in the top 9 cities comprising of Bengaluru, Mumbai Metropolitan Region ("MMR"), Hyderabad, Gurgaon, Chennai, Pune, Noida, Kolkata, and Delhi, in order of size of market. The 832 million sq. ft. stock is considered as organized stock and is purely utilized as office space. In addition, the unorganized commercial office stock across tier 1 cities can be estimated to be approximately 60 – 73* crore sq. ft. (depending on the average work desk area occupied per person) as of December 31, 2023. India's office real estate landscape has changed significantly in the past two and a half decades. Since the early 2000s, office stock has grown more than 18 times from approximately 4.6 crore sq. ft. as of pre 2003 to approximately 83.2 crore sq. ft. as of December 31, 2023. Indian real estate has emerged as a favoured investment asset class due to various intrinsic factors including growth of the economy, demand-supply fundamentals, investor-friendly policies, and increased transparency.

Outlook

Awfis, India's leading provider of flexible workspaces builds mid-sized centers to balance efficiency, profitability, occupancy, and community engagement. With 2,295 clients across 52 Indian micro-markets (as of Dec 2023), it has leveraged the Managed Aggregation Model. However, the company has experienced negative cash flows in previous Fiscals and may continue to have negative cash flows in the future. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	22-May-24
BID/ISSUE CLOSES ON	27-May-24
Finalisation of Basis of Allotment with the Designated Stock Exchange	28-May-24
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	29-May-24
Credit of Equity Shares to Demat Accounts of Allottees	29-May-24
Commencement of trading of the Equity Shares on the Stock Exchanges	30-May-24

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 31-Dec-23 (9 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	616.50	545.28	257.05
Total expenditure	438.20	389.72	188.72
Operating Profit	**178.30**	**155.56**	**68.33**
OPM%	2.89	2.85	2.66
Other Income	17.20	20.51	21.67
Total Net Income	**195.50**	**176.06**	**90.00**
Interest	69.16	72.72	48.72
PBDT	**126.34**	**103.34**	**41.28**
Depreciation	145.28	149.98	98.43
Restated loss before tax	**-18.94**	**-46.64**	**-57.16**
Tax	0.00	0.00	0.00
PAT	**-18.94**	**-46.64**	**-57.16**

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 31-Dec-23	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	282.96	247.14	120.68
Capital work-in-progress	4.86	0.45	8.69
Right-of-use assets	576.53	404.46	218.65
Other Intengible assets	1.91	1.29	0.84
Intangible assets under development	0.46	0.32	0.00
Financial assets			
Other financial assets	147.46	89.76	59.14
Non-current tax assets (net)	40.82	26.12	12.86
Other non-current assets	25.02	22.45	16.70
Total non-current assets	**1080.01**	**791.98**	**437.57**
Current asset			
Financial Assets			
Inventories	0.19	0.40	0.54
Contract assets	53.65	5.79	7.05
Financial assets			
Investments	0.00	0.00	16.39
Trade receivables	90.39	48.48	30.72
Cash and cash equivalents	8.60	5.60	5.31
Bank balance other than (iii) above	0.14	12.50	0.33
Other financial assets	71.84	19.18	18.55
Other current assets	47.43	46.69	43.25
Total current assets	**272.23**	**138.63**	**122.12**
Total Assets	**1352.25**	**930.61**	**559.69**
Non-current liabilities			
Financial Liabilities			
Borrowings	17.50	3.97	7.81
Lease liabilities	551.81	376.99	192.20
Other financial liabilities	94.46	75.79	37.13
Net employee defined benefit liabilities	2.14	1.62	1.56
Other non-current liabilities	27.32	22.42	13.22
Total Non- Financial liabilities	**693.24**	**480.78**	**251.92**
Current liabilities			
Financial Liabilities			
Contract liabilities	66.47	14.34	9.04
Financial liabilities			
Borrowings	6.22	6.95	4.30
Lease Liability	133.78	111.96	93.75
Trades Payable - MSME	0.28	0.21	0.42
Trades Payable - MESE	103.58	50.61	44.69
Other financial liabilities	74.73	76.24	48.03
Net employee defined benefit liabilities	0.88	0.74	0.42
Provisions	4.06	2.86	2.96
Other current liabilities	21.83	16.54	9.44
Total Financial liabilities	**411.83**	**280.46**	**213.05**
Total	**1105.06**	**761.24**	**464.97**
Net worth represented by:			
Equity Share Capital	19.15	30.13	30.13
Other equity	228.03	139.23	64.59
Net Worth	**247.19**	**169.36**	**94.72**

moneywise. be wise.

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: researchfeedback@smcindiaonline.com

smc
moneywise. be wise.

Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park , A Wing 401 / 402 ,
4th Floor ,Graham Firth Steel Compound,
Off Western Express Highway, Jay Coach Signal,
Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-28805606

Kolkata Office:
18, Rabindra Sarani,
Poddar Court,Gate No.- 4, 5th Floor, Kolkata-700001
Tel: 91-33-39847000, Fax: 91-33-39847004