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AWFIS SPACE SOLUTIONS LIMITED

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IPO Report

21st May '24

Snapshot

Company is the largest flexible workspace solutions company in India as on December 31, 2023, based on total number of centers. As on December 31, 2023, company is ranked 1st among the top 5 benchmarked players in the flexible workspace segment with presence in 16 cities in India. Further, as on December 31, 2023, company is present in the maximum number of micro-markets in India. As on December 31, 2023, company have 169 total centers across 16 total cities in India, with 105,258 total seats and total chargeable area of 5.33 million sq. ft., of which 31 centers and 25,312 seats are under fit- out with chargeable area aggregating to 1.23 million sq. ft. In addition, company have entered into signed letters of intent ("LOI") with space owners for 13 additional centers, with 10,859 seats aggregating to 0.55 million sq. ft. As on December 31, 2023, company have over 2,295 clients and have presence in 52 micro markets in India.

VALUATION

Company is bringing the issue at price band of Rs 364-383 per share at ev/ebidta multiple of 11x on post issue annualized 9 months ended FY24 EBIDTA basis.
Company has leadership in a large and growing marketplace along with innovating in the flexible workspace industry with the adoption of company's MA model. Company has diverse space sourcing and demand strategies along with growth through an integrated platform approach; and company has experienced and diverse senior management team. Hence ,looking after all above we recommend "Subscribe" on issue.

Price Band (Rs./Share)	**364-383**
Opening date of the issue	**22nd May '2024**
Closing Date of the issue	**27th May '2024**
No of shares pre issue	6,60,75,779 Eq Shares
Issue Size	Rs 577-599 Cr
No of shares	1,58,18,213-1,56,43,153 Eq Shares
Fresh issue	Rs 128 Cr
Offer For Sale	12,295,699 Eq Shares
Face Value (Rs/ share)	Rs 10/share
Bid Lot	39
Employee Discount	Rs 36/share
BIDDING DETAILS	
QIBs (Including Anchor)	75% of the offer (Approx 1,16,89,139 Eq Shares)
Non-Institutional	15% of the offer (Approx 23,37,827 Eq Shares)
Retail	10 % of the offer (Approx 15,58,551 Eq Shares)
Employee Reservation	57636 Eq Shares
Lead managers	Axis Capital, ICICI Securities, IIFL Securities, Emkay Global Financial Services
Registrar to the issue	Bigshare Services Private Ltd

WHAT WE LIKE

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 ₹ 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

Delivering strong financial and operating metrics

From Fiscal 2021 to Fiscal 2023, company's revenue from contract with customers has grown at a CAGR of 74.85% from ₹1,783.60 million to ₹5,452.82 million, and company's total income has increased at a CAGR of 61.84% from ₹2,160.20 million to ₹5,657.87 million. Further, company's total borrowings was ₹109.23 million in Fiscal 2023. Company's cash EBIT has grown by 125.41% from ₹71.16 million in Fiscal 2021 to ₹361.54 million in Fiscal 2023 and company's ROCE was 25.26% in Fiscal 2023. Company's ROCE increased by 4.59 times from Fiscal 2021 to nine months ended December 31, 2023. This performance has been driven by a focused strategy, differentiated product portfolio and operational efficiency.

Innovating in the flexible workspace industry with the adoption of company's MA model

Company have 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 company's supply strategy and it have 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 company's total seats are under the MA model, including seats that are under fit-out. Company has the largest number of centers under the MA model among the organized flexible workspace players in India as of December 31, 2023.

COMPANY BACKGROUND

Company's business offerings and workspace format

Company provide a wide spectrum of flexible workspace solutions ranging from individual flexible desk needs to customized office spaces for start-ups, small and medium enterprises ("SMEs") as well as for large corporates and multi-national corporations. Company's flexible workspace solutions cater to varied seat cohorts ranging from a single seat to multiple seats, which can be contracted by its clients for a period ranging from one hour to several years. Over time, company have evolved from a co-working space to an integrated workspace solutions platform. While company's core solution is co-working solutions which includes flex workspaces, customized office spaces and mobility solutions, company have built capabilities to design, build, maintain and manage a wide range of flexible workspace requirements such as Awfis Transform (company's construction and fit-out services business segment) and Awfis Care (company's facility management services business segment). Company also provide allied services ranging from food and beverages, information technology support services and infrastructure services such as storage and customization to event hosting and meeting arrangements. Company's understanding of the modern workforce has helped it identify and anticipate evolving preferences and requirements, thereby enabling company to provide bespoke solutions to meet the varied and diverse needs of company's clients across a diverse spectrum of demographics that company cater to. As a result, company have established itself as a one-stop integrated solution platform for any flexible workplace requirement.

Company adopted two differentiated models for sourcing and procuring workspaces, namely the straight lease ("SL") model and the managed aggregation ("MA") model. One of company's key strategies for space procurement over time was to transition to an asset-light, low risk MA model from a SL model. Under the SL model, developers or space owners lease space to flexible workspace operators on traditional leases wherein typical market terms and conditions are applicable, including a fixed monthly rental, common area maintenance charges, security deposit, minimum lockin period, lease tenure and escalations. The capital expenditure for fitting out the property is entirely borne by company.

Under the MA model, the developers or space owners may typically incur capital expenditure on fit-out, in part or full, the remainder being borne by the operator (if any), depending on other terms of the MA model, often foregoing a fixed rental for a component of minimum guarantee on a case-to-case basis and may take up a share of the revenue/profit on pre-negotiated terms. Most of company's MA arrangements are structured on a profit or revenue sharing model with the space owner and provide a minimum guarantee ("MG"), payable generally starting anywhere from the 5 th to 13th month of operations, until the end of the term of the contract. As of December 31, 2023, the MG at company's MA centers was on an average 45.88% of the micro-market rental. The split of the capital expenditure under the MA model between the space owner and company is determined upfront and the space owner's share remains fixed for the term of the contract.

Company also focused on building 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 company's centers launched since April 2022 stands at 32,979 sq. ft. of chargeable area. In addition, company adopted a demand-based build approach wherein company typically only build a small portion of the center with base amenities after company sign a center, and the rest is built out as and when company enter into arrangements with clients for the utilization of the space at the center.

Further, once company established a strong presence in Tier 1 cities company decided to expand to Tier 2 cities early on and currently have centers across seven Tier 2 cities in India as of December 31, 2023. According to the CBRE Report, Tier 2 cities in India are set to be the next growth frontier for flexible workspaces with demand for commercial real estate in these cities expected to increase significantly in the next 3 - 4 years. Company is well-positioned to capitalize on this growth with company's expansion into these cities. According to the CBRE Report, corporates and multi-national corporations ("MNCs") recognized the value of flexible tenures, real estate cost optimization and decentralized work models post the COVID-19 pandemic. India has emerged as one of the fastest growing markets for flexible workspaces globally, primarily driven by increasing demand for managed office spaces from both large enterprises / corporates / MNCs as well as start-ups, across sectors, especially post COVID-19 pandemic.

The demand for flexible workspaces across different seat cohorts namely 1-50 seats, 51 -100 seats, 101 – 500 seats and over 500 seats, increased at a CAGR of approximately 29%, 41%, 54% and 57% respectively, between 2020 and 2022, based on total number of new customer contracts signed (new deals / expansions only) As a response to this, company adopted a more focused approach towards servicing large enterprises and corporates and launched company's premium offering – 'Awfis Gold', wherein company offer premium spaces across 'Grade A buildings' 1 to its clients.

INVESTMENT RATIONALE

Diverse space sourcing and demand strategies.	According to the CBRE Report, 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, according to the CBRE Report, flexible workspaces are positioned to perform relatively better in India. Company's diverse supply sourcing strategy targets all segments of the India commercial office market ranging from organized to unorganized, institutional to non- institutional and across various grades and classes of properties. Further, company have 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, company can cater to a wide spectrum of requirements and uplift the overall quality of available workspaces. This also positions company 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	Company aim to provide well-suited solutions tailored to meet the needs of its diverse clientele spread across different demographics, seat cohorts and industry sectors. Company's suite of flexible workspace solutions encompasses company's space solutions, Awfis Transform and Awfis Care. Company's 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 company's other segments. As a result, company's clients and space owners are introduced to its wider ecosystem, thereby enhancing retention and driving cross-selling opportunities. For instance, a client engaged with company's 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 company's client through Awfis Transform, they may also tend to opt for company's facility management services through Awfis Care.
Company's experienced and diverse senior management team	Company's founder, Amit Ramani has over 20 years of experience in real estate and workspace solutions. Company's senior management team is a professional team with a combined experience of 58 years in real estate, leasing, hospitality and sales and marketing businesses. Company's Board of Directors and shareholders support and provide guidance to company's management team. Company's Board of Directors include six Directors with several years of experience. Company's management team has demonstrated its ability to develop and execute focused strategies to grow its business, enabling company to strengthen its market position. The industry knowledge and leadership of company's executive leadership team, combined with their extensive experience, provides company with a competitive advantage and are instrumental in enabling company to attract high-quality talent, drive implementation of company's strategies and achieve company's long-term objective of delivering sustainable growth across company's business.

OBJECTS OF OFFER

The Offer comprises of a Fresh Issue of Equity Shares, aggregating to ₹ 1,280.00 million by Company and an Offer for Sale of 12,295,699 Equity Shares

Fresh Issue

Company proposes to utilize the Net Proceeds towards funding the following objects :

1. Funding capital expenditure towards establishment of new centers;
2. Funding company's working capital requirements; and
3. General corporate purposes.

RISKS

Company have a history of net losses, negative earnings per share ("EPS") and return on net worth ("RoNW"). Company need to generate and sustain increased revenues while managing its expenses to achieve profitability, and its inability to achieve these goals may have an adverse effect on company's business, results of operations, cash flows and financial condition.

Source:RHP

INDUSTRY OVERVIEW

Flexible Workspace Industry Overview: India Story

Evolution Of Flexible Workspaces in India

The advent of flexible / agile workspaces is termed as the next wave of disruption in the office segment. Prior to the widespread adoption of flexible workspaces, small and medium enterprises ("SMEs") and mid-size corporates were operating out of offices with inadequate infrastructure and amenities, and there was a need for offices with better infrastructure and amenities at an affordable rate with flexible tenure and security deposit. Over the last decade, serviced offices, executive suites, and business centers have defined the market for small and flexible office space . In the past 2-3 years, there has been a rising trend of companies adopting the 'distributed workforce' model, which has provided companies with easier access to workplaces, enabled companies to optimally utilize their resources and reduced commute time for their respective employees.

The 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 and Tier 2 cities.

Enterprise Focus: Increasing number of SMEs and established corporates are now considering flexible spaces over conventional spaces. Flexibility in terms of quick setup of office facility and lower lock-ins appeals to most businesses.

Cost Optimization: In traditional office lease, the occupiers are required to incur capital expenditure for setting up an office. However, in flexible workspaces, the upfront investments are incurred by the operator and occupiers have to pay fixed rentals on a monthly basis that includes amortized capital expenditure as well as other operational expenses.

Workforce Fluidity: Demand for flexible space expected to be driven by companies looking to tackle uncertainty of headcount projections, phased growth, mobile teams, temporary workforce.

Reverse Migration: Due to COVID-19 pandemic, there has been a reverse migration of workers to some extent, due to which employees are seeking increased flexibility and as a result, several organizations have decentralized operations and the demand for hub and spoke model and flexible workspaces has increased.

New Age Entrepreneur / SMES: Individual entrepreneurs and SMEs with entrepreneurial mindset prefer to focus on their core business operations. Flexible spaces with their end-to-end service offerings shall continue to be attractive to this segment.

Workplace Evolution: Occupiers expected to adopt hybrid / distributed working strategies in near short-term may lead to rationalization of office footprint in expensive core areas. Further, demand for flexible workspace will increase due to any workspace evolution towards liquid workforce and flexibility to work from a network of locations or work from anywhere or hybrid working.

Focus on wellness, facilities, and amenities: Stronger employee centric workplace policies with a desire for amenities and wellness facilities is further expected to increase demand for flexible workspaces.

Growth of Start-ups in Tier 1 and 2 Cities: India's start-up landscape is becoming more diverse, with innovation spreading to different corners of India. The growth of start-ups in Tier 1 cities like Bengaluru and Mumbai has been remarkable, with thriving ecosystems and access to capital. Tier 2 cities like Ahmedabad, Indore and Jaipur are also witnessing a surge in start-up activity, driven by lower operational costs and government support. This expansion of start-ups beyond Tier 1 cities is fostering regional economic development and job creation.

Consolidated Financials (Rs in Mn)

Financials	FY21	FY22	FY23	9months ended FY24
Total Revenue (A)	1783.60	2570.45	5452.82	6164.99
Total Expenditure (B)	1252.71	1887.20	3897.24	4381.95
EBIDTA	530.89	683.25	1555.58	1783.04
EBIDTA Margin	29.77	26.58	28.53	28.92
Other Income	376.60	216.71	205.05	171.95
Depreciation	868.36	984.33	1499.79	1452.83
EBIT	39.13	-84.37	260.84	502.16
Interest	465.55	487.19	727.21	691.58
PBT	-426.42	-571.56	-466.37	-189.42
Share of profit in Asso	0.00	0.00	0.00	0.00
PBIT	-426.42	-571.56	-466.37	-189.42
Exceptional	0.00	0.00	0.00	0.00
PBT	-426.42	-571.56	-466.37	-189.42
Tax	0.00	0.00	0.00	0.00
PAT	-426.42	-571.56	-466.37	-189.42
NPM	-23.91	-22.24	-8.55	-3.07
ROE%	-28.29	-60.34	-27.54	-7.66
EPS	-8.38	-10.68	-8.11	-3.05
Eq Cap	301.34	301.34	301.34	191.52
Net Worth	1,507.53	947.21	1,693.64	2,471.85

(Source: RHP)

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