Smartworks Coworking

Operator: Good day and welcome to Smartworks Coworking Spaces Ltd. Q2 FY27 earnings conference call. As a reminder, all participant lines will be in listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star, then zero, on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Diwakar from EY. Thank you, and over to you, sir.

Operator: Thank you, Huda. Good afternoon to all of you. Welcome to the Q2 and H1 FY27 earnings call of Smartworks Coworking Spaces Ltd. To take us through the results today and answer your questions, we have the top management, represented by Neetish Sarda, Managing Director; Harsh Binani, Executive Director; Sahil Jain, Chief Financial Officer; Pratik Agarwal, Chief Business Officer; and Anirudh Taparia, Chief of Strategy and Investor Relations. We will start with opening remarks from management, after which we will open the floor for the Q&A session. Before we proceed, I would like to remind you that certain statements made during this call may be forward-looking in nature. These statements are subject to risks and uncertainties, which are outlined in the presentation and can be found on the website. That said, I would now like to hand over the call to Neetish Sarda for his opening remarks. Over to you, Neetish.

Neetish Sarda – Managing Director: Thank you. Good afternoon, everyone, and thank you for joining us. We are at the halfway mark of FY27, and we are ahead of the plan that we shared with you in April.

Let me start with the quarter in brief. Revenue from operations stood at 591 crores, up 39% year-on-year and 8% quarter-on-quarter, our sixth consecutive quarter of sequential growth since listing. Normalized EBITDA stood at 117 crores, up 68% at a margin of 19.8%, 340 basis points higher than a year ago. Our normalized PAT stood at 43 crores, up 136%.

Revenue is growing every quarter, and profitability is growing with it. The buildings we need are secured, with high revenue visibility as our contracted revenue stands at over 5,800 crores. We are increasing our revenue guidance to 33% to 35% from our earlier guidance of 28% to 30%.

Let me walk you through the market, our supply, and our clients, because together they explain both the quarter and the investment that we are making.

India leased a record 66.4 million square feet of office space in the first nine months of 2026, up 8% year-on-year, according to CBRE. Even with geopolitical tensions and uncertainties regarding AI, occupier decisions and deal closures remain broadly intact. Uncertainty is exactly why flex is winning. When companies are unsure how fast they will grow, they do not want to lock in long leases and large upfront spending. Flex gives them ready-to-use space that they can scale up and down. This is why flexible space operators took 24% of all office leasing in the July to September quarter.

GCCs and AI are adding to the demand, not reducing it. Global capability centers took a record 28 million square feet in the first nine months of this year, representing 42% of all leasing activity. Several clients who expanded with us this quarter are building their AI teams in our campuses. In short, AI changes what happens inside an office; it does not change the need for one.

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In a market like this, the hardest part of our business is not finding clients; it is finding the right buildings early. Our platform now stands at 17.5 million square feet across 71 centers, of which 10.9 million square feet across 58 centers is already operational. We added almost 1 million square feet of operational space in the first half. We have 4.3 million square feet of space under fit-out or awaiting handover within this year, against the 1.6 to 2.1 million square feet we need to go live by March. Two of our major campuses, Eastside in Pune and Eastbridge in Bombay, will go live in the second half of this year. Both campuses open with healthy pre-commitments, and both will contribute meaningfully to FY28 revenue.

Everything we need for FY27 is secured. Our supply for FY28 is now largely in hand, with work for FY29 underway. In Singapore, we now run four centers with over 1,600 seats at around 86% pre-committed occupancy.

Large supplies attract large clients. Large clients sign large deals, and large deals come with long tenure. This makes our revenue sticky and durable. Look at who works in our campuses today: some of the world's largest GCCs, multinationals from the US, Europe, and Japan, Fortune 500 and Forbes 2000 companies, and India's leading conglomerates. Large enterprises now bring us 91% of our rental revenue. For instance, more than 35 clients now have more than 1,000 seats with us. Our 1,000-plus-seat cohort contributes more than 41% of our rental revenue, up from 35% a year ago. More than 70 clients are with us in more than one city, contributing to our multi-city revenue, which stands at 35% of our total revenue. GCCs are up to 22% of our rental revenue, and our Smart Advantage program now gives them one partner for workspace, hiring, legal, tax, and compliance. As they set up and scale in India, they will need it all.

Our base is also broader than ever. IT/ITES is down to about 36% of rental revenue from about 40% a year ago. Over 75% of the revenue that we added over the last year came from outside IT and ITES companies. Our top 10 clients are now about 24% of our rental revenue, up from about 20% a year ago. This is because our largest clients are taking more seats and following us to more cities. The risk stays contained.

All of this shows up in our visibility. Contracted rental revenues now stand at 5,800 crores, up from 5,400 crores in the last quarter. Client lock-ins cover our rent commitments to landlords by about two times, and there is no asset-liability mismatch through FY30.

So, let me bring it together. Revenue has grown sequentially for six straight quarters. The supply that we need is secured, and the revenue to fill it is increasingly getting contracted. In the first half, revenue grew 41% year-on-year, and normalized EBITDA stood at 19.7%. On the back of this, we are raising our FY27 revenue growth guidance to 33% to 35% from 28% to 30%. We are keeping our normalized EBITDA margin guidance at 19% to 20%, already trending towards the upper end of that band, and we continue to expect more than 12.5 to 13 million square feet of operational space by March 2027.

We are building where India will look to work this decade. With that, I hand it over to Harsh for the financial and operational details.

Harsh Binani - Executive Director: Thank you, Neetish, and good afternoon. I will take you through three things: how we are tracking against what we promised, the quarter itself, and the investment

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we are making for future growth.

From this quarter, we publish a say-do scorecard with every set of results, so you can check us against our guidance in one place. To begin with, revenue growth: we guided 28% to 30%, first-half revenue grew by 41%, and we have therefore now raised our guidance to 33% to 35%. Margin: we guided 19% to 20%, the first half came in at 19.7%, we are on track and trending towards the upper band. This is in spite of the heavy capex cycle and the growth. Footprint: we guided 12.5 to 13 million square feet by March. We are already at close to 11 million square feet operational, with another 2.1 million under fit-out and another 2.3 million awaiting handover. Capex: we guided 550 to 600 crores. We have deployed about 307 crores in the first half. With the second half weighted towards Eastside and Eastbridge, we are investing in growth.

Now, if we look at the quarter, our revenue from operations was 591 crores, which is up 39% year-on-year and 8% quarter-on-quarter. It is our sixth consecutive quarter of sequential growth since listing. Normalized EBITDA was 117 crores, up 68% year-on-year, at a margin of 19.8%, up 340 basis points. Our normalized PAT was 43 crores, up 136%, and reported PAT was 26 crores.

Of course, our profit is growing much faster than revenue because our centers are maturing and completing payback, and our costs at both the center and corporate levels are growing slower than revenue. Energy-efficiency initiatives and several cost-excellence initiatives across our campuses are adding further savings. Each new batch of our campuses now lands on a larger mature base, so at our scale, new campuses are not margin-dilutive.

Now, let me talk about the investment we are making. This is one of our heaviest capex cycles, and it is a deliberate choice. We are investing today in supply that is scarce to serve demand that is not. In the first six months, we invested 307 crores towards capex. Coming to cash conversion, our normalized operating cash flow was 107 crores in the quarter and 202 crores for the first half. OCF to EBITDA was 0.9 times. The reason is quite simple: when securing a building, we pay the landlord a security deposit upfront, months before the building starts generating any revenue. On the campuses that are already operational, our cash conversion is comfortably above 1 time, strongly indicating our negative working capital model. As the new campuses go live and start billing, client deposits and rental income come in, and our reported cash conversion moves back towards its usual level. Our working capital model has not changed; our debtor days remain best-in-class at seven days, courtesy of the large enterprises we serve.

As stated earlier, our free cash flow for the half was negative at about 104 crores, largely because our capex is running ahead of the cash generation from new centers while they ramp up. Our net debt was about 83 crores, and our cost of borrowing after the recent credit rating upgrade continues to remain below 8.5%. Our free cash flow will turn positive as our mature base approaches 13 million square feet, which should happen down the line in the next few quarters.

Moving to our occupancy, overall occupancy was about 81%, at the lower end of our 80% to 85% band, as during the quarter we added about 11,500 seats of capacity, which increased the base meaningfully. Our committed occupancy is at about 86% overall. Our mature centers, representing about 9.7 million square feet, are 88% occupied and 91% committed, and our new campuses are already 48% committed. As the second-half campuses open, you may expect overall occupancy to dip because the denominator will see a significant capacity addition. However, this will go back

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above the band very quickly.

Our annualized normalized ROCE was 21.6%, a massive jump of 800 basis points year-on-year. We have invested about 200 crores in capex and security deposits for centers that are not even open, about a fifth of our capital employed. Largest growth, heaviest capex cycle, yet our ROCE continues not to dilute. That capital sits in the denominator but has not yet started to earn for us. As these centers mature, we expect a meaningful expansion in ROCE.

Before we go to questions, let me tell you how the next two quarters will look, so there are no surprises. In H2, we open the largest block of capacity in our history, about 45,000 seats, most of it in Eastside and Eastbridge. Blended occupancy may temporarily dip below the 80% mark, only until these two mega campuses ramp back up. They already have very good pre-commitments. Our reported cash conversion will continue to remain below 1 as we pay the deposits to block new supply. However, for operational centers, it will continue to remain above 1. At the same time, our rental revenue growth will continue accelerating as the campuses build. Our other operating revenue also normalizes from Q2, and it will continue to grow with more people and more companies coming on board.

Neetish Sarda - Managing Director: So, to finally close, our FY27 revenue growth guidance goes up to 33% to 35%, and margin guidance stays at the upper end of 20%. We are expecting 13 million square feet operational by March-end, and we will keep adding 2.5 to 3 million square feet every year. We will continue to fund it from within the business and through debt. Six quarters listed, six quarters of sequential growth. We are not building Smartworks for the next quarter; we are building it for the next decade. With that, we are very happy to take your questions.

Operator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

The first question is from the line of Karan Khanna from Ambit Capital. Please go ahead.

Karan Khanna - Ambit Capital: Hi, thanks, and congratulations, Neetish and Harsh, on a solid quarter. Firstly, on Eastside and Eastbridge, Harsh briefly spoke about them, but can you talk a bit about the pre-leasing situation there? Which sectors are generating the most demand for these centers, and by when do you expect them to reach stabilized occupancy in percentage terms?

Neetish Sarda - Managing Director: Both Eastside and Eastbridge are still under construction. I think Eastside, as a property, will come in quicker than Eastbridge. For Eastbridge, we are yet to receive the OC for the building and will only start construction once the OC is received. With respect to the pre-fill, or the kind of demand that we are already seeing, about 35% pre-fill is already visible. A significant portion of that is actually coming from our existing clients expanding with us in these locations. A lot of it is coming mainly from BFSI, manufacturing, and logistics companies that are taking up space in these locations as we speak. These are our existing customers expanding, but we are also seeing some uptake from IT and ITES in both these properties. I would like to repeat myself and say that both these properties are coming live in H2,

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but for Eastbridge, the OC has not yet been received. Once the OC comes in, we will build it out in the next 3 to 4 months. By the time the revenue starts coming in, it might be the end of, or the latter half of, Q4 of the year.

Karan Khanna – Ambit Capital: Sure. Secondly, on the FY27 revenue guidance of 33% to 35%, this implies H2 FY27 revenue of about 1,250 to 1,280 crores. That is about 26% to 30% growth year-on-year and roughly a 630 to 640 crore quarterly run rate against the approximately 600 crores that you saw in Q2. How much of the H2 increase do you expect from lease rentals, and how much of it is from other operating revenue? As a follow-up on the EBITDA margin guidance, given that you have already delivered 20% in the first half and have raised the revenue growth guidance to 33% to 35%, what levers do you have in place to potentially surpass this EBITDA margin number?

Neetish Sarda – Managing Director: For us, right now, the existing centers, if you look at our mature centers, are already at about 91% committed occupancy. So whatever revenue uptake you see will only come from these centers. If you look at centers under construction, there is always a lag before the revenue starts hitting us. We have more than 3 million square feet under construction as we speak, or just getting into construction. You will not see a significant amount of that immediately. The reason that we have put the guidance at 35% is that a lot of this might only come in the latter half of the financial year and might hit our books by February and March, because that is the build-out time it will take for us to get to those centers.

You will see revenue from lease rentals gradually increase as and when we build our supply, because our existing mature supply is already at 91%, and there is not a significant amount of additional uptake that we can get from it. With the new supply coming in, you will see Q4 and the first quarter of next year getting most of the uptake from the new supply.

You will see other operating revenue. For us, other operating revenue is not restricted to one-time revenues; it also includes revenue from other services that we provide on a recurring basis in the buildings. Whether it is electricity charges, car parking, or meeting room bookings, all of these systems start generating revenue before the rental revenue fully kicks in, because people usually start coming into the centers and occupying the centers, and then it is 10 to 15 days, or 20 days, after that when the rental revenue starts coming in from the customers.

Typically, you will see these other operating revenues increase based on the increase in VAS revenues and the increase in our revenue from other new verticals, whether it is Vantage or {? Spacex ?}, also contributing towards the revenue guidance that we have given. As for revenues coming from lease rentals, you will see a significant jump towards the end of next quarter, and most of it will come towards the start of the first quarter of next year, because 3 to 4 months is the build-out time for most of these properties.

Karan Khanna – Ambit Capital: Sure, that is helpful.

Harsh Binani – Executive Director: To add to Neetish's point, Karan, on the margin lever, we should appreciate that in the last six quarters we have had a significant margin increase, largely driven by operating leverage as our mature campus portfolio crossed the 12-month hurdle. Margins have grown by more than 340 basis points, from 16.4% to close to 19.8% now.

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In the background, in the last six quarters, you have also seen rapid capacity addition, the highest in the industry, and we continue to grow the fastest among the larger flexible workspace players. Our margins have not diluted in spite of the heavy capex as well as the growth that you have seen. We do expect that margins will continue to remain at the upper end for the remainder of the year.

As you start to see 13 million square feet maturing, you will now start to see a lot of free cash flow also get generated, along with the other levers of our margin. Whether it is other income, as well as the pricing opportunities we keep getting, including the 5% to 6% escalation that happens every year, all of that will also start to help us improve.

At this stage, we are very happy with the fact that, in spite of the rapid growth and the heavy capex, [laughs] our margins have actually increased meaningfully in the last six quarters and have now stabilized at the upper end, in spite of the new capacity addition that you will see in the next several quarters.

Karan Khanna – Ambit Capital: Great, this is helpful. Thanks, team. All the best.

Neetish Sarda – Managing Director: Thank you.

Harsh Binani – Executive Director: Thank you.

Operator: Thank you. A reminder to all participants: anyone who wishes to ask a question may press star and one on their touchtone telephone.

The next question is from the line of Saurabh from JM Financial. Please proceed.

Saurabh – JM Financial: Hi, good afternoon. Congratulations on a good set of numbers. My first question is on occupancy. You have already alluded to some part of this in your opening remarks. I wanted to get a sense from a slightly longer-term perspective. We have been adding capacity at a rapid pace, added about 2.5 million square feet over the last six months, while during the same period close to 2 million square feet was leased. Given the fact that we also have 1.7 million square feet coming up over the next two quarters, where do you see this occupancy trajectory of 80% to 81% reaching—perhaps 84% to 85%? Can you share any timeline for that, or do you believe that this occupancy range of around 81% will sustain for the foreseeable future?

Harsh Binani – Executive Director: Certainly. On occupancy, you have seen that we have added significant new capacity, and our mature campuses are the key marker because that is where you will see our occupancy consistently trending towards 90%. It is taking us roughly the same amount of time, in spite of our campuses becoming meaningfully larger in size. In our earnings presentation, we have also mentioned that our center sizes have gone up by more than 2 to 3 times, but the time to fill them and get them to about 90% continues to remain below 18 months.

That is largely happening because the number of 1,000-seater deals has meaningfully increased, from 12% 4 to 5 years ago to more than 41% now. To that extent, you can expect that our mature campuses will continue breaking even within a year and reaching the threshold of 88% to 90% within 18 months.

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As our maturity stabilizes, which we expect in the next four quarters, you will continue to see the overall blended occupancy number trending more towards the 84% to 85% that you mentioned. However, we would not worry about the blended dips because that is largely a mathematical formula. Whenever a large campus opens, such as Eastside or Eastbridge, you are adding more than 40,000 seats to the denominator, but you are ramping them up gradually, and very quickly at that. To that extent, our guidance continues to remain 88% to 90% for mature campuses. On a blended basis, we will of course continue to report the actual numbers, but do bear in mind the mathematical part of the equation as well.

Neetish Sarda – Managing Director: Just to add to that, with respect to how Smartworks is modeled, we do not do back-to-back deals. That is why you will see in our revenues that one client moving out of the ecosystem does not really impact our revenues significantly, because we do not have occupancy risk arising from one customer occupying an entire building. Because we do not do back-to-back deals, there is usually a ramp-up period, but despite us taking these massive centers, the pre-fill that we have is helping us provide the guidance that we will be able to beat the numbers that we had projected.

Also, as Harsh mentioned, the relevant number to look at here is the occupancy coming from our mature centers. Mature centers continue to be very stable at 88% occupancy across the entire mature portfolio, with committed occupancy of over 91%. This means that the remaining 3% is already signed, might be under construction, and will come in over the next 30 to 60 days.

The last thing is that, even if you look at our committed occupancy for our current base, it is already at 86%. It means that occupancy is 80%, but the remaining 6% is also under construction. So the new capacity will drag down overall occupancy, but the more relevant data to see is the occupancy of our mature centers, as well as the occupancy or committed occupancy of the overall centers, which gives you an idea of how much more revenue is going to come in.

Saurabh – JM Financial: Thanks for the elaborate answer. My second question is on capex per square foot, specifically for the Grade A-plus supply that is going to come up soon. Is the initial capex per square foot of close to 1,300 rupees per square foot holding up, or are you envisaging any increase?

Neetish Sarda – Managing Director: We used to spend 1,350 to 1,400 rupees per square foot. Obviously, there has been some increase due to inflation, which we had also projected at about 4% to 4.5% year-on-year. I think with the numbers that we have reported, we are still operating around that level.

One of the reasons for this was also the significant new addition that we are undertaking. We added 1.5 million square feet last year, and this year we are adding 3 million square feet. So our ability to negotiate at this scale is even higher. We are continuing to be close to 1,400 plus the 4% to 4.5% to 5% inflation that we had factored in anyway.

Saurabh – JM Financial: Okay, sure. Those were my questions.

Harsh Binani – Executive Director: Just to also give you a sense of the capex cycle, we have mentioned in our earnings presentation that about 3 years ago we used to add 1 million square feet

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a year. Every year, we are continuing to add more capacity than we have ever done in our history. For example, the 3 million square feet addition this year will entail capex that will be twice the capex we incurred in the last full year.

In spite of that, you will see that our balance sheet metrics continue to hold up very well because the mature campuses have now attained a certain size and scale, so they are generating a lot of cash, and the return on capital there is very meaningful. Some of them have also finished 2 cycles now.

For the new campuses that are coming in, we are investing ahead of time, both in terms of security deposits and capex build-out, because we are continuing to see very strong demand momentum. To that extent, capex for H1 was 307 crores, and a meaningful part of that is sitting in the newer campuses,

Neetish Sarda – Managing Director: Which have not started [cut off]

Harsh Binani – Executive Director: —which have not started to generate revenue. In fact, 20% of our capex is on campuses where revenue has not started yet.

Saurabh – JM Financial: Sure. Thanks for the elaborate answers. Good luck.

Harsh Binani – Executive Director: Thank you.

Operator: Thank you. A reminder to all participants: anyone who wishes to ask a question may press star and one on their touchtone telephone.

The next question is from the line of Jaykant Beria from IIFL Capital. Please proceed.

Jaykant Beria – IIFL Capital: Hi, thanks for the opportunity. I wanted to get some sense of the strong growth that we are seeing in other operating revenues. That has gone up 125% this quarter. Can you highlight what is driving this strong growth and what would be a more sustainable number to work with?

Neetish Sarda – Managing Director: Sure. As we mentioned earlier, the rental revenue coming from our existing centers is limited because we are already at a committed occupancy of about 91%, so there is less space for us to sell. In our other operating revenues, there are revenues which we [cut off]

Management: ...get from value-added services that we provide in the building, as well as other ancillary services that we provide in the building. With the overall footprint increasing from 9 million to 10.5 million square feet, there are more areas of offering, whether it is car parking, additional electricity charges, meeting rooms, conference rooms, or food services in the building. All of this is contributing cumulatively towards other operating revenue.

Other operating revenue for us is not just one-time transactions; it also includes recurring transactions. Because of our unique model of running the entire campus, a lot of the consumption that happens within the campus occurs on a regular basis. All of these transactions fall within other operating revenue.

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Currently, we have started 2 or 3 new verticals. The growth seems somewhat higher, at about 125%, because the base was very small. We launched our Smartworks Vantage program, our VaaS program, as well as our FaaS program. All of these cumulatively contribute towards the growth. All these verticals are growing from the smaller base they had and contributing to the overall growth.

All of this, by the way, did not exist in H1 of last year. H1 of last year consisted purely of additional ancillary revenue from the buildings. Now all 3 of these verticals, whether it is Vantage, FaaS, or fit-out as a service, as well as value-added services, are being added, and that is why you will see the increase.

If you look at the number, we have gone from about 70 crores of pure revenue from ancillary services to 170 crores in H1 of this year, but that is also with the real estate base increasing from 9.1 million square feet to 10.9 million square feet. So 20% of that 70 crores would have come in from the ancillary services anyway, and the other verticals, whether it is VaaS, FaaS, or the Vantage program, are contributing the remaining 50 to 60 crores that is being generated in the first half.

Jaykant Beria – IIFL Capital: As our footprint grows, will it be fair to assume that other operating revenue will continue to lead rental revenue?

Management: We should consider the same proportion of growth in other ancillary revenue along with footprint growth. If our footprint grows by 20%, other operating revenue should grow by a minimum of 20% because a lot of it consists of ancillary services that are table stakes for any customer occupying the building.

Jaykant Beria – IIFL Capital: Sure, that is helpful. Thank you.

Operator: Thank you. The next question is from the line of Devang Patel from Sameeksha Capital. Please go ahead.

Devang Patel – Sameeksha Capital: Your revenue per desk, or revenue per square foot, is also seeing very good year-on-year growth. Could you comment on what is driving that other than your normal annual escalations?

Anirudh Taparia – Chief of Strategy and Investor Relations: Absolutely. A more important marker for us is not only revenue per square foot but also our cost per square foot. That is where you will see Smartworks really standing out, because both our capex incurred on the building and the fact that we manage the entire building, along with our building operations cost, energy-excellence initiatives, and several other initiatives, have ensured that we are able to fully leverage our economies of scale and make sure that our cost per seat is the lowest.

That lowest cost per seat allows us to sell our rental at value. You will also notice that, for all the large campuses that we have taken, the rental terms that we have compared with the market have a significant advantage. So, a combination of the fact that our cost per seat continues to get lower and our ability as a brand to continue delivering value at the price we charge our customers is driving rental revenue growth.

You have also seen some of our newer campuses being developed in higher-rental markets. That also contributes because, recently, we have had a lot of expansion in the West, Gurgaon, and South

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markets. So, a combination of annual escalation, better cost savings at the ground level, and better realization is driving all of these levers together.

However, our vision continues to be to deliver value to our customers and to be the most value-oriented player that delivers meaningful cost savings to them, because what you are trading there is very long-term, sticky tenure rather than optimizing for short-term EBITDA or margin gains, even when you can charge slightly more.

Devang Patel – Sameeksha Capital: Our rental escalations will continue to remain at 5% to 6%, and all the remaining increase in average rental is coming from the change in mix. Would that be the right way to see it?

Management: It is a mix. Some of it is coming from the newer stages. The pure deals that we are doing are at a higher rental base, with much larger centers and more amenities coming in, so we are able to demand better pricing.

However, you would also have seen in our last couple of quarters that there was some voluntary churn that we undertook, and that voluntary churn allowed us to reprice some of our buildings, especially deals that were signed during the COVID period. Those deals were renegotiated at today's rental markets. You will continue to see that happening as and when leases expire.

Because we have long-term leases, it cannot happen immediately in the next quarter or the next year, but it will happen over a year or two. You have already started seeing that increase in realization. New centers are obviously contributing more because we are able to charge more, but even in the older centers, we are able to reprice most of the space whenever we churn out some of the lower-paying clients.

Devang Patel – Sameeksha Capital: You mentioned that some of the new centers on the western side earn higher rental. Is the capex also correspondingly higher on these centers?

Management: No. We are able to manage capex at around the same number after inflation because of the volume of business that we are taking. Had this volume not come in and had we continued to grow at 1 to 1.5 million square feet, we would not have been able to achieve this; the prices probably would have gone up.

But because our center sizes are increasing, we are able to negotiate further at scale and reduce our cost on some of the items that would ideally have gone up because of these mega-centers. So we are not seeing this on the basis of higher spending; we are seeing it on the basis of higher amenities provided in these large campuses.

Devang Patel – Sameeksha Capital: Of the 300-odd crore capex in the first half, or the 600 crores that you may do for the full year, could you give a ballpark figure for how much of that would be maintenance capex?

Management: Approximately 4.5 million square feet of Smartworks falls under leases with more than 3 years remaining before expiry. If you look at it, about 20% maintenance capex comes in for approximately 4.5 million square feet of space. So, if you look at that, it is about closer to—if I just have to do a calculation, how much would it be? Anirudh, do you want to just—

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Anirudh Taparia – Chief of Strategy and Investor Relations: Hi, Anirudh here. Thanks, Devang, for your question. If you look at slide 14 of the deck as well, what we generally have is around 12% to 15% of our gross block going towards maintenance capex every year. That is a fair estimate from a ballpark perspective, which we can continue expecting to [cut off]

Management: As a rough estimate, 95 to 100 crores will go towards maintenance capex this year.

Devang Patel – Sameeksha Capital: Moving on, you mentioned 2 large capex projects coming up in the second half, which may keep a cap on margins. These are large campuses, so how long before they reach breakeven occupancy, and will the impact on margins continue through the first half or second half of next year as well?

Anirudh Taparia – Chief of Strategy and Investor Relations: In our earnings presentation deck, on page 12, we have clarified the journey that we typically see in any of our campuses. You will notice 2 new developments that have happened in the last 12 months or so.

One is that we are taking campuses that are much larger than they used to be earlier, yet our time to fill them and get them to about 90% occupancy continues to remain the same. Secondly, our larger campuses are all operating at very healthy occupancy levels of above 90%.

In spite of rapid growth and larger center sizes, our margins have not gone down because we are able to fill them very quickly. At the same time, the occupancy of our larger campuses, courtesy of the long tenures we have with our customers, continues to generate a lot of cash and remains very profitable. To that extent, in spite of rapid growth, the fact that margins are not diluting is a testament to the strength of the franchise that we have built, as well as to the cost-excellence initiatives and the preferred rental terms that we continue to enjoy.

Management: To add to that, the 10 million square feet that is going to become completely mature, or is almost completely mature, this year is contributing 3,400 basis points more than the EBITDA margins. So whatever the initial drag from the 3 million square feet is going to be, it will be compensated by the older 10 million square feet. Now that the base effect has taken hold, as we had said in our earlier calls, the additional 3,400 basis points that we get from that 10 million-square-foot mature portfolio will ensure that the 3 million-square-foot drag does not significantly reduce our margins. Despite increasing our guidance, we are making sure that our margin stays at the levels that we had committed to.

Anirudh Taparia – Chief of Strategy and Investor Relations: Devang, just to add, on slide 15 you will actually see that we have also given a journey. It shows what happened in cycle 1 over fiscal years '23 to '25, what happened in the second cycle of '26, and how we are well positioned for the third cycle in fiscal year '27 as well.

Devang Patel – Sameeksha Capital: Just one last part to that. You mentioned that 35% is pre-filled. How much time would it take you to reach breakeven occupancy, considering these are larger campuses? Do you think it might take a bit longer than it normally would?

Management: Typically, with the kind of pre-fill that we are seeing, we are saying that we should get to breakeven between 11 and 12 months. That has also been the strategy with some of our other

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buildings, because we do not do back-to-back deals, which is what most of the industry does. There is a bit of a ramp-up period, but given the demand that we are getting and the pre-fill that we have achieved, reaching breakeven between 10 and 12 months is fairly visible. The visibility is there.

Devang Patel – Sameeksha Capital: Thanks. That is all from my side.

Operator: Thank you. The next question is from the line of Vidhansh Chandak from Unify AMC. Please proceed.

Vidhansh Chandak – Unify AMC: Hi. Congratulations on a great quarter, and thanks for the opportunity. I have one question. I wanted to understand at what size per client you see customers moving out of a flex operator setup into owning their own assets and running the operation themselves, in terms of seats.

Management: I do not think there is a certain size at which it makes a difference or makes sense for the customer to create its own space. I think it is the tenure. If a customer is looking at a tenure of more than 6 to 7 years of committing to a particular space, then at any given point, at a size above 4 to 500 seats, it can make sense for them to have their own space.

However, anyone who does not have visibility towards 7 years—and this can involve not just scaling up but also scaling up and down and moving between cities—will find a flex option more economical because they are able to derive the large-scale efficiencies that we provide.

Also, please look at the price point at which Smartworks is selling. We sell a seat, on average, at about 8,200 rupees per seat, which translates to almost 300 rupees a day, less than a cup of coffee. At the price point at which Smartworks is able to cater to its customers, unless the customer is looking at at least a 7 to 8-year lock-in period and at least 4 to 500 seats, the Smartworks proposition will be significantly more value-accretive for them.

Anirudh Taparia – Chief of Strategy and Investor Relations: In fact, to that point, we have done the math, Vidhansh, and what we have generally seen is that as long as our campuses are 2 or 3 times bigger than your own requirement, Smartworks, simply because of its cost leadership and campus size, will always end up being more economical and cost-effective.

In fact, that is the reason why a lot of our tenures are now continuing to trend upwards, and we are becoming more of a substitute for a permanent office rather than being more like an overflow option.

Vidhansh Chandak – Unify AMC: Got it. Thanks for answering that. I wish you the best of luck. Happy Diwali in advance.

Management: Thank you. Happy Diwali.

Operator: Thank you. The next question is from the line of Vikrant Kashyap from Asian Market Securities. Please go ahead.

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Vikrant Kashyap – Asian Market Securities: Good afternoon, and congratulations on a very strong set of numbers. I have 2 questions. First, on your opportunity with this [inaudible]. Non-enterprise clients contribute about 91% [inaudible]. My question is, what is the current opportunity pipeline from GCCs and VaaS, and what is the growth contribution from these segments over the next 2 to 3 years?

Management: Currently, GCCs contribute almost 22% of our revenue base, but this is starting from a base that was probably in the single digits last year. So the base was much smaller. If you look at effective GCC growth, almost 35% to 40% of our growth is coming from large GCC clients entering our ecosystem. We continue to project that 35% to 40% of our incremental growth will come from GCCs. However, we are also seeing a significant increase coming from BFSI, manufacturing, and some of the large Indian conglomerates...

Management: ...which are also looking at flex and Smartworks as a better alternative to having their own spaces. So while GCCs are going to contribute about 35% to 40% of our new rental revenue, other avenues are also contributing meaningfully.

Harsh Binani – Executive Director: In fact, in slide 27, as well as in our shareholder letter, we have elaborated on the type of customer relationships and the type of tenures. You will be pleased to know that not only is 91% of our revenue coming from large enterprises, but we also have more than 35 large client relationships with more than 1,000 seats.

While we will be very keen to continue servicing GCCs, the way the platform has shaped up across India means that we are reasonably agnostic to either a particular sector or the country of origin. We are in fact seeing a lot of conventional office spaces also exploring and looking at contracts such as ours.

Vikrant Kashyap – Asian Market Securities: A quick question on that. Are you seeing existing GCCs taking more seats in newer centers or GCC centers, or are you seeing more new GCCs signing leases?

Management: It is a mix of both. It is very difficult to say which one it is because GCC take-ups are of a significant scale. Essentially, it is a mix of new GCCs as well as some of the older GCCs. As Harsh mentioned, 35% of revenue is coming from our existing customers, and a lot of those are GCCs that are expanding with us.

So it is difficult to point out how much is coming from new GCCs entering India and how much is coming from GCCs expanding, but I think if I have to give a number, both of them would be contributing 50% each to our year-on-year growth.

Vikrant Kashyap – Asian Market Securities: Very helpful. This is clear.

Management: Sorry?

Vikrant Kashyap – Asian Market Securities: Okay, thank you.

Management: Thank you.

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Operator: Thank you. The next question is from the line of Yashas from DAM Capital. Please proceed.

Yashas – DAM Capital: Hi, team. Good afternoon. Thank you for taking my question. Picking up from where my colleague left off, I understand that demand for space remains robust within your portfolio as of now. However, since most IPCs may point to demand over the next 12 to 18 months, and since supply is constrained, please help me understand how you plan for space additions over a longer timeframe, say 3 years.

Management: If you look at our supply strategy, we have also called this out in the presentation. If you look at slide 26, we have essentially called out how and where the space expansion is happening and what the percentage is.

Our supply strategy has been very simple. We have gone ahead and not only blocked supply for this year, but the supply for the entire next year is also completely blocked out. In fact, we are now taking supply for the year after that.

We have realized that, with supply being one of the biggest constraints in a market where demand is higher than available supply, and that being the reason why rentals are also increasing, we are able to secure this supply at preferred rates that are significantly lower because of the volume that we are committing.

We have secured this supply through at least the next 18 to 24 months. Whatever supply we are taking now is for our growth beyond those 24 months.

In terms of supply strategy, we do not see any restrictions coming in. There are certain challenges that might arise, where certain properties could be delayed by perhaps a quarter or two because many of these properties may be under construction, or there may be an existing tenant occupying the space and vacating that space may get delayed.

However, we have factored that in, and you might see some change in occupancies in subsequent quarters. It is not going to have a significant financial impact because of the way we have positioned the space take-up over the next 6 to 7 quarters. Hopefully, that answers your question, Yashas.

Yashas – DAM Capital: Sure, that does. Thank you. Also, given that uncertainty around demand for space is helping drive demand for office spaces towards flexible workspaces, would that imply that if the situation improves, demand for flex might lose momentum?

Harsh Binani – Executive Director: We have had several phases where uncertainty has led to more permanence in the space, and this is not the first time we are seeing this play out. During COVID, the entire uncertainty was around work from home. You saw demand boom. Then we transitioned and moved towards the global slowdown. In spite of the slowdown, the Ukraine crisis, and oil prices going up, demand increased even more.

Then recently, in the last 6 to 12 months, there has been an entire scare around AI as well as geopolitical uncertainty, particularly in West Asia. What have you seen? Office demand continuing to go through the roof and flexible workspaces doing even better.

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So I think the more relevant question in our mind is: when will the share of flex space, which is at about 14% to 15% now, double from here? In addition to that doubling, you will also see the base of office space going up from the current 1 billion square feet to 2 billion square feet.

We will not be too worried about any of these short-term triggers. In fact, the more uncertainty there is, the more benefit we get, and you will continue to see a very strong growth trajectory. That is what we can say from the demand outlook we are seeing from our customers.

Management: To add to that, it is not only because of uncertainty that people are committing. People are coming and committing, and most of our larger enterprises are committing to long tenures. They are committing to 40 to 50-month tenures with us. They are committing to multi-city deals with us.

It means it is a habit shift. A lot of these enterprises are talking to us and saying, "I do not want the headache of managing my offices across different cities in India, dealing with different designers, and dealing with different operators to come and operate my space. You give me a one-stack solution where you are able to take care of my requirement on a pan-India basis."

That is why, if you look at metrics such as 1,000-plus-seat clients, multi-city revenue, existing client expansion, and long tenures, all of these metrics have increased significantly for Smartworks because this is not a short-term trend. It is essentially a cultural shift where Smartworks is offering a price point that is significantly lower than what it would cost them to do it themselves.

So even if the shift were to happen and things were to stabilize, the Smartworks price point is still so attractive that we will always be a more value-accretive option for larger customers looking to expand.

Yashas – DAM Capital: Got it. That is very clear. Thank you.

Operator: Thank you. The next question is from the line of Aditya Shah, an individual investor. Please proceed.

Aditya Shah – Individual Investor: Hi, management. I would like to know that Keppel owns around 15% stake. Is there any chance that they would monetize any part of their holding in the near future? That is my first question.

Harsh Binani – Executive Director: Keppel has been a very—thank you for the question. Keppel has been a very long-term supporter of the company, and they invested in 2019. To clarify again, they did pare down a small stake from 19% to 15% during the IPO, but since then they have continued to be very, very long-term partners. They are not a typical private equity investor investing from its fund; it is balance-sheet money. So they have a significantly longer appetite to continue holding.

To that extent, of course, they will be best positioned to answer when they would like to monetize, but to the best of our understanding, they continue to be long-term and there are no immediate monetization plans. I hope that clarifies.

Management: Hopefully, the fact that we are delivering 35% year-on-year growth, [laughs] is satisfactory for them to continue with us.

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Aditya Shah – Individual Investor: There are a couple more questions. Why is there a dip in mature as well as total occupancy once the entire 13 to 17 million square feet becomes operational? Should we assume that occupancy will go down in the near future?

Management: With more centers coming up, if we add a base and add another 1 million square feet in the next quarter itself, obviously the occupancy for that particular quarter will go down because there is always a lag between when we make a center operational and when the center starts generating revenue.

It takes us 3 to 4 months to build out the common amenities, and after that the customer comes in. By the time the customer actually moves into the space, there is a 5 to 6-month lag.

I think what is more relevant in this data is to see where our committed occupancy stands, both at the mature level and at the center level. If you look at our committed occupancies, they stand at 86% for our overall portfolio and 91% for our mature centers. So committed occupancies will continue to be around these levels.

Overall occupancies may differ from quarter to quarter depending on the kind of supply that is coming in. Because a few buildings were delayed, probably in the first quarter, and may get delayed in the next quarter, you might see 2 or 3 buildings coming in together, which could result in some temporary change in the occupancy numbers.

However, the most relevant number to look at is committed occupancy, which from our side is going to remain stable throughout the next few quarters because of the pre-fills that we have also secured.

Harsh Binani – Executive Director: Aditya, we have actually presented a very interesting perspective on slide 18 of our earnings deck, where we discuss the fact that today, of course, we are in our heaviest capex cycle. However, once our 13 million square feet fully matures, which will happen in the next few quarters, you can start to see the company becoming free-cash-flow positive.

Conversely, if you were to stop our growth at that point and assume that we are only at 13 million square feet, at steady state our margins are actually going to be among the highest, because our cost base is so low and our operating leverage has taken hold so meaningfully that, frankly, margin dilution is something we do not worry about at all.

Our focus is on how quickly we can grow and ensure that these metrics do not taper down.

Aditya Shah – Individual Investor: There are a couple more questions, if you do not mind. Your ROCE has been constant for 3 quarters. Should we consider that it has peaked?

Management: What you should look at with ROCE is not only the ROCE number today. A significant portion of our capex is going towards expansion. To quantify this, Harsh mentioned in his briefing today that almost 200 crores of capex or spend that has already been capitalized is towards centers that have not even started generating revenue.

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So our ROCE is expanding significantly. We have given guidance that by FY28 you will see ROCE reaching about 28%. ROCE is expanding at this pace despite our growing at 35% and adding more than 45,000 seats in the next 2 quarters. We are fairly confident that ROCE will remain stable.

You might not see a significant increase because we are spending significantly on growth. Once this growth comes through and the percentage of growth becomes smaller, you will automatically see the ROCE numbers improve. So we are fairly confident that we are well on track to reach our FY28 guidance of ROCE approaching the 28% mark.

Aditya Shah – Individual Investor: Thank you. That was helpful. Why are you undertaking this lock-in effort while the buildings are being constructed and taking the cash hit now?

Harsh Binani – Executive Director: The raw material, which consists of great buildings in prime locations, is very scarce, whereas demand is not. The fact that we are able to source supply for the next 3 to 4 years in a very visible format speaks about the developer relationships and the model that we have created, where developers now want to give their entire buildings to us on preferred terms.

To that extent, it is also advantageous to us because not only are we getting preferred rates for something that will be available 2 years down the line, but we are also getting those additional 2 years to market that demand. When we launch, we expect that the pre-fill will be even higher than it is now.

We started seeing this during COVID. The market had started to contract, but we continued to take a lot of high-quality supply, and many of those supply acquisitions have turned out to be very good bets because rentals in those markets have increased meaningfully, but supply has not kept pace with the demand.

Management: Our growth strategy also plays a role because we do not do back-to-back deals, and it is not the case that we first find a customer and then find the space. Blocking the right supply allows us to ensure that the value offering we give customers across different locations is standardized and that we are able to cater to their requirements.

Aditya Shah – Individual Investor: My last question, if you do not mind. Cash conversion has been around 0.9x for 4 quarters. Can you split what the open centers generate from what is going into the new buildings?

Management: This is already presented in slide 13 of our presentation. You would see that for our existing centers, it is above 1%, 1:1, on the OCF-to-EBITDA metrics.

It is the new centers, and you would appreciate that the new-center take-ups are not small take-ups. We have already committed to more than 4.5 million square feet of space, all of which is not even going to come in this financial year and might come in by the middle of the next financial year in terms of us starting construction.

However, money is getting blocked through our operating cash flows for that as well. If you look at slide 13, it should hopefully explain that our existing centers are actually at 1 or above 1, but the small drag is from the newer centers, or the deposits and other expenses that we have to incur for the

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newer centers, which are dragging it down slightly.

Aditya Shah – Individual Investor: Okay, that is all from my side. Thank you very much, team.

Harsh Binani – Executive Director: Thank you.

Operator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question for today. I now hand the conference over to management for closing comments. Over to you, sir.

Harsh Binani – Executive Director: I believe there is one more question pending, so perhaps we can cover that quickly and then close, I believe.

Operator: Sure, sir. The last question is from the line of Rishit Shah from Axis Capital. Please proceed.

Rishit Shah – Axis Capital: Hi. Thanks for the opportunity. You may have covered this earlier, but I have a quick question. We highlighted the cost advantage that we have on the supply side. I wanted your understanding of what the key reason is. Is it that we are tying up larger spaces, or perhaps because we are tying them up early during the construction phase? Or is it because we are doing more non-institutional supply?

Rishit Shah – Axis Capital: Is the key reason that we are tying up larger spaces, or perhaps that we are tying them up early during the construction phase? Or is it because we are doing more non-institutional supply?

Management: I think it is a mix of all 3. It is not limited to taking only large spaces or committing early. I think it is the fact that we are committing to non-institutional landlords, which is a mix today, as well as to institutional landlords. It is also the fact that we are committing at a large scale, where competition is fairly limited and we are able to negotiate more, as well as the fact that we are committing at a stage where the landlords feel more comfortable providing a certain number of buildings.

So, on the sourcing strategy, a mix of all 3 allows us to get preferred terms. You would see in some of our {? presentations ?} and some of the recent deals that we have signed that these preferred terms are not only beneficial in the short term. If you look at the overall long-term 10 to 15-year journey, these terms turn out to be almost 25% to 30% to 40% lower than what most markets offer.

Also, with a full commitment coming in from many of the non-institutional landlords, they are able to raise debt or any other equity that they need to raise on the asset in order to complete these assets.

So, our strategy of pursuing a mix of all 3 has allowed us to continuously source at preferred rates. That helps us mitigate costs and ensures that we are able to cater to customers at a price point that is probably 25% to 30% lower than that of our closest competitor.

Rishit Shah – Axis Capital: Perfect. Since we already have supply tied up for the next 1.5 to 2 years, do you see, apart from the contractual escalations, the rate per square foot that we are paying increasing more than that? Or should we look at the general 4% to 5% range?

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Management: The 4% to 5% increase is already contracted for. In fact, our strategy is that we track more than 300 buildings and select the top 6 to 7 buildings every year that give us the best returns. So, I think we are going to continue getting those preferred deals across markets.

The contractual escalations of between 4% and 4.5% or 5% year-on-year are what you should expect. You will also see that in our reported numbers, the increase in rentals is cumulatively in line with the total area increase. So, the rental does not increase per square foot.

Rishit Shah – Axis Capital: Okay, perfect. So there is no impact from any change in mix that we can see; it is the general increase that we should expect.

Management: No. In fact, I think there is only one way to go up, which is that costs will continue going down and realizations will continue improving. We have also mentioned in prior calls that, as you go through cycles, we have now completed 2 to 3 cycles in some of our older campuses, where market rentals have corrected meaningfully. There are mark-to-market opportunities as well, which will help us increase this going forward.

Rishit Shah – Axis Capital: Thank you very much for the detailed answer.

Management: Thank you. Thank you.

Operator: That was the last question.

Management: May I start with the closing remarks? Thank you for the questions. Three things to leave you with: We delivered the first half and raised our revenue guidance. The buildings that will support FY28 are being fitted out today in a market short of quality space, with the contracts to fill them already being signed. The ratios that looked soft this quarter have one cause, which is investment arriving before revenue, and one cure, which is these campuses going live and billing starting. Thank you, and we look forward to speaking with you next quarter.

Operator: Thank you. On behalf of Smartworks Coworking Spaces Ltd., that concludes this conference. Thank you for joining us, and you may now disconnect your lines. Thank you.

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.

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