

### Perfectly aligned to capture sectoral tailwinds

We recently hosted Mr Umesh Sahay, founder and MD, and Mr Nikhil Bhuta, Whole Time Director, of EFC (I). EFCIL is a Tier I focussed integrated real estate service provider with a presence in managed office rental services (64% of FY24 revenue), design and build (D&B) services (28%), and furniture manufacturing (8%). In rental services, the management sees strong demand due to the growing need for managed spaces, shift to opex from capex, a growing startup culture, and decentralisation. To capitalise on the tailwinds, it plans to add 25,000–30,000 seats annually to its current operational inventory of 42,773 seats.

In the D&B segment, it is expanding its execution capacity and tapping larger contracts. It is targeting a turnover of ~INR500cr in FY27 given the wide array of opportunities. It is setting up a furniture manufacturing facility which will have a revenue generation capacity of INR350cr. It is targeting a turnover of INR300cr from the furniture segment in FY27. Margin in rental services/D&B/furniture segment is pegged ~30% (excluding Ind AS 116)/15–17%/35–40% in FY27E. We expect EFCIL to clock a revenue/EBITDA of ~INR1,700cr/~INR411cr (excluding Ind AS 116) in FY27. A healthy Balance Sheet will lend support. We are bullish on its long-term growth story and are confident in the management's ability to execute. At CMP, the stock trades at TTM EV/EBITDA of 13.1x. Based on management's guidance and our preliminary estimates, the stock trades at an EV/EBITDA of 6-7x on FY27 earnings. The stock is not rated.

#### Key highlights from the management interaction:

##### i. Strong expansion plans:

**Rental services:** As of June, EFCIL had an operational inventory of 42,773 seats spread across Mumbai, Pune, Hyderabad, Noida, Ahmedabad, and Kolkata and targets to expand in Bengaluru, Gurugram and Delhi markets. Mumbai, Pune and Hyderabad are its large markets while Noida is the fastest growing. In coming years, EFCIL plans to add 25,000–30,000 seats annually to its inventory and cross the 1k seat mark by FY26-end. Additions will occur in cities where it has a presence under the straight lease model. By FY27, seat inventory is expected to touch 115,000–120,000.

**D&B services:** EFCIL is aggressively building capabilities, enabling it to bid for larger contracts with marquee clients. In FY24, it clocked a revenue of INR113cr. In Q1FY25, it bagged contracts worth INR75cr, with another INR100cr under negotiation. In the near term, it aims to deliver 80–100% CAGR.

**Furniture manufacturing:** Furniture is a key adjacency to the D&B business, constituting 40–50% of the total fitout cost, which makes sourcing a significant decision. EFCIL sources furniture from multiple manufacturers across cities. To aid the strong growth expected in the D&B segment and optimise cost, it is setting up a manufacturing plant, with a peak revenue potential of INR350cr, at a capex of ~INR25cr. The plant will be operational by Q2FY25-end. The management anticipates a revenue of INR60–75cr/INR200cr/INR300cr from this facility in FY25 /FY26/FY27. At peak utilisation, the segment can achieve an EBITDA margin of 40%.

##### ii. SM REIT and AIF: To create an ownership platform, derisk from uncertainties regarding the property, and for better control over operations and planning, EFCIL set up two subsidiaries: EFC REIT Pvt and EFC AIF. SM REIT will purchase property from existing landlords, with EFCIL as the operator. The rental income and related operating expenses will be booked in the REIT, while EFCIL will charge asset management fees to the SM REIT, which will be equivalent to the net margin that it currently earns in the rental segment (~15% of rental income).

It will invest ~5% of the total corpus in the SM REIT. In the long term, the management aims to convert the SM REIT into a large REIT, with assets worth INR5,000–6,000cr under management. EFCIL is one of three players and is the only operator to apply for a SM REIT licence (other two are fractional ownership platforms). The nuances of this model and the involvement of AIF is yet to be understood. We will get more clarity as and when the model becomes operational.

##### iii. Unit economics for rental services: EFCIL charges INR6,500–7,000 per seat per month, which translates to a monthly revenue of INR160–175 per sq. ft. Average fitout capex required per seat/sq. ft. is ~INR50,000/INR1,250. In 85-90% cases, EFCIL asks the landlord to provide a furnished space and pays a premium for it. This essentially spreads out capex over the life of the contract and limits upfront capex. Key cost components include i) rental cost for bareshell or warmshell property — INR50–60 per sq. ft.; ii) the cost of fitouts (if furnished by the landlord) — INR20–25 per sq. ft.; iii) operating expenses (electricity, water, data, staff, etc.) — INR28 per sq. ft.; and iv) common area maintenance (housekeeping, consumables, etc.) — INR12 per sq. ft. After these expenses, it is left with a centre-level average net income of INR40–60 per sq. ft., or a margin 25–35%. At the corporate level, EBITDA margin stands at 22–25%.

CMP: INR504

Rating: Not Rated

Date: September 15, 2024

Bloomberg:	EFCIL:IN
52-week range (INR):	206/618
Share in issue (cr):	4.98
M-cap (INR cr):	2,510
Promoter holding (%)	45.57

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#### iv. Others:

- i) Around 40% of new business in the rental services segment ensues from existing clients on the back of positive customer experience and value-for-money. As a result, ~50% of transactions occur without the need for a broker (typical brokerage in the industry is rent for around two months).
- ii) In the D&B segment, besides fitting out and designing commercial offices, EFCIL executes projects for research and development centres, educational institutions, and healthcare centres. Realisation and margin for specialised projects are typically better than commercial offices.
- iii) In the rental segment, while fitouts are undertaken by the landlord in 85–90% of cases, the fitout contract often gets awarded to its D&B division given its competitive pricing and quick turnaround.
- iv) A flexible office rental business is viable for an operator in cases where the centre's size is larger than 500 seats, or 20,000 sq. ft. Below this threshold, the centre's operating expenses and fitout cost become unviable and squeeze margin for the operator.
- v) Company intends to get itself listed on NSE in FY26.

#### Outlook and view

Owing to the strong sectoral tailwinds, an elaborate expansion plan, and value-conscious offerings, we expect EFCIL's share in the flexible office leasing market to rise in coming years. In the D&B segment, we expect the business to reap the benefits of the strong capabilities that it has created over the years. We see the size and frequency of order wins increasing meaningfully from hereon. In the furniture space, while the D&B segment will be its anchor customer, we see it tapping the B2B market. We see the lion's share of the revenue accruing from external customers ahead. A strong Balance Sheet (net debt-to-equity ratio of -0.16x), tightly integrated offerings, and confidence in management's execution capabilities provide comfort in its long-term growth story. **At CMP, the stock trades at TTM EV/EBITDA of 13.1x. Based on management's guidance and our preliminary estimates, the stock trades at an EV/EBITDA of 6-7x on FY27 earnings, which is a 40-50% discount to Awfis Space Solutions.** We find the gap unwarranted given EFCIL's strong financial performance, an equally robust growth pipeline and a healthy balance sheet.

#### Key financials

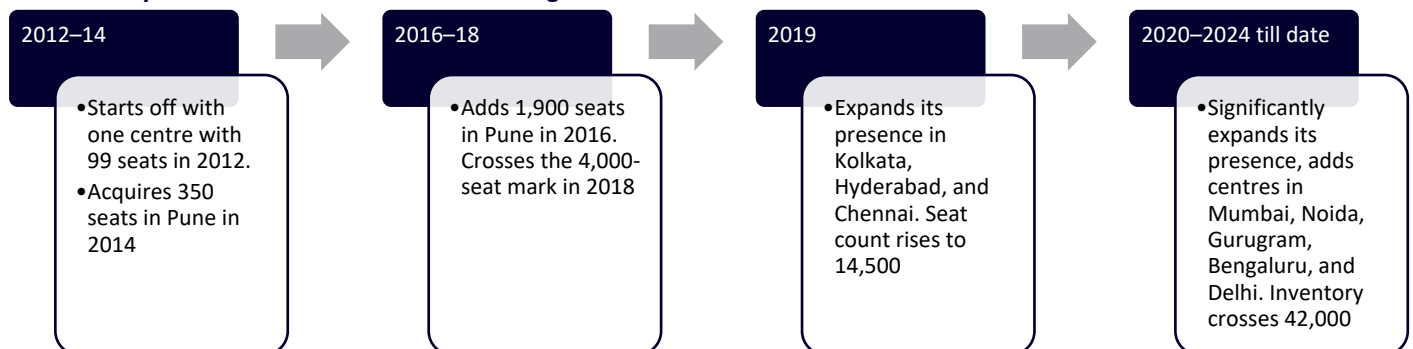
Year to March (INR cr)	FY21	FY22	FY23	FY24
Revenue	n.m.	n.m.	103	410
EBITDA	n.m.	n.m.	55	173
PAT	n.m.	n.m.	4	63
PAT margin (%)	n.m.	n.m.	4	14
RoACE (%)	n.m.	n.m.	10.5	15.9
Net debt-to-equity ratio	n.m.	n.m.	0.8	(0.2)
P/E ratio (x)	n.m.	n.m.	60.5	35.9

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### About the company

Established in 2012 by first generation entrepreneurs, Mr Umesh Sahay and Mr Abhishek Narbaria, EFCIL is India's first listed company operating in the managed office and co-working space. In FY12, it commenced operations with a single office (99 seats) in Pune and an aim of providing a workplace to entrepreneurs and startups in the IT and ITes segment on a not-for-profit basis. The traction and commendation that it received for this initiative led it to explore the flexible office market as its primary line of business. The company converted this venture into a for-profit business in 2014 and began expanding its presence in Pune in a cost efficient and a capital light manner. Since then, it has rapidly expanded and is now present in nine cities with an inventory of 42,773 operational seats and capacity of 47,000 seats.

#### Exhibit 1: Key milestones in the rental services segment



Source: Company, Nuvama Wealth Research

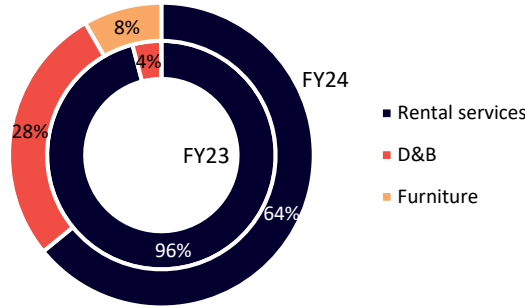
As the pace of expansion increased and EFCIL's annual inventory addition run-rate grew significantly, the management decided to in-source design and fit out of centres and developed capabilities and workforce internally. While the initial stages were a learning phase for the company, it was gradually able to optimise operations and rationalise costs. Since it had already developed the required capabilities, it began offering D&B services to external clients as well. At present, it caters to multiple marquee clients across industries and is one of the most cost-efficient service providers in the industry with one of the fastest turnaround times.

Furniture is one of the largest cost components (~50% of the total cost) in fitting out a bareshell commercial property. With the D&B segment achieving scale, EFCIL is applying the same set of business logic that it used for the D&B segment. It is setting up an in-house furniture manufacturing facility to save cost and target value-conscious external customers. At present, it has tied up with multiple manufacturers across locations for sourcing furniture. Its new facility is under development and is expected to commence operations in September.

Driven by strong expansion in the rental segment and identification and exploration of key adjacencies (D&B and furniture segments), EFCIL has significantly scaled up its operations in recent years. In FY24, it clocked a revenue of INR410cr, with INR263cr/INR113cr/INR34cr accruing from the rental/D&B/furniture segment.

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Exhibit 2: Revenue mix



Source: Company, Nuvama Wealth Research

Exhibit 3: Multi-brand approach

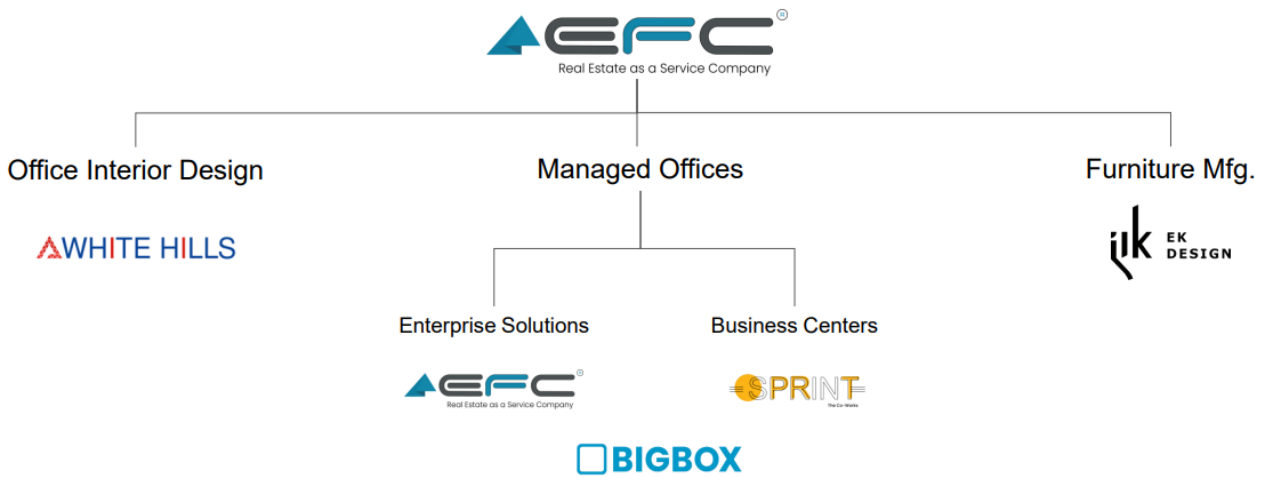
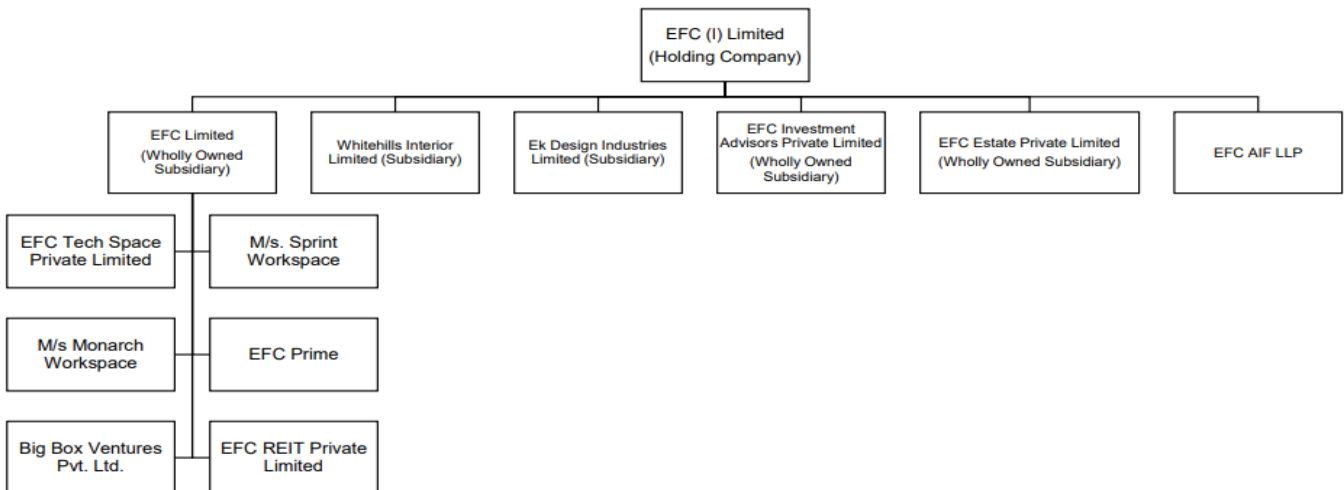


Exhibit 4: Organisation structure



Source: Company, Nuvama Wealth Research

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#### Flexible office rental services

##### Business as is

EFCIL offers managed workplace solutions to clients ranging from large enterprises to SMEs and startups. Around 75–80% of seats are taken up by enterprises, which typically have a lock-in period of three to five years. The rest is divided among SMEs and startups, which have a lock-in period of one to two years.

A managed office can either be a single client or a multi client centre. For EFCIL, ~65% of seats are occupied by single client centres. These centres provide it with longer lock-ins and stability of rentals, at the cost of a slightly lower realisation per seat. The centre is customised as per the client’s requirement. A single client centre is branded as ‘EFC’ but can also house the customer’s brand logo. Conneqt Business Solutions (a part of Qness Corp) is one of its largest customers occupying single client centres across various cities.

Around 35% of seats are occupied by multi-client centres. While these centres have multiple tenants, it is not a shared space concept. Each client has its own dedicated space, with a separate access door. The client size can range from five to 200–300 seats.

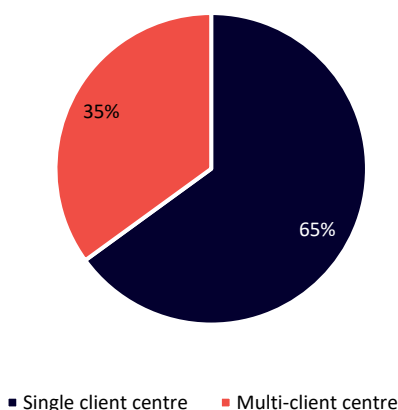
It operates via three brands in this segment: EFC, Sprint, and BigBox (refer Exhibit 3). EFC is typically used for single client offices while a multi client office sports the Sprint brand. Subsidiary Big Box Ventures, which was recently acquired, has more than 3,000 seats across nine locations in Pune and is expanding in NCR, Ahmedabad, and Kolkata. EFCIL intends to operate Big Box Ventures as a separate entity, with its erstwhile management and its own brand name. It holds a 51% stake in Big Box Ventures.

**Exhibit 4: Snapshot of key trackables in the rental services segment (as of June-end)**

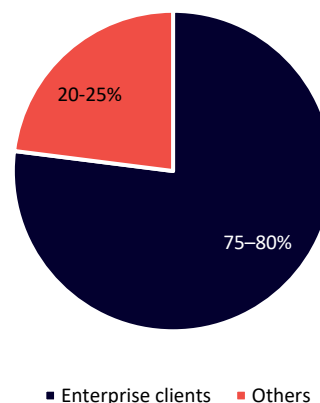
Operational seats	Chargeable area	Area/seat	Occupancy	Monthly ASR	Monthly revenue/seat*
42,773	2.2mn sq. ft.	40 sq. ft.	91%	INR6,250–7,000	INR5,999
Centres	Contribution margin	EBITDA margin	Average centre size	Weighted average tenure	Number of clients
57	60%	25–30%	~38,000 sq. ft.	~3 years	More than 500

\*in FY24; Source: Company, Nuvama Wealth Research

**Exhibit 5: Seat split (type of centre)**



**Exhibit 6: Seat split (type of client)**



Source: Company, Nuvama Wealth Research

EFCIL invests in a single client centre only when it has a customer who is ready to take up the space once it turns operational. The client here is typically a large enterprise that needs a fully managed office and is ready to commit for a longer lock in period (which ranges from three to five years). The centre is fitted out as per the client’s requirement. It allows the client to use its own brand logo in the office.

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A multi client centre is partly speculative. EFCIL typically puts up a shared centre in micro-markets that it understands well and is confident of filling up. Here too, it typically has an anchor client. For the remaining space, it hunts for tenants during the fit out period or post commissioning. It can fill up a shared space centre within six to eight months of operations.

Driven by: i) a high share of single client centres, and ii) its ability to fill up a large part of a shared centre during the fit out period, **occupancy is maintained in excess of 90%**, which is one of the best in the industry.

What drives the ability to fill up a centre is the high degree of referrals and demand from existing customers. **Around 40% of demand accrues from referrals and existing customers. Another 10% is directly sourced demand, i.e. without the involvement of any third parties. The balance ensues from brokers and intermediaries.**

On the supply side, it rents out space from the landlord on a straight lease for five to nine years. In Maharashtra, the lease period is restricted to five years given the hefty stamp duty obligation for holding a property beyond five years.

Exhibit 7a: Key marquee customers



Exhibit 7b: Recent additions to the client base



Source: Company, Nuvama Wealth Research

Exhibit 8: Seat inventory build-up as of June-end

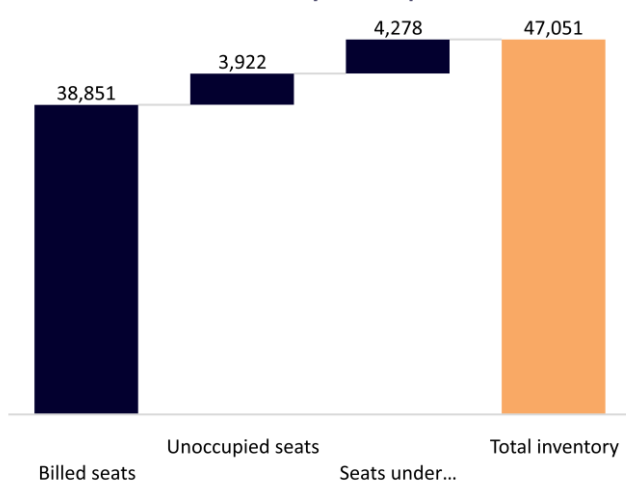
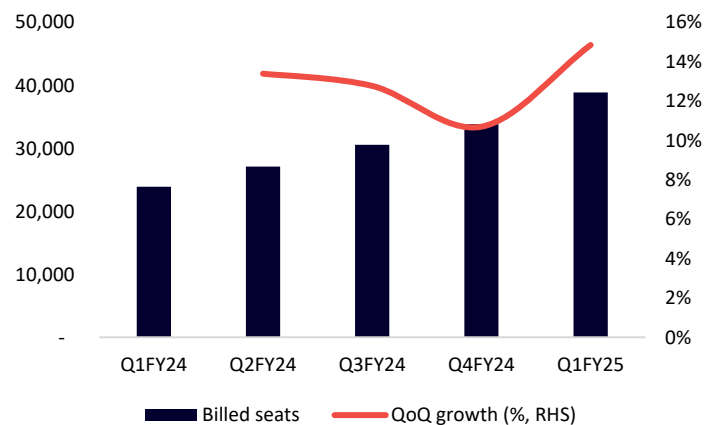


Exhibit 9: Billed seats clocked 12.9% CQGR over the last five quarters



Source: Company, Nuvama Wealth Research

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**Exhibit 10: Key performance indicators for the rental services segment**

Particulars	FY23	FY24	Q1FY25
Revenue from rental services (INR cr)	99	263	67
<i>Rental revenue as a percentage of total revenue</i>	<i>96</i>	<i>64</i>	<i>63</i>
Number of operational seats	23,000	36,539	42,773
Monthly revenue per seat (INR)	3,587	5,999	5,205
Occupancy (%)	n/a	93	91
Average monthly seat rate (INR)	n/a	6,480	5,730
Chargeable area (mn sq. ft.)	1.0	1.9	2.2
Monthly revenue per sq. ft. (INR)	83	115	101
Number of centres	n/a	50	57
Area/centre	n/a	38,000	38,596

Source: Company, Nuvama Wealth Research

**Exhibit 11: Centre-level unit economics**

Key cost components	INR per sq. ft.
Rental cost for a bareshell or warmshell property	50–60
Add-on rental for fitouts and fixtures*	20–25
<b>Total rental cost</b>	<b>70–85</b>
Operating expenses	28
Common area maintenance	13
<b>Total cost</b>	<b>110–125</b>
Rental income	165–170
<b>Net centre level EBITDA</b>	<b>40–60</b>
<b>Centre level average EBITDA margin (%)</b>	<b>30</b>

\*In 85–90% cases, EFCIL rents out a fully furnished property; Source: Company, Nuvama Wealth Research

**Exhibit 12: Snapshot of newly commissioned centres**

**Sprint Antaaya Baner (Pune) | entire building | ~60,000 sq. ft. | ~1,200 seats**



**Sprint Kharadi (Pune) | ~155,060 sq. ft. | 3,827 seats**



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**Sprint Hyderabad | Three floors | 149,365 sq. ft. | 4,435 seats**

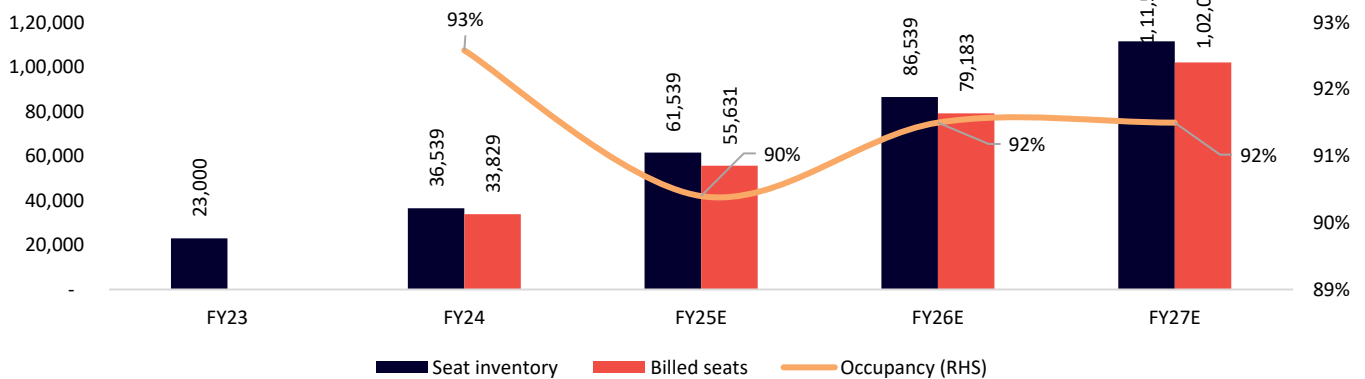


Source: Company, Nuvama Wealth Research

## Way forward

Led by: i) the growing need for fully managed offices, ii) greater preference for an opex-led cost model versus a capex-led model for corporates, iii) a growing startup culture (startup count clocked 68% CAGR over 2019–23), iv) influx of GCCs (expected to clock ~10% CAGR over 2023–26), v) decentralisation, and vi) a need for plug-and-play setups, the management sees a strong demand undercurrent. It expects demand for flexible office spaces to clock 20–25% CAGR going forward. To capitalise on tailwinds, it plans to add 25,000–30,000 seats annually to its current operational inventory of 42,773 seats. Occupancy is one of the key differentiators for EFCIL, with average occupancy staying in excess of 90%. It expects occupancy to stay in a similar range going forward. We see average realisation for the industry expanding by 5–6% annually in coming years. Based on the management’s conservative expectations, revenue from rental services segment can clock 51.7% CAGR over FY24–27 to INR919cr.

**Exhibit 13: EFCIL expects to add 25,000–30,000 seats annually; see inventory growing at 45.1% CAGR over FY24–27E; occupancy to stay elevated**

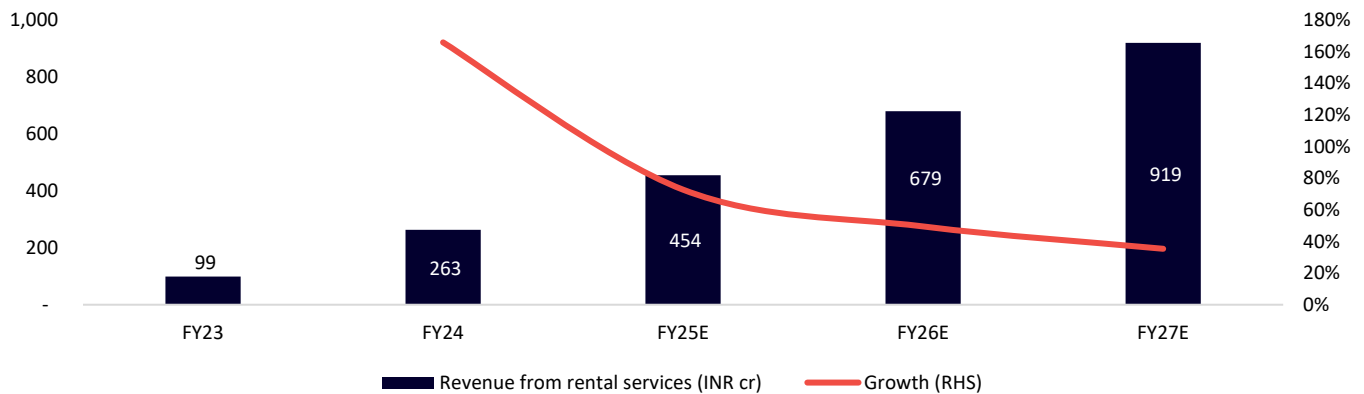


Source: Company, Nuvama Wealth Research



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**Exhibit 14: Revenue from rental services can expand at 51.7% CAGR over FY24–27E led by a 45.1% inventory CAGR, stable occupancy, and annual price growth of ~5%**



Source: Company, Nuvama Wealth Research

### Design and build (D&B) services

#### Business as is

To leverage available synergies and expand its base of offerings, EFCIL strategically diversified into the interior fitout business. As the rental services segment achieved scale, it scaled up its annual seat addition pipeline and decided to develop capabilities to design and build a centre in-house (erstwhile outsourced to contractors). It has set up a separate subsidiary — White Hills Interiors — for executing D&B contracts and **operates under the White Hills brand**. At present, it designs and builds barshell and warmshell spaces for internal as well as external customers.

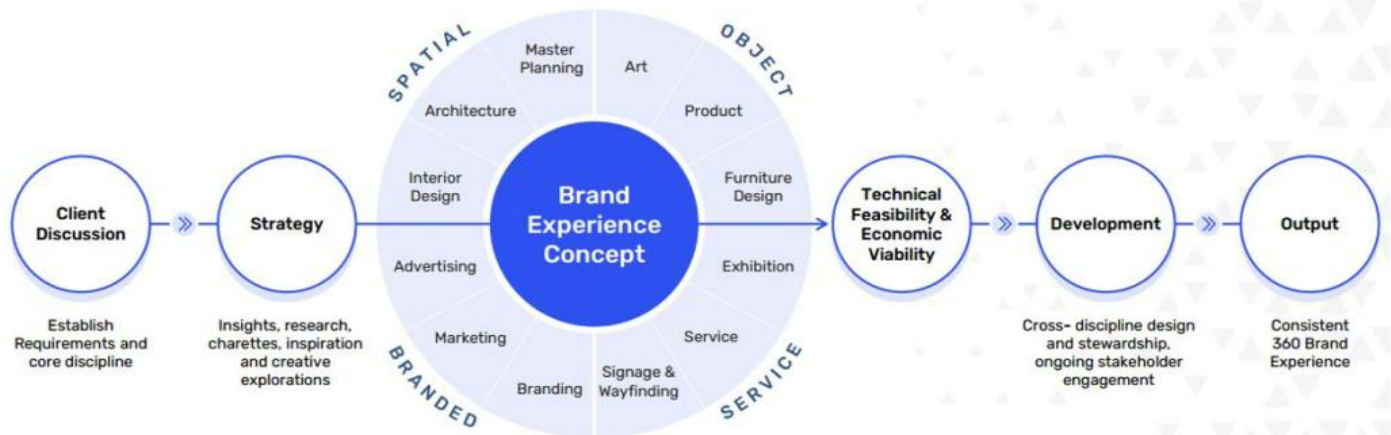
**Exhibit 15: Snapshot of EFCIL’s key capabilities and differentiators**

<p><b>Design</b></p> <ul style="list-style-type: none"> <li>• Crafting distinct, bespoke interiors for diverse clients. From boutique offices to healthcare facilities and universities</li> <li>• Ensures an exclusive and tailored experience</li> </ul>	<p><b>Precision</b></p> <ul style="list-style-type: none"> <li>• Design process comprises four phases: discussions with a designer, site visit, desk research, and initial framework.</li> <li>• Followed by a second round of discussions, framework refinement, and finalization</li> </ul>	<p><b>Agile Delivery</b></p> <ul style="list-style-type: none"> <li>• Tackle each design element with efficiency and timeliness, aligning with clients' schedules</li> <li>• Engagement-focused approach and innovative concept-architecture</li> </ul>
<p><b>Strategic Development</b></p> <ul style="list-style-type: none"> <li>• Diversity across 15+ industry sectors</li> <li>• Leveraging design experience and expertise to generate lasting, impactful results</li> </ul>	<p><b>Efficient</b></p> <ul style="list-style-type: none"> <li>• Grasp office design metrics, spanning frictionless enterprises to niche markets, parallel tasking to bricks-and-clicks</li> <li>• Transform visions into blueprints and reality</li> </ul>	<p><b>Economical</b></p> <ul style="list-style-type: none"> <li>• Swiftly address issues at all levels, innovating, integrating, and providing end-to-end interior solutions that are economically efficient</li> </ul>

Source: Company, Nuvama Wealth Research

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Exhibit 16: Key processes and scope of service



Source: Company, Nuvama Wealth Research

It utilises D&B services for developing its own centres as well as offices leased by external customers. In 85–90% cases, it leases out a fully furnished property from the landlord. While the landlord is free to choose the D&B contractor for the centre, it ends up employing White Hills in most instances as it is one of the most cost-efficient players in the industry. Driven by internal efficiencies, standard SOPs, exclusive tie-ups, and an internal design team, **it can execute a standard D&B contract for around INR1,250 per sq. ft., over which it charges a margin of 15–17%**, as against INR2,500–3,500 per sq. ft. by its competitors. It offers **quick turnaround, with a conversion period of two to three months**. Besides designing commercial offices, it builds healthcare centres, educational institutions, and research and development centres. For external clients, it offers D&B as well as a built to suit service. In both cases, the focus is on cost optimisation, quick turnaround, and quality offerings.

In FY24, the D&B segment clocked a revenue of INR113cr, with an EBITDA margin of 15–17%. Average fitout duration for a centre is two to three months. While the company typically receives an advance for mobilising its workforce and buying materials, the receivable period is 60–90 days. Net working capital requirement in the business is 30–60 days. The customer is billed as construction progresses and a milestone is hit.

In Q1FY25, it clocked a revenue of INR35cr from the D&B segment and bagged orders worth ~INR75cr from various sectors. During the quarter, it successfully completed a 1lk sq. ft. project for Coforge in just 62 days. With the expansion of capabilities and precedence for executing large fitouts for marquee customers, it is seeing strong traction in enquiries. Contracts worth INR100cr are under various stages of negotiation.

Exhibit 17: Key customers in the D&B segment



Source: Company, Nuvama Wealth Research

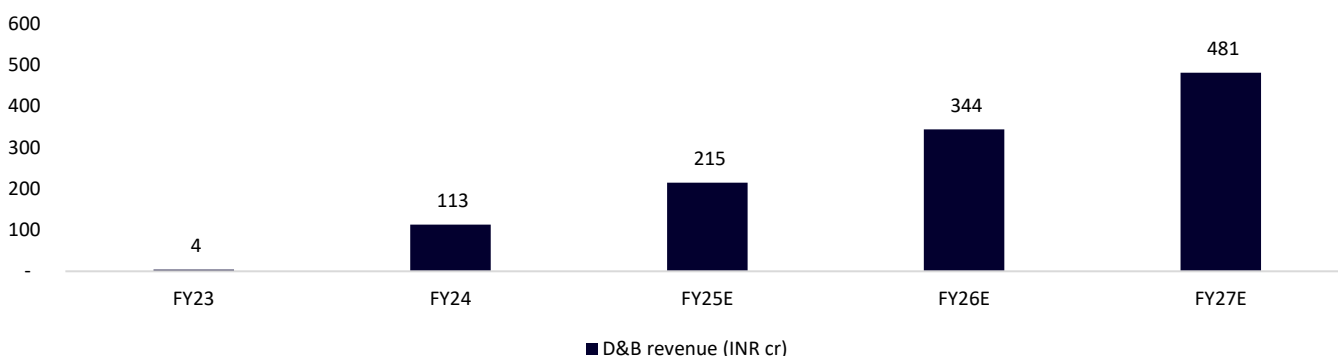
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### Way forward

Branded players that focus on quality, cost, and turnaround time have significant growth potential in coming years. India is absorbing an inventory of ~60mn sq. ft. of Grade A office spaces annually, of which EFCIL is fitting out less than 1%. As it executes contracts for marquee customers, the enquiry pipeline will expand significantly. To support increased enquiries, it is investing in expanding capabilities. We see a gradual and steady expansion in its market share going forward.

The management expects to grow at 80–100% CAGR in the near term and clock at least INR500cr revenue in FY27. EBITDA margin is seen in the 15-17% range. On a conservative basis, we expect the D&B segment to clock a revenue of INR481cr in FY27, at a CAGR of 62.1% over FY24–27.

Exhibit 18: See 62.1% revenue CAGR from D&B services over FY24–27E on market share gains and increasing capabilities



Source: Company, Nuvama Wealth Research

Exhibit 19: Recently commissioned projects in the D&B segment for external clients

**Coforge | ~100,000 sq. ft. | Turnaround time – 62 days**

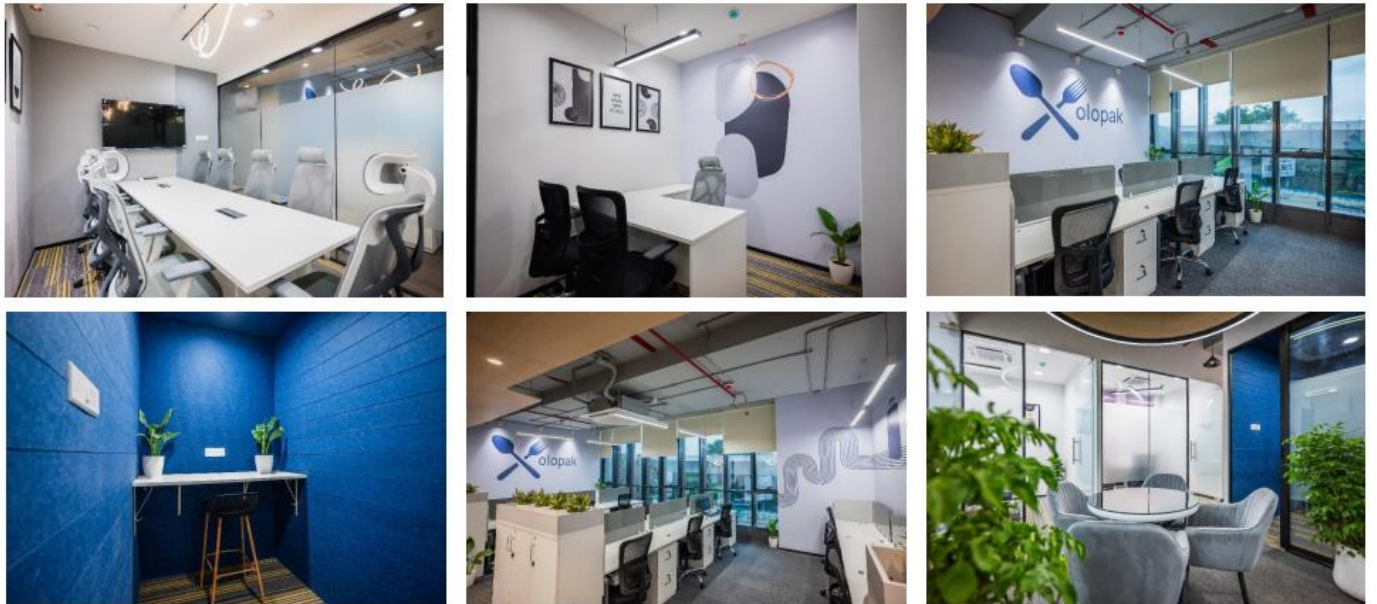


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### Tata Consultancy Services



### Xolopak



Source: Company, Nuvama Wealth Research

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### Furniture trading/manufacturing

#### Business as is

Furniture and fittings constitute 50–60% of the total cost of fitting out a commercial office. As a result, a furniture manufacturing facility perfectly complements the D&B segment. Since the D&B segment is relatively small, EFCIL has tied up with manufacturers in multiple locations to secure its supply of furniture and fittings. **With the segment expected to generate scale, it plans to execute the same strategy as it did in the D&B segment and intends to bring the entire manufacturing process in-house.**

It has obtained regulatory approvals to establish the manufacturing facility at Fursungi, Haveli taluka, Pune. The facility is spread over three acres and contains a customer experience centre. Machinery has been ordered from best-in-class manufacturers to ensure the highest levels of efficiency. The facility will employ more than 200 workers. The management expects the facility to be commissioned by the end of September.

#### Exhibit 20: Key machinery vendors and civil contractors

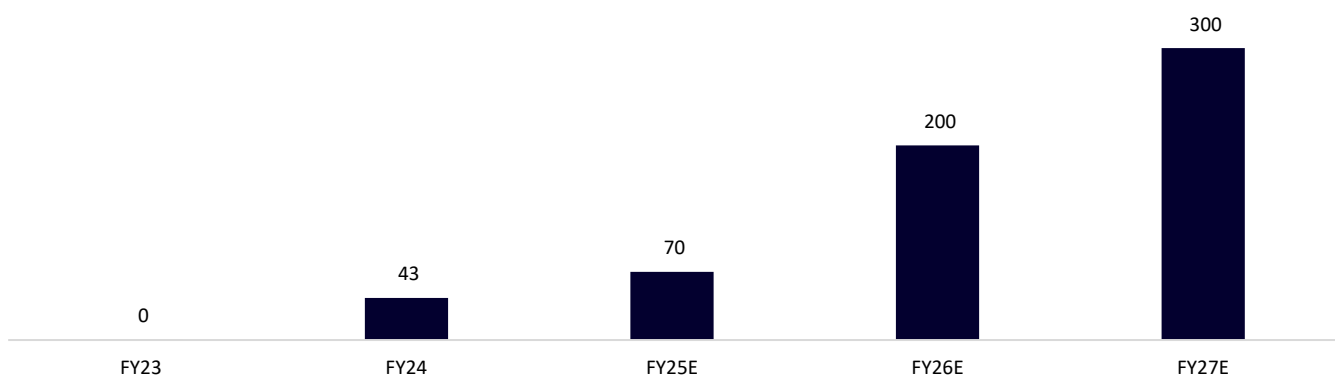


While part of the facility will cater to the demand from Managed Office vertical, a large part will serve external customers. In the first phase, EFCIL intends to target B2B customers and will cater to commercial (office and hospitality segments) as well as residential distributors. It has designed more than 300 SKUs which are ready for production. In the initial stages, to ensure a quick ramp up, it is looking to produce white label goods for a couple of large retailers. In the second phase, it is aiming for the B2C market and will use both online and offline distribution channels. **It will brand its products as 'Ek Design'.**

#### Way forward

As per the management, the manufacturing facility has the potential to generate a revenue of INR350cr at peak utilisation in a single shift. In H2FY25, it expects to clock a revenue of INR60–75cr and scale up to INR200cr/INR300cr in FY26/FY27. At optimal utilisation level, it expects the segment to generate an EBITDA margin of 40%.

Exhibit 21: Sees 106.3% revenue CAGR from furniture sale over FY24–27 to INR300cr



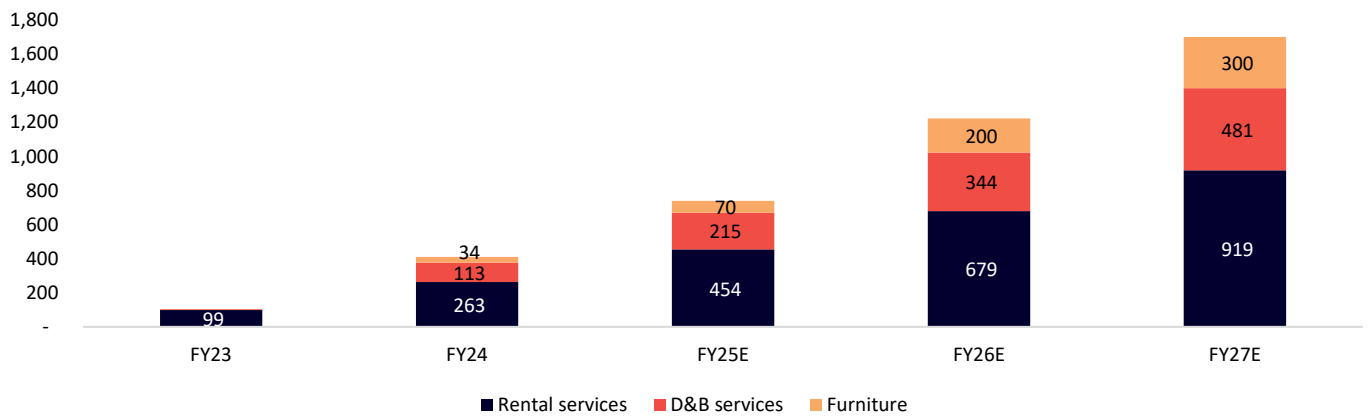
Source: Company, Nuvama Wealth Research

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## Blended business outlook

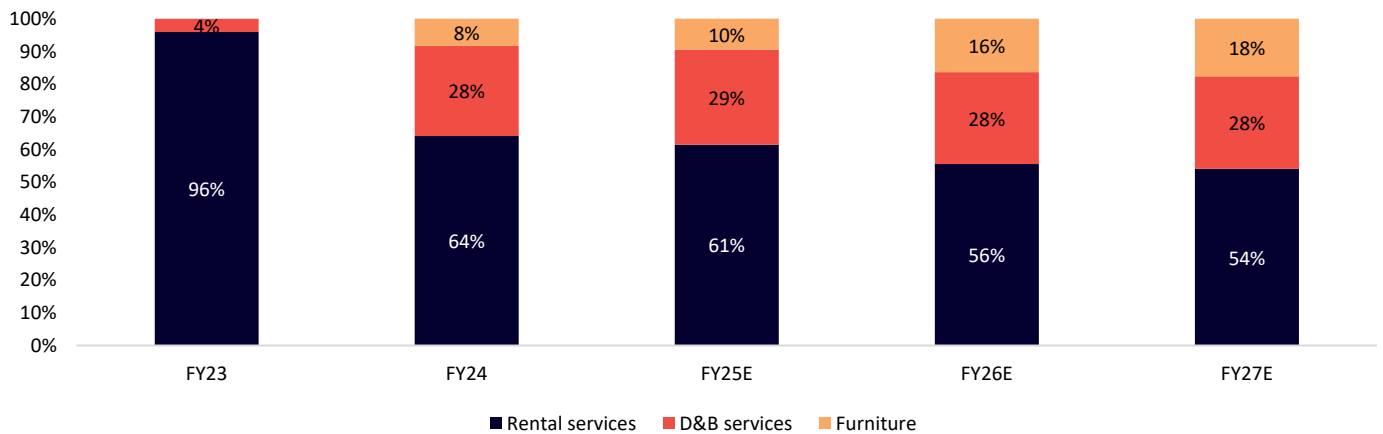
Based on management estimates, we see revenue growing at 60.6% CAGR to ~INR1,700cr by FY27, with rental services/D&B services/furniture sales contributing 54%/28%/18% to total revenue (FY24: 64%/28%/8%). Blended EBITDA margin can range from 24% to 25% (excluding Ind AS 116). EBITDA seen at INR411cr in FY27E.

Exhibit 22: EFCIL sees 60.6% blended revenue CAGR over FY24–27 to INR1,700cr



Source: Company, Nuvama Wealth Research

Exhibit 23: Segment mix to tilt towards D&B (high growth) and furniture (low base)



Source: Company, Nuvama Wealth Research

### Perfectly aligned to capture sectoral tailwinds

#### Strong balance sheet, supported by healthy cash flows

EFCIL rents properties from landlord on a straight lease, for a period ranging from four to nine years. Entire capex for fitouts and interiors is borne by the company. However, to de-risk its cash flows and avoid upfront one-time capex cost, it asks the landlord to do the fitouts and provide EFCIL with a fully furnished property. The landlord, accordingly, asks for a higher rental (refer Exhibit 11). Company follows this model for almost 85% of the properties it takes up. For the remaining ~15%, it incurs the required capex. This setup has helped the company extensively in managing its cash flows and ensuring optimum utilization of internal accruals.

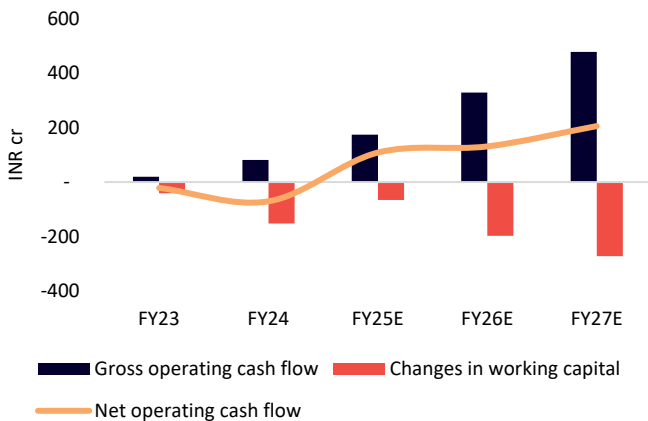
Driven by i) prudent cash management, ii) sharp improvement in profitability, and iii) fund raise of ~INR273cr in December 2023 by issue of equity shares, EFCIL enjoyed a **net cash position of INR70cr as of FY24-end**. We do not see any meaningful deterioration in its position going forward and expect it to be able to fund its capex via operating cash flows.

Operating cash flows were impacted in FY24 due to a sharp increase in receivable cycle. However, the jump was on account of a one-off aberration and expect the receivables to normalize going forward. Inventories will see a jump in the coming years as the furniture segment ramps up. Normalized working capital requirement could range from 60-70 days.

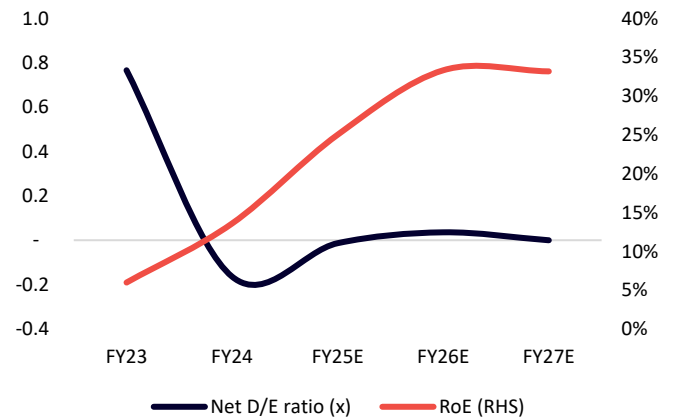
Based on our preliminary estimates, we see the company generating cumulative operating cash flow of ~INR440-445cr over FY25-27, of which ~INR170-180cr will be invested in expanding capacities. We see cumulative free cash flow of ~INR270-275cr accruing to EFCIL over FY25-27.

Despite a higher working capital requirement, operating cash flows can see a jump on the back of a sharp improvement in revenue as well as profitability. Consequently, we see a multi-fold jump in RoE, from 13.6% in FY24 to more than 30% in FY27.

**Exhibit 24: Cash flows to improve meaningfully on sharp growth in profits and efficient working capital management**



**Exhibit 25: Led by healthy cash flow and rationalized capex, leverage to remain at healthy levels, RoE to expand on profit growth**



Source: Company, Nuvama Wealth Research

### Key risks

- The flexible office demand is highly sensitive to the overall office leasing demand in the country. Any cyclical downturn in the sector will impact the leasing, occupancy and profitability of flexible lease operators.
- Any delay in expansion might limit the revenue growth potential
- Intense competition might hurt the pricing power

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### Appendix 1: Comparison of key parameters of the larger flex space operators in the industry

Exhibit 26: Comparison of key financial and operational metrics of EFCIL with AWFIS and SmartWorks

Particulars (INR cr)	EFCIL		AWFIS		SmartWorks	
	FY23	FY24	FY23	FY24	FY23	FY24
<b>Financial metrics</b>						
Revenue	103.2	410.3	545.3	848.8	711.4	1,039.4
EBITDA (with IndAS 116)	55.4	173.5	155.6	245.4	391.3	585.9
<b>EBITDA margin (with IndAS 116)</b>	<b>53.7%</b>	<b>42.3%</b>	<b>28.5%</b>	<b>28.9%</b>	<b>55.0%</b>	<b>56.4%</b>
PBT	7.2	81.0	-46.6	-17.6	-136.2	-67.6
<b>PBT margin</b>	<b>7.0%</b>	<b>19.7%</b>	<b>-8.6%</b>	<b>-2.1%</b>	<b>-19.1%</b>	<b>-6.5%</b>
PAT	4.3	58.0	-46.6	-17.6	-101.0	-50.0
<b>PAT margin</b>	<b>4.2%</b>	<b>14.1%</b>	<b>-8.6%</b>	<b>-2.1%</b>	<b>-14.2%</b>	<b>-4.8%</b>
Rental revenue	99.0	263.0	418.8	618.9	664.6	987.0
Fitout/interior revenue	4.2	113.1	105.0	204.9	-	-
Other revenue	0.0	34.2	21.4	25.0	46.8	52.3
<b>RoE</b>	<b>6.0%</b>	<b>13.6%</b>	<b>-27.5%</b>	<b>-7.0%</b>	<b>-321.1%</b>	<b>-99.9%</b>
<b>Operational metrics</b>						
<b>Number of operational seats</b>	<b>23,000</b>	<b>36,539</b>	<b>68,203</b>	<b>95,030</b>	<b>1,37,564</b>	<b>1,63,022</b>
<b>Monthly revenue per seat (INR)</b>	<b>3,587</b>	<b>5,999</b>	<b>5,118</b>	<b>5,427</b>	<b>4,026</b>	<b>5,045</b>
<b>Occupancy</b>	<b>n/a</b>	<b>93%</b>	<b>75%</b>	<b>71%</b>	<b>77%</b>	<b>80%</b>
Monthly average seat rate (INR)	n.m.	6,480	6,824	7,644	5,246	6,325
Chargeable area (mn sq. ft.)	1.0	1.9	3.5	4.8	6.2	7.2
<b>Monthly revenue per sq.ft. (INR)</b>	<b>82.5</b>	<b>115.4</b>	<b>99.7</b>	<b>107.5</b>	<b>89.9</b>	<b>114.1</b>
<b>Area/seat (sq. ft.)</b>	<b>43.5</b>	<b>52.0</b>	<b>51.3</b>	<b>50.5</b>	<b>44.8</b>	<b>44.2</b>
Centres	n/a	50	119	160	39.0	39.0
Area/centre	n.m.	38,000	29,412	30,000	1,57,949	1,84,872
<b>Valuation</b>						
Market cap	2,511	2,511	5,054	5,054	n.m.	n.m.
Enterprise value	2,566	2,441	5,047	5,081	n.m.	n.m.
<b>P/E (x)</b>	<b>579.1</b>	<b>43.3</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>	<b>n.m.</b>
<b>EV/EBITDA (x)</b>	<b>46.3</b>	<b>14.1</b>	<b>32.4</b>	<b>20.7</b>	<b>n.m.</b>	<b>n.m.</b>
<b>EV/seat (INR)</b>	<b>11,15,792</b>	<b>6,67,958</b>	<b>7,39,986</b>	<b>5,34,715</b>	<b>n.m.</b>	<b>n.m.</b>
<b>EV/sq ft (INR)</b>	<b>25,663</b>	<b>12,846</b>	<b>14,420</b>	<b>10,586</b>	<b>n.m.</b>	<b>n.m.</b>

Source: Company, Nuvama Wealth Research

Exhibit 27: Snapshot of key performance indicators of top six players in the flexible office space segment

Particulars	EFC	AWFIS	Smartworks	CoWrks	Table Space	WeWork
Number of centres	57	160	41	15-25	60	53+
Desks	42773	95030	180000+	20000+	50000	90000+
Operational area (mn sq. ft.)	2.2	4.8	8+	1-2	5+	8+
Cities	7	16	13	8	7	8
Average facility size (sq. ft.)	35,000-40,000	30000	150000-200000	40000-90000	70000-120000	100000-150000
Tier 2 inventory (mn sq. ft.)	n.a.	0.5	0.2-0.25	n.a.	n.a.	n.a.
Operator model	Managed	Hybrid	Managed	Co-working	Managed	Hybrid
Average tenure	24 months	33 months	Longer duration offerings	Multiple tenure offerings	Longer duration offerings	Multiple tenure offerings
Focus Cohort	>100 seats	All	>100 seats	Small to medium	>100 seats	All
Organic leasing	Medium	Medium	Low-medium	Medium	Low-medium	Medium

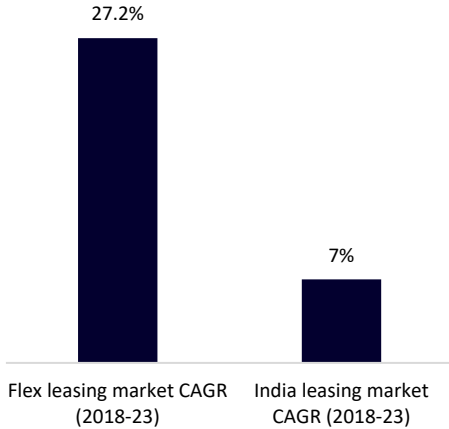
Source: Company, Nuvama Wealth Research



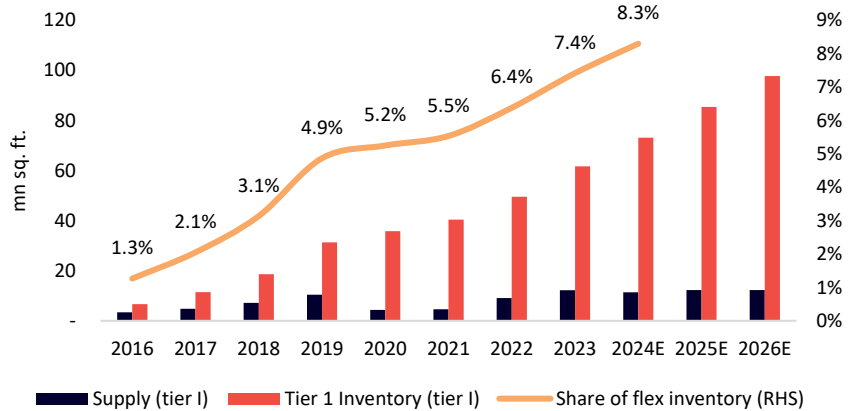
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### Appendix 2: A snapshot of India's flexible office space industry in charts along with key growth drivers

**Exhibit 28: Indian flex leasing market has grown 4x the overall industry over 2018-23**

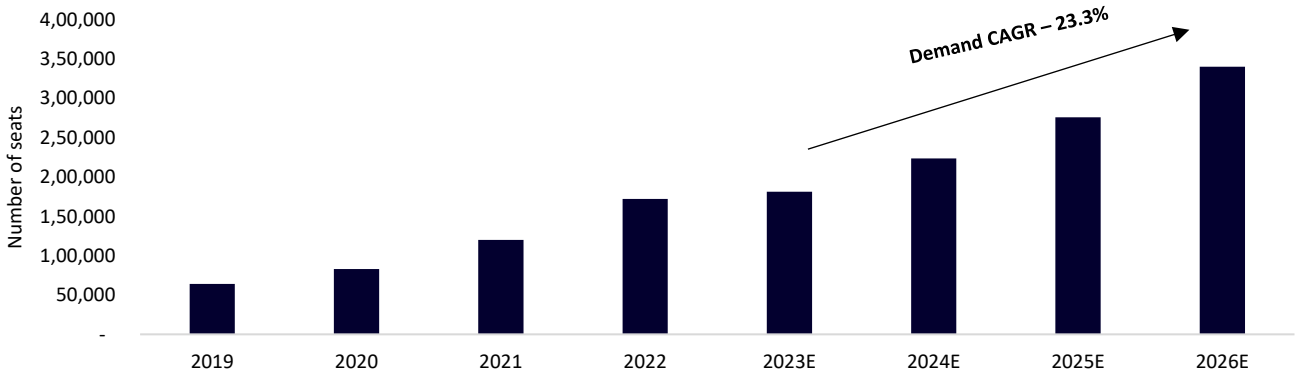


**Exhibit 29: Share of flex inventory in the India leasing market has grown from 3.1% in 2018 to 7.4% in 2024; see inventory growing at 16.6% CAGR over 2023-26E to support the rapid demand surge**



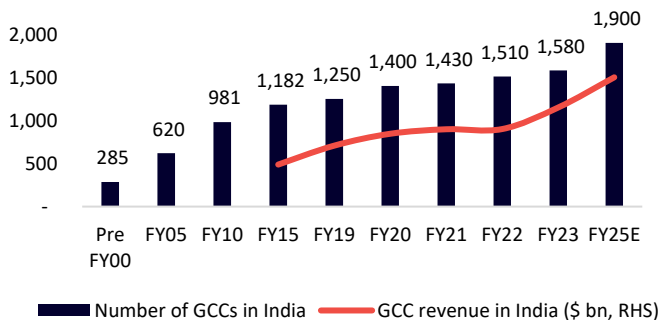
Source: CBRE, AWFIS RHP, Nuvama Wealth Research

**Exhibit 30: Against a 16.6% inventory CAGR, see annual demand (absorption) growing at 23.3% CAGR over 2023-26 from ~181,000 seats per annum to ~340,000 seats**

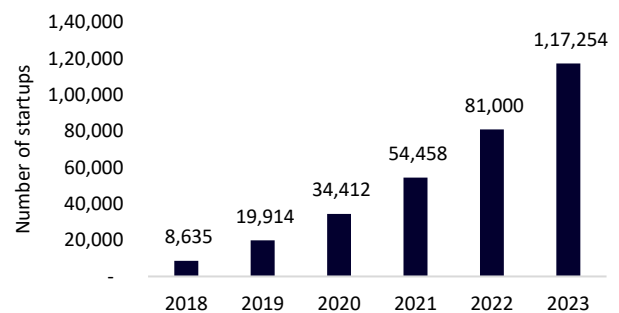


Source: CBRE, AWFIS RHP, Nuvama Wealth Research

**Exhibit 31: Access to quality talent pool at a lower cost, demographics driving GCCs to expand base in India**



**Exhibit 32: Start-ups saw a surge post-COVID, growing at 68% CAGR since 2019; sharp growth expected to continue**



Source: NASSCOM, IBEF, Nuvama Wealth Research

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Exhibit 33: Comparison of cost to tenant in a flexible lease and a traditional lease over a three-year period

Cost per seat in traditional v/s flex lease		
Particulars	Traditional lease	Flex lease
Number of seats	100	100
Seat density	80	60
Area required (sq. ft.)	8,000	6,000
Rent (INR/sq. ft./month)	120	270
Opex (INR/sq. ft./month)	60	-
CAM (INR/sq. ft./month)	20	-
<b>Total monthly charge (INR/sq. ft./month)</b>	<b>200</b>	<b>270</b>

Total cash flow over three years		
Particulars (INR cr)	Traditional lease	Flex lease
Total annual recurring cost	1.9	1.9
Rent (incl CAM and opex)	5.8	5.8
Security deposit	0.6	1.0
Capex (INR2,200/sq. ft.)	1.8	0.0
<b>Total outflow</b>	<b>8.1</b>	<b>6.8</b>

Source: AWFIS RHP, Nuvama Wealth Research

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### Financials

#### Income Statement

Year to March (INR cr)	FY21	FY22	FY23	FY24
Income from operations	-	-	103	410
Cost of units sold	-	-	37	187
Employee cost	0	0	5	14
Other expenses	0	0	5	36
Total operating expenses	0	0	48	237
EBITDA	-0	-0	55	173
Depreciation and amortisation	-	-	35	76
EBIT	-0	-0	21	98
Interest expenses	-	-	15	35
Other income	0	0	1	18
Profit before tax	0	0	7	81
Provision for tax	0	0	3	18
Profit after tax	0	0	4	63
Adjusted EPS	1	0	8	14

#### Common size metrics as a percentage of net revenue

Year to March	FY21	FY22	FY23	FY24
Operating expenses	n.m.	n.m.	46	58
Depreciation	n.m.	n.m.	33	18
Interest expenditure	n.m.	n.m.	14	9
EBITDA margin	n.m.	n.m.	54	42
Net profit margin	n.m.	n.m.	4	14

#### Growth metrics (%)

Year to March	FY21	FY22	FY23	FY24
Revenue	n.m.	n.m.	n.m.	298
EBITDA	n.m.	n.m.	n.m.	213
PBT	n.m.	n.m.	n.m.	1,026
Adjusted net profit	n.m.	n.m.	n.m.	1,237
Adjusted EPS	n.m.	n.m.	n.m.	69

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### Balance Sheet

As of March 31	FY21	FY22	FY23	FY24
Equity share capital	1	1	7	10
Reserves and surplus	1	1	66	417
Shareholders' funds	2	2	73	427
Total debt	-	-	58	115
Other long-term liabilities	-	-	295	337
<b>Sources of funds</b>	<b>2</b>	<b>2</b>	<b>424</b>	<b>885</b>
Net block	-	-	90	132
Capital work in progress	-	-	19	28
Total fixed assets	-	-	109	161
Investments	0	0	0	0
Inventories	-	-	-	25
Sundry debtors	-	-	15	120
Cash and equivalents	0	1	3	185
Loans and advances	0	1	75	121
Total current assets	0	2	92	451
Sundry creditors and others	-	0	42	70
Provisions	-	-	6	1
Total current liabilities and provisions	-	0	48	71
Net current assets	0	2	45	379
Other assets	2	-	271	345
<b>Uses of funds</b>	<b>2</b>	<b>2</b>	<b>424</b>	<b>885</b>

### Ratios

Year to March	FY21	FY22	FY23	FY24
RoAE (%)	n.m.	n.m.	11.7	23.2
RoACE (%)	n.m.	n.m.	10.5	15.9
Debtor days	n.m.	n.m.	52	106
Inventory days	n.m.	n.m.	-	22
Payable days	n.m.	n.m.	52	42
Cash conversion cycle (days)	n.m.	n.m.	(1)	87
Debt/equity ratio	n.m.	n.m.	0.8	0.3
Debt/EBITDA ratio	n.m.	n.m.	1.1	0.7
Adjusted debt/equity ratio	n.m.	n.m.	0.8	(0.2)

### Valuation parameters

Year to March	FY21	FY22	FY23	FY24
Diluted EPS (INR)	n.m.	n.m.	8.3	14.1
Diluted P/E ratio (x)	n.m.	n.m.	60.5	35.9
Price/BV ratio (x)	n.m.	n.m.	34.6	5.9
EV/EBITDA ratio (x)	n.m.	n.m.	46.3	14.1

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