# RESEARCH REPORT

13th Oct 2023

# EFC (I) LIMITED

**BSE : EFCIL** **Sector: FLEXI OFFICES/CO-WORK SPACES** **BSE: 512008**

## View - BUY

CMP : Rs. 269.9

Target Price: Rs 429 (In next 12 to 18 mths)

Turnkey Project - a project that is built so that it can be sold to a buyer as a completed product. In a turnkey project, a contractor works with the project owner to complete all stages of the project.

## BUSINESS BACKGROUND

Incorporated in 1984, EFC (I) Ltd is the flagship company of the EFC Group & is in the business of providing office space solutions like Co-working Spaces, Enterprise Offices, Asset Renting, Turnkey Projects & provides complete Fit Out Solutions via its subsidiary Whitehills Design Ltd. EFC Ltd. was founded in 2017 by Mr Umesh Sahay and Mr Abhishek Narbaria, both first generation entrepreneurs with professional backgrounds in real estate & property management. EFC specializes in delivering fully functional office spaces, offering flexible leasing arrangements accompanied by a comprehensive suite of business support services and amenities & currently is geographically spread out in 7 locations namely Pune, Ahmedabad, Noida, Hyderabad, Mumbai, Chennai & Kolkata with around 32000 seats as on date

## INVESTMENT HIGHLIGHTS

### Strong Operating Financial Performance in FY23 & Q1 FY24 –

EFC reported a strong set of FY23 numbers with net sales at Rs 103.21 crs a EBIDTA of Rs 55.40 crs with a PAT of Rs 3.80 crs. Cash Profits in FY23 totalled Rs 38.29 crs. During Q1FY24 EFC reported a Topline of Rs 56.42 crs vs Rs 0.40 crs in Q1 last year, a EBIDTA of Rs 29.13 crs vs Rs 0.35 crs in Q1 last year with a PAT of Rs 3.18 crs as compared to Rs 0.26 crs in Q1 last year. We believe that cash profits are a real indicator of profitability for EFC, due to the Ind AS reporting systems which show a skewed growth in the PAT level.

### EFC is a well-established large Flexi Office Player enjoying marquee customers –

EFC provides fully functional office spaces, offering flexible leasing arrangements accompanied by a comprehensive suite of business support services & amenities which includes like Co-working Spaces, Enterprise Offices, Asset Renting, Turnkey Projects where in clients get comprehensive services like access to Private Cabins, Meeting Rooms, Open Sitting and Common Area, Access Control, Hot Desking, Board and Conference Rooms, Cafeteria and Pantry, Waiting Area, IT Support, 100% Power Back-up, Client Greeting at Reception, Invitations to In-house Events, 24/7 Security, Prestigious Business Addresses and currently is geographically spread out in 7 locations namely Pune, Ahmedabad, Noida, Hyderabad, Mumbai, Chennai & Kolkata with around 32000 seats as on date.

EFC is a fully integrated player & commands an integrated supply chain with access to & expertise in budgeting, project design, project execution & procurement from captive sources/vendors via its subsidiary Whitehills Design Ltd. The interior design capabilities of WhiteHills & its command over the entire value chain of design activities provide an unbeatable edge to EFC both in terms of cost competitiveness as well as higher customer satisfaction levels

## KEY DATA

| | | |
|---|---|---|
| FACE VALUE | Rs | 2.00 |
| DIVD YIELD % | | NA |
| 52 WK HI/LOW | | 246/31 |
| BSE CODE | | EFCIL |
| NSE CODE | | NA |
| MARKET CAP | RS | 902 CRS |

## SHAREHOLDING PATTERN

| | | |
|---|---|---|
| PROMOTERS | - | 57% |
| BANKS, MFs & DIIs | - | % |
| FIIs/Others | - | % |
| PUBLIC | - | 43% |

## KEY FUNDAMENTALS

| YE | FY24 | FY25 | FY26 |
|---|---|---|---|
| Rev Gr% | 166 | 76 | 70 |
| EBIDTA Gr% | 153 | 76 | 70 |
| PAT Gr% | 557 | 84 | 74 |
| EPS Gr% | 557 | 84 | 46 |
| EPS (Rs) | 6.08 | 11.18 | 19.44 |
| ROE % | 29 | 38 | 43 |
| ROCE % | 31 | 42 | 54 |
| EV/EBIDTA(x) | | 9 | 6 |
| P/E(x) | | 20 | 11 |

**EFC's Group Profile & its Execution abilities –**

**<u>Business Profile –</u>**

EFC Ltd. was founded in 2014 by Mr Umesh Sahay and Mr Abhishek Narbaria, both first generation entrepreneurs with professional backgrounds in real estate & property management. Mr Umeash Sahay is the driving force behind the growth and success of EFC Group. Mr Abhishek Narbaria has been jointly responsible for setting up the Company's strategic vision & contributes to the operations with his IT & administrative stills to bring efficiency and effectiveness in business operations

Mr. Umesh Kumar Sahay and Mr. Abhishek Narbaria has acquired 4,62,570 Equity Shares, representing 66.10% from the earlier promoters of EFC (I) Limited (formerly known as Amani Trading & Exports Limited). Further, EFC Limited has become wholly-owned subsidiary of Listed Company EFC (I) Limited through SWAP of Shares

EFC offers comprehensive, end-to-end solutions to businesses in the area of office space management covering aspects such as helping customers identify the right property, supporting in negotiation with property owners, furnishing and designing the property as per client specifications and carry out ongoing management and maintenance functions on behalf of the clients

Whitehill's Interiors Ltd. ("WhiteHills"), a 51% subsidiary of EFC, provides cutting edge interior design solutions backed up by robust supply chain enablers in both commercial and residential real estate segments

**EFC Operates in Three Major Client Engagement Models which include –**

**Co-Working Spaces** – Here EFC creates affordable commercial infrastructure to offer entrepreneurs and professionals the best ambience to maximize productivity

EFC has a portfolio of readymade offices to provide new age work environment for freelancers, startups and SMEs and staid and understated set ups for established corporate houses. The seating plan comprises dedicated desks and sleek private cabins equipped with state-of-the-art facilities. The key factors that drive the planning & construction of each co-working facility include Affordability, Ease of Collaboration, Strategic Location & Single Point Billing to cover all expenses

**Enterprise Offices** – Enterprise Office services are provided to large corporates with requirement of 100+ seats at a single location in terms of an Enterprise Services contract usually with a tenure of 5 years to be renewed after expiry of contract

EFC is one of the leading Enterprise Space Solution providers in the country with 25000+ seats under the Enterprise Solutions category and has been operational in this space for over 5 years with footprint across Metro and Tier 1 cities.

Here EFC provides “Managed Office” solutions to leading corporate clients in the BFSI, Research & Design, KPO, BPO & IT & ITeS sectors. The seating plan here comprises common areas with dedicated desks & private cabins as per client specifications

**Turnkey Projects –**

EFC has its in-house team of experienced professionals in the fields of Design, Architecture and Project Management. EFC offers end-to-end services to corporate clients as Turnkey Project Solutions & takes complete responsibility as a single-window operator to complete all stages of the project i.e. designing the office space layout, getting the same approved, suggesting the materials and procuring the same, carrying out the execution of fit outs, 3rd party vendor management, project timeline management and successfully handing over the premises within the agreed upon time frame

For EFC as per the management 80% of the company’s revenue gets generated from the Enterprise clients while 15% come from SME & 5% from Start Ups clients. This has ensured stable a revenue stream for EFC as typically Enterprise clients are large and have long tenures ranging between 3-5 years

More importantly EFC which currently has 1.50 mn sq ft space as on date has just around 1.5 lac sq ft owned space while the rest is leased out with land lords for a time period of 2-3 years. This makes EFC’s business model asset light and allows a faster payback for itself which helps it reinvest in the business again by creation of new seats in new properties ahead

As far as execution is concerned for EFC this has been top notch considering that in the last 3 year the billed seats have steadily increased from 8600 seats in FY21 to 9700 seats in FY22 and further to 18380 seats in FY23. Implying a CAGR of 28% in this period. What is noteworthy is that EFC has been growing consistently since FY19 in terms of revenue, it has recorded positive EBITDA since FY20 and has been earning post-tax profits since FY21. EFC’s strategy has been to achieve profitable growth through a focus on cost optimization and margin protection

The current average billing per seat p.m. is $80-85 (average Rs. 6,600) This compares quite favourably with the rates charged by competitors including Smartworks (Rs. 10K – 14K), Awfis (Rs. 8K –15K); Tablespace (Rs. 8K – 12K), etc


EFC
Hello..

EFC
GREAT MINDS



**What are co-working / managed workspaces?**

Co-working / managed workspaces involves having shared workspaces between several companies to reduce costs, minimise capex, structure flexible short-term contracts and, at the same time, provide an office-like ecosystem. The business models of co-working operators are broadly classified into three buckets

**Own and operate**: Mostly followed by real estate developers wanting to operate a small space for co-working purposes. In India, developers are in the initial phases of exploring this area and skillsets required are different.

**Customised workspaces (built-to suit) for enterprises**: Often developers/co-working operators sign contracts for built-to-suit workplaces for enterprises. Contracts generally tend to be similar to a leasing transaction with a 2-3 year lock-in and escalations every 3 years or annually based on negotiations.

A managed aggregator model that includes revenue sharing or management contracts with property owners: Most independent co-working companies tend to lease area/have revenue share agreements with land owners and lease out their co-working spaces to enterprises and start-ups and make a spread (based on market conditions). The model is risk prone with shorter contracts and high tenant churn but more value accretive if executed well (stable occupancy and no discounting on rents)

**Advantages over a traditional leasing model –**

**Costing**: Reduction of fixed overheads and cost savings of 15-45% (Source: Savills) compared with leasing a traditional office space based on offering and locations.

**Flexibility**: Enables occupiers to take up space quickly for temporary purposes or for expansion into a new market and the option to scale up based on success of the business operations

**Opex vs. Capex**: During Covid times, corporates are looking to minimise capital outlay and are looking to lease space with plug and play infrastructure even at a slightly higher cost

**Hub and spoke model**: Large corporates have started to opt for co-working spaces as this allows them to have multiple offices within the same city. Instead of having one large space in the core area of the city, they now prefer smaller segregated offices in multiple locations. This allows employees to work from locations nearer to their residence and clients, which offers a better work-life balance, thereby increasing productivity

**Pricing Plans –**

**Wide spectrum from premium offices to open shared spaces**: Offerings vary from shared spaces for start-ups to private offices with premium amenities for larger tenants / enterprises and pricing plans can be modified accordingly

**Private offices**: These are enclosed spaces with access to conference rooms, premium amenities and concierge. It is ideally the most premium offering and is suitable for large enterprises looking at a hub and spoke model or small and medium sized companies looking for privacy and a controlled environment.

**Dedicated desks**: These offer premium amenities and are priced between private offices and open shared workspaces. They are more suitable for start-ups and smaller companies

**Hot desks**: Employees can sit wherever they wish to based on availability and avail all facilities. Pricing is the lowest among the options

**EFC enjoys marquee customers in the Rental Business some of which include –**

CONNEQT BUSINESS SOLUTIONS

TECH mahindra

EOS EUREKA OUTSOURCING SOLUTIONS

Mahindra FINANCE

EY

KALYANI TECHNOFORGE

BAJAJ FINSERV

STARCONNECT

Mastek Trust. Value. Velocity

**EFC enjoys a strong integrated approach for its Rental business –**

WhiteHills Interior Ltd. (“WhiteHills”), a 51% subsidiary of EFC, provides cutting edge interior design solutions backed up by robust supply chain enablers in both commercial and residential real estate segments

WhiteHills enjoys over 10+ years of interior design experience across Home, Office & Retail spaces & commands an integrated supply chain with access to and expertise in budgeting, project design, project execution and procurement from captive sources/vendors

Based in Pune WhiteHills has executed projects across all major Tier 1 cities in India & has served 500+ clients till date. EFC has developed deep relationships with multiple stakeholders within the real estate project ecosystem (e.g. furniture manufacturers, white goods manufacturers, office equipment manufacturers, etc.) whereby the Company serves as the single point source for the entire range of machinery & equipment and expert services required to set up and operate an office space. Hence, unlike its competitors EFC does not need to rely on outside agencies (like interior decorators, architects & space planners, designers, etc.) for the execution of a project and administration of a site

**Why Fit Out Costs are very important for Co-Work spaces players ?**

An office fit out refers to the process of designing and constructing an office space to meet the specific needs of the occupier. This can include everything from furniture and equipment to mechanical and electrical systems. An effective office fit out can improve productivity, employee morale, and help create a positive brand image

A well-designed office fit out can have a significant impact on the business. It can help attract and retain top talent, improve efficiency, and create a positive work environment. Investing in an office fit out is an investment in the future of the business

**Factors that can influence the office fit out cost per square meter include:**

**Location**: The cost of materials, labour, and regulations can vary greatly by location.

**Type of space**: The type of space one is fitting out, such as an open plan or traditional office, can impact the cost.

**Quality of finishes**: The quality of finishes, such as flooring and wall coverings, can significantly impact the cost.

**Complexity of design**: The more complex the design, such as intricate lighting or customized furniture, the higher the cost.

**Compliance requirements**: Depending on the nature of the business and the industry, certain compliance requirements may need to be met, such as fire safety regulations, which can increase costs.

**Mechanical and electrical services**: The need for additional mechanical and electrical services, such as air conditioning or data cabling, can increase the overall cost.

**Project management and professional fees:** Professional fees, such as architect and project management fees, can be a significant portion of the total cost.

**Timeline and delivery requirements**: Tight timelines or delivery requirements can add costs for expedited or overtime labor.

**Contingencies:** Contingency costs are an essential part of any budget to account for unforeseen expenses or changes during the project.

**Sustainability requirements**: Green building standards or sustainability requirements may increase the cost but offer long-term savings in energy usage and maintenance costs

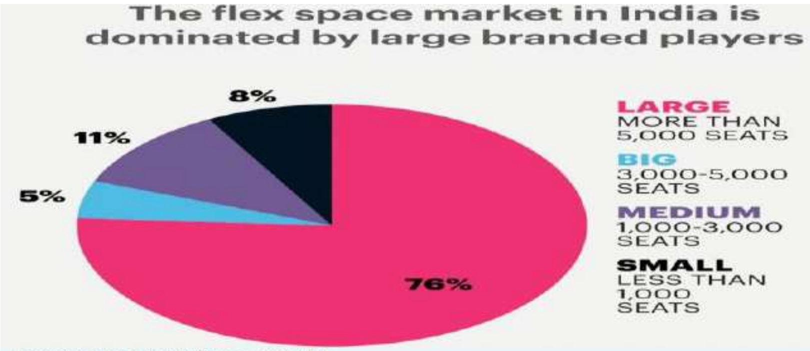
By virtue of having an in-house interior designing company WhiteHills for Fit Outs, EFC stands to benefit significantly as it offers bespoke solutions in commercial design – from small boutique offices to large healthcare facilities & universities and cost wise it is at least 10-15% more price competitive than comparable peers in the industry

Some key clients for WhiteHills include Mahesh Tutorials, Progenesis Fertility, Infigo Eyecare & Henkel read whitehills also

The thriving real estate market in India is the main driver of India's interior design industry. The market for interior design in India is also expanding as a result of urbanization, rising income levels, and population expansion. As per research estimates the Indian market for interior designs in 2020 was worth $23.20 bn which is expected to reach $38.24 bn by 2027 growing at a CAGR of 7.4%

**Domestically the Indian Flex Office Market Growth Potential looks strong –**

Flex spaces contribute around 6% of the overall office inventory in India. The 5-year CAGR growth rate of 41% in flexible space inventory is based on strong demand and a rapidly changing style of working. The scale at which this growth has happened is unprecedented and the potential of growth ahead is even more phenomenal. Though co-working and flexible workspace still represents a relatively modest share of overall office occupancy, its footprint is rising and expanding rapidly





The concept of flexible office spaces or co-working spaces is on the rise in urban India with the expansion of large corporate houses into uncharted business territories and entry of smaller players into start-up industries. The demand for flexible office spaces, also variously known as community work environments, on-demand workplaces or peer spaces, has been on a steady rise over the past few years in Tier I cities of India even though the country was slow to catch up on the concept as compared to top cities of the world like New York or London.

**Flexible office spaces promises to be game changers in the real estate market for the following reasons –**

**Big corporates looking to move out from traditional office spaces –**

With prices of commercial real estate properties ever on the rise, owning traditional office spaces comes as a huge capital investment even for big corporate houses of the country. As a result, corporate houses are looking to shift their employees to flexible office spaces with on-demand facilities in order to cut down long-term capital investments.

On the other hand, flexible office spaces also offer big corporates the flexibility to operate out of geographically separated different spaces that are economically viable

**Flexible office spaces a huge hit with start-ups, small enterprises and freelancers –**

Small and medium enterprises, as also start-ups and freelancers, find it commercially viable to operate out of co-working office environments due to flexibility. They are also spared the load of investing a substantial chunk of capital into fixed assets during the early stages of the enterprises. This capital can, on the other hand, be used for operational purposes during the initial years

**Commercial space in prime central areas most preferred for flexible offices**

Prime central areas are the preferred destinations for flexible office spaces owing to their proximity to various facilities and ease of commuting to different suburbs geographically located on the peripheries of the city. Price of commercial real estate within the centre areas are set to witness a several-fold increase due to demand for co-working office environments

**Inroads into Tier II and Tier III cities –**

Large corporate houses preferring to have their presence in several Tier II and Tier III cities of the country has given a boost to flexible office spaces. It is unviable to own commercial real estate properties in Tier II and Tier III cities. Corporates prefer to share office space, with necessary modifications and alterations, in co-working environments in these cities

**Branded players in co-working spaces on the rise –**

The flexible office space sector was dominated by unbranded local players earlier this decade. However, over the past few years, occupancy levels for branded operators in particular have been nearly 100 per cent. Non-branded operators have consequently taken a hit with their occupancy levels remaining limited range to the range of around 80 per cent. This encouraging aspect promises to attract more branded players to the flexible office space market in the next few years

**Better return on investments; steady escalation in rentals –**

Flexible office spaces provide better returns on capital investments due to the fact that they fall under the category of commercial real estate.

Price escalation of properties is more as compared to residential or housing properties. The rentals of flexible office spaces are high as compared to housing properties as well. Rentals of co-working spaces are revised upwards annually as compared to housing properties where rents are reviewed only every three years


India currently has over 300 flexible workspace operators (from only a handful in CY10). The domestic space is led by companies such as We-Work India (Embassy Group), Awfis, Smartworks, 91springboard, and Indiqube among others. WeWork is the largest flexible space operator in India with more than 5msf of office space and 66,000 seats in operation.

The top five players account for 50% of the flexible office stock across the major office markets in India and we expect the industry to remain consolidated in the hands of large players as they enjoy benefits of operating leverage and network effects

The Flexible Office Spaces which was initially the go-to option for startups and freelancers has now become a prerequisite for SMEs. The biggest chunk of 10.3 million potential seats is ascribed to large companies. There is a qual divide of 1.5 million each amongst freelancers and SMEs.

Small and Medium Enterprises have been growing rapidly with over 63 million SMEs in the country currently rising at an average rate of 10%. SMEs contribute 45% of India's manufacturing output and ad to more than 28% of India's GDP. The current MSME employee base of 128 mn is expected to grow to 170 mn by FY23.

India is one of the fastest-growing markets for office spaces in the world, driven by rising demand for office rentals, emerging flexible office spaces, and growing start-ups & IT Sectors in the country. The total flexible space footprint touched 40 million sq ft in 2021-2022 and is expected to grow to nearly 75 million sq. ft by 2025, riding the wave of enterprise demand for managed workspaces

More than 90,200 flex seats were leased across the top seven cities by occupiers in FY 2021-22, which is a 2.5X growth Y-o-Y, indicating that demand for flex space has seen a resurgence over the past 12 months, driven by enterprises seeking to create a more agile real estate portfolio strategy in an evolving hybrid work environment

The top four cities in terms of seat enquiries – Delhi NCR, Bengaluru, Chennai, and Mumbai, together account for about 74% of the leads and 72% of the seat enquiries, respectively. Bengaluru is the leading tech hub and along with Delhi-NCR forms the two major start-up clusters in the country and thus sees a significant demand also coming from big tech firms and well-funded unicorns

Companies are likely to view flex as a hedge against headcount uncertainty, providing them with options to avoid committing to fixed locations and high upfront fit-out costs. Flexible spaces provide them with the flexibility to swiftly expand and contract when needed to accommodate business needs and use as a tool to attract and retain talent. Most companies, among whose hiring intentions are positive, are likely to lean towards the diverse locations and cost-effective nature of the flexible space solutions

2023 will be influenced by a multitude of global and local factors, and most of them have nothing to do with real estate. is where SaaS-RE comes in. SaaS-RE is an emerging trend in the real estate space. It can be defined as 'Seat as a Service' and has nothing to do with software.

With SaaS-RE, corporate occupiers are changing their approach towards the concept of office, and the demand for office space, read seats, is getting more individualised as compared to being communal

With employees demanding seat flexibilities, occupiers need to naturally gear their space demands to be in-sync. Hence, we shall be seeing the demand for flexible spaces remaining strong – this not only eases capital expense pressures, but also gives agility to a property portfolio. In fact, occupiers are evaluating flex operators as partners for their pan-India solutions.

What is also emerging very clearly is the segmentation of the flex space business. The last 2 years have seen some of the flex operators expand their India network, thus delivering a consistent quality of space and service to a multi-locational wider target market. On the other hand, there are some local players who are city-centric and able to provide cost-effective solutions and services for occupiers who are strongly governed by budgets. There will be enough demand and supply across the price and quality spectrum. That’s good news all around

**Major cities in India are expected to witness the following growth trends –**

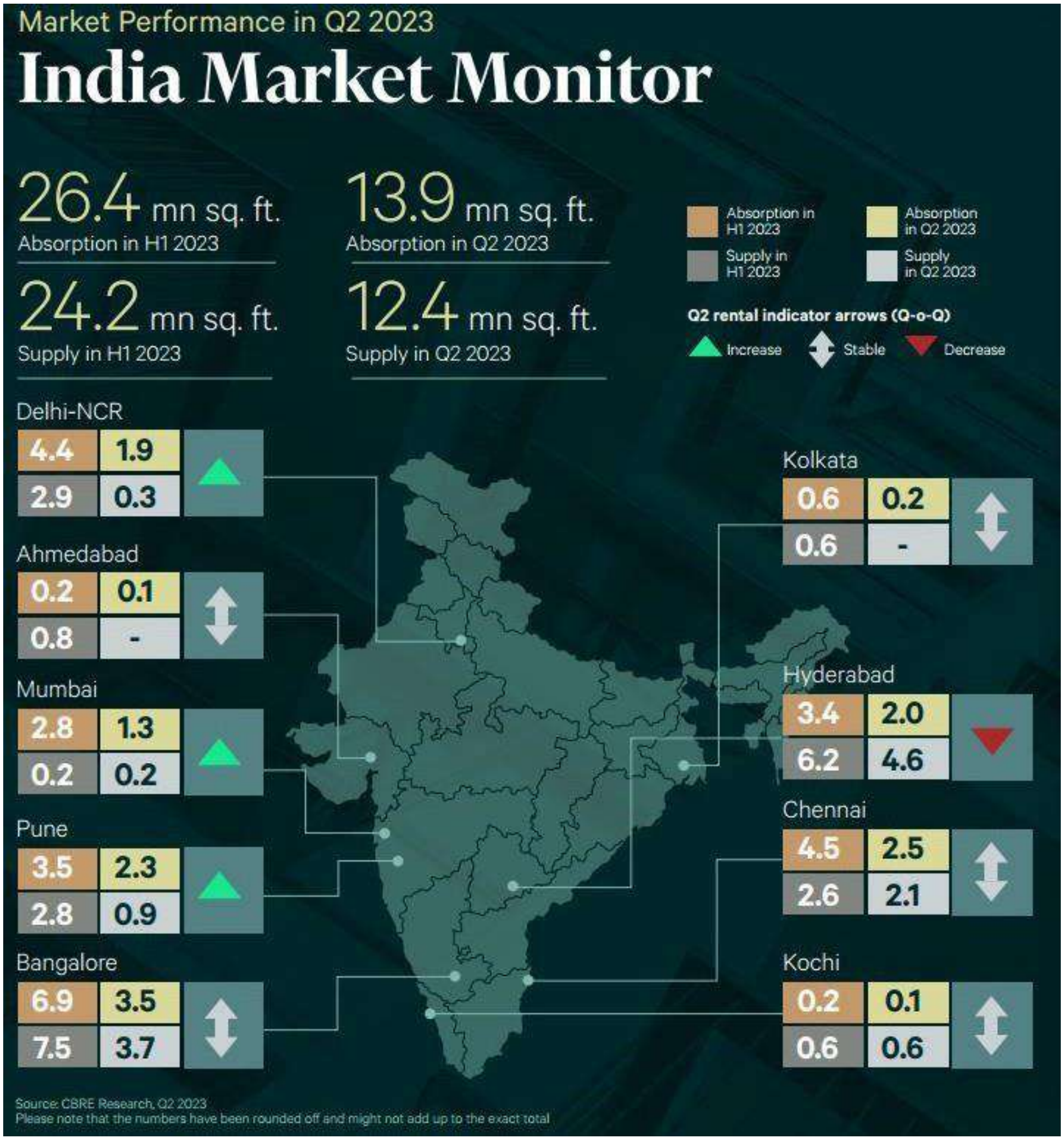
- In 2023, Bengaluru is expected to register an increase of 20-30% in absorption. Incremental supply is also expected to register a YoY increase 20-30%. Large deals (>100,000 sq. ft. area) are expected to establish a significant share of the projected leasing.

- Mumbai is expected to register 85-90% growth in office leasing in the second half of 2023. The demand is expected to be driven by sectors such as BFSI and technology occupiers.

- In 2023, the Delhi NCR market is expected to register an increase of 20-25% in leasing, with the majority movement expected in the second half of the year. The demand is expected to be driven by office occupiers from key sectors such as technology, consulting, BFSI and manufacturing. Also, outlook for the Delhi NCR market is bright due to the estimated robust pipeline of new supply for 8.5 million sq. ft. area; of this, >65% is expected to be achieved in Gurugram and the remaining in Noida.

- The office market in Hyderabad is expected to register 25-30% growth, driven by expected leasing activity from the IT sector. Rentals are expected to record a marginal upward trend due to the rising demand. As per Savills India forecasts, the office market in Chennai is expected to register a YoY growth of 5-10% in leasing activity. Chennai is expected to record 5.6 million sq. ft. of new completions, which accounts for 54% YoY growth in supply.

- The office market in Pune is expected to record 30-40% increase in absorption & occupiers are expected to give preference to key areas such as Baner, Belawadi, Kharadi and Viman Nagar.




## How is EFC positioned vis a vis other large players in the Co-Work Spaces segment –

| Company | No Of Seats | No Of Centers | No of Cities | AUM(Sqft) | Invt Raised ($Mn) |
|---|---|---|---|---|---|
| SmartWorks | 70000 | 38 | 11 | 7 mn | 41.7 |
| Awfis | 88000 | 150 | 17 | 5 mn | 107 |
| TableSpace | 45000 | 45 | 6 | 4.2 mn | 300 |
| SpringBoard | 25000 | 24 | 8 | 1 mn | 29.4 |
| SimplWork | 25000 | 85 | 9 | 3.7 mn | 2.2 |
| IndiQube | 40000 | 54 | 11 | 3.2 mn | 45 |
| EFC | 32000 | 30 | 7 | 1.5 mn | NIL |

**Source – Co Reports**

Most of the larger competitors of EFC have been burning cash in their quest for scale.

Among the players that have raised external equity none are profit making

Only TableSpace has registered a positive bottom line in the last financial year.

EFC been growing consistently since FY19 in terms of revenue, it has recorded positive EBITDA since FY20 and has been earning post-tax profits since FY21

EFC's strategy has been to achieve profitable growth through a focus on cost optimization and margin protection

EFC is present in all the growth hubs of India and is ideally poised to profitably leverage the exponential growth imminent in the co-working space in India

**EFC is all set to roll out an major expansion programme from FY24 going ahead –**

EFC currently has 1.5 mn sq ft as on date and plans to take this to 1.75 mn sq ft by FY24, 2.80 mn sq ft by FY25 and 4 mn sq ft by FY26. In terms of seat capacity EFC currently has a base of 32000 seats which it wants to scale up to 44000 seats by FY24, 70000 seats by FY25 and 1 lac seats by FY26 Has EFC raised money in the past/bootstrapped?

Since a large part of the expansion will be on the lease model, the company is evaluating options of structured debt with potential lenders and possibility of a preferential equity offering in the near future going ahead to fund this expansion apart from the cashflows generated. However the management is looking at the possibility of equity dilution only after FY25 numbers

Recently the company did a preferential issue of around Rs 60 crs at a price of Rs 750 (FV Rs 10) which is now split in to a FV of Rs 2. The current diluted equity capital stands at Rs 8.24 crs as on date

On an average the cost of putting up one seat averages between Rs 50000 to 60000 with normal EBIDTA margins range between 30-35% (Without considering IND AS)

Focus will be on end-to-end project management for clients to ensure optimum capex per seat and best in class quality comparable to the finest facilities available in the market.

The current average billing per seat p.m. is $80-85 (average Rs. 6,600). This compares quite favourably with the rates charged by competitors including Smartworks (Rs. 10K – 14K), Awfis (Rs. 8K – 15K); Tablespace (Rs. 8K – 12K), etc

## Key Competitive Moats & growth drivers ahead for RPEL –

**Solid Execution skills -** The most important factor for any co-working spaces company is execution, and execution has been top-notch for EFC

In FY23 alone, the company added 18380 billable seats from 9700 seats in FY22 and from 8600 seats in FY21. EFC current has 1.5 mn sq ft as on date and plans to take this to 1.75 mn sq ft by FY24, 2.80 mn sq ft by FY25 and 4 mn sq ft by FY26. In terms of seat capacity EFC currently has a base of 32000 seats which it wants to scale up to 44000 seats by FY24, 70000 seats by FY25 and 1 lac seats by FY26

EFC's strategy has been to achieve profitable growth through a focus on cost optimization and margin protection. Nevertheless, EFC plans to aggressively ramp up it seat capacity over the next 3 years (by 3x) which will give it strong bargaining power with clients ahead

**Experienced Management Team –** The company's management team led by Mr Umesh Sahay and Mr Abhishek Narbaria, with professional backgrounds in real estate & property management. have rich experience in the industry in which it is operating and have been responsible for the growth of its operations and financial performance. Both of them have adequate experience in the line of business undertaken by the Company for its strategic and day-to-day business operations.

**Scalable Business Model –** EFC enjoys a business model which is scalable. The biggest positive EFC enjoys is that it is a fully Indian-grown integrated Co-work spaces player which has a integrated Fit Out set up which positions itself very strongly with customers as regards pricing & customer retention levels.

More importantly EFC which currently has 1.50 mn sq ft space as on date has just around 1.5 lac sq ft owned space while the rest is leased out with land lords for a time period of 2-3 years. This makes EFC's business model asset light and allows a faster payback for itself which helps it reinvest in the business again by creation of new seats in new properties ahead. We also expect significant operating leverage benefits to kick in as incremental seat capacity comes in and starts generating revenues going ahead

**Strong Industry tailwinds to be another positive driver for EFC going ahead –** India is one of the fastest-growing markets for office spaces in the world, driven by rising demand for office rentals, emerging flexible office spaces, and growing start-ups & IT Sectors in the country. The total flexible space footprint touched 40 million sq ft in 2021-2022 and is expected to grow to nearly 75 million sq. ft by 2025, riding the wave of enterprise demand for managed workspaces

More than 90,200 flex seats were leased across the top seven cities by occupiers in FY 2021-22, which is a 2.5X growth Y-o-Y, indicating that demand for flex space has seen a resurgence over the past 12 months, driven by enterprises seeking to create a more agile real estate portfolio strategy in an evolving hybrid work environment

The top four cities in terms of seat enquiries – Delhi NCR, Bengaluru, Chennai, and Mumbai, together account for about 74% of the leads and 72% of the seat enquiries, respectively. Hence we expect a strong runway for growth for EFC as flexi office space penetration as on date is 6% of the overall office inventory in India which is expected to go up to 20% in next 3 years.

**Presence of a well-diversified geographical seat presence will also ensure steady growth for EFC –**

EFC currently is geographically spread out in 7 locations namely Pune, Ahmedabad, Noida, Hyderabad, Mumbai, Chennai & Kolkata with around 32000 seats as on date. According to the company management these markets are the most promising for future growth going ahead. Recently EFC has also ventured in the Bangalore market which is the fastest growing co-work spaces market in recent times.

There fore we believe that EFC has a good geographical presence & as more new seats come in it is confident of ramping up seat utilisations rapidly which currently stand at around 80-90%

**Key Weakness –**

Environmental risks like floods, heavy rainfalls & Cyclones can significantly affect business growth

Any pandemic like covid again can also impact the company’s performance negatively

**EFC enjoys a strong BS with huge scalability potential going ahead –**

EFC runs a strong business model covering several geographical locations while it continues to invest on a sustained basis largely via internal accruals and lease finance for its capex requirements.

Company generated a positive OCF of around Rs 17 crs in FY23 post reconciling the non current / capex items of about Rs. 68 crores out of the OCF in the cash flow statement

We expect that going ahead overall bottomline growth in the next 3 years starting FY24 onwards should increase at a CAGR of 47% and with capex & WC largely funded from internal cash flows and lease finance/structured debt

We expect the Cash PAT to grow solidly at a CAGR of 45% in the next 3 years until FY26 to Rs 305 crs from Rs 38.29 crs in FY23.

Also EBIDTA is also expected to grow at a CAGR of 44% in the next 3 years to Rs 420 crs in FY26 from Rs 55.40 crs in FY23

Going ahead the company is confident of maintaining & improving its EBIDTA margins to around 55-60% largely on the back of higher seat volumes, better seat realisations which are expected going ahead following a significantly higher seat utilisation in the coming years which will also improve in stronger OCFs in coming 2 years ahead

## Business Outlook & Stock Valuation –

On a rough cut basis, in FY24E, Topline is expected to touch Rs 275 crs, followed by Rs 485 crs in FY25E & Rs 825 crs in FY26E

On the bottomline level we expect the company to record a PAT of Rs 25 crs in FY24E which is expected to jump up to Rs 46 crs in FY25 & Rs 80 crs in FY26. Cash Profits are expected around Rs 100 crs in FY24, Rs 171 crs in FY25 and Rs 305 crs in FY26.

We believe that cash profits are a real indicator of profitability for EFC, due to the Ind AS reporting systems which show a skewed growth in the PAT level. There fore another way to optimally value a business like EFC will be on EV/EBIDTA basis which clearly signifies the operating profitability of the business going ahead as per the current IND AS norms

The beauty in this business is the scalability potential which is entirely dependent on the number of seats put up in this business wherein EFC has ambitious targets of increasing seat capacity by 3x in the next 3 years by FY26. EFC will also enjoy significant pricing power going ahead once it controls such a large seat capacity which will enable it to maximise seat revenues from enterprise & business centre clients

On the top of it EFC's interior designing business Whitehills is also another profitable business for Fit Outs which not only helps it to position itself competitively in the domestic Flexi Office markets but is a independent profit centre also for EFC

On a EV/EBIDTA basis the stock trades at 9x & 6x on FY24 and FY25 which looks very low for a well established player enjoying good profitability, and a strong hold in its business segment. If the company executes and delivers on the numbers ahead, we believe that looking at its present financial track record & future potential we expect valuation multiples on a EV/EBIDTA basis to average around 14-15x going forward.

The company management is confident of improving EBIDTA margins in going ahead via operational efficiency and better pricing due to operating leverage benefits ahead

Looking at EFC's steady financial track record, strong business domain and dominant market share and strong promoters we expect the stock to get re rated in future.

Hence we believe that the EFC stock should be purchased at the current price for a price target of around Rs 429 over the next 12 to 18 months which is based on FY25E EV/EBIDTA multiple of 14x

**FINANCIALS**

| For the Year Ended March RsCrs | FY23 | FY24 | FY25 | FY26 |
|---|---|---|---|---|
| Rentals from Co-Workspaces | 69.00 | 175.00 | 285.00 | 525.00 |
| Installed Seats | 23000 | 44000 | 70000 | 100000 |
| Billed Seats | 18380 | 24000 | 38000 | 70000 |
| Avge Realisation per Seat Rs | 6000 | 6100 | 6250 | 6250 |
| Fit Out Revenues | 25.00 | 100.00 | 200.00 | 300.00 |
| Others | 9.21 | 0.00 | 0.00 | 0.00 |
| Net Sales | 103.21 | 275.00 | 485.00 | 825.00 |
| EBIDTA | 55.40 | 140.25 | 247.35 | 420.75 |
| EBIDTA % | 53.68 | 51.00 | 51.00 | 51.00 |
| Interest | 14.57 | 12.00 | 9.50 | 7.50 |
| Depreciation | 34.49 | 75.00 | 125.00 | 225.00 |
| Non Operational Other Income | 0.85 | 1.00 | 1.00 | 1.00 |
| Profit Before Tax | 3.86 | 54.25 | 113.85 | 189.25 |
| Profit After Tax | 3.80 | 25.00 | 46.00 | 80.00 |
| Cash Profits | 38.29 | 100.00 | 171.00 | 305.00 |
| Diluted EPS (Rs) | 0.92 | 6.08 | 11.18 | 19.44 |
| CPS (Rs) | 9.30 | 24.30 | 41.56 | 74.12 |
| Equity Capital | 8.23 | 8.23 | 8.23 | 8.23 |
| Reserves | 65.70 | 90.70 | 136.70 | 216.70 |
| Borrowings/Lease Finance | 272.93 | 347.93 | 447.93 | 547.93 |
| GrossBlock | 59.01 | 62.00 | 75.00 | 95.00 |
| Investments | 0.01 | 0.00 | 0.00 | 0.00 |

**Source Company our Estimates**

## KEY CONCERNS

Environmental risks like floods, heavy rainfalls & Cyclones can significantly affect business growth

Any geo political risks in overseas markets can also impact the company's performance.

You can **BUY** under following range 255-270.