Smartworks Coworking Spaces Limited

January 03, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	364.91 (Enhanced from 194.91)	CARE BBB+; Positive	Reaffirmed
Short Term Bank Facilities	30.00	CARE A2	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of rating assigned to the bank facilities of Smartworks Coworking Spaces Limited (SCSL) derives comfort from its strong presence in the flexible, fully serviced workspace sector across India along with backing of reputable investors. The rating also benefits from a diverse and reputed tenant profile, which reduces tenant concentration risk. Additionally, the improvement in scale of operations through improving seat availability and high occupancy levels, presence of escrow mechanism and debt service reserve account (DSRA) and stable operating cash flows through timely collection of rent contribute to the rating comfort. The infusion of approximately ₹185 crores in equity from existing and new investors since the last rating review has strengthened the company's capital structure and liquidity. The rating also considers the company's filing of the Draft Red-Herring Prospectus (DRHP) for a ₹550 crores Initial Public Offering (IPO) and the subsequent regulatory approval for the same.

However, the rating is constrained by continuous accounting losses (primarily due to IND-AS accounting) in past resulting in leveraged capital structure, significant expansion plans that pose market risks, the potential risk of lease non-renewal after the lock-in period, and exposure to macroeconomic conditions and the cyclical nature of the competitive real estate industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the occupancy level above 90% resulting in improvement in CCR and liquidity position on a sustained basis.
- Improvement in capital structure with overall gearing (excluding lease liability) below 4 times.
- Successful IPO leading to substantial improvement in capital structure and liquidity of the company, including prepayment of certain identified borrowings which will further improve the liquidity.

Negative factors

- Non-renewal of lease contracts leading to decline in the occupancy levels below 70% on a sustained basis resulting in moderation in the liquidity profile and weaking of CCR on a sustained basis.
- Decline in free cash and cash equivalents below ₹30 crores on a sustained basis.
- Un-envisaged debt-laden capex leading to increase in debt beyond Rs.400 crores on a sustained basis.
- Significant impact on the business risk profile or financial risk profile on account of unforeseen contingent liabilities arising from pending litigations against the promoter/s or the company.

Analytical approach: Consolidated

For assessing the credit risk profile of SCSL, CARE Ratings Limited (CARE Ratings) has changed the approach from standalone to consolidated on account of the expected increase in operations of its subsidiaries with high operational & financial linkages with SCSL. List of entities considered in consolidation of SCSL as on March 31, 2024, is shown in **Annexure 6**.

Outlook: Positive

CARE Ratings has revised its outlook for SCSL from 'Stable' to 'Positive' in view of expected continuation of improvement in the financial performance of the company in near to medium term, propelled by healthy growth of space under management with comfortable occupancy levels. The outlook also considers the expectation of successful IPO by SCSL leading to substantial improvement in the capital structure and liquidity.

Detailed description of key rating drivers:

Key strengths

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Strong presence in flexi fully serviced workspace platform marked by PAN India existence: SCSL is the largest flexible workspace platform in India in terms of area under maintenance with market share of around 20% and operational workspace of around 72 lac sq. ft in 13 cities across 41 centres with over 600 customers as on March 31, 2024. SCSL offers flexibility with minimal capex and quick turnaround (typically under 45 days) to clients compared to 6-9 months for traditional office spaces. SCSL has the benefit of PAN India presence which helps it to diversify the geographical concentration risk and also adds to the benefits extended to multi city clients. It has sharply scaled up its operations over the last five financial years while establishing a diversified clientele base. Reputed and growing customer base, along with unique product offering, services and facilities are expected to support healthy growth in operating revenues and margins over the medium term.

Diverse and reputed tenant profile: Operations of company are spread across 41 centres with over 600 clients, which provides healthy revenue diversity as top 20 tenants contributes only around 27% in FY24 (PY: 30%) to the total rental income and thereby minimises business risk. Several existing clients have increased their engagement levels with SCSL by renting out more seats in the same premises or across locations resulting in increase in the revenue from multi city clients. SCSL is focusing to reduce client concentration risk with sectoral diversification and progressively reduced dependency from top clients over years with moderate revenue contribution from its top clients. However, the same is limited by geographical concentration arising out of the geographic spread of the company as 4 major Tier 1 cities out of the 13 cities (Tier 1 and Tier 2) contributed to 80% of the total revenues in FY24, though the same is owing to high concentration of enterprise clients in the cities. Also, all the enterprise clients come with a lock-in period of at least three years which ensures cash flow stability. Further with the company expanding its presence in Singapore, the geographical diversity is expected to improve further.

Improvement in scale of operations through improving seat availability and high occupancy: In the last three financial years, scale of operation of the company improved sharply marked by increase in total operating income (TOI) by 46% y-o-y to ₹1042 crores in FY24 over TOI of ₹711 crores in FY23 driven by addition of new spaces/seats under management coupled with improvement in occupancy levels. Accordingly, profitability also witnessed improvement, and the company reported PBILDT of ₹667 crores in FY24 from PBILDT of ₹431 crores in FY23. Total available seats grew to 1.63 lakhs as on March 31, 2024 from 1.38 lakh crore as on March 31, 2023. The Occupancy levels improved 80% as on March 31, 2024 as against 76% as on March 31, 2023 despite increase in seat availability.

In H1FY25, the company has reported TOI of ₹643 crores, with the number of seats and occupancy improving to 1.69 lakhs and 86% respectively with committed occupancy being ~89% at an overall level.

Despite increase in seats available for lease, occupancy levels have improved consistently over the years on the back of company's efforts to identify units that can have good demand and can be leased out quickly to reputed clients. The seat availability is expected to improve in near to medium term with healthy occupancy.

Strong and reputed investors: The company was promoted by National Capital Region (NCR)-based Neetish Sarda and Harsh Binani. Neetish Sarda, Managing Director and Founder holds a Bachelor's degree in Science from University of London and oversees critical operational and growth-oriented functions of the company, whereas Harsh Binani, Whole-time Director and co-founder of SCSL is a Shri Ram College of Commerce graduate and Kellogg School of Management alumni, and has fourteen years of experience in management consulting and flexible workspace industry. Prior to joining SCSL, he has worked for ~5 years with McKinsey, Chicago Office. They are supported by an experienced team of professionals. Besides this, the promoters had previously secured funding from Keppel Land (Temasek-backed Singapore-based urban solutions and real estate developer) and Deutsche Bank. Further, since the last rating exercise the company has further raised equity to the tune of ₹185 crores from existing investors such as Keppel Land and new investors such as Ananta Capital (Mumbai based private equity firm investing in high-growth sectors like consumer products, healthcare, financial services, and specialized manufacturing), Polycab Family office, Master Family office (ENAM securities co-founder), Sunidhi Family Office, Tusk Investments, notable HNIs/ startup founders among others. SCSL's association with reputed investors improves the financial flexibility and market visibility of the company.

Presence of escrow mechanism and DSRA: The company is maintaining escrow accounts for routing the lease rents of specified tenants before transferring the surplus, i.e., after paying equated monthly instalment (EMI), to current account for general usages. Also, the company is maintaining DSRA equal to 3-months EMI in the form of fixed deposits with lenders which provides a cushion to the liquidity position of the company.

Stable operating cash flows: SCSL's gross monthly signed-up revenue stood at around ₹110 crores in September 2024 out of which SCSL has pledged rental of ~₹30 crores per month against equated monthly instalments (EMI) of ~₹14.17 crores. The rest of pledged rental of around ₹16 crores in addition to the non-pledged rentals of around ₹80 crores provide sufficient cover for meeting the day-to-day expenses. Further, the timely rent collection also adds to the comfort for stable cash flow. The company generally has pending rentals for an average of 10-15 days.

Key weaknesses

Leveraged capital structure: The capital structure of the company continued to remain leveraged, owing to losses on PAT level eroding the networth. The company continues to incur losses on PAT levels (largely due to accounting policy of including both non-cancellable and renewable leases tenure as per IND-AS), although the company has been making cash profits over the last 4 years. However, the losses at PAT level have moderated to ₹50 crores in FY24 (PY: ₹101 crores). This apart, a substantial portion of the total debt includes liability on account of finance leases.

In H1FY25, the company has raised further equity to the tune of ₹116 crores from a pool of existing and reputed investors which will lead to improvement in its capital structure. Further, the company has also filed its DRHP with Securities Exchange Board of India (SEBI) for a fresh issue of ₹550 crores; the net proceeds of which would be utilized towards prepayment of debt obligations to the tune of ₹140 crores which will reduce the current debt obligations of the company, ₹282 crores towards capex spread across three years and remaining around ₹128 crores (including IPO expenses) towards general corporate purposes (GCP). As on December 02, 2024, SCSL has received approvals from the stock exchanges and the regulators.

Going forward, the capital structure is expected to improve multi folds in the near to medium term on the back of equity infusion in FY25, expected book profits with growing scale of operations and successful subscription of the IPO.

Risk of non-renewal of lease after lock-in period: The lease agreements with tenants generally have tenure of four to five years with an average minimum lock-in period of three years. Hence, there is a risk pertaining to the tenants exiting out of the agreement after the end of the minimum lock-in period. However, such risk is mitigated to a certain extent as the lessees occupying the spaces are renowned entities coupled with high retention levels of tenants experienced in the past. Furthermore, agreements with landlords are largely one sided in favour of the company post lock-in period as the landlords cannot terminate the agreement prematurely before the complete term of agreement (which is generally ten to fifteen years), as long as the company pays agreed rentals timely.

Sizeable expansion plans in pipeline leading to market risk: The company is exposed to market risk due to large expansion plans at a total outlay of around ₹875 – 900 crores with the proposed addition of 100,000 seats over the next five years resulting in 61% increase in the overall capacity (without factoring in IPO proceeds). The capex is likely to be funded through a mix of debt and equity. However, the proposed capex is modular in nature and the same can be altered/shifted with a change in the business environment at minimal cost. Thus, it reduces the business risk to some extent. Nonetheless, the impact of capex on profitability and capital structure will be key rating monitorable.

Exposed to macro-economic scenario and cyclicality associated with competitive real estate industry: Lease rentals are influenced by macro-economic factors such as economic slowdowns, high inflation, and high interest rates, as well as external events like the COVID-19 pandemic, which can impact tenants' business risk profiles and potentially affect occupancy and rental rates for SCSL. Additionally, new competing capacities nearby could reduce tenants or rental rates, and the company is also subject to the cyclical nature of the commercial real estate sector.

Liquidity: Adequate

The liquidity position of the company is expected to be adequate over the near to medium term as projected cash inflows are expected to be sufficient to meet the debt repayment obligation of ₹155 crore in FY25. Liquidity position also draws comfort from escrow mechanism along with debt service reserve account (DSRA) covering three months of repayment obligations; supported by free cash and cash equivalents of ₹38 crores as on March 31, 2024. Also, the promoters raised equity of around ₹68 crores in FY24 and ₹116 crores in H1FY25 through a mix of existing and new investors which provides further comfort to the liquidity position of the company.

Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Rating methodology for Debt backed by lease rentals
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Consumer Discretionary	Realty	Realty	Real Estate related services

SCSL was started in 2016 by NCR-based Neetish Sarda (promoter) and Harsh Binani (promoter). The company is engaged in flexi-fully serviced workspace leasing business, with PAN India presence having total leasable areas of around 72 lsf as on March 31, 2024. The day-to-day operations of the company are managed by Harsh Binani and Neetish Sarda, supported by a team of experienced professionals.

Other notable investors include Keppel Land (Temasek-backed Singapore urban solutions and real estate developer), Deutsche Bank and Ananta Capital.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	711.63	1041.91	643.00
PBILDT	430.50	667.49	-
PAT	-101.05	-49.96	-
Overall gearing (times)	310.78	151.21	-
Interest coverage (times)	1.82	2.03	-

A: Audited UA: Unaudited; Note: these are latest available financial results analytically adjusted under CARE Ratings' methodology

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	July, 2030	364.91	CARE BBB+; Positive
Fund-based - ST-Bank Overdraft		-	-	-	30.00	CARE A2

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	364.91	CARE BBB+; Positive	1)CARE BBB+; Positive (11-Dec-24)	1)CARE BBB+; Stable (10-Nov-23) 2)CARE BBB+; Stable (20-Oct-23)	-	-
2	Fund-based - ST-Bank Overdraft	ST	30.00	CARE A2				

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-Bank Overdraft	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr. No.	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Smartworks Tech Solutions Private Limited	Full	Wholly owned subsidiary
2	Smartworks Office Services Private Limited	Full	Wholly owned subsidiary
3	Smartworks Stellar Services Private Limited	Full	Wholly owned subsidiary
4	Smartworks Space Pte. Ltd	Full	Wholly owned subsidiary

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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