“Smartworks Coworking Spaces Limited

Q3 FY26 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day and welcome to the Smartworks Q3 FY26 Earnings Conference Call, hosted by JM Financial Institutional Securities Limited. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantee of future performance and involve risk and uncertainty that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star, then zero on your touch-tone phone.

Please note that this conference is being recorded. I now hand over the conference to Mr. Sourabh Gilda from JM Financial Institutional Securities Limited. Thank you and over to you, Mr. Sourabh.

Sourabh Gilda: Hi, on behalf of JM Financial Institutional Securities, I welcome you all to the Q3 FY26 Earnings Call of Smartworks Coworking Spaces. On behalf of Smartworks, we are represented by the Senior Management, Mr. Neetish Sarda, Managing Director, Mr. Harsh Binani, Executive Director, Mr. Sahil Jain, Chief Financial Officer and Mr. Anirudh Tapuriah, Chief of Strategy and Investor Relations. I would now like to hand over the call to Mr. Neetish Sarda for his opening remarks. Thank you.

Neetish Sarda: Good afternoon, everyone and a very happy new year.

Q3 of FY26 marks the strongest quarter in Smartworks' journey and a clear shift into a compounding phase, where growth, margins and cash flows are improving together. At our scale, Smartworks is no longer a short-cycle occupancy business. We are an execution-led enterprise infrastructure platform built on four pillars -- sustained growth, predictable annuity-like revenue, a structurally low-cost model and a self-funded expansion. This positions us for durable and multi-decade relevance.

Let me briefly touch upon our performance and operating margins before handing over to Harsh for the growth drivers and financial outlook ahead.

During the quarter, revenue grew 34% year-on-year to INR 472 crores while normalised EBITDA increased 86% year-on-year to INR 85 crores, with margin expanding to almost 18%. Importantly, this was a PAT-positive quarter under IND AS and normalised operating cash flows exceeded normalised EBITDA with an OCF to EBITDA ratio of 1.2x, operating cash flows standing at INR 101 crores. These outcomes reflect the inherent operating leverage and cash-generating capabilities of our platform.

Our growth today is firmly anchored in enterprise demand. In Q3, enterprise clients continued to contribute approximately 90% of the rental revenue, with 35% of the rental revenue coming from large-format requirements of over 1,000 seats. Rental revenue from multi-city clients continues to be more than 30%, reflecting how large occupiers increasingly consolidate their workspace needs across locations through our reliable platform.

At this scale, the flex workspace sector becomes an execution business. Our ability to secure large campus-style assets and execute them at speed creates a flywheel of higher occupancy, improving margins, and increasing return on capital. Equally important is revenue stability. Our client base is well-diversified, and today our top 10 clients contribute only about 21% of our rental revenue, a figure that has steadily declined even as deal sizes have increased. This enhances visibility, reduces concentration risk, and supports long contract tenures.

On the supply side, we now have clear visibility for growth over the next several years. We have secured 100% of our supply for FY '27, with substantial progress already made for FY '28. We continue to see strong demand-led execution, with LOIs signed for more than 1.62 million square foot during the quarter and are committed to a sustained growth trajectory of 3 million square foot per year.

Committed occupancy at our operational level rose to 92% from 88% quarter-on-quarter, securing over INR 4,700 crores in committed revenue across our 9.2 million square foot of operational centres.

As these centres continue to ramp up to full maturity and new centres become operational, we expect to capture significant additional revenue over and above this figure, further accelerating our top-line growth. As our platform matures and the base of centres expands, growth increasingly becomes self-funded. At scale, Smartworks can sustain 25% to 30% annual growth without any incremental equity raised.

To summarize, Q3 FY '26 demonstrates that Smartworks is no longer just scaling, we are compounding. With a structural advantage, cost-based, enterprise-led demand, deep supply visibility, and strong cash generation, we believe we are well-positioned to deliver a superior long-term outcome for shareholders.

I will now hand over to Harsh to take you through the financials in more detail.

Harsh Binani: Thank you, Neetish, and good afternoon, everyone.

As Neetish highlighted, Q3 FY '26 marks an inflection point where the structural strengths of the Smartworks model are clearly visible in our financial performance. We operate at the intersection of flexibility and infrastructure, with long-tenure enterprise demand, annuity-like revenues, and disciplined capital deployment at national scale.

In Q3 FY '26, revenue increased to INR 472 crores, up 34% year-on-year, and 11% sequentially. The growth was driven by higher enterprise occupancy and ramp-up of our recently delivered centres. Normalized EBITDA rose to INR 85 crores, with margins expanding to approximately 18%, which is a bump of over 150 bps within the quarter.

Importantly, this margin expansion was achieved without any material pricing action and was driven almost entirely by operating leverage and cost discipline. As we scale, corporate overheads remain low and stable, while brokerage and operating costs continue to trend downwards, spread over a larger base, reinforcing margin expansion.

The core of our financial model lies in centre-level economics. Mature centres operate at around 93% committed occupancy, with stable revenues and strong cost control. Conceptually, our mature centres exhibit a margin of greater than 27%, largely driven by higher durable occupancy and tight cost control without necessarily compromising on tenures or any pricing action. The ROCE continues to expand meaningfully after the expiry of each payback period. For more details, please refer to our shareholder letter. As new centres ramp up, they do not dilute our margin. Once a centre crosses its breakeven point, incremental revenue flows disproportionately to EBITDA. As the share of mature centres increases, this effect strengthens driving compounding at the portfolio level. This dynamic is clearly reflected in our improving ROCE, which continues to rise as capacity seasons and renewals kick in. Normalised operating cash flow remained robust at INR 101 crores, translating into an OCF to EBITDA ratio of 1.2x.

This reflects enterprise-led billing, high-quality receivables, and minimal working capital volatility. Our ROCE has significantly jumped by more than 600 bps[(1)], expanding from 14.3% to now just under 21%. And we see significant headroom for the ROCE expansion to continue in the foreseeable future.

During the quarter, our credit rating was upgraded by two notches to A-Stable, reflecting the strength of our balance sheet and the cash flow profile of our enterprise clients. Following this upgrade, our cost of borrowing has further reduced and is now amongst the lowest in the industry. We have been pioneers of introducing cash flow-backed lease rental discounting facilities with top financial institutions. For more details, refer to our earnings presentation.

As we enter Q4, we expect further growth driven by the operationalization of approximately 1 million square feet of new supply and continued maturation of existing centres. We will also see a Board expansion to further strengthen our corporate governance and help us as we scale up to the next leg of our journey. While managed offices remain the co-driver, ancillary services such as Fitout-as-a-Service will increasingly support revenue growth and margin expansion as scale deepens.

In closing, Smartworks is transitioning from a growth-led phase to a high-velocity, cash compounding phase characterized by expanding margins, rising returns on capital, and increasingly self-funded growth.

With that, we are happy to take your questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Karan Khanna from Ambit Capital.

Karan Khanna: Hi, team. Thanks for the opportunity. Just a couple of questions from my side. First, GCC has contributed over 15% of rental revenue this quarter. With SmartVantage platform now becoming live, how have the nature of your conversations with global fortune 500 prospects changed? And are you seeing higher average deal sizes for GCC-focused deployments compared to standard enterprise clients?

[(1)] 800 was mentioned in error. Figure corrected above.

Harsh Binani: Thank you, Karan, for the question. GCC continues to remain a very, very important driver for growth for the next three years. With the launch of SmartVantage, we are already starting to see very good momentum and traction. The conversation with a lot of our large enterprise has now moved away from space to the more holistic solution that the SmartVantage platform offers. And this is already starting to show meaningful results on ground.

In the last nine months, the company has signed over four large mega GCC deals, which are over 1,000 seats plus. And these are well diversified across Europe and America. We expect that these numbers will continue to go up. And over the next three years, as the GCC wave continues in India, we are well positioned to take advantage. And during this course, SmartVantage platform will also continue to evolve.

Karan Khanna: Harsh, just a second question on the Q3 supply. So, with 2.6 million square feet, which was added just in the third quarter, your total super built-up area has already reached 15.3 million square feet. So how much of this new capacity is already pre-committed or reserved via LOIs? And what is the expected ramp-up time to reach the company-wide mature occupancy of 88%?

Neetish Sarda: So Karan, the beauty of our business is, whether we take up a 400,000 square foot campus, a 100,000 square foot campus, or an 800,000 square foot campus, the ramp-up time to get to an occupancy of about 80%, 85% is similar across all the centre sizes.

With Smartworks' unique ability of taking up mega campuses, with some of the deals that we've signed recently with the Hiranandani deal that we did in Vikhroli, we're seeing that both on the demand and supply side, growth is easier because we only have to take up one or two assets to get to the target number that we're targeting for every quarter.

As far as visibility towards demand is, now we're in a phase where we're demand-led. Almost 30% to 35% of a building is pre-committed, driven by the interest generated from our existing clients before we go ahead and take a new building. That's why if you look at the 1,000-plus-seater deals, or if you look at the number of clients who have done multi-city deals with Smartworks, that has constantly been increasing.

We're closer to about 31%(2) in terms of multi-city deals, as well as 1,000-plus-seater deals. You will see this being a unique factor for Smartworks increasing quarter-on-quarter. In the past, as well as in the future, you'll see these numbers increase significantly. But we have significant visibility towards the demand.

Karan Khanna: And my last question, you reported a notable improvement in seat retention rate to 93% this quarter, up from 74% in Q2. Was this sharp increase due to a specific large client renewal cycle? Or are you seeing a broader trend of clients moving towards longer lock-in periods?

(2) 35% was mentioned in error. Figure corrected above.

Neetish Sarda: I think it just coincidentally happened that the last quarter happened to be around the 40, 45-48 month mark from COVID. We did a lot of deals during COVID which we wanted to renegotiate and bring up to market terms. I think having a retention rate closer to about 85%-plus is something that you'll continuously see. There might be one or two quarters of abnormal numbers just because in that particular quarter, there might be a few deals that fall, but overall retention across the entire organization, if you look at our past data, as well as what we are projecting for the next few quarters, will be 85%-plus.

Moderator: The next question is from the line of Mohit Agarwal from IIFL.

Mohit Agarwal: Yes, wish you all a very happy new year and congratulations for a great set of numbers. My first question is, if I look at our revenue mix for the quarter, the other operating revenue, which typically would have the VAS and the FAAS component, has grown meaningfully from about INR 22 crores to INR 66 crores. So, could you give some breakup and color on that and how is the trend looking forward? That's my first question.

Anirudh Tapuriah: Hi, Mohit, Anirudh this side. As far as our breakup of VAS revenue or FAAS revenue is concerned, that was at around INR 27.54 crores and others were a mix of multiple items under ancillary.

Neetish Sarda: So Mohit, our ancillary revenue growth is because of the base of properties increasing to over 10 million. The existing property's occupancy is going up. The ancillary revenues or the supplementary revenues that we generate from our existing building have also gone up significantly. I think VAS or Fitout-as-a-Service as a vertical is still a very small part of the total revenue. It still only stands at about INR 27 crores for the quarter.

Mohit Agarwal: And in your shareholder letter, you do mention that there's going to be a sharp ramp-up. Any kind of any outlook you can give or any guidance that you have for the next couple of years? How large can that segment be?

Neetish Sarda: So, I think with the footprint growing 30%-35% growth and that is also something that we can easily predict going forward because this is without any new verticals getting added. Just the footprint growth is allowing us to grow at these numbers.

We are also figuring out if there are other ways of improving the VAS margins. But currently what we can indicate towards is that with the footprint growth of about 30%-35%, the ancillary revenue will keep going up by 30%-35% year-on-year.

Harsh Binani: And to add to Neetish's point, Mohit, we've also clarified in our shareholder letter and in our prior conversations that FAAS and ancillary revenue will scale selectively over the next two years, primarily linked to the new enterprise and the GCC deployments rather than being a standalone growth driver.

Our focus remains on annuity rental revenue with ancillaries providing incremental high margin upside without increasing our volatility. And importantly, we've also clarified that our VAS only has the take rate recognized in the revenue, keeping our earnings quality and cash visibility very stable.

Mohit Agarwal: Yes, sure. So that is well understood. So, when you're talking about take rates, how would the margins be different? So, if you could, let's say for blended margins is 18%, what would be the margins on VAS if you could share that?

Harsh Binani: So, our VAS, as we mentioned, only the take rate is recognized. The margin profile of VAS is significantly higher than our core business, given that there aren't any incremental costs associated with it. But again, we are starting with a very small base currently, and you will start to see this ramp up meaningfully over the next two years. And it continues to be very asset light, both FAAS as well as VAS.

Neetish Sarda: And I think for us, Mohit, we'll treat the VAS as something that is more predictable also in our case, because this is something which is getting generated on a regular basis where the amenities that we provide within the building is what is driving most of this growth.

And with our occupancies increasing, this consumption within buildings will automatically keep growing up. So as Harsh mentioned, there is not a lot of cost attached since it's only a take rate and we get that. But growth will also be driven because of the occupancy growth within the buildings.

Mohit Agarwal: My second question is on the overall margin outlook. Like on a year-on-year basis, it's gone up from 13% to 18%. And Harsh mentioned in his opening remarks that the corporate overheads are stable and brokerage and everything is also trending down.

So how do we see as your occupancy converges towards your committed occupancy? How do we see these margins? Or where do we see these margins stabilizing, let's say, one year out? If there is any directional guidance that you want to give, that will be helpful?

Harsh Binani: Sure, Mohit. So, over the next two years, margins are expected to expand structurally quarter-on-quarter, driven by our portfolio maturity, our higher committed occupancy and operating leverage, and not necessarily our pricing action. You've seen in our business model that our occupancy has always been durable and holding well even during downturn, COVID. So that is one of the primary drivers.

And we have also ushered in a lot of new operational excellence initiatives. So, in the next two years, you will start to see energy efficiency, solar gains, etcetera, all come in. During this period, our corporate cost is not expected to go up meaningfully.

And in fact, because we are a PAN-India platform, we have our corporate teams as well as centre teams staffed everywhere. So, as we increase our footprint across other cities, you will not see that to be an investment and a drag on our margin. Therefore, do not expect volatility in our margins going forward.

And as a larger share of our centres move into maturity, this will allow incremental revenue to flow disproportionately to EBITDA. So therefore, margin expansion should be very steady and predictable without volatility.

Anirudh Tapuriah: And just to add to Harsh's point, on Slide 16 of our investor presentation, we have given a detailed breakdown of our capacity maturing. Our matured capacity stood at 7.8 million square feet as of December 25, which is expected to go up to 10.2 million square feet by the time we hit March 27.

Neetish Sarda: Just to summarize, I think we also mentioned that now we've entered a compounding phase where the new centres which are getting added are significantly smaller in ratio of our matured centre because of which the new centre's drag on profitability is not going to be as effective.

That's why you'll see the margins continuously increase. So, a mix of operational excellence, as Harsh mentioned, maturity of new centres as Anirudh mentioned, and the fact that compounding effect is now kicking in, all three will drive margins higher.

Mohit Agarwal: So just to summarize, if your mature centres are doing over 27% margins, your blended portfolio today is 18%; You basically see the trend going closer to that level, maybe in the 20 to 25 mark. Is that the right assumption to make?

Neetish Sarda: Predicting those numbers might be a little difficult. We can't comment on those numbers. But what we can say is continuously, the increment is continuously happening. It is because of the compounding effect of more mature centres getting added and the new centres being a much smaller portion. So, when will it happen? It's a little difficult to really map that out. But volatility in our business is very, very low. And predictability on cash flows is very, very high. So that's allowing us to continuously grow the margins.

Mohit Agarwal: Just one last question. You've given the INR 4,700 crores committed rental number. Is it possible to share within this how much is locked in? Out of this INR 4,700 crores?

Anirudh Tapuriah: Sure. It will be approximately in excess of INR 2,500-odd crores.

Harsh Binani: And our retention rate, Mohit, as you are aware, has remained very high over the last three years. So, we use the committed rental revenue as a healthy parameter to measure particularly our asset liability mismatch, which for the next two years is completely eliminated as well. And we'll continue eliminating going forward.

Anirudh Tapuriah: Just a small update. Sorry. Currently, it stands in excess of INR 3,100-odd crores.

Moderator: The next question is from the line of Pradeep RS from Spark Capital.

Pradeep RS: The first question is on the seat under fit-out, which is currently 9,000 seats, whereas we are guiding around 23,000 seats will be added by the Q4. So how this gap will be filled? So, the seats which are yet to be handed over, are we expecting it will come live by mid of Q4? That is my first question.

Anirudh Tapuriah: Yes. When you look with respect to the seats which are going to come over, we've given a breakdown in our investor presentation that approximately 1 million square feet is going to get operational in the next quarter itself. And then gradually *for new LOIs taken**, when these are yet to be handed over, you will see it continues to move towards under fit out, and incrementally it will move to operational footprint.

Harsh Binani: And to your question on the gap, this is going to be filled through a combination of pre-committed enterprise movements. Neetish had clarified earlier that about 30% is a pre-commitment as we take larger campuses. We already have a very healthy pipeline of LOIs already signed and we are starting to see more traction on the expansion from our existing multi-city clients.

Basis of this, we have a very strong visibility already in place. It's not necessarily an empty capacity, and you'll see it ramp up in an orderly fashion with new centre sizes. In spite of it being of a significantly larger size, we are not seeing too much difference in terms of the ramp up months.

Pradeep RS: So, secondly, I just want to understand more about the supply sourcing strategy. As you said, like 30% of say the incremental capacity would be committed by tenants. So, is it like once they give commitment, then we will go on such a supply? Or is it like the supply currently in pipeline already has 30% say commitment from client? So, to understand more about how we manage this demand supply incrementally as we go forward.

Neetish Sarda: So, I think our supply acquisition strategy is to go deeper in micro markets where we are seeing most of the demand coming from our existing customers. Before going into any of the new centres, our existing customers are the first level of check to get a sense of where the expansion is coming from. It necessarily doesn't mean that there is a pre-commitment from the customer on the building the day we sign it, but it is an indicative commitment towards where their business is growing. How you should look at this detail is with the number of months that it's taken us, despite the larger buildings that we've taken.

So, despite taking up 400,000, 500,000, 600,000 square foot buildings, we're still able to get to that maturity mark within the first 12 months itself, which is what we're continuously demonstrating across all the small, large, and mid and large formats of centres that Smartworks is taking.

So, there's necessarily not a back-to-back deal that we go after, but it is an indicative demand from our existing customers, which in most of the cases does get converted just because of the value proposition that we have given back to our customers.

Moderator: The next question is from the line of Murtuza Arsiwalla from Kotak Securities.

***** Added for the purpose of readability.

Murtuza Arsiwalla: Hi. Congratulations. Just one question, just again, further delving into that other revenue outside of the lease rental. Could you be able to give us a sense of what would be the EBITDA flow-through and the adjusted EBITDA from that INR 60-odd crores? What would be the approximate EBITDA against that?

Neetish Sarda: I think if you break that down, FAAS obviously has a certain margin that you work on. If you look at the ancillary revenue that is coming in, Murtuza, that doesn't attach a lot of cost to it. Those costs, we don't track it separately because those are usually the building costs, which would be included in the electricity rentals and some of the other aspects of the building itself. So, to bifurcate that might be difficult.

Having said that, just to reiterate what we had mentioned earlier, these ancillary revenues are not something that has happened this quarter. It is something that is continuously growing. It will automatically be there because of the high occupancies that are there in the building. Most of the revenue comes from services which are dispersed within the building on a day-to-day basis, things like food, parking, internet, which is consumed by the users on a day-to-day basis.

So, giving a separate number, it might be a little difficult. What we can say is that the take rate is what we account for and not the entire revenue. The GMV for this would be about at least eight to nine times of the figure that we've reported because our average take rate is between 10% to 12%.

Murtuza Arsiwalla: Okay. But most of that piece, these other incomes are recurring, there is not too much non-recurring in this quarter. Just checking because that number looks disproportionately higher compared to the base period.

Neetish Sarda: No, absolutely. And that's because of increased occupancy and increased footprint. I think both of them will automatically drive it. You'll see these numbers continuously go up.

Moderator: The next question is from the line of Vandit Jain from SageOne Investments.

Vandit Jain: Yes. Strong quarter, strong numbers. My only question is on operating cash flows. So in H1, our OCF was impacted by security deposits. So, the current INR 101 crores of OCF that we have reported for Q3, is there any positive or negative impact of security deposits this time around?

Anirudh Tapuriah: So as far as security deposit is concerned, we continue to pay security deposit for upcoming properties as well. So even in this quarter, we have paid security deposit for our upcoming LOIs. So, it's a recurring part of our business where we continue to pay money for future.

Harsh Binani: And on a more strategy basis, we've also maintained the stance that ours is a cashflow-focused business where normalised OCF is always higher than normalised EBITDA, driven by a negative working capital as well as strong enterprise collections. So, from that perspective, while you might see quarter on quarter numbers move, sustainably you will always see this greater than 1 and settle more in the range of 1.2 on a more long-term basis.

Moderator: The next question is from the line of Fenil Brahmbhatt from Choice Institutional Equities.

Fenil Brahmbhatt: Yes. So first of all, congratulations for the healthy quarter performance, considering the first ever report in this quarter, which was supported by strong top-line performance. So what is the management guidance or outlook for the top-line performance or a reported PAT margin for FY '26 or FY '27? If you can share some guidance on that, so that would be very helpful.

Harsh Binani: Certainly. Thank you for the question. Structurally, we've maintained, we are in that high growth phase. What has been interesting about this quarter is the inflection, where we are now firmly entering into compounding phase. So, you can expect that our growth levels will continue to be maintained over 25% to 30%. But this will be complemented with margin growth which is higher than that. And you will also start to see our normalised OCF and our ROCE numbers continue to jump up.

So, while we do not wish to comment specifically on the FY '27 numbers, the INR 4,700 crores committed rental revenue and a growing proportion of our portfolio becoming mature gives us the confidence that the structural change will continue to improve our overall numbers quarter on quarter.

Fenil Brahmbhatt: Okay. And we also noticed that brokerage percentage of revenue from lease rentals decreased in this quarter to 2.5%. So, what is the sustainable level for this brokerage percentage or considering percentage of revenue? And what is the management guidance for upcoming quarters?

Harsh Binani: So, on our brokerage cost, first, structurally, we want to mention that you've seen a sharp drop over the last three years, where the numbers were close to about 4.7%. And in the recent quarter, this has gone down to 2.5%, we expect that this operating leverage and the margin expansion we've seen because of our cost of acquisition coming down, largely driven by our strong franchisee, lot of multi-city expansions, we will continue sustaining a similar trend.

Of course, on a quarter-on-quarter basis, you might see fluctuations given as a result of some of the new large deals that are getting signed up. But structurally, the numbers that we've shown as a trend over the last three years will continue to hold good.

Anirudh Tapuriah: And we've also given these details on Page 31 of the investor presentation.

Moderator: The next question is from the line of Pal Balar from Trinetra Asset Managers.

Pal Balar: Thank you for giving me the opportunity. I wanted to ask you, as we are going to increase the GCC clients revenue contribution, so could you please explain me how it is different from enterprise client and GCC client in terms of price per seat and the margin profile, or it is just mainly occupancy driven?

Neetish Sarda: It is mainly occupancy driven and depends on where the demand is coming from. The demand in real estate in India is now shifting towards GCCs, which are coming in taking up disproportionate space. If you look at last year, almost 80 million plus square foot of absorption of office was driven through the GCC clients.

I don't think there is price differentiation between a GCC or a large enterprise coming in taking up space. Smartworks has always priced itself at a value price so that people who are looking at long term commitments with 1,000 plus seater deals are where our focus is on. I don't think that pricing really changes.

It's only our ability to capture the new demand which is coming into the market, and you will see that percentage as a total revenue has already increased to 15-plus percent and you will see those numbers continuously grow up while we capture more and more demand from the GCCs coming into India.

Harsh Binani: The interesting nugget about GCCs is that unlike typical enterprises, GCCs are setting up permanent operating centres leading to significantly larger campuses and longer tenures, and we are also seeing a lot of pan-India expansion as they continue to scale up. So, from that perspective, the earnings quality of a GCC is significantly better than any typical enterprise. Hope that answers the question.

Moderator: The next question is from the line of Sumit Kumar from JM Financial.

Sumit Kumar: Hi, good afternoon and congratulations on a good set of numbers. Happy New Year to the team as well. My first question is on the revenue growth. If I look at the operational or the leased footprint as well as the occupied number, that has gone up by 21% for the occupied base but revenue has grown at about 34%. So is it entirely led by the other income portion or there has been some increase in the average revenue per seat as well for the quarter on a Y-o-Y basis?

Neetish Sarda: So Sumit, as you would have seen our retention rate in the last quarter was down to 74%[(3)]. So, there is obviously a natural growth in revenue of about 5% which is contractually with the companies that are coming in which is reflecting there. Plus, I think our overall occupancies have gone up to from 80% to 84% which is also driving most of this revenue.

Plus the retention rate last quarter was at 74%[(3)] which has now increased again. It means that we were able to reprice some of the deals that were there in COVID which were at much lower numbers which we were able to reprice again. I think the ancillary revenue that you are seeing is something that will sustainably grow at the pace at which it is growing.

FaaS is the only new vertical which is added and as a contribution in this quarter FaaS only stands at about INR 27 crores. So, if you look at the operating margins from the business or operational revenue from the business, we would consider the ancillary revenue generated from the building as well as the new seats which are added as well as occupancies or re-rating of our existing centres where we were able to get better numbers from our existing inventory all of them contributing towards the higher margin.

[(3)] 72% was mentioned in error. Figure corrected above.

Sumit Kumar: Fair enough. My second question is on the pipeline. There is about 4 million odd which is under LOI or term sheet. Any risk you see of those maybe falling off or what will be the conversion ratio that the management would like to guide us on and by what timelines would these 4 million come and become commissioned or operational?

Neetish Sarda: So, Sumit the next growth, the 4 million that you are seeing is our growth throughout FY ‘27 and FY ‘28. This is something that is taking care of almost the entire requirement that is coming in till FY ‘28. These are deals which are already signed, executed. Certain things are under LOIs and term sheets till the time the building doesn't get to a certain stage or certain tenant improvements need to be done in the building where that is when it will get converted.

But the deals are already secured where the formal documentation has happened to a level where there are certain condition precedents before we go ahead and finalize the final terms on those buildings. So, we're just waiting for those condition precedents.

So, the visibility that we have given towards 15.6 msf is on the deals that we are certain is going through and this takes care of our entire requirement through FY ‘27 and almost 80%-85% of our requirement through FY ‘28. So, supply is not an issue for Smartworks' growth anymore. It is only our ability of executing continuously through the next few quarters.

Harsh Binani: And historically, Sumit, our follow-ups have been very limited and what has structurally changed in our business in the last nine months and particularly more so post-IPO is that the supply tie-up has become even stronger, courtesy our strong institutional partnerships with leading developers in each of the cities we are present in, alongside our network of non-institutional developers that we have cultivated over the last few years.

We continue to see this relationship getting elevated to the next level and as Neetish rightly pointed out, supply will drive a lot of new growth but the fact that it is all certain and our model is very scalable augurs well for our future growth outlook.

Moderator: The next question is from the line of Yashas Gilganchi from BOB Capital Markets Limited.

Yashas Gilganchi: Thank you for taking my questions. With 35% of your revenues now coming in from tenants leasing greater than 1,000 seats, I'm trying to get a sense of the risk to occupancy when such a tenant vacates. So, do you expect such tenants to renew their contracts? And if so, how many times before they decide to lease directly with the landlord and in your view, how many of these tenants do you expect to stay on after the end of the market period?

Neetish Sarda: Sure. So, Yashas, if you look at 1,000 plus seater deals, these are not short-term requirements that are coming. These are 1,000 plus seater deals on an average have a tenure of over 50 months and this has continuously been increasing. In fact, if you look at the tenures from FY ’22, 1,000 plus seater deals which were 12% of our revenue, on an average at 42 months tenure, those tenures have increased to 52 months and the lock-in period for these tenures have also increased in the same fashion.

While 1,000 might seem like a big number, but if you look at the size of buildings that Smartworks is also taking, 1,000 seats in most of our larger building formats would be singledigit occupancies only. It is not like we are doing back-to-back deals where the occupancies for these centres are at risk because the client moving in reduces your occupancy from 80 or 90 to single digits. It's actually only a small portion of the occupancy risk.

Second, we also have notice periods with most of these customers in place. Even if they choose to move out, there is a six-month notice period, six to eight-month notice period that they need to give before they can actually move out. In that time, we are able to refill those centres despite having a 93% retention rate which we think is going to continue at 85 plus percent.

Even if they move out, for us to refill that centre, we have enough, ample time to find an alternate tenant to come and fill up that centre also. So, 1,000-plus-seater is more stable because it's more long-tenured. It is not because it's just a large deal and it's short-tenured and we have to keep selling those 1,000 seats every year.

Anirudh Tapuriah: And for more details, Yashas, you can also refer to page 18 of our investor presentation.

Yashas Gilganchi: And my next question, and sorry to keep going on about this, is on other operating revenues. I see that they have actually jumped significantly, like if I were to just take an average about 4.3% over FY '23 to FY '25 and 6.2% in FY '25 and it's about 14% as of 3Q '26.

So, I'm just trying to understand what, I mean, you did speak about what is driving this. How do you expect this other operating income or other operating revenues to trend going forward? Or is that not the right way to think about it?

Neetish Sarda: So if you look at it from the financials of the company's point of view, it is only driven, it's still at about 8%(4) today from the revenues of, ancillary revenues that we are generating. The INR 27 crores FaaS(5) vertical is something that we've, fit out as a service vertical was something that we started only this year and that is contributing the additional 5.8%(6) on the entire revenue. But if you look at the growth in the other income, it is mainly driven because of higher occupancies.

The 8%(4), which is from our VAS, value-added services in the buildings of Smartworks, that continues to grow. What is different from last year is last year, the FaaS number was much, much smaller. This year, that FaaS number is increased. In this particular quarter, it is at about INR 27 crores, but the ancillary revenue remains stable. So the additional amount of 5.8%(6) that you're actually seeing is only from the, fit out as a service vertical that we are generating.

Anirudh Tapuriah: And another point, we have also reported that our monthly committed revenue that has also touched 150-odd crores on a monthly basis.

Moderator: The next question is from the line of Aditya Shah from Sunidhi Securities and Finance.

(4) 4.3% was mentioned in error. Figure corrected above.
(5) VAS was mentioned in error. Wording corrected above.
(6) 2.1% was mentioned in error. Figure corrected above.

Aditya Shah: Hi team. I just had one small question. You have a large foreign investor named Keppel Land with 14.91% stake. Could you give us an idea about how this stake would be monetized in future?

Harsh Binani: Thank you, Aditya. Keppel continues to be a long-term supportive shareholder who has invested in from their balance sheet in 2019. We've reached out to Keppel, and they've mentioned that there are no immediate plans for them to sell. Of course, like any other institutional investor, they might evaluate opportunities in the future. However, this action would be orderly and not destructive in any way.

Moderator: The next question is from the line of Yashowardhan Agarwal from IIFL Capital Asset Management Ltd.

Yashowardhan Agarwal: Good morning and congratulations on a good set of numbers. So, two questions from my side. First, could you please elaborate on the SmartVantage as an offering? I know you have mentioned it in your letter, but still if you could elaborate that what exactly is the offering and how does it play Smartworks differently versus others' manned office space? And on the similar line, is this generally a big problem for the GCCs that we're trying to solve or is it just a complementary offering that we have provided? That would be my first question.

Harsh Binani: Certainly. Thanks a lot, Yash, for that question. SmartVantage addresses a very core GCC problem, which is of speed, compliance, and execution at scale. So far, our offering was limited to workspaces, but SmartVantage takes it a level further by where we become a one-stop solution and offer ready-to-operate campuses with all the regulatory and technology and partner support, enabling GCCs to go live in just six to eight weeks.

Typically, during that period, they are also evaluating where to expand and how their India operations are settling. So therefore, we believe that Smartworks, because of its pan-India footprint and our campus strategy, allows them the flexibility of taking care of both their national needs as well as going live very quickly and scaling up also very aggressively with us as their need firms up. This is where we clearly distinguish from any other provider, and we see a very promising outlook in future for GCCs.

Yashowardhan Agarwal: Okay, and how do we plan to monetize it?

Harsh Binani: Currently, our workspace offering will not see any change. We will continue to get that annuity revenue from GCCs. For all the partner-led services which are going to be offered by our partners to these GCCs, similar to our VAS, we will be having a take rate, which will flow straight to our bottom line. So, you will see the GCCs coming in, not only expanding our workspace revenue, but also our other take rate revenue.

Yashowardhan Agarwal: Got it. That is helpful. My second question is on the retention rate. So, could you please share the retention rate across different seat cohorts, that what is it for the 1,000 plus seats versus, let's say, below 1,000 and how has that been across the years?

And second question would be, what is the nature of the clients that we are acquiring? That is, how much of them are coming from switching to -- switching from the existing flex player and how much are coming to Smartworks as their first choice?

Neetish Sarda: Maybe let me start to answer with the second question first and then I'll hand it over to Anirudh to answer the first question. Most of the demand in Smartworks is actually coming from enterprise clients. It's a unique set of clients which are moving into Smartworks who look at traditional offices as an alternate.

The reason that Smartworks is able to get much long tenure and the larger deal size is because people are looking at Smartworks as an alternate to traditional offices rather than moving from any other flex player into a Smartworks setup.

If you look at the expansion, the reason that most of these clients are expanding also with multi-city deals with Smartworks is about 31%(7). It means that once they come into the ecosystem, they go ahead and grow across multiple geographies. And if you look at our focus, ~90%(8) of our revenue actually comes from large enterprise clients.

So while we have over 200,000 seats as we speak, its spread over 750, 760 plus clients. We don't have thousands of clients, 2,000-3,000 clients who are occupying these number of seats. Only 760 clients, so they're more sticky in nature, more permanent, more predictable and are looking at Smartworks as an alternate to traditional offices rather than moving from flex.

Anirudh Tapuriah: And just to your question with respect to retention, I would just like to give a breakup with respect to how revenue is forming on the lease rental side. As you mentioned, 1,000 plus is 35% plus of our lease rental revenue. Between 300 to 1,000, it is approximately 32% to 33% of our revenue, that is why 300 plus actually becomes a very large base at around 70-odd percent.

And as far as retention is concerned, we continue to track and evaluate retention at a company level because bulk of our clients are actually enterprises as Neetish mentioned is at 90%. So that is why we track retention on a company level basis and not on a seat cohort level basis.

Yashowardhan Agarwal: And if I could ask the last question, that would be on the absolute capex number for next two years for FY’27 and FY'28.

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(7) 35% was mentioned in error. Figure corrected above.
(8) 95% was mentioned in error. Figure corrected above.

Harsh Binani: We've maintained consistently that going forward, we are aiming at a 25% to 30% growth rate, we will continue being self-funded. Prior to IPO the capital that was raised of INR 500 crores is already generating very healthy cash flows. We are yet to fully utilize the IPO proceeds that we raised. So that will also meaningfully help us improve our capex capacity over the next few years. For 2.5 to 3 million square foot addition every year, we envision a capex of INR 350 crores to INR 400 crores every year, for which the company is very well capitalized and external capital raise will not be required.

Moderator: The next question is from the line of Siva Prakash B from ithoughtPMS.

Siva Prakash B: Hi, sir. So, you had mentioned that you were planning to expand by 3 million square feet per year. So, could you please give me more info about where these new centres are going to be expanded? Like are you planning for a more tier 1 based expansion or tier 2 based expansion? And also, could you talk about your Singapore centre if you're planning to expand on the same?

Neetish Sarda: So, if you look at our expansion to 3 million square foot is something that we've already locked in for the year for FY'27 and for FY'28. Majority of the growth is driven in tier 1 cities in India where we are going ahead and consolidating our leadership position in most of the larger cities where Smartworks is present. We have grown across cities like Mumbai, Pune, Bangalore, Hyderabad.

If you refer to our Page 15 of the presentation, you will see how this is distributed across almost all the major cities and how we're consolidating our position and leadership position in all of these cities. So, most of it is going to be driven through the Tier 1 expansion itself where we are seeing deeper interest, deeper demand coming in from large enterprise clients. As far as Singapore is concerned, it was more of a strategic presence realizing that demand in India comes from large enterprises who have their headquarters in Southeast Asia based out of Singapore.

We wanted to be closer to the decision makers there is no immediate requirement for us to increase our base in Singapore. It was mainly to create a presence so that we are closer to the decision makers. And I think it's turned out very well for the company because we're seeing those synergies flow through the demand which is coming to us from Singapore to India as well as from India to Singapore. And Singapore is profitable for us for the past few quarters. And it has margins higher than India typically.

Siva Prakash B: And are you planning to focus more on Tier 2 going forward as your competitors are planning or how is it going to be?

Neetish Sarda: We're seeing India is about 90 plus percent of India's demand actually comes from the top nine cities. Our focus is to go deeper with the campus style large setups that we have. Tier 1s will always dominate it because getting in 800,000-900,000 square foot building is something that will be available in Tier 1s, Tier 2. The volume of such campuses might be much, much smaller.

So while you will see Smartworks entering into new cities, we are present in five[9] Tier 2 cities already as we speak. But I think the Tier 1 will have a disproportionate growth just because of the size of properties that are available in these locations and the Smartworks strategy of taking up full large campus buildings, which is unique to our model, which is what keeps our focus more on Tier 1.

Moderator: Thank you. As there are no further questions from the participants, I now hand the conference over to Mr. Harsh Binani for the closing comments. Thank you and over to you, sir.

Harsh Binani: Thank you very much for patiently hearing us for the last hour. And we look forward to continue engaging with you. Our team remains available to answer any questions. Hope you do get the time to go through the exhaustive collateral material that we've uploaded, our shareholder letter, as well as the earnings presentation. And here's wishing all of you a very happy New Year again and look forward to a great year for the company and interacting more with you. Thank you so much.

Moderator: Thank you very much. On behalf of JM Financial Institutional Securities Limited, that concludes this conference. Thank you for joining with us today and you may now disconnect your lines.

[9] six was mentioned in error. Figure corrected above.

(This document has been edited for readability purpose)