"IndiQube Spaces Limited

Q2 FY27 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY27 Earnings Conference Call for IndiQube Spaces Limited hosted by Nirmal Bang Institutional Equities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Rahul Kundnani from Nirmal Bang Institutional Equities. Thank you, and over to you, sir.

Rahul Kundnani: Thank you, Alriac. Good afternoon, everyone. On behalf of Nirmal Bang Institutional Equities, I would like to welcome you all to Q2 FY27 Earnings Call of IndiQube Spaces Limited. With us, we have today from the management, Mr. Rishi Das, Chairman, ED and CEO; Ms. Meghna Agarwal, Co-Founder and COO; Mr. Pawan Jain, CFO; Mr. Vikas Agrawal, Head, Investor Relations; Mr. Vamsi Chatrathi, AVP Marketing.

I will now hand over to the management for their opening remarks, after which we'll open the floor for Q&A. Over to you, sir.

Rishi Das: Good afternoon, everyone, and thank you for joining us for IndiQube Spaces Limited Q2 FY27 Earnings Call. It is my pleasure to welcome our shareholders, analysts, investors and all the participants joining us today. Our earnings presentation has been uploaded on the stock exchange and on our website, and we trust you had an opportunity to go through it.

As we are all aware, India is increasingly becoming the world's leading innovation and operations hub. The rapid growth of Global Capability Centers, as we call the GCCs in short, multinational corporations and Indian enterprises is changing the way businesses think about their workplaces.

Every one of these enterprises need workspaces that can be made available to them quickly, that can scale across cities, offer a consistent experience and more importantly, does not require them to commit significant capital to real estate and infrastructure. This is a precise problem IndiQube was built to solve. Over the years, we have evolved from a managed workspace provider into an integrated enterprise workspace platform.

Today, we manage approximately 10.86 million square feet across 138 centers in 17 cities with approximately 241,000 seats and a total of 884 clients. Our business model is built around the carefully aligned investment and recovery cycle. We typically take spaces from landlords, develop it into customized workplaces and secure long-term commitments from enterprise customers. Our average customer lock-in is approximately 35 months. We invest around INR1,650 per square foot in the fit-outs and our investment recovery period is approximately 36 months.

A new center typically reaches operational breakeven at around 55% to 60% occupancy within 6 months of rent commencement, and it approaches steady state within 12 months. There is

another important aspect of our model that we want to highlight. Our landlord arrangements typically have long underlying tenures averaging around 15 years.

However, our lock-in commitment is approximately on an average 38 months, after which we have the option to continue or exit subject to contractual terms. So, what happens, this structure gives us access to long-term supply while maintaining flexibility in our own commitments.

Let me now turn to our financial performance. We have delivered another strong quarter, as you would have seen with our earnings presentation. In Q2 FY27, our revenue was approximately INR475 crores. This has grown 34% year-on-year. EBITDA as per IGAAP stood at INR105 crores, growing 40%, while PAT was INR57 crores and that grew by 63%.

For the first half of the year, since we just completed H1, our revenue stood at INR904 crores, growing 35% and PAT was INR92 crores, growing 66% compared to the same period last financial year. We also paid income tax of INR22 crores in FY26 full year, and we have paid INR13 crores in the first half of FY27.

Our VAS revenue has reached INR154 crores in H1. And this has grown very substantially, 74% year-on-year. And now this contributes around 17% of our operating revenue compared to last year, which was 13%, now 17% of our operating revenue is coming from value-added services.

Our steady-state occupancy has also improved to 91% compared with 89% last year. This is an important demonstration of how portfolio maturity, improving occupancy and additional services are contributing to our growth. Looking ahead, we have a significant growth runway. We approximately currently have 3.8 million square feet of headroom, and this represents about 85,000 seats. Of this, for approximately 2.67 million square feet, we have the LOI signed.

And this space is expected to become operational over the next 12 to 18 months. The balance 1.14 million square feet space is available in our operational buildings, and this can be offered for client occupancy on immediate or shorter notice. Our expansion is also guided by the location preference of enterprise customers and access to talent.

We are continuing to deepen our presence in key micro markets of National Capital Region, NCR, Mumbai and Hyderabad in addition to already what is happening in Bangalore and Chennai. Approximately 80% of our centers are within 3 kilometers of metro station and 3.46 million square feet of our portfolio is green certified.

With that, I will now hand over to my Co-Founder, Meghna Agarwal, who will take you through our strategy and key business insights for the quarter. Thank you.

Meghna Agarwal: Thank you, Rishi. I think the numbers Rishi has shared demonstrate the scale we have built and the strength of our underlying business model. We are building long-term enterprise relationships and a customer increasingly see us as a strategic managed space partner capable of supporting their growth across multiple locations.

And a few numbers to reinforce this, 54% of our revenue comes from GCCs, reflecting our strong positioning with the global enterprise. 41% of our revenue comes from the client

occupying more than 1 IndiQube center, demonstrating the depth of our relationships and ability to grow alongside our clients.

Clients with requirements of over 300 seats account for 65% of our occupied space, and these clients pay us for an average tenure of about 47 months. Across our portfolio, the average client tenure is approximately 42 months. Nearly 63% of our clients acquired through our own brand and direct channels, while brokerage accounts for just 2.29% of our operating revenue. This reflects the strength of our brand, direct customer relationships and distribution capabilities. These numbers tell us that we are building much more than a managed space business.

We believe the opportunity ahead of us is significantly larger than the traditional managed workspace market, and we are extremely excited about this journey. Historically, enterprises managed the requirements like real estate, design, infrastructure, technology, food, transport, employee experience, sustainability and ongoing operational management through multiple vendors and fragmented relationships.

We believe that there's an opportunity to bring these capabilities together through a single integrated enterprise space platform. And our strategy is, therefore, built around 3 distinct layers of monetization. The one layer of monetization is Grow, the core platform.

Grow is a managed workspace business and the foundation of IndiQube. It provides reoccurring revenue, contractual visibility and a nationwide network through which we serve enterprises across multiple cities. As centers mature and occupancy improves, this layer also benefits from improving operating leverage. More importantly, Grow creates the customer relationships and physical network from which the rest of the platform can scale. Our layer 2 is managed space services, meaning expanding the customer wallet share.

The second layer is all about increasing our participation in the managed space life cycle. Once an enterprise occupies a space, it needs multiple services to operate it effectively. Through IndiQare, we provide facilities and property management, IT, food and beverage, transportation and other workspace services.

We are also taking these operating capabilities beyond IndiQube centers into a distributed commercial network such as retail outlets and branch management across India. Through DesignQube, we are leveraging our design, architecture and project execution capabilities to serve enterprise customers beyond the spaces managed by IndiQube.

Our proprietary technology stack MiQube sits across these layers, helping us manage service delivery, operations and a consistent employee experience across locations. This allows us to grow with the customer without necessarily adding more real estate. And the layer 3 is the strategic adjacencies, deploying the growth capital.

The third layer focus on the adjacencies where our existing capabilities and the customer relationship allow us to deploy capital selectively and create new revenue opportunities. Our solar journey began in 2019-20 with rooftop installation across the properties.

Since then, we have scaled to more than 40 installations expanded into captive solar generations across Karnataka, Maharashtra and Tamil Nadu. We currently have approximately 30 megawatt of operational capacity with another 30 megawatts expected to become operational over the next year. We have already generated close to INR15 crores in revenue from the solar solutions in H1 against an investment of approximately INR46 crores. Under IndiQube Eco, we are scaling such sustainability solutions across green power, green building certifications, energy efficiency, water conservation, waste management and renovation. We are beginning to see these 3 layers of monetization come together.

And as we look ahead, we believe IndiQube is entering a very exciting phase of its journey. Grow provides a reoccurring revenue base and the customer network. Workspace service increase our share of customer spend and extend our participation beyond the physical workspace. And lastly, the strategic adjacencies allow us to deploy growth capital selectively into capabilities that strengthen the platform over the long term. Our ambition is not simply to build more workspaces.

It is to build India's most trusted, integrated and profitable enterprise workspace platform. We remain focused on the disciplined growth, stronger customer relationships and sustainable long-term value creation for our shareholders.

Thank you for your continued trust and support and would be happy to take your questions.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Shamit Ashar with Ambit Capital.

Shamit Ashar: Congratulations on a great set of numbers. I just wanted to know your thought process behind the proposed investment of INR35-odd crores you have made in SaiEdge Realty Private. So, if you could just give some rationale behind that, that would be great. And also on your solar capex, you mentioned you've already done INR46 crores of capex during the year. So going forward, how much of capex are you earmarking for your solar plants?

Rishi Das: Yes. Thank you, Shamit. See, for the SaiEdge, what happens is that, as you know, a lot of our portfolio is into core micro markets where occupancies traditionally have been more than 90%. So supply has always been a problem. Getting ready to move in supply is not easy.

So what we realized is that it is a good strategy that we go and identify land parcels in those kinds of locations, which are not very large. And we work with either the landlords or investors and try to, in a co-ownership model, develop these assets where ultimately, IndiQube leases the asset and that asset is available for forward sale or is sold once the building is ready for occupancy.

So that is a model which we are looking at as a pilot for one of the properties in Bangalore. And in that micro market, we already have almost 800,000 square feet of space and everything is full. We are already running at 97% occupancy in that micro market. So with this asset, we want to create a long-term strategic supply as per our requirement.

And also, as you can imagine, once the forward sale or eventual sale happens, this will give us some capital appreciation. So, it's a two-pronged thing. This is a pilot we are doing depending upon how this pilot goes, we can consider as a part of our strategy to do similar kinds of things, maybe in other locations. This is still in the formative stage. So, once we basically close the transaction, have more concrete details, we'll share that.

Regarding solar, as Meghna mentioned, we are currently under process of doing a 30-megawatt expansion, so which will be about INR100 crores kind of a capital expenditure that is happening. For the next year, we see a similar kind of addition being planned. And what is happening in solar specifically because we have very successfully done it for our set of buildings predominantly in Karnataka and in states in Maharashtra and Tamil Nadu.

A lot of our clients are coming and saying that they have other buildings, can you provide us green power over there to meet their ESG requirements and all. So broadly, we see about INR100 crores of investment like this year happening next year also into the solar expansion across predominantly these 3 states, yes.

Shamit Ashar: Got it. And for full year FY27, what sort of EBITDA margins are you looking to clock?

Rishi Das: We will be range bound. Our EBITDA will be between, I would say, 19% to 21% in that range is the full year guidance that we see. And this should put us about INR380 crores to INR400 crores EBITDA margin for the whole year. That's how we see it.

Moderator: The next question comes from the line of Adhidev with ICICI Securities.

Adhidev: Sir, just wanted to understand the uptick in the cash EBIT margin for the quarter and the VAS revenue also has been higher. So, could you explain why the margins would have picked up quarter-on-quarter? Just some broad breakdown, if you could help. That is one. Secondly, if you just guide by the end of this year, what is the operational number of seats or area we are targeting? And what is the similar thing for FY28, yes. Those are my 2 questions.

Meghna Agarwal: Okay. Thanks, Adhidev. So as you mentioned that the revenue growth is about 30%, and there's an uptick in the profitability. So, there are a few factors to it. So, one is the improvement in the steady-state occupancy from 89% to 91%, which is about by 2%, that itself contributed to 40% of growth.

Reduction in the finance cost has happened by 1%, which has contributed to 25% of growth. Our VAS margin has also improved by 5% and fourthly is the operating leverage. So, there has been a reduction of 1% in the salary and other costs. So, when you put all these factors together, all 4 of them, that has given is the uptick of the profitability. Okay. Do you have any questions on this one?

Adhidev: So just all this … the solar plants you're putting right, could you just maybe quantify or just qualitatively explain like in terms of operational profitability, how it is helping us, the solar capex we are doing, any broad understanding you could provide?

Meghna Agarwal: So, in solar, the payback is about 3 years. But our revenue in the VAS is a combination of multiple services. It comes food, transport, solar, technology, even DesignQube. So as of now, these services are not of that scale where we are kind of dividing and individually giving it the individual P&L account.

I'm very sure and very hopeful over the coming quarters, once they are at a certain stage and scale, we would be able to give you individual P&L. But overall, as of now, we consider the margin of the VAS has improved from 15% to 20% overall. So this is the area, which includes the solar also. And the solar itself has given us a revenue of about INR15 crores in H1.

Adhidev: Okay. So this 20% sort of VAS margin is now the new floor, means this is the minimum we will be doing going ahead.

Meghna Agarwal: So thing is, I mean, yes, but the point is, Adhidev, we have always mentioned that the VAS is also like a foot in the door for our clients, right? So there are a lot of times for especially the larger companies, MNCs and all, we start with the services. It's like a foot and door. So margin is not a priority as of now. We have always maintained for IndiQube growth is a priority.

I mean, definitely, we will not grow at any cost. But with the foot in the door, my margins could reduce, but it will be, again, a range bound around about 18% to 20%. The second question was about your area increase, right?

Adhidev: Yes, for this year and maybe next year, if you have some color in terms of -- yes.

Meghna Agarwal: So, this year also is in the similar time line, the similar numbers in which we've been talking about is close to about 2 million square feet in the rent paying area, we would be adding it, which would translate about 44,000 seats per year. And you could see us also from the Slide number 18, if you go through in our investor presentation, our total portfolio signed is about 10.86 million square feet, which is about 240,000 seats, and about 7.05 million square feet is the rent yielding area. So that itself gives you a significant headroom, I would say, which is about 3.87 is about 85,000 seats of headroom that would be operational in the next 12 to 15 months. So similar kind of a number is also what we are foreseeing in FY28 too.

Adhidev: Sure, sure. And just last one, if I can squeeze in, the one where we have in Koramangala, the new building where you are proposing a bid on an ownership and model, what is the time line? Is it like 3 years away or it will be ready in 18 months or anything?

Meghna Agarwal: No, it's a land stage. It's definitely going to take about close to about 3 years. It's 3 years away.

Adhidev: 3 years away.

Moderator: The next question comes from the line of Mohit Agrawal with IIFL Capital.

Mohit Agrawal: Congratulations on great set of numbers. I have just one question. So our strength lies in a lot of leasing that happens in-house. What kind of advantage does it give us when these contracts come up for renewal? So let's say, 3.5, 4 years, typically when they will be up for expiry, what percentage of our contracts are renewed by the same tenants?

And second part to that question is that how do the terms change typically considering that the fit-out cost and all may not recur for a renewal? Typically, how would the terms for a renewal client be different versus, let's say, re-leasing client, if you could give some color on that?

Rishi Das: Thank you, Mohit. So, see, our attrition is about close to 10%, I will say, annually. That's the attrition. So, suppose we have a rent yielding area of 7 million square feet. So, you will see about 700,000 square feet of space, which will be coming up for attrition, which is the attrition. The attrition is around 10%.

Second thing is whatever contracts come up for renewal, there we are seeing that 80% of these contracts get renewed with no change. Like, for example, we have an escalation clause of about 6% in our contracts. So, most of the clients go with that. So, 80% are like that. 10% clients are there where we have to give some relaxation in the escalation. Maybe instead of 6% escalation, we may agree for 2%, 3% escalation. And there are about 10% cases where we have to give some discount. So suppose the client has stayed with us for 3 years, 4 years and we have recovered a large part of our capital expenditure, we provide some little bit of discount. But overall, what we have seen is that there is an increasing trend that our renewals and all generate about, I will say, 5% growth year-on-year. That has been the thing for us over there.

Mohit Agrawal: Sure. Rishi, just a couple of clarifications. You said that if you have 7 million square feet of area, 10% comes up for expiry, which is what you call as attrition. Of that 7 lakh square feet coming up for expiry, what percentage would -- that a contract would renew with the same client, if you could share that number broadly?

Rishi Das: No. Actually, 7 lakh is what they leave. That's what people are leaving is about 7 lakh. And yes, that is what they are leaving. And, I will say about 1 million square feet. Yes. So basically, about 90% of the customers, they renew the contract typically. 10% will be what will be the attrition. That's what you see happening over there.

Mohit Agrawal: Understood. Understood. And one more clarification. You said that with most of 90% contracts, 80%- 90% would be on same terms. What happens to the fit-out cost? Is there a refurb cost that you incur for them? Or typically that continues? Because I'm just trying to assess the profitability of a renewal contract. Is that meaningfully higher or the discounts kind of take care of the lower fit-out spend and that is the thing that I'm trying to understand?

Rishi Das: So basically, if you ask me, the way we have said also earlier that we invest about INR1,650 now and a lot of them which are coming up for renewal, that capex was INR1,500. So technically, in the 3-year period, when the lock-in gets over, which is our typical lock-in, we have recovered most of the capex.

So, if you ask me the EBITDA, which we were getting till then actually converts to more of a PBT kind of a scenario because capex has already been recovered. So that is a very healthy thing that most of the money that we get after 3 years is pure PBT from that perspective. And as I said that about 5% year-on-year, even on the renewed contracts, we are able to achieve the escalation on them.

And why it is happening is also because a large part of our portfolio is into the key and the core micro markets, where you don't see that 5% rental inflation being a challenge actually. In fact, a lot of our properties have seen even inflation, which is more than that. And the third point that you talked about, the renovation and that expense, typically, I would say about INR40, INR50 a square feet on an average is the investment that we do when clients renew and that we don't capitalize.

So that is treated as an operating expense. So that's how we have been doing. So that's the -- and moreover, whenever any renewal comes in, we insist on a new lock-in. See, for example, if somebody is just renewing and is not giving a lock-in, then even this INR50 is not spent on that. Suppose they want to extend by a year and all that.

But if they are giving us 2 years, 3 years commitment, then we don't mind putting some more capex. So that capex -- or capex is not the right word because we are expensing it off. But whatever additional investment that we are doing is only done and we use that as a currency to see that the clients give a higher lock-in subsequently on renewal.

Moderator: The next question comes from the line of Rishith Shah with Axis Capital.

Rishith Shah: Two questions. So firstly, on the branch management business that you elaborated in the opening remarks, can you elaborate a little more on it? And on a related note, so this is a new segment that we are entering in, we are also looking to co-develop the new property while also kind of continuing to expand our VAS offerings.

And our Grow business continues to expand. With these multiple businesses, multiple segments in mind, so how do you think of management bandwidth in this regard? Those are the 2 questions.

Meghna Agarwal: So look, IndiQare has always been there. We've been managing the operations of the offices, whether it is food or the facilities, transport, everything. Now I would say it's again a pilot what we have done in the IndiQare retail sector because when we were talking to a few banks, they happen to see our technology, the MiQube stack and all. They said, why don't we also serve us? Because when it comes to even the retail and the branch management, 80% of needs are similar.

It's a similar kind of a workstation, similar kind of a manager cabin, similar kind of a grid ceiling or a gypsum ceiling, the visitors chairs, tiling, everything. So 80%, I would say the interiors is mostly the same. And here, we are talking about large volume. We are talking about the fintech, the branches are an uptick mode.

So they're talking about like 500 branches to about 1,000 branches every year. So it's a new segment, I would say, we are entering into retail. We are still testing the water. We have done, for a large gold bank, at least close to about 30 branches so far.

And we're still learning the road. But as I said, it's 80% the stuff is same. It's not separate. And just because we have a presence in our 17 cities, we do have the network of the partners, the vendors, the supply chain management is always there. It is just we are kind of leveraging on the entire life cycle, which already the Grow model has created.

So it looks like it's a different one, but it is not. It's a different vertical which we're entering into it. And regarding the management bandwidth, I say Grow model is taking a bandwidth, we've been doing for the last 10 years. So we know how it kind of do it. So like -- but 50% of the management bandwidth goes into your existing expansion, existing Grow model expansion and the 50% goes into finding out the newer opportunities, right, like the way we have done in the pilot in buying the asset in the Sai property or getting into the IndiQube retail.

So it's kind of a balance which we do it. Because in the retail, if you see the Thailand, India has lower penetration than Thailand in retail. So it's a large market we are talking about. And we are taking very baby steps into this thing.

Rishith Shah: Sure, That explains a lot. Just a follow-up. How are the commercial that you're thinking about on the branch management segment? Or is it too early to comment?

Meghna Agarwal: It is, honestly, early because the branches we are talking about is about 800 square feet to about 1,200 square feet. They're costing the capex cost because there are 2 models into it again. It is -- one is the refurbishment or the new branches plus the management of those branches. So what is the value proposition to them that all the branches, for example, if any company has got about 1,000 branches, they come to our MiQube platform, and they can see the dynamic dashboard depending on the shareholders, they can see what was all happening in these branches.

So when you say the renovation or the new branches, there's a capex model. Their capex would be around about INR1,400 to going up to INR1,800 per square feet. And the management of the branches also depend on the opex model depends on the number of hours they want the facility or the security of the store manager. So it's a little early to predict them, but yes, but this is the ballpark figures we are talking about here.

Moderator: The next question comes from the line of Dhairya Trivedi with DJT Investments.

Dhairya Trivedi: Congratulations on a very strong set of numbers. So we had a rent paying area of 7.84 million square feet at the end of FY26, which is now at 8.2 million square feet. So given your guidance of adding 2 million square feet area this year, which means the bulk of the square feet addition is going to come in H2, then in that scenario, should our EBITDA growth in H2 be much higher than the 37% that we've done in H1? I'm just trying to reconcile the numbers with the guidance that you have given.

Rishi Das: So, you are right that a lot of addition of space will happen in the second half. So I think the right comparison will be that if you look at, for example, our last year number, say, Q2 FY26, our rent paying area was 6.7 million. And we, today, for the Q2 FY27, we are at 8.2 million. So we have added almost 1.5 million over there. And there will be area addition. And in fact, it is the other way, like because when new rent paying area gets added, it takes us 6 to 12 months to achieve steady-state occupancy.

So basically, that is definitely a period where our pre-operating cost and all that starts coming in. So, a lot of gains typically accrue beyond the year of property acquisition. So definitely, there is a good amount of delivery of properties that is going to happen between now and say, end of

H2. And yes, but as I said that mostly on the EBITDA and all that margin and all, you will see a range bound.

Typically, we are at 22%, you will mostly see us between 19% and 21%, 22% kind of number. So, I don't see that there will be too much of fluctuation. But yes, there will be a good amount of rent paying area that will get added in the H2.

Dhairya Trivedi: Okay. So what is the rent paying area that we are seeing at the end of FY27?

Dhairya Trivedi: Yes. Just wanted to understand what will be the total operational square feet and the total number of operational seats at the end of FY27.

Rishi Das: Yes. So, 9.7 million will be the rent paying area at the end of FY27.

Dhairya Trivedi: Okay. And just one last question. I mean, if I see the Q4, FY26 numbers, the total operational square foot was 7.84 million, which has now moved to 8.2 million, but the total number of operational seats has remained the same. So any reason why this has happened?

Meghna Agarwal: No, in the quarter 1, the operational was 7.8 million and in quarter 2 is 8.2 million. So, there is a change in the operational seats. So which numbers are we referring here?

Dhairya Trivedi: The operational square feet was 7.84 million at the end of Q1 FY27, which is now 8.2 million, right?

Meghna Agarwal: Yes.

Dhairya Trivedi: Correct. But I mean, in the presentation, the number of operational seats is more or less the same.

Meghna Agarwal: **A**ctually, the easiest calculation is the 1 million square feet because we have varied kind of clients, right? So people would not take on just the number of seats. The moment any client goes beyond 100 seats, then they do a deal in the per square feet. So the easiest calculation, which is also mentioned in our presentation that we divide the area with 45.

So if you divide 7.8 million square feet, divide by 45, you will get the number of seats and operational is similarly 8.2. So this is the difference could be about 10,000, 15,000. That is probably why you're not seeing the thing, but it is 7.8 divided by 45 is about 173,000-odd seats and 8.2 is about divide by 45. So, this is how you have to do the calculation.

Dhairya Trivedi: Right. Okay. All right. Thank you and all the best.

Meghna Agarwal: I don't know which number because in a presentation also, it's a different number. So, if you can refer me the slide, that would be easier for us to understand.

Moderator: The next question comes from the line of Chayan Jain, an Individual Investor.

Chayan Jain: I'd like to congratulate on your amazing set of numbers. So, my first question is regarding your investment in SaiEdge Realty and foray into Solar. So are you not seeing enough opportunities

for growth in your core business as compared to your peers? And what is the profitability and ROCE breakdown across the segments?

Rishi Das: Basically, Chayan, thank you so much. If you look at, as I said earlier in one of the questions, the SaiEdge investment that we are talking about is exactly in line because what is happening is a lot of good performing micro markets, for example, in Bombay, if you look at Andheri today, and if you try to acquire good quality properties in Andheri, it is not easy to get something off the shelf.

So you need to go well in advance and plan. So basically, so this is more like going upstream for us where we are looking at that, okay, if we can see it's like -- suppose tomorrow, a hotel chain says that I want to open 10, 15, 20, 50 hotels, right, good quality locations.

Now one way is you go with a bag of money, try getting it, but you don't get that. So very similar thing, we are finding that in very high-performing micro markets, the properties are not there. So there, we are looking at that how can we work with, say, investors, landlords in a co-investment model and create the supply. And once the supply has been created, IndiQube leases the supply and then the asset is transferred. The idea is not like basically that where we want to hold the asset in IndiQube's balance sheet and P&L.

So it's like you can say, co-invest, lease and sale kind of a sale and leaseback kind of a model. So there, we are seeing that this allows us to create good quality supply. And then as I mentioned, this is a pilot that we are doing. Basis that we will see how we have to take this forward. Now talking on the solar, again, as Meghna mentioned that we, basically, like when we started like the solar journey in 2019, 20, from there, we have reached a very good place where we already have 30 megawatts of installations, all of that.

And now this we are seeing as a big opportunity because if you look at a lot of our clients and most of the clients have an ESG target, they have to transition to green. And that is one of the big workspace solutions that we are asking for.

Since we already have the capacity, the capability, we are co-locating and trying to build out the solar assets, which take care predominantly our own requirement. And at the same time, if we can extend that to our clients typically that gives us better operating leverage, economies of scale and all of that. So it is more like an adjacency that we are seeing. We are not looking at like going utility scale solar or doing a few gigawatts of installations and all of that.

So predominantly, what we are solving for us and along with that is what is happening. So it is more like adjacencies kind of opportunity. And is more going upstream to basically secure high-quality supplies in prime micro markets.

Chayan Jain: So, how much will it impact the margins and the payback period?

Rishi Das: There will be no impact as such. Why will there be impact? Because this is, like as I said, that this deal is still in the works because we needed to create an entity. That's where you have seen the announcement. And we will share details in subsequent calls.

But there will be no margin impact because that INR35 crores investment that we are making will happen at basically a very high yield asset.

And when the assets will eventually be sold, it will happen at a substantially lower yield. So there will be a substantial amount of basically capital gain that we will get. And the property will come like the regular property, like any regular property of IndiQube that we take on long lease, eventually, it will be like that. So the way the numbers will be that by investing INR35 crores, we are looking at making a few times actually profit on that, not in the percentages by that investment, yes.

Chayan Jain: Okay. Understood. And my second question would be around your onetime revenue. So what was the onetime revenue booked under VAS and rental revenue for this quarter since the rental revenue sort of increased by 10%, yet the occupied seems increased by 4% or 5%.

Meghna Agarwal: So there are 2 questions in here. So the thing is we have actually the reoccurring and nonrecurring was creating a lot of confusion because nonrecurring is also kind of a reoccurring. So it might not be the same client, but the revenue, the numbers would be same. So now it is a little tough for us to kind of -- so we are talking about the total revenue now because this would be reoccurring nature. The client name could change. So there's no further bifurcation what we are doing for the reoccurring and non-reoccurring here.

Chayan Jain: And on the rental revenue front?

Meghna Agarwal: So, your question is that your occupied area has only increased by 21% and the revenue has increased more. Is that the correct question?

Chayan Jain: Occupied seats increased by 4% to 5% on a quarter-on-quarter basis and rental revenue increased by 10%.

Meghna Agarwal: Yes, So same thing. So even this occupied area of the seats, as we call it, it cannot translate. We cannot see it translating into revenue growth on a one-to-one basis. There are multiple factors which kind of impact the revenue growth.

And the factors are one is the rental escalation because existing contracts typically carry annual rent escalations, as we mentioned earlier also, it is 5% to 6% which kind of gives you the growth without incremental addition to the occupied area of the seats.

Secondly, the higher VAS contribution because we have seen the increase in the VAS revenue contribution that also do not translate to the area, but it translates to the overall revenue growth. Plus, there's been a change. There's been an uptick in the steady-state occupancy from 89% to 91%, which is by 2%. That has also contributed to the revenue growth. So, the occupied area cannot be seen on a one-on-one basis here.

Moderator: The next question comes from the line of Rahul Kundnani with Nirmal Bang Institutional Equities.

Rahul Kundnani: Congratulations on a good set of numbers. I just had one question on the VAS front. So VAS is currently 17% of the total revenues. Where do we see this number going ahead? Do we -- as we are quite ahead of peers in terms of VAS revenues? Do we see it going to 20 -- more than 20%? And in how much time do we see this increasing?

Meghna Agarwal: Yes. So as you rightly pointed out, our VAS contribution has been consistently increasing from 12% to 15% and now it's about 17%. And the VAS remains definitely an integral part of our strategy and the client offering. Going forward, we are expecting the VAS revenue to increase further by at least 2% to 4%. So while the quarterly percentage honestly might -- because the quarterly percentage might change and fluctuate. But on a yearly basis, we see growing minimum 2% to 4% from the existing percentage what we have today.

Rahul Kundnani: Got it. And the last one on occupancy. So do we see our occupancies, there's a small dip in the overall occupancy from 87% to 86% this quarter. So do we see this trajectory increasing and going towards 90%, similar to the mature ones? How is the trajectory going to be over the next 1 year, 1.5 years?

Meghna Agarwal: So again, it is very tough because the quarterly will vary. That is the model, I think all of us have to embrace with because the quarterly fluctuations would happen depending on the rent area addition, and we take about 5 to 6 months to break even and 9 to 12 months to reach about 90% of occupancy.

Ideally, we do not want to grow more than 90% because that do not give any room of growth to the existing clients. So 90%, 91% is the maximum we would ideally like to go for the steady state. Now the quarterly fluctuation ,we do not look at it 86% has gone to 85% or 87% has gone to 86%.

We've always maintained these are range bound. When it comes to the steady-state occupancy, we have to look at 85% to 90%. And when we are talking about the corporate occupancy, we have to look at the range of 80% to 85%. That's the healthy way of looking at it because that gives a headroom of growth for the client to expand because the same client, if you could see my 42% of my client, the same client is going with us.

So if we do not have the headroom of the growth, where would I give them the supply. And most of my supply is in the best of the micro markets, right? So I have to kind of control my supply and make sure my client expands with us, right? Because if we do not have that growth space, they would leave. So it's better and this is an inherent business need, 80% to 85% and 85% to 90%. Please do not look at it as a as a dip or even an increase. It's a range bound.

Rahul Kundnani: Got it. Got it. And the last one would be what is your ambition in terms of a 30-megawatt generation capacity? Where do we see that going? And how much of -- incrementally, are we going to have this INR100 crores capex for this over the next couple of years, each year? Just a bit of color on this one.

Rishi Das: So basically, as we mentioned, the payback is about 3 years in this whole investment. So if we are doing an investment of about INR100 crores, we expect about INR30 crores worth of basically returns to come to us so that over a 3 years, we are able to recover our money. And as

I mentioned, we are not looking at like basically hyperscaling it or doing that at this point of time.

The primary focus will be mostly Karnataka, Tamil Nadu, Maharashtra, these 3 states and building it around our clients, enterprise clients that we have for their portfolio of real estate focused on these 3 locations and around that kind of a number.

So there is very healthy, I must say, unit economics. And since we are working with a set of clients, which we already know where we have relationships or we understand them, we see that this should be very, I would say, sustainable, predictable kind of an opportunity to tap in. Also, I must mention because please understand that today, if you look at even IRDA or you look at, say, RBI, the way they are going and basically in a way, nudging the banks as well as the insurance companies to actually have very high level of ESG compliance.

Now this we are seeing as a very good opportunity because we have been one of the early guys to implement a lot of sustainability solutions at scale. So now we are getting a lot of requests. We are working with one large insurance and one large bank, where we have picked up the mandate to do the entire audit of their ESG compliances across India. Now basis that those insurance companies and banks are now saying that, okay, you have identified these problems. Can you help us mitigate all of that and ensure that we are green certified.

So we are seeing green as a very, very big opportunity to have a foot in the door and start working with a new set of enterprises. And as Meghna talked about the branch, the retail, a lot of those opportunities are also opening and the foot in the door for us is not just what IndiQube has been doing so far, but for us foot in the door is becoming the ESG part of it. So we are seeing solar, our whole Eco products more in that way that this is a top priority for customers because it is coming from regulators. So that presents a very, very good opportunity for us.

Moderator: The next question comes from the line of Hitaindra Pradhan with Maximal Capital.

Hitaindra Pradhan: I hope I'm audible. So congrats on the good quarter. Sir, my first question is, I'm referring to Slide 9. The EBIT margin that you had provided, is this 14% sort of steady-state margin that we can expect going forward? Or there is some upside to it?

Meghna Agarwal: So the EBIT margin -- so all these margins, again, with the range bound, this is 14%, but usually, it will be in the range of about 11% to -- like 12% to 14%. So some quarter, it could be 12%, depending on the additions of the area. Sometimes the ramp-up would have taken fast, so it will be 14%. So it will be in the same range, 12% to 14%. So this is how we have to look at. We have to look at the occupancy, EBITDA, EBIT and PAT, all are range bound.

Hitaindra Pradhan: Right. That's helpful. That's helpful. And second one is sort of a big picture question and for Rishi, Sir. So sir, like just wanted to hear your thoughts on AI and the overall impact on the office demand, especially the flex demand. Is it even a factor in India or at this moment, it is more benign and uncertain according to you?

Rishi Das: So I think, Hitaindra, this is -- as of now, of course, the big elephant in the room is AI. All of us, like you recently saw the way Microsoft made that announcement. So definitely, that is the thing.

But what I can say is that the good part has been that if you look at the addition of real estate for the 9-month period has been about 66 million square feet. And this is about 10%-11% higher than the last year. So this will be a record year when it comes to real estate absorption. That is one thing.

Second thing I will say is look at the companies that are putting GCCs in India, a lot of them are basically hardcore AI native kind of companies and very big ones also. I don't want to name them on the call. But if you look at, they are picking up 0.5 million, 1 million square feet campuses, putting thousands of crores into their labs and infrastructure over here.

So I think this gives us a very good comfort that they are seeing that in the next 5, 10 years, they are bullish on expanding in India. Another fact I will highlight is that as a country, India has 15 million people who are in the private sector white-collar jobs, right? And if you multiply that by about 70 square feet, you get 1 billion square feet of real estate, and that is the total portfolio of our real estate in India.

Now, on a base of 15 million in India, we are adding almost 1 million white-collar private sector jobs in a year, which is about 7%. And this includes all of us on the call kind of people also who are not from so-called IT industry or AI industry and all of that. So far, India adds about 7%, 8% white-collar private sector jobs, which is about 1 million jobs. And if you multiply that 1 million jobs by 70 square feet, we are talking about 70 million square feet kind of space addition. Nd the stack is very deep. Like this 15 million jobs if you look at, IT is about 6 million. GCC is about 2.5 million, 1.5 million is your start-up new economy, 5 million is our Indian businesses, banks, financial services, health care, hospitality, all that is. So it's a very diverse stack. And when COVID was at its peak, IT was booming, start-up was booming. There was no concept of GCC.

Now we are seeing GCCs are growing very fast. IT is not growing so fast, especially the large IT. But start-ups, again, as you see the number of IPOs and all that have happened, there is a very strong growth in the unicorns and late-stage start-ups and all that. So basically, we have such a deep economy, consumer-driven domestic economy as well that one way or the other, we are very hopeful that if India is adding about 10 million to 12 million people every year into the workforce for potential workforce, at least 1 million white-collar jobs will get created.

And so far, about 1 million white-collar jobs are getting created. I don't see a challenge that this 60 million, 70 million, 80 million square feet of real addition should be a problem typically. So that's what is giving us the comfort and to double down and keep growing, yes.

Moderator: The next question comes from the line of Atul Mehra with Motilal Oswal Asset Management.

Atul Mehra: So one question on this INR30 crores investment in land. You mentioned this is a pilot and the gestation is 3 years. Can we assume as a commitment that you will not invest anything further in any other land asset till you see success in this?

Rishi Das: Thank you, Atul. So basically, you are so right on that, that is not the core business that we have been in. And we are doing this as a pilot. And definitely, like this pilot is a long drawn one, which will take 3 years to complete.

So we don't see that we have a big pipeline or anything like that. And yes, so you can take it as an assurance from our side that there is nothing in the pipeline where we are looking at that suddenly we will have a lot of projects. It's a very calculated pilot that we are doing at this point of time.

Moderator: Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to the management for the closing remarks.

Rishi Das: Thank you. Thanks to all of you, and thanks to Nirmal and from their side, Rahul and the team. Thank you all for the lovely questions and the patience. Hope we have been able to answer your queries. If you have anything else, please feel free to write to us, and we'll be happy to get in more detail and talk about them, yes. Thank you so much.

Meghna Agarwal: Thank you. Thanks a lot.

Moderator: Thank you, sir. Thank you, ma'am. Ladies and gentlemen, on behalf of Nirmal Bang Institutional Equities, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.