January 06, 2023

WeWork India Management Pvt. Ltd.: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	290.0	[ICRA]BBB- (Stable); assigned
Long-term – Unallocated	510.0	[ICRA]BBB- (Stable); assigned
Total	**800.0**	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating to WeWork India Management Pvt. Ltd. (WeWork) takes into account the healthy improvement in occupancy levels to 87% in October 2022 from 52% in May 2021 with majority of the corporates resuming work from office. Consequently, the operations turned OPBDIT positive in the last 12-month period. In 7M FY2023, the company reported an operating profit of Rs. 134 crore and is expected to report an operating profit of Rs. 210-230 crore in FY2023 against operating losses in the previous years. The rating takes comfort from the large and diversified presence with around 68,000 desks at 39 micro-markets spread across five cities - Bangalore, Delhi, Hyderabad, Mumbai and Pune. The revenue from top 10 tenants in 5M FY2023 was about 18% of the total revenue, thereby resulting in low tenant concentration risks. The rating considers extensive experience of its promoters, the Embassy Group, in the real estate industry as well as established position of the WeWork brand in the co-working space.

The rating, however, remains constrained by the limited track record of profitable operations and modest debt coverage metrics in FY2023 on account of high repayments. With an increase in operating profits, backed by healthy occupancy levels, the debt coverage metrics are expected to improve in FY2024-FY2025. Notwithstanding the healthy renewal rates averaging around 80% during the last six months, WeWork remains exposed to high lease renewal risk, given that the short-term leases (≤ one year) account for 24% of the overall leases. Further, around 51% and 18% of the leases are expiring in CY2023 and CY2024. The renewal rates of the future lease expiry will remain a key monitorable. The company is exposed to market risk due to large expansion plans at a total outlay of around Rs. 400-450 crore with proposed addition of 6,000 desks in H2 FY2023 and around 20,000 desks in FY2024 resulting in 38% increase in the overall capacity. The capex is likely to be primarily debt funded for which the sanction is tied up and the first tranche disbursement is already done in December 2022. The well spread-out capex across 20 locations, along with a moratorium of around two years for debt being availed for the capex, acts as a mitigant to market risk. The company is exposed to the cyclicality in the commercial real estate sector and vulnerability to external factors such as the Covid-19 pandemic.

The Stable outlook reflects ICRA's opinion that the company would sustain healthy occupancy and improvement in operating profits, supported by favourable brand strength, large and diversified presence across key markets with strong relationship with the key tenants.

Key rating drivers and their description

Credit strengths

Improvement in occupancy and profitability post pandemic – The occupancy has continuously increased month on month from May 2021 onwards. It has increased to 87% in October 2022 from 52% in May 2021, with most of the key corporates resuming work from office premises, thereby resulting in an improvement in the operating profitability. In 7M FY2023, the company reported an operating profit of Rs. 134 crore and is expected to report an operating profit of Rs. 210-230 crore in FY2023 against operating losses in the previous years. Its ability to maintain healthy occupancy levels in the existing assets as well as ramp-up of new assets will be a key rating monitorable.

Large and diversified presence with low tenant concentration – As of October 2022, the company had around 68,000 desks at 39 micro-markets spread across five cities such as Bangalore, Delhi, Hyderabad, Mumbai and Pune. The assets are located in prominent micro-markets in Grade-A commercial buildings, thereby enhancing its marketability. The revenue from the top 10 tenants in 5M FY2023 was about 18% of the total revenue, thereby resulting in low tenant concentration risks.

Extensive experience of promoter, Embassy Group, in real estate industry; established position of WeWork brand in co-working space – The Embassy Group is one of the largest commercial real estate developers in the country with presence across real estate segments such as commercial, residential, retail, hospitality, etc, and has completed around 43 million sft across the country. WeWork is one of the largest providers of co-working spaces in the world.

Credit challenges

Modest debt coverage metrics – The rating is constrained by the limited track record of profitable operations and modest debt coverage metrics in FY2023 on account of high repayments. With the increase in operating profits, backed by healthy occupancy levels, the debt coverage metrics are expected to improve in FY2024-FY2025.

High lease renewal risk – The company enters into leases with landlords for a period of 10 years with commitment of three-five years, while the lease tenure with tenants' ranges between one month to three years. Short-term leases (≤ one year) account for 24% of the overall leases, thereby exposing WeWork to high lease renewal risk and volatility in earnings. Around 51% and 18% of the leases are expiring in CY2023 and CY2024. The renewal rates of the same will remain key monitorable.

Exposed to market risk due to large expansion plans – The company is exposed to market risk due to large expansion plans at a total outlay of around Rs. 400-450 crore with proposed addition of 6,000 desks in H2 FY2023 and around 20,000 desks in FY2024 resulting in 38% increase in the overall capacity. The capex is likely to be primarily debt-funded, for which the sanction is tied up and the first tranche disbursement is already done in December 2022. The well spread-out capex across 20 locations, along with a moratorium of around two years for debt being availed for the capex, acts as a mitigant to the market risk.

Exposure to cyclicality in the real estate sector – WeWork is exposed to the cyclicality in the commercial real estate sector and vulnerability to external factors such as the Covid-19 pandemic. The pandemic has resulted in higher adoption of flexible working arrangements and broad-based increase in vacancies across most office leasing portfolios.

Liquidity position: Adequate

The company's liquidity is adequate with free cash of Rs. 84.7 crore as on September 30, 2022. It has repaid Rs. 156.4 crore in 7M FY2023 (includes prepayment of some of the term loans). The pending external debt obligations for FY2023 and FY2024 can be comfortably serviced through its estimated cash flow from operations. Further, WeWork plans to incur a capex of around Rs. 400-450 crore, for which the sanction is tied up and the first tranche of disbursement is already done.

Rating sensitivities

Positive factors – The rating could be upgraded if there is an increase in revenues and earnings, backed by sustenance of the overall occupancy at more than 80% resulting in improvement in debt coverage metrics and liquidity position on a sustained basis. Specific credit metric for a rating upgrade would be adjusted DSCR[1] of more than 1.5 times on a sustained basis.

Negative factors – The rating could be downgraded if there is a material decline in occupancy or higher-than-expected opex resulting in pressure on earnings and/or large debt-funded expansion resulting in weakening of coverage metrics and liquidity position on a sustained basis. Specific credit metric for rating downgrade would be Adjusted Debt[2]/EBITDA of greater than 3.0 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Lease Rental Discounting (LRD)
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

The company was formed in 2016 and is promoted by the Bangalore-based Embassy Group, which holds around 71% of the shares and the remaining shares are held by Wework International Limited and Wework Companies (International) B V. It manages co-working spaces under the WeWork brand in around 40 locations spread across Bangalore, Hyderabad, Mumbai, NCR and Pune. As of August 2022, the company was present in 39 locations with a desk capacity of around 66,000. It operates under franchisee model with Wework with a fixed amount of fees as a percentage of revenue being paid to WeWork.

Key financial indicators (audited)

	FY2021	FY2022	7M FY2023 (Provisional)
Operating income	640.2	804.0	750.9
PAT	-648.2	-461.8	-
OPBDIT/OI	-28.80%	-8.60%	17.86%
PAT/OI	-101.20%	-57.40%	-
Total outside liabilities/Tangible net worth (times)	-2.3	14.9	-
Total debt/OPBDIT (times)	-12.2	-7.5	2.0*
Interest coverage (times)	-1.5	-0.6	-

Source: Company

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

**Total Debt as on October 31, 2022/Annualised 7M FY2023 OPBDIT*

[1] *Includes repayment of finance lease obligations*

[2] *Includes debt taken from landlords which is classified under finance lease obligations*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on October 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Jan 06, 2023	-	-	-
1	**Term loans**	Long term	290.0	168.3	[ICRA]BBB- (Stable)	-	-	-
2	**Unallocated**	Long term	510.0	-	[ICRA]BBB- (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term loan	Simple
Long-term – Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Term loan**	FY2019	NA	FY2028	290.0	[ICRA]BBB- (Stable)
NA	**Unallocated**	NA	NA	NA	510.0	[ICRA]BBB- (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA]

Annexure II: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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