March 22, 2024

# WeWork India Management Pvt. Ltd.: Rating upgraded to [ICRA]BBB (Stable) from [ICRA]BBB- (Stable)

## Summary of rating action

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

**Instrument details are provided in Annexure-I*

## Rationale

The rating upgrade for WeWork India Management Pvt Ltd (WeWork) factors in the sustained healthy occupancy levels on an increased desk capacity resulting in an estimated improvement in operating profits and debt coverage metrics. The company's desk capacity increased by 18% and 16% YoY in FY2023 and 9M FY2024 respectively and occupancy levels stood healthy at 80%. WeWork's revenues are expected to grow by 35-38% in FY2024 (PY: Rs. 1314 crore) and by around 30-33% in FY2025 backed by likely addition of new desk capacities at healthy occupancy levels supported by demand for coworking spaces and the consequent improvement in operating profits and debt protection metrics. The leverage, as reflected by total debt (incl. lease liabilities)/OPBIDTA, is estimated to improve to around 4.3-4.5 times in FY2024 - FY2025 from 5.0 times in FY2023 (PY: 8.7 times), aided by scheduled repayments and improvement in operating profits. Consequently, debt coverage metrics as reflected by debt servicing coverage ratio (DSCR) is projected to be comfortable at 1.15 – 1.20 times in FY2024 and further improve to above 1.4 times in the medium term.

The rating takes comfort from the large and diversified presence with ~ 86,400 desks at 52 locations spread across five cities such as Bengaluru, Mumbai, Delhi NCR, Pune and Hyderabad. The rating favourably factors in the low tenant concentration risk, wherein the top 10 clients contributed to around 26% of the total revenue in FY2023. The rating considers the extensive experience of its promoters, the Embassy Group, which is one of the largest commercial real estate developers in the country.

The rating, however, remains constrained by the market risk due to large speculative capex plans at a total outlay of around Rs. 350-400 crore with proposed addition of close to 21,000 desks in FY2025. This capex is likely to be funded through finance lease from landlords and internal accruals. WeWork remains exposed to high lease renewal risks, given that short-term leases (less than 1.5 years) account for 38% of the overall leases. Further, around 53% and 17% of the tenant leases are expected to expire in CY2024 and CY2025 respectively. Notwithstanding the healthy renewal rates of 75-80% over the last 12 months, the renewal rates of the future tenant lease expiry will remain a key monitorable. The company is also exposed to the cyclicality in the office leasing segment and vulnerability to external factors. Further, the debt coverage ratios remain susceptible to material changes in occupancy and interest rates.

The Stable outlook on the rating reflects ICRA's expectation that the company would sustain healthy occupancy and operating profits, supported by large and diversified presence across key markets and estimated improvement in debt coverage metrics.

## Key rating drivers and their description

### Credit strengths

**Healthy occupancy and estimated improvement in debt coverage metrics** –

The company's desk capacity increased by 18% and 16% YoY in FY2023 and 9M FY2024 respectively, and the occupancy levels stood healthy at 80%. WeWork's revenues are expected to grow by 35-38% in FY2024 (PY: Rs. 1,314.0 crore) and by around 30-33% in FY2025 backed by likely addition of new desk capacities at healthy occupancy levels, supported by demand for coworking spaces and the consequent improvement in operating profits and debt protection metrics. The leverage, as reflected by total debt (incl. lease liabilities)/OPBIDTA, is projected to improve to around 4.3-4.5 times in FY2024 - FY2025 from 5.0 times in FY2023 (PY: 8.7 times), aided by scheduled repayments and improvement in operating profits. Consequently, debt coverage metrics as reflected by debt servicing coverage ratio (DSCR) is estimated to be comfortable at 1.15 – 1.20 times in FY2024 and further improve to above 1.4 times in the medium term.

**Large and diversified presence with low tenant concentration –** As of December 2023, the company had ~86,400 desks at 52 locations spread across five cities such as Bengaluru, Mumbai, Delhi NCR, Pune and Hyderabad. The assets are located in prominent micro-markets in Grade-A commercial buildings, thereby enhancing its marketability. Further, the company has low tenant concentration risk, wherein the top 10 clients contributed to around 26% of the total revenue in FY2023.

**Extensive experience of Embassy Group in real estate industry -** The company is promoted by Embassy Group, which holds around 71% of the shares and 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. It has completed around 66 million square feet (msft) of commercial projects.

## Credit challenges

**High lease renewal risk** – WeWork remains exposed to high lease renewal risks, given that short-term leases (less than 1.5 years) account for 38% of the overall tenant leases. Further, around 53% and 17% of the tenant leases are expected to expire in CY2024 and CY2025 respectively. Notwithstanding the healthy renewal rates averaging at around 75-80% during the last 12 months, the renewal rates of the future lease expiry will remain a key monitorable.

**Exposed to market risk due to large expansion plans** – The company has large speculative capex plans at a total outlay of around Rs. 350-400 crore with proposed addition of close to 21,000 desks in FY2025, exposing it to market risk for the new capacities. The proposed capex is likely to be funded through finance lease from landlords and internal accruals. Timely ramp-up of occupancy in the upcoming space remain important.

**Exposure to cyclicality in real estate sector** – WeWork is exposed to the cyclicality in the office leasing segment and vulnerability to external factors. Further, the debt coverage ratios remain susceptible to material changes in occupancy and interest rates.

## Liquidity position: Adequate

The company's liquidity position is adequate with free cash and liquid investments of Rs. 106.1 crore as on March 31, 2023. It is expected to generate adequate cash flow from operations to meet its debt obligations of ~Rs. 61 crore in Q4 FY2024 and ~Rs. 320 crore in FY2025. Further, WeWork plans to incur a capex of around Rs. 350-400 crore in FY2025 towards addition of new desks which is likely to be funded through finance lease from landlords/others and internal accruals.

## Rating sensitivities

**Positive factors –** The rating could be upgraded if there is significant increase in revenues and earnings backed by improvement in occupancy levels to more than 85% resulting in improvement in debt coverage metrics and liquidity position on a sustained basis. Specific credit metric for a rating upgrade would be DSCR[1] above 1.75 times on a sustained basis.

[1] *Includes repayment of finance lease obligations*

**Negative factors –** The rating could be downgraded if there is a material decline in occupancy or profitability and/or significant debt funded expansion resulting in weakening of debt coverage metrics and liquidity position on a sustained basis. Specific credit metric for a rating downgrade would be DSCR below 1.3 times on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | [Corporate Credit Rating Methodology]<br>[Realty – Lease Rental Discounting (LRD)] |
| **Parent/Group support** | Not applicable |
| **Consolidation/Standalone** | Standalone |

## About the company

WeWork India Management Pvt Ltd 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 1 Ariel Way Tenant Limited, which is a group company of WeWork Inc. The company manages co-working spaces under the WeWork brand in around 52+ locations spread across Bengaluru, Hyderabad, Mumbai, Delhi NCR and Pune with a desk capacity of around 86,400 as on December 31, 2023.

### Key financial indicators (audited)

| | FY2022 | FY2023 |
|---|---|---|
| **Operating income** | 784.4 | 1314.0 |
| **PAT** | -643.0 | -144.5 |
| **OPBDIT/OI** | 53.4% | 60.7% |
| **PAT/OI** | -82.0% | -11.0% |
| **Total outside liabilities/Tangible net worth (times)** | -26.7 | -16.2 |
| **Total debt/OPBDIT (times)** | 8.7 | 5.0 |
| **Interest coverage (times)** | 1.1 | 1.9 |

*Source: Company, ICRA Research; Amount in Rs. Crore; As per INDAS numbers;*

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| | Instrument | Current rating (FY2024) | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding as on March 31, 2023 (Rs. crore) | Date & rating in FY2024 | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 |
| | | | | | Mar 22, 2024 | Jan 06, 2023 | - | - |
| 1 | **Term loans** | Long term | 290.0 | 134.9 | **[ICRA]BBB (Stable)** | **[ICRA]BBB- (Stable)** | - | - |
| 2 | **Unallocated** | Long term | 510.0 | - | **[ICRA]BBB (Stable)** | **[ICRA]BBB- (Stable)** | - | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term fund-based – Term loans | 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 |
|---|---|---|---|---|---|---|
| - | **Term Loan** | FY2019 | NA | FY2027 | 290.0 | [ICRA]BBB (Stable) |
| - | **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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