

CMP: INR 388

Outlook: Positive

Stock Info

BSE	543591
NSE	INE0JS101016
Bloomberg	DREAMFOLK.IN
Reuters	DREAM.NS
Sector	Airport & Airport Services
Face Value (INR)	2
Equity Capital (INR cr)	10.45
Mkt Cap (INR cr)	2028
52w H/L (INR)	550/385

Shareholding Pattern %

(As on June, 2022)

Promoters	67
Public & Others	33

Dreamfolks Services Ltd (Dreamfolks) is one of the largest airport service aggregators which includes services like lounge access, food and beverage, spas, airport transfers, transit hotels, etc. The company works with network providers like Visa, Mastercard, RuPay and Diners. They also have a set of corporate clients like Hettich, Vodafone to provide services to their stakeholders which includes employees, network partners and distributors.

Key Rationale

Margins and Operating leverage: The company's EBITDA margin has contracted 37bps sequentially, and expanded 1567bps YoY. Margin expansion was led by better revenues and the effects of operating leverage.

The gross profit margin of the company is at 15%-16%, the major cost being employee and technology expenses. Dreamfolks has already invested in building up technology, so that going forward operating cost will decrease on an absolute basis, and profitability will increase.

Demand: Post covid, the travel industry opened up and air travelers have increased multifold which has led to an increase in the number of users for airport lounges and other services. Travelers generally reach airports early due to new timelines for checking requirements. After security checks travellers like to spend time at lounges. Awareness for lounge services has also increased post covid.

Competitors: On the domestic front the company is enjoying a monopoly status with 95% of market share. In the international market companies like Priority pass and Dragon pass are already established.

International Business: The company has a presence in more than 120 countries with 1400 touch points for existing Indian clients who are utilizing these services. Going forward, the company plans to start services in South East Asia and the Middle East.

Exhibit 1: Revenue by Geography Q1FY23

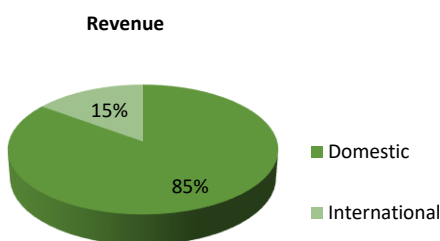
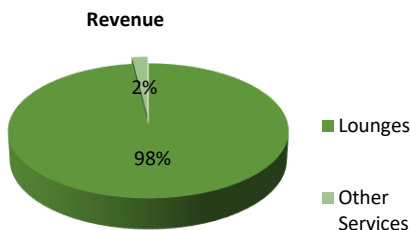


Exhibit 2: Revenue by Segment Q1FY23



Outlook and Valuation: In addition to being a domestic market leader, the revenues and profitability have increased significantly in Q1FY23 sequentially as well as YoY. Dreamfolks boasts good margins and runs an asset light business that is well poised to grow as the air travel industry begins to open up in a post-covid economy. The company is currently valued at a P/E of 124x to its FY22 EPS of INR 3.11. We have a positive outlook on the stock.

Exhibit 3: Financial Performance

INR Cr	FY22	FY21	FY20
Revenue	283	108	367
Op profit	22.54	-0.38	45.09
Op Margins%	7.90	0.51	12.20
PAT	16.25	-1.45	31.68
PAT%	5.75	-1.37	8.63
EPS	3.11	-0.28	66.70
ROCE	23.98	0.73	63.45
ROE	19.77	-2.25	48.35
Cash/ Bank	1.09	9.99	32.13

Source: Arihant Research, Company Filings

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Management call Highlights:

- The company is paid by network and card providers, after keeping its margin of 15% to 16% the company pays off the remaining amount to the Airport service providers.
- The government has signaled for privatization of Airports and more Airports to come up in tier 2 and tier 3 cities which can be a huge opportunity for the company.
- The company has diversified into other services like baggage transfers, Spa, Airport Transit, etc which will help in revenue growth.
- The business is primarily an asset light business where employee and technology costs forms the major part of operating expenses.
- The company is capable of generating good amount of cash, which will be mainly used for paying out dividends and expansion of the corporate client base.
- In FY20 the company drove 2.8% of total Airport traffic, which increased to 3.7% in FY22 and in Q1FY23 it was 5.4%.
- Revenue by segment mix is 98% from Lounges and 2% from other services, which the company foresees will increase to 15% by FY30.
- International business contributes 15% and Domestic contributes 85% of the total revenue.
- Over 9 years in this business the company has built up strong relation with the lounge partners and Airport services providers.
- There are about 22% of the total Domestic lounges under Dreamfolks Services Ltd and they drive 67% of the Airport traffic to lounges.
- In cities like Bangalore, Mumbai and Ahmedabad more than 80% of the lounge traffic is driven by Dreamfolks.

Business Model

The company ties up with the lounge partners and other Airport service providers on one side and aggregates that on company's in house developed technology platform to offer these services to the clients. Here, the clients are Visa, Mastercard, Dinners and RuPay who are the card Network operators.

The company charges the clients on per passenger basis and on the other hand pays to the lounge partners and Airport service providers on per passenger basis for the services they are providing.

So basically Dreamfolks integrate the access in the card/app and provided tech platform to its clients by charging a certain amount per passenger, retains its margin which is about 15%-16% and rest is paid to service providers by Dreamfolks.

The lounge services contributes 98% of the revenue, for example the company charges ~INR 700 for domestic lounge per passenger user to network providers keeps 15%-16% of margin and rest is paid to airport service providers. Here, more or less the margin remains same irrespective of changes in the lounge rates.

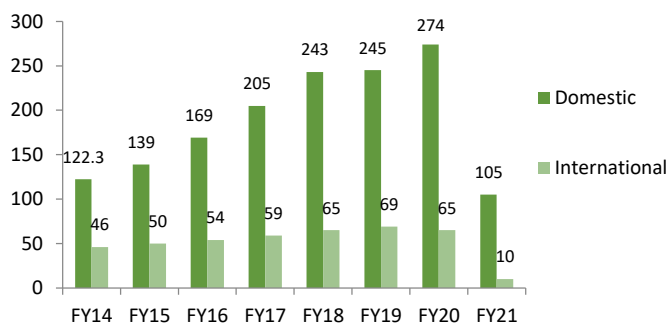
Risks

- 85% of the revenue comes from top 5 clients and any fall out with any client can cause a huge risk to the business.
- The company is totally dependent on Travel Industry and any restriction in travel will adversely affect the business of this company.
- Currently the Airlines expect passengers to reach early at Airports but if this time is reduced to pre covid times, then this might affect this business adversely.

Opportunities

- India will have 295 operational airports by 2040 which will bring in huge business potential for the company.
- In 2021, the number of credit and debit cards having lounge access in India was anticipated to be around 57.20 million.
- 8% of travellers can access a lounge using the facility currently, which shows a low penetration rate and will increase in coming years.
- Railways is another big opportunity for Dreamfolks, right now the company is providing lounge services to 5 railway stations in India and going forward the introduction of railway executive lounges is anticipated to offer unparalleled growth potential for the lounge operators and lounge aggregators market.
- The number of lounge users were estimated at 7.5 Million passengers for the year FY 2020, this includes both international and domestic passengers. Credit card based lounge access accounts for 80% for India Domestic lounges and around 40% for India International Departure lounges and DreamFolks accounts to almost 95%-97% of this India issued credit and debit card segment. The lounge users are expected to increase to 70.91 mn by 2030.

Exhibit 4: Number of passengers handled at Airport in India in Mn 2021 was Covid Year



Source: Arianth Research, Company Filings

Exhibit 5: Number of Credit cards issue Projections in Mn

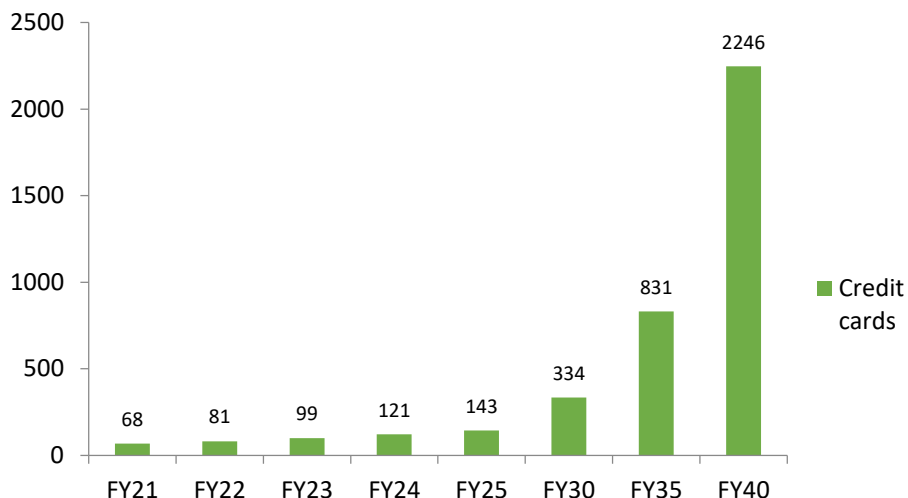


Exhibit 6: Number of cards with Lounge access projections in Mn

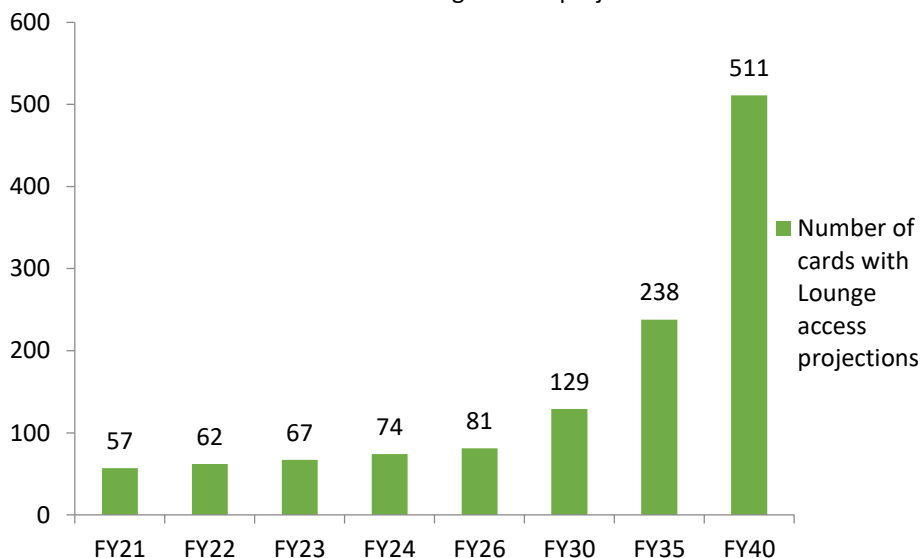
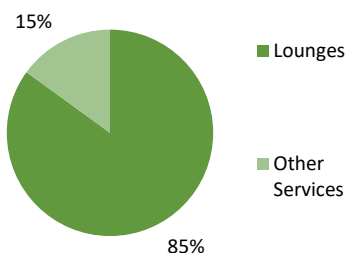


Exhibit10: FY30 Revenue by Segment mix projection



Growth drivers

- The number of air passengers have increased from ~99mn in FY16 to 143 mn in FY19 which means more travellers using lounges and Airport services.
- The number of passengers opting for lounge facility has also increased from 5.1mn in Fy18 to 7.5mn in FY21 which has direct impact on the company’s revenues.
- The card holders of debit and credit cards have also grown significantly leading to more business for Dreamfolks.
- The number of lounges and lounge sizes also increasing year on year, on an average the top 25 Airports have 2 lounges per Airport and there are ~153 Airports in India as on June 2020.
- The company drives 67% of the total lounge traffic

Source: Arianth Research, Company Filings

Exhibit 7: Number of Air passengers projected figures in India in Mn

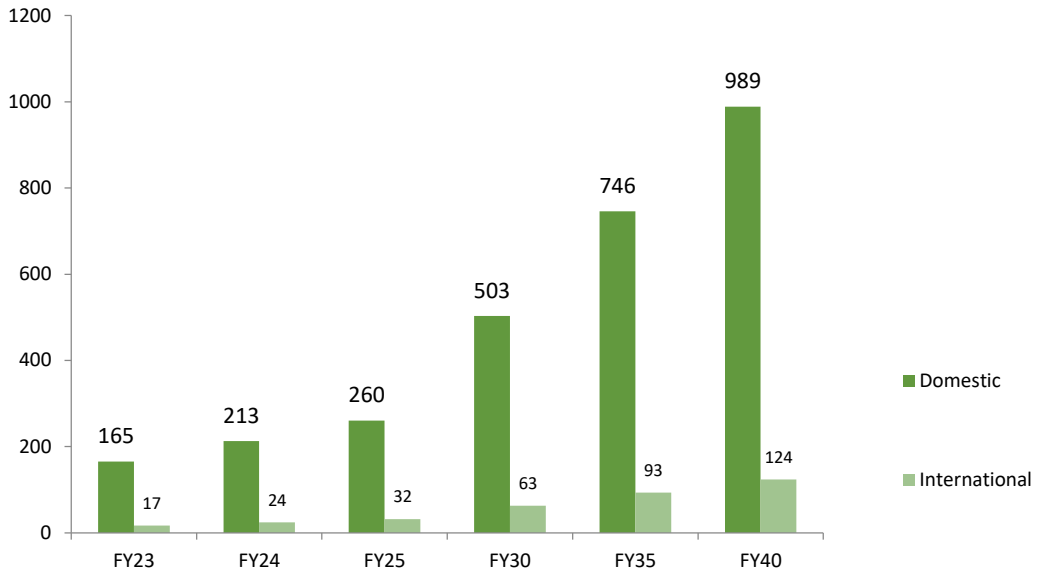


Exhibit 8: Indian Domestic Lounge Market share

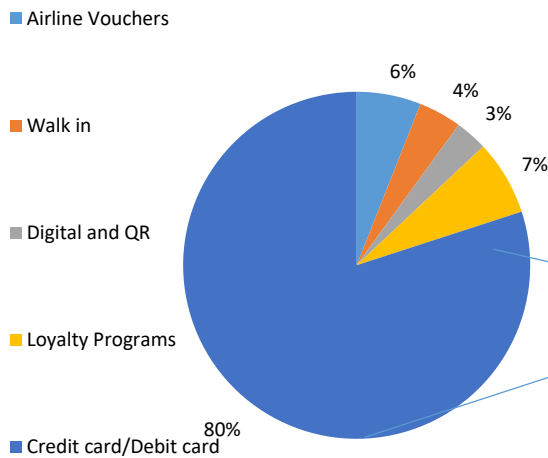
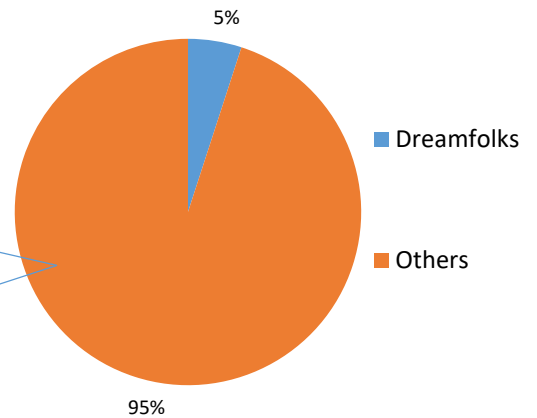


Exhibit 9: Market Share of credit card and debit card lounge users



Source: Arianth Research, Company Filings

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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