

**CMP: INR 655**

**Rating: Accumulate**

**Target Price: INR 750**

**Stock Info**

BSE	543591
NSE	INE0JS101016
Bloomberg	DREAMFOLK.IN
Reuters	DREAM.NS
Sector	Airport & Airport Services
Face Value (INR)	2
Equity Capital (INR mn )	104.5
Mkt Cap (INR mn)	35294
52w H/L (INR)	846/348

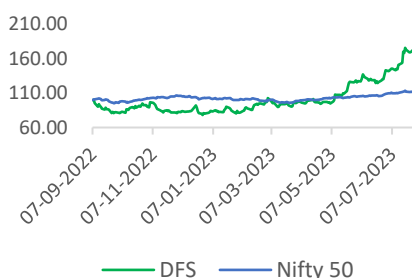
**Shareholding Pattern %**

(As on June, 2023)

Promoters	66.02
Public & Others	33.98

Stock Performance (%)	1m	3m	YTD
DFS	-0.50	45.70	79.62
Nifty 50	3.55	8.75	16.05

**DFS vs Nifty**



DFS posted a healthy top line with 66% growth on YoY in line with our expectations, but profitability dropped to its lowest low, which is below our estimates, led by an escalation in COS and increased investment in human resources.

**Key Highlights**

**Guidance** The gross margin guidance has been downgraded from 14% to 11-13% for FY24. top line expected to be 60-65% growth YoY for FY24.

**Revenue** at INR 2663 mn increased by 66.24% YoY/+12% QoQ led by an increase in Domestic Passenger Traffic from 32.5 mn Q1FY23 to 38.6 mn in Q1FY24. The domestic pax increased from 1.8 mn in Q1FY23 to 2.6 mn in Q1FY24.

**Gross Margin** There was an escalation from the operators to the tune of 15% at the time of renewal and a one-off abnormal cost of \*common area maintenance charges\*(CAM), which has led to an increase in lounge cost. CAM charges have been passed from airport operators to lounge operators, and lounge operators have passed on to DFS. The escalation used to be 7-8% but this time it was 15%. Along with this, there is a time lag between renewals from operators and renewals from clients, due to which the escalation could not be passed to the clients. The top 5 operators escalated the charges at the time of renewals. From Q4FY24 the margin might see some respite as the company may be able to pass on the escalated prices to its clients when the contracts come for renewals. There is lot of competition and cost pressures on airport lounge operators as well as banks, which is making it difficult for the costs to be passed on. But the company is working very seriously to increase its revenue pie in value-added services and other services where the margins are better.

**EBITDA margins** got impacted due to a contraction in gross margins and ESOP charges of ~INR 1.2cr in this quarter. During the year the company plans to absorb INR 6 cr of ESOP cost spread over the 4 quarters.

The Board of DreamFolks has approved a **dividend** of INR 0.5 per share for the quarter ending 30th June '2023.

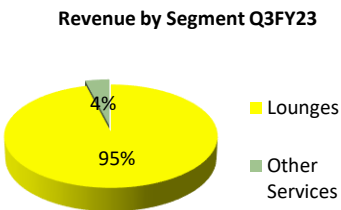
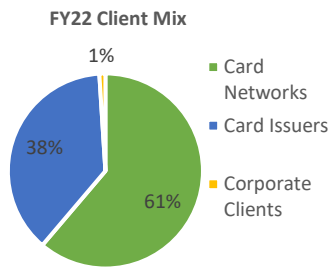
**Outlook and Valuations: Outlook** DFS posted a healthy topline with 66% YoY/12% QoQ growth driven by an increase in domestic air traffic by 18.63% YoY and various initiatives driving penetration in lounge and other services. The number of DFS pax increased by 12.2% sequentially and stood at 2.6 mn for the quarter. But the profitability took a hit due to 3 reasons. Firstly, there was an escalation in the operators charges by 15% at the time of renewal. Secondly, there was one time CAM charges and thirdly, there is time lag of ~6months between the renewal of lounge operators and card issuers(clients) due to which the cost could not be passed on. There is ESOP cost too which the company will incur in FY24 to the tune of INR 6cr impacting the EBITDA margins.

However, the company is working on increasing the share of other airport services where the margins are better, the railway lounge and international business too has huge opportunity in years to come along with, trying to work with the clients to pass on some cost. The top line is expected to grow at strong growth rate of 60% for FY24 with gross margins expected to be in the range of 12-13% for FY24.

**At CMP the stock is trading at forward P/E multiple of 32(x) and 25(x) to its FY25E and FY26E earnings. We value the stock at 29x to arrive at a target price of INR 750, an upside of 15%, we downgrade our rating from buy to accumulate.**

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Madurai Railway Station Executive Lounge



**Con-call Highlights**

- **Plaza Premium** group partnership will facilitate extensive coverage of Plaza Premium Lounges across 4 continents including key travel hubs such as Australia, Canada, the United Kingdom, Hong Kong, Florida, Brazil, Italy, Indonesia, Malaysia, Singapore, Dubai, Saudi Arabia, Jordan and more. This strategic partnership will include over 340+ Plaza Premium Lounges in over 70+ major international airports into the DreamFolks global lounge network, offering an enhanced travel experience to its members worldwide starting July 24, 2023. This will help in international business expansion.
- **Visa facilitation:** DreamFolks has joined hands with VFS Global, the world's largest travel visa facilitator for travellers worldwide to offer Access to Premium Lounges at VFS Visa Centres across the country; Visa at Your Doorstep (VAYD) services which will allow customers to conveniently submit their visa applications from the comfort of their homes or offices.
- **E Sim solutions:** This service will offer Seamless Connectivity for International Travelers with DreamFolks’ enabled E-SIM services.
- **Steps to safeguard margins:** The company is working closely with the banks to manage costs, like few banks are restructuring their benefit programs, then other things is some of the banks are adopting usage base or spent base models. The company has started other services where margins are higher
- **Vidsur Golf tie-up Partnership** with the top golf service provider to gain access to golf games and 250+ golf clubs & resorts in the Asia Pacific region and more than 40 golf clubs in India offer lessons. The company has acquired a 60% stake in the company to capitalize on a growing Golf market in the country and has been rebranded as “Golfklik”. By this acquisition the company will be able to give customers access to golf games & lessons at golf clubs in India and across globally.
- **Lounges** The number of lounges currently stands at 61 which is expected to grow on account of increased footfalls of air passengers. The company added Lounge at Bengaluru's Kempe Gowda International Airport, T2 of 30,000 sqft area. Lounge area and capacity expansion at T3 Indira Gandhi International Airport, Delhi from 2,500 sq ft to 10,000 sq ft. There are plans to add lounge at Mumbai airport too. The company registered a robust 45.30% jump in passengers utilizing lounge and other services in Q1FY24.
- **Railway lounges** The company is currently offering services in 12 railway lounges in India. The railway business is currently at a very nascent stage and is growing at a fast pace of 15% on MoM basis. The government has earmarked INR 13,000cr for upgradation of stations and redevelop 1300 station, out of which 15 railway stations have been identified and will be developed in FY24-FY25. These upgraded stations will house kids area, free wi-fi, kiosks/stalls, restaurants and lounges which is again a huge opportunity for Dreamfolks.
- The **Geography mix** this quarter stood 26% international and 74% domestic of total revenues.
- The **Segment mix** stood at 95% lounge services and 5% other services of total revenue.

Source: Company Reports, Arihant Research

**Q1FY24 Results**

## Income statement summary

Y/e 31 Mar (INR Mn)	Q1FY24	Q4FY23	Q1FY23	YoY (%)	QoQ (%)
<b>Revenue</b>	2663.21	<b>2377</b>	<b>1602</b>	<b>66.24%</b>	<b>12.04%</b>
Cost of services	2379	1952	1350	<b>76.22%</b>	<b>21.88%</b>
Employee cost	74	51.39	38.38	<b>92.81%</b>	<b>44.00%</b>
Other expenses	33.79	36	21.4	<b>57.90%</b>	<b>-6.14%</b>
<b>EBITDA</b>	<b>176.42</b>	<b>337.61</b>	<b>192.22</b>	<b>-8.22%</b>	<b>-47.74%</b>
EBITDA%	6.62%	14.20%	12.00%	-537bps	-758bps
depreciation	8.5	9.2	8.1	<b>4.94%</b>	<b>-7.61%</b>
Interest	2.14	1.71	3.37	<b>-36.50%</b>	<b>25.15%</b>
Other income	10.7	13.78	2	<b>435.00%</b>	<b>-22.35%</b>
<b>PBT</b>	<b>176.48</b>	<b>340.48</b>	<b>182.75</b>	<b>-3.43%</b>	<b>-48.17%</b>
Taxes	46.58	87.02	48.11	<b>-3.18%</b>	<b>-46.47%</b>
<b>PAT</b>	<b>129.9</b>	<b>253.46</b>	<b>134.64</b>	<b>-3.52%</b>	<b>-48.75%</b>
<b>PAT%</b>	4.88%	10.66%	8.40%	-353bps	-579bps
EPS	2.50	4.87	2.59		
<b>No of shares</b>	52	52	52		

Source: Company Reports, Arihant Capital Research

Items as % to revenue	Q4FY23	Q3FY23	Q4FY22
<b>Cost of services</b>	89.33	82.12	84.27
<b>Employee cost</b>	3.11	2.63	2.84
<b>Other expenses</b>	45.66	70.05	55.76
<b>Depreciation</b>	522.11	937.81	898.22
<b>Interest</b>	0.04	0.04	0.06

Source: Company Reports, Arihant Capital Research

**Q1FY24 Results**

**Revenue** at INR 2,663 mn (our estimates ~INR 2590mn) up by 66.24% YoY/+12% QoQ

**EBITDA** at INR 176 mn (our estimates ~INR 367mn) is down by -8.22% YoY/-47.7% QoQ, and margins at 6.62% contracted by -537 bps YoY/-758 bps QoQ

**PAT** at INR 129 mn (our estimates INR 275mn) is down by -3.52% YoY/-48.75% QoQ and PATM at 4.8% contracted by -353 bps YoY/-579 bps QoQ.

**Financial Statement**

**Income Statement**

Y/e 31 Mar (INR Mn)	FY19A	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Revenue from Operations</b>	<b>2483</b>	<b>3670</b>	<b>1056</b>	<b>2825</b>	<b>7732</b>	<b>11761</b>	<b>13941</b>	16896
Change (%)	50%	48%	-71%	167%	174%	52%	19%	21%
Cost of Service	2093	2996	875	2373	6454	10364	12077	14641
<b>Gross Profit</b>	<b>390</b>	<b>675</b>	<b>181</b>	<b>452</b>	<b>1279</b>	<b>1396</b>	<b>1864</b>	2255
<b>Gross Margin</b>	<b>16%</b>	<b>18%</b>	<b>17%</b>	<b>16%</b>	<b>17%</b>	<b>12%</b>	<b>13%</b>	13%
Employee cost	120	179	126	166	174	308	321	377
Other expenses	35	45	58	61	115	141	139	152
<b>EBITDA</b>	<b>234</b>	<b>451</b>	<b>-4</b>	<b>225</b>	<b>990</b>	<b>947</b>	<b>1404</b>	1726
<b>EBITDA %</b>	<b>9%</b>	<b>12%</b>	<b>0%</b>	<b>8%</b>	<b>13%</b>	<b>8%</b>	<b>10%</b>	10%
Depreciation	14	16	16	21	35	27	31	34
Interest Expense	4	7	7	14	13	10	10	9
Other income	2	8	25	15	33	43	80	139
<b>PBT</b>	<b>219</b>	<b>436</b>	<b>-2</b>	<b>205</b>	<b>975</b>	<b>953</b>	<b>1444</b>	1822
Taxes	66	122	10	42	249	248	375	469
<b>PAT</b>	<b>152</b>	<b>313</b>	<b>-12</b>	<b>163</b>	<b>725</b>	<b>705</b>	<b>1068</b>	1353
PAT %	6%	9%	-1%	6%	9%	6%	8%	8%
No of shares in mn	52	52	52	52	52	52	52	52
<b>EPS (INR)</b>	<b>2.91</b>	<b>6.00</b>	<b>-0.23</b>	<b>3.11</b>	<b>13.88</b>	<b>13.49</b>	<b>20.45</b>	25.89
CEPS	3.17	6.30	0.07	3.52	14.55	14.02	21.03	26.55

Source: Company Reports, Aриhant Capital Research

**Balance Sheet**

Y/e 31 Mar (INR Mn)	FY19A	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Sources of Funds</b>								
Equity capital	48	48	48	105	105	105	105	105
Reserves	294	608	595	717	1463	2080	2851	3714
<b>Net worth</b>	<b>342</b>	<b>655</b>	<b>643</b>	<b>822</b>	<b>1567</b>	<b>2184</b>	<b>2955</b>	<b>3819</b>
Total Debt	20	31	20	13	10	0	0	0
Other Liabilities	530	692	562	852	1646	2301	2633	2780
<b>Total Liabilities</b>	<b>550</b>	<b>722</b>	<b>582</b>	<b>865</b>	<b>1657</b>	<b>2301</b>	<b>2633</b>	<b>2780</b>
<b>Capital Employed</b>	<b>892</b>	<b>1378</b>	<b>1225</b>	<b>1687</b>	<b>3224</b>	<b>4486</b>	<b>5588</b>	<b>6599</b>
<b>Application of Funds</b>								
Net block	36	60	386	157	131	156	159	160
Other non current assets	122	153	219	250	81	270	295	315
<b>Current assets</b>								
Debtors	456	685	395	907	2019	3061	3437	4166
Cash and bank balance	157	321	100	146	365	369	1054	1217
Other current assets	120	158	124	228	628	631	642	741
<b>Total assets</b>	<b>892</b>	<b>1378</b>	<b>1225</b>	<b>1687</b>	<b>3224</b>	<b>4486</b>	<b>5588</b>	<b>6599</b>

Source: Company Reports, Aриhant Capital Research

**Financial Statement**

**Cash Flow**

Y/e 31 Mar (INR Mn)	FY19A	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before tax	219	436	-2	205	974	953	1444	1822
Depreciation	14	16	16	21	35	27	31	34
Interest and others	3	-3	-11	14	13	10	10	9
Cash flow before WC changes	236	448	3	240	1022	990	1484	1865
Inc/Dec in WC								1865
Operating cash flow after WC changes	275	384	44	-46	685	516	1433	1226
Less:Taxes	-99	-160	18	-76	-188	-248	-375	-469
<b>Operating cash flow</b>	<b>176</b>	<b>224</b>	<b>63</b>	<b>-122</b>	<b>497</b>	<b>269</b>	<b>1058</b>	<b>757</b>
Purchase/Sale of Assets	-3	-71	-282	234	51	-31	-36	-37
Purchase of intangible assets	0	0	0	-43	-1	-21	2	2
Increase in Share Capital					0	0	0	0
Proceeds from Bank deposits	-68	74	14	-132	-353	0	0	0
<b>Cash Flow from Investing</b>	<b>-71</b>	<b>3</b>	<b>-269</b>	<b>59</b>	<b>-303</b>	<b>-52</b>	<b>-34</b>	<b>-35</b>
Loan raised/repaid	-52	10	-13	-19	-14	-16	-8	-10
Finance cost	-3	-3	-3	-7	-6	-10	-10	-9
Dividend	0	0	0	0	0	-141	-321	-541
<b>Net cash flows from financing</b>	<b>-55</b>	<b>7</b>	<b>-15</b>	<b>-26</b>	<b>-21</b>	<b>-168</b>	<b>-338</b>	<b>-560</b>
<b>Net cash for the year</b>	<b>50</b>	<b>234</b>	<b>-221</b>	<b>-90</b>	<b>174</b>	<b>49</b>	<b>685</b>	<b>163</b>
Opening balance of cash	38	87	321	100	146	320	369	1054
<b>Closing cash balance</b>	<b>87</b>	<b>321</b>	<b>100</b>	<b>10</b>	<b>320</b>	<b>369</b>	<b>1054</b>	<b>1217</b>

Source: Company Reports, Arianth Capital Research

**Valuation and Ratios**

Y/e 31 Mar (INR Mn)	FY19A	FY20A	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Per Share(INR)</b>								
EPS	2.91	6.00	-0.23	3.11	13.88	13.49	20.45	25.89
BVPS	6.54	12.54	12.31	15.73	29.99	41.80	56.56	73.09
<b>Valuation (x)</b>								
P/E	130.04	63.17	-1632.54	121.84	30.97	48.54	32.03	25.30
P/BV	57.96	30.23	30.80	24.10	14.34	15.67	11.58	8.96
P/S	1.19	0.81	2.80	1.05	0.38	0.25	0.21	0.18
<b>Return Ratio (%)</b>								
Gross Margin	16%	18%	17%	16%	17%	15%	15%	15%
EBITDA Margin	9%	12%	0%	8%	13%	11%	11%	11%
PAT Margin	6%	9%	-1%	6%	9%	9%	9%	9%
RoNW	45%	63%	-2%	22%	61%	47%	44%	44%
RoCE	61%	83%	-3%	27%	61%	59%	54%	54%
<b>Leverage Ratio</b>								
D/E	0.06	0.05	0.03	0.02	0.00	0.00	0.00	0.00
<b>Turnover Ratio</b>								
Inventory days	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Receivable Days	79.00	61.00	163.00	81.00	69.00	82.00	80.00	80.00
Payable Days	56.00	51.00	120.00	75.00	66.00	71.00	71.00	71.00

Source: Company Reports, Arianth Capital Research

## Services

Airport Lounge Access



F&B offerings



F&B offerings



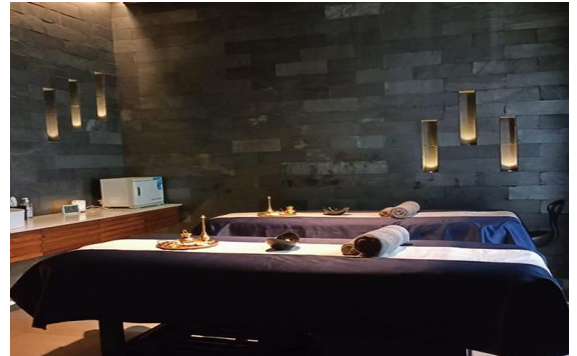
Meet and Assist



Airport Transfer Services



SPA



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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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