

**CMP: INR 565**

**Rating: Buy**

**Target Price: INR 709**

**Stock Info**

BSE	543591
NSE	INEOJS101016
Bloomberg	DREAMFOLK.IN
Reuters	DREAM.NS
Sector	Airport & Airport Services
Face Value (INR)	2
Equity Capital (INR mn)	104.5
Mkt Cap (INR mn)	29,570
52w H/L (INR)	592/348

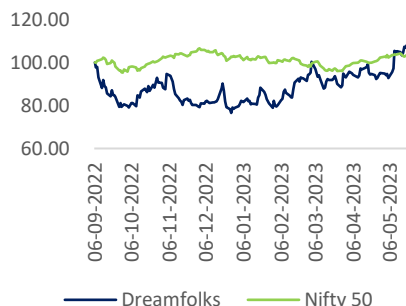
**Shareholding Pattern %**

(As on Dec, 2022)

Promoters	67
Public & Others	33

Stock Performance (%)	1m	3m
Dreamfolks	29.50	31.63
Nifty 50	1.74	3.07

**DFS Vs Nifty**



**Abhishek Jain**

[abhishek.jain@arihantcapital.com](mailto:abhishek.jain@arihantcapital.com)

022-422548871

**Anupama Bhootra**

[Anupama.bhootra@arihantcapital.com](mailto:Anupama.bhootra@arihantcapital.com)

Source: Arihant Capital Research

**Dreamfolks Services Ltd** is one of the largest airport service aggregators which includes services like airport lounge access, food and beverage, SPA, Airport Transfers, and Transit services. The company's asset-light business model integrates global card networks operating in India, credit card and debit card issuers and other corporate clients including airline companies with various airport lounge operators and other airport related service providers.

**Key Highlights**

**Dreamfolks numbers better than our estimates:** Revenues from operations reported at INR 2377 mn (against our estimate of INR 2162 mn) up by 140% YoY/16.5% QoQ, **led by sharp increase in air traffic.** The number of air travellers has risen sharply driven by rising preference of Air Travel amongst travellers over rail and road. With 425 new routes initiated, UDAN has provided air connectivity to more than 29 States/ UTs across the country and number of operational airports has gone up to 147 from 74 in 2014 shows the growth prospects going forward.

**EBITDA** at INR 337 mn up by 174.8% YoY/29.35% QoQ, **driven by cost optimisation and increase in revenues. EBITDAM** at 14.18% expanded by 181 bps YoY/+141 bps QoQ expansion is the result of high operating leverage the business enjoys. The revenues have grown substantially at very less additional cost or no increase in operational costs.

**Railway segment:** Currently there are 12 railway lounges and Dreamfolks is part of them. The company is witnessing 25-30% growth YoY in this segment. 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. These upgraded stations will house kids area, free wi-fi, kiosks/stalls, restaurants and lounges which is again a huge opportunity for Dreamfolks.

**Asset light model and operating leverage:** DFS has shown proven ability to scale up business with minimum incremental capital leading to high operating leverage business. The company's revenues are increasing with no additional or minimal cost at operational level. The company is able to generate superior RoCE, which was at 27% in FY22, delivered 61% for FY23.

**Credit and debit card with lounge access penetration is low:** Currently, credit card penetration is low in India at 85mn in FY23 and is expected to grow to 339mn users by FY30E and to 2278 mn users by FY40E. Even debit card penetration is low in India at 945mn in FY23 and is expected to grow to 1586mn users by FY30E and to 3488 mn users by FY40E. The lounge access through card is also low at 57mn users for FY23 expected to increase to 130mn users for FY30E and 516 mn users for Fy40E. This data itself is enough to show the huge headroom for future growth when it comes to Dreamfolks.

**Increase in PAX** using lounges through dreamfolks have increased from 3.5mn in FY22 to 8.2mn in FY23 driven by increase in domestic air traffic and other factors,

**Increasing area of lounges along with carving of VIP & VVIP Lounges:** There are about 61 lounges in the county currently, which is expected to increase to 150 by FY30E. The area of lounges are also increasing at many places. Recently lounge area at T3 Delhi airport, the area increased from 2,500 sq ft to 10,000 sq ft.

**Outlook and Valuations: At CMP the stock is trading at forward P/E multiple of 26.15(x) and 20.31(x) to its FY25E and FY26E earnings.** The company has reported good numbers driven by 52% YoY increase in air traffic in Q4FY23. Going forward, air traffic is expected to grow further by 40% YoY before it stabilizes. With addition of lounges, airports, increase in credit and debit card usage which will lead to increase in conversion rate, the exponential growth is here to stay. **We value the stock on SOTP basis and arrive at a target price of INR 709. Based on Target price, stock is trading 25.50x FY26EEPS of INR 27.82, we have a buy rating.**

**Q4FY23 Results**

## Income statement summary

Y/e 31 Mar (INR Mn)	Q4FY23	Q3FY23	Q4FY22	YoY (%)	QoQ (%)
<b>Revenue</b>	2377	<b>2040</b>	<b>991.66</b>	<b>139.70%</b>	<b>16.52%</b>
Cost of services	1953	1706.49	816.54	<b>139.18%</b>	<b>14.45%</b>
Employee cost	51	38.74	34.14	<b>49.38%</b>	<b>31.65%</b>
Other expenses	35.87	34.13	18.3	<b>96.01%</b>	<b>5.10%</b>
<b>EBITDA</b>	<b>337.13</b>	<b>260.64</b>	<b>122.68</b>	<b>174.80%</b>	<b>29.35%</b>
EBITDA%	14.18%	12.78%	12.37%	181bps	141bps
depreciation	9.21	8.8	5.37	<b>71.51%</b>	<b>4.66%</b>
Interest	1.71	2.92	5.55	<b>-69.19%</b>	<b>-41.44%</b>
Other income	13.75	6.51	2.41	<b>470.54%</b>	<b>111.21%</b>
<b>PBT</b>	<b>339.96</b>	<b>255.43</b>	<b>114.17</b>	<b>197.77%</b>	<b>33.09%</b>
Taxes	87.09	65.66	24.32	<b>258.10%</b>	<b>32.64%</b>
<b>PAT</b>	<b>252.87</b>	<b>189.77</b>	<b>89.85</b>	<b>181.44%</b>	<b>33.25%</b>
<b>PAT%</b>	10.64%	9.30%	9.06%	158bps	134bps
EPS	4.86	3.65	1.73		
<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>	82.16	83.65	82.34
<b>Employee cost</b>	2.61	2.27	4.18
<b>Other expenses</b>	70.33	88.10	53.60
<b>Depreciation</b>	939.87	763.67	670.38
<b>Interest</b>	0.04	0.05	0.10

Source: Company Reports, Arihant Capital Research

**Q4FY23 Results**

Revenues at INR 2377mn up by 140% YoY/16.5% QoQ (our estimates INR 2162mn) driven by rise in number of flyers which stood at ~375 lakh flyers in Q4FY23 up by 51% YoY/+5.6% QoQ

EBITDA at INR 337mn (our estimates INR 270mn) up by 174.8% YoY/29.35% QoQ EBITDAM at 14.18% expanded by 181 bps YoY/+141 bps QoQ driven by decrease in other expenses and employee cost as % to sales

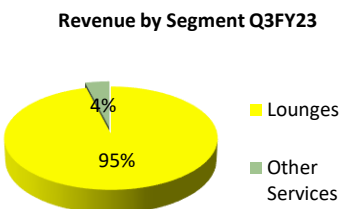
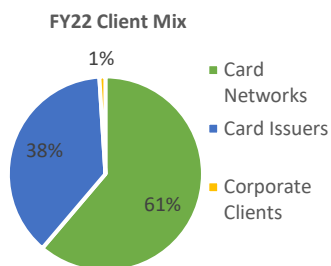
PAT at INR 252mn (our estimates INR 193mn) up by 197% YoY/33% QoQ margins at 10.64% expanded by 158 bps YoY/+134 bps QoQ

As % to sales

Cost of services remains flattish at 82.16% employee cost declined YoY and QoQ and other cost declined QoQ.

Interest cost has also declined sequentially and YoY basis.

**Con-call Highlights**



Madurai Railway Station Executive Lounge



- Margins** The revenues increased substantially along with decline in employee cost and other costs as % to revenue, helped achieve growth in profitability at EBITDA levels. The PAT margins have also expanded as finance cost declined om YoY and QoQ basis. Going forward, we believe the headroom for margin expansion at EBITDA level could be 1-1.5% YoY and then it may stabilize but huge headroom for growth on top line levels to be driven by sharp revenue growth with minimal increase in operating costs.
- Cost Scenario** Cost of Services increased on account of increase in revenue but as % to revenue it's declined from 83.65% in Q3FY23 to 82.16% Q4FY23. Employee cost increased by 49% YoY/31% QoQ as % to revenue it has declined. Other expenses increased by 96% YoY/5% QoQ and as % to revenue it has declined on YoY/QoQ basis.
- 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.
- New Clients** The company has onboarded 5 new clients including Akasa Air, Vidsur golf course. The total number of clients are ~55-60 currently.
- 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.
- 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.
- The **Geography mix** this quarter stood 27% international and 73% domestic of total revenues.
- The **Segment mix** stood at 95% lounge services and 5% other services of total revenue
- The dreamfolks pax number stood at 8.2mn for FY23 and the **Conversion Rate** was 6.2% in Q4Fy23 against the pax of 3.5 mn pax in FY22 and conversion rate of 5.4% in Q3FY22.
- The company has introduced an App where the customers can track their lounge access, like remaining free access, logins and tie ups in particular city and lounges. They can also generate QR code to get access to lounges along with information on various benefits and other services.
- Self Check-in Kiosks** DFS introduced self check-in Kiosks at Major Airports to deal with long queues outside lounges and reduce wait time at lounge reception.

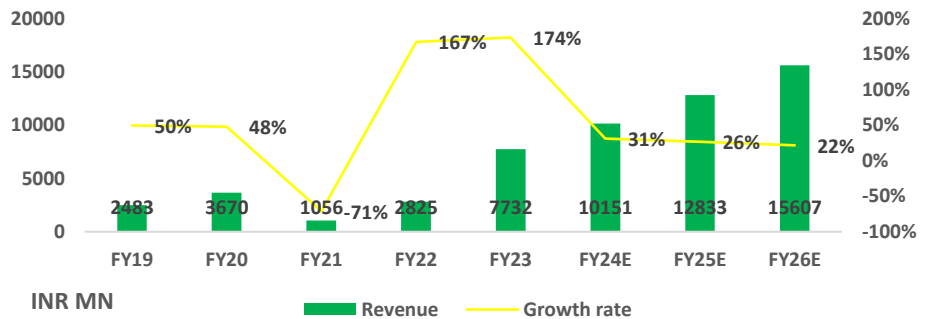
- **Incorporation of wholly owned subsidiary:** The subsidiary has been incorporated mainly to carry out the operations related to airport operation services including lounge operations and access, running of loyalty programs in global markets. The company is actively working on increasing its footprint outside India with similar differentiators which they have in domestic markets. Currently, the geographical mix is 75% domestic and 25% international.
- The **Blended Realisation** in Q3FY23 was ~INR 840 per pax for domestic business and ~INR 1200-1500 per pax for international business and in Q4FY23 the realisations remained on similar levels.
- **Senior Leadership Team Strengthened:** The company has appointed Mr. Sandeep Sonawane as the Chief Business Officer to strengthen the Senior Leadership Team. His rich experience in the industry will further add up to the technology offerings to the next level.

Story in charts

**Revenue from Operations:**

Revenue from operations jumped 3x driven by increase in air traffic in FY23 and demand for airport services witnessed strong growth as number of card users increased with increase in awareness about lounge access facility. In FY23, there was spike in growth as the economies opened post covid scenario and domestic flights and international flights were back to operational. The revenue is expected to grow to 15,607 mn by FY26 to be mainly driven by increase in Air travellers, card users and awareness about lounge access services. Post FY25 addition from **Railways segment** is also expected to add meaningfully to the revenues with introduction of premium services within the Railway station premises. The company is also venturing gold courses and golf classes access to its customers along with increase in footprints in International markets. As per our estimates the company will grow at a CAGR revenue of 53% over FY22-FY26.

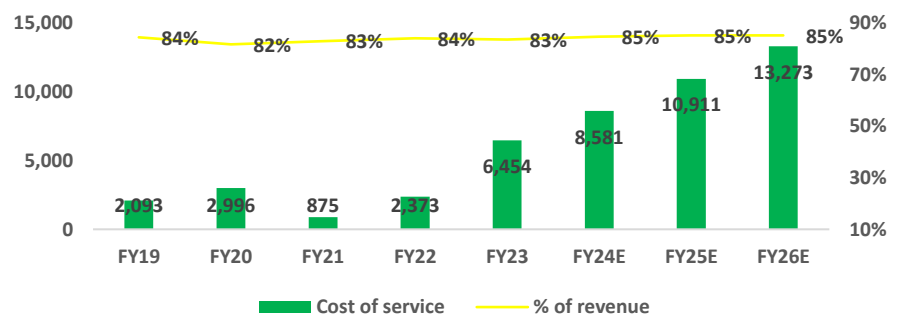
**Industry tailwinds:** includes strong trend of privatization and premiumization. Increased ease of tech adoption amongst masses, uptick in people preferring air travel over rail and road travel. Strong infrastructure development plans and capex announced by the government. Strong growth in air traffic and low credit card and debit card users which are expected to increase exponentially in coming years. In Q4FY23 number of flyers which stood at ~375 lakh flyers in up by 51% YoY/+5.6% QoQ contributed to robust top line. The travel industry has bounced back with exponential thrust along with passengers willing to pay for premium lounge services.



Source: Company Reports, Aриhant Capital Research

**Cost of services**

The cost of services includes price paid for the lounge services and other airport services which is paid by DFS to Airport service providers. The cost of services remains stable as % to revenues, the company has policy to maintain gross margins of 15-17% when they tie up with any service provider. Going forward as per our estimates the COS as % to revenue expected to stay stable in the range of 83% to 85%.



Source: Company Reports, Aриhant Capital Research

**EBITDA and EBITDA Margins**

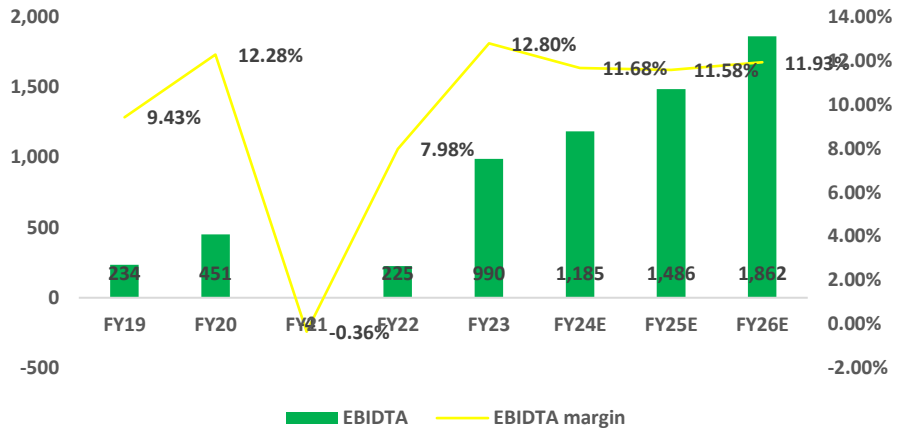
The company has already build up on its technology platform and with more consumers and passengers using their services will bring in better operating margins. The company enjoys high operating leverage with 167% YoY growth in revenues in FY23 with no increase or marginal increase in employee cost and other expenses leading to growth in profitability.

**Employee Cost**

Employee cost includes employee salary, wages, bonus, staff welfare and PF contribution, it excludes ESOP. In FY21 footfall was impacted due to covid scenario, therefore, employee cost to revenue in % has spiked. Post FY22 employee cost is showing declining trend which shows operating leverage which the business enjoys. Employee cost as % to revenues has declined from 5% in FY19 to 2% in FY23 and expected to remain in that range despite healthy growth.

**Other Expenses**

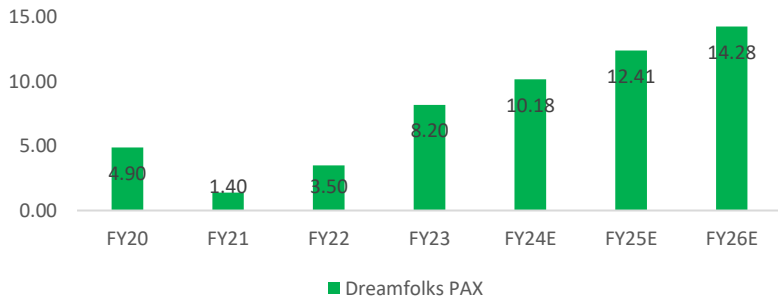
Other expenses was INR 61mn in FY22 which increased to INR 115 mn in FY23. The company’s other expenses have not increased much as compared to the jump in revenues which makes this business very lucrative on margin fronts. Going forward, as per our estimates other expenses as % to revenue will remain in the range of 1-1.5%.



Source: Company Reports, Arihant Capital Research

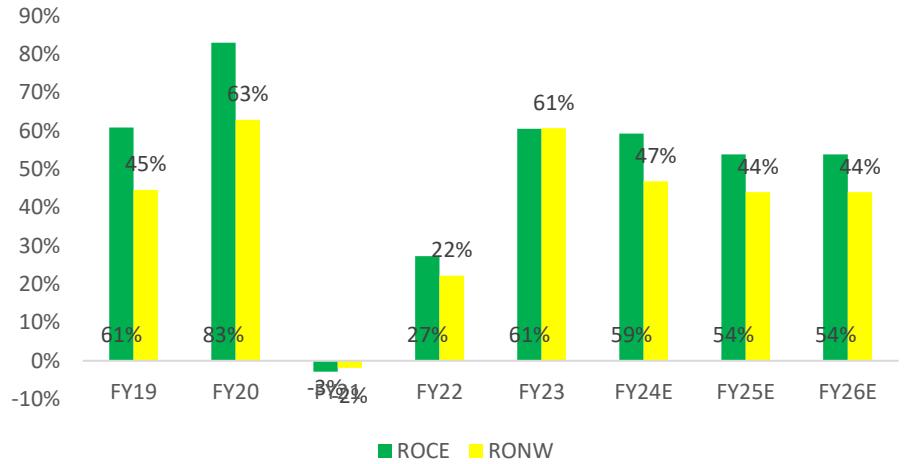
**Dreamfolks pax showing sharp increase**

To be driven by increase in air traffic, card users, number of lounges which will lead to increase in conversion rate and pax.



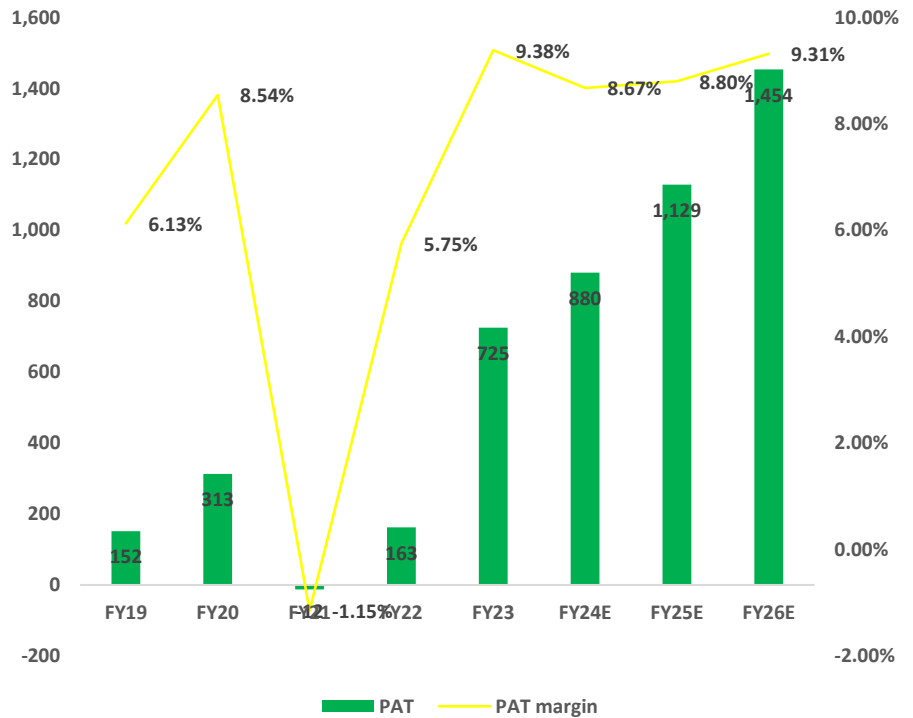
Source: Company Reports, Arihant Capital Research

The company has delivered superior return ratios



Source: Company Reports, Arihant Capital Research

PAT expected to grow at a CAGR of 73% over FY22-FY26 as the depreciation and finance costs are minimal.



Source: Company Reports, Arihant Capital Research

### 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>10151</b>	<b>12833</b>	15607
Change (%)	50%	48%	-71%	167%	174%	31%	26%	22%
Cost of Service	2093	2996	875	2373	6454	8581	10911	13273
<b>Gross Profit</b>	<b>390</b>	<b>675</b>	<b>181</b>	<b>452</b>	<b>1279</b>	<b>1570</b>	<b>1922</b>	2333
<b>Gross Margin</b>	<b>16%</b>	<b>18%</b>	<b>17%</b>	<b>16%</b>	<b>17%</b>	<b>15%</b>	<b>15%</b>	15%
Employee cost	120	179	126	166	174	263	307	331
Other expenses	35	45	58	61	115	122	128	140
<b>EBITDA</b>	<b>234</b>	<b>451</b>	<b>-4</b>	<b>225</b>	<b>990</b>	<b>1185</b>	<b>1486</b>	1862
<b>EBITDA %</b>	<b>9%</b>	<b>12%</b>	<b>0%</b>	<b>8%</b>	<b>13%</b>	<b>12%</b>	<b>12%</b>	12%
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	42	80	139
<b>PBT</b>	<b>219</b>	<b>436</b>	<b>-2</b>	<b>205</b>	<b>975</b>	<b>1190</b>	<b>1526</b>	1958
Taxes	66	122	10	42	249	309	397	504
<b>PAT</b>	<b>152</b>	<b>313</b>	<b>-12</b>	<b>163</b>	<b>725</b>	<b>880</b>	<b>1129</b>	1454
<b>PAT %</b>	<b>6%</b>	<b>9%</b>	<b>-1%</b>	<b>6%</b>	<b>9%</b>	<b>9%</b>	<b>9%</b>	9%
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>16.85</b>	<b>21.61</b>	27.82
CEPS	3.17	6.30	0.07	3.52	14.55	17.37	22.20	28.48

Source: Company Reports, Arihant 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	2175	2975	3852
<b>Net worth</b>	<b>342</b>	<b>655</b>	<b>643</b>	<b>822</b>	<b>1567</b>	<b>2279</b>	<b>3079</b>	<b>3957</b>
Total Debt	20	31	20	13	10	0	0	0
Other Liabilities	530	692	562	852	1646	1928	2398	2544
<b>Total Liabilities</b>	<b>550</b>	<b>722</b>	<b>582</b>	<b>865</b>	<b>1657</b>	<b>1928</b>	<b>2398</b>	<b>2544</b>
<b>Capital Employed</b>	<b>892</b>	<b>1378</b>	<b>1225</b>	<b>1687</b>	<b>3224</b>	<b>4207</b>	<b>5478</b>	<b>6501</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	271	293	317
<b>Current assets</b>								
Debtors	456	685	395	907	2019	2642	3164	3848
Cash and bank balance	157	321	100	146	365	695	1324	1566
Other current assets	120	158	124	228	628	443	537	610
<b>Total assets</b>	<b>892</b>	<b>1378</b>	<b>1225</b>	<b>1687</b>	<b>3224</b>	<b>4207</b>	<b>5478</b>	<b>6501</b>

Source: Company Reports, Arihant 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	1190	1526	1958
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	1227	1566	2001
Inc/Dec in WC								2001
Operating cash flow after WC changes	275	384	44	-46	685	940	1416	1381
Less: Taxes	-99	-160	18	-76	-188	-309	-397	-504
<b>Operating cash flow</b>	<b>176</b>	<b>224</b>	<b>63</b>	<b>-122</b>	<b>497</b>	<b>631</b>	<b>1019</b>	<b>877</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	-176	-339	-581
<b>Net cash flows from financing</b>	<b>-55</b>	<b>7</b>	<b>-15</b>	<b>-26</b>	<b>-21</b>	<b>-203</b>	<b>-357</b>	<b>-600</b>
<b>Net cash for the year</b>	<b>50</b>	<b>234</b>	<b>-221</b>	<b>-90</b>	<b>174</b>	<b>376</b>	<b>629</b>	<b>242</b>
Opening balance of cash	38	87	321	100	146	320	695	1324
<b>Closing cash balance</b>	<b>87</b>	<b>321</b>	<b>100</b>	<b>10</b>	<b>320</b>	<b>695</b>	<b>1324</b>	<b>1566</b>

Source: Company Reports, Arihant 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	16.85	21.61	27.82
BVPS	6.54	12.54	12.31	15.73	29.99	43.62	58.93	75.72
<b>Valuation (x)</b>								
P/E	193.86	94.18	0.00	181.64	40.69	33.53	26.15	20.31
P/BV	86.41	45.06	45.91	35.93	18.84	12.95	9.59	7.46
P/S	1.19	0.81	2.80	1.05	0.38	0.29	0.23	0.19
<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
CMP	565	565	0	565	565	565	565	565

Source: Company Reports, Arihant Capital Research

## Services

Airport Lounge Access



F&B offerings



F&B offerings



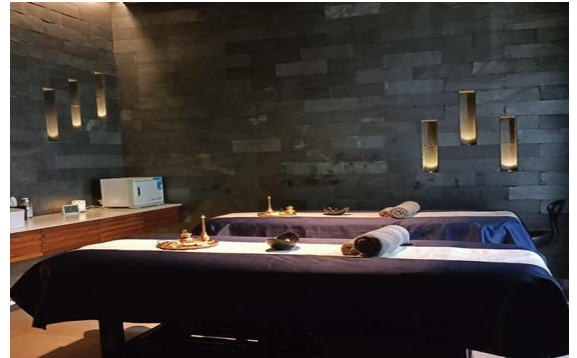
Meet and Assist



Airport Transfer Services



SPA



## Arihant Research Desk

Email: [research@arihantcapital.com](mailto:research@arihantcapital.com)

Tel. : 022-42254800

Head Office	Registered Office
#1011, Solitaire Corporate Park Building No. 10, 1 <sup>st</sup> Floor Andheri Ghatkopar Link Road Chakala, Andheri (E) Mumbai – 400093 Tel: (91-22) 42254800 Fax: (91-22) 42254880	Arihant House E-5 Ratlam Kothi Indore - 452003, (M.P.) Tel: (91-731) 3016100 Fax: (91-731) 3016199

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%

Research Analyst Registration No.	Contact	Website	Email Id
INH000002764	SMS: 'Arihant' to 56677	<a href="http://www.arihantcapital.com">www.arihantcapital.com</a>	<a href="mailto:research@arihantcapital.com">research@arihantcapital.com</a>

**Disclaimer:** This document has been prepared by Arihant Capital Markets Ltd. This document does not constitute an offer or solicitation for the purchase and sale of any financial instrument by Arihant. This document has been prepared and issued on the basis of publicly available information, internally developed data and other sources believed to be reliable. Whilst meticulous care has been taken to ensure that the facts stated are accurate and opinions given are fair and reasonable, neither the analyst nor any employee of our company is in any way is responsible for its contents and nor is its accuracy or completeness guaranteed. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Arihant may trade in investments, which are the subject of this document or in related investments and may have acted upon or used the information contained in this document or the research or the analysis on which it is based, before its publication. This is just a suggestion and Arihant will not be responsible for any profit or loss arising out of the decision taken by the reader of this document. Affiliates of Arihant may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. No matter contained in this document may be reproduced or copied without the consent of the firm.

Arihant Capital Markets Ltd.  
1011, Solitaire Corporate park, Building No. 10, 1st Floor,  
Andheri Ghatkopar Link Road, Chakala, Andheri (E)  
Tel. 022-42254800 Fax. 022-42254880