

DreamFolks Services Limited



DreamFolks Services Ltd

Issue Opens On
August 24, 2022

Issue Closes On
August 26, 2022

Price Band (INR)
308-326

Issue Size (INR Mn)
5,311-5,621

Rating
SUBSCRIBE

DreamFolks Services Ltd (DreamFolks) is a dominant player and India's largest airport service aggregator platform, an incubator of the industry with its unique, asset-light, capital-efficient business model. DreamFolks provides services to all the Card Networks operating in India, including Visa, Mastercard, Diners/Discover and RuPay; and many of India's prominent Card Issuers, including ICICI Bank Limited, Axis Bank Limited, Kotak Mahindra Bank Limited, HDFC Bank Limited and SBI Cards and Payment Services Limited. It has a global footprint extending to 1,416 touch-points in 121 countries worldwide, out of which 244 Touch-points are present in India and 1,172 touch-points overseas, as of March 31, 2022. The company's first mover advantage in the lounge access aggregator industry in India has enabled it to become a dominant player with a share of over 80% in the domestic lounge access market. In addition, it has partnered with various entities to facilitate access to around 57 restaurants / F&B outlets at 18 airports across India.

OFFER STRUCTURE

| Particulars | IPO Details |
|-----------------------------|---------------|
| No. of shares under IPO (#) | 17,242,368 |
| Net offer (# shares) | 17,242,368 |
| Price band (INR) | 308-326 |
| Post issue MCAP (INR Mn.) | 16,093-17,033 |

Source: IPO Prospectus

| Indicative Timetable | |
|--|--------------------------------------|
| Offer Closing Date | August 26, 2022 |
| Finalization of Basis of Allotment with Stock Exchange | On or about 1 st Sept' 22 |
| Initiation of Refunds | On or about 2 nd Sept' 22 |
| Credit of Equity Shares to Demat accounts | On or about 5 th Sept' 22 |
| Commencement of Trading of Eq.shares on NSE | On or about 6 th Sept'22 |

Source: IPO Prospectus

| Issue | # Shares | INR in Mn | % |
|------------------|-------------------|--------------|-------------|
| QIB | 1,29,31,776 | 4,216 | 75% |
| NIB | 25,86,355 | 843 | 15% |
| Retail | 17,24,237 | 562 | 10% |
| Net Offer | 17,242,368 | 5,621 | 100% |

Source: IPO Prospectus

| Objects of the Offer: The net proceeds will be utilized for the following purpose | | |
|---|---------------|----------------|
| Gain benefits of listing the equity shares on stock exchanges | | |
| Company expects the listing of the Equity Shares will enhance its visibility and brand image | | |
| It will also provide liquidity to its Shareholders and will provide a public market for the company's Equity Shares in India. | | |
| Shareholding Pattern | Pre-Issue (%) | Post-Issue (%) |
| Promoters & Promoters Group | 100% | 67.0% |
| Others | Negligible | 33.0% |
| Total | 100.0% | 100.0% |

Source: IPO Prospectus

| Particulars (In INR Mn)* | FY20 | FY21 | FY22 |
|--------------------------|-------|--------|-------|
| Revenue | 3,670 | 1,056 | 2,825 |
| EBITDA | 451 | (4) | 225 |
| EBITDA Margin | 12.3% | (0.4%) | 8.0% |
| PAT | 317 | (15) | 163 |
| PAT Margin | 8.6% | (1.4%) | 5.8% |
| Net Worth | 655 | 643 | 822 |
| RONW | 48.4% | (2.3%) | 19.8% |

Source: IPO Prospectus, * Restated Statement

DreamFolks Services Ltd

Company Overview

DreamFolks is a dominant player and India's largest airport service aggregator platform facilitating an enhanced airport experience to passengers leveraging a technology-driven platform. The company's asset-light business model integrates global card networks operating in India (Card Networks), credit card and debit card issuers (Card Issuers) and other corporate clients, in India, including airline companies (Corporate Clients and along with Card Networks and Card Issuers, the Clients) with various airport lounge operators and other airport related service providers (collectively, the Operators) on a unified technology platform. In addition, the company facilitates customers of Clients' (Consumers) access to the following airport-related services (i) lounges, (ii) food and beverage, (iii) spa, (iv) meet and assist, (v) airport transfer, (vi) transit hotels /nap room access, and (vii) baggage transfer, (collectively, the Services). DreamFolks' dominance is underpinned by facilitating access to 100% of the 54 lounges currently operational in India. It also enjoyed a market share of over 95% of all India-issued credit card and debit card (Card Based) access to airport lounges in FY22. In addition, the company accounted for around 68% of the overall lounge access volume in India. Through its partnerships with other service providers, the company has a global footprint extending to 1,416 Touch-points in 121 countries across the world, out of which 244 Touch-points are present in India and 1,172 Touch-points overseas.

DreamFolks began effective operations in 2013 by facilitating lounge access services for the Consumers of Mastercard. Currently, it provides services to all the Card Networks operating in India, including Visa, Mastercard, Diners/Discover and RuPay, and many of India's prominent Card Issuers, including ICICI Bank Limited, Axis Bank Limited, Kotak Mahindra Bank Limited, HDFC Bank Limited (in respect of debit card lounge program) and SBI Cards and Payment Services Limited. The company has transformed from an airport lounge access aggregator to an end-to-end technology solutions provider for designing and delivering services that enhance the airport experience. It has crafted its service proposition to provide clients with the option of offering a wide-ranging bouquet of Services to consumers.

The lounge fee contributed a vast majority of its revenues from operations in FY22 contributing 98.7% to the total revenues of the company. The average revenue from lounge fee for last three years stood at 98.6%.

The company's platform and services portfolio allow Card Networks, Card Issuers, and Corporate Clients to build custom-made solutions addressing disparate aspects of airport services for consumers. Card Networks and Card Issuers can avail of any of the Services and may provide complimentary lounge access and complimentary access to other Services to the Consumers as part of their offerings under eligible credit and debit cards programmes, enabling this access across Services. Corporate Clients also leverage its solutions to extend benefits to their user base and facilitate access to Services.

DreamFolks offers clients the option of providing the consumers with different mechanisms to access certain airport-related services like lounges via the more traditional means like credit cards or debit cards, membership cards, or via digital solutions such as mobile applications using its hybrid technology.

The company also focuses on the operators who provide the Services and give them the option of single-point access to the consumers along with consolidated footfall and revenue while also providing them with the technology to validate the benefits available to consumers, provide Card Based and digital access, and billing.

Services Overview:

- Lounge Access:** DreamFolks has 100% coverage of operational lounges in Indian airports. It offers a unique value proposition to its clients by enabling access to the consumers to a network of all operational airport lounges in India. Consumers have access to lounges in Bengaluru, Chennai, Mumbai and New Delhi, operated by various entities, including Premium Port Lounge Management Company Private Limited, Travel Food Services Private Limited and Saptagiri Restaurant Private Limited. As of March 31, 2022, the company had exclusive access to 12 domestic lounges across 11 airports in India, constituting around 22.2% of the total access of the domestic lounges for India-issued credit cards and debit cards.
- Food & Beverage offerings:** The company had tied up with various entities to facilitate access to around 57 restaurants / F&B outlets at 18 airports across India, as of March 31, 2022. At these restaurants / F&B outlets, Consumers can select from the curated 'DreamFolks' menu a variety of vegetarian and non-vegetarian food and beverage combinations ('combo' offerings).
- Spa Services:** Consumers can avail of specified massage therapies such as head, neck and shoulder massage, and foot reflexology. It facilitates access to this service in tie-up with O2 Spa Salon Private Limited.
- Meet & Assist:** The company facilitates end-to-end assistance to the consumers at the airport. The services are available at select airports to consumers at arrival and departure terminals of chosen airports in India. The 'meet and assist' services are available at different price points and encompass a wide variety of services, depending on the airports in India. It has also entered into an agreement with an international airport concierge service provider facilitating the 'meet and assist' services at various airports across countries such as Australia, Austria, Canada, Belgium, Brazil, France, Germany, United Kingdom, United Arab Emirates and the United States of America. The company also provide an option to facilitate 'medical meet & assist' at arrivals at select airports in India.

DreamFolks Services Ltd

Product Overview

- **Airport transfer services:** The company facilitates airport transfer, i.e., airport ‘pick-up and drop’ facilities in 47 cities across India and in 145 cities outside India, as of March 31, 2022.
- **Transit Hotels/ Nap Room Access:** In Mumbai and New Delhi, through its tie up with Niranta Airport Transit Hotel & Lounge (a unit of International Airport Hotels & Resorts Private Limited) and Holiday Inn Express New Delhi International Airport T-3 (a unit of Devaryaa Hospitalities Private Limited), DreamFolks facilitates access to hotel rooms. Further, in Bengaluru, Cochin and Mumbai, it also facilitates access to ‘nap rooms’ or ‘sleeping pods’, i.e., specialized facilities which allow passengers, particularly transit passengers, access to private rooms / compartmentalized sleeping quarters, with rest-room access.
- **Baggage Transfer:** the company has tied up with a service provider to provide baggage pick-up and drop-off facility to and from airports across Bengaluru, Hyderabad, Mumbai, and New Delhi.
- **Other:** The company has also forayed into the railways sector and, it has entered into contracts to provide lounge access at 8 railway stations in India.

Key performance indicators

| Particulars | FY19 | FY20 | FY21 | FY22 |
|--------------------------------------|------------|------------|------------|--------------|
| Number of direct touch-points | 239 | 223 | 587 | 1,416 |
| % growth | 123.4% | -6.7% | 163.2% | 141.2% |
| a. India | 239 | 223 | 223 | 244 |
| % growth | 123.4% | -6.7% | 0.0% | 9.4% |
| b. Overseas | 0 | 0 | 364 | 1,172 |
| % growth | | | | 222.0% |
| Number of cities covered | 57 | 57 | 219 | 536 |
| % growth | 147.8% | 0.0% | 284.2% | 144.7% |
| Number of countries covered | 1 | 1 | 59 | 121 |
| % growth | 0.0% | 0.0% | 5800.0% | 105.1% |
| Number of clients | 26 | 38 | 43 | 50 |
| % growth | 85.7% | 46.2% | 13.2% | 16.3% |

Source: IPO Prospectus

DreamFolks Services Ltd

INVESTMENT RATIONALE

Market leader in the airport lounge aggregation industry in India with strong tailwinds:

DreamFolks is India's largest and most dominant airport lounge access provider. In FY20, over 80% of all Indian domestic lounge access was via India-issued credit and debit cards. Its dominance is supported by an estimated market share of more than 95% of all India-issued Card Based access to domestic lounges in FY22. As of March 31, 2022, the company had coverage throughout 54 operating airport lounges, accounting for 100% of airport lounges in India. DreamFolks had exclusive access to 12 domestic lounges across 11 airports in India, representing about 22.2% of total domestic lounge access for India-issued credit and debit cards. The company has catered to approximately 68% of the overall lounge traffic in volume across all lounges in Indian airports (both the domestic and international lounges) in FY22.

Following are the key drivers for the company:

- The number of Indian passengers who choose air travel as their means of transportation climbed from over 99 mn in CY16 to 143 mn in CY19. Indian air travel propensity (i.e., the ratio of passenger traffic to overall population in each region) is low in CY20, at 0.08, and there is considerable room for expansion, compared with nations such as Indonesia, China, and Mexico, and, on the upper end, Australia, the United States of America, and Canada.
- The ease of travel is considered an integral element of the airport experience, and lounges, amongst others, are a vital component of the airport experience, as demonstrated by the number of passengers availing of lounge facilities. Of the Indian domestic lounge access, around 80% was through India-issued credit cards and debit cards. Therefore, for Clients, providing consumers access to the Services, including lounges, is increasingly becoming an essential aspect of their credit/debit card service offering. The number of credit and debit cards with lounge access in India is estimated at around 57 mn (CY21). Approximately 8% of the population eligible for lounge access use the facility, reflecting a low penetration (CY21).

The factors above, in conjunction with the company's complete coverage of lounges across Indian airports, coupled with the functionality of its technology platform, will continue to drive the demand for DreamFolk's Services. The company also provides access to various other Services such as F&B offerings, spa services, 'meet and assist', airport transfer services, transit hotels/nap rooms access, and baggage transfer to Consumers. Its constant endeavour to provide incremental value-added services to enhance the experience of Consumers of its Clients has helped it make strong in-roads and expand its business. As of March 31, 2022, the company has provided Consumers access to 244 Touchpoints in India and 1,172 Touchpoints overseas. The company, through these services, also broadened the scope of its offering to address the disparate needs of Consumers and provide them with multiple options to enhance their ease of travel.

Established ties with flagship Clients:

DreamFolks has tie-ups with all the 5 Card Networks operating in India, including Visa, Master Card, Diners/Discover and RuPay. Some of India's largest Card Issuers are also among its key clients, including ICICI Bank Limited, Axis Bank Limited, Kotak Mahindra Bank Limited, HDFC Bank Limited (in respect of the debit card lounge program) and SBI Cards and Payment Services Limited. The company also has tie-ups with some of India's prominent corporates, including airline companies, a telecommunications company, OTA, loyalty aggregators, and other corporates such as Interglobe Aviation Limited, Go Airlines Limited, Air Asia (India) Limited, Vodafone Idea Limited, Jet Privilege Private Limited, Hettich India Private Limited, Easy Trip Planners Limited and Mahindra Holidays and Resorts India Limited. This allows the company to expand its customer base. It has also provided meet-and-assist solutions to hospital chains across India. The company will attract new clients owing to its industry domination, partner ecosystem and service offerings, and robust technology platform. DreamFolks has been associated with the airport lounge programmes of clients such as RuPay, ICICI Bank Limited, HDFC Bank Limited (in respect of the debit card lounge program), Axis Bank Limited, and Standard Chartered Bank. The company was the launch partner for Rupay's domestic lounge access programme. One of the structural adjustments implemented by the company was a shift away from the network sponsorship model and toward building direct partnerships with Card Issuers. In addition, it has broadened its Client profile over the years by bringing in more Corporate Clients by expanding its bouquet of Services that they may add to their product offerings for their customer engagement initiatives.

Strong business advantage as a result of the flywheel effect driven by the Clients and Operators network:

Given its dominant position in the air lounge access market, DreamFolks has effectively bridged the gap between its clients and air lounge providers. The market leadership helps to develop interdependencies for its service offerings by attracting fresh clients and operators, enabling it to improve its market positioning even further. The company's comprehensive airport lounge coverage in India and a single point of contact for all lounge operators in India is a critical link in managing customer loyalty and retention. In addition, it enables the company to provide value-added services to consumers as part of its customer engagement and loyalty management programmes. The benefits for each card version, the rewards received by consumers, and the accounting relevant to consumer use of lounge services are all maintained and monitored by its systems. This further strengthens its relationship since the company addresses the (i) front-end, i.e., validating and providing access to lounges, and (ii) the back end to maintain the benefits and utilization of usage for end-consumers of the lounges. The tie-ups with all Card Networks with operations in India and some of India's largest Card Issuers facilitate a steady stream of lounge users being routed through the company. At specific airport lounges in cities such as Ahmedabad, Bengaluru, Cochin and Mumbai, DreamFolks accounts for more than 80% of the total lounge traffic. 34% of lounges in India have been associated with the company for over six years. As of March 31, 2022, it was the exclusive service provider for India-issued Card Based passenger traffic for about 12 domestic lounges across 11 airports in India, constituting around 22.22% of the total access of the domestic lounges for India-issued credit cards and debit cards. The convergence of its dominant market position, main Client base, extensive presence in the airport lounge market in India and diverse service offerings helps create a network flywheel effect.

DreamFolks Services Ltd

INVESTMENT RATIONALE

Ability to capitalize on growing Consumer base with no associated costs of direct Consumer acquisition:

DreamFolks will leverage the rising consumer base of airline passengers and card users without incurring direct consumer acquisition costs. Clients are responsible for acquiring customers. Offering consumers access to airport lounges is becoming increasingly relevant to their card sales and customer engagement programmes. Its clients leverage its technology-driven solutions and platform to provide these value-added services to the consumers as part of their customer engagement. The accretion in its consumers occurs with growth in (a) its client base, (b) the number of outstanding credit cards and debit cards, and (c) frequency of lounge access. As the company's primary revenue model is on a per Pax basis, the increase in footfalls witnessed a rise in its consolidated revenue from operations which increased from INR 1,056.3 mn in FY21 to INR 2,825.0 mn in FY22. This, combined with no direct consumer acquisition cost, reduces its cost of services and results in higher profitability. Improved integration of new services boosts client engagement and, in the long run, client loyalty. A long-standing relationship with a number of its clients indicates its capacity to retain clients, and it continues to generate a healthy number of sales from its existing major client accounts, which have grown.

Asset-Light business model:

The business model, by design, is asset-light, and its ability to scale up its business requires minimal incremental capital deployment resulting in high operating leverage. This is one of the key reasons the company has a strong track record of delivering consistent growth and high capital efficiency. The ROCE for the company stood at 78.8%, 61.5% and 63.5% in FY18, FY19 & FY20, respectively. In FY21, the company was impacted due to the Covid-19 pandemic due to a drastic reduction in the number of flights operated by airline companies.

Except for the cost to Operators, especially Lounge Operators, the operational expenses are minimal. Furthermore, the business model does not necessitate the use of human resources. As of March 31, 2022, its workforce comprised 60 full-time employees, including its senior management team. DreamFolks achieved sustained growth without compromising its operating margins, without any external equity funding from strategic investors or private equity funds and with limited debt funding before the Covid period. Its ability to fund its minimal capital expenditure from its internal accruals and the efficient working capital management is testament to its efficient and prudent financial management.

Scalability ensured with strong proprietary technology platform:

A strong emphasis on technology is one of the key aspects of its business approach. Its technology platform is designed to provide a 'hassle-free' experience to all entities on or using its platform, including clients, operators, and consumers. DreamFolks' platform addresses aspects such as benefits calculation and accounting, provides real-time visibility of transactions to clients and consumers, reduces potential fraud and abuse, and provides the platform for clients to run usage and spend-based campaigns for their users. DreamFolks leverage its configuration-driven extendible platform with solution templates for flexibility, reliability and customization to provide solutions for multiple access models. Its hybrid model enables omnichannel access for Card Based transactions through membership cards and facilitates digital access. Over the years, the company has invested heavily in developing a scalable proprietary technology platform for overseeing the entitlements of each card variant and real-time accounting of consumers' benefits, as well as integration with client systems throughout the entire life cycle of onboarding and benefits management. Its proprietary technology has been a crucial element in its ability to ramp up its business by introducing increasing levels of automation and simplifying transactional and process aspects for both clients and service providers. The platform includes features to allow client's usage of levers to reduce the total cost of ownership of the lounge program by redesigning existing solution sets and allowing new program designs to drive behaviour and incentivize customers, change the default benefits and migrate to variable cost models, and facilitate the shift from 'plastic' to digital modes of access.

DreamFolks Services Ltd

Future Growth Strategies

Expand its wallet share with existing clients:

DreamFolks will likely focus on strengthening its wallet share with existing customers by exploring cross-selling possibilities provided by its diverse portfolio of Services. It plans to continue to nurture its relationships with its clients, expand its association beyond airport lounge services to the full bouquet of services it offers, including F&B, spa and 'meet and assist' and increase its contribution to the total revenue from operations. The company will boost its clients' stickiness through deeper integration of their systems with its platform, allowing it to generate recurring revenue and aid in its goal of increasing its wallet share from each Client.

Maintain its 100% coverage of airport lounges by expanding its coverage across new airport lounges in India :

As of March 31, 2022, DreamFolks has coverage across 54 operational airport lounges, constituting 100% of airport lounges in India. However, the number of lounges in India is expected to grow to 295 lounges by CY40. The company will consistently establish new relationships or extend existing relationships as and when the opportunity arises to capitalize on the expected growth in airport lounges driven by, inter alia, the growing air traffic and passenger traffic, the development of new airports and government initiatives. It will continue to strive to maintain its 100% coverage of airport lounges by expanding its coverage across new airport lounges.

Expanding into new sectors to improve customer engagement and provide loyalty management solutions:

The company focus on customer engagement and loyalty solutions for corporate clients and build specific solutions for, amongst others, loyalty companies, e-commerce companies, new-age digital companies, companies in the hospitality sector, and neo banks. It also plans to create ancillary revenue opportunities for clients in the online travel agency and airline industries.

Focused on expanding its client base in current sectors:

DreamFolks aims to penetrate deeper into its existing sectors, which it caters to, by expanding its client base. It plans to increase the number of its clients in the banking, telecommunications, OTA, and airlines sector. While some of these sectors, such as banking, have several entities that the company could focus on, other sectors, such as telecommunications, despite not having many players, are critical since each player added could significantly increase the number of Pax. Further, the company is expected to cater to the diverse requirements of these disparate entities by continuing to develop and build custom-made domain-specific solutions, tools, and portals for integration and management of the various airport services.

Capitalize on its dominance in the airport lounge access market and target new high growth markets globally:

The company has an established presence amongst its clients, and its technology-driven solutions are one of the key elements that enable its clients to provide value-added services to the consumers as a part of their customer engagement and loyalty management programmes. It includes lounge access across all operational lounges at airports in India. While it is dominant in India with a share of over 68% of the overall lounge traffic in volume across all lounges in Indian airports, the company believes that there is significant scope to augment its service offerings to Card Networks and Card Issuers and to that end DreamFolks have launched its other Services. It has expanded its service offering by adding airport baggage transfer to its spectrum of services. The company plans to replicate its deep knowledge of the industry, technology innovation, process expertise, and business model across new high-growth markets. The company is leveraging its well-entrenched relationships with its global clients to expand its footprint to geographies like the CEMEA (Central and Eastern Europe, Middle East, and Africa) and South-East Asia.

Continue to make investments in and exploit its technology platform as a differentiator, in addition to its capacity to deliver custom-made solutions and deep integration:

DreamFolks will continue to develop bespoke solutions for its clients using its platform that focuses on maximizing the value for the consumer and better managing the overall program and engagement cost for the client. Its technology-driven solutions and tools are geared inter alia towards providing its clients with the option of tailoring and creating different products for the consumers. The company will focus on improving the ability of its clients' product managers to design customized solutions using the company's platform toolset, reduce time to market for them, focus on consumer experience, and track the effectiveness and usage of such programs. Deeper integration of its clients on its platform will create stickiness for the company's clients towards the solution offering. The company constantly aims to identify opportunities to implement product improvements and has a dedicated product development team to optimize platform features. It plans to continue driving standardization across solutions using its common platform to reduce implementation times, optimize rollouts for new solutions, and upgrade existing implementations.

DreamFolks Services Ltd

Industry Overview

The airport lounges have grown steadily in India over the past 5 years. The growth was being driven by the metro cities until about 2-3 years ago, however in the past 2 years the lounges have been expanding in non- metro airports as well. Any airport with a passenger movement of around 5-6 mn a year can accommodate a successful lounge. The number of lounges in an airport is proportional to the passenger numbers; the top 24 Global Airports average at around 7 lounges per airport. The Indian Airports average at around 2 lounges per airport. The Indian lounge market is expected to grow at 4x of the current market size and is expected to reach 204 lounges by CY40E.

Heathrow International, UK is seen to have the largest number of lounges across the global market with a value of 29, followed by Dubai International (24 airport lounges). In India, Indira Gandhi International Airport (7 airport lounges) has the highest number of lounges followed by Chhatrapati Shivaji International in Mumbai (5 lounges).

In terms of global standards, India is seen to be towards the introductory stage of the product life cycle. Markets like the US, UK, France, Brazil, UAE, and Mauritius are in the growth stage of the product life cycle owing to the economic status and high passenger traffic in these nations. Markets including Thailand, Vietnam, and Germany are in the Mature stage of the product life cycle. The economic modelling has been based on selected countries across the region, the potential markets for DreamFolks in Asia are Thailand and Vietnam. Similarly, UAE is a potential market for DreamFolks in the Middle East region. Mauritius is a potential market for DreamFolks in the African continent.

The no. of lounges are expected to grow at an 7% CAGR between the period CY22-CY40E. As of March 2022, the number of airport lounges in India was 54, and this is expected to grow to around 204 lounges by 2040. An increase in passenger traffic and growth in demand within the air travel industry is expected to boost the market growth.

Increased privatization of airlines is also expected to increase the investment for airline-based lounges. The growth in the lounge operators' market is anticipated to increase opportunities for the lounge aggregators market. Tier II airports are expected to drive the growth of new lounges. This is due to the lower rates and increase in traffic from these airports.

The penetration of lounges per airport in India is still very low compared to the global average and there is still headroom to grow the average airport lounge size per airport. The share of lounge providers in India shows that Travel Food Services have the highest market share of 22%, followed by Premium Port Lounges with 19 % of the domestic market share.

DreamFolks has tie up all lounge operators including the market leaders viz. Premium Plaza Lounge and Travel Club Lounge. The lounges work in close coordination with DreamFolks as it provides more than 80% of the overall traffic for most lounges, and also reduces the need for lounges to tie up with multiple bank / other partners.

The key drivers for the Airport Lounges Market in India are:

- Passenger traffic has been growing steadily since the new millennium, driven largely by income growth and low-cost aviation. With growing air and passenger traffic, lounge market would flourish.
- India will require 2,380 new commercial aircraft by 2040 because of an increase in air travel. A total of 200 new airports will open in India by 2024. It is estimated that India will have 295 airports by 2040, and the increase in airports will drive the lounge market.
- The government of India has launched many schemes to make flying affordable for people of all income levels. The UDAN scheme and the privatization of the airports are expected to be the key government initiatives which could contribute to this market.
- The current credit card penetration is extremely low in India, it is around 3% for credit cards. The penetration of digital economy and cards is expected to increase exponentially due the effect of pandemic, large customer base, rising income, and changing attitude of the end customer.
- The Low-cost Carriers have a significant market share in India, and this is expected to continue in the foreseeable future. To manage customer loyalty, offering lounge access as an add-on will be a good option for these airlines.
- India has been seeing a steady increase in business index and tourism. Both factors will play a major part in driving the lounge market especially when the Indian airports rank much lower than the global airports in overall customer experience. Lounges will be key beneficiary as they offer an enhanced customer experience.
- The total number of lounges are expected to be 204 by 2040; these include the additional lounges across existing airports and new lounges across Greenfield airports.

DreamFolks Services Ltd

Key Strengths

- Dominant player in the airport lounge aggregation industry in India with strong tailwinds.
- Entrenched relationships with marquee Clients including global card network providers in India and prominent Indian and global banks and corporates.
- Strong business moat due to flywheel effect led by Clients and Operators network.
- Ability to capitalize on growing Consumer base with no associated costs of direct Consumer acquisition.
- Asset and human resource light business model with a strong track record of delivering consistent growth.
- Proprietary technology platform that ensures scalability.
- Experienced promoters and management team with strong domain expertise.

Key Risks

- The success is dependent on its long-term relationship with card networks and card issuer financial institutions, which on average, contributed 98.98% of its total revenue from the operations. This exposes the company to risk from its inability to retain its established card networks and card issuer companies as its clients.
- The average duration of its contracts with Operators in India is four years. If the company cannot retain these contracts with Operators or renew/ negotiate these contracts on commercially beneficial terms, it could adversely impact its margins and, consequently, profitability. The company is heavily dependent on the travel industry and air industry. Any downturn in the air travel sector will result in a negative impact on the company.
- An increase in airfare due to factors like an increase in fuel prices, government policies applicable, and increasing competition could adversely impact the number of passengers using airlines and, in turn, the number of passengers availing lounge access services and other Services at airports.
- DreamFolks relies heavily on a few clients, and it derives a significant part of its revenue from lounge access-related services and select Clients. On average, the company's top 5 clients contributes 84.9% of its total income from operations over the last three years. Any termination of its contract with any of its top 5 clients in future will significantly impact its revenue.
- The company is heavily dependent on the cards that are in circulation. The continuing increase in cash spending coupled with digital transactions, including UPI, could impact the relevance of credit and debit cards, eventually affecting the business.
- Increase in competitors or consolidation of existing competitors is a risk to the company's overall market share.

Outlook and Valuation:

Revenue from operations increased by 167.5% to INR 2,825 Mn in FY22, mainly due to an increase in air travel activities during the year. The company has seen improvement in its key financial indicators over the last five years with improving traction in the global & well as Indian air lounge industry. The company has consistently maintained its 95% market share in India, with very few competitors. The company's objective of the offer is primarily to gain benefits from listing the equity shares on stock exchanges. The company expects the listing of the Equity Shares will enhance its visibility and brand image.

DreamFolks's IPO size is INR 5,311-5,621 Mn. The price band of the issue is INR 308- INR 326. On the upper price band of INR 326 and EPS of INR 3.11 for FY22, the P/E ratio is 104.8x. The company has seen a 90.7% CAGR growth in a number of touch points over FY18-22. The number of clients has also seen a growth of 119.7% CAGR, with cities increasing to 536 from 23 cities. Despite the impact of Covid-19 in FY20-21, the company has seen consistent growth in the business momentum. Dreamfolks has also been focusing on increasing its overseas presence with 1,172 touchpoints from zero presence till FY20. The company has been improving its broad base by expanding its access across India & overseas. The company will also benefit from the government initiatives like Udaan, which will help to increase access to more regional airports. As the air travel industry recovers sharply from the Covid-19 uncertainties, we are optimistic the company is well-poised for the upcoming growth opportunities owing to its market dominance. The company has also been expanding its presence in the international air lounge market by improving its touchpoints. We believe it is significant for the company to grow in the domestic and international lounge services by expanding its partnerships with card issuers and other service providers. **As a result, we recommend that DreamFolks Services Ltd IPO be rated 'SUBSCRIBE.'**

Peer Comparison:

The company does not have any listed peer companies for comparison of performance as it operates in an industry which is in its nascent stages. Therefore, there are limited numbers of operators in this industry.

DreamFolks Services Ltd

Financials:

| Income Statement (INR Mn) | FY20 | FY21 | FY22 |
|--------------------------------------|--------------|--------------|--------------|
| Total Revenue from Operations | 3,670 | 1,056 | 2,825 |
| YoY Growth (%) | | -71.2% | 167.4% |
| EBITDA | 451 | -4 | 225 |
| EBITDA Margin (%) | 12.3% | -0.4% | 8.0% |
| Other Income | 8 | 25 | 15 |
| Depreciation | 16 | 16 | 21 |
| EBIT | 443 | 5 | 219 |
| Interest expense | 7 | 7 | 14 |
| PBT | 436 | -2 | 205 |
| Tax | 119 | 12 | 42 |
| PAT | 317 | -15 | 163 |
| EPS (INR) | 6.1 | -0.3 | 3.1 |

Source: IPO Prospectus, KRChoksey Research

| Balance Sheet (INR Mn) | FY20 | FY21 | FY22 |
|---------------------------------------|--------------|--------------|--------------|
| Equity Share Capital | 48 | 48 | 105 |
| Other Equity | 608 | 595 | 717 |
| Total Shareholders' Funds | 655 | 643 | 822 |
| Non-controlling interest | 0 | 0 | 0 |
| Total Equity | 655 | 643 | 822 |
| Borrowings | 31 | 20 | 13 |
| Lease Liabilities | 0 | 74 | 70 |
| Provisions | 23 | 22 | 20 |
| Trade Payables | 561 | 309 | 713 |
| Other Financial Liabilities | 53 | 27 | 14 |
| Other current Liabilities | 54 | 130 | 36 |
| Current Tax Liabilities | 0 | 0 | 0 |
| Total Equity & Liabilities | 1,378 | 1,225 | 1,687 |
| Assets | | | |
| Cash and Cash Equivalents | 321 | 100 | 11 |
| Bank Balance | 0 | 0 | 135 |
| Trade Receivables | 685 | 395 | 907 |
| Current Tax Assets | 73 | 55 | 83 |
| Other current assets | 57 | 19 | 62 |
| Other Financial Assets | 29 | 51 | 83 |
| Total Current Assets | 1,165 | 620 | 1,280 |
| Income Tax Assets (net) | 0 | 0 | 0 |
| Property, Plant and Equipment | 53 | 38 | 30 |
| Right of Use Assets | 0 | 74 | 64 |
| Capital work-in-progress | 6 | 0 | 0 |
| Deferred Tax Assets | 21 | 8 | 12 |
| Other Intangible Assets | 1 | 274 | 63 |
| Other Non-Financial Assets | 132 | 211 | 237 |
| Total Non-Financial Assets | 213 | 605 | 407 |
| Total Assets | 1,378 | 1,225 | 1,687 |

Source: IPO Prospectus, KRChoksey Research

DreamFolks Services Ltd

ANALYST CERTIFICATION:

I, Vikrant Kashyap (PGDBM-Finance & IT), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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