

Estimate change	
TP change	
Rating change	

Bloomberg	DREAMFOL IN
Equity Shares (m)	53
M.Cap.(INRb)/(USDb)	25.4 / 0.3
52-Week Range (INR)	799 / 440
1, 6, 12 Rel. Per (%)	0/-20/-62
12M Avg Val (INR M)	201

Financials & Valuations (INR b)

Y/E Mar	2024	2025E	2026E
Sales	11.4	13.6	16.9
EBIT	0.9	1.1	1.5
NP	0.7	0.9	1.2
EPS (INR)	12.5	16.1	22.1
EPS growth (%)	-6.2	28.7	37.3
BV/Sh (INR)	44.7	61.3	84.2
Ratios			
RoE (%)	34.8	31.4	31.4
RoCE (%)	32.5	28.9	29.0
Valuations			
P/E (x)	38.3	29.8	21.7
P/BV (x)	10.7	7.8	5.7

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	66.0	66.0	66.0
DII	9.3	8.0	8.9
FII	3.9	5.4	11.9
Others	20.8	20.6	13.1

FII Includes depository receipts

CMP: INR479

TP: INR670 (+40%)

Buy

A relaxing flight ahead

Maintains FY25 growth and margin guidance; reiterate BUY

- DreamFolks (DFS) posted a revenue growth of 20% YoY/14% QoQ to INR3.2b. Gross profit grew 32% YoY/7% QoQ to INR376m, with a gross margin of 11.7% (up 100bp YoY/down 80bp QoQ). EBIT margin came in at 6.9%, up 60bp YoY/down 160bp QoQ. Management expects the margins to witness an expansion in 2HFY25, owing to the contract renewal cycle and seasonality. PAT stood at INR171m (up 32% YoY/down 4.2% QoQ), with a PAT margin of 5.3%.
- **DFS commands a dominant market share**, holding over 95% of the card-based access to domestic airport lounges in India and accounting for ~68% of total lounge access volumes across both domestic and international terminals in FY24. In a seasonally weak quarter, DFS added six new airport lounges and maintained its FY25 revenue growth guidance of 20%. Moreover, the majority of the growth came from price hikes taken during 1Q (Revenue per Pax grew 16% YoY), with DreamFolks Pax growing at 2.8% YoY to 2.7m. In our view, India's airport lounge market is still in its early stages, with the number of users likely to grow exponentially in the coming years. We anticipate DFS to clock a revenue CAGR of 22% over FY24-26.
- **DFS maintains its FY25 margin guidance** of 11-13% for gross margins and 7-9% for EBITDA margins. While gross margin declined by 80 bps QoQ due to seasonality, management anticipates margin expansion in later quarters, driven by the contract renewal cycle and demand to pick up in 2H. We see a possibility of gross margins improving from current levels as high-value services grow, particularly in the Enterprise business and Other Non-lounge services, which typically have higher margins. The company anticipates 20% revenue contribution from Other services in the next 2-3 years, aiding this margin expansion. We expect gross margins at 12.0%/12.7% in FY25E/FY26E and EBITDA margins at 8.6%/9.4% in FY25E/26E.
- **DFS will be the direct beneficiary of the strong growth in the lounge market going ahead.** We forecast a strong 22% revenue CAGR over FY24-26E. We expect DFS to deliver a gross margin near the upper end of its 11-13% guidance range from FY25. We value DFS at INR670 per share (40% upside), assigning 30x to our FY26E EPS. **Reiterate BUY.**

Healthy revenue growth led by price hikes, but margins slightly weak

- DFS' 1QFY25 revenue grew 14% QoQ and 20% YoY to INR 3.2b, led by a 2.8% YoY rise in Pax count to 2.7m and a 16% YoY increase in Revenue per Pax.
- The company maintained a revenue split of 77% domestic and 23% international in this quarter.
- EBITDA increased 30% YoY but decreased 7% QoQ to INR 229m in 1QFY25, with an EBITDA margin of 7.1%, up 50bp YoY/ down 160bp QoQ.
- Domestic passenger traffic rose 4.2% QoQ to 40.2m from 39.1m in 4QFY24, contributing to the growth in Dreamfolks' service usage.
- EBIT stood at INR 220m (up 31% YoY), with an EBIT margin of 6.9% (up 60bp YoY/down 160bp QoQ).

- Consolidated PAT was INR171m (up 32% YoY/down 4.2% QoQ), with a PAT margin of 5.3%.
- Credit cards in circulation increased 17.1% YoY to 103.8m, compared to 101.8m in 4QFY24, while the average spend per credit card declined slightly by 0.7% YoY to INR 46.5k in 1QFY25.

Key highlights from the management commentary

- The company had a robust quarter despite the seasonally weak period and maintained its guidance of 20% revenue growth and 11-13% gross margins for FY25, along with an EBITDA margin guidance of 7-9%.
- **Six new airport lounges were launched, with five at domestic terminals** (Nagpur, Vizag, Ranchi, Bagdogra, and Gwalior) and one at the international terminal of Amritsar Airport.
- Outside India, 41 global lounges were added to the portfolio, along with two new spa locations at international airports (Lucknow and Cochin).
- The government's focus on infrastructure improvement is expected to create more opportunities in airport and railway modernization.
- Non-lounge services, led by golf, have contributed 2% to 6% of revenue over the last two years. **In the next 2-3 years, 20% of revenue is expected to come from these other service businesses.**
- **The enterprise client base is expected to have** higher margins than the existing margins. This will primarily follow a membership model that includes loyalty, travel, hospitality, and lifestyle services.

Valuation and view

- India's airport lounge market is still in its early stages, with the number of users expected to grow exponentially in the coming years. Given the strong industry tailwinds, we expect strong sustained growth for DFS over the medium term. We forecast a strong 22% revenue CAGR over FY23-26. We expect DFS to deliver a gross margin near the upper end of its 11-13% guidance range from FY25.
- We also see a significant value from the nascent expansion into international markets and diversifying into other non-lounge high-margin services. This can significantly enhance the value of the business through an expansion of the addressable customer base. We value DFS at INR670 per share (40% upside), assigning a 30x to our FY26 EPS. We reiterate our **BUY** rating on the stock.

Y/E March	Consolidated - Quarterly performance										(INR m)	
	FY24				FY25E				FY24	FY25E	QoQ	YoY
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			(%/bp)	(%/bp)
Gross Sales	2,663	2,825	3,051	2,811	3,208	3,475	3,494	3,458	11,350	13,635	14.1	20.5
YoY Change (%)	66.2	65.0	49.5	18.2	20.5	23.0	14.5	23.0	46.8	20.1		
GPM(%)	10.7	12.4	12.5	12.5	11.7	13.0	13.0	13.0	12.0	12.7	-80bp	100bp
Employee benefit expenses (%)	2.8	2.6	2.4	2.3	3.2	2.6	2.7	2.7	10.0	11.2	100bp	50bp
EBITDA	176	243	274	246	229	316	314	311	939	1,171	-7.1	29.8
Margins (%)	6.6	8.6	9.0	8.8	7.1	9.1	9.0	9.0	8.3	8.6	-160bp	50bp
Depreciation	8.6	9.2	9.7	9.6	9.0	12.2	12.2	12.1	37.0	45.5	-6.8	4.5
EBIT	168	234	264	237	220	304	302	299	902	1,125	-7.1	31.1
Margins (%)	6.3	8.3	8.7	8.4	6.9	8.8	8.7	8.7	7.9	8.3	-160bp	60bp
Interest	2	3	3	4	3	3	3	3	12	13	-30.3	33.2
Other Income	11	5	7	11	17	19	19	19	33	75	65.2	63.2
PBT	176	236	268	243	234	320	318	315	924	1,187	-3.6	33.0
Tax	47	60	68	64	63	82	81	80	238	306	-2.0	35.1
Rate (%)	26.4	25.3	25.2	26.4	26.8	25.5	25.5	25.5	25.8	25.8	40bp	40bp
PAT	130	177	200	179	171	238	237	234	686	881	-4.2	32.3
YoY Change (%)	-3.5	19.2	5.5	-29.3	32.3	34.8	18.3	31.0	-5.3	28.5		
Margins (%)	4.9	6.3	6.6	6.4	5.3	6.9	6.8	6.8	6.0	6.5	-100bp	50bp

Key Performance Indicators

Y/E March	FY24				FY25	FY24
	1Q	2Q	3Q	4Q	1Q	
Customers (m)	2.6	2.7	2.9	2.7	2.7	10.9
DFS conversion rate (%)	5.6	6.0	6.0	5.5	5.4	5.8
Revenue per Pax	1024	1046	1052	1041	1188	1032
Margins (%)						
Gross Margin	10.7	12.4	12.5	12.5	11.7	12.0
EBIT Margin	6.3	8.3	8.7	8.4	6.9	7.9
Net Margin	4.9	6.3	6.6	6.4	5.3	6.0

**Key highlights from the management commentary****Quarterly performance & Outlook**

- DFS had a robust quarter despite the seasonally weak period and maintained its guidance of 20% revenue growth and 11-13% gross margins for FY25, along with an EBITDA margin guidance of 7-9%.
- Golf services are experiencing strong demand, especially domestically, where DREAMFOL has launched new golf programs and added six new clubs offering access to golf games, lessons, or both.
- DreamFolks' Pax grew by 2.8% to reach 2.7m, despite most clients implementing spend-based models.
- Price hikes implemented during the quarter contributed to revenue growth, with additional escalations expected in the second half. Typically, the first half of the year is slower compared to the second half.
- Non-lounge services, led by golf, have contributed 2% to 6% of revenue over the last two years. In the next 2-3 years, 20% of revenue is expected to come from these other service businesses.
- Six new airport lounges were launched, with five at domestic terminals (Nagpur, Vizag, Ranchi, Bagdogra, and Gwalior) and one at the international terminal of Amritsar Airport.
- The company has expanded its service offerings by introducing new products like "Medicine on Call" and "Doctor Consultation" through its partnerships. These services, which extend beyond Indian airports, have gained good traction.
- Banks and card network providers will be a key client category. The company is able to sell various package services to enterprises. These packages tend to have higher margins.
- Employee expenses increased due to annual increments and new capacity additions. Cash on the books as of 1QFY25 stands at INR 810m.
- The enterprise client base is expected to contribute 15-20% to revenue in the next few years, with higher margins than the existing model. This will primarily follow a membership model that includes loyalty, travel, hospitality, and lifestyle services.
- Even if Adani opens its own lounge, they would still require DreamFolks to drive their revenue.
- 75% of volumes are from metro cities at domestic airports. Lounge space at airports increased from 28,000 sq. meters to 35,000 sq. meters last year, as it is a profitable business for airports.
- The government's focus on infrastructure improvement is expected to create more opportunities in airport and railway modernization.

- **On margins:** Gross margins increased to 11.7% this quarter, up from 10.7% in 1QFY24. The company expects margin compression in the first two quarters compared to 2HFY25, with margins expanding in later quarters due to seasonality and the contract renewal cycle. On a full-year basis, gross margins are expected to remain in the 11-13% range as per guidance.
- Non-lounge services tend to have higher margins than airport lounge services. Non-lounge services contributed 2% to 6% of revenue over the last two years, with golf being a one of the major contributors.

Valuation and view

- India's airport lounge market is still in its early stages, with the number of users expected to grow exponentially in the coming years. Given the strong industry tailwinds, we expect strong sustained growth for DFS over the medium term. We forecast a strong 22% revenue CAGR over FY23-26. We expect DFS to deliver a gross margin near the upper end of its 11-13% guidance range from FY25.
- We also see a significant value from the nascent expansion into international markets and diversifying into other non-lounge high-margin services. This can significantly enhance the value of the business through an expansion of the addressable customer base. We value DFS at INR670 per share (40% upside), assigning a 30x to our FY26 EPS. We reiterate our **BUY** rating on the stock.

Financials and valuation

Consolidated - Income statement							(INR m)
Y/E March	2020	2021	2022	2023	2024	2025E	2026E
Sales	3,670	1,056	2,825	7,733	11,350	13,635	16,873
Change (%)	47.8	-71.2	167.4	173.7	46.8	20.1	23.8
Service Charge Expenses	2,996	875	2,373	6,454	9,982	11,904	14,680
Gross Profit	675	181	452	1,279	1,368	1,731	2,194
% of Net Sales	18.4	17.1	16.0	16.5	12.0	12.7	13.0
Employee benefit expense	179.3	126.4	165.5	178.3	282.9	381.8	392.7
Other Expenses	45	58	61	111	145	179	219
EBITDA	451	-4	225	989	939	1,171	1,581
% of Net Sales	12.3	-0.4	8.0	12.8	8.3	8.6	9.4
Depreciation	16	16	21	35	37	45	51
EBIT	435	-19	204	954	902	1,125	1,531
% of Net Sales	11.9	-1.8	7.2	12.3	7.9	8.3	9.1
Other Income (net)	1	17	1	20	22	62	93
PBT	436	-2	205	974	924	1,187	1,624
Tax	119	12	42	249	238	306	414
Rate (%)	27.3	-621.4	20.6	25.6	25.8	25.8	25.5
PAT	317	-15	163	725	686	881	1,210
Extraordinary gains/loss	0	0	0	0	0	0	0
PAT	317	-15	163	725	686	881	1,210
Change (%)	108.0	NA	NA	346.3	-5.5	28.5	37.3

Consolidated - Balance Sheet							(INR m)
Y/E March	2020	2021	2022	2023	2024	2025E	2026E
Share capital	48	48	105	105	106	106	106
Reserves	608	595	717	1,467	2,258	3,139	4,349
Net Worth	655	643	822	1,572	2,364	3,245	4,455
Loans	20	13	10	9	2	2	2
Other long term liabilities	22	82	81	86	90	85	80
Capital Employed	697	738	913	1,667	2,456	3,332	4,536
Net Block	59	112	94	84	75	84	101
Intangibles	1	3	45	40	27	27	27
Other LT assets	153	490	268	87	107	216	329
Curr. Assets	1,165	620	1,280	3,019	3,977	5,712	7,419
Debtors	685	395	907	2,019	2,650	3,175	3,929
Cash & Cash Equivalents	321	100	11	190	284	1,099	1,755
Bank Balance	0	0	135	623	731	931	1,131
Other Current Assets	158	124	228	187	312	506	603
Current Liab. & Prov	680	488	774	1,563	1,730	2,707	3,339
Net Current Assets	484	132	506	1,456	2,247	3,004	4,079
Application of Funds	697	738	913	1,666	2,456	3,332	4,536

Financials and valuation

Ratios							
Y/E March	2020	2021	2022	2023	2024	2025E	2026E
EPS	6.1	-0.3	3.0	13.4	12.5	16.1	22.1
Cash EPS	6.4	0.0	3.5	14.6	13.7	17.5	23.8
Book Value	12.5	12.4	15.7	30.1	44.7	61.3	84.2
DPS	0.0	0.0	0.0	0.0	2.5	1.0	2.0
Payout %	0.0	0.0	0.0	0.0	19.9	6.2	9.0
Valuation (x)							
P/E	79.2	NA	161.1	35.9	38.3	29.8	21.7
Cash P/E	75.4	NA	136.5	33.0	35.1	27.4	20.2
EV/EBITDA	55.0	NA	111.3	25.2	26.7	20.8	15.0
EV/Sales	6.8	23.4	8.9	3.2	2.2	1.8	1.4
Price/Book Value	38.3	38.7	30.5	16.0	10.7	7.8	5.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.5	0.2	0.4
Profitability Ratios (%)							
RoE	63.6	(2.2)	22.2	60.6	34.8	31.4	31.4
RoCE	59.7	(19.4)	19.6	55.1	32.5	28.9	29.0
Turnover Ratios							
Debtors (Days)	68	137	117	95	85	85	85
Fixed Asset Turnover (x)	61.9	9.4	30.1	92.2	151.5	162.3	167.2
Consolidated - Cash Flow Statement							
						(INR m)	
Y/E March	2020	2021	2022	2023	2024	2025E	2026E
CF from Operations	293	17	164	833	664	865	1,167
Cash for Working Capital	-69	45	-286	-337	-445	149	-332
Net Operating CF	224	63	-121	496	219	1,014	835
Net Purchase of FA	-71	-282	191	51	-15	-55	-67
Free Cash Flow	153	-220	69	547	204	959	768
Net Purchase of Invest.	74	14	-132	-346	-127	-125	-90
Acquisition of subsidiary	0	0	0	-8	-8	0	0
Net Cash from Invest.	3	-269	59	-302	-150	-180	-158
Proceeds from LTB/STB	10	-11	-7	-3	69	0	0
Others	-3	-5	-19	-18	-44	-18	-22
Cash Flow from Fin.	7	-15	-26	-21	25	-18	-22
Net Cash Flow	234	-221	-89	174	94	816	656
Opening Cash Bal.	87	321	100	16	190	284	1,099
Add: Net Cash	234	-221	-89	174	94	816	656
Closing Cash Bal.	321	100	11	190	284	1,099	1,755

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Nainesh Rajani

Email: nainesh.rajani@motilaloswal.com

Contact: (+65) 8328 0276

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Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000. Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
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