

24 August 2022

DreamFolks Services – SUBSCRIBE

Investment Thesis

DreamFolks Services Ltd. (Dreamfolks) is coming out with an initial public offering (IPO) on August 24, 2022. The issue comprises of offer for sale of 17,242,368 equity shares. The company will not receive any proceeds from the offer and the entire offer proceed will be received by the selling shareholders in the proportion to the offered shares sold.

Dreamfolks is the dominant player & India's largest airport service aggregator platform facilitating an enhanced airport experience to passengers leveraging a tech-driven platform. The company facilitates customer access to services like Lounges, Food & Beverages, SPA, Meet & Assist, Airport Transfer, Transit hotels/ Nap Room access, Bagging Transfer and other services. Its client list includes names such as Diners/Discover, Mastercard, RuPay, Visa, Axis Bank, HDFC Bank, ICICI Bank, SBI Card, AirAsia, Club Mahindra, EaseMyTrip, Go First, IndiGo, Intermiles, VI and many more. Dreamfolks 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 also want to 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.

Dreamfolks intends to focus on increasing wallet share with the existing clients by identifying cross-selling opportunities that their diversified set of services offer. They plan to continue to nurture the relationships with their clients, to expand the association beyond airport lounge services to the full bouquet of services that they offer and increase their contribution to the total revenue from operations. The company plans to increase the stickiness of their clients through deeper integration of their systems with the proprietary platform, which will allow them to generate recurring revenue and aid the aim to increase the wallet share from each client.

Revenue from business Verticals

- During the past 3 years, revenue of Dreamfolks grew at a CAGR of 4.4% while PAT grew at a CAGR of 2.1% in same period.

Standal. (Rs.Mn.)	FY20	FY21	FY22	FY23E	FY24E
Revenue	3,670	1,056	2,825	3,249	3,736
EBITDA	451	-4	225	259	298
% growth	92.6	-100.8	6064.3	15.0	15.0
PAT	317	-15	163	187	215
EPS (Rs.) #	6.1	-0.3	3.1	3.6	4.1
P/E (x) *#	53.8	NA	104.8	91.1	79.3
RoE (%) #	41.7%	-1.9%	19.0%	20.2%	21.4%

* At highest price band # Post listing

IPO Details

Issue Open Date	24 August 2022
Issue Close Date	26 August 2022
Price Band (Rs.)	Rs. 308 - Rs 326
Issue Size (Rs in Cr)*	Rs. 5,621 Mn
Issue Size (Shares)*	17,242,368
Market Lot	46 Shares
Listing Exchanges	BSE and NSE
Face Value (Rs.)	Rs. 2/-

* At highest price band

Key Details

Fresh Issue	Nil
Offer for Sales*	Rs. 5,621 Mn.
Issue Type	Book Building
Book Running Lead Manager	Equirus Capital Pvt. Ltd., MotilalOswal Investment Advisors Ltd.
Issue structure	QIB: 75% Non Institutional: 15% Retail: 10%
Credit of Shares to Demat Account	5 September 2022
Issue Listing Date	6 September 2022

* At highest price band

Key Business Highlights

- Dreamfolks covers India's largest private and public sector card issuing companies. DreamFolks accounts for almost 95% of the India issued debit and credit card based access to the lounges for FY20. The company has been successful in building the bridge between the lounge operators and the debit or credit card issuers.
- Dreamfolks has coverage across 54 lounges constituting 100% of India's Airport lounges across domestic and international airport terminals.
- Dreamfolks operates with a small team of 60 employees & company's software & application system which makes the total cost of 4% to 5% in terms of revenue.

Valuation

- Dreamfolks has developed an Asset light model where it act as a service provider between the lounge operators on one side, and banks, card networks, airlines and corporates on the other end. It providing a vital link for banks for their credit & debit card sales and customer engagement programs, and airlines to manage customer loyalty and retention. In FY22, model leads to generate a gross profit of Rs.128.14 per person with revenue of Rs.800.28 per person in which marketing expense was just Rs. 1.89 per person.
- Dreamfolks is able to capitalize on the growing consumer base of air traffic passengers and card users without incurring any direct, consumer acquisition cost. Given the nature of its business model, the acquisition of the consumers is done by the clients. For Dreamfolks' clients, providing access to airport lounges to consumers is increasingly becoming a key aspect of its card sales and customer engagement programs and the clients leverage its technology driven solutions and platform to provide these value added services to the consumers as part of their customer engagement. With Client accretion, and more importantly, the expected increase in the number of outstanding cards and the frequency of lounge access, the number of consumers the company can service increases.
- Dreamfolks will be one of the biggest beneficiaries of the first mover advantages in the business of lounges access market with market shares of more than 80% in India's domestic lounge access market. Further, it has significant exclusivity for India-issued credit and debit card programs in key locations. The biggest competitive advantage for the company is its network effect; the tie-up with all the 54 lounges in India enables it to provide a one-stop solution to its clients and strengthen its position between the clients and the lounge operators.
- Despite the asset-light operations, highest market share with in industry, Dreamfolks has witnessed volatile cash flows due to high receivables and declining margins. In term of valuation, with higher price band calculation, Dreamfolks is trading at 104.8x FY22 EPS however multiple looks like higher as latest profitability lower due to industry hit by pandemic. Dreamfolks is profitable with debt free and sector is going from headwind to tailwind post pandemic. Thus, we have a **SUBSCRIBE** rating on Dreamfolks Services Ltd. for medium to long term perspective.

Risk & Concern

- Dreamfolks is majorly dependent on long-term relationships with card networks, card issuer's financial institutions, airport lounge operators and other airport service providers.
- Dreamfolks is heavily dependent on the travel industry, in general, & so on the air travel industry, in particular.
- Dreamfolks is dependent on a few clients and drives a significant revenue from lounge access-related services & from selected clients.

Graphs & Charts

Figure 1: Net Sales Trend

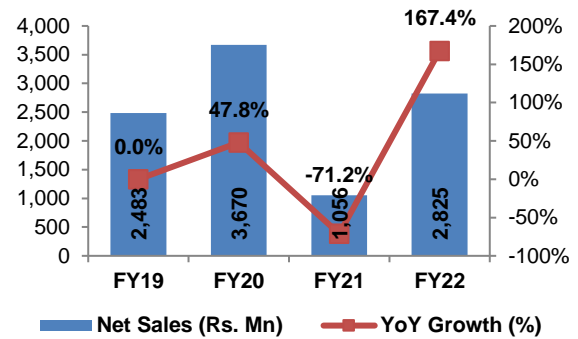


Figure 2: EBITDA & EBITDA Margin Trend

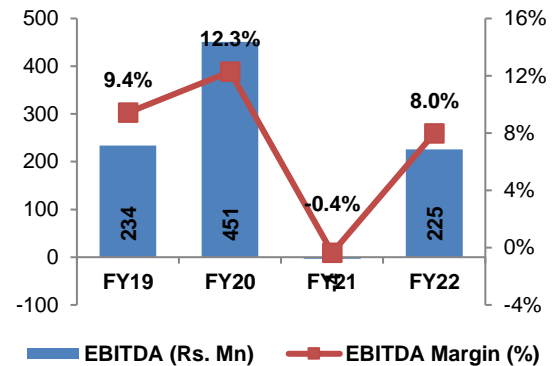


Figure 3: PAT & PAT Margins

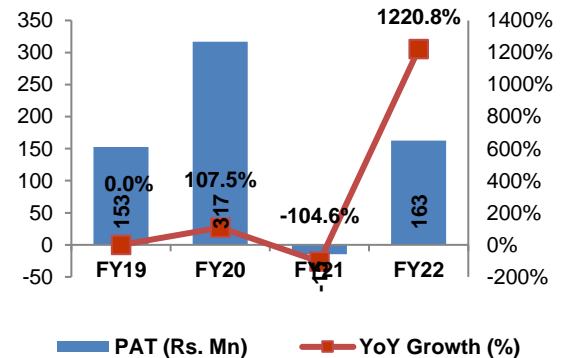
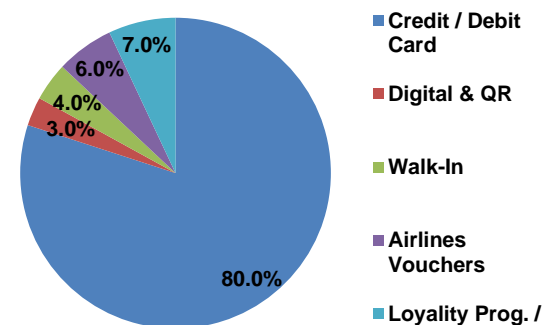


Figure 4: Lounge Aggregator (India)



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