

IPO Note

August 23, 2022

DreamFolks Services Limited





Issue Snapshot:

Issue Open: Aug 24 – Aug 26, 2022

Price Band: Rs. 308 – 326

*Issue Size: Rs 562.1 cr (Entirely offer for sale of 17,242,368 eq sh)

Reservation for:

QIB atleast 75% eq sh
Non-Institutional upto 15% eq sh
((including 1/3rd for applications between Rs.2 lakhs to Rs.10 lakhs))
Retail upto 10% eq sh

Face Value: Rs 2

Book value: Rs 15.73 (Mar 31, 2022)

Bid size: - 46 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs. 10.45 cr
*Post issue Equity: Rs. 10.45 cr

Listing: BSE & NSE

Book Running Lead Managers: Equirus Capital Private Ltd, Motilal Oswal Investment Advisors Ltd

Registrar to issue: Link Intime India Private Ltd

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	100.0	67.0
Public	0.0	33.0
Total	100.0	100.0

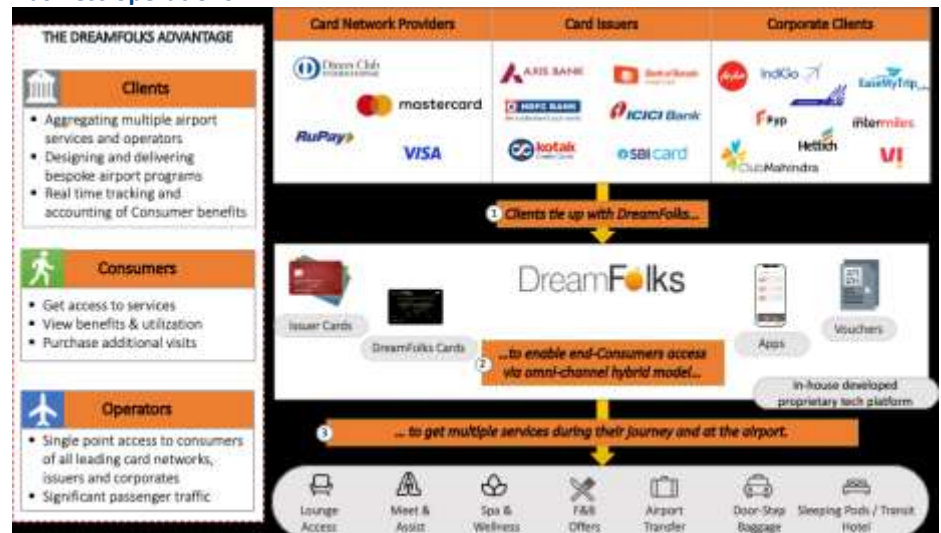
*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

Deam Folks Services Limited (DSL) is a dominant player and India's largest airport service aggregator platform facilitating an enhanced airport experience to passengers leveraging a technology driven platform. Its 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. It 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). Its dominance is underpinned by facilitating access to 100% of the 54 lounges currently operational in India, and 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 Fiscal 2022. Additionally, in Fiscal 2022 DSL also accounted for around 68% of the overall lounge access volume in India. Further, as at March 31, 2022 through its partnerships with other service providers, it 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.

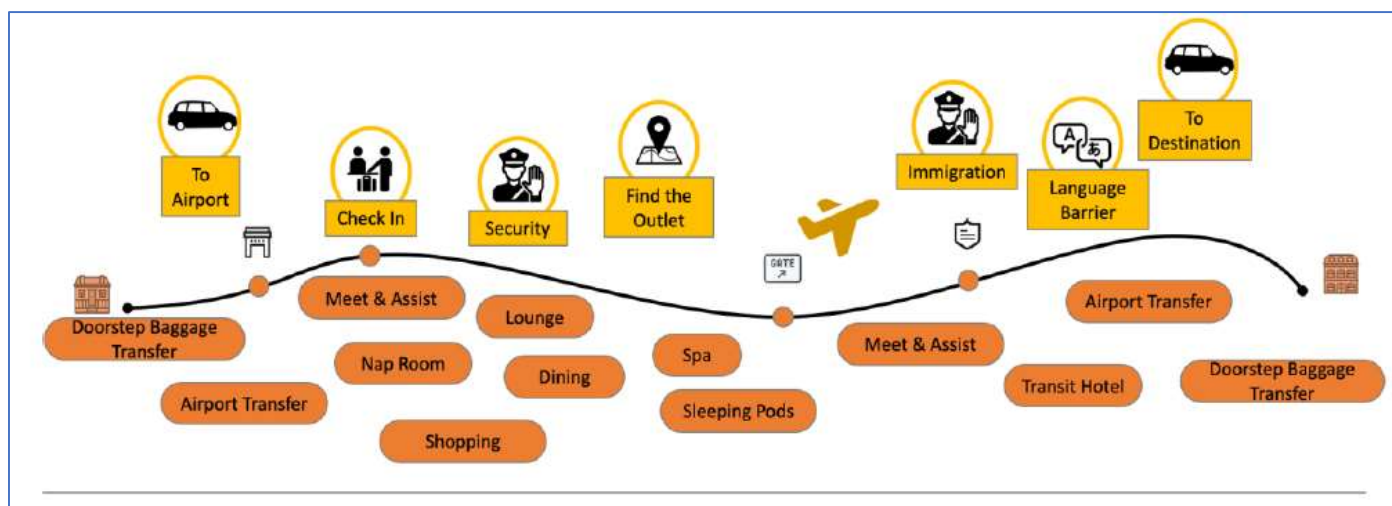
DSL began effective operations in 2013 by facilitating lounge access services for the Consumers of Mastercard and, currently, provides services to all the Card Networks operating in India including Visa, Mastercard, Diners/Discover and RuPay, and many of India's prominent Card Issuers including ICICI 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. Over the years, it has transformed from being 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 the option of offering a wide-ranging bouquet of Services to the Consumers. Currently, it facilitates Consumers' access to a host of services: from door-step to the airport, within the airport, and again from the airport to the door-step at the destination. The Company's first mover advantage in the lounge access aggregator industry in India has enabled it to become a dominant player in the industry with a share of over 80% in the domestic lounge access market in India.

Business operations



DSL's service offerings have increased significantly, and it has continued to augment its Client base over the years and, as at March 31, 2022, it had 50 Clients including the Card Networks and many of India's prominent Card Issuers. Further, it has long association with a number of its Clients, and its top 5 Clients, as of March 31, 2022, having been associated with it for over 3 years out of the 9 years that it has been operational. Its Client portfolio also includes prominent airlines, a telecommunication company, an online travel agency (OTA) and other corporates in India who generally make available these services to customers of their choice. As of March 31, 2022, 9.79 million Paxes, cumulatively, had availed of its services, since Fiscal 2020.

DSL's revenues are primarily based on and are driven by the number of unique times Consumers avail the Services (Pax).



Financial performance

Particulars (Rs in million)	FY22	FY21	FY20
Number of Pax (in million)	3.53	1.38	4.88
Average revenue per passenger (Rs.)	800.3	765.5	752.1
Gross profit margin	16.0%	17.1%	18.4%
Net profit margin	5.8%	-1.4%	8.6%
Average Gross profit per passenger	128.1	131.1	138.3
EBITDA	240.4	21.0	458.5
EBITDA Margin %	8.5%	1.9%	12.5%
ROCE (%)	24.0%	0.7%	63.5%
ROE (%)	19.8%	-2.3%	48.4%
Cash generated from operating activities	-121.4	62.6	224.4

Objects of Issue:

The objects of the Offer are to carry out the Offer for Sale of up to 17,242,368 Equity Shares by the Selling Shareholders with the benefits of listing the Equity Shares on the Stock Exchanges. Further, the Company expects that the listing of the Equity Shares will enhance its visibility and brand image and provide liquidity to its Shareholders and will also provide a public market for its Equity Shares in India. DSL will not directly receive any proceeds from the Offer (Offer Proceeds) and the entire Offer Proceeds, after deducting the Offer related expenses and the relevant taxes thereon, will be received by the Selling Shareholders.

Competitive Strengths

Dominant player in the airport lounge aggregation industry in India with strong tailwinds: DSL is the largest and dominant airport lounge access provider in India. In Fiscal 2020, of the total Indian domestic lounge access, around 80% was through India issued credit cards and debit cards. Its dominant position is underpinned by its estimated market share of over 95% in Fiscal 2022 of all India issued Card Based access to domestic lounges in India. Moreover, it has coverage across 54 operational airport lounges constituting 100% of airport lounges in India, as at March 31, 2022. Further, as at March 31, 2022, it had exclusivity to provide access to 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. Further, in Fiscal 2022, the Company catered to approximately 68% of the overall lounge traffic in volume across all lounges in Indian airports (both the domestic and international lounges). The primary drivers for growth in its industry are:



- Growth in the number of passengers using air-travel
- Increase in airport lounge usage by passengers

The aforementioned factors, in conjunction with complete coverage of lounges across Indian airports, coupled with the functionality of technology platform, will continue to drive the demand for its Services. Moreover, it 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.

Entrenched relationships with marquee Clients including global card network providers in India and prominent Indian and global banks and corporates: DSL has tie-ups with all the 5 Card Networks operating in India including Visa, Master Card, Diners/Discover and RuPay. Further, 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 debit card lounge program) and SBI Cards and Payment Services Limited. In Fiscal 2022, it enjoyed over 95% market share in the India issued Card Based transactions for lounge access. In addition, it also has tie-ups with some of India's prominent corporates including airline companies, 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 enables DSL to broaden its customer base. It has also provided meet-and-assist solutions to a Pan-India hospital chain. Its Clients rely on its Services to provide the airport enhancement experience to their customers as a part of their customer acquisition and engagement endeavours.

Strong business moat due to flywheel effect led by Clients and Operators network: Given DSL's dominant position in the airport lounge access market, it has been successful in building a bridge between its Clients and airport lounge Operators. Its position in the industry enables it to create interdependencies for its service offerings through unique value proposition enabling it to attract newer clients and Operators, which helps it further strengthen its position in the market. For its Clients, DSL's comprehensive airport lounge coverage in India and a single point access to all lounge operators in India is a vital link to manage customer loyalty and retention / enables them to provide Consumers value added services as part of their customer engagement and loyalty management programs.

Moreover, DSL's platform is, to the extent relevant, integrated with the information technology systems of its Clients. Consequently, details like, the benefits for each card variant, the benefits availed by Consumers, and the accounting pertaining to use of the lounge services by the Consumers are maintained and monitored through its systems. This further strengthens its relationship since it addresses the (i) front-end i.e., validating and providing access to lounges as well as (ii) the back end in terms of maintaining the benefits and utilization of usage for end-consumers of the lounges.



Similarly, for lounge Operators, DSL 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 it. In fact, at certain airport lounges in cities such as Ahmedabad, Bengaluru, Cochin and Mumbai, it accounts for more than 80% of the total lounge traffic. The convergence of its dominant market position, prominent Client base, extensive presence in the airport lounge market in India and diverse service offerings helps create a network flywheel effect.



Ability to capitalize on growing Consumer base with no associated costs of direct Consumer acquisition: DSL 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 its Clients. For its Clients, providing access to airport lounges to Consumers is increasingly becoming a key aspect of their card sales and customer engagement programs, and 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 DSL's Consumers occurs with a growth in (a) its Client base, (b) the number of outstanding credit cards and debit cards, (c) frequency of lounge access:

The enhanced integration of new services increases client engagement and, over the long-term, client loyalty. DSL's long standing association with a number of its Clients is an indication of its ability to retain clients and continue to derive healthy proportion of revenues from its key existing client accounts that has continued to grow.

Asset and human resource light business model with a strong track record of delivering consistent growth: Business model of DSL, 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 that it has a strong track record of delivering consistent growth along with high capital efficiency. Aside from its cost towards Operators including Lounge Operators, its operational expenses are also relatively minimal. Additionally, its business model is not human resource intensive. Pre-COVID 19, the Company was able to achieve sustained growth without compromising on its operating margins, without any external equity funding from strategic investors or private equity funds and with limited debt funding. Its ability to fund minimal capital expenditure from its internal accruals, and its efficient working capital management are testament to its efficient and prudent financial management.

Proprietary technology platform that ensures scalability: One of the key aspects of DSL's business model is a strong focus on technology. Its technology platform is aimed at ensuring that all entities on or availing of its platform i.e., Client, Operators and Consumer, have a 'hassle-free' experience. Its platform addresses aspects such as benefits calculation and accounting, provides real time visibility of transactions to Clients and Consumers, reduces potential fraud and abuse, as well as provide the platform for Clients to run usage and spend based campaigns for their users. It leverages its configuration-driven extendible platform with solution templates for flexibility, reliability and customization, to provide solutions for multiple access models. DSL's platform also includes connectors and application programming interfaces (API) which facilitates integration with Client systems, or the use of any of the hybrid access modes depending on Client's preference. It also has an entire set of APIs and solutions to cater to non-BFS Clients where access vouchers can be issued by Clients to the Consumers.

The Company's platform includes features to allow Clients usage of levers to reduce the total cost of ownership of the lounge program by redesigning existing solution sets, and allow new program designs - use spend and usage linked benefits to drive behavior and incentivize customers, change the default benefits and migrate to variable cost models, and facilitate the shift from 'plastic' to digital modes of access.

Experienced promoters and management team with strong domain expertise: DSL's Promoters have led from the front in establishing and growing its business and operations capabilities. Each member of its senior management team has over 2 decades of experience in different aspects of its business operations and across industries sectors.

Business Strategy:

Increase wallet share with existing Clients: DSL intends to focus on increasing its wallet share with existing Clients by identifying cross-selling opportunities that it's diversified set of Services offer. It plans to continue to nurture its relationships with Clients, to expand its association beyond airport lounge services to the full bouquet of Services that it offers including F&B, spa and 'meet and assist' and increase their contribution to its total revenue from operations. The Company plans to increase the stickiness of its Clients through deeper integration of their systems with its platform, which will allow to generate recurring revenue and aid the aim to increase its wallet share from each Client.

Continue to maintain 100% coverage of airport lounges by expanding coverage across new airport lounges in India: As at March 31, 2022, DSL 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 2040. It plans to 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, development of new airports and government initiatives. It will continue to strive to maintain its 100% coverage of airport lounges by expanding coverage across new airport lounges.

Expanding into newer sectors to create customer engagement and provide loyalty management solutions: In addition to specific solutions for Card Networks and Card Issuers and the other sectors DSL cater to, it also wants 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. It also plans to create ancillary revenue opportunities for Clients in the online travel agency and airlines industries.

Continued focus to expanding client base in current sectors: DSL intends to penetrate deeper into its existing sectors that it caters to by expanding its Client base. It plans to increase the number of its Clients in the banking, telecommunications, OTA, airlines sector. Further, it proposes to cater to the diverse requirements of these disparate entities by continuing to develop and build bespoke domain-specific solutions, tools, and portals for integration and management of the various airport services.

Capitalize on dominance in the airport lounge access market and target new high growth markets globally: DSL has an established presence amongst its Clients, and its technology driven solutions are one of the key elements that enables its Clients to provide value added services to the Consumers as a part of their customer engagement and loyalty management programmes. It plans to replicate its deep knowledge of the industry, technology innovation, process expertise, and business model across new high growth markets. DSL is in the process of leveraging its well-entrenched relationships with its global Clients for expanding its footprint to geographies like the CEMEA (Central and Eastern Europe, Middle East, and Africa) and South-East Asia.

Continue to invest and leverage technological platform and ability to offer bespoke solutions and deep integration as a differentiator: DSL intends to continue to develop bespoke solutions for its Clients using its platform that focus on both maximizing the value for the Consumer, and better manage the overall program and engagement cost for the Client. Its technology driven solutions and tools are geared inter alia towards providing Clients the option of tailoring and creating different products for the Consumers. It intends to focus on improving the ability for its Clients' product managers to design customised solutions using its platform toolset, reduce time to market for them, focus on consumer experience, and track effectiveness and usage of such programs. DSL also constantly aims to identify opportunities to implement product improvements and dedicated product development team to optimise platform features. It plans to continue to drive standardization across solutions using its common platform to reduce implementation times and optimise rollouts for new solutions and upgrade existing implementations.

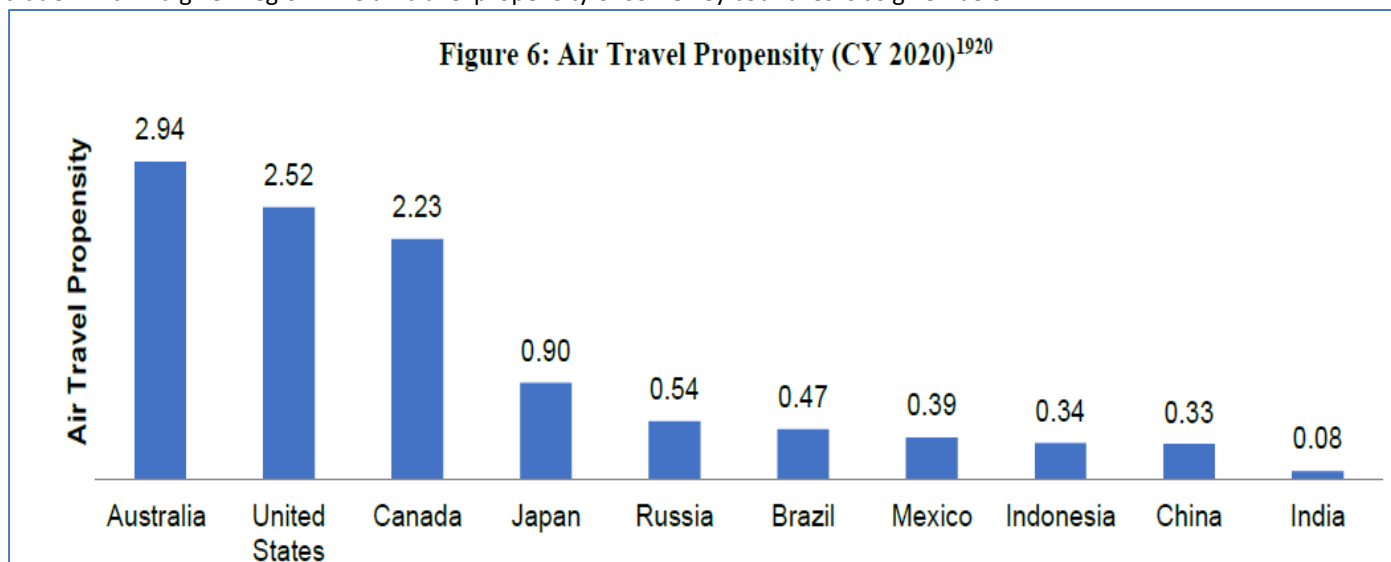
Industry:

INDIAN AIR TRAVEL MARKET OVERVIEW

India Volume Growth Versus Other Countries and Way Forward

Air and Rail Travel Propensity

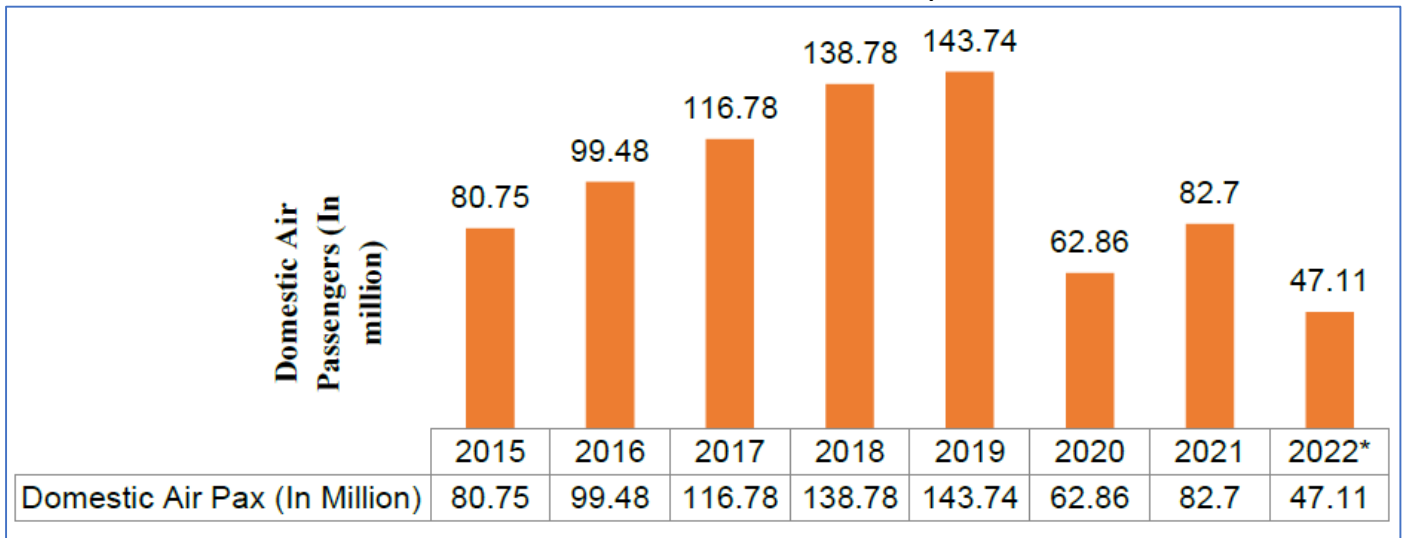
Travel propensity is defined as the frequency of travel for a given individual within a nation. It is ratio of passenger traffic to overall population within a given region. The air travel propensity of some key countries is as given below.



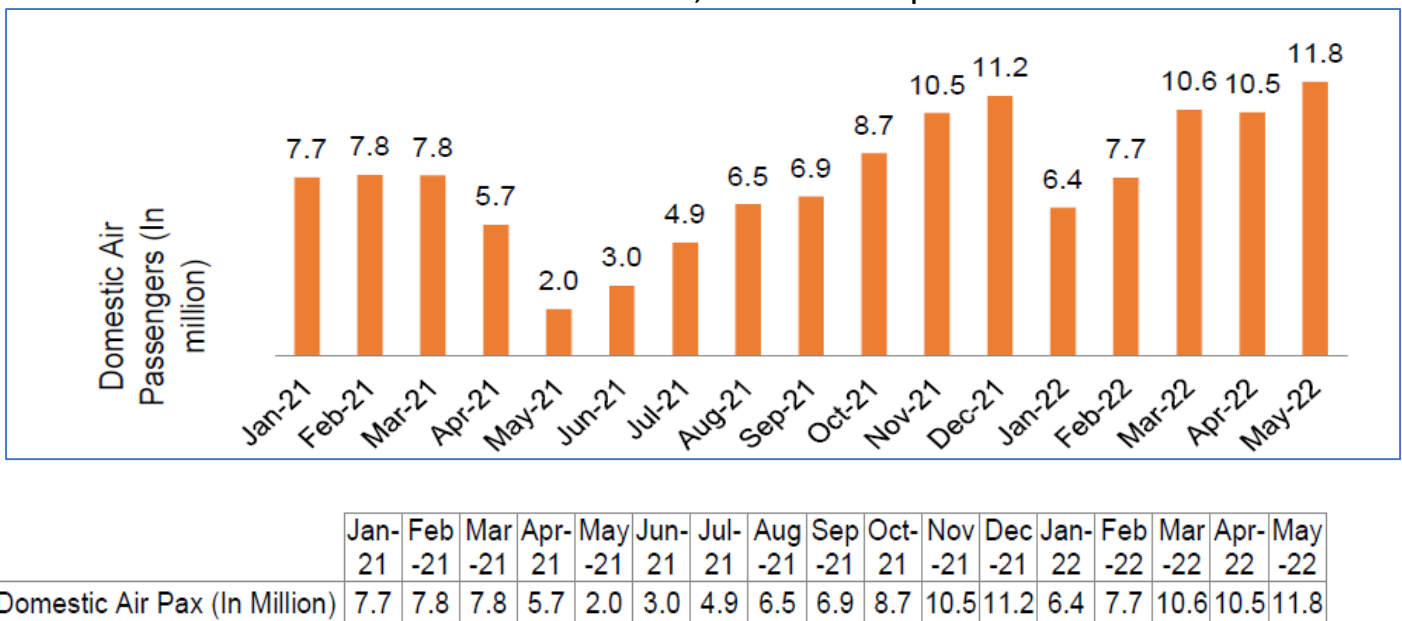
The top 4 countries with the highest propensity to travel via Air are noted to be Australia, US, Canada and Japan. The countries with low air travel propensity are the BRIC countries, Indonesia and Mexico. Amongst the least air travel propensity countries, India is the lowest, however it is also expected to be the third largest air travel market by 2030 according to IATA (International Air Transport Association).

India's Air Traffic Growth Trend Domestic Traffic

India's Domestic Air Traffic, CY 2015-2021 and Jan-April 2022



India's Domestic Air Traffic, CY 2021 and Jan-April 2022

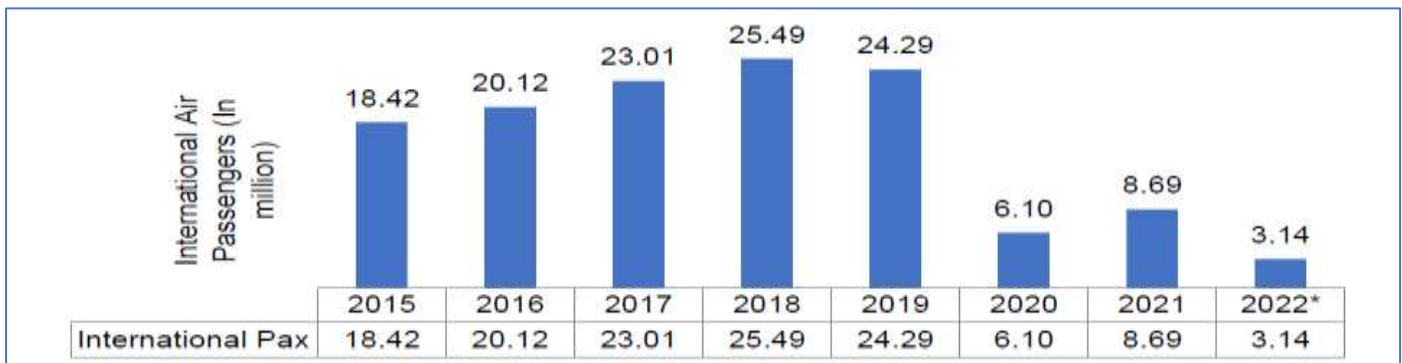


Between the years 2015-2019 the CAGR for the domestic air travel industry was noted to be 12%. However, due to the onset of COVID-19, and the Indian aviation market is expected to experience a linear recovery.

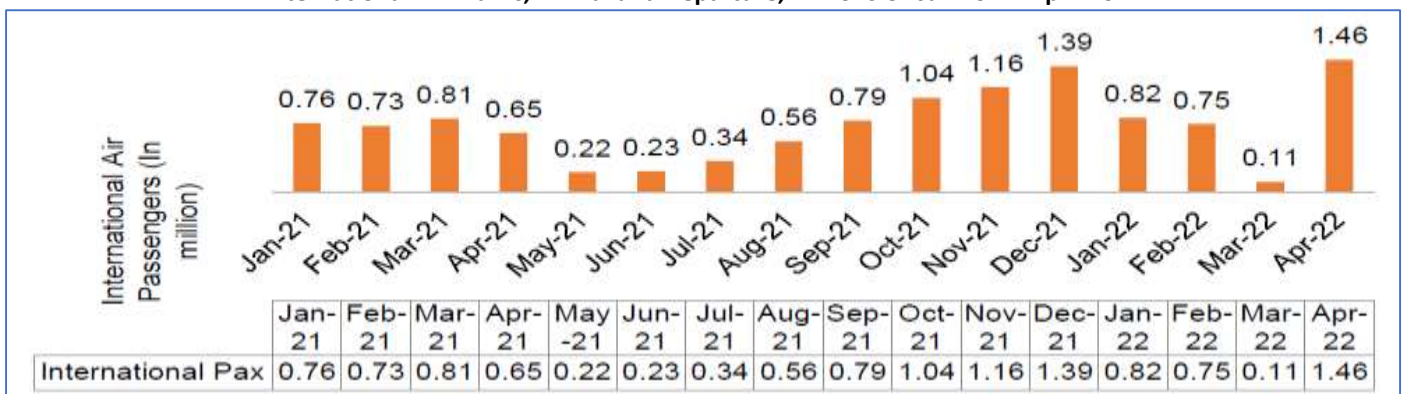
International Traffic

As per the graph below, it is observed that the CAGR for international Air Travel between 2015-2019 was 6%. The international air passenger traffic in India increased from 18.42 million in 2015 and increased to 24 million in 2019. The 2019 international air passenger's numbers would have surpassed 25 million (2018 values) in a normal scenario. However, COVID-19 impacted international air travel in latter half of 2019 and continued to in 2020, 2021 and 2022. This is a temporary dip in the international air travel passengers and the market is expected to recover back to pre COVID-19 scenario by 2024-25.

International Air Traffic, Arrival and Departure, millions CY 2015-202122



International Air Traffic, Arrival and Departure, millions CY Jan 2021- April 2022



The imposition of COVID induced travel bans led to a reduction in the international passenger demand. The scheduled international passenger services in India were suspended since March 2020. The ban on overseas flights was extended up to end of October 2021 and the ban ended on 27th March 2022. Special International flights have been operated under the “Vande Bharat Mission”, since May 2020. Under the bilateral “air bubble” arrangements were made with selected countries to facilitate international air travel. India has formed the air-bubble pact with countries including UK, US, Kenya, UAE, Bhutan, and France. Overall, the average historic global growth rate per COVID19 for passengers transported is recorded to be 4.86% (2015-2019) while India’s is 11.12% for the same period. The following are the factors which are expected to contribute to the overall Indian Air Travel growth:

Jump in India’s Travel and Tourism Competitiveness

Study of Various Modes of Transport

The number of travelers preferring air travel has been increasing and has almost doubled between 2015-2019. However, the increase of rail and road travelers during the period 2015-2019, has been much lower. The overall economic growth supported by various other factors has increased the air travel propensity of Indians.

Jump in Ease of Doing Business in India

The Ease of doing Business Index released by World Bank suggests the competitiveness and penetration of a market based on various strategic parameters. Countries enlisted with the lowest business index have the friendliest business regulations. The ease of doing business in India score has been increasing, and India moved from a rank of 142 in 2014 to 63 in 2019. Such improvement has been linked historically with increased foreign investments and enhanced economic activity, which in turn would have its impacts on the Indian air business r travel business sector.

Business Travel Market Size and Growth

As of 2019, India ranked as the second largest country in terms of Bleisure travel (Bleisure is defined as an extended business trip for leisure purposes). Around 72% of the Indian travelers extend their business trip. Indians travelled at least once in 12 months for business trips. Between FY 2016- FY 2022, Chennai, Delhi and Mumbai are seen to account for the largest share in terms of domestic and international travel.

Travel Cost Benchmarking

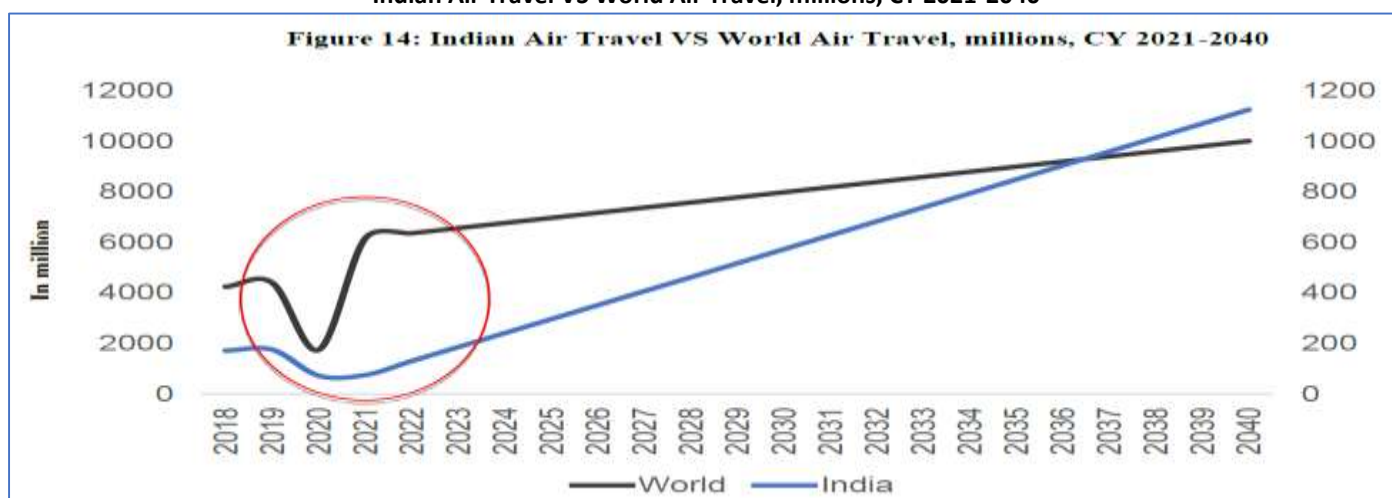
The key point to be noted is that the air travel rates were checked 4 months in prior to the actual date of travel. There has been a steep increase in airfares over the first half of 2022. However, the cost of rail travel is lower for General class and 3 tier AC within India due to which the number of passengers travelling via rail is high. However, the government of India has been taking initiatives like UDAN in order to increase the propensity of air travel and to decrease the travel cost. These have had its impacts as seen in the figure above. One of the key factors contributing to the high cost of air travel is the price of Jet fuel within India. Increased use of alternative fuels and rationalization of tax structure could lead to significant reduction in cost of travel by air and increase the air travel propensity.

Air Travel Growth in Indian Cities - Tier 1, Tier 2 and Tier 3

The Tier 1 cities contributed to around 85% of the total air traffic in FY 2016-17, however in FY 2021-22 it reduced to 80%. The Government initiatives like UDAN combined with airport infrastructure development in Tier 2 and Tier 3 cities are expected to increase the percentage of air traffic from such smaller airports.

India Air Travel Market Outlook 2021- 2040

Indian Air Travel VS World Air Travel, millions, CY 2021-2040



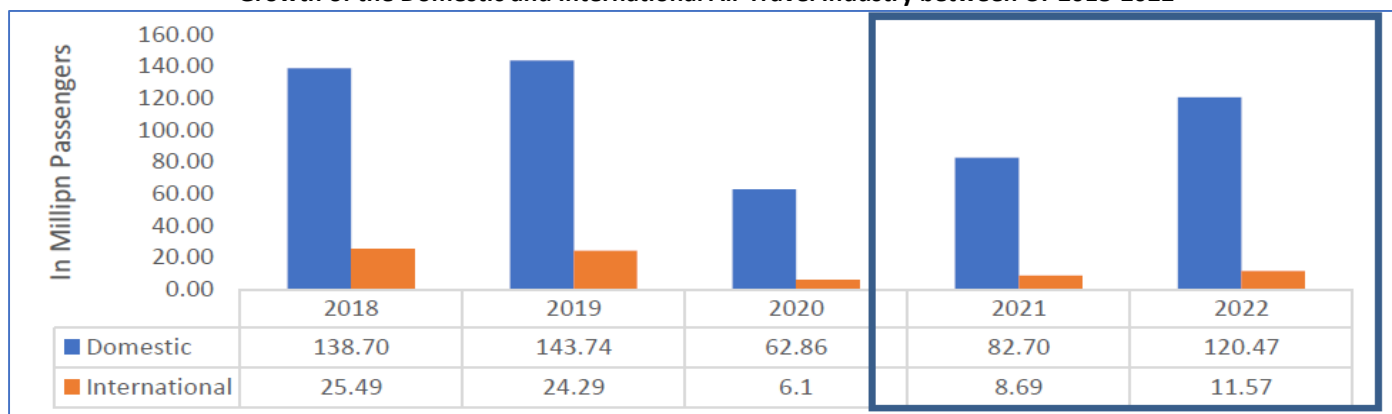
Indian Air Travel Outlook- 2040

The Indian market is expected to grow at almost 6X from around 175 million air travelers in 2019 to around 1 billion travelers in 2040 as compared to the expected global growth of 2X to a total of 10 billion passengers in 2040. The Indian aircraft fleet is also expected to grow 3X and reach around 2200 aircraft by 2040. The Indian growth scenario is supported by various factors such as government initiatives, infrastructure improvement, increase in demographic dividend, increase in per capita income and the GDP growth as discussed in earlier sections of the report.

Split by International and Domestic

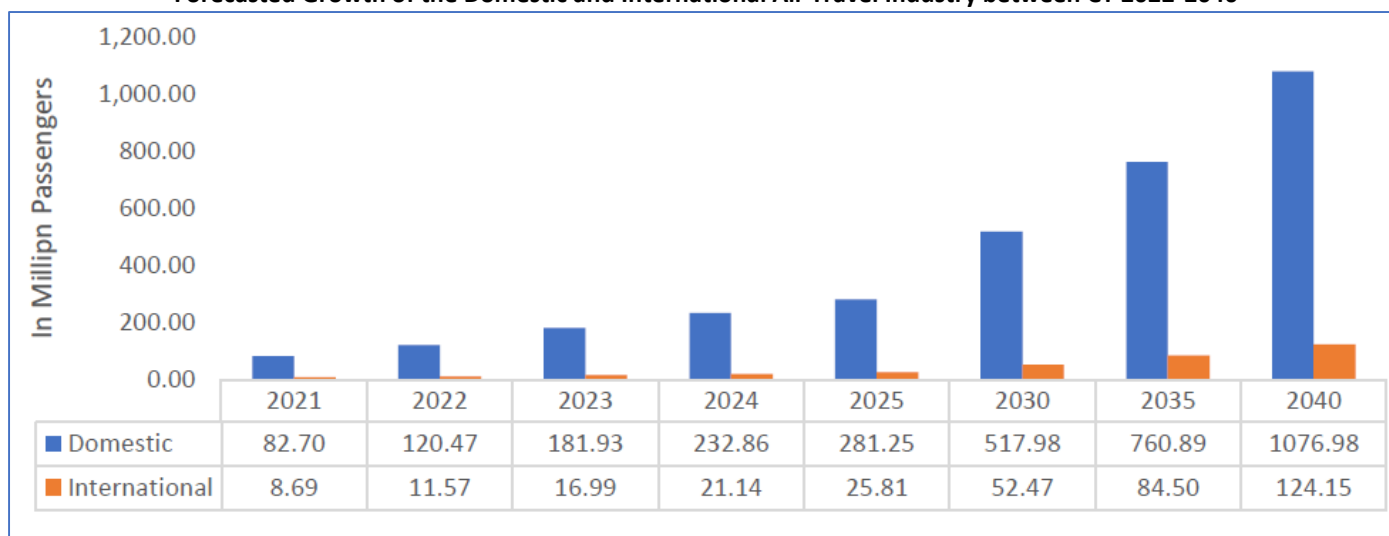
The average split across the Domestic and International Air Travel Industry for India was recorded to be between 84%-85% and 16%-15% in CY 2018 and CY 2019. This proportion changed to >90% in CY 2020, in favor of Domestic traffic due to international travel regulations due to COVID-19.

Growth of the Domestic and International Air Travel Industry between CY 2018-2022



The figure below shows the graphical representation for increase in International and Domestic Air Travel within India between the years 2018-2040. The Indian aviation sector is expected to make a recovery to pre-pandemic values by the end of calendar year 2022.

Forecasted Growth of the Domestic and International Air Travel Industry between CY 2022-2040



AIRPORT INFRA, AIR TRAVEL INFRASTRUCTURE AND AIRPORT SERVICES

Airports are economic engines, every INR 100/- invested in aviation is expected to generate an economic output of INR 325/-. Similarly every 100 jobs created in aviation is expected to create 610 indirect job opportunities.²⁸ The aviation sector has been contributing roughly 3.5% to the Indian GDP, with only around 10% of the population opting for air travel, revealing a huge headroom for further growth.

Airport Infrastructure Improvements in India

Greenfield airports contribute significantly to economic growth. The government of India has agreed in principal for the development of 21 greenfield airports in the coming 4-5 years. The growth in passenger demand and air traffic is one of the key drivers for the same. The overall program cost is estimated to be INR25,000 crores. As of 2022, there were roughly 126 operational airports in India, and it is expected to increase to 295 operational airports by 2040. The Indian Government plans to spend around INR 1 trillion to set up new airports by 2024.

Key Initiatives-5 Year Plan

- An investment of Rs. 350,000 Million³⁰ (USD 4.99 billion) is to be made in the next 4 years by the Indian government to support the aviation sector.
- The Indian Government has planned on investing roughly USD 1.83 billion by 2026 for the development of airport infrastructure.
- The government also plans on upgrading the airport navigation system.
- A major asset monetizing exercise has also been undertaken by the Indian government, i.e. the privatization of 13 airports.
- The government has been aiming for private investment of Rs 3,660 crore in airports by FY24.
- Presently, the AAI has approved the privatization of 6 major airports which including, Bhubaneshwar, Varanasi, Amritsar, Trichy, Indore, and Raipur.
- Other smaller airports which are to be privatized are Jharsuguda, Gaya, Kushinagar, Kangra, Tirupati, Jabalpur, and Jalgaon. In this initiative, the lease to be issued would include smaller airports clubbed with larger ones.
- This initiative is expected to promote the upgrade of both non-profitable airports and profitable ones.
- The upgradations for these airports are expected to enhance the customer experience. Therefore, the privatization of airports can be viewed as a key opportunity for lounge operators in terms of exploring new markets.

Overall Airport Services Market Size

The overall airport services revenue (AAI Only) has been shown in the figure below. The airport services registered a high growth from INR 1304.97 crores in 2016-2017 to INR 1842.5 crores in 2018-2019. The increase in 2019-2020 was marginal at 1887.74 crores due drop in traffic in the last quarter due to the early effect of pandemic. In 2020-21, a sudden drop in Non-aeronautical revenue and accounted to INR 885.84 Cr.



Indian Airport Market Outlook- 2040

There are 126 operational airports owned by the Airports Authority of India (AAI). It is one of the largest airport operators in the world. In addition, AAI's responsibility involves the provision of Air Navigation Services (ANS) over India's airspace and the Indian Ocean. Currently, six airports are operated under the PPP model namely Mumbai, Delhi, Bengaluru, Cochin, Nagpur and Hyderabad. A PPP model is proposed for six more airports in Jaipur, Lucknow, Ahmedabad, Guwahati, Mangalore and Thiruvananthapuram. The AAI will then be able to focus on small airports in the hinterland, where private capital flow is unlikely. India had around 99 operational airports in FY 2018 according to FICCI document and this increased to 126 airports in FY 2022. This is expected to increase to 295 airports by FY 2040. In India, the top 15 airports still handle the majority of the air traffic. A total of 83% of India's traffic was handled by the top 15 airports in FY 2018-20. The Indian economy is expected to mature and spread to the rest of the country. As a result, non-metro cities will drive future growth in the Indian aviation market.

The Regional Connectivity Scheme plans to boost aviation connectivity in India's unserved and underserved airports. As part of this program, state governments provide a predetermined number of seats as a subsidy on routes and airlines bid on how much light capacity they will subsidize. In addition to the subsidy, the selected airline enjoys exclusive rights to that route for three years. In addition to fiscal incentives, UDAN has attracted considerable interest from domestic carriers and small start-ups. The Ministry of Civil Aviation (MoCA) released the draft International Air Connectivity (IAC) scheme or the International UDAN scheme in August 2018. The scheme aims to connect non-metropolitan cities that fall under India's open skies policy with other Asian nations. As of now, the government has identified eight potential routes for international UDAN implementation. Among them, six routes will connect Guwahati with Dubai and Singapore, and two routes will connect Vijayawada with Dubai and Yangon.

In FY 2018, Delhi had 66 million passengers, ranking seventh-largest airport in Asia. When its fourth runway and fourth terminal are completed by 2024, the airport will see significant growth. In Mumbai, Goa, Vizag, and Pune, second airports are being planned. The construction of Navi Mumbai and Mopa airports (in Goa) is underway. The airport at Bhogapuram in Andhra Pradesh is currently in the bidding phase. It is expected that Pune's second airport at Purandar will be put up for bid soon. In December 2018, a new international airport at Kannur in North Kerala was commissioned. The same year, the 100th airport in India was inaugurated at Pakyong in Sikkim. It is expected to benefit the state's tourism and connectivity industries. At one time, Sikkim was only accessible by Bagdogra airport and by Siliguri railway station, both located several hours away.

CARD INDUSTRY (CREDIT AND DEBIT) - INDIA

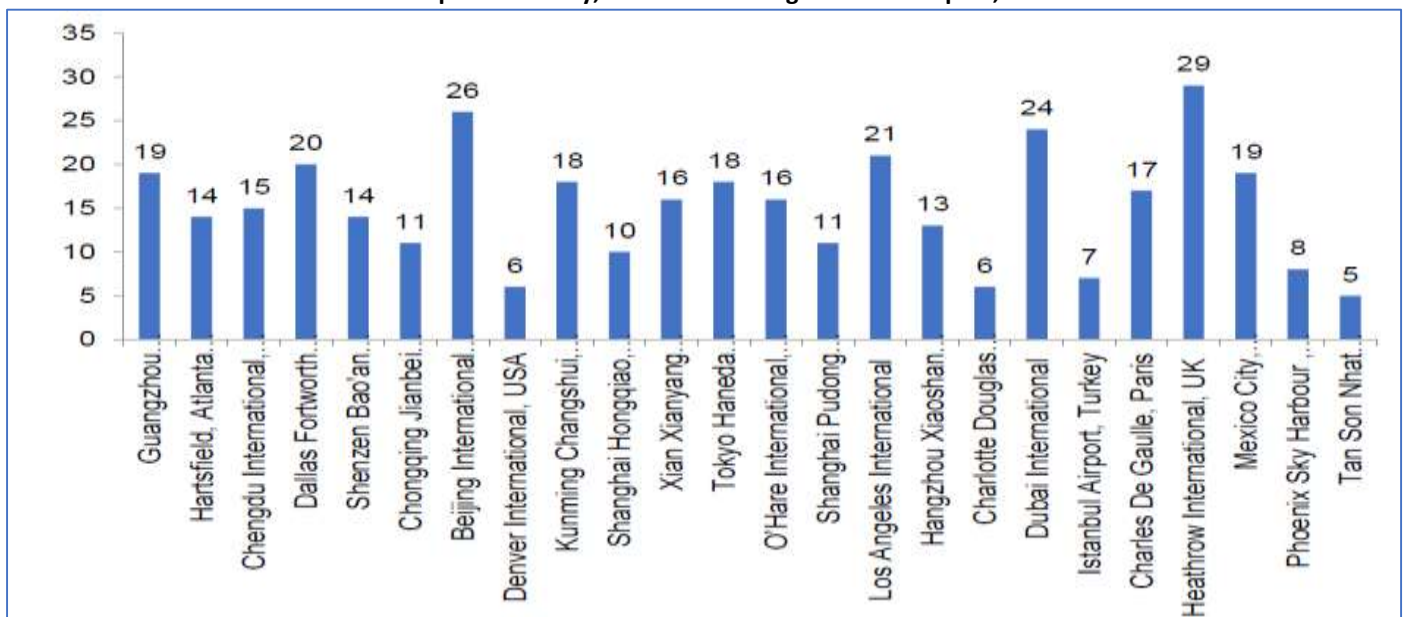
The credit card industry in India is experiencing high growth. The credit card market grew from around 33 million outstanding cards in Sept 2017 to around 65 million outstanding cards in Sept 2021 at a CAGR of 18.17%. The number of outstanding credit cards in Dec 2021 –were 68 million representing a growth of more than 13% over Dec 2020. Similarly, there were around 819 million outstanding debit cards in Sept 2017 which grew to 920 million debit cards in Sept 2021 growing at a CAGR of 2.93%. Outstanding debit cards are expected to surpass 1 billion next 2-3 years. The exponential increase above the average for 2018-2020 is due to increased adoption of digital economy due to COVID. New debit card issued is experiencing a mild decline over the past three years, however this is expected to bounce back with the improvement in the post COVID economic scenario. The increase in credit/ debit cards bodes well for players like DreamFolks who stand to benefit from the card loyalty programs targeting lounge access.

GLOBAL AND INDIAN LOUNGE MARKET 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 Million 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 times of the current market size and is expected to reach 204 lounges by 2040.

Total Number of Global Lounges VS Indian Lounges top 24 Airports
Global Lounges (Top 25 Airports)

Busiest Airports Globally, Number of Lounges in Each Airport, 2022



LOUNGE MARKET DYNAMICS AND ACCESS METHODS TO AIRPORT LOUNGES

Airport Lounge Market in India

The key drivers, and restraints that are expected to impact the Airport Lounges Market in India are enumerated in succeeding paragraphs. Frost & Sullivan considered all these factors for forecasting the future market growth.

Drivers

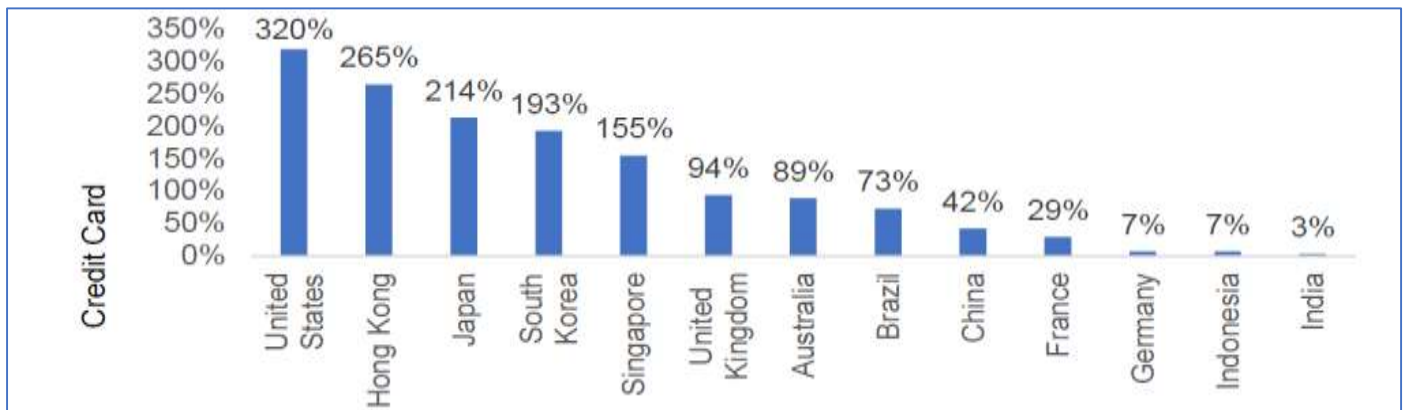
Growing Air Traffic and Passenger Traffic: Passenger traffic has been growing steadily since the new millennium, driven largely by income growth and low-cost aviation. The domestic air travel increased from 80.75 million in CY 2015 to 143.74 million in CY 2019. It is projected that India will overtake the UK to become the third-largest air passenger market in 2024. Furthermore, India is one of the world's fastest-growing domestic aviation markets.⁵⁰ The international passengers have also grown from around 18.42 Million in CY 2015 to around 14.29 Million in CY 2019. Hence, with growing air and passenger traffic, lounge market would flourish.

Development of New Airports: 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. Additionally, Tier 2 and Tier 3 are likely to have a lower penetration of services. Which is likely to drive the lounge markets especially for providers who offer value for money.

Government Initiatives: The government of India has launched many schemes to make flying affordable for people of all income levels. Under UDAN 4.0, 24 routes were identified in Assam in February 2021. During the UDAN 4.1 bidding process, the Ministry of Civil Aviation (MoCA) has proposed 392 routes as part of the Azadi Ka Amrit Mahotsav launch by the Government of India in March 2021.⁵¹ The UDAN scheme and the privatization of the airports are expected to be the key government initiatives which could contribute to this market.

Increasing Uptake of Digital Economy: The current credit card penetration is extremely low in India, it is around 3% for credit cards as shown in the figure below. The penetration of digital economy and cards is expected to increase exponentially due to the effect of pandemic, large customer base, rising income, and changing attitude of the end customer. In turn, the financial system will have a greater incentive to manage customer loyalty; programs like lounge access will form a significant part of the loyalty management initiative.

Penetration of Credit Card in India (Average no. of Credit card per 100 people)



LCC Market Share in India: The Low-cost Carriers have a significant market share in India, and this is expected to continue in the foreseeable future. The LCC carriers need to keep the upcoming competition from full-service carriers like Vistara and Air India (taken over by Tata). To manage customer loyalty, offering lounge access as an add-on will be a good option for these airlines.

Business Travel, Tourism, and Customer Experience – 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.

Addition of Lounges: On an average it can be stated that the top 25 airports in India account to 2 lounges per airport. This is much lesser than the Global average which is 7 airports per top 25 Global airports. The number of airport lounges in India is very small. Currently, there are approximately 54 lounges in India (31st March 2022), and the overall number of lounges will increase in line with increasing traffic and passengers. It is important to note that the overall growth in lounge also includes the growth in lounge area in the existing lounges which are not included in the 150 new lounges which are expected to be added in between the years 2023-2040. 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.

High rentals - High rental has always posed a challenge for lounge providers. Recently, airport hospitality providers have asked airport operators to reduce the high rental prices they pay for using their facilities. The lounge operators at some airports pay a minimum guaranteed amount. These operators have asked to reconsider the amount..Plaza Premium Group and Bird Group and Travel Food Services (TFS) are the two major lounge operators in the country, and together they operate about two dozen lounges across airports.

Credit Card/ Debit Card Credit card and debit card based lounge access to the customers can be of two types. Firstly, where the card offers a set of complimentary lounge visits (domestic and international) in a year. Secondly, wherein the debit or the credit card can allow access to the lounges but the customer must pay for the same. India issued Credit/ Debit cards are a primary mode of access the domestic lounges and it accounts to around 80%. This is the segment in which DreamFolks holds almost 95%-97% of the domestic India market lounge share.

Airline Business Class / Airline Frequent Flyer Programs The access to lounges is offered as a part of the business and first-class tickets and the cost is borne by the airline. In smaller airports the lounges are shared by multiple airlines; however, in hub airports the lounges could also be specific to the airline. In case of Indian market, major market share is with low cost airlines such as Indigo and Spice Jet. These airlines do not offer lounge access as part of the airfare, however in line with recent trends they offer lounge access an additional option. The Indian Aviation market will continue to be dominated by LCC, and steps taken by these airlines to provide lounge access as an additional option has significant growth potential. The rise of passengers travelling LCC, and airlines initiatives to retain customer loyalty in absence of services offered by Full Service Carrier are expected to drive future opportunities for companies like DreamFolks.

Lounge Membership Cards, Digital Access, and QR Codes Lounge membership programs offer annual membership which gives its users access to multiple airport lounges across the world. These membership programs are offered complimentary by banks, and can also be purchased directly by consumers with multiple pricing options. The programs which are most significant at the Global level are Priority Pass and Dragon Pass. DreamFolks offers a similar program which have been adopted by players like ICICI Bank and IDFC Bank to name a few.



Other Voucher, Digital Apps and QR Codes: Customers can get access to lounges by also purchasing or getting complimentary along with flight ticket or travel bookings, at travel booking websites or airlines websites. In addition, corporates also issue vouchers as part of channel incentivization and employee engagement programs. In addition there are multiple applications which can be downloaded to get access to the lounges such as Lounge Buddy etc. The applications also allow the user to allow the user to understand the accessibility to the lounges. The customer can then pay online to gain access to the lounges. The cost of the access could vary from the time requirement, location etc.

Walk-In These are the customers who have not subscribed to any of the above methods and access the lounge. The main factors driving this segment are value the lounge service provides versus the facilities available at the airport, and delayed flights. Currently, this segment is extremely low however it is expected to rise in the coming years especially in Tier 2 and Tier 3 airports where the airport services are likely to be rudimentary.

Indian Lounge Access Aggregator Market Forecast FY 2023- FY 2030 (In Volume (Passenger (Pax) Million)) The lounge access aggregator market was studied by Frost & Sullivan, using both secondary and primary research methods. The methodology for estimating the market is as given below: Step 1- The number of lounge users were estimated at 5.2 million passengers for the year FY 2022 this includes both international and domestic passengers. Step 2- The number of India issued credit card-based lounge access is estimated at around 80% for Indian domestic lounges and around 40% for Indian International Departure lounges. Step 3- DreamFolks accounts for almost 95%-97% of this India issued credit and debit card segment due to its tie-up with all of the aforementioned card networks such that most transactions undertaken by customers in airport lounges happen on the Dreamfolks platform.

Key Concerns

- Success is dependent on DSL's long-term relationship with card networks and card issuer financial institutions, which on average contributed 98.98% of its total revenue from the operations during the Fiscals 2022, 2021 and 2020. This exposes it to risk emanating from the inability to retain its established card networks and card issuer companies as its clients.
- Success is dependent on relationship with airport lounge operators, which on an average contributed 98.55% of total revenue from operations during Fiscal 2022, Fiscal 2021 and Fiscal 2020 and other airport services providers which on an average contributed 1.45% of DSL's total revenue from operations during Fiscal 2022, Fiscal 2021 and Fiscal 2020. This exposes it to risk emanating from the inability to retain its established operators and other airport service providers for the Services.
- Operations are heavily dependent on the travel industry, in general, and on the air travel industry, in particular.
- COVID-19 has had and may continue to have a material adverse effect on the travel industry and consequently have a potential impact on the business, financial condition and results of operations.
- DSL is heavily reliant on a few Clients, and it derives a significant part of its revenue from lounge access related services and from select Clients.
- DSL is heavily dependent on the Cards that are in circulation and on issuance of new credit cards and debit cards.
- Potential saturation of Indian markets may have an adverse effect on its growth prospects, business, financial condition, and results of operations and require it to significantly expand to global markets.
- Any inability to compete effectively may lead to a lower market share or reduced operating margins.
- Adverse order, monetary penalty or proscription against Card Networks and Card Issuer may impact the business operations, financial condition, and results of operations.
- Threat of airport lounge operators forward integrating and tying up directly with card networks and card issuers themselves which will directly impact the business.
- DSL has incurred losses in the past. Any losses in future could adversely affect its operations, financial condition, and the trading price of the Equity Shares.



- Business depends substantially on Promoters, Key Managerial Personnel and persons with technical expertise. Failure to retain or replace them will adversely affect the business.
- Some of DSL's Client contracts have provisions which may require to indemnify the Operators for the Services that it provides.
- Regulatory, legislative or self-regulatory developments regarding privacy and data security matters could adversely affect the ability to conduct business and impact financial condition.
- Damage to, or any failure of, DSL's information technology systems or cyber-attacks or system security risks may affect its ability to access its data and information in a timely manner, or at all, and could adversely impact the business.
- Future success will depend on the ability to effectively implement its business and growth strategies failing which its results of operations may be adversely affected.
- Delays or defaults in client payment could result in reduction of DSL's profits.
- DSL has incurred indebtedness which exposes it to various risks which may have an adverse effect on the business, results of operations and financial condition.
- Any failure to obtain, renew and maintain requisite statutory and regulatory permits, licenses, registrations and approvals for DSL's operations in a timely manner or at all, may adversely affect its business, financial condition, cash flows and results of operations.
- Changing laws, rules and regulations and legal uncertainties, including adverse application of corporate and tax laws, may adversely affect the business, results of operations, cash flows and prospects.
- DSL's operations are subject to varied business risks and its insurance cover may prove inadequate to cover its economic losses.
- Operations could be adversely affected by work stoppages or increased wage demands by its employees or any other kind of disputes with its employees.
- DSL is subject to risks resulting from foreign exchange rate fluctuations, which could adversely affect the results of operations.
- A slowdown in economic growth in India could adversely affect the business.
- DSL has in the past entered into related party transactions and may continue to do so in the future and it cannot assure that it could not have achieved more favourable terms if such transactions had not been entered into with related parties and will not have an adverse effect on its financial conditions and result of operations.
- Increasing employee compensation in India may erode some of DSL's competitive advantage and may reduce profit margins, which may have a material adverse effect on the business, financial condition, cash flows and results of operations.
- Governmental actions and changes in policy could adversely affect the business.



Profit & Loss

Particulars (Rs in million)	FY22	FY21	FY20
Revenue from operations	2825.0	1056.3	3670.4
Other Income	14.9	24.8	7.7
Total Income	2839.9	1081.1	3678.1
Total Expenditure	2599.5	1060.1	3219.6
Cost of Services	2372.7	875.4	2995.6
Employee Benefits Expenses	165.5	126.4	179.3
Other expenses	61.3	58.3	44.7
PBIDT	240.4	21.0	458.5
Interest	14.3	7.5	7.1
PBDT	226.1	13.5	451.5
Depreciation and amortization	21.3	15.5	15.9
PBT	204.8	-2.0	435.6
Tax (incl. DT & FBT)	42.2	12.5	118.7
Current tax	47.8	0.0	103.2
Tax expense related to earlier years	0.2	0.0	0.0
Deferred tax (credit)/charge	-5.8	12.5	15.6
PAT	162.5	-14.5	316.8
EPS (Rs.)	3.1	-0.3	6.1
Face Value	2	2	2
OPM (%)	8.0	-0.4	12.3
PATM (%)	5.8	-1.4	8.6

Balance Sheet

Particulars (Rs in million) As at	FY22	FY21	FY20
Non-current assets			
Property, plant and equipment	29.8	38.3	52.9
Capital work-in-progress	0.0	0.4	6.4
Right-of-use assets	64.2	73.7	0.0
Intangible assets	45.5	2.6	1.2
Investment Property	17.9	271.0	0.0
Financial assets			
<i>Other financial assets</i>	27.2	24.7	25.8
<i>Deferred tax Asset (net)</i>	12.4	7.8	21.0
Other non-current assets	210.1	186.6	105.7
Total non-current assets	407.0	605.1	213.1
Current assets			
Financial assets			
<i>Trade receivables</i>	906.6	395.5	685.2
<i>Cash and cash equivalents</i>	11.0	100.0	321.3
<i>Other Bank Balances</i>	134.7	0.0	0.0
<i>Current tax assets</i>	82.9	54.6	72.7
<i>Other financial assets</i>	82.7	50.9	28.6
Other current assets	62.0	19.0	56.8
Total current assets	1,279.9	619.9	1,164.5
Total assets	1,686.8	1,225.0	1,377.6
EQUITY & LIABILITIES			
Equity			
Equity share capital	104.5	47.5	47.5
Other equity	717.2	595.5	607.6
Total equity	821.7	643.0	655.1
Liabilities			
Non-current Liabilities			



Financial Liabilities			
<i>Borrowings</i>	10.2	12.9	20.1
<i>Lease liabilities</i>	64.3	63.3	0.0
<i>Provisions</i>	17.0	18.4	22.2
Total non-current liabilities	91.5	94.5	42.3
Current liabilities			
Financial liabilities			
<i>Borrowings</i>	2.5	7.3	10.8
<i>Lease liabilities</i>	5.5	11.1	0.0
<i>total outstanding dues of micro enterprises and small enterprises</i>	422.3	211.8	0.0
<i>total outstanding dues of creditors other than micro enterprises and small enterprises</i>	290.8	97.1	561.4
Other financial liabilities	14.0	26.6	53.3
Other current liabilities	35.8	130.1	53.5
Provisions	2.8	3.4	1.1
Total current liabilities	773.7	487.5	680.1
Total liabilities	865.2	582.0	722.5
Total equity and liabilities	1,686.8	1,225.0	1,377.6

(Source: RHP)

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