

Estimate change



TP change



Rating change



CMP: INR360

TP: INR430 (+19%)

Buy

Air traffic to drive revenues

Minimum spend for credit cards dents margins

Bloomberg	DREAMFOL IN
Equity Shares (m)	53
M.Cap.(INRb)/(USDb)	19.2 / 0.2
52-Week Range (INR)	561 / 340
1, 6, 12 Rel. Per (%)	-7/-20/-42
12M Avg Val (INR M)	103

Financials & Valuations (INR b)

Y/E Mar	2025E	2026E	2027E
Sales	13.1	15.1	18.0
EBIT	0.9	1.3	1.5
NP	0.7	1.0	1.2
EPS (INR)	12.6	18.2	21.9
EPS growth (%)	0.6	44.3	20.1
BV/Sh (INR)	58.1	77.5	100.3
Ratios			
RoE (%)	25.4	28.0	25.7
RoCE (%)	23.5	25.8	23.6
Valuations			
P/E (x)	28.6	19.8	16.5
P/BV (x)	6.2	4.6	3.6

Shareholding Pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	65.7	66.0	66.0
DII	7.6	7.9	9.2
FII	2.5	3.6	5.2
Others	24.2	22.6	19.5

FII includes depository receipts

- DreamFolks (DFS) posted a revenue growth of 7.3% QoQ/11.5% YoY to INR3.4b, in line with our estimate of INR3.3b. Gross profit was flat YoY and down 2.5% QoQ to INR382m, with a gross margin of 11.2% (down 110bp QoQ). EBIT margin came in at 6.5%, down 220bp YoY/50bp QoQ. Consolidated PAT was INR169m (down 16% YoY/up 5% QoQ), below our estimate of INR189m, and PAT margin stood at 5.0%. The company's revenue grew 14.5%, while EBITDA and PAT were flat in 9MFY25 vs. 9MFY24. We expect its revenue/EBITDA/PAT to grow 17.5%/3.2%/4.8% YoY in 4QFY25. **We reiterate our BUY rating** on DFS with a TP of INR430, implying a 19% potential upside.
- Management had pulled back its FY25 growth guidance last quarter, indicating mid-term uncertainty. The company has also been experiencing headwinds due to changes in minimum spend criteria by banks (~95% of revenues). However, we believe its strategy to diversify into enterprise clients (especially OTAs) and non-lounge services, such as F&B outlets, will help stabilize revenue streams. It expects to increase enterprise clients to 20% of its clientele over the next 4-5 years.
- DFS experienced dampened gross margins due to changes in the volume mix resulting from change in minimum credit card spends. However, management has maintained its FY25 margin guidance of 11-13% for gross margins. We believe continued pressure in credit card spend criteria may keep margins tight.
- That said, over the long term, DFS will be the direct beneficiary of growth in the lounge market. However, we see near-term pressure from changes in the minimum credit card spend criteria, which could affect growth. Thus, we cut our target multiple to 20x (earlier 21x). We value DFS at INR430 per share (19% upside), at 20x Dec'26E EPS.

In line revenues and miss on margins; pax volumes up 9.2% YoY, while average spend per card remains flat YoY

- DFS' 3QFY25 revenue was up 7.3% QoQ /11.5% YoY to INR3.4b, in line with our estimate of 3.3b.
- DFS's revenue split was 76% domestic and 24% international in this quarter.
- EBITDA was down 16.1% YoY and flat QoQ to INR230m in 3QFY25, below our estimate of INR259m. EBITDA margin stood at 6.7%, down 220bp/60bp YoY/QoQ.
- Domestic passenger traffic was up 9.2% QoQ to 42.8m, against 39.2m in 2QFY25.
- Consolidated PAT was INR169m (down 16%YoY/up 5% QoQ) below our estimate of INR189m, with a PAT margin of 5.0%.
- Credit cards in circulation increased 10.4% YoY to 108.1m, vs. 106.1m in 2QFY25, while the average spending per credit card was flat YoY to INR52.1k in 3QFY25.

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Key highlights from the management commentary

- DFS successfully added 13 enterprise clients, including MakeMyTrip and TBO. The company is strategically expanding its enterprise client base to diversify beyond banking clients.
- Over the next 4-5 years, business from enterprise clients is projected to contribute 20% of the company's revenues. Currently, approximately 95% of revenues come from banking and networking clients.
- The company remains focused on growth and diversification. Expansion into international lounges and the introduction of F&B services, such as coffee, are expected to drive more transactions and reduce costs.
- The company is initially targeting the Middle East market for international expansion.
- Bank clients continued to raise minimum spending thresholds on cards, focusing on high-value users. This shift affected the company's volume mix and exerted slight pressure on gross margins.
- F&B unit values are 60% of lounge values, but the propensity to consume F&B is higher due to the wide range of options available to customers. This is a key element of the company's strategy to expand F&B outlets.
- The company's guidance for gross margin remains intact and is expected to remain within the range of 11% to 13%.

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. DFS will be the direct beneficiary of the growth in the lounge market going ahead. However, we see near-term pressure in minimum credit card spend criteria affecting growth. Thus, we cut our target multiple to 20x (earlier 21x). We value DFS at INR430 per share (19% upside), at 20x Dec'26E EPS. **Reiterate BUY.**

Consolidated – Quarterly performance

(INR M)

Y/E March	FY24				FY25E				FY24	FY25E	Est. 3QFY25	Var (%/bp)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Gross Sales	2,663	2,825	3,051	2,811	3,208	3,169	3,401	3,303	11,350	13,080	3,367	1.0
YoY Change (%)	66.2	65.0	49.5	18.2	20.5	12.2	11.5	17.5	46.8	15.2	10.4	110bp
GPM(%)	10.7	12.4	12.5	12.5	11.7	12.4	11.2	12.0	12.0	11.8	12.0	
Employee benefit expenses (%)	2.8	2.6	2.4	2.3	3.2	3.6	3.2	3.0	10.0	13.1	3.0	8.1
EBITDA	176	243	274	246	229	231	230	254	939	943	259	-11.5
Margins (%)	6.6	8.6	9.0	8.8	7.1	7.3	6.7	7.7	8.3	7.2	7.7	-100bp
Depreciation	8.6	9.2	9.7	9.6	9.0	9.3	9.9	9.9	37.0	38.1	11.8	-16.2
EBIT	168	234	264	237	220	222	220	244	902	905	247	
Margins (%)	6.3	8.3	8.7	8.4	6.9	7.0	6.5	7.4	7.9	6.9	7.4	
Interest	2	3	3	4	3	8	4	3	12	19	10	-59.2
Other Income	11	5	7	11	17	8	19	17	33	61	17	15.8
PBT	176	236	268	243	234	221	235	258	924	948	254	-7.6
Tax	47	60	68	64	63	61	66	70	238	259	65	1.5
Rate (%)	26.4	25.3	25.2	26.4	26.8	27.4	28.0	27.2	25.8	27.4	25.5	250bp
PAT	130	177	200	179	171	160	169	188	686	689	189	-10.7
YoY Change (%)	-3.5	19.2	5.5	-29.3	32.3	-9.3	-15.5	4.8	-5.3	0.4	-5.4	
Margins (%)	4.9	6.3	6.6	6.4	5.3	5.1	5.0	5.7	6.0	5.3	5.6	-60bp

Key Performance Indicators

Y/E March	FY24				FY25			FY24
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	
Customers (mn)	2.6	2.7	2.9	2.7	2.7	2.6	2.9	10.9
DFS conversion rate (%)	5.6	6.0	6.0	5.5	5.4	5.2	5.4	5.8
Revenue per Pax	1024	1046	1052	1041	1188	1223	1169	1032
Margins (%)								
Gross Margin	10.7	12.4	12.5	12.5	11.7	12.4	11.2	12.0
EBIT Margin	6.3	8.3	8.7	8.4	6.9	7.0	6.5	7.9
Net Margin	4.9	6.3	6.6	6.4	5.3	5.1	5.0	6.0



Key highlights from the management commentary

Quarterly performance & outlook

- DFS successfully added 13 enterprise clients, including MakeMyTrip and TBO. The company is strategically expanding its enterprise client base to diversify beyond banking clients.
- Over the next 4-5 years, business from enterprise clients is projected to contribute 20% of the company's revenues. Currently, approximately 95% of revenues come from banking and networking clients.
- Enterprise clients generate smaller revenue per client compared to banking clients.
- Some banking clients transitioned to DFS due to competitive pressures.
- The government's budget aims to stimulate the industry, with 'Project Udaan' expected to enhance connectivity.
- DFS emphasized that lounge operators from competitors such as GMR and Adani will need to focus on volume and revenue, areas where DFS currently leading.
- **FY26 outlook:** The company has achieved 14.5% growth for 9MFY25. It expects to deliver above the industry's projected growth of 6-9%.
- DFS' revenue for 3QFY25 increased by 7.3% QoQ and 11.5% YoY to INR3.4b, in line with estimates of INR3.3b.
- The revenue split for this quarter was 76% domestic and 24% international.
- Key revenue drivers, including air traffic and credit card usage, grew in the mid-single digits.
- The company remains focused on growth and diversification. Expansion into international lounges and the introduction of F&B services, such as coffee, are expected to drive more transactions and reduce costs.
- The number of airlines does not impact DFS. Airline-operated lounges primarily cater to business-class and priority customers. However, DFS' customer base largely comprises non-business class travelers.
- Banks have implemented structural changes to ensure spending is focused on the right set of users by setting minimum spend thresholds.
- The credit card industry continues to grow, driven by technological advancements, regulatory reforms, and evolving spending patterns.
- The revenue contribution from international business increased to 6.9% in the first nine months of FY25, up from 5.2% during the same period in FY24.
- The company added 16 new lounges and 18 new F&B outlets globally.

- DFS is initially targeting the Middle East market for international expansion.
- The gestation period for onboarding new clients, particularly banks, is lengthy. The company is working with international network providers to develop this market.
- **On Margins:** Bank clients continued to raise minimum spending thresholds on cards, focusing on high-value users. This shift affected the company's volume mix and exerted slight pressure on gross margins.
- Gross margins for FY25 are expected to remain between 11-13%.
- The hiring of top talent in India also impacted margins.

Others:

- The company expanded its service offerings with new features, such as baggage wrapping, coffee services at malls, and the addition of nine F&B outlets and two airport lounges in India.
- F&B unit values are 60% of lounge values, but the propensity to consume F&B is higher due to the wide range of options available to customers. This is a key element of the company's strategy to expand F&B outlets.

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. DFS will be the direct beneficiary of the growth in the lounge market going ahead. However, we see near-term pressure in minimum credit card spend criteria affecting growth. Thus, we cut our target multiple to 20x (earlier 21x). We value DFS at INR430 per share (19% upside), at 20x Dec'26E EPS. **Reiterate BUY.**

Exhibit 1: Summary of our revised estimates

	Revised			Earlier			Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue (INR m)	13,080	15,134	17,981	13,046	15,097	17,937	0.3%	0.2%	0.2%
Growth (%)	15.2%	15.7%	18.8%	14.9%	15.7%	18.8%	30bps	0bps	0bps
EBITDA margin (%)	7.2%	8.9%	8.9%	7.5%	8.9%	8.9%	-20bps	0bps	0bps
PAT (INR mn)	689	994	1,194	712	1,029	1,223	-3.3%	-3.4%	-2.4%
EPS (INR)	12.61	18.20	21.86	13.03	18.84	22.39	-3.3%	-3.4%	-2.4%

Source: MOFSL

Financials and valuation

Consolidated - Income statement

	(INR m)							
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Sales	3,670	1,056	2,825	7,733	11,350	13,080	15,134	17,981
Change (%)	47.8	-71.2	167.4	173.7	46.8	15.2	15.7	18.8
Service Charge Expenses	2,996	875	2,373	6,454	9,982	11,533	13,166	15,643
Gross Profit	675	181	452	1,279	1,368	1,546	1,967	2,337
% of Net Sales	18.4	17.1	16.0	16.5	12.0	11.8	13.0	13.0
Employee benefit expense	179.3	126.4	165.5	178.3	282.9	427.1	423.7	503.5
Other Expenses	45	58	61	111	145	176	197	234
EBITA	451	-4	225	989	939	943	1,347	1,600
% of Net Sales	12.3	-0.4	8.0	12.8	8.3	7.2	8.9	8.9
Depreciation	16	16	21	35	37	38	53	63
EBIT	435	-19	204	954	902	905	1,294	1,537
% of Net Sales	11.9	-1.8	7.2	12.3	7.9	6.9	8.5	8.6
Other Income (net)	1	17	1	20	22	42	76	108
PBT	436	-2	205	974	924	948	1,370	1,645
Tax	119	12	42	249	238	259	376	451
Rate (%)	27.3	-621.4	20.6	25.6	25.8	27.4	27.4	27.4
PAT	317	-15	163	725	686	689	994	1,194
Extraordinary gains/loss	0	0	0	0	0	0	0	0
PAT	317	-15	163	725	686	689	994	1,194
Change (%)	108.0	NA	NA	346.3	-5.5	0.4	44.3	20.1

Consolidated - Balance Sheet

	(INR m)							
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Share capital	48	48	105	105	106	106	106	106
Reserves	608	595	717	1,467	2,258	2,947	3,941	5,134
Net Worth	655	643	822	1,572	2,364	3,053	4,047	5,240
Loans	20	13	10	9	2	2	2	2
Other long term liabilities	22	82	81	86	90	85	80	75
Capital Employed	697	738	913	1,667	2,456	3,139	4,128	5,317
Net Block	59	112	94	84	75	89	97	106
Intangibles	1	3	45	40	27	27	27	27
Other LT assets	153	490	268	87	107	213	322	433
Curr. Assets	1,165	620	1,280	3,019	3,977	5,430	6,678	8,309
Debtors	685	395	907	2,019	2,650	3,046	3,524	4,187
Cash & Cash Equivalents	321	100	11	190	284	963	1,471	2,154
Bank Balance	0	0	135	623	731	931	1,131	1,331
Other Current Assets	158	124	228	187	312	489	551	636
Current Liab. & Prov	680	488	774	1,563	1,730	2,621	2,995	3,558
Net Current Assets	484	132	506	1,456	2,247	2,809	3,682	4,751
Application of Funds	697	738	913	1,666	2,456	3,139	4,128	5,317

Financials and valuation

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
EPS	6.1	-0.3	3.0	13.4	12.5	12.6	18.2	21.9
Cash EPS	6.4	0.0	3.5	14.6	13.7	13.8	20.0	24.1
Book Value	12.5	12.4	15.7	30.1	44.7	58.1	77.5	100.3
DPS	0.0	0.0	0.0	0.0	2.5	1.0	2.0	2.0
Payout %	0.0	0.0	0.0	0.0	19.9	7.9	11.0	9.1
Valuation (x)								
P/E	59.4	NA	120.8	26.9	28.7	28.6	19.8	16.5
Cash P/E	56.6	NA	102.3	24.7	26.4	26.0	18.0	15.0
EV/EBITDA	41.1	NA	83.4	18.8	20.0	19.0	12.9	10.4
EV/Sales	5.0	17.6	6.7	2.4	1.7	1.4	1.1	0.9
Price/Book Value	28.7	29.0	22.9	12.0	8.1	6.2	4.6	3.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.7	0.3	0.6	0.6
Profitability Ratios (%)								
RoE	63.6	(2.2)	22.2	60.6	34.8	25.4	28.0	25.7
RoCE	59.7	(19.4)	19.6	55.1	32.5	23.5	25.8	23.6
Turnover Ratios								
Debtors (Days)	68	137	117	95	85	85	85	85
Fixed Asset Turnover (x)	61.9	9.4	30.1	92.2	151.5	146.6	156.4	170.0

Consolidated - Cash Flow Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
CF from Operations	293	17	164	833	664	684	971	1,149
Cash for Working Capital	-69	45	-286	-337	-445	210	-274	-297
Net Operating CF	224	63	-121	496	219	894	698	852
Net Purchase of FA								
Free Cash Flow	-71	-282	191	51	-15	-52	-61	-72
Net Purchase of Invest.	153	-220	69	547	204	842	637	780
Acquisition of subsidiary	74	14	-132	-346	-127	-139	-109	-74
Net Cash from Invest.	0	0	0	-8	-8	0	0	0
Proceeds from LTB/STB	3	-269	59	-302	-150	-191	-170	-146
Others	10	-11	-7	-3	69	0	0	0
Cash Flow from Fin.	-3	-5	-19	-18	-44	-24	-20	-23
Net Cash Flow	7	-15	-26	-21	25	-24	-20	-23
Opening Cash Bal.	234	-221	-89	174	94	680	508	683
Add: Net Cash	87	321	100	16	190	284	963	1,471
Closing Cash Bal.	234	-221	-89	174	94	680	508	683

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