

Date: 15th February 2023

To, Corporate Relationship Department BSE Ltd. P, J. Tower, Dalal Street Mumbai – 400001 Scrip Code: 543591	To, National Stock Exchange of India Limited Exchange plaza, C-1, Block G, Bandra Kurla Complex, Bandra (E), Mumbai- 400051 Script Symbol: DREAMFOLKS
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Subject- Transcript of earnings call conducted on 9th February 2023

Dear Sir/Madam,

In continuation of the earlier communication regarding Q3 FY '23 earnings conference call and in compliance with Regulation 30 of SEBI (Listing obligations and Disclosure Requirements), Regulations, 2015 (as amended from time to time), please find enclosed herewith the transcript of Q3 FY '23 earnings conference call conducted on 9th February 2023.

The same is also available on the website of the Company.

Kindly take the above intimation on your records.

Thanking you.

Yours faithfully,

For Dreamfolks Services Limited

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Ms. Rangoli Aggarwal

Company Secretary and Compliance officer



**“Dreamfolks Services Limited
Q3 FY '23 Earnings Conference Call.”
February 09, 2023**

Disclaimer: E&OE. This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange will prevail.



**MANAGEMENT: MS. LIBERATHA KALLAT – CHAIRPERSON AND
MANAGING DIRECTOR – DREAMFOLKS SERVICES
LIMITED
MS. GIYA DIWAAN – CHIEF FINANCIAL OFFICER –
DREAMFOLKS SERVICES LIMITED
MR. BALAJI SRINIVASAN – CHIEF TECHNOLOGY
OFFICER – DREAMFOLKS SERVICES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Dreamfolks Services Limited Q3 FY '23 Earnings Conference Call. This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the Company as on date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Liberatha Kallat, Chairperson and Managing Director, along with Giya Diwaan, CFO; Balaji Srinivasan, CTO with Dreamfolks Services Limited. Thank you, and over to you.

Liberatha Kallat: A very good evening to everyone, and thank you very much for joining our earnings conference call to discuss the operational and financial performance for quarter 3 and nine-months financial year '23.

This has been a very interesting quarter for the Company, launch of continuing new initiatives, adding new partners and relentlessly working on being future expansion ready, while providing our end consumer the most seamless and smooth experience of access to lounges and other touch points on their journey. With the industry know-how, deep integrations, strong relationships and networks we have gained and build over time with our clients and operating partners.

We are the industry-leading player with 100% coverage across the airport lounges in the country. The statistics are similar when it comes to railway lounges, where we are present currently in 10 railway lounges across the country and witnessed a steep growth rate with our modernization of railway stations happening at great next speed.

We operate on an asset-light model when it comes to our tangible capital assets. Similarly, our business model is not human resource intensive. We operate with a lean team size of 64 full-time employees including our senior management and carry out our operations in an optimal and effective manner.

Not being only limited to the airport-related benefits, we took a deep -- we took a big step via a strategic partnership with one of the four most and leading golf privileges providers, Vidsur Golf. This first-of-its-kind association will enable Dreamfolks to expand its already diverse service offerings by enabling end customers access to golf games and lessons across India and Asia Pacific. This association will give customer access to golf games and lessons at 40+ golf clubs throughout India and 250+ golf clubs and resorts in the Asia Pacific region.

From an industry overview standpoint, India has a very low air travel from the city. However, business dynamic is changing due to multiple factors ranging from greater disposable income,

lifestyle preference changes, declining air travel costs vis-à-vis AC train travel costs and opening up of several new travel routes.

From a regulatory perspective, too, the Government of India has pushed the UDAN Scheme to increase air travel in Tier 2 and Tier 3 cities leading to higher connectivity between Tier 1 and other cities. In budget 2023, Finance Minister, Nirmala Sitharaman proposed revival of 50 additional airports for improving regional air connectivity, which will further help our business to grow. All in all, we see a very strong upswing in air traffic and thereafter, a preference to opt for full added services such as lounges, spa services, airport transfer, F&B outlets and more.

Our demographics are favourable to with an immensely dip digital penetration and growing card user base, which increases the odds of this new crop of people to desire, adopt and prefer air travel, increase travel frequency. Currently, a very marginal portion of the eligible base of credit/debit card user base are accessing lounges. Thus, the headroom for growth that lies ahead is phenomenal. The credit card penetration is low in India and is expected to increase exponentially. With the industry reports suggesting that the credit card user base is expected to grow 33x in the next two decades.

Lastly, talking about infrastructure -- to meet this growing demand and capitalize on this growing trend, while the number of airports are increasing in high-traffic markets, Tier 2 and Tier 3 cities and towns, the existing airports are getting more lounges and the existing lounges are steadily increasing their services -- service areas to accommodate a greater number of travellers.

Even then, when we have barely scratched the surface, we have 60 lounges in the country, spread over 125 plus operational airports at the moment. This statistic is expected to steadily rise over the next two decades and expected to reach 200-plus airport lounges spread across 295-plus airports by 2040. Thus, quite evidently, the headroom for growth is immense.

Over and above the infrastructure growth, we have also been able to introduce innovative solutions for decluttering the queue outside the lounges. We have introduced self-check-in kiosks at major airports in the country, which eliminates the queues and reduce wait time at lounges reception. Through this medium, the end customer can check the benefit on multiple cards without waiting in queue. At the kiosk, a user can scan the QR code to register and check in tap her credit or debit card on the kiosk terminal to generate QR to access lounges, which can then be used to access the lounge.

This quarter witnessed a lot of activity in terms of air travel owing to the festive season domestically and winter holiday travel for overseas standards. This has augured well for us as a Company as it increased footfall and rising adoption of airport lounges and other services at airports has helped us increase the number of travellers deserve substantially.

As part of our diversification strategy beyond the financial services sector, our solutions have created accelerated revenue opportunities for airlines and OTAs by enabling them to cross-sell and upsell our services to their ticketing customers. Our focus is on operators who provide services and we give them the option of a single-point access to the customers while also

providing the technology to validate the benefits available to consumers provide card-based and digital access and billings.

On the business development front, we have recently tied up with 5 new clients, including the newest LCC in India, Akasa. There has been a strong growth of approximately 63.04% in air traffic in nine-months financial year '23. Domestic air traffic grew by 16.67% in quarter 3 FY '23 as compared to quarter 3 FY '22.

We have seen record high footfall in the airport lounges privately due to early arrival requirements and the higher engagement from card network providers as well as issuers to avail variance offers and services. Number of passengers availing lounge access and other touch points through us has grown at a healthy rate of 164% year-on-year in nine-months financial year '23 and 87.93% in quarter 3 financial year '23.

In 9-month financial year '23, passengers accessing the airport lounges access and other touch points stood at 5.81 million compared to 2.20 million in nine-months financial '22, reflecting the recovery in the travel industry growth. For quarter 3 financial year '23, the passengers accessing the airport lounges access and other touch points stood at 2.15 million compared to 1.14 million in quarter 3 financial year '22.

To take you through our tech capabilities and development, I would like to ask Balaji Srinivasan, our CTO to take over.

Balaji Srinivasan:

Thank you, Liberatha, and good evening to everyone. On the technological front, our Dreamfolks platform is proprietary and has been developed in-house. The entire platform technology is cloud-based and allows lounge operators to check the consumers' benefits on the cards, memberships or vouchers and allow access the facilities based on the benefits or integration as per the clients' processes and systems.

We provide clients the option of providing the consumers different mechanisms to access airport-related services like lounges, via an omnichannel mode and facilitate lounge access and other benefits via credit and debit cards, card issuer apps, our own app through self-check-in kiosk and web-based portal using our hybrid technology. In more recent digital model integrations, clients are integrating the lounge benefits and access mechanism into their own mobile apps.

As mentioned earlier by Liberatha, the association with Vidsur Golf layers the Dreamfolks proprietary tech platform on top of the global inventory of Vidsur Golf, thus seamlessly blending into the existing customer value propositions of our existing and esteem clients. One can now book from several golf locations and courses to either play or learn golf globally and select any of the golf course or lessons offers through the Dreamfolks tech platform for a seamless booking experience.

Our platform also makes it simple for our clients to configure benefits and to calculate and manage them as well. It also offers options for integration and data exchange APIs. Additionally, it streamlines the lounge access procedures so that customers benefits are verified and synced in

real time across all the access methods, which support correct accounting and is intended to stop system misuse and customer service denial.

Our in-house developed proprietary tech platform is aimed at hassle-free experience to our consumers. This superior technology platform is one of the multiple moats that we have at our Company.

Now I would like to request our CFO, Giya Diwaan, to take you through our performance of Q3 and the nine-months thus gone by.

Giya Diwaan:

Thank you, Balaji. And a very warm welcome to one and all attending this earnings conference call. As highlighted by Liberatha and Balaji, this quarter has seen a number of developments, be it on the industry front, with the development of infrastructure or on the Company front with the addition in offerings and deeper integration with our clients. This has translated into another quarter of growth performance with the margin expansion during the quarter.

The improvement in margin year-over-year sequentially is a testimony to our strong fundamentals of driving sustainable growth, resulting in operating leverage.

Our growth -- revenue growth continues at a healthy pace and we witnessed another quarter of healthy performance across key KPIs contributing to all-round growth in margins. The growing pipeline and strong client additions despite a volatile global environment highlights the strength of the Tap travel industry and the adoption of tech products to drive revenue.

Continuing with the momentum in last couple of quarters, the Company registered 107% year-over-year revenue growth with the Q3 FY '23 revenue from operations of INR 204 crores compared to INR 98.3 crores in the corresponding quarter last year. The growth in the nine-months of FY '23 stands at 192% with the Company posting revenue from operations of INR 535.5 crores in nine-months for this year as against INR 183.33 crores in the corresponding period last year. The growth is primarily on the back of continuing uptake in the passenger volumes.

In terms of the profitability, happy to report that we have reported an EBITDA margin of 13.05% in this quarter against 8.77% in Q3 FY '22. Our EBITDA closed at INR 26.71 crores in the quarter as against INR 8.62 crores for Q3 FY '22. The EBITDA for the nine-months stood at INR 67.29 crores as against INR 11.62 crores for nine-months FY '22. EBITDA margins improved substantially, arising from 6.3% in nine-months FY '22 to 12.52% in nine-months FY '23. The Company continues to have strong client relationships that are helping in building a scalable, predictable, stable and sustainable revenue and operating margins.

The reported PAT for Q3 FY '23 was INR 18.98 crores, which has increased by 208% compared to INR 6.16 crores in Q3 FY '22. The PAT for nine-months for this year was INR 47.23 crores, which has significantly increased by 550% compared to nine-months period of the last year. During the nine-months period of the current financial year, our PAT margin was 8.79% compared to 3.93% in the corresponding period of last year.

Our major expenses are linked to employee compensation, which for the nine-month period was INR 12.3 crores. It is 2.3% of our revenue. Being an extremely asset-light Company with a very lean organizational structure and size, we don't have any major capex needs or other outlays and we are confident of financing any future scale-ups or expansions through internal approvals.

Strong profitability and asset-light business model has helped us deliver significantly higher double-digit returns to the shareholders. We recorded a ROCE of 46.46% and ROE of 36.1% during nine-months FY '23 on a non-annualized basis.

With this, I would like to hand over the call to Liberatha to highlight the way forward for the business.

Liberatha Kallat:

Our next phase of growth is centered upon multiple layers, while we will continue to cross-sell and upsell to existing clients on the back of new premium services that we have added and continue to work upon acquiring new clients in existing and new sectors and via geographic expansion is a major focus area.

We currently have 1,486 touch points globally and are constantly in the process of expanding our footprint with strategic partnership and tie-ups. We have demonstrated a strong business model that has helped us scale up in a very short time span, and we intend to replicate a similar success story by leveraging our deep knowledge of the industry, technology innovation, process expertise and enriched data backed insights across new growth markets, which include Middle East and Southeast Asia.

With premium offerings such as golf course Access, we aim to increase wallet share with existing clients and expand our association beyond airport lounge services. As regards new clients, we aim to expand into newer sectors to create customer engagement and provide loyalty management solutions. While it is a very niche and small contributor at the moment, nevertheless, customer engagement and loyalty solutions for corporate clients and developing tailored solutions for the business in the airlines, new way digital, fintech and OTAs, among others, is another area of interest.

To support these strategies on the industry front, the infrastructure is upgrading both in terms of size and quality, which bodes well for us. Customer spending has also increased over time, leading to a sustainable growth in air travel going forward. By virtue of what we refer to as Dreamfolks flywheel, which is essential a mix of three elements: a higher number of users lead to a greater number of lounges where we enjoy a tremendous competitive advantage, more lounges bring more banks and brands to this line of business. As a consequence of which a broader bank and client coverage draws more users. Having deep integration, with the ecosystem creates interdependencies that not only support our growth levers, but also the entire Dreamfolks in this principle.

With that, I think we can open up the floor for your questions.

Moderator:

The first question is from the line of with Pritesh Chedda with Lucky Investments.

- Pritesh Chheda:** Ma'am, from your slide, there is this count of Dreamfolks Pax for the nine-months, which is about INR 5.8 million. Can you give us the corresponding 9-month number last year for us to understand the growth on a 9-month basis? And your revenue growth would be faster than the Pax growth. So, is it fair to assume that there would be international this year versus low international last year, hence, the realization increase?
- Giya Diwaan:** The corresponding numbers against 5.9 for the nine-months FY '23 is 3.64. Against 5.8 million, it's 2.2 million in the period ending nine-months FY '22, okay?
- Pritesh Chheda:** Okay. And can you give the bridge on the realization side? So, your revenue growth will be faster. So, I'm assuming that you'll have a lower international pax last year than higher international pax this year, whereby the revenue growth is faster than the pax growth, that's how it is?
- Giya Diwaan:** So of course, the proportion has changed compared to the previous year. If we talk about nine-months ending previous year FY '22 versus this 9-month FY '23, currently, the ratio is 25%/75% between international and domestic, while that used to be close to 40%/60% in nine-months ending FY '22.
- Pritesh Chheda:** No, I missed it. 75% is...
- Giya Diwaan:** 25%/75% is in the current period, in which 25% is international, okay?
- Pritesh Chheda:** 75%/25% would be last year and 40%/60% would be this year?
- Giya Diwaan:** No, no, no. 75%/25% is the current number.
- Pritesh Chheda:** Okay.
- Giya Diwaan:** Okay? And 15%/85% is the previous period number.
- Pritesh Chheda:** And my last question is, this 5.8 million for nine-months or, let's say, 3.5 million for last year. What do you see this at the year-end is 5.8 million look like?
- Giya Diwaan:** So, sorry we would not be able to speak on any forward-looking statements over here. But if we talk about the industry prospect and we get to see this data, DGCA published data on a month-on-month basis, we are clearly seeing the growth traction continuing in the January number out, which is there in the public domain.
- Pritesh Chheda:** And any changes on the realization per pax with any of your contracts incrementally, anything that we need to be aware about either upward or downward on your contracts?
- Giya Diwaan:** Actually, if you see the way the contracting happens, there is an escalation. But for most of the escalation for this year, we have already closed the pricing. So, you would see kind of a stable or slightly improved pricing going further as well.
- Moderator:** Our next question is from the line of Shreyans Mehta with Equirus.

Shreyans Mehta: Firstly, congratulations on a strong set of numbers. First, ma'am, in terms of our gross margin, if you see, they have improved sequentially as well as year-over-year. So any particular reason?

Giya Diwaan: So, Shreyans, 2 factors. If I look at last few quarters, first is the mix, which has changed. When I talk about mix, it's international versus domestic mix. And within India, international lounge traffic and within India the domestic lounge traffic because the margins are different in these 2 set of lounges, right? So that has been changing. We just spoke about it, currently we are in 75%/25%, while if I look at the past 4, 5 quarters, it used to be hovering around 85%/15%. And sometimes during the COVID impact, it actually became more like a 95%/5%. So that is also a factor which is driving the gross profit.

And the second is in terms of our pricing, as new set of clients are increasing, Liberatha was mentioning that we are opening up for a larger set of industries beyond financial services, we have airlines, OTAs and other corporate clients coming in -- that helps us in maintaining our margins and rather improving our margins quarter-on-quarter.

Shreyans Mehta: Secondly, ma'am, if you could highlight what are the revenues from the railway segment or the other segments during the quarter and sequentially and...yearly

Giya Diwaan: Shreyans, railways is at a very nascent stage. As we have mentioned, we are currently in 10 railway lounges. And we started this 2 to 3 quarters back. So, it's growing very fast. However, what would drive the growth faster is the infrastructure development. As new and new lounges are getting added, we would keep adding that as an offer to our clients for their users. So, we see that, that's going to drive the growth substantially. However, as a part of contribution to the total revenue, it still is negligible. We will have to see some more quarters to see the right traction.

Shreyans Mehta: And ma'am, two more questions from my side. We were -- as far as our international operations are concerned, how are we placed out there? So, when can we hear something concrete on that front? And lastly if you could provide us with the cash number as on date?

Liberatha Kallat: So, coming to the global expansion, so we have already started working on it in terms of we have hired a few of our team members for these regions, especially in Southeast Asia. And we are in process of also onboarding team for Middle East as well. So, I would say that we would start seeing the numbers coming in and maybe 6 to 7 months' time, we will start seeing that we will also have clients from these regions as well.

Shreyans Mehta: Sure, sure. And cash number if you can help?

Giya Diwaan: So, we have not reported that, but we closed with a cash balance of INR 12 crores -- free cash.

Moderator: Our next question is from the line of Keshav Bagri with VT Capital.

Keshav Bagri: So if we look at the macro picture, number of airports, lounges, privatization of airports, non-ad revenues, non ----- revenue everything has been rising exponentially. We provide solutions to parties and on both side of the trades I mean the lounge operators rather the banks and the card operators. My question is regarding the micro picture. So how as a Company we are protecting

our solution? Is it through some intellectual rights which we have on our technology solution? Or are we focusing more on the exclusivity with the lounges? So what kind of progress on that side of the story?

Liberatha Kallat:

Okay. So, the way we are actually trying to safeguard or I would say that strengthen our business is that, yes, one, is that getting into exclusive contracts with the lounges. So yes, that is one point. And secondly, is that in terms of the technology as well, the way it works is that we are deeply integrating with our banking partners. So that is one of the strong points because the step of integrating with these clients itself is a very long process, right? And there are a lot of compliance as well.

So, once you have integrated with these clients, it is -- I would say that the process or in the long-term run, it is one of the strongest way that how you actually take care of the solution or how you protect your solution. So, I think these are the two important factors.

Secondly, the most important thing, I would say, is that from the time when we have actually started this business, wherein we started with the lounges, but now you can see that in terms of value-added services, we have added all the other services, starting from airport transfer to meet an assist to the other services at the airport. So, I think we enhance the product services as well. So that is also very important that we keep adding more and more benefits and services. And now also we added golf to our inventory as well. So, I think it's very important that how we upgrade our product portfolio.

Secondly, the enhancement of the solution as well, like we always talk about our hybrid solution. So earlier, it was just on the POS terminal today. We have our in app solution. We have -- and that's the reason we are integrating our system. So, these are the ways that how we protect our business and how we try and ensure that we are ahead in the market.

Keshav Bagri:

And my second question would be like being a catalyst, it's obviously very difficult to expand your margins beyond a certain point. But what we have witnessed in this quarter is that our margins have been improving Q-o-Q as well as Y-o-Y. So how sustainable these margins are in the future? Plus, if I remember the management has given a guidance of around pat of INR 60 crores for FY '23. And this leads within our reach because we have already reached INR 45 crores this year. So, are we in a position to reinstate our guidance? Or would the management like to stick with its previous commentary? On similar lines, how has been the traffic in the month of January and February?

Giya Diwaan:

So, you're right that we have been able to maintain a margin anywhere between 15% to 16%. That's the focus when we raise the conversation with both the set of our stakeholders, whether it is client or operating partner. The endeavour would be to definitely keep improving in terms of the margin within the same range of 15% to 16%. However, an interesting fact is, as we scale up, I'm sure you have seen that our employee and other expenses do not increase in the same proportion being an asset light model and having the lean team for operations, right? So, EBITDA margin keeps on improving as we keep scaling up. So hence, there is this growth which you are getting to see quarter-on-quarter.

In terms of the guidance, of course, we would not be able to comment at this point in time when it comes to PAT and the number you are referring to. But when we look at the DGCA data, for the numbers for January, the traffic is even higher than what they logged in the month of December. And typically, this quarter is also considered as a travel quarter, barring the March month wherein it kind of normalizes. So -- and also this year, we are seeing a lot of new normals after we have recovered from COVID. It will be difficult for us right now to estimate what it would be in the March quarter.

Keshav Bagri: And are we trying to add more value-added services like the one which we had with Vidsur Golf and how fruitful has that tie-up been, like if you could throw in some numbers or some margins? Plus has there been any communication from your side or from the banks or the operator regarding the effects of reduction in the MDR fee they have been charging?

Liberatha Kallat: So, in terms of the value-added services, I would say that, yes, we are in a process of adding new services as and when there are additional offerings, which are coming at DFO. So even now, if you see that we have almost added everything which is required for a traveller and whenever we see there is a new requirement. And yes, we are in process, and we will soon announce our new service portfolio as well that you know what are going to be there in coming months as well.

Coming to the MDR charges, I would say that we mentioned earlier also that this has nothing to do or going to impact our existing business. Because as we said that lounge benefit, which has been given is an acquisition cost for the bank. So, we have so far not heard anything or have not come across from any of our clients that there is going to be any such impact on the benefits what they are presently providing.

Keshav Bagri: Okay. Can you give me some numbers regarding the Golf type that you had like in terms of revenue or margins, like how margin accretive these types are or the value-added services are as compared to your original business of lounge operations?

Liberatha Kallat: So, the margins, we will try and maintain in the same way what we have actually been doing it in our present business. And golf has just been added and it's too early for us to right now talk about what type of numbers are there. But I would say that it would take a couple of months for us to actually see the contribution from these services.

Moderator: Our next question is from the line of Mukul Garg with Motilal Oswal Financial Services.

Mukul Garg: Just a couple of quick ones. First, to follow-up on the previous participant. Can you...

Giya Diwaan: I think the line is disconnected so is there anything?

Moderator: Yes, ma'am, the line for the participant has dropped. We will move to the next participant. The next question is from the line of Anupama Bhootra with Arihant Capital.

Anupama Bhootra: First of all, congratulations for your great numbers. So, I just need some data points. If you could just tell us about the conversion rate for maybe on quarter-on-quarter basis or maybe for nine-months? And if you could throw some light on realization for domestic and international lounges

this quarter? And also, if you can tell us about the ratio between the lounges services and other value-added services? Yes.

Giya Diwaan: Sure, Anupama. So, as we mentioned, 5.81 million is the number -- Dreamfolks passenger number for nine-months FY '23 which actually gives us a conversion ratio on the domestic Pax numbers of 5.9% for the entire period ending. And if I compare that with the corresponding period, in previous year, it was 2.2 million, which gave a conversion ratio of 3.64%.

As far as the price realization is concerned, the price realization on the blended basis is INR 940 approximately for us, wherein if we talk about domestic, that is close to INR 840-INR 845. And internationally, that would be anywhere between INR 1,200 to 1,400.

Anupama Bhootra: Okay. And also, the ratio in Q3, the ratio of lounge services versus the other services?

Giya Diwaan: So, Anupama, the ratio primarily is driven by -- the revenue primarily is driven by the lounge businesses. So more than 96% of our business comes from lounge operations.

Moderator: I think Anupama Bhootra has left the question queue.

Anupama Bhootra: No, I'm done with my question.

Moderator: Our next question is from the line of Ayush Aggarwal with Mittal Analytics.

Ayush Aggarwal: I hope I'm audible?

Giya Diwaan: Yes, you are.

Ayush Aggarwal: Yes, great. So, the growth in this year comes on a small base on last year. But the one issue that we see right now in airports is that the lounge area cannot be easily expanded, and there's a lot of overcrowding in major lounge which is happening. So, any communication from lounge partners that how they plan to tackle this? And because if lounges does not grow.

Liberatha Kallat: So, the thing is that all the major airports, especially on the metro cities like Bangalore, Mumbai, Delhi, Hyderabad which are privately owned of airports. If you have seen that, yes, there have been a drastic change from the times when we have already started this business, which is 10 years back. The average lounge size used to be around 2,000 square feet, which today the average size is around 13,000 around square feet. And further, the airports themselves are actually in plans of expanding this because they see that there is too much of value and business benefit even for the airport as well.

So, there are lounges which are getting expanded. Bangalore, if you would have seen that initial, there were 2 lounges, which were of a size of 5,000 each. But today, the lounge space is around 30,000, 35,000 square feet. And now there is a new terminal, 2, which is also operational wherein there also the equal sign of lounge, which is going to be around 30,000 square feet lounges, which is coming. So obviously, the traffic is going to be shared between Terminal 1 and 2.

In a similar way, even in Delhi also, if you see that existing lounges, which were there have already expanded. The international side, the lounge is already expanded. Domestic, you will see in next 2 months, the existing space, which is there is going to be double. So, there are expansions which are going on. And even the existing Mumbai terminal T2, there are expansion plans and there are spaces available at the airport, where the airport is working on having additional space. So, this is on the airport side, where they see that there is a value from these lounges and business and good revenue coming to the airport as well.

But coming from Dreamfolks side, the things what we are trying also to build in is in terms of the technology. So obviously, yes, looking at the long queues at the lounges, we have also built in the self-check-in kiosk, so which you will actually notice this self-check-in kiosk in Hyderabad, Bangalore, Delhi and very soon in Mumbai Airport as well. That these kiosks are going to be away from the lounges wherein the passenger can actually go and personally check the number of cards, whatever they have to check which cards will have the eligibility and they would be given a QR code where they would not have to stand at the lounge queues at the reception, but rather just scan the QR code and get into the lounges.

So, I think these are the things which are already been done. And from the airport side, as I told you that there are a lot of expansion plans which are going on. So, we see that rather there is a huge growth and potential and a huge opportunity with more and more airports also getting privatized, so there is a huge potential for our growth as well. Sure. Any further questions?

Ayush Aggarwal:

Yes.

Moderator:

Mr. Ayush Aggarwal, may we ask you to join the queue afresh as there is disturbance from the line. We are unable to hear you. Our next question is from the line of Sunil Jain with Nirmal Bang Securities Private Limited.

Sunil Jain:

Congratulations on a good set of numbers. My question relates to one about the data. This employee cost last quarter was having some ESOP expenses. This quarter, is there anything, or no?

Giya Diwaan:

There is an ESOP -- can you hear us? There's a disturbance in the background. So, Sunil, there is an ESOP expense built in this quarter's numbers in employee costs as well.

Sunil Jain:

Can you give us the amount possibly?

Giya Diwaan:

Yes. So, in Q3, it is 2.89 million, which is factored in, in the employee expenses.

Sunil Jain:

Okay. And what was it in Q2 if you can?

Giya Diwaan:

In Q2, it was 6.26. It is for the entire lot which was allocated to the employees in the year 2021, which gets spread over a period of 3 to 4 years.

Sunil Jain:

Okay. So, this 2.89 will continue in the coming periods?

- Giya Diwaan:** It will keep reducing because the way it is -- the way the accounting is done, it is booked larger amount in the beginning of the year and as the period passes in, the amount keeps reducing.
- Sunil Jain:** Okay. And one more thing about the renewal of contract or pricing negotiation which you have said that has been done with most of the current customers. So generally, this pricing negotiation or renewal is yearly phenomena? Or how it works?
- Liberatha Kallat:** So usually, our contracts with the clients or the lounges partners are between 3 to 5 years. However, the price negotiation, which is there is year-on-year from both the sides. So, either it would be a calendar year, which is Jan to December or a financial year starting from April to March.
- Sunil Jain:** Okay. So not many contract might have happened in January 1st -- from 1st Jan?
- Liberatha Kallat:** Yes, we have already closed the contracts.
- Sunil Jain:** Okay. And just last question about the -- generally, fourth quarter, you said it's a traveling quarter. So generally, the trend is like it equal to third quarter or it's a bit lower than that?
- Giya Diwaan:** Sunil, historically, fourth quarter was more or less similar to third quarter, but I'm talking about the trend which used to be pre-COVID level. Now every trend is changing. This would be the first year after the recovery of COVID, we might get to see the same trend as well here.
- Moderator:** Our next question is from the line of Depesh Kashyap with Invesco Mutual Fund.
- Depesh Kashyap:** Ma'am in my assessment, the Delhi Airport should easily contribute around 15% to 20%, if not more, to your revenues. Now since Delhi lounges are not operational in the month of November and December, so just wanted to understand the revenue impact of this one-off event in your 3Q numbers. So, in a way, how much more you would have done if these lounges were not in-operational?
- Liberatha Kallat:** So, these lounges, which were there in Delhi Airport were non-operational only for a couple of days or weeks, I would say, but there were alternative arrangements made by the airport. So I would say that, yes, there was not such an impact on our business because the alternative arrangements, both in Hyderabad and Delhi were already there. And all these locations, the lounges are up and running with new operators in place and come now.
- Depesh Kashyap:** So, there was no impact whatsoever in the last quarter you're saying?
- Liberatha Kallat:** Not a major impact, I would say.
- Depesh Kashyap:** Okay. Got it. Also, in the PPT, I think you have mentioned that the lounges capacity expansion at P3 has increased from like 2,500 square feet to 10,000 square feet, right, which is a massive increase. So, since air traffic is not expected to grow more than 10% to 15% every year. Just wanted to understand your assessment on the lounges conversion ratio, which is currently around 5%. So how high it can go? And if any global comparison you can give that will be useful?

- Giya Diwaan:** We could speak globally also, this conversion ratio right now is hovering around 12%. So, if you look at the India market, there is still a large room to grow from here on.
- Depesh Kashyap:** Got it. And lastly, given the number that you gave of 25%/75%, right, for the international and the domestic. Just want to understand there's a number -- a proportional number of revenue? Because I see the DGCA website, there the mix of international or domestic is around 15% to 85%, right, still it is very low as compared to pre-COVID levels. So, the number that you gave us for the revenue mix or the passenger mix?
- Giya Diwaan:** That is for our revenue mix.
- Depesh Kashyap:** Revenue mix?
- Giya Diwaan:** Yes.
- Moderator:** Our next question is from the line of Mr. Narendra with Whitehouse Capital.
- Narendra:** And my question is on, I can see the list of banks which Dreamfolks has tied out, but why is this tie-up is limited to only few banks? Is this because other banks which offer credit card, they don't have lounge access offer or it is due to our operational capabilities, which are intended to low manpower?
- Liberatha Kallat:** So just to give you a background, that initially way the program is managed or even presently, I would say it is usually from the network provider, which is Master, Rupay, American Express, Diners. So, they are the network provider who actually give this benefits to the banks or the issuers, right? However, now the major -- the top issuers wanted to manage their own program, and that's the reason that why you see only a few of the banks.
- The other banks are directly under the network today, and that's the reason you don't see that individual bank managing or running the program, but these individual banks come under the network provider. So, it comes under the Mastercard or Rupay program.
- Narendra:** Okay. In continuation of the same, let's say, I have a bank card, which doesn't have tie-up with Dreamfolks. And let's say, Bangalore lounge is exclusively managed by Dreamfolks. As a customer, if I come with that card, will you allow me to use your lounge or not? Because you don't have tie-up with that bank?
- Liberatha Kallat:** No. So if that card, the program is under a network, which would be either a Mastercard or a Rupay, then you would get an access there. However, it is not under the program which Dreamfolks is managing and if the Dreamfolks has an exclusivity with that particular lounge, of course, then that card will not be allowed or that customer would not be getting access to that particular lounge.
- Narendra:** Okay. Ma'am, I don't see Visa as your client in your website. Is there anything change in the contract here? It was there earlier, I think?

- Liberatha Kallat:** So, as I told you that initially, yes, it was the network who were directly running the program. But today, we have direct contracts with all the major top issuers, which actually fall under the network providers. So that is one of the reasons that we have all the direct contracts with large issuers who come under the Visa program as well. So, the Visa, Master, Rupay or any card, or any network, which is there is directly managed by the issuers.
- Narendra:** Ma'am, your investor presentation mentions possibility of around 150 lounges and 250 airports by 2030. But if I go through your DRHP, it says to manage it successfully, at least we need 5 million to 6 million passenger rate per year. And when I look at the data from Airport Authority of India, out of around 150, 160 airports, only 55 airports have annual passenger rate of more than 500,000 per year. And the remaining airports, the number is very less actually. So even though the airports are existing for quite some time. So, in this scenario, practically, how many lounges will be possible by 2030?
- Liberatha Kallat:** So today, also, if you actually see that the major lounges or the major cities, the metro cities are the largest contributor to the program. So the major traffic is presently from the major cities like Delhi, Mumbai, Bangalore, Chennai, Hyderabad, Kolkata, So these are the -- so even though there would be lounges or airports coming up in Tier 2 or Tier 3, there would be a contribution, but largely the contribution would be from the metro cities.
- Moderator:** Mr. Narendra, may we request you to return to the question queue for follow-up questions as there are several participants waiting for their turn. Our next question is from the line of Nishant Sharma with Nuvama Wealth Management.
- Nishant Sharma:** Congratulations for good set of numbers. So, my question is more from a longer-term perspective. Currently, our major revenue comes from the lounge services, which is around over 96%. How do you see this number coming down going forward with the addition of other services like railway lounge and golf services? And is there any other services that we are planning like golf services? That were the two questions I have.
- Moderator:** Ms. Liberatha Kallat, can you hear us? The line for the management is now reconnected. Thank you, and over to you, ma'am. Mr. Nishant Sharma, you can please ask your questions now.
- Nishant Sharma:** I was just looking out currently over 96% of the revenue comes from the lounge services while we have added value-added services like F&B, need and assessment and others. And at the same time, we are also at a nation stage in the railway lounge and in base of a golf course. So, over a period of, say, 2 to 3 years, how this other services are likely to contribute apart from the airport-related services? What would be the mix of the non-airport-related services? And also, what are the additional services that we are planning to get on board going forward? Like we have added golf, so what are the other services that we can add up or possibility of adding up?
- Liberatha Kallat:** So, in terms of the revenue, I would say that the large contribution would always be from the lounge because lounge will be the focus area and that lounge would be the main revenue generating for us. The other services, I would say, would not -- I mean, it would take some time where we actually see that there would be a percentage of contribution from these services. But primarily, it would be still the lounge, which will contribute majorly to the revenue.

But however, if I have to talk about in coming years, we will see around 10% to 15% of the revenue would be from the additional services what we have added. Coming to the new services, what we are planning to add, I think we are in process of adding few more travel-related offerings, which we will be announcing very soon.

Nishant Sharma: So, your new services will also be related to travel only or the airport lounge services-related only, right?

Liberatha Kallat: I think we will have to wait and watch for us to announce those services.

Nishant Sharma: No worries. And the 10% to 15% you referred, this is non-lounge services you're referring, like it may include meet and assist and the other F&B services and not just -- I mean not the golf and railway lounges?

Liberatha Kallat: I would say that apart from lounge, any other services what we have added in the next 3 to 5 years, we will see a contribution of 10% to 15% of all the services put together.

Moderator: Our next question is from the line of Pulkit Singhal with Dalmus Capital Management.

Pulkit Singhal: Congrats on a good set of numbers. Just wanted to understand the level of concentration. So, on one side we talk to the issuers, and on the other side, we're talking to the lounge operators. So, would it be fair to say that the top 5 issuers and the top five lounge operators each would be contributing easily 80% or more of your business?

Liberatha Kallat: I would say, yes, but there is a change of trend also happening from the time when we started. So, the top 5 clients, which were a couple of years back, are not the same top 5 clients in the present year as well. So, I would say the trend is changing. But yes, the contributor would be from top 6 to 7 clients, which are there. And similarly, yes, even in terms of the lounges, as we always mentioned, that, yes, the major contributor are from the metro cities. So yes, these would be the operators who would be contributing to the revenue.

Pulkit Singhal: Understood. And now that you are a listed firm and your financials are quite public and evident to these top 10 people, how tough it is for you or would be understated be so tougher to renegotiate terms in the same manner that you do in the past because you are making, say, INR 50 crores, INR 60 crores of profit at some point you'll make INR 100 crores, do you anticipate that to get a tougher negotiation?

Liberatha Kallat: So, as I mentioned that we are actually getting into a different industry segment as well and not just with the banks. And more and more corporate and the other clients, which we are adding up, our margins are actually in a much better and the pricing is getting in a different way – with corporate and as a strategy we have also maintained in that way, and we'll continue to ensure that the margins remains steady.

Pulkit Singhal: Last question from the railway. It's an interesting part. So just trying to get a sense as to the size of railway lounges versus the airport ones and the ticket sizes, are they very different right now?

Liberatha Kallat: Yes. I mean, coming to the services, I would say that the service standards or the offerings are almost similar to what the offerings are at the airports because they are all the private operators, even at the railways, the same operators who are managing the airport lounges are also managing the railway lounges as well. So, in terms of the service and the qualities which have been offered is almost similar to what is there at the airport.

Coming to the pricing, yes, the pricing is different, and I would say, are more competitive as the railway is looking at the price structure for the railway standards. So yes, the pricing is different. But I would say in terms of the quality and the service, we're trying to match what is there at the airport.

Pulkit Singhal: I meant on lounges sites, because railway stations have better space, I would think versus an airport?

Liberatha Kallat: Yes. So, the lounges sizes are also in a larger space right now compared to what it used to be earlier called as a waiting room. So almost all the lounges, which have come up right now, are having larger space. And unlike airports here, there are multiple locations because there are different platforms. So obviously, the expansion on having multiple lounges, the opportunities are huge at the railways.

Moderator: Our next question is from the line of Saurabh Mehta with East Lane Capital.

Saurabh Mehta: I wanted to understand like this year, we'll be closing the year, I'd say, somewhere about INR 8 million. So going forward in the coming years, what is the sort of growth which we envisage, especially looking at the lounges, they all seem running at 100% utilization or more. So how do we see it growing? Is it -- as you mentioned about the Delhi and Bangalore lounges, is it newer lounges or the same airports or the newer airports will come up with lounges? Like what is the revenue of growth you're expecting, say, for coming next 3, 4 years, like 15%, 20% or much higher? That's my first question.

Giya Diwaan: Yes. So, there are clear drivers for this. One is definitely the credit card penetration, okay, which is -- so in a way, our growth would also be partially based on that growth. If we look at credit card penetration and the number of cards in circulation, the growth in last 1 year, if I compare December '21 to December '22, it has -- the number of cards in circulation has grown at 18%. On top of it, the adoption rate in the credit card for accessing the lounge also has a room to grow.

The infrastructure is also growing, as we spoke about, the lounge sizes are increasing, the number of lounges are increasing, we are adding new services. And on top of it, the air travellers data, if we look at, that's also growing quarter-on-quarter. In fact, month-on-month as well, there has been a good, recorded growth. Now all these factors have like tremendous growth rates coming in the future as well. Our growth would also be primarily driven by these set of drivers. Now we'll not be able to put any numbers for any of the year because we are also in the process of creating our guidance.

Saurabh Mehta: Sure. But could you quantify, say, for example, in the coming year, in the large cities or the metro cities, how much square feet of lounges are we expecting to like is going to get added or

new lounges, which are going to get added like some-50,000 square feet of additional lounges, which is going to come in the key metro cities or something like that, some quantification for the coming year in terms of the infrastructure?

Liberatha Kallat: So, it would be very difficult right now to actually tell you in numbers, but the way we are been seeing the changes or the progress happening at the airport, right? So, we would -- the way it is that the moment there is an expansion or lounge space are getting expanded in the existing airports. And whenever -- the airport also sees that, yes, whether the utilization is 100%, there is immediately a decision being done accordingly of additional space and expansion.

So, in terms of additional terminals, obviously, it is at the airport level wherever they see that, yes, when the terminal is not able to accommodate or manage the airport traffic, and that's where the additional terminals are coming. So, I would say that it would be difficult at this time to quantify that. But yes, as we see the way the reports are in terms of additional airports coming in, the existing airports getting privatized, so I would say that these would obviously help in the growth of DreamFolks numbers as well.

Saurabh Mehta: Sure, ma'am. Could you talk about your international growth, how is it -- like how is it picking up? And when do we see the meaningful revenue from the international expansion? And do we require to invest in technology employees to grow that fees if you talk about that a little bit?

Liberatha Kallat: So, if you have actually seen our business, it's an asset-light model and the way we have actually built it. So, I would say that even if there is an investment required globally as well, it would not be a heavy capex -- heavy thing or it would impact. So, it would be very minimal in terms of the IT infrastructure, which we will have to build up for these regions. And in terms of talking about our plans and what we have done so far. So yes, in Southeast Asia and Middle East, we have hired and also in process of hiring more team members in these regions. And we see that in the coming years, we will start seeing a good contribution to our business from these regions as well.

Saurabh Mehta: So, like in 2, 3 years, can it contribute meaningfully 20% of revenue or 30% of revenue? Or it will still be less than 5%, 10%?

Liberatha Kallat: It is too early for us to right now quantify or give any number to it, but I would say that, yes, in coming years, we will start seeing a contribution from these stations.

Saurabh Mehta: And ma'am gaining traction in these markets is it much tougher than we've completely stuck the Indian market. So internationally, is it much tougher, much more challenging? And what are we doing to really grow there?

Liberatha Kallat: So, the way we have built our business in India. So, we -- when we started the business in India as well, that time also we had international player existing in India market as well. The way we have seen the market leader is creating a differentiator in the market, right? When I say differentiator, it was more on the solution, the way the service -- or the process is what we have brought in place, which are required by our clients, I think -- and trying to improvise it and upgrading those systems. I think that's how we have created a differentiator.

So, as we have done it in the India market, even when there were larger international players already existing. So, it is very important to understand the client's requirement. And I think we understand the pulse of the industry now and we don't see that it would be a challenge rather understanding the client requirements, it is easy for us to actually get into these regions as well.

Saurabh Mehta: Ma'am in India market, do you see any actions from the competition like Priority Pass and you want to start separate premium lounges? Or like any actions from the competition which we've seen we've had about Priority Pass trying to start premium lounges directly in discussion with the airports? Have you seen any such actions or like how we've seen the competition...

Liberatha Kallat: When started the business, all these players were already existing in India. It's not that they have come recently, or they have just entered this market. They have been in this market and they have been the global player across for more than 30 years now. So, in their presence, we have actually taken away the India share from them. So -- and there were -- and there are more and more who are trying to get into this area of business.

But as I told you that it is very important for us also and the way we have built our business is creating a differentiator and regularly upgrading and enhancing the product portfolio as well. So, I think these are the strength of Dreamfolks, and we will continue doing that. So, we do not see that -- because there is -- it's always to be -- there has to be a good healthy competition as well. But I think that is keeping us move and do it better in this market.

Saurabh Mehta: My last question is on the ESOP cost. You already shared the Q2, Q3 ESOP cost, but would just like to get a flavor in terms of what could be the total ESOP cost this year and the next couple of years? Is there a big ESOP cost there? Or it is going to remain at the same level?

Giya Diwaan: So, the pool which we have allotted in 2021, the total cost for that pool is close to INR 4 crores which will get booked over a period of time starting from FY '22 to '25. A major part of it would get booked into '22 and '23 and a smaller portion of it would also come in '24 and '25.

Saurabh Mehta: So that total cost you're saying is only INR 4 crores?

Giya Diwaan: Yes. For the stocks, which are already allotted. So, any new pool getting allotted would have additional cost to that.

Saurabh Mehta: Okay. And nothing else is there immediately, like this is the current cost structure?

Giya Diwaan: This is the current situation. Yes.

Saurabh Mehta: Yes. And last is on like our operating cost and the employee costs both have fallen this quarter. And so, what is the run rate which we are really expecting for the coming years? Like is it going to just inflationary increase in cost or 15%, 20% kind of increase in cost as we grow our business? Is there any significant cost?

Giya Diwaan: I would say for us, the right way to see the employee expenses instead of quarter-on-quarter, better to look at it YTD because then there are certain factors which drive a bit of variation in

quarter-on-quarter numbers. Like for this, it was an half yearly incentive paid in the quarter 2 which was not there in Q3. So, you would get to see the reduction. Similarly, ESOP expenses, the way the accounting is done for ESOP expenses, which is higher in the earlier years and it keeps reducing in the later years.

So, we spoke about Q2 ESOP cost, which was INR 62 lakhs, while in Q3, it was INR 29 lakhs. So, these factors drive in certain variations in quarter-on-quarter. However, if you look at the blended rate and look at nine-months FY '23, I think looking at that monthly average would be the right way.

Saurabh Mehta: And last, if you could comment on the working capital, like, is there any significant change from the half year improvement or deterioration which we've seen?

Giya Diwaan: Well, we have seen the receivable cycles getting normalized, and we spoke about it last time that it's currently anywhere between 90 to 100 days. It may vary a little bit quarter-by-quarter. But this new normal actually has no impact on our business performance, which you can witness in our growth numbers. So -- and also, this doesn't have any impact on our interest cost because our internal accruals are good enough for us to fund our working capital and growth requirements. So, I think with this new normal of 90 to 100 days, we still seeing our balance sheet in a healthy state.

Moderator: Due to time constraints, that would be the last question of a question-and-answer session. I now hand the conference over to the management for closing comments.

Liberatha Kallat: Thank you, everyone, for joining us in this earnings call. We, at Dreamfolks Services Limited, will continue to build upon progress made over the past few years. We find ourselves in a profitable position in a high-growth industry with multiple tailwinds guiding our journey. As we look to scale greater heights, the streamline operations enable talent pool and constantly upgrading high-quality offerings over and above our deep relationship and network build over the years, give us reasons to be confident about our path ahead.

Giya Diwaan: Thank you again, everyone, for joining the call.

Moderator: On behalf of Dreamfolks Services Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.