# "Dreamfolks Services Limited
# Q2 FY '23 Earnings Conference Call"
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**MANAGEMENT:**

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**MR. ANURAG JAIN – CHIEF OPERATING OFFICER – DREAMFOLKS SERVICES LIMITED**
**MS. GIYA DIWAAN – CHIEF FINANCIAL OFFICER – DREAMFOLKS SERVICES LIMITED**

**Moderator:** Good morning, ladies and gentlemen. Welcome to the Q2 FY '23 Earnings Conference Call for Dreamfolks Services Limited. This conference call you contain forward-looking statements about the company, which are based on belief, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involves risks and uncertainties that are difficult to predict.

From the management, we have Ms. Liberatha Kallat, Chairperson and Managing Director; Mr. Balaji Srinivasan, CTO and Executive Director; Mr. Anurag Jain, COO and Ms. Giya Diwaan, CFO. 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 of Dreamfolks Services Limited. Thank you and over to you Ma'am.

**Liberatha Kallat:** Good morning, everyone and thank you for joining our first ever earnings conference call to discuss the operational and finance performance for Q2 and H1 FY '23. This has been a momentous quarter for the company with a listing on stock exchanges. Launch of new initiatives, adding new partners and relentlessly working on being future ready, while providing our customers the more seamless and smooth experience of access to lounges and other touchpoints on their journey.

We would like to thank all our shareholders and other market participants. Being our first interaction with the capital market participants and investors at large, post listing on the stock exchanges, I would like to take some time to establish who we are and what we do for those who might be uninitiated and new to our company.

Industry overview, the travel and hospitality industry in the last two years has been through a very rough ride due to the cumulative impact of multiple factors, from COVID induced lockdowns that stranded international and domestic travel to strict rigid restrictions that called for social distancing and extra measures for health and safety, which brought along with it additional costs and also the recovery of players across multiple verticals in our industry.

Not to forget, the drastic hit on the margins. However, with the waning off of the pandemic resumption in business travel and the booming event travel trend, we have started to see green shoots over the past couple of quarters and only expect these tailwinds to further increase, boding well not just for us, but for all our stakeholders and players across verticals in the hospitality industry.

India has had a low air travel propensity, however, that is changing quite rapidly due to multiple factors at play simultaneously, ranging from greater disposable income in households, pandemic induced lifestyle, preference changes, declining air travel costs, vis-à-vis AC train travel costs. Additionally, on a macro level, the jump in ease of doing business in India and the economic growth and the prosperity of the country, especially in the challenging times as the one we find ourselves in and the insulation to these shocks that we have displayed has also aided rise in air travel.

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. All-in-all, we see a very strong upswing in air traffic and thereafter a preference to opt for value added services such as; lounges, spa services, F&B outlets and more.

We as a country also demonstrate favourable demographics with an immensely deep digital penetration and growing cards user base which increase the odds of this new crop of people to desire, adopt and prefer air travel and increase frequency. Currently, only 8% of the eligible base of credit/debit card user base are accessing lounges. Thus, the headroom for the growth that lies ahead is phenomenal.

The credit card penetration is low in India and expected to increase exponentially, with industry reports suggesting that the credit card user base expected to grow 33 times in the next two decades. Lastly, even in terms of the infrastructure, we have only 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.

About us, Dreamfolks Services Limited is India's largest airport service aggregator platform, facilitating an enhanced airport experience to passengers leveraging our proprietary technology solutions. We began our operations in 2013 by facilitating lounge access services for one of the leading card networks and currently provide services to all our card networks operating in India.

Our first mover advantage in the lounge access aggregator industry in India has enabled us to become a dominant player in the industry. We enable seamless connections between airport service operators and card issuers or card networks with many to one connection and even in the event of operators changing over the years, establishing uninterrupted services to the end consumers.

Clients on both ends of the spectrum tie up with us to enable their end consumer access service via our only channel mode to get multiple services during their journey at the airport. We have card issuers, card networks and corporates on one end and lounge and other operators on the other end. With our proprietary in-house technology and platform enabling seamless services to the end consumers.

We work with marketing team from various industry segments including card networks, card issuers, OTAs, airlines, enterprise set-ups, et cetera. We have established ourselves as a leading airport lounge provider with 100% coverage of all the lounges in the country and even hold a lion’s share of all India issued card-based access to domestic lounges, standing at 95%.

In terms of our global footprint, we have business operations in 536 cities across 121 countries. We have around 1,450 touchpoints of which 250 touchpoints are present in India and 1,200 plus touchpoints are overseas. As mentioned earlier, we have some corporate clients too, with whom we have started wide service offerings to enhance their customer engagement programs and also diversify our revenue streams, capitalizing on the growing propensity to use lounges among people across multiple categories and not just for business travel, but for leisure too.

These clients range from airlines to online travel agents to enterprise setups. Additionally, the heightened waiting times at airports have created the added need for access to the lounges and thereby is an added advantage for us.

As a part of a CSR initiative, we firmly believe that by educating and empowering a girl child, we are facilitating the growth and development of an empowered woman who has potential to contribute immensely to the empowerment of our nation, under Mission Saksham, we aim to provide education and help support to the underprivileged girl children in rural Gurugram. And as a part of our initiative, we work closely with Government Model Sanskriti Primary School Village Tigra and Seven Shade Foundation project Bagiya, in Gurugram.

We do not believe in any kind of gender bias, merit is all that matters. These girls need the right kind of backing and a platform to showcase their merit and that is exactly what we at DreamFolks aim to do. Our objective is to contribute as a catalyst for their advancement.

Coming to a human capital, like we operate on an asset-lite model, when it comes to our tangible capital asset. Similarly, our business model is not human resource intensive. We operate with a lean team of size of 60 full time employees, including the senior management and carry out our operation in an optimal and effective manner. We encourage our employees to volunteer and participate in all the social activities we organize to help them contribute back to the society.

Having thrown some color on the nature of services provided, I would like to ask Mr. Anurag Jain, our COO to give a quick rundown of the quarter and half year gone by, the performance, the major developments and the operational highlights.

**Anurag Jain:** Thank you Liberatha. Good morning, all. A bit more detail on the operational highlights. So our platform and services portfolio allows card networks, card issuers and corporate clients to build bespoke solutions addressing disparate aspects of the airport services for their consumers. Card networks and card issuers can avail of any of the services and may provide complimentary lounge access and complimentary access to other services to the consumers as part of their offering under eligible credit and debit card programs and we enable this access across services.

Corporate clients, they also leverage our solutions to extend benefits to the user base as part of their consumer and employee engagement programs. As part of the diversification strategy beyond the financial services sector, solutions have created ancillary revenue opportunities for airlines and OTAs, by enabling them to cross-sell and up-sell our services to their ticketing customers.

We focus on the operators who provide the services and give them the option of a single point access to the consumers along with consolidated footfall and revenue, while also providing them technology to validate the benefits available to consumers, provide card-based and digital access, and billing. There's been a strong growth of about 110% in domestic air traffic in H1 FY '23, which has already surpassed the pre-COVID level. Domestic air traffic has grown by around 60% in quarter 2 FY '23 as compared to quarter 2 FY '22. And we've seen a record high footfall in the airport lounges primarily due to early arrival requirements and the higher engagement from card network providers as well as issuers to avail various offers and services.

Number of passengers availing the lounge access and other touch points through us has grown at a healthy rate of 240% year-on-year in H1 FY '23 and 140% in Q2 FY '23. In H1 FY '23, passengers accessing the airport lounges stood at 3.6 million compared to 1.1 million in H1 FY '22, thus reflecting a recovery in the travel industry growth. For Q2 FY '23, passengers accessing the airport lounges stood at 1.8 million compared to 0.76 million in Q2 FY ’22. Our number of lounges in India has also grown from 49 as of 30th September 2021 to 60 as of 30th September 2022, indicating a growth of 22%.

Now, I'll ask Balaji to take you through the technology discussion.

**Balaji Srinivasan:** Thanks, Anurag. So, I'll just give you a flavor about our technology platform. So, what we do is that we provide clients the option of providing their end consumers different mechanisms to access certain airport-related services like lounges and all the other services that we spoke about on the call. What are the more traditional mechanisms like credit cards, debit cards, forex cards, et cetera, or also our DreamFolk's membership card, or via digital solutions such as mobile applications, and all of that is enabled using our hybrid technology.

Our entire DreamFolks platform is proprietary and has been developed in-house. The platform and the technology is cloud-based and it allows lounges and other operators to check the benefits of the consumers based on the cards, memberships, or vouchers, and also allows access to the different facilities based on the benefits or integration as per our clients, such as banks or networks, processes, and their systems.

Our platform actually comprises of quite a few components. There is benefit configuration, there is benefit calculation, there's an entire management engine, there are data exchange, APIs with different banks and networks, and integration options to embed into different mechanisms, including with our partners. Our platform also facilitates the use of hybrid access modes depending on the client's preference, so they can use whichever mechanism that is most beneficial for them. It also facilitates lounge access processes so that consumers benefit such things in real time across various access modes. And that drives accurate accounting and is designed to prevent abuse and denial of services to consumers.

Our hybrid access model allows the clients to provide the consumers digital only options, which is new, or provide solutions where access can be through both physical cards and all digital cards, and the client digital application of the DreamFolks app. What we are seeing more often, more recent digital model integrations are that clients are integrating the lounge benefits and access mechanisms into their own mobile apps that comes within the client apps. Our in-house developed proprietary tech platform is designed and aimed at a hassle-free experience for the consumers. Our superior tech platform stack forms one of the multiple moats that we have at the company.

We will just hand it over to Giya to go and help us walk through the financials. Giya?

**Giya Diwaan:** Thank you Balaji, and a very warm welcome to one and all attending this earnings conference call. To lay the picture out in terms of some metrics, we currently have 125-plus operational airports in the country and total 60 lounges. As per industry reports, the number of airports is expected to reach 295 and a number of lounges would cross 200 by 2040. Thus, with increase in number of airports, number of lounges, growing air travellers and an increasing propensity in them to use lounges, with a simultaneous increase in the size and offerings of lounges, not to forget the rise in number of card users, DreamFolks is well poised for growth with dominance.

On the company front, we are proud of the fact that during this time of upheaval too, we have managed to stay afloat, be profitable, without letting go of any of our employees and instead we have emerged stronger, hungry for growth, rewarded our employees for their support and continue to stay strong, firmly marching on our path towards higher growth and stronger margins.

Speaking of our revenue performance, our revenues reached INR 1,712 million for Q2 as compared to INR 605 million for the same period in the previous year, leading to a 183% growth year-on-year. Our EBITDA closed at INR 211 million for the quarter as against INR 38 million for Q2 FY 2022. As regards our EBITDA margins, they have risen from 6.14% in Q2 FY 2022 to 12.25% in Q2 FY 2023. The PAT clocked for Q2 FY 2023 was INR 148 million, vis-à-vis INR 25 million in Q2 FY 2022. Similarly, the revenue for the half year period stood at INR 3,315 million as compared to INR 850 million for the same period in the previous year, resulting in a 290% growth year-on-year. The EBITDA for the half year stood at INR 406 million as against INR 30 million for half year FY '22. EBITDA margins improved substantially, rising from 3.47% in half year FY '22 to 12.19% in half year FY '23. Lastly, the PAT for the first half of the year is INR 283 million versus INR 11 million for the first half of the last year.

Our major expenses are linked to employee compensation and in-house R&D expenses. And 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-up or expansion through our internal accruals. With no direct customer acquisition cost and high operating leverage, we have a healthy EBITDA profile. With negligible finance cost and low depreciation cost, we have a track record of generating higher single digit profit. Strong profitability and asset-light business model has helped us deliver significantly higher double digit returns to the shareholders as well. We recorded a ROCE of 69% and ROE of 50.6% during half year FY '23 on a non-annualized basis.

On the business development front, we have recently tied up with Dhanlaxmi Bank, further expanding our foothold with card issuers and thereby facilitating a new card user base with accesses to lounge. Another major tie-up through this quarter is with FCM Travel. A truly strategic partnership with high synergistic value.

Coming to lounges, it is with great pride that I can share that we have tied-up with Aspire Lounges Australia. With this partnership, air travellers can now experience exclusive luxury lounges access to Sydney, Melbourne, Perth and Brisbane as part of 66 Aspire branded lounges globally. With this, I would like to hand over the call to Liberatha to highlight the way forward for the business.

**Liberatha Kallat:** Thank you, Giya. So, taking you forward for the way forward for our business. Our next phase of growth is centered upon three levers; cross-selling and up-selling to existing clients, acquiring new clients in existing and new sectors and via geographic expansion from a purely domestic focus currently to an international focus in pre-determined geographies. With the existing clients, we aim to increase wallet share and expand our association beyond airport lounge services to include F&B, spa, meet and assist. Synergistically, we have a deeper integration of client system with the DreamFolks platform leading to recurring revenue and thereby maintenance, 100% of coverage of airport lounges.

As regards new clients, we aim to expand into new sectors to create customer engagement and provide loyalty management solutions. Another focus area is to focus on customer engagement and loyalty solutions for corporate clients and build specific solutions for loyalty companies, e-commerce companies, new age digital companies, hospitality sector companies, and neo banks amongst others. Lastly, a major focus area and one in contention is that the geographic expansion which can be already seen with over 1200-plus touch points globally and the tie-ups such as Aspire Lounges Australia partnership.

We intend to replicate a similar successful operating model by leveraging our deep knowledge of industry, technology innovation, process expertise and business model across new high growth markets which include Central and Eastern Europe, Middle East, Africa and Southeast Asia. We at DreamFolks hold a strong business moat by virtue of what we call the DreamFolks Flywheel, which is in sense a combination of three elements, higher number of users, lead to more number of lounges. More number of lounges lead to more banks and brands being attracted to this line of services. As an outcome of that, a wider bank and client coverage attracts more users. Moreover, build a successful bridge between clients and airport lounge operators creates interdependency for DreamFolks service offerings.

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

**Moderator:** Thank you. Ladies and gentlemen, we will now begin with the question-and-answer-session. Anyone wishing to ask a question, may please press star and one on your touchtone telephone. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use handsets while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Saurabh Mehta from Eastlane capital. Please go ahead.

**Saurabh Mehta:** Yes. Congratulations on strong results. I have three questions. First is, can you give some idea on the revenue mix, lounge access, meet and assist, F&B, airport transfers, what's the, we know lounge access is the major majority of the revenues come from there, but we'd just like to get an understanding on the other revenue streams, and the unit economics on those? The second question is, if you can elaborate on the first half, versus second half seasonality? Is second half much higher, like probably 55%, 60% of the annual revenues? And would the margin also then be much higher there? And the third question is basically if you could give some broad framework on the overseas market strategy? Like, what is the progress there? We know the touch points, but how much do we need to invest more and when do we start seeing meaningful revenues from there? Yes, that's it.

**Giya Diwaan:** Sure. So, I'll start with your first question which is revenue mix. As we discussed that our major revenue comes from lounges and in last couple of years, we have been adding these new services like airport transfers, meet and assist, food and beverages offerings to our users. These services are currently picking up. If you look at the current mix of the lounge versus other services, it is 95% versus 5%.

Moving on to your second question wherein you were talking about the seasonality in the first half versus the second half. Yes, if you look at the industry, seasonality plays a major role here. The second half of any of the year for that matter is always higher than the first half of the year. Look at the trend also historically, it is primarily anywhere between 40% to 45% in the first half of the year and second in the second half, rest in the second half of the year, due to the simple reason that the festivals and the holiday season kicks in only starting from August, September. That's how the industry shapes up and that is how our business also grow in the similar lines how the industry grows.

In terms of the broad framework on our overseas strategy, if you look at our spread across the world, we have already been onboarding, the lounges and other service operators across the board. We are present in 121 countries. We have closed more than 1,450 touch points out of which close to 1,200 touch points are overseas. Maybe I can ask Liberatha to throw some more light on it.

**Liberatha Kallat:** Sure. So, as you were asking about, you know, if there would be any additional investment which would be required for the expansion, I would say there would not be any major investment required because the way we have built the business in India, it would be in the similar lines. So, it would be more in terms of the solution, in terms of the hardware deployment in the other regions. So that would be a very small portion of investment which would be required, and that would not be the major investment.

**Saurabh Mehta:** Thank you, that’s it from my side.

**Moderator:** Thank you. The next question is from the line of Depesh Kashyap from Equirus Securities Private Limited. Please go ahead.

**Depesh Kashyap:** Hi everyone. Thanks for taking my questions and congrats for a great performance. In the PPT, mam you mentioned the total volume for DreamFolks to add 3.6 million pax in the first half of FY23. Will it be possible to share the overall long-term volumes in India, both domestic and international, so that we can basically calculate the market share going forward?

**Giya Diwaan:** So, this number actually gets published in the industry reports. As per the latest, there is no latest industry report available. So, we will have to wait for the next version to come in the market before we could share that information with you.

**Depesh Kashyap:** Okay, but like last published market share was around 68%. So according to your, like it should be similar?

**Anurag Jain:** We will not be able to comment on that because we don't know the larger number. We only know our numbers.

**Depesh Kashyap:** Secondly, will it be possible to give a split of the travelers going to the domestic lounges and international lounges and what will the pricing point of the two in this quarter please?

**Giya Diwaan:** Yes. So, if you look at the pre-COVID level, the spread used to be 70/30 which is domestic versus international. Since the international is yet to pick up 100%, we are currently at a split of 85/15 which means 85 is domestic and 15 is international. However, we have seen this trend changing drastically over the period of last half a year.

**Depesh Kashyap:** Good. Can you share the pricing points? Overall number is INR 900. Right? So how will it be in the domestic and international?

**Giya Diwaan:** So, pricing for a point varies for us based on lounge to lounge and whether it is domestic lounge or international lounge of course. But the blended rate comes at INR 900.

**Depesh Kashyap:** Sure.

**Depesh Kashyap:** And also, Liberatha ma'am, I just want to check with you that a number of lounges have increased to 60. So do you have any sense on visibility that how many lounges are expected by end of FY'23 and FY'24 if you can share. And also, there will be many lounges which may be increasing their space right due to higher traffic. So, if you can give any color on that please.

**Liberatha Kallat:** See there are a lot of developments happening in India in terms of privatization of airports happening right. So, we would not be able to comment on exact numbers, what would be the exact number in coming years. But we would say that yes there would be a drastic improvement and the change is happening.

**Depesh Kashyap:** Last question, maybe Giya ma'am on the balance sheet, the investment property has increased to INR 8 crores in September versus INR 2 crores in March. So just wanted to check if this is anything new investment or some recategorization of the balance sheet?

**Giya Diwaan:** No. So, it is recategorization of the balance sheet. Earlier, it was part of the capital advances, and that's how it has now after the possession, it has got transferred to the investment property.

**Depesh Kashyap:** Understood ma'am. Thank you and all the best.

**Moderator:** Thank you. The next question is from the line of Jehan Bhadha from Nirmal Bang. Please go ahead.

**Jehan Bhadha:** Congratulations to the team for getting listed and for this maiden con call. My question is on a steady state growth. What can that be over the next four to five years? And if you can explain how you derive that number?

**Giya Diwaan:** Okay. So, if you look at the industry forecast, that's what we can talk about right now, if you look at the industry forecast and the report published recently it talks about that FY 2023 is going to get back into the pre-COVID level. And from there onwards, especially from FY '21 to '24

CAGR, if we look at that per the latest industry report, it's forecasted to grow at 40%. That's how the outlook is looking in for our industry.

**Jehan Bhadha:** So, can we expect the DreamFolks also to replicate that number?

**Giya Diwaan:** We'll take a cautious view and probably discuss this in detail in our next call. But what we can talk about here is that the industry is definitely showing a good forecast trend.

**Jehan Bhadha:** Ok and my second question is on -- there is this discussion going on by RBI that it may reduce the MDR rates on credit card companies so going forward, what credit card companies also have indicated that if this were to happen, and they will reduce rewards and services they offer to protect their margins -- so if this were to happen, hypothetically, then how will this impact the DreamFolks?

**Giya Diwaan:** Again, here, it's a business sensitive discussion, so we would want to take the little cautious view over here and would not be able to discuss this here

**Jehan Bhadha:** Okay. But in your view, is the credit card companies are they likely to cut cost, I mean there are various aspects where they can cut on their reward etcetera. so like how do you foresee lounge access as in their eyes. Is there a possibility that it could take some action over there?

**Giya Diwaan:** So, we understand your question, however we would not be able to answer it on their behalf.

**Jehan Bhadha:** Sure, no issues thanks a lot and all the best.

**Moderator:** Thank you. The next question is from the line of Mukul Garg from Motilal Oswal Financial Services. Please go ahead.

**Mukul Garg:** Hi Liberatha, good morning there is just one question from you and one from Giya. On the international expansion side, can you just talk in some more detail of the updates you have seen over the last few months, any particular change which is likely to happen soon and how should we kind of think about the growth of international business over the next six to nine months period? And Giya, from a Overall broad mix of domestic versus international passenger, if we kind of go back to that 70-30 mix down the line, based on current lounge rates, what's the broad range of revenue per pax which you would have been kind of generating if it was 70-30 instead of 85-15 which is there right now?

**Giya Diwaan:** I request Liberatha to take up your first question on international expansion.

**Liberatha Kallat:** So, as you have seen that in terms of the touch points, the way we are actually expanding and with our recent few tie-ups like ASPIRE as well. So yes, as a strategy right now we have been adding more and more lounges and other services as well, including Meet & Assist, Airport Transfer as well into our portfolio. So yes, the plan is to add more such lounges in more cities and more regions into our portfolio, wherein the DreamFolks client's customer can actually avail access and have the benefits across the globe.

Secondly, in terms of this, the plan of what we would be doing in these regions. As we have said that, yes, the strategy is to have the expansion of clients in the other regions like the Middle East, Southeast Asia and European countries. So that is in plan and I think in the next couple of quarters, we will see that, we would start seeing the numbers coming from these regions as well. I think Giya will give you the reply for the second question.

**Giya Diwaan:** Sure. So, Mukul, if you see the split, you know we spoke about the 70-30 versus 85-15. Of course, your understanding is right that they do change the blended average what we have because as I mentioned earlier on the call as well that the rates vary from lounges to lounges whether it is at an international location or a domestic location and also it varies from city to city. So as the blend changes, of course the average blended rate also changes to the upward.

**Mukul Garg:** Understood and also, now that we are already one month into Q3, any initial trends you can share with us in terms of how the overall travels, lounges is right now, is it kind of playing out on expected rate or is it faster or slower versus what the usual seasonality is?

**Giya Diwaan:** So, Mukul, the footfall is dependent on the traffic seasonality. And we spoke about the seasonality trend in the industry as well, right? So once the festival season and the holiday season kicks in, that's how the trend changes. So, yeah, that is how it functions for us as well.

**Mukul Garg:** Sure, thank you for answering my questions and best of luck for your quarters ahead.

**Management:** Thank you.

**Moderator:** Thank you. The next question is from the line of Bhavin Shah from Sameeksha Capital Private Limited. Please go ahead.

**Bhavin Shah:** Yes thanks, First question is when I look at the results for the first half, compared to your profit before tax and operating profit, your cash flow, operating cash flow is like less than a third of that. So, what is happening? Can you explain that? Is that going to be the way it is in the future?

**Giya Diwaan:** So, one part of the cash flow is definitely the receivables, right. So that's a normal growth based on the growth in the revenue. And however, the interesting part you might have noticed is that we have a negative working capital cycle. Now as a classification also I'm sure you might be able to get to see net cash and cash equivalents. However, the investment portion as per the reporting standards gets reflected in other parts of the balance sheet line items.

So, though you would see the balance in the bank account here as a net cash and cash equivalent whatever investment we have made in the fixed deposits or other such formats would you would get to see in other line items of the balance sheet. So, the ideally the way to look at it is the total of our investment and the cash and cash equivalent compared to the similar period in the previous year.

**Bhavin Shah:** No, but I understand what you're saying, but you know, I look at the first half of this year, you had operating profit before working capital change of INR 41 crores, and you have operating cash flow of INR 11 crores. So, if you have a negative working capital, why is this happening? I can understand there is INR 8 crore of tax. So, for INR 41 crore, I take out INR 8 crore, that's INR 33 crore. So, from INR 33 crores, how do I end up with INR 11 crores?

**Giya Diwaan:** So, look, we are talking about INR 28 crores of PAT right? And if you look at balance sheet, there is a cash and cash equivalent of INR 14 crores and other bank balances of INR 22 crores. Correct? That is the free cash generated from the business.

**Bhavin Shah:** I don't see INR 22 crores. I see your balance with banks as INR 14 crores, which is INR 28 crores last year at the same time.

**Giya Diwaan:** And other bank balances.

**Bhavin Shah:** And then I hardly see any significant items in the investment cash flow from investing part. So I mean I, sorry I don't understand.

**Giya Diwaan:** Yeah, so I will take you to the balance sheet. Cash and cash equivalents and other bank balances put together is what you need to see there. Because if we are investing in say for example fixed deposits, it doesn't get categorized as per the accounting standard under cash and cash equivalents. It gets categorized under other bank balances. So, if you are comparing your profit after tax versus the cash generation that is the amount to compare with….

**Bhavin Shah:** Yes, so I look at the balance sheet it will be the same story, because the other financial assets are INR 6 crores, other non-current assets is INR 9 crores and all those figures are down from last year. Only thing that is up is investment in property because that is a small amount. So I don't know financial assets mostly the increase is in trade receivables.

**Giya Diwaan :** Yes. So, trade receivables as I mentioned, it's a normal growth based on the growth in the revenue. Because if you look at during that quarter revenue that was INR 850 million, that half year revenue that was INR 850 million, while this half year is INR 3,315 million. So, the receivables will grow in that proportion.

**Bhavin Shah:** I mean, I have been looking at cash flows for last 30 years, okay. This is the first time somebody is telling me don't look at the cash flow statement and look at something else and look at something else it still doesn't add up. My simple question is how do i get from INR 41 crores of operating profit before tax to INR 11 crores of operating cash flow. So, what is happening?

**Giya Diwaan:** See, I will try to explain again that if there is a INR 41 crores of operating cash flow from the operating activities there is an amount of fixed deposit investment also which has happened.

**Bhavin Shah:** Fixed deposit doesn't come in the operating cash flow ma'am.

**Giya Diwaan :** No not after that I am talking about after that. INR 41 crores versus INR 1.9 crores is what you are seeing, right. Half year 2023 versus half year 2022.

**Bhavin Shah:** I am not looking at 2021, I am just looking at half year 2022. How much is the increase in fixed deposits?

**Giya Diwaan:** Increase in the fixed deposits is actually if you see that is close to INR 10 crores.

**Bhavin Shah:** Okay, so INR 10 crores is that, INR 8 crores is for the tax, so that is INR 18 crores, I still do not get the numbers to match. I still think that is, I guess it is all working capital increases.

**Giya Diwaan:** Because there is an increase in the receivables, working capital, which I had mentioned.

**Bhavin Shah:** Okay, so then how do you have a negative working capital side?

**Giya Diwaan:** We do have a working capital in the sense that we have our receivables cycle, which are shorter than our payable cycle. So, we pay after our receivables come into our account.

**Bhavin Shah:** Okay fine I think I will just take it offline. I have a question on the domestic versus international split that we have given which is 85/15 right now. That out of the 15 how much is from the international from the credit card used by - the domestic credit card used by people anywhere whether it look you know in an international lounge versus you have also have some relationships with non-Indian entities. So, is that the part of international, or what is that split?

**Liberatha Kallat:** So, in case we have to actually see the splits, I would say that a majority of the revenue is from the credit card and debit card programs. So, I would say that…

**Bhavin Shah:** Of domestically issues credit card and debit card?

**Liberatha Kallat:** Yes.

**Bhavin Shah:** Okay, fine. So you have to figure out some deal in Korea, but that's more for providing the software, is it?

**Liberatha Kallat:** No. So let me just take you through. So right now when we talk about the touch points, right so these are the locations that we have which is across the globe what we have done are lounge tie-ups. However, right now the customers who are using these facilities outside India are from India issued cards only. So, it is through the credit card program wherein the banks are either issuing a membership card which is a DreamFolks membership card or it would be a digital app or a voucher. But however, they are the Indian cardholders or the Indian customers using the lounges outside India as well.

**Bhavin Shah:** Okay, fine. Now, globally lounges are used in many cases, the access is based on the tiering of an airline. And I think that is a bigger prevalence, I suspect, compared to the credit card, which is a dominant prevalence in India. So, in case this MDR rates are indeed changed, people do use lounges. So how do you see the business dynamics change for you? I don't expect, while there might be some temporary drop in the use of lounges because if somebody has to pay money then they may not use it, or if the credit card companies reduce the operations, then also it will come down. But still there will be a lot of people wanting to use lounges. So how do you see that? How do you plan to play in that kind of a situation?

**Liberatha Kallat:** Okay, so if you have actually seen the list of clients or the way we have actually started adding more different set of clients apart from the banking, right? Like Vodafone, is our client. Now, we are also working with the OTAs and also started working with the airlines as well. So, what we are trying to do is, we are also trying to diversify in terms of adding different set of clients which will actually add more such things. So, I will not be able to actually reply exactly on the MDR charges and the impact what it's going to have. But as a company, I think we already have a strategy in place in terms of having diversified client base and not just focusing on banking.

**Bhavin Shah:** Ok Thanks

**Moderator:** Thank you. The next question is from the line of Chetan Shah from Jeet Capital. Please go ahead.

**Chetan Shah:** Yes, hi. Thanks. And congratulations to the entire team. Just one quick question, could you just give us some color and a flavor of our non-lounges revenue mix? As of now, it is just 5%. You kind of explained that there are a few things which you are doing. And if you can give us some sense that how this mix will change in the next three years to five years, and what is your optimum comfort zone, and how do you want to take this forward? Because we kind of understand the lounge part of the business, but the non-lounge part of the business, how do you see that evolving?

**Liberatha Kallat:** Sure. So, the thing is that I would say that lounge would still be the larger part of the revenue in coming years as well. However, yes, the way we would see it, the other services, the way it would contribute, I would say in a couple of years, maybe two years to three years down the line, the trend would certainly change from which is 5% now to maybe 15% in coming years.

**Chetan Shah:** Okay, so you mean to say that even our lounge businesses will keep growing the pace at which we are looking at it, but the non-lounge will grow at much faster pace and that's why the mix will be tilted and that will improve. So, one another question in terms of the margin, the non-lounge businesses are equally profitable or there is a little lesser margin there? If you can share that would be very helpful please?

**Liberatha Kallat:** So, in terms of the other services also, we have similar margins the way we have for the lounges. And as you rightly said that, yes, the way the lounge growth is because there are more and more lounges coming up, not just in India, but globally as well. And that’s where we say that, yes, revenue from the lounge business would be always at the higher side.

**Chetan Shah:** One last question from my side ma’am. When you speak about the global expansion, so right now, we are already kind of available at 1,200 odd touchpoints. But the problem which we have is that this is actually meant for the for the customers whose card has been issued in India and the one who travels abroad can actually use it. So, if you can explain us that, so what you did for, say, Australia or other countries like Korea, which you spoke in the past, how do you see that usage of non-india lounges expansion where, the card is being issued outside India. And those travelers, whether they travel internationally or within their own country or a sector, can improve our revenue mix or some sense of that strategy for next three or four years will be very helpful. That’s right.

**Liberatha Kallat:** So, as we mentioned that in terms of our expansion plan, we have already mentioned that we are focusing on regions like Middle East, Southeast Asia and Europe as well, right. So yes, so it would not be limiting to India cardholders using lounges across, but even from these regions and you know the customers or the cardholders or the end users will be able to access these lounges. So, we are in process. And I think I will not be able to share in detail about what exactly is that thing. But yes, soon you will see changes happening in these regions as well.

**Chetan Shah:** Thank you so much ma’am. I wish you all the best for the future.

**Management:** Thank You.

**Moderator:** Thank you. The next question is from the line of Ankit Pande from Quant Mutual Fund. Please go ahead.

**Ankit Pande:** Hi. Thanks for taking my question. Congrats on a good quarter. I think my first question is around in the international monetization. Let's just say, if we categorize our direct clients directly into whether they are banks or whether their card networks. In your experience and estimation, how would you say that the pick-up or offtake of our services and revenue would differ if our revenue was either led by banks or by card networks? How do you think the offtake would differ?

**Giya Diwaan:** Ankit we would like to take a little cautious view over here and maybe probably at this point in time would not have a discussion. Maybe in the later calls, we can have these discussions in detail.

**Ankit Pande:** Sure. I understand that. Thank you. The other question would be on do you have any estimation on, you know, in the domestic credit card circuit, what is the average actual usage of free lounge access versus what is permitted? Do you have any statistics around that basic thing?

**Anurag Jain:** So, Ankit yes, if I were to look at a matrix where you are talking of actual usage versus permitted that may vary from various card issuers to various variants of the card. But an overall industry figure mentions 8%. It talks about 8% utilization on the 60 million cards that were eligible for lounge access. And this I'm talking of a pre-COVID figure.

**Balaji Srinivasan:** And just to clarify, these are the numbers of users rather than the very the ratio between the total benefits versus that? So we don't have that data. This data is for those who are using the lounge benefit.

**Ankit Pande:** The footfall penetration would still be around that around four and a half, five figure what would that be?

**Anurag Jain:** Sorry.

**Ankit Pande:** The footfall penetration. The lounge penetration.

**Anurag Jain:** Yes, the lounge penetration in terms of, as a percentage of total people traveling?

**Ankit Pande:** right.

**Anurag Jain:** Yes, that's about 5.8%. The figures as for the last quarter.

**Ankit Pande:** Okay. So only 8% of the people use lounge access in any case and still the overall penetration is still around 5% or so?

**Anurag Jain:** Yes.

**Balaji Srinivasan:** So, it is 8% just from the last industry report.

**Ankit Pande:** Right. No, I get that. That might have risen also. That's great. Okay. And last one from my side, the ESOP cost, if you could give, what would that be in the quarter, prior this quarter? And what would be expected if the plan goes through in Q3?

**Giya Diwaan:** So, we have already started factoring the ESOP cost, and that was part of the FY 2022 financials as well. Now if we look at this quarter, quarter two and a quarter-on-quarter basis, we can expect anywhere between INR 1.8 crores of expenses getting built in, in our employee benefits expenses.

**Ankit Pande:** So, this is this is for quarter two that was that has passed or is it for quarter three? That is right now.

**Giya Diwaan:** It is for quarter two that has passed.

**Ankit Pande:** Okay. And what would be expected in Q3 if the plan goes through.

**Giya Diwaan:** With the same base of the grant, which we have done so far? It's going to remain the same.

**Ankit Pande:** Of course. Yes. But if the full plan goes through.

**Giya Diwaan:** Look, the pool size is quite large, right? And as you say, we work with a lean team. So it's going to take next few years to exhaust the entire pool for us.

**Ankit Pande:** Right. So, you're not able to give the estimate.

**Giya Diwaan:** I think we'll take a little time before we crystallize the next plan for us in terms of the grants, and we'll be able to provide you these numbers in much more detail.

**Ankit Pande:** Okay. And Q1 was also the same INR 1.8 Cr. figure?

**Giya Diwaan:** Yes.

**Ankit Pande:** Okay. And just in terms of the ESOP pool, you know it's about 10% of the entire equity base. It's fairly sizable. Would you how would you say the design of the ESOP is as far as the employee coverage is concerned? Would it be relatively narrow as has been so far or will it be broadened out a bit more?

**Giya Diwaan:** So as part of the plan, it would be for a broader set of employees.

**Ankit Pande:** Okay. Thank you so much. All the very best.

**Giya Diwaan:** Thank You.

**Moderator:** Thank you. Ladies and gentlemen, in order to ensure that the management is able to address questions from all participants in this conference, we request you to limit your questions to two per participant only. The next question is from the line of Jeevan Patwa from Sahasrar Capital. Please go ahead.

**Jeevan Patwa:** Yes, Madam. So, I have only one question, something related to what one participant asked about the cash flow. So, if I look at March 2022 balance sheet and September 2022 balance sheet, there is an increase of almost INR 70 crores in the trade receivable part and as against that, in the trade payable part, there has been increase of INR 55 crores. So, trade receivable has gone up by INR 70 crores and trade payable gone up by INR 55 crores and I think that's where the INR 15 crore negative cash flow has happened. So, you said that you basically paid it later you first receive and then you pay that's what you said right? So just want to understand why receivable is INR 70 crore and why payable is INR 55 crore.

**Giya Diwaan:** So that is how the cycle function that the cycles for receivables are longer than the cycles for the payable.

**Jeevan Patwa:** So, what is cycle for receivable and what is for payable?

**Giya Diwaan:** I think we would not be able to get that much into detail. However, the way we function with our stakeholders is that based on the number of cycles which we agree for the payable for our operator is definitely longer than what we agree with our clients and that's the reason we are getting to see INR 70 crores versus INR 55 and this growth is purely based on the growth in the revenue.

**Jeevan Patwa:** No, growth in revenue is completely acceptable that's why it's been gone up since compared to last year but I'm just trying to understand so you said there is negative working capital that's what you said so I'm just trying to understand why it's negative then you are saying. It's not negative working capital, it's like right because your trades like the receivable cycle is longer than the payable cycle.

**Giya Diwaan:** So, let me give you just one data point that...

**Jeevan Patwa:** Yeah, if you can just tell me the cycle, maybe a customer walks in the lounge, right?

**Giya Diwaan:** There is a difference of, let me tell you, there is a difference of 8 to 10 days between my receivables and the payables.

**Jeevan Patwa:** So, it's not negative, that's what I'm just trying to confirm. It's not negative working capital cycle.

**Giya Diwaan:** So, when we say negative working, which means I pay my payables later after I receive my receivables. That's where I do not have a working capital requirement. If you look at net cash flow used in operating activities in the cash flow, it is a positive INR 11 crores. Okay?

**Jeevan Patwa:** I think there is some confusion. Maybe we can later clarify this. Second question is you said there is 8% penetration in the credit card holders or debit card holders. So, if there are 100 people having debit card or credit card with lounge access, then only eight people are using it. Is that understanding correct?

**Giya Diwaan:** Yes.

**Jeevan Patwa:** So, every credit card or debit card has certain lounge access, free lounge access, right? So, when you say 100, is it the free lounge access that you are talking? Or is it just that? the number of people, 8 people out of 100 people or is it 8 free visits or is it 8 free visits out of 100 free visits?

**Balaji Srinivasan:** Yeah, so we are not taking the number of free entitlements, we are only talking about the number of credit card or debit card that have been issued that have the complimentary lounge access and of that total issued base of that total of credit or debit cards or even forex cards for that matter the number of transactions on the cards are increasing.

**Jeevan Patwa:** So, it may be that every credit card may be having only four free entitlements and all those four may be getting utilized. Can that happen?

**Balaji Srinivasan:** It is possible and there are also a large set of credit cards that have got unlimited benefits as well. So, we are discounting all of that because you know depending on that.

**Jeevan Patwa:** Do you have that kind of data if you get a credit card or a debit card in your system, do you know how many entitlements it has?

**Balaji Srinivasan:** Yes, because that is a benefit that is part of the card benefit design and when we work with our client partners such as banks or networks, that benefit is actually set up on our environment.

**Jeevan Patwa:** So, is it possible for you to actually send an SMS to the customer whenever he uses the allowance saying that now two free entitlements are still remaining for the year?

**Balaji Srinivasan:** Absolutely, but that journey is not defined by us. Actually what the different clients are doing.

**Jeevan Patwa:** Can you send that SMS to the customer?

**Balaji Srinivasan:** Let me just clarify. The banks and the clients are actually using that, calling that customer. It is not our client really. So, depending on the bank or the partner, they are doing the technical integration with us and they are exposing digital interfaces whether it be in their own app or be it different mechanisms like web or physical card or whatever. So, the journey is defined as per the client process but technically they decide whether they want to send the confirmation or not. So technically it's possible that it's really their customer and they define the consumer journey.

**Jeevan Patwa:** So, you can’t actually send any kind of SMS to the customer?

**Balaji Srinivasan:** Depends on the contract. Depends on the client. It’s not our call.

**Jeevan Patwa:** Because if that happens then I think customer is aware that he is still two, three entire months remaining or pending, then I think he might use it before it’s over. So, I’m just trying to understand. So, we can actually increase the lounge access. Thanks a lot.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management for the closing comments.

**Liberatha Kallat:** Thank you everyone for joining us in this earnings call. We at Dreamfolks Services Limited will continue to expand on the initiatives undertaken and progress made over the past few years. The strong position that our company has been in over the years will only further solidify with streamlined, efficient operations and incredible talent pool delivering high quality offerings and further strengthen the deep relationship and network built over the years.

Once again, the presentation, earnings release and results have already been posted on the company's website and stock exchanges. Please feel free to contact any of us or Strategic Growth Advisors if you have any further questions. Stay safe and take care. Goodbye.

**Moderator:** Thank you, members of the management team. Ladies and gentlemen, on behalf of Dreamfolks Services Limited, that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.