DreamFolks
Your Airport Experience Amplified !

Dreamfolks Services Ltd.
#501, Tower-2, Fifth Floor, Worldmark
Sector-65, Gurugram - 122018
Haryana, India | 0124-4037306
www.dreamfolks.in | info@dreamfolks.in
CIN : L51909DL2008PLC177181

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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**

Subject- Transcript of Earnings Conference Call conducted on May 28, 2024

Dear Sir/Madam,

In continuation of the earlier communication regarding Q4 and financial year ended March 31, 2024 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 Q4 and financial year ended March 31, 2024 Earnings Conference Call conducted on May 28, 2024.

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**

RANGOLI AGGARWAL

Digitally signed by RANGOLI AGGARWAL
Date: 2024.06.03 11:21:56 +05'30'

Dreamfolks Services Limited

Rangoli Aggarwal
Company Secretary and Compliance Officer
Enclosed: As Above

"Dreamfolks Services Limited
Q4 & FY24 Earnings Conference Call"
May 28, 2024

Disclaimer: E&OE. This transcript has been edited for factual errors. In case of discrepancy, the audio recordings uploaded on stock exchange on May 28, 2024 will prevail.

MANAGEMENT: **MS. LIBERATHA KALLAT – CHAIRPERSON AND MANAGING DIRECTOR**
MS. GIYA DIWAAN – CHIEF FINANCIAL OFFICER
MR. BALAJI SRINIVASAN – EXECUTIVE DIRECTOR AND CHIEF TECHNOLOGY OFFICER
MR. SANDEEP SONAWANE – CHIEF BUSINESS OFFICER

Moderator: Ladies and gentlemen, good day and welcome to the Dreamfolks Services Limited Q4 and FY24 Earnings Conference Call. As a reminder, all participants' line will be in 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.

Before we begin, let me remind you that this discussion may contain forward-looking statements and may involve known and unknown risks, uncertainties, and other factors. It may be viewed in conjunction with the company's business risks that could cause future results, performance, or achievements to differ significantly from what has been expressed or implied by such forward-looking statements.

Today, on this call, we have with us Ms. Liberatha Kallat, Chairperson and Managing Director; Ms. Giya Diwaan, Chief Financial Officer; Mr. Balaji Srinivasan:, Executive Director and Chief Technology Officer; and Mr. Sandeep Sonawane, Chief Business Officer.

I now hand the conference over to Ms. Liberatha Kallat. Thank you and over to you, ma'am.

Liberatha Kallat: A very good evening to everyone and thank you for joining us on the earnings conference call for the quarter and fiscal year ended 31st March 2024. We announced the financial results earlier today and I hope you have had a chance to go through our financial results, investor presentation and press release that are available on the stock exchange and on the company's website.

I will begin by giving you all an overview of how the year has been for us and the initiatives we have taken, post which, I will give you a few highlights of the industries we are aligned with. This will be followed by my colleagues giving you further highlights and insights into what happened during the quarter and full year.

Let's begin. FY24 has been an eventful year for the company. During the year gone by, we have achieved a Revenue of INR1,135 crores from INR773 crores in FY23, recording a strong growth of 47% against the domestic air traffic growth of 13%, as per DGCA. Our Revenue has grown at a CAGR of 100% from FY22 to FY24, indicating our leading position in the lounge services aggregation industry. We facilitated approximately 11 million pax this year, which was 3.5 million in FY22 and 8.2 million in the previous year.

We saw a significant increase in adoption of digital tools like web-access and self-check-in kiosks contributing to 10% of our monthly paxes. For the full year, our Gross Margins were at 12.1%, in line with the guidance of 11%-13%. Our Adjusted EBITDA, adjusted for non-cash ESOP expenses was at INR103 crores with a margin of 9.1% during the year.

I would like to highlight that on a quarter-on-quarter basis, driven by our concentrated focus on improving operational efficiencies, innovations and collaborations, we have been increasing our Adjusted EBITDA margins from 7.4% in Q1 to 9.7% in Q4, up by 226 basis points. The Domestic to International split for Indian lounges is roughly 77:23, which is now at pre-COVID level and is expected to be at similar levels from hereon, as it is now in line with the airport traffic split. I would like to reiterate that this split is for domestic and international terminals at Indian airports.

Our Railway Lounge business has also witnessed a robust growth and has grown by 3.5x in FY24 from the previous year. We continue to maintain 100% coverage in railway lounges as well, with the presence of 14 railway lounges across India.

We have been focusing on adding new contemporary and other services to the bouquet of services we already provide. And our efforts have also translated into numbers.

The services other than the Indian airport lounge now contribute 6% to our Revenue, which was less than 2% in FY22. We remain focused on increasing the contribution of these services and expect these services to contribute around 15% to 20% in the next 4 to 5 years.

Our vision is to make premium travel and lifestyle experiences accessible to everyone and being recognized as a travel and lifestyle service provider.

Some notable tie-ups during the quarter include a strategic collaboration with RedBeryl, a pioneer in luxury lifestyle and personalized services. We have also partnered with Eco Mobility to provide access to luxury car rental services to our DreamFolks Club members. Further, we have ventured into providing beauty and grooming services through our partnership with Looks Salon. Sandeep will elaborate more on these collaborations.

Now moving on to a few industry highlights. The global travel industry is a dynamic ecosystem encompassing various sectors and plays a significant role in fostering economic growth and cultural exchange. With the advancement of technology and globalization, travel has become more accessible and convenient, leading to a surge in both domestic and international tourism.

On a global level, as per industry reports, the global passenger traffic is expected to reach 3.2 billion in 2030 from 2.1 billion in 2023. This growth in travellers is due to the rising eagerness to travel worldwide is leading to airlines recognizing the growth potential of the industry and ordering new aircraft to capture the growing demand. The total deliveries of aircraft between 2024 to 2030E is expected to be more than 12,800, which was 8,100+ between 2017 to 2023. These factors, along with evolving passenger aspirations of a premium experience are poised to significantly bolster the global lounge industry in the foreseeable future. Estimates indicate that the global lounge industry is expected to grow at a CAGR of 7.5% from 2023 to 2033 as per Spherical Insights report from Jan '24.

On a global level, Asia Pacific is expected to be the fastest-growing market driven by significant increase in air traffic and investments in aviation infrastructure. Lounges continue to contribute high margins for airport operators, resulting in greater area allocations. We witnessed a significant increase in the lounge area by 7,000 square meters across all airports in FY24. The growth in the domestic passenger traffic in the aviation industry will drive the momentum for growth in the Indian lounge industry. FY24 witnessed a 13% year-on-year increase in the passengers, reaching 153.7 million passengers from 136 million in FY23, as per the DGCA data.

We have now surpassed the pre-COVID levels in terms of domestic passenger traffic, driven by an increase in both leisure and business travel. All these factors will lead India to become the world's third largest aviation market by 2024-25.

Now moving to the credit card industry. The credit card industry in India has witnessed significant growth and evolution in recent years, fuelled by increasing consumer spending, digitalization and expanding financial inclusion initiatives. With the rising middle class and a rising number of digitally savvy consumers, credit cards have become a preferred mode of payment for transactions ranging from everyday purchases to high-value expenditures.

As per RBI data, the number of credit cards in circulation as on 31st March 2024, has increased to 101.8 million, reporting a net increase of 19.3% from 85.3 million credit cards as on 31st March 2023. With the increasing number of cards, there has also been a noticeable increase in the average spend per credit card during the year, to about INR1.80 lakhs in FY24 from INR1.68 lakhs in FY23, an increase of about 7.1% year-on-year. Both these facts clearly signal to the leading adoption of credit cards in the country, which would certainly provide us with the necessary tailwinds to ensure a sustained growth in the business.

Now to conclude, at DreamFolks, we are actively engaged in strategic endeavours aimed at broadening our service portfolio. By leveraging our robust technological structure and esteemed client base, we strive to fortify our leading position in the airport services sector. We are continuously extending our presence across the globe through the strategic partnerships, thereby augmenting our brand recognition in new territories.

Positive industry tailwinds, such as increase in demand for travel, rising adoption of credit cards and digital payment solutions and growing demand for premium services such as lounges and other lifestyle services present significant growth prospects in the foreseeable future. We have fortified our position by partnering with global lounge operators, a move, which will help facilitate scaling up operations and improving our margins. With our adept technology and resilient team, we are poised to deliver positive performance in times ahead.

We have been addressing the ongoing structural changes in the credit card industry whereas the card issuers are moving to a spend-based benefit structure instead of a blanket card benefit. This change was implemented in Q3 of this year, and we will continue to see the changes across the providers until the spend-based system is in place. This structural shift in the model meant that our revenue growth was 47% this fiscal instead of the potential 65% growth in the absence of the model.

Given the macro development of the credit card industry, the higher base of the business model and ever-changing industry scenario, we estimate that our Revenues would grow at an approximate 20% CAGR for the next 3 years and maintain Gross Margins in the range of 11% to 13%.

Positive industry tailwinds such as increase in demand of travel, rising adoption of credit cards and digital payment solutions and growing demand for premium services such as lounges and other lifestyle services present significant growth prospects in the foreseeable future.

Further, I'm happy to share with you that our Board has recommended a final dividend of INR1.5 per share for FY24. We had paid an interim dividend of INR0.50 in Q1FY24, which takes our annual dividend to 100% of the face value.

With that, I would now invite Sandeep to give you an update on the business front.

Sandeep Sonawane: Thank you, Liberatha and very good evening to everyone. I would like to highlight the various strategic initiatives we are undertaking to take DreamFolks to the next level. These initiatives underscore our commitment to growth, innovation and diversification and will be pivotal for our sustained growth in future.

Our primary focus centers on the aggregation and integration of new contemporary or other than lounge services to our portfolio. As mentioned by Liberatha, we are transitioning into a comprehensive travel and lifestyle service aggregator, offering a diverse array of services that cater to evolving needs of the consumer.

This quarter, we have secured some major strategic tie-ups, expanding our service portfolio. First, was a strategic partnership with RedBeryl, a pioneer in luxury lifestyle and personalized services. Through this partnership, the customer can enjoy access to across 3,000+ exclusive members-only club across 150+ countries. It also provides front row seating at global sporting events like Olympics, Wimbledon, Champions League, etcetera, also dining experiences at Michelin Star restaurant, elite mobility options including private jets and yacht and many more luxury services.

We have also expanded our partnership with Eco Mobility to provide DreamFolks Club members the access to luxury car rental services in more than 150 airports in India and abroad. This partnership presents DreamFolks with a significant opportunity to enhance airport transportation and travel solutions. Further, we have partnered with Looks Salon and introduced beauty and grooming services to our portfolio of services diversifying ourselves to a spectrum of services beyond travel, which is lifestyle.

In addition to integrating new contemporary services, we have broadened our aggregation efforts in lounge services as well. We are now facilitating access of lounges not only at the airport but also at the railway stations, highways, visa application centres for which we have tied up with VFS Global, the largest visa outsourcing service provider globally.

We are also in discussion to introduce the in-flight service, enabling travellers to choose their preferred seats and in-flight meals. This initiative is poised to redefine the lounge experiences, making it more inclusive and comprehensive. The outcome of all these efforts is evident in our performance. The revenue contribution from services other than the India Airport lounge services has surged from less than 2% in FY22 to 6% in FY24 and grew by almost 14x over the same period.

This growth trajectory is very noteworthy, especially given the fact that we had actually grown by more than 47% this year. Our second strategic pillar is focused on actively diversifying our client base and reducing the reliance on one specific type of client.

Our new go-to-market strategy involves partnerships with OTAs, airlines and enterprises. This strategic pivot is designed to broaden our market reach and of course, increase the brand equity of DreamFolks among different set of clients. To spearhead this diversification, we have recruited 16 talented professionals from the top business schools and engineering colleges of India.

These individuals will help us accelerate our diversification effort and expanding our client base. While we are making effort to expand our client base, we are also focused on deepening our engagement with existing clients by offering a broader range of contemporary services to them. By increasing the wallet share of our client, we aim to provide more value, strengthen client loyalty, and drive higher revenues per client. This approach not only maximizes the utility of our existing client base but also fortifies our market position to enhance client satisfaction and retention.

Lastly, we are also committed to expanding our geographical footprint. Our ambition to go global is taking shape with the recruitment of a very senior professional at our Singapore office. This strategic move is aimed at partnering the Southeast Asian market, leveraging the region's robust economic growth and dynamic business environment. Our entry in Singapore will serve as a gateway to broader opportunities across the globe.

To conclude, our strategic initiatives will foster sustainable growth, enhanced client value and expand our market presence. By aggregating contemporary services, deepening client engagement, diversifying our client base on one side and expanding geographically on the other side, we are well positioned to capitalize on emerging opportunities and drive long-term success.

With that, I invite Bala to give an update on technology.

Balaji Srinivasan: Thank you, Sandeep. Utilizing the capabilities of the DreamFolks proprietary tech platform, we have seamlessly integrated new partnerships and offerings, which enhance the benefits available to our value beneficiaries. This opens up access to these new services on our platform of the premium service of RedBeryl as well as Eco Mobility and others. This initiative not only underscores our drive for innovation but also reflects our continuous efforts to create a comprehensive solution set for our clients' consumers.

Our proprietary tech platform, which is developed in-house empowers us to create bespoke products and solutions for our clients. In line with our commitment to maintain an asset-light and lean organisational structure, our cloud-based platform provides clients and the consumers with clear visibility into benefits and services.

Access to these services is facilitated through an omnichannel approach, which includes card issuer apps, the DreamFolks app, the self-check-in kiosks, web-access portal, all supported by our hybrid tech.

Our platform allows us to enhance the spending habits of our clients by offering precisely targeted products and presenting a high-quality CVP or the consumer value proposition to the end consumers rather than a one size fits all solution. We are also observing an industry trend where most of our clients are implementing our spend and usage-based solutions to optimize the total cost of ownership of their product offerings and launch new product incentives. This continues to be a competitive advantage for us as we strengthen our deep integration into our client systems and that's our moat to the clients.

To conclude, our tech remains one of our most vital assets and thus reflecting our commitment to continuously upgrade to platform. This dedication is rooted in our pursuit of providing appropriate and timely solutions to our clients and continuing to disrupt the industry.

With that, I hand over the call to Giya to take us through our financial performance.

Giya Diwaan: Thank you, Balaji and very good evening to all. Let me walk you through the financial performance for the quarter and the year ended 31st March 2024. I'll start with the highlights on the yearly financial performance.

The company achieved a 46.8% Y-o-Y growth in Revenue from Operations to INR1,135 crores in FY24 as compared to INR773 crores in FY23. Gross Profit was at INR137 crores against INR128 crores in FY23, while Gross Margin was at 12.1% for the year as compared to 16.5% in FY23. After adjusting for noncash ESOP expenses, Adjusted EBITDA was at INR103 crores in FY24 compared to INR104 crores in FY23. This has translated to an adjusted EBITDA Margin of 9.1% in FY24. Adjusted Profit Before Tax was INR98 crores in FY24 with Adjusted PBT margin of 8.7% in FY24 compared to adjusted PBT of INR100 crores in FY23. Our PAT for FY24 stood at INR69 crores. PAT margin was at 6% in FY24. We continue to have a strong balance sheet with our Net Worth up by 50% to INR236 crores compared to last year. Our Cash and Cash Equivalents balance as at quarter end stood at INR101 crores.

Now moving on to the highlights for Q4FY24. The company's Revenue from Operations for the quarter stood at INR281 crores in Q4FY24 against INR238 crores in Q4FY23, registering a growth of 18.2% Y-o-Y. Gross Profit was at INR35 crores, while Gross Margin was at 12.5% for the quarter. The Adjusted EBITDA stood at INR27 crores with an Adjusted Margin of 9.7%. The Adjusted PBT stood at INR26 crores with an Adjusted PBT margin of 9.2%. Profit After Tax for the quarter was at INR18 crores. The company reported PAT margin at 6.4% for the quarter. ROCE and ROE as at end of FY24 stood at 38.1% and 34.9%, respectively.

Backed by our steady financial performance and the robust business model, we are confident of scaling up our business operations with our strategic initiatives along with a steady improvement in margins through internal approvals without relying on external sources of funds.

On this note, now I will request the moderator to open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sanidhya from Unicorn Assets.

Sanidhya: Yes. So firstly, my first question is on the lounges that, we have opened 3 or 4 new lounges this year. Is that the number right?

Balaji Srinivasan: No, just to clarify, so we are not in the business of operating the lounges. So, you're probably seeing some new lounge partnerships that we have done, where consumers can go, and the lounges continue to keep opening and the changes in the inventory keeps changing but that's just business as usual.

Sanidhya: Can you please explain me how to look at that number in the presentation?

Balaji Srinivasan: Yes. So, the way we report the numbers is, we typically say that we have got 1,500+ touch points, which includes all the locations the consumers can go, which could be lounges or meet and assist points or spa points. So, all the touch points together, we report a number. With specifically for India lounges, there will be separate slide, which tells you how many lounges are there.

Liberatha Kallat: So just to add what Bala was saying. So, for example, for India, we talk about 65 lounges and it's 100% coverage, what we say. There are 65 lounges across the Indian airports wherever they are. So as and when there are new lounges coming up, that becomes part of our inventory of lounges. And this is similar to the railway lounges as well. There are 14 railway lounges right now presently in India and we have 100% coverage as well.

So similarly, in the global market, we are expanding. And that's why we have mentioned about Grey Wall and Plaza Premium. So, these were 2 of our partnerships in FY24, which has increased our network globally. So, this is an ongoing process. And in India, as we claim that, it's 100% coverage. So as and when there are new lounges coming up, it becomes part of the inventory. In global, we are in process of adding more and more lounges and different touchpoints. When we say touch points, it would be meet and assist, the airport transfer, the spas and the F&B outlets as well.

Sanidhya: Okay. Okay. Second is on the lines of margin. So, I heard you saying that 12% to 13% margin is what you're looking at. So currently, it's not the case, definitely. So, what are the business verticals which we are looking into, so that there will be such margin expansions on the overall revenue base?

Sandeep Sonawane: Okay. So, a small correction here. We have been consistently mentioning our guidance of Gross Margin from the range of 11% to 13%. And I think in the last 3 quarters also, we have been maintaining that and not 12% to 13%. So we are well within the range as we reported this year full year margin at 12%. And what we said was in terms of one, the kind of services that we are aggregating and on the other side, the types of clients that we are going to aggregate and are aggregating that will help us actually improve our margin. That is what we mentioned.

Sanidhya: And is it right that you are expecting the revenues to grow at 20% CAGR for 3 years?

Sandeep Sonawane: That's right.

Sanidhya: Okay. So, we consider this year's 40% growth will be one-off? Or there is still chance we might just over perform.

Sandeep Sonawane: No. So, this year, we grew 47%. Not to forget that we were lapping a lower base where last year, the traffic has not fully recovered from the COVID. That is why you are seeing a 47% growth this year. However, if you were to look at the CAGR, air traffic between say 2023 to 2033E, it is projected to grow at a 15% ballpark number. So, we will continue to grow ahead of the industry or the air traffic growth in this case.

Sanidhya: Okay. And lastly, we have more than 50% market share overall in the domestic lounge market, right?

Liberatha Kallat: No, just to correct, we have around 90% market share.

Sanidhya: Okay. 90%. So, will we be able to maintain this beyond 2030? Or do we see any competition coming in on this?

Sandeep Sonawane: So frankly speaking, the competition existed long back and they continue to exist, I think what Bala mentioned in terms of tech solution that we have, the kind of integration that we have had with the banks actually create a lot of moats and that helps the banks to entrust on us. And if you see in the last at least 7-8 years, we haven't seen any dent in our market share.

We continue to actually strengthen our position, if not only increase. So, competition, of course, will come and go. But I think as far as DreamFolks are concerned, I think the market share has been very, very consistent.

Liberatha Kallat: And just to add also to see the positive side of this in terms of further technology what Sandeep was mentioning. With the spend base, we have actually now deeply integrated with our clients. Now this is actually a positive sign for us and that is a stickiness that we have with the clients. So, I would say that the way we have continuously maintained our leadership position in the market, we will continue to maintain that.

Moderator: The next question is from the line of Shreyans Mehta from Equirus Securities.

Shreyans Mehta My first question pertains to the 20% CAGR. So how should one look at the volume and the price hike?

Sandeep Sonawane: See, Shreyans, we are talking about next 3 years, 20%, which is ultimately beating the industry growth, which is the air traffic growth. So that we will continue.

Shreyans Mehta So I'll put it other way around. So as far as FY25 is concerned, we are almost at the pre-COVID levels in terms of the passenger. So how should one look at the FY25 number and FY26, air traffic?

Sandeep Sonawane: So, 15%, I said. It is available in the common domain. 15% CAGR is the traffic growth, which is envisaged. And I said we will grow ahead of the traffic growth and that is why we said 20% in the next 3 years as CAGR. That will be our top line growth.

Shreyans Mehta Sure, sure. Second question is on the commentary you mentioned about expansion in airports closer to 7,000 square meters. So, is it possible to give which airports are going for expansion, area wise?

Sandeep Sonawane: So, if you were to look at all the 4 major metros, I consider Hyderabad and Bangalore, also part of metro. So, let's consider them as 6. If you were to see a complete new terminal, which is in the form of Bengaluru T2 (Terminal 2) that is complete expansion despite the fact that all the lounges that were existing in T1 continue to operate, so that is number one.

If you have been traveling off-late to, say, T3 lounge in Delhi, that is a completely new lounge that has come up. In fact, the T1 and T2 are also getting expanded. They have already expanded. As we see, Mumbai is also expanding. Goa has got 2 different airports now.

And the new Goa airport has got the lounge. Earlier, it was only 1 terminal and obviously, only 1 lounge. So likewise, Hyderabad, as we speak, has already increased significantly the lounge area.

So in all, 7,000 square meters of space approximately got added in last year. And I don't see that will come down because lounge as an area for the airport operator is a significant revenue contributor at a higher margin as we mentioned. So we see that we'll continue to grow.

Shreyans Mehta: Sure, sure. So, this is a number for FY24 and not for FY25, right?

Sandeep Sonawane: Yes. The 7,000 square meter addition is last year that has gone by till 31st March '24.

Shreyans Mehta: Sure. And any colour on FY25? Any new airports which are going for expansion?

Sandeep Sonawane: Frankly speaking, I would expect a similar growth or if not more, because we feel that there are chance that probably government would privatize another good 20 to 25 airports in the coming 1 or 2 years, that will significantly increase the lounge area. If that happens in FY25, good.

Liberatha Kallat: FY25, we also expect Jewar Airport.

Sandeep Sonawane: Jewar Airport, New Mumbai Airport.

Liberatha Kallat: And there are a few airports which are under privatization under Adani. So there would be lounges coming up in these airports as well.

Shreyans Mehta: Sure, sure. And ma'am, so once this new airport, especially from Adani go for privatization, can we see similar thing which we witnessed in FY24, wherein the rental or the CAM charges were increased?

Sandeep Sonawane: I think the base is already formed, Shreyans. We spoke about that in Q1. So, the base is already formed. So the sudden change happened when there was no base. The base is already found. Now we all expect that whatever prices the lounge operator is going to charge, we will have a bake-in cost of these CAM charges any which way.

Shreyans Mehta: Got it. Sure. And one last question on the debtor days. If I see FY23 or even for 6 months FY24 and FY24, it says the debtor days seems to have gone up. Any particular reason for it?

Giya Diwaan: No specific reason, Shreyans, because it's not about just quarter-to-quarter because sometimes quarter end data is deceptive while throughout the year, we see it reducing a lot, So you get to see only half year and the full year, while 31st March is also a closure for the banks. I'm sure you understand we work with all the large banks wherein the processing of all these reviews and invoice processing takes time and especially the half year end closure and year-end closure also is pretty strenuous on them as well.

So that's the reason you see these kind of variations, but I think between 20 to 25 days of the cash conversion cycle is what we always work upon.

Sandeep Sonawane: Also, we are increasing in terms of size. If you were to really look at the sheer top line growth that we have added is close to INR360 crores, Shreyans. Our clients will also have a process in place where beyond a certain limit, the approval process takes longer than what it is if the amount is below a certain threshold. I'm sure you'll appreciate that.

Shreyans Mehta: Sure. So, because the reason is if you see in the net working capital days, if I just do a simple math, debtors minus creditors, so debtor days seem to have increasing whereas creditor days that seem to have decreasing. So just trying to understand, is there any specific reason, any one-off? Or how should one look at it?

Giya Diwaan: Okay. So, I mean, these are 2 very different credit periods which we are talking about. So, payables actually is also dependent on our mix of the regular vendors versus the SME vendors, small and medium enterprise vendors. And I'm sure, even during the COVID a lot of companies also saw that smaller vendors actually went and took the registration of SME while as they started scaling up, they have moved away from MSME to the larger organizations.

So, this blend keeps changing and also when the operators also keeps changing for us at the airport lounges, if there is an MSME versus non-MSME operator, that also drives our payable days because any small and medium enterprises, payments are actually guided by the regulatory guidelines, wherein we have to pay within a certain amount of time frame.

While for the non-MSME it is larger base. So as and when that mix changes, this kind of deviates a little bit here and there. While I see the receivables from a very isolated point of view that whether it is a half year end closure or a year-end closure or any specific event coming in, for example, any reviews happening or any larger amount of invoices getting processed and going through a larger amount of in-house at the client's level approval cycle that Sandeep was mentioning.

So, these are very 2 isolated events what we see actually. But the way we see is that since we have internal accruals, 20-25 days of gap between the receivables and payables, it doesn't actually impact us more from the point of view of cash management.

Moderator: The next question is from the line of Pritesh Chheda from Lucky Investments.

Pritesh Chheda: In your best guess, how far you are or how many quarters are you away from the 11% to 13% EBITDA margin that you're talking about? Because I think the new fiscal year would have started, and you would have negotiated the pricing with the bank. So based on that, how far you are away from that margin?

Liberatha Kallat: So, I think I just want to make a correction. We were not talking about the EBITDA margin. We were talking about the Gross Margin to be between 11% to 13%.

Pritesh Chheda: Okay. So how far you are away from the upper end of the GM and hardly any expense below that. So how far you are away from that achieving this?

Liberatha Kallat: I think we have already given the guidance even in our Q1FY24 results announcement and also, we continue saying that we would try and maintain our gross margin at 11% to 13% for a few years.

Giya Diwaan: And if you look at our quarter 4, it's already at 12.5%, which is well within the range which we have given.

Pritesh Chheda: So, I'm just wondering the hit that you took the last year, some amount of it should rectify itself, right? Why are you now guiding for a much lower margin profile versus what you did just around the IPO?

Liberatha Kallat: If you actually look at it, the Q1FY24, our gross margin was around 10.6%. Whereas the way we have grown in Q4FY24, we have actually done 12.5%. So I would say that, yes, there is a recovery happening. But however, I would want to give a similar guidance. Yes, with the different services, what we are adding in, apart from the lounge services.

And not only that, in terms of the client as well, we are also now exploring into the enterprises. So these would be the factors wherein our gross margins would be much better. But however, the contribution from these services and the new set of clients, I would say next 4 to 5 years, the contribution would be somewhere around 20% from these services, where we would get back to our historical margins then.

Pritesh Chheda: And these other services are at what gross margins?

Liberatha Kallat: So, it depends from service to service right now. But however, we would like to give you the same guidelines, which is around 11% to 13% because we are looking at the overall margin.

Pritesh Chheda: Okay. And my last question is on the cash flow conversion. So, based on whatever working capital cycle that you would have incrementally, what will be your cash flow conversion of EBITDA?

Giya Diwaan: Okay. So cash flow conversion, if you look at it from an EBITDA standpoint, we have recorded cash flow of INR97 crores against which we have a net cash generated from the operating activity of INR22 crores. So close to 20+ percentage is what is our conversion cycle.

Pritesh Chheda: So, this year, what was the operating cash flow?

Giya Diwaan: INR22 crores. Net cash generated from the operating activities was INR22 crores this year.

Moderator: The next question is from the line of Mosam Shah from Wealth Guardian.

Mosam Shah: Yes, I just wanted to ask the proprietary technology platform that we have. Have we registered and have copyright for it?

Balaji Srinivasan: It is not patented but yes, it is copyright.

Mosam Shah: Okay. And also, one more question. Regarding the lounges that we have opened on roadways and railways. Do we have better margins, lower margins or same as airport lounges?

Sandeep Sonawane: We have better margins. See, our hero product is airport lounge. Any other services beyond airport lounge has typically higher margins than the airport lounge. Yes, to answer your question. Yes, it is affirmatively, yes, higher margins.

Mosam Shah: Okay. And also, the high cash that we have on books that is, I think, more than INR100 crores. Any plans how we want to move ahead, any acquisition or anything for the shareholders or something?

Giya Diwaan: Yes. Sure. So we just announced a dividend payout. We also did an interim dividend payout in July and now we have announced a final dividend payout, which actually is 100% of the face value of the shares. And that would also be equivalent to 10% of the free cash flow reserves what you're getting to see in the books of account.

Apart from that, we are growing and trying to expand a lot in terms of other services in terms of other geographies. We are also very active in terms of finding out new synergistic opportunities for acquisitions and that's where the accumulated cash flow, which we are generating would get utilized.

Moderator: The next question is from the line of Abhishek Chawla, who is an individual investor.

Abhishek Chawla: I just wanted to know as DreamFolks is an aggregator, so in the coming future, let's say, 5-7 years, is it possible that you move to fee model? Because as of now from the P&L, I understand that you pay for the services and then you sell those services to the bank. And the bank pay you per person that accesses the lounge. So, is it possible that you only get the INR100 fees for how many people that travel, and the bank pays directly for the rest of the lounge charges?

Liberatha Kallat: So, to be very frank enough. That is not the model what we work on. So, I don't foresee that there would be any change in our business model. It will continue in the same way.

Abhishek Chawla: Because the reason I ask this is, this leaves a lot of impact on the debtor base and the amount of debtors we have. So that was the reason for this. Moving on to the cash flow statement. As I can see, you started making provision for doubtful debts. So may I just get a sense of which are these clients for which you are being a little doubtful and have started to do the provisioning for them.

Giya Diwaan: That's just one client from the airline industry, which has filed for the bankruptcy. So there was a small amount of due over there, which we are writing it off.

Abhishek Chawla: Okay. So going forward, as you sign up more clients who are, let's say, corporates where you give those corporate cards and other flower services and all these services. So can we expect more provisions to be made for those type of clients?

Sandeep Sonawane: No. Because if you were to look at all these service providers are large enough. We are not talking about someone who is very, very local service provider. When we say the Florist is an omnipresent company which is at a national level, whether it is Looks salon that we have tied up that we mentioned, it has more than 350 outlets across the country, so on and so forth. So these are all big companies, big vendors and not really small vendors. So I don't foresee anything on account of debtors, all these companies becoming debtors at any point in time, at least I don't foresee that.

That is the reason why we are very, very specific about the strict SLAs that we have. And of course, the national presence is very important when we actually tie up unless we know that a certain vendor is very, very strong in a particular geography, maybe North India or South India.

Moderator: The next question is from the line of Bala Murali Krishna from Oman Investment Advisors.

Bala Murali Krishna: Yes, the question which is about to ask regarding the international operations. So since the listing, you are planning to replicate the services in other countries in Gulf or Middle East, but nothing is materialized. But is there any further scope to get some deals or we can drop from those further plans of this replicating lounge services in other countries.

Sandeep Sonawane: Yes, Bala. Thank you. Yes. We are as excited as you are. Actually like in India, the adoption or the gestation period is not small. While we have been saying that, yes, that is an ambition. But I tell you that intent has got converted into action when we said that we have already recruited a senior resource who's based out of Singapore office. In fact, in terms of action, last year, April, we took an office in Singapore.

We have recruited a senior person based out of Singapore. However, just to add to what you said, we already had actually started getting revenues, though very, very small in a country called Malaysia in the last almost 6 to 7 months, we are getting consistently on the technology that we have actually sold.

So yes, I agree. I think it requires a little bit of patience, but we are committed in terms of resourcing that market to get it to a significant percentage.

Bala Murali Krishna: Yes, that's great. And one more thing on the roadway lounges. So we have just entered in the segment, I think maybe in this quarter itself. But what is the number of lounges, how many lounges are available? And what could be the scope of increasing the number of lounges further?

Sandeep Sonawane: Yes. So great question. In fact, we have already added someone from the South, a company who currently has aggregated only 2 lounges. However, I do not want to really dilute it by saying that it is two lounges, considering that in the coming 10 years, we will see a lot of electric vehicles on the road. And because of which the number of lounges on the highway will increase because imagine if you were to go from point A to point B, in between, you will have to charge the vehicle and what do you do?

What if I were to give you a good space where you have clean toilets, air condition, newspaper. and by the way, you get to sip a cup of coffee. I think that is going to significantly increase and a lot of multinational companies are putting heavy investment, the likes of Jio, BP, Tata, everybody are getting into this. So we intend to actually get the first mover advantage and want to really stay ahead of the curve. We see huge potential in the coming 5 to 10 years in this case.

Moderator: The next question is from the line of Shreyans Mehta from Equirus Securities.

Shreyans Mehta: So now it's almost 2 or 3 quarters that our tie-up with Plaza Premium as far as the international operations are concerned is through. So how is the traction out there? What are the rates offered by us? And how are the banks looking at that part of the business?

Liberatha Kallat: So Shreyans, there are 2 ways that we are doing with the global lounges. One is, of course, we are looking at giving this benefit to the Indian traveler as well as the focus is also for the international market as well.

In terms of the pricing, I would say that it was not in line with what we have in the India market. Of course, in India market, we enjoy the best of the commercials because of the volume, what we drive there. And subsequently, it will take time for us in the global market also to enjoy the similar type of commercials.

And once we start onboarding clients. So, the thing is that we are in process and as Sandeep was mentioning about Southeast Asia market and Middle East, what we have been doing and what we have already implemented. So, I would say that it would take some time for us to action it out in terms of the volume there and talk about numbers.

Shreyans Mehta: Got it. So, when I'm talking about the rates offered, so I'm talking about the difference between us and our competitors because we will be actually competing for that part of the business.

Liberatha Kallat: So, as I told you, Shreyans, that the way we are actually today enjoying in India market, the best of the commercials compared to the competitor. So obviously, in the global market, we are a little behind than the competition. I think once we start building the volumes there, then we would enjoy the best of the commercial even for those lounges.

Shreyans Mehta: Got it. Got it. Got it. And secondly, in terms of traction in the card which we have introduced our own card, wherein it's more of a subscription based. So how are things playing out there?

Sandeep Sonawane: So Shreyans, we've been clear and categorical as to what is the objective of launching the card. The objective of launching the DreamFolks Club membership card was not to really focus on the sales. There were 2 main objectives, and we are very excited to actually tell you as to what are the objectives and how it is actually helping us.

One is to drive the packages. The unfortunate part was that currently, one client will have probably 2 or 3 services taken by them of DreamFolks and are offered to their customers. However, we have arrays of services. We have probably say 18 to 19 services, out of which only 1 bank takes 3 services. The other bank would take only 2, the third bank would probably take, again, 2 different services.

We wanted to increase the discoverability of our services. And imagine if the consumer is actually going to our website and seeing that these are all the services that are provided by a company called DreamFolks and these can be made available on the credit card, our intent is to ensure that the consumer also forces our clients tomorrow to include these kinds of services. And the banks will, at some point in time, give these arrays of services as a part of their CVP to the customer.

So that is the main objective. And we are seeing great traction. If you were to really look at the percentage numbers that Liberatha was mentioning, 2 years back, it was less than 2% and it has come to 6%, while it is very small but majority of the 6% was accelerated because of the kind of services that we actually launched during our DreamFolks Club membership. I mean we launched it, in the month of December 2023. And since then, the other services are seeing quite a bit in terms of traction, especially enterprise.

Shreyans Mehta: Got it. Got it. Got it. Sure. And lastly, I mean it's almost a year that credit cards have been devaluating the points and cutting down on the lounges, lounge accesses. So now we feel we are almost through the rough patch or there is some more thing which is left and probably 1 or 2 quarters and will be back to normal? How should one look at it from that perspective?

Sandeep Sonawane: Yes. So, you are right in the sense that, yes, cost optimization at the end of client happened to a large extent. But however, we are not through. In the coming quarter, we see that 2 or 3 large clients, we have already got the dates in terms of the spend-based solution that they have adopted, and we are still yet to see the volumes that will get impacted. To my mind, I think we will see through this in Q3 probably. So, the volume will stabilize in Q3. The net impact we will be able to really measure in quarter 3 and onwards.

Shreyans Mehta: Okay. So, you feel probably this time it will be happening by third quarter or would play out actually in third quarter?

Sandeep Sonawane: So as we speak, it is happening. In the last 1 quarter, in fact, it started in the month of November, which is Q3 of last year. It happened Q4 also as we speak, and it is happening in Q1FY25, and it will also happen in Q2FY25. That is what I'm saying. So it will happen gradually till quarter, and I think till Q2 of this financial year, I think it will stabilize.

Shreyans Mehta: Got it. And in terms of market share, because largely, it was HDFC and SBI, if I'm not mistaken, those two are largely through. So even if at all, whatever the banks are they might be what closer to say 10%-15%. So, do you think that would have any major impact as far as margins or overall competitive intensity is concerned?

Sandeep Sonawane: No. So, while you have taken 2 names and I do not want to take further names but there are a few more clients which are significant in number in terms of contribution also, they are yet to go to the spend-based program. And as I said, it will happen as we speak, maybe in Q1 and Q2 and it will have impact.

Sandeep Sonawane: So, it will. And to that extent, it will not impact the percentage margin. It will impact the top line, Shreyans. It will not impact the margins.

Moderator: The next question is from the line of Piyush Kriplani, who is an Individual Investor.

Piyush Kriplani: Yes. So, the revenue like we started in June '21 with some INR25 crores and it has been consistently increasing till March '23, which is INR238 crores, means December '23, which is like INR305 crores. This is the first quarter, March '24, where our sales have gone down to around INR281 crores, which I understand one of the reasons is due to the spend-based programs and all.

So just wanted to know, at one end, we are saying it will be 20% CAGR on the revenue side. But due to this credit card, this cost optimization, are we expecting sales to go down further from here as I understand that Q2 or Q3, things will be stabilized.

So what guidance do we have on the revenue number? Because at one side, due to this credit card program cost cutting, our revenue has dropped. But at another side, we are seeing that revenue will increase at a CAGR of 20%. So how as an investor, I should analyse or understand what's going to happen in the next 1 year?

Sandeep Sonawane: Yes. I appreciate your question. So, if you were to look at Q3 and Q4, which is gone by, there also some of the big clients adopted the spend-based program. But while we were also a little cautious as to what kind of drop that will have, in fact, to our pleasant surprise, the drop did not happen the way we envisaged, and I'll tell you why.

Because consider a bank A doing the spend-based program, what happened immediately was on the day when they launched the spend-based program and after a week or so, they themselves realized that the other players that were there in the market started gaining share. So from availing lounge as a benefit from the consumer side did not change to that extent.

Yes, it impacted. There is no doubt about it, but it did not change. So hence, the stabilization or rather offering this lounge as a service by other banks and other clients helped us to actually stabilize and not really get impacted by the drop or rather the spend-based program, which was adopted by client number one. So not to the extent. So that is the good news.

Coming back to the other part of your question. So even in Q1 and Q2 FY25, while there are 2 banks, if they try to do simultaneously, then we might see a little bit of higher impact. However, we are committed to the 20% growth CAGR because of various reasons. See, we continue to add a lot of services. We continue to have tailwinds. The credit card industry is growing at 15%, the air traffic is growing at 15%, the habit of consumer availing a lounge as a service on the cards is very well intact. If you do not provide someone else will provide, that remains intact.

So I think that habit, we are very confident won't change to that extent. There will be a little bit of turbulence, maybe for 2 weeks or 3 weeks till the time that I as a consumer when I realize that on my credit card, if a bank or issuer has stopped giving me the benefit, I will probably either do two things, either migrate to other company's credit card or I might actually buy a higher variant. And also as a habit, instead of keeping 4 credit cards, I will start spending on that particular credit card.

And to just inform you, banks and clients are very, very happy. If you are spending on the same card and generating MDR for the bank, they are, in fact, probably will reward you with more lounges per quarter as probably what you are having currently. So banks do not want to really reduce this benefit. Banks are wanting to really give benefit to the deserving consumer. So it is actually that. So when I say this, it is going to find its own equilibrium and that equilibrium cannot be really foreseen and that is why this uncertainty will have a little bit of impact, but we are committed to a 20% growth 3 years as we mentioned because there are a lot of other initiatives.

We have hired management trainees from absolutely top-class institutes, from IIMs, from IMT Ghaziabad, from MDI and graduate engineering trainees from the best schools. The whole idea is to leverage manpower so that if they start actually coming on board and start accelerating our increase in clients like enterprises, this will help us get higher margins and also cover up to a large extent, the volumes, the revenues.

Moderator: Ladies and gentlemen, we will take that as a last question. I would now like to hand the conference over to Ms. Liberatha Kallat for closing comments.

Liberatha Kallat: I extend my sincere gratitude to all who joined our earnings call today, contributing to this very engaging discussion. We are committed to our business strategies aiming to deliver positive results continually. For any further questions or information, please contact our investor relations team at EY. On behalf of the company, I thank you all once again for your time and participation. Do take care of yourselves and goodbye. Thank you.

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