

BSE SENSEX 32,382 S&P CNX 10,021

**CMP: INR170 TP: INR237(39%) Buy**

Motilal Oswal values your support in the Asiamoney Brokers Poll 2017 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	DELTA IN
Equity Shares (m)	267
M.Cap.(INRb)/(USDb)	39.4 / 0.6
52-Week Range (INR)	218 / 90
1, 6, 12 Rel. Per (%)	8/14/72
Avg Val, INRm	790
Free float (%)	64.7

### Financials & Valuations (INR b)

Y/E Mar	2017	2018E	2019E
Net Sales	4.5	6.8	8.6
EBITDA	1.6	2.5	3.3
PAT	0.7	1.5	2.1
EPS (INR)	3.1	5.8	7.9
Gr. (%)	125.5	89.1	36.7
BV/Sh (INR)	39.7	59.4	65.7
RoE (%)	8.1	12.3	12.6
RoCE (%)	9.6	12.6	12.6
P/E (x)	55.7	29.4	21.5
P/BV (x)	4.3	2.9	2.6

Estimate change

TP change

Rating change

## Steady growth in gaming drives revenue beat

### Expanding share of online gaming to bolster growth

- Revenue exceeds but PAT below estimates:** DELTA reported overall revenue of INR1,286m (est. of INR1,180m) v/s INR1,087m in 1QFY17, marking an increase of 18.4%, driven by healthy growth of 20% in gaming. EBITDA margin shrunk 300bp YoY to 35.2% (est. of 38.1%) in 1QFY18, and EBITDA stood at INR453m (est. of INR450m) v/s INR415m in 1QFY17. Consequently, adj. PAT came in at INR211m (below est. of INR255m), as against INR170m in 1QFY17, because of higher tax-rate of 36% v/s 29% in 1QFY17.
- Online gaming – the next big opportunity:** Adda52 posted consolidated revenue of INR290m, with EBITDA of INR80m in 1QFY18, which sets the stage for robust growth of ~70% in FY18 (FY17 revenue: INR720m). Adda52 has aggressive plans to ramp-up its online Rummy business and launch Teen Patti in the UK market, which should drive sustainable long-term growth.
- Change in Goa casino policy – a big game changer:** As per media articles, the cabinet of Goa is likely to make a change in Goa's casino policy, whereby all the offshore license holders will be allowed to set up a live onshore gaming casino on land in lieu of their offshore licenses. We believe this will be a major game-changer for DELTA as it would not only significantly increase the scale of the business, but also bring down the cost of operations.
- Valuation and view:** Considering significant growth expected in online gaming, we upgrade our sales estimate for FY18E by 6%, but keep PAT estimate unchanged. However, we increase sales and PAT estimates for FY19E by 10% and 11%, respectively. We expect the company to deliver sales/PAT CAGR of 38%/69% over FY17-19E, and value the stock at 30x FY19E EPS to arrive at a TP of INR237. Maintain **Buy**.

### Consolidated - Quarterly Earning Model

Y/E March	FY17				FY18				FY17		FY18		Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE	FY17	FY18E	FY18	%	
Net Sales	1,087	1,343	1,036	1,081	1,286	1,746	1,916	1,860	4,547	6,827	1,180	9	
YoY Change (%)	34.6	43.8	3.4	5.3	18.4	30.0	85.0	72.0	21.2	50.1	8.6		
Total Expenditure	671	776	723	737	833	1,047	1,249	1,172	2,907	4,314	730		
EBITDA	415	567	313	344	453	698	667	688	1,640	2,512	450	1	
Margins (%)	38.2	42.2	30.2	31.8	35.2	40.0	34.8	37.0	36.1	36.8	38.1		
Depreciation	91	93	89	87	89	105	112	112	361	423	94		
Interest	87	87	82	94	70	33	0	0	350	100	37		
Other Income	9	11	11	19	37	45	50	55	49	187	26		
PBT before EO expense	246	399	152	182	332	605	605	631	978	2,176	344	-4	
Extra-Ord expense	-46	2	5	0	-18	0	0	0	42	0	0		
PBT	292	397	147	181	350	605	605	631	936	2,176	344	2	
Tax	85	91	40	64	127	169	169	177	280	631	89		
Rate (%)	29.2	22.9	27.2	35.4	36.1	28.0	28.0	28.0	29.9	29.0	26.0		
Minority Interest & Profit/Los	4	-16	6	3	1	0	0	0	2	3	0		
Reported PAT	202	322	101	114	223	436	435	454	654	1,543	255	-12	
Adj PAT	170	323	105	114	211	436	435	454	683	1,543	255	-17	
YoY Change (%)	2,539.9	494.1	-9.4	-29.3	24.4	34.8	316.4	299.1	118.8	125.8	50.1		
Margins (%)	15.6	24.1	10.1	10.5	16.4	25.0	22.7	24.4	15.0	22.6	21.6		

E: MOSL Estimates

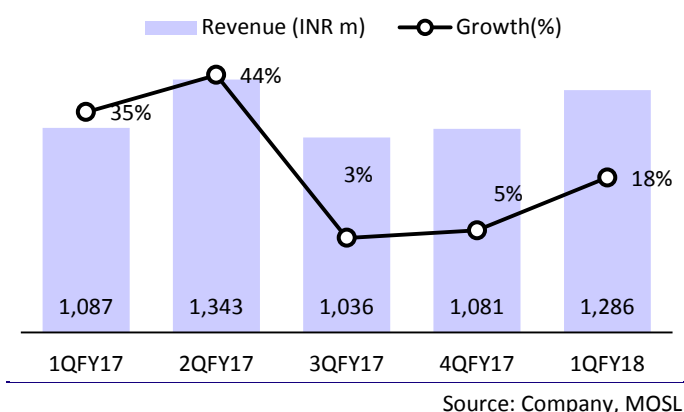
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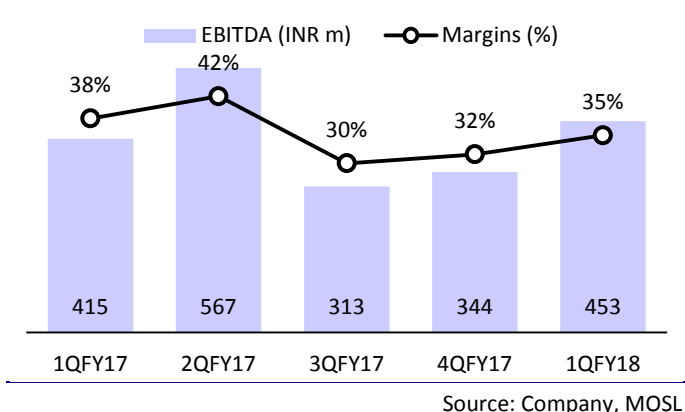
**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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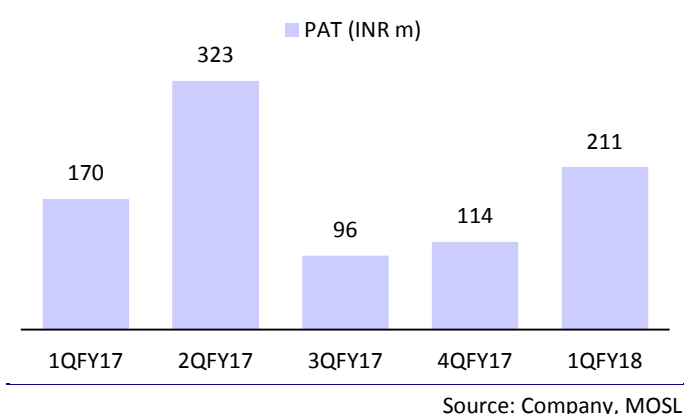
**Exhibit 1: Revenue trend**



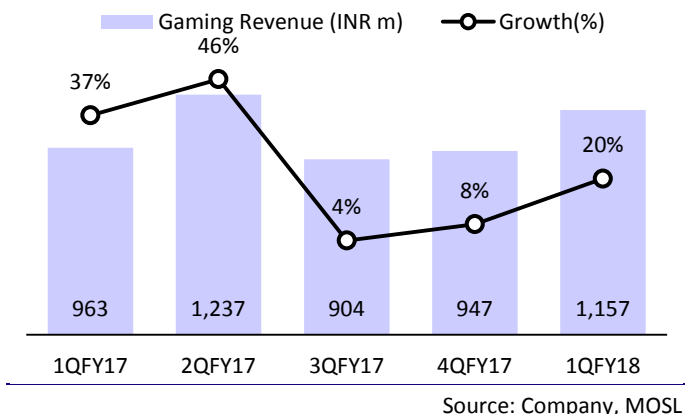
**Exhibit 2: EBITDA margins trend**



**Exhibit 3: PAT trend**

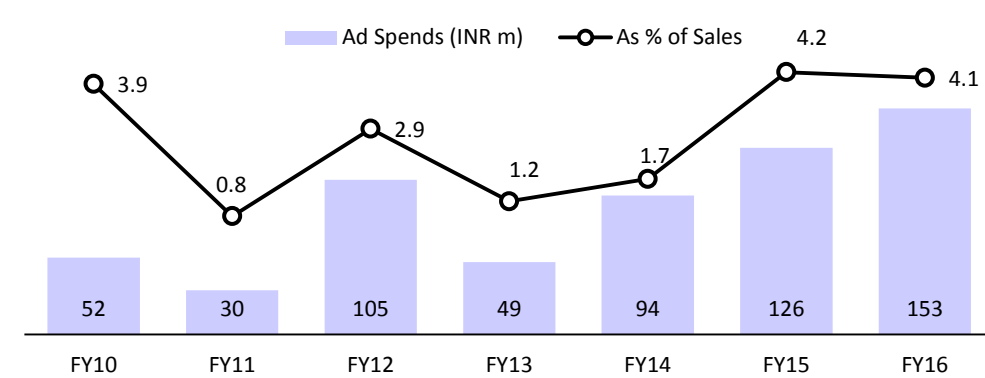


**Exhibit 4: Gaming revenue trend**



**Online gaming proving to be the next big opportunity**

- DELTA received the approval for amalgamation of Gauss Network Private Limited (Adda52.com) and the merger will be effective from 2QFY18.
- The company is expected to invest significantly into online gaming business by expanding into new geographies and introducing new games through Adda52.
- The company is expected to explore expansion opportunities in UK market for Ramee and Teen Patti through Adda52, which posted a consolidated revenue of INR290m with EBITDA of INR80m and is set to grow at a healthy pace of ~70% in FY18.
- The management has also highlighted that they are open to acquisition through inorganic route in online Rummy space.
- The operations of online gaming were however impacted negatively on account of issuance of an ordinance by Telangana government banning online gaming, but Adda52 having diversified revenue sources in terms of geographies would face a marginal impact to the tune of 7.5% on topline.

**Exhibit 5: Adda52.com Revenue trend**

Source: Company, MOSL

**Change in Goa casino policy a big game changer**

- The Goa cabinet is expected to make change in its casino policy wherein all the offshore casinos will be shifted to land.
- We believe this will be a significant game changer for DELTA as it would not only significantly increase the scale of the business but also bring down the cost of operations for the company.
- However, we believe the capex for this entire shift is likely to be in the range of INR1.5b as we believe most of the capex related to hospitality and other ancillary services will be done through a tie-up route.

**Setting up Sikkim casino a smart move**

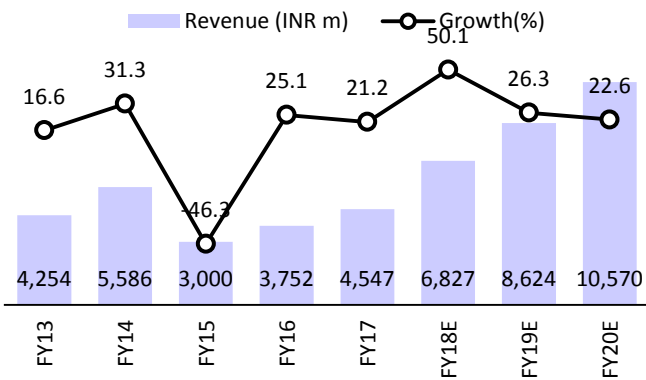
- The Sikkim casino is expected to witness significant ramp up in traction as the new airport is set to commence operation 3QFY18 which will improve the connectivity.
- Visitation is expected to see substantial jump going forward. We believe DELTA's move to open a casino in Sikkim much earlier than the start of airport makes it future ready for a strong growth going forward.

**Valuation and view**

We believe DELTA is strategically placed to benefit from the advent of online gaming. With the merger of Adda52, the company has presented itself with multifold of expansion opportunities in various geographies. Considering the significant growth expected in online gaming, we upgrade our sales estimate for FY18E by 6% keeping the PAT estimates unchanged and sales and PAT estimates for FY19E by 10% and 11% respectively. We expect the company to deliver a sales/PAT CAGR of 38%/69% over FY17-19E and value the stock at 30x FY19E EPS to arrive at a TP of INR237. Maintain **Buy**.

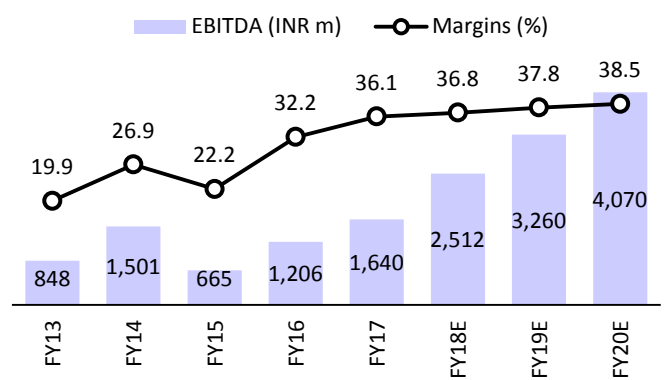
Story in charts

Exhibit 6: Revenues to post 32% CAGR over FY17-20E



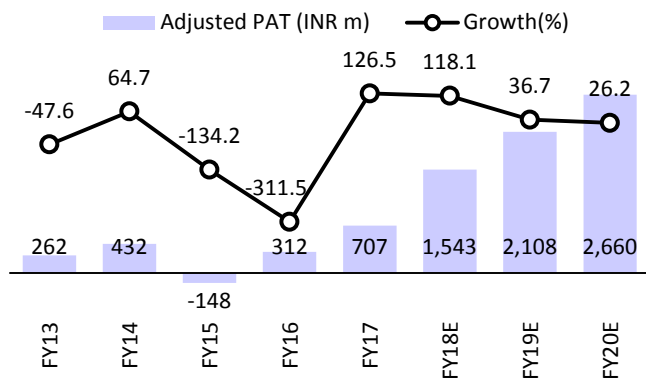
Source: MOSL, Company

Exhibit 7: Margins to expand 240bp over FY17-20E



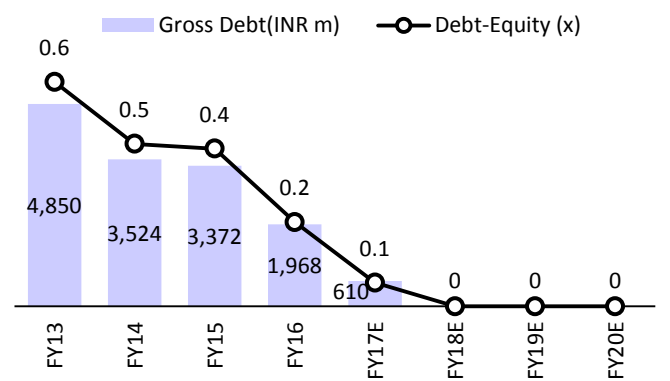
Source: MOSL, Company

Exhibit 8: PAT to post 56% CAGR over FY17-20E



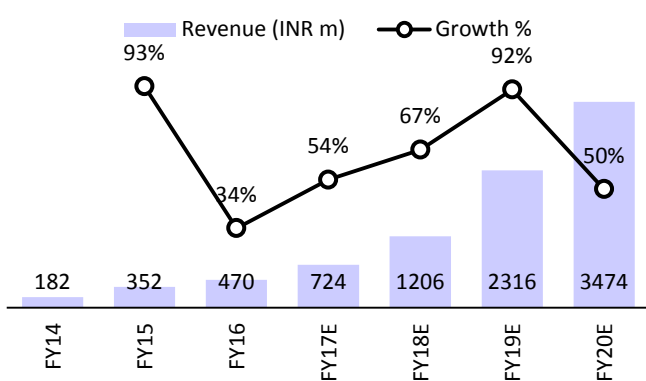
Source: MOSL, Company

Exhibit 9: Debt-free in FY18E



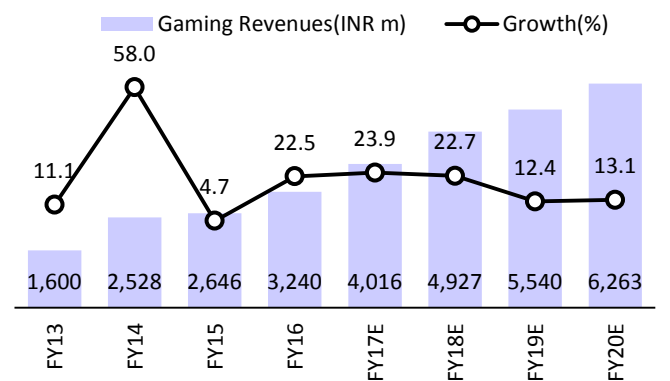
Source: MOSL, Company

Exhibit 10: Adda52 revenue to post 69% CAGR over FY17-20E



Source: MOSL, Company

Exhibit 11: Gaming revenue to post steady growth



Source: MOSL, Company

## Financials and Valuations

### Consolidated - Income Statement

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Total Income from Operations</b>	<b>4,254</b>	<b>5,586</b>	<b>3,000</b>	<b>3,752</b>	<b>4,547</b>	<b>6,827</b>	<b>8,624</b>	<b>10,570</b>
Change (%)	16.6	31.3	-46.3	25.1	21.2	50.1	26.3	22.6
<b>Total Expenditure</b>	<b>3,406</b>	<b>4,085</b>	<b>2,334</b>	<b>2,545</b>	<b>2,907</b>	<b>4,314</b>	<b>5,364</b>	<b>6,501</b>
% of Sales	80.1	73.1	77.8	67.8	63.9	63.2	62.2	61.5
<b>EBITDA</b>	<b>848</b>	<b>1,501</b>	<b>665</b>	<b>1,206</b>	<b>1,640</b>	<b>2,512</b>	<b>3,260</b>	<b>4,070</b>
Margin (%)	19.9	26.9	22.2	32.2	36.1	36.8	37.8	38.5
Depreciation	81	166	347	359	361	423	497	530
<b>EBIT</b>	<b>767</b>	<b>1,335</b>	<b>318</b>	<b>847</b>	<b>1,278</b>	<b>2,089</b>	<b>2,763</b>	<b>3,539</b>
Int. and Finance Charges	155	334	513	413	350	100	0	0
Other Income	185	312	74	70	49	187	210	211
<b>PBT bef. EO Exp.</b>	<b>797</b>	<b>1,313</b>	<b>-120</b>	<b>503</b>	<b>978</b>	<b>2,176</b>	<b>2,973</b>	<b>3,750</b>
EO Items	52	-143	-49	105	-42	0	0	0
<b>PBT after EO Exp.</b>	<b>849</b>	<b>1,170</b>	<b>-169</b>	<b>608</b>	<b>1,020</b>	<b>2,176</b>	<b>2,973</b>	<b>3,750</b>
Current Tax	325	478	155	202	280	631	862	1,088
Deferred Tax	15	42	-47	0				
Tax Rate (%)	40.0	44.4	-64.1	33.2	27.4	29.0	29.0	29.0
Less: Mionrity Interest	216	297	-50	24	2	3	3	3
<b>Reported PAT</b>	<b>293</b>	<b>353</b>	<b>-228</b>	<b>382</b>	<b>738</b>	<b>1,543</b>	<b>2,108</b>	<b>2,660</b>
<b>Adjusted PAT</b>	<b>262</b>	<b>432</b>	<b>-148</b>	<b>312</b>	<b>707</b>	<b>1,543</b>	<b>2,108</b>	<b>2,660</b>
Change (%)	-47.6	64.7	-134.2	-311.5	126.5	118.1	36.7	26.2
Margin (%)	6.2	7.7	-4.9	8.3	15.6	22.6	24.4	25.2

### Consolidated - Balance Sheet

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	227	228	231	231	232	267	267	267
Preference Capital	0	0	0	0	0	0	0	0
Total Reserves	7,505	7,529	7,420	8,123	8,970	15,592	17,282	19,492
<b>Net Worth</b>	<b>7,732</b>	<b>7,757</b>	<b>7,651</b>	<b>8,354</b>	<b>9,202</b>	<b>15,859</b>	<b>17,549</b>	<b>19,759</b>
Minority Interest	1,616	525	244	270	160	160	160	160
Deferred Liabilities	4	57	160	0	0	0	0	0
Total Loans	4,850	3,524	3,372	1,968	610	0	0	0
<b>Capital Employed</b>	<b>14,202</b>	<b>11,863</b>	<b>11,426</b>	<b>10,591</b>	<b>9,972</b>	<b>16,019</b>	<b>17,709</b>	<b>19,919</b>
Gross Block	2,950	7,611	8,739	8,508	8,715	11,445	12,245	13,046
Less: Accum. Deprn.	332	488	800	1,160	1,521	1,944	2,441	2,971
<b>Net Fixed Assets</b>	<b>2,619</b>	<b>7,123</b>	<b>7,938</b>	<b>7,348</b>	<b>7,194</b>	<b>9,501</b>	<b>9,804</b>	<b>10,075</b>
Goodwill on Consolidation	868	477	604	1,258	1,327	1,327	1,327	1,327
Capital WIP	5,217	992	38	27	5	5	5	5
<b>Total Investments</b>	<b>1,141</b>	<b>1,048</b>	<b>1,077</b>	<b>826</b>	<b>981</b>	<b>981</b>	<b>981</b>	<b>981</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>5,495</b>	<b>3,291</b>	<b>2,459</b>	<b>2,100</b>	<b>2,715</b>	<b>5,867</b>	<b>7,757</b>	<b>10,220</b>
Inventory	2,366	717	695	708	695	991	1,252	1,564
Account Receivables	145	674	228	142	43	281	354	463
Cash and Bank Balance	466	551	210	228	314	2,682	3,951	5,663
Loans and Advances	2,517	1,350	1,326	1,023	1,663	1,913	2,200	2,530
<b>Curr. Liability &amp; Prov.</b>	<b>1,138</b>	<b>1,142</b>	<b>911</b>	<b>1,359</b>	<b>2,600</b>	<b>2,012</b>	<b>2,516</b>	<b>3,039</b>
Account Payables	774	730	735	1,266	2,506	1,309	1,654	2,056
Provisions	364	413	176	93	95	703	862	983
<b>Net Current Assets</b>	<b>4,358</b>	<b>2,149</b>	<b>1,548</b>	<b>741</b>	<b>115</b>	<b>3,854</b>	<b>5,241</b>	<b>7,180</b>
Deferred Tax assets	0	72	221	391	351	351	351	351
<b>Appl. of Funds</b>	<b>14,202</b>	<b>11,863</b>	<b>11,426</b>	<b>10,591</b>	<b>9,972</b>	<b>16,019</b>	<b>17,709</b>	<b>19,919</b>

## Financials and Valuations

### Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
<b>Basic (INR)</b>								
<b>EPS (diluted from FY17)</b>	<b>1.2</b>	<b>1.9</b>	<b>-0.6</b>	<b>1.4</b>	<b>3.1</b>	<b>5.8</b>	<b>7.9</b>	<b>10.0</b>
Cash EPS	1.5	2.6	0.9	2.9	4.6	7.4	9.8	11.9
BV/Share	34.1	34.1	33.2	36.2	39.7	59.4	65.7	74.0
DPS	0.2	0.2	0.1	0.2	0.4	1.2	1.3	1.4
Payout (%)	22.8	18.8	-12.5	14.5	13.2	25.0	19.8	16.9
<b>Valuation (x)</b>								
P/E		89.5	-265.5	125.5	55.7	29.4	21.5	17.1
Cash P/E		64.7	196.9	58.4	36.9	23.1	17.4	14.2
P/BV		5.0	5.1	4.7	4.3	2.9	2.6	2.3
EV/Sales		7.6	14.2	11.0	8.7	5.4	4.1	3.2
EV/EBITDA		28.2	63.9	34.1	24.2	14.6	10.9	8.3
Dividend Yield (%)	0.1	0.1	0.1	0.1	0.2	0.7	0.8	0.8
FCF per share	-3.7	6.8	3.2	4.6	8.9	-8.3	5.5	7.3
<b>Return Ratios (%)</b>								
RoE	3.4	5.6	-1.9	3.9	8.1	12.3	12.6	14.3
RoCE	4.6	7.7	5.8	5.7	9.6	12.6	12.6	20.1
RoIC	6.7	8.9	5.4	5.8	10.2	14.1	15.6	
<b>Working Capital Ratios</b>								
Asset Turnover (x)	0.3	0.5	0.3	0.4	0.5	0.4	0.5	0.5
Inventory (Days)	203	47	85	69	56	53	53	54
Debtor (Days)	12	44	28	14	3	15	15	16
Creditor (Days)	142	48	89	123	201	70	70	1,092
Working capital turnover (Days)	334	43	23	-40	-142	-2	-2	52
<b>Leverage Ratio (x)</b>								
Net Debt/Equity	0.6	0.5	0.4	0.2	0.1	0.0	0.0	0.0

### Consolidated - Cash Flow Statement

(INR Million)

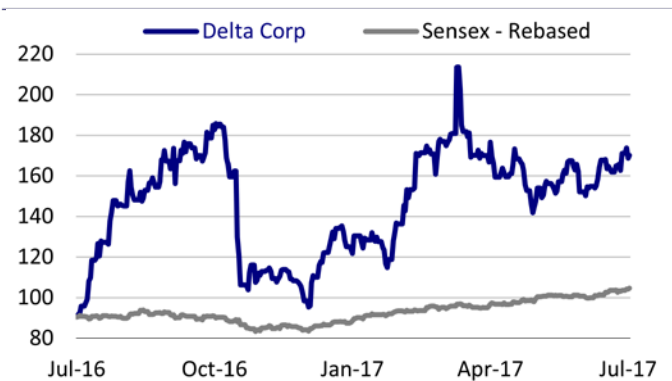
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	849	1,175	-166	596	978	2,176	2,973	3,750
Depreciation	81	166	347	382	361	423	497	530
Interest & Finance Charges	10	199	495	397	300	-87	-210	-211
Direct Taxes Paid	-365	-332	-354	-156	-280	-631	-862	-1,088
(Inc)/Dec in WC	2,235	1,119	539	94	713	-1,371	-118	-227
<b>CF from Operations</b>	<b>2,810</b>	<b>2,327</b>	<b>862</b>	<b>1,313</b>	<b>2,072</b>	<b>510</b>	<b>2,280</b>	<b>2,755</b>
Others	37	-49	-23	-156	180	0	0	0
<b>CF from Operating incl EO</b>	<b>2,847</b>	<b>2,278</b>	<b>838</b>	<b>1,157</b>	<b>2,252</b>	<b>510</b>	<b>2,280</b>	<b>2,755</b>
(Inc)/Dec in FA	-3,692	-740	-107	-89	-185	-2,730	-800	-801
<b>Free Cash Flow</b>	<b>-845</b>	<b>1,538</b>	<b>731</b>	<b>1,068</b>	<b>2,067</b>	<b>-2,220</b>	<b>1,480</b>	
(Pur)/Sale of Investments	205	132	3	32	-155	0	0	0
Others	-643	1,257	-145	-63	49	187	210	211
<b>CF from Investments</b>	<b>-4,129</b>	<b>650</b>	<b>-250</b>	<b>-120</b>	<b>-290</b>	<b>-2,543</b>	<b>-590</b>	<b>-590</b>
Issue of Shares	49	22	145	0	1	5,500	0	0
Inc/(Dec) in Debt	301	-1,158	-152	-524	-1,358	-610	0	0
Interest Paid	-155	-310	-551	-427	-350	-100	0	0
Dividend Paid	-109	-57	-62	-28	-98	-386	-418	-450
Others	338	-1,340	-309	-40	-72	-3	-3	-3
CF from Fin. Activity	<b>425</b>	<b>-2,843</b>	<b>-929</b>	<b>-1,018</b>	<b>-1,876</b>	<b>4,401</b>	<b>-421</b>	<b>-453</b>
<b>Inc/Dec of Cash</b>	<b>-857</b>	<b>84</b>	<b>-341</b>	<b>18</b>	<b>86</b>	<b>2,368</b>	<b>1,269</b>	<b>1,712</b>
Opening Balance	1,323	466	551	210	228	314	2,682	3,951
<b>Closing Balance</b>	<b>466</b>	<b>551</b>	<b>210</b>	<b>228</b>	<b>314</b>	<b>2,682</b>	<b>3,951</b>	<b>5,663</b>

## Corporate profile

### Company description

Delta Corp is India's leading gaming company, with a dominant presence in Goa's casino market. It has ~1,700 gaming positions in the state across its three offshore casinos, one onshore casino and a casino in Sikkim. It has also forayed into online gaming, with the acquisition of Adda52.com.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-17	Mar-17	Jun-16
Promoter	35.3	40.7	40.9
DII	9.5	0.5	1.1
FII	6.7	11.4	12.3
Others	48.5	47.4	45.8

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
JHUNJHUNWALA RAKESH RADHESHYAM	4.3
JHUNJHUNWALA REKHA RAKESH	4.1
HDFC TRUSTEE COMPANY LIMITED - HDFC PRUDENCE FUND	3.3
HDFC TRUSTEE COMPANY LTD - A/C HDFC MID - CAPOPPORTUNITIES FUND	2.4
EAST BRIDGE CAPITAL MASTER FUND LIMITED	2.3

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Dhirendra Singh	Chairman & Managing Director
Bhavesh Jingar	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Bharatkumar Vyas	Bharti Naik
Chirag Doshi	Dhruv Agarwal
Milindkumar Babar	Vishal Sood
Abhishek Singh	

\*Independent

Exhibit 6: Auditors

Name	Type
Deloitte Haskins & Sells	Statutory
Niraj Trivedi	Secretarial Audit
Sharp & Tannan Associates	Internal

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	5.8	6.5	-10.1
FY19	7.9	8.9	-10.7

Source: Bloomberg



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