

Delta Corp

BSE SENSEX

32,969

S&P CNX

10,114

CMP: INR250
TP: INR332 (+33%)
Buy


Stock Info

Bloomberg	DELTA IN
Equity Shares (m)	267
52-Week Range (INR)	401 / 139
1, 6, 12 Rel. Per (%)	-28/24/30
M.Cap. (INR b)	84.9
M.Cap. (USD b)	1.3
Avg Val, INRm	1027.0
Free float (%)	66.1

Financials Snapshot (INR b)

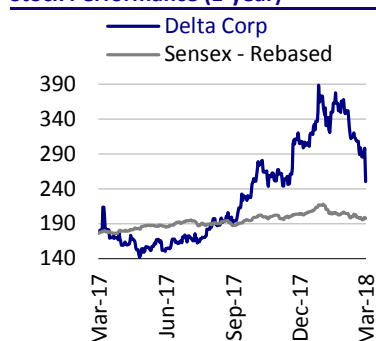
Y/E MARCH	2018E	2019E	2020E
Net Sales	5.9	7.7	9.7
EBITDA (Rs b)	2.6	3.2	4.4
NP	1.6	2.0	2.8
EPS	5.9	7.4	10.4
EPS Gr (%)	93.7	25.7	39.7
BV/Share (Rs)	59.6	65.4	74.1
P/E (x)	42.3	33.6	24.1
P/BV (x)	4.2	3.8	3.4
RoE (%)	12.6	11.9	14.9
RoCE (%)	12.1	11.9	22.2

Shareholding pattern (%)

As On	Dec-17	Sep-17	Dec-16
Promoter	33.9	35.3	40.8
DII	8.8	9.2	0.3
FII	18.4	10.0	9.7
Others	39.0	45.5	49.3

FII Includes depository receipts

Stock Performance (1-year)



Annual fee hike may prompt DELTA to shuffle its cards

No material impact seen on financials

Event update: On 27th March 2018, the Goa government approved the revised fee structure for onshore and offshore casinos, which will be applicable from 1st April 2018. The move is intended to increase the state's revenue collection from casinos (refer Exhibit 1).

Business rationalization in the form of smaller casino closures may be an option for DELTA, although accompanied with some revenue loss...

- Delta Corp (DELTA) operates three floating casinos (Deltin Royale, Deltin Jaqk and Deltin Caravela) and one onshore casino (Deltin Casino – part of Deltin Suites) in Goa.
- Deltin Royale and Deltin Jaqk are DELTA's major casinos with vessel passenger capacity of 200-400. Deltin Caravela and Deltin Casino are relatively small with passenger capacity of 200 or less. DELTA incurs INR370m as license fee to operate the four aforementioned casinos. However, the outlay for the four licenses would increase to INR1,050m once the revised fee structure becomes effective.
- We believe the increased license fee would have a significant impact on Deltin Caravela and Deltin Suites, as they operate on a relatively small scale (accounting for 6% of DELTA's overall revenue for FY19E). This would likely make it unfeasible for DELTA to operate these two casinos.
- In our view – and also based on our communication with management – DELTA has two options to rationalize cost: (1) phase out the licenses for both Deltin Suites and Deltin Caravela and (2) phase out the license for Deltin Suites. This should help DELTA to minimize the impact of the revised fee structure, and thus, limit losses. We conducted a scenario analysis of both the options (refer Exhibit 2).

...which can be mitigated by diverting traffic to Deltin Jaqk/Deltin Royale and rationalizing entry fee

- We believe that, whichever option the management chooses, some traffic is likely to shift to Jaqk and Royale. This will help recoup EBITDA – ~INR106m under option 1 and INR53m EBITDA under option 2 – over a period of time, assuming 50% of the traffic is diverted.
- Additionally, DELTA may look to pass through the increase in license cost in a phased manner. This can be done by increasing the entry fee or reducing the amount of non-refundable chips offered against the entry fee. To fully mitigate the impact, the entry fee will need to be increased by INR755 under option 1 and INR1,217 under option 2, based on our estimates.

Cutting PAT for FY19E/FY20E; Maintain Buy

- In our view, the visibility of DELTA choosing option 2 is more at this point in time, but we await further clarity from management. Nevertheless, we cut our PAT estimates by 11%/7% for FY19/FY20 to factor in the impact of higher license fee. We believe that the move may dislodge some casino operators, but do not see it having much impact on DELTA. In fact, it may increase traffic to DELTA's casinos. We value the stock at 32x FY20E earnings of INR10.4/share. We reiterate our Buy rating with a revised target price of INR332/share.

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Marginal impact on EBIDTA due to revenue loss and incremental outlay

- Due to the revenue loss, EBIDTA may be impacted by INR212m under option 1 and INR106m under option 2. Additionally, the incremental outlay toward the license fee is likely to be INR230m under option 1 and INR480m under option 2.
- Therefore, the combined impact of above on EBITDA is expected to be INR442m under option 1 and INR586m under option 2.

At least 50% of traffic likely to be diverted to Royale and Jakq

- Assuming that ~50% of the revenue loss can be recouped by diverting the traffic to Royale and JAQK, combined with some entry fee rationalization, the impact on EBITDA can be restricted to INR235m under option 1 and INR373m under option 2.
- This would result in a net impact of 6.7% on FY19 EBIDTA under option 1 and 10.6% under option 2.

Exhibit 1: DELTA's recurring annual fee could increase by 2.8x in FY19

Annual License Fee (INR m)	Type	Current	New	Incremental
- Deltin Royale	Offshore - Live	110	300	190
- Deltin Jakq	Offshore - Live	110	300	190
- Deltin Caravela	Offshore - Live	100	250	150
- Deltin Suites	Onshore - Electronic	50	200	150
Total		370	1050	680

Source: MOSL

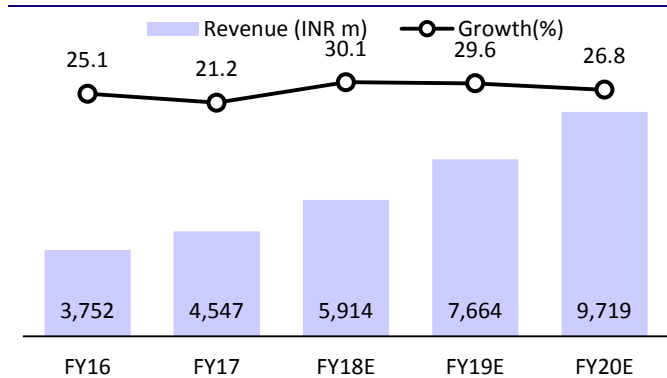
Exhibit 2: Scenario analysis of phasing out one or two casinos; DELTA may be able to recoup ~50% of revenues**Option 1** - Phases out 2 licenses (Deltin Suites and Deltin Caravela)**Option 2** - Phases out 1 license (Deltin Suites)

Scenario Analysis (FY19 INR m)	Option 1	Option 2	Comments
Additional Outlay - Annual renewal fee	380	530	
Savings from phase out - Annual renewal fee	150	50	
Incremental Outlay A	230	480	
Loss of EBITDA on account of loss of revenue from phase out (FY19) B	212	106	(6% of FY19 EBITDA est (I), 3% of FY19 EBITDA est (II))
Total EBITDA loss Impact C = A+B	442	586	
Mitigating factors			
Assuming 50% revenue loss is recovered by diverting the traffic D	106	53	
Net Loss on EBITDA E = C-D	336	533	
Required hike in Entry fee to fully set off EBITDA loss (INR)	755	1217	(based on expected visitations for Royale and Jakq)
Assume average 30% of above can be rationalized in FY19 (INR)	226	365	
Mitigation through rationalization of entry fee F	101	160	
Net Loss on EBITDA G = E-F	235	373	
EBITDA for FY19E	3526	3526	
Impact	-6.7%	-10.6%	

Source: MOSL

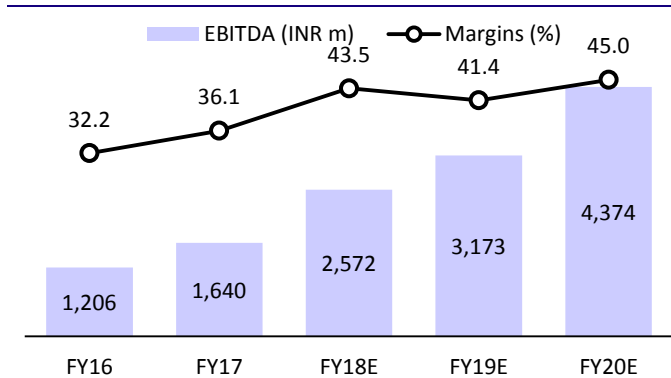
Story in charts

Exhibit 3: 27% CAGR of revenue over five years



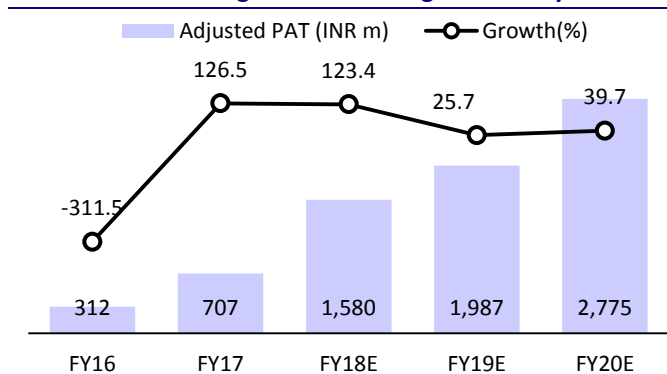
Source: MOSL, Company

Exhibit 4: Rising EBITDA margin over five years



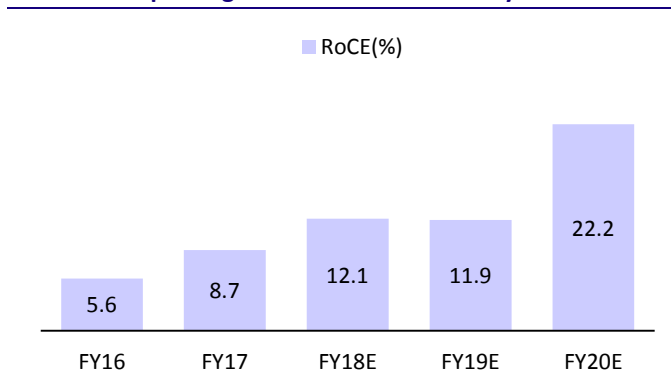
Source: MOSL, Company

Exhibit 5: Sustained growth in earnings over five years



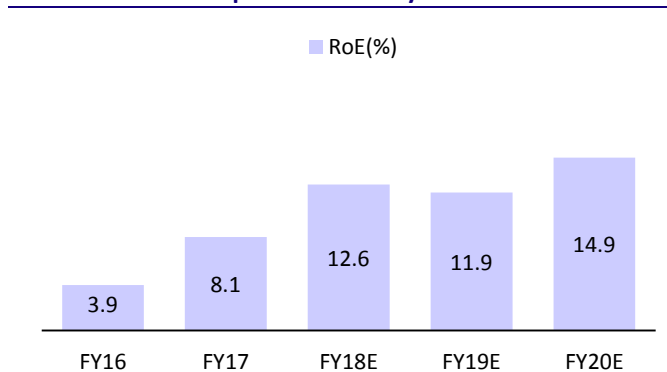
Source: MOSL, Company

Exhibit 6: Improving trend in ROCE over five years



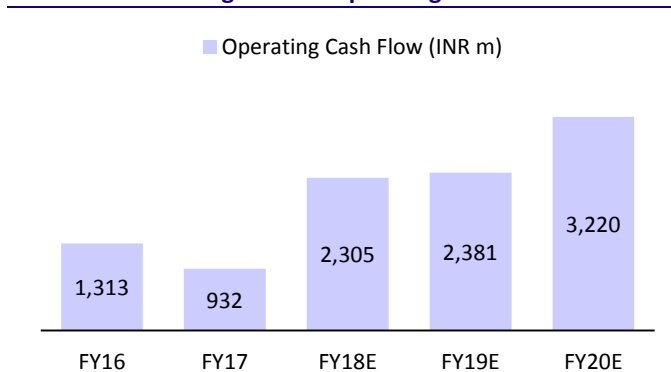
Source: MOSL, Company

Exhibit 7: ROE to improve over five years



Source: MOSL, Company

Exhibit 8: Increasing trend in operating cash flow



Source: MOSL, Company

Financials and Valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Total Income from Operations	5,586	3,000	3,752	4,547	5,914	7,664	9,719
Change (%)	31.3	-46.3	25.1	21.2	30.1	29.6	26.8
Total Expenditure	4,085	2,334	2,545	2,907	3,341	4,491	5,346
% of Sales	73.1	77.8	67.8	63.9	56.5	58.6	55.0
EBITDA	1,501	665	1,206	1,640	2,572	3,173	4,374
Margin (%)	26.9	22.2	32.2	36.1	43.5	41.4	45.0
Depreciation	166	347	359	361	373	384	413
EBIT	1,335	318	847	1,278	2,200	2,789	3,960
Int. and Finance Charges	334	513	413	350	100	0	0
Other Income	312	74	70	49	280	180	185
PBT bef. EO Exp.	1,313	-120	503	978	2,380	2,969	4,145
EO Items	-143	-49	105	-42	-18	0	0
PBT after EO Exp.	1,170	-169	608	1,020	2,398	2,969	4,145
Current Tax	478	155	202	280	803	980	1,368
Deferred Tax	42	-47	0				
Tax Rate (%)	44.4	-64.1	33.2	27.4	33.5	33.0	33.0
Less: Minority Interest	297	-50	24	2	2	2	2
Reported PAT	353	-228	382	738	1,592	1,987	2,775
Adjusted PAT	432	-148	312	707	1,580	1,987	2,775
Change (%)	64.7	-134.2	-311.5	126.5	123.4	25.7	39.7
Margin (%)	7.7	-4.9	8.3	15.6	26.7	25.9	28.6

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Equity Share Capital	228	231	231	232	267	267	267
Preference Capital	0	0	0	0	0	0	0
Total Reserves	7,529	7,420	8,123	8,970	15,641	17,210	19,535
Net Worth	7,757	7,651	8,354	9,202	15,908	17,477	19,802
Minority Interest	525	244	270	160	160	160	160
Deferred Liabilities	57	160	0	0	0	0	0
Total Loans	3,524	3,372	2,428	2,210	0	0	0
Capital Employed	11,863	11,426	11,051	11,572	16,069	17,637	19,962
Gross Block	7,611	8,739	8,508	8,715	9,915	11,415	14,415
Less: Accum. Deprn.	488	800	1,160	1,521	1,894	2,278	2,691
Net Fixed Assets	7,123	7,938	7,348	7,194	8,021	9,137	11,724
Goodwill on Consolidation	477	604	1,258	1,327	1,327	3,939	3,939
Capital WIP	992	38	27	5	5	5	5
Total Investments	1,048	1,077	826	981	981	981	981
Curr. Assets, Loans&Adv.	3,291	2,459	2,100	2,715	7,205	5,556	5,837
Inventory	717	695	708	695	810	1,008	1,198
Account Receivables	674	228	142	43	130	168	213
Cash and Bank Balance	551	210	228	314	4,518	2,547	2,500
Loans and Advances	1,350	1,326	1,023	1,663	1,747	1,834	1,926
Curr. Liability & Prov.	1,142	911	899	1,000	1,821	2,332	2,874
Account Payables	730	735	806	906	1,118	1,470	1,891
Provisions	413	176	93	95	703	862	983
Net Current Assets	2,149	1,548	1,201	1,715	5,384	3,224	2,963
Deferred Tax assets	72	221	391	351	351	351	351
Misc Expenditure	0	0	0	0	0	0	0
Appl. of Funds	11,863	11,426	11,051	11,572	16,069	17,637	19,962

Financials and Valuations

Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Basic (INR)							
EPS	1.9	-0.6	1.4	3.1	5.9	7.4	10.4
Cash EPS	2.6	0.9	2.9	4.6	7.3	8.9	11.9
BV/Share	34.1	33.2	36.2	39.7	59.6	65.4	74.1
DPS	0.2	0.1	0.2	0.4	1.2	1.3	1.4
Payout (%)	18.8	-12.5	14.5	13.2	24.2	21.0	16.2
Valuation (x)							
P/E	131.6	-390.5	184.6	81.9	42.3	33.6	24.1
Cash P/E	95.2	289.5	85.8	54.2	34.2	28.2	20.9
P/BV	7.3	7.5	6.9	6.3	4.2	3.8	3.4
EV/Sales	15.7	29.4	23.2	19.1	13.6	10.8	8.5
EV/EBITDA	58.6	132.4	72.2	53.0	31.3	26.0	18.8
Dividend Yield (%)	0.1	0.0	0.1	0.1	0.5	0.5	0.6
FCF per share	6.8	3.2	4.6	4.0	4.2	-6.5	0.8
Return Ratios (%)							
RoE	5.6	-1.9	3.9	8.1	12.6	11.9	14.9
RoCE	7.7	5.8	5.6	8.7	12.1	11.9	22.2
RoIC	8.9	5.4	5.6	9.2	14.0	15.1	
Working Capital Ratios							
Asset Turnover (x)	0.5	0.3	0.3	0.4	0.4	0.4	0.5
Inventory (Days)	47	85	69	56	50	48	45
Debtor (Days)	44	28	14	3	8	8	8
Creditor (Days)	48	89	78	73	69	70	71
Working Cap. Turnover (Days)	43	23	4	-13	-11	-14	-18
Leverage Ratio (x)							
Debt/Equity	0.5	0.4	0.3	0.2	0.0	0.0	0.0

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
OP/(Loss) before Tax	1,175	-166	596	978	2,380	2,969	4,145
Depreciation	166	347	382	361	373	384	413
Interest & Finance Charges	199	495	397	300	-180	-180	-185
Direct Taxes Paid	-332	-354	-156	-280	-803	-980	-1,368
(Inc)/Dec in WC	1,119	539	94	-427	536	188	215
CF from Operations	2,327	862	1,313	932	2,305	2,381	3,220
Others	-49	-23	-156	180	18	0	0
CF from Operating incl EO	2,278	838	1,157	1,112	2,323	2,381	3,220
(inc)/dec in FA	-740	-107	-89	-185	-1,200	-4,112	-3,000
Free Cash Flow	1,538	731	1,068	927	1,123	-1,731	220
(Pur)/Sale of Investments	132	3	32	-155	0	0	0
Others	1,257	-145	-63	49	280	180	185
CF from Investments	650	-250	-120	-290	-920	-3,932	-2,815
Issue of Shares	22	145	0	1	5,500	0	0
(Inc)/Dec in Debt	-1,158	-152	-524	-218	-2,210	0	0
Interest Paid	-310	-551	-427	-350	-100	0	0
Dividend Paid	-57	-62	-28	-98	-386	-418	-450
Others	-1,340	-309	-40	-72	-2	-2	-2
CF from Fin. Activity	-2,843	-929	-1,018	-736	2,802	-420	-453
Inc/Dec of Cash	84	-341	18	86	4,205	-1,972	-47
Opening Balance	466	551	210	228	314	4,518	2,547
Closing Balance	551	210	228	314	4,518	2,547	2,500

Explanation of Investment Rating

Investment Rating

BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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