

BSE SENSEX 36,825
 S&P CNX 11,134

CMP: INR236 TP: INR301 (+27%)

Buy

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Bloomberg	DELTA IN
Equity Shares (m)	268
M.Cap.(INRb)/(USD\$b)	63 / 0.9
52-Week Range (INR)	401 / 158
1, 6, 12 Rel. Per (%)	-7/-37/21
12M Avg Val (INR M)	1030
Free float (%)	66.8

Financials & Valuations (INR b)

Y/E March	2018	2019E	2020E
Sales	6.1	7.9	9.6
EBITDA	2.5	2.9	3.9
NP	1.5	1.9	2.5
EPS (INR)	5.8	6.9	9.4
EPS Gr. (%)	89.4	18.8	36.3
BV/Sh. (INR)	62.9	65.5	74.3
RoE (%)	11.9	10.8	13.4
RoCE (%)	11.5	10.9	19.4
P/E (x)	40.8	34.3	25.2
P/BV (x)	3.8	3.6	3.2

Estimate change 

TP change 

Rating change 

Beat on all fronts; EBIDTA margin steady despite steep license fee hike

- Encouraging performance in a traditionally soft quarter:** Revenue increased 46% YoY (est. of +31%) to INR1,873m, primarily led by robust growth in Casino gaming revenue (+53% YoY). EBIDTA margin of 35% (flat YoY) exceeded our estimate of 33%. This is encouraging considering the significant increase in the license fee run-rate (annual license fee increased from INR100m in 4QFY18 to INR240m in 1QFY19). EBIDTA of INR654m, too, came in ahead of our estimate of INR558m. Adj. PAT grew 96% YoY to INR414m (est. of INR365m) in 1QFY19.
- Strong growth in Casino biz limits margin contraction:** Online gaming revenue grew 16% QoQ; EBIT margin shrank 200bp QoQ to 12% (online gaming segment commenced reporting revenue 2QFY18 onward) due to high promotional expenses. Hospitality revenue grew 30% YoY to INR227m; it recorded an EBIT loss of INR53m. However, robust growth in Casino gaming revenue in a seasonally soft quarter (EBIT margin of 35% exceeded our estimate of 33%) limited overall margin contraction (note: segmental revenues are gross of tax).
- 1QFY19 earnings call highlights: (a)** Casino revenue was driven by a robust pick-up in tourism and unserved demand (spillover from casinos that shut down operations), and dynamic pricing on weekends. This helped offset the adverse impact of increased license fee on the margins. **(b)** DELTA incurred promotional expenses of INR230m in FY18 and INR130m in 1QFY19 (excl. fantasy sports business). These spends will continue in near future. **(c)** Online gaming margin to be sustainable at 15-17%; could go up to 20-21% over long term.
- Valuation view:** DELTA performed well in a seasonally soft quarter, primarily driven by resilient growth in Casino revenue. From a discretionary spend point of view, Casino business appears to be on an uptrend. Considering this, we raise our PAT by 2% for FY19 and 4% for FY20, and expect sales/PAT CAGR of 26%/28% over FY18-20. We value the stock at 32x FY20E EPS to arrive at a target price of INR301.

Consol. Quarterly Performance

Y/E March	FY18				FY19				FY18	FY19E	1QE	Var %
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	1,286	1,453	1,622	1,716	1,873	1,935	1,989	2,092	6,077	7,905	1,691	11
YoY Change (%)	18.4	8.2	56.6	58.7	46%	33%	23%	22%	33.7	30.1	31%	
Total Expenditure	833	798	935	1,041	1,219	1,238	1,233	1,276	3,606	4,988	1,133	
EBITDA	453	655	687	675	654	697	756	816	2,470	2,917	558	17
Margins (%)	35.2	45.1	42.4	39.3	34.9	36.0	38.0	39.0	40.7	36.9	33.0	
Depreciation	89	94	94	94	94	97	97	98	371	386	94	
Interest	70	22	3	8	2	8	8	8	104	32	8	
Other Income	37	86	79	84	83	55	45	35	286	200	65	
PBT before EO expense	332	624	669	656	641	647	696	745	2,281	2,698	521	23
Extra-Ord expense	-18	0	0	8	0	0	0	0	-10	0	0	
PBT	350	624	669	648	641	647	696	745	2,292	2,698	521	23
Tax	127	194	225	191	225	194	209	224	737	837	156	
Rate (%)	36.1	31.1	33.6	29.5	35.0	30.0	30.0	30.0	32.2	31.0	30.0	
MI & P/L of Asso. Cos.	1	-2	-3	-4	-3	0	0	0	-1	-1	0	
Reported PAT	223	433	447	453	414	453	487	522	1,555	1,863	365	14
Adj PAT	211	433	447	458	414	453	487	522	1,548	1,863	365	14
YoY Change (%)	24.4	33.8	327.8	302.3	96%	5%	9%	14%	118.9	20.3	73%	
Margins (%)	16.4	29.8	27.6	26.7	22.1	23.4	24.5	24.9	25.5	23.6	21.6	

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Online gaming promotional spends to drive growth; margins to stabilize at 15-17%

- Online gaming margin shrank to 12% in 1QFY19 from 14% in 4QFY18, primarily due to promotion-related expenses incurred for the rummy and fantasy sports business.
- DELTA incurred marketing- and promotion-related expenses of ~NR230m in FY18 and INR130m alone in 1QFY19, excluding spends on the fantasy sports business. Promotional spends for online gaming are expected to continue in the near future. We, however, note that A&P spend is expected to result in higher user registrations, proving beneficial for the company.
- The company spent ~INR40-45m on the fantasy sports segment in 1QFY19, which was a one-time expense. Fantasy sports contributed to increased revenue; however it is EBITDA neutral.
- Online gaming margin would be sustainable at 15-17%; it could expand to 20-21% over the long term.
- These initiatives are expected to provide a sustained advantage for DELTA. Fantasy sports is now on steam with 48,000 active users (total registered users are over 100,000), rummy has 15,000 active users (300,000 registered users), and poker has 100,000 active players (1.6m registered users).

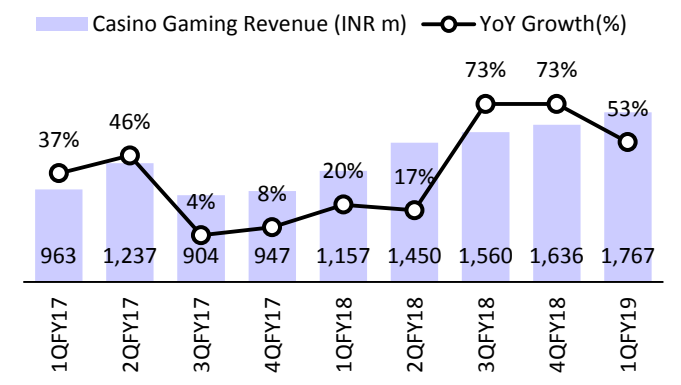
Policy on shifting casinos to land under development

- The government is drafting a policy that may eventually lead to relocation of Goa's casinos to an entertainment zone near an upcoming airport project.
- Policy on shifting casinos to land is work-in-progress.

Others takeaways:

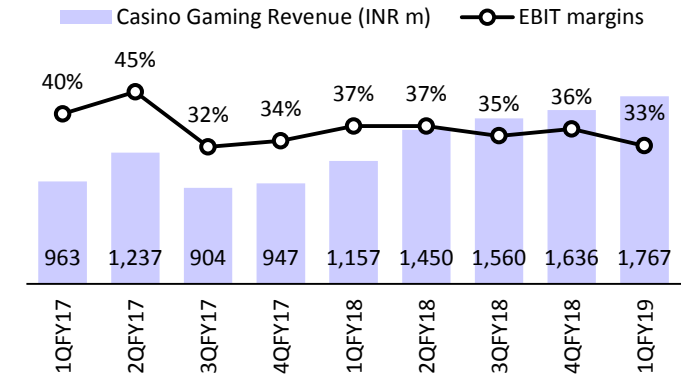
- Rummy vertical reported INR11m revenue in June; expect rummy software (w.r.t user interface and experience) to be fully ready and reach the intended upgrade levels by September/October 2018. This vertical is likely to contribute INR150-200m to revenue in FY19, but will not be profitable until FY20.
- Goa hotel operates at 70-80% average full-year occupancy; Daman hotel operates at 50-55% average full-year average occupancy.
- Deltin Caravela and Deltin JAQK reported revenue of INR240m and INR400m, respectively, in 1QFY19
- The company is investing in promotional activities to attract visitors for daytime gaming. Typically, visitors visit the ship for an evening event. According to the management, tourists are not aware of daytime gaming as an option.
- Nepal Casino at Fairfield by Marriott, Kathmandu, is likely to commence operations by December, and will likely contribute to 4QFY19 revenues. The company has already signed a lease agreement with Marriott-Kathmandu.
- The company has a full-year marketing budget at INR700m/INR800m. It has incurred marketing expenses of INR140-150m in 1QFY19.
- The company currently holds INR4.5b of cash on its balance sheet.

Exhibit 1: Casino gaming grew 53% in typically slow quarter



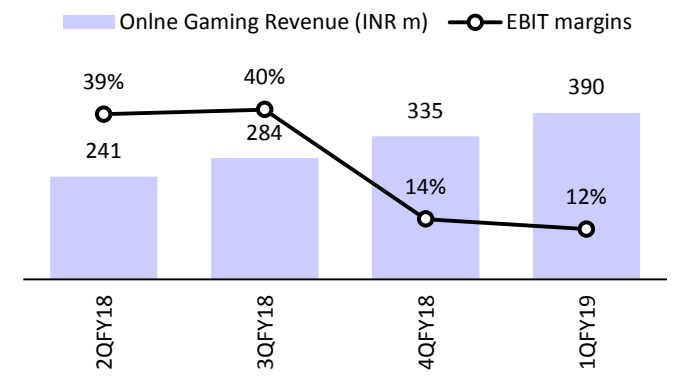
Source: Company, MOSL

Exhibit 2: Casino gaming margins shrank to 33% in 1QFY19



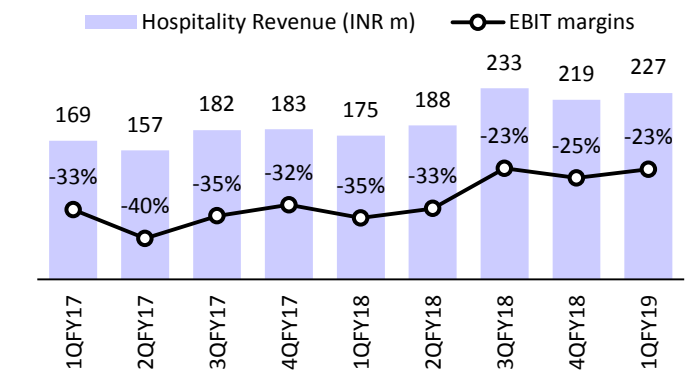
Source: Company, MOSL

Exhibit 3: Promotional spends pressurized margins



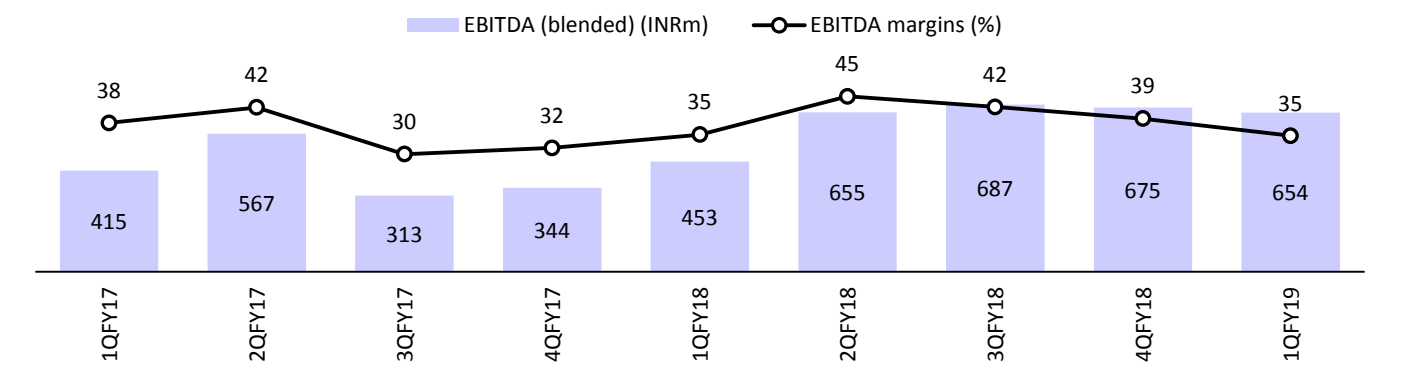
Source: Company, MOSL

Exhibit 4: Hospitality segment incurred losses



Source: Company, MOSL

Exhibit 5: Blended EBIDTA flat at 35%



Source: Company, MOSL

Story in charts

Exhibit 6: 26% revenue CAGR expected over FY18-FY20

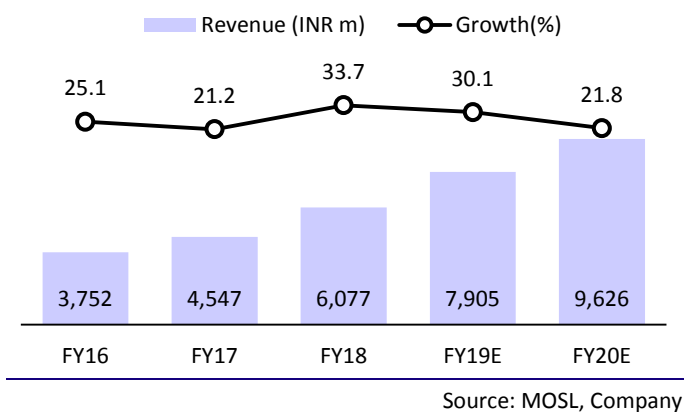


Exhibit 7: EBITDA to remain under pressure in FY19

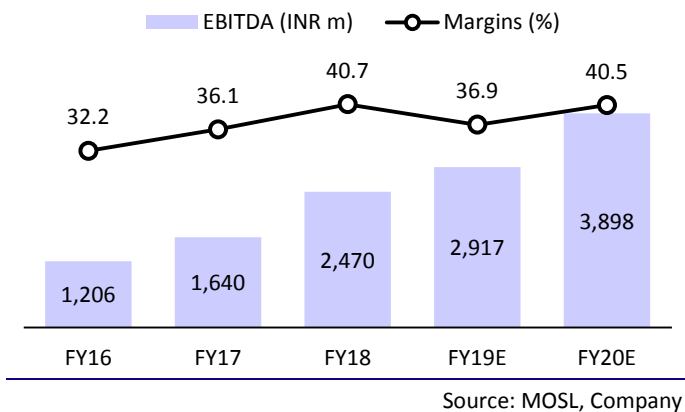


Exhibit 8: Earnings to grow at 28% CAGR over FY18-20

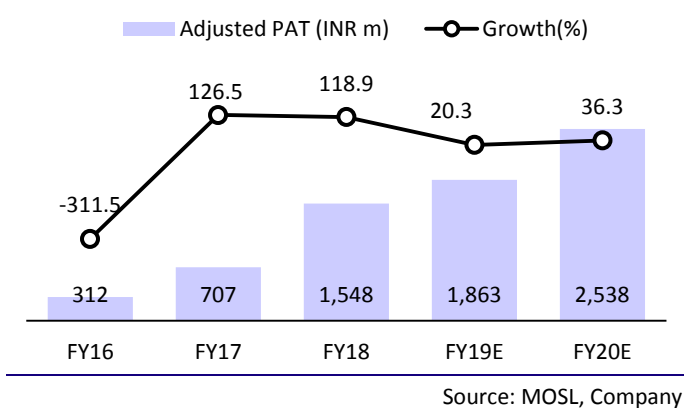


Exhibit 9: ROE to improve to 13% by FY20

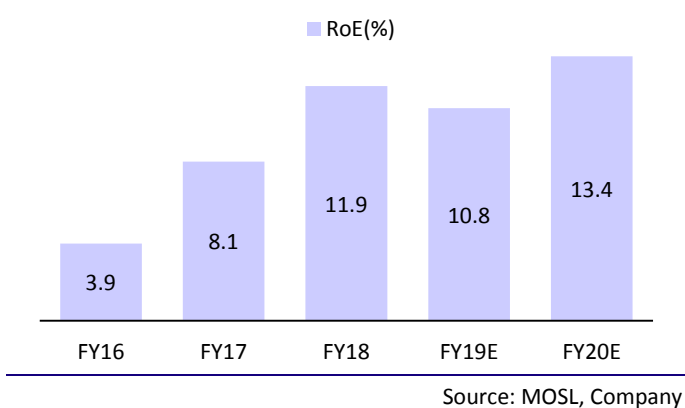


Exhibit 10: ROCE to improve to 19% by FY20

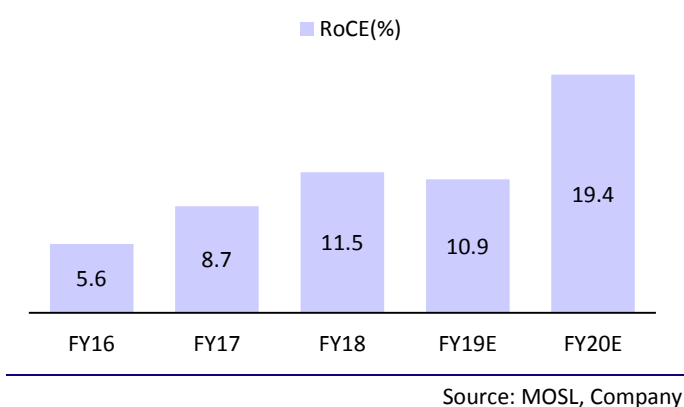
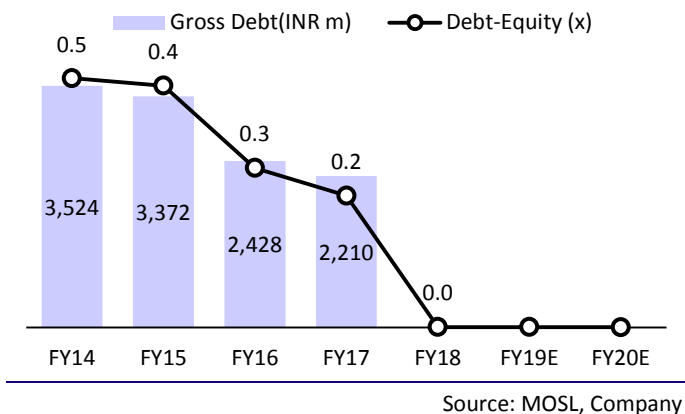


Exhibit 11: Debt free as of FY18



Financials and Valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Total Income from Operations	4,254	5,586	3,000	3,752	4,547	6,077	7,905	9,626
Change (%)	16.6	31.3	-46.3	25.1	21.2	33.7	30.1	21.8
Cost of Materials Consumed	1,983	2,206	205	294	315	351	474	558
% of Sales	46.6	39.5	6.8	7.8	6.9	5.8	6.0	5.8
Personnel Expenses	354	484	526	591	641	946	1,233	1,434
% of Sales	8.3	8.7	17.5	15.7	14.1	15.6	15.6	14.9
Other Expenses	1,069	1,395	1,603	1,661	1,952	2,309	3,280	3,735
% of Sales	25.1	25.0	53.4	44.3	42.9	38.0	41.5	38.8
Total Expenditure	3,406	4,085	2,334	2,545	2,907	3,606	4,988	5,727
% of Sales	80.1	73.1	77.8	67.8	63.9	59.3	63.1	59.5
EBITDA	848	1,501	665	1,206	1,640	2,470	2,917	3,898
Margin (%)	19.9	26.9	22.2	32.2	36.1	40.7	36.9	40.5
Depreciation	81	166	347	359	361	371	386	401
EBIT	767	1,335	318	847	1,278	2,099	2,530	3,497
Int. and Finance Charges	155	334	513	413	350	104	32	31
Other Income	185	312	74	70	49	286	200	185
PBT bef. EO Exp.	797	1,313	-120	503	978	2,281	2,698	3,651
EO Items	52	-143	-49	105	-42	-10	0	0
PBT after EO Exp.	849	1,170	-169	608	1,020	2,292	2,698	3,651
Current Tax	325	478	155	202	280	737	837	1,114
Deferred Tax	15	42	-47	0	0	0	0	0
Tax Rate (%)	40.0	44.4	-64.1	33.2	27.4	32.2	31.0	30.5
Less: Mionrity Interest	216	297	-50	24	2	-1	-1	-1
Reported PAT	293	353	-228	382	738	1,555	1,863	2,538
Adjusted PAT	262	432	-148	312	707	1,548	1,863	2,538
Change (%)	-47.6	64.7	-134.2	-311.5	126.5	118.9	20.3	36.3
Margin (%)	6.2	7.7	-4.9	8.3	15.6	25.5	23.6	26.4

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Equity Share Capital	227	228	231	231	232	268	271	271
Total Reserves	7,505	7,529	7,420	8,123	8,970	16,560	17,477	19,868
Net Worth	7,732	7,757	7,651	8,354	9,202	16,827	17,747	20,139
Minority Interest	1,616	525	244	270	160	141	141	141
Deferred Liabilities	4	57	160	0	0	0	0	0
Total Loans	4,850	3,524	3,372	2,428	2,210	14	14	14
Capital Employed	14,202	11,863	11,426	11,051	11,572	16,983	17,903	20,294
Gross Block	2,950	7,611	8,739	8,508	8,715	10,183	11,283	13,783
Less: Accum. Deprn.	332	488	800	1,160	1,521	1,892	2,279	2,680
Net Fixed Assets	2,619	7,123	7,938	7,348	7,194	8,290	9,004	11,103
Goodwill on Consolidation	868	477	604	1,258	1,327	3,946	3,946	3,946
Capital WIP	5,217	992	38	27	5	41	41	41
Total Investments	1,141	1,048	1,077	826	981	4,220	4,220	4,220
Curr. Assets, Loans&Adv.	5,495	3,291	2,459	2,100	2,715	3,183	2,066	2,823
Inventory	2,366	717	695	708	695	705	931	1,134
Account Receivables	145	674	228	142	43	83	152	185
Cash and Bank Balance	466	551	210	228	314	1,235	580	1,081
Loans and Advances	2,517	1,350	1,326	1,023	1,663	1,160	403	423
Curr. Liability & Prov.	1,138	1,142	911	899	1,000	2,854	1,531	1,996
Account Payables	774	730	735	806	906	2,760	1,408	1,846
Provisions	364	413	176	93	95	94	123	150
Net Current Assets	4,358	2,149	1,548	1,201	1,715	330	535	828
Deferred Tax assets	0	72	221	391	351	156	156	156
Appl. of Funds	14,202	11,863	11,426	11,051	11,572	16,983	17,903	20,294

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Basic (INR)								
EPS	1.2	1.9	-0.6	1.4	3.1	5.8	6.9	9.4
Cash EPS	1.5	2.6	0.9	2.9	4.6	7.2	8.3	10.9
BV/Share	34.1	34.1	33.2	36.2	39.7	62.9	65.5	74.3
DPS	0.2	0.2	0.1	0.2	0.4	0.0	0.4	0.5
Payout (%)	22.8	18.8	-12.5	14.5	13.2	0.0	7.0	5.8
Valuation (x)								
P/E		124.2	-368.6	174.3	77.3	40.8	34.3	25.2
Cash P/E		89.8	273.3	81.0	51.2	32.9	28.4	21.7
P/BV		6.9	7.1	6.5	5.9	3.8	3.6	3.2
EV/Sales		11.6	21.6	17.0	14.0	9.9	7.7	6.3
EV/EBITDA		43.0	97.3	52.8	38.7	22.9	19.6	14.5
Dividend Yield (%)	0.1	0.1	0.0	0.1	0.1	0.0	0.2	0.2
FCF per share	-3.7	6.8	3.2	4.6	4.0	3.1	-2.4	1.8
Return Ratios (%)								
RoE	3.4	5.6	-1.9	3.9	8.1	11.9	10.8	13.4
RoCE	4.6	7.7	5.8	5.6	8.7	11.5	10.9	19.4
RoIC	6.7	8.9	5.4	5.6	9.2	13.1	14.2	17.4
Working Capital Ratios								
Asset Turnover (x)	0.3	0.5	0.3	0.3	0.4	0.4	0.4	0.5
Inventory (Days)	203	47	85	69	56	42	43	43
Debtor (Days)	12	44	28	14	3	5	7	7
Creditor (Days)	142	48	89	78	73	166	65	70
Working Cap. Turnover (Days)	334	43	23	4	-13	-118	-15	-20
Leverage Ratio (x)								
Debt/Equity	0.6	0.5	0.4	0.3	0.2	0.0	0.0	0.0

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
OP/(Loss) before Tax	849	1,175	-166	596	978	2,281	2,698	3,651
Depreciation	81	166	347	382	361	371	386	401
Interest & Finance Charges	10	199	495	397	300	-182	-168	-154
Direct Taxes Paid	-365	-332	-354	-156	-280	-737	-837	-1,114
(Inc)/Dec in WC	2,235	1,119	539	94	-427	3,083	-1,638	209
CF from Operations	2,810	2,327	862	1,313	932	4,816	442	2,994
Others	37	-49	-23	-156	180	125	0	0
CF from Operating incl EO	2,847	2,278	838	1,157	1,112	4,941	442	2,994
(inc)/dec in FA	-3,692	-740	-107	-89	-185	-4,122	-1,100	-2,500
Free Cash Flow	-845	1,538	731	1,068	927	819	-658	494
(Pur)/Sale of Investments	205	132	3	32	-155	-3,240	0	0
Others	-643	1,257	-145	-63	49	-36	977	185
CF from Investments	-4,129	650	-250	-120	-290	-7,397	-123	-2,315
Issue of Shares	49	22	145	0	1	5,500	-813	0
(Inc)/Dec in Debt	301	-1,158	-152	-524	-218	-2,196	0	0
Interest Paid	-155	-310	-551	-427	-350	-104	-32	-31
Dividend Paid	-109	-57	-62	-28	-98	0	-130	-147
Others	338	-1,340	-309	-40	-72	176	1	1
CF from Fin. Activity	425	-2,843	-929	-1,018	-736	3,377	-974	-177
Inc/Dec of Cash	-857	84	-341	18	86	921	-655	502
Opening Balance	1,323	466	551	210	228	314	1,235	580
Closing Balance	466	551	210	228	314	1,235	580	1,081

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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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