

Delta Corp



Favorable odds

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Delta Corp

BSE Sensex 29,485 S&P CNX 9,122

CMP: INR169

TP: INR229 (+36%)

Buy



Stock Info

| | |
|-----------------------|-----------|
| Bloomberg | DELTA IN |
| Equity Shares (m) | 230.7 |
| 52-Week Range (INR) | 195/62 |
| M.Cap. (INR b) | 39.0 |
| M.Cap. (USD b) | 0.6 |
| 1, 6, 12 Rel. Per (%) | 39/-3/151 |
| Avg Val, (INRm) | 556 |
| Free float (%) | 59.2 |

Financial Snapshot (INR b)

| Y/E Mar | 2017E | 2018E | 2019E |
|--------------|-------|-------|-------|
| Sales | 4.6 | 6.7 | 8.4 |
| EBITDA | 1.7 | 2.7 | 3.5 |
| NP | 0.8 | 1.6 | 2.0 |
| EPS (INR) | 3.3 | 6.9 | 7.6 |
| EPS Gr. (%) | 110.7 | 110.3 | 11.4 |
| BV/Sh. (INR) | 37.5 | 50.0 | 46.4 |
| RoE (%) | 9.0 | 15.7 | 17.0 |
| RoCE (%) | 9.4 | 14.9 | 16.5 |
| P/E (x) | 51.9 | 24.7 | 22.1 |
| P/BV (x) | 4.5 | 3.4 | 3.6 |

Shareholding pattern (%)

| As On | Dec-16 | Sep-16 | Dec-15 |
|----------|--------|--------|--------|
| Promoter | 40.8 | 40.8 | 40.9 |
| DII | 0.3 | 0.7 | 0.4 |
| FII | 9.7 | 11.3 | 11.6 |

Delta Corp
Favorable odds

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Delta Corp (DELTA) is India's only listed gaming company, with a dominant presence in Goa's offshore casino market. It owns three of the six offshore (five operational) gaming licenses in the state of Goa. It has ~1,700 gaming positions in the state across its three offshore casinos, one onshore casino and recently commenced casino in Sikkim. DELTA has an integrated casino resort in Daman, with 1,200 gaming positions which is awaiting regulatory approval. It has also forayed into online gaming, with the acquisition of Adda52.com.

Favorable odds

Dominating in 'brick world', entering 'click world'

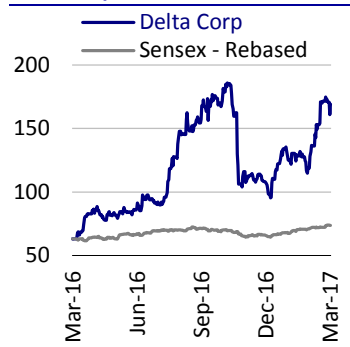
- Delta Corp (DELTA) is the leading player in India's underpenetrated gaming market. Gaming is an emerging industry in India; given its paltry size of ~USD150m (Global size of USD183b), the growth potential is huge.
- Approval of its casino in Daman is a key growth trigger for DELTA, as it would nearly double its gaming capacity (from ~1,700 currently to ~3,000) and further cement its first-mover advantage.
- M&A opportunities in the fast-growing online gaming business in India would allow DELTA to leverage its current strength and open up new avenues for growth. It recently announced the acquisition of Adda52.com, an online poker gaming website.
- We expect 35% revenue CAGR, 45% EBITDA CAGR and 62% PAT CAGR over FY17-19E. EBITDA would be driven by strong operating leverage. We initiate coverage with a Buy rating. Our target price is INR229 (30x FY19E EPS), indicating an upside of ~39%.

Emergence of favorable odds

Our Wealth Creation Study 2008-2013 had elaborated the emergence and endurance of uncommon profit in equity investments. We can relate this study to DELTA, which is expected to cross the 15% RoE threshold for the first time in FY18 (post business model change to pure-play gaming and hospitality). For details, please see page 18.

Dominating India's underpenetrated gaming industry

DELTA is India's first listed pure-play gaming company. It enjoys a dominant share of India's offshore casino market, with three of the six offshore casino licenses (five operational) in Goa. Given that the Goa government is unlikely to issue new licenses and that land-based casinos are allowed only in five-star hotels, DELTA's competitive advantage should sustain. Price Waterhouse Coopers (PWC) estimates the total global gaming casino market in 2015 at USD183b and that it has grown at a CAGR of 7% over the last 10 years. The Asia Pacific region has led growth, with a CAGR of 21.5%. In India, gaming is just emerging as an industry; given its paltry size of ~USD150m, the growth potential is huge.

Delta Corp: Relative to Index**Approval of Daman casino could be an icing on the cake**

DELTA is awaiting regulatory approval for a casino housed in Daman's only five-star hotel. Given its locational advantage, Daman (caters to a catchment area of 35m people over Mumbai and Gujarat) is likely to attract higher footfalls than Goa. We expect DELTA to replicate its success in Goa's offshore casino market in the land-based casino market in Daman. Approval of the Daman casino has the potential to nearly double its gaming capacity to 3,000. DELTA would be in a better position to exploit the potential that the nascent industry offers.

Online gaming – next big opportunity

Globally, online gaming is still a nascent industry and is legal in very few countries. It is increasingly becoming popular, with legal online gaming accounting for 3% of global gaming revenue. In India too, it is at a nascent stage; some of the popular names in India are Adda52.com, ace2three.com, pokerbaazi.com, and Spartan Poker. The size of the global online gaming industry is estimated at USD110m-120m. To capitalize on the opportunity, DELTA recently acquired Gauss Network, which holds Adda52.com (online poker), for INR2.1b (part cash and part equity deal expected to be completed by April 2017). Ace2three.com, the largest rummy site, generated about INR1,665m in revenue, with PAT of INR617m in FY16. DELTA is open to further acquisitions in the online gaming space. We believe there would be significant cross-selling opportunities between DELTA's casino and online gaming businesses.

Expect 62% PAT CAGR over FY17-19

We expect DELTA's revenue to grow at a CAGR of 35% over FY17-19, led by 38% CAGR in its gaming business and 18% CAGR in its hospitality business. Adda52.com would further boost revenue in FY18 and a positive trigger from Daman could be an icing on the cake (we have not factored revenue from Daman casino). DELTA's focus on increasing the share of mass crowds would drive revenue growth and margins; as such crowds give the house a higher chance to win as compared to VIP (large and experienced) customers. EBITDA would post 45% CAGR, with margin expanding from 36.3% to 41.5%, largely driven by operating leverage and high-margin online business. PAT would grow at a CAGR of 62% over FY17-19.

At an inflexion point; Buy

We believe DELTA is at an inflexion point. The investment phase is behind and approval of the Daman casino and M&A opportunities in online gaming could trigger significant growth and cash generation as well as RoCE / RoE improvement. We expect RoE to improve from 9% to 17% over FY17-19. The stock trades at 24.7x/22.1x FY18E/19E EPS, 8.4x/6.2x FY18E/19E EV/EBITDA and 3.4/3.6x FY18E/19E P/BV. DELTA's premium valuations vis-à-vis its peers in global space is manifestation of its strong earnings outlook, a near monopoly in casino space in India and potential approval of Daman Casino. Thus we assign a PE multiple of 30x (~40% premium) to global peers. We initiate with Buy, with a target price of ~INR229 (30x FY19E EPS). Under bull case scenario which assumes approval of Daman casino and FY19 being first full year of operations, leads to an EPS of INR10.9 (vs INR7.6 in base case) in FY19 and a target price of INR334 (incl. potential cash per share of INR7.5 through sale of non-core assets).

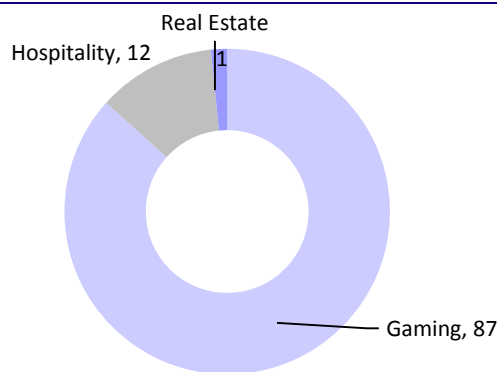
Company overview

Delta Corp (DELTA) is the largest and only listed gaming company in India. It is a leading gaming company in India, capturing a lion share of the Indian gaming market through its five casinos in Goa and Sikkim. It owns three of the six offshore and one onshore gaming license in the state of Goa. The company currently offers ~1,700 gaming positions in Goa and Sikkim. It started a first of its kind integrated casino resort in Daman in March 2014 (casino approval awaited yet).

DELTA's core business is gaming and gaming-related hospitality. In FY14, gaming contributed 45% of revenue, hospitality contributed 1%, and real estate contributed 52%. From FY14, DELTA has decided to strategically focus on its gaming business and not pursue the real estate business. In FY16, the contribution of gaming and gaming-related hospitality increased to 87%. Hospitality contributed 12% of revenue. In FY18 and FY19, we expect gaming to contribute over 90% of revenues, with the balance coming from hospitality.

It also partnered with Hotel WelcomHeritage Denzong Regency in April 2016 for the Sikkim venture. Under the partnership, the hotel will lease gaming space to the company, which, in turn, will be responsible for the day-to-day operations and management of the new casino. In July 2016, DELTA secured its provisional license and commenced operations from Jan 2017 post receiving the license; the full benefits would be available from FY18.

Exhibit 1: Revenue composition in FY16 (INR m)



Dominating India's gaming industry

Enjoys lion's share of India's offshore casino market

- DELTA is India's first listed pure-play gaming company. It owns three of the six licenses (five operational) for offshore casinos in Goa. It is also venturing into on-land casinos and has forayed into online gaming.
- It has partnered with Hotel WelcomHeritage Denzong Regency for a casino in Sikkim. This venture has recently commenced operations and full benefits will be seen in FY18.
- Given that the Goa government is unlikely to issue new licenses and that land-based casinos are allowed only in five-star hotels, DELTA's competitive advantage should sustain.
- Price Waterhouse Coopers (PWC) estimates the total global gaming casino market in 2015 at USD183b and has grown at a CAGR of 7% over the last 10 years. The Asia Pacific region has led growth, with a CAGR of 21.5%. In India, gaming is just emerging as an industry; given its paltry size of ~USD150m, the growth potential is huge

Has established leadership in Goa's offshore casino market

Goa is widely touted as the gaming capital of India

Only two states and one union territory (UT) in India allow gaming – Goa, Sikkim and Daman. Goa is widely touted as the gaming capital of India. It is a popular tourist destination, famous for its beaches and long stretch of coastline (131km). It attracts around 3m tourists annually and around 12% of all foreign tourist arrivals in India, who spend around USD350m annually. The gaming and entertainment tax in Goa at 15% of gross gaming revenues is favorable compared to Macau and the US. Further, Goa is located close to major Indian cities – an hour's flight from Mumbai, Bangalore, and Chennai, 1.5 hours from Hyderabad, and 2.5 hours from Delhi. It has the potential to attract visitors from South East Asia and the Middle East, as well.

Exhibit 2: Goa is located within 3-hour flight from all regions in India



Source: Company, MOSL

DELTA enjoys a lion’s share of Goa’s offshore casino market

DELTA has already established itself as the leader in Goa’s offshore casino market. It owns three of the six offshore casino licenses in Goa and enjoys a dominant share of India’s offshore casino market. Its three operational casinos on the River Mandovi, *Deltin Royale* and *Deltin JAQK*, *DeltinCaravela* have a combined capacity of ~1,700 gaming positions.

Exhibit 3: DELTA owns three of the six offshore casino licenses in Goa

| Name of Casino | Owner | Operational |
|----------------|---|-------------|
| Deltin Royale | Delta Corp | Yes |
| Deltin JAQK | Delta Corp (Highstreet Cruises – Subsidiary of Delta Corp) | Yes |
| DeltinCaravela | Delta Corp (Delta Pleasure Cruise – Subsidiary of Delta Corp) | Yes |
| Casino Pride | Goa Coastal Resorts owned by Khetarpal | Yes |
| Casino Pride 2 | Goa Coastal Resorts owned by Khetarpal | Yes |
| Casino Rio | MDLR Group (License has been renewed, can go live) | No |

Source: Company, MOSL

Sikkim casino operations recently commenced to aid growth

To expand its gaming footprint to other regions in India, in April 2016, DELTA partnered with Hotel WelcomHeritage Denzong Regency for a casino in Sikkim. The hotel is leasing the gaming space to DELTA, which would be responsible for the day-to-day operations and management of the new casino. It obtained a provisional license from the Government of Sikkim to operate the casino in July 2016 and commenced operations in January 2017 after being issued a license. The casino offers around 150 gaming positions and cater to the eastern region of India.

Lease rental for DELTA would be INR30m per annum and the license fee is INR10m per annum. Currently, Sikkim has only two casinos: Casino Mahjong Sikkim (in Mayfair Spa Resort and Casino) and Royal Casino (in Royal Plaza Hotel). As is the case with onshore casinos in Goa, EBITDA margins for casinos in Sikkim are higher at ~55% (with no fuel cost for running vessels, no marine staff salaries, etc).

Strong entry barriers to ensure sustenance of competitive advantage

The Goa government is unlikely to issue new licenses for offshore casinos...

Casino gaming in India has several entry barriers, with licensing being the biggest hurdle. DELTA owns three of the six licenses (five operational) for offshore gaming in Goa, and the state government is unlikely to issue new licenses in the near future. It has a strong first mover advantage in Goa's offshore gaming market. It has gained significant expertise in its last six years of operation. In the absence of new licenses, we believe DELTA's competitive advantage and dominant market share in Goa's offshore gaming market will sustain.

...and land-based casinos are allowed only in five-star hotels, posing strong entry barriers

Similarly, with respect to Daman, land-based casinos are allowed only in five-star hotels. DELTA's *The Deltin* is Daman's only five-star hotel. The casino would be the key profitability driver for DELTA's hospitality business in Daman. A competitor with standalone hospitality focus may not find it remunerative to have five-star hotel operations in Daman. Currently, there is no major casino operator in India with plans to invest in a five-star hotel and casino in Daman.

India's gaming market holds high growth potential

Though gaming has its roots in Indian mythology, the industry is today virtually absent in India

Gaming is one of the oldest forms of entertainment and business. Its long history has its roots in India's mythology (the Mahabharata tells how Yudhishtira lost all in a game of dice). Today, gaming forms a unique source of entertainment the world over, with centers like Las Vegas, Macau, and Singapore having emerged as specialized gaming destinations. These gaming destinations have evolved as entertainment hubs, by adding key elements of tourism and hospitality. For the consumer, gaming and hospitality combine to create and deliver a holistic entertainment experience. This holistic experience has contributed to the success of these gaming destinations.

Asia Pacific region dominates USD183b global gaming market

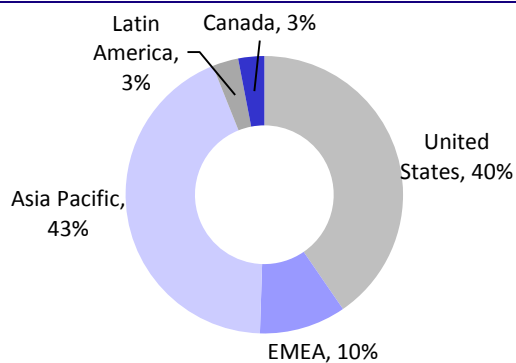
Price Waterhouse Coopers (PWC) estimates the total global gaming casino market in 2015 at USD183b. The market has grown at a CAGR of 7% over the last 10 years. The Asia Pacific region has led growth, with a CAGR of 21.5%. With a share of 43%, the Asia Pacific region is now a larger market than the US, which has 40% share. Centers in the US and Europe traditionally dominated the gaming industry. This changed with the emergence of Macau and Singapore as popular gaming centers. In 2006, Macau surpassed Las Vegas as the global gaming leader. In 2010, spending in casinos in the Asia Pacific region rose by a staggering 49.7% and put Macau and Singapore permanently and prominently on the global gaming map. Other gaming destinations in countries like Philippines, Malaysia, Hong Kong, South Korea, Sri Lanka, and Australia have added to this shifting momentum. In India, gaming is just emerging as an industry; given its paltry size of ~USD150m, the growth potential is huge.

Exhibit 4: Global casino gaming market by region (USD b)

| Region | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| United States | 57 | 60 | 59 | 57 | 57 | 60 | 62 | 66 | 69 | 73 |
| EMEA | 21 | 21 | 20 | 18 | 16 | 16 | 16 | 17 | 17 | 18 |
| Asia Pacific | 14 | 18 | 21 | 23 | 34 | 47 | 58 | 67 | 73 | 79 |
| Latin America | 3 | 3 | 3 | 4 | 4 | 4 | 4 | 5 | 5 | 6 |
| Canada | 5 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 | 6 |
| Total | 100 | 108 | 110 | 107 | 118 | 132 | 147 | 160 | 171 | 183 |

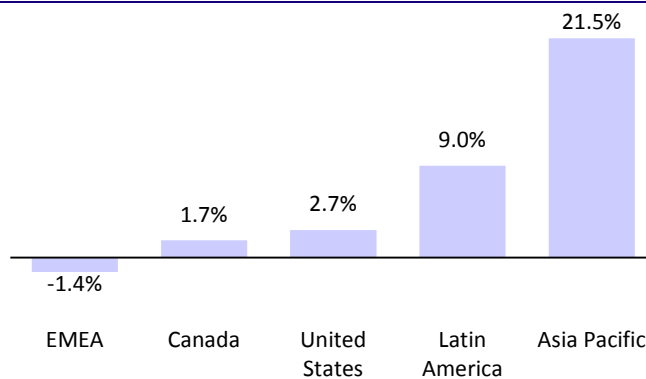
Source: Industry, MOSL

Exhibit 5: Asia Pacific region now dominates global gaming market



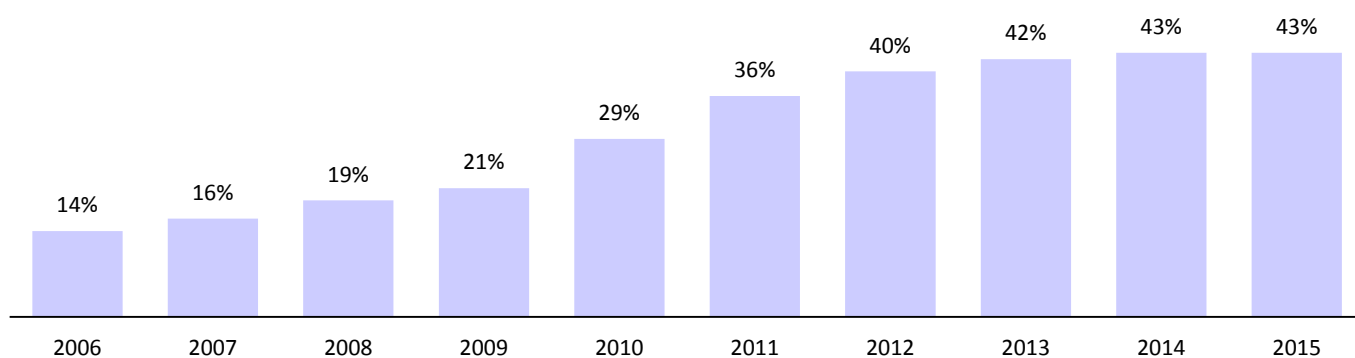
Source: Company, MOSL

Exhibit 6: Asia Pacific has been the growth driver for the industry



Source: Company, MOSL

Exhibit 7: Share of Asia Pacific in world gaming market on a continuous uptrend



Source: Company, MOSL

Restrictive laws have curbed the growth of the gaming industry in India

Though there is strong appetite for gaming in India, restrictive laws have curbed the growth of the industry. Betting and gaming in India fall under the purview of state legislation, with high entry barriers, strict regulations, and cap on the number of licenses. Casinos are legally allowed only in Goa, Daman and Sikkim. The Goa, Daman and Diu Public Gambling Act, 1976 allows casinos to be set up only at five-star hotels or offshore vessels, with prior permission from the government. In general, casino licenses are awarded for a term of five years, with fees payable annually.

A large part of betting in India is in the unregulated and illegal spaces

A large part of betting in India is in the unregulated and illegal spaces, estimated to be in the range of USD500m by a FICCI representation. This is dominated by betting in sports, especially cricket. The only two legally allowed betting businesses in India are horseracing and lotteries, with an estimated turnover of USD350m and USD12.5b, respectively. India’s casino business is miniscule in comparison at ~USD100m, 0.05% of the global gaming industry size of USD200b.

Exhibit 8: Strong appetite for gaming in India



Source: Company, MOSL

India’s casino industry should witness robust growth, going forward

India’s nascent gaming market holds high growth potential. Over the last 10 years, the Indian casino market has been growing at ~40% per year. In August of 2015, Mr. Jaydev Mody, DELTA’s Chairman had stated that the Indian casino market likely generated approximately INR5b (approximately USD75.7m). We believe that India’s urban population will grow to 531m by 2025 from 419m in 2014 (CAGR of 2.4%) and rural will grow to 939m from 876m (CAGR of 0.8%). Based on the assumptions in the exhibit below, we see an enormous growth potential in the Indian casino industry.

Approval of Daman casino to be key trigger

To drive high growth and profitability

- DELTA is by far the largest casino operator in India, with ~1,700 gaming positions. The approval of its casino in Daman (subject to approvals) will take its capacity to ~3,000 gaming positions.
- It is awaiting regulatory approval for its casino housed in Daman's only five-star hotel. Daman is likely to be a much larger footfall market (catchment of over 35m people from Mumbai and Gujarat) than Goa. We expect DELTA to replicate its success in Goa's offshore casino market in the land-based casino market in Daman.
- With near-doubling of its gaming capacity, DELTA will be in a better position to exploit the potential that the nascent industry offers.

Daman's first casino license expected soon

We expect DELTA to replicate its success in Goa in the casino market in Daman

In FY15, DELTA launched a casino housed in Daman's only five-star hotel, *The Deltin*; this will be India's first land-based casino (subject to approval) outside Goa. The Daman property will have ~1,200 gaming positions. Daman is likely to be a much larger footfall market, given that it is a drive-in destination for a large catchment of over 35m people from Mumbai and Gujarat. Daman is ~2.5 hours' drive from Mumbai and 1.5-4 hours' drive from Gujarat. Because of the ban on alcohol in Gujarat, Daman attracts many visitors from there. Also, while Daman is located along Gujarat and Maharashtra, it is governed by the same Gambling Act as Goa. We expect DELTA to replicate its success in Goa in the land-based casino market in Daman.

Exhibit 9: Daman is strategically located between Mumbai and Gujarat



Source: Company, MOSL

Exhibit 10: Daman has a huge catchment area of over 35m people

| City | Population (mm) | Distance to Daman (km) |
|-----------|-----------------|------------------------|
| Mumbai | 18.5 | ~180km |
| Surat | 4.5 | ~120km |
| Vadodara | 1.8 | ~250km |
| Ahmedabad | 6.5 | ~350km |

Source: Company, MOSL

Exhibit 11: Daman is favorably positioned to become a leading gaming and leisure destination**☑ Optimal Location to Become New Gaming and Entertainment Market**

Located along the coast in the state of Gujarat, but governed by the same gambling act as that of Goa which has adopted by Daman

Alcohol consumption is not permitted in Gujarat

Proximity to Mumbai, Gujarat provides great opportunity for Daman to become India's leading gaming, entertainment, leisure & MICE venue

☑ Favorable Industry and Regulatory Dynamics For Delta

Delta has the first mover advantage in Daman

Only company to get a in-principle gaming licenses in Daman

Only foreseeable Casino in Daman in near future

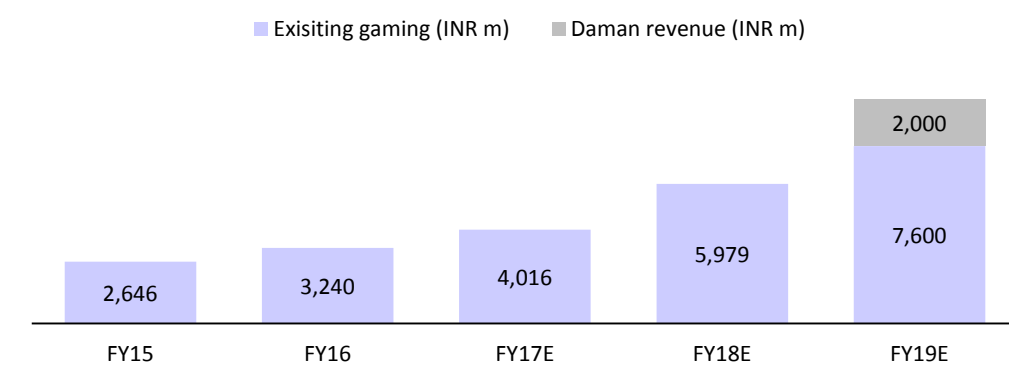
New land based licenses are likely to only be granted if 5-star hotel is built (same regulation as Goa)

☑ Additional Supply to Provide Incremental Value

While tourism in Daman is poised to expand significantly, FDI restrictions and lack of resources / capital limits significant foreseeable casino competitor in the near term

As the market matures, new supply will only drive incremental traffic to the region

Source: Company, MOSL

Exhibit 12: DELTA's gaming business is expected to post a robust 38% CAGR over FY17-19E

Source: Company, MOSL

DELTA's one onshore and three operational off shore properties in Goa have ~1,700 gaming positions. The launch of its Daman casino will take its capacity to ~3,000 gaming positions. With higher capacity, DELTA will be in a better position to exploit the high growth opportunity that the Indian gaming industry offers.

Exhibit 13: DELTA's gaming properties and capacity set to nearly double

| Casino | Gaming Tables | Gaming Positions | Slots |
|---|---------------|------------------|-------|
| Deltin Royale | 123 | 1000 | 65 |
| Deltin JAQK | 47 | 500 | 30 |
| DeltinCaravela | 17 | 150 | 10 |
| Deltin Suites | NA | 85 | NA |
| The Deltin (Daman)—Not operational yet | ~150 | ~1,200 | ~200 |
| Deltin (Denzong Regency, Sikkim) operational Jan'17 | NA | ~150 | NA |

Source: Company, MOSL

Online gaming – big opportunity in making

Opportunities for M&A; recently acquired adda52.com

- DELTA has also forayed into online gaming by acquiring Adda52.com and is targeting more such acquisitions to leverage synergies with the casino business.
- Online gaming is at a nascent stage in India with some of the popular names like Adda52.com, ace2three.com, pokerbaazi.com, Spartan poker and few others.
- Online gaming market size in India is ~USD125m and is expected to grow at a very healthy pace with increasing user acceptance.

Online gaming a huge potential growth market in India

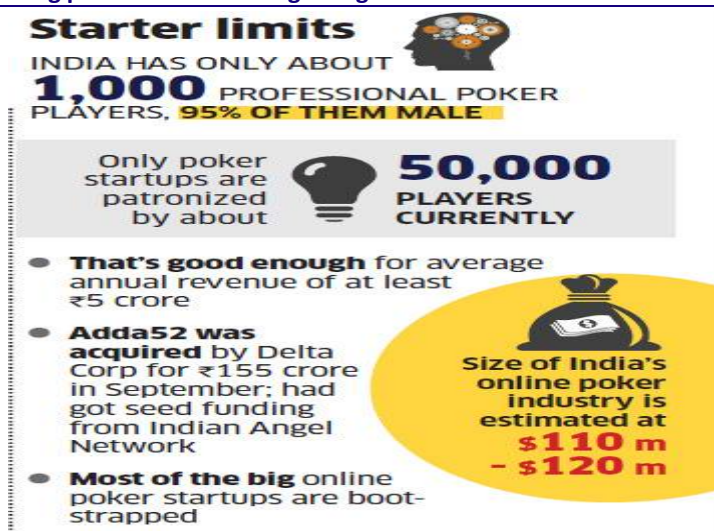
The online skill game industry, which includes poker, rummy and some other games, has been growing at a healthy pace since 2008. There are several big companies, including companies run by Bollywood stars, that have started their online gaming ventures. Contrary to the popular perception, not all card games are illegal, **card games involving a substantial amount of skill and intellect can be played legally**, even with money and profits involved. There have been Supreme Court and high court judgments to this effect, and laws in some states very clearly elucidate this principle.

The online gaming space has not seen investor interest yet because of the lack of understanding in terms of regulatory issues, but with increasing state-level acceptance and mostly profitable models in the space it's a sector where investors can expect healthy returns. Only costs to be incurred for online gaming companies are marketing costs (advertisements, giving away free poker chips) for signing in newer players and retaining existing players leading to healthy 35%+ EBITDA margin levels and 25%+ PAT margin levels. Online gaming market size in India is ~\$125m and is expected to grow at a very healthy pace with increasing user acceptance (compared to earlier social stigmas on online gambling), growing user base and lesser legal hurdles for companies.

Exhibit 14: Online gaming-A game of skill rather than chance

| | | |
|--|--|--|
| <p>Laws governing online poker startups</p> <ul style="list-style-type: none"> ● Cannot have foreign direct investment ● No technical collaboration with foreign entities. ● Must have India-specific software technology ● Must pay service tax of 15% on revenue <p>Some online poker startups bear some or all of the taxes. Spartan Poker pays the 30.3% TDS to the government on behalf of players. PokerBaazi deducts TDS from the winnings but gives players occasional reimbursements in the form of bonus money.</p> | <p>Must deduct 30.3% tax at source on player winnings exceeding ₹10,000</p> | <p>High stakes</p> <p>Online poker startups typically conduct tournaments every half hour and attract users with different wallet sizes—users can choose from low-stack tables spending Rs 100 or high-stack tables depositing up to Rs 1 lakh. “The high stakes make up a bulk of our revenue but these players are fewer in number. About 20% of our customers generate 80% of our revenue but you still cater to the remaining 80%; that’s where the organic transactions happen,” said Anuj Gupta, cofounder of Adda52.</p> |
|--|--|--|

Source: Company, MOSL

Exhibit 15: Strong potential for online gaming market in India

Source: Company, MOSL

Forays into online gaming with Adda52.com acquisition

DELTA acquired Gauss Network Private Limited, which owns Adda52.com (95% revenue coming from Poker while rest from Rummy), in a part-cash, part-equity deal by offering redeemable preference shares and optionally convertible preference shares. The online space is unlikely to cannibalize the existing business – the market is big enough to accommodate both. Globally, both coexist. Gauss Network's consolidated revenue stood at INR182m in FY14, INR352m in FY15 and INR470m in FY16; management expects this to reach ~INR650m in FY17. EBITDA margin is around 40%. Majority of the portal costs are incurred on sales promotion. PAT was INR80m in FY16. Commission margins for online gaming are in the range of 1-3%.

Gauss Network transaction would be executed by INR475m cash (for 26% stake of which ~21% is owned by a foreign fund) to be paid by April-May 2017 and rest in RPS/OCPS form. Redeemable preference shares (RPS) would be issued to Gauss Ltd which can be re-deemed 12 months post the High court approval of the transaction (expected in April 2017). The amount in RPS would be to the tune of ~INR815m. So Adda 52.com will become a 100% subsidiary of Delta Corp post the court order. Also, Delta Corp is paying OCPS(number of shares calculation to be done on SEBI formula and will depend on CMP at that point of time) as kind to Gauss Ltd which would be convertible 12 months post High court order. If Delta Corp buys that stake, then holding would be same else it might get diluted.

Adda52.com had received its first seed funding in 2011 and thereafter focused on a strong software, search engine optimization to grow aggressively over the years besides having the first mover advantage in Indian market. DELTA may look for more such acquisitions (likely to be equity funded rather than cash) in future given the enormous growth potential, and huge opportunity in online gaming space (\$120m industry in India).

In India, some of the other popular names in online gaming space include ace2three.com (largest rummy site), pokerbaazi.com, Spartan poker and few others. This provides opportunity for M&A in the space. Ace2Three.com is largest online rummy site which is the most widely played card game in India. The financials of the same reproduced below:

Exhibit 16: Ace2Three financials

| Particulars | FY15 | FY16 |
|--------------------|-------------|-------------|
| Revenue (INR m) | 1246 | 1665 |
| EBITDA (INR m) | 653 | 935 |
| EBITDA % | 52.5 | 56.2 |
| PAT (INR m) | 435 | 617 |
| PAT % | 34.9 | 37.1 |

Source: RoC, MOSL

Brand leverage to drive long-term sustainable growth

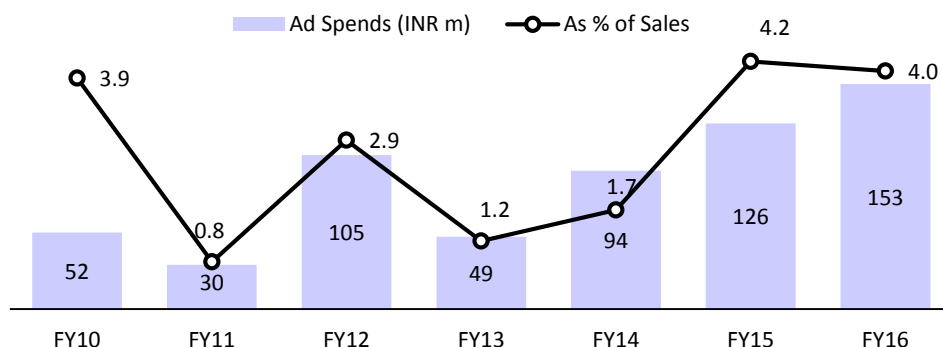
Key drivers: Brand Spends, Increase in GGR, Newer geographies

- Delta aggressively markets its casinos via radio, hoardings, and approaching corporates directly, having a presence on online portals like Make my Trip, Book my show etc.
- Advertisement cost was INR 126m/INR 153m for FY15/FY16 constituting ~4% of consolidated revenue.
- Delta prefers more footfalls and mass crowd rather than VIP as the risk appetite and ability is not much compared to premium or VIP people which leads to higher probability of losing.
- Delta is eyeing Tamil Nadu, Punjab, Karnataka, Maharashtra and Pondicherry markets if state government passes legislation to establish casinos in those regions.

Promotional schemes to drive more footfalls

Delta aggressively markets its casinos via radio, hoardings, and approaching corporates directly, having a presence on online portals like Make my Trip, Book my show etc. The company normally targets Delhi, Punjab, Haryana, Maharashtra for marketing activities and believes Gujrat, Delhi, Kerala etc are key states from where people visit the casino. Advertisement cost was INR 126m/INR 153m for FY15/FY16 constituting ~4% of consolidated revenue. Also, it holds various promotional schemes like a bumper Mercedes for customers (mainly based on chip numbers) at certain intervals to attract new customers. It also hosted the India Poker Championship (in line with World Poker Championship), an 8 day tournament series in December 2015. This event crushed the original guarantees with the massive number of turnouts over the 8 days garnering well over INR 32.5m (earlier guarantee of INR2.5m) in Prizepools at Deltin Royale Poker Lounge Goa, India. We believe such events and strategy by the company will aid in long-term brand building.

Exhibit 17: DELTA's ad spends to drive long-term brand sustainability



Source: Company, MOSL

More Footfalls to drive more GGR for Delta

Delta prefers to maintain a balance between mass crowd and VIP as the risk. Incase of mass crowds, appetite and ability is not much compared to premium or VIP people which leads to higher probability of losing and house winning. So, there is more scope for earning money for the company via them compared to VIP segment. The entry fee normally depends on rush or season factor.

The company can sometimes give free entry or charge as low as Rs2,000 if the rush is low (no one time playing chips given in this case) to drive footfalls while it can charge as high as Rs10,000 as entry fee(One Time Playing Chips of similar amount given in this case). OTPC (One Time playing Chips) cannot be redeemed for cash in casinos, so a customer is lured to spend more time in casino and play more. For games like poker, Teen Patti or any game wherein Deltin dealer does not have a role to play, revenues are earned based on a commission basis (generally 1%-5% of every pot). For games like Blackjack (where players play against the company dealer), revenue are earned on profit or loss in that game by the dealer.

New States may pass legislation to establish casino, positive for DELTA

There are new states like Andhra Pradesh, Telangana, Karnataka and Pondicherry where if state government passes legislation to establish casinos, DELTA could benefit from first mover advantage. We believe that casinos contribute a large revenue pie in state's revenue, so if state regulation allows, Delta would be looking for offshore casinos like Goa. Generally, the cost of putting a ship in place for operations is ~INR 1.5b (includes buying or manufacturing of ship vessel, renovation, establishing slot machines, furniture's etc).

DELTA likely to cross 15% RoE for the first time (post business model change) in FY18, breaching the uncommon profit threshold

Our Wealth Creation Study 2008-2013 had elaborated the emergence and endurance of uncommon profit in equity investments. We can relate this study to DELTA, which is expected to cross the 15% RoE threshold for the first time in FY18 (post business model change to pure-play gaming and hospitality).

We reproduce herewith some key insights from the Wealth creation study

Opportunity cost of equity is usually taken as the long-period return on equity benchmark indices. In the Indian context, long-period return of BSE Sensex is 15-17%. Using the other approach for cost of equity (CoE), risk free rate in India is about 7% (post tax). Adding an equivalent equity risk premium, one again arrives at CoE around 15%. Thus, any profit earned in excess of 15% RoE is uncommon profit. Accordingly, all companies which sustain RoEs over 15% are value creators.

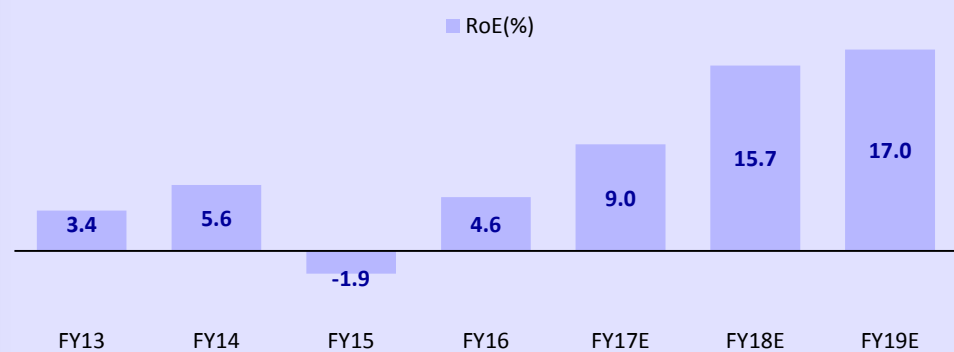
We define Emergence as "the first entry of a company into the potential uncommon profit zone". We earlier determined that RoE of 15% is the threshold for uncommon profit. Given this, a company may be said to have emerged when it attains 15% RoE for the first time ever since inception. Post that, the next challenge for a company is to achieve Endurance (i.e. sustaining its profitability above the cost of equity threshold for a long period of time)."

Going by the above definitions, Enduring Value Creators are companies that successfully manage the journey from emergence to endurance. This is achieved by a favorable combination of one or more and industry-level or company-specific factors. Early identification of such companies enables investors to fully participate in the company's uncommon profit generation through its lifecycle.

One can refer to detailed Wealth Creation Study by clicking here



Exhibit 18: DELTA to cross 15% RoE threshold for first time in FY18



Source: Company, MOSL

Expect 62% PAT CAGR over FY17-19E

Key drivers: Online foray, operating leverage

- DELTA exited its real estate business in FY14. Going forward, its core business would be gaming and gaming-related hospitality.
- We expect 35% CAGR in DELTA’s revenue over FY17-19E, led by 38% CAGR in its gaming business and 18% CAGR in its hospitality business. EBITDA would grow at a CAGR of 45%, with margin expanding from 36.3% to 41.5%. PAT would grow at a CAGR of 62%.
- Cash flows and return ratios should improve substantially. We expect DELTA to be debt free and be a net cash company by FY19.

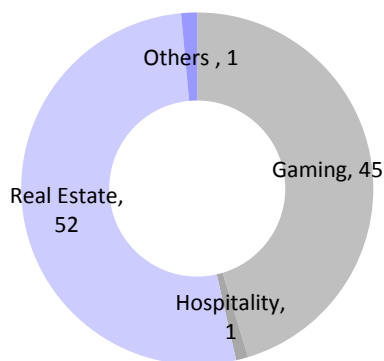
Gaming and gaming-related hospitality to be core business

DELTA’s core business would be gaming and gaming-related hospitality. They are mutually inclusive and reciprocating businesses, each driving the other. A combination of gaming and hospitality helps to provide a holistic experience that attracts not only serious gamers, but also tourists and families. Hospitality has been an integral part of DELTA’s growth strategy. It currently operates three hotels in Goa, and one hotel in Daman (launched in March 2014). DELTA also has substantial stake in the holding company of Ramada Caravela Beach Resort, with no operational interest or management control.

In FY16, gaming contributed 87% of revenues, and hospitality contributed 12%; we expect the ratio to be in similar range, going forward

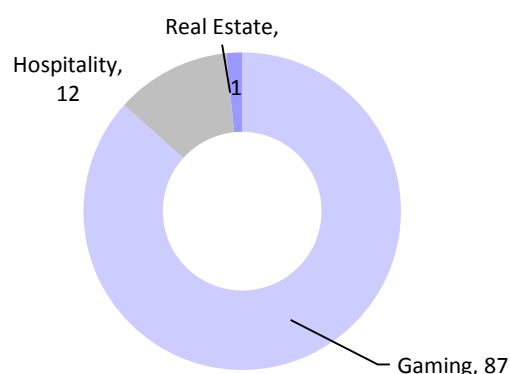
DELTA held 39.2% stake in a joint venture with Reliance Industries to develop real estate in Kenya under the name of Delta Corp East Africa limited (DCEAL). Over 2009-2014, DCEAL developed commercial and residential properties, from which DELTA has made a profitable exit. In FY14, gaming contributed 45% of DELTA’s revenues, hospitality contributed 1%, and real estate contributed 52%. In FY16, gaming contributed 87% of revenues and hospitality 12%. This break-up should sustain, going forward.

Exhibit 19: FY14 revenue break-up



Source: Company, MOSL

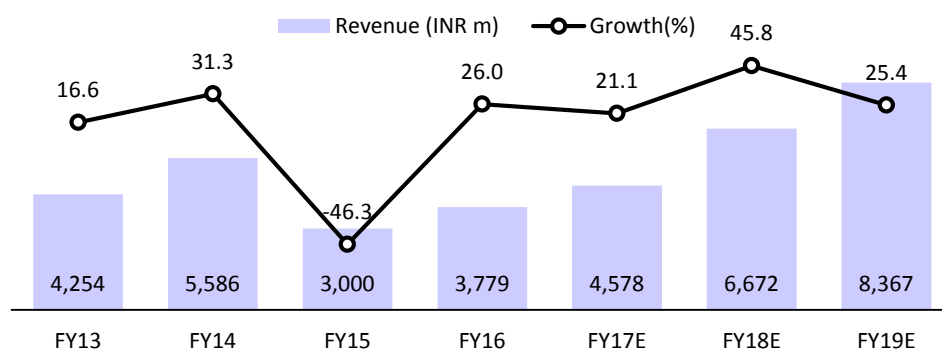
Exhibit 20: FY16 revenue break-up



Source: Company, MOSL

Expect revenue CAGR of 35%, PAT CAGR of 62% over FY17-19E

We expect DELTA's revenue to grow at a CAGR of 35% over FY17-19E, led by 38% CAGR in its gaming business, which would contribute 91% of FY19 revenue. EBITDA would post 45% CAGR, with margin expanding to 41.5%, driven by Adda52.com and operating leverage. We expect PAT to clock a CAGR of 61% to INR2b in FY19.

Exhibit 21: Revenue to post 35% CAGR over FY17-19E

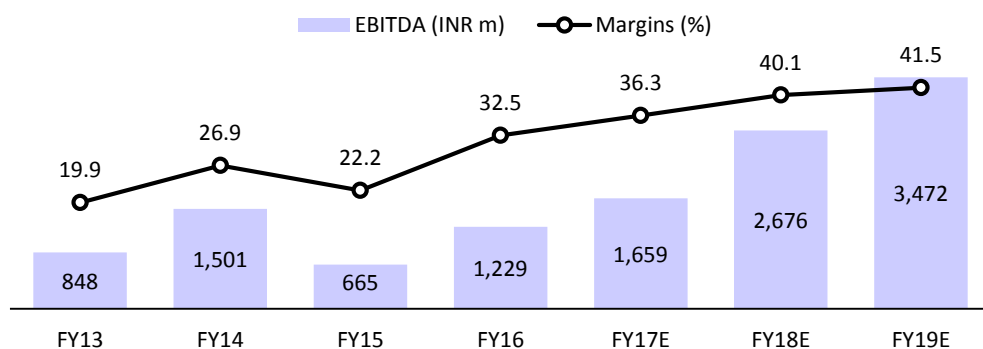
Source: Company, MOSL

Exhibit 22: Sales assumptions in gaming and hospitality segment

| Revenue(INR m) | FY16 | FY17E | FY18E | FY19E |
|---|--------------|--------------|--------------|--------------|
| Deltin JAQK - Casino | 1,007 | 1,140 | 1,379 | 1,699 |
| Deltin Royale - Casino | 2,233 | 2,556 | 3,115 | 3,804 |
| DeltinCaravela - Casino | - | 169 | 291 | 382 |
| The Deltin Suites - Casino | - | 151 | 191 | 241 |
| Sikkim - Casino | - | - | 68 | 211 |
| The Deltin - Casino (Daman) | - | - | - | - |
| Online gaming – Gaussain (adda52.com) | - | - | 935 | 1,263 |
| Total Gaming Revenue | 3,240 | 4,016 | 5,979 | 7,600 |
| Deltin Suites - Hotel* (Goa) | 125 | 135 | 149 | 173 |
| Deltin Palms - Hotel* (Only Operate, Goa) | 25 | 36 | 40 | 44 |
| The Deltin - Hotel (Daman) | 289 | 328 | 439 | 483 |
| Total Hospitality Revenue | 440 | 500 | 628 | 699 |
| Real Estate Revenue | 0 | 0 | 0 | 0 |
| Others | 59 | 62 | 65 | 69 |
| Total Revenues(INR m) | 3,739 | 4,578 | 6,672 | 8,367 |

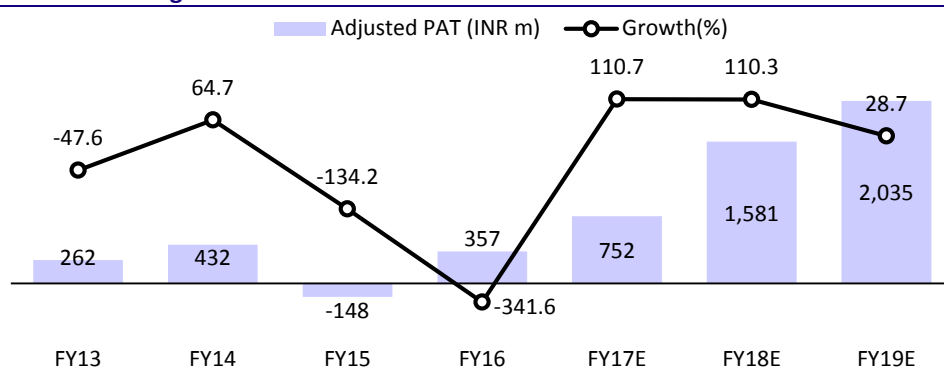
Source: Company, MOSL

Exhibit 23: EBITDA to clock 45% CAGR over FY17-19E



Source: Company, MOSL

Exhibit 24: PAT to grow at a CAGR of 61% over FY17-19E

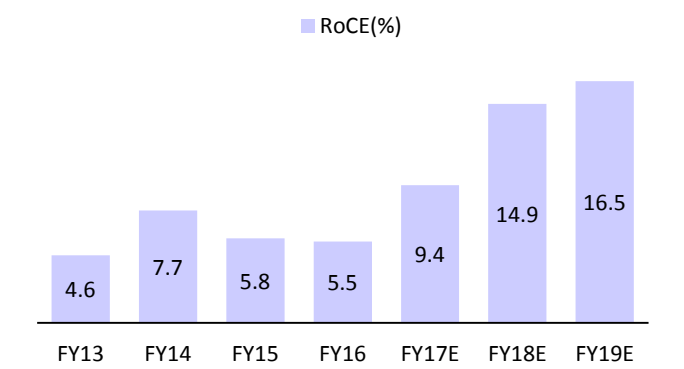


Source: MOSL

DELTA to be debt free by FY19 and return ratios to improve significantly

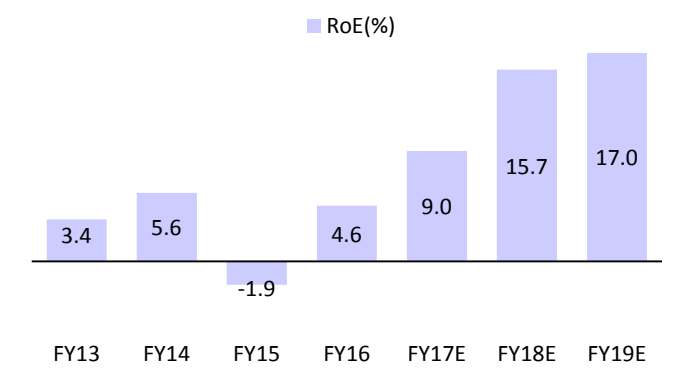
We expect operating and free cash flows to improve significantly over FY17-19E. Given the robust cash generation, we expect DELTA to be debt free by FY19. We have not factored in any cash flows from sale of non-core assets. The play of operating leverage would reflect in significant increase in return ratios. We expect RoCE to improve from 9.4% to 16.5%, and RoE to improve from 9% to 17% over FY17-19E.

Exhibit 25: RoCE to improve by 710bps



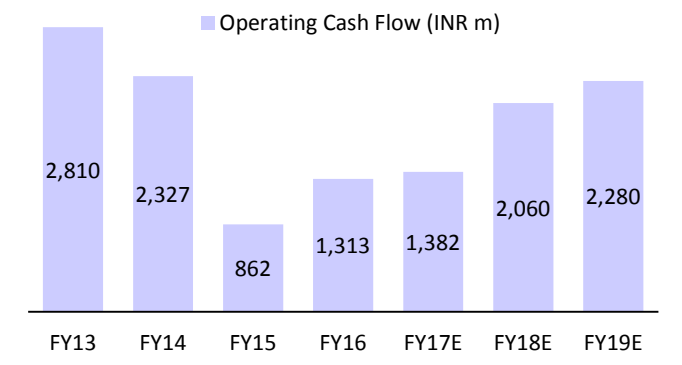
Source: Company, MOSL

Exhibit 26: RoE to improve by 800bps



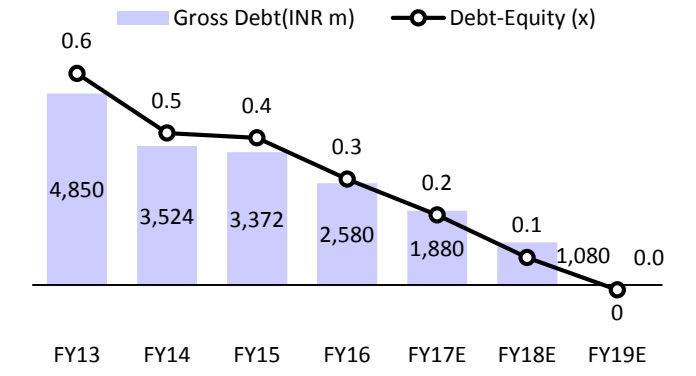
Source: Company, MOSL

Exhibit 27: Operating cash flow



Source: Company, MOSL

Exhibit 28: DELTA to be debt free by FY19



Source: Company, MOSL

Sale of non-core assets could yield ~INR2b

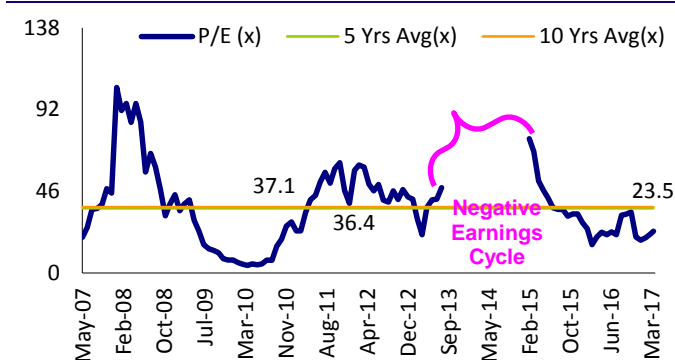
DELTA could derive ~INR0.35b post tax from sale of land in Sri Lanka, INR0.65b from sale of real estate in Goa (Kolvale and Panjim) and stake sale in Advani hotels of INR1.3b. The management intends to use this cash to retire debt.

Initiating coverage with Buy

High growth potential justifies premium valuations

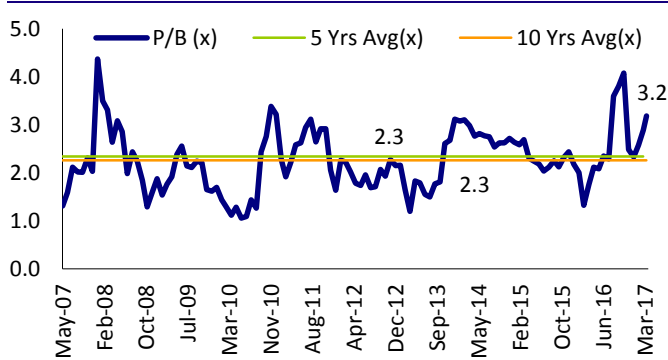
- Delta Corp (DELTA) is the leading player in India's underpenetrated gaming market. Gaming is an emerging industry in India; given its paltry size of ~USD150m, the growth potential is huge.
- DELTA has several levers to drive 35% CAGR in revenues over FY17-19E, as DELTA forays into online gaming space, ramp up of Sikkim operations and focus improves on mass crowd driving visitations. Its recent acquisition of Adda52.com shall aid growth from FY18.
- Operating leverage would drive EBITDA margin improvement of ~520bp to ~41.5% by FY19, driving ~62% PAT CAGR over FY17-19E while EPS CAGR to be 53% due to dilution on account of acquisition of Adda52.com (an online poker site). As a result, we estimate RoEs to improve by 800bp to 17% and RoCEs by 710bps to 16.5% by FY19.
- Key triggers like approval of Daman casino which has the potential to almost double its gaming positions and a scope for M&A in online space shall drive its revenue and profitability higher (which is currently not factored into numbers).
- The stock trades at 25x/22x FY18E/19E EPS, 8.4x/6.2x FY18E/19E EV/EBITDA and 3.4/3.6x FY18E/19E P/BV.
- We have assumed dilution in EPS in FY19 assuming preference share issued for adda52.com acquisition gets converted at INR228 per equity share. This will lead to increase in share capital from INR231m to INR266m.
- DELTA's premium valuations vis-à-vis its peers in global space is manifestation of high growth opportunities in an underpenetrated gaming market in India, a near monopoly in casino in India and potential trigger from Daman casino approval. Thus we assign a PE multiple of 30x (~40% premium) to global peers.
- We have not considered potential cash per share value of INR7.5 through sales of non core assets which can fetch INR2b.
- We initiate with Buy, with a target price of ~INR229 (30x FY19E EPS).

Exhibit 29: Price to earnings (x)



Source: Company, MOSL

Exhibit 30: Price to book (x)



Source: Company, MOSL

Exhibit 31: Peer comparison

| Company Name | PE | | EV/EBITDA | | RoE % | | EV/Sales | | Sales CAGR CY16-18E | PAT CAGR CY16-18E |
|----------------------|-----------|-----------|-----------|----------|-----------|-----------|----------|----------|------------------------|----------------------|
| | CY17E | CY18E | CY17E | CY18E | CY17E | CY18E | CY17E | CY18E | | |
| Las Vegas Sands Corp | 22 | 21 | 13 | 12 | 30 | 40 | 4 | 4 | 6 | 13 |
| Sands China Ltd | 23 | 21 | 16 | 15 | 33 | 39 | 5 | 5 | 10 | 19 |
| Delta Corp* | 25 | 22 | 8 | 6 | 16 | 17 | 3 | 3 | 35 | 62 |

*MOSL estimates and refers to FY18&19

Source: Bloomberg

SWOT analysis

- ☑ Leading gaming company in India with three out of six live gaming licenses in Goa
- ☑ First mover advantage with presence in most attractive locations in India
- ☑ High entry barriers to business

S

STRENGTH



- ☑ Larger overheads in hospitality sector compared to its gaming industry
- ☑ Reliance on single market- India, the sole place where it has presence in gaming, so vulnerable to economic cycle

W

WEAKNESS



- ☑ Rising Indian GDP growth, favorable demographics
- ☑ Gaming space has limited supply(only Goa, Sikkim and Daman) and abundance of demand
- ☑ License for Daman casino would be a huge trigger
- ☑ Potential new geographies if state legislation permits

O

OPPORTUNITY



- ☑ Regulatory changes being a politically sensitive issue is a threat
- ☑ Increase in issue of licenses might lead to enhanced competition
- ☑ Further delay in Daman casino license due to regulatory hurdles
- ☑ Entry of international casino brands in India

T

THREATS



Bull & Bear case

Bull case

- Our bull case assumes higher visitations and approval of casino in Daman with FY19 being the first full year of operation.
- Instead of assuming a 520bp EBITDA margin improvement over FY17-19E in the base case, we are assuming 690bp margin improvement, mainly led by higher growth in sales and operating leverage benefits. In the base case, we are expecting EBITDA margin of 41.5% in FY19 v/s 43.2% in the bull case.
- In the bull case, we are assuming that Daman casino will commence operations in 2HFY18, and FY19 will be a full year of operations. We expect it to clock revenue of INR2130m with incremental PAT of ~INR780m.
- We also assume that DELTA will be able to monetize its non-core assets and fetch an approx. value of INR2b, leading to INR7 cash per share.
- There is an increase of 19% and 44% in FY18E and FY19E EPS over the base case EPS to INR8.2 and INR10.6, respectively.
- Assuming the same 30x target multiple that we have taken for the base case, we get a bull-case target price of INR334 (upside of 98% to CMP, including cash per share value of INR7.5) based on FY19E EPS, instead of the base case target price of INR229 (upside of 36%).

Exhibit 32: Bull case scenario

| | FY17E | FY18E | FY19E |
|--------------------------|-------|-------|--------|
| Sales (INR m) | 4,578 | 7,413 | 11,112 |
| Sales growth (%) | 21.1 | 61.9 | 49.9 |
| EBITDA (INR m) | 1,659 | 3,084 | 4,800 |
| EBITDA Margin (%) | 36.3 | 41.6 | 43.2 |
| EBITDA growth (%) | 35.0 | 85.8 | 55.7 |
| PAT (INR m) | 752 | 1,887 | 2,902 |
| PAT Margin (%) | 16.4 | 25.5 | 26.1 |
| PAT growth (%) | 110.7 | 151.0 | 53.8 |
| EPS (INR) | 3.3 | 8.2 | 10.9 |
| Target multiple (x) | | | 30 |
| Equity share value (INR) | | | 327 |
| Add: Cash per share | | | 8 |
| Total value per share | | | 334 |

Source: Company, MOSL

Bear case

- Our bear case assumptions include slowdown in visitation and GGR. Also, we assume that the Daman casino does not get approval, similar to our base case assumption. Additionally, the ramp-up of adda52.com is slow.
- We are assuming sales CAGR of 19% (v/s 35% in base case), mainly driven by incremental sales from adda52.com. We are assuming EBITDA margin expansion of 340bp over FY17-19E in the bear case. We assume the benefits of operating leverage are very low as sales growth will slow down.
- This will lead to a decrease of 19% in FY18E EPS and of 30% in FY19E EPS over the base case to INR5.6 and INR5.2, respectively.
- Assuming lower 20x P/E target multiple, we get a bear-case target price of INR107 (downside of 33% to CMP) based on FY19 EPS, instead of the base case target price of INR229 (upside of 36%).

Exhibit 33: Bear case scenario

| | FY17E | FY18E | FY19E |
|---------------------|--------------|--------------|--------------|
| Sales (INR m) | 4,578 | 5,961 | 6,476 |
| Sales growth (%) | 21.1 | 30.2 | 8.6 |
| EBITDA (INR m) | 1,659 | 2,283 | 2,571 |
| EBITDA Margin (%) | 36.3 | 38.3 | 39.7 |
| EBITDA growth (%) | 35.0 | 37.6 | 12.6 |
| PAT (INR m) | 752 | 1,287 | 1,431 |
| PAT Margin (%) | 16.4 | 21.6 | 22.1 |
| PAT growth (%) | 110.7 | 71.2 | 11.2 |
| EPS (INR) | 3.3 | 5.6 | 5.4 |
| Target multiple (x) | | | 20 |
| Target price (INR) | | | 107 |
| Upside/downside (%) | | | -33% |

Source: Company, MOSL

Risks and concerns

Regulatory risk

Gaming in India is a highly regulated business. There is a possibility of adverse changes in government policy, especially given the conservative nature of India. This could have a detrimental effect on DELTA's business. However, most states are aware of the benefits of gaming and hospitality businesses and are likely to ensure a favorable climate for the industry.

Change in taxation policy

Substantial increase in gaming tax (15% currently) could negatively impact DELTA's business prospects.

Issue of new licenses

Currently, offshore casino licenses in Goa are capped at six (five operational). Of these, DELTA owns three. Issue of licenses to new players could dilute the edge DELTA has in Goa. The industry has significant entry barriers and requires major capital investment. It also requires a mix of skill and experience. As the dominant player in this space, DELTA has all the requisites to overcome competition.

Demand highly discretionary in nature

The gaming and hospitality businesses are highly dependent on discretionary spends. As such, during economic slowdowns, there is a marked tendency to curtail expenditure on entertainment, travel, and leisure. During such times, DELTA's business could suffer.

Management team

Mr Jaydev M Mody (Non-Executive Chairman)

Mr Jaydev Mody, Promoter of DELTA, is a first generation entrepreneur and a leading Indian real estate visionary based in Mumbai, India. He played a leading role in building and developing India's first truly global mall, *Crossroads* in South Mumbai. A Humanities graduate from the Mumbai University, Mr Mody has been instrumental in the development of several large residential and commercial complexes, and retail destinations in and around Mumbai. Among them are Peninsula Corporate Park, Ashok Towers, Ashok Gardens, and Peninsula IT Park. He has interests in various businesses including gaming and hospitality, textiles and magnet manufacturing

Mr Ashish Kapadia (Managing Director)

Mr Ashish Kapadia is an Entrepreneur, having established and managed several businesses across sectors such as paints, textiles, financial services, and civil aviation. Mr Kapadia was appointed Non-Executive Director on DELTA's Board in October 2008. In April 2009, he was appointed Managing Director. He holds a Bachelor's Degree in Commerce.

Mr Anil Malani (President – Operations)

Mr Anil Malani is a Bachelor of Commerce from Mumbai University and has over 25 years of experience. He has been involved in versatile businesses ranging from hospitality, entertainment, information technology, electronics, and office automation. He has been associated with the Esquire group of companies, Aims International, and Amazon Food Beverages (Garcia's Famous Pizza). His last assignment before he joined DELTA was with Clover Solar. He has traveled around the globe extensively and has the distinction of being the fifth resident Indian to stay in Prague for 18 months (1991-1992) just after the velvet revolution.

Mr Hardik Dhebar (Group Chief Financial Officer)

Mr Hardik Dhebar holds a Post Graduate Diploma in Finance from the Welingkar Institute of Management. He has over 13 years' experience in finance and treasury operations. He has worked with the Piramal Group, where he held positions of responsibility in Nicholas Piramal, Morarjee Textiles, and Peninsula Land.

About Delta

Delta Corp (DELTA) is the largest and only listed gaming company in India. It is a leading gaming company in India, captured a lion share of the Indian gaming market through its 5 casinos in Goa and Sikkim. It owns three of the six offshore and one onshore gaming license in the state of Goa. The company currently offers ~1,700 gaming positions in Goa and Sikkim. It started a first of its kind integrated casino resort in Daman in March 2014 (casino approval awaited yet).

Exhibit 34: Corporate history

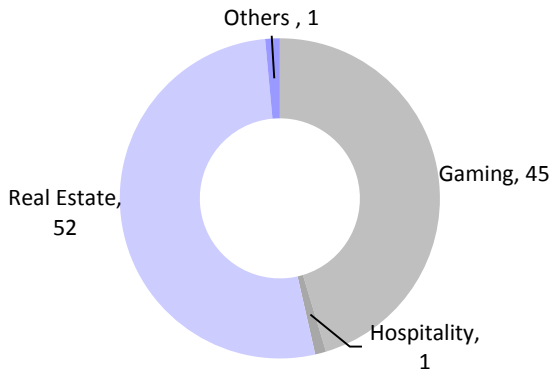


Source: Company, MOSL

DELTA's core business centers on gaming

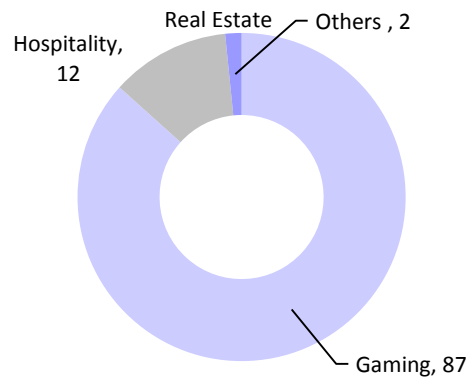
DELTA's core business is gaming and gaming-related hospitality. In FY14, gaming contributed 45% of revenue, hospitality contributed 1%, and real estate contributed 52%. From FY14, DELTA has decided to strategically focus on its gaming business and not pursue the real estate business. In FY16, the contribution of gaming and gaming-related hospitality increased to 87%. Hospitality contributed 12%. In FY18 and FY19, we expect gaming to contribute over 90% of revenues, with the balance coming from hospitality.

Exhibit 35: Revenue split – FY14



Source: Company, MOSL

Exhibit 36: Revenue split – FY16



Source: Company, MOSL

Gaming & Entertainment

Gaming & Entertainment is DELTA’s core business. It owns three of the six offshore gaming licenses in the state of Goa, one license in Sikkim and has set up a first-of-its-kind integrated casino resort in Daman (awaiting approval for casino). It has around 1,700 gaming positions with three offshore casinos and one land-based casino in Goa and one casino in Sikkim.

Deltin Royale, Goa: *Deltin Royale*, with five operational decks, is currently India’s largest offshore gaming vessel, offering ~1000 gaming positions, comprising 123 live gaming tables and 65 slot machines. The casino also has India’s largest dedicated poker room – Royale Poker Room. It has world class dining and entertainment in *Vegas* restaurant and *Whiskys* – the exclusive lounge with an enviable collection of single malt whiskeys. Private gaming suites are also available.

Exhibit 37: Deltin Royale has ~1000 gaming positions, comprising 123 live gaming tables and 65 slot machines

OVERVIEW

- ♦ Purchased vessel M.V. Horseshoe Casino from Caesar’s Entertainment Corporation and refurbished in India.
- ♦ Asia’s Largest offshore casino vessel.
- ♦ Positioned as a premium casino to attract higher visitations and to cater to multiple segments of the market.

GAMING FACILITIES

- ♦ ~1000 live gaming positions across 123 live gaming tables, 65 slots machines and dedicated rooms for Indian Flush.
- ♦ Over 35,000 sq. ft. of gaming area spread across 4 levels.
- ♦ India’s largest Poker Room.

Source: Company, MOSL

Deltin JAQK, Goa: Operational since 2008, *Deltin JAQK*, with four operational decks covering an area of approximately 31,900sf, offers approximately 500 gaming positions, comprising 47 live gaming tables and 30 slot machines. It provides entertainment for the entire family catering to Children who can play to their heart’s content at the dedicated playroom while toddlers can have fun at the crèche. The casino also has an Aquabar as well as two VIP suites.

Exhibit 38: Delta JAQK has 500+ gaming positions, comprising 47 live gaming tables and 30 slot machines



Source: Company, MOSL

Deltin Caravela, Goa: *Deltin Caravela*, India’s first offshore gaming casino, was re-launched in 2016. With around 130 gaming positions, the boutique luxury floatel combines gaming thrill with entertainment. The floatel boasts of several luxuries like the *Skylite* restaurant and a state-of-the-art Spa. *Deltin Caravela* also has private rooms. It aims to grow Goa’s share of the top-end luxury segment of tourists and to cater to the discerning elite who seek solitude and luxury. Initially, the company thought of invitation-based entry only but now has changed its model to accommodate customers with an entry fee of INR20,000-25,000.

Exhibit 39: DeltinCaravela has ~150 gaming positions, comprising 17 live gaming tables and 10 slot machines



Source: Company, MOSL

Deltin Suites, Goa: DELTA launched an all-suite hotel, *Deltin Suites* in Nerul, North Goa in 2014. It secured its first license to operate an onshore casino in 2015. Delta currently operates a total gaming area aggregating to around 3,000sf at *Deltin Suites*, Goa. The casino has an around 85 gaming positions. The company normally gives one-time playing chips to its guests to the tune of ~80% of their room charge to lure the customer into playing more.

Exhibit 40: Deltin Suites has 85 gaming positions



Source: Company, MOSL

The Deltin, Daman: DELTA has launched a land-based casino in Daman through its hospitality project named **The Deltin**. The company has applied for a gaming license and an approval is expected soon. The casino, when operational, will be spread over 60,000sf and have about 1,000 gaming positions.

Exhibit 41: The Deltin has 1,000-1,200 gaming positions, spread across 60,000sf of gaming space



Source: Company, MOSL

Sikkim: To expand its gaming footprint to other regions in India, in April 2016, DELTA partnered with Hotel WelcomHeritage Denzong Regency for a casino in Sikkim. The hotel is leasing the gaming space to DELTA, which would be responsible for the day-to-day operations and management of the new casino. It obtained a license from the Government of Sikkim to operate the casino in Jan 2017. The casino would offer around 150 gaming positions and cater to the eastern region of India.

Exhibit 42: To have 150 gaming positions in Denzong Regency Hotel; casino to be operational in October 2016

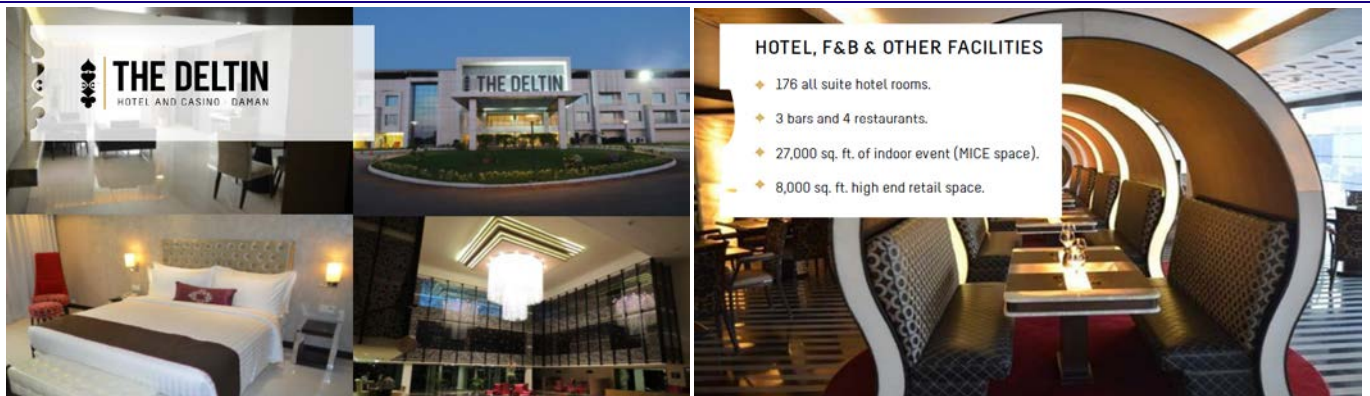


Hospitality

Internationally, gaming and hospitality are at the center of success of gaming destinations like Las Vegas, Macau and Singapore. The synergy of gaming and hospitality creates a unique and unmatched entertainment experience for the entire family – gaming, tourism and hospitality all packaged in an ideal holiday vacation. In line with global industry practices, DELTA’s hospitality business is synergistic to its gaming business. It has ventured into the hospitality business to provide an enhanced overall gaming experience. It has three hotels in Goa and one in Daman. The company also owns substantial stake in the holding company of Ramada Caravela Beach Resort with no operational interest or management control.

The Deltin, Daman: DELTA owns a majority stake in Daman Hospitality Private Limited, which in turn owns a 176-room five-star deluxe property, *The Deltin* in Daman. *The Deltin* is the largest integrated resort in Daman, spread over 10 acres, with 300,000sf of developed area. This hotel offers the largest banquet facility in the area, with three bars, four specialty restaurants, 27,000sf of indoor event (MICE space) and 8,000sf high-end retail space. *The Deltin* in Daman is only a 2.5 hours’ drive from Mumbai, Maharashtra, and a similar driving distance from major cities in Gujarat, making it an attractive destination for tourists in both states.

Exhibit 43: The Deltin is the first five-star hotel launched in Daman



Source: Company, MOSL

Deltin Suites, Goa: DELTA launched an all-suite hotel, *Deltin Suites* in Nerul, North Goa in 2014. Delta currently operates a total gaming area aggregating to around 3,000sf at *Deltin Suites*, Goa. The casino has an around 85 gaming positions. *Deltin Suites* offers a complete family entertainment package to its guests. The property is 5-10 minutes’ drive from the popular Candolim and Calangute beaches, and is close to boarding points for DELTA’s casinos.

Exhibit 44: Deltin Suites is located at Nerul, Goa close to Candolim / Calangute beaches, and boarding points for DELTA’s casinos



Source: Company, MOSL

Deltin Palms, Goa: DELTA operates a boutique hotel, *Deltin Palms*, which is used primarily for DELTA’s casino guests. It is a boutique hotel with 27 rooms. It is located on the banks of the Mandovi River, and is a 5-minute feeder boat ride to the company’s offshore casinos.

Exhibit 45: Deltin Palms is located at the banks of Mandovi River, and is a 5-minute feeder boat ride to DELTA’s casinos



Source: Company, MOSL

Popular games at Delta's casinos

DELTA offers the following games in its casinos.

Roulette



American Roulette is a very popular game. The layout consists of 37 numbers including "0" in the same wheel but in a random order. The players can choose to bet on a number or combination of numbers. The dealer then spins the ball, and whichever number the ball drops on, is the winning number. All the chips on that number and the chips covering that number win and are paid accordingly.

Blackjack



Blackjack is a game played with 6/8 decks of cards. Cards of rank 2-10 are scored according to face value. All face cards are 10 points. The highest hand in Blackjack is an Ace and any 10-point card during the initial deal is called a Blackjack. It pays one and half times the original bet. Aside from a Blackjack, a winning hand pays even money. The player wins if his hand has more points than the dealer without going over 21, loses if they are less, and ties if they are same as the dealer's points.

A round of blackjack begins with each player placing a bet directly in front of him. The dealer deals two cards for each bet and one card for the house. Then the dealer acts upon each of the hands. If the player wishes to take more cards, he has to indicate to the dealer by tapping behind the box, if not then just wave across. Then the dealer draws cards on the dealer's hand until the points reach a total of 17 or more. If the dealer's total goes over 21, all the bets are paid. If not, each hand is compared with the dealer's hand and paid or taken accordingly.

A player can also split his first two cards if they are of equal point value into two hands. A player may split upto three times, if splitting opportunity arises. A player may also double on two cards by placing an extra wager equal to his original bet and will be given only one card. A player can also bet on insurance bet when the dealer is showing an Ace. It basically means that the player is betting that the dealer is getting a Blackjack and it is paid two times.

Craps or Dice



Craps is a very fast game. Players wager money against the outcome of one roll, or of a series of rolls of two dice. They take turns to roll the dice. To begin, the shooter (player who is rolling the dice) must bet the table minimum on either the "Pass" line or the "Don't Pass" line, which are also referred as "Line Bets". Other players at the table make bets on the shooter's dice rolls. In this roll, a dice result of 7 or 11 is called a "natural," resulting in a win for players who made pass line bets.

If the shooter's come-out roll is a 2, 3 or 12, it is called "Craps" and the players lose their pass line bet. If the remaining numbers of 4, 5, 6, 8, 9, or 10 are rolled on the come-out roll, this number becomes the "point." The shooter will then try and re-roll the dice until the point is rolled again. If the shooter is successful in rolling the point again, the result is a win for those who bet the pass line. But if the shooter rolls a 7 instead of the point (called a "seven-out"), the round ends immediately, with the dice being passed to the next player, who becomes the new shooter. The "Don't Pass Line" is opposite to the "PassLine". Craps is available at *Casino Royale*.



Baccarat

Baccarat is an easy card game played with 8 decks of cards. Players can choose to bet either on “Player” or “Banker” hand. The object of the game is to get as close to 9 (nine) points as possible. Two cards are drawn to each of Banker hand and Player hand and a third card is drawn to either/both hands according to the drawing rules. The hand with the sum of cards closest to 9 wins (10, J, Q, K count as 0-zero). The dealer draws the cards according the below tableau.



Pontoon

Pontoon is similar to Blackjack, with few variations. The object of the game is the same as Blackjack, where the player is trying to achieve a total of 21 or close to 21 and beat the dealer’s total. However, there is no push or standoff. The dealer wins on all ties. The dealer initially deals two face-up cards to each player and one card for the dealer. According to their card total, players have an option to either draw more cards or stand. When additional cards are drawn, if the hand total goes over 21 points, they lose the bet and the cards are removed. After all players have played out their hands, the dealer continues to draw cards until a total of 17 points or more, except the dealer shall hit a soft 17. The dealer will also stop with any five-card hand regardless of total points. The dealer shall compare their hand to each player’s hand and winning players shall be paid according to the following ranking:



5-Card Poker

5-Card Poker is a game played with one deck of cards. A player makes an ante wager plus an additional bet called the bonus bet. Each player and the dealer get five cards. All cards are dealt face down; only one dealer card is exposed. The player may examine his own cards but sharing of information is not allowed. A player must fold, or if he wants to bet, he has to put exactly double his ante money. If the player folds, he forfeits his cards, ante bet, and side bet (if made).

Once the decisions are made on the table, the dealer turns over his other four cards. The dealer must have an ace and a king or higher to qualify. If the dealer does not qualify, the player will win even money on the ante wager only. If the dealer qualifies and beats the player, he will lose both the ante and raise. If the dealer qualifies and loses to the player, the ante will pay even money and the bet is paid according to the odds for different hands. The different hands can be a pair, two pairs, three of one kind, flush, full house, straight, four of a kind, straight flush, and royal flush.

A bonus bet is a side bet and is paid anytime there is a bonus qualifying hand. The bonus is paid for flush, full house, four of a kind, straight flush, and royal flush. A player is also allowed to buy one or two cards at the cost of the ante bet, but he loses the bonus bet.



3-Card Poker

3-Card Poker is a game played with one deck of cards. A player makes an ante and/or pair plus bet. The dealer gives each player three cards and himself three cards. The player may examine his own cards. The dealer's cards are dealt face down. If the player makes the ante bet, he must either fold or bet. If the player folds, he loses his ante wager. If the player bets, he must make an additional bet, equal exactly to his ante bet.

Once all the decisions are made on the table, the dealer turns over his cards. The dealer needs a queen high or better to qualify. If the dealer does not qualify then the player will win even money on the ante bet and the bet will push. If the dealer qualifies, the player's hand will be compared to the dealer's hand – the higher hand wins. If the player has the higher hand, the ante and bet will both pay even money. If the dealer has the higher hand, the ante and bet will both be lost. If the player and dealer tie, the ante and bet will push. If the player made the ante bet and has a straight or higher, the player will receive an ante bonus, regardless of the value of the dealer's hand.

The pair plus bet will pay entirely based on the value of the player's hand. If the hand does not qualify for the pair plus bonus, that bet is lost. The different hands qualifying for the pair plus are: a pair, which pays even money, a flush, which pays 4x, a straight, which pays 5x, three of a kind, which pays 30x, and a straight flush, which pays 40x.

Financials and valuations

| Consolidated - Income Statement | | | | | | | (INR Million) |
|--|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Y/E March | FY14 | FY15 | FY16 | FY17E | FY18E | FY19E | |
| Total Income from Operations | 5,586 | 3,000 | 3,779 | 4,578 | 6,672 | 8,367 | |
| Change (%) | 31.3 | -46.3 | 26.0 | 21.1 | 45.8 | 25.4 | |
| Total Expenditure | 4,085 | 2,334 | 2,549 | 2,918 | 3,997 | 4,895 | |
| % of Sales | 73.1 | 77.8 | 67.5 | 63.8 | 59.9 | 58.5 | |
| EBITDA | 1,501 | 665 | 1,229 | 1,659 | 2,676 | 3,472 | |
| Margin (%) | 26.9 | 22.2 | 32.5 | 36.3 | 40.1 | 41.5 | |
| Depreciation | 166 | 347 | 382 | 365 | 416 | 467 | |
| EBIT | 1,335 | 318 | 847 | 1,294 | 2,260 | 3,005 | |
| Int. and Finance Charges | 334 | 513 | 414 | 326 | 200 | 40 | |
| Other Income | 312 | 74 | 58 | 41 | 47 | 70 | |
| PBT bef. EO Exp. | 1,313 | -120 | 491 | 1,009 | 2,107 | 3,035 | |
| EO Items | -143 | -49 | 104 | -38 | 0 | 0 | |
| PBT after EO Exp. | 1,170 | -169 | 595 | 1,047 | 2,107 | 3,035 | |
| Current Tax | 478 | 155 | 195 | 268 | 527 | 1,002 | |
| Deferred Tax | 42 | -47 | 5 | | | | |
| Tax Rate (%) | 44.4 | -64.1 | 33.7 | 25.6 | 25.0 | 33.0 | |
| Less: Minority Interest | 297 | -50 | -32 | -1 | -1 | -1 | |
| Reported PAT | 353 | -228 | 426 | 780 | 1,581 | 2,035 | |
| Adjusted PAT | 432 | -148 | 357 | 752 | 1,581 | 2,035 | |
| Change (%) | 64.7 | -134.2 | -341.6 | 110.7 | 110.3 | 28.7 | |
| Margin (%) | 7.7 | -4.9 | 9.4 | 16.4 | 23.7 | 24.3 | |

| Consolidated - Balance Sheet | | | | | | | (INR Million) |
|-------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Y/E March | FY14 | FY15 | FY16 | FY17E | FY18E | FY19E | |
| Equity Share Capital | 228 | 231 | 231 | 231 | 231 | 266 | |
| Preference Capital | 0 | 0 | 0 | 0 | 1,630 | 0 | |
| Total Reserves | 7,529 | 7,420 | 7,803 | 8,430 | 9,678 | 12,107 | |
| Net Worth | 7,757 | 7,651 | 8,034 | 8,661 | 11,539 | 12,373 | |
| Minority Interest | 525 | 244 | 235 | 235 | 235 | 235 | |
| Deferred Liabilities | 57 | 160 | 552 | 552 | 552 | 552 | |
| Total Loans | 3,524 | 3,372 | 2,580 | 1,880 | 1,080 | 0 | |
| Capital Employed | 11,863 | 11,426 | 11,400 | 11,328 | 13,406 | 13,160 | |
| Gross Block | 7,611 | 8,739 | 8,755 | 8,855 | 11,185 | 11,335 | |
| Less: Accum. Deprn. | 488 | 800 | 1,075 | 1,440 | 1,856 | 2,323 | |
| Net Fixed Assets | 7,123 | 7,938 | 7,680 | 7,415 | 9,329 | 9,011 | |
| Goodwill on Consolidation | 477 | 604 | 553 | 553 | 553 | 553 | |
| Capital WIP | 992 | 38 | 27 | 0 | 0 | 0 | |
| Total Investments | 1,048 | 1,077 | 1,037 | 1,037 | 1,037 | 1,037 | |
| Curr. Assets, Loans&Adv. | 3,291 | 2,459 | 2,457 | 2,164 | 2,580 | 2,812 | |
| Inventory | 717 | 695 | 708 | 57 | 78 | 97 | |
| Account Receivables | 674 | 228 | 146 | 226 | 329 | 413 | |
| Cash and Bank Balance | 551 | 210 | 228 | 438 | 513 | 394 | |
| Loans and Advances | 1,350 | 1,326 | 1,375 | 1,444 | 1,660 | 1,909 | |
| Curr. Liability & Prov. | 1,142 | 911 | 961 | 449 | 701 | 861 | |
| Account Payables | 730 | 735 | 710 | 61 | 86 | 106 | |
| Provisions | 413 | 176 | 251 | 388 | 615 | 756 | |
| Net Current Assets | 2,149 | 1,548 | 1,496 | 1,715 | 1,879 | 1,951 | |
| Deferred Tax assets | 72 | 221 | 608 | 608 | 608 | 608 | |
| Misc Expenditure | 0 | 0 | 0 | 0 | 0 | 0 | |
| Appl. of Funds | 11,863 | 11,426 | 11,400 | 11,328 | 13,406 | 13,160 | |

Financials and valuations

| Ratios | | | | | | |
|-------------------------------|-------------|-------------|-------------|--------------|--------------|--------------|
| Y/E March | FY14 | FY15 | FY16 | FY17E | FY18E | FY19E |
| Basic (INR) | | | | | | |
| EPS | 1.9 | -0.6 | 1.5 | 3.3 | 6.9 | 7.6 |
| Cash EPS | 2.6 | 0.9 | 3.2 | 4.8 | 8.7 | 9.4 |
| BV/Share | 34.1 | 33.2 | 34.8 | 37.5 | 50.0 | 46.4 |
| DPS | 0.2 | 0.1 | 0.2 | 0.6 | 1.2 | 1.3 |
| Payout (%) | 18.8 | -12.5 | 13.0 | 19.6 | 21.1 | 20.5 |
| Valuation (x) | | | | | | |
| P/E | | -264.0 | 109.3 | 51.9 | 24.7 | 22.1 |
| Cash P/E | | 195.7 | 52.8 | 34.9 | 19.5 | 18.0 |
| P/BV | | 5.1 | 4.9 | 4.5 | 3.4 | 3.6 |
| EV/Sales | | 8.3 | 6.4 | 5.1 | 3.4 | 2.6 |
| EV/EBITDA | | 37.6 | 19.7 | 14.0 | 8.4 | 6.2 |
| Dividend Yield (%) | | 0.1 | 0.1 | 0.3 | 0.7 | 0.8 |
| FCF per share | | 3.2 | 4.6 | 5.8 | -1.2 | 8.0 |
| Return Ratios (%) | | | | | | |
| RoE | 5.6 | -1.9 | 4.6 | 9.0 | 15.7 | 17.0 |
| RoCE | 7.7 | 5.8 | 5.5 | 9.4 | 14.9 | 16.5 |
| RoIC | 8.9 | 5.4 | 5.6 | 9.6 | 15.6 | 17.1 |
| Working Capital Ratios | | | | | | |
| Asset Turnover (x) | 0.5 | 0.3 | 0.3 | 0.4 | 0.5 | 0.6 |
| Inventory (Days) | 47 | 85 | 68 | 5 | 4 | 4 |
| Debtor (Days) | 44 | 28 | 14 | 18 | 18 | 18 |
| Working Cap. Turnover (Days) | 104 | 163 | 122 | 102 | 75 | 68 |
| Leverage Ratio (x) | | | | | | |
| Debt/Equity | 0.5 | 0.4 | 0.3 | 0.2 | 0.1 | 0.0 |

| Consolidated - Cash Flow Statement | | | | | | (INR Million) |
|---|---------------|-------------|---------------|---------------|---------------|----------------------|
| Y/E March | FY14 | FY15 | FY16 | FY17E | FY18E | FY19E |
| OP/(Loss) before Tax | 1,175 | -166 | 596 | 1,009 | 2,107 | 3,035 |
| Depreciation | 166 | 347 | 382 | 365 | 416 | 467 |
| Interest & Finance Charges | 199 | 495 | 397 | 285 | 153 | -30 |
| Direct Taxes Paid | -332 | -354 | -156 | -268 | -527 | -1,002 |
| (Inc)/Dec in WC | 1,119 | 539 | 94 | -10 | -89 | -191 |
| CF from Operations | 2,327 | 862 | 1,313 | 1,382 | 2,060 | 2,280 |
| Others | -49 | -23 | -156 | 38 | 0 | 0 |
| CF from Operating incl EO | 2,278 | 838 | 1,157 | 1,420 | 2,060 | 2,280 |
| (inc)/dec in FA | -740 | -107 | -89 | -73 | -2,330 | -150 |
| Free Cash Flow | 1,538 | 731 | 1,068 | 1,347 | -270 | 2,130 |
| (Pur)/Sale of Investments | 132 | 3 | 32 | 0 | 0 | 0 |
| Others | 1,257 | -145 | -63 | 41 | 47 | 70 |
| CF from Investments | 650 | -250 | -120 | -32 | -2,283 | -80 |
| Issue of Shares | 22 | 145 | 0 | 0 | 1,630 | -783 |
| (Inc)/Dec in Debt | -1,158 | -152 | -524 | -700 | -800 | -1,080 |
| Interest Paid | -310 | -551 | -427 | -326 | -200 | -40 |
| Dividend Paid | -57 | -62 | -28 | -153 | -333 | -417 |
| Others | -1,340 | -309 | -40 | 1 | 1 | 1 |
| CF from Fin. Activity | -2,843 | -929 | -1,018 | -1,177 | 298 | -2,319 |
| Inc/Dec of Cash | 84 | -341 | 18 | 210 | 74 | -119 |
| Opening Balance | 466 | 551 | 210 | 228 | 438 | 513 |
| Closing Balance | 551 | 210 | 228 | 438 | 513 | 394 |

NOTES

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