

BSE SENSEX	S&P CNX
38,506	11,428
Bloomberg	DELTA IN
Equity Shares (m)	268
M.Cap.(INRb)/(USDb)	46.3 / 0.6
52-Week Range (INR)	278 / 116
1, 6, 12 Rel. Per (%)	-9/-30/-35
12M Avg Val (INR M)	304
Free float (%)	67.2

CMP: INR171 TP: INR254 (+49%) Buy

Online sweetens the pot; op performance intact

- Revenue flat; EBITDA margin expands marginally:** Revenue came in flat YoY at INR2,008m (our estimate: INR2,059m) in 2QFY20, while the EBITDA margin expanded 140bp YoY to 40.5% (our estimate: 37.5%), primarily driven by a multifold expansion in the online business profitability (+2,150bp YoY to 31%). PBT declined 3% YoY to INR748m (our estimate: INR715m). Adj. PAT grew 22% YoY to INR585m (our estimate: INR540m). For 1HFY20, sales were flat YoY, while EBITDA/adj. PAT increased 3%/12% YoY.
- Online drives growth; Casino marred by competition, general slowdown:** Casino revenue declined marginally by 1% YoY to INR2,002m, while the segmental EBIT margin contracted 370bp YoY to 32.8%. Increased market capacities by ~20%, general slowdown, extended monsoon and the taxi strike were the key reasons impacting visitation growth. Margin compression can be attributed to higher spend on offerings/deals to drive visitations. On the other hand, online revenue increased 17% YoY, driven by a boost from higher promotional spend in the prior quarter. However, such incremental spend were avoided in 2QFY20, leading to improved profitability. We expect the online margin to sustain at ~20% as DELTA attempts to stay competitive.
- Key takeaways:** (a) Hearing of Daman writ petition is scheduled on 14th Nov'19. (b) Land policy is likely to be taken up in the winter session. (c) Clarity on GST taxation is likely to emerge soon.
- Valuation and view:** Post a sharp correction, the stock is now attractively valued at 17x FY21E EPS. While the GST-related hangover remains, the operational performance is intact and will likely continue improving hereon. We largely maintain our estimates and expect sales/EBITDA/adj. PAT CAGR of 11%/12%/19% over FY19-21. We value the stock at 25x FY21E EPS to arrive at a target price of INR254. Maintain **Buy**.

Financials & Valuations (INR b)

Y/E March	2019	2020E	2021E
Net Sales	8.0	8.5	9.9
EBITDA	3.2	3.4	4.0
NP	1.9	2.3	2.8
EPS (INR)	7.2	8.6	10.2
EPS Gr. (%)	23.8	20.5	17.9
BV/Sh. (INR)	71.7	79.8	89.4
RoE (%)	10.7	11.4	12.0
RoCE (%)	11.0	15.5	16.5
Payout (%)	6.6	6.3	5.3
P/E (x)	23.9	19.8	16.8
P/BV (x)	2.4	2.1	1.9
EV/EBITDA (x)	12.9	12.2	10.3
Div. Yield (%)	0.2	0.3	0.3

Estimate change 

TP change 

Rating change 

Consolidated - Quarterly performance

Y/E March	FY19								FY20E				INR million	
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE	FY19	FY20E	2QE	Var		
Net Sales	1,873	2,011	2,052	2,043	1,865	2,008	2,287	2,367	7,978	8,526	2,059	-2		
YoY Change (%)	46%	38%	27%	19%	0%	0%	11%	16%	31.3	6.9				
Total Expenditure	1,206	1,225	1,197	1,164	1,188	1,195	1,361	1,406	4,791	5,149	1,287			
EBITDA	667	786	855	879	677	814	926	961	3,187	3,377	772	5		
Margins (%)	35.6	39.1	41.7	43.0	36.3	40.5	40.5	40.6	39.9	39.6	37.5	301bp		
Depreciation	94	94	95	95	110	120	122	123	377	474	112			
Interest	2	7	6	3	10	11	10	9	18	40	10			
Other Income	83	83	55	92	82	65	70	70	313	287	65			
PBT before EO exp.	654	768	810	875	640	748	864	899	3,105	3,150	715	5		
Extra-Ord expense	0	0	11	-37	0	-7	0	0	-43	-7	0			
PBT	654	768	799	911	640	755	864	899	3,148	3,157	715			
Tax	228	274	296	344	217	166	216	225	1,141	824	179			
Rate (%)	34.9	35.6	37.0	37.8	33.9	22.0	25.0	25.0	36.3	26.1	25.0			
MI & P/L of Asso. Cos.	-3	-13	2	0	2	2	4	2	39	-11	4			
Reported PAT	423	481	505	567	425	590	652	676	1,968	2,344	540			
Adj PAT	423	481	512	544	425	585	652	676	1,940	2,339	540	8		
YoY Change (%)	100%	11%	14%	19%	0%	22%	27%	24%	25.3	20.5	12%			
Margins (%)	22.6	23.9	24.9	26.6	22.8	29.1	28.5	28.6	24.3	27.4	26.2	288bp		

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Others takeaways:

- The entry of Big Daddy and the upgradation by Pride to a bigger vessel expanded the market for casino by ~20%.
- Cash flow from operations stood at INR1,485m in 1HFY20, which is 100% of EBITDA for the same period.

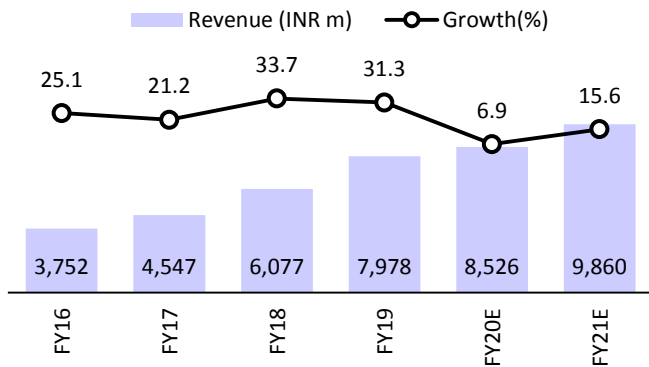
Exhibit 1: Excerpt from minutes of 35th GST Council meet

27.25. The Hon'ble Minister from Goa stated that he was also a member of the GoM on Lottery and a lot of deliberation had been done on the subject. Now Punjab was of the view that the Council should wait for the decision of the Hon'ble Supreme Court. Further, the Hon'ble Supreme Court had clearly opined that the views of the GST Council should be made known to them by a specific date. Thus, the Council needed to decide first on it. On all other occasions, the Council had converged to a decision but on lottery, no consensus was emerging. The smaller States like Goa and other North Eastern States were being punished for the sake of revenue of the bigger States. He further stated that in his opinion, there should be one single rate as Goa preferred one nation, one tax. He also stated that he wanted to present the case of taxation of Casinos, where no other State was impacted as Casinos were only in Goa. He was not requesting for reducing the rate and was agreeable to any rate that was decided by the Council through consensus. However, the problem was regarding methodology and procedure for deciding the value for tax purpose i.e. face value or bet amount. It would be fair if net amount or Gross Gaming Revenue (GGR) was taxed, whereas, as on date, it was being taxed on face value. Hence, effectively, it was taxed at every bet or round; which would result in closure of casino. After mining had been stopped in Goa, the casino was a major source of revenue to the State and had also become a huge employment generating industry. The only proposal was that this matter should be referred to the Fitment Committee or the Law Committee so that the methodology and the tax on net amount or Gross Gaming Revenue (GGR) could be decided.

Source: MOFSL, Company

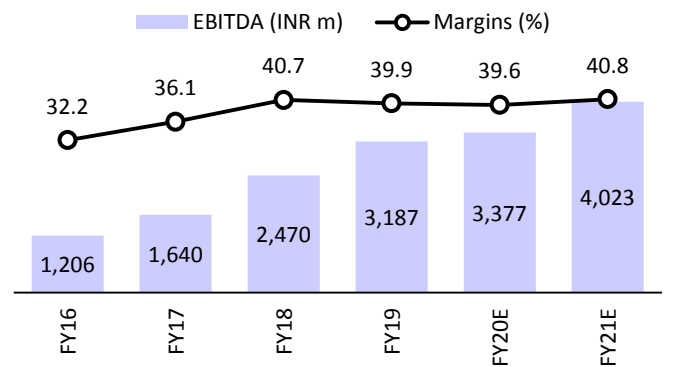
Story in charts

Exhibit 2: Expect revenue CAGR of 11% over FY19-21



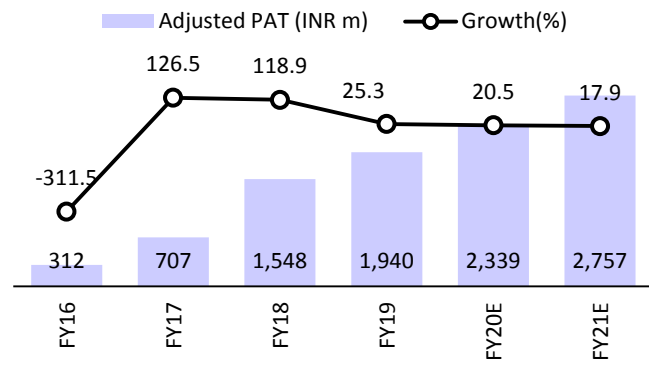
Source: MOFSL, Company

Exhibit 3: Margin to expand



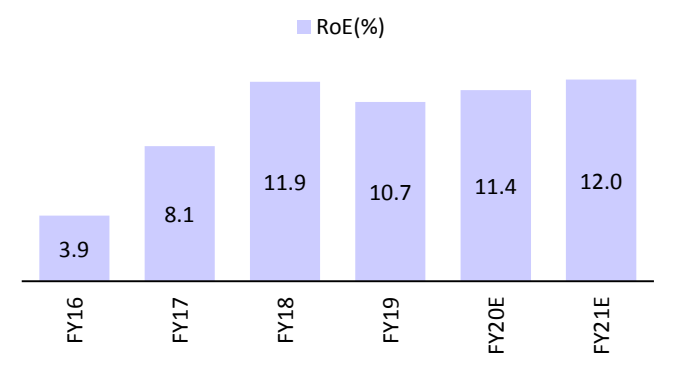
Source: MOFSL, Company

Exhibit 4: Expect adj. PAT CAGR of 19% over FY19-21



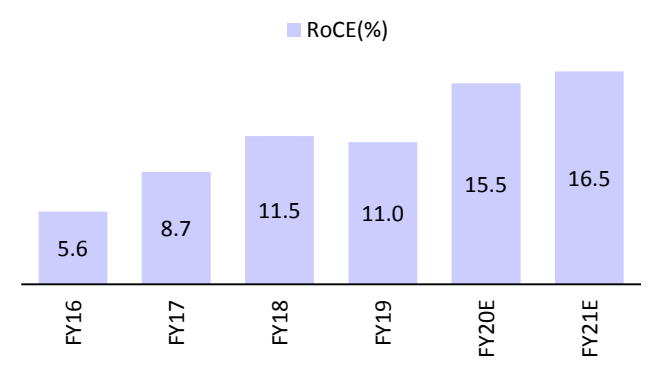
Source: MOFSL, Company

Exhibit 5: RoE trend



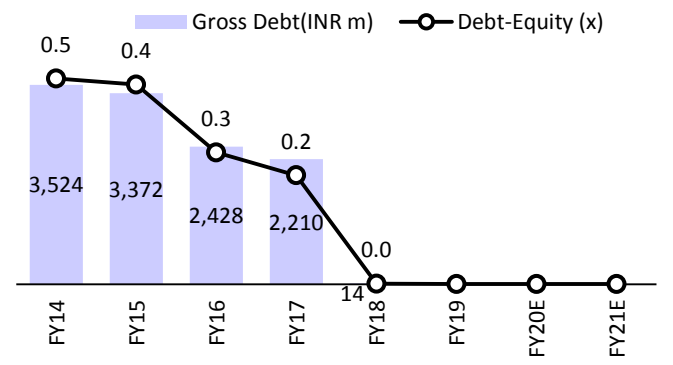
Source: MOFSL, Company

Exhibit 6: RoCE set to improve



Source: MOFSL, Company

Exhibit 7: To remain debt free



Source: MOFSL, Company

Financials and valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Total Income from Operations	3,000	3,752	4,547	6,077	7,978	8,526	9,860
Change (%)	-46.3	25.1	21.2	33.7	31.3	6.9	15.6
Cost of Materials Consumed	205	294	315	351	387	496	493
% of Sales	6.8	7.8	6.9	5.8	4.8	5.8	5.0
Personnel Expenses	526	591	641	946	1,100	1,189	1,302
% of Sales	17.5	15.7	14.1	15.6	13.8	14.0	13.2
Other Expenses	1,603	1,661	1,952	2,309	3,304	3,463	4,043
% of Sales	53.4	44.3	42.9	38.0	41.4	40.6	41.0
Total Expenditure	2,334	2,545	2,907	3,606	4,791	5,149	5,837
Total Income from Operations	3,000	3,752	4,547	6,077	7,978	8,526	9,860
Total Expenditure	2,334	2,545	2,907	3,606	4,791	5,149	5,837
% of Sales	77.8	67.8	63.9	59.3	60.1	60.4	59.2
EBITDA	665	1,206	1,640	2,470	3,187	3,377	4,023
Margin (%)	22.2	32.2	36.1	40.7	39.9	39.6	40.8
Depreciation	347	359	361	371	377	474	536
EBIT	318	847	1,278	2,099	2,810	2,903	3,487
Int. and Finance Charges	513	413	350	104	18	40	40
Other Income	74	70	49	286	313	287	290
PBT bef. EO Exp.	-120	503	978	2,281	3,105	3,150	3,737
EO Items	-49	105	-42	-10	-43	-7	0
PBT after EO Exp.	-169	608	1,020	2,292	3,148	3,157	3,737
Current Tax	155	202	280	737	1,141	824	990
Deferred Tax	-47	0	0	0	0	0	0
Tax Rate (%)	-64.1	33.2	27.4	32.2	36.3	26.1	26.5
Less: Mionrity Interest	-50	24	2	-1	39	-11	-11
Reported PAT	-228	382	738	1,555	1,968	2,344	2,757
Adjusted PAT	-148	312	707	1,548	1,940	2,339	2,757
Change (%)	-134.2	-311.5	126.5	118.9	25.3	20.5	17.9
Margin (%)	-4.9	8.3	15.6	25.5	24.3	27.4	28.0

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity Share Capital	231	231	232	268	271	271	271
Total Reserves	7,420	8,123	8,970	16,560	19,152	21,348	23,959
Net Worth	7,651	8,354	9,202	16,827	19,423	21,619	24,229
Minority Interest	244	270	160	141	80	80	80
Deferred Liabilities	160	0	0	245	243	243	243
Total Loans	3,372	2,428	2,210	14	2	2	2
Capital Employed	11,426	11,051	11,572	17,228	19,748	21,944	24,554
Gross Block	8,739	8,508	8,715	10,183	10,595	13,095	15,095
Less: Accum. Deprn.	800	1,160	1,521	1,892	2,269	2,743	3,279
Net Fixed Assets	7,938	7,348	7,194	8,290	8,326	10,352	11,817
Goodwill on Consolidation	604	1,258	1,327	3,946	3,969	3,969	3,969
Capital WIP	38	27	5	41	129	129	129
Total Investments	1,077	826	981	4,220	4,455	4,955	6,455
Curr. Assets, Loans&Adv.	2,459	2,100	2,715	3,183	3,832	3,805	3,712
Inventory	695	708	695	705	958	888	973
Account Receivables	228	142	43	83	70	117	135
Cash and Bank Balance	210	228	314	1,235	738	631	326
Loans and Advances	1,326	1,023	1,663	1,161	2,066	2,170	2,278
Curr. Liability & Prov.	911	899	1,000	2,854	1,202	1,504	1,766
Account Payables	735	806	906	2,760	1,106	1,402	1,648
Provisions	176	93	95	94	96	102	119
Net Current Assets	1,548	1,201	1,715	330	2,630	2,301	1,946
Deferred Tax assets	221	391	351	402	240	240	240
Appl. of Funds	11,426	11,051	11,572	17,228	19,748	21,945	24,554

Financials and valuations

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Basic (INR)							
EPS	-0.6	1.4	3.1	5.8	7.2	8.6	10.2
Cash EPS	0.9	2.9	4.6	7.2	8.6	10.4	12.2
BV/Share	33.2	36.2	39.7	62.9	71.7	79.8	89.4
DPS	0.1	0.2	0.4	0.0	0.4	0.5	0.5
Payout (%)	-12.5	14.5	13.2	0.0	6.6	6.3	5.3
Valuation (x)							
P/E	-267.1	126.3	56.0	29.6	23.9	19.8	16.8
Cash P/E	198.0	58.7	37.1	23.8	20.0	16.5	14.1
P/BV	5.2	4.7	4.3	2.7	2.4	2.1	1.9
EV/Sales	16.3	12.8	10.5	7.3	5.6	5.3	4.6
EV/EBITDA	73.5	39.8	29.1	16.5	12.9	12.2	10.3
Dividend Yield (%)	0.1	0.1	0.2	0.0	0.2	0.3	0.3
FCF per share	3.2	4.6	4.0	3.1	-1.7	1.0	4.0
Return Ratios (%)							
RoE	-1.9	3.9	8.1	11.9	10.7	11.4	12.0
RoCE	5.8	5.6	8.7	11.5	11.0	15.5	16.5
RoIC	5.4	5.6	9.2	12.9	13.7	14.0	15.1
Working Capital Ratios							
Asset Turnover (x)	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Inventory (Days)	85	69	56	42	44	38	36
Debtor (Days)	28	14	3	5	3	5	5
Creditor (Days)	89	78	73	166	51	60	61
Working Cap. Turnover (Days)	23	4	-13	-118	-4	-17	-20
Leverage Ratio (x)							
Debt/Equity	0.4	0.3	0.2	0.0	0.0	0.0	0.0

Consolidated - Cash Flow Statement

(INR Million)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
OP/(Loss) before Tax	-166	596	978	2,281	3,105	3,150	3,737
Depreciation	347	382	361	371	377	474	536
Interest & Finance Charges	495	397	300	-182	-295	-247	-250
Direct Taxes Paid	-354	-156	-280	-737	-1,141	-824	-990
(Inc)/Dec in WC	539	94	-427	3,081	-1,585	321	155
CF from Operations	862	1,313	932	4,815	461	2,874	3,188
Others	-23	-156	180	125	-433	-92	-105
CF from Operating incl EO	838	1,157	1,112	4,940	28	2,782	3,083
(inc)/dec in FA	-107	-89	-185	-4,122	-500	-2,500	-2,000
Free Cash Flow	731	1,068	927	818	-473	282	1,083
(Pur)/Sale of Investments	3	32	-155	-3,240	-234	-500	-1,500
Others	-145	-63	49	-35	313	287	290
CF from Investments	-250	-120	-290	-7,396	-422	-2,713	-3,210
Issue of Shares	145	0	1	5,500	0	0	0
(Inc)/Dec in Debt	-152	-524	-218	-2,196	-13	0	0
Interest Paid	-551	-427	-350	-104	-18	-40	-40
Dividend Paid	-62	-28	-98	0	-130	-147	-147
Others	-309	-40	-72	176	59	10	10
CF from Fin. Activity	-929	-1,018	-736	3,377	-101	-177	-177
Inc/Dec of Cash	-341	18	86	921	-496	-107	-304
Opening Balance	551	210	228	314	1,233	738	631
Closing Balance	210	228	314	1,234	738	631	326

NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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