

# **Opportunity in Gaming and Casino Industry** **in India**

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## **Industry Overview**

Gaming and Casinos have become an integral part of the overall entertainment bouquet across the world. Internationally famous gaming and casino centers like Las Vegas, Macau, and Singapore have transformed the tourism as well as hospitality industries, creating a complete entertainment package for families.

In India, the concept of gaming has been present since ancient times. In Asia, gambling is strictly prohibited in most countries, as it goes against the traditional and conventional values and lifestyle. However, gaming and casinos are allowed but under strict legislation and norms of the government. In the last few years, governments have realized the tremendous economic benefits of gaming and casinos can potentially generate, particularly in driving tourism.

## **About the Company**

Delta Corp (DELTA) is India's only listed gaming company, with a dominant presence in Goa's offshore casino market. Their first-mover advantage across the under-penetrated industry in India has enabled them to capture a lion share of the Indian gaming market through its casinos in Goa and Sikkim

It owns three of the six offshore (five operational) gaming licenses in the state of Goa. It has ~1,800 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 are awaiting regulatory approval. It has also forayed into online gaming, with the acquisition of Gauss Networks Private Limited, which operates the online poker site 'Adda52.com'.

### **Advantages To the Company.**

- The company is currently debt-free which helps the business in a difficult time like COVID-19 when their off-shore casinos were closed.
- The biggest **MOAT** for the company is Huge Entry Barriers in the Gaming business. In the last few years, the government has gradually allowed the setting up of off-shore casinos in the country. However, the process is still cumbersome with high entry barriers and strict regulations. Licenses are issued by the state government. Currently, Goa, Daman & Sikkim are the only places where gaming and casino licenses have been issued. At both Goa & Daman, existing rules allow land-based casinos only as part of five-star hotels.

- Due to the penetration of smartphones over the country and data at a very cheap rate The online gaming industry is in the boom and the covid have also gave helped to grow this sector, So the gaming business has shown exponential growth. 'Adda52.com' owns around 60% of the market share in the online gaming industry
- They have there most of the assets ready, now they just have to focus on how to increase the footfall to their casinos where they can generate Free Cash Flow.
- Now the company is also focusing on the Asset Light model where they Tie-up with different hotels and cruises and set up a casino there. This might save their big Capital Expenditure and other maintenance costs and can expand quickly

### Key growth drivers

- Rise of **foreign tourist arrivals** and a massive rise in the number of domestic tourists
- The nation's economic growth, a rise of individual **disposable income**, government regulation and policies on FDI
- Government initiatives such as 'Incredible India!' and 'Athiti Devo Bhava' and to develop 17 iconic tourist sites in India into world-class destinations

## Key Risk to the business are

- **Regulatory Risk**

The gaming business in India is subject to strict regulations and laws. These differ from state to state and any major changes in them could adversely affect DELTA's operations. For instance, the erstwhile Chief Minister of Goa had indicated shifting offshore casinos from Mandovi River

- **Delay in the launch of Daman Casino**

The company is awaiting a gaming license. Management is confident of receiving a license soon.

- **Taxation changes**

Any increase in entry fees or gaming tax could negatively impact DELTA's business.

Demand highly discretionary in nature the gaming and hospitality businesses are highly dependent on discretionary spending. 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.

- **Restricted organic growth**

In the longer term, DELTA will require that more states give gaming licenses to casino operators. Otherwise, DELTA's growth would be restricted. Although there are many Union Territories like Daman which are considering issuing new licenses to boost tax revenue, there however is no confirmation from any other government as yet.

- **Claims related to Contingent Liability** Contingent Liability is around 10% of its revenue which might be a concern.

## Basic Forensic Accounting checks.

- **Cash Generated from Operations / EBITDA** -The ratio shows how much of the earnings generated by the company is actually converted into cash. Delta Corp has an average ratio of more than 0.8 which is a good sign
- **Debtors day** – It shows how much time it requires to get money back from the customers. And this company has Debtors days of around 3 which is a very small number and which is also a good sign
- **Cash Yield** - It checks that Does cash really exists in the books of accounts. And in this check also the company passes which has an average cash yield of 7%
- **Miscellaneous Expenses / Total Revenue**- This ratio shows the quality of the accounting where the company may try to manipulate their expenses(Lower the ratio, better it is). Delta Corp has the ratio quite low to 1%.
- **CAGR in Auditor's remuneration to CAGR in Revenue**- The CAGR in Auditors Remuneration is around 8.5% for the last 5 yrs and the Revenue CAGR is at 15% for the last 5 yrs. And looking at both trends it seems like there is not much common in both which is a good sign because The auditor doesn't have any incentives to manipulate the Revenues.

## The Vertical Income Statement Analysis

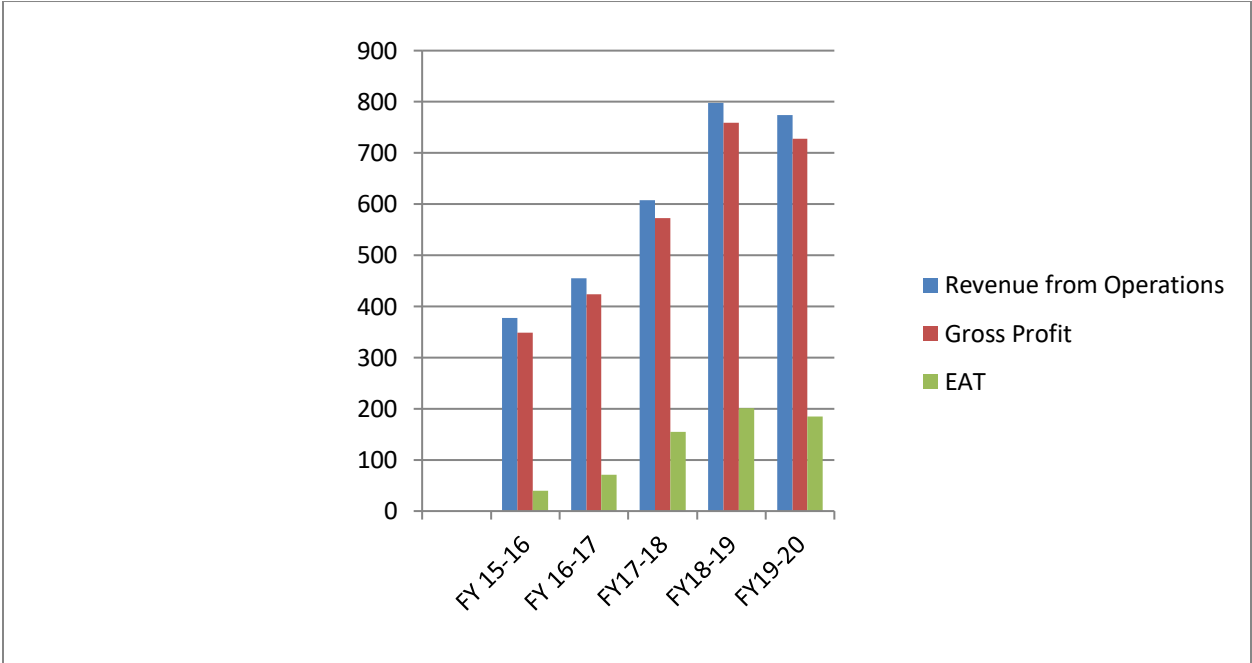
Where we have divided all the expenses and Income to the proportion to the Total Revenue

Particulars (Rs in Crs)	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20
<b>Revenue from Operations</b>	100.00%	100.00%	100.00%	100.00%	100.00%
<b>COGS</b>	7.79%	6.92%	5.78%	4.85%	5.92%
<b>Gross Profit</b>	<b>92.21%</b>	<b>93.08%</b>	<b>94.22%</b>	<b>95.15%</b>	<b>94.08%</b>
Employee Benefits Expense	15.31%	14.09%	15.57%	13.79%	14.50%
License Fees and Registration Charges	0.00%	0.00%	0.00%	12.27%	13.07%
Other Expenses	44.37%	42.93%	38.01%	29.14%	30.85%
<b>EBITDA</b>	<b>32.53%</b>	<b>36.06%</b>	<b>40.65%</b>	<b>39.95%</b>	<b>35.66%</b>
Depreciation and Amortization Expense	10.11%	7.94%	6.11%	4.72%	6.27%
<b>EBIT</b>	<b>22.42%</b>	<b>28.12%</b>	<b>34.54%</b>	<b>35.23%</b>	<b>29.38%</b>
Finance Costs	10.97%	7.69%	1.71%	0.22%	0.65%
Other Income	1.53%	1.09%	4.71%	3.92%	4.31%
<b>Earning Before Exceptional Items and Tax</b>	<b>12.99%</b>	<b>21.51%</b>	<b>37.54%</b>	<b>38.92%</b>	<b>33.04%</b>
Exceptional Items Gain/(Loss)	2.77%	0.92%	0.17%	0.54%	0.09%
Share of Loss of Associate and Joint Venture	0.00%	-0.68%	-0.12%	0.00%	0.00%
<b>EBT</b>	<b>15.76%</b>	<b>21.76%</b>	<b>37.60%</b>	<b>39.46%</b>	<b>33.13%</b>
Current Tax	5.54%	7.38%	11.29%	12.87%	8.72%
Deferred Tax	0.14%	-1.16%	0.85%	1.43%	0.58%
Adjustment for Earlier Year's Tax Adjustments	-0.38%	-0.05%	-0.01%	0.01%	-0.06%
<b>EAT</b>	<b>10.46%</b>	<b>15.59%</b>	<b>25.47%</b>	<b>25.15%</b>	<b>23.89%</b>

The company has consistently reduced the Debt due to which the Finance cost have gone down and helped EAT to increase from 10% to 23% in the last 5 years.

As their business is more towards the Service and Entertainment sector. The major expense to the company is Employees, License Fees, and Sales Promotion which combined is around 40% of the Total Revenue.

**The Trend of Revenue, Gross Profit, and Earning After-Tax for last 5 years.**



The Compound Annual Growth Rate (CAGR) for Revenue, Gross Profit, and for Earnings After-Tax is around **15%**, **16%**, and **36%** respectively

## Ratio Analysis

Particulars (Rs in Crs)	FY 15-16	FY 16-17	FY17-18	FY18-19	FY19-20
Return on Capital Employed	5.71%	9.99%	8.57%	9.55%	8.44%
Cash Profit (X)	75.6311	97.7289	221.7752	106.56	329.97
Cash Return on Invested Capital	7.59%	10.35%	13.17%	5.49%	16.59%
Earning After Taxes (EAT) (Y)	39.51	70.88	154.76	200.68	184.78
<b>Correlation (X,Y)</b>	<b>0.60</b>				
Return on Equity (ROE)	4.92%	7.70%	9.20%	10.33%	9.45%
Net Profit Margin	10.46%	15.59%	25.47%	25.15%	23.89%
Total Asset Turnover Ratio	0.319955	0.361619	0.306335	0.38082	0.361078
Financial Leverage Ratio	1.470064	1.3663	1.178814	1.078624	1.095851

The major reason for **ROE growth** is Improving the **Net Profit Margin**. The Asset Turnover Ratio is constant at approx 0.3. Going further if the Asset turnover Ratio also supports then we can see strong growth in ROE.



# Valuation

## Calculation of Cost of Equity

10 Year G- Sec	7%
Beta (Source- Reuters)	1.91
Equity Risk Premium(Damodaran - ERP Calculations)	9%
<b>Cost of Equity (CAPM)</b>	<b>23%</b>

Free Cash Flow to Equity	FY20-21E	FY21-22E	FY22-23E	FY23-24E
Net Cash Generated From Operating Activities	95.86397	167.3856	31.71389	274.5491
Purchase of Fixed Assets	-125.629	6.385089	-40.0851	-40.0851
Other Income	35.3404	37.46082	39.70847	42.09098
Free Cash flows adjusted for other income	5.574974	211.2315	31.33725	276.555
Free Cash Flows per share	0.205766	7.796299	1.15662	10.20731
Terminal Value	0	0	0	386.3139
Date	44286	44651	45016	45381
Cash Flows	0.205766	7.796299	1.15662	396.5212
<b>Valuation using adjusted free cash flow</b>	<b>219.4695</b>			

The Current Market Price is **Rs.170** (As of 15-12-2020) and the Fair Value of the stock is **Rs.219**. So as of now, the stock is **Under Value**. And we can then expect around 23% yearly.

## Some of the Assumptions for these valuations are-

Particulars (Rs in crs)	FY20- 21E	FY21- 22E	FY22- 23E	FY23- 24E
<b>YOY Growth in Revenue</b>				
Gaming	-25.0%	35.0%	27.0%	25.0%
Hospitality	-20.0%	25.0%	10.0%	10.0%
Online Gaming	30.0%	20.0%	20.0%	20.0%
<b>Cost</b>				
COGS / Revenue	6.0%	6.0%	6.0%	6.0%
Employee Benefits Expenses/ Revenue	15.0%	15.0%	15.0%	15.0%
License Fees and Registration Charges / Revenue	13.3%	13.6%	13.9%	14.1%
Other Income / Revenue	32.4%	32.4%	32.4%	32.4%