

# spotlight

The Idea Junction



## Best play on India's fledgling gaming industry

### Daman casino launch to be key trigger

- Having established leadership in offshore casinos in Goa, one of the three states/UTs in India that allow gaming, Delta Corp (DELTA) is launching India's first land-based casino in Daman (subject to approval).
- With the launch of its casino in Daman and commencement of its third offshore property in Goa, DELTA will see a near doubling of its gaming capacity and further cement its first-mover advantage.
- Given the significant growth potential for India's gaming industry, DELTA's dominant position, and strong earnings outlook for its gaming business, we believe the company is well placed.

### Dominating India's gaming industry

DELTA is India's first listed pure-play gaming company. It owns three of the six licenses for offshore casinos in Goa and enjoys a dominant share of India's offshore casino market. In 2HFY15, it will be launching (subject to approvals) a casino housed in Daman's only five-star hotel; this will be Daman's first land-based casino. Daman is likely to be much larger footfall market than Goa, attracting huge crowds from Mumbai and Gujarat. We expect DELTA to replicate its success in Goa's offshore casino market in the land-based casino market in Daman. Also, 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.

### Launch of Daman casino to be key trigger

DELTA is by far the largest casino operator in India, with ~2,000 gaming positions. The launch of its casino in Daman (subject to approval) and commencement of its offshore property, *Deltin Caravela* in Goa will take its capacity to ~3,400 gaming positions. With near doubling of its gaming capacity, DELTA will be in a better position to exploit the potential that the nascent industry offers. Further, we believe DELTA is at an inflection point, currently. The investment phase is behind and the launch of the Daman casino could trigger significant cash generation as well as RoCE / RoE improvement, beginning FY16.

**Spotlight** is a new offering from the Research team at Motilal Oswal. While our Coverage Universe is a wide representation of investment opportunities in India, there are many emerging names in the Mid Cap Universe that are not under coverage. Spotlight is an attempt to feature such mid cap stocks by visiting such companies. We are not including these stocks under our active coverage at this point in time. Motilal Oswal Research may or may not follow up on stocks under Spotlight.

**Atul Mehra** (Atul.Mehra@MotilalOswal.com); +91 22 3982 5417

**Niket Shah** (Niket.Shah@MotilalOswal.com); +91 22 3982 5426

Investors are advised to refer through disclosures made at the end of the Research Report.

## Delta Corp

### Stock Info

Bloomberg	DELTA IN
CMP (INR)	90
Equity Shares (m)	227.6
M.Cap. (INR b)/(USD b)	20.5/0.3
52-Week Range (INR)	128/59
1,6,12 Rel. Perf. (%)	-1/-32/5

### Financials & Valuation (INR b)

Y/E March	2015E	2016E	2017E
Sales	3.6	5.2	6.5
EBITDA	1.0	1.7	2.3
NP	0.4	1.0	1.4
EPS (INR)	1.8	4.2	6.2
EPS Gr. (%)	-4.8	132.8	48.0
BV/Sh. (INR)	35.4	38.5	43.1
RoE (%)	5.2	11.4	15.3
RoCE (%)	8.5	15.9	22.2
Payout (%)	16.2	25.0	26.7

### Valuations

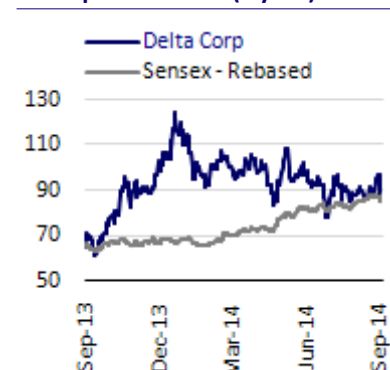
P/E (x)	49.7	21.4	14.4
P/BV (x)	2.5	2.3	2.1
EV/EBITDA (x)	22.2	12.4	8.9
Div. Yld. (%)	0.3	1.0	1.6

### Shareholding pattern (%)

As on	Jun-14	Mar-14	Jun-13
Promoter	41.3	41.6	41.7
DII	0.3	0.2	0.2
FII	13.8	14.4	11.4
Others	44.6	43.8	46.7

Notes: FII includes depository receipts

### Stock performance (1 year)



**RED: Caution**  
**AMBER: In transition**  
**GREEN: Interesting**



### Expect PAT to post strong growth

DELTA has exited its real estate business in FY14. Its core business going forward will be gaming and gaming-related hospitality. We expect DELTA's revenue to grow at a CAGR of 5% over FY14-17, led by 30% CAGR in its gaming and hospitality business. EBITDA would post 15% CAGR, with margin expanding from ~27% to ~35%. PAT would grow at a CAGR of 49%. Cash flows and return ratios should improve substantially, going forward. We expect DELTA to be a debt-free, net cash company by FY17.

### Well placed to capture strong growth

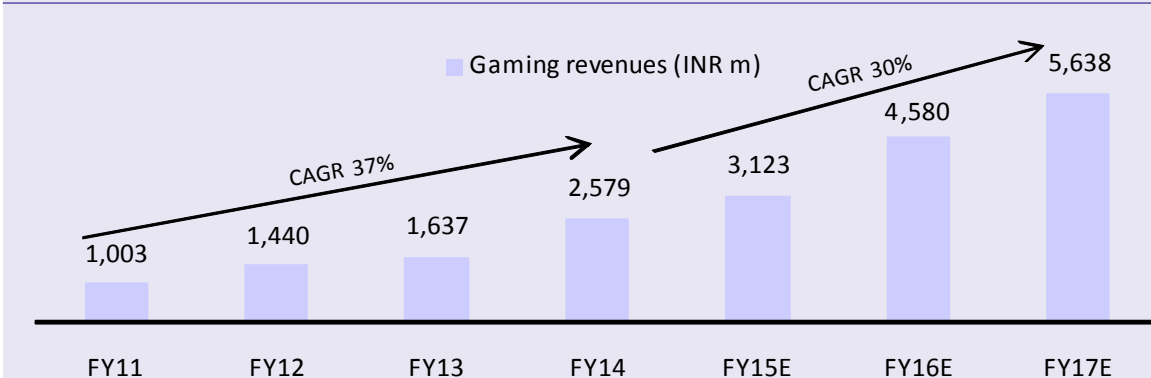
DELTA trades at 49.7x FY15E, 21.4x FY16E, and 14.4x FY17E earnings. We do not have a rating on the stock. However, given the significant growth potential for India's gaming industry, DELTA's dominant position, and strong earnings outlook for its gaming business, we believe it is well placed.

### Strong appetite for gaming in India



Source: Company, MOSL

### DELTA's gaming business has posted a robust 37% CAGR over the last three years



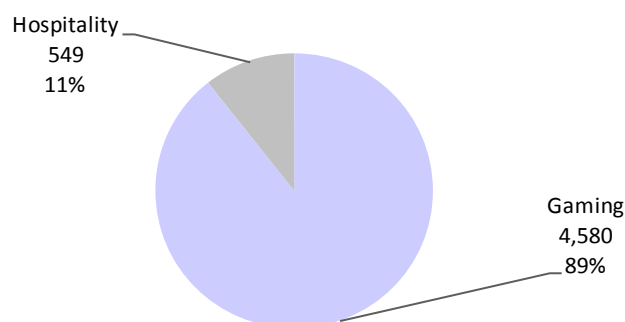
Source: Company, MOSL

## Company description

Delta Corp (DELTA) is a gaming and entertainment company, with a dominant presence in Goa's offshore casino market. It owns three of the six offshore gaming licenses in the state of Goa. DELTA is the largest and only listed gaming company in India. It has ~2,000 gaming positions in Goa and is rapidly expanding. It will be soon starting a first of its kind integrated casino resort in Daman (subject to approvals), with 1,200 gaming positions. The full benefits of this venture should begin to accrue from 2HFY15. Given that Daman has a catchment area of 35m people against just 3m people for Goa, this casino resort would be a key trigger for DELTA.

In FY14, gaming contributed 45% of revenues, hospitality contributed 1%, and real estate contributed 52%. DELTA has decided to strategically focus on its gaming business and has exited its real estate business. In FY16, we expect gaming to contribute 89% of revenues and hospitality to contribute 11%; there would be no contribution from real estate.

### Revenue composition for FY16E (INR m)



### DELTA's Goa gaming properties



Source: Company, MOSL

## 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 for offshore casinos in Goa and enjoys a lion's share of India's offshore casino market.
- In 2HFY15, it will be launching a casino housed in Daman's only five-star hotel; this will be India's first land-based casino outside Goa. Daman is likely to be a much larger footfall market as compared to Goa, attracting huge crowds from Mumbai and Gujarat. We expect DELTA to replicate its success in Goa's offshore casino market in the land-based casino market in Daman.
- Also, 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.

### 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 (UTs) 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 in 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.

### 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 two operational casinos on the River Mandovi, *Deltin Royale* and *Deltin JAQK*, have a combined capacity of ~2,000 gaming positions. The commissioning of *Deltin Caravela*, currently under renovation, will add 200 gaming positions. We expect 14% CAGR in visitations in DELTA's offshore

properties and 5% CAGR in gross gaming revenue per person, which should drive 19% revenue CAGR for its Goa properties over FY14-17.

#### 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
Deltin Caravela	Delta Corp (Delta Pleasure Cruise – Subsidiary of Delta Corp)	No
Casino Pride	Goa Coastal Resorts owned by Khetarpal	Yes
Casino Pride 2	Goa Coastal Resorts owned by Khetarpal	Yes
Casino Rio	MDLR Group	No

Source: Company, MOSL

#### Now launching Daman's first casino

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

In 2HFY15, DELTA will be launching 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, 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.

#### Daman is strategically located between Mumbai and Gujarat



Source: Company, MOSL

#### 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



### **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

### **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 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.

## Launch of Daman casino to be key trigger

### To drive high growth and profitability

- DELTA is by far the largest casino operator in India, with ~2,000 gaming positions. The launch of its casino in Daman and commencement of its offshore property, Deltin Caravela in Goa will take its capacity to ~3,400 gaming positions.
- With near doubling of its gaming capacity, DELTA will be in a better position to exploit the potential that the nascent industry offers.
- Further, we believe DELTA is at an inflection point, currently. The investment phase is behind and the launch of the Daman casino could trigger significant cash generation as well as RoCE / RoE improvement, beginning FY16.

### 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, so much so that each drives the other. 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

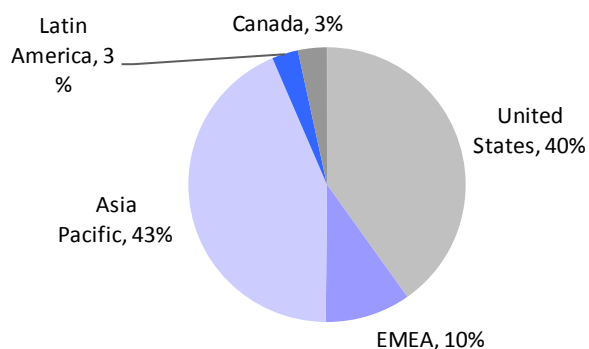
Price Waterhouse Coopers (PWC) estimates the total global gaming casino market in 2015 at USD183b. The market has grown at a CAGR of 7% over the last 10 years. The Asia Pacific region has led growth, with a CAGR of 21.5%. With a share of 43%, the Asia Pacific region is now a larger market than the US, 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 ~USD100m, the growth potential is huge.

#### 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
<b>Total</b>	<b>100</b>	<b>108</b>	<b>110</b>	<b>107</b>	<b>118</b>	<b>132</b>	<b>147</b>	<b>160</b>	<b>171</b>	<b>183</b>

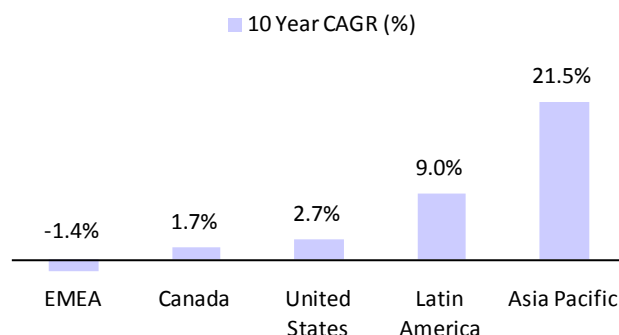
Source: Industry, MOSL

### Asia Pacific region now dominates global gaming market



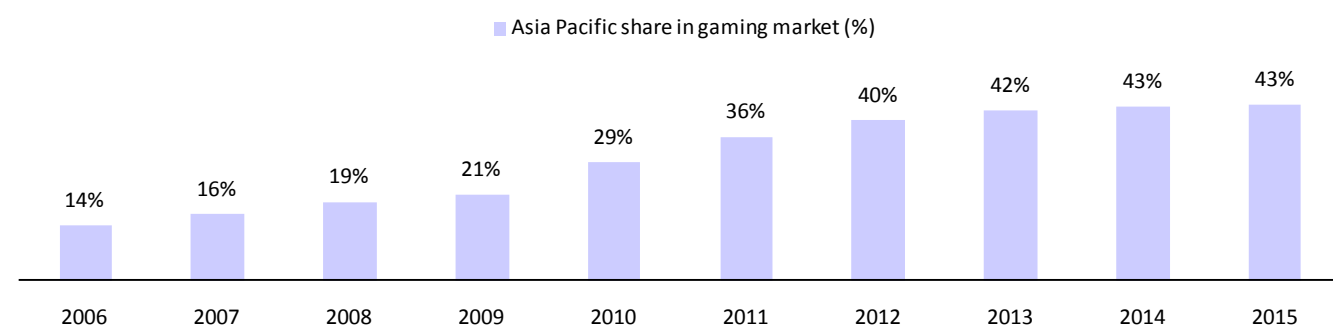
Source: Company, MOSL

### Asia Pacific has been the growth driver for the industry



Source: Company, MOSL

### 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.



## Strong appetite for gaming in India

### Lottery tickets – for the 'mass'



Industry  
valued at  
\$12.5bn

### Cricket betting – in Indian blood !



\$1.5bn  
wagered in  
one World  
Cup match

### Horse Racing – for the 'upper crust'



Annual  
turnover  
>\$350m

### BUT... A Casino ?



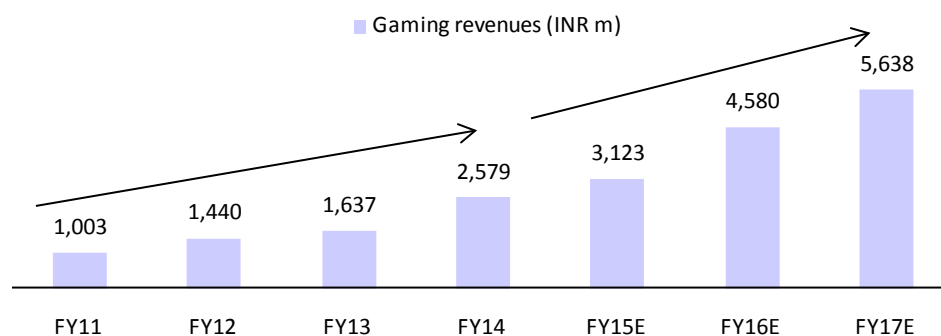
Annual  
turnover  
<\$100m

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. DELTA's own gaming business has grown at a CAGR of 37% over FY11-14. With the addition of new properties, and higher visitations and gross gaming revenues (GGR) on existing properties, we expect 30% CAGR over FY14-17.

### DELTA's gaming business has posted a robust 37% CAGR over the last three years



Source: Company, MOSL

With higher capacity, DELTA will be able to exploit the growth opportunity better

### Addition of Daman casino to help drive growth for DELTA

DELTA's two operational offshore properties in Goa have ~2,000 gaming positions and the commencement of *Deltin Caravela* will add ~200 gaming positions. The launch of its Daman casino will take its capacity to ~3,400 gaming positions. With higher capacity, DELTA will be in a better position to exploit the high growth opportunity that the Indian gaming industry offers.

#### DELTA's gaming properties and capacity set to nearly double

Casino	Gaming Tables	Gaming Positions	Slots
Deltin Royale	123	1,500	60
Deltin JAQK	47	500	30
Deltin Caravela	17	200	10
The Deltin (Daman)	~150	1,200	200

Source: Company, MOSL

Costs largely being fixed, PAT growth would be higher than revenue growth

### Profitability to improve, driven by operating leverage

We believe DELTA is at an inflection point. It has fully invested in all its three Goa casinos and its new Daman casino. On an ongoing basis, majority of the costs pertaining to these casinos is largely fixed which introduces huge operating leverage in the business. Currently, DELTA has monthly fixed costs of INR160m, which post full commencement of the Daman casino will escalate to INR200m. The cost structure being largely fixed, a large part of the revenue growth from higher visitations and commencement of Daman operations should flow through to EBITDA, thus improving margins significantly. We expect improvement in cash generation as well as RoCE and RoE from FY16.

## Expect PAT to post strong growth

### Key drivers: Daman casino, operating leverage

- DELTA has exited its real estate business in FY14. Its core business going forward will be gaming and gaming-related hospitality.
- We expect DELTA's revenue to grow at a CAGR of 5% over FY14-17, led by 30% CAGR in its gaming and hospitality business. EBITDA would post 15% CAGR, with margin expanding from ~27% to ~35%. PAT would grow at a CAGR of 49%.
- Cash flows and return ratios should improve substantially, going forward. We expect DELTA to be a debt-free, net cash company by FY17.

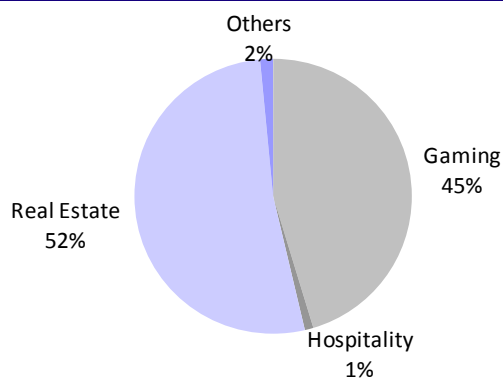
### Gaming and gaming-related hospitality to be core business

DELTA's core business going forward will be gaming and gaming-related hospitality. Gaming and hospitality go hand-in-hand. 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 two hotels in Goa, and in March 2014, it launched its hotel in Daman. DELTA also has substantial stake in the holding company of Ramada Caravela Beach Resort, with no operational interest or management control.

In FY16, we expect gaming to contribute 89% of revenues, and hospitality to contribute 13%

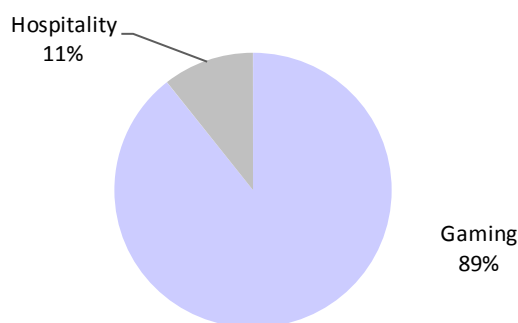
DELTA held 39.2% stake in a joint venture with Reliance Industries to develop real estate in Kenya under the name of Delta Corp East Africa limited (DCEAL). Over the last five years, DCEAL developed commercial and residential properties, from which DELTA has made a profitable exit. In FY14, gaming contributed 45% of DELTA's revenues, hospitality contributed 1%, and real estate contributed 52%. In FY16, we expect gaming to contribute 89% of revenues, with the balance 11% coming from hospitality.

**FY14 revenue break-up**



Source: Company, MOSL

**FY16E revenue break-up**

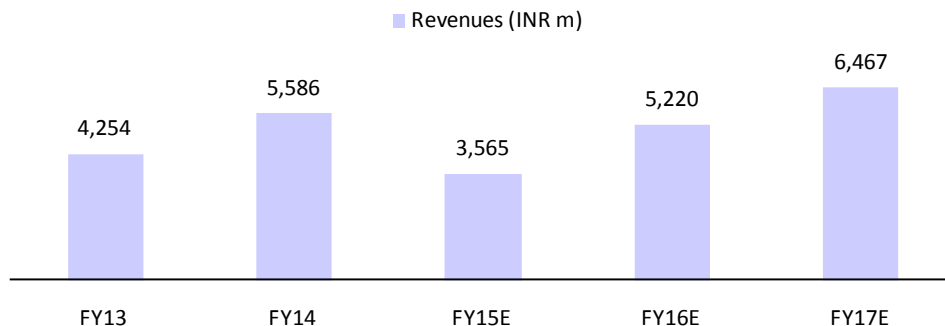


Source: Company, MOSL

### Expect revenue CAGR of 5%, PAT CAGR of 49% over FY14-17

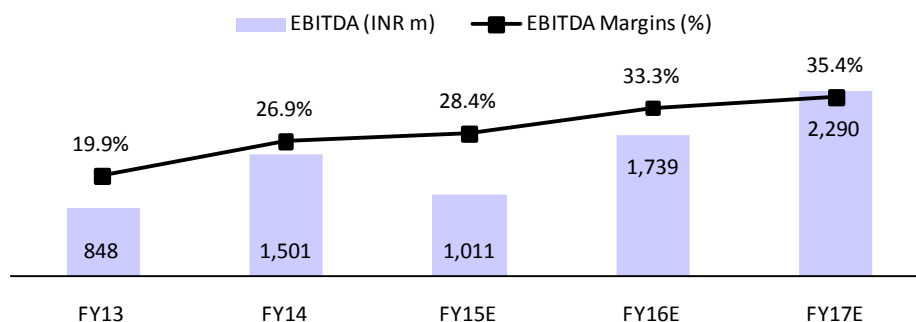
We expect DELTA's revenue to grow at a CAGR of 5% over FY14-17, led by 30% CAGR in its gaming business, which would contribute 89% of FY17 revenue. EBITDA would post 15% CAGR, with margin expanding to 35%, driven by strong contribution from Daman casino and operating leverage. We expect PAT to clock a CAGR of 49% from INR0.4b in FY14 to INR1.4b in FY17.

#### Revenue to post 5% CAGR over FY14-17



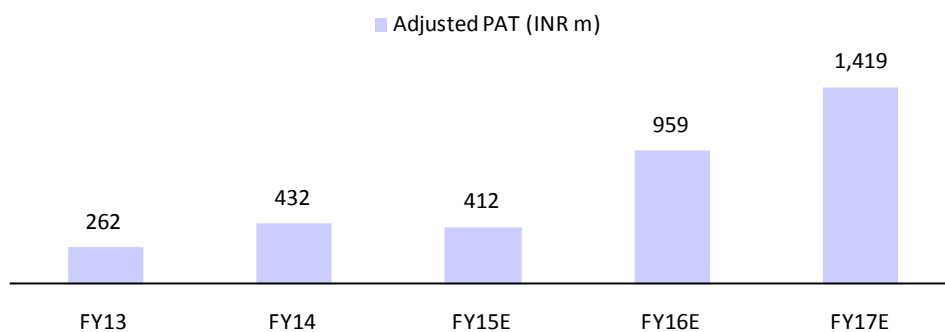
Source: Company, MOSL

#### EBITDA to clock 15% CAGR over FY14-17



Source: Company, MOSL

#### PAT to grow at a CAGR of 49% over FY14-17

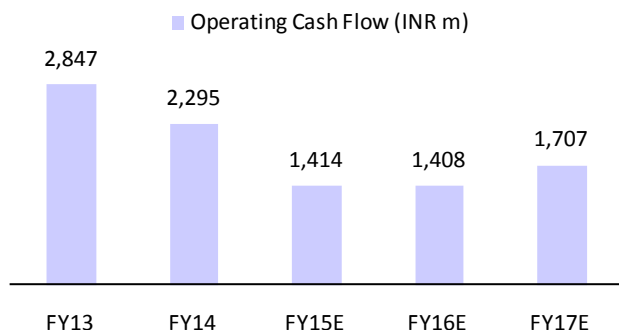


Source: MOSL

### Cash flows and return ratios to improve significantly

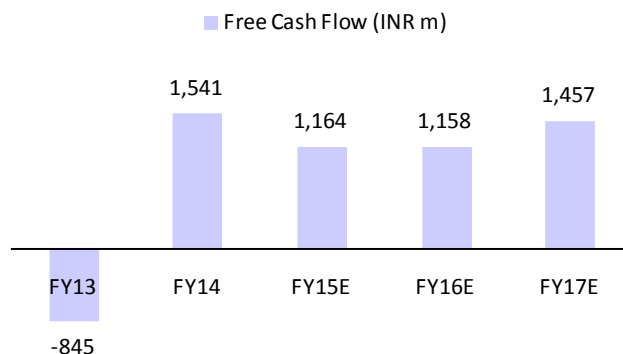
We expect operating and free cash flows to improve significantly over FY14-17. Capex during the period would only be maintenance and modernization related and is unlikely to exceed depreciation.

#### Operating cash flow to remain strong



Source: Company, MOSL

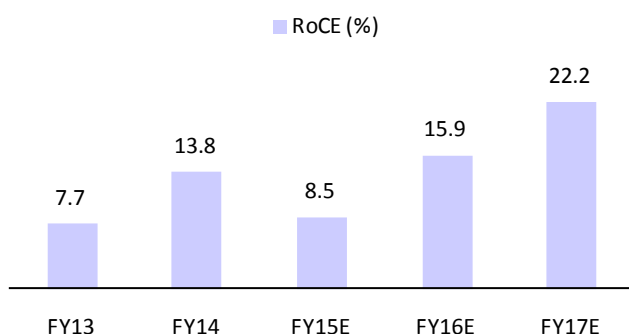
#### Limited capex to aid robust free cash generation



Source: Company, MOSL

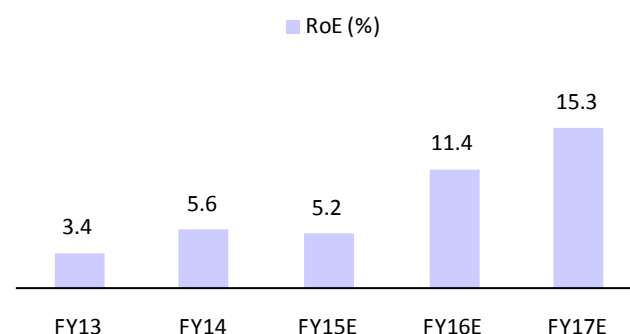
The play of operating leverage would reflect in significant increase in return ratios. We expect RoCE to improve from 13.8% to 22.2%, and RoE to improve from 5.6% to 15.3% over FY14-17.

#### RoCE (%)



Source: Company, MOSL

#### RoE (%)



Source: Company, MOSL

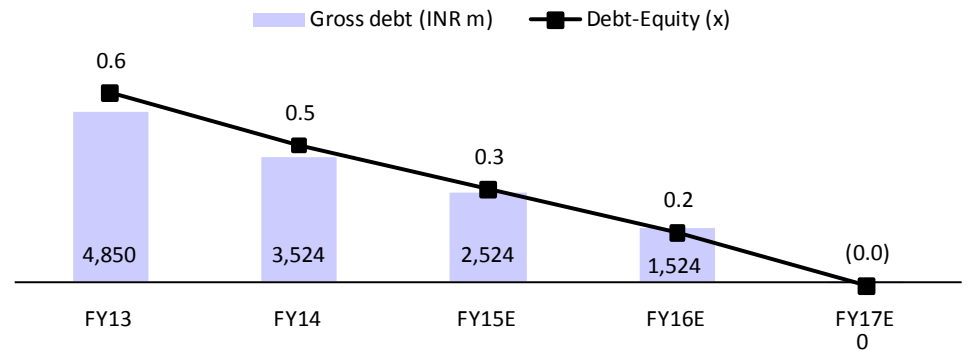
### To be a debt-free, net cash company by FY17

DELTA has debt of ~INR3b on its books. Given the robust free cash generation, we expect debt to be fully retired by FY17. We have not factored in any cash flows from sale of non-core assets.

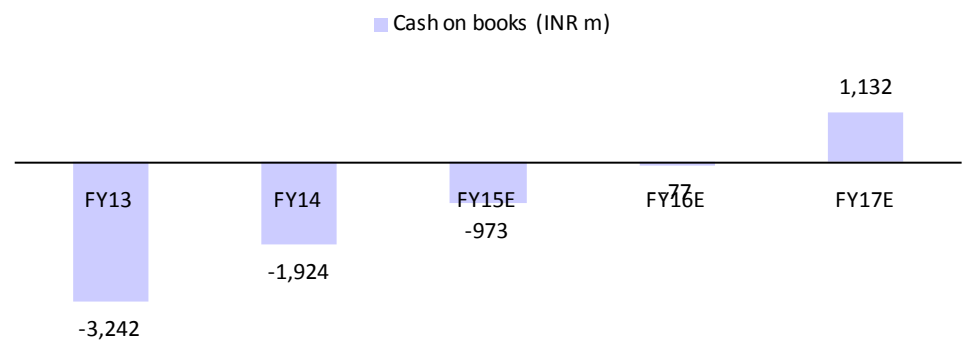
#### Sale of non-core assets could yield ~INR3b

DELTA has non-core assets valued at ~INR3b, which it intends to divest over the next two years. Stake sale in Advani Hotel and Resorts could yield nearly INR1.25b-1.5b after tax. DELTA could derive ~INR0.4b-0.5b post tax from sale of land in Sri Lanka, and INR1b from sale of real estate in Goa (Kolvale and Panjim). The management intends to use this cash to retire debt.

Post debt retirement, we believe DELTA will be a net cash company by FY17.

**To be a debt-free...**

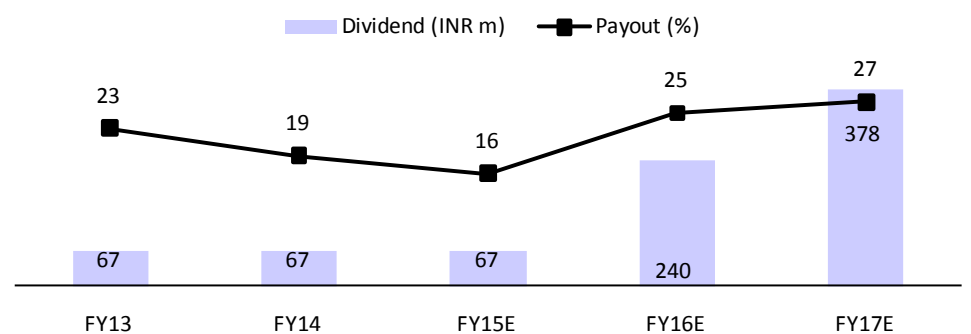
Source: Company, MOSL

**...and net cash company by FY17**

Source: Company, MOSL

**Dividend payout to improve from 19% in FY14 to 27% in FY17**

With little capex, robust free cash generation, and declining debt, we expect DELTA to increase its dividend payout from 19% to 27% over FY14-17.

**Dividend payout to improve**

Source: Company, MOSL

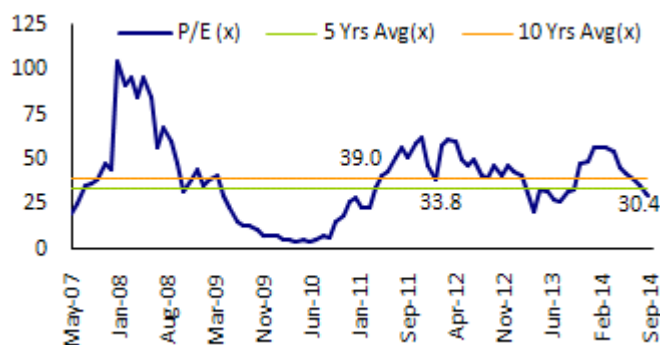


## Well placed to capture strong growth

Do not have a rating currently

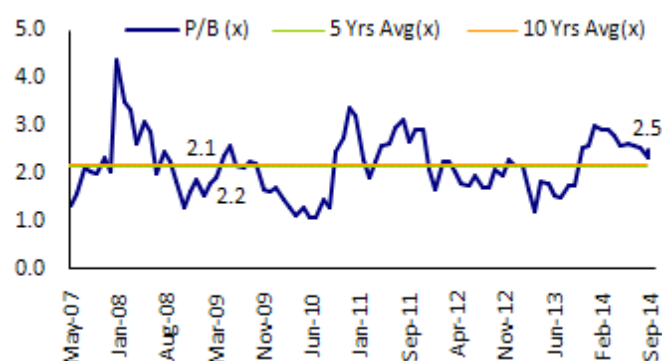
- DELTA trades at 49.7x FY15E, 21.4x FY16E, and 14.4x FY17E earnings. We do not have a rating on the stock.
- However, given the significant growth potential for India's gaming industry, DELTA's dominant position, and strong earnings outlook for its gaming business, we believe it is well placed.

Price to earnings (x)



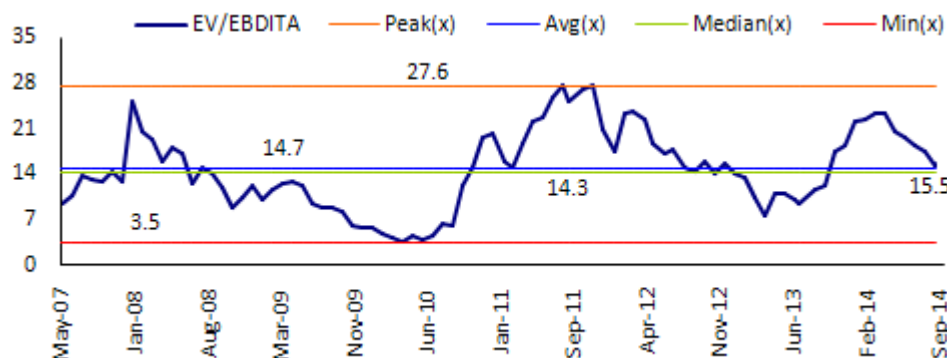
Source: Company, MOSL

Price to book (x)



Source: Company, MOSL

EV/EBITDA (x)



Source: Company, MOSL

## Risks and concerns

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**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. The new Chief Minister of Goa has indicated shifting of six offshore casinos from the Mandovi River, possibly into the Arabian Sea or any other land-based dedicated location over time. Any such change might bring about uncertainty in the business.

**Change in taxation policy:** Substantial increase in entry fee (INR700/visitor currently) or 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. Of these, DELTA owns three licenses. Issue of licenses to new players could dilute the edge DELTA has developed in Goa.

**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

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### **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 out 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.

### **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 Neelish A Shah (Executive Vice-Chairman, Delta Corp East Africa)**

Mr Neelish A Shah is a Chartered Accountant. He has over 30 years of experience in the conduct of various successful businesses in East Africa.

### **Mr Narinder Punj (Managing Director, Highstreet Cruises)**

Mr Narinder Punj is a Bachelor of Commerce from St Xavier's College, Kolkata and has more than 35 of experience in the hospitality, entertainment, and gaming industries. During his career of 35 years, he has held several positions from Casino Dealer to the Managing Director of Casino Caravela and Casino Royale in Goa. He has held several supervisory and management positions in his overseas assignments.

### **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

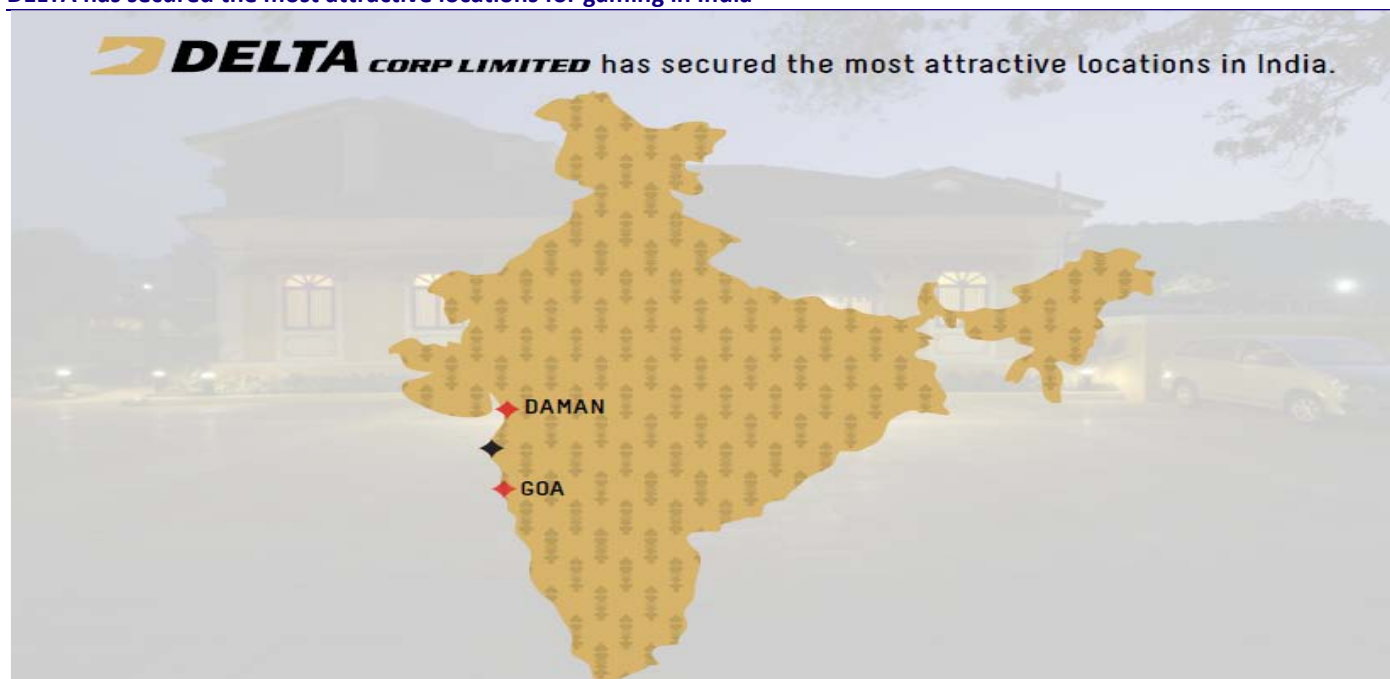
Delta Corp (DELTA) is the largest and only listed gaming company in India. It owns three of the six offshore gaming licenses in the state of Goa. The company currently offers ~2,000 gaming positions in Goa and is rapidly expanding. It recently started a first of its kind integrated casino resort in Daman, the full benefits of which should begin to accrue from 2HFY15.

### Corporate history



Source: Company, MOSL

### DELTA has secured the most attractive locations for gaming in India

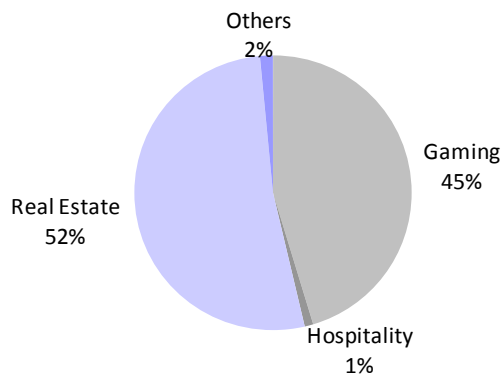


Source: Company, MOSL

### DELTA's core business centers on gaming

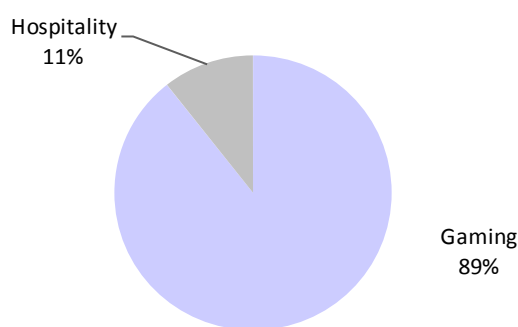
DELTA's core business going forward will be gaming and gaming-related hospitality. In FY14, gaming contributed 45% of revenues, hospitality contributed 1%, and real estate contributed 52%. Going forward, DELTA has decided to strategically focus on its gaming business and will not pursue the real estate business. In FY16, we expect gaming to contribute 89% of revenues with balance 11% coming from hospitality.

Revenue split – FY14



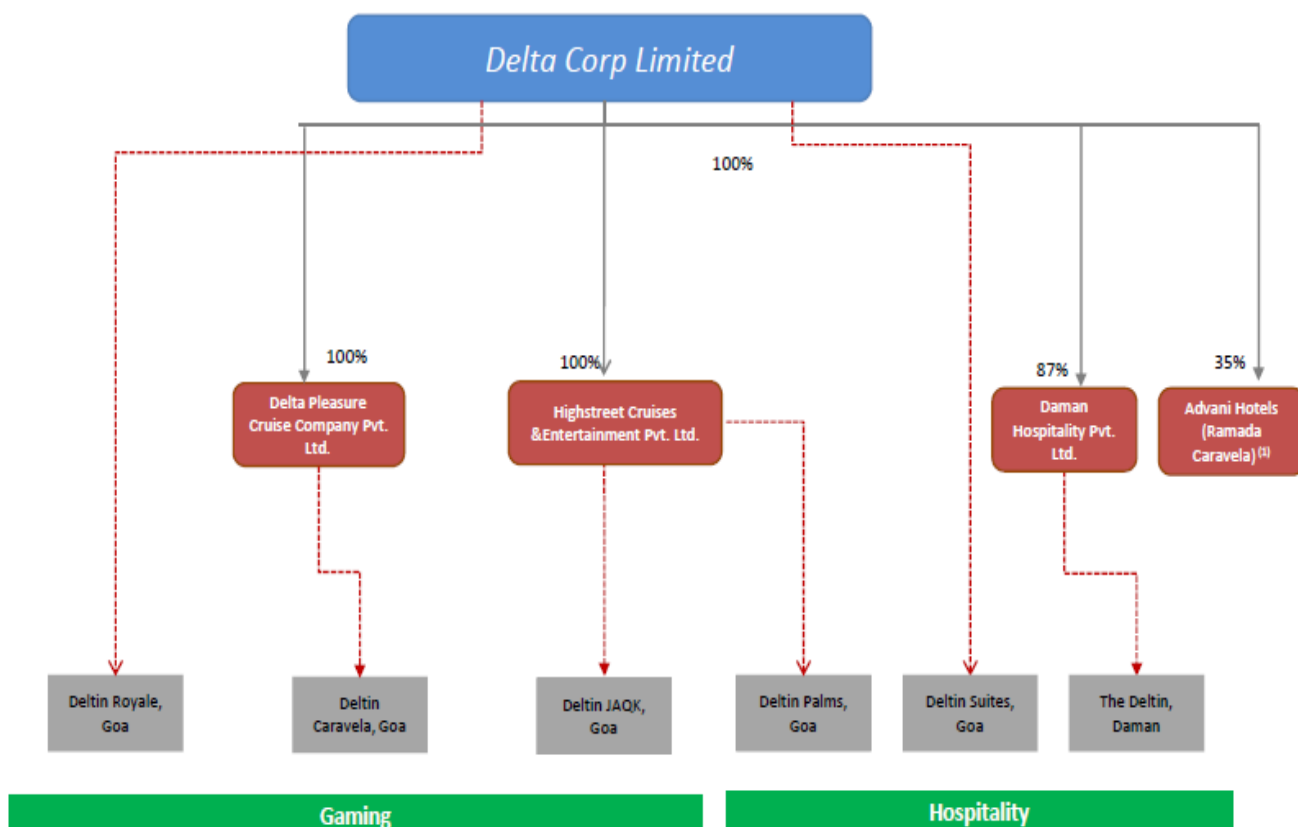
Source: Company, MOSL

Revenue split – FY16E



Source: Company, MOSL

DELTA's corporate structure (As on 30<sup>th</sup> June, FY14)



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, and is setting up a first of its kind integrated casino resort in Daman.

**Deltin Royale, Goa:** *Deltin Royale*, with five operational decks, is currently India's largest offshore gaming vessel, offering ~1,500 gaming positions, comprising 123 live gaming tables and 65 slot machines.

#### Deltin Royale is India's largest offshore gaming destination



Source: Company, MOSL

#### Deltin Royale has 1,500 gaming positions, comprising 123 live gaming tables and 65 slot machines



Source: Company, MOSL



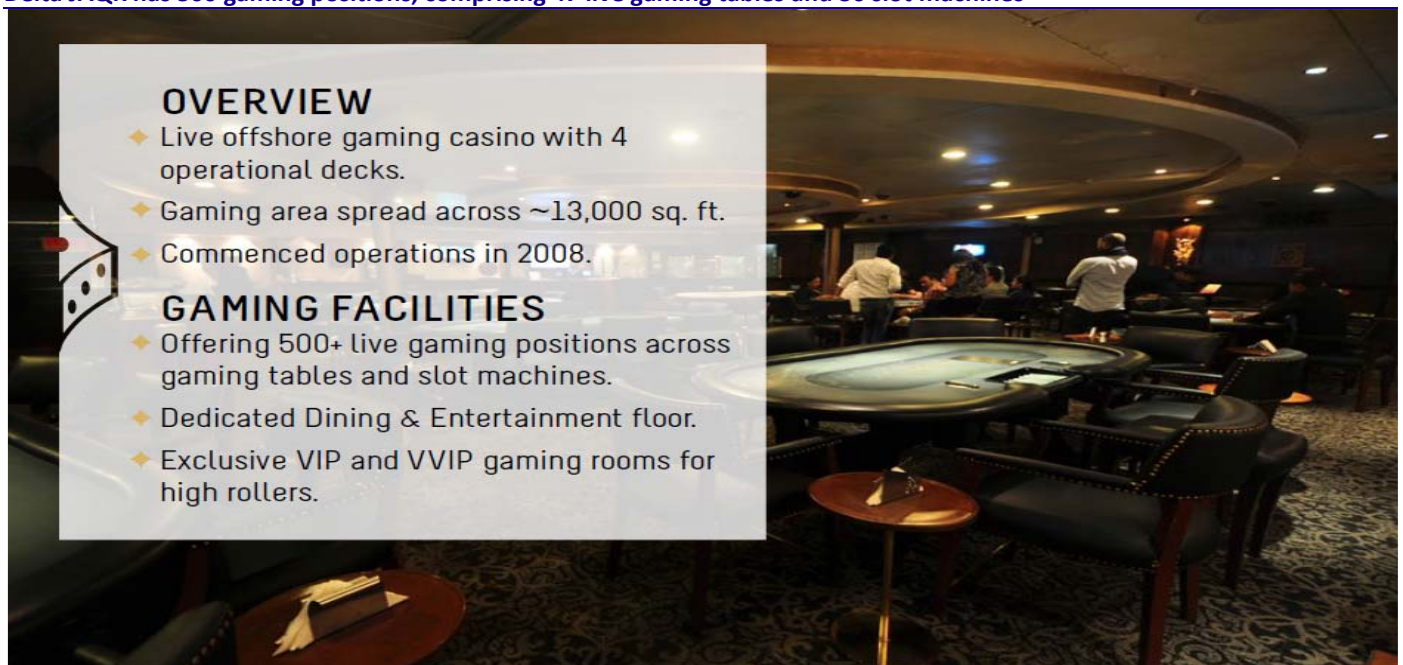
**Deltin JAQK, Goa:** Operational since 2008, Deltin JAQK, with four operational decks covering an area of approximately 31,900sf, offers approximately 500 gaming positions, comprising 47 live gaming tables and 30 slot machines.

**Deltin JAQK is India's second largest offshore gaming destination**



Source: Company, MOSL

**Delta JAQK has 500 gaming positions, comprising 47 live gaming tables and 30 slot machines**



Source: Company, MOSL

**Deltin Caravela, Goa:** Deltin Caravela, currently under renovation is India's first offshore gaming casino. Once operational, it will offer approximately 200 gaming positions, comprising 17 live gaming tables and 10 slot machines.

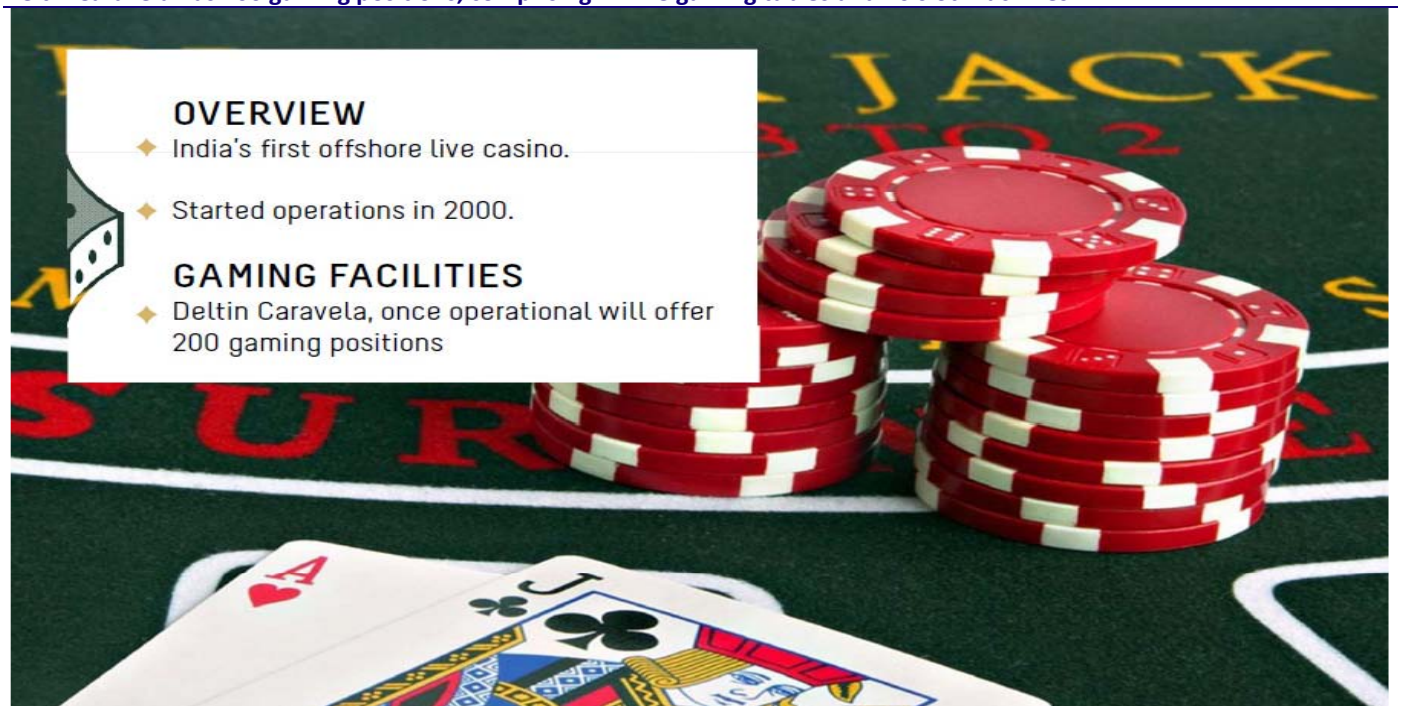
**Deltin Caravela started operations in 2000, and is India's first offshore live casino**



♥..... ALL SUITE LUXURY FLOATING HOTEL & CASINO .....♥

Source: Company, MOSL

**Deltin Caravela has 200 gaming positions, comprising 17 live gaming tables and 10 slot machines**



#### OVERVIEW

- ◆ India's first offshore live casino.
- ◆ Started operations in 2000.

#### GAMING FACILITIES

- ◆ Deltin Caravela, once operational will offer 200 gaming positions

Source: Company, MOSL



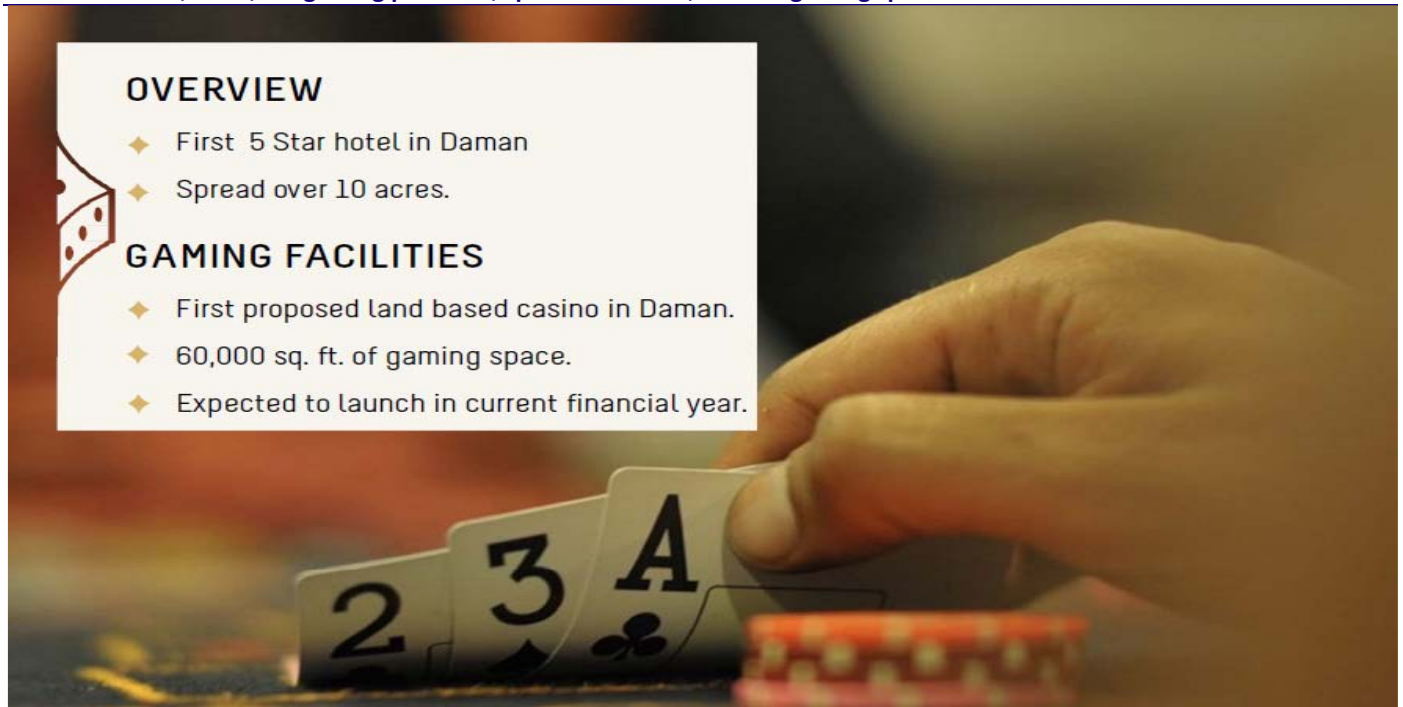
**The Deltin, Daman:** During 2HFY15, DELTA is likely to launch a land-based casino in Daman through its hospitality project named **The Deltin**, adding 1,000-1,200 gaming positions.

**The Deltin is the first casino to be launched in Daman**



Source: Company, MOSL

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



Source: Company, MOSL

### Hospitality

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.

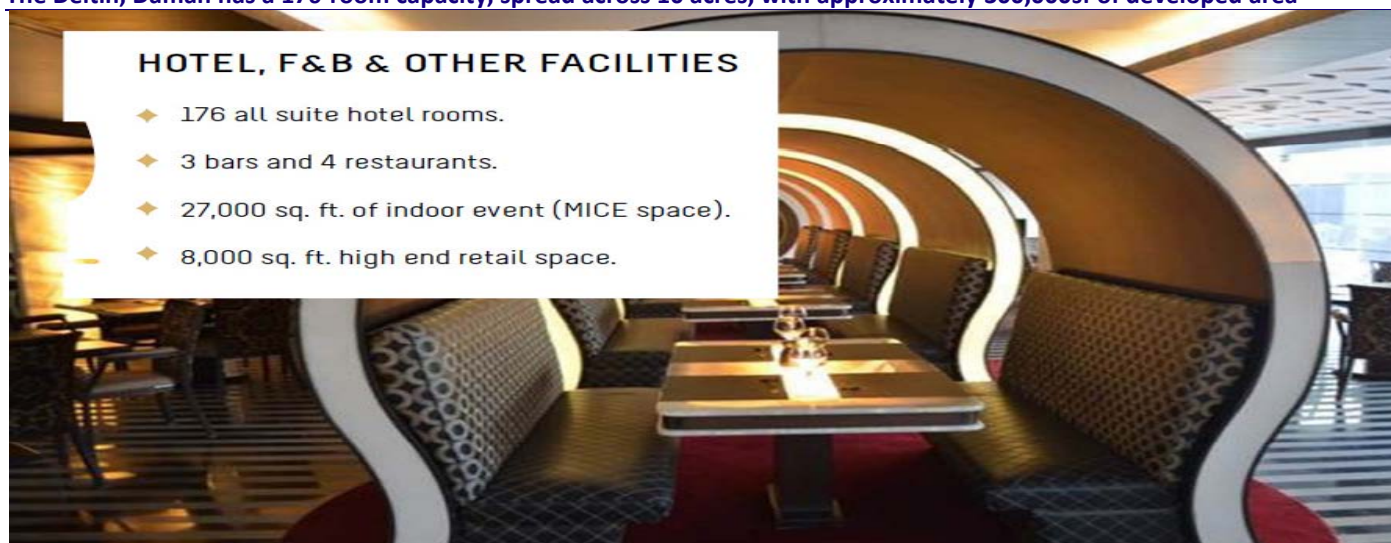
**The Deltin, Daman:** DELTA owns a majority stake in Daman Hospitality Private Limited, which in turn owns a 176-room five-star deluxe property, *The Deltin* in Daman. *The Deltin* is the largest integrated resort in Daman, spread over 10 acres, with 300,000sf of developed area. This hotel will offer the largest banquet facility in the area, with three bars, four specialty restaurants, 29,000sf 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.

#### The Deltin is the first five-star hotel to be launched in Daman



Source: Company, MOSL

#### The Deltin, Daman has a 176-room capacity, spread across 10 acres, with approximately 300,000sf of developed area



Source: Company, MOSL



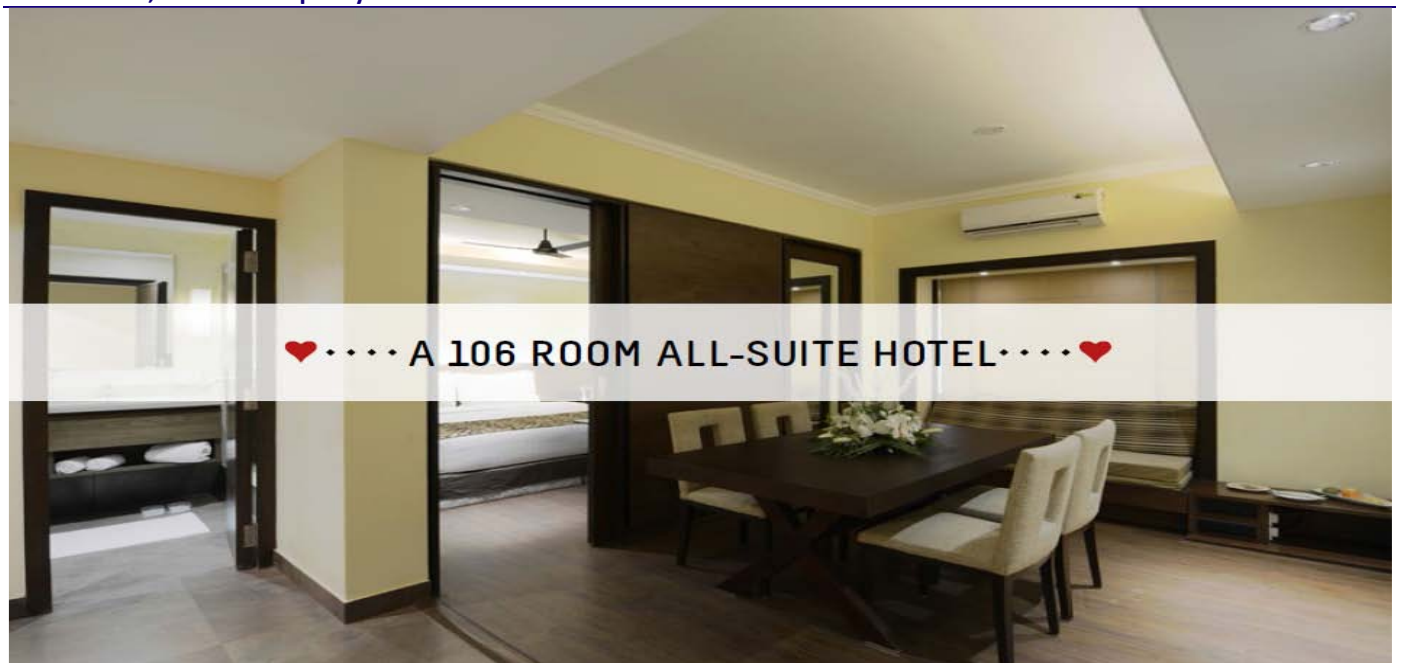
**Deltin Suites, Goa:** DELTA recently launched an all-suite hotel, *Deltin Suites* in Nerul, North Goa. *Deltin Suites* is equipped with all modern amenities and recreational facilities, including two restaurants, a lounge bar, spa, gym, and swimming pool. The property is 5-10 minutes' drive from the popular Candolim and Calangute beaches, and is close to boarding points for DELTA's casinos.

**Deltin Suites is located at Nerul, Goa close to Candolim / Calangute beaches, and boarding points for DELTA's casinos**



Source: Company, MOSL

**Deltin Suites, Goa has a capacity of 106 rooms**



Source: Company, MOSL

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

**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

**Deltin Palms, Goa has a capacity of 27 rooms**



Source: Company, MOSL



## Popular games at Delta's casinos

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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 up to 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 "Pass Line". 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

### Income statement (INR Million)

Y/E March	2012	2013	2014	2015E	2016E	2017E
<b>Net Sales</b>	<b>3,649</b>	<b>4,254</b>	<b>5,586</b>	<b>3,565</b>	<b>5,220</b>	<b>6,467</b>
Change (%)	-2.9	16.6	31.3	-36.2	46.4	23.9
<b>EBITDA</b>	<b>1,006</b>	<b>848</b>	<b>1,501</b>	<b>1,011</b>	<b>1,739</b>	<b>2,290</b>
EBITDA Margin (%)	27.6	19.9	26.9	28.4	33.3	35.4
Depreciation	65	81	166	241	264	271
<b>EBIT</b>	<b>941</b>	<b>767</b>	<b>1,335</b>	<b>770</b>	<b>1,475</b>	<b>2,019</b>
Interest	107	155	334	302	202	76
Other Income	127	185	312	156	179	206
Extraordinary items	0	-52	143	0	0	0
<b>PBT</b>	<b>961</b>	<b>849</b>	<b>1,170</b>	<b>624</b>	<b>1,453</b>	<b>2,149</b>
Tax	292	340	520	212	494	731
Tax Rate (%)	30.3	40.0	44.4	34.0	34.0	34.0
<b>Reported PAT</b>	<b>670</b>	<b>509</b>	<b>650</b>	<b>412</b>	<b>959</b>	<b>1,419</b>
<b>Adjusted PAT</b>	<b>501</b>	<b>262</b>	<b>432</b>	<b>412</b>	<b>959</b>	<b>1,419</b>
Change (%)	-69.8	-47.6	64.7	-4.8	132.8	48.0
Min. Int. & Assoc. Share	-169	-216	-297	0	0	0
<b>Adj Cons PAT</b>	<b>501</b>	<b>262</b>	<b>432</b>	<b>412</b>	<b>959</b>	<b>1,419</b>

### Balance sheet (INR Million)

Y/E March	2012	2013	2014	2015E	2016E	2017E
Share Capital	226	227	228	228	228	228
Reserves	7,291	7,505	7,473	7,819	8,538	9,578
<b>Net Worth</b>	<b>7,517</b>	<b>7,732</b>	<b>7,701</b>	<b>8,046</b>	<b>8,765</b>	<b>9,806</b>
Debt	4,554	4,850	3,524	2,524	1,524	0
Deferred Tax	14	4	0	0	0	0
<b>Total Capital Employed</b>	<b>13,164</b>	<b>14,202</b>	<b>11,749</b>	<b>11,095</b>	<b>10,814</b>	<b>10,330</b>
Gross Fixed Assets	1,203	2,950	7,418	8,660	8,910	9,160
Less: Acc Depreciation	232	332	645	886	1,150	1,421
<b>Net Fixed Assets</b>	<b>970</b>	<b>2,619</b>	<b>6,773</b>	<b>7,774</b>	<b>7,761</b>	<b>7,740</b>
Capital WIP	4,115	5,217	992	0	0	0
Investments	1,343	1,141	1,048	1,048	1,048	1,048
<b>Current Assets</b>	<b>7,407</b>	<b>5,495</b>	<b>3,295</b>	<b>1,971</b>	<b>1,961</b>	<b>1,737</b>
Inventory	3,173	2,366	717	0	0	0
Debtors	647	145	674	49	72	89
Cash & Bank	1,323	466	551	502	398	83
Loans & Adv, Others	2,263	2,517	1,353	1,420	1,491	1,566
<b>Curr Liabs &amp; Provns</b>	<b>1,046</b>	<b>1,138</b>	<b>1,146</b>	<b>486</b>	<b>743</b>	<b>982</b>
Curr. Liabilities	664	774	730	0	0	0
Provisions	382	364	416	486	743	982
<b>Net Current Assets</b>	<b>6,360</b>	<b>4,358</b>	<b>2,149</b>	<b>1,485</b>	<b>1,218</b>	<b>756</b>
<b>Total Assets</b>	<b>13,164</b>	<b>14,202</b>	<b>11,749</b>	<b>11,094</b>	<b>10,813</b>	<b>10,330</b>

E: MOSL Estimates

## Financials and valuations

### Ratios

Y/E March	2012	2013	2014	2015E	2016E	2017E
<b>Basic (INR)</b>						
EPS	2.2	1.2	1.9	1.8	4.2	6.2
Cash EPS	2.5	1.5	2.6	2.9	5.4	7.4
Book Value	33.9	34.1	33.8	35.4	38.5	43.1
DPS	0.4	0.2	0.2	0.3	0.9	1.4
Payout (incl. Div. Tax.)	20.1	22.8	18.8	16.2	25.0	26.7
<b>Valuation(x)</b>						
P/E			47.4	49.7	21.4	14.4
Cash P/E			34.3	31.4	16.8	12.1
Price / Book Value			2.7	2.5	2.3	2.1
EV/Sales			4.2	6.3	4.1	3.2
EV/EBITDA			15.6	22.2	12.4	8.9
Dividend Yield (%)			0.3	0.3	1.0	1.6
<b>Profitability Ratios (%)</b>						
RoE	7.2	3.4	5.6	5.2	11.4	15.3
RoCE	10.6	7.7	13.8	8.5	15.9	22.2
<b>Turnover Ratios (%)</b>						
Asset Turnover (x)	0.3	0.3	0.5	0.3	0.5	0.6
Debtors (No. of Days)	64.7	12.5	44.0	5.0	5.0	5.0
Inventory (No. of Days)	317.4	203.0	46.9	0.0	0.0	0.0
Creditors (No. of Days)	91.7	82.9	65.2	0.0	0.0	0.0
<b>Leverage Ratios (%)</b>						
Net Debt/Equity (x)	0.6	0.6	0.5	0.3	0.2	0.0

### Cash flow statement

(INR Million)

Y/E March	2012	2013	2014	2015E	2016E	2017E
OP/(Loss) before Tax	962	849	1,175	624	1,453	2,149
Depreciation	65	81	166	241	264	271
Others	0	0	0	0	0	0
Interest	75	10	199	146	23	-130
Direct Taxes Paid	-77	-365	-332	-212	-494	-731
(Inc)/Dec in Wkg Cap	-648	2,235	1,130	615	163	147
<b>CF from Op. Activity</b>	<b>473</b>	<b>2,847</b>	<b>2,295</b>	<b>1,414</b>	<b>1,408</b>	<b>1,707</b>
(Inc)/Dec in FA & CWIP	-3,483	-3,692	-753	-250	-250	-250
(Pur)/Sale of Invt	4,206	205	631	0	0	0
Others	-4,072	-643	779	156	179	206
<b>CF from Inv. Activity</b>	<b>-3,350</b>	<b>-4,129</b>	<b>657</b>	<b>-94</b>	<b>-71</b>	<b>-44</b>
Inc/(Dec) in Net Worth	26	49	22	0	0	0
Inc / (Dec) in Debt	2,690	301	-1,177	-1,000	-1,000	-1,524
Interest Paid	-107	-155	-334	-302	-202	-76
Divd Paid (incl Tax)	-89	-109	-57	-67	-240	-378
<b>CF from Fin. Activity</b>	<b>3,560</b>	<b>425</b>	<b>-2,867</b>	<b>-1,369</b>	<b>-1,442</b>	<b>-1,978</b>
<b>Inc/(Dec) in Cash</b>	<b>684</b>	<b>-857</b>	<b>84</b>	<b>-49</b>	<b>-104</b>	<b>-315</b>
Add: Opening Balance	640	1,323	466	551	502	398
<b>Closing Balance</b>	<b>1,323</b>	<b>466</b>	<b>551</b>	<b>502</b>	<b>398</b>	<b>83</b>

E: MOSL Estimates

## Disclosures

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In respect of any matter arising from or in connection with the research you could contact the following representatives of Motilal Oswal Capital Markets Singapore Pte Limited:

### Anosh Koppikar

Email: anosh.koppikar@motilaloswal.com

Contact: (+65) 68189232

Office Address: 21 (Suite 31), 16 Collyer Quay, Singapore 04931

### Kadambari Balachandran

Email : kadambari.balachandran@motilaloswal.com

Contact: (+65) 68189233 / 65249115



## Motilal Oswal Securities Ltd

Motilal Oswal Tower, Level 9, Sayani Road, Prabhadevi, Mumbai 400 025

Phone: +91 22 3982 5500 E-mail: reports@motilaloswal.com