



“Delta Corp Ltd Q3 FY19 Conference Call”

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MANAGEMENT: MR. HARDIK DHEBAR – GROUP CHIEF FINANCIAL OFFICER – DELTA CORP

MODERATOR: MR. ANUBHAV GUPTA – EMKAY GLOBAL FINANCIAL SERVICES

Moderator: Ladies and Gentlemen, good day and welcome to the Q3 FY19 Results Call of Delta Corp Limited, hosted by Emkay Global Financial Services. We have with us today Mr. Hardik Dhebar – Chief Financial Officer. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Anubhav Gupta of Emkay Global. Thank you and over to you, sir.

Anubhav Gupta: Thanks, Aman. Good evening, everyone. Thanks for joining us for the Delta third quarter earnings call. I would like to welcome Hardik and thank him for giving us this opportunity to host him for the third quarter call. I would now hand over the call to Hardik for his opening remarks, and then we can start the Q&A. Over to you,

Hardik Dhebar: Good evening, everybody. Thank you, Anubhav. It is just very heartening to come on a call and try to be as brief as possible, because the numbers speak for themselves. And we as management are very happy not talking too much when the numbers have spoken. We have always said that historically second quarter sets the tone and has always been the best quarter in the history of Delta Corp. And once the tone is set by the second quarter, it is the third quarter which carries the baton forward. And that becomes more or less a pattern year after year.

This year is no different, we did about Rs. 202 crores in quarter two, we have repeated the feat in quarter three. And we are very confident, given the fact the way the business has been panning out over the last couple of quarters that our belief in what we have said time and again that the potential of this business to grow beyond and continue to keep growing at this pace is humongous. And we see for a very-very long foreseeable future that this kind of growth can be sustained.

Having said that, it is even more heartening to report that despite the multifold growth in the license fees that hit us in the beginning of this year, not only has the business withstood and absorbed and sustained but has been able to maintain and better the margins. And it only shows the resilience that the business has. And the fact that we have always said that it is a very-very high operating leverage business. And to add to that, obviously, the potential as we have said time and again that we are at a very nascent stage, even at a Rs. 600 crores types of revenue for nine months that we are clocking, about Rs. 580 crores to be precise, I would still say that we are at a very much of an infancy or a nascence of the business, given the world gaming scenario. And therefore it is only very-very exciting that our belief in the business, our belief in the business model is being reiterated and confirmed by the numbers that we produce quarter after quarter. And we are very hopeful and confident that in the future we will be able to sustain and maintain this kind of growth.

Well, there is nothing much that needs explanation in these numbers. Some of the key facts and figures that a lot of people typically want to know, yes we have grown overall in visitations. I had said in the call in quarter two that we have about 100,000 visitations which was up from an 80,000 visitations in the previous year in the similar quarter, as against 100,000 this quarter we have reported a visitation of close to 118,000, which is an 18% growth in visitations. Which again shows that the sustained number of footfall growth is going to continue for some more time. And based on these facts the robustness of the business keeps getting demonstrated.

We would also like to say that October, November basically was the 10th year of our operation, we commenced our commercial operations way back in 2008 in November and this November we completed 10 years, which we obviously celebrated in a very small way in our own way that we thought we should. And now with this quarter we are celebrating 10th year in the real sense of the term, demonstrating two robust quarters with large decent numbers commemorating our 10 years.

Nothing more in terms of the gaming business that I need to add. Online business, which obviously had a subdued level of EBITDA margins last quarter based on the fact that we had embarked on a journey where we thought we need to pump in more in terms of our marketing and bonuses and sales promotion activities, which obviously did not or was not yielding the kind of results that we anticipated or expected it to throw up. And therefore we took a step back and we looked at all our expenses, cost and strategies, we have rationalized our marketing expense and cost without compromising the revenue number. In fact, December was our best month for the revenue as far as the online business is concerned. And with this we not only have recovered back our margins, which as most of you will see is now about 22% at the EBITDA level, we will be able to sustain this and going forward our margins which had gone down to single-digits we will be able to bring it back to 15%, 20% bracket that we have always said that we would like to be at.

On the whole, Rummy and Fantasy also have now been quite bit in the fray. Fantasy has been growing and doing reasonably well, but again, like we had said we are not going all out and burning too much cash, we are being very focused, conscious and conservative, but at the same time growing. 2019 could be a big year as far as fantasy sports is concerned, given that you have the World Cup and a lot of other things, IPL followed by the World Cup, and everything else back to back. That could mean a lot of thrust and lot of push and lot of growth for the fantasy business.

As far as Rummy is concerned, there has been a little bit of delay as far as our platform was concerned, which we were developing and bettering. But it is good to report again that the platform is now more or less ready, and by the end of January or February we should be able to reposition the entire Rummy game on our online platform. And post that we should see a bigger and better traction from the Rummy vertical as well.

Poker has been the best pick and is doing well, and we will continue doing well in poker.

There is nothing extraordinary or no one time or nothing different in terms of the sets of the numbers, and therefore not trying to talk too much, I would let people raise any concerns, queries, issues, if any, on the numbers or on the business as a whole. And I would like to take questions now.

Moderator: Thank you very much. Ladies & gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Shaleen Kumar from UBS. Please go ahead.

Shaleen Kumar: I was wondering is there a possibility that you can share some more information on the online gaming front, like what exactly is driving the revenue over here, any sense on what kind of a visitor addition you have seen or there is a increase in the fees or gaming revenue over there, any light? Because we absolutely have no idea about the operating parameters of this company.

Hardik Dhebar: I am surprised Shalin that you are saying this. But since you have raised this query, yes. First of all, thanks for the number compliment. Yes, we have added close to about 100,000 people, new registrations in the three months. Our total registered user base currently stands at 1.5 million. As regards your query on what have we done differently, I do not think there is any difference in the way the game is conducted or the business is conducted. There are no increase in charges or fees or anything as far as we are concerned, it is purely rationalization of cost that has helped us improve the margins. Because if you see the top-line, the top-line is not very different, it is the cost that have been, I would not want to use the word curtailed, but rationalized, that has resulted in to better margins. As regards strategy is concerned, we are very clear we are going to be focusing on the market and acquisition of new players in the best possible way, and we will keep on exploring whichever options are available, considering the growth potential. And at the same time keeping the cost rationalized.

Shaleen Kumar: Sir, is there a number in your mind in terms of registered members you could be possibly targeting for next financial year? Or how do you approach, what's the revenue approach here?

Hardik Dhebar: I really am not understanding your question, sky is the limit as far as growth is concerned. And we would like to have as many registered users as we can, and not only registered users is important, what is important is the active users. So, while we keep on acquiring new users and our kitty on the registered users will keep on growing, but our idea would be to retain and ensure that these registered users convert themselves into active users.

Shaleen Kumar: So, just last bit, you said your registered users is around 1.5 million, right?

Hardik Dhebar: Right. This is only Poker, we have about 400,000 registered users in Rummy and surprisingly fantasy though being a late entrant has caught up, and we have about 400,000 registered users

in fantasy. And so as an online business or a pool, we have about 2.5 million users, which I can cross market all the games from one to the other, and are growing.

Shaleen Kumar: And proportionate of active users in Poker?

Hardik Dhebar: Close to about 100,000.

Moderator: Thank you. We have the next question from the line of Chintan Modi from Motilal Oswal Securities. Please go ahead.

Chintan Modi: My question is, continuing from the earlier question, what I wanted to understand, if you can share some insights in terms of globally this online business has been pretty large, whereas in India it is quite at a nascent stage. And as you highlighted that promotions and bonuses has not fully helped us in the last quarter. So, what levers are available to us today to bring in more traction in this business? As we can see last four quarters we have been like doing average of Rs. 36 crores per quarter in terms of top-line.

Hardik Dhebar: So, any business when you compare it on a global scenario, whether it is the online business or the offline business, it is very nascent when it comes to India as compared to the global scenario. And the potential to grow is identical whether it is online or offline, offline obviously has a much larger potential whereas online will continue to grow at a large pace but on a smaller base. With regards to saying that the activities undertaken by us in the sales, promotion, marketing and in those areas have not fully paid off, I would not say that. But it is just that the aggression with which we were going, I do not think that was the need of the hour, what was the need of the hour is to pick the right source, pick the right channel to ensure that we use the right mediums and the channels to market and advertise so that we attract the right kind of customer. So, I cannot be going and doing stuff which may on the face of it look very attractive or very good, but it is not going to yield me anything. And which is what sometimes we make a mistake when we say marketing we go all out and then when the results are not rewarded, we need to actually sit back and think. And that is what we have actually done. And so, we are only rationalizing, and that is where I said we have not curtailed cost, we are open to going back to numbers and the kind of cost that we have done. But we are looking at various mediums and channels that is going to give us the right kind of target audience and clientele. And as you know this is a business where you cannot have foreigners participating, not in terms of investments but in terms of playing. Therefore the basket is always going to remain local. And we have to do everything to attract more and more local people to get accustomed to the online portals.

Chintan Modi: Sir, do we monitor market share here on a quarterly basis for the industry growth?

- Hardik Dhebar:** Very difficult, between there is not too much published data available on this market, because most of the players are all private individual driven companies and therefore it is not very easy to get a verified data on this front.
- Chintan Modi:** And any insight if you can give on what has been competition doing, anything different or...?
- Hardik Dhebar:** No, I think everyone is trying to do the same thing, only as I had said that we have upped the ante when it comes to tournaments, and therefore created a barrier in a business or an industry where there is none. So, the competition is also trying to grapple themselves and trying to come up the curve. But it is obviously going to be that much more difficult given the background that we have and the backing that Adda has, it is not going to be easy for the others. But otherwise there is nothing very different that anybody else is doing than what we are doing.
- Chintan Modi:** So, should we assume like we would have grown largely in line with the industry or have grown better than the industry?
- Hardik Dhebar:** I think we being 60%, 65% of the industry or 70% of the industry, we will always be setting the pace of growth. And therefore we cannot be very different. We will obviously be a little better than the industry but we cannot be very different than the industry.
- Chintan Modi:** And secondly, we recently filed a writ petition, of course as per my understanding writ petition would be last kind of the resort from company. So, what exactly if you can highlight, like what made us file writ petition and what are we expecting in terms of that?
- Hardik Dhebar:** As far as expectation is concerned, nobody is ever going to say that I am not expecting anything good. We have always said that we have a very strong position and the expectation is...
- Chintan Modi:** In terms of timelines.
- Hardik Dhebar:** Timelines, well, writ is not like a normal civil suit, so obviously it is going to be more fast tracked and we are hopeful that we will have some decision soon.
- Chintan Modi:** And what would have made us file this?
- Hardik Dhebar:** Well, we had always maintained that this is an option which we can explore when we think the time is right. I think we waited and gave enough time and opportunity for the counter party to come up with something. Having failed on every front to receive a response or receive some action, this is what we thought was only way left for us to pursue. So, this is not something that was not planned or not known, this was always known to all the investor community that this is an option available which we can resort to and it was only a question of time when we wanted to do it and we have done it.

- Chintan Modi:** And lastly, if you can give a breakup of the casino business, between the vessels how it was in terms of growth and absolute number if you can share?
- Hardik Dhebar:** We have been doing steadily on all the boats. We typically do not share the boat wise numbers anywhere but if it is a requirement we can speak offline and I can make you understand and go through the numbers.
- Moderator:** Thank you. Our next question is from the line of Anuj Momaya from Value Quest. Please go ahead.
- Anuj Monaya:** Sir, some dry docking which was scheduled for us, when is the dry docking for us?
- Hardik Dhebar:** We did dry docking in 2016, so we have to do it in I think three years, and we had sought an extension. So, I think next year or year after that is when we will get dry docking, not anytime this year.
- Anuj Monaya:** So, what is the status of this land policy with the state government, Goa state government?
- Hardik Dhebar:** We all know what the status is, it's the Chief Minister's health which needs improvement. He has been improving and he has slowly but surely resumed work. And it is only once he resumes work and is in office for a few days consistently and is in position to take certain decisions which are more important and larger than the casino policy for the state of Goa, whether it is mining, whether it is law and order, only then in the list of priorities will this come. But yes, the announcement of the policy and the decision to move the casinos to land has already been announced on the floor of the house by the Chief Minister. So, one thing is assured that it has to happen and it is happening. Timing wise nobody had control on what can happen to one's health, and therefore it has gotten delayed. Fortunately, now we believe that there is a winter session of Goa Assembly for the budget purposes happening towards the end of January, and there were some articles in the papers which also said that there is a Tourism Trust being put by the Chief Minister on the tourism policy as well, which also is broadly touching upon the casinos and the importance of casinos and moving them to land and stuff like that. So, these are all indications that things are on track. It is just a question of time, it has got delayed but it was on nobody's control. And we are very hopeful that it is going to happen soon.
- Anuj Monaya:** And we are going to buy some more additional land, we had already bought some and we are looking to finalize some more land. So, have we bought the balance land?
- Hardik Dhebar:** Not yet.
- Anuj Monaya:** And sir how are these Sikkim operation and Nepal operations doing for us?

Hardik Dhebar: Sikkim operation, obviously is a small operation with the airport having commenced only in October, November this year. It is not the right season for the aviation space as well, given the fact that Sikkim you will have a lot of cancellations because of the fog and the weather in the current months. So, it is only post February, March that one will see the number of flights increase and the number of visitations increase. And that is where we will see the benefits of the airport coming in to Sikkim and the growth coming in. But otherwise yes, it has been doing reasonably okay, is making money. As far as Nepal is concerned, we have not yet commenced operations, we as the casino space and everything we have been ready for a while. I think there is a delay on the hotel getting its operational licenses and stuff like that, which we are told that by February, March they should be ready. So, we believe that next financial year we should get the full financial year of operations as far as Nepal is concerned.

Anuj Monaya: And what is the license fee you will be paying for Nepal?

Hardik Dhebar: It is negligible, nothing substantial.

Moderator: Thank you. Our next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, just wanted to know what would be the cash generation in the first nine months of operation for your company? And what would be the corresponding CAPEX that you would have incurred in the first nine months?

Hardik Dhebar: So, there is not any large CAPEX that was anyways planned and that was expected to happen other than the normal minor balancing of equipment of some stuff that we keep on doing all the time, which is normal repairs, maintenance and capital expenditure, in that sense. So, nothing substantial at all. And with regards to the cash, as of yesterday we were sitting on Rs. 460 crores of cash.

Pritesh Chheda: So, my question was a generation during the year, i.e. first...

Hardik Dhebar: I can tell you I just did the analysis for the last quarter and we have generated close to about Rs. 95 crores of cash from the business and after paying off all the advance tax and all the other normal operating expenses, we were net positive by about Rs. 50 crores, Rs. 60 crores.

Pritesh Chheda: This is for the last quarter?

Hardik Dhebar: For the last quarter.

Pritesh Chheda: Now, when you gave the cash figure you were Rs. 460 crores cash and bank balance in 2018 and you were at around a similar number even now after nine months of operations without a CAPEX that you mentioned. So, I am just trying to reconcile, has the cash gone somewhere in investments which is not a part of this Rs. 460 crores or how should we...

- Hardik Dhebar:** But Ritesh, there are taxes that we have paid, there are license fees that we have paid which you are missing out. We have paid close to about Rs. 100 crores in license fees, in this financial year itself.
- Pritesh Chheda:** No, this is capitalized or it is a part of your P&L?
- Hardik Dhebar:** No, it gets amortized because it is over the year that I have to amortize the expense.
- Pritesh Chheda:** So, it is capitalized, so there is Rs. 100 crores...
- Hardik Dhebar:** It is not capitalized my friend, but it is spread out over the year. Then there is tax, I would have paid close to about Rs. 60 crores to Rs. 70 crores in taxation. I have paid Rs. 85 crores to the shareholders of Adda for redeeming their preference shares. So, if you add all this, if you have been on the calls earlier, Ritesh, I am sure you would know all these numbers, and if you can reconcile with your own notes you will get the answer.
- Moderator:** Thank you. Our next question is from the line of Anubhav Gupta from Emkay Global. Please go ahead.
- Anubhav Gupta:** Hardik, there are some questions from the FII investors who couldn't log-in to the call, so I would like to start with my questions. So, the first question is, it has been two quarters when the Goa casinos had sustained revenue of about Rs. 200 crores and its very strong YoY growth, what is the reasonable guidance you would want to give from here on?
- Hardik Dhebar:** Well, we are not in the practice of giving guidance, Anubhav, as you would appreciate and as you would know us. But I think one can fairly assume that every time we have hit a new high, that high becomes our base and then we try to grow from there. So, if one would look at it that way, the Rs. 190 crores to Rs. 202 crores kind of range is where we think we would settle as a base and then we will continue to grow.
- Anubhav Gupta:** Second question is on the EBITDA margins in the casino business, what would that be in the first nine months?
- Hardik Dhebar:** We are about 40% which is a compression of about 100 to 150 basis points and that is purely on account of increase in the license fees and GST as compared to the previous years. So, if you were to take off the effect of these two increases then you are in fact looking at a much healthier and a much stronger margin on a like-to-like basis.
- Anubhav Gupta:** Right. So, as the casino revenue increases from Rs. 200 crores to higher levels, what kind of operating leverage gains are possible?
- Hardik Dhebar:** So, if you look at a thumb rule that we have gone by, for every Rs. 100 we end up adding Rs. 50 to Rs. 60 in the EBITDA, so that is the kind of number that we should look at.

Anubhav Gupta: Third question is on the taxation, the first nine months tax in FY19 is slightly higher than the...

Hardik Dhebar: So, what was happening in the previous year is that the surplus cash that we were investing, whatever gains that we were getting out of the liquid fund investments and the mutual fund investments were getting offsetted against some carry forward losses that we have had from the past. Those losses have since been exhausted, so obviously the effective rate of tax on that front is going up. And which is the only reason of the effective tax rate going up and nothing else.

Anubhav Gupta: Fourth question is, any update on sale of non-core assets, including land parcels or hotel investment?

Hardik Dhebar: Well, as regards the hotel investment which is the Advani Hotel & Resort is concerned, we believe that there are active discussions going on between the promoters and potential buyers. We are not aware of any concrete development because we are not in management. But having said that, we are very hopeful that in this financial year we may, as always, we are hopeful that we will get some news hopefully as regards Advani is concerned. As regards the land parcels are concerned, we are in the market to sell them at the right price. So, we haven't got any buyer as yet.

Anubhav Gupta: And the last question is on the marketing efforts, so did the team try to promote de-gambling to utilize idle capacity?

Hardik Dhebar: It is an ongoing process, Anubhav, so it is not that this quarter we will focus on day gaming and this quarter we are not focusing on day gaming. So, it is a continuous effort and it's a continuous process which we have to keep on doing till we are able to reach a breakthrough. We have seen this happen in our business earlier, Mondays, Tuesdays, Wednesdays, Thursdays were days where we would not be able to fill the ship, and today we have more than once... a couple of months ago I was on board with a few investors and a banker, and it was a Wednesday or a dry day and the boat was brimming full. So, I have had enough experiences where we have seen things take time to develop and we have to continue doing our effort. So, if you ask me that have we started marketing or have we marketed more concentratedly, I think the effort from the marketing team is always on and they will continue doing in a dogged manner. And we are very hopeful that like we have been able to make breakthrough and achieve the kind of numbers that we get on evenings and nights on weekdays and weekends, we will at some stage in the lifecycle we will obviously sooner rather than later breakthrough in the day gaming also.

Moderator: Thank you. Our next question is from the line of Grant Govertsen from Union Gaming. Please go ahead.

Grant Govertsen: I wanted to talk about the competitive environment, specifically your peers in the river boat space have acquired an old vessel from America that they are going to replace or they are going to temporarily use whether boats are in dry dock. Two questions there, number one, do you think that represents a lower number of gaming positions for them? And two, is there an opportunity for you to take market share during the time that they are in dry dock?

Hardik Dhebar: Grant, let me just tell you, while yes there could be a temporary shift of market while these guys are in dry docks and they do not have a vessel of sorts in operation, but I do not think that shift is going to remain permanent because the kind of market that the competition serves or addresses, if I may not say extremely different or very different, but it is definitely different from the kind of market and the clientele that we cater to. So, because there would not be a place for those guys to go and gamble during that period, they may shift temporarily, but I do not think that shift is going to be permanent. But having said that, Grant, I think the market is too large and too big and there is enough space for both of us to co-exist, survive and grow at decent numbers. So, it really does not matter and we have not still reached the stage where we need to poach ones customer from the other.

Grant Govertsen: And then just a follow-up from last quarter when you had some construction disruption and demand, I assume that that has wrapped up and operations are back to normal?

Hardik Dhebar: Yes, so the swimming pool area which was under construction because of which a couple of weddings and a couple of conferences could not be honored and we had to let go of them, those all issues have been addressed, we are back in full swing operations. And that is why even the hospitality space has done better than last quarter and the losses have narrowed there.

Moderator: Thank you. Our next question is from the line of Sandeep Agarwal from Naredi Investments. Please go ahead.

Sandeep Agarwal: Sir, my question is regarding the hospitality sector. Sir, when we think or plan to get BEP?

Hardik Dhebar: Sorry, I didn't understand that?

Sandeep Agarwal: Sir, in hospitality sector when we think of plan to get breakeven point?

Hardik Dhebar: So, my Goa hotel is already making money, so there is no question of waiting to have a plan. As regards Daman is concerned, Daman the hotel is more or less breaking even now. So, there is nothing long, there is no plan required, it is just that we had this construction or reconstruction and refurbishment of the swimming pool and other things which is what caused last quarter to be a little bad. But I think we are already breaking even and we will continue that breakeven.

Sandeep Agarwal: I think current quarter loss in segment revenue we show Rs. 5.93 crores?

- Hardik Dhebar:** That is right.
- Sandeep Agarwal:** So, my question is, when we get this amount?
- Hardik Dhebar:** That is post depreciation, and it is going to take a long time for a hotel like Daman to recover its depreciation. So, I do not think we are going to be making money post depreciation anytime soon, but having said that, at the operational level we are already making money. So, if you look at before interest and depreciation we are already breaking even, just about Rs. 50 lakhs, Rs. 60 lakhs, Rs. 70 lakhs of loss which is just a question of one or two things falling in place or getting one more event or one more wedding or one more good weekend and we should be through.
- Sandeep Agarwal:** Sir, my next question is regarding, sir after increase in license fee any consolidation you have seen in casino industry in Goa?
- Hardik Dhebar:** I think we have already addressed this in quarter two as well as quarter one that obviously what has happened is the land-based casinos, while the offshore casinos there has not been any change, but the land based casinos have obviously got consolidated in two ways, some of them have shut down, some of them have shrunk their size. So, effectively yes, there is a reduction in the effective number of casinos. And there is a obvious spill over of those people into the offshore casinos. And if one is a market leader with 60%, 70% market share he is bound to get the lion share of the spill over.
- Moderator:** Thank you. Our next question is from the line of Raj Parikh from Anand Rathi. Please go ahead.
- Raj Parikh:** Sir, I have just two basic questions, what would be the gross gaming revenue? And what would be the average footfall for the quarter?
- Hardik Dhebar:** During my opening remarks I mentioned that we have 118,000 visitations in the quarter as compared to 100,000 in quarter two, which is an 18% growth. And my gross gaming revenue is more or less steady at around Rs. 14,500, Rs. 15,000.
- Moderator:** Thank you. Ladies & gentlemen, that would be our last question. I would like to hand the conference over to the management for their closing comments. Thank you and over to you.
- Hardik Dhebar:** Well, thank you very much everybody for being on this call and putting up your questions and clarifications wherever possible, we have answered to the best of our ability. Once again, I would only say that we are at a very exciting time, the growth seems very-very clear, the path is clear and we will continue to maintain and sustain these growth rates. And we are hopeful that we will continue delivering good numbers. Thank you very much.



*Delta Corp Limited
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Moderator: Thank you very much. Ladies & gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference. Thank you all for joining us. And you may now disconnect your lines.