

July 31, 2023

Q1FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	834		804	
Sales (Rs. m)	13,523	15,809	14,672	17,616
% Chng.	(7.8)	(10.3)		
EBITDA (Rs. m)	1,660	2,110	1,542	2,025
% Chng.	7.7	4.2		
EPS (Rs.)	12.2	14.4	10.4	13.2
% Chng.	17.4	9.3		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	6,217	10,910	13,523	15,809
EBITDA (Rs. m)	946	1,097	1,660	2,110
Margin (%)	15.2	10.1	12.3	13.3
PAT (Rs. m)	284	414	808	957
EPS (Rs.)	4.6	6.2	12.2	14.4
Gr. (%)	50.6	37.3	95.1	18.4
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	3.3	3.9	7.1	7.8
RoCE (%)	5.5	4.0	9.4	11.9
EV/Sales (x)	6.1	3.7	2.9	2.5
EV/EBITDA (x)	40.0	36.8	23.8	18.6
PE (x)	152.6	111.1	56.9	48.1
P/BV (x)	4.3	4.2	3.9	3.6

Key Data

NAZA.BO | NAZARA IN

52-W High / Low	Rs.789 / Rs.480
Sensex / Nifty	66,528 / 19,754
Market Cap	Rs.46bn/ \$ 558m
Shares Outstanding	66m
3M Avg. Daily Value	Rs.417.47m

Shareholding Pattern (%)

Promoter's	19.05
Foreign	8.58
Domestic Institution	10.67
Public & Others	61.70
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.2)	17.4	31.0
Relative	(6.8)	5.1	13.3

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Nazara Technologies (NAZARA IN)

Rating: BUY | CMP: Rs694 | TP: Rs834

A mixed bag

Quick Pointers:

- Kiddopia/Animal Jam report healthy EBITDA margin of 28.0%/22.7%.
- Season-2 of BGMI master series (to be aired on Star Sports) is scheduled in 2QFY24.

We increase our EBITDA estimates by 8%/4% for FY24E/FY25E as we 1) re-align our margin assumptions for Kiddopia and Animal Jam amid strong performance in 1QFY24 2) tweak our A&P spends outgo and 3) build-in recovery in Nodwin business, despite EBITDA losses during the quarter as multiple IP's are lined up in coming months. Nazara reported a mixed bag of results with revenue miss of 10%, however, EBITDA margin was above our estimates of 12%. Despite ongoing challenges in Ad-Tech (loss of a large client), Kiddopia (stagnant subscriber base) and Real Money Gaming (GST levy of 28% on full bet value), return of BGMI and strong traction in SportsKeeda is likely to drive sales/EBITDA CAGR of 20%/39% over FY23-FY25E. Moreover, Nazara had cash balance of Rs6.2bn as of FY23 while Nodwin (Esports subsidiary) raised Rs2.3bn in May-23. In addition, there are plans to further raise Rs7.5bn in near future. We believe the cash ammunition will act as growth capital to expand inorganically from hereon. Retain our BUY rating with a DCF based TP of Rs834 (earlier Rs804).

Revenue increased 14% YoY: Revenue increased 14% YoY to Rs2,544mn (PLe Rs2,813mn). E-sports revenue was up 15.2% YoY to Rs1,178mn (PLe Rs1,200mn) aided by SportsKeeda. Ad-Tech revenues were down 15.6% YoY to Rs271mn (PLe Rs433mn) due to a loss of client while Gaming revenue was up 23.5% YoY to Rs1,095mn (PLe Rs1,180mn).

EBITDA/PAT margin at 13.0%/7.7%: EBITDA increased 10.2% YoY to Rs331mn (PLe Rs338mn) with a margin of 13.0% (PLe 12.0%) amid 29.7% YoY fall in ad-spends to Rs457mn. PAT after MI stood at Rs195mn (PLe Rs138mn) with a margin of 7.7% (PLe of 4.9%).

Con-call highlights: **1)** Kiddopia's CPT increased to US\$39 due to an issue with Google ad-platform that disrupted marketing campaign leading to an increase in customer acquisition cost. **2)** Kiddopia is expected to generate EBITDA margin of 20-23% in FY24E. **3)** Christopher Franklin has joined as CEO of NextWave Multimedia. **4)** Nodwin has potential to grow at 30-35% on annualized basis but was into EBITDA loss due to higher spends in gaming accessories business. However, Nodwin is expected to be profitable in FY24E. **5)** Revenue of PFN business was Rs25mn in 1QFY24. **6)** Employee cost was up 59.5% YoY due to consolidation of PFN and WildWorks (35-40 people). **7)** There is no impact on Esports due to hike in GST rate to 28% on full bet value as no money is put in as a wager by contestants in this category. **8)** Kiddopia ARPU has been flat since last 4-5 quarters despite 2 price hikes as a) old users are renewing at earlier rates and b) there is a shift in monthly/annual subscriber mix (pulling down overall ARPU). **9)** Contract for BGMI master series with Star Sports is for 3-years and the IP is expected to be profitable. **10)** GST council is scheduled to meet on 02nd Aug to revisit their earlier decision of levying 28% tax on full bet value. **11)** Valorant and Counter Strike are other few games beyond BGMI that have viewership potential from an Esports standpoint.

Exhibit 1: Q1FY24 Result Overview (Rs mn)

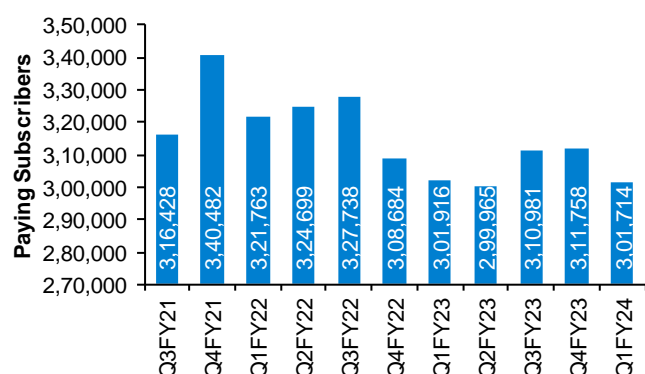
Consolidated financial table	1QFY24	1QFY23	YoY gr.	4QFY23	QoQ gr.
Net sales	2,544	2,231	14.0%	2,893	-12.1%
Content, event & web server	904	712	26.9%	1,336	-32.3%
<i>As a % of sales</i>	<i>35.5%</i>	<i>31.9%</i>		<i>46.2%</i>	
Advertisement Expenses	457	650	-29.7%	473	-3.3%
<i>As a % of sales</i>	<i>18.0%</i>	<i>29.1%</i>		<i>16.3%</i>	
Commission	137	121	12.7%	140	-2.3%
<i>As a % of sales</i>	<i>5.4%</i>	<i>5.4%</i>		<i>4.8%</i>	
Employee Cost	454	284	59.5%	426	6.4%
<i>As a % of sales</i>	<i>17.8%</i>	<i>12.7%</i>		<i>14.7%</i>	
Other Expenses	262	163	60.8%	241	8.8%
<i>As a % of sales</i>	<i>10.3%</i>	<i>7.3%</i>		<i>8.3%</i>	
EBITDA	331	300	10.2%	278	19.0%
<i>EBITDA margin</i>	<i>13.0%</i>	<i>13.5%</i>		<i>9.6%</i>	
Depreciation	152	143	6.3%	160	-5.2%
EBIT	179	157	13.8%	118	52.0%
<i>EBIT margin</i>	<i>7.0%</i>	<i>7.0%</i>		<i>4.1%</i>	
Interest cost	13	4	228.2%	29	-56.2%
Other income	117	66	77.9%	82	43.5%
Impairment	1	0	NM	5	-85.7%
Share of P/L of investments accounted using equity method	-	-	NM	-	NM
Exceptional items	-	-	NM	(25)	NM
PBT	283	219	29.0%	140	101.8%
Tax expenses	74	60	22.9%	46	59.7%
<i>Tax rate</i>	<i>26.2%</i>	<i>27.5%</i>		<i>33.1%</i>	
PAT	209	159	31.4%	94	122.6%
<i>PAT margin</i>	<i>8.2%</i>	<i>7.1%</i>		<i>3.2%</i>	
Minority Interest	14	46	-70.4%	68	-80.0%
PAT after MI	195	113	72.7%	26	658.8%
EPS (Rs)	3.0	1.7	71.5%	0.4	656.4%
Adjusted PAT	209	159	31.7%	124	69.1%

Source: Company, PL

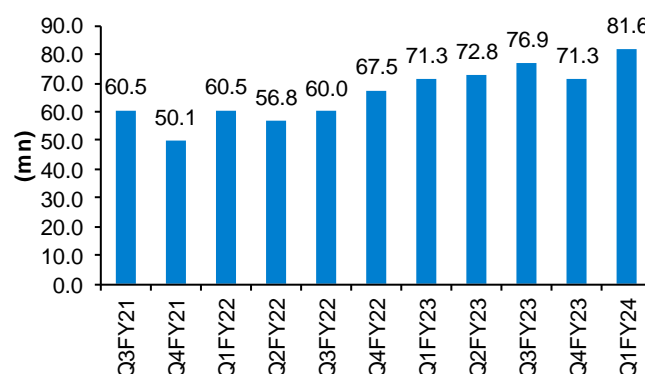
Exhibit 2: Segmental revenue & EBITDA breakdown (Rs mn)

Y/e March	1QFY24	1QFY23	YoY gr.	4QFY23	QoQ gr.
Gamified Early Learning	796	525	51.6%	801	-0.6%
As a % of sales	31.4%	23.5%		27.8%	
EBITDA	211	97	117.5%	132	59.8%
EBITDA margin	26.5%	18.5%		16.5%	
E-Sports	1,178	1,023	15.2%	1,401	-15.9%
As a % of sales	46.4%	45.9%		48.6%	
EBITDA	109	109	0.0%	127	-14.2%
EBITDA margin	9.2%	10.7%		9.1%	
Ad tech - Datawrkz	271	321	-15.6%	390	-30.5%
As a % of sales	10.7%	14.4%		13.5%	
EBITDA	13	34	-61.8%	27	-51.9%
EBITDA margin	4.8%	10.6%		6.9%	
Telco Subscription	108	150	-28.0%	115	-6.1%
As a % of sales	4.3%	6.7%		4.0%	
EBITDA	31	45	-31.1%	39	-20.5%
EBITDA margin	28.7%	30.0%		33.9%	
Freemium	72	74	-2.7%	49	46.9%
As a % of sales	2.8%	3.3%		1.7%	
EBITDA	25	26	-3.8%	6	316.7%
EBITDA margin	34.7%	35.1%		12.2%	
Real Money Gaming	112	138	-18.8%	124	-9.7%
As a % of sales	4.4%	6.2%		4.3%	
EBITDA	2	23	-91.3%	24	-91.7%
EBITDA margin	1.8%	16.7%		19.4%	
Total revenues	2,537	2,231	13.7%	2,880	-11.9%

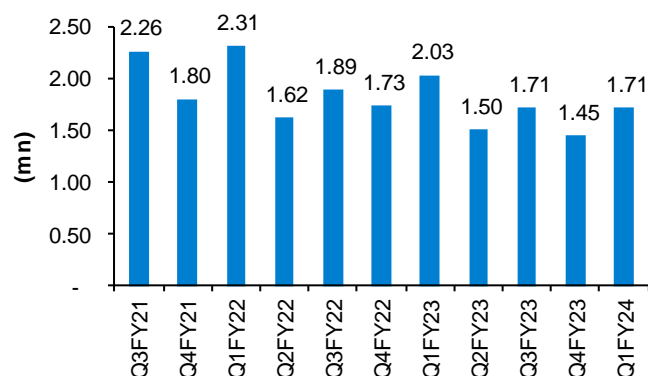
Source: Company, PL Note: Figures of erstwhile quarters are not restated and due to rounding errors segmental revenue may not match with total revenue.

Exhibit 3: Kiddopia's subs stood at 3,01,714 for 1QFY24


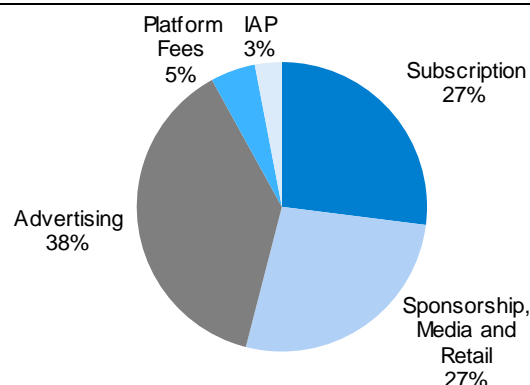
Source: Company, PL

Exhibit 4: SportsKeeda MAU's at an all-time high at 81.6mn


Source: Company, PL

Exhibit 5: Freemium DAU's stood at 1.71mn


Source: Company, PL

Exhibit 6: Advertising formed 38% of revenue for Q1FY24


Source: Company, PL

Exhibit 7: CPT of Kiddopia increased due to issues with attribution partner

Key Metrics	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
CPT (\$)	\$39.3	\$37.9	\$37.3	\$35.9	\$39.3
Marketing Spend (Mn)	\$2.7	\$3.1	\$3.4	\$3.2	\$2.6
Avg. Activation Rate	70%	70%	70%	68%	68%
Avg. ARPU	\$6.67	\$6.77	\$6.76	\$6.81	\$6.77
Avg. Churn	5.9%	6.5%	5.9%	6.4%	5.9%
Subscribers	3,01,916	2,99,965	3,10,981	3,11,758	3,01,714
Subs. Growth (QoQ)	-2.2%	-0.6%	3.7%	0.2%	-3.2%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	6,217	10,910	13,523	15,809
YoY gr. (%)	36.9	75.5	23.9	16.9
Cost of Goods Sold	-	542	906	980
Gross Profit	6,217	10,368	12,617	14,829
Margin (%)	100.0	95.0	93.3	93.8
Employee Cost	881	1,490	1,758	2,055
Other Expenses	473	876	1,055	1,186
EBITDA	946	1,097	1,660	2,110
YoY gr. (%)	111.6	16.0	51.4	27.1
Margin (%)	15.2	10.1	12.3	13.3
Depreciation and Amortization	390	571	574	640
EBIT	469	440	1,086	1,470
Margin (%)	7.5	4.0	8.0	9.3
Net Interest	6	47	43	43
Other Income	241	495	365	379
Profit Before Tax	704	868	1,409	1,806
Margin (%)	11.3	8.0	10.4	11.4
Total Tax	192	254	352	452
Effective tax rate (%)	27.3	29.3	25.0	25.0
Profit after tax	512	614	1,057	1,355
Minority interest	223	220	249	398
Share Profit from Associate	(5)	-	-	-
Adjusted PAT	284	414	808	957
YoY gr. (%)	208.7	45.8	95.1	18.4
Margin (%)	4.6	3.8	6.0	6.1
Extra Ord. Income / (Exp)	-	(20)	-	-
Reported PAT	284	394	808	957
YoY gr. (%)	208.7	38.7	105.1	18.4
Margin (%)	4.6	3.6	6.0	6.1
Other Comprehensive Income	30	-	-	-
Total Comprehensive Income	314	394	808	957
Equity Shares O/s (m)	65	66	66	66
EPS (Rs)	4.6	6.2	12.2	14.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	2,853	4,238	4,592	5,121
Tangibles	314	469	623	802
Intangibles	2,539	3,769	3,969	4,319
Acc: Dep / Amortization	1,245	1,816	2,390	3,030
Tangibles	237	321	405	499
Intangibles	1,008	1,495	1,985	2,531
Net fixed assets	1,608	2,422	2,202	2,091
Tangibles	77	148	218	303
Intangibles	1,531	2,274	1,984	1,788
Capital Work In Progress	11	2	2	2
Goodwill	2,632	3,407	3,407	3,407
Non-Current Investments	397	1,008	815	843
Net Deferred tax assets	(264)	(367)	(406)	(474)
Other Non-Current Assets	237	168	270	395
Current Assets				
Investments	4,093	2,668	2,668	2,668
Inventories	13	246	246	246
Trade receivables	847	1,536	1,927	2,599
Cash & Bank Balance	3,228	3,292	3,795	4,081
Other Current Assets	269	689	609	711
Total Assets	14,098	17,018	17,861	19,209
Equity				
Equity Share Capital	130	265	265	265
Other Equity	10,283	10,784	11,592	12,549
Total Network	10,413	11,049	11,857	12,814
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	51	52	88	103
Other non current liabilities	10	52	52	52
Current Liabilities				
ST Debt / Current of LT Debt	-	304	-	-
Trade payables	499	767	1,111	1,299
Other current liabilities	1,232	2,273	2,163	2,271
Total Equity & Liabilities	14,098	17,018	17,861	19,209

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	699	888	808	957
Add. Depreciation	390	571	574	640
Add. Interest	6	47	43	43
Less Financial Other Income	241	495	365	379
Add. Other	(3)	(309)	(165)	(293)
Op. profit before WC changes	1,092	1,197	1,260	1,347
Net Changes-WC	(281)	(856)	(46)	(484)
Direct tax	(190)	(260)	-	-
Net cash from Op. activities	621	81	1,214	863
Capital expenditures	(1,407)	(1,419)	(354)	(529)
Interest / Dividend Income	60	84	-	-
Others	(2,149)	383	(10)	(5)
Net Cash from Invst. activities	(3,496)	(952)	(364)	(534)
Issue of share cap. / premium	3,393	163	-	-
Debt changes	(38)	(7)	(304)	-
Dividend paid	-	-	-	-
Interest paid	(5)	(111)	(43)	(43)
Others	(3)	100	-	-
Net cash from Fin. activities	3,347	145	(347)	(43)
Net change in cash	472	(723)	503	286
Free Cash Flow	498	(2)	860	333

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	4.6	6.2	12.2	14.4
CEPS	10.4	14.9	20.9	24.1
BVPS	160.2	166.8	179.0	193.4
FCF	7.7	0.0	13.0	5.0
DPS	-	-	-	-
Return Ratio(%)				
RoCE	5.5	4.0	9.4	11.9
ROIC	29.0	6.3	15.8	19.7
RoE	3.3	3.9	7.1	7.8
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.5)	(0.5)	(0.5)
Net Working Capital (Days)	21	34	29	36
Valuation(x)				
PER	152.6	111.1	56.9	48.1
P/B	4.3	4.2	3.9	3.6
P/CEPS	66.9	46.7	33.3	28.8
EV/EBITDA	40.0	36.8	23.8	18.6
EV/Sales	6.1	3.7	2.9	2.5
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Net Revenue	2,638	3,148	2,893	2,544
YoY gr. (%)	103.5	69.4	65.2	14.0
Raw Material Expenses	276	130	79	106
Gross Profit	2,362	3,018	2,814	2,438
Margin (%)	89.5	95.9	97.3	95.8
EBITDA	213	305	278	331
YoY gr. (%)	9.2	0.7	86.6	10.2
Margin (%)	8.1	9.7	9.6	13.0
Depreciation / Depletion	103	149	160	152
EBIT	34	151	113	178
Margin (%)	1.3	4.8	3.9	7.0
Net Interest	9	5	29	13
Other Income	232	115	82	117
Profit before Tax	257	262	142	283
Margin (%)	9.7	8.3	4.9	11.1
Total Tax	88	60	46	74
Effective tax rate (%)	34.2	22.9	32.7	26.2
Profit after Tax	169	202	96	209
Minority interest	72	37	68	14
Share Profit from Associates	-	-	-	-
Adjusted PAT	102	165	53	195
YoY gr. (%)	(1.9)	60.2	140.5	72.7
Margin (%)	3.9	5.2	1.8	7.7
Extra Ord. Income / (Exp)	-	-	(25)	-
Reported PAT	102	165	28	195
YoY gr. (%)	(1.9)	60.2	25.9	72.7
Margin (%)	3.9	5.2	1.0	7.7
Other Comprehensive Income	68	36	12	(104)
Total Comprehensive Income	170	201	40	91
Avg. Shares O/s (m)	66	66	66	66
EPS (Rs)	1.6	2.5	0.8	2.9

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-23	BUY	804	726
2	11-May-23	BUY	804	566
3	11-Apr-23	BUY	872	540
4	28-Jan-23	BUY	898	592
5	06-Jan-23	BUY	1,012	576
6	21-Oct-22	BUY	1,012	670
7	06-Oct-22	BUY	1,031	740
8	01-Sep-22	BUY	1,031	670
9	01-Aug-22	BUY	911	636

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	504	443
2	Entertainment Network (India)	Hold	180	126
3	Indian Railway Catering and Tourism Corporation	Hold	679	632
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	BUY	2,993	2,699
6	Music Broadcast	Hold	18	11
7	Navneet Education	BUY	152	125
8	Nazara Technologies	BUY	804	726
9	PVR Inox	BUY	1,704	1,372
10	S Chand and Company	BUY	257	191
11	Safari Industries (India)	BUY	3,202	2,937
12	V.I.P. Industries	BUY	866	610
13	Zee Entertainment Enterprises	BUY	236	183

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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