

September 30, 2024

## Event Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	BUY		HOLD	
Target Price	1,185		923	
Sales (Rs.m)	15,104	18,486	15,104	18,486
% Chng.	0.0	0.0		
EBITDA (Rs.m)	2,131	2,810	2,131	2,810
% Chng.	0.0	0.0		
EPS (Rs.)	16.1	20.0	18.9	23.8
% Chng.	(14.9)	(16.0)		

EPS change not comparable due to dilution impact

### Key Financials - Consolidated

Y/e Mar	FY24	FY25E	FY26E	FY27E
Sales (Rs. m)	11,383	15,104	18,486	21,201
EBITDA (Rs. m)	1,279	2,131	2,810	3,591
Margin (%)	11.2	14.1	15.2	16.9
PAT (Rs. m)	713	1,435	1,784	2,129
EPS (Rs.)	9.3	16.1	20.0	23.9
Gr. (%)	48.9	72.7	24.3	19.4
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	4.6	5.4	5.2	5.9
RoCE (%)	2.1	5.3	5.8	7.2
EV/Sales (x)	5.4	5.1	4.2	3.6
EV/EBITDA (x)	47.6	36.4	27.3	21.0
PE (x)	105.5	61.1	49.1	41.2
P/BV (x)	3.8	2.6	2.5	2.3

### Key Data

NAZA.BO | NAZARA IN

52-W High / Low	Rs.1,124 / Rs.591
Sensex / Nifty	84,300 / 25,811
Market Cap	Rs.75bn/ \$ 897m
Shares Outstanding	77m
3M Avg. Daily Value	Rs.1122.21m

### Shareholding Pattern (%)

Promoter's	10.05
Foreign	6.05
Domestic Institution	16.76
Public & Others	67.13
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	5.8	46.3	17.5
Relative	3.3	27.8	(8.2)

### Jinesh Joshi

jineshjoshi@plindia.com | 91-22-66322238

### Stuti Beria

stutiberia@plindia.com | 91-22-66322246

### Dhvanit Shah

dhvanitshah@plindia.com |

## Inorganic moves to fuel growth

### Quick Pointers:

- Nazara acquires 47.7% stake in Moonshine Technologies Pvt Ltd (MTPL) for a consideration of Rs8.3bn
- Issues 9.4mn equity shares at Rs954 on preferential basis to raise Rs9bn

**We upgrade Nazara Technologies to BUY (earlier HOLD) with an SoTP-based TP of Rs1,185 (earlier Rs923) as we incorporate MTPL acquisition into our valuation. MTPL operates an online gaming platform, PokerBaazi, and we believe this acquisition will strengthen Nazara's position in real money gaming space. The acquisition is also expected to be value accretive for Nazara given the scale advantage and unfavorable tax regime (28% GST on full pot value) that is making survival increasingly difficult for smaller players (lowers competitive risks). Despite GST headwinds, PokerBaazi reported an EBITDA margin of 10% in FY24, indicating the platform has achieved scale. Further, over the last 3 years, PokerBaazi's top-line has increased by 4x to Rs4.1bn, and given the primary fund infusion of Rs1.5bn, we expect the growth trajectory to remain strong. We expect sales/EBITDA CAGR of 23%/41% over FY24-FY27E and upgrade the stock to a BUY with an SoTP-based TP of Rs1,185 (refer exhibit 3 for more details).**

**MTPL is a leader in poker industry with a market share of 50-55%:** Nazara has made an strategic investment by acquiring 47.7% stake in MTPL for a consideration of Rs8.3bn. Roughly, Rs5.9bn will be paid in cash, while for the balance obligation of Rs2.4bn, 2.5mn shares will be issued at Rs954 to the promoters of MTPL. In addition, Nazara will infuse Rs1.5bn into MTPL by the way of CCPS. Thus, total outgo towards the acquisition is expected to be Rs9.8bn.

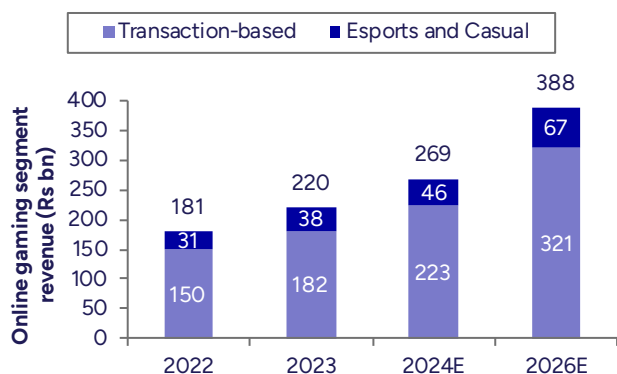
MTPL operates in the skill-based online gaming industry. It operates an online poker platform, PokerBaazi, and a sports and casual gaming platform, SportsBaazi. PokerBaazi is India's largest poker gaming platform with a market share of 50-55% and monthly active user base of ~340,000 as of May'24. As of FY24, MTPL reported revenues of Rs4.1bn with an EBITDA margin of 10%, implying the transaction happened at TTM EV/sales multiple of 4.2x.

**MTPL acquisition will strengthen Nazara's presence in real money gaming:** In CY23, market size of transaction-based online gaming increased 21% YoY to reach Rs182bn. Within transaction-based games, contribution from rummy & poker/fantasy sports/other ancillary games stood at 37%/53%/10%. After a levy of 28% GST on full pot value, smaller companies are facing survival challenges, as they are unable to absorb the higher taxation cost. Despite these challenges, MTPL reported an EBITDA margin of 10% in FY24, indicating the platform has achieved desired scale. If tail end of the market is eliminated due to higher taxation burden, we believe MTPL will be in a sweet spot to corner higher share in industry profits given its strong leadership position.

**Top-line CAGR of 30% over next 3 years:** We expect MTPL's top-line to grow at 30% CAGR over the next 3 years as primary infusion of Rs1.5bn via CCPS will provide the much needed growth capital in an environment where funding is hard to come by given non-favorable taxation policies. Further, as scale improves and competition subsides, EBITDA margin is likely to improve further.

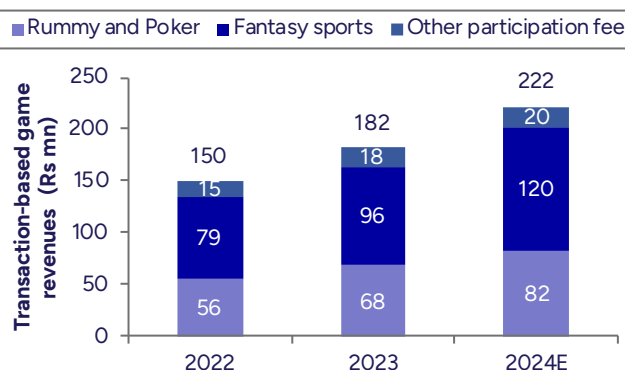
**Valuation & View:** We have not incorporated MTPL's projections into our estimates, as Nazara owns 47.7% (non-controlling stake) in the entity. Consolidation is likely to happen in future once CCPS conversion comes into effect. Nonetheless, we have incorporated the dilution impact arising from fund raise of Rs9bn. We change our valuation methodology to SOTP (earlier DCF) in order to capture the effect of investment made in MTPL. Our SOTP-based TP stands at Rs1,185. Upgrade to BUY.

**Exhibit 1: Online gaming grew 22% in 2023**



Source: Company, PL

**Exhibit 2: Transaction-based game revenues crossed Rs180bn in 2023**



Source: Company, PL

**Exhibit 3: SOTP Valuation**

Particulars (Rs mn)	Sales (FY24)	Sales (FY27E)	EV/Sales multiple	EV	Nazara's current stake	Minority Interest	EV attributable to Nazara
Kiddopia	2,194	2,746	3.0	8,237	100.0%	0.0%	8,237
Nodwin	4,271	9,530	7.5	71,477	52.1%	47.9%	37,239
SportsKeeda	1,960	3,139	5.5	17,264	91.0%	9.0%	15,716
Telco subscription	327	303	2.0	606	100.0%	0.0%	606
Freemium (WCC + FuseBox)	219	2,578	2.5	6,446	100.0%	0.0%	6,446
OpenPlay	374	239	2.0	478	94.9%	5.1%	453
DataWrkz	1,038	1,441	2.5	3,603	33.0%	67.0%	1,189
WildWorks	947	1,224	1.5	1,837	100.0%	0.0%	1,837
PokerBaazi	4,149	9,115	5.0	45,577	47.7%	52.3%	21,740
<b>Target EV</b>							<b>93,463</b>
Less: Debt (FY27)							-
Add: Cash (FY27)							12,244
No of shares							89
Market cap							1,05,706
<b>Target (Rs)</b>							<b>1,185</b>

Source: PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Net Revenues</b>	<b>11,383</b>	<b>15,104</b>	<b>18,486</b>	<b>21,201</b>
YoY gr. (%)	4.3	32.7	22.4	14.7
Cost of Goods Sold	803	18	22	25
Gross Profit	10,580	15,086	18,464	21,175
Margin (%)	92.9	99.9	99.9	99.9
Employee Cost	1,860	2,417	2,773	3,074
Other Expenses	1,079	1,390	1,701	1,950
<b>EBITDA</b>	<b>1,279</b>	<b>2,131</b>	<b>2,810</b>	<b>3,591</b>
YoY gr. (%)	16.5	66.6	31.8	27.8
Margin (%)	11.2	14.1	15.2	16.9
Depreciation and Amortization	670	713	812	956
<b>EBIT</b>	<b>326</b>	<b>1,418</b>	<b>1,998</b>	<b>2,636</b>
Margin (%)	2.9	9.4	10.8	12.4
Net Interest	68	83	85	87
Other Income	796	755	776	742
<b>Profit Before Tax</b>	<b>907</b>	<b>2,090</b>	<b>2,690</b>	<b>3,291</b>
Margin (%)	8.0	13.8	14.6	15.5
Total Tax	140	523	672	823
Effective tax rate (%)	15.4	25.0	25.0	25.0
<b>Profit after tax</b>	<b>768</b>	<b>1,568</b>	<b>2,017</b>	<b>2,468</b>
Minority interest	182	133	234	339
Share Profit from Associate	(20)	-	-	-
<b>Adjusted PAT</b>	<b>713</b>	<b>1,435</b>	<b>1,784</b>	<b>2,129</b>
YoY gr. (%)	72.2	101.3	24.3	19.4
Margin (%)	6.3	9.5	9.6	10.0
Extra Ord. Income / (Exp)	(147)	-	-	-
<b>Reported PAT</b>	<b>566</b>	<b>1,435</b>	<b>1,784</b>	<b>2,129</b>
YoY gr. (%)	43.6	153.7	24.3	19.4
Margin (%)	5.0	9.5	9.6	10.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	566	1,435	1,784	2,129
<b>Equity Shares O/s (m)</b>	<b>77</b>	<b>89</b>	<b>89</b>	<b>89</b>
<b>EPS (Rs)</b>	<b>9.3</b>	<b>16.1</b>	<b>20.0</b>	<b>23.9</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>4,458</b>	<b>5,284</b>	<b>6,246</b>	<b>7,352</b>
Tangibles	534	709	922	1,178
Intangibles	3,924	4,574	5,324	6,174
<b>Acc: Dep / Amortization</b>	<b>2,319</b>	<b>3,032</b>	<b>3,844</b>	<b>4,800</b>
Tangibles	303	407	527	667
Intangibles	2,016	2,625	3,317	4,133
<b>Net fixed assets</b>	<b>2,139</b>	<b>2,252</b>	<b>2,402</b>	<b>2,552</b>
Tangibles	231	302	395	510
Intangibles	1,908	1,950	2,007	2,042
Capital Work In Progress	-	-	-	-
Goodwill	3,942	3,942	3,942	3,942
Non-Current Investments	2,416	18,994	19,047	19,080
Net Deferred tax assets	(187)	(302)	(407)	(488)
Other Non-Current Assets	58	378	462	530
<b>Current Assets</b>				
Investments	2,242	2,242	2,242	2,242
Inventories	21	21	21	21
Trade receivables	2,749	3,517	4,204	4,763
Cash & Bank Balance	12,097	7,870	8,676	10,002
Other Current Assets	839	982	1,109	1,166
<b>Total Assets</b>	<b>27,617</b>	<b>41,522</b>	<b>43,908</b>	<b>46,577</b>
<b>Equity</b>				
Equity Share Capital	306	357	357	357
Other Equity	19,680	33,180	34,963	37,093
<b>Total Networkth</b>	<b>19,986</b>	<b>33,537</b>	<b>35,320</b>	<b>37,450</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	53	76	92	106
Other non current liabilities	127	127	127	127
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	93	-	-	-
Trade payables	2,401	2,690	3,140	3,485
Other current liabilities	1,328	1,356	1,370	1,457
<b>Total Equity &amp; Liabilities</b>	<b>27,617</b>	<b>41,522</b>	<b>43,908</b>	<b>46,577</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY24	FY25E	FY26E	FY27E
PBT	887	1,435	1,784	2,129
Add. Depreciation	670	713	812	956
Add. Interest	68	83	85	87
Less Financial Other Income	796	755	776	742
Add. Other	(324)	(849)	(585)	(433)
Op. profit before WC changes	1,302	1,382	2,095	2,739
Net Changes-WC	99	(479)	(236)	(214)
Direct tax	(406)	-	-	-
<b>Net cash from Op. activities</b>	<b>995</b>	<b>903</b>	<b>1,859</b>	<b>2,524</b>
Capital expenditures	(689)	(826)	(962)	(1,106)
Interest / Dividend Income	242	-	-	-
Others	(4,822)	(16,245)	(7)	(5)
<b>Net Cash from Invt. activities</b>	<b>(5,268)</b>	<b>(17,070)</b>	<b>(969)</b>	<b>(1,111)</b>
Issue of share cap. / premium	9,220	12,116	-	-
Debt changes	(34)	(93)	-	-
Dividend paid	-	-	-	-
Interest paid	(68)	(83)	(85)	(87)
Others	(38)	-	-	-
<b>Net cash from Fin. activities</b>	<b>9,080</b>	<b>11,940</b>	<b>(85)</b>	<b>(87)</b>
<b>Net change in cash</b>	<b>4,807</b>	<b>(4,227)</b>	<b>806</b>	<b>1,326</b>
Free Cash Flow	727	78	897	1,418

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY24	FY25E	FY26E	FY27E
<b>Per Share(Rs)</b>				
EPS	9.3	16.1	20.0	23.9
CEPS	18.1	24.1	29.1	34.6
BVPS	261.1	375.8	395.7	419.6
FCF	9.5	0.9	10.1	15.9
DPS	-	-	-	-
<b>Return Ratio(%)</b>				
RoCE	2.1	5.3	5.8	7.2
ROIC	20.0	6.4	6.4	8.2
RoE	4.6	5.4	5.2	5.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.7)	(0.3)	(0.3)	(0.3)
Net Working Capital (Days)	12	21	21	22
<b>Valuation(x)</b>				
PER	105.5	61.1	49.1	41.2
P/B	3.8	2.6	2.5	2.3
P/CEPS	54.4	40.8	33.8	28.4
EV/EBITDA	47.6	36.4	27.3	21.0
EV/Sales	5.4	5.1	4.2	3.6
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25
<b>Net Revenue</b>	<b>2,972</b>	<b>3,204</b>	<b>2,662</b>	<b>2,501</b>
YoY gr. (%)	12.7	1.8	(8.0)	(1.7)
Raw Material Expenses	458	205	34	3
Gross Profit	2,515	2,999	2,628	2,498
Margin (%)	84.6	93.6	98.7	99.9
<b>EBITDA</b>	<b>279</b>	<b>377</b>	<b>292</b>	<b>249</b>
YoY gr. (%)	30.4	23.6	5.1	(24.7)
Margin (%)	9.4	11.8	11.0	10.0
Depreciation / Depletion	151	152	215	152
<b>EBIT</b>	<b>116</b>	<b>211</b>	<b>(179)</b>	<b>97</b>
Margin (%)	3.9	6.6	(6.7)	3.9
Net Interest	27	20	8	6
Other Income	123	179	377	256
<b>Profit before Tax</b>	<b>212</b>	<b>376</b>	<b>23</b>	<b>347</b>
Margin (%)	7.1	11.7	0.9	13.9
Total Tax	(13)	80	(1)	104
Effective tax rate (%)	(5.9)	21.2	(5.3)	30.0
<b>Profit after Tax</b>	<b>225</b>	<b>296</b>	<b>24</b>	<b>243</b>
Minority interest	44	38	87	10
Share Profit from Associates	-	-	(20)	(7)
<b>Adjusted PAT</b>	<b>181</b>	<b>254</b>	<b>86</b>	<b>226</b>
YoY gr. (%)	99.8	53.9	61.6	16.1
Margin (%)	6.1	7.9	3.2	9.0
Extra Ord. Income / (Exp)	-	5	(169)	-
<b>Reported PAT</b>	<b>181</b>	<b>259</b>	<b>(83)</b>	<b>226</b>
YoY gr. (%)	99.8	56.8	(400.4)	16.1
Margin (%)	6.1	8.1	(3.1)	9.0
Other Comprehensive Income	-	-	1	2
<b>Total Comprehensive Income</b>	<b>181</b>	<b>259</b>	<b>(82)</b>	<b>228</b>
Avg. Shares O/s (m)	66	73	77	89
<b>EPS (Rs)</b>	<b>2.7</b>	<b>3.5</b>	<b>1.1</b>	<b>2.5</b>

Source: Company Data, PL Research

**Price Chart**



**Recommendation History**

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	14-Aug-24	Hold	923	922
2	08-Jul-24	Hold	878	919
3	04-Jul-24	Hold	878	913
4	29-May-24	BUY	806	698
5	09-Apr-24	BUY	826	671
6	08-Feb-24	Hold	833	871
7	08-Jan-24	Hold	835	849
8	09-Nov-23	Hold	840	820
9	04-Oct-23	Hold	836	834

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	Accumulate	887	836
2	Imagicaaworld Entertainment	BUY	116	79
3	Indian Railway Catering and Tourism Corporation	Reduce	822	925
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	Accumulate	4,958	4,493
6	Lemon Tree Hotels	BUY	159	126
7	Navneet Education	Hold	161	156
8	Nazara Technologies	Hold	923	922
9	PVR Inox	Hold	1,474	1,430
10	S Chand and Company	BUY	312	216
11	Safari Industries (India)	BUY	2,476	2,237
12	V.I.P. Industries	Hold	454	451
13	Zee Entertainment Enterprises	Hold	157	149

**PL's Recommendation Nomenclature (Absolute Performance)**

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

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**3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209**

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