

February 8, 2024

## Q3FY24 Result Update

Change in Estimates |  Target |  Reco

### Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	HOLD		HOLD	
Target Price	833		835	
Sales (Rs. m)	13,780	16,039	14,534	16,822
% Chng.	(5.2)	(4.7)		
EBITDA (Rs. m)	2,051	2,673	2,029	2,637
% Chng.	1.1	1.3		
EPS (Rs.)	13.1	17.0	13.3	17.6
% Chng.	(1.6)	(3.4)		

EPS change is not comparable due to dilution impact arising from preferential allotment.

### Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	10,910	11,821	13,780	16,039
EBITDA (Rs. m)	1,097	1,385	2,051	2,673
Margin (%)	10.1	11.7	14.9	16.7
PAT (Rs. m)	414	764	1,002	1,303
EPS (Rs.)	6.2	10.0	13.1	17.0
Gr. (%)	37.3	59.8	31.1	30.1
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	3.9	5.0	5.0	6.1
RoCE (%)	4.0	4.9	7.0	9.2
EV/Sales (x)	4.8	4.4	3.8	3.2
EV/EBITDA (x)	47.5	37.7	25.3	19.0
PE (x)	139.4	87.3	66.6	51.2
P/BV (x)	5.2	3.4	3.2	3.0

### Key Data

NAZA.BO | NAZARA IN

52-W High / Low	Rs.990 / Rs.482
Sensex / Nifty	71,428 / 21,718
Market Cap	Rs.64bn / \$ (2,14,68,26,273)m
Shares Outstanding	73m
3M Avg. Daily Value	Rs.445.19m

### Shareholding Pattern (%)

Promoter's	17.16
Foreign	10.46
Domestic Institution	15.90
Public & Others	56.48
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	1.3	29.9	57.7
Relative	1.2	19.7	34.0

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## Organic growth under scanner

### Quick Pointers:

- Post recent fund infusion, cash on books stands at Rs15bn (24% of market cap).

**Nazara's top-line increased by just 1.8% YoY amid ongoing challenges in Ad-Tech (loss of a large client), Kiddopia (6.5% QoQ fall in subscriber base), Real Money Gaming (GST levy of 28% on full bet value) and Nodwin. Organic growth has come under scanner as multiple segments are facing headwinds. Given challenges are external in nature (GST levy of 28% or for that matter change in Apple's privacy policy) resolution may not be easy and hence we expect top-line to grow at a modest pace of 14% CAGR over next 3 years. However, given Nazara's measured approach towards new user spends (EBITDA margins expanded 210bps YoY despite soft revenue growth) we expect operating profit CAGR of 35% over FY23-FY26E. We broadly retain our EPS estimates excluding the dilution impact from preferential allotment and maintain HOLD on the stock with a DCF based TP of Rs833 (earlier Rs836). Post recent fund raise, Nazara has cash balance of Rs15bn and we believe capital allocation decisions from hereon will be key to re-rating.**

**Revenue increased 1.8% YoY:** Revenue increased 1.8% YoY to Rs3,204mn (PLe Rs3,115mn). E-sports revenue was up 27.0% YoY to Rs1,937mn (PLe Rs1,873mn) aided by SportsKeeda. Ad-Tech revenues were down 44.0% YoY to Rs261mn (PLe Rs256mn) due to shift in focus on securing high margin clients (loss of business from low margin client), while gaming revenue was down 12.3% to Rs1,015mn (PLe Rs986mn).

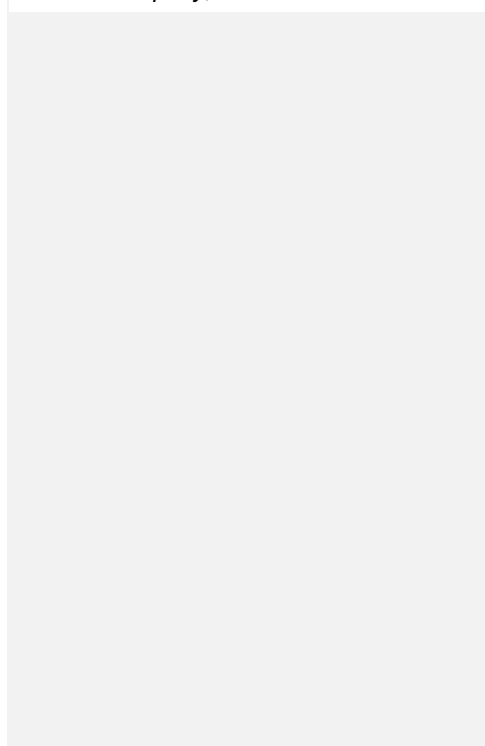
**EBITDA/PAT margin at 11.8%/7.9%:** EBITDA increased 23.6% YoY to Rs377mn (PLe Rs455mn) with a margin of 11.8% (PLe of 14.6%) aided by healthy growth in operating profitability of Gamified Early Learning and SportsKeeda. PAT after MI stood at Rs253mn (PLe Rs268mn) with a margin of 7.9% (PLe of 8.6%) vs a margin of 5.2% in 3QFY23.

**Con-call highlights:** **1)** Kiddopia's subscriber base declined 6.5% QoQ due to lower marketing spends. Nazara is exploring alternative growth opportunities like IP licensing to overcome the current user acquisition barrier. **2)** Nodwin reported EBITDA loss of Rs22mn in 3QFY24 amid weak performance from gaming accessories business "Brandscale Innovations". **3)** Media rights revenue is under pressure as large TV/OTT deals have been delayed owing to ongoing consolidation drive within industry. **4)** For Classic Rummy, net revenue was lower due to higher loyalty promotion expense. **5)** Inaugural set of games under Nazara's newly launched publishing division will be live soon. **6)** New game will be launched under WCC in 1QFY25. **7)** Post recent fund raise, cash balance stands at Rs15bn. **8)** Nazara has decided to forego further investment in Brandscale Innovations and relinquish control. Consequently, consolidation will cease to exist from Feb-2024.

**Exhibit 1: Q3FY24 Result Overview (Rs mn)**

Consolidated financial table	Q3FY24	Q3FY23	YoY gr.	Q2FY24	QoQ gr.	9MFY24	9MFY23	YoY gr.
<b>Net sales</b>	<b>3,204</b>	<b>3,148</b>	<b>1.8%</b>	<b>2,972</b>	<b>7.8%</b>	<b>8,721</b>	<b>8,017</b>	<b>8.8%</b>
Content, event & web server	1,443	1,433	0.7%	1,305	10.6%	3,611	3,120	15.7%
<i>As a % of sales</i>	<i>45.0%</i>	<i>45.5%</i>		<i>43.9%</i>		<i>41.4%</i>	<i>38.9%</i>	
Advertisement Expenses	411	563	-27.0%	474	-13.3%	1,342	1,926	-30.3%
<i>As a % of sales</i>	<i>12.8%</i>	<i>17.9%</i>		<i>16.0%</i>		<i>15.4%</i>	<i>24.0%</i>	
Commission	178	142	25.3%	167	6.3%	523	453	15.5%
<i>As a % of sales</i>	<i>5.6%</i>	<i>4.5%</i>		<i>5.6%</i>		<i>6.0%</i>	<i>5.6%</i>	
Employee Cost	475	436	8.9%	489	-2.9%	1,418	1,064	33.3%
<i>As a % of sales</i>	<i>14.8%</i>	<i>13.9%</i>		<i>16.5%</i>		<i>16.3%</i>	<i>13.3%</i>	
Other Expenses	320	269	18.8%	258	23.8%	840	635	32.2%
<i>As a % of sales</i>	<i>10.0%</i>	<i>8.5%</i>		<i>8.7%</i>		<i>9.6%</i>	<i>7.9%</i>	
<b>EBITDA</b>	<b>377</b>	<b>305</b>	<b>23.6%</b>	<b>279</b>	<b>35.2%</b>	<b>987</b>	<b>819</b>	<b>20.4%</b>
<i>EBITDA margin</i>	<i>11.8%</i>	<i>9.7%</i>		<i>9.4%</i>		<i>11.3%</i>	<i>10.2%</i>	
Depreciation	152	149	2.0%	151	0.8%	455	411	10.7%
<b>EBIT</b>	<b>225</b>	<b>156</b>	<b>44.2%</b>	<b>128</b>	<b>75.8%</b>	<b>532</b>	<b>409</b>	<b>30.2%</b>
<i>EBIT margin</i>	<i>7.0%</i>	<i>5.0%</i>		<i>4.3%</i>		<i>6.1%</i>	<i>5.1%</i>	
Interest cost	20	5	308.0%	27	-23.3%	60	18	228.6%
Other income	179	115	55.7%	123	45.5%	419	413	1.6%
Impairment	14	5	174.0%	12	14.2%	26	81	-67.3%
Share of P/L of investments accounted using equity method	-	-	NM	-	NM	-	-	NM
Exceptional items	-	-	NM	-	NM	-	-	NM
<b>PBT</b>	<b>370</b>	<b>261</b>	<b>41.7%</b>	<b>212</b>	<b>74.2%</b>	<b>865</b>	<b>722</b>	<b>19.7%</b>
Tax expenses	80	60	32.5%	(13)	NM	141	210	-32.7%
<i>Tax rate</i>	<i>21.5%</i>	<i>23.0%</i>		<i>NM</i>		<i>16.3%</i>	<i>29.0%</i>	
<b>PAT</b>	<b>290</b>	<b>201</b>	<b>44.5%</b>	<b>225</b>	<b>29.1%</b>	<b>724</b>	<b>513</b>	<b>41.2%</b>
<i>PAT margin</i>	<i>9.1%</i>	<i>6.4%</i>		<i>7.6%</i>		<i>8.3%</i>	<i>6.4%</i>	
Minority Interest	38	37	1.4%	44	-14.0%	95	150	-36.9%
<b>PAT after MI</b>	<b>253</b>	<b>164</b>	<b>54.2%</b>	<b>181</b>	<b>39.4%</b>	<b>629</b>	<b>363</b>	<b>73.4%</b>
<b>EPS (Rs)</b>	<b>3.5</b>	<b>2.8</b>	<b>25.7%</b>	<b>2.5</b>	<b>39.4%</b>	<b>9.2</b>	<b>5.5</b>	<b>66.7%</b>
<b>Adjusted PAT</b>	<b>304</b>	<b>206</b>	<b>47.6%</b>	<b>237</b>	<b>28.3%</b>	<b>750</b>	<b>594</b>	<b>26.4%</b>

Source: Company, PL

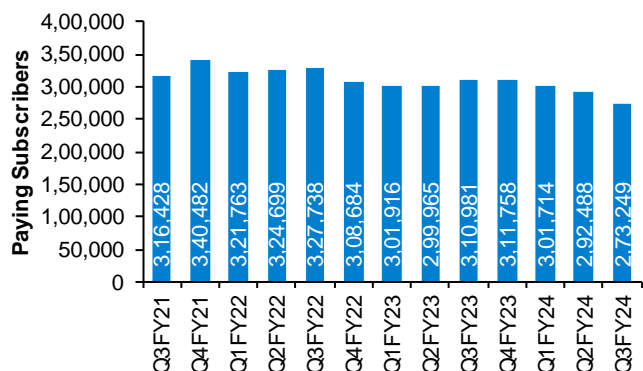


**Exhibit 2: Segmental revenue & EBITDA breakdown (Rs mn)**

Y/e March	3QFY24	3QFY23	YoY gr.	2QFY24	QoQ gr.
<b>Gamified Early Learning</b>	<b>815</b>	<b>804</b>	<b>1.4%</b>	<b>782</b>	<b>4.2%</b>
<i>As a % of sales</i>	25.4%	25.5%		26.1%	
EBITDA	214	73	193.2%	182	17.6%
<i>EBITDA margin</i>	26.3%	9.1%		23.3%	
<b>E-Sports</b>	<b>1,937</b>	<b>1,525</b>	<b>27.0%</b>	<b>1,720</b>	<b>12.6%</b>
<i>As a % of sales</i>	60.3%	48.4%		57.4%	
EBITDA	245	137	78.8%	109	124.8%
<i>EBITDA margin</i>	12.7%	9.0%		6.3%	
<b>Ad tech - Datawrkz</b>	<b>261</b>	<b>466</b>	<b>-44.0%</b>	<b>225</b>	<b>16.0%</b>
<i>As a % of sales</i>	8.1%	14.8%		7.5%	
EBITDA	34	40	-15.0%	14	142.9%
<i>EBITDA margin</i>	13.0%	8.6%		6.2%	
<b>Telco Subscription</b>	<b>70</b>	<b>132</b>	<b>-47.0%</b>	<b>74</b>	<b>-5.4%</b>
<i>As a % of sales</i>	2.2%	4.2%		2.5%	
EBITDA	(29)	45	NM	(5)	NM
<i>EBITDA margin</i>	NM	34.1%		-6.8%	
<b>Freemium</b>	<b>54</b>	<b>70</b>	<b>-22.9%</b>	<b>54</b>	<b>0.0%</b>
<i>As a % of sales</i>	1.7%	2.2%		1.8%	
EBITDA	7	21	-66.7%	11	-36.4%
<i>EBITDA margin</i>	13.0%	30.0%		20.4%	
<b>Real Money Gaming</b>	<b>76</b>	<b>151</b>	<b>-49.7%</b>	<b>140</b>	<b>-45.7%</b>
<i>As a % of sales</i>	2.4%	4.8%		4.7%	
EBITDA	(25)	33	NM	31	NM
<i>EBITDA margin</i>	NM	21.9%		22.1%	
<b>Total revenues</b>	<b>3,213</b>	<b>3,148</b>	<b>2.1%</b>	<b>2,995</b>	<b>7.3%</b>

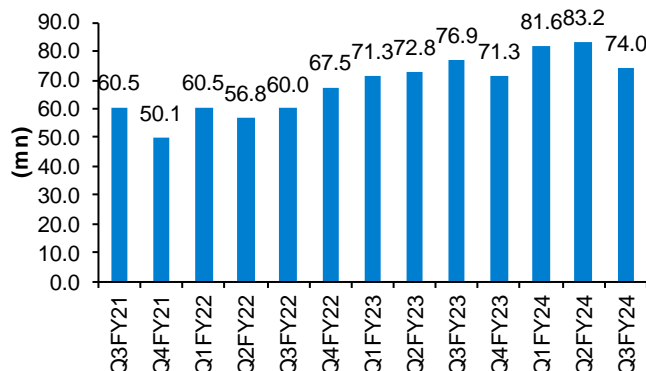
Source: Company, PL Note: Figures of erstwhile quarters are not restated and due to rounding errors segmental revenue may not match with total revenue.

**Exhibit 3: Kiddopia's subs stood at 2,73,249 for 3QFY24**



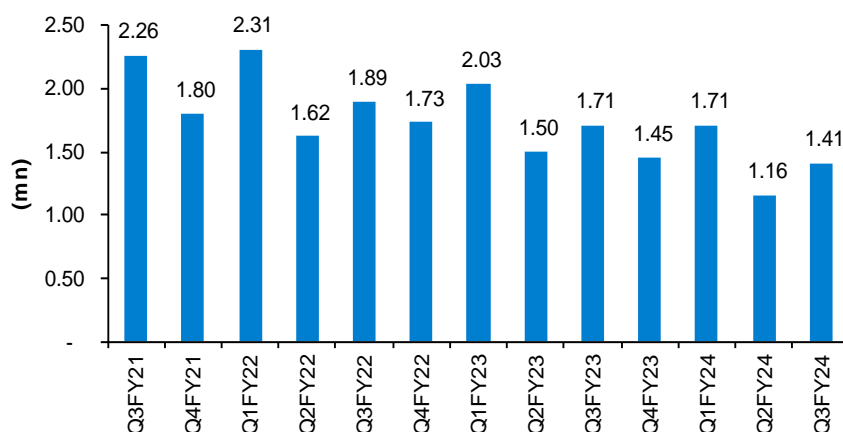
Source: Company, PL

**Exhibit 4: SportsKeeda MAU's stood at 74.0mn in 3QFY24**



Source: Company, PL

**Exhibit 5: Freemium DAU's stood at 1.41mn**



Source: Company, PL

**Exhibit 6: CPT of Kiddopia increased 9.7% YoY in Q3FY24**

Key Metrics	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
CPT (\$)	\$37.3	\$35.9	\$39.3	\$38.9	\$40.9
Marketing Spend (Mn)	\$3.4	\$3.2	\$2.6	\$2.7	\$2.3
Avg. Activation Rate	70%	68%	68%	66%	67%
Avg. ARPU	\$6.76	\$6.81	\$6.77	\$6.63	\$6.82
Avg. Churn	5.9%	6.4%	5.9%	6.2%	6.7%
Subscribers	3,10,981	3,11,758	3,01,714	2,92,488	2,73,249
Subs. Growth (QoQ)	3.7%	0.2%	-3.2%	2.7%	-6.5%

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>10,910</b>	<b>11,821</b>	<b>13,780</b>	<b>16,039</b>
YoY gr. (%)	75.5	8.4	16.6	16.4
Cost of Goods Sold	542	768	620	561
Gross Profit	10,368	11,053	13,160	15,478
Margin (%)	95.0	93.5	95.5	96.5
Employee Cost	1,490	1,891	1,929	2,085
Other Expenses	876	1,182	1,240	1,444
<b>EBITDA</b>	<b>1,097</b>	<b>1,385</b>	<b>2,051</b>	<b>2,673</b>
YoY gr. (%)	16.0	26.2	48.1	30.3
Margin (%)	10.1	11.7	14.9	16.7
Depreciation and Amortization	571	596	642	720
<b>EBIT</b>	<b>440</b>	<b>762</b>	<b>1,409</b>	<b>1,953</b>
Margin (%)	4.0	6.4	10.2	12.2
Net Interest	47	74	66	64
Other Income	495	615	496	481
<b>Profit Before Tax</b>	<b>868</b>	<b>1,302</b>	<b>1,839</b>	<b>2,370</b>
Margin (%)	8.0	11.0	13.3	14.8
Total Tax	254	247	460	593
Effective tax rate (%)	29.3	19.0	25.0	25.0
<b>Profit after tax</b>	<b>614</b>	<b>1,055</b>	<b>1,379</b>	<b>1,778</b>
Minority interest	220	290	377	475
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>414</b>	<b>764</b>	<b>1,002</b>	<b>1,303</b>
YoY gr. (%)	45.8	84.6	31.1	30.1
Margin (%)	3.8	6.5	7.3	8.1
Extra Ord. Income / (Exp)	(20)	-	-	-
<b>Reported PAT</b>	<b>394</b>	<b>764</b>	<b>1,002</b>	<b>1,303</b>
YoY gr. (%)	38.7	94.0	31.1	30.1
Margin (%)	3.6	6.5	7.3	8.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	394	764	1,002	1,303
<b>Equity Shares O/s (m)</b>	<b>66</b>	<b>77</b>	<b>77</b>	<b>77</b>
<b>EPS (Rs)</b>	<b>6.2</b>	<b>10.0</b>	<b>13.1</b>	<b>17.0</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>4,071</b>	<b>4,418</b>	<b>4,937</b>	<b>5,537</b>
Tangibles	358	505	674	874
Intangibles	3,713	3,913	4,263	4,663
<b>Acc: Dep / Amortization</b>	<b>1,649</b>	<b>2,245</b>	<b>2,887</b>	<b>3,607</b>
Tangibles	210	298	392	498
Intangibles	1,439	1,948	2,495	3,109
<b>Net fixed assets</b>	<b>2,422</b>	<b>2,173</b>	<b>2,050</b>	<b>1,930</b>
Tangibles	148	208	282	377
Intangibles	2,274	1,965	1,768	1,554
Capital Work In Progress	2	2	2	2
Goodwill	3,407	3,407	3,407	3,407
Non-Current Investments	1,008	795	818	845
Net Deferred tax assets	(367)	(355)	(413)	(481)
Other Non-Current Assets	168	236	344	401
<b>Current Assets</b>				
Investments	2,668	2,668	2,668	2,668
Inventories	246	246	246	246
Trade receivables	1,536	1,684	2,265	2,856
Cash & Bank Balance	3,292	11,776	12,222	13,143
Other Current Assets	689	532	620	642
<b>Total Assets</b>	<b>17,018</b>	<b>25,198</b>	<b>26,531</b>	<b>28,258</b>
<b>Equity</b>				
Equity Share Capital	265	306	306	306
Other Equity	10,784	19,367	20,369	21,672
<b>Total Networkth</b>	<b>11,049</b>	<b>19,673</b>	<b>20,675</b>	<b>21,978</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	52	77	90	104
Other non current liabilities	52	52	52	52
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	304	-	-	-
Trade payables	767	972	1,133	1,318
Other current liabilities	2,273	1,894	1,983	2,127
<b>Total Equity &amp; Liabilities</b>	<b>17,018</b>	<b>25,198</b>	<b>26,531</b>	<b>28,258</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	888	764	1,002	1,303
Add. Depreciation	571	596	642	720
Add. Interest	47	74	66	64
Less Financial Other Income	495	615	496	481
Add. Other	(309)	(135)	(255)	(92)
Op. profit before WC changes	1,197	1,300	1,455	1,995
Net Changes-WC	(856)	56	(420)	(405)
Direct tax	(260)	-	-	-
<b>Net cash from Op. activities</b>	<b>81</b>	<b>1,357</b>	<b>1,035</b>	<b>1,590</b>
Capital expenditures	(1,419)	(347)	(519)	(600)
Interest / Dividend Income	84	-	-	-
Others	383	(7)	(4)	(5)
<b>Net Cash from Inv. activities</b>	<b>(952)</b>	<b>(354)</b>	<b>(523)</b>	<b>(605)</b>
Issue of share cap. / premium	163	7,860	-	-
Debt changes	(7)	(304)	-	-
Dividend paid	-	-	-	-
Interest paid	(111)	(74)	(66)	(64)
Others	100	-	-	-
<b>Net cash from Fin. activities</b>	<b>145</b>	<b>7,482</b>	<b>(66)</b>	<b>(64)</b>
<b>Net change in cash</b>	<b>(723)</b>	<b>8,484</b>	<b>446</b>	<b>921</b>
Free Cash Flow	(2)	1,009	516	989

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	6.2	10.0	13.1	17.0
CEPS	14.9	17.8	21.5	26.4
BVPS	166.8	257.0	270.1	287.1
FCF	0.0	13.2	6.7	12.9
DPS	-	-	-	-
<b>Return Ratio(%)</b>				
RoCE	4.0	4.9	7.0	9.2
ROIC	6.3	57.7	20.0	26.6
RoE	3.9	5.0	5.0	6.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.5)	(0.7)	(0.7)	(0.7)
Net Working Capital (Days)	34	30	37	41
<b>Valuation(x)</b>				
PER	139.4	87.3	66.6	51.2
P/B	5.2	3.4	3.2	3.0
P/CEPS	58.6	49.0	40.6	33.0
EV/EBITDA	47.5	37.7	25.3	19.0
EV/Sales	4.8	4.4	3.8	3.2
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Net Revenue</b>	<b>2,893</b>	<b>2,544</b>	<b>2,972</b>	<b>3,204</b>
YoY gr. (%)	65.2	14.0	12.7	1.8
Raw Material Expenses	79	106	458	205
Gross Profit	2,814	2,438	2,515	2,999
Margin (%)	97.3	95.8	84.6	93.6
<b>EBITDA</b>	<b>278</b>	<b>331</b>	<b>279</b>	<b>377</b>
YoY gr. (%)	86.6	10.2	30.4	23.6
Margin (%)	9.6	13.0	9.4	11.8
Depreciation / Depletion	160	152	151	152
<b>EBIT</b>	<b>113</b>	<b>178</b>	<b>116</b>	<b>211</b>
Margin (%)	3.9	7.0	3.9	6.6
Net Interest	29	13	27	20
Other Income	82	117	123	179
<b>Profit before Tax</b>	<b>142</b>	<b>283</b>	<b>212</b>	<b>371</b>
Margin (%)	4.9	11.1	7.1	11.6
Total Tax	46	74	(13)	80
Effective tax rate (%)	32.7	26.2	(5.9)	21.4
<b>Profit after Tax</b>	<b>96</b>	<b>209</b>	<b>225</b>	<b>291</b>
Minority interest	68	14	44	38
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>53</b>	<b>195</b>	<b>181</b>	<b>254</b>
YoY gr. (%)	140.5	72.7	99.8	53.9
Margin (%)	1.8	7.7	6.1	7.9
Extra Ord. Income / (Exp)	(25)	-	-	-
<b>Reported PAT</b>	<b>28</b>	<b>195</b>	<b>181</b>	<b>254</b>
YoY gr. (%)	25.9	72.7	99.8	53.9
Margin (%)	1.0	7.7	6.1	7.9
Other Comprehensive Income	12	(104)	-	-
<b>Total Comprehensive Income</b>	<b>40</b>	<b>91</b>	<b>181</b>	<b>254</b>
Avg. Shares O/s (m)	66	66	66	73
<b>EPS (Rs)</b>	<b>0.8</b>	<b>2.9</b>	<b>2.7</b>	<b>3.5</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jan-24	Hold	835	849
2	09-Nov-23	Hold	840	820
3	04-Oct-23	Hold	836	834
4	31-Jul-23	BUY	834	694
5	06-Jul-23	BUY	804	726
6	11-May-23	BUY	804	566
7	11-Apr-23	BUY	872	540

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	Accumulate	820	762
2	Indian Railway Catering and Tourism Corporation	Hold	749	902
3	Inox Leisure	BUY	587	502
4	InterGlobe Aviation	Accumulate	3,312	3,127
5	Lemon Tree Hotels	BUY	141	130
6	Navneet Education	BUY	206	155
7	Nazara Technologies	Hold	835	849
8	PVR Inox	Accumulate	1,719	1,455
9	S Chand and Company	BUY	357	263
10	Safari Industries (India)	BUY	2,271	2,045
11	V.I.P. Industries	Hold	589	539
12	Zee Entertainment Enterprises	Reduce	151	156

**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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