

June 24, 2022

Management Meet Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,813		1,747	
Sales (Rs. m)	9,273	11,338	8,487	10,114
% Chng.	9.3	12.1		
EBITDA (Rs. m)	1,206	1,410	1,180	1,385
% Chng.	2.2	1.8		
EPS (Rs.)	16.5	20.6	16.0	20.2
% Chng.	2.8	2.0		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	4,542	6,217	9,273	11,338
EBITDA (Rs. m)	447	946	1,206	1,410
Margin (%)	9.8	15.2	13.0	12.4
PAT (Rs. m)	92	284	535	671
EPS (Rs.)	3.0	8.7	16.5	20.6
Gr. (%)	(497.3)	189.2	88.4	25.4
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	1.6	3.3	5.0	5.9
RoCE (%)	0.9	5.5	7.4	8.6
EV/Sales (x)	5.9	4.3	2.9	2.3
EV/EBITDA (x)	60.4	28.1	22.0	18.6
PE (x)	345.6	119.5	63.4	50.6
P/BV (x)	4.8	3.3	3.1	2.9

Key Data NAZA.BO | NAZARA IN

52-W High / Low	Rs.3,356 / Rs.950
Sensex / Nifty	52,266 / 15,557
Market Cap	Rs.34bn/ \$ 438m
Shares Outstanding	33m
3M Avg. Daily Value	Rs.246.42m

Shareholding Pattern (%)

Promoter's	19.32
Foreign	10.35
Domestic Institution	3.89
Public & Others	66.44
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(13.0)	(53.6)	(30.6)
Relative	(9.6)	(49.1)	(30.6)

Jinesh Joshi

jineshjoshi@plindia.com | 91-22-66322238

Shweta Shekhawat

shwetashekhawat@plindia.com |

Breaking through the ESports landscape

We hosted Mr Manish Agarwal, CEO of Nazara Technologies for a NDR recently. Management indicated that Battle Grounds Mobile India (BGMI) Master Series IP which is to be telecast on Star Sports from June-24 to July-17 is likely to be profitable from first year itself. With respect to off-line events in ESports, incremental revenue addition is expected to be Rs600-700mn (more or less in-line with the guidance given earlier) in FY23E. However, for Kiddopia while US\$400K was earmarked to be spent on YouTube, Nazara expended just US\$100K and since LTV/CAC went beyond guard rate, incremental spends have been curtailed. Even the brand building exercise (sum ear-marked was US\$300-400K per month) has not yielded desired results and hence fresh spends have been paused.

Overall, we have increased our EPS estimates by 2-3% and expect sales/PAT CAGR of 35%/54% respectively over FY22-24E. Though growth challenge in Kiddopia persists, Esports is likely to emerge as key growth lever as TV broadcasting during prime time will help increase viewership and popularity multi-fold in future. Retain BUY with a DCF based TP of Rs1,813 (earlier Rs1,747).

BGMI IP expected to be profitable in 1st year itself: Nodwin Gaming, a subsidiary of Nazara, has tied up with Star Sports to live telecast BGMI Master Series for the first time on Indian TV. Tournament will be aired from 24th June-17th July during prime time for 2-3 hours.

Exhibit 1: BGMI to air on Star Sports during prime time

	Dates	Timings
Week 1	24 th - 26 th June	8:00 - 11:30 PM
Week 2	27 th - 30 th June	8:00 - 10:30 PM
	1 st - 3 rd July	8:00 - 11:30 PM
Week 3	4 th - 7 th July	8:00 - 10:30 PM
	8 th - 10 th July	8:00 - 11:30 PM
Finals	13 th - 17 th July	8:00 - 11:30 PM

Source: Company, PL

ESports tournaments are typically broadcast on OTT platforms. For instance, Nazara has tie up with HotStar, Viacom and YouTube to broadcast ESports events. However, this is the first time that an event will be live telecast on linear TV in partnership with Star Sports. Digital rights are with Glance while highlights of the event can be accessed on LOCO. Swiggy and Spotify have been roped in as partners.

Management highlighted that production cost of the event would range between Rs150-200mn and the IP is expected to be profitable in first year itself. We believe TV broadcasting will not only increase popularity of ESports as the medium has wide reach but also boost media rights licensing revenue of Nazara.

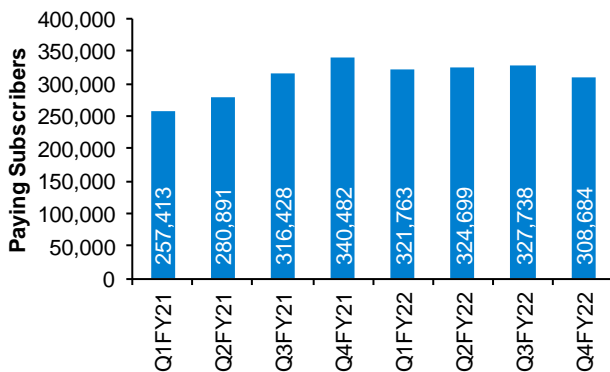
Incremental spends on Kiddopia curtailed: Kiddopia ad-spends in May and June 2022 were set to rise from US\$800K per month to ~US\$1.5-1.6mn per month. Incremental spend of ~US\$400K~/US\$300-400K was earmarked for YouTube/brand building respectively.

However, of the US\$400K earmarked for YouTube, Nazara expended just US\$100K as LTV/CAC went beyond guard rate and thus incremental spends have been curtailed. Even the brand building exercise which was conducted for ~15-20 days did not yield desired results and hence fresh spends have been paused.

ESports guidance intact: Incremental revenue upside of Rs600-700mn (more or less in-line with earlier guidance) from off-line events in ESports is intact. Of this, ~Rs400-500mn will be from OML IPs. Even after excluding offline events revenue, management expects 50% growth in ESports business in FY23E.

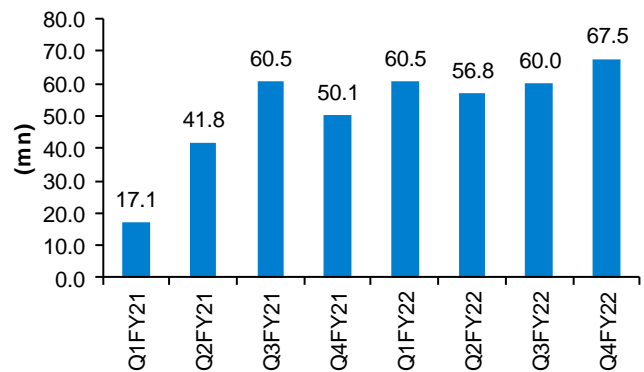
Regulatory clarification to drive M&A in real money gaming (RMG): RMG segment is witnessing steady growth since OpenPlay acquisition and monthly revenue run-rate has increased from ~Rs35mn to ~Rs50mn. Moreover, in near term, Nazara plans to integrate HalaPlay into OpenPlay's platform (by July-August) so as to draw benefits from network effect. Management is not averse to M&A in this segment provided regulatory risks wade off. Lack of framework for online skill based gaming and uncertainty surrounding GST rate is acting as a hindrance for sustained growth in RMG segment.

Exhibit 2: Apple's policy change curtails Kiddopia growth



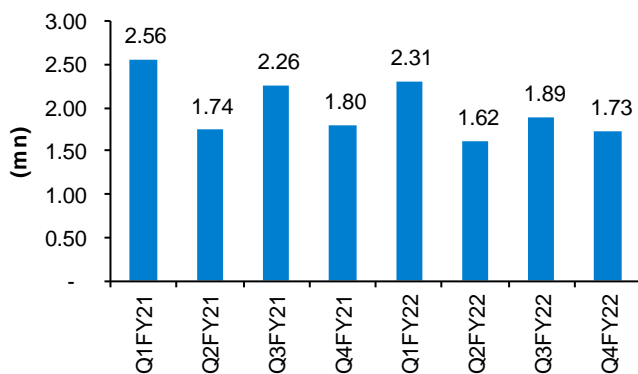
Source: Company, PL

Exhibit 3: SportsKeeda MAU's is linked to sporting events



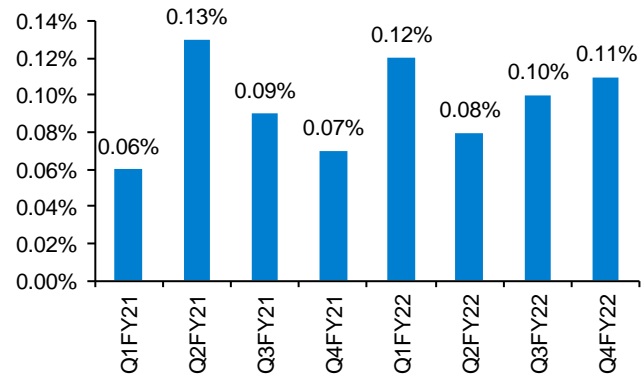
Source: Company, PL

Exhibit 4: Freemium DAU's stable over the quarters



Source: Company, PL

Exhibit 5: IAP conversion trend of WCC3



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	4,542	6,217	9,273	11,338
YoY gr. (%)	83.5	36.9	49.2	22.3
Cost of Goods Sold	-	-	-	-
Employee Cost	487	881	1,066	1,247
Other Expenses	318	473	835	964
EBITDA	447	946	1,206	1,410
YoY gr. (%)	(889.5)	111.6	27.5	16.9
Margin (%)	9.8	15.2	13.0	12.4
Depreciation and Amortization	355	390	413	439
EBIT	51	469	793	971
Margin (%)	1.1	7.5	8.6	8.6
Net Interest	4	6	9	9
Other Income	143	241	278	306
Profit Before Tax	190	704	1,063	1,268
Margin (%)	4.2	11.3	11.5	11.2
Total Tax	31	192	266	317
Effective tax rate (%)	16.1	27.3	25.0	25.0
Profit after tax	160	512	797	951
Minority interest	44	223	262	280
Share Profit from Associate	(24)	(5)	-	-
Adjusted PAT	92	284	535	671
YoY gr. (%)	(532.1)	208.7	88.4	25.4
Margin (%)	2.0	4.6	5.8	5.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	92	284	535	671
YoY gr. (%)	(532.1)	208.7	88.4	25.4
Margin (%)	2.0	4.6	5.8	5.9
Other Comprehensive Income	(47)	30	-	-
Total Comprehensive Income	45	314	535	671
Equity Shares O/s (m)	30	33	33	33
EPS (Rs)	3.0	8.7	16.5	20.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	2,138	2,858	3,175	3,511
Tangibles	221	345	462	597
Intangibles	1,917	2,513	2,713	2,913
Acc: Dep / Amortization	860	1,250	1,663	2,102
Tangibles	182	268	359	455
Intangibles	678	982	1,304	1,646
Net fixed assets	1,278	1,608	1,512	1,409
Tangibles	39	77	103	142
Intangibles	1,239	1,531	1,409	1,267
Capital Work In Progress	24	11	11	11
Goodwill	1,684	2,632	2,632	2,632
Non-Current Investments	168	397	408	427
Net Deferred tax assets	(214)	(264)	(287)	(295)
Other Non-Current Assets	215	237	398	465
Current Assets				
Investments	1,060	4,093	4,093	4,093
Inventories	-	13	13	13
Trade receivables	686	847	1,651	2,081
Cash & Bank Balance	3,724	3,228	3,272	3,612
Other Current Assets	307	269	371	510
Total Assets	10,227	14,098	15,855	17,078
Equity				
Equity Share Capital	122	130	130	130
Other Equity	6,460	10,283	10,818	11,489
Total Network	6,582	10,413	10,948	11,619
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	35	51	60	74
Other non current liabilities	2	10	10	10
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	640	499	1,296	1,584
Other current liabilities	1,496	1,232	1,600	1,824
Total Equity & Liabilities	10,227	14,098	15,855	17,078

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	167	699	535	671
Add. Depreciation	355	390	413	439
Add. Interest	4	6	9	9
Less Financial Other Income	143	241	278	306
Add. Other	3	(3)	(566)	(290)
Op. profit before WC changes	528	1,092	390	829
Net Changes-WC	311	(281)	(8)	(141)
Direct tax	(160)	(190)	-	-
Net cash from Op. activities	680	621	383	687
Capital expenditures	(354)	(1,407)	(317)	(335)
Interest / Dividend Income	40	60	-	-
Others	(2,366)	(2,149)	(13)	(4)
Net Cash from Inv. activities	(2,680)	(3,496)	(330)	(339)
Issue of share cap. / premium	2,228	3,393	-	-
Debt changes	(53)	(38)	-	-
Dividend paid	-	-	-	-
Interest paid	(4)	(5)	(9)	(9)
Others	-	(3)	-	-
Net cash from Fin. activities	2,171	3,347	(9)	(9)
Net change in cash	170	472	44	339
Free Cash Flow	648	498	65	352

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	3.0	8.7	16.5	20.6
CEPS	14.7	20.7	29.2	34.1
BVPS	216.1	320.4	336.9	357.5
FCF	21.3	15.3	2.0	10.8
DPS	-	-	-	-
Return Ratio(%)				
RoCE	0.9	5.5	7.4	8.6
ROIC	4.2	29.0	17.9	20.3
RoE	1.6	3.3	5.0	5.9
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.7)	(0.7)	(0.7)
Net Working Capital (Days)	-	21	15	16
Valuation(x)				
PER	345.6	119.5	63.4	50.6
P/B	4.8	3.3	3.1	2.9
P/CEPS	71.2	50.3	35.8	30.6
EV/EBITDA	60.4	28.1	22.0	18.6
EV/Sales	5.9	4.3	2.9	2.3
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Revenue	1,312	1,296	1,858	1,751
YoY gr. (%)	45.0	17.8	42.5	41.9
Raw Material Expenses	-	-	-	-
EBITDA	301	195	303	149
YoY gr. (%)	(324.6)	-	10.8	26.6
Margin (%)	22.9	15.0	16.3	8.5
Depreciation / Depletion	84	96	107	113
EBIT	169	92	184	16
Margin (%)	12.9	7.1	9.9	0.9
Net Interest	2	1	-	4
Other Income	49	56	40	96
Profit before Tax	216	147	224	108
Margin (%)	16.5	11.3	12.1	6.2
Total Tax	76	2	53	59
Effective tax rate (%)	35.2	1.4	23.7	54.6
Profit after Tax	140	145	171	49
Minority interest	82	44	68	27
Share Profit from Associates	(5)	-	-	-
Adjusted PAT	53	101	103	22
YoY gr. (%)	(119.0)	(58.8)	1.0	(30.2)
Margin (%)	4.0	7.8	5.5	1.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	53	101	103	22
YoY gr. (%)	(119.0)	(58.8)	1.0	(30.2)
Margin (%)	4.0	7.8	5.5	1.3
Other Comprehensive Income	30	(2)	28	29
Total Comprehensive Income	83	99	131	51
Avg. Shares O/s (m)	30	30	32	33
EPS (Rs)	1.7	3.3	3.2	0.7

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	16-May-22	BUY	1,747	1,248
2	08-Apr-22	BUY	2,550	1,695
3	14-Feb-22	BUY	2,544	1,884
4	10-Jan-22	BUY	3,125	2,413
5	01-Nov-21	BUY	3,125	2,520
6	07-Oct-21	UR	-	2,704
7	02-Sep-21	BUY	2,342	1,794

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Entertainment Network (India)	Hold	184	204
2	Indian Railway Catering and Tourism Corporation	Hold	648	693
3	Inox Leisure	BUY	681	493
4	Music Broadcast	Hold	24	23
5	Navneet Education	BUY	121	91
6	Nazara Technologies	BUY	1,747	1,248
7	PVR	BUY	2,227	1,706
8	S Chand and Company	BUY	156	102
9	Safari Industries (India)	BUY	1,288	898
10	V.I.P. Industries	BUY	817	598
11	Zee Entertainment Enterprises	BUY	358	230

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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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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