

February 14, 2022

Q3FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	2,544		3,125	
Sales (Rs. m)	8,733	10,878	9,557	12,450
% Chng.	(8.6)	(12.6)		
EBITDA (Rs. m)	1,257	1,625	1,279	1,750
% Chng.	(1.7)	(7.2)		
EPS (Rs.)	17.9	24.8	19.8	27.2
% Chng.	(9.6)	(9.0)		

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	4,542	6,285	8,733	10,878
EBITDA (Rs. m)	452	994	1,257	1,625
Margin (%)	10.0	15.8	14.4	14.9
PAT (Rs. m)	92	295	582	806
EPS (Rs.)	3.0	9.1	17.9	24.8
Gr. (%)	NA	198.6	97.5	38.6
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	1.6	3.3	5.0	6.5
RoCE (%)	1.0	5.4	6.9	9.3
EV/Sales (x)	11.6	8.3	5.9	4.7
EV/EBITDA (x)	116.2	52.4	41.2	31.6
PE (x)	621.1	208.0	105.3	76.0
P/BV (x)	8.7	5.3	5.1	4.8

Key Data

NAZA.BO | NAZARA IN

52-W High / Low	Rs.3,356 / Rs.1,413
Sensex / Nifty	56,406 / 16,843
Market Cap	Rs.60bn/ \$ 795m
Shares Outstanding	32m
3M Avg. Daily Value	Rs.160.46m

Shareholding Pattern (%)

Promoter's	19.32
Foreign	11.10
Domestic Institution	5.09
Public & Others	64.49
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(24.0)	12.2	-
Relative	(17.5)	10.2	-

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Growth stifles in Kiddopia; ESports in focus

Quick Pointers:

- EBITDA margin guidance of 13-15% is intact for FY22.
- Kiddopia's CPT to remain in the range of US\$33-34 due to change in Apple's privacy policy.

We cut our sales (focus is on scale and not profit maximization given hyper-growth nature of the gaming industry) estimates by 9%/13% for FY23/FY24 respectively as change in Apple's privacy policy has stunted growth in Kiddopia (~3K of net adds in last 2 quarters) making subscriber acquisition a challenging task in near term. While policy enactment has also resulted in elevation of CPT to US\$33-34, acquisition of Datawrkz (an ad-tech company) can help optimize CAC and enhance yields, going ahead. Though Kiddopia is facing growth headwinds, E-Sports is expected to grow at 39.4% CAGR over FY22-FY24 backed by consolidation of OML. Further, revenue in RMG segment is also expected to rise by 2.4x over next 2-years post-acquisition of OpenPlay. Overall, we expect revenue revenue/EBITDA CAGR of 32%/28% over FY22-24E and the growth story remains intact despite near term challenges. Consequently, we retain our BUY rating on Nazara with a DCF based TP of Rs2,544 (implied EV/Sales multiple of 6.7x FY24E).

Revenue increased 42.5% YoY: Revenue increased 42.5% YoY to Rs1,858mn (PLe Rs1,916mn). Revenue from E-sports was up 89.2% YoY to Rs1,093mn due to consolidation impact of OML while Kiddopia growth was stunted at 1.4% YoY to Rs472mn due to change in revenue recognition policy. Revenues from Telco subscription and Freemium segment declined 10.1%YoY/7.5% YoY to Rs129mn/Rs57mn respectively, whereas RMG revenue was up 93.4% YoY to Rs107mn due to consolidation of OpenPlay.

EBITDA margin at 16.3%: EBITDA increased 10.8% YoY to Rs303mn with a margin of 16.3% (PLe of 11.5%) vis-a-vis 21.0% in 3QFY21. E-sports and Kiddopia EBITDA margin was at 22.1% and 12.9% while RMG segment achieved EBITDA breakeven. PAT (after minority) declined 16.6% YoY to Rs85mn (PLe Rs87mn) with a margin of 4.6%.

Con-call highlights: 1) Revenue recognition policy of Kiddopia witnessed a change with a shift to daily amortization resulting in revenue/EBITDA compression of Rs61mn/Rs46mn respectively 2) OpenPlay's net revenue run rate (excluding GST and bonus paid to players) is ~Rs35mn per month 3) Revenue from ad-slot monetization is yet to materialize in Esports business 4) Nazara is looking to add more IPs in the Freemium business via acquisition 5) ESL is likely to see a change of ownership. However, that is unlikely to have any material change in licensing agreement with Nodwin. Also, dependency on ESL is low now given Nodwin has established IPs as well 6) Offline events to begin soon given receding 3rd wave 7) Subscriber mix of Kiddopia is as follows: - 30% (annual):70% (monthly). 8) MAUs/DAUs of Real Cricket, competitor of WCC, are significantly lower 9) Media rights contributed 33% of Esports revenue in 3Q (share of OML, white label and own IPs was not shared).

Exhibit 1: Q3FY22 Result Overview (Rs mn)

Consolidated financial table	3QFY22	3QFY21	YoY gr.	2QFY22	QoQ gr.	9MFY22	9MFY21	YoY gr.
Net sales	1,858	1,304	42.5%	1,296	43.4%	4,466	3,308	35.0%
Content, event & web server	446	187	137.9%	165	170.3%	824	342	140.9%
<i>As a % of sales</i>	<i>24.0%</i>	<i>14.4%</i>		<i>12.7%</i>		<i>18.5%</i>	<i>10.3%</i>	
Advertisement Expenses	568	530	7.2%	509	11.6%	1,501	1,726	-13.0%
<i>As a % of sales</i>	<i>30.6%</i>	<i>40.7%</i>		<i>39.3%</i>		<i>33.6%</i>	<i>52.2%</i>	
Commission	114	131	-13.1%	131	-13.0%	382	358	6.7%
<i>As a % of sales</i>	<i>6.1%</i>	<i>10.1%</i>		<i>10.1%</i>		<i>8.6%</i>	<i>10.8%</i>	
Employee Cost	264	116	127.5%	202	30.7%	611	335	82.4%
<i>As a % of sales</i>	<i>14.2%</i>	<i>8.9%</i>		<i>15.6%</i>		<i>13.7%</i>	<i>10.1%</i>	
Other Expenses	163	66	148.7%	94	73.4%	351	216	62.5%
<i>As a % of sales</i>	<i>8.8%</i>	<i>5.0%</i>		<i>7.3%</i>		<i>7.9%</i>	<i>6.5%</i>	
EBITDA	303	273	10.8%	195	55.4%	797	331	140.8%
<i>EBITDA margin</i>	<i>16.3%</i>	<i>21.0%</i>		<i>15.0%</i>		<i>17.8%</i>	<i>10.0%</i>	
Depreciation	135	115	17.5%	96	40.6%	315	280	12.5%
EBIT	168	159	5.9%	99	69.7%	482	51	845.1%
<i>EBIT margin</i>	<i>9.0%</i>	<i>12.2%</i>		<i>7.6%</i>		<i>10.8%</i>	<i>1.5%</i>	
Interest cost	1	3	-65.9%	1	0.0%	2	5	-60.0%
Other income	40	56	-28.3%	56	-28.6%	145	121	19.8%
Impairment	12	18	-31.4%	7	71.4%	67	17	294.1%
Share of P/L of investments accounted using equity method	-	(2)	NM	-	NM	(5)	(18)	NM
Exceptional items	-	-	NM	-	NM	-	-	NM
PBT	195	192	1.8%	147	32.7%	553	132	318.9%
Tax expenses	47	13	259.9%	2	2250.0%	125	38	228.9%
<i>Tax rate</i>	<i>24.1%</i>	<i>6.8%</i>		<i>1.4%</i>		<i>22.6%</i>	<i>28.8%</i>	
PAT	148	179	-17.1%	145	2.1%	428	94	355.3%
<i>PAT margin</i>	<i>8.0%</i>	<i>13.7%</i>		<i>11.2%</i>		<i>9.6%</i>	<i>2.8%</i>	
Minority Interest	63	77	-17.7%	44	43.2%	189	33	472.7%
PAT after MI	85	102	-16.6%	101	-15.8%	239	61	291.8%
EPS (Rs)	2.7	3.6	-23.9%	3.3	-18.1%	7.8	2.1	264.8%
Adjusted PAT	160	196	-18.4%	152	5.3%	495	111	345.9%

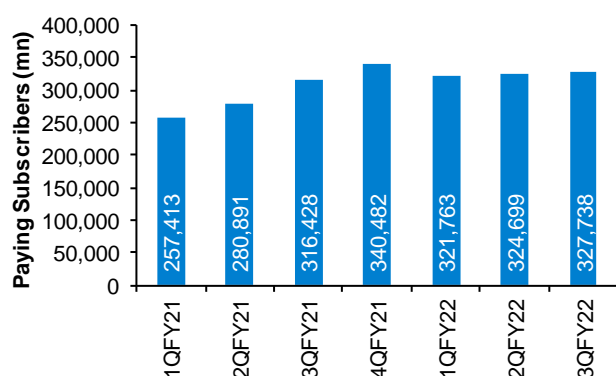
Source: Company, PL

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

Y/e March	3QFY22	3QFY21	YoY gr.	2QFY22	QoQ gr.
Gamified Early Learning	472	466	1.4%	539	-12.4%
<i>As a % of sales</i>	<i>25.4%</i>	<i>35.7%</i>		<i>41.6%</i>	
EBITDA	61	84	-27.4%	147	-58.5%
<i>EBITDA margin</i>	<i>12.9%</i>	<i>18.0%</i>		<i>27.3%</i>	
E-Sports	1,093	578	89.2%	498	119.5%
<i>As a % of sales</i>	<i>58.8%</i>	<i>44.3%</i>		<i>38.4%</i>	
EBITDA	242	159	52.2%	51	374.5%
<i>EBITDA margin</i>	<i>22.1%</i>	<i>27.5%</i>		<i>10.2%</i>	
Telco Subscription	129	143	-10.1%	166	-22.3%
<i>As a % of sales</i>	<i>6.9%</i>	<i>11.0%</i>		<i>12.8%</i>	
EBITDA	11	(5)	NM	50	-78.0%
<i>EBITDA margin</i>	<i>8.5%</i>	<i>NM</i>		<i>30.1%</i>	
Freemium	57	62	-7.5%	42	35.7%
<i>As a % of sales</i>	<i>3.1%</i>	<i>4.7%</i>		<i>3.2%</i>	
EBITDA	14	12	16.7%	(8)	NM
<i>EBITDA margin</i>	<i>24.6%</i>	<i>19.5%</i>		<i>NM</i>	
Real Money Gaming	107	55	93.4%	51	109.8%
<i>As a % of sales</i>	<i>5.8%</i>	<i>4.2%</i>		<i>3.9%</i>	
EBITDA	1	(22)	NM	(9)	NM
<i>EBITDA margin</i>	<i>0.9%</i>	<i>NM</i>		<i>NM</i>	
Total revenues	1,858	1,304	42.5%	1,296	43.4%

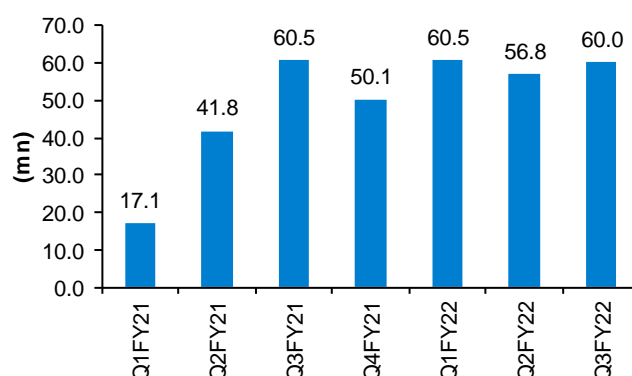
Source: Company, PL

Exhibit 3: Apple's policy change curtails Kiddopia growth



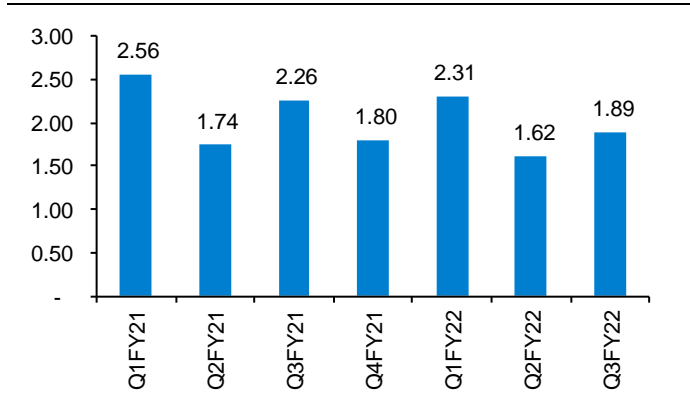
Source: Company, PL

Exhibit 4: SportsKeeda MAU's is linked to sporting events



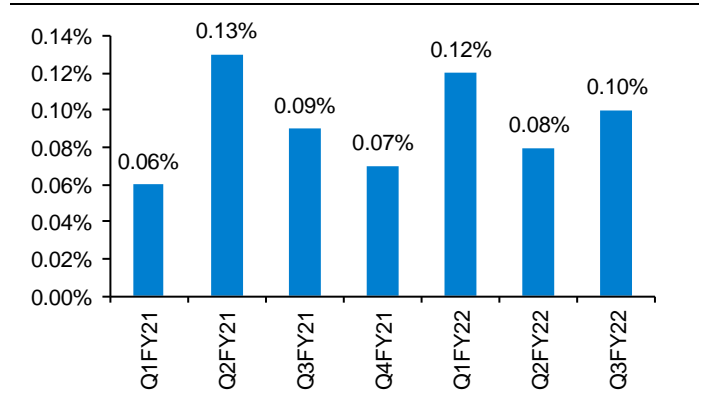
Source: Company, PL

Exhibit 5: Freemium DAU's stable over the quarters

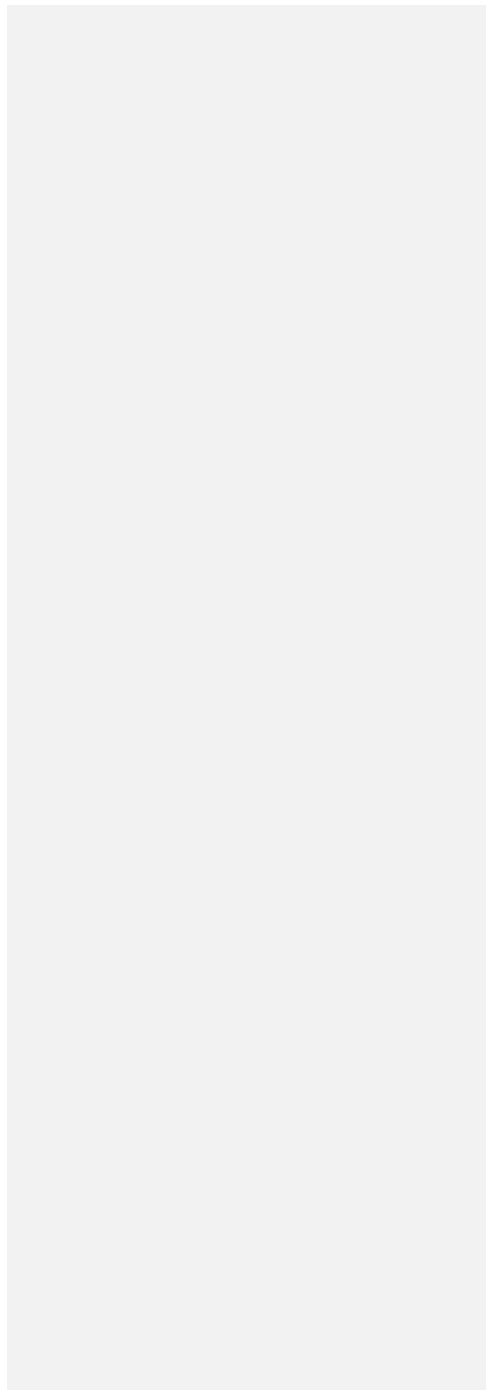


Source: Company, PL

Exhibit 6: IAP conversion trend of WCC3



Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	4,542	6,285	8,733	10,878
YoY gr. (%)	83.5	38.4	39.0	24.6
Cost of Goods Sold	-	-	-	-
Employee Cost	487	880	961	1,088
Other Expenses	313	534	742	870
EBITDA	452	994	1,257	1,625
YoY gr. (%)	NA	119.8	26.4	29.3
Margin (%)	10.0	15.8	14.4	14.9
Depreciation and Amortization	355	439	441	463
EBIT	57	488	816	1,162
Margin (%)	1.2	7.8	9.3	10.7
Net Interest	9	7	9	9
Other Income	143	207	262	294
Profit Before Tax	191	688	1,069	1,446
Margin (%)	4.2	11.0	12.2	13.3
Total Tax	31	157	267	362
Effective tax rate (%)	16.1	22.8	25.0	25.0
Profit after tax	160	531	802	1,085
Minority interest	44	232	220	278
Share Profit from Associate	(24)	(5)	-	-
Adjusted PAT	92	295	582	806
YoY gr. (%)	NA	218.9	97.5	38.6
Margin (%)	2.0	4.7	6.7	7.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	92	295	582	806
YoY gr. (%)	NA	218.9	97.5	38.6
Margin (%)	2.0	4.7	6.7	7.4
Other Comprehensive Income	(47)	30	-	-
Total Comprehensive Income	46	325	582	806
Equity Shares O/s (m)	30	33	33	33
EPS (Rs)	3.0	9.1	17.9	24.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	2,138	2,439	2,754	3,088
Tangibles	221	322	437	571
Intangibles	1,917	2,117	2,317	2,517
Acc: Dep / Amortization	860	1,299	1,740	2,203
Tangibles	182	279	376	478
Intangibles	678	1,020	1,364	1,726
Net fixed assets	1,278	1,140	1,015	885
Tangibles	39	43	61	93
Intangibles	1,239	1,097	953	792
Capital Work In Progress	24	24	24	24
Goodwill	1,684	1,684	1,684	1,684
Non-Current Investments	168	178	200	220
Net Deferred tax assets	(214)	(226)	(271)	(283)
Other Non-Current Assets	215	275	375	446
Current Assets				
Investments	1,060	1,060	1,060	1,060
Inventories	-	-	-	-
Trade receivables	686	1,119	1,555	1,997
Cash & Bank Balance	3,724	8,121	8,402	8,944
Other Current Assets	307	440	524	544
Total Assets	10,227	15,456	16,630	17,925
Equity				
Equity Share Capital	122	130	130	130
Other Equity	6,460	11,328	11,910	12,716
Total Network	6,582	11,458	12,040	12,847
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	35	41	57	71
Other non current liabilities	2	2	2	2
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	640	878	1,220	1,520
Other current liabilities	1,496	1,582	1,749	1,892
Total Equity & Liabilities	10,227	15,456	16,630	17,925

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	167	295	582	806
Add. Depreciation	355	439	441	463
Add. Interest	4	7	9	9
Less Financial Other Income	143	207	262	294
Add. Other	1	(412)	(318)	(239)
Op. profit before WC changes	527	328	714	1,040
Net Changes-WC	306	(196)	(94)	(142)
Direct tax	(160)	-	-	-
Net cash from Op. activities	674	133	620	898
Capital expenditures	(354)	(301)	(315)	(334)
Interest / Dividend Income	40	-	-	-
Others	(2,361)	(9)	(15)	(13)
Net Cash from Inv. activities	(2,675)	(310)	(330)	(346)
Issue of share cap. / premium	2,228	4,582	-	-
Debt changes	(53)	-	-	-
Dividend paid	-	-	-	-
Interest paid	(4)	(7)	(9)	(9)
Others	-	-	-	-
Net cash from Fin. activities	2,171	4,575	(9)	(9)
Net change in cash	169	4,397	281	542
Free Cash Flow	642	(169)	305	564

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	3.0	9.1	17.9	24.8
CEPS	14.7	22.6	31.4	39.0
BVPS	216.1	352.2	370.1	394.9
FCF	21.1	(5.2)	9.4	17.4
DPS	-	-	-	-
Return Ratio(%)				
RoCE	1.0	5.4	6.9	9.3
ROIC	4.7	(233.6)	26.8	35.7
RoE	1.6	3.3	5.0	6.5
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.8)	(0.8)	(0.8)
Net Working Capital (Days)	-	-	-	-
Valuation(x)				
PER	621.1	208.0	105.3	76.0
P/B	8.7	5.3	5.1	4.8
P/CEPS	128.3	83.5	59.9	48.3
EV/EBITDA	116.2	52.4	41.2	31.6
EV/Sales	11.6	8.3	5.9	4.7
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY21	Q1FY22	Q2FY22	Q3FY22
Net Revenue	1,234	1,312	1,296	1,858
YoY gr. (%)	41.7	45.0	17.8	42.5
Raw Material Expenses	-	-	-	-
EBITDA	118	301	195	303
YoY gr. (%)	NA	NA	-	10.8
Margin (%)	9.5	22.9	15.0	16.3
Depreciation / Depletion	75	84	96	135
EBIT	20	169	92	156
Margin (%)	1.6	12.9	7.1	8.4
Net Interest	1	2	1	1
Other Income	22	49	56	40
Profit before Tax	40	216	147	195
Margin (%)	3.3	16.5	11.3	10.5
Total Tax	(7)	76	2	47
Effective tax rate (%)	(18.0)	35.2	1.4	24.1
Profit after Tax	48	140	145	148
Minority interest	11	82	44	63
Share Profit from Associates	(6)	(5)	-	-
Adjusted PAT	32	53	101	85
YoY gr. (%)	NA	NA	(58.8)	(16.6)
Margin (%)	2.6	4.0	7.8	4.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	32	53	101	85
YoY gr. (%)	NA	NA	(58.8)	(16.6)
Margin (%)	2.6	4.0	7.8	4.6
Other Comprehensive Income	8	30	-	-
Total Comprehensive Income	40	83	101	85
Avg. Shares O/s (m)	30	30	30	32
EPS (Rs)	1.0	1.7	3.3	2.6

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jan-22	BUY	3,125	2,413
2	1-Nov-21	BUY	3,125	2,520
3	7-Oct-21	UR	-	2,704
4	2-Sep-21	BUY	2,342	1,794

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	201	182
3	Indian Railway Catering and Tourism Corporation	Hold	802	850
4	Inox Leisure	BUY	486	380
5	Music Broadcast	Hold	24	25
6	Navneet Education	BUY	128	91
7	Nazara Technologies	BUY	3,125	2,413
8	PVR	BUY	1,891	1,537
9	S Chand and Company	BUY	159	119
10	Safari Industries (India)	NR	-	682
11	V.I.P. Industries	BUY	769	677
12	Zee Entertainment Enterprises	BUY	413	293

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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