

September 1, 2022

Event Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	BUY		BUY	
Target Price	1,031		911	
Sales (Rs. m)	9,917	13,179	9,417	11,959
% Chng.	5.3	10.2		
EBITDA (Rs. m)	1,359	1,805	1,241	1,580
% Chng.	9.5	14.2		
EPS (Rs.)	9.8	13.6	8.5	10.8
% Chng.	15.2	25.8		

Key Financials - Consolidated

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	4,542	6,217	9,917	13,179
EBITDA (Rs. m)	447	946	1,359	1,805
Margin (%)	9.8	15.2	13.7	13.7
PAT (Rs. m)	92	284	644	892
EPS (Rs.)	3.0	8.7	9.8	13.6
Gr. (%)	(497.3)	189.2	12.3	38.5
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	1.6	3.3	6.0	7.7
RoCE (%)	0.9	5.5	7.8	10.8
EV/Sales (x)	3.4	2.3	3.7	2.7
EV/EBITDA (x)	34.9	15.3	26.7	19.8
PE (x)	221.7	76.6	68.2	49.3
P/BV (x)	3.1	2.1	3.9	3.6

EPS Gr. not comparable due to bonus issue

Key Data NAZA.BO | NAZARA IN

52-W High / Low	Rs.1,678 / Rs.475
Sensex / Nifty	58,767 / 17,543
Market Cap	Rs.44bn / \$ 554m
Shares Outstanding	66m
3M Avg. Daily Value	Rs.585.48m

Shareholding Pattern (%)

Promoter's	19.20
Foreign	10.15
Domestic Institution	5.50
Public & Others	65.15
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.3	(22.2)	(25.3)
Relative	3.1	(25.5)	(26.9)

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Nazara Technologies (NAZARA IN)

Rating: BUY | CMP: Rs670 | TP: Rs1,031

WildWorks buyout re-ignites growth in GEL

Quick Pointers:

- In an all cash transaction, Nazara acquires 100% stake in a US based interactive entertainment company, WildWorks for US\$10.4mn.
- WildWorks reported revenue of US\$5.8mn with an EBITDA margin of 27.6% in 1HCY22.

We increase our sales estimates by 5%/10% for FY23E/FY24E respectively as we incorporate acquisition of WildWorks (consolidation impact will be for 7 months in FY23E), an interactive edutainment company based out of the US. Nazara was eyeing to expand beyond the 2-7 age group category where Kiddopia has presence and WildWorks' acquisition has helped plug this gap (target market is 8-12 years). Further, this acquisition has also re-ignited growth prospects of GEL segment as induction into the "Friends of Nazara network" would transform WildWorks as learnings from Kiddopia can be harnessed while DataWrkz' expertise can also be utilized to optimize CAC. Further, acquisition spends are also expected to rise from here on driving subscriber growth (93,916 as of 2QCY22).

Overall, we expect sales/PAT CAGR of 46%/77% over FY22-24E and believe Nazara's portfolio approach to gaming not only diversifies unforeseen risks (Apple's privacy policy issue or regulatory uncertainty surrounding RMG) but also creates additional growth levers via inorganic route. Retain BUY with a DCF based TP of Rs1,031.

Acquisition of WildWorks to fill white space in the 8-12 years' age group:

Founded in 2003 by Clark Stacey and Jeff Amis, WildWorks is a US based game development studio focused on gamified early learning (GEL) for children aged between 8-12 years. WildWorks' Animal Jam is a number 1 grossing app in its category (5-star rating of 70%) and has attracted over 150mn players in the past. The game is available on iOS and android devices in addition to MAC and PC.

In an all cash transaction, Nazara has decided to acquire 100% stake in WildWorks for US\$10.4mn. Annualizing 1HCY22 top-line of US\$5.8mn, acquisition has happened at EV/Sales multiple of ~0.9x. Transaction is expected to be completed within a week and consolidation is expected from September itself.

Nazara was eyeing to expand beyond the 2-7 age group category where Kiddopia has presence and WildWorks' acquisition has not only helped fill the white space in this regard but has also re-ignited growth prospects of the segment (Kiddopia's revenue was stagnant within a band of Rs472mn-525mn over the last 6 quarters due to change in Apple's privacy policy).

WildWorks to benefit after being inducted into "Friends of Nazara Network":

Over the last few years, WildWorks' top-line has declined from US\$20mn in CY19 to US\$ 13.8mn in CY21 as weak BS prevented it from investing into user acquisition leading to a fall in subscriber base (refer exhibit 1 on page 2 for key KPIs).

However, after being inducted into the Friends of Nazara network 1) acquisition spends will rise resulting in higher growth 2) learnings from Kiddopia business can be leveraged and 3) DataWrksz' expertise (Ad-tech company in the portfolio of Nazara) can be utilized to optimize customer spends. In addition, WildWorks is looking to expand production of content and increase geographical reach through partnerships in APAC and LatAM. Consequently, we expect WildWorks to report revenue of Rs1,473mn with an EBITDA margin of 20% in FY24E.

Con-call highlights: 1) WildWorks' ARPU has been flat over the last few quarters as no price hike has been taken. 2) Subscription revenue forms 80% of the business mix while balance is from IAP and advertisements 3) Roughly 70%/15%/15% of the subscribers are on iOS/android/ desktop respectively. 4) Future user acquisition spends will be directed towards influencer marketing. 5) Cash received will be utilized to pay the creditors of WildWorks. 6) An ESOP pool will be created for the founders Mr Clark Stacey and Mr. Jeff Amis. 7) WildWorks is the sole business of Mr Clark Stacey and he is not involved in any other business.

Exhibit 1: WildWorks: Unit Economics

Particulars	Q1CY21	Q2CY21	Q3CY21	Q4CY21	Q1CY22	Q2CY22
Customers*	1,26,581	1,19,555	1,09,438	1,02,419	1,00,541	93,916
Organic customers (based on installs)	57%	37%	44%	59%	52%	70%
Marketing spend (US \$)	2,72,128	5,42,048	4,82,778	2,56,035	2,82,027	1,78,726
Cost per acquisition (US \$)	38	31	40	34	32	28
ARPU** (US \$)	7.0	7.6	7.7	9.0	8.1	8.5
Churn	14%	13%	13%	13%	11%	14%
24 months LTV/CAC	1.4x	1.8x	1.4x	1.9x	2.4x	2.3x

Source: Company, PL

*Customers includes subscribers as well customers of In App Purchases. Q2 Subscribers as of 31st May 2022.

**ARPU includes revenue from subscription, In-App purchases and advertisement

Exhibit 2: Change in estimates of GEL

Particulars (Rs mn)	Earlier Estimates			Revised Estimates			Change in estimates		
	FY23E	FY24E	FY25E	FY23E*	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	2,100	2,507	2,886	2,600	3,727	4,359	24%	49%	51%
EBITDA	357	426	491	477	670	771	34%	57%	57%
Margin	17.0%	17.0%	17.0%	18.3%	18.0%	17.7%			

Source: Company, PL

*includes only half year impact as consolidation will happen from 1st September 2022

Exhibit 3: Brief Financials of WildWorks

Particulars (US\$ mn)	CY19	CY20	CY21	H1CY22
Revenue	20.0	18.6	13.8	5.8
EBITDA	4.7	4.9	3.1	1.6
EBITDA margin	23.5%	26.3%	22.5%	27.6%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	4,542	6,217	9,917	13,179
YoY gr. (%)	83.5	36.9	59.5	32.9
Cost of Goods Sold	-	-	307	409
Gross Profit	4,542	6,217	9,610	12,771
Margin (%)	100.0	100.0	96.9	96.9
Employee Cost	487	881	1,240	1,582
Other Expenses	318	473	694	923
EBITDA	447	946	1,359	1,805
YoY gr. (%)	(889.5)	111.6	43.7	32.8
Margin (%)	9.8	15.2	13.7	13.7
Depreciation and Amortization	355	390	512	550
EBIT	51	469	847	1,255
Margin (%)	1.1	7.5	8.5	9.5
Net Interest	4	6	13	13
Other Income	143	241	278	343
Profit Before Tax	190	704	1,112	1,585
Margin (%)	4.2	11.3	11.2	12.0
Total Tax	31	192	278	396
Effective tax rate (%)	16.1	27.3	25.0	25.0
Profit after tax	160	512	834	1,189
Minority interest	44	223	190	296
Share Profit from Associate	(24)	(5)	-	-
Adjusted PAT	92	284	644	892
YoY gr. (%)	(532.1)	208.7	126.9	38.5
Margin (%)	2.0	4.6	6.5	6.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	92	284	644	892
YoY gr. (%)	(532.1)	208.7	126.9	38.5
Margin (%)	2.0	4.6	6.5	6.8
Other Comprehensive Income	(47)	30	-	-
Total Comprehensive Income	45	314	644	892
Equity Shares O/s (m)	30	33	66	66
EPS (Rs)	3.0	8.7	9.8	13.6

Source: Company Data, PL Research

EPS Gr. not comparable due to bonus issue

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	2,138	2,858	3,198	3,550
Tangibles	221	345	485	637
Intangibles	1,917	2,513	2,713	2,913
Acc: Dep / Amortization	860	1,250	1,762	2,312
Tangibles	182	268	380	502
Intangibles	678	982	1,381	1,810
Net fixed assets	1,278	1,608	1,436	1,238
Tangibles	39	77	104	136
Intangibles	1,239	1,531	1,332	1,103
Capital Work In Progress	24	11	11	11
Goodwill	1,684	2,632	2,632	2,632
Non-Current Investments	168	397	414	444
Net Deferred tax assets	(214)	(264)	(307)	(343)
Other Non-Current Assets	215	237	425	540
Current Assets				
Investments	1,060	4,093	4,093	4,093
Inventories	-	13	13	13
Trade receivables	686	847	1,766	2,419
Cash & Bank Balance	3,724	3,228	3,542	4,060
Other Current Assets	307	269	397	593
Total Assets	10,227	14,098	16,326	18,166
Equity				
Equity Share Capital	122	130	263	263
Other Equity	6,460	10,283	10,927	11,819
Total Network	6,582	10,413	11,190	12,082
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	35	51	64	86
Other non current liabilities	2	10	10	10
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	640	499	1,386	1,841
Other current liabilities	1,496	1,232	1,709	2,115
Total Equity & Liabilities	10,227	14,098	16,326	18,166

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	167	699	644	892
Add. Depreciation	355	390	512	550
Add. Interest	4	6	13	13
Less Financial Other Income	143	241	278	343
Add. Other	3	(3)	(589)	(367)
Op. profit before WC changes	528	1,092	580	1,088
Net Changes-WC	311	(281)	(32)	(197)
Direct tax	(160)	(190)	-	-
Net cash from Op. activities	680	621	547	891
Capital expenditures	(354)	(1,407)	(340)	(353)
Interest / Dividend Income	40	60	-	-
Others	(2,366)	(2,149)	(14)	(7)
Net Cash from Invt. activities	(2,680)	(3,496)	(354)	(359)
Issue of share cap. / premium	2,228	3,393	-	-
Debt changes	(53)	(38)	-	-
Dividend paid	-	-	-	-
Interest paid	(4)	(5)	(13)	(13)
Others	-	(3)	133	-
Net cash from Fin. activities	2,171	3,347	120	(13)
Net change in cash	170	472	314	519
Free Cash Flow	648	498	208	538

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	3.0	8.7	9.8	13.6
CEPS	14.7	20.7	17.6	22.0
BVPS	216.1	320.4	170.4	184.0
FCF	21.3	15.3	3.2	8.2
DPS	-	-	-	-
Return Ratio(%)				
RoCE	0.9	5.5	7.8	10.8
ROIC	4.2	29.0	20.1	27.0
RoE	1.6	3.3	6.0	7.7
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.7)	(0.7)	(0.7)
Net Working Capital (Days)	-	21	14	16
Valuation(x)				
PER	221.7	76.6	68.2	49.3
P/B	3.1	2.1	3.9	3.6
P/CEPS	45.6	32.3	38.0	30.5
EV/EBITDA	34.9	15.3	26.7	19.8
EV/Sales	3.4	2.3	3.7	2.7
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	1,296	1,858	1,751	2,231
YoY gr. (%)	17.8	42.5	41.9	70.0
Raw Material Expenses	-	-	-	57
Gross Profit	1,296	1,858	1,751	2,174
Margin (%)	100.0	100.0	100.0	97.4
EBITDA	195	303	149	301
YoY gr. (%)	-	10.8	26.6	-
Margin (%)	15.0	16.3	8.5	13.5
Depreciation / Depletion	96	107	113	136
EBIT	92	184	16	165
Margin (%)	7.1	9.9	0.9	7.4
Net Interest	1	-	4	4
Other Income	56	40	96	66
Profit before Tax	147	224	108	227
Margin (%)	11.3	12.1	6.2	10.2
Total Tax	2	53	59	62
Effective tax rate (%)	1.4	23.7	54.6	27.3
Profit after Tax	145	171	49	165
Minority interest	44	68	27	50
Share Profit from Associates	-	-	-	-
Adjusted PAT	101	103	22	115
YoY gr. (%)	(58.8)	1.0	(30.2)	117.0
Margin (%)	7.8	5.5	1.3	5.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	101	103	22	115
YoY gr. (%)	(58.8)	1.0	(30.2)	117.0
Margin (%)	7.8	5.5	1.3	5.2
Other Comprehensive Income	(2)	28	29	29
Total Comprehensive Income	99	131	51	144
Avg. Shares O/s (m)	30	32	33	66
EPS (Rs)	3.3	3.2	0.7	1.8

Source: Company Data, PL Research
EPS Gr. not comparable due to bonus issue

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	01-Aug-22	BUY	911	636
2	07-Jul-22	BUY	901	635
3	24-Jun-22	BUY	1,813	1,044
4	16-May-22	BUY	1,747	1,248
5	08-Apr-22	BUY	2,550	1,695
6	14-Feb-22	BUY	2,544	1,884
7	10-Jan-22	BUY	3,125	2,413
8	01-Nov-21	BUY	3,125	2,520
9	07-Oct-21	UR	-	2,704
10	02-Sep-21	BUY	2,342	1,794

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Entertainment Network (India)	Hold	184	180
2	Indian Railway Catering and Tourism Corporation	Hold	635	670
3	Inox Leisure	BUY	699	603
4	Music Broadcast	Hold	24	23
5	Navneet Education	BUY	163	117
6	Nazara Technologies	BUY	911	636
7	PVR	BUY	2,330	1,915
8	S Chand and Company	BUY	185	137
9	Safari Industries (India)	BUY	1,766	1,360
10	V.I.P. Industries	BUY	857	650
11	Zee Entertainment Enterprises	BUY	308	242

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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