

October 21, 2022

Q2FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	1,012		1,031	
Sales (Rs. m)	14,414	17,387	13,179	15,898
% Chng.	9.4	9.4		
EBITDA (Rs. m)	1,735	2,101	1,805	2,128
% Chng.	(3.9)	(1.3)		
EPS (Rs.)	13.0	15.2	13.6	15.8
% Chng.	(4.7)	(3.9)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	6,217	10,836	14,414	17,387
EBITDA (Rs. m)	946	1,047	1,735	2,101
Margin (%)	15.2	9.7	12.0	12.1
PAT (Rs. m)	284	426	851	996
EPS (Rs.)	4.3	6.5	13.0	15.2
Gr. (%)	43.3	49.9	99.6	17.1
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	3.3	4.0	7.5	8.1
RoCE (%)	5.5	4.3	10.4	11.9
EV/Sales (x)	5.8	3.4	2.5	2.0
EV/EBITDA (x)	38.3	34.8	20.7	16.8
PE (x)	154.6	103.2	51.7	44.1
P/BV (x)	4.2	4.0	3.7	3.4

Key Data

NAZA.BO | NAZARA IN

52-W High / Low	Rs.1,445 / Rs.475
Sensex / Nifty	59,307 / 17,576
Market Cap	Rs.44bn/ \$ 532m
Shares Outstanding	66m
3M Avg. Daily Value	Rs.950.68m

Shareholding Pattern (%)

Promoter's	19.17
Foreign	10.34
Domestic Institution	5.46
Public & Others	65.03
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(8.9)	(14.3)	(51.3)
Relative	(8.7)	(16.4)	(50.0)

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On a growth accelerator

Quick Pointers:

- Revenues to grow by 70-75% YoY with EBITDA margin of 10%+ in FY23E.
- Manish Agarwal to step down as CEO with effect from 1st Dec 2022. Sudhir Kamath appointed as COO.

While Nazara's top-line was 16% above our estimate, EBITDA margin of 8.1% was below our expectation due to continued investments to fund growth initiatives of Nodwin and the gaming accessories business.

For FY23E, revenue growth guidance has been revised upwards (70-75% on YoY basis versus an earlier target of 50%+) largely led by acquisition of WildWorks and strong traction in Nodwin. However, EBITDA margin guidance has been revised downwards to 10%+ (earlier guidance of 12-13%) as the growth pedestal has been accelerated further which would require higher investments in the interim. In light of 2QFY23 performance, we raise our FY24E/FY25E sales estimates by ~9% odd but cut our EPS estimates by ~4-5% as we fine tune our growth and margin assumptions for Nodwin. Overall, we expect sales/PAT CAGR of 41%/52% respectively over FY22-25E and retain our BUY rating with a DCF based TP of Rs1,012. The stock trades at PEG ratio of 0.9x (FY25E PE over 3-year PAT CAGR) and we maintain our positive stance on Nazara as there is huge runway for growth ahead since it operates in a sun-rise industry.

Revenue increased 103.5% YoY: Revenue increased 103.5% YoY to Rs2,638mn (PLe Rs2,268mn). E-Sports and Real Money Gaming segment reported strong growth of 174.3% YoY/188.2% YoY to Rs1,366mn/Rs147mn respectively. However, revenues from Gamified Early Learning segment was up 10.9% YoY to Rs598mn partially aided by the acquisition of WildWorks while telco revenues were down 29.5% YoY to Rs117mn.

EBITDA margin at 8.1%: EBITDA increased 9.2%YoY to Rs213mn (PLe Rs297mn) with a margin of 8.1% (PLe of 13.1%) vis-a-vis 15.0% in 2QFY22. PAT remained flat at Rs102mn (PLe Rs118mn) with a margin of 3.9% (PLe of 5.2%).

Con-call highlights: 1) Nodwin was marginally EBITDA positive with a margin of 0.5% due to continued investment in gaming accessories business and expansion of new IP's. 2) Kiddopia business will revert back to growth path as subscriber decline has been stemmed and benefits of price hike is likely to be witnessed in upcoming quarters (new users will be added at higher price). 3) Classic Rummy is now available on Google play store (launched just about a week back) which is likely to result in lower customer acquisition cost and improve organic discovery. 4) Current borrowing of Rs106mn as on 30th September 2022 pertains to working capital requirements of the accessories business. 5) Other income increased 314.3%YoY to Rs232mn largely on account of revaluation of investment in Rusk Media 6) WildWorks' revenue/EBITDA for September stood at Rs65mn/Rs12mn respectively 7) Impairment of Rs76mn is due to write down of investment in Halaplay. 8) Nazara has plans to hire a dedicated M&A head in future.

Exhibit 1: Q2FY23 Result Overview (Rs mn)

Consolidated financial table	2QFY23	2QFY22	YoY gr.	1QFY23	QoQ gr.	1HFY23	1HFY22	YoY gr.
Net sales	2,638	1,296	103.5%	2,231	18.2%	4,869	2,608	86.7%
Content, event & web server	908	165	450.3%	712	27.5%	1,620	378	328.6%
<i>As a % of sales</i>	<i>34.4%</i>	<i>12.7%</i>		<i>31.9%</i>		<i>33.3%</i>	<i>14.5%</i>	
Advertisement Expenses	833	509	63.7%	650	28.2%	1,483	933	58.9%
<i>As a % of sales</i>	<i>31.6%</i>	<i>39.3%</i>		<i>29.1%</i>		<i>30.5%</i>	<i>35.8%</i>	
Commission	136	131	3.8%	121	12.4%	257	268	-4.1%
<i>As a % of sales</i>	<i>5.2%</i>	<i>10.1%</i>		<i>5.4%</i>		<i>5.3%</i>	<i>10.3%</i>	
Employee Cost	344	202	70.3%	284	21.1%	628	347	81.0%
<i>As a % of sales</i>	<i>13.0%</i>	<i>15.6%</i>		<i>12.7%</i>		<i>12.9%</i>	<i>13.3%</i>	
Other Expenses	204	94	117.0%	163	25.2%	367	186	97.3%
<i>As a % of sales</i>	<i>7.7%</i>	<i>7.3%</i>		<i>7.3%</i>		<i>7.5%</i>	<i>7.1%</i>	
EBITDA	213	195	9.2%	301	-29.2%	514	496	3.6%
<i>EBITDA margin</i>	<i>8.1%</i>	<i>15.0%</i>		<i>13.5%</i>		<i>10.6%</i>	<i>19.0%</i>	
Depreciation	103	86	19.8%	136	-24.3%	239	170	40.6%
EBIT	110	109	0.9%	165	-33.3%	275	326	-15.6%
<i>EBIT margin</i>	<i>4.2%</i>	<i>8.4%</i>		<i>7.4%</i>		<i>5.6%</i>	<i>12.5%</i>	
Interest cost	9	1	800.0%	4	125.0%	13	3	333.3%
Other income	232	56	314.3%	66	251.5%	298	105	183.8%
Impairment	76	7	985.7%	-	NM	76	55	38.2%
Share of P/L of investments accounted using equity method	-	-	NM	-	NM	-	(5)	NM
Exceptional items	-	-	NM	-	NM	-	-	NM
PBT	257	157	63.7%	227	13.2%	484	368	31.5%
Tax expenses	88	4	2100.0%	62	41.9%	150	80	87.5%
<i>Tax rate</i>	<i>34.2%</i>	<i>2.5%</i>		<i>27.3%</i>		<i>31.0%</i>	<i>21.7%</i>	
PAT	174	153	13.7%	165	5.5%	339	288	17.7%
<i>PAT margin</i>	<i>6.6%</i>	<i>11.8%</i>		<i>7.4%</i>		<i>7.0%</i>	<i>11.0%</i>	
Minority Interest	72	49	46.9%	50	44.0%	122	131	-6.9%
PAT after MI	102	104	-1.9%	115	-11.3%	217	157	38.2%
EPS (Rs)	1.5	1.7	-13.5%	1.8	-15.9%	3.2	2.6	25.6%
Adjusted PAT	250	160	56.3%	165	51.5%	415	343	21.0%

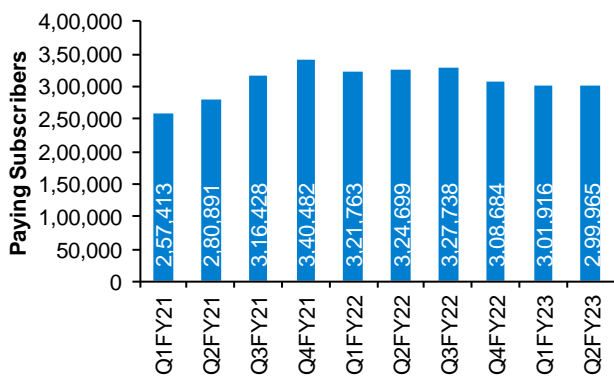
Source: Company, PL

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

Y/e March	2QFY23	2QFY22	YoY gr.	1QFY23	QoQ gr.
Gamified Early Learning	598	539	10.9%	525	13.9%
<i>As a % of sales</i>	22.7%	41.6%		23.5%	
EBITDA	100	147	-32.0%	97	3.1%
<i>EBITDA margin</i>	16.7%	27.3%		18.5%	
E-Sports	1,366	498	174.3%	1,023	33.5%
<i>As a % of sales</i>	51.8%	38.4%		45.9%	
EBITDA	61	51	19.6%	110	-44.5%
<i>EBITDA margin</i>	4.5%	10.2%		10.8%	
Ad tech - Datawrlz	355	-	NM	321	10.6%
<i>As a % of sales</i>	13.5%	NM		14.4%	
EBITDA	34	-	NM	34	0.0%
<i>EBITDA margin</i>	9.6%	NM		10.6%	
Telco Subscription	117	166	-29.5%	150	-22.0%
<i>As a % of sales</i>	4.4%	12.8%		6.7%	
EBITDA	10	50	-80.0%	45	-77.8%
<i>EBITDA margin</i>	8.5%	30.1%		30.0%	
Freemium	55	42	31.0%	74	-25.7%
<i>As a % of sales</i>	2.1%	3.2%		3.3%	
EBITDA	10	(8)	NM	26	-61.5%
<i>EBITDA margin</i>	18.2%	NM		35.1%	
Real Money Gaming	147	51	188.2%	138	6.5%
<i>As a % of sales</i>	5.6%	3.9%		6.2%	
EBITDA	29	(9)	NM	23	26.1%
<i>EBITDA margin</i>	19.7%	NM		16.7%	
Total revenues	2,638	1,296	103.5%	2,231	18.2%

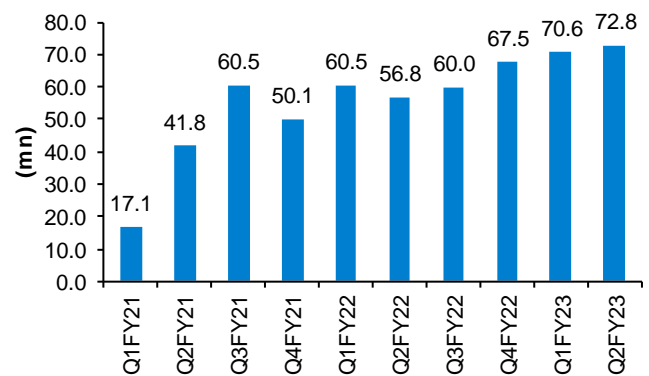
Source: Company, PL

Exhibit 3: Apple's policy change curtails Kiddopia growth



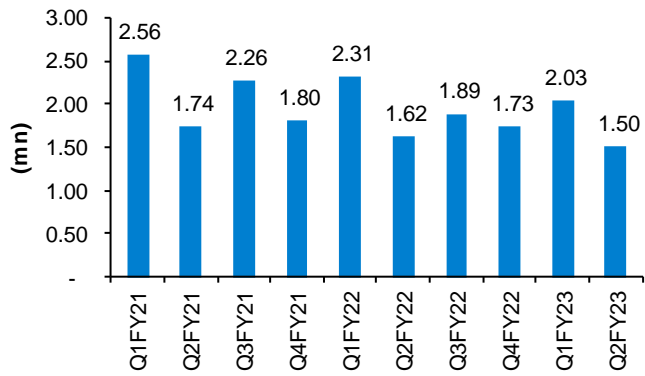
Source: Company, PL

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



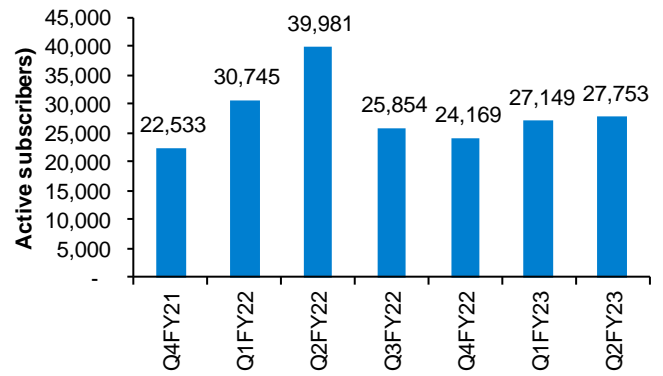
Source: Company, PL

Exhibit 5: Freemium DAU's stable over the quarters

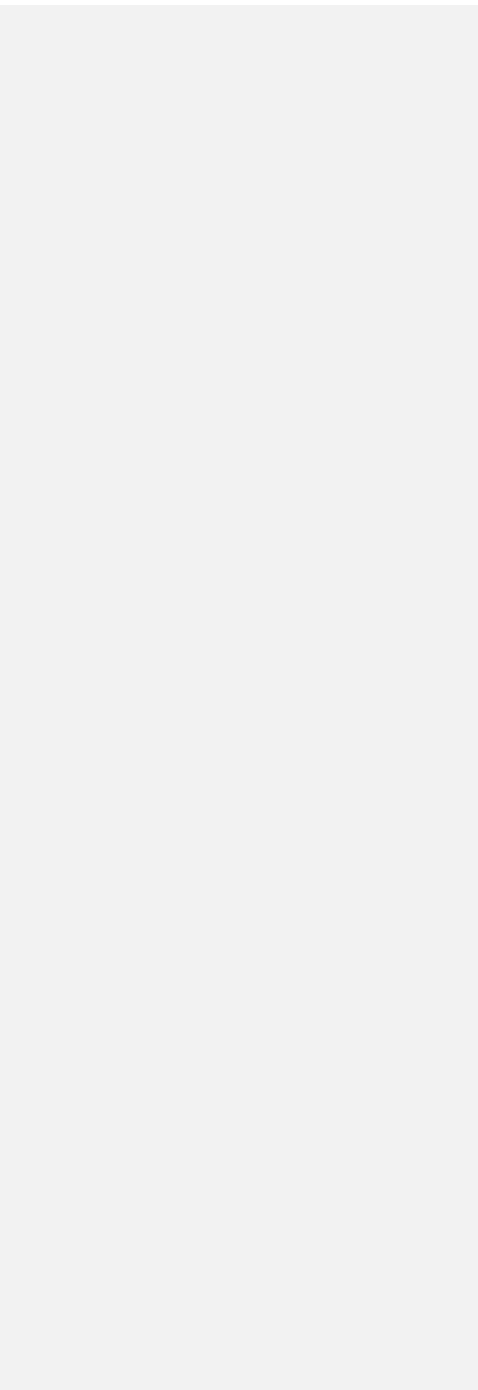


Source: Company, PL

Exhibit 6: RMG average MAU trend is volatile



Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	6,217	10,836	14,414	17,387
YoY gr. (%)	36.9	74.3	33.0	20.6
Cost of Goods Sold	-	748	879	1,008
Gross Profit	6,217	10,088	13,535	16,378
Margin (%)	100.0	93.1	93.9	94.2
Employee Cost	881	1,354	1,658	1,913
Other Expenses	473	759	1,009	1,217
EBITDA	946	1,047	1,735	2,101
YoY gr. (%)	111.6	10.6	65.8	21.1
Margin (%)	15.2	9.7	12.0	12.1
Depreciation and Amortization	390	511	551	634
EBIT	469	459	1,184	1,467
Margin (%)	7.5	4.2	8.2	8.4
Net Interest	6	24	19	19
Other Income	241	401	360	417
Profit Before Tax	704	837	1,525	1,865
Margin (%)	11.3	7.7	10.6	10.7
Total Tax	192	226	381	466
Effective tax rate (%)	27.3	27.0	25.0	25.0
Profit after tax	512	611	1,144	1,399
Minority interest	223	185	293	403
Share Profit from Associate	(5)	-	-	-
Adjusted PAT	284	426	851	996
YoY gr. (%)	208.7	50.0	99.6	17.1
Margin (%)	4.6	3.9	5.9	5.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	284	426	851	996
YoY gr. (%)	208.7	50.0	99.6	17.1
Margin (%)	4.6	3.9	5.9	5.7
Other Comprehensive Income	30	-	-	-
Total Comprehensive Income	314	426	851	996
Equity Shares O/s (m)	65	66	66	66
EPS (Rs)	4.3	6.5	13.0	15.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	2,853	3,196	3,554	4,091
Tangibles	314	457	615	802
Intangibles	2,539	2,739	2,939	3,289
Acc: Dep / Amortization	1,245	1,756	2,307	2,941
Tangibles	237	312	393	486
Intangibles	1,008	1,444	1,914	2,455
Net fixed assets	1,608	1,440	1,247	1,150
Tangibles	77	145	222	316
Intangibles	1,531	1,295	1,025	834
Capital Work In Progress	11	11	11	11
Goodwill	2,632	2,632	2,632	2,632
Non-Current Investments	397	423	455	481
Net Deferred tax assets	(264)	(336)	(375)	(452)
Other Non-Current Assets	237	465	591	626
Current Assets				
Investments	4,093	4,093	4,093	4,093
Inventories	13	13	13	13
Trade receivables	847	1,930	2,646	3,192
Cash & Bank Balance	3,228	3,467	3,957	4,620
Other Current Assets	269	433	649	782
Total Assets	14,098	16,434	18,325	20,051
Equity				
Equity Share Capital	130	263	263	263
Other Equity	10,283	10,709	11,560	12,556
Total Networkth	10,413	10,972	11,822	12,818
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	51	70	94	113
Other non current liabilities	10	10	10	10
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	499	1,514	2,014	2,429
Other current liabilities	1,232	1,864	2,310	2,502
Total Equity & Liabilities	14,098	16,434	18,325	20,051

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	699	426	851	996
Add. Depreciation	390	511	551	634
Add. Interest	6	24	19	19
Less Financial Other Income	241	401	360	417
Add. Other	(3)	(405)	(330)	(294)
Op. profit before WC changes	1,092	556	1,090	1,355
Net Changes-WC	(281)	(68)	(216)	(130)
Direct tax	(190)	-	-	-
Net cash from Op. activities	621	489	874	1,225
Capital expenditures	(1,407)	(343)	(358)	(537)
Interest / Dividend Income	60	-	-	-
Others	(2,149)	(16)	(7)	(6)
Net Cash from Inv. activities	(3,496)	(359)	(365)	(543)
Issue of share cap. / premium	3,393	-	-	-
Debt changes	(38)	-	-	-
Dividend paid	-	-	-	-
Interest paid	(5)	(24)	(19)	(19)
Others	(3)	133	-	-
Net cash from Fin. activities	3,347	109	(19)	(19)
Net change in cash	472	239	490	663
Free Cash Flow	498	145	517	688

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Revenue	1,858	1,751	2,231	2,638
YoY gr. (%)	42.5	41.9	70.0	103.5
Raw Material Expenses	-	-	57	276
Gross Profit	1,858	1,751	2,174	2,362
Margin (%)	100.0	100.0	97.4	89.5
EBITDA	303	149	301	213
YoY gr. (%)	10.8	26.6	-	9.2
Margin (%)	16.3	8.5	13.5	8.1
Depreciation / Depletion	107	113	136	103
EBIT	184	16	165	34
Margin (%)	9.9	0.9	7.4	1.3
Net Interest	-	4	4	9
Other Income	40	96	66	232
Profit before Tax	224	108	227	257
Margin (%)	12.1	6.2	10.2	9.7
Total Tax	53	59	62	88
Effective tax rate (%)	23.7	54.6	27.3	34.2
Profit after Tax	171	49	165	169
Minority interest	68	27	50	72
Share Profit from Associates	-	-	-	-
Adjusted PAT	103	22	115	102
YoY gr. (%)	1.0	(30.2)	117.0	(1.9)
Margin (%)	5.5	1.3	5.2	3.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	103	22	115	102
YoY gr. (%)	1.0	(30.2)	117.0	(1.9)
Margin (%)	5.5	1.3	5.2	3.9
Other Comprehensive Income	28	29	29	-
Total Comprehensive Income	131	51	144	102
Avg. Shares O/s (m)	32	33	66	66
EPS (Rs)	3.2	0.7	1.8	1.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	4.3	6.5	13.0	15.2
CEPS	10.4	14.3	21.3	24.8
BVPS	160.2	167.1	180.0	195.2
FCF	7.7	2.2	7.9	10.5
DPS	-	-	-	-
Return Ratio(%)				
RoCE	5.5	4.3	10.4	11.9
ROIC	29.0	10.7	26.5	30.5
RoE	3.3	4.0	7.5	8.1
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.7)	(0.7)	(0.7)
Net Working Capital (Days)	21	14	16	16
Valuation(x)				
PER	154.6	103.2	51.7	44.1
P/B	4.2	4.0	3.7	3.4
P/CEPS	64.6	46.9	31.4	27.0
EV/EBITDA	38.3	34.8	20.7	16.8
EV/Sales	5.8	3.4	2.5	2.0
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-22	BUY	1,031	740
2	01-Sep-22	BUY	1,031	670
3	01-Aug-22	BUY	911	636
4	07-Jul-22	BUY	901	635
5	24-Jun-22	BUY	1,813	1,044
6	16-May-22	BUY	1,747	1,248
7	08-Apr-22	BUY	2,550	1,695
8	14-Feb-22	BUY	2,544	1,884
9	10-Jan-22	BUY	3,125	2,413
10	01-Nov-21	BUY	3,125	2,520

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Entertainment Network (India)	Hold	190	167
2	Indian Railway Catering and Tourism Corporation	Hold	635	731
3	Inox Leisure	BUY	652	515
4	Music Broadcast	Hold	24	24
5	Navneet Education	BUY	170	130
6	Nazara Technologies	BUY	1,031	740
7	PVR	BUY	2,119	1,689
8	S Chand and Company	BUY	234	187
9	Safari Industries (India)	BUY	2,062	1,852
10	V.I.P. Industries	BUY	1,020	699
11	Zee Entertainment Enterprises	BUY	302	280

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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