

January 28, 2023

Q3FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	898		1,012	
Sales (Rs. m)	14,705	17,715	14,414	17,387
% Chng.	2.0	1.9		
EBITDA (Rs. m)	1,577	2,082	1,735	2,101
% Chng.	(9.1)	(0.9)		
EPS (Rs.)	11.3	14.6	13.0	15.2
% Chng.	(12.5)	(3.7)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	6,217	11,034	14,705	17,715
EBITDA (Rs. m)	946	1,120	1,577	2,082
Margin (%)	15.2	10.2	10.7	11.8
PAT (Rs. m)	284	517	745	959
EPS (Rs.)	4.3	7.9	11.3	14.6
Gr. (%)	43.3	81.9	44.0	28.7
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	3.3	4.8	6.5	7.8
RoCE (%)	5.5	5.0	9.0	11.8
EV/Sales (x)	5.0	2.8	2.1	1.7
EV/EBITDA (x)	32.9	27.9	19.6	14.5
PE (x)	136.8	75.2	52.2	40.6
P/BV (x)	3.7	3.5	3.3	3.0

Key Data NAZA.BO | NAZARA IN

52-W High / Low	Rs.1,134 / Rs.475
Sensex / Nifty	59,331 / 17,604
Market Cap	Rs.39bn/ \$ 478m
Shares Outstanding	66m
3M Avg. Daily Value	Rs.227.47m

Shareholding Pattern (%)

Promoter's	19.14
Foreign	10.15
Domestic Institution	6.33
Public & Others	64.39
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.5	15.2	(45.5)
Relative	6.6	7.3	(46.9)

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Kiddopia's KPI improve but Esports margins lag

Quick Pointers:

- Kiddopia's subscriber base increases 3.7% QoQ to 310,981 after 3 quarters.
- Kiddopia's Monthly/annual subscription price has been increased to US\$9.99/US\$79.99 respectively from December.

While we increase our FY23E EPS estimates by 21% due to higher than expected other income, we cut our FY24E/FY25E EPS estimates by 13%/4% respectively and our TP to Rs898 (Rs1,012 earlier) as we re-align our margin assumptions for Nodwin. While benefits of operating leverage would kick in once new Esports IPs and D2C brands become well established, it would put pressure on margins in the interim due to ongoing investment drive. Hence, we expect Nodwin to report EBITDA margin of 0.5%/3.5%/7% in FY23E/FY24E/FY25E respectively. Nonetheless, despite margin pressure, one of the key positive highlight was improvement in KPIs of Kiddopia with subscriber growth returning back after 3 quarters with yet another price hike of 11% in Dec.

Overall, we expect sales/PAT CAGR of 27%/36% respectively over FY23E-25E and retain our BUY rating with a DCF based TP of Rs898. The stock trades at EV/Sales multiple of 2.8x/2.1x our FY23E/FY24E estimates 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 69.4% YoY: Revenue increased 69.4% YoY to Rs3,148mn (PLe Rs2,948mn). E-sports/Real Money Gaming revenue was up 39.5% YoY/41.1% YoY to Rs1,525mn/Rs151mn respectively. Revenues from Telco subscription segment increased 2.3% YoY to Rs132mn whereas Gamified early learning (GEL)/Freemium revenue was up 70.3% YoY/22.8% YoY to Rs804mn/Rs70mn respectively.

EBITDA margin at 9.7%: EBITDA increased 1.0% YoY to Rs306mn (PLe Rs277mn) with a margin of 9.7% (PLe of 9.4%) vis-a-vis 16.3% in 3QFY22. GEL/Esports EBITDA margin stood at 9.1%/9.0% respectively. PAT increased 75.7% YoY to Rs181mn (PLe Rs99mn) with a margin of 5.7% (PLe of 3.4%)

Con-call highlights: 1) Fresh hiring has been done recently and a 'special project's team' will aid in analyzing and executing new opportunities including tech trends and M&A. **2)** AdTech margins were low as 31 new clients were added (there is no pricing pressure) and EBITDA margins will be in the range of 8-10%. **3)** As for Kiddopia, price hikes taken in December will reflect in rising ARPU over a period of time as old subscribers get weeded out from the system. **4)** Margins in Nodwin are low due to creation of new IPs and expansion of D2C business **5)** OpenPlay's MAUs have declined despite the app being available on Playstore due to KYC friction. **6)** Currently, OpenPlay generates revenue of ~Rs50mn a month and the focus is on driving organic growth. **7)** There is a significant room for price increase in WildWorks. **8)** Recognition of Esports by Gol would help to build an ecosystem surrounding it, driving viewership and media rights revenue in the long run.

Exhibit 1: Q3FY23 Result Overview (Rs mn)

Consolidated financial table	3QFY23	3QFY22	YoY gr.	2QFY23	QoQ gr.	9MFY23	9MFY22	YoY gr.
Net sales	3,148	1,858	69.4%	2,638	19.3%	8,017	4,466	79.5%
Content, event & web server	1,433	484	196.1%	908	57.8%	2,710	864	213.7%
<i>As a % of sales</i>	<i>45.5%</i>	<i>26.0%</i>		<i>34.4%</i>		<i>33.8%</i>	<i>19.3%</i>	
Advertisement Expenses	563	568	-0.9%	833	-32.4%	1,926	1,501	28.3%
<i>As a % of sales</i>	<i>17.9%</i>	<i>30.6%</i>		<i>31.6%</i>		<i>24.0%</i>	<i>33.6%</i>	
Commission	142	114	24.6%	136	4.4%	399	382	4.5%
<i>As a % of sales</i>	<i>4.5%</i>	<i>6.1%</i>		<i>5.2%</i>		<i>5.0%</i>	<i>8.6%</i>	
Employee Cost	436	264	65.2%	344	26.7%	1,064	611	74.1%
<i>As a % of sales</i>	<i>13.9%</i>	<i>14.2%</i>		<i>13.0%</i>		<i>13.3%</i>	<i>13.7%</i>	
Other Expenses	268	125	114.4%	204	31.4%	1,098	311	253.1%
<i>As a % of sales</i>	<i>8.5%</i>	<i>6.7%</i>		<i>7.7%</i>		<i>13.7%</i>	<i>7.0%</i>	
EBITDA	306	303	1.0%	213	43.7%	820	797	2.9%
<i>EBITDA margin</i>	<i>9.7%</i>	<i>16.3%</i>		<i>8.1%</i>		<i>10.2%</i>	<i>17.8%</i>	
Depreciation	126	107	17.8%	103	22.3%	365	276	32.2%
EBIT	180	196	-8.2%	110	63.6%	455	521	-12.7%
<i>EBIT margin</i>	<i>5.7%</i>	<i>10.5%</i>		<i>4.2%</i>		<i>5.7%</i>	<i>11.7%</i>	
Interest cost	5	-	NM	9	-44.4%	18	2	800.0%
Other income	115	40	187.5%	232	-50.4%	413	145	184.8%
Impairment	5	12	-58.3%	76	-93.4%	81	67	20.9%
Share of P/L of investments accounted using equity method	-	-	NM	-	NM	-	(5)	NM
Exceptional items	-	-	NM	-	NM	-	-	NM
PBT	285	224	27.2%	257	10.9%	769	592	29.9%
Tax expenses	61	53	15.1%	88	-30.7%	211	133	58.6%
<i>Tax rate</i>	<i>21.4%</i>	<i>23.7%</i>		<i>34.2%</i>		<i>27.4%</i>	<i>22.5%</i>	
PAT	224	171	31.0%	174	28.7%	563	459	22.7%
<i>PAT margin</i>	<i>7.1%</i>	<i>9.2%</i>		<i>6.6%</i>		<i>7.0%</i>	<i>10.3%</i>	
Minority Interest	43	68	-36.8%	72	-40.3%	165	199	-17.1%
PAT after MI	181	103	75.7%	102	77.5%	398	260	53.1%
EPS (Rs)	2.8	1.6	75.7%	1.6	77.5%	6.0	4.2	41.3%
Adjusted PAT	229	183	25.1%	250	-8.4%	644	526	22.4%

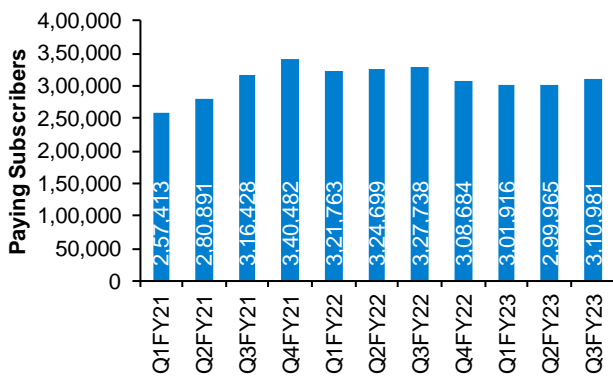
Source: Company, PL

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

Y/e March	3QFY23	3QFY22	YoY gr.	2QFY23	QoQ gr.
Gamified Early Learning	804	472	70.3%	598	34.4%
<i>As a % of sales</i>	<i>25.5%</i>	<i>25.4%</i>		<i>22.7%</i>	
EBITDA	73	61	19.7%	100	-27.0%
<i>EBITDA margin</i>	<i>9.1%</i>	<i>12.9%</i>		<i>16.7%</i>	
E-Sports	1,525	1,093	39.5%	1,366	11.6%
<i>As a % of sales</i>	<i>48.4%</i>	<i>58.8%</i>		<i>51.8%</i>	
EBITDA	137	242	-43.4%	61	124.6%
<i>EBITDA margin</i>	<i>9.0%</i>	<i>22.1%</i>		<i>4.5%</i>	
Ad tech - Datawrlz	466	-	NM	355	31.3%
<i>As a % of sales</i>	<i>14.8%</i>	<i>NM</i>		<i>13.5%</i>	
EBITDA	40	-	NM	34	17.6%
<i>EBITDA margin</i>	<i>8.6%</i>	<i>NM</i>		<i>9.6%</i>	
Telco Subscription	132	129	2.3%	117	12.8%
<i>As a % of sales</i>	<i>4.2%</i>	<i>6.9%</i>		<i>4.4%</i>	
EBITDA	45	11	309.1%	10	350.0%
<i>EBITDA margin</i>	<i>34.1%</i>	<i>8.5%</i>		<i>8.5%</i>	
Freemium	70	57	22.8%	55	27.3%
<i>As a % of sales</i>	<i>2.2%</i>	<i>3.1%</i>		<i>2.1%</i>	
EBITDA	21	14	50.0%	10	110.0%
<i>EBITDA margin</i>	<i>30.0%</i>	<i>24.6%</i>		<i>18.2%</i>	
Real Money Gaming	151	107	41.1%	147	2.7%
<i>As a % of sales</i>	<i>4.8%</i>	<i>5.8%</i>		<i>5.6%</i>	
EBITDA	33	1	3200.0%	29	13.8%
<i>EBITDA margin</i>	<i>21.9%</i>	<i>0.9%</i>		<i>19.7%</i>	
Total revenues	3,148	1,858	69.4%	2,638	19.3%

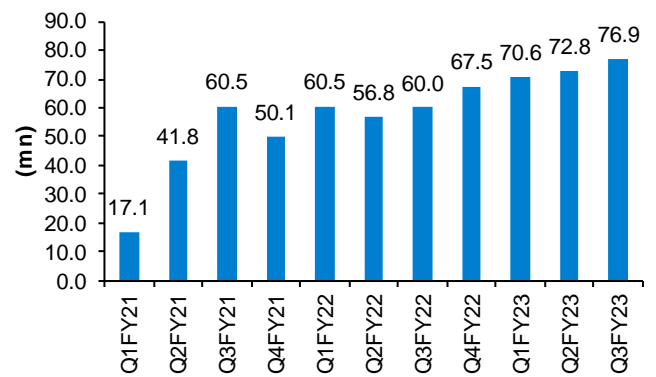
Source: Company, PL

Exhibit 3: Kiddopia back on growth path with ~310K subs



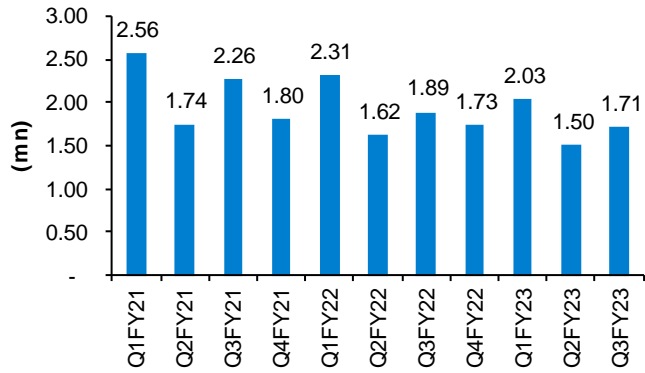
Source: Company, PL

Exhibit 4: SportsKeeda MAU's at 76.9mn



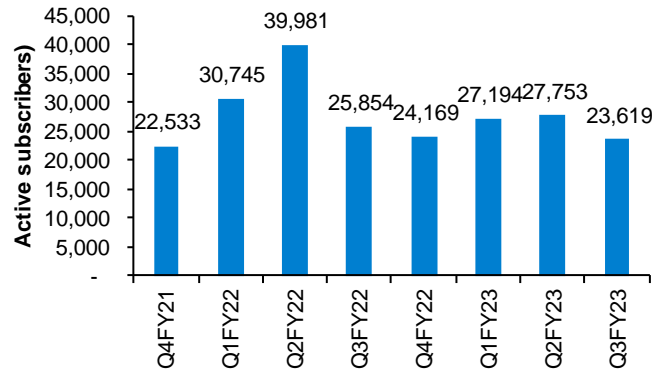
Source: Company, PL

Exhibit 5: Freemium DAU's stable at 1.7mn

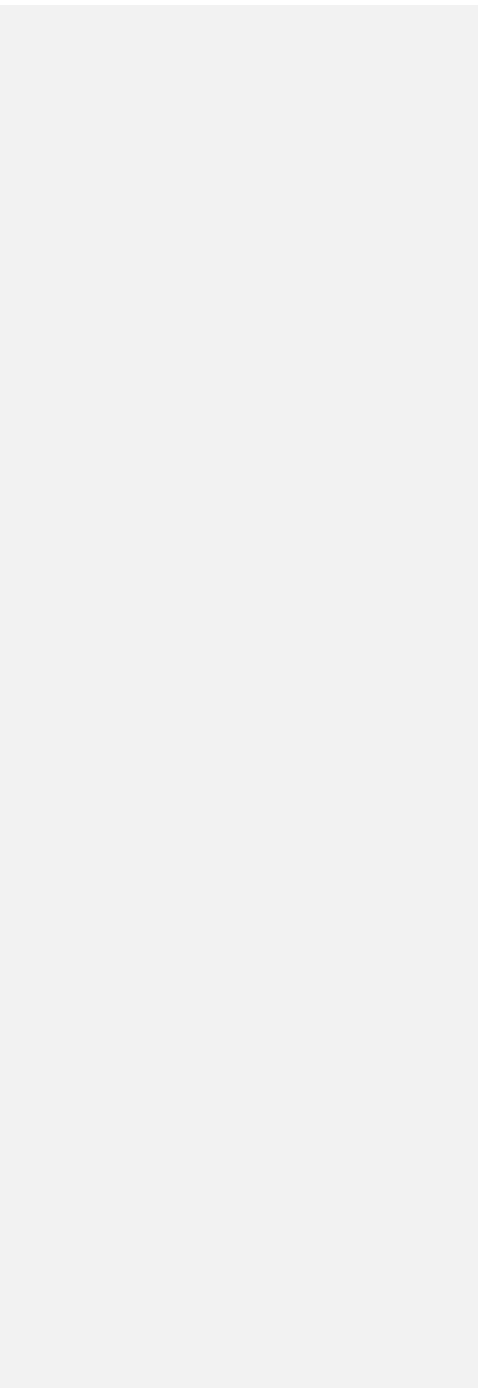


Source: Company, PL

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	11,034	14,705	17,715
YoY gr. (%)	36.9	77.5	33.3	20.5
Cost of Goods Sold	-	662	985	1,098
Gross Profit	6,217	10,372	13,720	16,617
Margin (%)	100.0	94.0	93.3	93.8
Employee Cost	881	1,457	1,912	2,303
Other Expenses	473	916	1,147	1,329
EBITDA	946	1,120	1,577	2,082
YoY gr. (%)	111.6	18.4	40.8	32.0
Margin (%)	15.2	10.2	10.7	11.8
Depreciation and Amortization	390	512	551	635
EBIT	469	533	1,026	1,447
Margin (%)	7.5	4.8	7.0	8.2
Net Interest	6	24	19	19
Other Income	241	463	368	425
Profit Before Tax	704	973	1,374	1,853
Margin (%)	11.3	8.8	9.3	10.5
Total Tax	192	263	344	463
Effective tax rate (%)	27.3	27.0	25.0	25.0
Profit after tax	512	710	1,031	1,390
Minority interest	223	193	286	431
Share Profit from Associate	(5)	-	-	-
Adjusted PAT	284	517	745	959
YoY gr. (%)	208.7	82.1	44.0	28.7
Margin (%)	4.6	4.7	5.1	5.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	284	517	745	959
YoY gr. (%)	208.7	82.1	44.0	28.7
Margin (%)	4.6	4.7	5.1	5.4
Other Comprehensive Income	30	-	-	-
Total Comprehensive Income	314	517	745	959
Equity Shares O/s (m)	65	66	66	66
EPS (Rs)	4.3	7.9	11.3	14.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	2,853	3,197	3,556	4,095
Tangibles	314	458	617	806
Intangibles	2,539	2,739	2,939	3,289
Acc: Dep / Amortization	1,245	1,757	2,308	2,942
Tangibles	237	312	393	487
Intangibles	1,008	1,444	1,914	2,456
Net fixed assets	1,608	1,441	1,248	1,152
Tangibles	77	146	224	319
Intangibles	1,531	1,295	1,025	833
Capital Work In Progress	11	11	11	11
Goodwill	2,632	2,632	2,632	2,632
Non-Current Investments	397	424	457	484
Net Deferred tax assets	(264)	(342)	(382)	(461)
Other Non-Current Assets	237	473	603	638
Current Assets				
Investments	4,093	4,093	4,093	4,093
Inventories	13	13	13	13
Trade receivables	847	1,965	2,699	3,252
Cash & Bank Balance	3,228	3,546	3,917	4,535
Other Current Assets	269	441	662	797
Total Assets	14,098	16,595	18,409	20,105
Equity				
Equity Share Capital	130	263	263	263
Other Equity	10,283	10,800	11,545	12,504
Total Networkth	10,413	11,063	11,807	12,766
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	51	72	96	115
Other non current liabilities	10	10	10	10
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	499	1,542	2,055	2,475
Other current liabilities	1,232	1,898	2,356	2,549
Total Equity & Liabilities	14,098	16,595	18,409	20,105

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	699	517	745	959
Add. Depreciation	390	512	551	635
Add. Interest	6	24	19	19
Less Financial Other Income	241	463	368	425
Add. Other	(3)	(408)	(337)	(299)
Op. profit before WC changes	1,092	644	978	1,314
Net Changes-WC	(281)	(75)	(221)	(132)
Direct tax	(190)	-	-	-
Net cash from Op. activities	621	569	756	1,182
Capital expenditures	(1,407)	(344)	(359)	(539)
Interest / Dividend Income	60	-	-	-
Others	(2,149)	(16)	(7)	(6)
Net Cash from Inv. activities	(3,496)	(360)	(366)	(545)
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	318	371	618
Free Cash Flow	498	225	398	643

Source: Company Data, PL Research

Key Financial Metrics

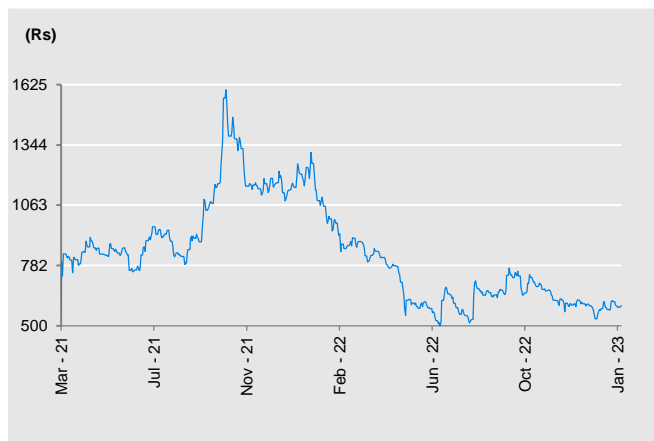
Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	4.3	7.9	11.3	14.6
CEPS	10.4	15.7	19.7	24.3
BVPS	160.2	168.5	179.8	194.4
FCF	7.7	3.4	6.1	9.8
DPS	-	-	-	-
Return Ratio(%)				
RoCE	5.5	5.0	9.0	11.8
ROIC	29.0	12.6	22.5	29.7
RoE	3.3	4.8	6.5	7.8
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.7)	(0.7)	(0.7)
Net Working Capital (Days)	21	14	16	16
Valuation(x)				
PER	136.8	75.2	52.2	40.6
P/B	3.7	3.5	3.3	3.0
P/CEPS	57.1	37.8	30.0	24.4
EV/EBITDA	32.9	27.9	19.6	14.5
EV/Sales	5.0	2.8	2.1	1.7
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	1,751	2,231	2,638	3,148
YoY gr. (%)	41.9	70.0	103.5	69.4
Raw Material Expenses	-	57	276	130
Gross Profit	1,751	2,174	2,362	3,018
Margin (%)	100.0	97.4	89.5	95.9
EBITDA	149	301	213	306
YoY gr. (%)	26.6	-	9.2	1.0
Margin (%)	8.5	13.5	8.1	9.7
Depreciation / Depletion	113	136	103	126
EBIT	16	165	34	175
Margin (%)	0.9	7.4	1.3	5.6
Net Interest	4	4	9	5
Other Income	96	66	232	115
Profit before Tax	108	227	257	286
Margin (%)	6.2	10.2	9.7	9.1
Total Tax	59	62	88	61
Effective tax rate (%)	54.6	27.3	34.2	21.3
Profit after Tax	49	165	169	225
Minority interest	27	50	72	43
Share Profit from Associates	-	-	-	-
Adjusted PAT	22	115	102	182
YoY gr. (%)	(30.2)	117.0	(1.9)	76.7
Margin (%)	1.3	5.2	3.9	5.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	22	115	102	182
YoY gr. (%)	(30.2)	117.0	(1.9)	76.7
Margin (%)	1.3	5.2	3.9	5.8
Other Comprehensive Income	29	29	68	36
Total Comprehensive Income	51	144	170	218
Avg. Shares O/s (m)	33	66	66	66
EPS (Rs)	0.7	1.8	1.6	2.8

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	BUY	1,012	576
2	21-Oct-22	BUY	1,012	670
3	06-Oct-22	BUY	1,031	740
4	01-Sep-22	BUY	1,031	670
5	01-Aug-22	BUY	911	636
6	07-Jul-22	BUY	901	635
7	24-Jun-22	BUY	1,813	1,044
8	16-May-22	BUY	1,747	1,248
9	08-Apr-22	BUY	2,550	1,695
10	14-Feb-22	BUY	2,544	1,884

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	474	357
2	Entertainment Network (India)	Hold	189	149
3	Indian Railway Catering and Tourism Corporation	Hold	679	636
4	Inox Leisure	BUY	602	477
5	Music Broadcast	Hold	23	27
6	Navneet Education	BUY	163	117
7	Nazara Technologies	BUY	1,012	576
8	PVR	BUY	1,983	1,678
9	S Chand and Company	BUY	220	173
10	Safari Industries (India)	BUY	2,476	1,699
11	V.I.P. Industries	BUY	1,013	675
12	Zee Entertainment Enterprises	BUY	309	238

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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