

May 10, 2023

Q4FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	BUY		BUY	
Target Price	804		872	
Sales (Rs. m)	14,672	17,616	14,826	17,858
% Chng.	(1.0)	(1.4)		
EBITDA (Rs. m)	1,542	2,025	1,597	2,107
% Chng.	(3.5)	(3.9)		
EPS (Rs.)	10.6	13.4	11.5	14.8
% Chng.	(7.7)	(9.1)		

Key Financials - Consolidated

Y/e Mar	FY22	FY23	FY24E	FY25E
Sales (Rs. m)	6,217	10,910	14,672	17,616
EBITDA (Rs. m)	946	1,097	1,542	2,025
Margin (%)	15.2	10.1	10.5	11.5
PAT (Rs. m)	284	414	701	889
EPS (Rs.)	4.6	6.2	10.6	13.4
Gr. (%)	50.6	37.3	69.4	26.8
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	3.3	3.9	6.2	7.3
RoCE (%)	5.5	4.0	8.4	11.3
EV/Sales (x)	4.7	2.9	2.1	1.8
EV/EBITDA (x)	31.1	29.0	20.4	15.5
PE (x)	124.4	90.6	53.4	42.2
P/BV (x)	3.5	3.4	3.2	3.0

Key Data

NAZA.BO | NAZARA IN

52-W High / Low	Rs.789 / Rs.475
Sensex / Nifty	61,940 / 18,315
Market Cap	Rs.37bn/ \$ 457m
Shares Outstanding	66m
3M Avg. Daily Value	Rs.253.58m

Shareholding Pattern (%)

Promoter's	19.05
Foreign	8.58
Domestic Institution	8.19
Public & Others	64.19
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.9	(4.9)	(11.0)
Relative	1.3	(7.0)	(21.9)

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Nazara Technologies (NAZARA IN)

Rating: BUY | CMP: Rs566 | TP: Rs804

Near term headwinds emerge

Quick Pointers:

- Kiddopia's subscriber base remains intact at 311,578 despite seasonality with an EBITDA margin of 18.4%.
- EBITDA margin of Animal Jam improves to 11.6% in 4QFY23.

We cut our FY24E/FY25E EPS estimates by 7%/9% amid 1) ban on real money games (RMG) in TN (region contributes ~20% to RMG's top-line) 2) loss of client in Ad-Tech segment and 3) continued margin pressure in the Nodwin business. While there are near term headwinds we believe benefits of price hike taken in Kiddopia will be evident in FY24E & beyond, as new subscribers come on board while ongoing investment in creating new IPs within Nodwin business (Playground/Valorant/Kingfisher India Premiership etc) can result in non-linear EBITDA growth over time. Further, Nazara has cash balance of Rs6.2bn which can act as growth capital to expand inorganically. Overall, we expect sales/PAT CAGR of 27%/50% respectively over FY23-25E and retain our BUY rating with a DCF based TP of Rs804 (earlier Rs872).

Revenue increased 65.2% YoY: Revenue increased 65.2% YoY to Rs2,893mn (PLe Rs3,017mn). E-sports revenue was up 52.9% YoY to Rs1,401mn while Gamified Early Learning (GEL) segment registered a growth of 56.1% YoY to Rs801mn. Kiddopia's subscriber base increased 0.2% on sequential basis to 311,758, while CPT stood at US\$35.9. Telco subscription revenues decreased 22.3% YoY to Rs115mn while Ad-tech business reported a 16.3% QoQ decline in sales to Rs390mn due to loss of one client. Freemium revenue declined 14.0% YoY to Rs49mn with MAUs/DAUs of 8.7mn/1.5mn respectively. Revenue from RMG segment was up 6.0% YoY to Rs124mn.

EBITDA margin at 9.6%: EBITDA increased 85.9% YoY at Rs277mn (PLe Rs267mn) with a margin of 9.6% (PLe of 8.9%) vis-a-vis 8.5% in 4QFY22. PAT increased 18.2% YoY to Rs26mn. GEL/E-sports/Ad-Tech business reported EBITDA margin of 16.5%/9.1%/6.9% respectively.

Con-call highlights: **1)** In the Ad-Tech business, Nazara lost one client. Hence there will be short term impact on revenue, but minimal impact on EBITDA. The business reported EBITDA margin of 6.9% in 4QFY23. **2)** Share of media rights revenue has declined from 39% in FY22 to 21% in FY23 as some of the popular games like BGMI were banned. In steady state, EBITDA margin from media rights licensing can be in the band of 20-25%. **3)** Kiddopia's CPT is likely to remain in the band of US\$35-37 but EBITDA margin is likely to expand in FY24E. **4)** EBITDA margin for Nodwin is unlikely to witness any meaningful improvement in FY24E. **5)** New COO has been hired for WCC business. **6)** Working capital requirements increased due to expansion of accessories business and advances given pertaining to Kiddopia. **7)** PFN business is seasonal in nature with 1Q contributing lowest amongst all quarters. **8)** Ban on RMG in Tamil Nadu will have a short term negative impact as the region contributes ~20% to top-line **9)** Animal Jam has potential to operate at 20% EBITDA margin.

Exhibit 1: Q4FY23 Result Overview (Rs mn)

Consolidated financial table	4QFY23	4QFY22	YoY gr.	3QFY23	QoQ gr.	FY23	FY22	YoY gr.
Net sales	2,893	1,751	65.2%	3,148	-8.1%	10,910	6,217	75.5%
Content, event & web server	1,336	534	150.2%	1,433	-6.8%	4,509	1,396	223.0%
<i>As a % of sales</i>	<i>46.2%</i>	<i>30.5%</i>		<i>45.5%</i>		<i>41.3%</i>	<i>22.5%</i>	
Advertisement Expenses	473	516	-8.3%	563	-16.0%	2,399	2,017	18.9%
<i>As a % of sales</i>	<i>16.3%</i>	<i>29.5%</i>		<i>17.9%</i>		<i>22.0%</i>	<i>32.4%</i>	
Commission	140	122	14.8%	142	-1.4%	539	504	6.9%
<i>As a % of sales</i>	<i>4.8%</i>	<i>7.0%</i>		<i>4.5%</i>		<i>4.9%</i>	<i>8.1%</i>	
Employee Cost	426	270	57.8%	436	-2.3%	1,490	881	69.1%
<i>As a % of sales</i>	<i>14.7%</i>	<i>15.4%</i>		<i>13.9%</i>		<i>13.7%</i>	<i>14.2%</i>	
Other Expenses	241	160	50.6%	269	-10.4%	876	473	85.2%
<i>As a % of sales</i>	<i>8.3%</i>	<i>9.1%</i>		<i>8.5%</i>		<i>8.0%</i>	<i>7.6%</i>	
EBITDA	277	149	85.9%	305	-9.2%	1,097	946	16.0%
<i>EBITDA margin</i>	<i>9.6%</i>	<i>8.5%</i>		<i>9.7%</i>		<i>10.1%</i>	<i>15.2%</i>	
Depreciation	160	113	41.6%	149	7.4%	571	390	46.4%
EBIT	117	36	225.0%	156	-25.0%	526	556	-5.4%
<i>EBIT margin</i>	<i>4.0%</i>	<i>2.1%</i>		<i>5.0%</i>		<i>4.8%</i>	<i>8.9%</i>	
Interest cost	29	4	625.0%	5	480.0%	47	6	683.3%
Other income	82	96	-14.6%	115	-28.7%	495	241	105.4%
Impairment	5	20	-75.0%	5	0.0%	86	87	-1.1%
Share of P/L of investments accounted using equity method	-	-	NM	-	NM	-	(5)	NM
Exceptional items	(25)	-	NM	-	NM	(20)	-	NM
PBT	140	108	29.6%	261	-46.4%	868	699	24.2%
Tax expenses	46	59	-22.0%	60	-23.3%	254	192	32.3%
<i>Tax rate</i>	<i>32.9%</i>	<i>54.6%</i>		<i>23.0%</i>		<i>29.3%</i>	<i>27.5%</i>	
PAT	94	49	91.8%	201	-53.2%	614	507	21.1%
<i>PAT margin</i>	<i>3.2%</i>	<i>2.8%</i>		<i>6.4%</i>		<i>5.6%</i>	<i>8.2%</i>	
Minority Interest	68	27	151.9%	37	83.8%	220	223	-1.3%
PAT after MI	26	22	18.2%	164	-84.1%	394	284	38.7%
EPS (Rs)	0.4	0.3	15.6%	2.5	-84.3%	6.3	4.6	37.8%
Adjusted PAT	124	69	79.7%	206	-39.8%	720	594	21.2%

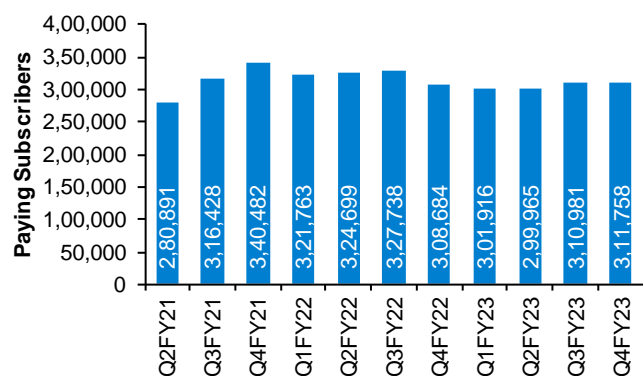
Source: Company, PL

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

Y/e March	4QFY23	4QFY22	YoY gr.	3QFY23	QoQ gr.
Gamified Early Learning	801	513	56.1%	804	-0.4%
As a % of sales	27.8%	29.3%		25.5%	
EBITDA	132	95	38.9%	73	80.8%
EBITDA margin	16.5%	18.5%		9.1%	
E-Sports	1,401	916	52.9%	1,525	-8.1%
As a % of sales	48.6%	52.3%		48.4%	
EBITDA	127	32	296.9%	137	-7.3%
EBITDA margin	9.1%	3.5%		9.0%	
Ad tech - Datawrllz	390	-	NM	466	-16.3%
As a % of sales	13.5%	0.0%		14.8%	
EBITDA	27	-	NM	40	-32.5%
EBITDA margin	6.9%	NM		8.6%	
Telco Subscription	115	148	-22.3%	132	-12.9%
As a % of sales	4.0%	8.5%		4.2%	
EBITDA	39	44	-11.4%	45	-13.3%
EBITDA margin	33.9%	29.7%		34.1%	
Freemium	49	57	-14.0%	70	-30.0%
As a % of sales	1.7%	3.3%		2.2%	
EBITDA	6	19	-68.4%	21	-71.4%
EBITDA margin	12.2%	33.3%		30.0%	
Real Money Gaming	124	117	6.0%	151	-17.9%
As a % of sales	4.3%	6.7%		4.8%	
EBITDA	24	18	33.3%	33	-27.3%
EBITDA margin	19.4%	15.4%		21.9%	
Total revenues	2,880	1,751	64.5%	3,148	-8.5%

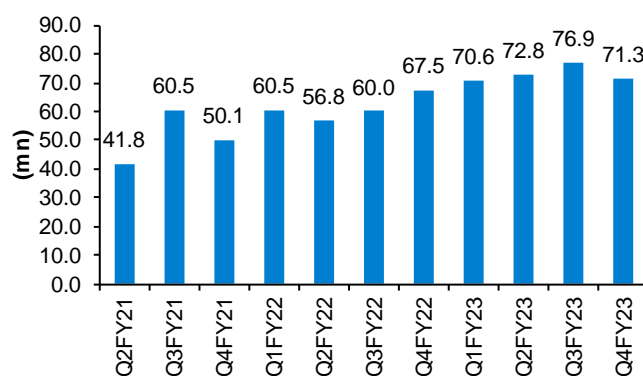
Source: Company, PL

Exhibit 3: Kiddopia back on growth path with ~311K subs



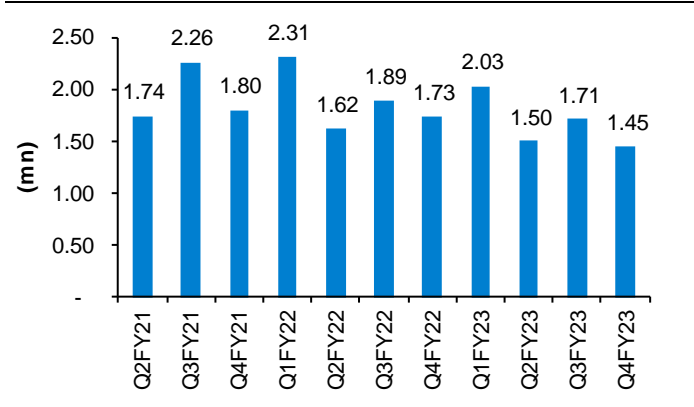
Source: Company, PL

Exhibit 4: SportsKeeda MAU's at 71.3mn



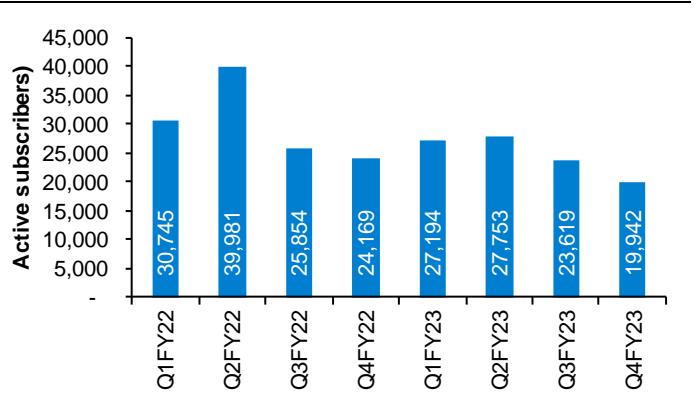
Source: Company, PL

Exhibit 5: Freemium DAU's stood at 1.45mn

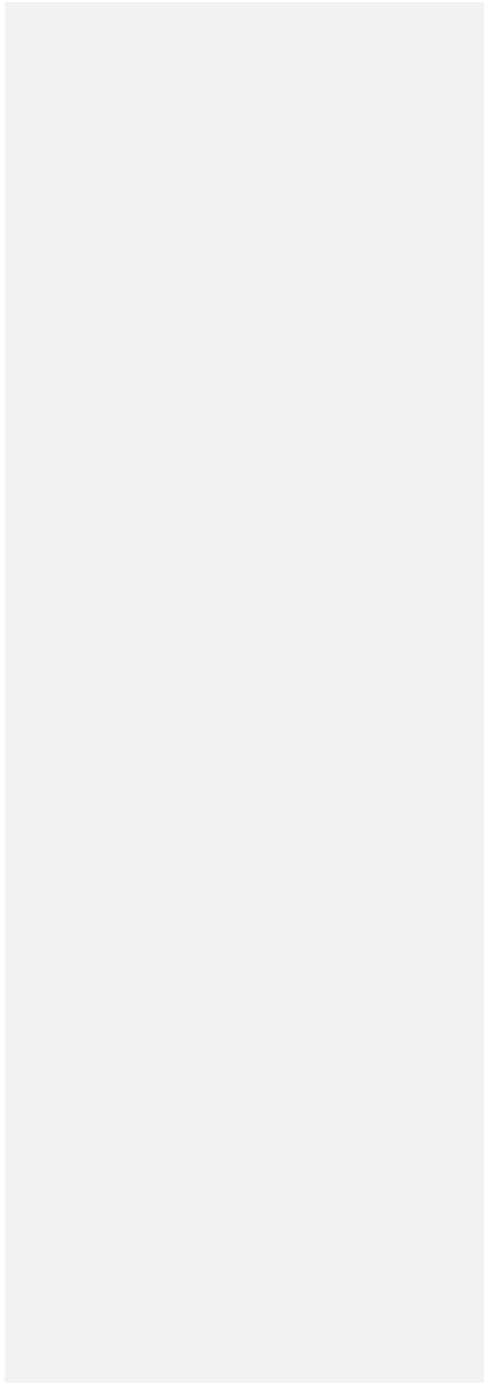


Source: Company, PL

Exhibit 6: RMG average MAU trend is volatile



Source: Company, PL



Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Net Revenues	6,217	10,910	14,672	17,616
YoY gr. (%)	36.9	75.5	34.5	20.1
Cost of Goods Sold	-	542	983	1,092
Gross Profit	6,217	10,368	13,689	16,524
Margin (%)	100.0	95.0	93.3	93.8
Employee Cost	881	1,490	1,907	2,290
Other Expenses	473	876	1,144	1,321
EBITDA	946	1,097	1,542	2,025
YoY gr. (%)	111.6	16.0	40.6	31.3
Margin (%)	15.2	10.1	10.5	11.5
Depreciation and Amortization	390	571	575	642
EBIT	469	440	967	1,383
Margin (%)	7.5	4.0	6.6	7.8
Net Interest	6	47	39	39
Other Income	241	495	367	423
Profit Before Tax	704	868	1,295	1,766
Margin (%)	11.3	8.0	8.8	10.0
Total Tax	192	254	324	442
Effective tax rate (%)	27.3	29.3	25.0	25.0
Profit after tax	512	614	971	1,325
Minority interest	223	220	270	436
Share Profit from Associate	(5)	-	-	-
Adjusted PAT	284	414	701	889
YoY gr. (%)	208.7	45.8	69.4	26.8
Margin (%)	4.6	3.8	4.8	5.0
Extra Ord. Income / (Exp)	-	(20)	-	-
Reported PAT	284	394	701	889
YoY gr. (%)	208.7	38.7	78.0	26.8
Margin (%)	4.6	3.6	4.8	5.0
Other Comprehensive Income	30	-	-	-
Total Comprehensive Income	314	394	701	889
Equity Shares O/s (m)	65	66	66	66
EPS (Rs)	4.6	6.2	10.6	13.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
Non-Current Assets				
Gross Block	2,853	4,238	4,597	5,135
Tangibles	314	469	628	816
Intangibles	2,539	3,769	3,969	4,319
Acc: Dep / Amortization	1,245	1,816	2,391	3,032
Tangibles	237	321	405	500
Intangibles	1,008	1,495	1,985	2,533
Net fixed assets	1,608	2,422	2,206	2,102
Tangibles	77	148	222	316
Intangibles	1,531	2,274	1,984	1,786
Capital Work In Progress	11	2	2	2
Goodwill	2,632	3,407	3,407	3,407
Non-Current Investments	397	1,008	829	864
Net Deferred tax assets	(264)	(367)	(440)	(528)
Other Non-Current Assets	237	168	587	617
Current Assets				
Investments	4,093	2,668	2,668	2,668
Inventories	13	246	246	246
Trade receivables	847	1,536	2,090	2,896
Cash & Bank Balance	3,228	3,292	3,299	3,507
Other Current Assets	269	689	660	793
Total Assets	14,098	17,018	18,078	19,515
Equity				
Equity Share Capital	130	265	265	265
Other Equity	10,283	10,784	11,485	12,375
Total Network	10,413	11,049	11,750	12,640
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	51	52	95	115
Other non current liabilities	10	52	52	52
Current Liabilities				
ST Debt / Current of LT Debt	-	304	-	-
Trade payables	499	767	1,206	1,448
Other current liabilities	1,232	2,273	2,344	2,528
Total Equity & Liabilities	14,098	17,018	18,078	19,515

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY22	FY23	FY24E	FY25E
PBT	699	888	701	889
Add. Depreciation	390	571	575	642
Add. Interest	6	47	39	39
Less Financial Other Income	241	495	367	423
Add. Other	(3)	(309)	(478)	(216)
Op. profit before WC changes	1,092	1,197	837	1,354
Net Changes-WC	(281)	(856)	(115)	(564)
Direct tax	(190)	(260)	-	-
Net cash from Op. activities	621	81	722	790
Capital expenditures	(1,407)	(1,419)	(359)	(538)
Interest / Dividend Income	60	84	-	-
Others	(2,149)	383	(12)	(6)
Net Cash from Invt. activities	(3,496)	(952)	(371)	(544)
Issue of share cap. / premium	3,393	163	-	-
Debt changes	(38)	(7)	(304)	-
Dividend paid	-	-	-	-
Interest paid	(5)	(111)	(39)	(39)
Others	(3)	100	-	-
Net cash from Fin. activities	3,347	145	(343)	(39)
Net change in cash	472	(723)	7	207
Free Cash Flow	498	(2)	363	252

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23	FY24E	FY25E
Per Share(Rs)				
EPS	4.6	6.2	10.6	13.4
CEPS	10.4	14.9	19.3	23.1
BVPS	160.2	166.8	177.4	190.8
FCF	7.7	0.0	5.5	3.8
DPS	-	-	-	-
Return Ratio(%)				
RoCE	5.5	4.0	8.4	11.3
ROIC	29.0	6.3	13.0	17.2
RoE	3.3	3.9	6.2	7.3
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.5)	(0.5)	(0.5)
Net Working Capital (Days)	21	34	28	35
Valuation(x)				
PER	124.4	90.6	53.4	42.2
P/B	3.5	3.4	3.2	3.0
P/CEPS	54.6	38.1	29.4	24.5
EV/EBITDA	31.1	29.0	20.4	15.5
EV/Sales	4.7	2.9	2.1	1.8
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY23	Q2FY23	Q3FY23	Q4FY23
Net Revenue	2,231	2,638	3,148	2,893
YoY gr. (%)	70.0	103.5	69.4	65.2
Raw Material Expenses	57	276	130	79
Gross Profit	2,174	2,362	3,018	2,814
Margin (%)	97.4	89.5	95.9	97.3
EBITDA	301	213	305	277
YoY gr. (%)	-	9.2	0.7	85.9
Margin (%)	13.5	8.1	9.7	9.6
Depreciation / Depletion	136	103	149	160
EBIT	165	34	151	112
Margin (%)	7.4	1.3	4.8	3.9
Net Interest	4	9	5	29
Other Income	66	232	115	82
Profit before Tax	227	257	262	142
Margin (%)	10.2	9.7	8.3	4.9
Total Tax	62	88	60	46
Effective tax rate (%)	27.3	34.2	22.9	32.4
Profit after Tax	165	169	202	96
Minority interest	50	72	37	68
Share Profit from Associates	-	-	-	-
Adjusted PAT	115	102	165	53
YoY gr. (%)	117.0	(1.9)	60.2	140.9
Margin (%)	5.2	3.9	5.2	1.8
Extra Ord. Income / (Exp)	-	-	-	(25)
Reported PAT	115	102	165	28
YoY gr. (%)	117.0	(1.9)	60.2	27.3
Margin (%)	5.2	3.9	5.2	1.0
Other Comprehensive Income	29	68	36	37
Total Comprehensive Income	144	170	201	65
Av g. Shares O/s (m)	66	66	66	66
EPS (Rs)	1.8	1.6	2.5	0.8

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	11-Apr-23	BUY	872	540
2	28-Jan-23	BUY	898	592
3	06-Jan-23	BUY	1,012	576
4	21-Oct-22	BUY	1,012	670
5	06-Oct-22	BUY	1,031	740
6	01-Sep-22	BUY	1,031	670
7	01-Aug-22	BUY	911	636
8	07-Jul-22	BUY	901	635
9	24-Jun-22	BUY	1,813	1,044
10	16-May-22	BUY	1,747	1,248

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	BUY	498	364
2	Entertainment Netw ork (India)	Hold	180	126
3	Indian Railw ay Catering and Tourism Corporation	Hold	672	582
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	BUY	2,346	1,905
6	Music Broadcast	Hold	18	11
7	Navneet Education	Accumulate	147	102
8	Nazara Technologies	BUY	872	540
9	PVR	BUY	2,096	1,550
10	S Chand and Company	BUY	228	219
11	Safari Industries (India)	BUY	2,538	2,114
12	V.I.P. Industries	BUY	900	623
13	Zee Entertainment Enterprises	BUY	277	211

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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