

May 10, 2023

**RESULT REPORT Q4 FY23** | Internet/Platform

# Nazara Technologies Ltd

## Inline operating performance in a seasonally weak quarter

### Result Synopsis

**Nazara Technologies (NAZARA) reported inline financial performance for the quarter. Both, sequential revenue growth and EBITDA margin were broadly along expectation. It reported sequential revenue degrowth of 8.1% QoQ in a seasonally weak quarter for Nazara, led by 8.1% QoQ decline in revenue of esports( contributing 48.4% to revenue) and 0.4% QoQ decrease in the revenue of Gamified Early Learning(contributing 27.7% to revenue). There was sequential decrease in EBITDA margin(down 11 bps QoQ) led by sequential decline in revenue.**

**Indian Gaming industry is expected to achieve \$3.5bn in 2023 from \$1.5bn in 2020 at CAGR of 32.6% led by increasing smartphone penetration, increase in the number of mid/hard core gamers and gradual increase in In-app purchases. The revenue base of Nazara has become more diversified across business segments, thus helping to reduce the overall risk. High cost of content and higher marketing cost continues to weigh down on operating margin. Its acquisitions driven business strategy remains a risky one as such acquisitions often come at premium valuation. We estimate revenue CAGR of 27.6% over FY23-25E with average EBITDA margin of 12.5% over the period. We maintain our NEUTRAL rating on the stock with revised target price of Rs 598/share based on EV/EBITDA of 14x on FY25E. The stock trades at EV/EBITDA of 18.8x/13.0x on FY24E/FY25E.**

### Result Highlights

- Reported revenue of Rs 2,893mn (down 8.1% QoQ, up 65.2% YoY). The degrowth was led by 8.1% QoQ decrease in revenue of Esports Segment (up 52.9% YoY) contributing 48.4% to revenue. Freemium segment degrew by 25.7% QoQ (down 8.8% YoY), Adtech decreased by 16.3% QoQ, Real money gaming decreased by 11.3% QoQ (up 14.5% YoY), Gamified Early Learning decreased by 0.4% QoQ (up 56.1% YoY), and Telecom business degrew by 12.9% QoQ (down 22.3% YoY).
- Nodwin revenue grew by 57% YoY in Q4FY23 driven by growth in multiple IPs (Playground, Dgtl etc.) as well as strong growth in gaming accessories business.
- Sportskeeda revenues grew by 41% YoY in Q4FY23, as US revenues grew ~53% YoY during the same period.
- Launched partnerships with West Indies cricket team and Colexion NFTs.
- EBITDA margin decreased by 11bps QoQ to 9.6%, due to sequential decrease in overall revenue.
- Nazara is increasing stake in Nextwave Multimedia, the developer of WCC from 52.38% to 71.88%.

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	2,893	3,093	2,960	-6.5%	-2.3%
EBITDA	277	305	270	-9.2%	2.6%
EBITDA Margin (%)	9.57%	9.86%	9.12%	-29 bps	45 bps
Adjusted PAT	31	186	160	-83.3%	-80.6%

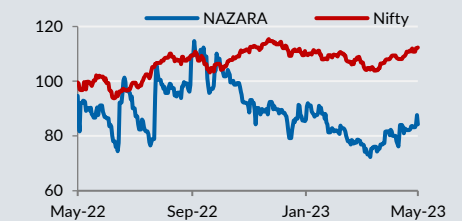
Source: Company, YES Sec

Reco	: <b>NEUTRAL</b>
CMP	: Rs 566
Target Price	: Rs 598
Potential Return	: + 5.6%

### Stock data (as on May 10, 2023)

Nifty	18,315
52 Week h/l (Rs)	789 / 475
Market cap (Rs/USD mn)	38950 / 475
Outstanding Shares (mn)	66
6m Avg t/o (Rs mn):	350
Div yield (%)	-
Bloomberg code:	NAZARA IN
NSE code:	NAZARA

### Stock performance



	1M	3M	1Y
Absolute return	4.9%	2.7%	-11.0%

### Shareholding pattern (As of Mar'23 end)

Promoter	19.1%
FII+DII	16.8%
Others	64.2%

### Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	598	658

### Δ in earnings estimates

	FY23	FY24E	FY25E
EPS (New)	7.4	12.4	17.6
EPS (Old)	10.2	14.7	19.3
% change	-27.3%	-16.0%	-8.7%

### Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	10,910	13,803	17,764
YoY Growth	75.5%	26.5%	28.7%
EBIDTA	1,096	1,645	2,313
YoY Growth	15.6%	50.1%	40.6%
PAT	488	824	1,175
YoY Growth	33.3%	68.8%	42.7%
ROE	4.5%	7.2%	9.4%
EPS	7.4	12.4	17.6
P/E	76.4	45.9	32.1
BV	168	178	196
P/BV	3.4	3.2	2.9

**PIYUSH PANDEY**  
Lead Analyst  
piyush.pandey@ysil.in  
+91 22 68850521



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**PARTH GHIYA**, Associate

## Exhibit 2: Quarterly snapshot Console: Sequential decline in EBITDA margin

Particulars (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	YoY%	QoQ%	FY23	FY22	YoY%
Sales	1,751	2,231	2,638	3,148	2,893	65.2	-8.1	10,910	6,217	75.5
EBITDA	149	301	213	305	277	85.9	-9.2	1,096	948	15.6
EBITDA %	8.5	13.5	8.1	9.7	9.6	107 bps	-11 bps	10.0	15.2	-520 bps
Depreciation	113	136	103	149	160	41.6	7.4	548	400	37.0
EBIT	36	165	110	156	117	225.0	NA	548	548	0.0
EBIT Margin %	2.1	7.4	4.2	5.0	4.0	199 bps	-91 bps	5.0	8.8	-379 bps
PBT	108	227	262	261	165	52.8	-36.8	915	695	31.7
Tax	59	62	88	60	46	-22.0	-23.3	256	190	34.7
PAT	22	115	102	164	26	18.2	-84.1	407	279	45.9
Adjusted PAT	42	115	173	169	31	-26.2	-81.7	488	366	33.3
NPM (%)	1.3	5.2	3.9	5.2	0.9	-36 bps	-431 bps	3.7	4.5	-76 bps

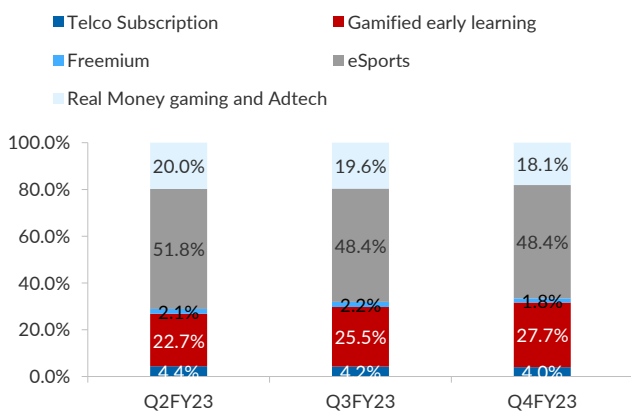
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## KEY CON-CALL HIGHLIGHTS

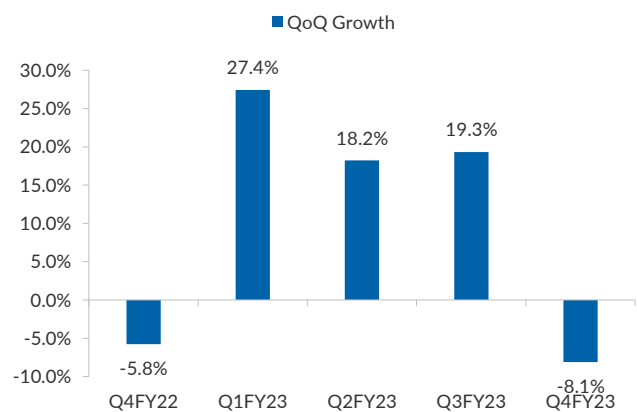
- Revenue crossed Rs 1,000 crore benchmark and EBITDA crossed Rs 100 crore benchmark for FY23.
- Media Revenue down YoY due to a few games getting banned, negatively affecting a few deals.
- Synergies between Sportskeeda and Pro Football network played positively for the company and its impact can be visible in Q1FY24.
- Ministry of IT gave guidelines for Skilled Based RMG (5% of Revenue) and is proving to be a tailwind for the segment.
- Nodwin has acquired 51% of Branded Pte. Ltd for a cash consideration of \$1.3 million. The acquisition will drive sponsorship revenue for Nodwin's IPs in India and internationally.
- Kiddopia Subscribers base increased by 0.2% QoQ despite begin a soft quarter. EBITDA Margin improved to 18.4% (vs 11.6% in Q3FY23) driven by Cost per Trial (CPT) reduction to \$35.9 from \$37.3 in Q3FY23.
- In Adtech segment, 42 new clients added in FY23, contributing to 34% of total revenues. The company lost one significant client and we expect short term impact in revenue with minimal impact in EBITDA due to growth in new clients.

**Exhibit 3: Sports contribute significantly to overall revenue**

**Exhibit 4: Q4 is a seasonally weak quarter for Nazara**



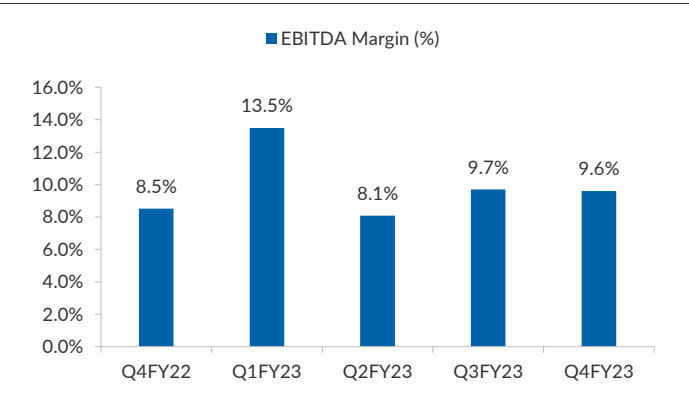
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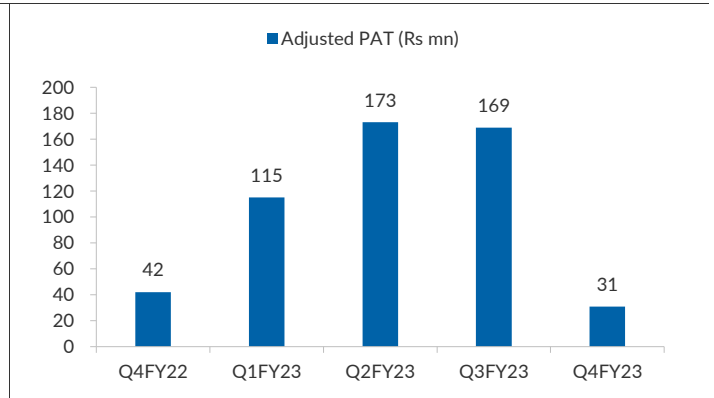
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**Exhibit 5: EBITDA Margin remained intact despite soft quarter**

**Exhibit 6: The focus on driving profitability remains intact**



Source: Company, YES Sec



Source: Company, YES Sec

## FINANCIALS

### Exhibit 7: Balance Sheet

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share capital	110	112	122	130	265	265	265
Reserves & surplus	4,024	4,899	6,460	10,283	10,784	11,608	12,783
Shareholders' funds	4,134	5,011	6,582	10,413	11,049	11,873	13,048
Non-current liabilities	240	359	302	384	508	550	595
Other non-current liabilities	240	359	302	384	508	550	595
Current liabilities	485	1,485	2,136	1,731	3,344	3,186	3,342
Other current liabilities	485	1,485	2,136	1,731	3,040	3,186	3,342
Total (Equity and Liabilities)	5,214	7,544	10,227	14,098	17,018	17,789	19,231
Non-current assets	2,026	3,747	3,415	4,944	7,044	6,422	6,264
Fixed assets (Net block)	620	1,643	1,302	1,619	2,424	2,484	2,547
Non-current Investments	435	216	122	325	652	978	1,467
Other non-current assets	955	1,873	1,991	3,000	3,967	2,959	2,249
Current assets	3,187	3,797	6,812	9,154	9,974	11,367	12,967
Cash & current investment	2,172	2,234	4,784	7,321	5,960	6,811	7,785
Other current assets	1,015	1,563	2,029	1,833	4,014	4,556	5,182
Total (Assets)	5,214	7,544	10,227	14,098	17,018	17,789	19,231

Source: Company, YES Sec

### Exhibit 8: Income Statement

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	1,672	2,475	4,542	6,217	10,910	13,803	17,764
Operating expenses	(1,589)	(2,532)	(4,131)	(5,269)	(9,814)	(12,158)	(15,451)
EBITDA	83	(57)	411	948	1,096	1,645	2,313
Depreciation	(135)	(263)	(355)	(400)	(548)	(690)	(888)
EBIT	(52)	(320)	57	548	548	955	1,847
Other income	163	155	143	241	495	406	423
Finance cost	(9)	(12)	(9)	(7)	(47)	(41)	(43)
Profit before tax	102	(178)	150	695	915	1,320	1,803
Tax (current + deferred)	(49)	(72)	(31)	(190)	(256)	(333)	(454)
Reported Profit / (Loss)	108	(21)	52	279	407	824	1,175
Adjusted net profit	108	(21)	92	366	488	824	1,175

Source: Company, YES Sec

## Exhibit 9: Cash Flow Statement

Y/e March 31 (Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Profit before tax	102	(178)	150	695	915	1,320	1,803
Depreciation	135	263	355	400	548	690	888
Change in working capital	(34)	446	126	(221)	(857)	(402)	(477)
Total tax paid	(95)	136	(34)	(111)	(167)	(291)	(409)
Others	(154)	(142)	(134)	(234)	(448)	(365)	(379)
Cash flow from oper. (a)	(46)	525	463	528	(9)	952	1,427
Capital expenditure	(60)	(1,285)	1	(717)	(1,354)	(751)	(951)
Change in investments	(269)	692	(599)	(3,236)	1,098	(726)	(949)
Others	150	314	41	192	281	1,483	1,203
Cash flow from inv. (b)	(179)	(279)	(557)	(3,761)	25	7	(697)
Free cash flow (a+b)	(225)	247	(94)	(3,233)	16	959	729
Equity raised/(repaid)	2	2	10	8	135	-	-
Dividend (incl. tax)	-	-	-	-	-	-	-
Others	381	286	1,941	2,729	(391)	(204)	(215)
Cash flow from fin. (c)	382	288	1,951	2,737	48	(508)	(215)
Net chg in cash (a+b+c)	158	534	1,856	(496)	64	451	514

Source: Company, YES Sec

## Exhibit 10: Ratio Analysis

Y/e March 31	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Growth(%)							
Revenue Growth	(2.0)	48.0	83.5	36.9	75.5	26.5	28.7
EBITDA Growth	(81.3)	(168.1)	NM	130.4	15.6	50.1	40.6
EBIT Growth	(112.9)	NM	NM	868.0	-	74.2	93.5
Net Profit Growth	290.6	(119.7)	NM	437.8	45.9	102.4	42.7
Profitability Ratios(%)							
EBITDA Margin	5.0	(2.3)	9.1	15.2	10.0	11.9	13.0
EBIT margin	(3.1)	(12.9)	1.2	8.8	5.0	6.9	10.4
Net Profit margin	6.5	(0.9)	2.0	5.9	4.5	6.0	6.6
RoA	(1.0)	(5.0)	0.6	4.5	3.5	5.5	10.0
RoE	2.8	(0.5)	1.6	4.3	4.5	7.2	9.4
RoCE	(1.2)	(5.9)	0.8	5.4	4.2	6.7	12.1
Liquidity Ratios							
Net debt/Equity (x)	(0.5)	(0.4)	(0.6)	(0.6)	(0.4)	(0.5)	(0.5)
Current ratio (x)	6.6	2.6	3.2	5.3	3.0	3.6	3.9
Quick ratio (x)	6.6	2.6	3.2	5.3	2.9	3.5	3.8
Valuation Ratios							
PER(x)	NA	NA	NA	109.7	76.4	45.9	32.1
PCE(x)	NA	NA	NA	52.4	36.0	24.9	18.3
Price/Book(x)	NA	NA	NA	3.9	3.4	3.2	2.9
EV/EBITDA(x)	NA	NA	NA	34.6	28.9	18.8	13.0

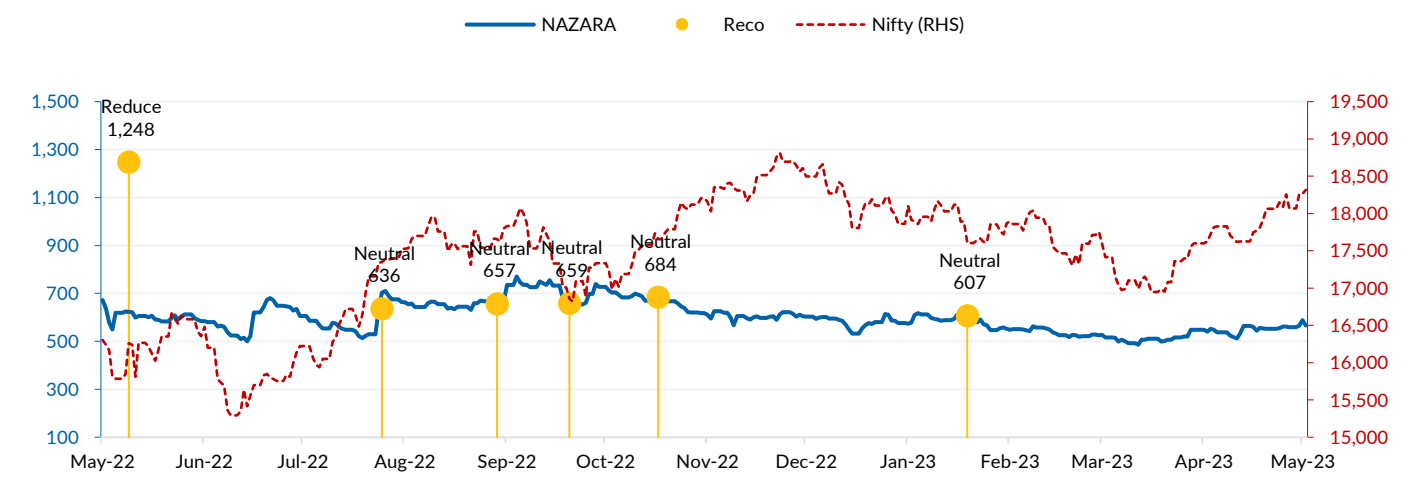
Source: Company, YES Sec

## Exhibit 11: Dupont Analysis

Dupont Analysis	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Net margin(%)	6.5	(0.9)	2.0	5.9	4.5	6.0	6.6
Asset turnover (x)	0.3	0.4	0.5	0.5	0.7	0.8	1.0
Leverage factor (x)	1.3	1.4	1.5	1.4	1.4	1.5	1.5
Return on Equity(%)	2.8	(0.5)	1.6	4.3	4.5	7.2	9.4

Source: Company, YES Sec

## Recommendation Tracker



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**Correspondence Address:** 4<sup>th</sup> Floor, AFL House,  
Lok Bharti Complex, Marol Maroshi Road, Andheri East,  
Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ [research@ysil.in](mailto:research@ysil.in)  
Website: [www.yesinvest.in](http://www.yesinvest.in)

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**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

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