

July 3, 2024

Event Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	HOLD		BUY	
Target Price	878		806	
Sales (Rs. m)	14,898	17,425	13,190	15,340
% Chng.	13.0	13.6		
EBITDA (Rs. m)	2,039	2,694	1,950	2,542
% Chng.	4.5	6.0		
EPS (Rs.)	15.4	19.8	12.3	16.3
% Chng.	25.4	21.5		

Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	10,910	11,383	14,898	17,425
EBITDA (Rs. m)	1,098	1,279	2,039	2,694
Margin (%)	10.1	11.2	13.7	15.5
PAT (Rs. m)	414	713	1,177	1,514
EPS (Rs.)	6.3	9.3	15.4	19.8
Gr. (%)	37.5	48.9	65.2	28.6
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	3.9	4.6	5.7	6.9
RoCE (%)	4.0	2.1	6.5	8.8
EV/Sales (x)	5.0	4.9	3.7	3.1
EV/EBITDA (x)	49.9	43.5	27.0	20.0
PE (x)	145.9	98.0	59.3	46.1
P/BV (x)	5.5	3.5	3.3	3.1

Key Data

NAZA.BO | NAZARA IN

52-W High / Low	Rs.990 / Rs.591
Sensex / Nifty	79,987 / 24,287
Market Cap	Rs.70bn/ \$ 836m
Shares Outstanding	77m
3M Avg. Daily Value	Rs.650.82m

Shareholding Pattern (%)

Promoter's	16.43
Foreign	9.44
Domestic Institution	16.80
Public & Others	57.34
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	15.7	7.9	28.7
Relative	10.6	(3.8)	4.9

Jinesh Joshi

jineshjoshi@plindia.com | 91-22-66322238

Stuti Beria

stutiberia@plindia.com | 91-22-66322246

Dhvanit Shah

dhvanitshah@plindia.com |

Nazara Technologies (NAZARA IN)

Rating: HOLD | CMP: Rs913 | TP: Rs878

Nodwin expands into developed markets

Quick Pointers:

- Nodwin to increase stake in Freaks 4U Gaming (Freaks) from 13.5% to 100% in tranches via a share swap valued at Euro30.3mn.

We increase our EBITDA estimates by 4.5%/6.0% for FY25E/FY26E taking into consideration the acquisition of Freaks and downgrade Nazara to HOLD with a revised TP of Rs878 (earlier Rs806) amid 31% appreciation in stock price since our last update. We believe the acquisition not only paves the way for Nodwin to access developed markets where Esports has better penetration, but also lends expertise in PC-based games. The buyout has also re-ignited growth prospects of the Esports segment, which has been facing some challenges off late due to deferment in media rights deals. Post consolidation, we expect revenue/EBITDA CAGR of 23.7%/45.1% over FY24-FY26E. Given sharp appreciation in stock price we downgrade to a HOLD and believe re-rating from hereon will hinge on capital allocation decisions, as Nazara has a cash balance of Rs14.5bn.

Acquisition of Freaks marks Nodwin's entry into developed markets: Freaks is a leading global agency specializing in Esports and gaming, headquartered in Berlin, with operations in Germany, USA, Taiwan, Serbia, and France. Established in 2011, Freaks excels in PC-based games in developed markets, while Nodwin has dominance in mobile games within developing markets. We believe both entities complement each other given the diverse expertise and geographical presence, offering a much better proposition to game publishers.

Acquisition to boost Nodwin's revenues by 50%+: In Dec-23, Nodwin Singapore, a wholly owned subsidiary of Nodwin, acquired 13.5% stake in Freaks for Euro3.6mn. Subsequently, Nodwin Singapore has decided to increase the stake to 100% in tranches, through a share swap valued at Euro30.3mn. Initially, Nodwin Singapore will increase its stake in Freaks to 57%, while the remaining 43% held by the founders will be swapped at a later date.

Freaks reported revenues of Euro26.9mn (Rs2.2bn odd) in CY23. Nazara has acquired Freaks at EV/sales multiple of 1.4x on CY23 sales. As of FY24, Nodwin reported revenues of Rs4.2bn. The acquisition is expected to boost overall revenues of Nodwin by ~52%. While Freaks reported an EBITDA loss of Euro8.8mn in CY23, the management aims to achieve profitability in near future.

Con-call highlights: 1) During the pandemic, Freaks expanded its capacity, thus boosting revenues, but incurred higher personnel costs. Challenges in reducing staff count in CY23 has impacted profitability. 2) After the acquisition of Freaks, Nodwin's stake in Nodwin Singapore will come down to ~75% 3) While most global Esports operators are running into losses, Nodwin expects to turn around Freaks and achieve profitability. 4) Freaks has several IPs like 99Damage, Challengers, Valorant, and Prime League. 5) Consolidation within the media industry in India has made it increasingly difficult to bag large TV/OTT deals.

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Net Revenues	10,910	11,383	14,898	17,425
YoY gr. (%)	75.5	4.3	30.9	17.0
Cost of Goods Sold	542	803	596	610
Gross Profit	10,368	10,580	14,302	16,815
Margin (%)	95.0	92.9	96.0	96.5
Employee Cost	1,490	1,860	2,384	2,701
Other Expenses	876	1,079	1,371	1,603
EBITDA	1,098	1,279	2,039	2,694
YoY gr. (%)	16.0	16.5	59.4	32.1
Margin (%)	10.1	11.2	13.7	15.5
Depreciation and Amortization	572	670	698	755
EBIT	440	326	1,341	1,939
Margin (%)	4.0	2.9	9.0	11.1
Net Interest	47	68	83	85
Other Income	495	796	745	732
Profit Before Tax	868	907	2,003	2,586
Margin (%)	8.0	8.0	13.4	14.8
Total Tax	254	140	501	647
Effective tax rate (%)	29.3	15.4	25.0	25.0
Profit after tax	614	768	1,502	1,940
Minority interest	220	182	325	426
Share Profit from Associate	-	(20)	-	-
Adjusted PAT	414	713	1,177	1,514
YoY gr. (%)	45.7	72.2	65.2	28.6
Margin (%)	3.8	6.3	7.9	8.7
Extra Ord. Income / (Exp)	(20)	(147)	-	-
Reported PAT	394	566	1,177	1,514
YoY gr. (%)	38.7	43.6	108.1	28.6
Margin (%)	3.6	5.0	7.9	8.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	394	566	1,177	1,514
Equity Shares O/s (m)	66	77	77	77
EPS (Rs)	6.3	9.3	15.4	19.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
Non-Current Assets				
Gross Block	4,071	4,458	4,983	5,590
Tangibles	358	540	714	921
Intangibles	3,713	3,919	4,269	4,669
Acc: Dep / Amortization	1,649	2,319	3,016	3,771
Tangibles	210	308	411	522
Intangibles	1,439	2,010	2,605	3,249
Net fixed assets	2,422	2,139	1,966	1,819
Tangibles	148	231	303	399
Intangibles	2,274	1,908	1,663	1,419
Capital Work In Progress	2	-	-	-
Goodwill	3,407	3,942	3,942	3,942
Non-Current Investments	1,007	2,416	2,326	2,356
Net Deferred tax assets	(367)	(187)	(447)	(523)
Other Non-Current Assets	168	58	372	436
Current Assets				
Investments	2,668	2,242	2,242	2,242
Inventories	246	21	21	21
Trade receivables	1,861	2,749	2,449	3,103
Cash & Bank Balance	3,292	12,097	12,625	13,733
Other Current Assets	689	839	670	697
Total Assets	17,018	27,617	28,665	30,659
Equity				
Equity Share Capital	265	306	306	306
Other Equity	10,784	19,680	20,857	22,371
Total Network	11,049	19,986	21,163	22,677
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	53	53	97	113
Other non current liabilities	52	127	127	127
Current Liabilities				
ST Debt / Current of LT Debt	304	93	-	-
Trade payables	1,982	2,401	1,225	1,432
Other current liabilities	1,057	1,328	2,173	2,340
Total Equity & Liabilities	17,018	27,617	28,665	30,659

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	888	887	1,177	1,514
Add. Depreciation	572	670	698	755
Add. Interest	47	68	83	85
Less Financial Other Income	495	796	745	732
Add. Other	(309)	(324)	(140)	(102)
Op. profit before WC changes	1,197	1,302	1,818	2,251
Net Changes-WC	(856)	99	(876)	(446)
Direct tax	(260)	(406)	-	-
Net cash from Op. activities	81	995	942	1,805
Capital expenditures	(1,418)	(689)	(524)	(607)
Interest / Dividend Income	84	242	-	-
Others	382	(4,822)	286	(5)
Net Cash from Invt. activities	(952)	(5,268)	(239)	(612)
Issue of share cap. / premium	163	9,220	-	-
Debt changes	(7)	(34)	(93)	-
Dividend paid	-	-	-	-
Interest paid	(111)	(68)	(83)	(85)
Others	100	(38)	-	-
Net cash from Fin. activities	145	9,080	(176)	(85)
Net change in cash	(723)	4,807	528	1,108
Free Cash Flow	(2)	727	418	1,198

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24	FY25E	FY26E
Per Share(Rs)				
EPS	6.3	9.3	15.4	19.8
CEPS	14.9	18.1	24.5	29.6
BVPS	167.0	261.1	276.5	296.2
FCF	0.0	9.5	5.5	15.6
DPS	-	-	-	-
Return Ratio(%)				
RoCE	4.0	2.1	6.5	8.8
ROIC	6.3	20.0	17.5	24.5
RoE	3.9	4.6	5.7	6.9
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.7)	(0.7)	(0.7)
Net Working Capital (Days)	4	12	31	35
Valuation(x)				
PER	145.9	98.0	59.3	46.1
P/B	5.5	3.5	3.3	3.1
P/CEPS	61.3	50.5	37.3	30.8
EV/EBITDA	49.9	43.5	27.0	20.0
EV/Sales	5.0	4.9	3.7	3.1
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

Quarterly Financials (Rs m)

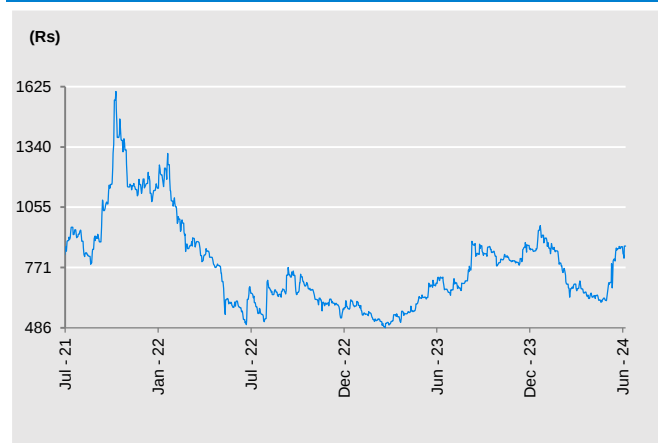
Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Net Revenue	2,544	2,972	3,204	2,662
YoY gr. (%)	14.0	12.7	1.8	(8.0)
Raw Material Expenses	106	458	205	34
Gross Profit	2,438	2,515	2,999	2,628
Margin (%)	95.8	84.6	93.6	98.7
EBITDA	331	279	377	292
YoY gr. (%)	10.2	30.4	23.6	5.1
Margin (%)	13.0	9.4	11.8	11.0
Depreciation / Depletion	152	151	152	215
EBIT	178	116	211	(179)
Margin (%)	7.0	3.9	6.6	(6.7)
Net Interest	13	27	20	8
Other Income	117	123	179	377
Profit before Tax	283	212	376	23
Margin (%)	11.1	7.1	11.7	0.9
Total Tax	74	(13)	80	(1)
Effective tax rate (%)	26.2	(5.9)	21.2	(5.3)
Profit after Tax	209	225	296	24
Minority interest	14	44	38	87
Share Profit from Associates	-	-	-	(20)
Adjusted PAT	195	181	254	86
YoY gr. (%)	72.7	99.8	53.9	61.6
Margin (%)	7.7	6.1	7.9	3.2
Extra Ord. Income / (Exp)	-	-	5	(169)
Reported PAT	195	181	259	(83)
YoY gr. (%)	72.7	99.8	56.8	(400.4)
Margin (%)	7.7	6.1	8.1	(3.1)
Other Comprehensive Income	(104)	-	-	1
Total Comprehensive Income	91	181	259	(82)
Avg. Shares O/s (m)	66	66	73	77
EPS (Rs)	2.9	2.7	3.5	1.1

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	29-May-24	BUY	806	698
2	09-Apr-24	BUY	826	671
3	08-Feb-24	Hold	833	871
4	08-Jan-24	Hold	835	849
5	09-Nov-23	Hold	840	820
6	04-Oct-23	Hold	836	834
7	31-Jul-23	BUY	834	694
8	06-Jul-23	BUY	804	726

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Chalet Hotels	Accumulate	830	789
2	Imagicaaworld Entertainment	BUY	111	78
3	Indian Railway Catering and Tourism Corporation	Reduce	811	1,025
4	Inox Leisure	BUY	587	502
5	InterGlobe Aviation	Accumulate	4,667	4,257
6	Lemon Tree Hotels	BUY	155	140
7	Navneet Education	Accumulate	167	155
8	Nazara Technologies	BUY	806	698
9	PVR Inox	Accumulate	1,431	1,285
10	S Chand and Company	BUY	307	238
11	Safari Industries (India)	BUY	2,225	2,019
12	V.I.P. Industries	Hold	557	528
13	Zee Entertainment Enterprises	Hold	160	141

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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Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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