BUY (Maintained)

CMP: **INR 911** Target Price: **INR 1,080** ▲ 19%

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India | Equity Research | Company Update

Nazara Technologies

Internet

Takeaways from Nodwin concall: Creating a margin-accretive global delivery platform

On 3 July'24, we hosted Nodwin's management for an interaction with investors. Nodwin has increased its stake in Freaks 4U gaming, from 13.51% to 57%. They plan to eventually acquire 100% of the company through a share swap deal. According to management, Freaks 4U gaming's strength in the PC gaming market is complementary to Nodwin's capability in mobile gaming; and Nodwin's frugal execution should help them turn profitable by FY25E. Management outlined their vision of increasing 'timeshare of mindshare' of gamers by expanding their 'house of brands' approach towards gaming IPs and highlighted that acquisitions are necessary when 'buy' is more economical than 'build'.

Synergies from acquisition

Management outlined their plan to establish a margin-accretive global delivery model, emphasising that the acquisition of Freaks 4U gaming should support this initiative. The acquisition should help Nodwin gain access to high-quality production facilities and studios, in addition to establishing a footprint in European countries. Freaks 4U has game publishing majors such as Riot Games, EA Sports, Epic Games and Tencent among its clients.

In CY23, Freaks 4U's revenue declined 28% YoY to EUR 27mn, EBIDTA loss stood at EUR 8.8mn. Management plans to achieve profitability by leveraging Freaks 4U's capability and reputation to attract customers while simultaneously maintaining an India/Turkey cost structure.

Strategy ahead for Nodwin

Nodwin is focused on growing its IPs organically and improving its footprint in emerging markets such as Central Asia, South Asia, Central Africa, etc. Management believes geographic diversification should benefit long-term prospects for the company, given the 'global south' is proving to be the growth driver for the world. Management intends to use acquisitions as a growth lever in the medium term, provided: 1) they are margin accretive; and 2) help improve Nodwin's execution capability. Management, on the call, clarified that their white-label agency business is also margin accretive and additionally helps in strengthening relationship with publishers.

Financial Summary

Y/E (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	10,910	11,383	14,741	18,026
EBITDA	1,097	476	2,291	2,897
EBITDA Margin (%)	10.1	4.2	15.5	16.1
Net Profit	394	(90)	1,084	1,326
EPS (INR)	6.3	10.3	14.5	17.8
EPS % Chg YoY	38.4	63.4	41.5	22.3
P/E (x)	144.8	88.6	62.6	51.2
EV/EBITDA (x)	37.0	31.7	18.4	14.3
RoCE (%)	9.4	9.9	20.4	30.2
RoE (%)	3.6	3.6	5.1	5.9

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Market Data

Market Cap (INR)	70bn
Market Cap (USD)	835mn
Bloomberg Code	NAZARA IN
Reuters Code	NAZA.BO
52-week Range (INR)	990 /591
Free Float (%)	43.0
ADTV-3M (mn) (USD)	7.9

Price Performance (%)	3m	6m	12m
Absolute	34.7	7.4	28.4
Relative to Sensex	26.8	(4.1)	6.1

Previous Reports

26-05-2024: Q4FY24 results review

07-02-2024: Q3FY24 results review

Media rights

Management acknowledged the potential risk of declining revenues from media rights given the ongoing consolidation in the media industry as compared to two–three years ago. However, management is hopeful of creating a mutually beneficial partnership with Jio, given their shared vision of developing the country's gaming infrastructure.

Process of IP creation and testing

Management explained the process of testing IPs before commercial launch. They generally test with 30–35 communities by organising events in colleges. The testing process also helps management understand upcoming trends in the gamer community, which can potentially be used to expand product/service offerings.

Acquisition details

According to management, the total acquisition cost of Freaks 4U gaming will be EUR 38.3mn. An earlier payment of EUR 8mn was done for 13.5% stake, with the remaining EUR 30mn to be paid through Nodwin Singapore share swaps. Initially, management will hold 57% stake, with the founders retaining 43%, which will be swapped at a later date.

Management claims minimal dilution in Nodwin Singapore, maintaining ~75% ownership of the Singapore entity.

Valuation

We maintain our **BUY** rating on Nazara with a target price of INR 1,080. Our target multiple stands at 37x FY26E EV/EBITDA (ex-minority).

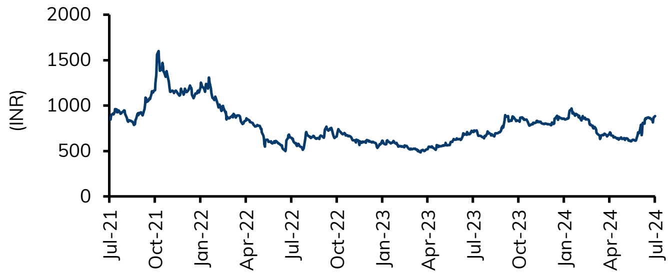
Key risks: 1) Increased competition/slowdown in US markets; and 2) inability to identify and integrate acquisitions in manner that creates value for minority shareholders.

Exhibit 1: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	19.0	17.2	16.4
Institutional investors	20.1	26.3	26.3
MFs and other	7.2	14.1	14.8
FIs/ Banks	1.4	1.3	1.5
FIIs	11.5	10.9	10.0
Others	60.9	56.5	57.3

Source: Bloomberg, I-Sec research

Exhibit 2: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 3: Profit & Loss

(Rs mn, year ending)

	FY23A	FY24A	FY25E	FY26E
Net Sales	10,910	11,383	14,741	18,026
Operating Expenses	**9,271**	**10,104**	**12,450**	**15,130**
EBITDA	1,097	476	2,291	2,897
EBITDA Margin (%)	**10.1**	**4.2**	**15.5**	**16.1**
Depreciation & Amortization	571	670	868	1,061
EBIT	526	(194)	1,423	1,836
Interest expenditure	47	68	88	108
Other Non-operating Income	495	796	916	1,053
Recurring PBT	974	535	2,251	2,781
Profit / (Loss) from Associates	**-**	**(20)**	**(20)**	**(20)**
Less: Taxes	**254**	**140**	**558**	**690**
PAT	720	395	1,693	2,091
Less: Minority Interest	240	182	589	745
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	634	92	1,673	2,071
Net Income (Adjusted)	**394**	**(90)**	**1,084**	**1,326**

Source Company data, I-Sec research

Exhibit 4: Balance sheet

(Rs mn, year ending)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	7,306	16,727	18,195	20,130
of which cash & cash eqv.	3,292	12,097	13,854	14,891
Total Current Liabilities & Provisions	3,318	3,764	4,872	5,940
Net Current Assets	**3,988**	**12,963**	**13,324**	**14,190**
Investments	3,320	4,217	4,717	5,217
Net Fixed Assets	71	64	-	-
ROU Assets	77	168	80	80
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	5,683	5,850	7,014	7,735
Other assets	205	141	141	141
Deferred Tax Assets	-	-	-	-
Total Assets	**13,700**	**23,853**	**25,544**	**27,631**
Liabilities				
Borrowings	**-**	**-**	**-**	**-**
Deferred Tax Liability	**404**	**270**	**270**	**270**
provisions	52	53	71	87
other Liabilities	-	-	-	-
Equity Share Capital	265	306	306	306
Reserves & Surplus	10,784	19,680	20,764	22,090
Total Net Worth	**11,049**	**19,986**	**21,070**	**22,396**
Minority Interest	2,117	3,360	3,949	4,693
Total Liabilities	**13,700**	**23,853**	**25,544**	**27,631**

Source Company data, I-Sec research

Exhibit 5: Quarterly trend

(INR mn, year ending)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	2,544	2,972	3,204	2,662
% growth (YOY)	14.0	12.7	1.8	(8.0)
EBITDA	331	279	377	292
Margin %	13.0	9.4	11.8	11.0
Other Income	117	123	179	377
Adjusted Net Profit	209	225	290	171

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(Rs mn, year ending)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	**81**	**908**	**3,219**	**2,374**
Working Capital Changes	(856)	(39)	1,507	187
Capital Commitments	(82)	(268)	(590)	(721)
Free Cashflow	**163**	**1,176**	**3,809**	**3,095**
Other investing cashflow	**(870)**	**(5,511)**	**916**	**1,053**
Cashflow from Investing Activities	(952)	(5,780)	326	332
Issue of Share Capital	163	9,220	-	-
Interest Cost	-	(47)	(88)	(108)
Inc (Dec) in Borrowings	-	345	-	-
Dividend paid	-	(34)	-	-
Others	60	-	-	-
Cash flow from Financing Activities	145	9,463	(88)	(108)
Chg. in Cash & Bank balance	**(726)**	**4,591**	**3,457**	**2,598**
Closing cash & balance	1,354	6,012	9,128	11,726

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	6.3	10.3	14.5	17.8
Adjusted EPS (Diluted)	6.3	10.3	14.5	17.8
Cash EPS	15.4	19.9	26.2	32.0
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	176.4	288.2	282.6	300.4
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	75.5	4.3	29.5	22.3
EBITDA	16.0	(56.6)	380.9	26.5
EPS (INR)	38.4	63.4	41.5	22.3
Valuation Ratios (x)				
P/E	144.8	88.6	62.6	51.2
P/CEPS	59.3	45.7	34.8	28.4
P/BV	5.2	3.2	3.2	3.0
EV / EBITDA	37.0	31.7	18.4	14.3
P / Sales	-	-	-	-
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	95.0	92.9	100.0	100.0
EBITDA Margins (%)	10.1	4.2	15.5	16.1
Effective Tax Rate (%)	26.1	26.1	24.8	24.8
Net Profit Margins (%)	6.6	3.5	11.5	11.6
NWC / Total Assets (%)	21.6	11.6	7.3	7.6
Net Debt / Equity (x)	(0.5)	(0.7)	(0.7)	(0.7)
Net Debt / EBITDA (x)	(6.0)	(34.3)	(8.1)	(6.9)
Profitability Ratios				
RoCE (%)	9.4	9.9	20.4	30.2
RoE (%)	3.6	3.6	5.1	5.9
RoIC (%)	6.0	2.4	7.3	8.3
Fixed Asset Turnover (x)	203.9	169.0	462.8	-
Inventory Turnover Days	8	1	1	1
Receivables Days	53	91	48	48
Payables Days	26	79	79	79

Source Company data, I-Sec research

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