

Aug 01, 2022

**RESULT REPORT Q1 FY23** | Sector: Internet/Platform

# Nazara Technologies

## Strong operating performance across segments

### Our view and valuation

Overall, it reported strong performance for the quarter with both revenue and EBITDA margin broadly inline with estimates. The sequential growth was broadbased across segments, with overall revenue stream becoming more diversified across segments. The EBITDA margin trajectory has become predictable. The outlook for gaming industry remains strong in India led by expected rise in the number of mid/hard core gamers. The rising smartphone penetration, affordable internet data and improving payment ecosystem continue to support the growth of gaming companies in India. The business faces long term risks due to low entry barriers and the acquisition-based growth strategy. We estimate revenue CAGR of 48.3% over FY22E-FY24, with average EBIT margin of 8.5%

We revise our rating from REDUCE to NEUTRAL on the stock as per our new recommendation parameters; with revised target price of Rs 652/share, valued at EV/EBITDA of 16.0x on FY24E EBITDA. Trades at EV/EBITDA of 15.6x on FY24E EBITDA

### Result Highlights

- Revenue grew by 27.4% QoQ (up 70% YoY) to Rs 2,231mn, led by consolidation of Adtech company, Datawrkz, with reported revenue of Rs 321mn for the quarter.
- In terms of other segments, esports grew by 12% QoQ; Gamified Early Learning grew by 2% QoQ; Freemium grew by 30% QoQ; Real money gaming grew by 18% QoQ; Telco subscription grew by 1% QoQ.
- EBITDA margin grew by 498 bps QoQ to 13.5% (down 945 bps YoY); with sequential improvement in margin led by positive operating leverage.
- For Gamified early learning, increase in subscription pricing has stabilized unit economics model. The number of subscribers fell by ~6,800 subscribers QoQ, to 301,916.
- For Real money gaming, it is looking at consolidation led scaling as statutory clarity emerges.
- Investments for long term suppressed Q1FY23 EBITDA margin for esports segment
- Datawrkz, a US based programmatic Advertising and monetization company, is a new growth engine for Nazara

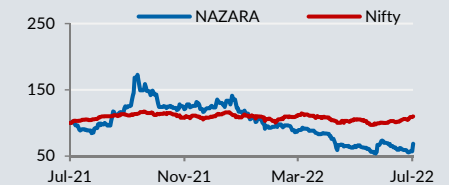
Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	2,231	1,875	2,000	19.0%	11.5%
EBITDA	301	268	257	12.3%	17.3%
EBITDA Margin (%)	13.49%	14.29%	12.82%	(80)bps	67 bps
Adjusted PAT	115	135	79	-14.8%	45.6%

Reco	: <b>NEUTRAL</b>
CMP	: Rs 636
Target Price	: Rs 652
Potential Return	: +2.6%

### Stock data (as on Aug 01, 2022)

Nifty	17,340
52 Week h/l (Rs)	1678 / 475
Market cap (Rs/USD mn)	41769 / 529
Outstanding Shares (mn)	66
6m Avg t/o (Rs mn):	240
Div yield (%):	NA
Bloomberg code:	NAZARA IN
NSE code:	NAZARA

### Stock performance



	1M	3M	1Y
Absolute return	-1.9%	-18.5%	-31.4%

### Shareholding pattern (As of Jun'22 end)

Promoter	19.2%
FII+DII	15.7%
Others	65.2%

### Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	REDUCE
Target Price	652	648

### Δ in earnings estimates

	FY22	FY23E	FY24E
EPS (New)	5.6	9.4	16.2
EPS (Old)	5.6	11.0	18.3
% change	NA	-14.1%	-11.7%

### Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Net Revenue	6,217	10,021	13,574
YoY Growth	36.9%	61.2%	35.5%
EBIDTA	948	1,398	2,080
YoY Growth	130.4%	47.5%	48.7%
PAT	366	621	1,062
YoY Growth	296.2%	69.6%	71.1%
ROE	4.3%	5.8%	9.2%
EPS	5.6	9.4	16.2
P/E	114.2	67.3	39.4
BV	158	168	184
P/BV	4.0	3.8	3.5

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## Exhibit 1: Quarterly snapshot (Consolidated)

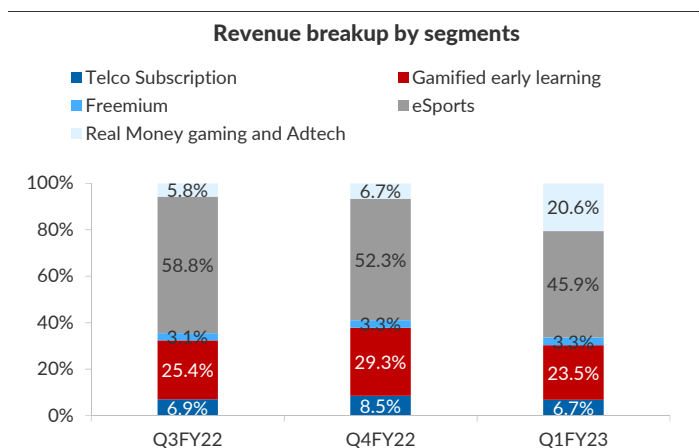
Particulars (Rs mn)	Q4FY21	Q1FY21	Q2FY22	Q3FY22	Q4FY22	Q1FY23	YoY%	QoQ%	FY22	FY21	YoY%
Sales	1,234	1,312	1,296	1,858	1,751	2,231	70.0	27.4	6,217	4,542	36.9
EBITDA	118	301	195	303	149	301	0.0	102.0	948	411	130.4
EBITDA %	9.5	22.9	15.0	16.3	8.5	13.5	-945 bps	498 bps	15.2	9.1	619 bps
Depreciation	75	84	96	107	113	136	61.9	20.4	400	355	12.7
EBIT	43	217	99	196	36	165	-24.0	NA	548	57	868.0
EBIT Margin %	3.5	16.5	7.6	10.5	2.1	7.4	-914 bps	534 bps	8.8	1.2	757 bps
PBT	41	216	147	224	108	227	5.1	110.2	695	150	362.3
Tax	(7)	76	2	53	59	62	(18.4)	5.1	190	31	519.5
PAT	32	53	101	103	22	115	117.0	422.7	279	52	437.8
Adjusted PAT	55	101	108	115	42	115	13.9	173.8	366	92	296.2
NPM (%)	2.6	4.0	7.8	5.5	1.3	5.2	112 bps	390 bps	4.5	1.1	335 bps

## KEY CON-CALL HIGHLIGHTS

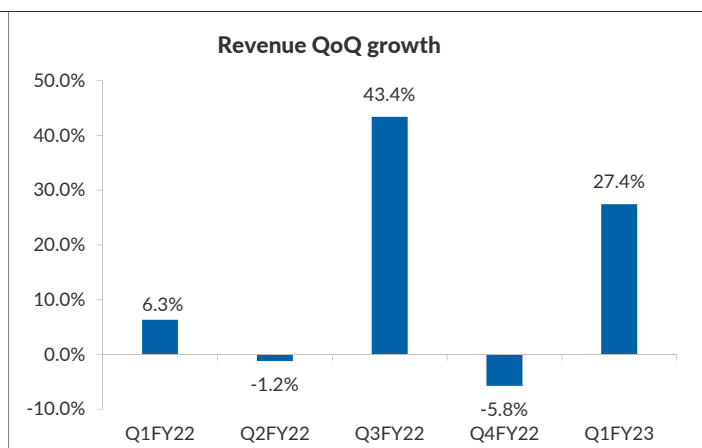
- The growth in esports segment was driven by increased monetization across IPs
- For Datawrkz, the bulk of revenue comes from the US market and operates in around \$700mn market
- For Kiddopia, it has increased prices in the unit market to keep the unit economics viable. LTV/CAC has increased to around 2x for new customers. The path to growth is led by high LTV/CAC Ratio. As old customers keep churning, it would increase the ARPU.
- The changes in Apple's IDFA policy has increased the cost for all operators of Gamified Learning.
- In the real money gaming segment, it will look to consolidate once clarity emerges on policy front
- The revenue growth in the Freemium segment was led by IPL season. In-app purchases continue to be small; with Ad based revenue continuing to be key driving factor

## Exhibit 2: Q1FY23 saw broadbased sequential growth

## Exhibit 3: Sequential revenue growth saw uptick due to Adtech consolidation

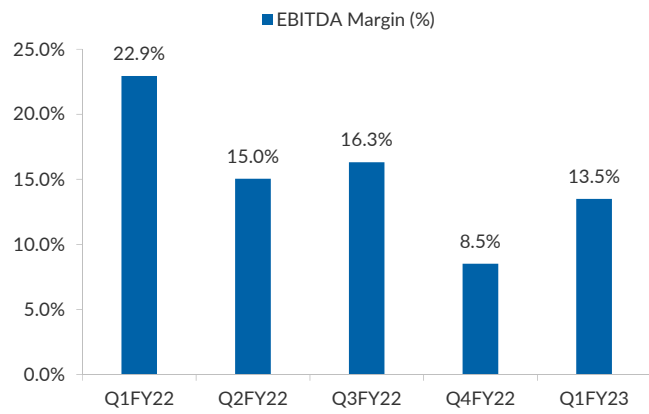


Source: Company, YES Sec



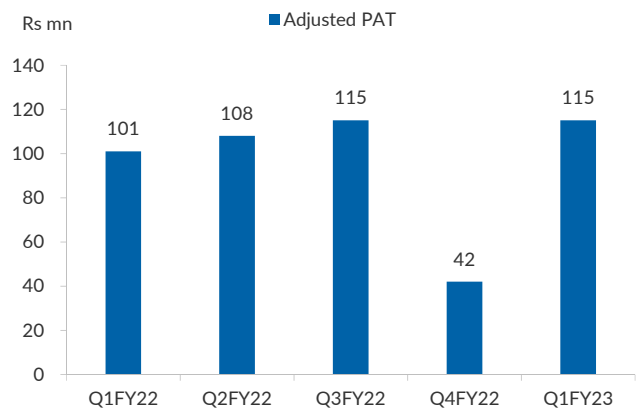
Source: Company, YES Sec

**Exhibit 4: EBITDA margin saw sequential improvement led by control on other expenses**



Source: Company, YES Sec

**Exhibit 5: The focus on driving profitability remains intact**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 6: Balance Sheet

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share capital	108	110	112	122	130	130	130
Reserves & surplus	3,454	4,024	4,899	6,460	10,283	10,904	11,966
Shareholders' funds	3,562	4,134	5,011	6,582	10,413	11,034	12,096
Non-current liabilities	331	240	359	302	384	415	448
Other non-current liabilities	331	240	359	302	384	415	448
Current liabilities	432	485	1,485	2,136	1,731	1,821	1,918
Other current liabilities	432	485	1,485	2,136	1,731	1,821	1,918
Total (Equity and Liabilities)	4,746	5,214	7,544	10,227	14,098	14,887	16,128
Non-current assets	1,792	2,026	3,747	3,415	4,944	4,617	4,595
Fixed assets (Net block)	695	620	1,643	1,302	1,619	1,658	1,698
Non-current Investments	138	435	216	122	325	488	731
Other non-current assets	943	955	1,873	1,991	3,000	2,472	2,166
Current assets	2,954	3,187	3,797	6,812	9,154	10,270	11,533
Cash & current investment	2,042	2,172	2,234	4,784	7,321	8,273	9,357
Other current assets	911	1,015	1,563	2,029	1,833	1,997	2,176
Total (Assets)	4,746	5,214	7,544	10,227	14,098	14,887	16,128

### Exhibit 7: Income Statement

Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net sales	1,705	1,672	2,475	4,542	6,217	10,021	13,574
Operating expenses	(1,260)	(1,589)	(2,532)	(4,131)	(5,269)	(8,623)	(11,495)
EBITDA	446	83	(57)	411	948	1,398	2,080
Depreciation	(42)	(135)	(263)	(355)	(400)	(611)	(827)
EBIT	404	(52)	(320)	57	548	788	1,252
Other income	98	163	155	143	241	339	475
Finance cost	(10)	(9)	(12)	(9)	(7)	(16)	(17)
Profit before tax	135	102	(178)	150	695	1,110	1,710
Tax (current + deferred)	(122)	(49)	(72)	(31)	(190)	(284)	(431)
Reported Profit / (Loss)	28	108	(21)	52	279	621	1,062
Adjusted net profit	385	108	(21)	92	366	621	1,062

## Exhibit 8: Cash Flow Statement

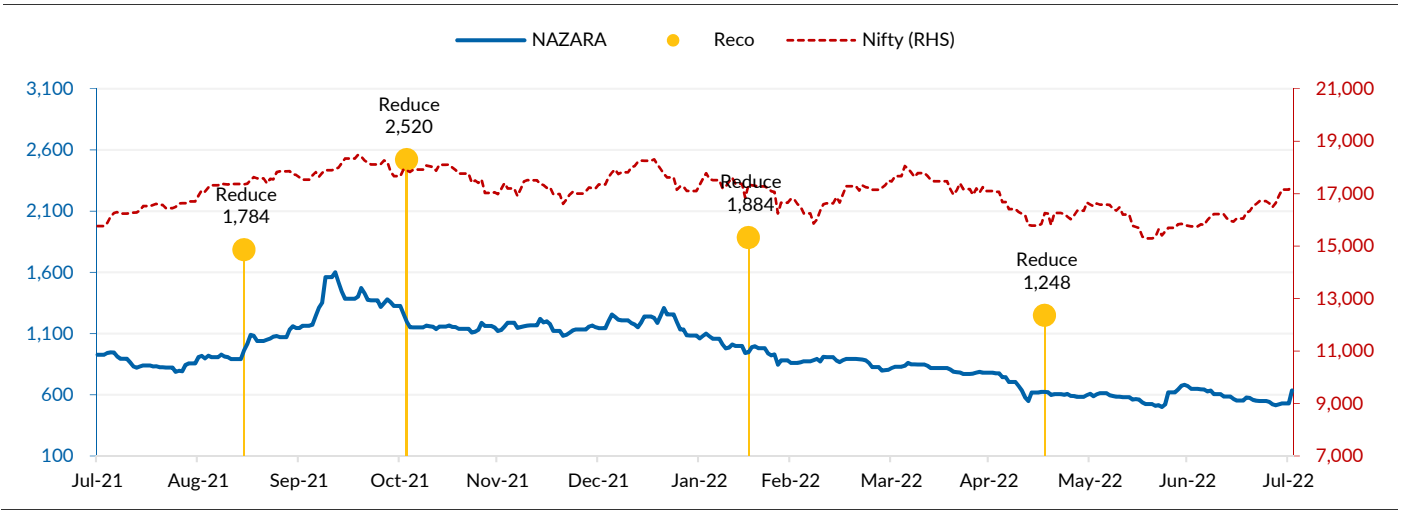
Y/e March 31 (Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Profit before tax	135	102	(178)	150	695	1,110	1,710
Depreciation	42	135	263	355	400	611	827
Change in working capital	(274)	(34)	446	126	(221)	(81)	(91)
Total tax paid	57	(95)	136	(34)	(111)	(248)	(391)
Others	(89)	(154)	(142)	(134)	(234)	(322)	(458)
Cash flow from oper. (a)	(128)	(46)	525	463	528	1,069	1,598
Capital expenditure	(719)	(60)	(1,285)	1	(717)	(650)	(868)
Change in investments	(239)	(269)	692	(599)	(3,236)	(776)	(950)
Others	(159)	150	314	41	192	921	836
Cash flow from inv. (b)	(1,116)	(179)	(279)	(557)	(3,761)	(505)	(982)
Free cash flow (a+b)	(1,244)	(225)	247	(94)	(3,233)	564	616
Equity raised/(repaid)	88	2	2	10	8	0	0
Dividend (incl. tax)	(300)	0	0	0	0	0	0
Others	1,493	381	286	1,941	2,729	(225)	(239)
Cash flow from fin. (c)	1,281	382	288	1,951	2,737	(225)	(239)
Net chg in cash (a+b+c)	37	158	534	1,856	(496)	339	378

## Exhibit 9: Ratio Analysis

Y/e March 31	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Growth (%)</b>							
Revenue Growth	(10.3)	(2.0)	48.0	83.5	36.9	61.2	35.5
EBITDA Growth	(27.1)	(81.3)	(168.1)	NM	130.4	47.5	48.7
EBIT Growth	(32.7)	(112.9)	NM	NM	868.0	43.7	59.0
Net Profit Growth	(95.5)	290.6	(119.7)	NM	437.8	122.5	71.1
<b>Profitability Ratios(%)</b>							
EBITDA Margin	26.1	5.0	(2.3)	9.1	15.2	14.0	15.3
EBIT margin	23.7	(3.1)	(12.9)	1.2	8.8	7.9	9.2
Net Profit margin	22.6	6.5	(0.9)	2.0	5.9	6.2	7.8
RoA	10.9	(1.0)	(5.0)	0.6	4.5	5.4	8.1
RoE	13.3	2.8	(0.5)	1.6	4.3	5.8	9.2
RoCE	12.3	(1.2)	(5.9)	0.8	5.4	6.2	9.2
<b>Liquidity Ratios</b>							
Net debt/Equity (x)	(0.5)	(0.5)	(0.4)	(0.6)	(0.6)	(0.7)	(0.7)
Current ratio (x)	6.8	6.6	2.6	3.2	5.3	5.6	6.0
Quick ratio (x)	6.8	6.6	2.6	3.2	5.3	5.6	6.0
<b>Valuation Ratios</b>							
PER(x)	NA	NA	NA	NA	114.2	67.3	39.4
PCE(x)	NA	NA	NA	NA	54.6	33.9	22.1
Price/Book(x)	NA	NA	NA	NA	4.0	3.8	3.5
EV/EBITDA(x)	NA	NA	NA	NA	36.4	24.0	15.6

Dupont Analysis	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net margin (%)	22.6	6.5	(0.9)	2.0	5.9	6.2	7.8
Asset turnover (x)	0.5	0.3	0.4	0.5	0.5	0.7	0.9
Leverage factor (x)	1.3	1.3	1.4	1.5	1.4	1.4	1.3
Return on Equity (%)	13.3	2.8	(0.5)	1.6	4.3	5.8	9.2

## Recommendation Tracker



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

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