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Initiating coverage

Internet

Target price Rs700

Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	19.2	19.2	19.1
Institutional investors	14.8	14.8	16.1
MFs and others	3.8	4.0	4.8
FI/Banks	0.8	0.5	1.1
FIIIs	10.2	10.3	10.2
Others	66.0	66.0	64.8

Source: NSE

ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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INDIA


ICICI Securities

Nazara Technologies

BUY

Diversified play into Indian gaming ecosystem

Rs486

We initiate coverage on Nazara Technologies with BUY rating, given visibility of strong revenue growth in eSports and gradual profitability improvement in gamified early learning (GEL). The stock has corrected ~70% from its peak (of Rs1,601) and is now trading at its all-time low of Rs486. At current market price, it is trading at 45x 1-year forward P/E. We have a target price of Rs700 on the stock for Mar'24. Our target multiple is 41x FY25E EPS (1.5SD below the 2-year average historical P/E).

We estimate ~37% YoY revenue growth in FY24E, led by ~45%YoY in eSports and ~25%YoY growth in GEL. We estimate EBITDA growth of ~86% YoY in FY24E led by EBITDA margin improvement of ~250bps YoY as eSports IPs scale up and GEL profitability improves due subscriber additions and price increases.

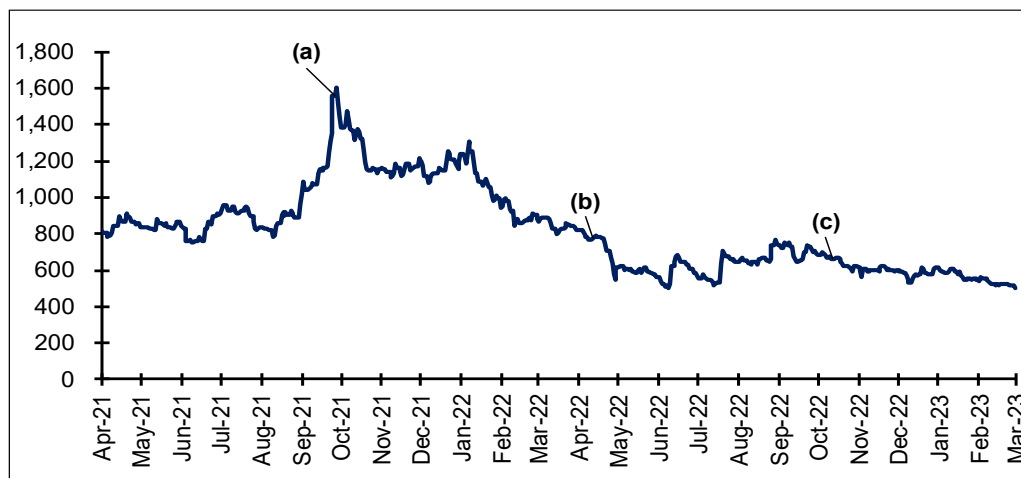
Nazara has Rs6.6bn in cash (additional Rs40mn in SVB). We believe this could be used to acquire scale through acquisition in real money gaming, once regulatory clarity emerges. Also, Nazara could benefit from inexpensive acquisition opportunities in the current liquidity situation. In case these triggers play out, we see a bull case valuation of Rs800 (for Mar'24). In case growth slows or margin improvements do not play out, we see a bear case valuation of Rs400 (for Mar'24). This implies an upside: downside skew of 3.7:1, which makes it a compelling BUY, in our view.

- **What happened in eSports?** eSports' revenue growth has exceeded market expectations in 9MFY23, growing at ~84% YoY. This was led by strong organic growth in NODWIN Gaming (~98%YoY) as physical sports-related events returned post covid pandemic. Sportskeeda's revenue grew 59% YoY in 9MFY23 led by 100% YoY growth in US business. However, EBITDA margin shrank ~800bps YoY and absolute EBITDA declined ~32%YoY. This was due to 900bps YoY margin decline in NODWIN business as the company extended presence in gaming accessories market with the brand 'Wings' and invested in new IPs. Margin loss in eSports business was one of the key reasons for the stock de-rating in FY23.
- **Outlook on eSports:** eSports' revenue outlook remains strong. We expect the business to grow at ~45% YoY in FY24E on a high base of FY23E (~88% YoY). In our view, the growth will be led by 50% YoY growth in NODWIN Gaming and 30% YoY growth in Sportskeeda as IPs scale. Margin outlook is also positive as we expect scale efficiencies to accrue from the new IPs created in FY23E and gaming accessories business. For context, the steady state EBITDA margin for accessories business is likely to be in the range of 10-15% by FY26E. This would make it margin accretive to the core NODWIN business. We estimate EBITDA margin for overall eSports business to improve by ~200bps YoY in FY24E.

Market Cap	Rs32.2bn/US\$390mn	Year to Mar	FY22	FY23E	FY24E	FY25E
Reuters/Bloomberg	NAZA.BO/NAZARA IN	Revenue (Rs mn)	6,217	10,891	14,921	19,645
Shares Outstanding (mn)	66.2	Net Income (Rs mn)	284	380	681	1,075
52-week Range (Rs)	891/486	EPS (Rs)	9.1	6.1	10.9	17.2
Free Float (%)	35.2	% Chg YoY	195.1	(33.1)	79.2	57.9
FII (%)	10.2	P/E (x)	53.6	80.1	44.7	28.3
Daily Volume (US\$/'000)	3,015	CEPS (Rs)	21.6	13.9	21.6	31.4
Absolute Return 3m (%)	(17.0)	EV/E (x)	13.9	35.0	19.1	13.1
Absolute Return 12m (%)	(45.6)	Dividend Yield (%)	-	-	-	-
Sensex Return 3m (%)	(6.4)	RoCE (%)	17.0	5.5	11.0	15.9
Sensex Return 12m (%)	0.9	RoE (%)	2.7	3.5	5.9	8.6

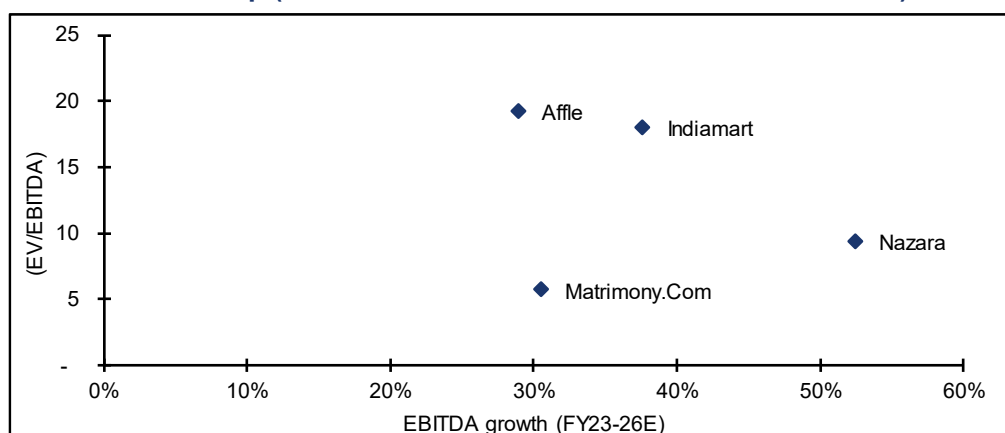
Please refer to important disclosures at the end of this report

- ▶ **What happened in Gamified Early Learning?** GEL segment also went through a lot of flux over FY22 and H1FY23 post Apple IDFA implementation. Nazara's flagship IP in the segment, Kidoppia's CPT (an indicator of user acquisition cost) went up from US\$26.9 in Q1FY22 to US\$39.3 in Q1FY23. Also, the number of subscribers for Kidoppia declined from 340k in Q4FY21 to 300k in Q2FY23. As a result, EBITDA declined in the segment by ~47.2% YoY in 9MFY23 despite ~26% YoY growth in revenues (helped by an acquisition). This was also a key contributor to the stock de-rating.
- ▶ **Outlook on Gamified Early Learning:** We note signs of stabilisation in GEL segment KPIs from Q3FY23. Kiddoppia reported subscriber addition (~4% QoQ) in Q3FY23 for the first time since Q4FY21. Also, CPT seems to have stabilised now at ~37US\$. Nazara has now increased subscription charges for Kiddoppia to US\$9.99/month (up 11%) and US\$80/year (up 14%). However, we believe this is unlikely to adversely impact subscriber addition as Kiddoppia subscription is still ~20-30% cheaper than large competitors. Also, Animal Jam, which was acquired last year, is likely to improve contributions as scale builds up. We believe headline operating margins in the segment have now bottomed out (4.9% in Q3FY23 vs 10% in Q3FY22). We estimate sequential improvement hereon. Overall, we have built in 500bps YoY improvement in EBITDA margin for FY24E. We estimate FY24E EBITDA margin in GEL at 17% compared to 12% in FY23E and 25% in FY22. We believe GEL EBITDA margin is likely to stabilise at 22% by FY27E.
- ▶ **Other businesses:** Other businesses include adtech, freemium games, real money gaming (RMG) and telecom subscription. Adtech business started in FY23 post the acquisition of Datawrkz. It has grown at ~55% YoY in 9MFY23 aided by a mix of client retention (69%) and new client addition (~31%). We expect this trend to continue in the medium term since it's a fast growing market with few entrenched players. We estimate this business to contribute 17-18% of revenues and 19-20% of operating profits by FY25/26E. Freemium gaming grew ~38% YoY in 9MFY23. We estimate 20-25% CAGR revenue growth in this business over the medium term given low visibility on ad-revenue trajectory overall and already high operating margins. We expect limited action on RMG until more clarity emerges on the regulatory front. However, a favourable regulation on RMG could trigger acquisitions in the space. Telco subscription business growth is likely to decline steadily given it is not an area with management focus and is unlikely to see fresh investments.
- ▶ **Initiate with BUY rating.** We initiate coverage on Nazara Technologies with BUY rating, given its strong revenue growth trajectory in eSports business and gradual profitability improvement in gamified early learning (GEL). The stock has corrected ~69% from its peak (of Rs1,601) and is presently trading at its all-time low of Rs486. At current market price, it is trading at 45x 1-year forward P/E. We have a target price of Rs700 on the stock for Mar'24. Our target multiple is 41x FY25E EPS (1.5SD below the 2-year average historical P/E). At current valuations, we believe risk-reward skew is compelling (3.7:1).
- ▶ **Key risks:** 1) Company's inability to establish its gaming accessories business leading to lower margins, 2) Impact due to increased competition/ slowdown in US markets, 3) Continued delay in RMG regulatory clarifications and 4) Inability to identify and integrate acquisitions.

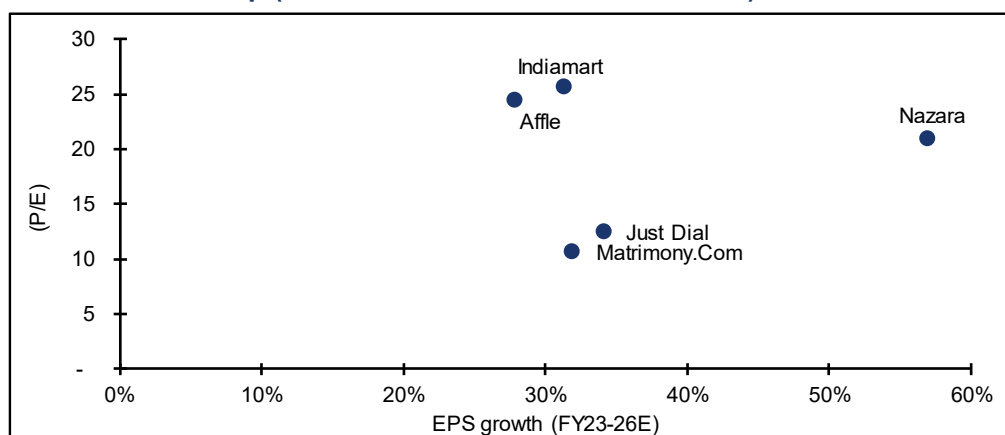
Chart 1: Event triggers that led to stock de-rating

Notes: (a) Impact on Kiddopia metrics due to Apple IDFA implementation, (b) Entrance into gaming accessories business impacted Nodwin margins and (c) CEO exit.

Source: Bloomberg, I-Sec research.

Chart 2: Peer comp (EV/EBITDA FY26E vs EBITDA CAGR FY23-26E)

Source: Bloomberg, I-Sec research

Chart 3: Peer comp (P/E FY26E vs EPS CAGR FY23-26E)

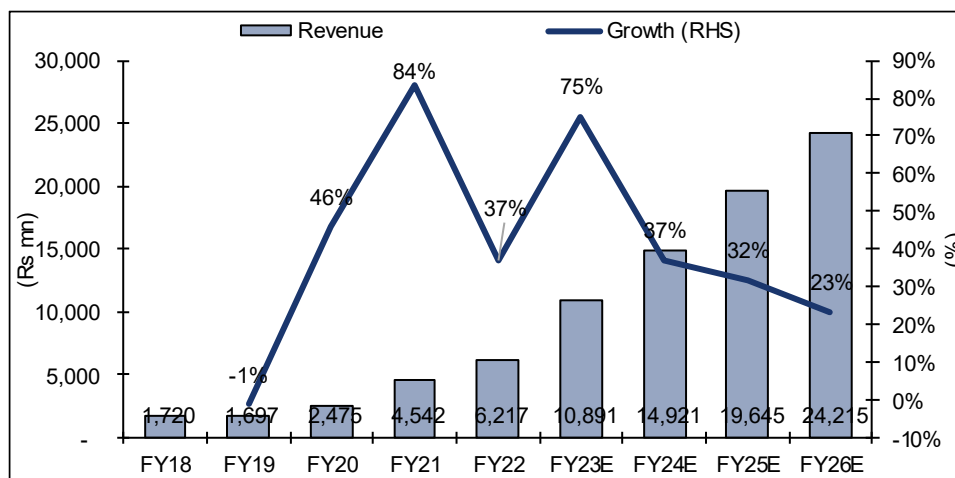
Source: Bloomberg, I-Sec research

TABLE OF CONTENT

Company snapshot.....	5
eSports	7
Gamified early learning (Kiddopia, WildWorks)	9
Adtech	11
Freemium	11
Real-money gaming	12
Telco subscription	13
Key investor questions, management commentary	15
Valuation Context	18
Financial discussion.....	20
Key Risks	22
Key managerial personnel	23
Senior managerial personnel.....	23
Financial summary	25
Index of Tables and Charts	6

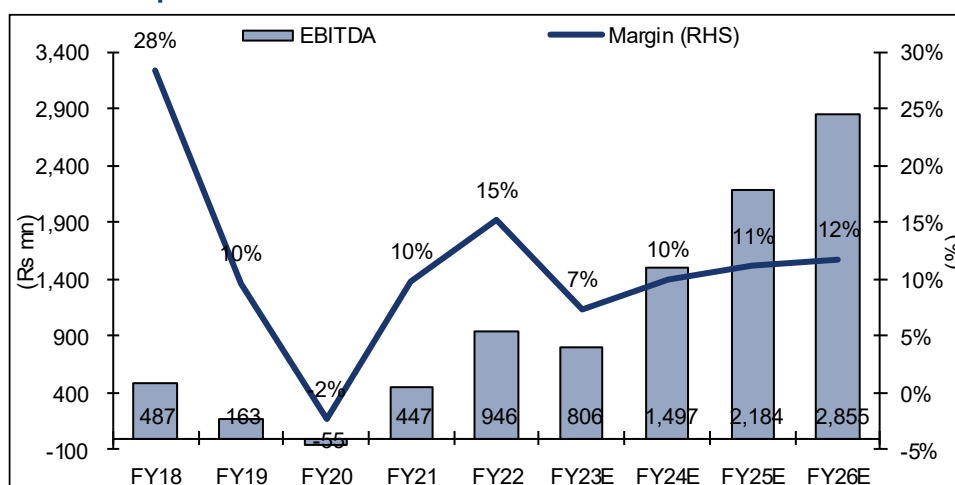
Company snapshot

Chart 4: Expect revenue CAGR of 31% over FY23-26E



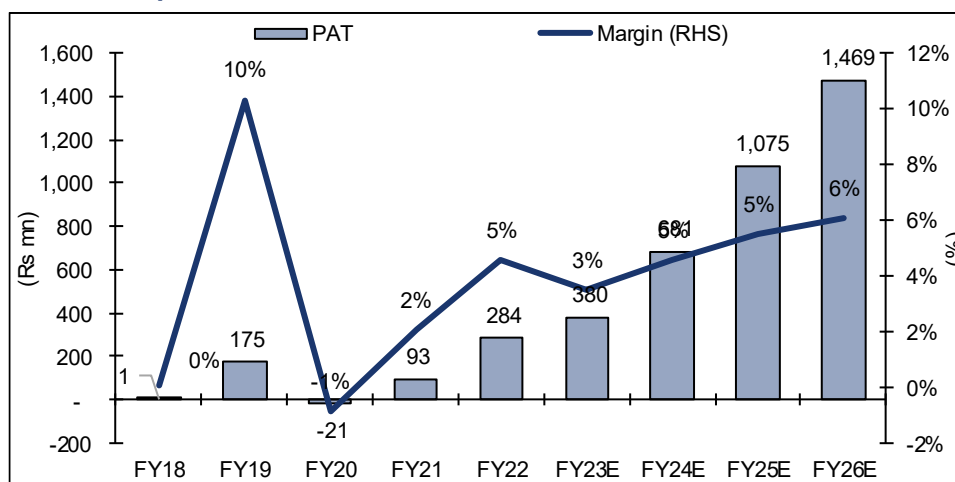
Source: Company data, I-Sec research.

Chart 5: Expect EBITDA CAGR of 52% over FY23-26E

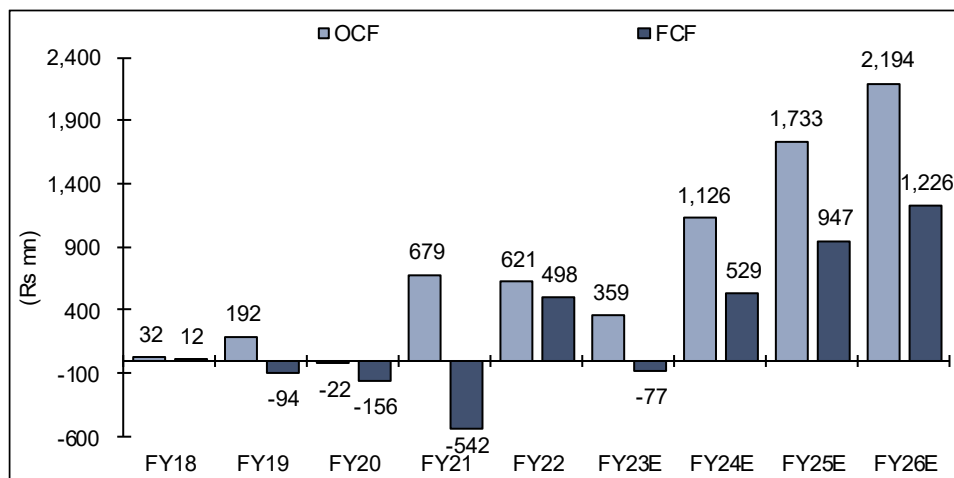


Source: Company data, I-Sec research.

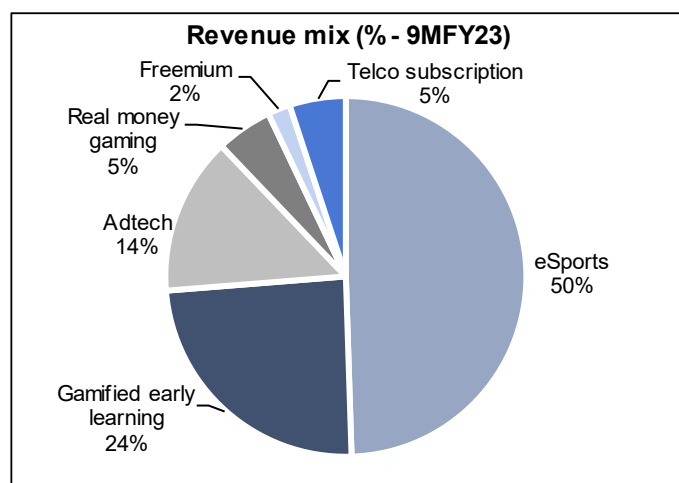
Chart 6: Expect PAT CAGR of 57% over FY23-26E



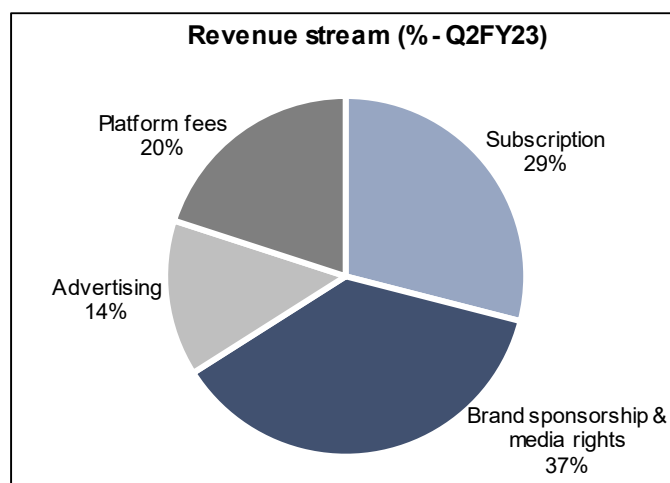
Source: Company data, I-Sec research.

Chart 7: Improving cash flows

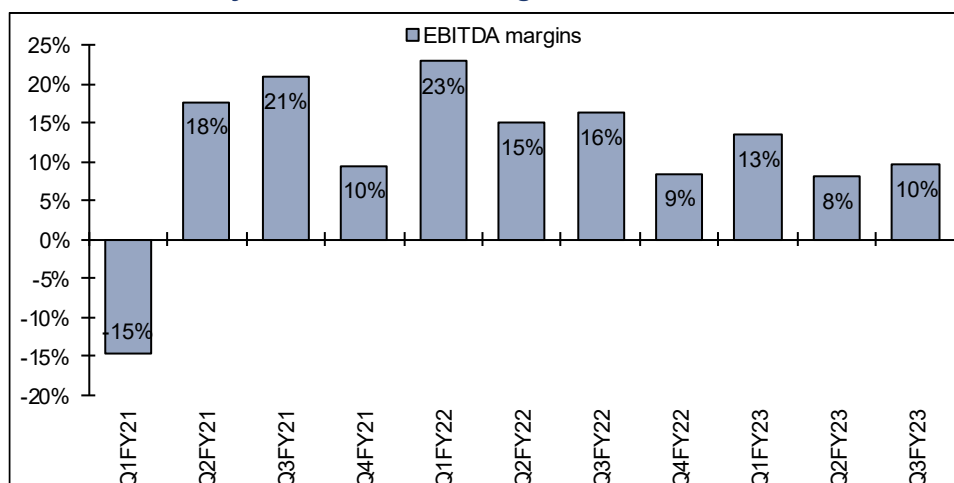
Source: Company data, I-Sec research.

Chart 8: Revenue mix -9MFY23

Source: Company data, I-Sec research.

Chart 7: Revenue stream – Q2FY23

Source: Company data, I-Sec research.

Chart 9: Quarterly overall EBITDA margins

Source: Company data, I-Sec research.

Table 1: Acquisitions post listing

Sr. No.	Period	Company name	Consideration (USD mn)	Business overview
1	Aug-22	WildWork Inc.	10.4	WildWorks, Inc. is a game development studio focused on gamified early learning for 8-12 year old kids.
2	Oct-22	Absolute Sports	2.4	Absolute Sports Private Limited deals in the business of sports media, sports consultancy, sports management, sports events, sports good retail online, sports magazines, online and print news coverage of football, cricket, hockey, kabaddi, badminton, table tennis and all other sports.

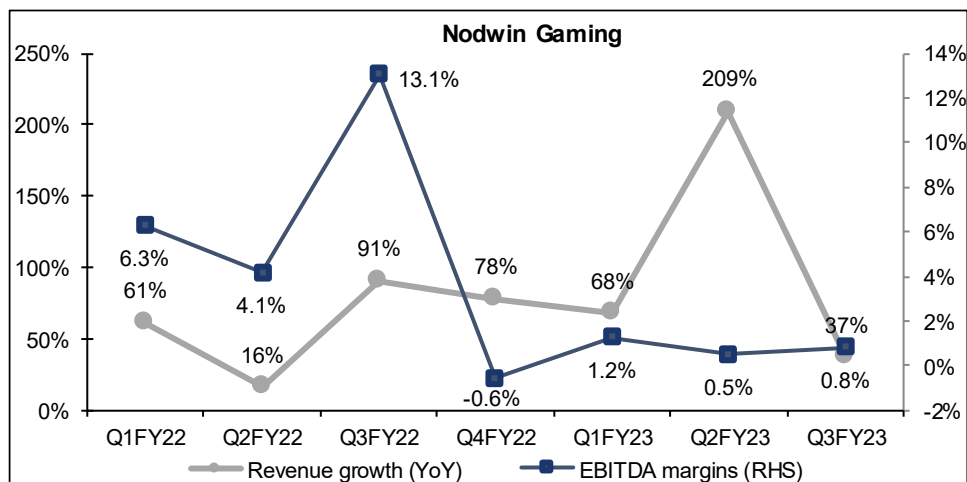
Source: Company data, I-Sec research.

eSports

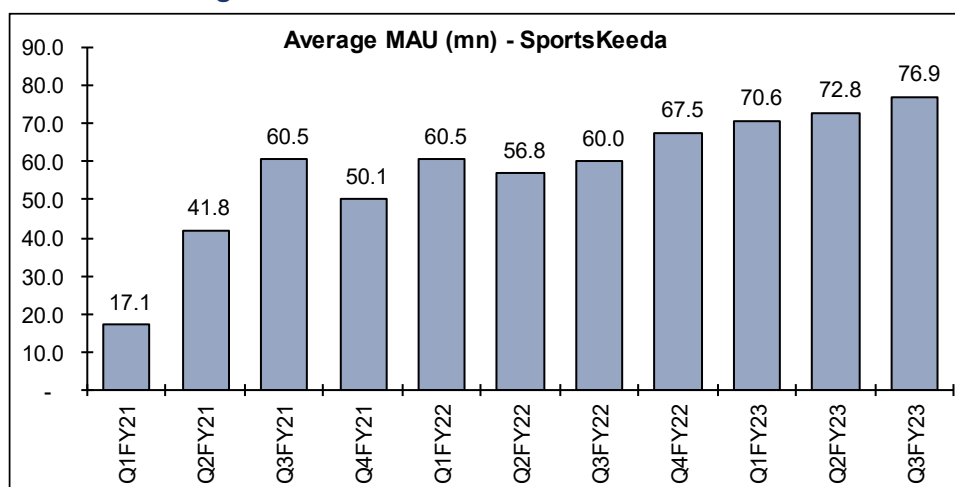
Nazara Technologies capitalised on its acquisition of NODWIN Gaming and is currently dominating the Indian eSports market with over 80% of total market share in India (source: company). The key growth drivers for company's eSports business are own event and content IPs, exclusive rights and ownership of live stream and on-demand premium eSports content, monetisation via media rights licensing, and brand partnerships with global game publishers and youth-focused brands.

eSports' revenue growth has exceeded the market expectations in 9MFY23, growing at ~84% YoY. This was led by strong organic growth in NODWIN Gaming (~98%YoY) as physical sports-related events returned post covid pandemic. Sportskeeda's revenue grew 59% YoY in 9MFY23 led by 100% YoY growth in US business. However, EBITDA margin declined by ~800bps YoY and absolute EBITDA declined ~32%YoY. This was due to 900bps YoY decline in NODWIN business as the company extended presence in gaming accessories market with brand 'Wings' and invested in new IPs like Playground. We expect operating leverage to kick in as the company scales revenue through 1) own IPs and media rights revenue streams to show non-linear EBITDA growth as IPs scale, 2) D2C business to become margin accretive once brands are established (*Table 2 exhibits a typical device manufacturer's financial performance as the brand is established*).

eSports' revenue outlook remains strong. We expect the business to grow at ~45% YoY in FY24E on a high base of FY23E (~88% YoY). In our view, the growth will be led by 50% YoY growth in NODWIN Gaming and 30% YoY growth in Sportskeeda. Margin outlook is also positive as we expect scale efficiencies to accrue from the new IPs created in FY23E and the gradual improvement in gaming accessories business. We estimate EBITDA margin for overall eSports business to improve by ~200bps YoY in FY24E.

Chart 10: Strong organic growth in 9MFY23

Source: Company data, I-Sec research.

Chart 11: Average MAU continues to increase

Source: Company data, I-Sec research.

Table 2: A typical device manufacturer's P&L highlights

Rs mn	FY19	FY20	FY21
Revenue	2,258	6,091	13,137
Growth		169.7%	115.7%
EBITDA	141	766	1,333
Margin	6.3%	12.6%	10.1%
PAT	80	485	865
Margin	3.6%	8.0%	6.6%

Source: Company data, I-Sec research.

Gamified early learning (Kiddopia, WildWorks)

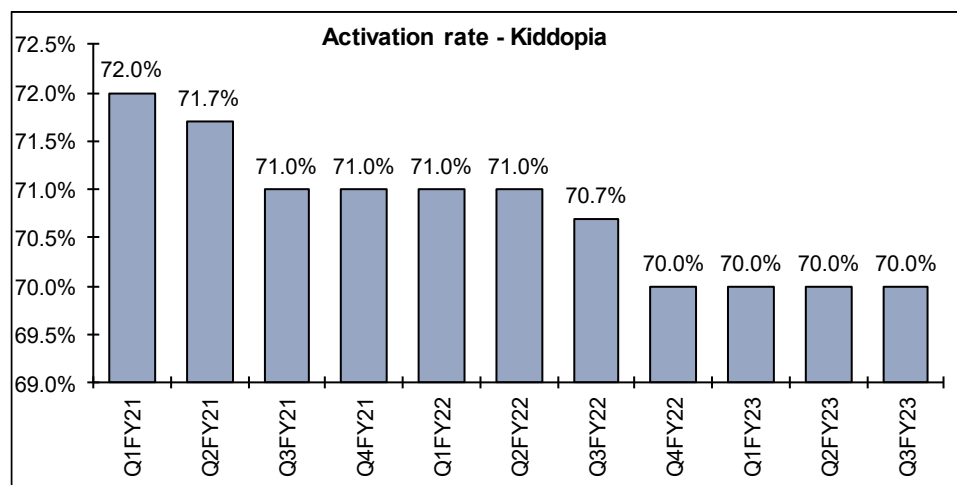
The company entered gamified early learning segment in North America through Kiddopia, flagship gamified early learning app, which it acquired in FY20. Through Kiddopia, Nazara caters primarily to children aged between 2-6 years. Kiddopia has the advantage of strong unit economics, evidenced by its largely stabilised CPT, subscriber base and activation rate. Increase in ARPU can be attributed to price hikes (10-15%) and as new subscribers enter at higher price points, this should further increase.

GEL segment also went through a lot of flux over FY22 and H1FY23 post Apple IDFA implementation. Nazara's flagship IP in the segment, Kidoppia's CPT (an indicator of user acquisition cost) went up from US\$26.9 in Q1FY22 to US\$39.3 in Q1FY23. Also, the number of subscribers for Kidoppia declined from 340k in Q4FY21 to 300k in Q2FY23. As a result, EBITDA declined in the segment by ~47.2% YoY in 9MFY23 despite ~26% YoY growth in revenues (helped by an acquisition). We note signs of stabilisation in GEL segment KPIs from Q3FY23. Kiddopia reported subscriber addition (~4% QoQ) in Q3FY23 for the first time since Q4FY21. Also, CPT seems to have stabilised now at ~37US\$. Nazara has now raised subscription charges for Kiddopia to US\$9.99/month (up 11%) and US\$80/year (up 14%).

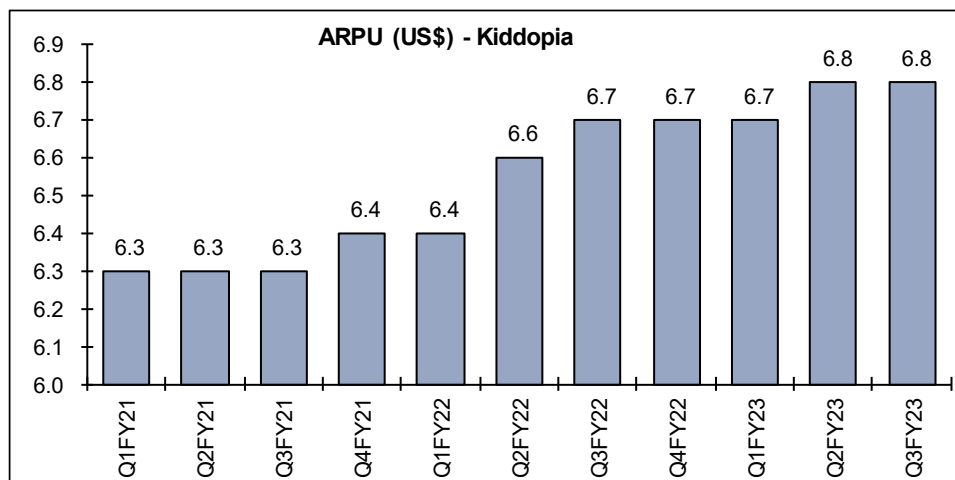
Nazara has also acquired 100% stake in WildWorks for US\$10.4mn in Aug'22. The growth strategy at WildWorks is focused on invigorating the core business by increasing user acquisition spend to drive subscriber growth as well as accelerate content update to drive engagement.

While the churn stabilises and management increases its intensity of user acquisition, we expect robust growth in subscriber addition and in turn revenues ahead. We believe headline operating margins in the segment have now bottomed out (4.9% in Q3FY23 vs 10% in Q3FY22). We estimate sequential improvement hereon. Overall, we have built in 500bps YoY improvement in EBITDA margin for FY24E. We estimate FY24E EBITDA margin in GEL at 17% compared to 12% in FY23E and 25% in FY22. We believe GEL EBITDA margin is likely to stabilise at 22% by FY27E.

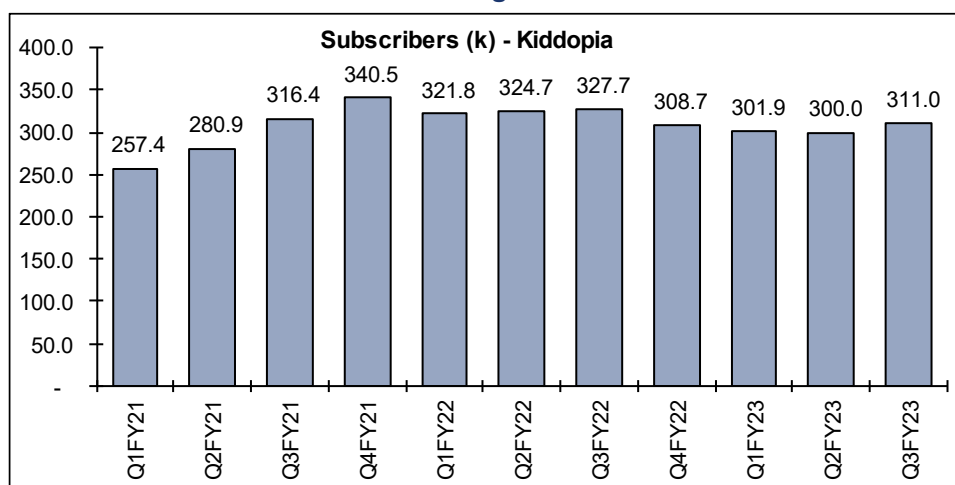
Chart 12: Stabilisation in activation rate



Source: Company data, I-Sec research.

Chart 13: ARPU to increase going forward

Source: Company data, I-Sec research.

Chart 14: Subscribers to see robust growth ahead

Source: Company data, I-Sec research.

Table 3: Kiddopia operating metrics

Kiddopia	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Cost Per Trial (US\$)	17.3	23.6	26.1	26.9	33.1	34.6	36.0	39.3	37.9	37.3
Marketing spend (US\$ mn)	1.9	2.8	3.1	1.8	2.6	2.8	2.4	2.7	3.1	3.4
ARPU (US\$)	6.3	6.3	6.4	6.4	6.6	6.7	6.7	6.7	6.8	6.8
Churn	n.a.	n.a.	n.a.	6.5%	5.3%	5.5%	6.8%	5.9%	6.5%	5.9%
24 month :LTV/CAC (x)	n.a.	n.a.	n.a.	2.4	2.2	2.1	1.7	1.7	n.a.	n.a.
QoQ Subs. Growth	n.a.	n.a.	n.a.	-5.0%	1.0%	1.0%	-6.0%	-2.0%	-0.6%	3.7%

Source: Company data, I-Sec research.

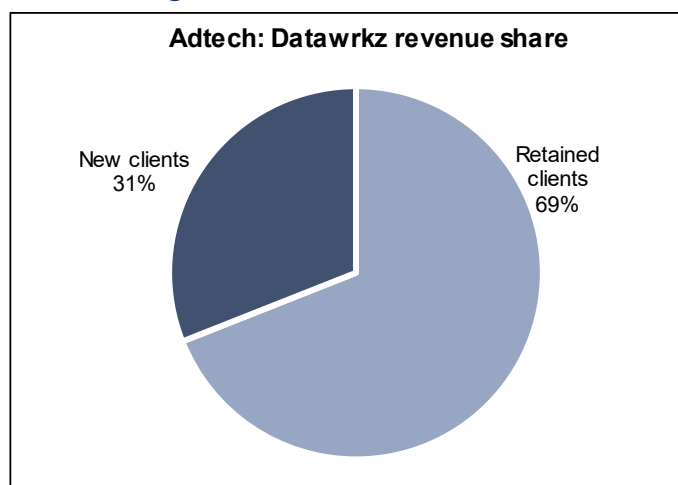
Adtech

Nazara acquired Datawrkz, an advertising technology provider for publishers, agencies and brand in Jan'22 for a total consideration of Rs1.24bn. The intent was to 1) enhance in-house capabilities to optimise customer acquisition spends and 2) enhance yields on ad monetisation of large customer base. Datawrkz currently works with ~80 brands, of which retained clients contributed ~69% of total revenue in 9MFY23.

Management believes adtech segment may be US\$700bn opportunity as digital spends are increasing. With US leading in terms of spends, the company is establishing its on-the-ground sales presence in the US to accelerate growth. Europe and APAC also have a robust pipeline.

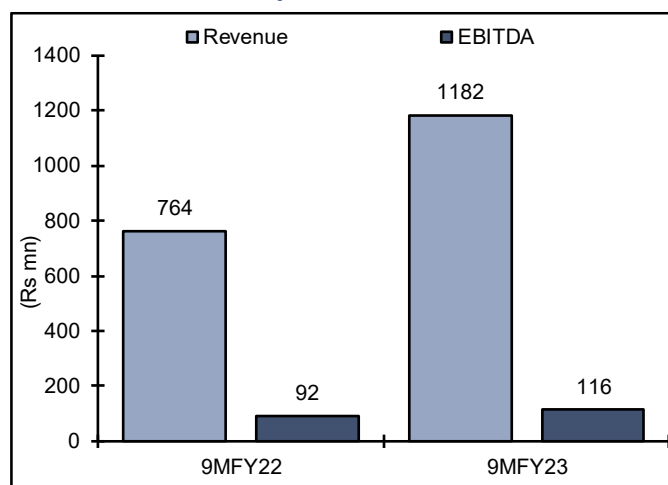
Datawrkz had a quarterly revenue run-rate of ~Rs227mn before acquisition (Dec'21) which has grown to Rs466mn in Q3FY23. Given management's focus, coupled with industry opportunity, this segment should be a growth engine for Nazara going forward. Management guided to maintain 10-12% EBITDA margin. On a low base, we estimate strong revenue CAGR of ~43% over FY23E-26E.

Chart 15: High share from retained clients



Source: Company data, I-Sec research.

Chart 16: Robust improvement YoY



Source: Company data, I-Sec research.

Freemium

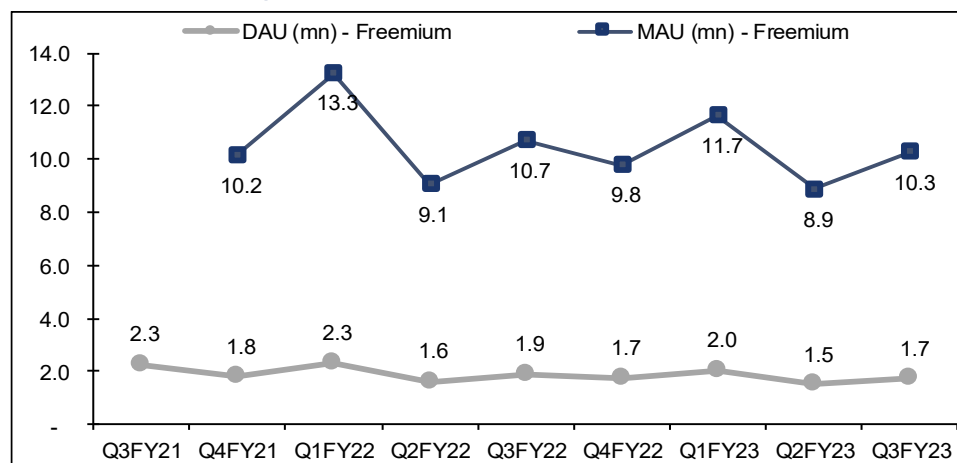
Freemium offerings in mobile gaming include free-to-play sports simulation games and children's games, such as games based on cricket, carrom, table tennis and bowling. The monetization happens through advertisement or people buying virtual items. Nazara has world cricket championship (WCC) as its IP which is a popular cricket mobile game with over 15mn MAU.

Nazara has not seen any immediate growth in revenues / scale-ups in users as the company will not be focusing on customer acquisition cost model unless it has a positive LTV - CAC. Positive LTV - CAC can only be achieved if in-app purchases (IAP) increase ahead. Roughly, the current IAP conversion is 0.12-0.13% of downloads. For inorganic growth, the company is aggressively looking at game-based studios which clock US\$3-

5mn revenues with high growth potential. Nazara has a dedicated M&A team, which is looking at game studios across the world, especially in Europe.

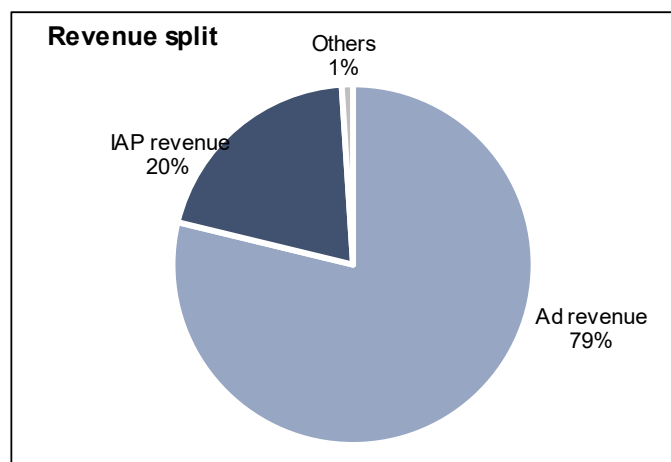
For H1FY23, WCC showed strong retention metrics of 46% / 18% / 6% for Day 1 / 7 / 30. Also, EBITDA margin improved to ~30% in 9MFY23 as operating leverage kicked in. We estimate 20-25% CAGR revenue growth in this business over medium term given the low visibility on ad-revenue trajectory overall and already high operating margins.

Chart 17: Improving metrics



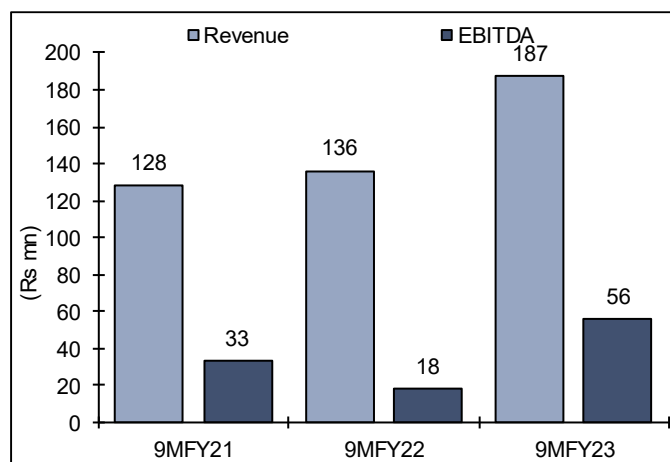
Source: Company data, I-Sec research.

Chart 18: Revenue split



Source: Company data, I-Sec research.

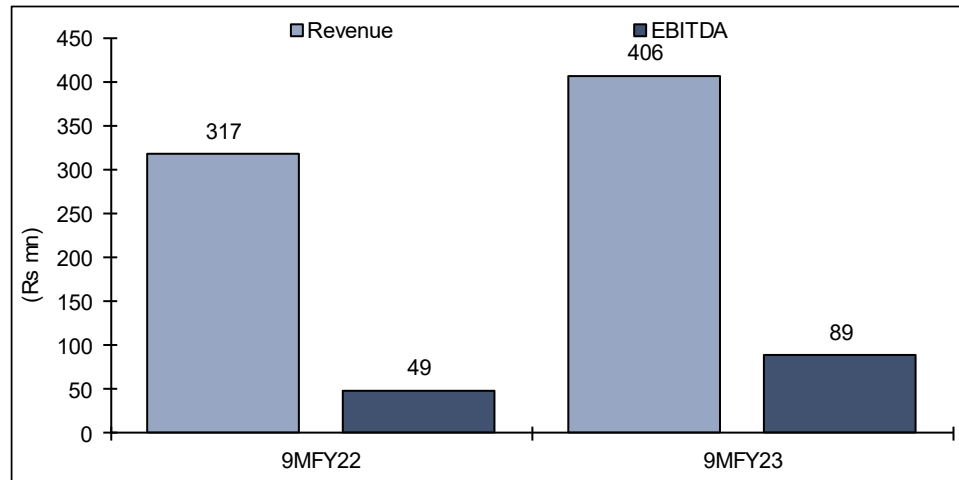
Chart 19: Improved performance



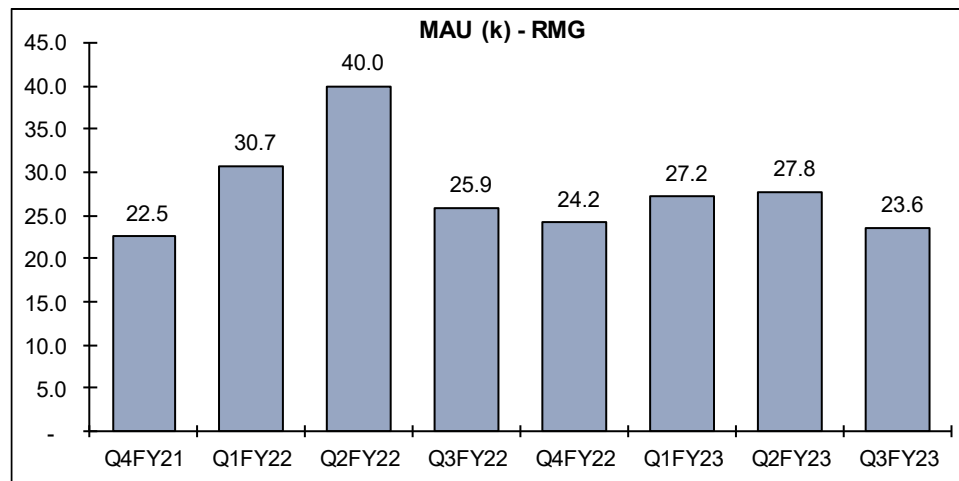
Source: Company data, I-Sec research.

Real-money gaming

Nazara's entry into real money gaming in India has been strategically cautious. Given the current uncertainty in the regulatory framework and GST computations in relation to real money gaming in India, the company has opted for a strategy focused on near-term profitability rather than investing in brand building and consumer acquisition at scale. Nazara believes it is well positioned to retain the option of capitalising on its current offerings and grow the business, if regulatory clarity is achieved. We expect limited action on RMG until more clarity emerges on the regulatory front. However, a favourable regulation on RMG could trigger acquisitions in the space.

Chart 20: Revenue growth of 28% with margins at 21.9% in 9MFY22

Source: Company data, I-Sec research.

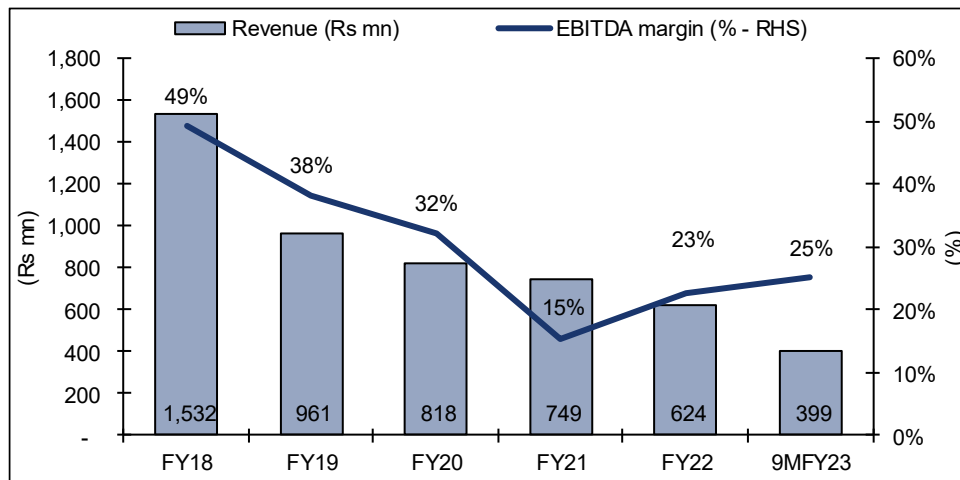
Chart 21: MAU witnessed sharp decline in Q3FY23

Source: Company data, I-Sec research.

Telco subscription

Through this segment, Nazara primarily targets mass mobile internet users in emerging markets, comprising largely first-time gamers. Monetisation is undertaken through periodic, daily, weekly or monthly subscriptions by its subscribers. Nazara offers 1,021 android games under telco subscription business, distributed in 41 countries / regions through arrangements with 75 mobile operators.

Telco subscription's contribution to overall revenue dropped from 33% in FY20 to 5% in 9MFY23. The declining trend is largely due to India business withering off. The company is working with new partners to stem declining revenues and get it back in the growth phase. However, management maintains that the segment is not a growth driver for the overall company and is only a cash cow, for now.

Chart 22: Company to stem declining revenues

Source: Company data, I-Sec research.

Key investor questions, management commentary

We have analysed the conference call transcripts over the past couple of quarters to identify key investor questions and management responses to them.

Some colour on NODWIN's business and how margins should shape up going ahead?

- Margins in this business are dependent on 1) the investment the company intends to do in new IPs as a new IP typically breaks even in 3-4 years and 2) the ability to have more and more offline events because of venue cost. On a steady state, 4-6% is the right range to look at the business.
- Management stated that if there are opportunities, Nazara will aggressively go after the same even if it results in reducing margins by a bit. The company wants to develop multiple games within NODWIN, keeping a gamer in the centre. Management intends to continue to drive market leadership in key areas while other businesses are focused on contributing to margins.
- The company has been hiring senior teams, which has added to the cost. These costs are medium- to long-term investments and the management is happy to grow this business strategically.

Does any subsidiary plan to raise funds which might lead to Nazara diluting stake below 50%?

- All the companies are generating cash and Nazara's largest business segment, paper boat apps, has a positive working capital, adding cash every month. Requirement of funds would be for M&A wherein Nazara can fund and create structures in these subsidiaries. Management does not see any dilution happening and the company has enough cash to support growth plans, which could be value/EBITDA accretive and not just burning cash.

Would Nazara be a global platform catering to the requirements of global audience or will be it more of an Indian platform tapping for growth within India?

- Currently, the company derives 40% of its revenue from India, 40% from US and 20% from RoW. Management believes India will continue to be a high growth market for the company and will double down focus in this market. But at the same time, Nazara will continue with global expansion as well.

On Kiddopia front, management had initially spoken about expanding into Europe and that was put on hold as US seemed more attractive. Are you thinking about expanding into Europeans markets? Are there plans of expanding it to the age groups of above 7?

- Management will continue to experiment with European market and any other market to scout for opportunities but growth would largely happen in the US. Plans for expansion in European markets have been deprioritised for the moment.
- Management is currently focusing on US rather than a fragmented European market which requires a lot of hard work on multiple languages both in terms of content on app as well as in marketing. Nazara has not increased its languages beyond Germany into French, Spanish or any other language and management is solidly focused on how to get the exhilarated net new subscriber growth here.

- **7-12 age group** It is a different audience that is not a homogenous set, and requires different offerings. Hence, Kiddopia business is highly focused on age group of 2-7 years and the company will continue to push that. The market share today in the US is around 4-5% and there is an opportunity to increase revenue by 4-5x, share to 12-15% in the foreseeable future.

With BYJU'S also entering early learning aggressively, what are the plans to tackle such an aggressive competitor?

- Nazara is not approaching Kiddopia as a learning first programme. It is approaching Kiddopia as an entertainment first, fun first for kids, where ideas like motor skills, creative expression, self-expression, history, geography, mathematics are consumed as a part of fun-based learning. This is in contrary to players like BYJU'S which may appeal and market themselves as a pure learning first curriculum-based programme. Hence, there is a big difference in the approach.

What is the broader roadmap on the kind of growth over the next 2-3 years?

- Currently, 81% of the business comes from eSports and gamified learning. Freemium is still a smart part which management believes to be a real cracker going forward and real money gaming is sub 2%. Management believes RMG is a large addressable market and needs to find ways to acquire some scale muscle profitably and give a look at working on a strategy going forward. In the foreseeable future, eSports and gamified learning would not be contributing 81% and freemium and RMG will also kick in.

Some colour on Publishme?

- Publishme is a capability acquisition for publishing on ground in the Middle East which Nazara currently does not have. From a business point of view, it is a publishing agency which helps gain publishers to launch their games in geographies, which makes localisation of content and marketing. It is present in Turkey and will expand its footprint into the Middle East and carry its relationship with current publishers from Turkey to Middle East. In management's opinion, growing big here would be a function of Publishme moving from an agency to becoming a publisher over the next 2 years. In the meantime, company is building a platform/foundation to become a publisher in the Middle East. It is a slow process of building muscle rather than taking a vertical uplift.

What is the top priority of the company within the business?

- There are two things the management needs to do: 1) How to get back the growth of net new subscribers at Kiddopia through more standards of marketing and optimising and 2) management is looking to fill in the wide spaces across segments and ensure that each one of them has a very strong growth. Further, within Freemium, company needs to find the velocity because it has a huge opportunity for growth.

What is the process in terms of strategic acquisitions? How does the management decide which company to invest in and the typical process around it?

- Management has identified the demographics, the segments and the white spaces. Then it looks for the right set of founders because that is where the key process starts. Management is looking at people with whom it can be friends, can work together and share the common DNA, common value system and wants to innovate

to last. Nazara is not looking at risk capital investment but growth capital investment. Lastly, the underlying business drivers, growth drivers, margin drivers which can be identified and one can see the tangibility of that in the next 6-12 months.

How should one think of margins for FY23 and beyond?

- The stance always has been that A) Nazara will look for aggressive revenue growth. B) The company will not have the revenue growth coming at the cost of EBITDA and it will not be a loss-making company ever. C) It is not maximizing EBITDA. Management believes 12-13% is a good EBITDA range in their market.

What is the impact on NODWIN business due to BGMI ban?

- Within NODWIN revenues, BGMI had little contribution in FY22 and in terms of revenue planned for this year, BGMI does not contribute anything. Hence, there is zero impact on revenue wherein the management is internally looking at achieving its annual guidance of 50%+ growth rate.

What are the new initiatives for Kiddopia and how are they panning out?

- Nazara ran a brand campaign in Q1FY23 and Q4FY22, but has not seen great results. Whether the brand campaign can give a result in 3 months, is also questionable. However, company has been able to stabilise its performance marketing spends at US\$800k to US\$1mn+ per month and the management has also mentioned to not spend on brand marketing.
- The company had also taken price hikes in the past 2 quarters with no impact on subscriber base and as a result the ARPU has increased. Management expects this to increase further as newer subscribers are signed on a higher price.
- Nazara is increasing its marketing spend QoQ but is also optimising CAC which should lead to improvement in margins. Management intends to increase marketing spend to acquire users if they can optimise CAC alongside.

Globally, is digital adtech declining? Is Datawrkz seeing any impact and which verticals is it largely representing?

- On global digital adtech, it's US\$700bn business, and management is hardly talking about US\$15mn of Datawrkz, indicating Nazara is not even a drop in the ocean. The headroom on growth in consumer demographics of young male audiences is very high and hence, building that competency in this demographic is very important for the company. Gradually, management intends to build more first-party data so that Nazara can become a very strong use case there. Secondly, Datawrkz operates on ethnic communities in the US (Chinese, Indian, Hispanic). Hence, it has identified a very strong, clear niche and those niches are big wherein the propensity to pay is big. They see no issues on Datawrkz' future growth projections.

Valuation Context

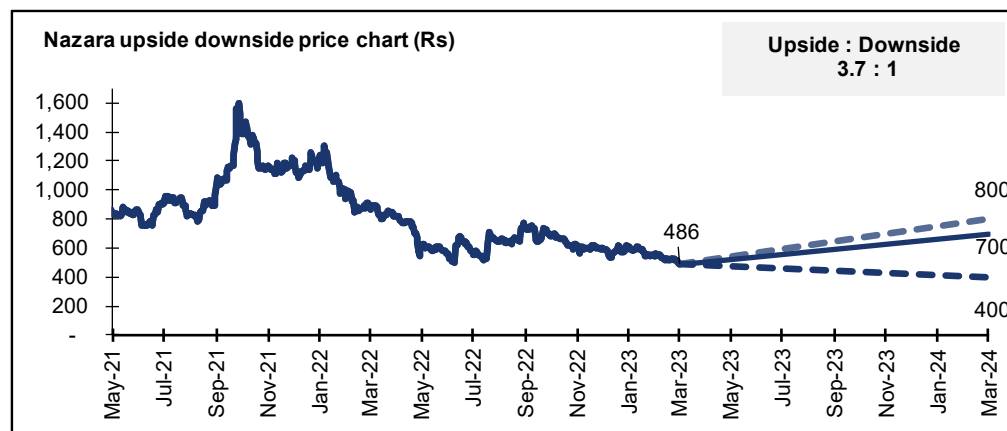
The stock has corrected ~70% from its peak (of Rs1,601) and is presently trading at its all-time low of Rs486. At current market price, it is trading at 45x 1-year forward P/E. We have a target price of Rs700 on the stock for FY25E. Our target multiple is 41x FY25E EPS (-1.5SD 2-year average historical P/E). We initiate coverage on Nazara Technologies with BUY rating, given its strong revenue growth trajectory in eSports business and gradual profitability improvement in gamified early learning (GEL). We also estimate an upside:downside skew of 3.7:1, which makes it a compelling BUY in our view.

Bull Case: Nazara has Rs6.6bn in cash (additional Rs40mn in SVB). This will likely be used to acquire scale through acquisition in real money gaming, once regulatory clarity emerges. Also, Nazara could benefit from inexpensive acquisition opportunities in current liquidity situation. In case these triggers play out, we see an upside valuation of Rs800 (for Mar'24).

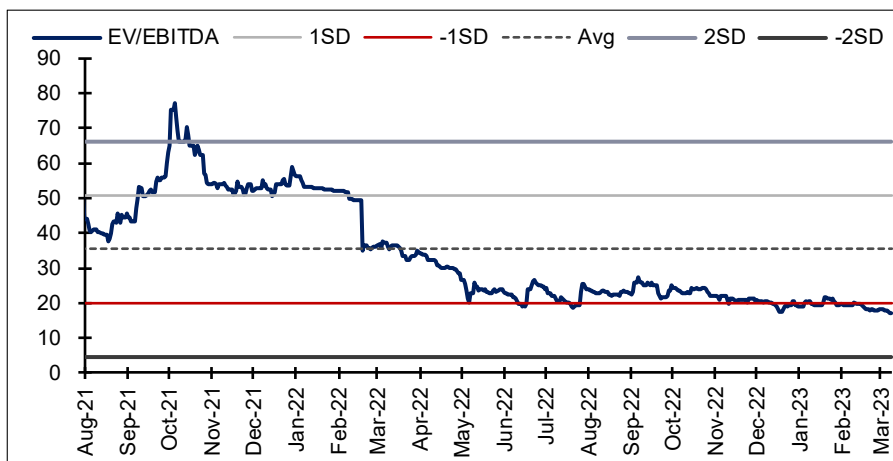
Base Case: We estimate ~37% YoY revenue growth in FY24E, led by ~45% growth in eSports and ~25%YoY growth in GEL. We estimate EBITDA growth of ~86% YoY in FY24E led by EBITDA margin improvement of ~250bps YoY as eSports IPs scale up and GEL profitability improves with a mix of subscriber addition and price increases. We have a target price of Rs700 on the stock for Mar'24. Our target multiple is 41x FY25E EPS (-1.5SD 2-year average historical P/E).

Bear Case: In case growth trajectory declines or margin improvements do not play out, we see a downside valuation of Rs400 (for Mar'24).

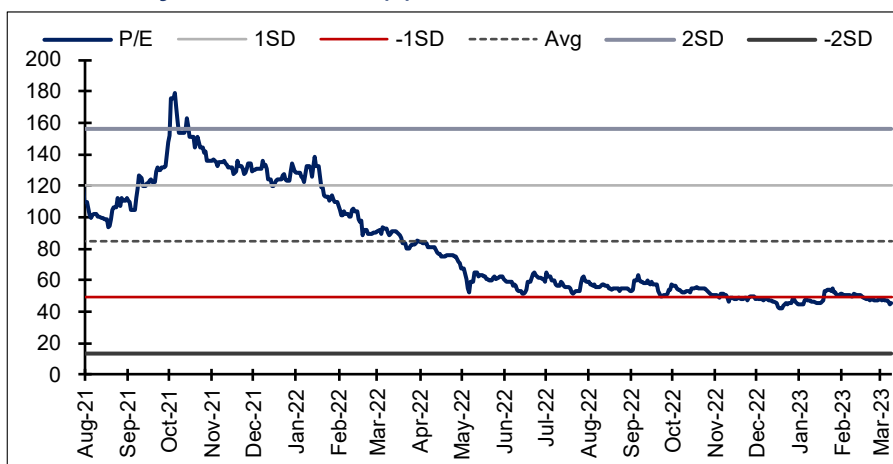
Chart 23: Upside: downside skew



Source: Bloomberg, I-Sec research.

Chart 24: 1 year forward EV/EBITDA (x)

Source: Bloomberg, I-Sec research.

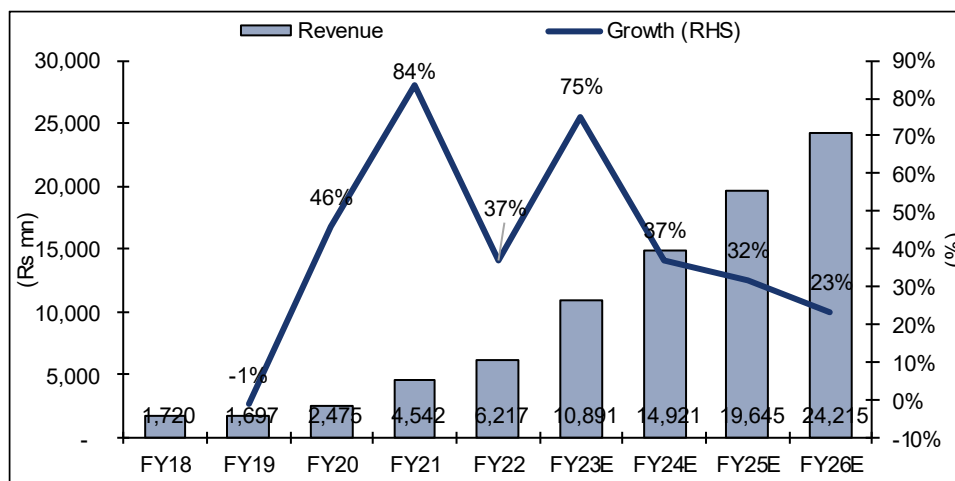
Chart 25: 1 year forward P/E(x)

Source: Bloomberg, I-Sec research.

Financial discussion

Nazara registered a revenue CAGR of 38% over FY18-22, majorly contributed by strong growth in FY21 (83.5%). Over FY23-26E, we model 31% revenue CAGR. We estimate ~37% YoY revenue growth in FY24E, led by ~45% growth in eSports and ~25% YoY growth in GEL.

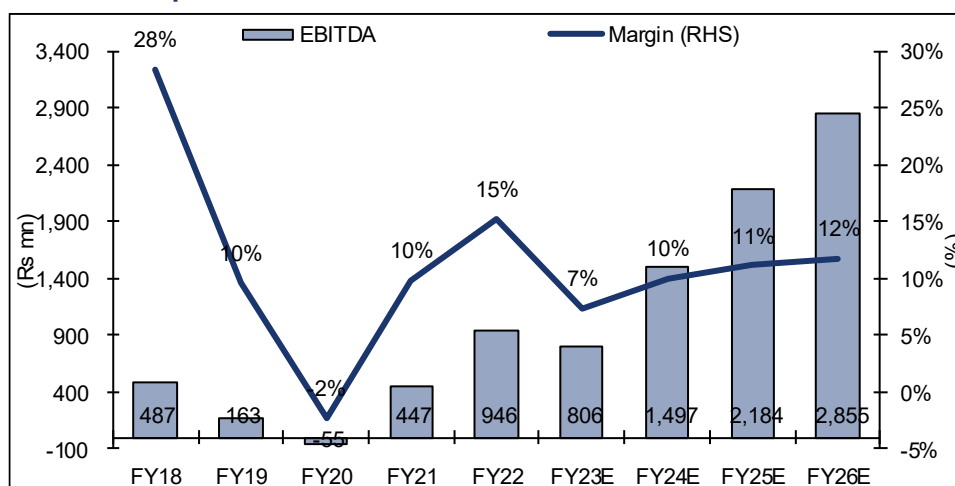
Chart 26: Expect revenue CAGR of 31% over FY23-26E



Source: Company data, I-Sec research.

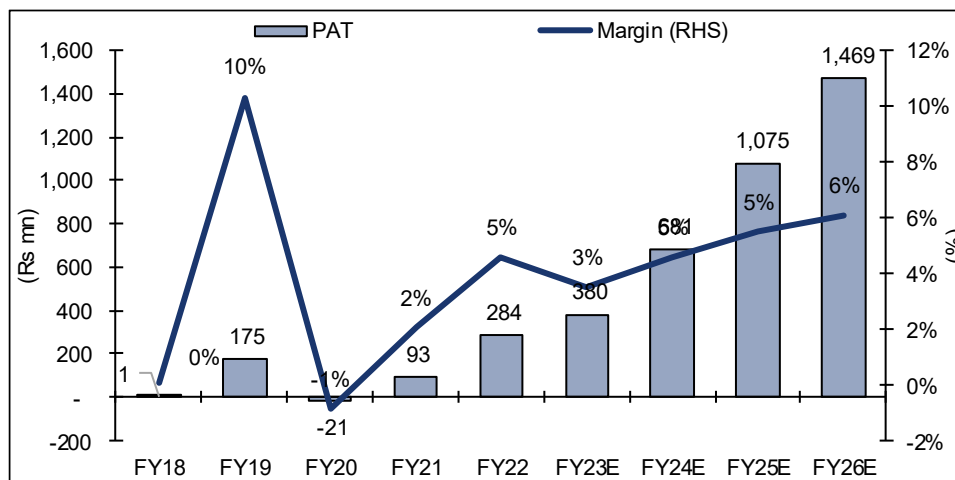
Nazara reported an EBITDA CAGR of 18% over FY18-22, though margins declined from 28.3% in FY18 to 15.2% in FY22. This was due to company's increased focus on growth over the past years. Over FY23-26E, we model 52% CAGR as margins improve from 7.4% in FY23E to 11.8% in FY26E. We estimate EBITDA growth of 86% YoY in FY24E led by EBITDA margin improvement of ~250bps YoY as eSports IPs scale up and GEL profitability improves with a mix of subscriber addition and price increases.

Chart 27: Expect EBITDA CAGR of 52% over FY23-26E



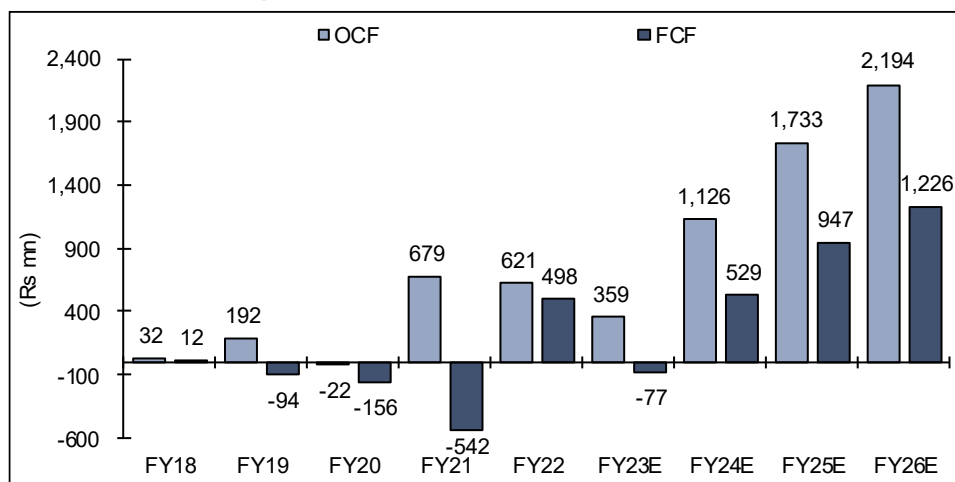
Source: Company data, I-Sec research.

Nazara registered a PAT CAGR of 352% over FY18-22 and we model 57% CAGR over FY23E-26E backed on improving operating performance.

Chart 28: Expect PAT CAGR of 57% over FY23-26E

Source: Company data, I-Sec research.

Operating cash flows reported a CAGR of 110% over FY18-22. We expect cash flows to continue to improve at a CAGR of 83% over FY23E-26E.

Chart 29: Improving cash flows

Source: Company data, I-Sec research.

Key Risks

Company's inability to establish its gaming accessories business leading to lower margins: Nazara reported steep decline in margins as it extended presence in gaming accessories (Wings). However, company's inability to establish the brand and gravitate towards profitability is a key risk to the eSports business.

Impact on due to increased competition/ slowdown in US markets: A slowdown in US market would lead to inability to spend by consumers impacting Sportskeeda and Kiddopia's subscriber case. Similarly, increased competition leading to price reductions may impact profitability.

Continued delay in RMG regulatory clarifications: Nazara has taken limited action within this space due to uncertainty around regulatory framework. Continued delay in this space affects the growth opportunities that company is well positioned to capture.

Inability to identify and integrate acquisitions: Management's inability to identify the right set of acquisitions may lead to integration issues ahead.

Key managerial personnel

Name	Designation	Experience	Comments
Rakesh Shah	Chief Financial Officer	Over 24 years of experience in financial, administration and management accounting	<ul style="list-style-type: none"> Mr. Rakesh Shah holds a bachelor's degree in Commerce from University of Bombay and he is a qualified Cost Accountant from Institute of Cost and Works Accountants of India. He is an associate member of Institute of Chartered Accountants of India. He has been associated with Yahoo India Private Limited, ANZ International, Electronic Data Systems, Vinmar International India Private Limited, Mazda Colors Limited.
Nitish Mittersain	Joint Managing Director and Chief Executive Officer		<ul style="list-style-type: none"> He holds a bachelor's of commerce degree from the University of Mumbai. He founded Nazara in 1999 and has been associated in the promotion of the company for the last 20 years.

Source: Company data, I-Sec research

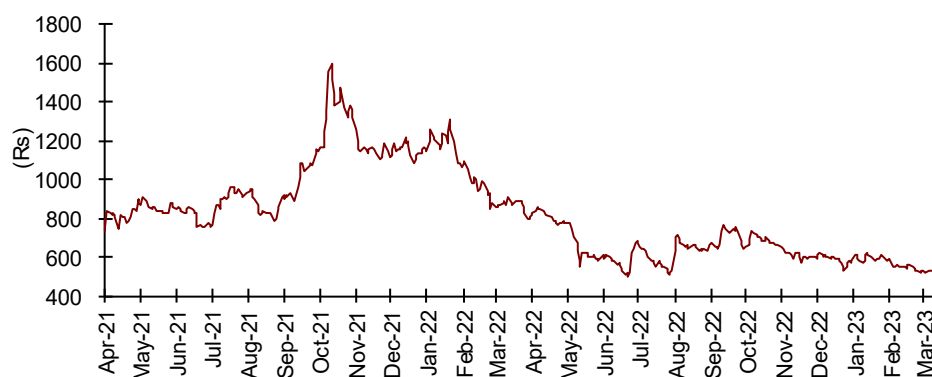
Senior managerial personnel

Name	Designation	Experience	Comments
Sudhir Kamath	Chief Operating Officer	Over 20 years of experience in strategy consulting, private equity investing, operations and entrepreneurship	<ul style="list-style-type: none"> Mr. Sudhir Kamath is an alumnus of Delhi University and IIM Ahmedabad. Across his career, he has handled strategy, asset acquisitions / exits, regulatory matters, fund-raising, and operations, including as a CEO and entrepreneur. Most recently, as the CEO and Founder of Sparskills Technologies, he developed and scaled the 9stacks gaming brand. He started his corporate career at strategy consulting firm McKinsey & Co, where he worked in their India, Dubai and London offices
Anupriya Sinha Das	Head of Corporate Development	Total of 13 years of experience across private equity, investment banking and consumer tech business	<ul style="list-style-type: none"> Ms. Anupriya Das has completed her Engineering in Computer Science from Motilal Nehru National Institute of Technology, Allahabad, and MBA in Finance from XLRI, Jamshedpur. In her last stint, Anupriya led the Corporate Strategy team at Pocket Aces where she was driving M&A and fund-raising initiatives. Prior to this, she spent around seven years in private equity across General Atlantic and Everstone Capital, where she has managed more than \$300 million across consumer and technology sectors among others.
Savio Saldanha	Chief Executive Officer, Nazara Digital	Over 10 years of experience in media and mobile entertainment	<ul style="list-style-type: none"> Mr. Savio Saldanha holds a Bachelor of Commerce degree in economic legislation and business management from Chhatrapati Shahu Ji Maharaj University, Kanpur. He has been associated with Arvato Mobile Middle East FZ-LLC, Channel [V] and City 7 TV (Arab Venture Corporation). He is responsible for the planning and the execution of Nazara's business interests in Middle East, Africa and the Caribbean Islands with focus on setting a strategic direction to drive mobile gaming revenues, market penetration, partner alliances, and establish growth priorities with differentiated propositions, products and marketing initiatives.
Anshu Dhanuka	Co-founder & chief product officer - Paper Boat		<ul style="list-style-type: none"> Ms. Anshu Dhanuka holds a bachelor's degree in management studies from the University of Mumbai. Prior to founding Paper Boat Apps Private Limited, She was also associated with Walnut Labs Private Limited which was involved in the business of developing solutions for computer software and hardware.
Anupam Dhanuka	Co-founder & CEO - Paper Boat		<ul style="list-style-type: none"> He holds a bachelor's degree in engineering from the University of Mumbai. He graduated from Carnegie Mellon University with a master's degree in information networking. Prior to founding Paper Boat Apps Private Limited, he was also associated with Walnut Labs Private Limited which was involved in the business of developing solutions for computer software and hardware.
Porush Jain	Sports Keeda Founder		<ul style="list-style-type: none"> He holds a bachelor's degree in technologies in mechatronics from the SASTRA University and a master's degree in business administration from Symbiosis Institute of Business Management. He has worked for two years with Infosys Technologies Limited.

Name	Designation	Experience	Comments
Ajay Pratap Singh	Chief Operating officer – Absolute Sports Pvt Ltd	10+ years of experience in growing businesses from ground-up	<ul style="list-style-type: none"> In the past held vertical lead and leadership positions for organizations like Tally Solutions, Ed-Tech Start-up SuperProfs, and one of the world's largest vernacular daily, Dainik Bhaskar.
Anirudh Kumar	Chief Strategy officer – Absolute Sports Pvt Ltd	Over 17 years of experience in Management Consulting, Marketing & Venture Capital.	<ul style="list-style-type: none"> He holds a BA(H) in Economics from Delhi University and an MBA (Strategy and Finance) from ISB, Hyderabad. He started his career with McKinsey & Co., followed by an entrepreneurial stint. After that, he worked with the Directi Group & Snapdeal.com, where he led user growth, analytics, and digital marketing. He has also led investments across multiple verticals for Matrix Partners, one of India's leading VC firms with \$1B+ in AUM. Joined Absolute Sports (Sportskeeda) in 2022 where he drives the overall strategy and M&A for the company.
Pratik Shah	CEO – Matemindsports	Over 16 years of experience in building software products including the last seven years in sports gaming	<ul style="list-style-type: none"> He holds a bachelor's degree in engineering from Vishveswaraiah Technology University, Belgaum He is the co-founder of Mastermind Sports Limited. In 2013, he founded Zootr Sports Private Limited and in 2011 he co-founded Pingaala Technologies LLP. He is an additional director of Halaplay Technologies Private Limited.
Deepak MV	CEO – OpenPlay		<ul style="list-style-type: none"> An alumnus of IIM Calcutta, Deepak has 15+ years of experience in delivering strategic transformations across customer lifecycle, P&L management, and operational efficiency.
Jayashree Poochi Ramaswamy	Co-founder and Chief operations officer of Next Wave Multimedia Private Limited	Over 25 years of experience in various fields including digital media and gaming	<ul style="list-style-type: none"> She holds a master's degree in Arts from the University of Madras She has discharged several roles within the Next Wave Multimedia Private Limited including that of a 3D animator, programmer, client service manager, international business development.
Rajendran Poochi Ramasamy	Co-founder and Chief operations officer of Next Wave Multimedia Private Limited		<ul style="list-style-type: none"> Mr. Rajendran founded Next Wave Multimedia Private Limited, which provides digital marketing and communication solutions to top companies in India and Europe. He has created many digital campaigns for Fortune 100 companies in Europe covering web and mobile applications. He has created nearly 200 games for brands and OEM app stores.
Akshat Rathee	Managing Director - NODWIN Gaming		<ul style="list-style-type: none"> He holds a bachelor's degree in computer engineering from Manipal Institute of Technology and a master's degree in business administration from Global Business School, New Delhi. He was also associated with PGM Entertainment and Ernst & Young prior to co-founding Nodwin Gaming Private Limited.

Source: Company data, I-Sec research

Price chart



Source: Bloomberg

Financial summary

Table 4: Profit and Loss statement
(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Operating Revenues	6,217	10,891	14,921	19,645
Operating Expenses	5,271	10,085	13,425	17,461
EBITDA	946	806	1,497	2,184
% margins	15.2	7.4	10.0	11.1
Depreciation & Amortisation	390	490	671	884
EBIT	556	316	825	1,300
% margins	8.9	2.9	5.5	6.6
Other Income (net)	235	578	370	421
Recurring PBT	791	894	1,195	1,721
Add: Share in net profit of associates	(92)	(90)	10	10
Less: Taxes	192	201	301	433
Net income	507	603	904	1,298
Less: Minority interest	223	223	223	223
Reported Net Income	284	380	681	1,075

Source: Company data, I-Sec research

Table 5: Balance sheet
(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
LIABILITIES				
Share Capital	130	130	130	130
Reserves and Surpluses	10,283	10,663	11,344	12,419
Shareholders' funds	10,413	10,793	11,474	12,549
Minority Interest	1,570	1,793	2,016	2,239
Non-current liabilities	384	425	459	499
Current Liabilities	1,731	3,004	4,060	5,299
Total Liabilities	14,098	16,015	18,009	20,586
ASSETS				
Fixed Assets	4,251	6,599	7,159	7,945
Other non-current assets	693	693	693	693
Total non-current assets	4,944	7,292	7,852	8,638
Investments	4,093	2,000	2,500	3,000
Cash and bank balance	3,228	3,420	3,184	3,168
Current Assets	1,833	3,303	4,473	5,779
Total Assets	14,098	16,015	18,009	20,586

Source: Company data, I-Sec Research

Table 6: Cashflow statement
(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Operating Cash flow before W Cap changes	1,092	716	1,507	2,194
Working Capital Inflow / (Outflow)	(471)	(357)	(381)	(461)
Capex	(123)	(436)	(597)	(786)
Free Cash flow	498	(77)	529	947
Cash Flow from other Invst Act (Ex Capex)	(3,372)	600	400	460
Proceeds from Issue of Share Capital	3,163	-	-	-
Inc/(Dec) in Borrowings	(38)	-	-	-
Others	806	(22)	(30)	(39)
Increase/(Decrease) in Cash	1,057	501	899	1,368

Source: Company data, I-Sec research

Table 7: Key ratios
(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Per Share Data (Rs)				
Earnings per share (Basic)	9.1	6.1	10.9	17.2
Earnings per share (Diluted)	9.1	6.1	10.9	17.2
Cash earnings per share	21.6	13.9	21.6	31.4
Dividend per share	-	-	-	-
Book Value per share	333	173	184	201
Growth Ratios (%)				
Operating Income (Sales)	36.9	75.2	37.0	31.7
EBITDA	111.6	(14.8)	85.7	45.9
Recurring Net Income	206.5	33.8	79.2	57.9
Diluted Recurring EPS	195.1	(33.1)	79.2	57.9
Diluted Recurring CEPS	45.0	(35.5)	55.4	44.9
Valuation Ratios (x)				
P/E	53.6	80.1	44.7	28.3
P/CEPS	22.6	35.0	22.5	15.5
P/BV	1.5	2.8	2.7	2.4
EV / EBITDA	13.9	35.0	19.1	13.1
EV / Sales	2.1	2.6	1.9	1.5
Operating Ratio				
Operating Expense/Sales (%)	84.8	92.6	90.0	88.9
Other Income / PBT (%)	29.7	64.7	31.0	24.4
Effective Tax Rate (%)	24.3	22.5	25.2	25.1
Receivables (days) on average	51	51	50	48
Payables (days) on average	30	30	30	30
Return/Profitability Ratio (%)				
Recurring Net Income Margins	4.6	3.5	4.6	5.5
RoCE	17.0	5.5	11.0	15.9
RoNW (Based on Avg)	2.7	3.5	5.9	8.6
Dividend Payout Ratio	0.0	0.0	0.0	0.0
Dividend Yield	0.0	0.0	0.0	0.0
EBITDA Margin	15.2	7.4	10.0	11.1

Source: Company data, I-Sec research

Index of Tables and Charts

Tables

Table 1: Acquisitions post listing.....	7
Table 2: A typical device manufacturer's P&L highlights.....	8
Table 3: Kiddopia operating metrics	10
Table 4: Profit and Loss statement	25
Table 5: Balance sheet	25
Table 6: Cashflow statement	25
Table 7: Key ratios	25

Charts

Chart 1: Event triggers that led to stock de-rating	3
Chart 2: Peer comp (EV/EBITDA FY26E vs EBITDA CAGR FY23-26E).....	3
Chart 3: Peer comp (P/E FY26E vs EPS CAGR FY23-26E).....	3
Chart 4: Expect revenue CAGR of 31% over FY23-26E	5
Chart 5: Expect EBITDA CAGR of 52% over FY23-26E	5
Chart 6: Expect PAT CAGR of 57% over FY23-26E	5
Chart 7: Improving cash flows.....	6
Chart 8: Revenue mix -9MFY23	6
Chart 9: Quarterly overall EBITDA margins.....	6
Chart 10: Strong organic growth in 9MFY23	8
Chart 11: Average MAU continues to increase.....	8
Chart 12: Stabilisation in activation rate	9
Chart 13: ARPU to increase going forward.....	10
Chart 14: Subscribers to see robust growth ahead	10
Chart 15: High share from retained clients	11
Chart 16: Robust improvement YoY	11
Chart 17: Improving metrics.....	12
Chart 18: Revenue split	12
Chart 19: Improved performance	12
Chart 20: Revenue growth of 28% with margins at 21.9% in 9MFY22	13
Chart 21: MAU witnessed sharp decline in Q3FY23	13
Chart 22: Company to stem declining revenues.....	14
Chart 23: Upside: downside skew	18
Chart 24: 1 year forward EV/EBITDA (x)	19
Chart 25: 1 year forward P/E(x)	19
Chart 26: Expect revenue CAGR of 31% over FY23-26E	20
Chart 27: Expect EBITDA CAGR of 52% over FY23-26E	20
Chart 28: Expect PAT CAGR of 57% over FY23-26E	21
Chart 29: Improving cash flows.....	21

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