BUY (Maintain)

CMP: **INR 665** Target Price: **INR 850** ▲ 28%

ICICI Securities

ICICI Securities Limited is the author and distributor of this report

30 July 2023

India | Equity Research | Q1FY24 results review

Nazara Technologies

Internet

Muted Q1 due to multiple one-offs; set-up for strong recovery from Q2

Nazara Technologies' Q1FY24 revenue was below estimates due to 1) deferment of key eSports launches to H2CY23 and 2) decline in Adtech's growth due to client rationalisation. However, EBITDA margin expansion (+340 bps QoQ) materialised in Q1FY24 broadly in line with our estimates. Kiddopia's EBITDA margin expanded ~960bps QoQ led by ~19% reduction in marketing spends. There was a technical issue (now resolved) with their attribution partner which resulted in CPT increasing to USD 39.3 (to revert to earlier band of USD 34-36 from Q2). We believe CPT jump and subsequent marketing spend pullback caused 3.2% QoQ decline in Kiddopia subscribers in Q1. Animal Jam ramp up is now materialising (EBITDA margin of 22.5% in Q1FY24).

Management has guided for revenue and margin acceleration in coming quarters as some mature gaming IPs start coming from Q2FY24. We look forward to more clarity on margin improvements in key business segments and their sustainability in the near term from earnings call due on 31st Jul'23. We re-iterate **BUY** on the stock with a target price of INR 850.

Q1FY24 performance

Revenue stood at INR 2,544mn, up 14% YoY (down 12% QoQ). eSports business grew 15% YoY to INR 1,178mn. Consolidated EBITDA margin in Q1 was 13% (I-sec: 13.6%). Within segments, gamified early learning's (GEL) EBITDA margin was 26.5% (vs 18.2% in Q4FY23) and eSports' EBITDA margin was 8.7% (vs 7.8% in Q4FY23). Adtech's EBITDA margin was 4.8% in Q1 (vs 5.4% in Q4FY23). In Q1FY24, PAT was INR 209mn. The cost per trial for Kiddopia increased to USD 39.3 vs USD 35.9 in Q4FY23, as technical issue with attribution partner led to higher CAC. Subscribers declined 3.2% QoQ. Nodwin Gaming reported negative EBITDA margin of 7% in Q1 (vs +4.4% in Q4FY23). Established IPs (BGMI) are planned in H2CY23. In addition, increased spend on gaming accessories (Wings) led to a negative impact on EBITDA.

Strong medium-term growth visibility

We estimate ~35% YoY revenue growth in FY24E led by ~45% YoY growth in eSports and ~25% YoY growth in GEL. We estimate EBITDA growth of ~57% YoY in FY24E led by EBITDA margin improvement as eSports' IPs scale up and GEL's profitability improves on subscriber addition and price increases.

Financial Summary

Y/E March (Rs mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	6,217	10,910	14,742	19,276
EBITDA	946	1,097	1,724	2,466
EBITDA Margin (%)	15.2	10.1	11.7	12.8
Net Profit	284	394	698	945
EPS (Rs)	4.5	6.3	11.1	15.0
EPS % Chg YoY	182.3	38.4	76.6	35.3
P/E (x)	146.3	105.7	59.8	44.2
EV/EBITDA (x)	41.7	37.0	24.5	17.2
RoCE (%)	17.0	9.4	11.6	14.7
RoE (%)	2.7	3.6	5.9	7.4

Abhisek Banerjee
abhisek.banerjee@icicisecurities.com
+91 22 6807 7574
Pradyut Ganesh
pradyut.ganesh@icicisecurities.com

Market Data

Market Cap (INR)	44bn
Market Cap (USD)	535mn
Bloomberg Code	NAZARA IN
Reuters Code	NAZA.BO
52-week Range (INR)	789 /480
Free Float (%)	52.0
ADTV-3M (mn) (USD)	5

Price Performance (%)	3m	6m	12m
Absolute	20.5	12.5	25.4
Relative to Sensex	9.0	12.1	16.4

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

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

Source: Bloomberg, I-sec research

Previous Reports

10-05-2023: Q4FY23 results review

21-03-2023: Initiating coverage

Valuation

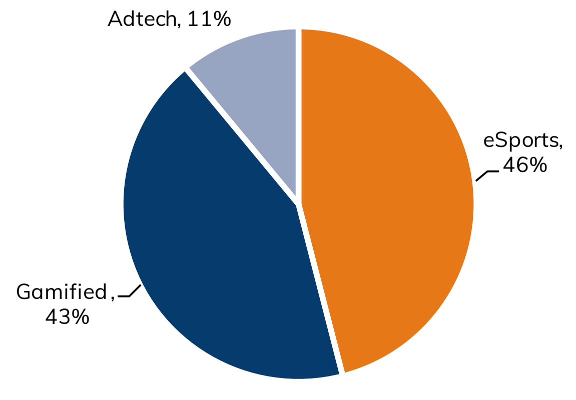
We maintain our **BUY** rating on Nazara, given its strong revenue growth trajectory in e-Sports business and gradual profitability improvement in GEL. We have a target price of INR 850 on the stock. Our target multiple is 32x FY25E EV/EBITDA (ex-minority). Key risks: 1) Impact due to increased competition/ slowdown in US markets, and 2) inability to identify and integrate acquisitions.

Exhibit 1: Q1FY24 review

(in INR mn)	Q1FY24	Q4FY23	Q1FY23	QoQ(%)	YoY(%)	I-Sec Est.	Diff
Net Sales	**2,544**	**2,893**	**2,231**	**(12)**	**14**	**2,984**	**(15)**
Total Expenses	2,213	2616	1930	(15)	15	2,578	(14)
EBITDA	**331**	**277**	**301**	**19**	**10**	**407**	**(19)**
EBITDA%	13.0	9.6	13.5	340 bps	(50 bps)	13.6	(60 bps)
Depreciation	152	160	136	(5)	12	160	(5)
EBIT	179	117	165	53	8	247	(27)
Finance Cost	13	29	4	(56)	220	29	(56)
Other Income	117	82	66	43	78	90	30
Pre-Tax Income	283	170	227	67	25	308	(8)
Tax	74	46	74	61	0	80	(7)
Net Income	**209**	**119**	**165**	**75**	**26**	**223**	**(6)**
Non-controlling interest	14	93	50	(85)	(73)	87	(84)
Net income post non-controlling interest	195	26	115	650	70	136	44
EPS	2.95	0.39	1.76				
EBITDA Margins(%)	**13.0**	**9.6**	**13.5**				
PAT Margins(%)	**8.2**	**4.1**	**7.4**				
Tax Rate(%)	**26.1**	**27.1**	**32.6**				

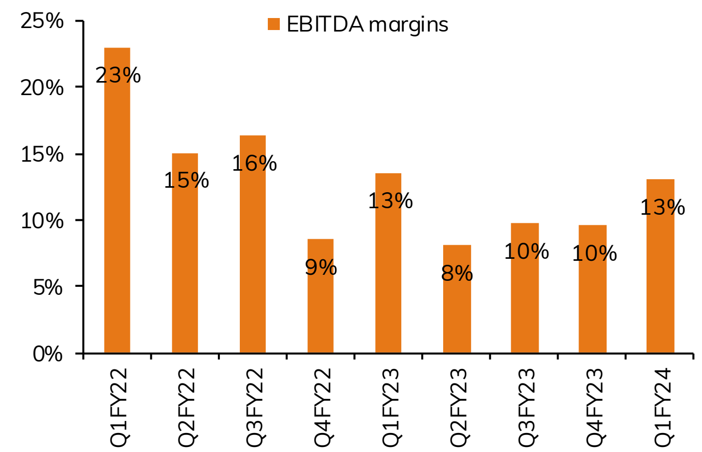
Source: I-Sec research

Exhibit 2: Revenue mix - Q1FY24



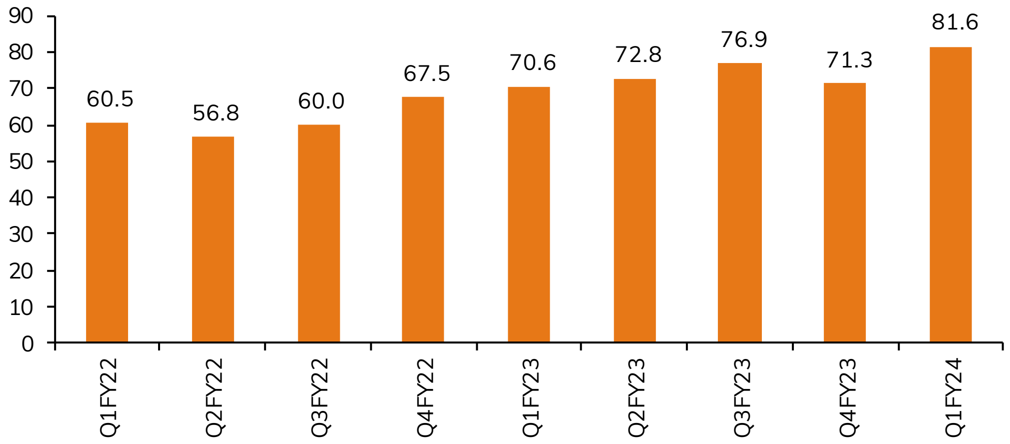
Source: I-Sec research, Company data

Exhibit 3: EBITDA margin



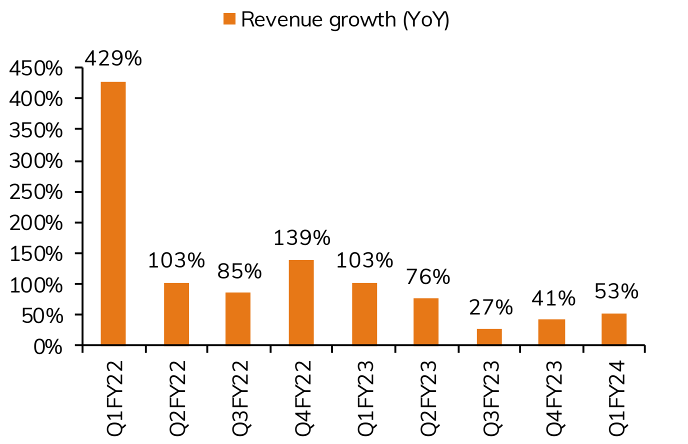
Source: I-Sec research, Company data

Exhibit 4: Sportskeeda - Average MAU (mn)



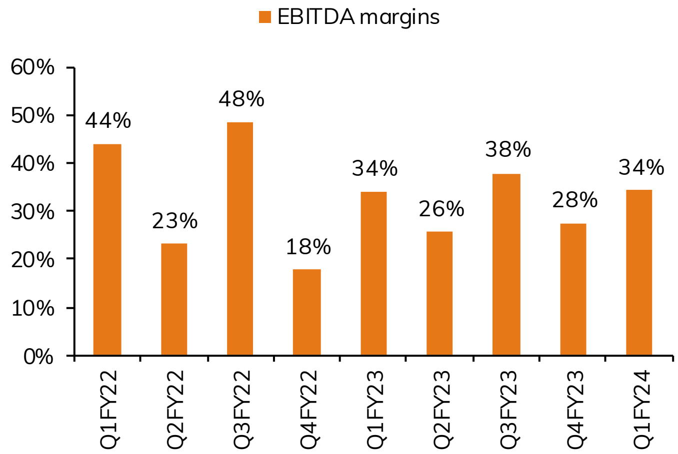
Source: Company data, I-Sec research

Exhibit 5: Sportskeeda -YoY revenue growth (%)



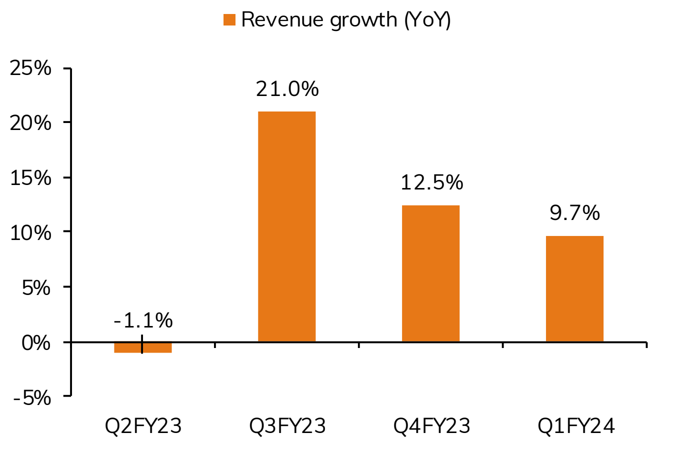
Source: I-Sec research, Company data

Exhibit 6: Sportskeeda –EBITDA margin (%)



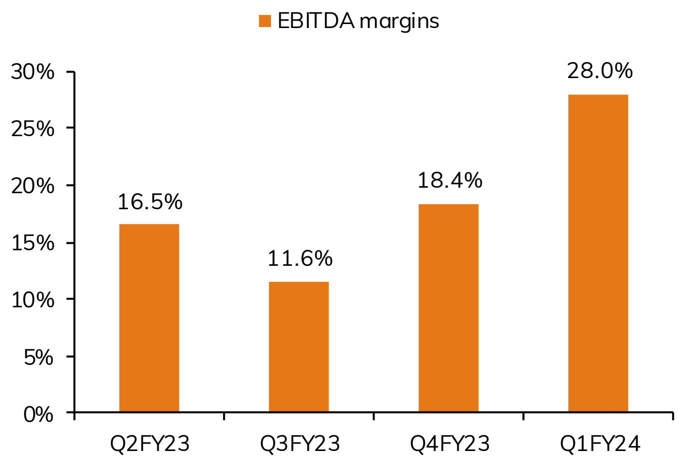
Source: I-Sec research, Company data

Exhibit 7: Kiddopia -YoY revenue growth (%)



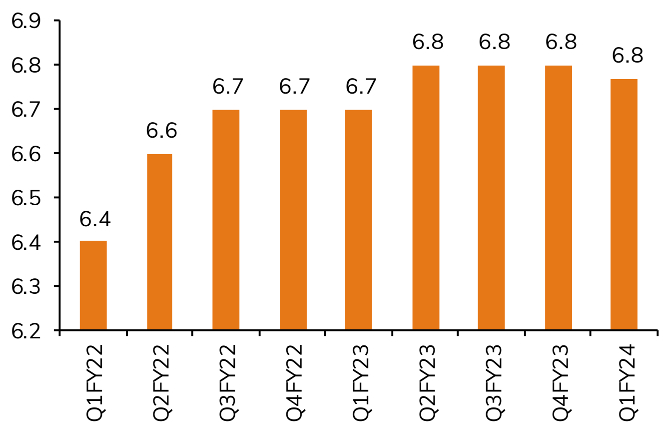
Source: Company data, I-Sec research

Exhibit 8: Kiddopia – EBITDA margin (%)



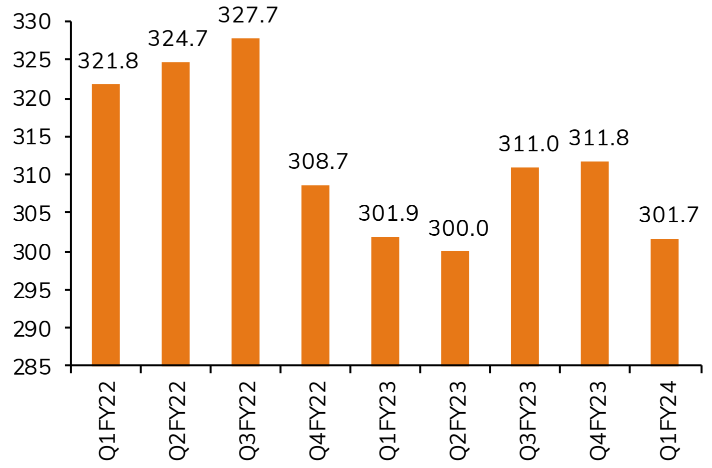
Source: Company data, I-Sec research

Exhibit 9: ARPU(USD) - Kiddopia



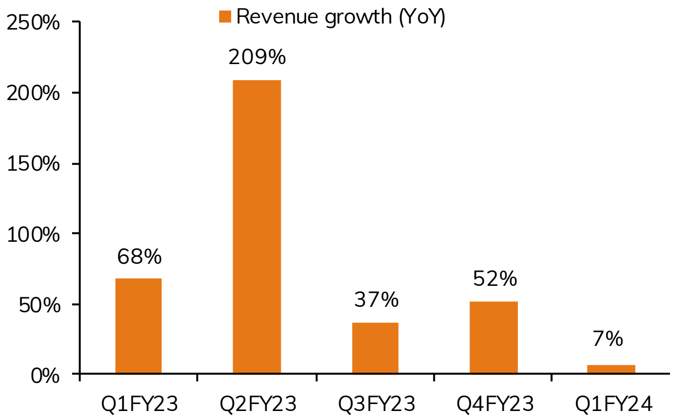
Source: I-Sec research, Company data

Exhibit 10: Subscribers(K) - Kiddopa



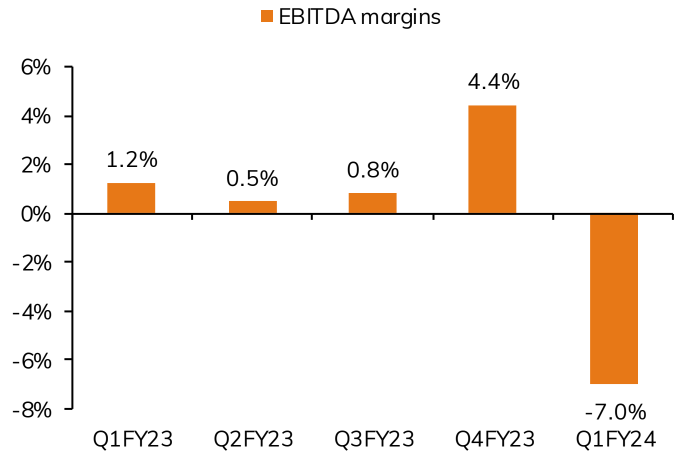
Source: I-Sec research, Company data

Exhibit 11: Nodwin Gaming -YoY revenue growth (%)



Source: I-Sec research, Company data

Exhibit 12: Nodwin Gaming –EBITDA margin (%)



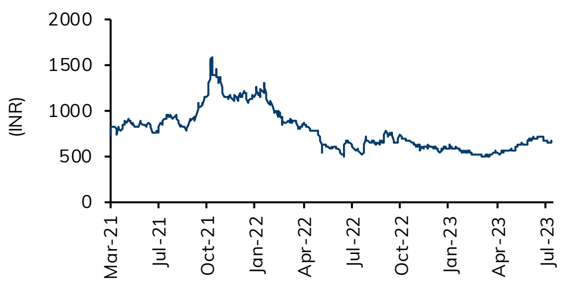
Source: I-Sec research, Company data

Exhibit 13: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	19.1	19.1	19.1
Institutional investors	16.1	16.8	16.8
MFs and other	4.8	5.8	5.8
FIs/ Banks	1.1	1.9	1.9
FIIs	10.2	9.1	9.1
Others	64.8	64.1	64.1

Source: Bloomberg, I-Sec research

Exhibit 14: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 15: Profit & Loss

(Rs mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	6,217	10,910	14,742	19,276
Operating Expenses	**5,271**	**9,271**	**13,018**	**16,809**
EBITDA	946	1,097	1,724	2,466
EBITDA Margin (%)	**15.2**	**10.1**	**11.7**	**12.8**
Depreciation & Amortization	390	571	772	1,009
EBIT	556	526	952	1,457
Interest expenditure	6	47	64	83
Other Non-operating Income	241	495	400	460
Recurring PBT	791	974	1,289	1,834
Profit / (Loss) from Associates	**(5)**	**-**	**10**	**10**
Less: Taxes	**192**	**254**	**325**	**461**
PAT	599	720	964	1,373
Less: Minority Interest	223	240	276	438
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	507	634	974	1,383
Net Income (Adjusted)	**284**	**394**	**698**	**945**

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(Rs mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	5,061	7,306	7,009	8,390
of which cash & cash eqv.	3,228	3,292	1,547	1,359
Total Current Liabilities & Provisions	1,698	3,318	4,155	5,402
Net Current Assets	**3,363**	**3,988**	**2,854**	**2,988**
Investments	4,418	3,320	3,820	4,320
Net Fixed Assets	36	71	-	-
ROU Assets	41	77	80	80
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	4,174	5,683	7,380	8,151
Other assets	296	205	205	205
Deferred Tax assests	-	-	-	-
Total Assets	**12,400**	**13,700**	**14,695**	**16,100**
Liabilities				
Borrowings	**-**	**-**	**-**	**-**
Deferred Tax Liability	**323**	**404**	**404**	**404**
provisions	51	52	72	95
other Liabilities	-	-	-	-
Equity Share Capital	130	265	265	265
Reserves & Surplus	10,283	10,784	11,482	12,427
Total Net Worth	**10,413**	**11,049**	**11,747**	**12,692**
Minority Interest	1,570	2,117	2,393	2,831
Total Liabilities	**12,400**	**13,700**	**14,695**	**16,100**

Source Company data, I-Sec research

Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	2,638	3,148	2,893	2,544
% growth (YOY)	103.5	69.4	65.2	14.0
EBITDA	213	306	277	331
Margin %	8.1	9.7	9.6	13.0
Other Income	232	115	82	117
Net Profit	174	224	119	209

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(Rs mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	**621**	**81**	**1,123**	**1,715**
Working Capital Changes	(281)	(856)	(286)	(300)
Capital Commitments	(114)	(82)	(590)	(771)
Free Cashflow	**735**	**163**	**1,713**	**2,486**
Other investing cashflow	**(3,222)**	**(870)**	**400**	**460**
Cashflow from Investing Activities	(3,336)	(952)	(190)	(311)
Issue of Share Capital	3,393	163	-	-
Interest Cost	-	-	(64)	(83)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	-	-	-	-
Others	(3)	60	-	-
Cash flow from Financing Activities	3,347	145	(64)	(83)
Chg. in Cash & Bank balance	**632**	**(726)**	**870**	**1,321**
Closing cash & balance	2,032	1,354	2,290	3,611

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	4.5	6.3	11.1	15.0
Adjusted EPS (Diluted)	4.5	6.3	11.1	15.0
Cash EPS	10.8	15.4	23.4	31.1
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	166.6	176.4	186.9	202.0
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	36.9	75.5	35.1	30.8
EBITDA	111.6	16.0	57.2	43.1
EPS (INR)	182.3	38.4	76.6	35.3
Valuation Ratios (x)				
P/E	146.3	105.7	59.8	44.2
P/CEPS	61.6	43.3	28.4	21.4
P/BV	4.0	3.8	3.6	3.3
EV / EBITDA	41.7	37.0	24.5	17.2
Operating Ratios				
Gross Profit Margins (%)	**100.0**	**95.0**	**100.0**	**100.0**
EBITDA Margins (%)	**15.2**	**10.1**	**11.7**	**12.8**
Effective Tax Rate (%)	24.3	26.1	25.2	25.1
Net Profit Margins (%)	9.6	6.6	6.5	7.1
NWC / Total Assets (%)	30.0	21.6	23.7	24.6
Net Debt / Equity (x)	(0.6)	(0.5)	(0.4)	(0.4)
Net Debt / EBITDA (x)	(8.1)	(6.0)	(3.1)	(2.3)
Profitability Ratios				
RoCE (%)	**17.0**	**9.4**	**11.6**	**14.7**
RoE (%)	**2.7**	**3.6**	**5.9**	**7.4**
RoIC (%)	6.1	6.0	7.4	9.7
Receivables Days	51	53	50	48
Payables Days	30	26	26	26

Source Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return

ANALYST CERTIFICATION
I/We, Abhisek Banerjee, MBA; Pradyut Ganesh, MBA; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:
ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122