

# Nazara Technologies Ltd

## Mixed operating performance in a seasonally strong quarter

### Result Synopsis

**Nazara Technologies (NAZARA) reported mixed financial performance for the quarter. Sequential revenue growth was below expectation and EBITDA margin was inline with expectation. It reported sequential revenue growth of 7.8% QoQ in a seasonally strong quarter for Nazara, led by 27.0% QoQ increase in revenue of Esports (contributing 56.7% to revenue) and 41.7% QoQ decline in the revenue of Gamified Early Learning (contributing 29.7% to revenue). There was sequential increase in EBITDA margin (up 239 bps QoQ) led by lower SG&A cost.**

**Indian Gaming industry is expected to achieve \$7.5bn in FY28 from \$3.1bn in FY23 at CAGR of ~20% led by increasing smartphone penetration, increase in the number of mid/hard core gamers and gradual increase in In-app purchases. The revenue base of Nazara has become more diversified across business segments, thus helping to reduce the overall risk. We expect that focus on controlling cost of content and marketing cost will help it to deliver improved margin for FY24. We estimate revenue CAGR of 35.0% over FY23-26E with average EBITDA margin of 9.8% over the period. We maintain our NEUTRAL rating on the stock with revised target price of Rs 911/share based on EV/EBITDA of 27.5x on FY26E. The stock trades at EV/EBITDA of 35.4x/26.2x on FY25E/FY26E.**

### Result Highlights

- Reported revenue of Rs 3,204mn (up 7.8% QoQ, up 1.8% YoY). The growth was led by 12.6% QoQ increase (up 27.0% YoY) in revenue of Esports Segment. Freemium segment remained flat QoQ (down 22.9% YoY), Adtech increased by 16.0% QoQ (down 44.0% YoY), Real money gaming decreased by 41.7% QoQ (down 49.0% YoY), Gamified Early Learning increased by 29.8% QoQ (up 26.2% YoY), and Telecom business decreased by 5.4% QoQ (down 47.0% YoY).
- EBITDA margin increased by 239 bps QoQ to 11.8%, due to sequential decrease in SG&A cost (down 8.2% QoQ).
- Kiddopia ARPU saw an increase of around 3% QoQ in Q3FY24 to \$6.82.
- Under Gaming WCC: Product related changes will continue through Q4. This includes changes to the existing games WCC2 and WCC3, as well as a new game to be launched in Q1FY25.
- Proforma Cash Balance stood at ~Rs 1,500 Cr, including recent fund raise.

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	3,204	3,463	3,430	-7.5%	-6.6%
EBITDA	377	345	400	9.3%	-5.8%
EBITDA Margin (%)	11.77%	9.96%	11.66%	180 bps	10 bps
Adjusted PAT	267	183	240	45.9%	11.3%

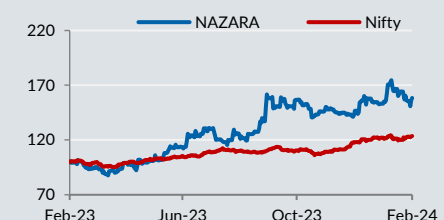
Source: Company, YES Sec

Reco	: <b>NEUTRAL</b>
CMP	: Rs 880
Target Price	: Rs 911
Potential Return	: + 3.5%

### Stock data (as on February 07, 2024)

Nifty	21,941
52 Week h/l (Rs)	989 / 482
Market cap (Rs/USD mn)	63533 / 766
Outstanding Shares (mn)	73
6m Avg t/o (Rs mn):	459
Div yield (%):	-
Bloomberg code:	NAZARA IN
NSE code:	NAZARA

### Stock performance



	1M	3M	1Y
Absolute return	3.5%	5.6%	58.0%

### Shareholding pattern (As of Dec'23 end)

Promoter	17.2%
FII+DII	26.4%
Others	56.5%

### Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	911	877

### Δ in earnings estimates

	FY24E	FY25E	FY26E
EPS (New)	13.5	9.5	13.4
EPS (Old)	11.8	16.6	NA
% change	14.3%	-42.8%	NA

### Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Net Revenue	12,606	16,654	19,450
YoY Growth	15.5%	32.1%	16.8%
EBITDA	1,377	1,430	1,905
YoY Growth	25.4%	3.9%	33.2%
PAT	888	625	880
YoY Growth	85.0%	-29.5%	40.6%
ROE	7.7%	5.1%	6.8%
EPS	13.5	9.5	13.4
P/E	64.9	92.1	65.5
BV	181	191	204
EV/EBITDA	37.3	35.4	26.2

### PARTH GHIYA

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## Exhibit 2: Quarterly snapshot Console: Sequential increase in EBITDA margin

Particulars (Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY%	QoQ%	9MFY24	9MFY23	YoY%
Sales	3,148	2,894	2,544	2,972	3,204	1.8	7.8	8,721	8,017	8.8
EBITDA	305	279	331	279	377	23.6	35.2	987	819	20.5
EBITDA %	9.7	9.6	13.0	9.4	11.8	208 bps	239 bps	11.3	10.2	110 bps
Depreciation	149	161	152	151	152	2.0	0.8	455	411	10.8
EBIT	156	118	179	128	225	44.2	75.8	532	408	30.2
EBIT Margin %	5.0	4.1	7.0	4.3	7.0	207 bps	272 bps	6.1	5.1	100 bps
PBT	261	166	283	212	370	41.7	74.2	865	722	19.8
Tax	60	45	74	(13)	80	32.5	-731.0	141	210	-32.7
PAT	139	51	195	181	253	81.9	39.4	629	343	83.7
Adjusted PAT	144	57	196	193	267	85.1	37.8	656	423	55.0
NPM (%)	4.4	1.8	7.7	6.1	7.9	348 bps	179 bps	7.2	4.3	294 bps

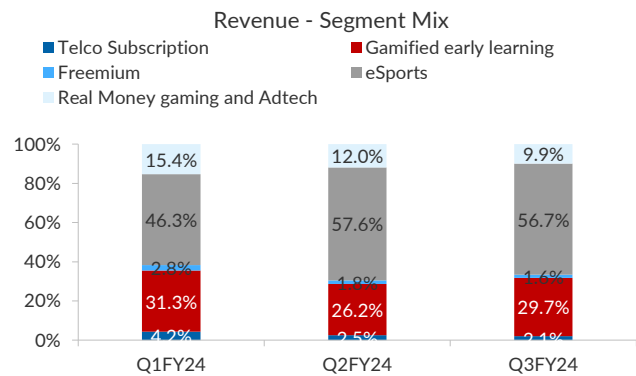
Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- Under Esports segment, Revenue per partner has increased from 1.63 crores per revenue partner in 9MFY23 to 2.71 crores per revenue partner in 9MFY24.
- Sportskeeda continued to grow its revenue and EBITDA, in Q3FY24 its subsidiary PFN also reported a healthy margin, bolstered by the ongoing NFL season.
- Due to an increase in user acquisition costs and lower marketing spends, Kiddopia experienced a higher rate of subscriber base decline during Q3FY24. The company is working on alternate growth opportunities (e.g., IP licencing) which can break through the current user acquisition logjam.
- Animal Jam started experimenting with other user acquisition methods, including a campaign on TikTok with mini- influencers, coinciding with the holiday season.
- The initial set of actions have been taken over Q2FY24 and Q3FY24, including a revamp of Nextwave's ad monetization, live ops, brand sales, and user acquisition operations.
- The impact of increased GST cost has largely been absorbed by all industry players including Classic Rummy. Player deposits are inclusive of 28% GST (paid to the government), the player still gets the full amount via a loyalty promotion bonus which can be used in the game.
- In October 2023, Nodwin has acquired a 100% stake in game marketing agency PublishME for a sum of US\$ 2 million. In December 2023, Nodwin invested INR 33 Cr in Freaks 4U Gaming, a marketing services company for gaming and esports.
- In Jan-24, NODWIN Gaming has announced acquisition of 100% stake in Comic Con India through a cash and stock deal valued at INR 55 Cr.
- Company has completed its FY24 fundraising goal, securing INR 760 crores through a preferential placement to marquee investors.

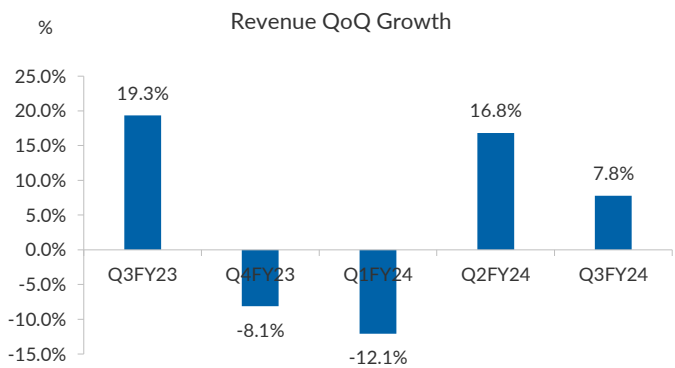
## STORY IN CHARTS

**Exhibit 3: Esports contribute significantly to overall revenue**



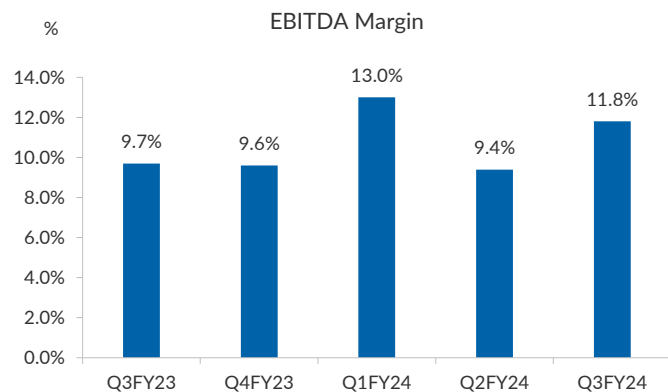
Source: Company, YES Sec

**Exhibit 4: Q3 is a seasonally strong quarter for Nazara**



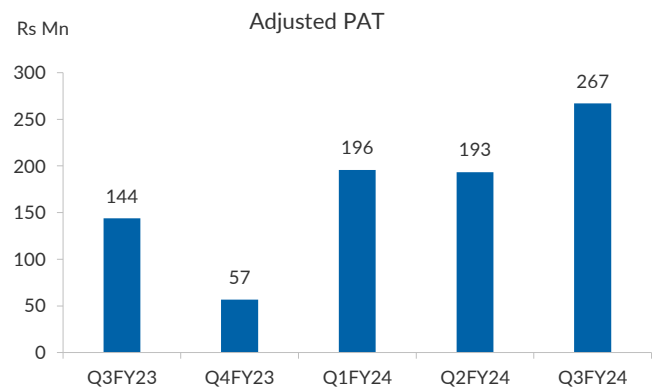
Source: Company, YES Sec

**Exhibit 5: EBITDA Margin increased for the quarter**



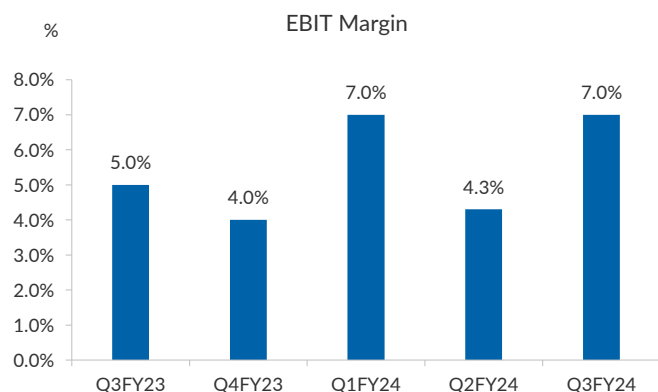
Source: Company, YES Sec

**Exhibit 6: The focus on driving profitability remains intact**



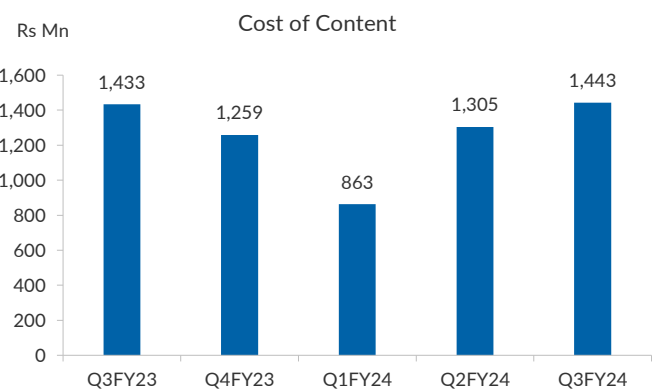
Source: Company, YES Sec

**Exhibit 7: Saw sequential increase in EBIT margin**



Source: Company, YES Sec

**Exhibit 8: Cost of content increased in the quarter**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 9: Balance Sheet

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share capital	122	130	265	265	265	265
Reserves & surplus	6,460	10,283	10,784	11,667	12,292	13,172
Shareholders' funds	6,582	10,413	11,049	11,932	12,557	13,437
Non-current liabilities	302	384	508	550	595	644
Other non-current liabilities	302	384	508	550	595	644
Current liabilities	2,136	1,731	3,344	3,430	3,537	3,664
Other current liabilities	2,136	1,731	3,040	3,186	3,342	3,508
Total (Equity and Liabilities)	10,227	14,098	17,018	18,092	18,935	20,057
Non-current assets	3,415	4,944	7,044	7,037	6,657	6,392
Fixed assets (Net block)	1,302	1,619	2,424	2,484	2,547	2,612
Non-current Investments	122	325	652	691	733	777
Other non-current assets	1,991	3,000	3,967	3,861	3,377	3,002
Current assets	6,812	9,154	9,974	11,054	12,277	13,665
Cash & current investment	4,784	7,321	5,960	6,498	7,096	7,759
Other current assets	2,029	1,833	4,014	4,556	5,182	5,906
Total (Assets)	10,227	14,098	17,018	18,092	18,935	20,057

Source: Company, YES Sec

### Exhibit 10: Income Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	4,542	6,217	10,910	12,606	16,654	19,450
Operating expenses	(4,131)	(5,269)	(9,812)	(11,229)	(15,224)	(17,545)
EBITDA	411	948	1,098	1,377	1,430	1,905
Depreciation	(355)	(400)	(572)	(639)	(790)	(923)
EBIT	57	548	526	738	640	982
Other income	143	241	495	600	508	528
Finance cost	(9)	(7)	(47)	(81)	(86)	(91)
Profit before tax	150	695	888	1,231	1,062	1,419
Tax (current + deferred)	(31)	(190)	(254)	(237)	(278)	(372)
Reported Profit / (Loss)	52	279	394	861	625	880
Adjusted net profit	92	366	480	888	625	880

Source: Company, YES Sec

## Exhibit 11: Cash Flow Statement

Y/e March 31 (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	150	695	888	1,231	1,062	1,419
Depreciation	355	400	572	639	790	923
Change in working capital	126	(221)	(857)	(402)	(477)	(566)
Total tax paid	(34)	(111)	(165)	(195)	(233)	(323)
Others	(134)	(234)	(448)	(520)	(422)	(437)
Cash flow from oper. (a)	463	528	(10)	754	721	1,016
Capital expenditure	1	(717)	(1,378)	(700)	(853)	(988)
Change in investments	(599)	(3,236)	1,098	(226)	(241)	(258)
Others	41	192	281	537	831	749
Cash flow from inv. (b)	(557)	(3,761)	1	(389)	(263)	(496)
Free cash flow (a+b)	(94)	(3,233)	(9)	365	457	520
Equity raised/(repaid)	10	8	135	0	0	0
Dividend (incl. tax)	0	0	0	0	0	0
Others	1,941	2,729	(366)	47	(11)	(32)
Cash flow from fin. (c)	1,951	2,737	73	(13)	(60)	(70)
Net chg in cash (a+b+c)	1,856	(496)	64	352	397	449

Source: Company, YES Sec

## Exhibit 12: Ratio Analysis

Y/e March 31	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth(%)						
Revenue Growth	83.5	36.9	75.5	15.5	32.1	16.8
EBITDA Growth	NM	130.4	15.8	25.4	3.9	33.2
EBIT Growth	NM	868.0	(4.0)	40.2	(13.2)	53.4
Net Profit Growth	NM	437.8	41.2	118.6	(27.4)	40.6
Profitability Ratios(%)						
EBITDA Margin	9.1	15.2	10.1	10.9	8.6	9.8
EBIT margin	1.2	8.8	4.8	5.9	3.8	5.1
Net Profit margin	2.0	5.9	4.4	7.0	3.8	4.5
RoA	0.6	4.5	3.4	4.2	3.5	5.0
RoE	1.6	4.3	4.5	7.7	5.1	6.8
RoCE	0.8	5.4	4.0	5.1	4.2	6.1
Liquidity Ratios						
Net debt/Equity (x)	(0.6)	(0.6)	(0.4)	(0.4)	(0.5)	(0.5)
Current ratio (x)	3.2	5.3	3.0	3.2	3.5	3.7
Quick ratio (x)	3.2	5.3	2.9	3.1	3.4	3.6
Valuation Ratios						
PER(x)	NA	NA	120.0	64.9	92.1	65.5
PCE(x)	NA	NA	54.8	37.7	40.7	32.0
Price/Book(x)	NA	NA	5.2	4.8	4.6	4.3
EV/EBITDA(x)	NA	NA	47.3	37.3	35.4	26.2

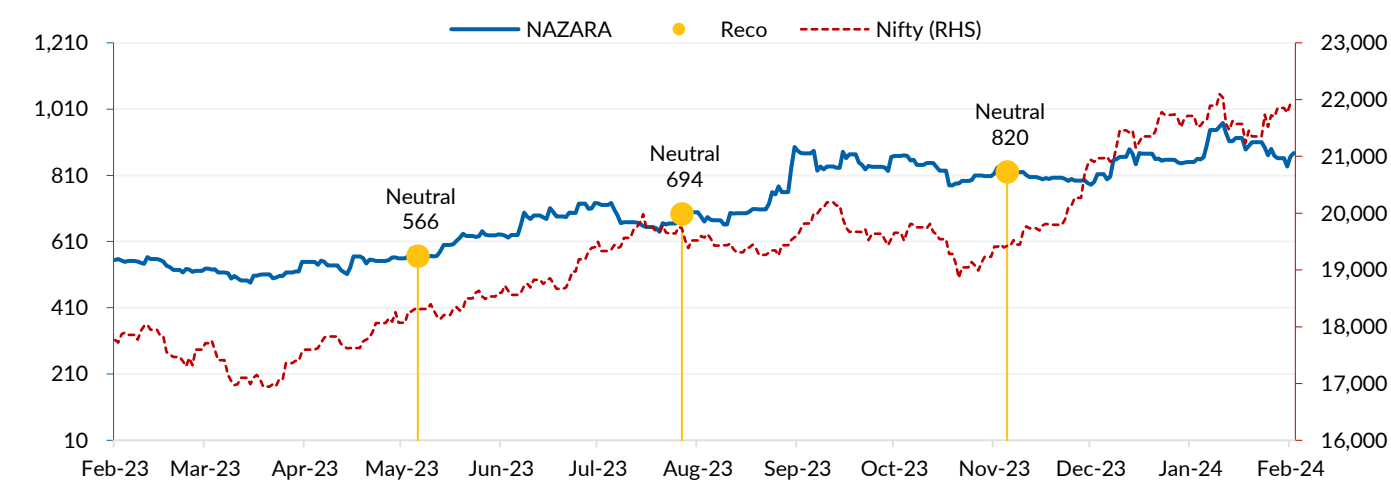
Source: Company, YES Sec

## Exhibit 13: Dupont Analysis

Dupont Analysis	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net margin(%)	2.0	5.9	4.4	7.0	3.8	4.5
Asset turnover (x)	0.5	0.5	0.7	0.7	0.9	1.0
Leverage factor (x)	1.5	1.4	1.4	1.5	1.5	1.5
Return on Equity(%)	1.6	4.3	4.5	7.7	5.1	6.8

Source: Company, YES Sec

## Recommendation Tracker



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