

Weak Gaming/AdTech Affects Growth; Bounce back Expected in Q4

- Nazara posted Rev growth of 7.8% QoQ (DE: 18%, Rev. miss from weak performance from Kiddopia and Nodwin biz, which posted -2.8%/+6.8% QoQ, though Sportskeeda & Animal Jam posted healthy 44%/22% growth.
- OPM stood at 6.6%, up 269bps QoQ (DE: 7.3%) at Rs.211mn (up 82% QoQ). Loss in Nodwin, RMG & Telco led to OPM miss.
- For CY24, we expect Nodwin to robust growth led by bevy of event line-up, while strategizing on Licence IP monetization to drive recovery in Gaming Biz. Bottoming of pain in RMG/Adtech also suggest positive uptrend.
- While 9MFY24 was impacted on multiple account, we see greater focus on reviving profitability (Kiddopia, Adtech, AJ, Nodwin) in current businesses while inorganic efforts to boost the growth in the business in FY25. We have moderated our estimates but remain positive and assign Accumulate with DCF based TP of Rs. 990 (implies ~40x on FY26E EPS).

Churn in Kiddopia continues, Animal Jam growth revives as planned

Kiddopia posted 3rd straight qtr decline of paying subs as the company has moderated the optimized the marketing spends (down 32% YoY, 14% QoQ, OPM at 28%) to realign favourable LTV/CAC economics. Plan is now to improve organic download potential by leveraging IP Licencing from global brands likes of Disney/Hasbro and so on. Animal Jam reported growth of 15% YoY with OPM of 22% – thus suggesting successful completion of its year long exercise.

Strong organic/inorganic Line-up in Nodwin; S-keeda clocks its best

Nodwin reported modest growth of 7% YoY owing to weak media rights rev but is expected to see improved performance given several upcoming IPs (BGMI, Valorant) in Q4. Also, from consolidation from Comicon in Q1FY25 and potential contribution from Freak4U. Sportskeeda saw robust performance on better seasonality from PFN driving revenue growth of 44% QoQ and OPM at 45%.

RMG/Adtech pain to recede; Profitability to see big leg up.

With RMG breakeven in Q4 and Adtech profitability improving sharply (OPM 13%), alongwith deconsolidation of Brandscale (to boost EBITDA by Rs100mn in FY25) we believe FY25 would see strong profitable growth. Organically company is set to deliver 20%+ growth and may series of inorganic initiatives as well.

Q3FY24 Result (Rs Mn)

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Revenue	3,204	3,148	1.8	2,972	7.8
Total Expense	2,827	2,842	(0.5)	2,694	5.0
EBITDA	377	306	23.2	279	35.2
Depreciation	152	149	2.0	151	0.8
EBIT	211	152	39.0	116	82.2
Other Income	179	115	55.7	123	45.5
Interest	20	5	308.0	27	(23.3)
EBT	370	262	41.2	212	74.2
Tax	80	60	32.5	(13)	(731.0)
RPAT	253	165	53.3	181	39.4
APAT	253	165	53.3	181	39.4
			(bps)		(bps)
Gross Margin (%)	36.6	32.1	448	34.5	204
EBITDA Margin (%)	11.8	9.7	205	9.4	239
NPM (%)	7.9	5.2	265	6.1	179
Tax Rate (%)	21.5	22.9	(141)	(5.9)	2742
EBIT Margin (%)	6.6	4.8	177	3.9	269

CMP	Rs 867
Target / Upside	Rs 990 / 14%
NIFTY	21,929

Scrip Details

Equity / FV	Rs 305mn / Rs 4
Market Cap	Rs 66bn
	USD 794.6mn
52-week High/Low	Rs 989/ 482
Avg. Volume (no)	469,003
Bloom Code	NAZARA IN

Price Performance	1M	3M	12M
Absolute (%)	2	4	56
Rel to NIFTY (%)	3	(6)	38

Shareholding Pattern

	Jun'23	Sep'23	Dec'23
Promoters	19.1	17.2	17.2
MF/Banks/FIs	10.7	16.0	15.9
FIs	12.4	19.2	16.6
Public / Others	57.9	47.7	50.3

Valuation (x)

	FY24E	FY25E	FY26E
P/E	70.3	47.6	34.1
EV/EBITDA	36.8	25.3	17.4
ROE (%)	6.1	6.9	16.9
RoACE (%)	6.5	7.9	19.3

Estimates (Rs bn)

	FY24E	FY25E	FY26E
Revenue	11.6	15.0	19.2
EBITDA	1.5	2.1	3.0
PAT	0.9	1.4	1.9
EPS (Rs.)	12.6	17.4	24.5

VP - Research: Rahul Jain

Tel: +9122 40969771

E-mail: rahulj@dolatcapital.com

Associate: Pranav Mashruwala

Tel: +9122 40969789

E-mail: pranavm@dolatcapital.com

Associate: Deepesh Lakhani

Tel: +9122 4096 9773

E-mail: deepeshl@dolatcapital.com

Exhibit 1: Quarterly performance versus estimates

Particulars (Rs mn)	Actual	Estimates		% Variation		Comment
		Dolat	Consensus	Dolat	Consensus	
INR Revenue	3,204	3,507	3,427	(8.7)	(6.5)	Weak Kiddopia & Nodwin led miss
EBIT	211	255	263	(17.1)	(19.7)	Loss in Nodwin, RMG & Telco led to OPM miss
EBIT, margin	6.6	7.3	7.7	(70 bps)	(110 bps)	
PAT	258	239	240	7.8	7.4	PAT beat from higher OI.

Source: DART, Company

Change in Estimates

Miss in Q3 results and deconsolidation of Brandscale business has led to sharp moderation in revenue growth estimates by 11%/8.6%/6.5% for FY24E/FY25E/FY26E. Our EBIT Margin estimates have also witnessed cut only for FY24E by 20bps but have seen improvement in FY25/FY26E given renewed focus on profitable growth thus causing uptick in our OPM estimates by 38bps/112bps in FY25/FY26E. Incorporating these aspects, alongwith recent dilution in equity we have seen moderate change in our EPS estimates by (2.2%)/1.3%/(1.2%) for FY24E/FY25E/FY26E respectively.

Exhibit 2: Change in Estimates

Particulars (Rs. Mn)	FY23A	FY24E			FY25E			FY26E		
		Old	New	Chg.(%)	Old	New	Chg.(%)	Old	New	Chg.(%)
INR Revenue	10,910	13,090	11,632	(11.1)	16,459	15,036	(8.6)	20,485	19,152	(6.5)
YoY growth, %	75.5	20.0	6.6	(1336 bps)	25.7	29.3	353 bps	24.5	27.4	291 bps
EBIT	440	1,005	869	(13.5)	1,522	1,447	(4.9)	2,205	2,276	3.2
EBIT Margin (%)	4.0	7.7	7.5	(20 bps)	9.2	9.6	38 bps	10.8	11.9	112 bps
Net Profit	394	898	939	4.6	1,257	1,388	10.4	1,815	1,937	6.7
EPS (Rs. Abs)	5.9	12.9	12.6	(2.2)	17.1	17.4	1.3	24.8	24.5	(1.2)

Source: DART

Exhibit 3: Key Assumptions in our estimates

Metrics	FY23A	FY24E	FY25E	FY26E
Kiddopia Growth YoY (%)	7.9	0.9	0.7	12.2
Animal Jam Growth YoY (%)		82.6	17.7	20.0
Nodwin Growth YoY (%)	81.7	14.8	54.3	32.4
Sportskeeda Growth YoY (%)	54.5	58.5	32.3	30.0
Freemium Growth YoY (%)	17.3	(3.2)	25.9	25.8
RMG Growth YoY (%)	91.9	(32.0)	(2.5)	65.9
Telco subscription Growth YoY (%)	(17.5)	(37.4)	(15.8)	(10.7)
INR Revenue growth (%)	75.5	6.6	29.3	27.4
EBIT Margins (%)	4.0	7.5	9.6	11.9
EPS growth (%)	37.5	112.5	37.4	40.9

Source: DART, Company

Exhibit 4: Key Revenue Growth Matrix

QoQ Growth	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Kiddopia	2.3	1.5	7.1	1.1	(0.2)	(2.3)	(2.8)
eSports	11.7	33.5	11.6	(8.1)	(15.9)	46.0	12.6
Freemium	29.8	(25.7)	27.3	(25.7)	38.5	(25.0)	0.0
Real money gaming	18.5	6.5	2.7	(11.3)	(11.0)	(1.8)	(35.1)
Telco subscription	1.0	(22.0)	12.8	(12.9)	(6.1)	(31.5)	(5.4)
AdTech	N.A	10.6	31.3	(16.3)	(30.5)	(17.0)	16.0
Animal Jam	N.A	N.A	19.5*	(3.9)	(1.8)	(0.5)	22.4
INR Revenue	27.4	18.2	19.3	(8.1)	(12.1)	16.8	7.8

Source: DART, Company (*) Adjusted as Q2FY23 included only 1 month of Revenue.

Exhibit 5: Quarterly Trend

Rs mn	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)
INR Revenue	3,148	2,893	2,544	2,972	3,204	7.8	1.8	8,017	8,721	8.8
Operating Exp.	2,842	2,616	2,213	2,694	2,827	5.0	(0.5)	7,197	7,734	7.5
EBITDA	306	277	331	279	377	35.2	23.2	820	987	20.3
Depreciation	154	165	153	163	166	1.8	7.6	469	481	2.6
EBIT	152	112	178	116	211	82.2	39.0	351	505	44.0
Other Income	115	82	117	123	179	45.5	55.7	413	419	1.5
Finance Cost	5	29	13	27	20	(23.3)	308.0	18	60	232.2
Share of Associate	0	0	0	0	0	NA	NA	0	0	NA
PBT	262	165	283	212	370	74.2	41.2	746	865	16.0
Total Tax	60	46	74	(13)	80	(731.0)	32.5	210	141	(32.9)
PAT Before MI	202	119	209	225	290	29.1	43.8	536	724	35.1
MI	37	68	14	44	38	(14.0)	1.4	159	95	(40.4)
Rep. PAT After MI	165	26	195	198	258	30.0	56.2	382	651	70.4
Reported EPS	2.8	0.4	2.9	3.0	3.5	17.3	27.8	6.0	9.5	57.8
Margins (%)						(bps)	(bps)			(bps)
EBIDTA	9.7	9.6	13.0	9.4	11.8	239 bps	205 bps	10.2	11.3	109 bps
EBIT	4.8	3.9	7.0	3.9	6.6	269 bps	177 bps	4.4	5.8	142 bps
PBT	8.3	5.7	11.1	7.1	11.5	440 bps	322 bps	9.3	9.9	61 bps
PAT	6.4	4.1	8.2	7.6	9.1	149 bps	265 bps	6.7	8.3	162 bps
Effective Tax rate	22.9	27.9	26.2	(5.9)	21.5	2742 bps	(141 bps)	28.2	16.3	(1185 bps)

Source: DART, Company, Depreciation includes impairment

What to expect Next Quarter

We expect 9% QoQ degrowth in Q4, led by unfavorable seasonality in key segments of Nodwin and Gaming. We expect EBIT Margins to decline by 18bps sequentially.

Exhibit 6: What to expect Next Quarter

Particulars (Rs Mn)	Q4FY24E	Q3FY24	Q4FY23	QoQ (%)	YoY (%)
INR Revenue	2,903	3,204	2,893	(9.4)	0.3
EBIT	186	211	112	(11.9)	66.2
PAT	243	258	26	(5.8)	833.2
EPS (Rs)	3.2	3.5	0.4	(9.4)	711.2
EBIT Margin (%)	6.4	6.6	3.9	(18 bps)	254 bps

Source: DART, Company

Earning call KTAs

- Revenue:** Nazara Tech reported Revenue of Rs.3,204mn, a growth of 7.8% QoQ, but below our estimate of Rs. 3,507mn. Revenue miss was primarily due to: a) Weak Kiddopia biz (continued subscriber decline), b) weak media rights deals in Nodwin, and c) Continued pain in RMG biz due to GST impact. However, Sportskeeda and Animal Jam businesses delivered better than expected performance, led by improved Pro Football Network contribution and product led development efforts.

Exhibit 7: Revenue Analysis for Q3FY24

Particulars	Amount (Rs. Mn)	QoQ (%)	YoY (%)	Mix (%)	Incremental Revenue	Contribution to Incremental Revenue
Telco subscription	70	(5.4)	(47.0)	2.2	(4)	(1.7)
Freemium	54	0.0	(22.9)	1.7	0	0.0
eSports	1,937	12.6	27.0	60.4	216	90.1
- Nodwin (incl. Publishme)	1,339	6.8	20.2	41.8	85	35.4
- SportsKeeda	598	44.4	68.0	18.7	184	76.6
Real money gaming	76	(35.1)	(49.7)	2.4	(41)	(17.1)
Gamified early learning - Kiddopia	547	(2.8)	(4.2)	17.1	(16)	(6.7)
Animal Jam	268	0.0	0.0	8.4	49	20.4
Adtech	261	0.0	0.0	8.1	36	15.0
Inter-Segment	(9)	N.M	N.M	N.M	N.M	N.M
Total	3,204	8.1	2.1	100.3	240	100.0

Source: DART, Company

- Gamified Early Learning (25.4% of Revenue):** GEL business witnessed a decline of 1.8% QoQ at Rs.782Mn (Est. of Rs.863Mn), of which Kiddopia Revenue stood at Rs. 563mn, and Animal Jam Rev. stood at Rs.219mn.
- Kiddopia (17% of Rev):** Kiddopia saw Revenue of Rs.547mn, down 2.8% QoQ (estm of Rs. 589mn). Kiddopia continued to witness subscriber decline down 6.6%, with subscriber count at 2,73,249, witnessing 3rd straight quarter of user decline, and lowest subscriber count since Q1FY21.
- Management rationale for decline pointed towards increase in user acquisition costs and lower marketing spends.
- ARPU climbed to at \$6.82 (from \$6.63 in Q2 and \$6.77 in Q1'FY24), finally realizing some of the price hikes undertaken in Dec-22.
- Cost per Trial climbed to \$40.9 (\$38.9 in Q2FY24). Management mentioned that it made a hard switch amongst its preferred user acquisition channels in Dec '23 to improve performance in the coming quarters. Additionally, Kiddopia is working on alternate growth opportunities (e.g., IP licencing) which can break through the current user acquisition logjam.
- In terms of ranking, Kiddopia' retained its position at #2 Grossing App, and being market leading in its category (as per App Annie for Apple users in the US for Kids under 5years of age) indicating continued product stickiness and content relevance. Marketing spends dipped to \$2.3mn (Q2FY24: \$2.7mn), which led higher EBITDA Margin of 28.1% (estm: 30%).
- From Concall:** Post 3rd consecutive quarter of user decline, Management now wants to focus on marketing initiatives that can improve retention and better organic demand.

Exhibit 8: Business Metrics

Particulars	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Paying Subscribers	3,08,684	3,01,916	2,99,965	310,981	311,758	3,01,714	2,92,488	2,73,249
Monthly Churn Rate (%)	6.8	5.9	6.5	5.9	6.5	5.9	6.2	6.7
ARPU (\$ Abs)	6.7	6.7	6.8	6.8	6.8	6.8	6.6	6.8
CPT (\$ Abs)	36.0	39.3	37.9	37.3	35.9	39.3	38.9	40.9
Activation Ratio	70.0	70.0	70.0	70.0	70.0	68.0	66.0	67.0
Marketing Spend (\$mn)	2.4	2.7	3.1	3.4	3.2	2.6	2.7	2.3

Source: Company

- Animal Jam (8.4% of Rev):** Animal Jam reported revenue of Rs. 268mn, up 22.4% QoQ, in-line with estimates. EBITDA margin dipped to 22.4% (Q2: 24.2%) but was above our estimate (Estm: 21.6%). Management stated that Animal Jam's focus has been on EBITDA optimisation and revenue growth by marketing and product optimizations.
- Animal Jam continued to occupy top grossing ranking for kids (9-11 years) in US, as per App Genie at #1 in its category.
- Animal Jam shared that it hosted a no. of in-app events that saw success and culminated into a "Wishing well" event that was well-received by young gamer community.
- In addition to ongoing performance marketing, Animal Jam also started experimenting with other user acquisition methods, including a campaign on TikTok with mini- influencers, coinciding with the holiday season community of young gamers.
- From Concall:** Management shared that hereon they are confident to see the business growing at current pace of 15%.
- Real Money Gaming (2.4% of Rev):** RMG declined by 35% QoQ to Rs. 76Mn (estm of Rs.102Mn). Due to implementation of new GST tax rate (28% on entry fees) from Oct 1, company absorbed increased cost via loyalty promotion bonus to retain players. Management stated that this initiative has kept player activity steady but led to lower net revenue.
- Added GST cost led to EBITDA loss of Rs. 25mn (below estm)
- From Concall:** Management alluded the visitor traction continues on its both the asset (Openplay, Halaplay) but has seen lower Net realization in revenues as company is passing back the impact of GST inform of credits and same do get netted off from revenues (as discounts) based the accounting standards. It also expect to turn breakeven in Q4 in this business.
- Regulatory Update for 9th Nov 2023:** Madras High Court on 9th Nov, 2023, upheld the validity of Tamil Nadu Act that banned online games, but **exempted Rummy and Poker as they were games of skill**. Tamil Nadu is one of the largest market for Classic Rummy of Nazara.
- Telco Subscription (2% of Rev):** Revenue stood at Rs.70mn, down 5.4% QoQ, (Est. Rs.80mn). EBITDA Margin posted a loss of -41.4% (-8.5% in Q2FY24), vs. our estimate of break-even.
- From Concall:** The losses here has come on account of higher Corporate expense and launch of Nazara Publishing initiative during the quarter.
- Freemium (1.7% of Rev):** Revenue stood at Rs.54mn, flat on QoQ basis, (Estm. Rs.92mn). MAUs/DAUs grew by 26%/21% on QoQ basis to 9.3mn/1.4mn respectively.
- EBITDA Margin was at 13%, vs. Q2 margin of 20.4% (estm 35.9%). Management shared that Nextwave is reinventing the WCC franchise to position it for growth and help it break out of its current scale, and is revamping Nextwave's ad monetization, live ops, brand sales, and user acquisition operations.

- Going forward, Nazara expects Product related changes to continue through Q4. This includes changes to the existing games WCC2 and WCC3, as well as a new game to be launched in Q1 FY25, suggesting continued investments.
- **From Concall:** Management restated that it is not happy with scale up at present, and focus would remain on better adoption. Recently, it has empowered its leadership by hiring a talent from gaming major EASports.
- **eSports Business:** The eSports business (Nodwin, OML, Publishme, Sportskeeda) grew by 12.6% QoQ to Rs. 1,937Mn (estm of Rs.2,367Mn).
- **Nodwin (incl. Publishme) (41.8% of Rev):** Nodwin delivered muted growth of 6.8% QoQ. and reported Revenue of Rs. 1,339mn (Estm Rs.1,715mn). Management stated that few large media rights deals got deferred out owing to consolidation in the media, TV and OTT industries.
- However, for the upcoming quarters, Nodwin solaced that it has been able to secure independent media rights deal for individual properties, and that each of these independent media rights are higher than previous years. For Q4, Nodwin has lined up high-interest events like Battlegrounds Pro Series, Valorant Challengers, and global PUBG challenge.
- Nodwin's EBITDA Margin however, posted loss of Rs. 22mn, with margin of -1.6% (1% in Q2FY24) vs. our estimate of +3.1%. This was attributed to gaming accessories business, Brandscale Innovation ('Wings').
 - Nodwin which had option to increase stake from 40.17% to a majority stake, has decided to relinquish this option, and pave way for Brandscale to invite new investors for fresh capital infusion. Brandscale will be treated as an associate in consolidated financial reporting from February 3rd 2024.
 - Going forward, with loss moving to share of associates, segment Operating profitability is expected to revive sharply starting Feb'24.
- **Note:** Publishme no.s have been consolidated into Nodwin. Nazara owned 72.3% stake in Publishme as of Mar-2023. On 4th Oct 2023, Nazara, via Nodwin announced purchase of additional stake in Publishme, raising stake from 72.3% to 100%.
- **From Concall:** Management is confident on both organic prospects as well as inorganic initiatives (Comicon, Freaks4u) going forward. The company is also expecting to see some favourable EBITDA swing from deconsolidation of Brandscale entity (we expect this to be around Rs100mn).
- **SportsKeeda (18.7% of Rev):** SportsKeeda revenue grew by 44.4% QoQ to Rs.598Mn (estm of Rs. 590Mn). MAU's were down 11% QoQ at 74Mn. Growth was strong in Cricket, eSports & 'Others' segment. Others segment contributed ~42% of segment revenue, and includes Pro Football Network in cricket segment.
- EBITDA Margin stood at 44.6% (Q2FY24: 23.2%), above our estimate of 31.4%. As per management commentary, Sportskeeda EBITDA margin's upward climb was aided by achieving profitability in PFN (Pro-Football Network), which reported a loss in Q2FY24.
- Management expects 45%+ organic Revenue growth for FY'24.
- **From Concall:** Management stated that Sportskeeda (including Pro Football Network), can be scaled up significantly, but company would choose to focus on profitable growth.
- **Adtech Business (8.1% of Rev):** Adtech Business reported Revenues at Rs.261Mn, up 16.0% QoQ, as compared to our estimate of Rs. 373mn, due continued focus away from low-margin work to higher margin business, while also diversifying client base.
- Gross margins % sharply improved to 31.4% in Q3FY24 (Q2'FY24: 26.7%), while EBITDA margin stood at 13% (Q2FY24: 6.2%, Q3FY23: 8.6%).

- Management shared those investments in marketing during Q3 FY24 has improved Adtech Biz. pipeline and started leading to a higher conversion rate from sales pipeline and the formation of key partnerships.
- **From Concall:** Management mentioned that AdTech biz. is done up with the pain of its rationalisation of its key clients revenue pool and is all set to clock strong growth as well as improved profitability performance (Top client that exit was on relatively unfavourable pricing terms).

Key Updates during the quarter:

- **Fund-Raising:** Nazara further raised funds via pref. issue comprising of 2.86mn shares at a price of Rs. 872.15 (~9% discount to CMP) and raising up ~Rs. 2.5Bn. Allottee investors include Zerodha Founders (~40% of issue) Plutus Wealth (20%), Chartered Finance & Leasing (10%) and ICICI Pru MF (30%).

Fresh infusion will be utilized for strategic growth objectives (incl. acquisitions) and gen. corporate purposes. This is the second fund raising since raising Rs. 5.1Bn in Sept-23, and re-investment by Zerodha founders. Cash reserves now exceed Rs. 15Bn.

(On 7th Oct, Nazara's allotted 1.4mn shares to Zerodha founders at a price of Rs.714/share, raising ~Rs. 1,000mn via preferential allotment. Additionally, Nazara on-boarded SBI MF (spread across 3 MF schemes) as an investor and allotted 5.7mn shares at a price of Rs.714 raising Rs. 4,100mn.)

- **Minority Acquisition of Koflucence:** Nazara acquired 10.77% stake in Koflucence Tech Pvt. Ltd, (representing 13.8k shares) from existing shareholders for a total consideration of Rs. 324.1mn via share swap agreement. Nazara would issue 371.6k shares at a price of Rs. 872.15. Shares would be issued to NK Squared (held by Kamath Brothers/Zerodha founders), and other 9 existing investors in Koflucence.
- Koflucence is India's leading Social Media Influencer led Marketing-Tech platform with 600K+ registered creators across various social media platforms with 500+ marquee clients across 20+ sectors. E.g., Koflucence is the exclusive influencer platform partner for Dominos, having delivered over 3000+ creator-generated content around all major festivities. Koflucence posted sales of Rs. 243mn in FY'23, delivering a CAGR of 130% over last 2 years. Acquisition is valued at 12.4x of FY'23 sales. Minority acquisition is expensive, though growth has been phenomenal.
- **Acquisition of Comic Con India:** Nazara, via Nodwin acquired 100% stake in Comic Con India (acquired in Jan'24 – will get consolidated in Q1FY25), an event company well-known for hosting gaming/entertainment focused cultural festivals. Comic Con India is hosted in 5 major cities (Bengaluru, Delhi, Hyderabad, Chennai & Mumbai), and attracts 200K+ visitors annually. Nodwin (52% stake by Nazara) will pay upfront cash of Rs. 274mn, and balance Rs. 275mn will be paid via share swap agreement, where Nodwin will issue 172 shares to CCI. Acquisition aims to amplify and diversify NODWIN's intersection of Gaming/ Pop Culture/ esports into one interactive entertainment sector. Comic Con India posted sales of Rs. 162.6mn, growing by 327% over FY23-FY22, and acquisition is valued at 3.2x of FY23 sales.
- **Minority Stake Acquired in Freak4U Gaming:** On 29 Dec, 2023, Nazara acquired minority stake in German based Freaks 4U Gaming GmbH ("Freaks") for EUR 3.6mn cash. Freaks is a marketing services Co. in gaming and esports with strengths in mobile and PC-based games in developed markets such as Germany, US, France, Taiwan, and Serbia. With this investment, Nodwin aims to gain further expertise in PC gaming. Target was incorporated in Feb-2011 and delivered sales growth of 42% CAGR over CY20-CY22 (CY22 Revenue: EUR38.3mn).
- On 31st Jan, 2024, Nazara (via Nodwin) converted its EUR 3.6mn (Rs. 332.6mn) investment (convertible note), translating into 6.1% stake. Nodwin also invested an additional EUR 4.4mn (Rs. 410mn) for 7.4% stake, taking overall holding to 13.5%. Nodwin announced a board-member nominee on Freaks and entered into an agreement that would allow Nodwin acquire a majority stake via a share-swap deal, if exercised. Acquisition is valued at 1.3x of CY22 sales.

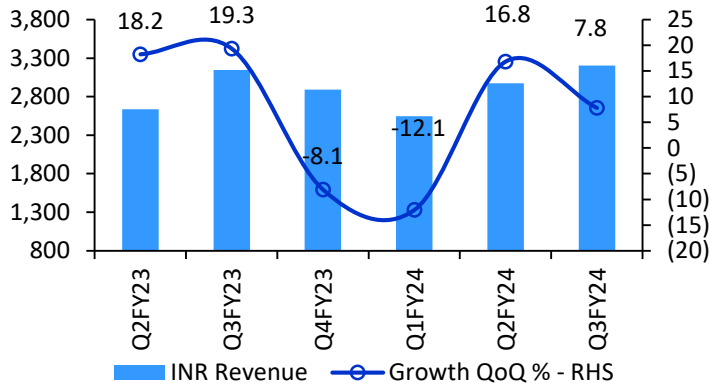
- **Appointment of Senior Management:** Nazara appointed Mr. Dhaval Sheth as Head – Strategic Initiatives (Founder’s office) and also designated him as a Senior Management Personnel (“SMP”) of the Company, with effect from February 19, 2024. Prior to the aforesaid appointment, he was the Chief Financial Officer of Paper Boat Apps Pvt. Ltd. (Kiddopia).
- **Launch of Nazara Publishing:** On 30th Oct, 2023, Nazara unveiled a new game publishing division, “Nazara Publishing”, to promote/market games in India on behalf of Indian and Global game developers. Co. will invest a minimum Rs. 10mn each and aims to launch up to 20 games over next 18 months. Nazara will also support developers on game design, data analytics, beta testing, distribution etc.
- Management updated in Q3 presentation that is expected to unveil its inaugural set of games going live soon. For March’2024, Nazara lead the Indian delegation at GDC San Francisco, the world's premier gaming conference, and co-host the first ever "India pavilion".

Valuation

Given the infancy stage of the gaming industry in India with Average Rev per Gamer of just \$10 p.a. (versus US/China at \$73/\$35), we believe company can compound its revenues by over multifold over a decade. We have currently factored in Revenue CAGR of 20% (19% earlier) over FY24-40E in its hyper-growth stage with Average EBIT Margin of 16.8% and Terminal growth rate of 2%. Based on these assumptions we have arrived at DCF based fair value of Rs.990 (from Rs. 900) that implies ~40x on FY26 earnings and assign **Accumulate** Rating on the stock.

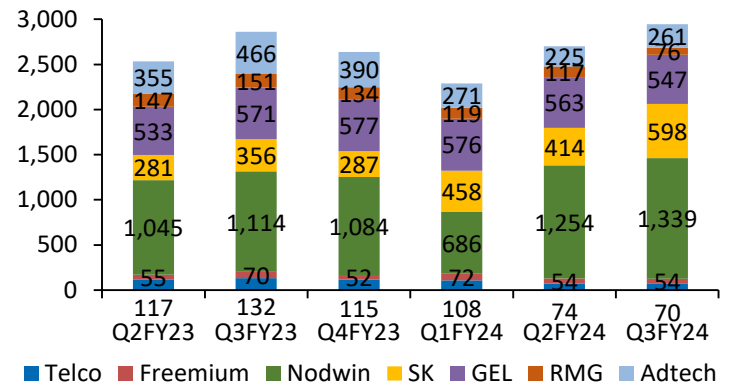
Story in Charts

Exhibit 9: Lower Rev. growth due Kiddopia & Nodwin



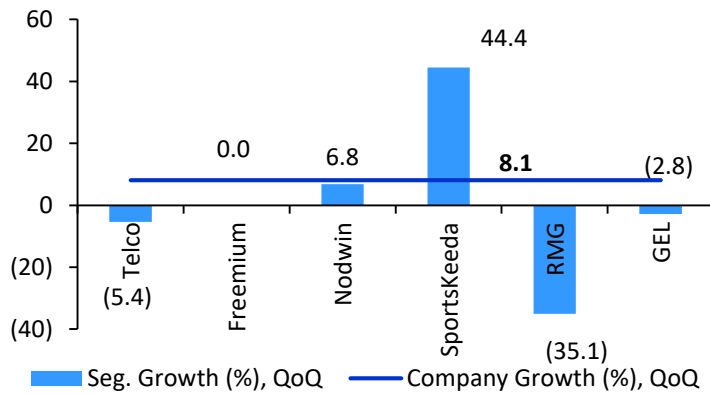
Source: DART, Company

Exhibit 10: Business-wise Performance



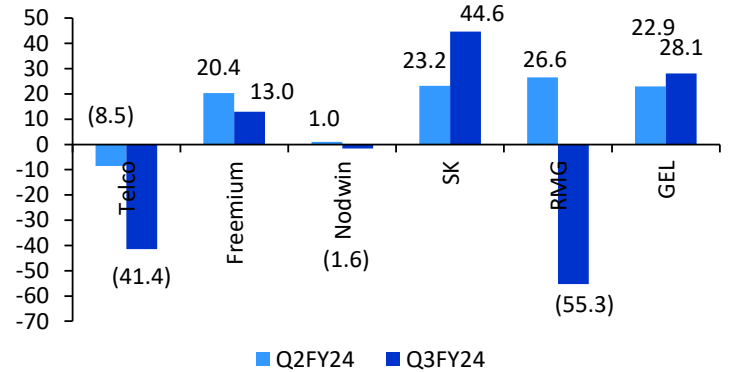
Source: DART, Company

Exhibit 11: Biz wise QoQ v/s Company QoQ Growth



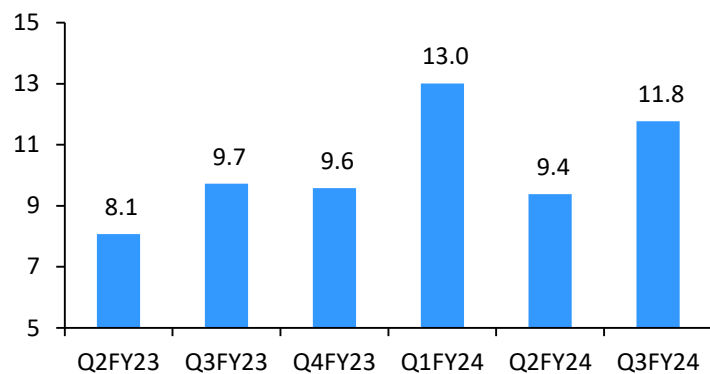
Source: DART, Company

Exhibit 12: EBITDA Margin Trend (segmental)



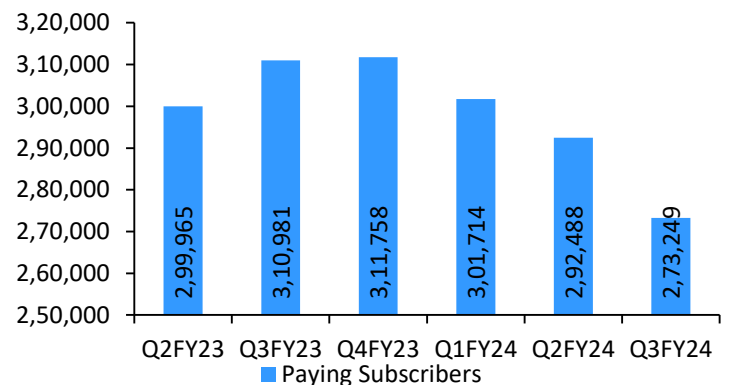
Source: DART, Company

Exhibit 13: EBITDA Margin was up 269bps QoQ to 11.8%



Source: DART, Company

Exhibit 14: GEL Paying Subs Continued to decline in Q3



Source: DART, Company

Exhibit 15: Segment Breakup

Particulars (Rs. mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	QoQ (%)	YoY (%)	9MFY23	9MFY24	YoY (%)
Telco subscription	132	115	108	74	70	(5.4)	(47.0)	399	252	(36.8)
Freemium	70	52	72	54	54	0.0	(22.9)	199	180	(9.5)
Adtech	466	390	271	225	261	16.0	(44.0)	1,142	757	(33.7)
eSports	1,525	1,401	1,178	1,720	1,937	12.6	27.0	3,914	4,835	23.5
- Nodwin (incl. Publishme)	1,114	1,084	686	1,254	1,339	6.8	20.2	2,803	3,279	17.0
- Sportskeeda	356	287	458	414	598	44.4	68.0	937	1,470	56.9
Real money gaming	151	134	119	117	76	(35.1)	(49.7)	436	312	(28.3)
GEL	804	801	796	782	815	4.2	1.4	1,927	2,393	24.2
- Kiddopia	571	577	576	563	547	(2.8)	(4.2)	1,629	1,686	3.5
- Animal Jam	233	224	220	219	268	22.4	15.0	298	707	137.2
Inter-Segment	N.A	N.A	N.A	N.A	(9)			N.A	N.A	
Total Revenue	3,148	2,893	2,544	2,972	3,204	7.8	1.8	8,017	8,729	8.9
EBITDA (Rs. mn)										
Telco subscription	45	39	31	(6)	(29)	360.9	(164.4)	100	(4)	(104.3)
Freemium	21	5	25	11	7	(36.4)	(66.7)	57	43	(24.6)
Adtech	40	27	13	14	34	142.9	(15.0)	108	61	N.A
eSports	137	109	103	100	245	145.0	78.8	308	448	45.5
- Nodwin	2	73	(54)	4	(22)	N.M	N.M	(1)	(72)	N.M
- Sportskeeda	135	79	157	96	267	178.1	97.8	309	520	68.3
Real money gaming	33	28	2	31	(25)	N.M	N.M	85	8	N.M
GEL	73	132	161	182	214	17.4	192.8	270	557	106.2
- Kiddopia	66	94	161	129	154	19.1	132.9	263	444	68.7
- Animal Jam	7	26	50	53	60	13.2	757.1	7	163	
Unallocated	(43)	(60)	(60)	(67)	(70)	N.M	N.M	(108)	(197)	N.M
Total EBITDA	306	280	275	265	376	42.1	22.9	820	916	11.7
EBITDA Margin %										
Telco subscription	34.1	33.9	28.7	(8.5)	(41.4)	N.M	N.M	25.1	(1.7)	N.M
Freemium	30.0	9.6	34.7	20.4	13.0	(741 bps)	N.M	28.6	23.9	(475 bps)
Adtech	8.6	6.9	4.8	6.2	13.0	680 bps	444 bps	N.A	8.1	N.A
eSports	9.0	7.8	8.7	5.8	12.7	684 bps	367 bps	7.9	9.3	140 bps
- Nodwin	0.2	6.7	(7.9)	0.3	(1.6)	N.M	(182 bps)	(0.0)	(2.2)	N.M
- Sportskeeda	37.9	27.5	34.3	23.2	44.6	2146 bps	673 bps	33.0	35.4	240 bps
Real money gaming	21.9	20.9	1.7	26.6	(32.9)	N.M	N.M	19.5	2.6	N.M
GEL	9.1	16.5	20.2	23.3	26.2	294 bps	1714 bps	14.0	23.3	926 bps
- Kiddopia	11.6	16.3	28.0	22.9	28.1	518 bps	1654 bps	16.1	26.3	1018 bps
- Animal Jam	3.0	11.6	22.7	24.2	22.4	(181 bps)	1938 bps	N.A	23.1	
Total EBITDA Margin	9.7	9.7	10.8	8.9	11.7	283 bps	202 bps	10.2	10.5	26 bps

Source: DART, Company

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Revenue	10,910	11,632	15,036	19,151
Total Expense	9,813	10,117	12,905	16,196
COGS	7,447	7,156	8,853	11,726
Employees Cost	1,490	1,782	1,646	2,181
Other expenses	876	1,178	2,406	2,289
EBIDTA	1,097	1,516	2,130	2,955
Depreciation	571	620	683	678
EBIT	440	869	1,447	2,276
Interest	47	62	8	10
Other Income	495	639	834	956
Exc. / E.O. items	0	0	0	0
EBT	888	1,445	2,273	3,223
Tax	254	339	452	663
RPAT	414	939	1,388	1,937
Minority Interest	220	167	433	623
Profit/Loss share of associates	0	0	0	0
APAT	414	939	1,388	1,937

Balance Sheet

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Sources of Funds				
Equity Capital	265	305	305	305
Minority Interest	2,117	2,284	2,717	3,340
Reserves & Surplus	10,784	19,245	20,632	22,569
Net Worth	11,049	19,549	20,938	22,874
Total Debt	0	0	0	0
Net Deferred Tax Liability	367	372	377	392
Total Capital Employed	13,533	22,206	24,032	26,606

Applications of Funds

Net Block	5,831	5,771	5,733	5,776
CWIP	0	0	0	0
Investments	5,191	5,441	5,441	5,441
Current Assets, Loans & Advances	5,959	15,199	18,101	21,986
Inventories	246	246	246	246
Receivables	1,536	1,625	2,101	2,676
Cash and Bank Balances	1,421	10,235	12,055	14,499
Loans and Advances	18	65	22	27
Other Current Assets	2,738	3,028	3,678	4,538
Less: Current Liabilities & Provisions	3,448	4,205	5,244	6,597
Payables	767	762	987	1,265
Other Current Liabilities	2,681	3,443	4,257	5,332
<i>sub total</i>				
Net Current Assets	2,511	10,994	12,858	15,390
Total Assets	13,533	22,206	24,032	26,606

E – Estimates

Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	31.7	38.5	41.1	38.8
EBIDTA Margin	10.1	13.0	14.2	15.4
EBIT Margin	4.0	7.5	9.6	11.9
Tax rate	28.6	23.4	19.9	20.6
Net Profit Margin	3.8	8.1	9.2	10.1
(B) As Percentage of Net Sales (%)				
COGS	68.3	61.5	58.9	61.2
Employee	13.7	15.3	10.9	11.4
Other	8.0	10.1	16.0	12.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	9.4	14.0	178.6	237.1
Inventory days	8	8	6	5
Debtors days	51	51	51	51
Average Cost of Debt				
Payable days	26	24	24	24
Working Capital days	84	345	312	293
FA T/O	1.9	2.0	2.6	3.3
(D) Measures of Investment				
AEPS (Rs)	6.2	12.6	17.4	24.5
CEPS (Rs)	14.9	20.5	27.2	34.3
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (Rs)	166.8	256.5	274.7	300.1
RoANW (%)	3.9	6.1	6.9	16.9
RoACE (%)	5.3	6.5	7.9	19.3
RoAIC (%)	4.0	7.2	12.1	37.6
(E) Valuation Ratios				
CMP (Rs)	867	867	867	867
P/E	138.7	70.3	47.6	34.1
Mcap (Rs Mn)	66,040	66,040	66,040	66,040
MCap/ Sales	6.1	5.7	4.4	3.4
EV	64,619	55,805	53,985	51,541
EV/Sales	5.9	4.8	3.6	2.7
EV/EBITDA	58.9	36.8	25.3	17.4
P/BV	5.2	3.4	3.2	2.9
Dividend Yield (%)	0.0	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue	75.5	6.6	29.3	27.4
EBITDA	16.0	38.2	40.6	38.7
EBIT	(6.2)	97.5	66.5	57.3
PBT	26.3	62.8	57.3	41.8
APAT	46.3	126.9	47.7	39.6
EPS	45.0	97.2	47.7	39.6

E – Estimates

Cash Flow

Particulars	FY23A	FY24E	FY25E	FY26E
Profit before tax	888	1,445	2,273	3,223
Depreciation & w.o.	571	620	683	678
Net Interest Exp	(93)	(577)	(826)	(947)
Direct taxes paid	(260)	(339)	(452)	(663)
Change in Working Capital	(856)	335	(38)	(73)
Non Cash	(169)	0	0	0
(A) CF from Operating Activities	81	1,486	1,640	2,218
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(1,419)	(560)	(646)	(721)
Free Cash Flow	(1,338)	926	994	1,497
(Inc.)/ Dec. in Investments	383	(250)	0	0
Other	84	0	0	0
(B) CF from Investing Activities	(952)	(810)	(646)	(721)
Issue of Equity/ Preference	163	7,561	0	0
Inc./(Dec.) in Debt	222	0	0	0
Interest exp net	0	0	0	0
Dividend Paid (Incl. Tax)	0	0	0	0
Other	(240)	577	826	947
(C) CF from Financing	145	8,138	827	947
Net Change in Cash	(660)	8,814	1,820	2,444
Opening Cash balances	2,081	1,421	10,235	12,055
Closing Cash balances	1,421	10,235	12,055	14,499

E – Estimates

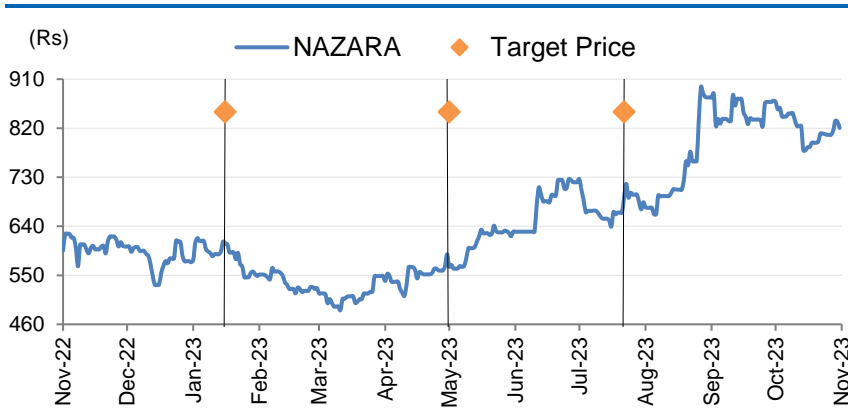
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
May-23	BUY	850	566
Jul-23	BUY	850	694
Nov-23	Accumulate	900	820

**Price as on recommendation date*

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	VP - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Girish Raj Sankunny	VP - Equity Sales	girishr@dolatcapital.com	+9122 4096 9625
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Rajeev Lala	AVP - Equity Sales	rajeevl@dolatcapital.com	+9122 4096 9767
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Naman Midtown, A-1203, 12th Floor, Senapati Bapat Marg, Prabhadevi, Mumbai 400013

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Corporate Identity Number: U65990GJ993PTC116741

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000014012

Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
