



Nazara Technologies

A perspective

About Nazara Technologies

Nazara Technologies is a leading India-based diversified gaming and sports media platform with a presence in India and globally. It has offerings across interactive gaming, eSports and gamified early learning ecosystems. The company owns some of the most recognizable IP, including *WCC & CarromClash* in mobile games, *Kiddopia* in gamified early learning, *Nodwin & Sportskeeda* in eSports and eSports media, and Halaplay Technologies *Halaplay* and *Qunami* in skill-based, fantasy & trivia games. Nazara was among the first entrants in India, in eSports through *Nodwin* and cricket simulation through *Nextwave*.

Compelling play on digital

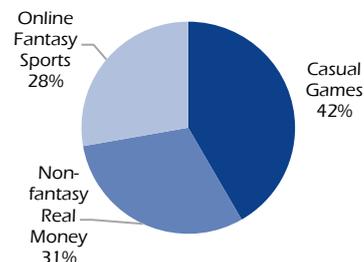
Nazara looks like a compelling play in the digital space, which has end-to-end offerings, from eSports to casual & fantasy gaming; further, the edutech play is a silver lining and appears to have bigger potential in terms of scale vs gaming. Digital advertising is expected to report a CAGR of 25% over the next five years at the cost of traditional mediums, such as print and out of Home (OOH) losing share. We are confident 25% growth primarily on the back of a big shift in eyeballs and consumption, due to 1) rising smartphone penetration, 2) higher youth population, and 3) cheaper data prices. We believe digital advertising, which is almost 31% of revenue in CY20 (Source: Madison Media) is lower than global averages where digital is 55% (China is 73.8% and the US is 52.7% digital-led) of ad spend. We expect the shift toward 44% of ad revenue for digital to happen at a rapid pace until CY25 post which growth in digital may converge slightly. Further, all forms of digital advertising (social media, gaming & search) are expected to grow largely in line with industry average, with video reporting the bigger delta in terms of outperformance and slated to grow >40% due to an increased number of OTT apps and bigger demand for video consumption. We believe the shift from a browser-led economy toward an app-based one also augurs well for gaming, video and social media to grow faster as business segments vs mere display & search advertising.

Valuation

Nazara may trade at an even higher multiple vs expectations, as 1) it is a pure-play digital company offering potential of 30% CAGR as per our estimates, and 2) scarcity premium with almost no traditional company showing capability to grow at this pace in the medium term. Global gaming and eSports companies are trading at 3.3x one-year forward EV/sales despite much lower growth rates than in India; given Nazara is India's gaming play with higher growth rates, it should command a premium valuation on EV/sales.

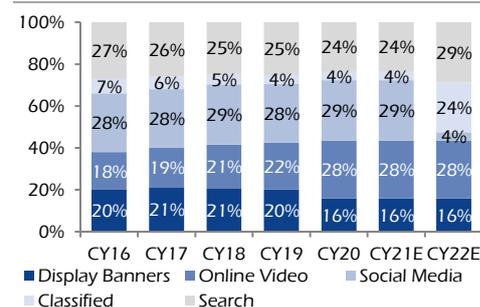
Unlisted

Fantasy gaming estimated to grow faster than other segments



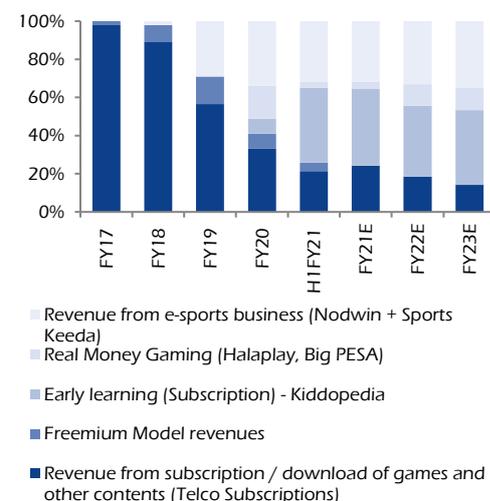
Source: KPMG Report FY19, Elara Securities Research

Surge in online video and social media within digital



Source: Dentsu Dan4em Advertising Report CY20, Pitch Madison Report, CY20, Elara Securities Research

eSports and early learning business to gain share



Source: Company DRHP & Annual Report, Elara Securities Research

Key Financials

YE	Rev (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA (%)	PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)
March									
FY17	1,902	-	612	32.2	610	-	24.6	27.3	32.1
FY18	1,705	(10.3)	446	26.1	12	(98.0)	1.1	18.3	11.6
FY19	1,698	(0.4)	104	6.1	44	261.0	5.5	1.4	2.3
FY20	2,475	45.7	(56)	(2.3)	(249)	(669.3)	0.2	(3.6)	(3.5)
H1FY21	2,005	-	61	3.0	(101)	-	(1.8)	(1.0)	(1.0)

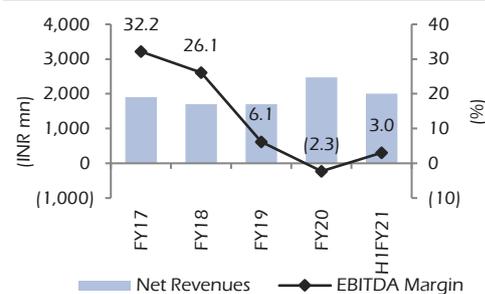
Source: Elara Securities Research

Financials (YE Mar)

Income Statement (INR mn)	FY17	FY18	FY19	FY20	H1FY21
Net Revenue	1,902	1,705	1,698	2,475	2,005
EBITDA	612	446	104	(56)	61
Add:- Non operating Income	121	98	163	155	65
OPBIDTA	732	544	268	98	127
Less :- Depreciation & Amortization	12	42	156	325	187
EBIT	721	502	111	(227)	(61)
Less:- Interest Expenses	3	10	9	13	5
PBT	718	492	102	(239)	(66)
Less :- Taxes	108	122	49	(8)	19
Adjusted PAT	610	370	53	(231)	(85)
Add/Less: - Extra-ordinaries	0	(358)	(9)	(18)	(16)
Reported PAT	610	728	63	(213)	(69)
Balance Sheet (INR mn)	FY17	FY18	FY19	FY20	H1FY21
Share Capital	20	108	110	112	114
Reserves	2,215	3,454	3,969	4,975	4,842
Minority Interest	0	420	409	907	757
Borrowings	14	331	240	481	403
Total Liabilities	2,248	4,314	4,729	6,474	6,116
Net Block	10	16	15	23	20
Investments	42	138	435	216	182
Net Working Capital	2,084	2,521	2,660	2,313	2,401
Other Assets	113	1,638	1,617	3,924	3,512
Total Assets	2,248	4,314	4,729	6,476	6,116
Cash Flow Statement (INR mn)	FY17	FY18	FY19	FY20	H1FY21
Cash profit adjusted for non cash items	610	728	63	(213)	
Add/Less : Working Capital Changes	(93)	(567)	(107)	136	
Other adjustments	90	189	298	221	
Operating Cash Flow	608	349	254	143	
Less:- Capex	(8)	(18)	(60)	(70)	
Free Cash Flow	600	332	193	73	
Financing Cash Flow	0	459	116	34	
Investing Cash Flow	(545)	(195)	(676)	89	
Net change in Cash	63	613	(306)	266	
Ratio Analysis	FY17	FY18	FY19	FY20	H1FY21
Income Statement Ratios (%)					
Revenue Growth	-	(10.3)	(0.4)	45.7	-
EBITDA Growth	-	(27.1)	(76.5)	(669.3)	-
PAT Growth	-	(98.0)	261.0	(669.3)	-
EBITDA Margin	32.2	26.1	6.1	(2.3)	3.0
Net Margin	32.1	42.7	3.7	(8.6)	(3.5)
Return & Liquidity Ratios					
Net Debt/Equity (x)	0.0	0.1	0.1	0.1	0.1
ROE (%)	27.3	18.3	1.4	(3.6)	(1.2)
ROCE (%)	32.1	11.6	2.3	(3.5)	(1.0)
Per Share data & Valuation Ratios					
Diluted EPS (INR/Share)	24.6	1.1	5.5	0.2	(1.8)
EPS Growth (%)	-	(95.6)	406.4	(96.7)	-

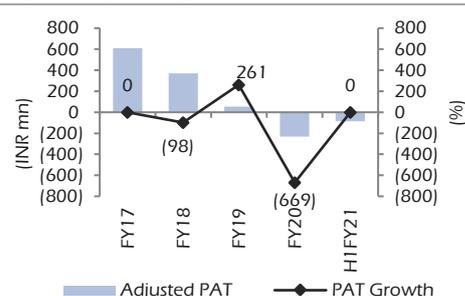
Source: Company, Elara Securities Research

Revenue & margin growth trend



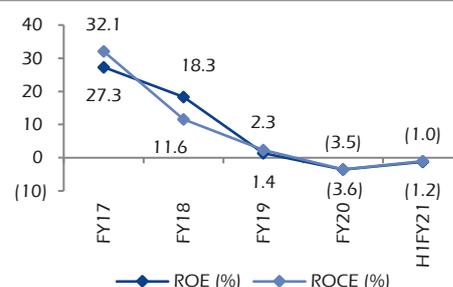
Source: Company, Elara Securities Research

Adjusted profit growth trend



Source: Company, Elara Securities Research

Return ratios



Source: Company, Elara Securities Research

Nazara Tech is the next gen digital play in India, which caters to its youth. It provides services across categories, such as children's learning, gaming and eSports. The company is well on course for revenue growth of 25% in the medium term, given India's propelling digital story and consistent shift from traditional media backed by favorable demographics. Despite high growth prospects, concerns over fragmentation and increased threat of new entrant persist in the digital business. The company has invested in several firms across segments and intends to do so to create a large gaming ecosystem in India and stand out vs peers due to its end-to-end offerings

Children's learning: biggest delta creator

The children's learning business has better potential for growth as it relies heavily on pay-based consumers and its increased presence in the US is an advantage due to higher willingness to pay vs emerging markets. We believe this business may not break-even in the near term unless it reaches large scale in terms of a recurring customer base, as beyond a certain age group the customer moves out of the app; hence, retention is only limited to a few years. This business was acquired in FY20 and has the biggest presence in North America; there are not many listed peers in this business however, the valuation multiple for this segment is in the range of 5-8x one-year forward EV/sales; we believe *Kiddopia* deserves a multiple toward the upper end of this band, given several opportunities and triggers in the business vs casual gaming; children's content tends to have a more sticky subscriber base and in current types of COVID-19 (schools being shut or operated online), which is here to stay globally; we expect the use of such learning apps to become more of a habit vs other apps like YouTube wherein there is relatively no control of content or advertisement. According to Consensus estimates, there is potential for 23% CAGR in this business for the next two years at an EV/Sales of 6.5x.

Gaming: nothing extraordinary on the growth front

The casual gaming business in India lacks a loyal subscriber base; it remains highly fragmented and competitive with a limited shelf-life and needs continuous investments, which makes it a tough proposition. However, given the sharp rise in digital consumption led by favorable demographics, we believe

this segment will grow in line with industry average of 25-30% growth (Source: KPMG). Real Money Gaming (RMG) and fantasy games are slightly better, due to interest level from the consumer perspective, which may help it grow beyond industry average ad growth; however, concerns remain more or less similar to casual gaming in terms of the ecosystem. The globally listed peers for casual gaming and RMG are trading at 3.2x one-year forward EV/sales and 4.5x five-year average EV/sales (Source: Bloomberg). Gaming industry posted ~8-10% CAGR in the developed markets compared to India's estimated 30% over the next five years. After factoring in these concerns for scalability of gaming in India and premium growth rates, Consensus estimates a target EV/Sales of 4.5x one-year forward for this business segment.

eSports: absence of gaming culture cause for concern

The eSports business in India is still in a nascent stage and may not be scale up in terms of the number of users like global averages, due to a lack of serious gamers. The share of console gaming is high in developed nations, such as the US and the UK compared to India; we believe this is a cultural mindset, which leads to more serious gamers being present in those countries vs India. Gaming in India is more mobile-led and has always been casual in nature with little or no loyalty toward gaming apps, which restricts success or scale of eSports. However, since eSports is new in India, it may report premium growth rates of 25-30% for the next few years; however, we believe it will be a challenge to scale up and report growth rates of >50% consistently, as India's gaming audience is small. This audience will limit success of eSports in likes of global firms, which have 1) a large number of serious gamers, and 2) a large audience, which is willing to watch an eSports event in a stadium. We believe like live cricket will continue to have an edge over other sports, which helps the former command a lion's share in terms of monetization (ticketing, media rights & merchandising) and eSports moving in that direction is still some time away. However, apart from these concerns, *Nodwin* is well placed as it has the advantage of scale and first-mover advantage, which will help it report growth rates of at least 30% in the near to medium term, according to Consensus at a 6.0x one-year forward EV/Sales.

Exhibit 1: Nazara Technologies - business segments

Children's learning	<p><i>Kiddopia</i> is a subscription-based app, which caters primarily to children in the age group of 2-6 years and is COPPA Certified by KidSAFE. Through gamification, the app delivers an immersive, self-directed learning experience for subscribers on a number of subjects, ranging from mathematics, languages and general knowledge to developing social, creativity and self-expression skills, all through fun and intuitive game play with stunning visuals (Paper Boat apps – 50.9% holding)</p>
eSports	<p>Nodwin Gaming is South Asia's leading eSports company. It makes the best eSports tournaments and events in the region across games and brings gamers together with engaging content from national and international tournaments. With a dynamic outlook of the eSports ecosystem, Nodwin Gaming aims at building a sustainable framework of professional gamers, content creators, organizations and the ever-loving audience (Nodwin Gaming – 57.05% holding)</p>
Gaming – World Cup Cricket	<p>WCC3 is a next-gen sequel to the World's No 1 mobile cricket game – World Cricket Championship 2 (WCC2), the most downloaded and awarded game. WCC3 takes the excitement of realism in mobile cricket a notch higher with cutting-edge gameplay features, brand new controls, multiplayer features, professional commentary, exciting animations, real-time motion capture of professional cricketers and advanced AI. WCC3 is a brand new way to play mobile cricket (Nextwave – 52.38% holding)</p>
HalaPlay – Fantasy Sports	<p>It is a daily fantasy sports (DFS) platform that empowers serious and casual sports enthusiasts to play cash-based quick, simple and interesting games. DFS is the shortest and quickest version of fantasy sports where users can create a team, enter leagues and win cash prizes at the end of every game. (Halaplay - 69.09% holding)</p>
Sportskeeda	<p><i>Sportskeeda</i> connects fans, pundits and athletes from all over the world. The platform provides sports entertainment in its purest and most exciting form. It offers trending stories from all over the world, high-quality reports and features with sports humor & satire (Absolute Sports - 63.9% holding)</p>

Source: Company, Elara Securities Research

Nazara Technologies – valuation

Exhibit 2: Global peers

Company	EV (USD bn)	Revenue (USD mn)			EBITDA (USD mn)			P/E (x)			EV/EBITDA (x)			EV/Sales (x)		
		CY21	CY22	CY23	CY21	CY22	CY23	CY21	CY22	CY23	CY21	CY22	CY23	CY21	CY22	CY23
Tencent Holdings	47,662	6,747	8,076	9,668	2,493.1	3,022.8	3,696.0	36.0	29.0	23.0	26.0	21.0	17.0	7.0	6.0	5.0
Activision Blizzard	4,867	624	701	701	277.8	325.5	328.4	26.0	22.0	21.0	18.0	15.0	15.0	8.0	7.0	7.0
Ubisoft Entertainment SA	858	202	221	246	81.9	91.3	109.4	26.9	24.0	20.1	9.3	8.4	7.0	4.3	3.9	3.5
Glu Mobile	89	44	49	60	7.0	8.5	11.8	22.8	18.7	16.4	18.7	15.5	11.2	2.0	1.8	1.5
Electronic Arts	2,626	445	475	473	158.3	174.0	172.2	24.4	21.7	20.4	15.1	13.7	13.7	5.9	5.5	5.5
International Games System	126	28	37	-	15.2	18.7	-	11.3	8.9	-	8.2	6.7	-	4.5	3.5	-
NetEase	4,137	995	1,150	1,339	233.3	281.8	368.3	25.9	22.5	18.6	20.3	16.8	13.0	4.2	3.6	3.1
Zynga	769	202	224	239	46.8	56.1	61.9	31.7	23.8	21.2	17.1	14.3	13.0	3.8	3.4	3.2
Mixi	38	83	82	83	17.5	13.8	-	14.9	20.1	19.7	2.7	3.4	-	0.5	0.5	0.5
Rovio Entertainment Oyj	34	24	25	26	4.0	3.9	3.7	16.6	16.7	16.9	9.5	9.8	10.4	1.4	1.4	1.3
TEN Square Games SA	26	15	18	18	5.3	6.2	6.1	15.4	13.2	13.8	13.6	11.5	11.9	1.7	1.4	1.4
														Average (x)		3.3

Source: Company DRHP & Annual Report, Elara Securities Research

Our view on various business segments

Kiddopedia

Opportunities

- Big untapped potential to scale up paid subscriber base in the US
- Recent pandemic has hit growth on the positive as physical schools are shut and children spend more time on these apps
- Pre-school is the fastest-growing segment in this space – *Kiddopia* has a play
- Japan and South Korea have a high number of toddlers
- Willingness to pay for content in developed markets like the US
- Content cost low in this business segment vs gaming & OTT (mere change in syllabus needed)

Threats

- Earnings or profitability potential low due to high competitive intensity
- May not be able to scale up in India, given 1) higher app size (800mb) 2) customer willingness to pay for content, and 3) higher dependence on iOS
- Distribution cost high in this space; however, once scale is breached, it tapers off
- Over-dependence on iOS as a platform for distribution (can impact revenue share arrangements)
- Target market limited to 2-6 years; post saturation of age, it will always have to work for getting new customers on board

Gaming (casual, RMG and fantasy – *Halaplay, WCC*)

Opportunities

- Gaming industry ad revenue is expected to grow by 30%, in line with the digital ad industry
- Engagement level on video and other ads is high for winning coins and tokens – gaming ad performance superior vs other digital entertainment
- Sharp bounce-back expected in fantasy gaming for CY21 post COVID-19 as live sports make a come-back

Threats

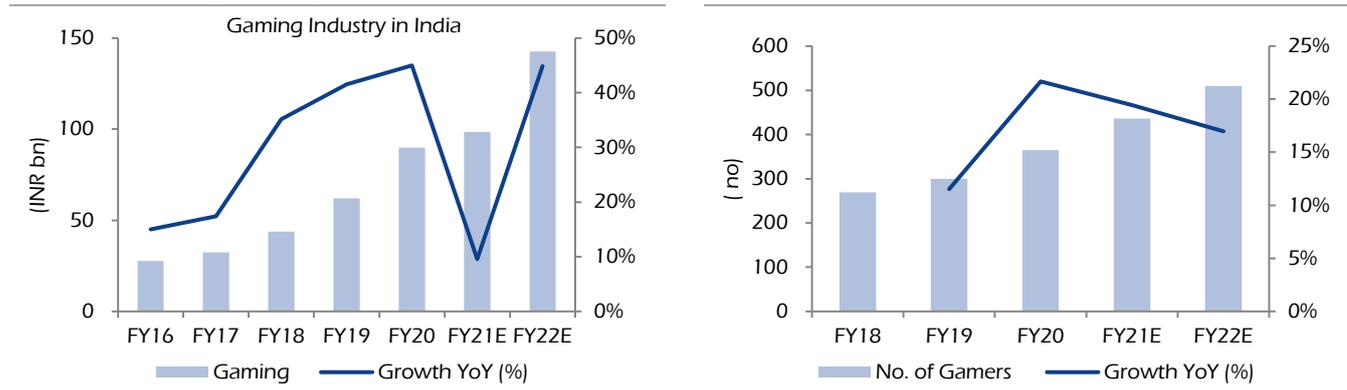
- Gaming may not outperform vs video advertising, which is growing much higher than digital ad market
- ARPU in gaming is low for India vs global average and pay-based audience is at a mere 10-12%
- Audience base of hardcore gamers is low
- Overdependence on ads as payment mechanism is cause for concern (less revenue from subscription and merchandising)
- Ownership of IP is absent, except *Ludo King*, which is the only Make in India game
- Monetization of gaming is better in countries like Indonesia and other Southeast Asia countries
- Bigger appetite for action-based casual gaming than cricket
- Increased time spent on other forms of digital entertainment (social media and video)
- Highly fragmented space with higher competitive intensity
- Shelf life of a casual game is low (even a big success like *Candy Crush* shows a declining trend after three years)
- Time spent on fantasy and real money game can impact consumption for casual games (*WCC*)
- Constant need for investments in the form of innovation, new games, marketing and tech investments

eSports (Nodwin & Sportskeeda)

Opportunities	Threats
<ul style="list-style-type: none"> ▪ Large portion of Nodwin’s revenue is pay- and subscription-based (87%) 	<ul style="list-style-type: none"> ▪ India has not created IP like PUBG and hence eSports has not picked up ▪ India has a small base of hardcore gamers ▪ Habit of spending high amount of time on sports on serious gaming is absent in India youth unlike other nations where gaming is serious ▪ Physical event segment of eSports does not offer potential to scale up; ad revenue in activation and events is highly volatile ▪ Viewership numbers of eSports videos on YouTube may not depict correct success picture as it may be bots ▪ Physical eSports also does not offer potential to make higher margin due to a higher cost base (organizing cost) ▪ Time spent on video form of entertainment is always a threat for eSports

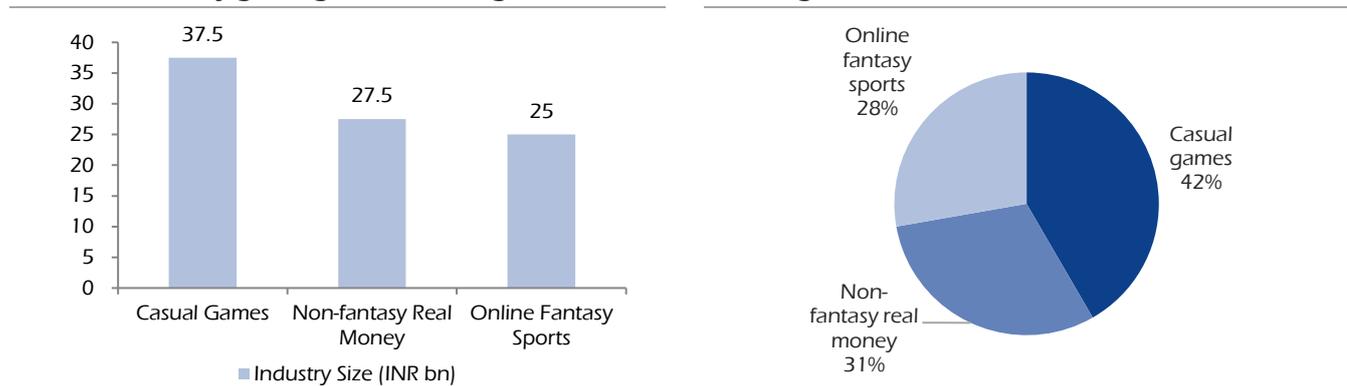
India gaming poised to report strong double-digit growth

Exhibit 3: Gaming industry to witness CAGR of 30% over FY20-24



Source: KPMG Report, FY20, Elara Securities Research

Exhibit 4: Fantasy gaming estimated to grow faster than other segments



Source: KPMG Report, FY20, Elara Securities Research

Source: KPMG Report, FY20, Elara Securities Research

Exhibit 5: Real money gaming metrics in India

	Non-fantasy real money gamers	Online -fantasy sports (RMG)
Users (mn)	30-40	90-95
Average spend by user per month on some leading <i>Rummy</i> platforms (June 2020)	INR 1,500-2,000	INR 6,000-7,000
Average proportion of paying users of total registered users on the platform (%)	8-12	15-20

Source: KPMG Report FY20, Elara Securities Research

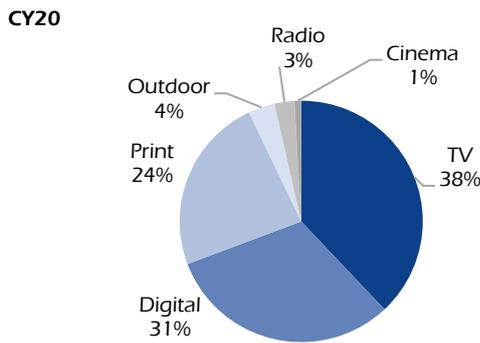
Exhibit 6: Gaming ecosystem in India

Stakeholder	Role	Examples of key brands
Game developer	Primarily responsible for designing, developing and testing the games. Developers also ensure smooth day-to-day operations for the game once it goes live. Many developers also publish their own games	Nextwave Multimedia (owned by Nazara Technologies) has developed multiple online cricket games like WCC, WCC 2, WCC Rivals. Gametion Technologies has developed Ludo King.
Publisher	Online games need to be promoted and marketed to ensure that they reach the target audience. A conventional publisher specializes in launching games by using its established network	Nazara Technologies focuses on publishing in emerging markets of Africa, India, and the Middle East. Games2Win is publisher for games such as Parking Frenzy India & Car Simulator Extreme
Distributor	Games are distributed through the publisher's website and / or other online distributors, and the App Store of mobile platforms	Steam and Origin distribute PC games. Mobile operating system app stores, OEM App Stores distribute online mobile games
E-sports organizer	Manage and organize eSports tournaments for professionals by working with publishers, sponsors, streaming companies	Nodwin Gaming is a well-known e-sports company in India

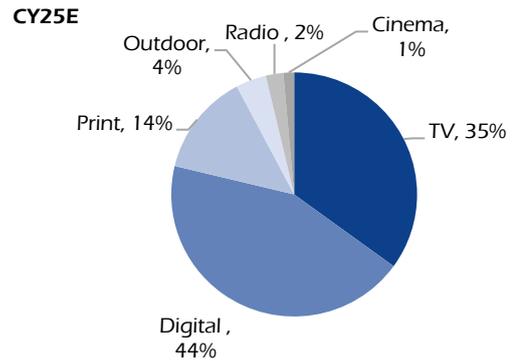
Source: KPMG Report FY20, Elara Securities Research

Digital Advertising trends – India & Global

Exhibit 7: Digital ad spends to leapfrog to 44% share of ad pie by CY25, gaining from Print, Radio & some part of TV

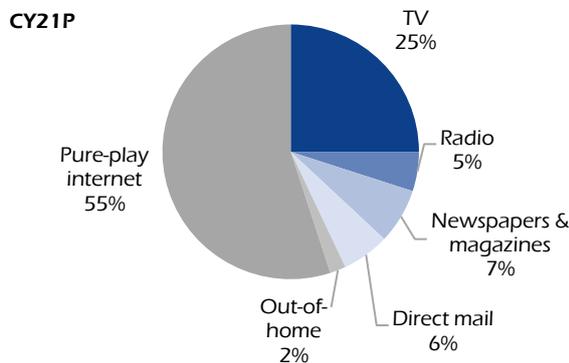


Source: Elara Securities Research



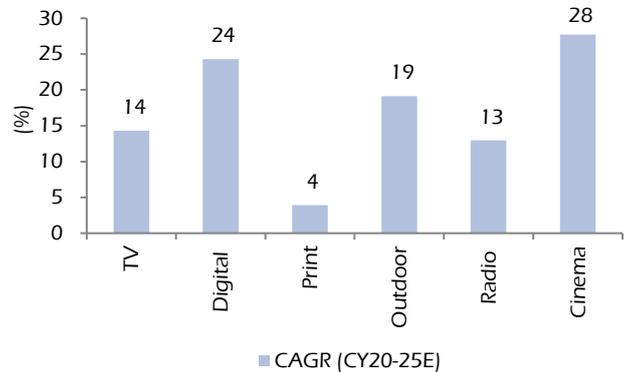
Source: Elara Securities Estimate

Exhibit 8: Global ad spends pie to be skewed largely towards pure-play internet i.e. Digital media



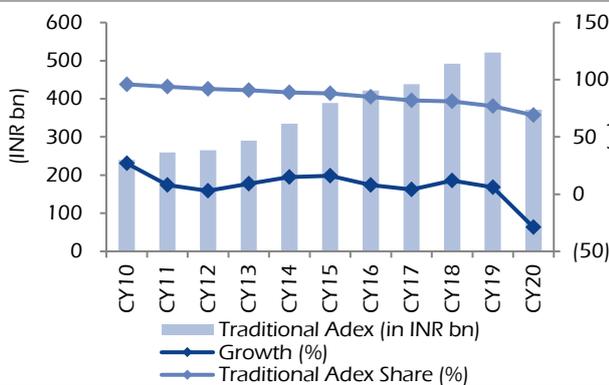
Source: Group M Report, December 2020, Elara Securities Research

Exhibit 9: Digital medium to witness strong CAGR over the next five years

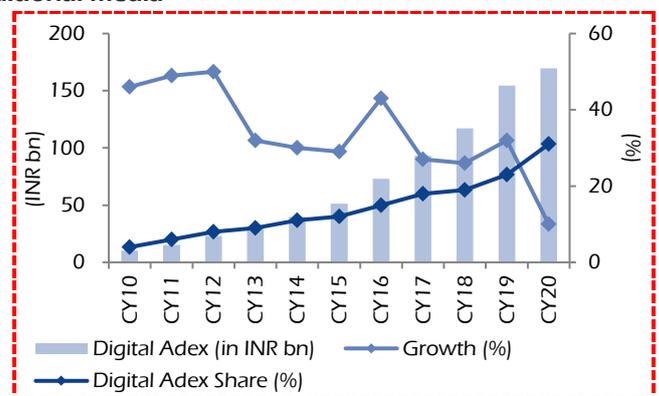


Source: Elara Securities Estimate

Exhibit 10: Digital media gains traction at the cost of traditional media

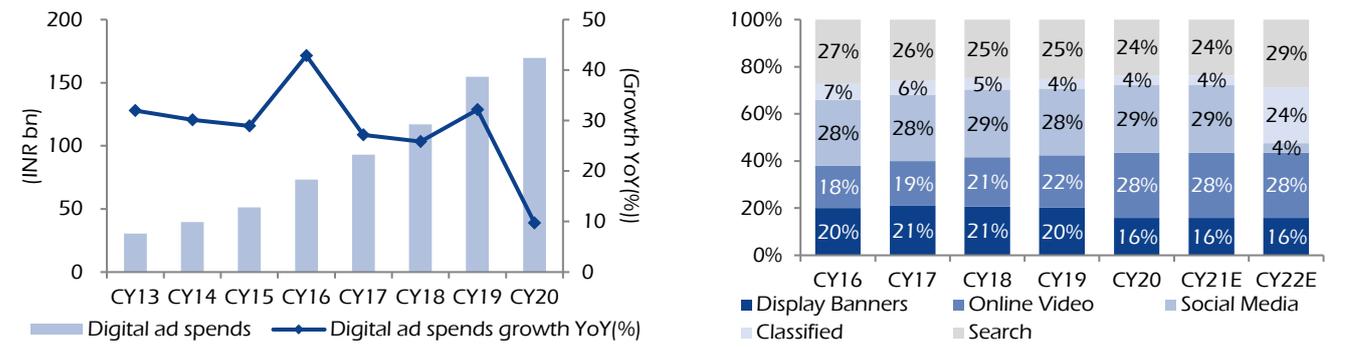


Source: Pitch Madison Report, CY20, Elara Securities Research



Video commands the largest share within digital advertising

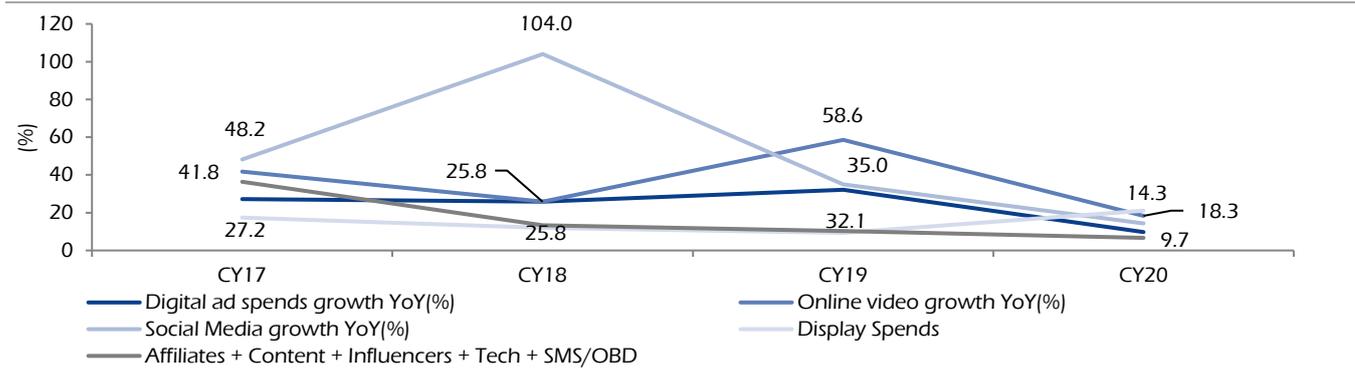
Exhibit 11: Surge in online video and social media within digital



Source: Dentsu Dan4em Advertising Report, CY20,

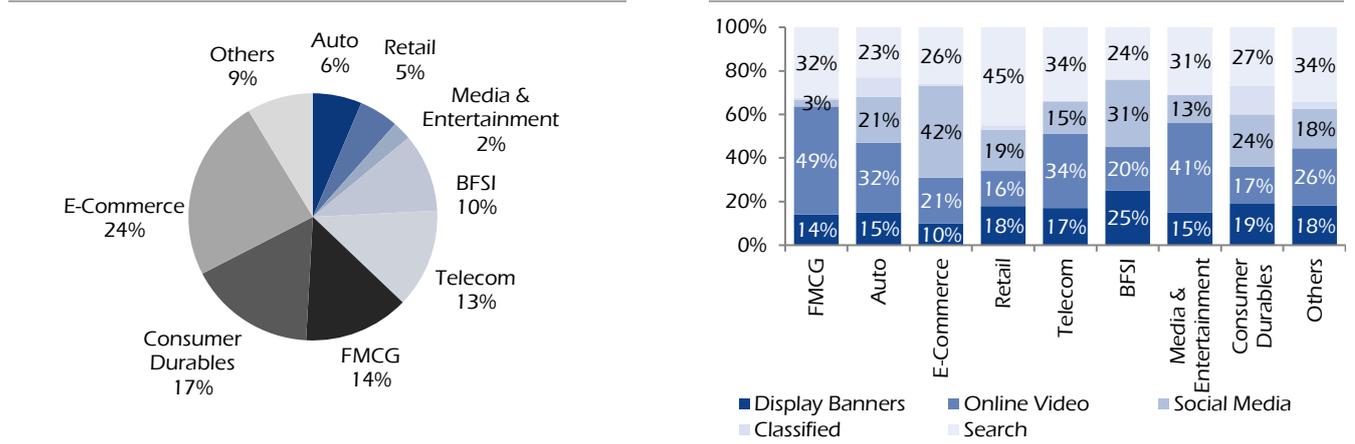
Source: Dentsu Dan4em Advertising Report, CY20,

Exhibit 12: Video advertising to outperform other segments of digital advertising



Source: Dentsu Dan4em Advertising Report, CY20, Pitch Madison Report, CY20, Elara Securities Research

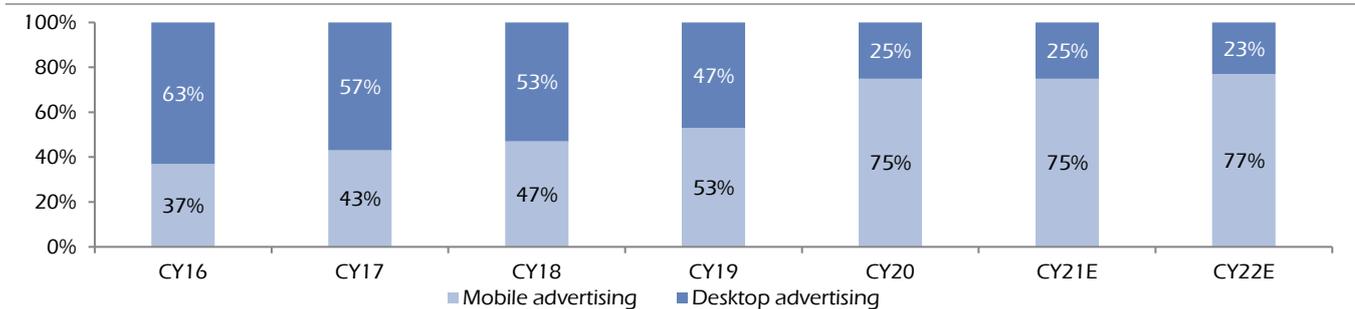
Exhibit 13: eCommerce remains big driver for digital ad spend



Source: Dentsu Dan4em Advertising Report CY20, Elara Securities Research

Source: Dentsu Dan4em Advertising Report CY20, Elara Securities Research

Exhibit 14: Surge in share of mobile advertising within the digital ad spend post lockdown to sustain



Source: Dentsu Dan4em Advertising Report, CY20, Elara Securities Research

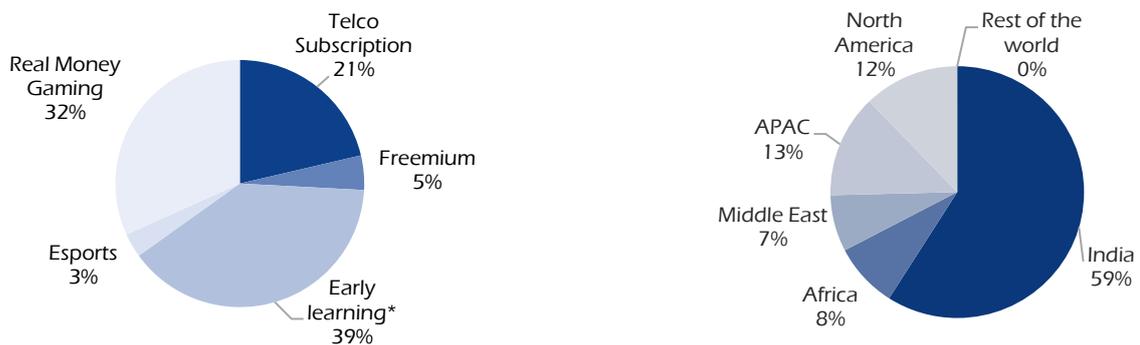
Nazara Technologies – key operating metrics

Exhibit 15: Nazara Tech’s business verticals

Vertical	What it includes?	Key brands
Telco Subscription	Players subscribing to daily, weekly, monthly subscription packs.	Rights to distribute the aggregated gaming content
Freemium	ICC World Championship game	
Early learning (Subscription)	Kiddopedia	
Real Money Gaming	Halaplay, Big PESA	
Revenue from e-sports business	Nodwin + Sports Keeda	

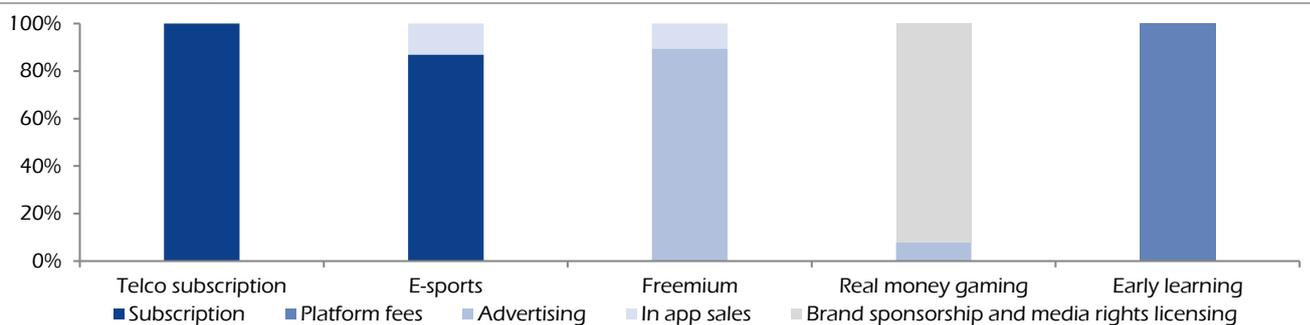
Source: Company DRHP & Annual Report, Elara Securities Research

Exhibit 16: Revenue breakdown – based on segments & geographies



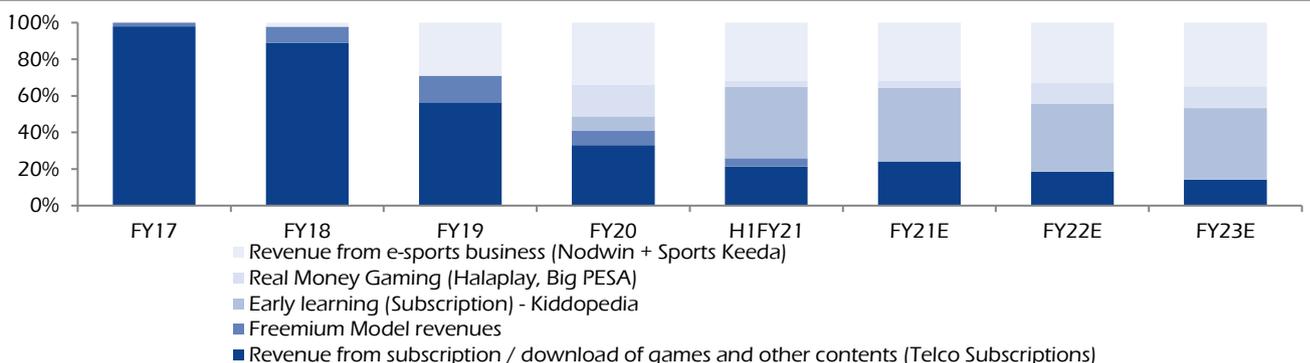
Source: Company DRHP & Annual Report, Elara Securities Research

Exhibit 17: Subscription- and ad-based revenue across various segments



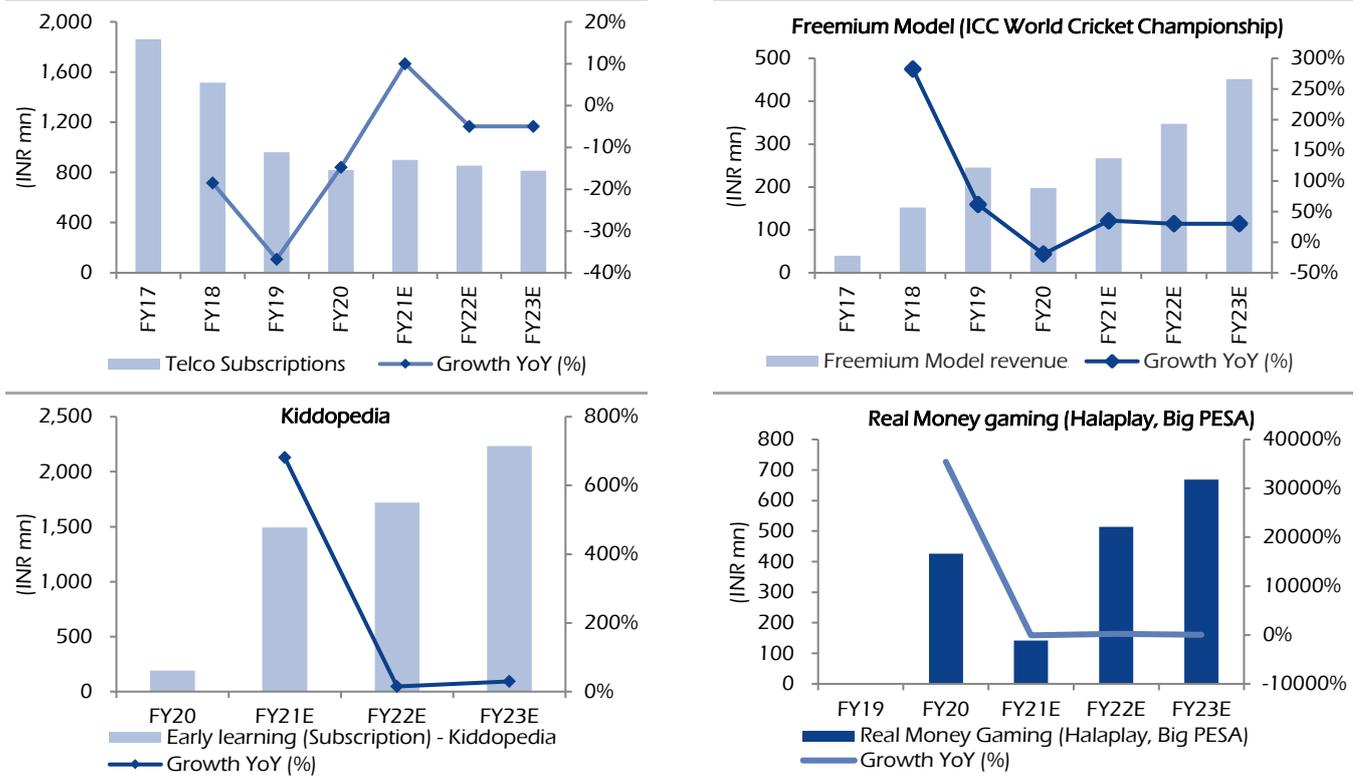
Source: Company DRHP & Annual Report, Elara Securities Research

Exhibit 18: eSports and early learning business to gain share



Source: Company DRHP & Annual Report, Elara Securities Research

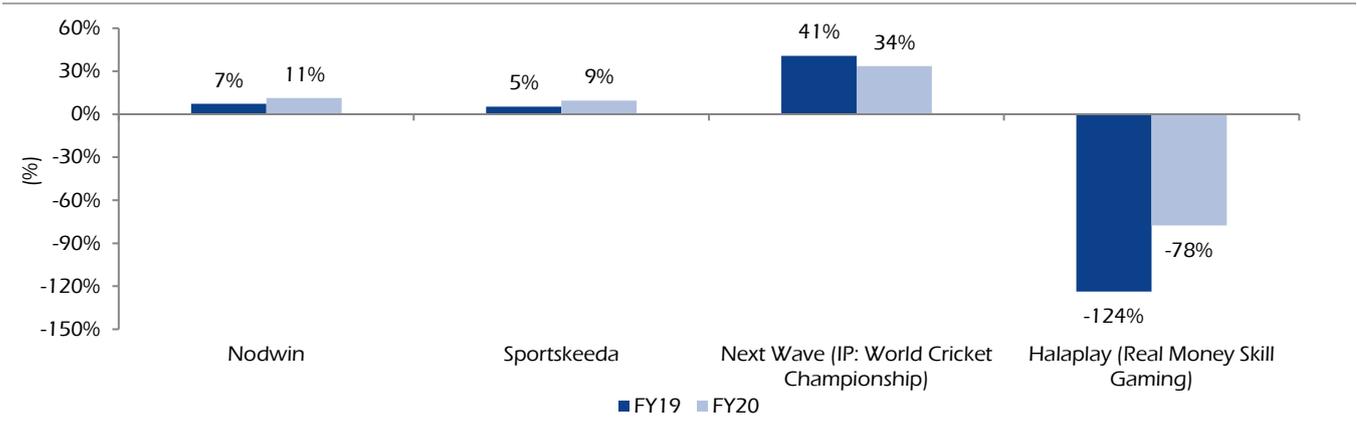
Exhibit 19: Segment-wise operating performance & profitability



Source: Company DRHP & Annual Report, Elara Securities Research

Source: Company DRHP & Annual Report, Elara Securities Research

Exhibit 20: Segment-wise margin profile



Source: Company DRHP & Annual Report, Elara Securities Research

Nazara Technologies – valuation

Exhibit 21: Global peers

Company	EV (USD bn)	Revenue			EBITDA			P/E (x)			EV/EBITDA (x)			EV/Sales (x)		
		CY21	CY22	CY23	CY21	CY22	CY23	CY21	CY22	CY23	CY21	CY22	CY23	CY21	CY22	CY23
Tencent Holdings	47,662	6,747	8,076	9,668	2,493.1	3,022.8	3,696.0	36.0	29.0	23.0	26.0	21.0	17.0	7.0	6.0	5.0
Activision Blizzard	4,867	624	701	701	277.8	325.5	328.4	26.0	22.0	21.0	18.0	15.0	15.0	8.0	7.0	7.0
Ubisoft Entertainment SA	858	202	221	246	81.9	91.3	109.4	26.9	24.0	20.1	9.3	8.4	7.0	4.3	3.9	3.5
Glu Mobile	89	44	49	60	7.0	8.5	11.8	22.8	18.7	16.4	18.7	15.5	11.2	2.0	1.8	1.5
Electronic Arts	2,626	445	475	473	158.3	174.0	172.2	24.4	21.7	20.4	15.1	13.7	13.7	5.9	5.5	5.5
International Games System	126	28	37	-	15.2	18.7	-	11.3	8.9	-	8.2	6.7	-	4.5	3.5	-
NetEase	4,137	995	1,150	1,339	233.3	281.8	368.3	25.9	22.5	18.6	20.3	16.8	13.0	4.2	3.6	3.1
Zynga	769	202	224	239	46.8	56.1	61.9	31.7	23.8	21.2	17.1	14.3	13.0	3.8	3.4	3.2
Mixi	38	83	82	83	17.5	13.8	-	14.9	20.1	19.7	2.7	3.4	-	0.5	0.5	0.5
Rovio Entertainment Oyj	34	24	25	26	4.0	3.9	3.7	16.6	16.7	16.9	9.5	9.8	10.4	1.4	1.4	1.3
TEN Square Games SA	26	15	18	18	5.3	6.2	6.1	15.4	13.2	13.8	13.6	11.5	11.9	1.7	1.4	1.4
														Average (x)		3.3

Source: Company DRHP & Annual Report, Elara Securities Research

Exhibit 22: Nazara Technologies - SOTP valuation

	FY23 revenue (INR mn)	EV/Sales (x)	EV (INR mn)	Per share (INR)
eSports	1,991	6	11,947	412
Children's business	2,234	6.5	14,518	501
Other gaming	1,931	4.5	8,692	300
Total EV			34,335	
TP				1,212

Source: Elara Securities Estimate

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