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India | Equity Research | Company Update

## Nazara Technologies

Internet

### Regulatory challenges arise in the RMG segment

Nazara's subsidiaries, OpenPlay and HalaPlay, have received tax demands amounting to ~INR 11.2bn. This is in line with similar tax demands received by most companies operating in the RMG space post the GST Council's decision to tax the total amount wagered by all the players at the time of buy-in and not on gross gaming revenue (GGR). While the gaming sector remains hopeful that the government will provide some relief with regards to tax demands for the period prior to the GST Council's clarification, we think there could be some volatility in the stock's price in the near term given the quantum of the tax demand. We believe that the contingent liability on Nazara (parent company) is unlikely to be meaningful, given both HalaPlay and OpenPlay are private limited companies. We maintain **BUY** and our target price of INR 1,080.

### GST tax notice

Nazara Technologies' subsidiary, OpenPlay Technologies, has received a show cause notice for a proposed liability of ~INR 8.5bn and HalaPlay Technologies has received intimation of a proposed tax liability of ~INR 2.7bn from the Director General GST Intelligence, Kolkata – calculated for the period of FY18 to FY23.

According to the company's press release, the claims are in relation to calculation of GST on the total wagered amount, as opposed to gross gaming revenue (GGR). Both subsidiaries are reviewing the notices with their legal counsels and tax advisors to determine their future course of action.

Nazara's management has clarified that the subsidiaries represented less than 2% of the company's revenue and less than 1% of its profit for Q4FY24.

### Valuation

We maintain our **BUY** rating on Nazara with a target price of INR 1,080. Our target multiple stands at 37x FY26E EV/EBITDA (ex-minority).

Key risks: 1) Increased competition/slowdown in US markets; 2) inability to identify and integrate acquisitions in a manner that creates value for minority shareholders; and 3) regulatory challenges in the real money gaming segment in India.

### Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	11,383	14,741	18,026	21,437
EBITDA	1,279	2,291	2,897	3,533
EBITDA Margin (%)	11.2	15.5	16.1	16.5
Net Profit	713	1,084	1,326	1,586
EPS (INR)	10.3	14.5	17.8	21.3
EPS % Chg YoY	63.4	41.5	22.3	19.6
P/E (x)	89.7	63.4	51.9	43.4
EV/EBITDA (x)	31.7	18.4	14.3	(6.2)
RoCE (%)	9.9	20.4	30.2	39.4
RoE (%)	3.6	5.1	5.9	6.6

### Abhisek Banerjee

abhisek.banerjee@icicisecurities.com  
+91 22 6807 7574

### Jayram Shetty

jayram.shetty@icicisecurities.com

### Market Data

Market Cap (INR)	71bn
Market Cap (USD)	845mn
Bloomberg Code	NAZARA IN
Reuters Code	NAZA.BO
52-week Range (INR)	990 /591
Free Float (%)	43.0
ADTV-3M (mn) (USD)	7.9

Price Performance (%)	3m	6m	12m
Absolute	45.1	(4.7)	38.1
Relative to Sensex	34.4	(15.1)	15.9

### Previous Reports

05-07-2024: [Company Update](#)

26-05-2024: [Q4FY24 results review](#)

**Exhibit 1: Summary of proposed liability**

Subsidiary	Proposed GST liability (INR bn)	Reason
OpenPlay technologies	8.45	GST calculation based on pooled player sums, not gross gaming revenue
HalaPlay Technologies	2.74	GST calculation based on pooled player sums, not gross gaming revenue
<b>Total</b>	<b>11.2</b>	

Source: I-Sec research, Company data

**Exhibit 2: Shareholding pattern**

%	Sep'23	Dec'23	Mar'24
Promoters	19.0	17.2	16.4
Institutional investors	20.1	26.3	26.3
MFs and other	7.2	14.1	14.8
FIs/ Banks	1.4	1.3	1.5
FIIIs	11.5	10.9	10.0
Others	60.9	56.5	57.3

Source: Bloomberg, I-Sec research

**Exhibit 3: Price chart**



Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 4: Profit & Loss

(Rs mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Net Sales</b>	<b>11,383</b>	<b>14,741</b>	<b>18,026</b>	<b>21,437</b>
Operating Expenses	9,301	12,450	15,130	17,904
<b>EBITDA</b>	<b>1,279</b>	<b>2,291</b>	<b>2,897</b>	<b>3,533</b>
EBITDA Margin (%)	11.2	15.5	16.1	16.5
Depreciation & Amortization	670	868	1,061	1,262
EBIT	609	1,423	1,836	2,271
Interest expenditure	68	88	108	128
Other Non-operating Income	796	916	1,053	1,211
<b>Recurring PBT</b>	<b>1,338</b>	<b>2,251</b>	<b>2,781</b>	<b>3,354</b>
<b>Profit / (Loss) from Associates</b>	<b>(20)</b>	<b>(20)</b>	<b>(20)</b>	<b>(20)</b>
Less: Taxes	140	558	690	834
PAT	1,198	1,693	2,091	2,521
Less: Minority Interest	182	589	745	915
Extraordinary (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>895</b>	<b>1,673</b>	<b>2,071</b>	<b>2,501</b>
<b>Net Income (Adjusted)</b>	<b>713</b>	<b>1,084</b>	<b>1,326</b>	<b>1,586</b>

Source Company data, I-Sec research

### Exhibit 5: Balance sheet

(Rs mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Total Current Assets</b>	<b>16,727</b>	<b>18,195</b>	<b>20,130</b>	<b>22,399</b>
of which cash & cash eqv.	12,097	13,854	14,891	16,229
<b>Total Current Liabilities &amp; Provisions</b>	<b>3,764</b>	<b>4,872</b>	<b>5,940</b>	<b>7,050</b>
<b>Net Current Assets</b>	<b>12,963</b>	<b>13,324</b>	<b>14,190</b>	<b>15,349</b>
Investments	4,217	4,717	5,217	5,717
Net Fixed Assets	64	-	-	-
ROU Assets	168	80	80	80
Capital Work-in-Progress	-	-	-	-
<b>Total Intangible Assets</b>	<b>5,850</b>	<b>7,014</b>	<b>7,735</b>	<b>8,592</b>
Other assets	324	141	141	141
Deferred Tax Assets	-	-	-	-
<b>Total Assets</b>	<b>23,853</b>	<b>25,544</b>	<b>27,631</b>	<b>30,148</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Deferred Tax Liability</b>	<b>270</b>	<b>270</b>	<b>270</b>	<b>270</b>
provisions	53	71	87	103
other Liabilities	-	-	-	-
Equity Share Capital	306	306	306	306
Reserves & Surplus	19,680	20,764	22,090	23,676
<b>Total Net Worth</b>	<b>19,986</b>	<b>21,070</b>	<b>22,396</b>	<b>23,982</b>
Minority Interest	3,360	3,949	4,693	5,608
<b>Total Liabilities</b>	<b>23,853</b>	<b>25,544</b>	<b>27,631</b>	<b>30,148</b>

Source Company data, I-Sec research

### Exhibit 6: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Dec-23	Mar24
Net Sales	2544	2972	3204	2662
% growth (YOY)	14.0	12.7	1.8	(8.0)
EBITDA	331	279	377	292
Margin %	13.0	9.4	11.8	11.0
Other Income	117	123	179	377
Extraordinary	209	225	290	171
Adjusted Net Profit				

Source Company data, I-Sec research

### Exhibit 7: Cashflow statement

(Rs mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Operating Cashflow</b>	<b>908</b>	<b>3,219</b>	<b>2,374</b>	<b>2,874</b>
Working Capital Changes	(39)	1,507	187	194
Capital Commitments	(268)	(590)	(721)	(857)
<b>Free Cashflow</b>	<b>1,176</b>	<b>3,809</b>	<b>3,095</b>	<b>3,731</b>
<b>Other investing cashflow</b>	<b>(5,511)</b>	<b>916</b>	<b>1,053</b>	<b>1,211</b>
Cashflow from Investing Activities	(5,780)	326	332	354
Issue of Share Capital	9,220	-	-	-
Interest Cost	(47)	(88)	(108)	(128)
Inc (Dec) in Borrowings	345	-	-	-
Dividend paid	(34)	-	-	-
Others	-	-	-	-
Cash flow from Financing Activities	9,463	(88)	(108)	(128)
<b>Chg. in Cash &amp; Bank balance</b>	<b>4,591</b>	<b>3,457</b>	<b>2,598</b>	<b>3,099</b>
Closing cash & balance	6,012	9,128	11,726	14,825

Source Company data, I-Sec research

### Exhibit 8: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Per Share Data (INR)</b>				
Reported EPS	10.3	14.5	17.8	21.3
Adjusted EPS (Diluted)	10.3	14.5	17.8	21.3
Cash EPS	19.9	26.2	32.0	38.2
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	288.2	282.6	300.4	321.7
Dividend Payout (%)	-	-	-	-
<b>Growth (%)</b>				
Net Sales	4.3	29.5	22.3	18.9
EBITDA	16.6	79.1	26.5	22.0
EPS (INR)	63.4	41.5	22.3	19.6
<b>Valuation Ratios (x)</b>				
P/E	89.7	63.4	51.9	43.4
P/CEPS	46.3	35.2	28.8	24.2
P/BV	3.2	3.3	3.1	2.9
EV / EBITDA	31.7	18.4	14.3	(6.2)
P / Sales	-	-	-	-
Dividend Yield (%)	-	-	-	-
<b>Operating Ratios</b>				
Gross Profit Margins (%)	92.9	100.0	100.0	100.0
EBITDA Margins (%)	11.2	15.5	16.1	16.5
Effective Tax Rate (%)	10.5	24.8	24.8	24.9
Net Profit Margins (%)	10.5	11.5	11.6	11.8
NWC / Total Assets (%)	11.6	7.3	7.6	7.7
Net Debt / Equity (x)	(0.7)	(0.7)	(0.7)	(0.7)
Net Debt / EBITDA (x)	(12.8)	(8.1)	(6.9)	(6.2)
<b>Profitability Ratios</b>				
RoCE (%)	9.9	20.4	30.2	39.4
RoE (%)	3.6	5.1	5.9	6.6
RoC (%)	6.9	7.3	8.3	9.2
Fixed Asset Turnover (x)	169.0	462.8	-	-
Inventory Turnover Days	1	1	1	1
Receivables Days	91	48	48	48
Payables Days	79	79	79	79

Source Company data, I-Sec research

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

For any queries or grievances: [Mr. Bhavesh Soni](mailto:Mr. Bhavesh Soni) Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

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