

15 August 2024

India | Equity Research | Q1FY25 results review

Nazara Technologies

Internet

Muted Q1FY25; eSports ramp-up and new acquisitions to take centre stage in Q2FY25

Q1FY25 was muted, given sustained weakness in Kiddopia. While there were some positives such as ARPU improvement and reduction in churn, subscribers continued to decline. Now that Nazara has fully acquired Kiddopia, we think strategic interventions to rekindle growth (using popular IPs to acquire customers) are imminent. Nodwin (ex-devices) grew 35% YoY. Q2FY25 has a strong line up of events (including some from Freaks 4U's global portfolio). Nazara is also publishing a revamped version of India's homegrown FPS game 'FAUG-Domination' slated to release in Oct'24. Sportskeeda (SK) is also likely to show acceleration in growth from PFN, as the NFL season picks up in Sep'24. Other acquisitions such as Fusebox and Deltia's gaming are also likely to be accretive in the medium term. Retain **BUY**.

Q1FY25 performance

In Q1FY25, consol. revenue was INR 2.5bn, down 1.7% YoY/6.1% QoQ. Consol. EBITDA was ~INR 249mn (down 14.7% QoQ/24.7% YoY) with margin at 10%. In Q1FY25, PAT (from continuing operations) was INR 236mn (up 38.5% QoQ/13.2% YoY). eSports business grew 12% YoY to INR 1.3bn, gamified early learning (GEL) declined 8.8% YoY to INR 726mn while Adtech's revenue declined ~6.9% YoY to INR 257mn. eSports' EBITDA margin was 13.9% (vs 8.7% in Q1FY24), GEL's EBITDA margin was 19.7% (vs 26.5% in Q1FY24) and Adtech's EBITDA margin was 2.7% in Q1FY25 (vs. 4.8% in Q1FY24).

SK

SK's revenue was at INR 609mn (up 33% YoY). EBITDA grew ~27.7% YoY to INR 198mn driven by direct sales efforts and partnerships (India as well as US) during Q1FY25. Management stated that the tech and operational overhaul of PFN has been completed and they are optimistic about Q2FY25, as the NFL season will start from Sep'24.

Kiddopia

Kiddopia revenue declined 14.9% YoY to INR 490mn. Subscriber base declined 3.3% QoQ. Other key operating metrics such as ARPU has improved to USD 6.92 (from INR 6.89 in Q4FY24); churn has also reduced to 6.6% in Q1FY25 from 7.3% in Q4FY24.

Financial Summary

Y/E March (Rs 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)	89.6	63.4	51.8	43.3
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

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Market Data

Market Cap (INR)	71bn
Market Cap (USD)	841mn
Bloomberg Code	NAZARA IN
Reuters Code	NAZA.BO
52-week Range (INR)	1,035 /591
Free Float (%)	43.0
ADTV-3M (mn) (USD)	10.7

Price Performance (%)	3m	6m	12m
Absolute	50.3	9.1	39.2
Relative to Sensex	42.1	(1.1)	18.2

Previous Reports

18-07-2024: [Company Update](#)

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

Nodwin

Nodwin Gaming's revenue was at INR 710mn (up 3.5% YoY) in Q1FY25 with EBITDA loss of INR 15mn. However, revenue growth was 35% YoY (excluding revenue from Wings for Q1FY24). Revenue growth was led by strong performance from Nodwin proprietary IPs and its media business (which showed 44% growth YoY).

Animal Jam

Animal Jam reported revenue of INR 236mn in Q1FY25 (up 7.3% YoY) aided by monetisation of Wishing Coins and launch of new pet 'Dragons'. EBITDA of INR 38mn (EBITDA margin of 16.1%).

Freemium

Revenue declined 9.7% YoY (up 66.7% QoQ) to INR 65mn. EBITDA loss was INR 3mn in Q1FY25 (EBITDA profit of INR 25mn in Q1FY24).

Ad-tech

Ad-tech revenue was at INR 257mn, down 6.9% YoY due to shift away from lower-margin business. EBITDA was 7mn (INR 18mn in Q1FY24). Management is anticipating growth in upcoming quarters due to its investments in product development and marketing in Q1FY25.

M&A

Nazara has acquired an additional 48.42% stake in Paper Boat Apps (developer of Kiddopia), making it a fully-owned subsidiary, for an aggregate consideration of INR 3bn. Management expects the Paperboat acquisition to help in increasing subscriber numbers organically. Nazara has also acquired 100% stake in Fusebox games for INR 2.3bn. The acquisition of Fusebox provides a scalable platform to partner with local popular television serials/shows and launch narrative-based games across different geographies.

Nazara's subsidiary NODWIN acquired 100% stake in Freaks 4U Gaming for INR 2.7bn and SK has acquired Deltia's Gaming for INR 750mn. Management stated that Freaks 4U Gaming's operations will be consolidated from Q2FY25 (from Jul'24).

Management commentary

Management aims to achieve EBITDA of ~INR 3bn by FY27, and plans to pursue acquisitions accordingly, to help meet its target. Regarding the GST notice, management stated that it is not necessary to make any provisions on the company's balance sheet, since the notice was issued to two of its subsidiaries, which do not contribute significantly to overall revenue or profitability.

In respect to BIPL (operator of Wings), management stated that the company owns 40.17% stake and has an exposure of ~INR 530mn through a mix of equity and loans. Management is evaluating options, including selling the stake if an interested buyer is found, while BIPL is also seeking to raise external capital to sustain its operations.

In terms of strategic growth, management is focused on acquiring market leaders or companies that rank among the top three in their segments within the RMG space. Management disclosed that they have signed a contract for publishing a game called FAU-G Domination. In this business model, the developer creates the game, while the publishing company provides funding for user acquisition, marketing, branding and other forms of support. Revenue from this business will flow through Nazara, with a percentage allocated to the developers.

Management also provided insights into the seasonality of different businesses, noting that Freak 4U Gaming may expect to experience higher revenue growth in H2FY25, while PFN's revenue growth typically occurs between September and January (NFL season). Additionally, management mentioned that the committee of creditors for SMASH Entertainment has selected Nazara as the preferred bidder, but the decision is still awaiting NCLT court approval.

Valuation

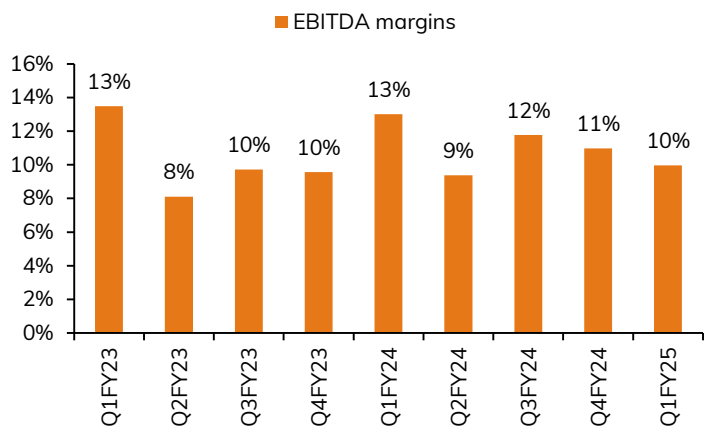
We maintain our **BUY** rating on the stock with a target price of INR 1,080. Our target multiple stands at 37x FY26E EV/EBITDA (ex-minority). Key risks: 1) Increased competition/slowdown in US markets; and 2) inability to identify and integrate acquisitions.

Exhibit 1: Q1FY25 results review

(in INR mn)	Q1FY25	Q4FY24	Q1FY24	QoQ(%)	YoY(%)	I-Sec Est.	Diff
Net Sales	2,501	2,662	2,544	(6.1)	(1.7)	2,840	(11.9)
Total Expenses	2,252	2370	2213.4	(5.0)	1.7	2,536	(11.2)
EBITDA	249	292	331	(14.7)	(24.7)	303	(17.9)
EBITDA%	10.0	11.0	13.0	-102 bps	-305 bps	10.7	-73 bps
Depreciation	152	215	152	(29.3)	(0.1)	215	(29.3)
EBIT	97	77	179	25.7	(45.6)	88	9.9
Finance Cost	6	8	13	(30.5)	(55.5)	8	(30.5)
Other Income	256	377	117	(32.2)	117.8	330	(22.5)
Pre-Tax Income	347	446	283	(22.2)	22.5	410	(15.4)
Tax	104	-1	74			82	
Net Income	236	171	209	38.5	13.2	328	(28.0)
Non-controlling interest	10	256	14	(96.1)	(27.2)	256	(96.1)
Net income post non-controlling interest	226	-85	195	(365.6)	16.1	73	212.1
EPS	2.96	1.12	2.95			-	
EBITDA Margins (%)	10.0	11.0	13.0			10.7	
PAT Margins (%)	9.4	6.4	8.2			11.6	
Tax Rate (%)	-30.0	-0.3	26.1			20.0	

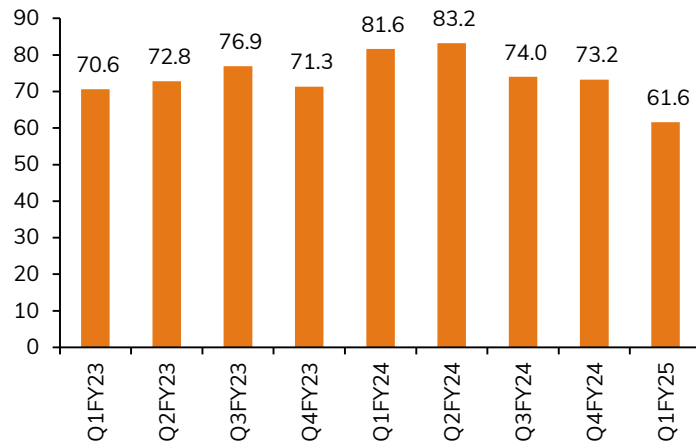
Source: I-Sec research, Company data

Exhibit 2: Consol. EBITDA margins (%)



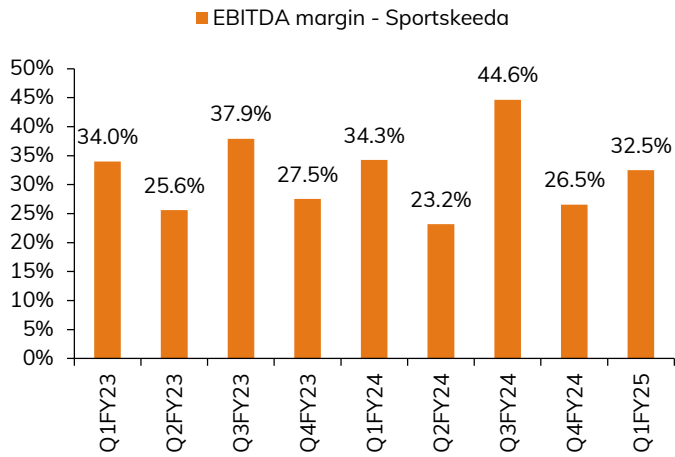
Source: I-Sec research, Company data

Exhibit 3: SK – average MAU (mn)



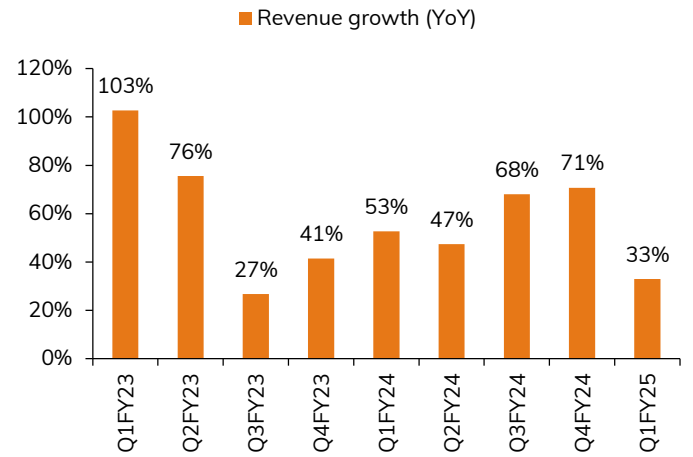
Source: I-Sec research, Company data

Exhibit 4: EBITDA margin – SK



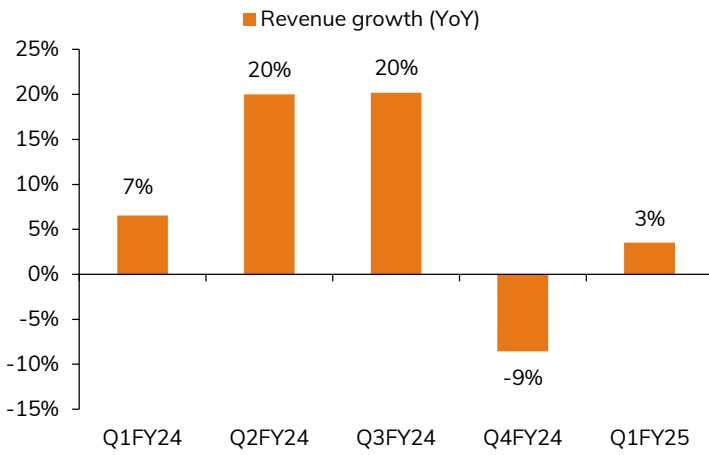
Source: I-Sec research, Company data

Exhibit 5: Revenue growth YoY (%) – SK



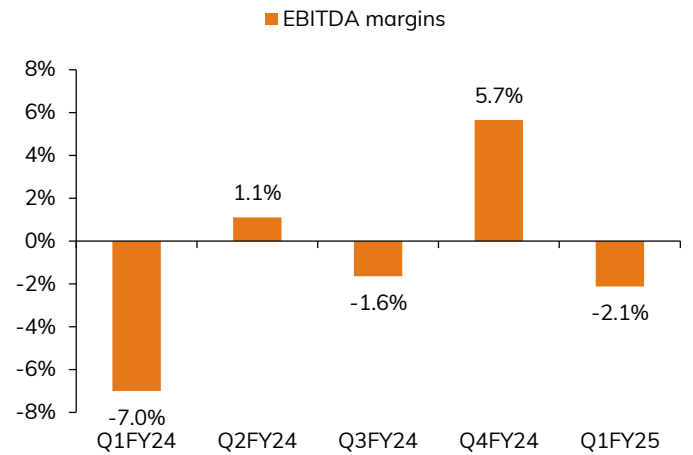
Source: I-Sec research, Company data

Exhibit 6: Revenue growth YoY (%) – Nodwin Gaming



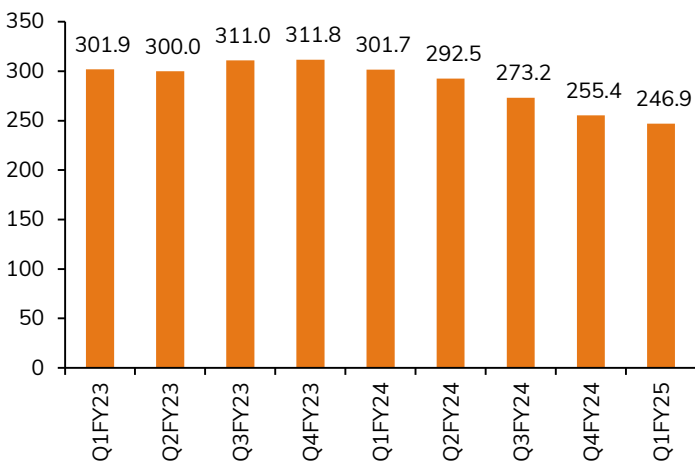
Source: I-Sec research, Company data

Exhibit 7: EBITDA margin (%) – Nodwin Gaming



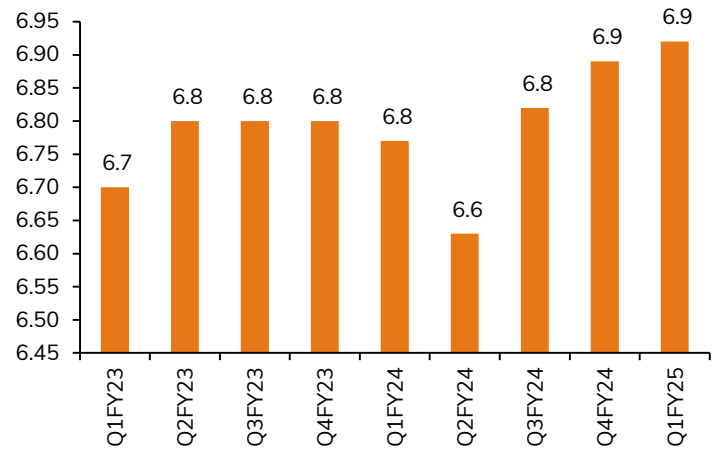
Source: I-Sec research, Company data

Exhibit 8: Subscribers (k) – Kiddopia



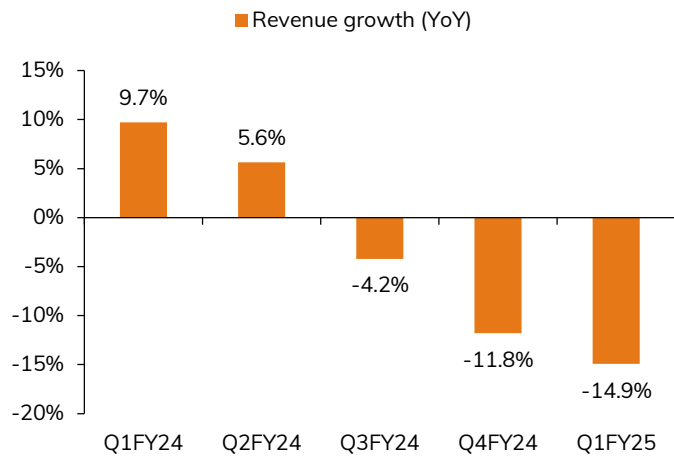
Source: I-Sec research, Company data

Exhibit 9: ARPU – Kiddopia



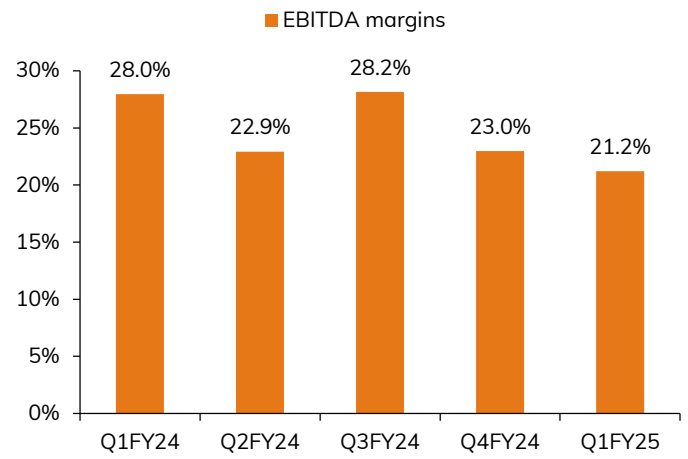
Source: I-Sec research, Company data

Exhibit 10: Revenue growth YoY (%) – Kiddopia



Source: I-Sec research, Company data

Exhibit 11: EBITDA margin (%) – Kiddopia



Source: I-Sec research, Company data

Exhibit 12: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	17.2	16.4	10.1
Institutional investors	26.3	26.3	25.5
MFs and other	14.1	14.8	15.0
FIs/ Banks	1.3	1.5	1.4
FIIIs	10.9	10.0	9.1
Others	56.5	57.3	64.4

Source: Bloomberg, I-Sec research

Exhibit 13: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 14: Profit & Loss

(Rs mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	11,383	14,741	18,026	21,437
Operating Expenses	9,301	12,450	15,130	17,904
EBITDA	1,279	2,291	2,897	3,533
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
Recurring PBT	1,338	2,251	2,781	3,354
Profit / (Loss) from Associates	(20)	(20)	(20)	(20)
Less: Taxes	140	558	690	834
PAT	1,198	1,693	2,091	2,521
Less: Minority Interest	182	589	745	915
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	895	1,673	2,071	2,501
Net Income (Adjusted)	713	1,084	1,326	1,586

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(Rs mn, year ending March)

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

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-23	Jun-24
Net Sales	2,972	3,204	2,662	2,501
% growth (YoY)	12.7	1.8	(8.0)	(1.7)
EBITDA	279	377	292	249
Margin %	9.4	11.8	11.0	10.0
Other Income	123	179	377	256
Net Profit	225	290	171	236

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(Rs mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	908	3,219	2,374	2,874
Working Capital Changes	(39)	1,507	187	194
Capital Commitments	(268)	(590)	(721)	(857)
Free Cashflow	1,176	3,809	3,095	3,731
Other investing cashflow	(5,511)	916	1,053	1,211
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)
Chg. in Cash & Bank balance	4,591	3,457	2,598	3,099
Closing cash & balance	6,012	9,128	11,726	14,825

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
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 (%)	-	-	-	-
Growth (%)				
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
Valuation Ratios (x)				
P/E	89.6	63.4	51.8	43.3
P/CEPS	46.2	35.2	28.8	24.1
P/BV	3.2	3.3	3.1	2.9
EV / EBITDA	31.7	18.4	14.3	(6.2)
P / Sales	-	-	-	-
Dividend Yield (%)	-	-	-	-
Operating Ratios				
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)
Profitability Ratios				
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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