Nazara Technologies BUY

Internet | Q2FY25 Result Update

CMP: Rs.912 | TP: Rs 1,100 | Upside 21%

DOLAT CAPITAL
IN-DEPTH-PRECISE-ACTIONABLE

Q2 weak results; Promises Strong Comeback in H2'FY25

- **Nazara's Q2FY25 rev. grew 27.5% QoQ (DE: 38.9%), a miss mainly led by a) Weaker-than-expected scale-up in eSports (both Nodwin & Sportskeeda) at 37% QoQ, b) Slower recovery in AdTech biz. (-6% QoQ), and c) Subscribers decline affecting Kiddopia (-0.4% QoQ).**
- **H1FY25 EBITDA was muted but positive seasonality (Gamified learning and eSports), consolidation of Fusebox (full quarter) and Space & Time should drive strong EBIDTA gains in H2 (DE: 65% YoY).**
- **Nazara outlined a slowdown in M&A momentum, prompting renewed focus on strong execution and improved overall performance. Thereby, we lower Rev. by 2.7%/2.6% and revise earnings by +3.2%/-4.5% for FY25E/FY26E. We also introduce FY27E with Rev. growth of 23%, OPM of 9% and earnings growth of 35%. Revise to 'BUY' rating with DCF-based TP of Rs. 1,100 (implies ~43x on FY27E EPS).**

Kiddopia weakens, but expect revival from multiple initiatives

Kiddopia saw Rev/Subs decline of 0.4%/4% QoQ, though absolute EBITDA & margin improved (up 14%/+311bps QoQ). Management outlined that it would focus on alternative ways to improve, e.g., Nazara is close to signing 1-2 IP license transactions (globally well-known) – that could help generate organic traffic (an announcement is expected within Q3). Post 100% acquisition of Kiddopia – it is working on no. of product iterations such as monthly, quarterly pricing tweaking, timing of trial period, parental controls, etc, and should result in improved growth performance in Q1FY26 onwards.

Weak H1; Robust line-up & Fan-centric strategy to drive Nodwin

Nodwin's H1 growth was lower at 7% YoY (up 69% YoY adj for Wings), but H2 promises a strong comeback with newly announced dates of its IPs - Comic Con (now 8 cities), PUBG in Uzbekistan, NH7 weekender and Playground Season 4. Nodwin has developed a strategy of developing a 'fan base' by way of hosting competitions (Masters, Challengers), scripted events (OnePlus Dominate Nights), music (NHK Anthem), merchandising (Marvel, Krafton), distribution (YouTube, MTV), influencers, and live experiences (Comic Con) that is expected to create a strong competitive moat and gradually improved profitability.

Seasonality & Biz. Consolidation drive H2 profitability

Positive seasonality in Kiddopia & Animal Jam, strong Nodwin IP line-up, Sportskeeda revival (coming off 1-time impact of Google traffic), is expected to lead a sharp EBITDA improvement in H2. Consolidation of Fusebox, and addition of Space & Time (AdTech), will help revive growth and profitability.

Key Data	
Nifty	23,533
Equity / FV	Rs 357mn / Rs 4
Market Cap	Rs 70bn
	USD 826.9mn
52-Week High/Low	Rs 1,117/ 592
Avg. Volume (no)	8,34,784
Bloom Code	NAZARA IN

	Current	Previous
Rating	**BUY**	**Accumulate**
Target Price	**1,100**	**1,150**

Change in Estimates

(Rs.bn)	Current		Chg (%)/bps	
	FY25E	FY26E	FY25E	FY26E
Revenue	14	18	4.0	9.0
EBITDA	2	2	0.9	(4.1)
EBITDA (%)	13.8	13.5	(43)	(185)
APAT	1	2	3.2	(4.5)
EPS (Rs)	15.1	19.0	(11.5)	(18.1)

Valuation (x)

	FY25E	FY26E	FY27E
P/E	60.3	47.9	35.5
EV/EBITDA	28.7	22.5	17.2
ROE (%)	5.3	5.2	6.6
RoACE (%)	4.7	4.5	6.1

Q2FY25 Result (Rs Mn)

Particulars	Q2FY25	YoY (%)	QoQ (%)
Revenue	3,189	7.3	27.5
Total Expense	2,938	9.1	30.5
EBITDA	252	(9.8)	1.0
Depreciation	257	70.7	69.3
EBIT	(6)	(105.0)	(106.0)
Other Income	253	105.8	(1.0)
Interest	18	(34.2)	207.0
EBT	230	8.2	(33.8)
Tax	37	(389.7)	(64.9)
RPAT	238	20.2	5.3
APAT	238	31.4	5.3
		(bps)	(bps)
Gross Margin	41.2	668	(193)
EBITDA (%)	7.9	(149)	(208)
NPM (%)	7.5	80	(158)
Tax Rate (%)	15.9	2182	(1412)
EBIT (%)	(0.2)	(408)	(406)

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Exhibit 1: Quarterly performance versus estimates

Particulars (Rs mn)		Estimates		% Variation		Comment
	Actual	Dolat	Consensus	Dolat	Consensus	
INR Revenue	3,189	3,473	3,246	(8.2)	(1.8)	Muted eSports led biz miss
EBIT	(6)	275	218	(102.1)	(102.7)	Weak op. perf. in eSports & higher depreciation exp. led miss.
EBIT, margin	(0.2)	7.9	6.7	(810 bps)	(690 bps)	
PAT	220	257	215	(14.4)	2.2	PAT miss narrowed on lower MI

Source: Company, Dolat Capital

Change in Estimates

For FY25E/FY26E: Q2 results were a miss as Revenue growth slowed due to a) Weak subscriber addition in Kiddopia (licensing deal benefit, if signed in Q3, will benefit only in Q1'FY26), b) weak scale-up in Ad-Tech, and c) GST related impact on RMG business remains, though there are early signs of finding ground on unit economics. Lower Rev. estimates by 2.7%/2.6%. OPM lowered by 164bps/255bps noting continued investments for growth. Overall earnings revised by 3.2%/-4.5%

FY27E: We introduce FY27E estimates with Revenue growth of 23.6% YoY, OPM of 8.9% and PAT growth of 35% YoY.

Exhibit 2: Change in Estimates

Particulars (Rs. Mn)	FY24A	FY25E			FY26E			FY27E
	Actual	Old	New	Change	Old	New	Change	Introduced
INR Revenue	11,411	**14,393**	**14,011**	**(2.7)**	**18,745**	**18,253**	**(2.6)**	**22,562**
YoY growth, %	4.3	18.3	23.1	477 bps	24.4	30.3	592 bps	23.6
EBIT	326	1,244	980	(21.2)	1,841	1,327	(27.9)	2,005
EBIT Margin (%)	2.9	8.6	7.0	(164 bps)	9.8	7.3	(255 bps)	8.9
Net Profit	566	1,309	1,350	3.2	1,781	1,700	(4.5)	2,295

Source: Company, Dolat Capital

Exhibit 3: Key assumptions in our estimates

Metrics	FY24A	FY25E	FY26E	FY27E
Gaming Vertical	(0.0)	25.9	26.8	14.2
-Kiddopia Growth YoY (%)	(0.5)	(9.9)	0.3	14.1
- Animal Jam Growth YoY (%)	81.4	11.2	15.0	12.0
- Fusebox		N.A	78.0	15.0
- Telco subscription Growth YoY (%)	(36.4)	(11.0)	(14.1)	(10.0)
- RMG Growth YoY (%)	(34.4)	(23.5)	62.3	33.7
- Freemium Growth YoY (%)	(12.7)	10.0	34.4	7.4
eSports Vertical	18.8	19.8	29.0	31.4
- Nodwin Growth YoY (%)	9.9	22.6	29.4	36.1
- Sportskeeda Growth YoY (%)	60.1	18.9	28.0	20.9
Ad-Tech Growth YoY (%)	(32.6)	29.0	51.1	16.1
INR Revenue growth (%)	4.3	23.1	30.3	23.6
EBIT Margins (%)	2.9	7.0	7.3	8.9
EPS growth (%)	40.2	49.8	52.5	35.0

Source: Company, Dolat Capital

Exhibit 4: Vertical growth quarterly

QoQ Growth	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Gaming	**(0.6)**	**(6.2)**	**(1.2)**	**(10.2)**	**1.9**	**23.1**
- Kiddopia	(0.2)	(2.3)	(2.8)	(6.9)	(3.7)	(0.4)
- Animal Jam	(1.8)	(0.5)	22.4	(10.4)	(1.7)	1.7
- Fusebox	N.A	N.A	N.A	N.A	N.A	N.A
- Telco subscription	(6.1)	(31.5)	(5.4)	7.1	12.0	(15.5)
- Freemium	38.5	(25.0)	0.0	(27.8)	66.7	(18.5)
-Real money gaming	(11.0)	(1.8)	(35.1)	(36.8)	10.4	9.4
eSports	**(15.9)**	**46.0**	**12.6**	**(23.5)**	**(10.9)**	**37.8**
- Nodwin	(36.7)	82.8	6.8	(26.0)	(28.4)	91.4
- Sportskeeda	59.6	(9.6)	44.4	(18.1)	24.3	(24.6)
AdTech	**(30.5)**	**(17.0)**	**16.0**	**5.3**	**(6.5)**	**(6.2)**
INR Revenue	**(12.1)**	**16.8**	**7.8**	**(16.9)**	**(6.1)**	**27.5**

Source: Company, Dolat Capital

Exhibit 5: Quarterly Trend

Rs mn	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	QoQ (%)	YoY (%)	H1FY24	H1FY25	YoY (%)
INR Revenue	**2,972**	**3,204**	**2,662**	**2,501**	3,189	27.5	7.3	5,517	5,690	3.1
Operating Exp.	2,694	2,827	2,370	2,252	2,938	30.5	9.1	4,907	5,189	5.8
EBITDA	279	377	292	249	252	1.0	(9.8)	610	501	(17.9)
Depreciation	163	166	472	152	257	69.1	58.1	316	410	29.8
EBIT	116	211	(179)	97	(6)	(106.0)	(105.0)	294	91	(69.0)
Other Income	123	179	377	256	253	(1.0)	105.8	240	509	111.6
Finance Cost	27	20	8	6	18	207.0	(34.2)	39	23	(41.1)
Share of Associate	0	0	(20)	(7)	(12)	NA	NA	0	(19)	NA
PBT	212	370	169	340	218	(36.1)	2.4	495	558	12.7
Total Tax	(13)	80	(1)	104	37	(64.9)	(389.7)	62	141	128.6
PAT Before MI	225	290	171	236	181	(23.4)	(19.6)	434	417	(3.8)
MI	44	38	87	10	(57)	(678.8)	(231.4)	57	(47)	(182.9)
Rep. PAT After MI	198	258	(85)	226	220	(2.9)	10.8	393	446	13.4
Reported EPS	3.0	3.5	(1.1)	3.0	**2.9**	**(2.9)**	**(4.2)**	**5.9**	**5.8**	**(1.9)**
Margins (%)						**(bps)**	**(bps)**			**(bps)**
EBIDTA	9.4	11.8	11.0	10.0	7.9	(208 bps)	(149 bps)	11.1	8.8	(225 bps)
EBIT	3.9	6.6	(6.7)	3.9	(0.2)	(406 bps)	(408 bps)	5.3	1.6	(373 bps)
PBT	7.1	11.5	6.4	13.6	6.8	(679 bps)	(33 bps)	9.0	9.8	83 bps
PAT	7.6	9.1	6.4	9.4	5.7	(377 bps)	(189 bps)	7.9	7.3	(53 bps)
Effective Tax rate	(5.9)	21.5	(0.7)	30.6	16.8	(1381 bps)	2271 bps	12.4	25.2	1278 bps

Source: Company, Dolat Capital, Depreciation includes impairment

What to expect Next Quarter

We expect 32.6% QoQ growth in Q3FY25 (32% YoY), led by strong seasonality across businesses – Gaming (Kiddopia, Animal Jam), and eSports (from strong event line-up) while other segments report broad-based growth with improved sequential metrics. We expect OPM to bounce back, led by operating leverage and favourable mix.

Exhibit 6: What to expect Next Quarter

Particulars -(Rs Mn)	Q3FY25E	Q2FY25	Q3FY24	QoQ (%)	YoY (%)
INR Revenue	4,229	3,189	3,204	32.6	32.0
EBIT	332	(6)	211	LTP	57.3
PAT	333	220	258	51.8	29.4
EPS (Rs)	3.7	2.9	3.5	30.2	6.3
EBIT Margin (%)	7.9	(0.2)	6.6	804 bps	127 bps

Source: Company, Dolat Capital

Earnings Call KTAs

- **Revenue:** Nazara Tech's reported Revenue growth of 27.5% QoQ at Rs. 3,189 mn, but below our estimate of Rs. 3,473mn. Revenue miss was primarily due to a) Weaker than expected scale up in eSports (both Nodwin and Sportskeeda), b) Slower recovery in AdTech biz., and c) Continued subscriber decline in Kiddopia.

Exhibit 7: Revenue Analysis for Q2FY25

Particulars	Amount (Rs. Mn)	QoQ (%)	YoY (%)	Mix (%)	Incremental Revenue	Contribution to Incremental Revenue
Gaming	**1,142**	**23.1**	**11.2**	**35.8**	**214**	**31.1**
- Kiddopia	488	(0.4)	(13.3)	15.3	(2)	(0.3)
- Animal Jam	240	1.7	9.6	7.5	4	0.6
- Fusebox	232	N.M	N.M	7.3	232	33.7
- Telco subscription	71	(15.5)	(4.1)	2.2	(13)	(1.9)
- Freemium	53	(18.5)	(1.9)	1.7	(12)	(1.7)
- Real money gaming	58	9.4	(50.5)	1.8	5	0.7
eSports	**1,818**	**37.8**	**5.7**	**57.0**	**499**	**72.5**
- Nodwin (incl. Publishme)	1,359	91.4	8.4	42.6	649	94.2
- SportsKeeda	459	(24.6)	10.9	14.4	(150)	(21.8)
Adtech	241	(6.2)	7.1	7.6	(16)	(2.3)
Inter-Segment	(12)	N.M	N.M	(0.4)	(8.4)	(1.2)
Total	**3,189**	**27.5**	**7.3**	**92.7**	**689**	**100.0**

Source: Company, Dolat Capital

Gaming Business (35.8% of Revenue):

- The Gaming business, which includes: Kiddopia, Animal Jam, Freemium - Fusebox (Love Island), Telco subscription, Freemium- World Cricket Championship and Real money gaming, grew by 23% QoQ, and 11.2% YoY.

Kiddopia (20% of Rev):

- Kiddopia saw Revenue of Rs.488mn, down 0.4% QoQ (estm of Rs. 516mn). Kiddopia continued to witness subscriber decline, down 4% QoQ, with subscriber count at 2,37,185 witnessing the 6th straight quarter of user decline.

- Nazara completed a 100% acquisition of Kiddopia and has merged Paperboat Pvt. Ltd (entity owning Kiddopia) and expects to improve KPIs going forward. It is also hopeful of an IP licensing deal to drive organic growth, but that is likely only by Q1'FY26 (running behind schedule by 6 months).
- ARPU climbed to $6.95 (Q1'25: $6.92) but Cost per Trial rose to $40.9 ($38.6 in Q1FY25).
- In terms of ranking, Kiddopia' retained its ranking amongst the Top#3 Grossing App (as per App Annie for Apple users in the US for Kids under 5 years of age) indicating continued product stickiness and content relevance.
- Marketing spends lowered to $2.3mn (Q1FY25: $2.4mn), which led to a better EBITDA Margin of 24.3%, up 311bps QoQ (estm: 23%).
- **From Concall:**
- Management outlined that it would focus on alternative ways to improve, e.g., Nazara is close to signing 1-2 IP license transactions (globally well known) – that could help generate organic traffic (announcement is expected within Q3). Post 100% acquisition of Paperboat – working on no. of product iterations such as monthly, quarterly pricing tweaking, timing of trial period, parental controls, etc.

Exhibit 8: Business Metrics

Particulars	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
Paying Subscribers	310,981	311,758	3,01,714	2,92,488	2,73,249	255,382	246,943	237,185
Monthly Churn Rate (%)	5.9	6.5	5.9	6.2	6.7	7.3	6.6	6.5
ARPU ($ Abs)	6.76	6.81	6.77	6.63	.82	6.89	6.92	6.95
CPT ($ Abs)	37.3	35.9	39.3	38.9	40.9	39.0	38.6	40.9
Activation Ratio	70.0	70.0	68.0	66.0	67.0	66.0	67.0	67.0
Marketing Spend ($mn)	3.4	3.2	2.6	2.7	2.3	2.4	2.4	2.3

Source: Company

Animal Jam (9% of Rev):

- **Revenue**: Animal Jam reported Revenue of Rs. 240mn, up 1.7% QoQ (Estm: Rs. 241mn).
- **EBITDA margin** rose to 16.3%, up 15 bps QoQ (estm: 17%). On a YoY basis, EBITDA margin continued to trend lower (Q2'FY24: 24.2%) due to significantly higher investment in user acquisition, which management expects to pay back over 12-18 months.
- Management expects better traction in a seasonally strong Q3, expressed more confidence in the product prospects, and reiterated exploring and integrating popular IPs into Animal Jam to drive greater user acquisition.
- **Ranking**: Animal Jam continued to occupy the top grossing ranking for kids (9-11 years) in the US, as per App Genie at #1 in its category.

FuseBox (7% of Rev)

- Fusebox operates IP-driven interactive story games (Like Love Island) that are primarily monetized through in-app purchases.
- Q2 marked the 1st quarter of Fusebox consolidation, though consolidation was from 23rd August (38 days consolidation).
- Fusebox reported Revenue of Rs. 232mn, and EBITDA margin of 19.4%. Nazara had acquired Fusebox in Aug'24 for Rs. 2,280mn.

Real Money Gaming (2% of Rev)

- RMG grew by 9.4% QoQ to Rs. 58Mn (estm of Rs.60Mn).
- Due to the impact of GST and continued costs, EBITDA reported a loss of Rs. 6mn (loss lowered vs. Q1, which had a loss of Rs. 11mn). EBITDA margin came in -10.3% vs. our estimate of -13.3% loss.
- The new GST regime since 1st Oct 2023, continues to affect Real Money Gaming segment's business and profitability. Q2'FY25 presentation did not share Monthly active users' data.
- Nazara stated that sequentially, there has been an improvement in overall GGR (Gross gaming Revenue) and overall played value, and OpenPlay is on track to turn profitable in Q3.
- **Acquisition of Pokerbaazi**: On 13th Sept, 2024, Nazara announced acquisition of 47.7% stake in Moonshine Technology Pvt. Ltd. for Rs. 8.3Bn. Moonshine houses the online Poker gaming brand, 'Pokerbaazi'. PokerBaazi is India's leading online poker real-money gaming company with ~340K monthly active users as of May 2024. The acquisition would be a mix of cash (Rs. 5.9Bn) and preferential share issue to promoters (Rs. 2.4Bn, involving ~3.3% dilution at price of Rs. 954). Nazara would also infuse Rs. 1.5Bn via convertible preference share in the target. Nazara expects to close this transaction in Q3. Management did not commit to a timeline for the consolidation of this business.

Telco Subscription (3% of Rev):

- **Revenue** stood at Rs.71mn, down 15.5% QoQ, (Est. Rs.83mn). **EBITDA Margin** stood at 25.4% (+15.5% in Q1FY25), vs. our estimate of EBITDA margin of 18.3%.

Freemium (3% of Rev):

- **Revenue** stood at Rs.53mn, down 18.5% QoQ basis, (Estm. Rs. 62mn). EBITDA reported 3rd consecutive quarter of loss of Rs. 5Mn, with margin of -9.4% (estm:+ 0.9%) vs. Q1'FY25 margin of -4.6%. Nazara did not share MAU/DAU data.

eSports Business (57% of Rev):

- The eSports business (Nodwin, Freaks4U, Sportskeeda) grew by 37.8% QoQ to Rs. 1,818Mn (estm of Rs. 2,219Mn).

Nodwin (28% of Rev):

- Nodwin reported a growth of 91% QoQ. and reported Revenue of Rs. 1,359mn (Estm Rs.1,609mn). Given the strong lineup of multiple events/IPs and acquisition of various assets (Comic Con, Freaks4U, etc), scale-up could have been better.
- Nodwin continued to report EBITDA loss and stood at Rs. 9mn with a margin of -0.7% (-2.1% in Q1FY25) vs. our estimate of 3.5%. We will seek additional clarity on weak operating performance.
- Management outlined that it has a healthy pipeline of upcoming events in the next 2 quarters – Comic Con, PUBG Mobile in Uzbekistan, NH7 Weekender, Playground Season 4, etc. A new data point was shared in terms of International Revenues, which contributed 40% of Nodwin Revenue in H1'FY25, compared to 19% in FY'24 – a big part of this would be Freaks4u.

From Concall:

- H2 promises a strong comeback with newly announced dates of its IPs - Comic Con (now 8 cities), PUBG Mobile in Uzbekistan, NH7 weekender and Playground Season 4. Nodwin has developed a strategy of developing a 'fan base' by way of hosting competitions (Masters, Challengers), scripted events (OnePlus Dominate Nights), music (NHK Anthem), merchandising (Marvel, Krafton), distribution (YouTube, MTV), influencers (Samay Raina), and live experiences (Comic Con) that is expected to create a strong competitive moat.

SportsKeeda (24% of Rev):

- SportsKeeda revenue declined by 24.6% QoQ to Rs.459Mn (estm of Rs. 610Mn). Revenues were impacted by a short-term dip in Pro Football Network, due to an issue in Google traffic-led volatility, just before starting of the season. Management expects a recovery in the next few quarters.
- MAU's grew 5.4% QoQ at 65Mn.
- EBITDA Margin lowered significantly to 21.4% (Q1FY25: 32.5%), and below our estimate of 34%.
- Commenting on its Soapcentral.com acquisition, management stated that early results have been encouraging, and there has been a 2X+ increase in Pageview Run-Rate since the acquisition date.

Adtech Business (10% of Rev):

- Adtech Business reported Revenues at Rs.241Mn, down 6.2% QoQ, lower than our estimate of Rs. 293mn. Management reiterated that it continued to move away from lower-margin business, which led to lower revenue.
- Gross margins improved to 29.5% from 28.4%, due to a higher share of product business.
- EBITDA margin stood at 7.5% (Q1FY25: 2.7%), vs. our estimate of 4.3%. Management shared that it continued to invest in product development and marketing efforts and expects better results in H2'FY25 and FY'26.

Overall Financial Performance:

- **EBIT:** EBIT posted loss of Rs. 6mn, way below compared to our estimate of Rs. 275Mn in operating profits. Key segment miss came from loss in Nodwin and weak profitability performance in Sportskeeda. Higher depreciation from Fusebox and Freaks4U addition led to lower EBIT.
- **PAT**: PAT stood at Rs. 220mn (estimate: Rs. 257Mn), as part of the miss was recouped from higher other income and lower minority interest outgo.

Key Acquisitions and Announcements:

Pokerbaazi:

- In Sept, 2024, Nazara announced the acquisition of 47.7% stake in Moonshine Tech that houses 'PokerBaazi', India's leading online poker real-money gaming company. The acquisition would be a mix of cash (Rs. 5.9Bn) and preferential share issue to promoters (Rs. 2.4Bn, involving ~3.3% dilution at a price of Rs. 954). Nazara would also infuse Rs. 1.5Bn via convertible preference share in the target.
- This acquisition represents Nazara's single largest investment till date, and a big bet on real money gaming. Target entity is in hyper growth stage and is EBITDA

positive, well justifying FY'24 Rev./EBITDA multiple of 4.2x/42x. Since acquisition is for less than 50% stake, it will not be consolidated. For more details, refer to our note on the same.

Raising stake in Absolute Sports (Sportskeeda)

- In Sept-24, Nazara announced raising stake in Absolute Sports (Parent company of Sportskeeda) by 19.35%, taking total holding to 91% (balance 9% to be held by employees as part of ESOP).
- This stake will be acquired by way of: i) Cash consideration of Rs. 727mn, and ii) a balance Rs. 727mn by way of equity swap. – to be fulfilled by issue of 0.76mn shares of Nazara to founders of Absolute Sports, (price of Rs. 954) and would lead to full consolidation of the economic interest.

Minority Stake in Gaming Platform STAN

- In Oct-24, Nazara announced an acquisition of a 15.86% stake in GetStan Technologies Pte. Ltd (STAN), a leading esports community platform in India. Nazara will purchase 15.86% in STAN for ~Rs. 184mn (US$2.2mn) in an all-cash secondary transaction.
- As of July 2024, STAN's user base was 12mn+, with 80%+ of users coming through organic and referral-based channels. The platform has shown strong monetization, with 500K+ paying users and a high 30-day retention rate of over 60%. Its mobile app has gained significant traction, consistently ranking in top 51 on the Google Play Store with a 4.7-star rating over the past year and has had 10mn+downloads till date.
- Nazara's investment in STAN strengthens its position in the gaming and esports landscape.

Acquisition of U.K based AdTech Space and Time

- In Oct 24, Datawrkz, the digital Ad-tech subsidiary of Nazara (33% stake), announced the acquisition of U.K based growth marketing agency, Space & Time (S&T) for ~Rs. 420mn. S&T operates through multiple media channels i.e. traditional media, social media (incl. biddable media, content marketing, programmatic), technology (incl. data visualization, analytics, search engine optimization, etc) as well as training.
- **Financials**: For FY'24, S&T reported Revenue of ~Rs. 1,160mn, EBITDA of Rs. 210mn, growing at a 2-year CAGR of 12%/22% respectively, and EBITDA margin expanding from 15% in FY'22 to 18% in FY'24.
- Acquisition of S&T aims to boost Datawrkz group's revenue and EBITDA through cross-selling of products and services as well as achieving cost synergies and provide greater access to UK and European expansion.
- Acquisition is attractive at 0.45x/2.5x of FY'24 Rev. and EBITDA.

Preferential Issue:

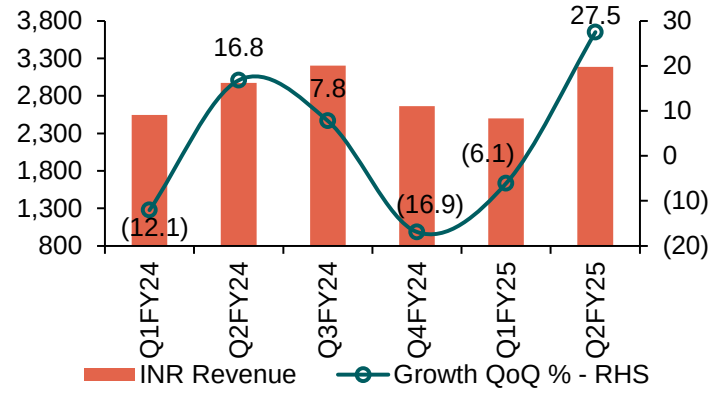
- In Sept-2024, Nazara announced preferential issue up to Rs. 9Bn, comprising of 9.4mn shares at price of Rs. 954. Preferential allotment includes investors such as: i) SBI MF (24% allotment ~Rs. 2.2Bn), ii) Junomoneta Finsol (Plutus Wealth Associate co, 17% allotment, Rs. 1.5Bn), iii) Think India Opportunities Fund (Rs.1.5Bn), iv) Discovery Global opportunity, (9%, Rs. 800mn), and 7 other investors with the rest (cumulative - 33% or Rs. 3Bn).

Valuation

Given the gaming industry's infancy stage in India with Average Rev per Gamer of just $10 p.a. (versus US/China at $73/$35), we believe Nazara can compound its revenues multifold over coming decade. We have currently factored in Revenue CAGR of 20.2% (earlier 19.3%) over FY24-40E with an Average EBIT Margin of 11.9% and Terminal growth rate of 3.5%. Based on these assumptions, we have arrived at DCF-based fair value of Rs.1,100 (from Rs. 1,050) which implies ~43x on FY27E earnings and revise to **'BUY'** (earlier Accumulate) rating on the stock.

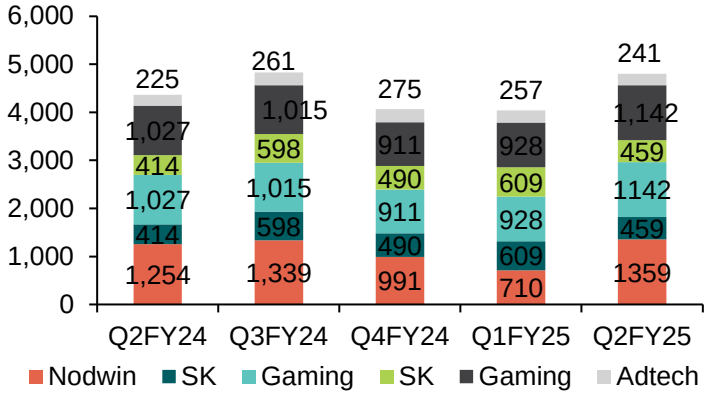
Story in Charts

Exhibit 9: Inorganic addition led Q2 Growth



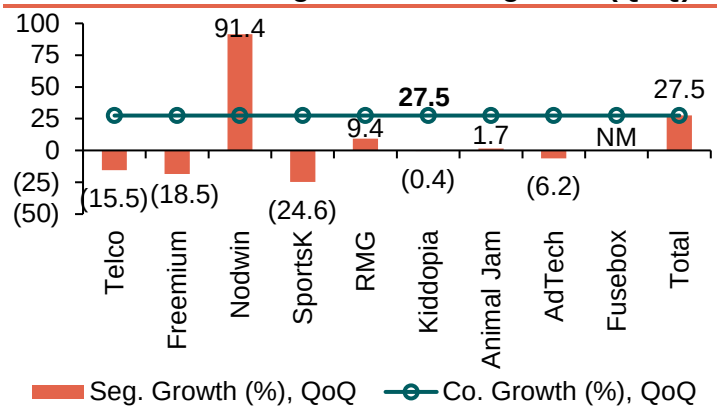
Source: Company, Dolat Capital

Exhibit 10: Business-wise Performance



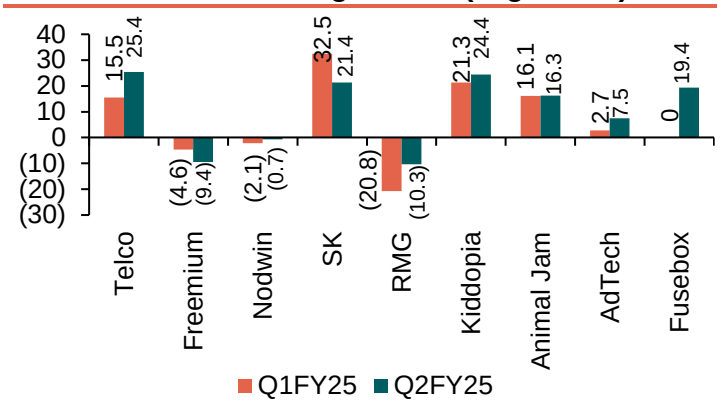
Source: Company, Dolat Capital

Exhibit 11: Biz. wise growth vs. Co. growth (QoQ)



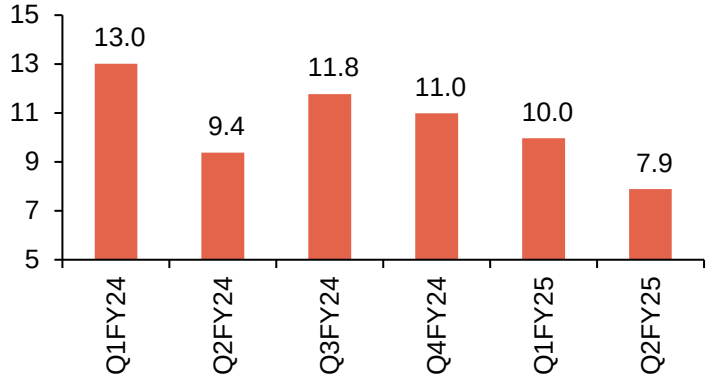
Source: Company, Dolat Capital

Exhibit 12: EBITDA margin trend (segmental)



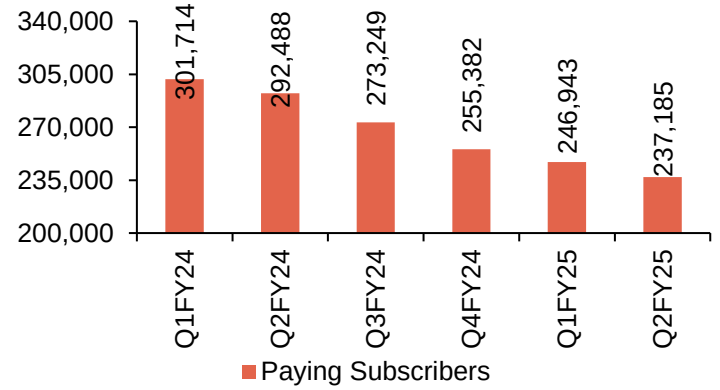
Source: Company, Dolat Capital

Exhibit 13: EBITDA margin down 208bps QoQ



Source: Company, Dolat Capital

Exhibit 14: Paying subs. contd. to decline



Source: Company, Dolat Capital

Exhibit 15: Segment Analysis

Segment Revenue (Rs. mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	QoQ (%)	YoY (%)	H1'FY24	H1'FY25	YoY (%)
Gaming	**1,027**	**1,015**	**911**	**928**	**1,142**	**23.1**	**11.2**	**2,122**	**2,070**	**(2.5)**
- Kiddopia	563	547	509	490	488	(0.4)	(13.3)	1,139	978	(14.1)
- Animal Jam	219	268	240	236	240	1.7	9.6	439	476	8.4
- Fusebox	N.A	N.A	N.A	N.A	232	N.M	N.M	N.M	232	N.M
- Telco subscription	74	70	75	84	71	(15.5)	(4.1)	182	155	(14.8)
- Freemium	54	54	39	65	53	(18.5)	(1.9)	126	118	(6.3)
-Real money gaming	117	76	48	53	58	9.4	(50.5)	236	111	(53.0)
eSports	**1,720**	**1,937**	**1,481**	**1,319**	**1,818**	**37.8**	**5.7**	**2,898**	**3,137**	**8.2**
- Nodwin	1,254	1,339	991	710	1,359	91.4	8.4	1,940	2,069	6.6
- Sportskeeda	414	598	490	609	459	(24.6)	10.9	872	1,068	22.5
Adtech	**225**	**261**	**275**	**257**	**241**	**(6.2)**	**7.1**	**496**	**498**	**0.4**
Inter-Segment		(9)	(5)	(3)	(12)	N.M	N.M	-	(15)	N.M
Total Revenue	**2,972**	**3,204**	**2,662**	**2,501**	**3,189**	**27.5**	**7.3**	**5,517**	**5,690**	**3.1**

Segment EBITDA (Rs. mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	QoQ (%)	YoY (%)	H1'FY24	H1'FY25	YoY (%)
Gaming	**218**	**167**	**163**	**141**	**210**	**48.7**	**(3.7)**	**487**	**351**	**(27.9)**
- Kiddopia	129	154	117	104	119	14.2	(8.0)	290	223	(23.1)
- Animal Jam	53	60	29	38	39	2.6	(26.4)	103	77	(25.2)
- Fusebox	N.A	N.A	N.A	N.A	45	N.M	N.M	N.M	45	N.M
-Telco subscription	(6)	(29)	8	13	18	38.5	(386.1)	25	31	25.5
-Freemium	11	7	(3)	(3)	(5)	66.7	(145.5)	36	(8)	(122.2)
-Real money gaming	31	(25)	12	(11)	(6)	(45.5)	(119.3)	33	(17)	N.M
eSports	**100**	**245**	**186**	**183**	**89**	**(51.4)**	**(11.0)**	**203**	**272**	**34.0**
- Nodwin	13	(22)	56	(15)	(9)	(40.0)	(169.2)	(35)	(24)	(31.4)
- Sportskeeda	96	267	130	198	98	(50.5)	2.1	253	296	17.0
Adtech	**14**	**34**	**17**	**7**	**18**	**157.1**	**28.6**	**32**	**25**	**N.A**
Unallocated	(67)	(70)	(58)	(84)	(64)			(127)	(148)	16.1
Total Segment EBITDA	**265**	**376**	**308**	**248**	**253**	**2.2**	**(4.6)**	**419**	**427**	**1.8**

Segment EBITDA Margin %	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	QoQ (bps)	YoY (bps)	FY23	FY24	YoY (bps)
Gaming	**21.3**	**16.4**	**17.9**	**15.2**	**18.4**	**317 bps**	**(285 bps)**	**23.0**	**17.0**	**(598 bps)**
- Kiddopia	23.0	28.1	23.0	21.3	24.4	311 bps	141 bps	25.5	22.8	(265 bps)
- Animal Jam	24.2	22.4	12.1	16.1	16.3	15 bps	(795 bps)	23.5	16.2	(729 bps)
- Fusebox	N.A	N.A	N.A	N.A	19.4	N.M	N.M	N.M	19.4	N.M
-Telco subscription	(8.5)	(41.4)	10.7	15.5	25.4	988 bps	3385 bps	13.6	20.0	642 bps
-Freemium	20.4	13.0	(7.7)	(4.6)	(9.4)	(482 bps)	(2980 bps)	28.6	(6.8)	(3535 bps)
-Real money gaming	26.6	(32.9)	25.0	(20.8)	(10.3)	1041 bps	(3690 bps)	14.0	(15.3)	(2932 bps)
eSports	**5.8**	**12.7**	**12.6**	**13.9**	**4.9**	**(898 bps)**	**(92 bps)**	**7.0**	**8.7**	**167 bps**
- Nodwin	1.0	(1.6)	5.7	(2.1)	(0.7)	145 bps	(170 bps)	(1.8)	(1.2)	64 bps
- Sportskeeda	23.2	44.6	26.5	32.5	21.4	(1116 bps)	(184 bps)	29.0	27.7	(130 bps)
Adtech	**6.2**	**13.0**	**6.1**	**2.7**	**7.5**	**475 bps**	**125 bps**	**6.5**	**5.0**	**(143 bps)**
Total EBITDA Margin	**8.9**	**11.7**	**11.6**	**9.9**	**7.9**	**(197 bps)**	**(99 bps)**	**7.6**	**7.5**	**(10 bps)**

Source: Company, Dolat Capital

Financial Performance

Profit and Loss Account

(Rs Mn)	FY24A	FY25E	FY26E	FY27E
Revenue	**11,383**	**14,011**	**18,253**	**22,562**
Total Expense	**10,104**	**12,071**	**15,782**	**19,417**
COGS	7,165	7,847	9,891	12,527
Employees Cost	1,860	2,827	3,602	4,265
Other expenses	1,079	1,396	2,288	2,625
EBIDTA	**1,279**	**1,940**	**2,472**	**3,145**
Depreciation	670	960	1,144	1,140
EBIT	**326**	**980**	**1,327**	**2,005**
Interest	68	28	10	10
Other Income	796	828	851	1,035
Exc. / E.O. items	0	0	0	0
EBT	**1,054**	**1,781**	**2,169**	**3,031**
Tax	140	457	536	700
Minority Interest	182	(75)	(68)	36
Profit/Loss share of associates	(20)	(49)	0	0
RPAT	**566**	**1,350**	**1,700**	**2,295**
Adjustments	(147)	0	0	0
APAT	**713**	**1,350**	**1,700**	**2,295**

Balance Sheet

(Rs Mn)	FY24A	FY25E	FY26E	FY27E
Sources of Funds				
Equity Capital	306	357	357	357
Minority Interest	3,360	3,284	3,217	3,252
Reserves & Surplus	19,680	30,527	32,227	34,522
Net Worth	**19,986**	**30,884**	**32,584**	**34,879**
Total Debt	0	0	0	0
Net Deferred Tax Liability	187	297	312	317
Total Capital Employed	**23,532**	**34,465**	**36,112**	**38,448**
Applications of Funds				
Net Block	**6,081**	**14,660**	**14,630**	**14,594**
CWIP	0	0	0	0
Investments	10,815	7,245	6,895	6,895
Current Assets, Loans & Advances	**10,638**	**18,842**	**20,313**	**23,154**
Current Investments	0	0	0	0
Inventories	21	21	21	21
Receivables	2,749	2,687	3,601	4,451
Cash and Bank Balances	5,670	14,210	14,307	15,814
Loans and Advances	316	19	25	31
Other Current Assets	1,881	1,904	2,359	2,837
Less: Current Liabilities & Provisions	**4,002**	**6,283**	**5,726**	**6,196**
Payables	2,401	2,791	2,360	2,560
Other Current Liabilities	1,601	3,492	3,367	3,636
sub total				
Net Current Assets	6,636	12,559	14,587	16,959
Total Assets	**23,532**	**34,465**	**36,112**	**38,448**

E – Estimates

Important Ratios

Particulars	FY24A	FY25E	FY26E	FY27E
(A) Margins (%)				
Gross Profit Margin	37.1	44.0	45.8	44.5
EBIDTA Margin	11.2	13.8	13.5	13.9
EBIT Margin	2.9	7.0	7.3	8.9
Tax rate	13.3	25.7	24.7	23.1
Net Profit Margin	5.0	9.6	9.3	10.2
(B) As Percentage of Net Sales (%)				
COGS	62.9	56.0	54.2	55.5
Employee	16.3	20.2	19.7	18.9
Other	9.5	10.0	12.5	11.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	4.8	35.6	138.2	208.9
Inventory days	1	1	0	0
Debtors days	88	70	72	72
Average Cost of Debt				
Payable days	77	73	47	41
Working Capital days	213	327	292	274
FA T/O	1.9	1.0	1.2	1.5
(D) Measures of Investment				
AEPS (Rs)	9.3	15.1	19.0	25.7
CEPS (Rs)	18.1	25.9	31.9	38.5
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (Rs)	261.1	346.1	365.1	390.8
RoANW (%)	3.6	5.3	5.2	6.6
RoACE (%)	5.3	4.7	4.5	6.1
RoAIC (%)	2.2	5.1	6.1	8.9
(E) Valuation Ratios				
CMP (Rs)	912	912	912	912
Mcap (Rs Mn)	69,810	69,810	69,810	69,810
EV	64,140	55,600	55,503	53,996
MCap/ Sales	6.1	5.0	3.8	3.1
EV/Sales	5.6	4.0	3.0	2.4
P/E	97.9	60.3	47.9	35.5
EV/EBITDA	50.1	28.7	22.5	17.2
P/BV	3.5	2.6	2.5	2.3
Dividend Yield (%)	0.0	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue	4.3	23.1	30.3	23.6
EBITDA	16.6	51.7	27.4	27.3
EBIT	(25.9)	200.6	35.4	51.1
PBT	18.7	68.9	21.8	39.7
APAT	72.2	89.4	25.9	35.0
EPS	49.0	62.4	25.9	35.0

E – Estimates

Cash Flow

Particulars	FY24A	FY25E	FY26E	FY27E
Profit before tax	**887**	**1,732**	**2,169**	**3,031**
Depreciation & w.o.	670	960	1,144	1,140
Net Interest Exp	(331)	(801)	(842)	(1,026)
Direct taxes paid	(406)	(457)	(536)	(700)
Change in Working Capital	(39)	2,726	(1,916)	(859)
Non Cash	126	0	0	0
(A) CF from Operating Activities	**908**	**4,160**	**20**	**1,586**
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(1,200)	(9,539)	(1,114)	(1,104)
Free Cash Flow	**(293)**	**(5,379)**	**(1,094)**	**482**
(Inc)./ Dec. in Investments	(5,072)	3,570	350	0
Other	242	0	0	0
(B) CF from Investing Activities	**(6,030)**	**(5,969)**	**(764)**	**(1,104)**
Issue of Equity/ Preference	9,220	9,548	0	0
Inc./(Dec.) in Debt	336	0	0	0
Interest exp net	0	0	0	0
Dividend Paid (Incl. Tax)	0	0	0	0
Other	(93)	801	842	1,026
(C) CF from Financing	**9,463**	**10,349**	**842**	**1,026**
Net Change in Cash	4,249	8,540	97	1,507
Opening Cash balances	**1,421**	**5,670**	**14,209**	**14,306**
Closing Cash balances	**5,670**	**14,209**	**14,306**	**15,814**

E – Estimates

Notes

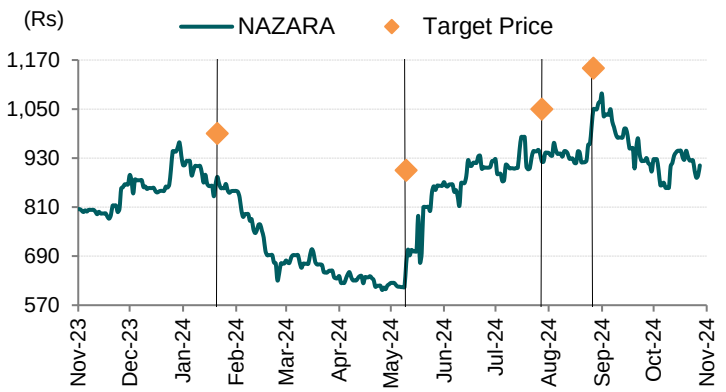
Stock Info and Rating History

Price Performance

Particulars	1M	3M	12M
Absolute (%)	(2)	(3)	13
Rel to NIFTY (%)	4	1	(6)

Shareholding Pattern

Particulars	Mar'24	Jun'24	Sep'24
Promoters	16.4	10.1	10.1
MF/Banks/FIs	16.8	16.8	16.8
FIIs	16.1	6.1	6.1
Public / Others	50.7	67.1	67.1



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-24	Accumulate	990	884
May-24	BUY	900	673
Aug-24	Accumulate	1,050	922
Sep-24	Accumulate	1,150	1,050

**Price as on recommendation date*

Notes

Dolat Rating Matrix

Total Return Expectation (12 Months)

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

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DOLAT CAPITAL

IN-DEPTH-PRECISE-ACTIONABLE

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