

Nazara Technologies Ltd.

Nazara Technologies Ltd. is the leading India based diversified gaming and sports media platform with presence in India and across emerging and developed global markets such as Africa and North America, and offerings across the interactive gaming, eSports and gamified early learning systems including World Cricket Championship (WCC) and CarromClash in mobile games, Kiddopia in gamified early learning, Nodwin and Sportskeeda in eSports and eSports media, Halaplay and Qunami in skill-based, fantasy and trivia games.

Positives: (a) Leadership position in a diversified and scalable business (b) Portfolio of premium intellectual property and content across regions and businesses. (c) Large and engaged community of users, with attractive monetization opportunities (d) Successful inorganic growth through strategic acquisitions. (e) Profitable platform model benefitting from India growth story with limited regulatory risk.

Investment concerns: (a) Company with global operations and subject to risks and uncertainties of conducting business outside India. (b) Company success is tied to the continued use of the internet and smartphones, and the reliability and adequacy of online infrastructure in India and emerging markets and data pricing. (c) Company may fail to compete effectively in the markets in which it operates (d) Any inability to protect IP or any third-party claims in relation to infringement of existing intellectual property rights or in the future could materially adversely affect the business, reputation, financial condition, results of operations and cash flows..

Outlook & Valuation: Nazara Technologies is present in the fast growing segment of interactive gaming, eSports and gamified early learning solutions. After posting a degrowth of 1.4% in FY2019 the company has posted strong revenue growth of 45.9% in FY2020 to ₹247.5 cr. The company has already posted a revenue of ₹200 cr. in H1FY2021. The company has been reporting losses as they have increased their spending significantly on advertising & promotion from FY2020 onwards which will help drive strong topline growth for the company. At current levels the stock is trading at EV/Sales of 11.6x FY20 revenues and we recommend a "SUBSCRIBE" rating to the IPO given strong growth potential for the company.

Key Financials

Y/E March (₹ cr)	FY2018	FY2019	FY2020
Net Sales	172.0	169.7	247.5
% chg	-	-1.4	45.9
Net Profit	2.6	18.0	-10.5
% chg	-	595.9	-
EBITDA (%)	28.3	9.6	-2.2
EPS (Rs)	0.4	2.4	-9.5
P/E (x)	2,902.9	450.6	-115.8
P/BV (x)	7.7	6.9	5.2
ROE (%)	0.3	1.5	-4.5
ROCE (%)	9.6	-0.7	-5.1
EV/EBITDA	59.8	176.8	-518.8
EV/Sales	16.9	17.0	11.6

Source: Company, Angel Research.

Note: Valuation ratios at upper price band.

Please refer to important disclosures at the end of this report

SUBSCRIBE

Issue Open: March 17, 2021

Issue Close: March 19, 2021

Face Value: Rs 4

Present Eq. Paid up Capital: Rs 12.2 cr

Offer for Sale: 0.53cr sh

Fresh issue: 0 cr sh

Post Eq. Paid up Capital: Rs 12.2cr

Issue size (amount): Rs 582-583cr

Price Band: Rs 1100-1101

Lot Size: 13 shares and in multiple thereafter

Post-issue mkt. cap: *Rs 3350 cr - **Rs 3353 cr

Promoters holding Pre-Issue: 23.0%

Promoters holding Post-Issue: 20.7%

*Calculated on lower price band

** Calculated on upper price band

Book Building

QIBs	75% of issue
Non-Institutional	15% of issue
Retail	10% of issue

Post Issue Shareholding Pattern

Promoters	20.7%
Others	79.3%

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Company background

Company was originally incorporated as ‘Nazara.Com Private Limited’ on December 8, 1999 at Mumbai, Maharashtra, later on Company was changed to Nazara Technologies Private Limited. Company provides interactive mobile games, eSports content and gamified early learning apps which are entertaining, locally relevant and result in positive engagement and longer retention of users of its platform. Its revenue model and profitability are on leveraging capabilities of in-house content creation, game engine development, technology stack development, its relationships with other participants in gaming ecosystems and skilled leadership

Issue details

The issue comprises of offer for sale of upto 52,94,392 crore in the price band of ₹1100-1101.

Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	6,994,868	23.0%	6,302,968	20.7%
Public	23,457,968	77.0%	24,149,868	79.3%
Total	30,452,836	100.0%	30,452,836	100.0%

Source: Company, Angel Research & RHP.

Objectives of the Offer

- To carry out the Offer for Sale of up to 4,965,476 Equity Shares by the Selling Shareholders;
- achieve the benefits of listing the Equity Shares on the Stock Exchange

Key Management Personnel

Vikash Mittersain is the Chairman and Managing Director of the Company. He has been associated as Director of the Company since its incorporation. He holds a diploma in industrial electronics from Walchand College of Engineering, Sangli. He has several years of experience in multiple business sectors. He is also the founder and president of India Business Group (Chamber of Commerce).

Nitish Mittersain is the Joint Managing Director of the company. He holds a bachelor of commerce degree from the University of Mumbai. He founded the Company in 1999 and has been associated in the promotion of Company for the last 20 years. He is also a trustee of the Dr. B. K. Goyal Heart Foundation and India Business Group (Chamber of Commerce).

Nitish Mittersain is the Joint Managing Director of company. He holds a bachelor of commerce degree from the University of Mumbai. He founded the Company in 1999 and has been associated in the promotion of the Company for the last 20 years. He is also a trustee of the Dr. B. K. Goyal Heart Foundation and India Business Group (Chamber of Commerce).

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Exhibit 1: Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY18	FY19	FY20	6MFY21
Total operating income	172.0	169.7	247.5	200.5
% chg	-	-1.4	45.9	-
Total Expenditure	123.3	153.4	253.0	194.4
Content, event and web server	12.1	44.3	50.7	15.2
Advertising and promotion	42.8	27.2	132.9	119.6
Commission	3.2	3.1	7.1	22.3
Employee benefits	37.2	41.4	31.9	21.9
Others	28.0	37.3	30.5	15.4
EBITDA	48.7	16.3	-5.5	6.1
% chg	-	-66.4	-	-
(% of Net Sales)	28.3	9.6	-2.2	3.0
Depreciation & Amortisation	8.2	19.5	26.9	18.7
EBIT	40.5	-3.2	-32.4	-12.6
% chg	-	-	913.3	-
(% of Net Sales)	23.5	-1.9	-13.1	-6.3
Finance costs	1.8	1.4	1.2	0.5
Other income	9.8	15.5	12.8	5.0
(% of Sales)	5.7	9.1	5.2	2.5
Recurring PBT	48.5	10.9	-20.8	-8.2
% chg	-	-77.6	-	-
Exceptional item	-35.7	-	-	-
Tax	11.8	4.2	5.8	1.9
PAT	1.0	6.7	-26.6	-10.1
% chg	-	595.9	-	-
(% of Net Sales)	0.6	4.0	-10.8	-5.0
Basic & Fully Diluted EPS (Rs)	0.4	2.4	-9.5	-3.5

Source: Company, Angel Research

Consolidated Balance Sheet

Y/E March (₹ cr)	FY18	FY19	FY20	6MFY21
SOURCES OF FUNDS				
Equity Share Capital	10.8	11.0	11.2	11.4
Other equity (Retained Earning)	341.0	396.1	495.9	484.2
Non Controlling interest	35.3	32.3	83.0	75.7
Shareholders Funds	387.1	439.4	590.1	571.3
Total Loans	0.0	-	-	-
Other liabilities	33.1	20.7	43.6	40.3
Total Liabilities	420.2	460.1	633.7	611.6
APPLICATION OF FUNDS				
Property and equipment	1.6	1.5	2.3	2.0
Right-of-use assets	13.4	8.8	8.6	4.8
Goodwill	68.0	68.0	159.6	159.6
Other intangible assets	67.2	58.7	177.2	166.6
Intangible assets under development	0.6	0.7	6.3	2.4
Investments accounted for using the equity method	2.2	30.3	8.1	6.4
Current Assets	288.7	314.4	379.7	427.1
Investments	86.8	84.0	36.7	24.3
Trade receivables	43.1	44.7	68.1	128.1
Cash and cash equivalents	88.6	53.3	72.1	81.1
Other bank balances	28.9	80.0	114.6	103.2
Loans	0.0	0.2	2.2	2.5
Other financial assets	34.1	42.7	63.6	54.8
Other current assets	7.2	9.6	22.5	33.2
Current Liability	50.5	54.5	143.2	187.1
Net Current Assets	238.2	259.9	236.5	240.1
Other Non Current Asset	29.0	32.1	35.0	29.8
Total Assets	420.2	460.1	633.7	611.6

Source: Company, Angel Research

Exhibit 2: Consolidated Cash flows

Y/E March (₹ cr)	FY18	FY19	FY20	6MFY21
Operating profit before working capital changes	72.2	44.8	-3.3	12.5
Net changes in working capital	-52.0	-10.9	8.2	-17.4
Cash generated from operations	20.2	33.9	4.9	-4.9
Direct taxes paid (net of refunds)	-17.0	-14.7	-7.1	-1.7
Net cash flow (used in)/from operating activities (A)	3.2	19.2	-2.2	-6.6
Purchase of current investments	-32.3	-25.4	-29.4	-2.0
Proceeds from redemption/maturity of cur investments	22.1	32.9	82.6	15.3
Purchase of property, equipment and intangible assets	-1.9	-5.9	-7.0	-1.0
Investment in bank deposits	-55.8	-49.3	-27.3	-
Interest received on investments	4.0	3.5	3.8	1.7
Proceeds from sale of property and equipment	0.0	0.0	0.1	0.1
Others	45.7	-23.3	-13.9	4.9
Cash Flow from Investing (B)	-18.3	-67.5	8.9	19.0
Repayment of lease liabilities	-3.4	-4.6	-5.6	-2.4
Interest on lease liabilities	-1.2	-1.0	-0.8	-0.3
Proceed from issue of equity share capital	76.5	11.7	2.5	-
Repayment of short term loan availed	-34.3	0.0	-	-
Short term loan availed	30.0	-	-	-
Others	-30.5	-0.1	7.2	0.5
Cash Flow from Financing	37.1	5.9	3.4	-2.2
Inc./ (Dec.) in Cash	22.0	-42.3	10.1	10.2
Opening Cash balances	66.6	95.6	62.0	70.8
Closing Cash balances	88.6	53.3	72.1	81.1

Source: Company, Angel Research

Key Ratios

Y/E March	FY18	FY19	FY20
Valuation Ratio (x)			
P/E (on FDEPS)	2,902.9	450.6	(115.8)
P/CEPS	321.4	115.2	11,588.4
P/BV	7.7	6.9	5.2
EV/Sales	16.9	17.0	11.6
EV/EBITDA	59.8	176.8	(518.8)
Per Share Data (Rs)			
EPS (Basic)	0.4	2.4	(9.5)
EPS (fully diluted)	0.4	2.4	(9.5)
Cash EPS	3.4	9.6	0.1
Book Value	143.5	159.9	210.8
Returns (%)			
ROE	0.3	1.5	(4.5)
ROCE	9.6	(0.7)	(5.1)
Turnover ratios (x)			
Receivables (days)	91.4	96.2	100.4
Inventory (days)	-	-	-
Payables (days)	107.2	117.3	211.1
Working capital cycle (days)	(15.8)	(21.1)	(110.7)

Source: Company, Angel Research

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