



SMC Ranking
★ ★ ☆ ☆ ☆ (2/5)

Issue Highlights

Industry	Gaming Industry
Offer for sale (Shares)	5,294,392
Total Offer	5,294,392
Issue Size (Rs. Cr.)	582-583
Price Band (Rs.)	1100-1101
Offer Date	17-Mar-21
Close Date	19-Mar-21
Face Value	4
Lot Size	13

Issue Composition

	In shares
Total Issue for Sale	5,294,392
QIB	3,970,794
NIB	794,159
Retail	529,439

About the company

Incorporated in 1999, Nazara Technologies Ltd is a leading mobile game company in India. The company offers a range of diversified gaming products across the Interactive gaming, eSports, and gamified early learning ecosystem across emerging markets i.e. India, Africa, South East Asia, Middle East, and Latin America. It is one of the leading live eSports streaming and on-demand eSports media content providers in India. CarromClash and World Cricket Championships in mobile games, Kiddopia in gamified early learning, Nodwin and Sportskeeda in eSports, and Halaplay and Qunami are some of its offerings. The business operates in different segments; Subscription-based business, Freemium Business, eSports, Gamified early learning, and Real money gaming. Subscription business focuses on mass mobile internet users comprising mainly first-time mobile gamers. The company derives maximum revenue from subscription fees charged from customers under the gamified early learning and eSports business segments, accounted for 71.03% of revenues for the six months period ended on Sep 30, 2020.

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	22.97%	20.70%
QIB	77.03%	74.96%
NIB	0.00%	2.61%
Retail		1.74%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

Nazara Technologies IPO aims to raise money for the below objectives:

To achieve the benefits of listing Equity Shares on the Stock Exchanges.

To carry out the sale of up to 5,294,392 Equity Shares by the Selling Shareholders.

Book Running Lead Manager

- ICICI Securities Limited IIFL Securities Limited
- Jefferies India Private Limited
- Nomura Financial Advisory and Securities (India) Private Ltd

Name of the registrar

- Link Intime India Private Limited

Strength

Leadership position in a diversified and scalable business: The company believes its current position of leadership in India across a diversified set of offerings provides it a strong foundation for continued growth. As of December 31, 2020, its user base across offerings spanned 58 countries. Moreover, the company believes that it is well-positioned against competitors operating only in India and operating only in single segment of gaming, as its presence in multiple markets and diverse cohort of gamers not only provides it with insights of heterogeneous consumer segments, but also offers it economies of scale resulting in operating leverage.

Portfolio of premium intellectual property and content across regions and businesses: content is developed in India for the Indian as well as global audience, allowing them to achieve scale, as evidenced by an average of 40.17 million Monthly Active Users ("MAUs") for Financial Year 2020 and an average of 57.54 million MAUs across all games for the 9 month period ended December 31, 2020. The company has a sustained access to premium IP and popular, local brands across eSports and mobile games in India. The company believes that it will able to apply local market knowledge and technical expertise to provide highly relevant and localized content those appeals to its diverse user base. The company has successfully leveraged the growing interest in eSports through dedicated content on the website, and eSports related content accounted for almost 39% of its average MAUs for the nine month period ended December 31, 2020.

Large and engaged community of users, with attractive monetization opportunities: Its insight into and deep understanding of the behaviour and journey of its key demographics and users across businesses enable it to attract and retain users in an optimised manner. The company continuously strives to enhance user experiences and engagement through new content and features and increased social interactions. The company has established diverse revenue models, capitalising on its localised insights across markets.

Successful inorganic growth through strategic acquisitions: The company has expanded its portfolio of business offerings through multiple acquisitions, and successfully integrated these businesses into its operations. Through strategic acquisitions, it has been able to expand its access to diversified cohorts of gamers and enter new geographies in a cost-effective manner, achieve a revenue mix and built a network of 57.54 million average MAUs across all games as at December 31, 2020.

Profitable platform model benefitting from India growth story with limited regulatory risk: As the leading India based diversified gaming and sports media platform with a presence in India and across emerging and developed global markets such as Africa and North America, with offerings across the interactive gaming, eSports and gamified early learning ecosystems, the company is well placed to leverage the large addressable populations in these markets, and the expected rise in consumption of and investments in mobile gaming and eSports, as well as gamification in early learning.

Strategy

Continue to build on its leading market position and growth opportunity in India: Leveraging the quality and popularity of its offerings in India and to gamers across the globe, the company intends to further strengthen its relationships with existing mobile gamers, sports fans and with its existing partners. The company will continue to collaborate with leading mobile app stores to enhance app store promotion and user recommendations and continue to embrace the latest online trends in advertising, such as social media, internet video and livestreaming-based promotional campaigns.

Continue global expansion leveraging the existing distribution network: The company believes that expanding its offerings footprint to heterogeneous cohorts of gamers will further deepen its competitive moats to defend and grow its strong market position. The company also intends to increase the geographic coverage of its existing apps, Kiddopia and the WCC franchise, across other developed markets to leverage the strong monetization potential given the universal appeal of compelling content for children and sports fans across markets, respectively. It intends to introduce more products and services tailored to overseas markets. It also plans to selectively cooperate with local distribution partners to effectively promote its offerings overseas. It has seen significant growth in the number of its players in international markets, with a coverage of 58 countries as of December 31, 2020.

Enhance existing offerings and increase monetization opportunities: The company intends to constantly increase its overall user outreach across its offerings, as well as create stronger engagements with, and deliver compelling value to, its existing users. The company believes that it will have a significant opportunity to better monetize its games in international markets as compared to India, where, even though the habit of paying for in-app purchases is growing among the mid core and hard core base of players, however, the revenue per paying user as well as the percentage of players willing to pay for in-app purchases is much lesser than the global averages or even other south-east Asian countries like Indonesia

Launch new IP and titles across content and games: In the gamified early learning space, the company intends to continually develop new content to further tap into the large US market and to expand into Spanish, French and German speaking geographies, by developing local and relatable content for each region. It will continue to enrich the product quality of its gamified early learning content offerings through introduction of learning materials and tools such as positive reinforcements and rewards, to improve the learning efficiency and experience of its subscribers. The company will continue to work with top game developers to source and localize high quality game content for its users, invest in new game development tailored to local tastes, as well as continue to invest in eSports IP.

Pursue strategic investment and acquisition opportunities: In line with its growth strategy, it intends to continue pursuing strategic investment and acquisition opportunities, including increasing its stakes in its existing investments, to grow its user base, deepen its market penetration and further expand its offerings and products into complementary categories and new markets. The company intends to continue leveraging its existing strategic partnerships to enhance its capabilities and market positions across all the business sectors within which it operates.

Continue to drive operations based on people-centric policies and practices: The company believes members of its workforce are its strongest attribute and that it maintains people-centric its policies and practices. While its management leads it ably in achieving its growth and expansion goals, identification of the right talent, including game developers, animators, technology stack engineers, game designers, UI/UX specialists, M&A specialists, HR business partners and

marketeers continue to be a key area of investment for the company. It will continue to strive to provide them a positive, friendly, safe and collaborative working environment, and invest in structured training and upskilling programs, and promote a culture of entrepreneurship, meritocracy and diversity.

Further build the existing technology stack to enhance existing platform: The company has own sports simulation game engines, real time multiplayer framework, cloud-based network infrastructure, real-time data processing and data analytics capabilities for automated and dynamic decision making within games, which it believes exceed the capabilities of third-party service providers. It will continue to innovate and optimize its technology infrastructure to ensure high performance in a cost-effective manner. It believes continued investments in infrastructure and systems will allow it to extend its technology leadership.

Risk factors

- The company may not be effectively monetize our eSupports offerings, which may materially and adversely affect company business and results of operations.
- Halaplay and Sports Unity have unsecured loans, which may be recalled any time. Such recall loans can have an impact on business.
- The company had negative cash flows in the past and may experience in the future too.

Peer comparison

As per RHP, there are no listed companies in India that engage in a business similar to that of Nazara.

Valuation

The Company has negative earnings so valuation cannot be done on P/E basis. Moreover as the company is technology based gaming company, price to book value valuation parameter will not justify the valuation. Therefore, we are considering the P/S (Market cap to sales ratio) valuation of expected annualized sales FY21, on the upper end of the price band of Rs. 1101, the stock is priced at post issue, P/S of 8.36x on its market cap of Rs. 3352.86 and sales of Rs.400.91.

Industry overview

Indian gaming industry is projected to grow over 31.7% year on year ("YoY") due to the growth of digital infrastructure and significant rise in quality and engaging of gaming content. By 2024, the gaming industry in India is set to be valued at USD 3,544 million. India's online gaming industry has already attracted over USD 350 million in investments from venture capital firms between 2014 and 2020. Growth in the Indian mobile gaming market will be predominantly characterized by the rising adoption of smartphones, drop in data prices, increased internet penetration, high internet speeds, etc. The mobile gaming market in India is the largest gaming segment and was pegged at USD 0.3 billion in 2016. Being the largest gaming segment in India, this is the fastest growing sector as compared to PC and Console gaming. This segment is valued at USD 1.2 billion in 2020 and is expected to reach a value of USD 3.1 billion by 2023, growing at a healthy CAGR of 39.6% during this period.

Outlook

The company has a diversified presence across verticals, with gamified e-learning and e-sports accounting for the largest share of revenue in FY21. Given its market-first position in India across sports simulation and eSports, Nazara is well placed to leverage the opportunity that interactive mobile games, eSports content and gamified early learning apps offer. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	March 17, 2021
Bid/Offer Closing Date	March 19, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about March 24, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about March 25, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about March 26, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about March 30, 2021

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-20 (6 Months)	Period ended 31-Mar-20 (12 Months)	Period ended 31-Mar-19 (12 Months)
Revenue from operations	200.46	247.51	169.70
Total expenditure	194.35	253.03	153.35
Operating Profit	6.11	-5.52	16.35
OPM%	3.05	-2.23	9.63
Other Income	6.549	14.637	16.4
PBDIT	12.66	9.11	32.75
Depreciation	18.72	26.88	19.54
PBIT	-6.07	-17.77	13.20
Interest	0.511	1.237	1.384
Profit before share of profit from JV & exceptional items	-6.58	-19.00	11.82
Share of loss of Investments accounted using equity method (net)	-1.59	-1.81	-0.95
PBT	-8.17	-20.82	10.87
Tax	1.94	5.80	4.16
Profit After Tax	-10.11	-26.62	6.71

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-20	As on 31-Mar-20	As on 31-Mar-19
Non-current assets			
Property, plant and equipment	1.99	2.27	1.54
Right-of-use assets	4.75	8.61	8.80
Goodwill	159.63	159.63	68.00
Other intangible assets	166.57	177.24	58.72
Intangible assets under development	2.44	6.32	0.68
Investments accounted for using the equity method	6.36	8.05	30.31
Financial assets			
Investments	11.88	13.60	13.22
Loans	1.13	1.40	0.20
Other financial assets	6.73	6.84	5.88
Deferred tax assets (net)	3.39	3.65	5.88
Income tax assets (net)	6.54	9.22	6.81
Other non-current assets	0.11	0.31	0.11
Total non-current assets	371.52	397.14	200.15
Current assets			
Financial assets			
Investments	24.28	36.65	83.96
Trade receivables	128.11	68.11	44.73
Cash and cash equivalents	81.05	72.09	53.26
Other bank balances	103.23	114.62	80.01
Loans	2.50	2.16	0.24
Other financial assets	54.78	63.58	42.65
Other current assets	33.18	22.48	9.60
Total current assets	427.13	379.69	314.44
Total Assets	798.66	776.83	514.58
Non-current liabilities			
Borrowings			
Lease liabilities – Non-Current - Non-Cu	0.71	2.01	3.80
Other financial liabilities	0.00	0.00	6.82
Provisions	3.20	2.73	2.46
Deferred tax liabilities (Net)	36.38	38.82	7.58
Total Non-Current Liabilities	40.29	43.55	20.65
Current liabilities			
Financial Liabilities			
Borrowings			
Trade payables			
Micro and small enterprises	0.07	0.10	0.00
Other than (a) above	107.52	68.89	24.91
Lease liabilities – Non-Current -	3.33	6.03	5.56
Other financial liabilities	36.42	35.79	17.16
Other current liabilities	36.26	29.30	5.37
Provisions	1.22	1.05	0.37
Liabilities for income taxes (net)	2.25	2.02	1.16
Total current liabilities	187.06	143.17	54.52
Total Liabilities	227.35	186.72	75.17
Networth	571.31	590.11	439.41
Net worth represented by:			
Equity Share capital	11.44	11.20	10.99
Other equity	484.21	495.94	396.12
Non-controlling interest	75.66	82.97	32.31
NET Worth	571.31	590.11	439.41

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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