



Nazara Technologies Limited

Issue Opens	Wednesday, March 17, 2021
Issue Closes	Friday, March 19, 2021
Price Band (in Rs)	1100/1101
Bid Lot	13 shares and multiples thereafter



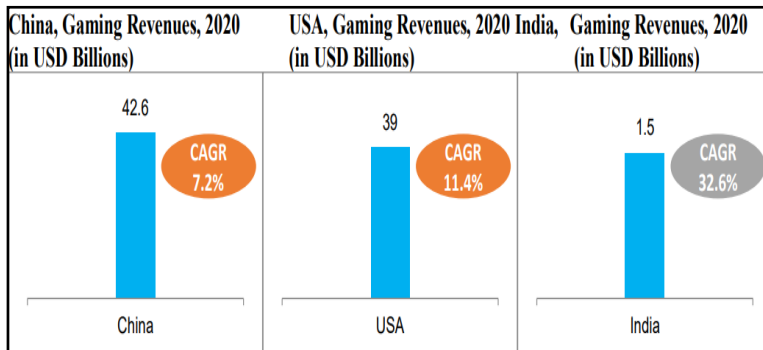
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Industry Overview:

The gaming industry (industry that designs, develops, publishes, distributes video games across devices, leverages eSports for marketing of video games and deploys gamification techniques to influence consumer behaviour in various verticals, for example, edutech, healthtech, fintech, consumer loyalty, defence etc.), once considered as a form of escapism, has become a key component in today's economic transformation. In a sense, the gaming industry represents the most tangible change as the world transforms towards a new economy. The meteoric rise of the gaming industry, driven by opportunities, investment, viewership and engagement, is a sign of how gaming has attained relevance on the global scale with the capability to virtually impact the way we socialize, interact and even work in the future. With an estimated market size of approximately USD160bn in 2020, the gaming industry is one of the largest and fastest growing segments within the Media and Entertainment (M&E) sector. Global lockdowns caused an explosion in the engagement within the gaming community as people who were stuck at home sought alternative means of entertainment-bringing the gaming activity into the social mainstream.

Another key segment within the gaming industry that has emerged strongly is sports simulation. The gaming industry has also expanded its reach and application to other industry verticals. A key vertical is the education sector, where the infusion of gaming along with learning has led to the emergence of the gamified early learning segment where a combination of education and gaming is used to provide a novel way of learning. A key indicator to the growth of gaming, as a crucial segment within media and entertainment, is the proportionate growth as compared with the film and music industries-popular segments with the M&E sector.

Exhibit 1: Indian Gaming Industry compared with USA and China



Source: Company RHP

Indian gaming industry is projected to grow over 31.7% y-o-y 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 USD3,544mn. In India, the average revenue per gamer has increased from USD2.3 in 2016 to USD8.8 in 2020. The penetration of gaming in India has also doubled from 15% in 2016 to 30% in 2020. Among the leading countries based on gaming revenues, while USA and China have traditionally dominated the gaming market, the market in India is growing at a CAGR of 31.6% which far exceeds the growth rates of China and USA that stands at 7.2% and 11.5% respectively.

SNAPSHOT		
Issue Opens	Wednesday, March 17, 2021	
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Price Band (Rs)	1100/1101	
Bid Lot	13 shares and multiples thereafter	
Face Value	Rs4	
Listing	BSE & NSE	
Type of Issue	Offer for Sale	
Offer Size (Rs Mn)	Fresh Issue	-
	OFS	5,829
	Total	5,829
*Implied Market Cap (Rs Mn)	33,529	
P/E (based on FY20 Earnings)*	-	

*Note: Implied Market Cap & P/E are calculated at upper price band of Rs1101

Issue Allocation	
Reservations	% of Net Issue
QIB	75
NIB	15
Retail	10
Total	100

Employee Reservation: Equity shares aggregating to Rs20mn
Employee Discount: Rs110/- per share

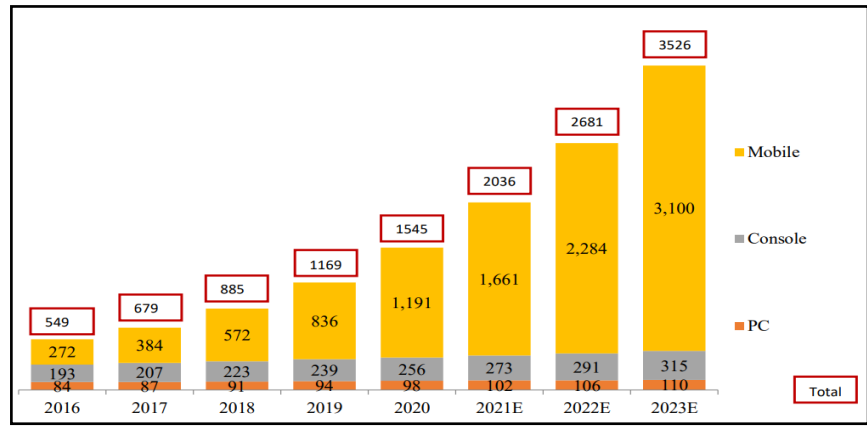
Object of the Offer
<ul style="list-style-type: none"> Carry out the OFS of up to 5,294,392 equity shares by the selling shareholders Achieve the benefits of listing the equity shares on the stock exchanges



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Industry: (contd.)

Exhibit 2: Indian Gaming Market- Split by PC, Console & Mobile, 2016-2023 (in USD mn)



Source: Company RHP

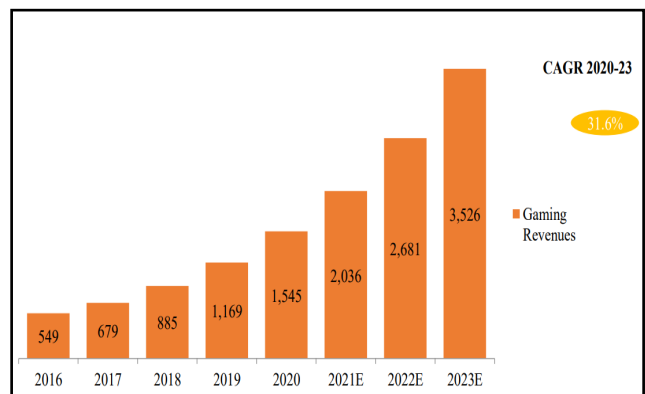
Primary Drivers for Mobile Gaming growth in India: (a) Internet Users (b) Internet Penetration (c) Internet Speed (d) Data Consumption

Factors that contribute to the growth of the gaming industry in India: (a) Population-Driven Consumer Demand (b) Positive Economic Outlook (c) Rising Disposable Income (d) Increasing Traction for Real Money Gaming

The eSports market in India was valued at USD70mn in 2018. In comparison, the eSports market in China was valued at USD164mn in 2018. The Indian eSports market has a current market size of USD107.8mn in 2020 which is about one third of the Chinese eSports market that stood at USD385mn in 2020. The eSports market in India is expected to grow at a CAGR of 25.1% between 2020 and 2023 and is projected to reach a market value of USD208.6mn by the end of that period. The eSports market growth in India is significantly higher than the growth rate of China, predominantly owing to the increased user engagement and viewership.

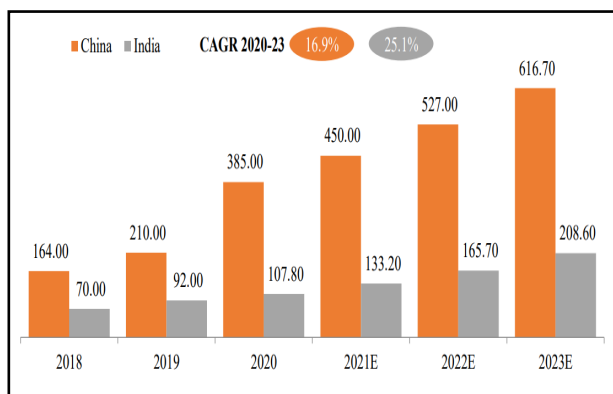
Sports simulation games play a considerable role in the development and growth of the eSports industry. Though the viewership and prize money for sports simulation games on the eSports landscape do not rank as high as that of CS:GO, Dota 2, and League of Legends, they are becoming increasingly relevant as a number of sports organizations are looking to increase their audience base. As the eSports market expands, sports simulation games have a potential to form a bridge to the industry.

Exhibit 3: India, Gaming Industry Market Size, 2016-2023 (in USD mn)



Source: Company RHP

Exhibit 4: Indian eSports Market Growth vs. China, 2018-2023 (in USD mn)



Source: Company RHP



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About the Company:

Nazara Technologies Limited (NTL) is a 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 owns some of the most recognisable IP, including World Cricket Championship (WCC) and CarromClash in mobile games, Kiddopia in gamified early learning, Nodwin and Sportskeeda in eSports and eSports media, and Halaplay Technologies Private Limited (Halaplay) and Qunami in skill-based, fantasy and trivia games. Nazara was among the first entrant in the Indian market in eSports (through Nodwin) and cricket simulation (through Nextwave). It has successfully leveraged its capabilities for in-house content creation, game engine development and propriety technology stack development, ability to deliver positive Life Time Value (LTV) and Consumer Acquisition Cost (CAC) ratios across offerings, their relationships with telecom operators, app stores and other participants in gaming ecosystems.

The goal of the company is to cater to billion plus mobile internet players across emerging markets who have embraced social multiplayer interactive gaming as the foremost form of entertainment. It aims to achieve this by providing 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. Given its market-first position in India across sports simulation and eSports (Source: F&S Report) it is well placed to leverage the opportunity that interactive mobile games, eSports content and gamified early learning apps offer. Its effort has been to grow revenue and profitability concurrently by leveraging capabilities of in-house content creation, game engine development, technology stack development, relationships with other participants in gaming ecosystems and skilled leadership. The content is developed in India for the Indian as well as global audience, allowing the company to achieve scale, as evidenced by an average of 40.17 million Monthly Active Users (MAUs) for FY20 and an average of 57.54 million MAUs across all games for 9MFY21. Company's growth is also driven by highly coveted investors such as IIFL, Rakesh Jhunjhunwala and Utpal Sheth. The Promoters of the company are Vikash Mittersain, Nitish Mittersain and Mitter Infotech LLP.

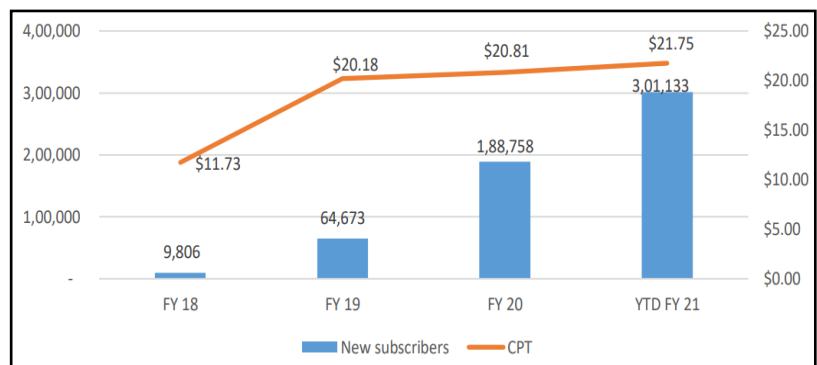
The company entered the gamified early learning segment in North America through Kiddopia, the flagship gamified early learning app, which it acquired in FY20. Kiddopia has transitioned into a trusted and well recognized brand for game-based learning, and has received multiple awards and recognition. eSports is emerging as a spectator sport and is proving to be the largest disruptor to the global traditional sports market, as an outcome of sports and gaming intersecting to create fast-paced, high-thrill spectator entertainment content. (Source: F&S Report). The company has capitalised on its acquisition of Nodwin Gaming in FY18, which, amongst the few companies that have championed the case for

eSports in India, has established itself as a pioneer, owing to its strong relationships with global gaming publishers and platforms including market leaders such as ESL and Valve Corporation, and is currently dominating the Indian eSports market with over 80% of the total market share in India.

The key growth drivers for the eSports business are its own event and content IPs, exclusive rights and ownership of live stream and on-demand premium eSports content, monetisation via media rights licensing, and the brand partnerships with global game publishers and youth focus brands. Nazara has formed several partnerships, most notably with the Indian telecom giant Airtel. Airtel India Esports Tour will cover all NODWIN tournaments across gaming titles of PUBG Mobile, CS: GO, Clash of Clans, FIFA, etc. Sportskeeda is the largest eSports news destination website in India, with content across eSports as well as traditional sports such as WWE, cricket, soccer and other sports. The average MAUs for Sportskeeda in FY20 were 1.78 crore with 4.73 crore visits per month, which has increased to an average of 3.82 crore MAUs and 5.90 crore visits per month in the 9MFY21.

Company's telco subscription offerings currently comprise of over 1,021 android games. They primarily target mass mobile internet users in emerging markets, comprising largely of first-time mobile gamers, through this segment. Company's freemium offerings in mobile gaming include free-to-play sports simulation games and children's games, such as games designed based on cricket, carrom, table tennis and bowling. World Cricket Championship, their cricket gaming franchise, is the largest mobile-based cricket simulation game and they have launched WCC 3, the 3rd edition of this franchise, in calendar year 2020.

Exhibit 5: Increase in Subscriber Base and Cost of Acquisition for Subscribers



Source: Company RHP



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Strengths:

- Leadership position in a diversified and scalable business
- Portfolio of premium intellectual property and content across regions and businesses
- Large and engaged community of users, with attractive monetization opportunities
- Successful inorganic growth through strategic acquisitions
- Profitable platform model benefitting from India growth story with limited regulatory risk
- Strong leadership team backed by marquee investors

Strategies:

- Continue to build on the leading market position and growth opportunity in India
- Continue global expansion leveraging the existing distribution network
- Enhance existing offerings and increase monetization opportunities
- Launch new IP and titles across content and games
- Pursue strategic investment and acquisition opportunities
- Continue to drive operations based on people-centric policies and practices
- Further build the existing technology stack to enhance existing platform

Financials:

Nazara has focused on growing a profitable business, with an emphasis on self-sustainability rather than relying on external investments. This is reflected in their fund-raising history, wherein it has raised Rs12.63cr (in two tranches in 2005 and 2007) and Rs76.53cr in 2018. As a result, it has historically been EBITDA positive and generated sufficient cash flows from their operations, resulting in cash and cash equivalents and other bank balances aggregating to Rs184.28cr as at September 30, 2020.

On the financial performance front, for the last three fiscals, NTL has (on a consolidated basis) posted total turnover/net profits-(loss) of Rs1720mn/ Rs10mn (FY18), Rs1697mn/ Rs67mn (FY19) and Rs2475mn/ Rs(10.8mn) (FY20). For 6MFY21, it has posted a loss of Rs(101mn) on a turnover of Rs2005mn. For the last three fiscals, Nazara has posted an average EPS of Rs1.92 and an average RoNW of 1.30%. Based on FY20 and 6MFY21 negative earnings, the issue is at a negative P/E. The company has last paid a dividend of 1510% for FY18 and thereafter it has skipped it till going for IPO. It will consider a prudent dividend policy based on its performance and future prospects going forward.

Exhibit 06: Financials Snapshot

Revenues (Rs mn)	FY18	FY19	FY20	6M ending Sept,2020
Sales	1,720	1,697	2,475	2,005
EBITDA	487	163	(55)	61
EBITDA Margin %	28.3	9.6	(2.2)	3.0
Net Profit After Tax	10	67	(266)	(101)
Net Profit Margin %	0.6	4.0	(10.8)	(5.0)
Earning Per Share	1.1	6.4	(0.8)	(1.8)
RoNW (%)	0.7	4.2	(0.5)	(1.0)

Source: Company RHP, Progressive Research

Risks & Concerns:

- Past track records of negative cash flows
- Inadvertent non-compliance with respect to regulatory filings for corporate actions
- Inability to continue operations from leased premises, or to seek renewal or extension of such leases may materially affect our business operations
- Any failure to exploit and grow the existing relationships within gaming ecosystem, distribution network and scale may affect the company's profitability and business growth
- Businesses are conducted across emerging and developed markets which are prone to risks and uncertainties
- The business may be adversely affected due to breach of security measures
- Failure to maintain approvals/ acquire licenses to run the ordinary course of business may have an adverse impact on the operations
- Business operations are dependent on the usage of internet, smartphones, reliability and adequacy of online infrastructure in India and emerging markets and data pricing



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Outlook and Recommendations:

Nazara is one of the diversified mobile gaming companies in India that has presence in developing and emerging global markets. It is the first pure play gaming company that would get listed on stock exchanges. The IPO is being offered at a negative P/E due to the negative earnings for the past 18 months. Although it seems to be aggressively priced, the first mover advantage should be enjoyed by the company. Investment through ace investors like RKJ, IIFL could provide that extra spurt to the listing. On the valuation front, the company is valued at 12.7x EV/Sales based on FY20 numbers. The company has a leading position in the mobile gaming industry in India with a presence across emerging and developing countries. The ongoing positive sentiments for new IPO's could give a decent listing to the IPO. However, on the overall financials, the IPO would be a **Subscribe** only for cash surplus, risk savvy investors over a long term horizon.



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Registered Office Address:
Progressive Share Brokers Pvt. Ltd,
122-124, Laxmi Plaza, Laxmi Indl Estate,
New Link Rd, Andheri West,
Mumbai-400053;
www.progressiveshares.com | research@progressiveshares.com

Compliance Officer:
Mr. Shyam Agrawal,
Email Id: compliance@progressiveshares.com,
Contact No.:022-4077500.

