

March 17, 2021

Nazara Technologies 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 **WCC** and **CarromClash** in mobile games, **Kiddopia** in gamified early learning, **Nodwin and Sportskeeda** in eSports and eSports media, and **Halaplay** and **Qunami** in skill-based, fantasy and trivia games. The company derive revenues mainly from subscription fees paid by users for accessing **gamified early learning** content, as well as from **eSports** business. These two segments cumulatively accounted for 71% and ~42% of operating revenues for H1FY21 and FY20 respectively.

Favourable macro-economic and demographic drivers

Favorable macro-economic and demographic drivers, growth in adoption of gaming and online learning and improvement in digital payment and tech infrastructure in India provides a great opportunity for growth of the company. The gaming industry in India is currently valued at US\$ 1.54 billion and is expected to grow at a CAGR of 31% to US\$ 3.53 billion by 2023. The combined Gen-Z and millennial population provides a large user base of mobile gamers, sports and eSports fans. Further, rapidly rising per capita spends and high internet and smartphone penetration, India as a market for each of company's offerings is still far from saturation, both in terms of the number and engagement of users as well as monetisation opportunities, thereby providing huge potential for growth.

Leadership position in a diversified and scalable business

The company's successful business model and established presence in India has given a competitive advantage. The content is developed in India for the Indian as well as global audience, allowing it to achieve scale. The company has an operating leverage advantage in gamified early learning on account of captive development of content being undertaken in India, while generating revenues inter alia from North America. Further, its leadership in eSports and sports simulation and geographical reach across India, Middle East, Africa and North America provide a strong foundation for growth.

Key risk & concerns

- Inability to protect IP or any third-party claims could materially affect the business
- Skill-based fantasy and trivia real money games are subject to regulatory uncertainty
- Significant portion of revenue from eSports business comes from a few customers

Priced at FY20 Mcap/Sales of 13.5x on upper band

At a price of ₹1101/share, the stock is available at 13.5x FY20 Mcap/sales.

Key Financial Summary

₹ crore	FY18	FY19	FY20	H1FY21	CAGR FY18-20
Revenue	172.0	169.7	247.5	200.4	20.0
EBIDTA	48.7	16.4	(5.5)	6.1	NA
EBIDTA margin	28.3%	9.6%	-2.2%	3.0%	
Net Profit	1.0	6.7	(26.5)	(10.1)	NA
EPS (₹) (Post issue)	0.9	5.8	(0.7)	(1.7)	
PE (x) (Post issue)	NA	NA	NA	NA	
Mcap/Sales	19.5	19.8	13.5	NA	
RoCE (%)	9.3	2.6	-0.9	NA	
RoE (%)	0.7	4.3	-0.4	NA	

Source: ICICI Direct Research, RHP



Particulars

Issue Details

Issue Opens	17th March 2021
Issue Closes	19th March 2021
Issue Size (₹ crore)	~ ₹582-583 crore
Issue Type	OFS
Price Band	₹ 1100-1101
Market Lot	13
Face Value	₹ 4

Shareholding

Shareholding %

	Pre-issue	Post-issue
Promoters	23.0%	20.7%
Public	77.0%	79.3%
Total	100%	100%

Objects of issue

Objects of the issue

The company will not receive any proceeds from the offer. The listing will enhance visibility of the company and will provide liquidity to existing shareholders

Research Analyst

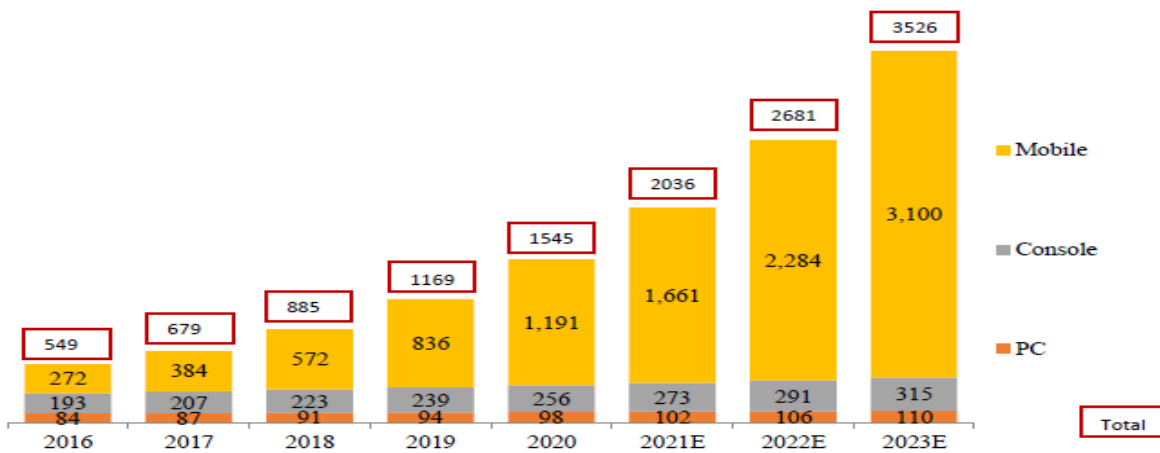
Rashesh Shah
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Industry Overview

Indian gaming industry is projected to grow at 31.7% CAGR over 2020-23 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. (FICCI, IBEF) In India, the average revenue per gamer has increased from USD 2.3 in 2016 to USD 8.8 in 2020. The penetration of gaming in India has also doubled from 15% in 2016 to 30% in 2020. The rise in online gaming activity propelled by the growth in the number of gamers by almost ten times in the last decade, also led to comparable growth in game developing companies over the same period. **The proliferation of cheap smartphones, high-speed internet and reduction in data prices are the key drivers for this rapid growth.** The mobile gaming segment in the Indian gaming industry is the largest in terms of revenue. This segment was valued at USD 272 million in 2016 and is estimated to be about USD 1.2 billion in 2020 growing at a CAGR of 39.6%. The mobile gaming segment is expected to reach a market size of USD 3.1 billion by 2023E.

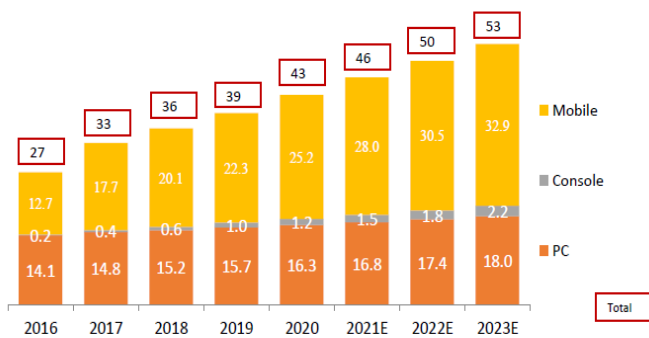
While USA and China have traditionally dominated the gaming market, the growth of market in India far exceeds the growth rates of China and USA that stands at 7.2% and 11.5% respectively. The Chinese gaming industry, in the last decade, grew at a CAGR of 15% (between 2014 and 2018). The Indian gaming market, which closely reflects the Chinese gaming industry of the past decade, is currently growing at twice the rate.

Exhibit 1: Indian Gaming market – Split by PC, Console & mobile, 2016-2023 (In US\$ million)



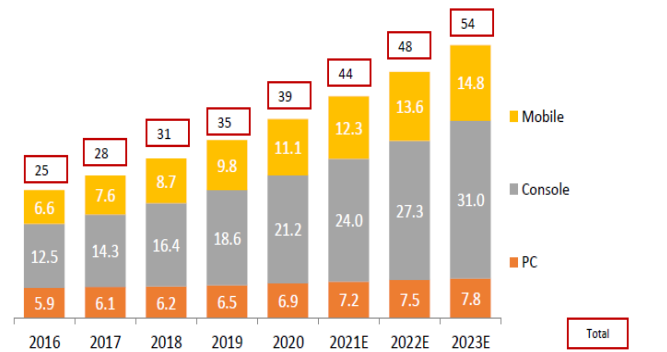
Source: RHP, ICICI Direct Research

Exhibit 2: Chinese online gaming market to grow at 7.2% CAGR during 2020-23 to US\$53 billion



Source: Frost & Sullivan analysis, ICICI Direct Research

Exhibit 3: The US online gaming market to grow at CAGR of 11.4% during 2020-23 to US\$ 54 billion

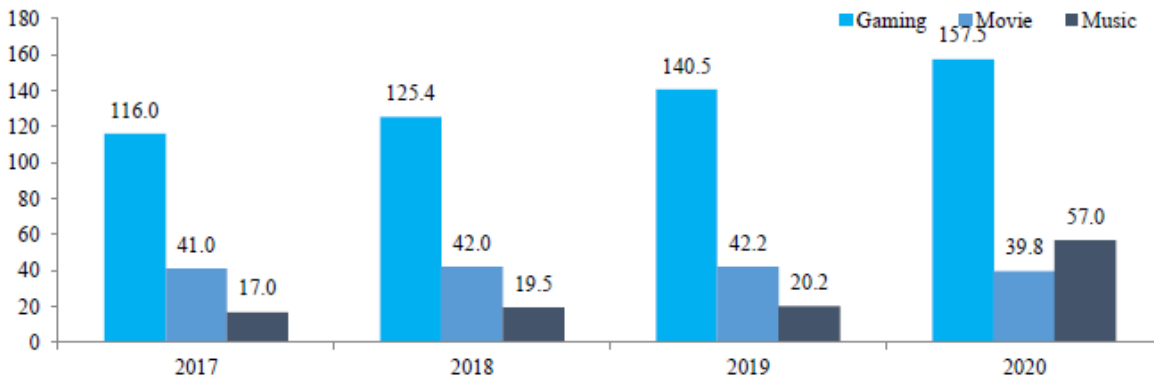


Source: Company, ICICI Direct Research

Globally, Gaming is bigger than Movies & Music

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. As music and movies are some of the highly sought-after modes of entertainment, a comparison with gaming would ideally reflect the choice in user preferences. In 2017, the gaming industry was nearly twice the sum of the movie and the music industry’s revenue put together. The subsequent years have also seen a similar trend and in 2020, the gaming industry was valued at USD 157.5 billion while the music and movie industries had a size of USD 57 billion and USD 39.8 billion.

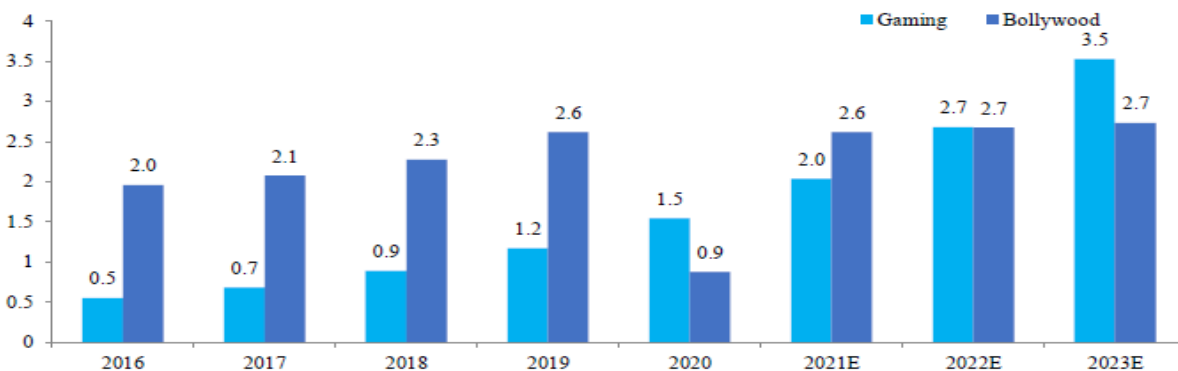
Exhibit 4: Global Gaming Industries compared with Movies & Music : 2017-2020 (In US\$ billions)



Source: RHP, ICICI Direct Research

The Indian Bollywood film industry was valued at USD 2 billion in 2016 and is projected to reach a size of USD 2.7 billion by 2023. The gaming industry in India was nearly 25% of the Indian film industry in 2016, but by 2023, it is expected to exceed the Bollywood revenues by USD 0.8 billion and reach a value of USD 3.5 billion. This tremendous increase will be predominantly driven by the proclivity of the Indian population to adopt gaming as their primary source of entertainment

Exhibit 5: Indian Gaming Industry compared with Bollywood: 2016-2023 (In US\$ billions)



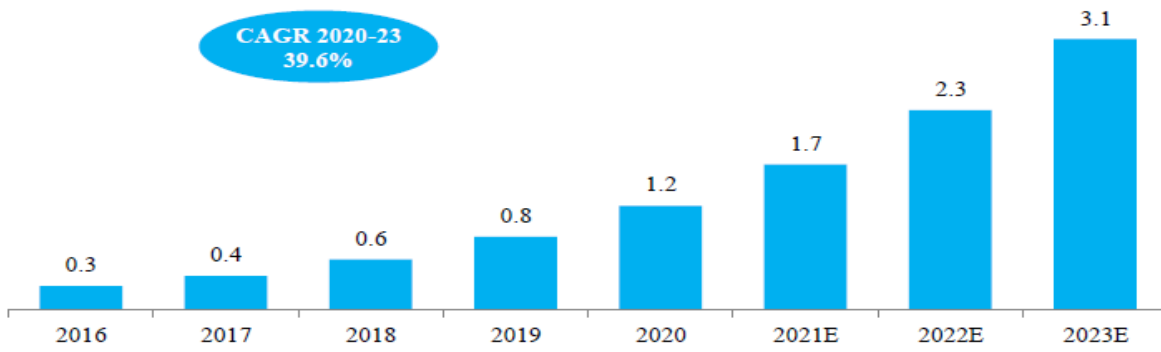
Source: RHP, ICICI Direct Research

Mobile Gaming will lead growth of India gaming in coming decade

India offers a significant opportunity for mobile gaming publishers and investors, as it is poised for stellar growth in the coming years. The growth rate of mobile gaming in India stands at an extremely healthy CAGR of 39.6% as compared to the growth rates in China and the US, which stood at 14.6% and 12.2%. The global growth rate of the mobile gaming market is at 13.3%. 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.

Mature markets such as the USA are in the midst of a shift from a download growth phase to one that is characterized by strong app usage and revenue growth. Whereas emerging markets such as India are still experiencing hyper-growth in app downloads, including games. Improvements in connectivity and affordability of telecom services, along with reduced phone and data prices can open up several opportunities for game developers to monetize this segment in India

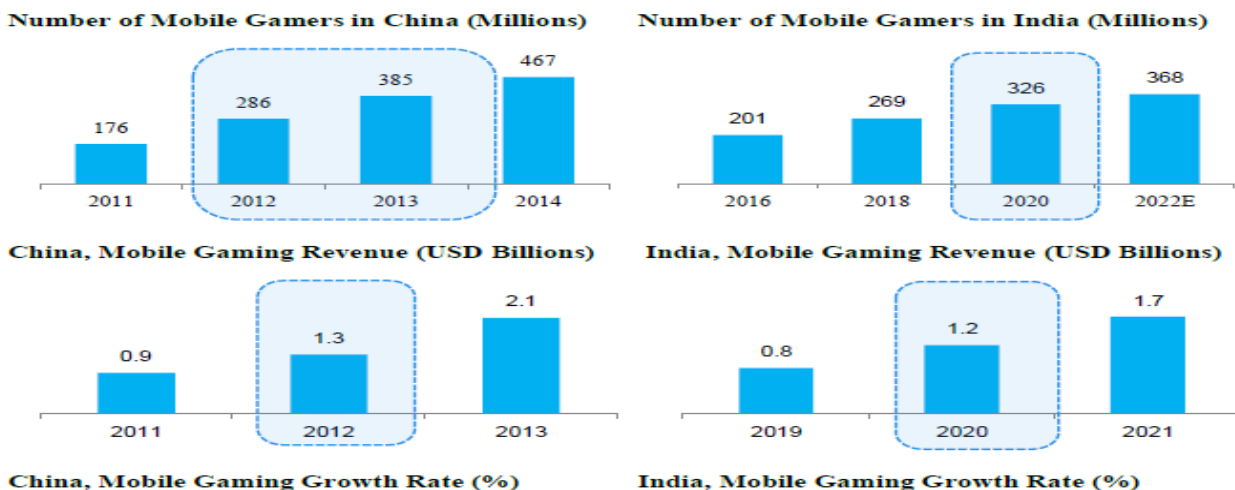
Exhibit 6: Indian mobile Gaming market: 2016-2023 (In US\$ billions)



Source: RHP, ICICI Direct Research

Being a relatively nascent market, the growth rate for mobile gaming in India closely reflects the growth that China had between 2013 and 2020 (CAGR ~ 41%). Compared with the early rise of mobile games in the USA which had a CAGR of 21% between 2013 and 2020, the Indian mobile gaming market is projected to have a healthy growth in the future. A comparison with the Chinese mobile gaming market of the last decade shows that the Indian mobile gaming market is currently where the market in China was 8-10 years ago. Based on how the mobile gaming market in China has taken off in the last few years, and with the Indian mobile gaming market reflecting the similar trend, it is fair to assume that the Indian mobile gaming market will have a growth similar to that of China and will see an equivalent traction.

Exhibit 7: Mobile gaming in India compared with China

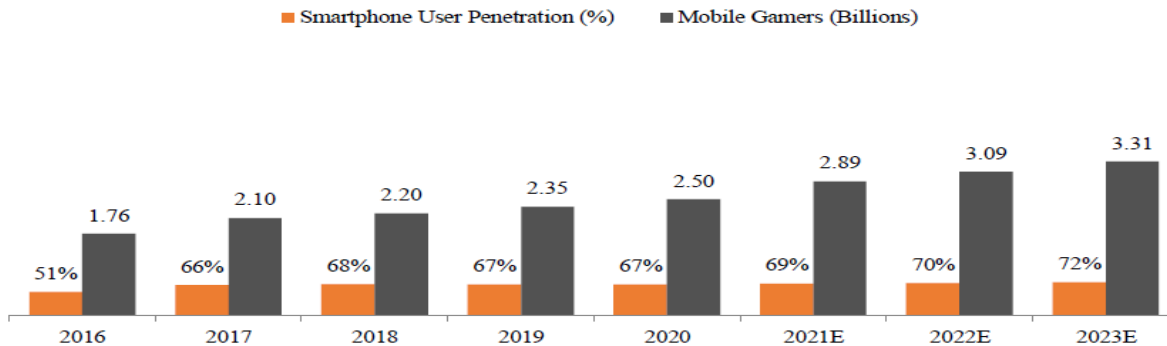


Source: RHP, ICICI Direct Research

Increased penetration of smart phone users

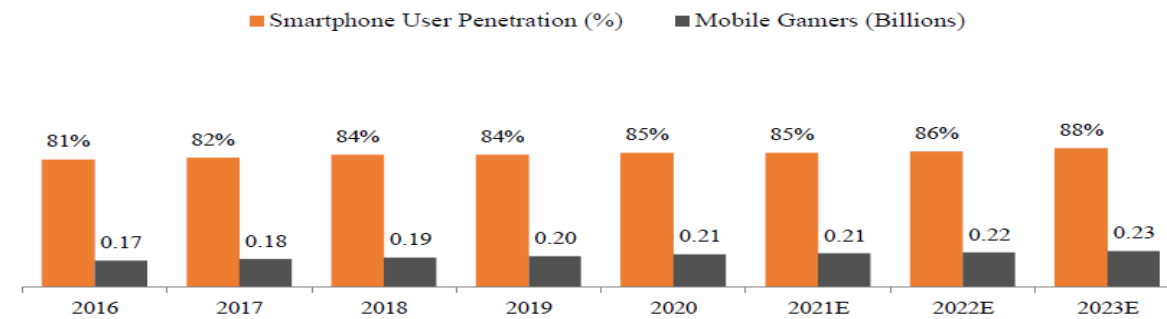
Smartphone users form a key component within the gaming ecosystem. As majority of the gaming revenue comes through mobile games, the increase in smartphone penetration would directly affect the growth of the gaming industry. Between 2016 and 2020, the smartphone penetration in emerging economies such as India and China is significantly higher as compared to advanced economies such as USA and even the average global smartphone penetration.

Exhibit 8: Global smart phone user penetration & mobile gamer growth (2016-23)



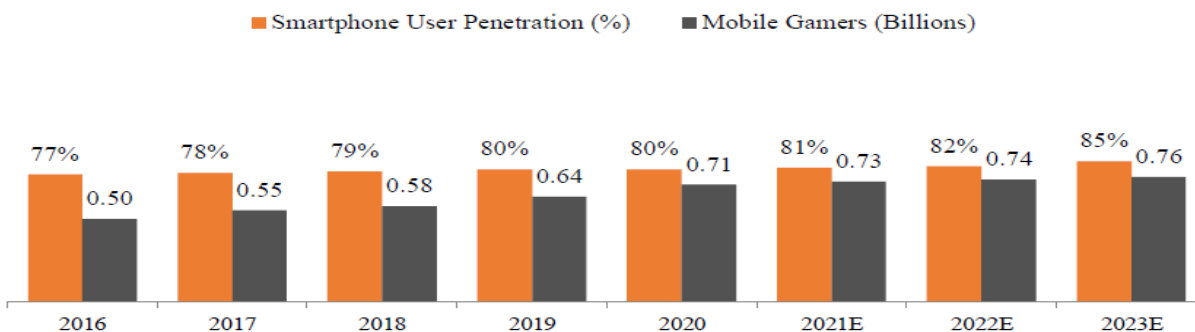
Source: RHP, ICICI Direct Research

Exhibit 9: US smart phone user penetration & mobile gamer growth (2016-23)



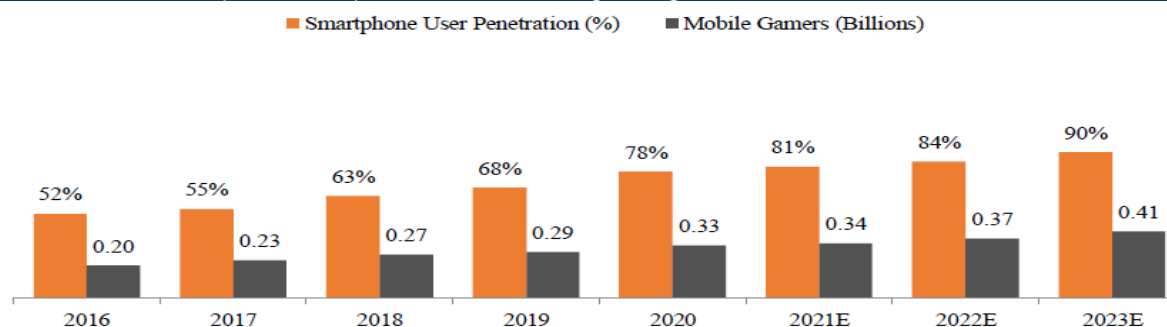
Source: RHP, ICICI Direct Research

Exhibit 10: China smart phone user penetration & mobile gamer growth (2016-23)



Source: RHP, ICICI Direct Research

Exhibit 11: India smart phone user penetration & mobile gamer growth (2016-23)



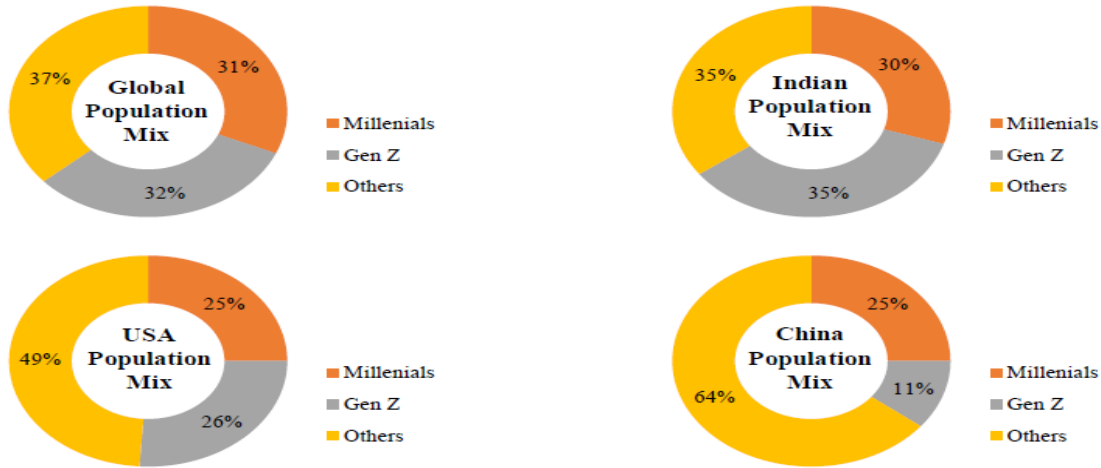
Source: RHP, ICICI Direct Research

Rise in Gen Z Population

The digitally mature Gen Z population engages in gaming more than the millennial generation or generation X. Gen Z gamers are digital natives and are well versed with high-end technology and advanced gaming concepts. This budding generation has access to a wide variety of smartphones and gaming devices, through which they engage in gaming activities. The growth of the Gen Z population between 2015 and 2020 correlates with the growth of the gaming industry during the period.

Exhibit 12: Gen Z and Millennial population - 2020

Gen Z and Millennial Population – 2020

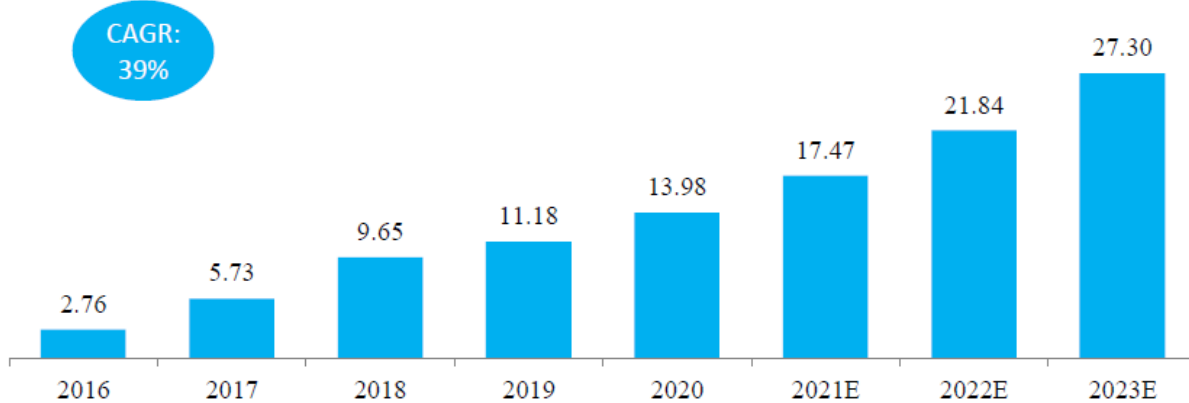


Source: RHP, ICICI Direct Research

Data Consumption

The global data consumption per user per month stood at 2.9 GB in 2016 and is currently estimated at 8.70 GB in 2020. This segment is expected to grow at a CAGR of 28.9% to reach a value of 17.20 GB by 2023. The data consumption in India per user per month stood at 2.76 GB in 2016 and is currently estimated at 13.98 GB in 2020. This segment is expected to grow at a CAGR of 39% to reach a value of 27.30 GB by 2023.

Exhibit 13: India Data consumption 2016-2023 (In GB per user per month)



Source: RHP, ICICI Direct Research

Esports

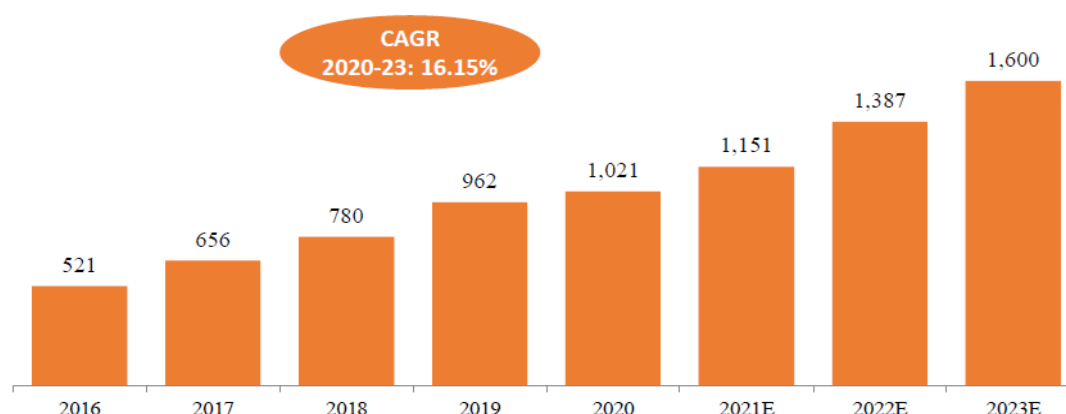
The global eSports market was valued at USD 521 million in 2016. The recent boost in the number of eSports viewership and the popularity of eSports tournaments saw the market rise to USD 1,021 million in 2020. Between 2020 and 2023, the global eSports market is expected to have a growth rate of 16.15% CAGR and is expected to reach a value of USD 1.6 billion by 2023.

The eSports ecosystem consists of eSports companies, game publishers, gamers, media companies (broadcast on linear TV), online streaming platforms (Twitch, YouTube, etc.), advertisers, event sponsors and event organizers. eSports companies play a critical role in connecting the various stakeholders to exploit the monetization potential in the online gaming market. Globally, ESL and Major League Gaming are the largest eSports companies.

Top E-sports company by revenue	
Company	Est revenue (US\$ mn)
Team Solomid	35.0
Faze Clan	35.0
OG eSports	34.0
Cloud9	29.0
Team Liquid	24.0

Source: Forbes

Exhibit 14: Global E-sports market 2016-2023 (US\$ million)

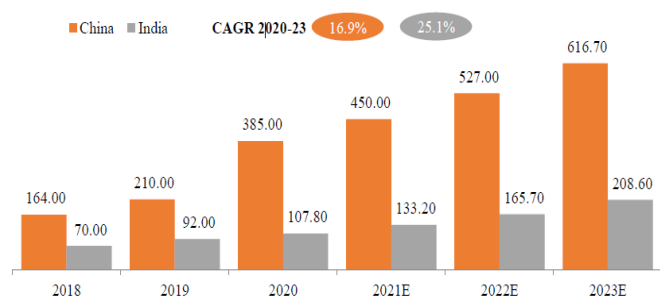


Source: RHP, ICICI Direct Research

Growth of E-sports in India

The eSports market in India was valued at USD 70 million in 2018. In comparison, the eSports market in China was valued at USD 164 million in 2018. The Indian eSports market has a current market size of USD 107.8 million in 2020 which is about one third of the Chinese eSports market that stood at USD 385 million 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 USD 208.6 million 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.

Exhibit 15: India E-sports market growth vs China (In US\$ million)



Source: Frost & Sullivan analysis, ICICI Direct Research

Exhibit 16: Esports broadcasting service platforms

2018	2019	2020
Dsports	Instagram	MX Player
Twitch	Jio	Rheo
YouTube	SonyLIV	Nimo
Facebook	Twitch	TikTok
Hotstar	YouTube	MTV
Voot	Facebook	Jio
	Hotstar	SonyLIV
	Voot	Twitch
		YouTube
		Facebook
		Hotstar
		Voot
6	8	12

Source: Company, ICICI Direct Research

Sports Simulation

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.

Although the sports simulation segment is a relatively smaller part of eSports, it is still a segment that has demonstrated steady growth in the past few years. Sports simulation games also form a segment that television broadcasters are more comfortable with showing on television. It is estimated that with time, a larger audience will become familiar with sports simulation games and its significance within the eSports segment is expected to consequentially increase.

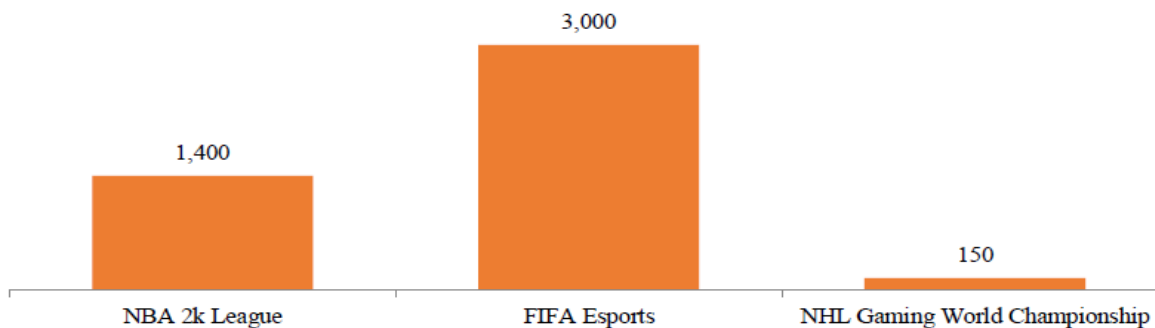
The two key companies dominating the sports simulation segment are Electronic Arts (EA) and 2K.

The FIFA segment is one of the key contributors to EA Sports' revenue. In 2019, sales from FIFA alone contributed to 15% of the company's total revenue. Similarly, NBA2K generated revenues of over USD 1 billion that contributed to approximately one third of Take-Two Interactive revenues in 2019.

Increased Traction for Sports Simulation Games within eSports

Over the first month of the NBA 2K League, it ranked as the 64th most viewed game on Twitch and during that same time period, FIFA was ranked 14th. The increased participation from enthusiasts, promotion through professional players participation, and diversification across geographies are all set to contribute to the growth of sports simulation within the eSports market.

Exhibit 17: Sports Simulation Tournament Prize Pool, 2019 (In US '000)



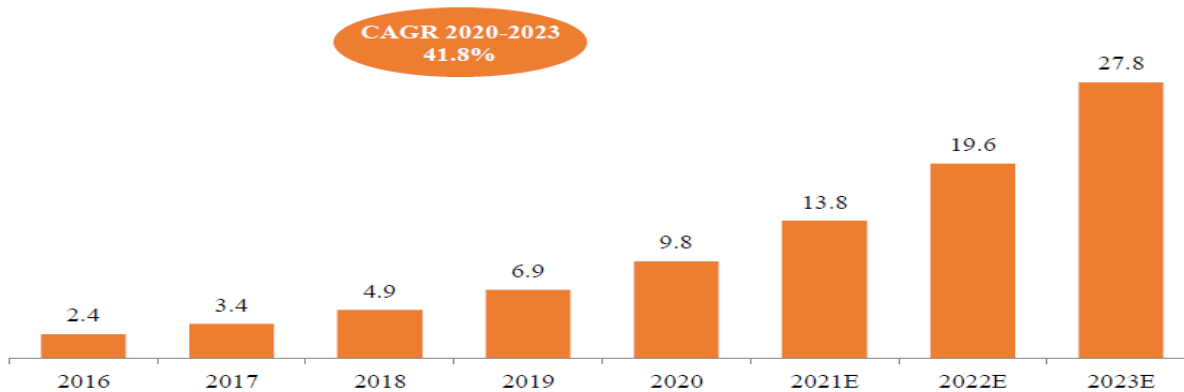
Source: Esportsinsider, ICICI Direct Research

Gamified Early learning

There has been a considerable shift in the way educational content is created, packaged, distributed, and consumed in today's world. The sheer speed of such a shift serves as a catalyst and disruptor to the education industry. To put it in perspective, it took a couple of decades for radio to gain popularity, about 10 years for TV, three years for the Internet, a year for Facebook, and a couple of months for WhatsApp. While these all are media for content dissemination, the accelerated pace of their popularity can serve as a good proxy for the accelerated pace of change in the way modern education is imparted and imbibed. In this regard, the introduction of technology in education has had a significant impact in the last decade – both globally as well as in India.

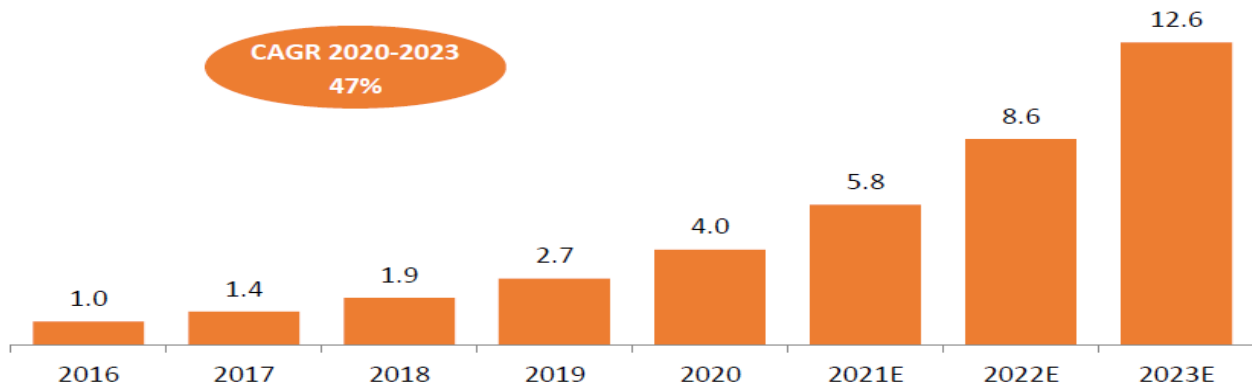
Gamified early learning tries to bring in the element of fun to learning. It brings various elements of game play to the learning landscape to make it more entertaining and engaging. Gamified early learning does not intend to replace teachers, or deter the classroom education system, but rather works in tandem with the new age digital techniques to enhance the experience of learning by integrating game elements in their educational environment.

Exhibit 18: Global Gamified early learning market, 2016-2023 (In US\$ billion)



Source: Eschool news, Frost & Sullivan, ICICI Direct Research

Exhibit 19: US Gamified early learning market, 2016-2023 (In US\$ billion)



Source: Eschool news, Frost & Sullivan, ICICI Direct Research

With the global pandemic creating a stay-at-home learning ecosystem, students have ample opportunities to engage with digital avenues that cater to enhanced learning methods. *The successful demonstration of gamified education in other regions of the world serves as a key driver for the Indian market to adopt gamification in learning.*

Companies like AltSchool, CK12 and Dreambox are gaining popularity in several schools in USA. Finland-based learning game platform Seppo is being used by more than 6,000 teachers and thousands of students in more than 10 countries, while Malaysia's ZapZapMath is seeking to expand in Asian nations such as India, Indonesia and China

Company background

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. Nazara has been the most aggressive investor in India gaming ecosystem and has invested over ₹300 crore in last five years.

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 71.0% of revenues for the six months period ended on Sep 30, 2020.

Exhibit 20: Segment wise Revenue & EBITDA break-up

Segment Revenue	FY18	FY19	FY20	H1FY21
Gamified-early learning	-	-	19.1	78.7
Esports	3.6	49.2	84.2	63.7
Freemium	15.2	24.4	19.8	9.0
Real Money Gaming	-	-	42.6	6.3
Telco Subscription	153.2	96.1	81.8	42.8
Total	172.0	169.7	247.5	200.5
Segment EBITDA (Incl. other inc)	FY18	FY19	FY20	H1FY21
Gamified-early learnng	-	-	(3.5)	(4.0)
Esports	0.0	(1.9)	7.3	8.1
Freemium	2.2	4.4	1.1	2.1
Real Money Gaming	-	-	(34.7)	(5.9)
Telco Subscription	75.2	36.8	26.3	11.3
Unallocated	(19.1)	(6.6)	12.6	1.1
Total	58.3	32.7	9.1	12.7
Segment margin (%)	FY18	FY19	FY20	H1FY21
Gamified-early learning	-	-	-18.3%	-5.1%
Esports	0.8%	-3.9%	8.7%	12.7%
Freemium	14.5%	18.0%	5.6%	23.3%
Real Money Gaming	-	-	-81.5%	-93.7%
Telco Subscription	49.1%	38.3%	32.2%	26.4%
Total (Ex other income)	32.1%	17.6%	3.5%	6.1%
Regional share (%)	FY18	FY19	FY20	H1FY21
India	19.4	48.7	59.0	41.1
Middle East	34.6	13.5	7.3	5.9
Africa	20.2	19.1	8.3	3.1
APAC	25.9	13.2	13.2	8.2
North America	-	5.5	12.2	41.6
Total	100.0	100.0	100.0	100.0

Source: RHP, ICICI Direct Research

Nazara registered ₹247.5 crore of revenues in FY20, a growth of 46% YoY, boosted by two acquisitions in the e-learning (Kiddopia) and real money gaming (Halaplay) in that year. Organically, revenues grew by 9.5% in FY20.

In 1HFY21, revenues have already reached ₹200 crore as the pandemic led lockdown across various markets resulted in faster adoption of online gaming, especially on e-learning and esports side, even as Nazara de-focussed on real money gaming due to increased regulatory uncertainties around the business.

Business segment

Gamified Early Learning - Kiddopia

Co entered the gamified early learning segment in North America through **Kiddopia**, flagship gamified early learning app, which was acquired in FY20. Through Kiddopia, it **caters primarily to children aged between two and six years**. The subscriber base of the app, which comprised of 115,220 paying subscribers at the time of acquisition of Paper Boat App in FY20 has grown to 316,428 paying subscribers as of Dec-2020 and has an **annualized revenue run rate of over ₹175 crore**.



Co offer monthly and annual subscription plans for Kiddopia, currently priced at \$6.99/month and \$59.99/year. There is an initial trial period of seven days, following which the monthly or annual plans may be opted for at the time of activation. No additional in-app purchases are required by the subscribers, to access content or features in the app.

From December 2019 to December 2020, it has witnessed average trial to activation rate of 73.56% for monthly subscription plans, and a 63.13% average trial to activation rate for annual subscriptions. Overall, there has been an increase of 301.58% in subscriber base from 104,923 subscribers as of Dec-2019 to 316,428 subscribers as of Dec-2020.

Exhibit 21: Top 8 downloaded Gamified-Early learning apps in US

Rank	Application	Parent Company	Genre
1	Toca Life: World	Spin Master	Simulation
2	Township	Playrix	Simulation
3	Monster High Beauty Shop	Crazy Labs	Lifestyle
4	World of Peppa Pig	Hasbro	Kids
5	Kiddopia	Nazara	Kids
6	Color by Number Coloring Book	Wildlife Studios	Kids
7	Rodeo Stampede	Featherweight	Simulation
8	PBS KIDS Games	PBS	Kids

Source: RHP, ICICI Direct Research

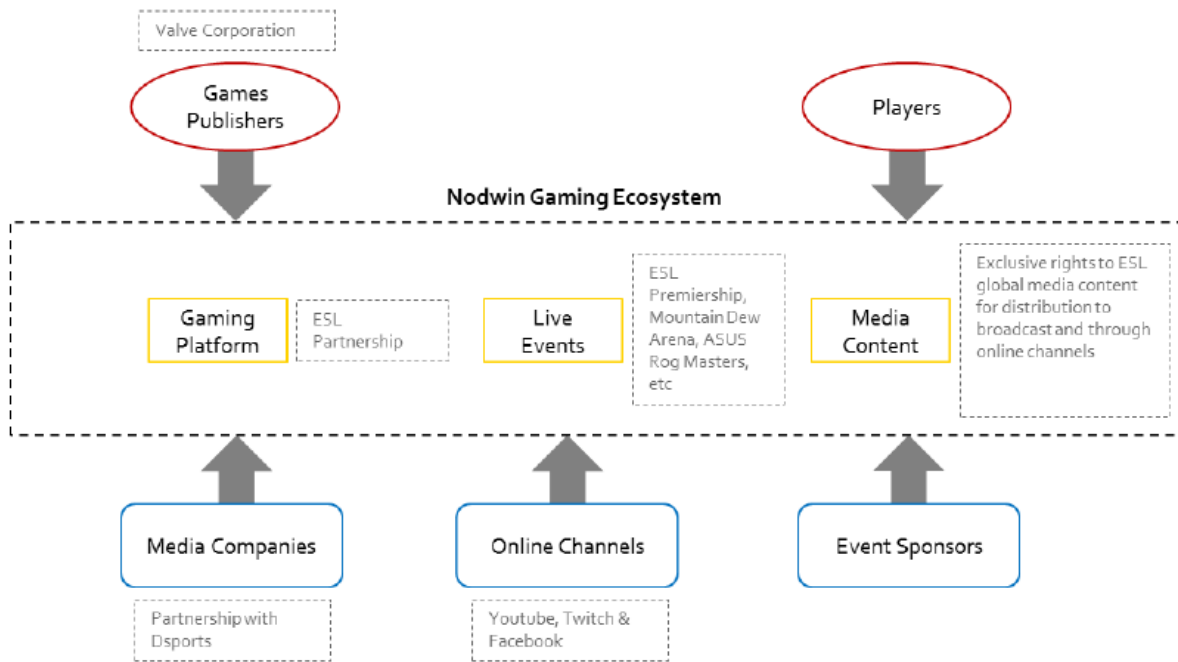
In a short span of time, Kiddopia has transitioned into a trusted and well recognized brand for game-based learning, and has received multiple awards and recognitions, including the Approved Award in 2018 by the Parents Choice Foundation, the 'Brain Child' winner in 2018 at the Tillywig Toy & Media Awards, the 2018 National Parenting Products Award and the winner of the Mom's Choice Awards. **Kiddopia was ranked 3rd on the US Apple App Store on December 5, 2020**, with an average rating of 4.4 out of 5 stars since its release

eSports – Nodwin Gaming, Sportskeeda

Nazara is the **only company in India** to have rights over IP and assets across grassroots, regional, national and international eSports. (Source: F&S Report) It has **partnered with some of the largest global gaming publishers** and eSports organizers in the world, including Electronic Sports League (ESL), and had **organised 82% of all unique eSports events in India** in the 2019. Further, its share of the total prize pool was 73% for eSports events in India in that year. It also operates **Sportskeeda, which is the largest eSports news destination website in India**, with content across eSports as well as sports such as WWE, cricket, soccer and basketball. For the 9MFY20, Sportskeeda witnessed an average of 38.18 million MAUs and 59.02 million visits per month.

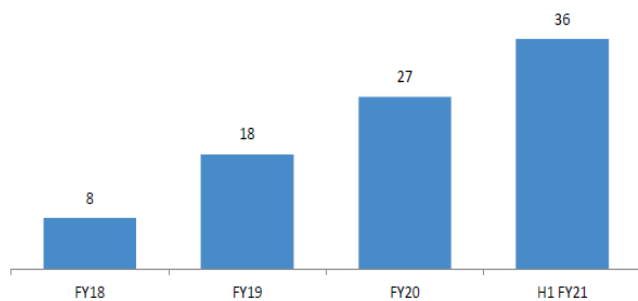


Exhibit 22: The E-sports Eco system



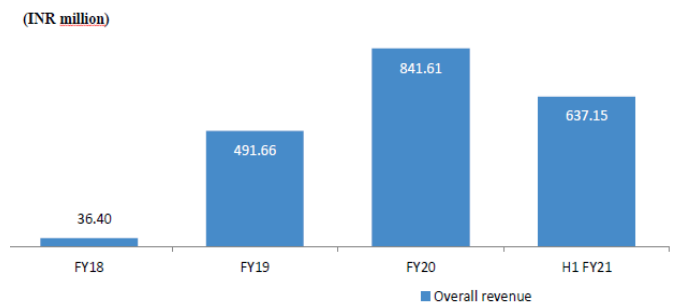
Source: RHP, ICICI Direct Research

Exhibit 23: No of eSports client & partners



Source: Frost & Sullivan analysis, ICICI Direct Research

Exhibit 24: Revenues from eSports



Source: RHP, ICICI Direct Research

With increasing popularity of eSports and eSports content in India, the interest of media companies in acquiring rights, content has grown. This has led to growth in media rights as a revenue stream for us, both in absolute as well as contribution terms. Media rights licensing business itself contributes to over 29.59% and 58.78%, respectively, of the overall revenues from eSports business for FY20 and the H1FY21.

Telco Subscription

Telco subscription offerings currently comprise of over 1,021 android games. It primarily targets mass mobile internet users in emerging markets, comprising largely of first-time mobile gamers, through this segment. Monetisation in telco subscription is undertaken through periodic, daily, weekly or monthly subscriptions by subscribers, through carrier billing pursuant to co’s arrangements with telecom operators. Telco subscription contributed approximately 21.3% and 33% respectively, of total revenue from operations for the H1FY21 and FY20 respectively.

Freemium mobile games

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, cricket gaming franchise, is the largest mobile-based cricket simulation game and

the company has launched WCC-3, the third edition of this franchise, in calendar year 2020.

Monetisation in freemium mobile games has historically been through advertising services, and more recently through in-app purchases. The revenue from advertising services during H1FY21 was ₹9.02 crore and during FY20 was ₹19.8 crore. Further, revenue from in-app purchases has increased from ₹1.88 crore during FY20 to ₹2.0 crore in the H1FY21.

Exhibit 25: Freemium games



Source: RHP, ICICI Direct Research

Skill-based, fantasy and trivia real money gaming

The company has also entered into skill-based gaming in India and has strategically created presence in the real money gaming segment. With the acquisition of Halaplay, and investments in Sports Unity, the company is also participating in sports fantasy gaming and trivia games.

Exhibit 26: Key players

Key Fantasy Sports Players

Application	Business model	Downloads (Mn)
Dream11	Platform Fee	80+ (users)
MyTeam11	Platform Fee	15+ (users)
Halaplay	Paid	10+ (users)
11wickets	Platform Fee	3+ (users)

Source: Frost & Sullivan

Key Trivia Based Games in India

Application	Downloads
Loco	10 million
BrainBaazi	10 million
Qureka	10 million
Zupee	5 million
Qunami	400 Thousand

Source: RHP, ICICI Direct Research

Investment Rationale

Leadership position in a diversified and scalable business

The company's successful business model and established presence in India has given a competitive advantage. The company has successfully leveraged its capabilities for in-house content creation, game engine development and propriety technology stack development, ability to deliver positive LTV/CAC ratios across offerings and their relationships with telecom operators, app stores and other participants in gaming ecosystems. The content is developed in India for the Indian as well as global audience, allowing it to achieve scale. The company has an operating leverage advantage in gamified early learning on account of captive development of content being undertaken in India, while generating revenues inter alia from North America. Further, its leadership in eSports and sports simulation and geographical reach across India, Middle East, Africa and North America, provide a strong foundation on which co. can able to scale new products.

Portfolio of premium intellectual property and content across regions and businesses

The company owns and has sustained access to premium IP and popular, local brands across eSports and mobile games in India. They are capable to apply local market knowledge and technical expertise to provide highly relevant and localized content that appeals to diverse user base.

Favourable macro-economic and demographic drivers

Favorable macro-economic and demographic drivers, growth in adoption of gaming and online learning and improvement in digital payment and tech infrastructure in India provides a great opportunity for growth of the company. The gaming industry in India is currently valued at US\$ 1.54 billion and is expected to grow at a CAGR of 31% to US\$ 3.53 billion by 2023. The combined Gen-Z and millennial population, which provides a large user base of mobile gamers, sports and eSports fans, accounted for 65% of the total population mix in India as on Aug-20 compared to 51% in US and 36% in China. With its concentration of Gen-Z and millennials, rapidly rising per capita spends and high internet and smartphone penetration, India as a market for each of company's offerings is still far from saturation, both in terms of the number and engagement of users as well as monetisation opportunities, thereby providing huge potential for growth.

Launch of new IP and content to drive growth

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 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 also plans to broaden learning consumption scenarios by creating new characters and adding new universes to the current formats provided for gamified early learning.

In eSports, the company has been able to consistently increase the number of IP titles and assets, from 7 in FY18, to 12 in FY19 and 15 in FY20. It will continue to deepen its existing relationships with brand and publishing partners and also establish new relationships for more content and event and format IPs, as well as explore synergistic opportunities for content creation. The company will continue to work with top game developers to source and localize high quality game content for users, invest in new game development tailored to local tastes, as well as continue to invest in eSports IP.

Key Risk

Inability to protect IP or any third-party claims in relation to infringement could adversely affect the business

In addition to IPs owned by the company, the company has also obtained licenses to certain IP in lieu of ownership in certain instances, including IP acquired for specific events. Such licenses may be limited in scope and require us to renegotiate on a periodic basis for additional use rights. In relation to the games developed using licensed IP, we typically enter into revenue sharing agreements with the licensors, with co's share being payable at milestones specified in such agreements. Increased competition for such licenses may increase the amounts that the company have pay to licensors and developers, which could significantly increase its costs and reduce its profitability.

Higher dependence on telco subscription business

Any changes in policies of payment collection models adopted by telecom partners, any adverse changes to the regulations governing the telecom operators or their statutory obligations, or the increasing popularity of free-to-play and freemium mobile games, the easy availability of mobile games content across platforms without the involvement of telecom operators and a reduction in payment barriers may all result in a decline of the telco subscription business.

Skill-based fantasy and trivia real money games are subject to regulatory uncertainty

Nazara has entered into skill-based gaming in India and strategically created presence in the real money gaming segment with the acquisition of Halaplay and investments in Sports Unity; it is also participating in sports fantasy gaming and trivia games. However, there has been considerable judicial and regulatory scrutiny in India in recent years with respect to real-money gaming, including fantasy games, and there continues to be uncertainty in the regulatory framework and GST computations in relation to real-money gaming in India.

Significant portion of revenue from eSports business comes from a few customers

The co. is dependent on a limited number of customers for a significant portion of revenues from eSports business and do not have long-term contractual arrangements with most of significant customers. The company conducts business with certain customers on the basis of annual or event specific agreements or only purchase orders or invoices that are issued from time to time. The loss of one or more of these customers could have an adverse effect on the business. It may also constrain ability to negotiate arrangements, which may have an impact on profit margins

Management background

Vikash Mittersain is the Promoter, Chairman and Managing Director of the company. He has been associated as Director of the Company since its incorporation. He has several years of experience in multiple business sectors.

Nitish Mittersain is the Promoter and Joint Managing Director of the company. He founded the company in 1999 and has been associated in the promotion of the company for the last 20 years.

Manish Agarwal is the Chief Executive Officer of the company. He has been associated with the company since June 1, 2015. He has approximately 20 years of experience in various fields including the gaming space and marketing. His association with the company has been instrumental in creating the business besides driving investments by the company and recent M&A.

Kuldeep Jain is the Non-Executive, Independent Director of the company. He has been associated as Director of the Company since August 20, 2013. He has over a decade's experience in a global consulting firm and was a partner at McKinsey & Company, Inc. He is currently the managing director of Clean Max Enviro Energy Solutions Pvt. Ltd.

Sasha Mirchandani is the Independent director of the company. He has been associated with the company since January 4, 2018. He has more than a decade's experience as an angel investor.

Shobha Jagtiani is the Independent Director of the company. She has been associated with the company since January 4, 2018. She has more than 45 years of experience as a lawyer and is a member of the ITAT Bar Association.

Probir Roy is the Independent Director of the company. He has been associated with the company since January 4, 2018. He has more than a decade's experience in the field of information technology and communications.

Rajiv Agarwal is the Non-Executive Director of the company. He has been associated with RaRe Enterprises since 2006. His focus is on growing RaRe Enterprises' strategic investments in diverse sectors. He has experience and deep understanding of B2B and B2C businesses spanning consumer, education, digital entertainment, media, financial services, payments, auto components, and oil drilling which form a part of RaRe Enterprises' PE portfolio.

Karan Bhagat is the Non-Executive Director of the company. He is the founder, managing director and chief executive officer of IIFL Wealth Management Ltd. He joined IIFL Holdings Ltd. (formerly India Infoline) to set up IIFL Investment Managers in 2008. He was also associated with Kotak Securities Ltd. and Kotak Mahindra Bank Ltd. in the past. Karan has more than 16 years of experience in the financial services industry.

Rakesh Shah is the Chief Financial Officer of the company. He has been associated with the company since May 10, 2010. He has more than 24 years of experience in financial, administration and management accounting.

Pratibha Mishra the Company Secretary and Compliance Officer of the company. She has been associated with the company since January 1, 2021.

Financial summary

Exhibit 7: Profit and loss statement				
₹ crore				
₹ crore	FY18	FY19	FY20	H1FY21
Revenue	172.0	169.7	247.5	200.4
Other Income	9.9	16.4	14.7	6.5
Total Income	181.9	186	262	207
% Growth		2%	41%	
Content, event, web server	12.1	44.3	50.7	15.2
Advt. & promotion	42.8	27.2	132.9	119.6
Commission	3.2	3.1	7.1	22.3
Employee exps	37.2	41.4	31.9	21.9
Depreciation & Amortization	8.2	19.5	26.9	18.7
Finance cost	1.8	1.4	1.2	0.5
Other expenses	28.0	37.3	30.5	15.4
EBIDTA	48.7	16.4	(5.5)	6.1
EBIDTA %	28%	10%	-2%	3%
PBT	48.6	11.8	(18.9)	(6.6)
Shre of loss of investment	(0.1)	(0.9)	(1.8)	(1.6)
Exceptional Items	(35.7)			
Tax	11.8	4.2	5.8	1.9
PAT	1.0	6.7	(26.5)	(10.1)
Minority Interest	(1.6)	(10.8)	(24.5)	(5.1)
Attributable PAT	2.6	17.5	(2.1)	(5.0)

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
₹ crore				
₹ crore	FY18	FY19	FY20	H1FY21
PBT	12.8	10.9	(20.7)	(8.2)
Add				
Depreciation	8.2	19.5	26.9	18.7
Finance costs	1.8	1.4	1.2	0.5
Other	49.4	13.0	(10.7)	1.5
CFO before WC changes	72.2	44.8	(3.3)	12.5
Changes in WC	(52.0)	(10.9)	8.2	(17.4)
Cash from operations	20.2	33.9	4.9	(4.9)
Tax paid	(17.0)	(14.7)	(7.1)	(1.7)
Net CFO	3.2	19.2	(2.2)	(6.6)
Purchase of Assets	1.9	5.9	7.0	1.0
Current investments	32.3	25.4	29.4	2.0
Other	(52.5)	(98.7)	(27.5)	16.0
Net CF from investments	(18.3)	(67.5)	8.9	19.0
Proceeds from equity	76.5	11.7	2.5	-
Repayment of leased liability	(3.4)	(4.6)	(5.6)	(2.4)
Others	(36.0)	(1.2)	6.4	0.2
Net CF from Financing	37.1	5.9	3.4	(2.2)
Net increase/(decrease)	22.0	(42.3)	10.1	10.2

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
₹ crore				
₹ crore	FY18	FY19	FY20	H1FY21
Non Current Assets	182.0	200.1	397.1	371.5
Fixed Assets	15.0	10.3	10.9	6.7
Intangibles	135.8	127.4	343.2	328.6
Long term investments	13.8	43.5	21.6	18.2
Other Non-current Assets	17	19	21	18
Current Assets	288.7	314	380	427
Investments	86.8	84.0	36.7	24.3
Trade Receivables	43.1	44.7	68.1	128.1
Cash & Bank	117.5	133.3	186.7	184.2
Other Current Assets	41.4	52.5	88.2	90.5
Total Assets	470.8	514.6	776.8	798.7
Equity	351.8	407.1	507.1	495.6
Equity Share Capital	10.8	11.0	11.2	11.4
Other Equity / Reserves	341.0	396.1	495.9	484.2
Minority Interest	35.3	32.2	83.0	75.6
Non-Current Liabilities	33.1	20.7	43.6	40.7
Current Liabilities	50.5	54.5	143.2	186.7
Borrowings	-	-	-	-
Trade Payables	23.5	24.9	69.0	107.6
Other Current Liabilities	27.0	29.6	74.2	79.1
Total Liabilities	470.7	514.5	776.9	798.6

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios			
Year end March	FY18	FY19	FY20
EPS	0.97	6.38	(0.73)
EPS (Post issue)	0.86	5.75	(0.67)
BV	130.4	148.2	181.1
Cash per share	49.4	68.0	65.8
EBIDTA Margin (in %)	28.3	9.6	-2.2
PAT Margin (in %)	0.6	3.6	-10.1
RoE (in %)	0.7	4.3	-0.4
RoCE (in%)	9.3	2.6	-0.9
PE (Post issue)	NA	NA	NA
EV/EBITDA	65.07	193.65	NA
Mcap/Sales	19.5	19.8	13.5
Debt/Equity	-	-	-
Debt/Ebitda	-	-	-
Current Ratio	5.7	5.8	2.7
Quick ratio	3.2	3.3	1.8
Debtor Days	91.4	96.2	100.4
Creditor Days	49.9	53.6	101.8
Inventory days	-	-	-

Source: Company, ICICI Direct Research, Calculated

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