

Nazara Technologies Ltd.

SSIS IPO GRADE 4/5 (Fundamentally Sound)

15th March, 2021

Rating Overview

Nazara Technologies Limited ("Nazara") was incorporated on December 8, 1999. Nazara 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 ecosystems 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 and Qunami in skill-based, fantasy and trivia games.

Company's expansion into global markets has been strategic, both in terms of geographies as well as timing for entering new markets. They built capacities and capabilities across their offerings in India, targeting gamers within the country, and then replicated their business model in global markets to target gamers. In addition to a strong portfolio of offerings, their growth is also driven by the strong tailwinds across mobile gaming and eSports in India and across the globe, with a further acceleration seen in the calendar year 2020 on account of COVID-19.

Company is bringing the issue at ev/sales multiple of approx 12.8x at higher end of price band of Rs 1100-1101/share on FY20 Sales basis. Nazara Technologies is one of the diversified mobile gaming companies in India that has presence in developing and emerging global markets. The company's IPO will be the first pure play gaming company that would get listed on stock exchanges. On the valuation front, the company is valued at 12.7x EV/Sales based on FY20 numbers. Considering its leading position in the mobile gaming industry in India, with a presence across emerging and developing countries and ongoing positive sentiments for new IPO's in current scenario, we believe a decent listing gain is possible.

Our overall rating of Nazara Technologies is fundamentally strong and it holds a fair valuation post issue. Risk savvy investors can purchase it for medium to long term share appreciation and others can subscribe for listing gains.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.

Business Overview

Nazara Technologies Ltd. (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. It offers across the interactive gaming, eSports and gamified early learning ecosystems 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 and Quanami in skill-based fantasy and trivia games.

NTL's goal 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 has focused on growing profitable business, with an emphasis on self-sustainability rather than relying on external investments. It claims to be historically been EBITDA positive and has generated sufficient cash flows from its operations. Due to this its cash and bank balances as of September 30, 2020, were in the region of Rs. 184.28 cr.

Financial Performance

On the financial performance front, for the last three fiscals, NTL has (on a standalone basis) posted total turnover/net profits - (loss) of Rs. 181.94 cr. / Rs. 1.02 cr. (FY18), Rs. 186.10 cr. / Rs. 6.71 cr. (FY19) and Rs. 262.15 cr. / Rs. - (26.62) cr. (FY20). For the first six months of FY21 ended on September 30, 2020, it has posted a loss of Rs. - (10.11) cr. on a turnover of Rs. 207.01 cr.

For the last three fiscals, NTL has posted an average EPS of Rs. 1.88 and an average RoNW of 1.30%. The issue is priced at a P/BV of 6.54 based on its NAV of Rs. 168.47 per share as of September 30, 2020.

Based on FY20 and 6M-FY21 negative earnings, the issue is at a negative P/E.

Summary of financial Information (Restated Consolidated)				
Particulars	For the year/period ended (₹ in millions)			
	31-Dec-20	31-Mar-20	31-Mar-19	31-Mar-18
Total Assets	7,986.55	7,768.29	5,145.83	4,707.59
Total Revenue	2,070.06	2,621.46	1,860.98	1,819.40
Profit After Tax	(101.07)	(266.15)	67.13	10.23

2 Issue Details

To avail listing benefits and provide an exit to a few current stakeholders, NTL is coming out with its maiden IPO with a vanilla secondary offer. The company is issuing 5294392 equity shares of Rs. 4 each with a price

band of Rs. 1100.00 - Rs. 1101.00 and mulls mobilizing Rs. 582.91 cr., (at the upper price band). The Minimum application is to be made for 13 shares and in multiples thereon, thereafter.

The issue opens for subscription on March 17, 2021, and will close on March 19, 2021. The issue constitutes 17.39% of the post issue paid-up capital of the company. The company has kept shares worth Rs. 2 cr. For eligible employees and offering them a discount of Rs. 110 per share. From the residual portion, it has made an allocation of IPO quota - 75% for QIBs, 15% for HNIs and 10% for Retail investors.

Having issued initial equity at par, NTL issued further equity in the price range of Rs. 30.33 to Rs. 2733.50 per share (based on FV of Rs. 4 per share) between April 2000 and March 2021.

It has also issued bonus shares in the ratio of 4 for 1 in January 2018. The average cost of acquisition of shares by the promoters/selling stakeholders is Rs. Nil, Rs.0.80, Rs. 413.59, Rs. 554.54, Rs. 554.62, Rs. 554.65, Rs. 554.81, Rs.556.90, Rs. 728.00 and Rs. 730.95 per share.

NTL's current paid-up equity capital of Rs. 12.18 cr. will remain the same following this being complete OFS. Based on the upper price band of the issue, the company is looking for a market cap of Rs. 3352.86 cr.

Book Running Lead Managers for this issue are ICICI Securities Ltd., IIFL Securities Ltd., Jefferies India Pvt. Ltd., and Nomura Financial Advisory and Securities India Pvt. Ltd., while Link Intime India Pvt. Ltd. is the registrar to the issue. Post allotment, shares will be listed on BSE and NSE.

Application Dates	Mar 17, 2021 – Mar 19, 2021
Issue Type	Book Built Issue FPO
Face Value	₹4 per equity share
IPO Price	₹1100 to ₹1101 per equity share
Market Lot	13 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹4 (Up to ₹ 582.91Cr)

Issue Timeline

Basis of Allotment Date	Mar 24, 2021
Initiation of Refunds	Mar 25, 2021
Credit of Shares to Demat Account	Mar 26, 2021
IPO Listing Date	Mar 30, 2021

Investment Strategy

With negative earnings for the past 18 months, the issue is being offered at a negative P/E. Simply due to investment by big tycoon RKJ, this IPO is creating hype. Being the first mover, it might catch fancy post listing, but the offer price is very aggressive based on its financial data. Hence cash surplus, risk savvy investors may consider investment at their own risks.