B&K SECURITIES
WE UNDERSTAND MONEY

INITIATING COVERAGE

Nazara Technologies

A bouquet of new age verticals

30 December 2021

Deep Shah
Research Analyst
deep.shah@bksec.com
+91-22-4031 7000

Nazara Technologies

A bouquet of new age verticals

B&K SECURITIES
WE UNDERSTAND MONEY

Initiating Coverage | Internet | 30 December 2021

BUY

Share Data

Market Cap.	Rs 74 bn (US$ 988 mn)
Price	Rs 2,313
Target Price	Rs 3,287
BSE Sensex	57,897
Reuters	NAZARA.BO
Bloomberg	NAZARA IN
6M avg. daily turnover (US$ mn)	8.5
52-week High/Low (Rs)	3,356/1,413
Issued Shares	32 mn

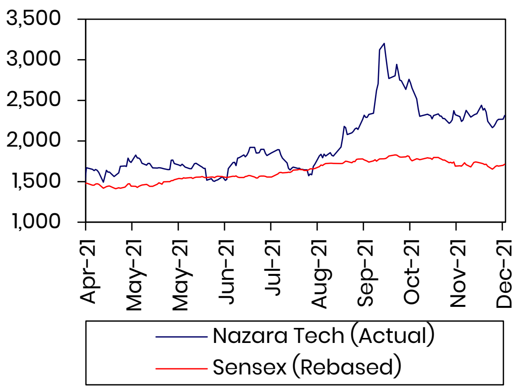
Valuation Ratios

Year to 31 Mar	FY22E	FY23E	FY24E
EPS (Rs)	16.8	20.9	28.3
+/- (%)	425	24	35
PER (x)	138	111	82
PBV (x)	9.8	9.0	8.1
Dividend/Yield (%)	NA	NA	NA
EV/Sales (x)	11	8	6
EV/EBITDA (x)	53	41	30

Shareholding Pattern (%)

Promoters	21
FIIs	8
MFs	4
BFSI's	2
Public & Others	65

Relative performance



- Nazara is at the fore-front of India's gaming revolution. It offers simultaneous exposure to multiple new age verticals across age groups and gaming behaviors. It offers one of a kind asset to play the gamification trend. Leveraging its expertise in the gaming arena, it has successfully acquired and scaled multiple verticals (3x – 10x) in a span of 2-4 years.
- Nazara offers exposure to five separate verticals, of which three (eSports, Gamified Early learning and Real money gaming) are fast growing (>25% CAGR over 3-5 years). These categories are spread across age groups 2-30 and incorporate both serious and casual gamers. This ecosystem, though relatively nascent, is at an inflection point. Nazara provides a channel to invest in the young ecosystem on its journey towards a behemoth.
- Nodwin remains the event manager of choice for marquee events. We believe that eSports is the key vertical, and it accounts for ~65% of our TP. Its ingrained relationships across the eSports event management chain and its transformation into an IP company shall enable sustained value creation.
- **Market leadership positions across verticals shall enable robust revenue growth over the next decade as gaming ecosystem continues to evolve. We initiate with a BUY rating on the company with a TP of Rs 3,287 using SoTP approach.**

Summary financial information

Particulars (Rs mn)	Mar 21	Mar 22	Mar 23	Mar 24
Revenue	4,542	5,932	8,255	10,899
EBIT	241	1,092	1,383	1,886
EBIT Margin (%)	5.3	18.4	16.7	17.3
EPS (Rs)	3.2	16.8	20.9	28.3
RoCE (%)	3.4	12.8	14.6	17.6
CFO	674	572	607	876

About the company

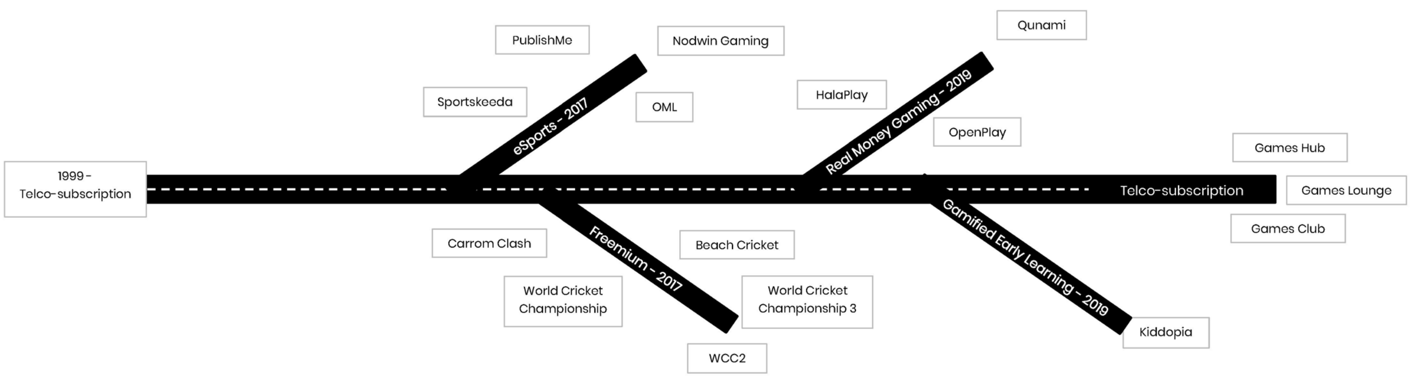
Nazara Technologies offers a portfolio of gaming, learning and sports media platforms, with focus on new age opportunities.

It has adopted an inorganic route to add verticals within its ambit. This network is nomenclatured as the 'Friends of Nazara' network. It took on acquisitions since FY18, where it added two verticals to its existing business of Telco subscription. As of date, the company operates in 5 separate verticals after having made 15 acquisitions.

The core business, named 'Telco Subscription' was started in 1999. This business focused on aggregating various games and partnering with telcos to offer the same to their users as value added services. This association worked wonders in the erstwhile 2G/3G ecosystem where either the internet or the device ecosystem constraints led to consumers opting for these subscriptions via carrier billings.

The other four verticals are largely acquired, with a few operating companies in some of these verticals. The company uses stock as an efficient currency to acquire companies, with part compensation for most incumbent promoters in form of Nazara equity. This ensures continuance of their interests post being a part of Nazara.

The evolution of Nazara



Source: DRHP, B&K Research

Creating a portfolio of verticals

Nazara commenced its operations as an aggregator of games; which served as value added services to subscribers via the telcos. This vertical is known as 'Telco Subscription.' With the advent of 4G and smartphone ecosystem, the utility of the same was on the decline. It raised Rs756mn in 2018 and initiated its journey of acquiring and scaling up companies. It bought majority stakes and simultaneously kept the incumbent promoters interested via contingent considerations as well as stock payouts. In this process, it acquired various companies in multiple segments, including certain supporting companies. We present a list of companies acquired and the consideration paid herewith.

List of acquisitions and consideration paid

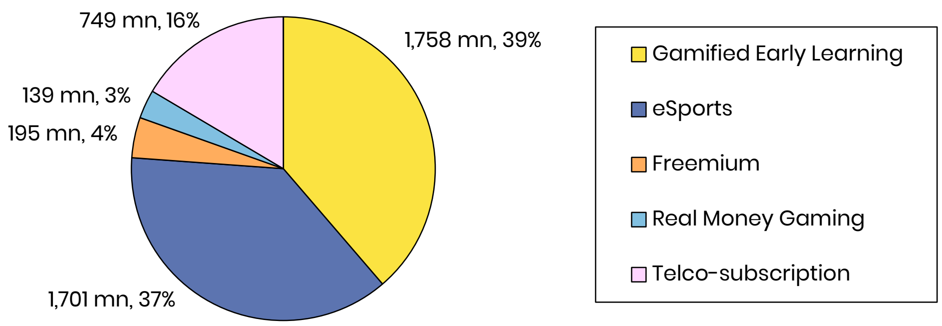
Name of the company	Date	Stake	Cash Consideration (Rs mn)	Share Swap
Mastermind Sports Ltd.	-	26.00%	26.04	-
Moong Labs Technologies Pvt. Ltd.	-	24.41%	10.00	-
Instasportz Consultancy Pvt. Ltd.	-	NA	10.00	-
Khichadi Technologies Pvt. Ltd.	-	NA	7.50	-
Nextwave Multimedia Pvt. Ltd.	December/17	52.38%	300.00	227.00
Nodwin Gaming Pvt. Ltd.	January/18	54.99%	355.32	414.31
Halaplay Technologies Pvt. Ltd.	April/19	74.02%	318.48	-
Absolute Sports Pvt. Ltd.	September/19	72.71%	95.00	343.43
Paper Boat Apps Pvt. Ltd.	January/20	50.91%	400.10	435.00
Sports Unity Pvt. Ltd.	September/19	62.53%	60.90	
Crimzoncode Technologies Pvt. Ltd.	January/20	100.00%	16.85	13.10
PublishMe Global FZ LLC	June/21	69.82%	200.00	-
OML Entertainment Pvt. Ltd. (Gaming & Live IPs)	September/21	SlumpSale	730.00	-
Rusk Media Pvt. Ltd.	December/21	15.80%	120.00	-
OpenPlay Technology Pvt. Ltd.	November/21	100.00%	434.00	1,430.00

Source: DRHP, B&K Research

Areas of operations

Nazara has presence in five verticals as seen above. We summarily present the revenue contribution of these verticals for FY21. On the EBIT front, three of the five verticals – eSports, Gamified Early Learning and Telco subscription generate positive EBIT, whilst the balance two segments generate miniscule losses.

Segmental split of revenues



Source: DHRP, B&K Research

We summarily present the five verticals for ready reference, and shall deep-dive into each of them later in the report.

1. **eSports:**

   eSports is the term used to describe organized and competitive gaming tournaments for games played via digital means. Electronic games are organized in the form of offline and online tournaments where teams and players compete with each other on gaming platforms. Nazara entered this vertical with the acquisition of a majority stake in Nodwin Gaming in FY18. It has now ventured to translate this into a full-fledged IP based vertical. The eSports market is comparatively nascent in India.

2. **Gamified Early Learning**

   This vertical was forayed via the acquisition of the majority stake in Paper Boat Apps, which is the developer of Kiddopia. This platform offers a learning experience for kids through games and educational content. The principal place of business is the markets of United States, and it caters to the age group 2-7 years. It is a pure subscription model, and consistently ranks in Top-3 grossing apps on the App Store under Kids section.

3. **Freemium:**

   The freemium vertical offers games primarily focused towards casual gamers in the age group of 15-35 years. Nazara entered this vertical with the acquisition of Next Wave Multimedia Pvt. Ltd. This segment earns revenues through in-app purchases and advertisements. This remains a small segment given the hurdles of monetization in the Indian mass market.

4. **Real Money Gaming:**

   The company entered this segment with the acquisition of HalaPlay and Sports Unity. This vertical covers skill-based, fantasy and trivial games. Collection of platform fees is the main source of revenue here. This segment was, and continues to remain in the crosshairs of either legislature/judiciary due to its perception of being akin to gambling.

5. **Telco-subscription:**

   This is the business segment with which Nazara started its operations. However, its contribution to the total revenues has declined significantly. Nazara has partnered with telecom operators and offers mobile games to telco subscribers. This works well for telcos too as it is a value added service for them. Revenues primarily come through carrier billings.

Scaling up the operations

Nazara has been instrumental in scaling up some of its investees. The two investees under the eSports vertical and Kiddopia have been stellar success stories. Whilst Halaplay was a bitter experience, freemium was expected to remain benign and will grow moderately. They are great user acquisition tools. As a model of acquiring and scaling up verticals, there shall be certain exponential successes and certain disappointments. In our assessment, ability to meaningfully scale up two out of four investees and creating a potential option value in a third vertical is a robust success story within a frame of less than five years.

Revenues of investees post acquisition by Nazara

Particulars (Rs. mn)	Next Wave Multimedia	Nodwin	Absolute Sports	Halaplay	Paper Boat Apps
Acquisition Period	**Dec-17**	**Jan-18**	**Sep-19**	**Apr-19**	**Jan-20**
FY18	225	170			
o/w: Pre acq period	*73*	*133*			
FY19	158	501			
FY20	136	781	142	397	582
FY21	167	1,357	343	124	1,758
		Half-yearly			
1HFY21	90	530	107	56	787
2HFY21	77	827	236	68	971
1HFY22	99	691	308	36	1,059

Deep-dive into each vertical

We look at each of the verticals in detail now. The largest vertical, in our view from the opportunity perspective is the eSports vertical. This is followed by the Real Money Gaming vertical (albeit small today), Gamified Early Learning, Freemium and Telco Subscription.

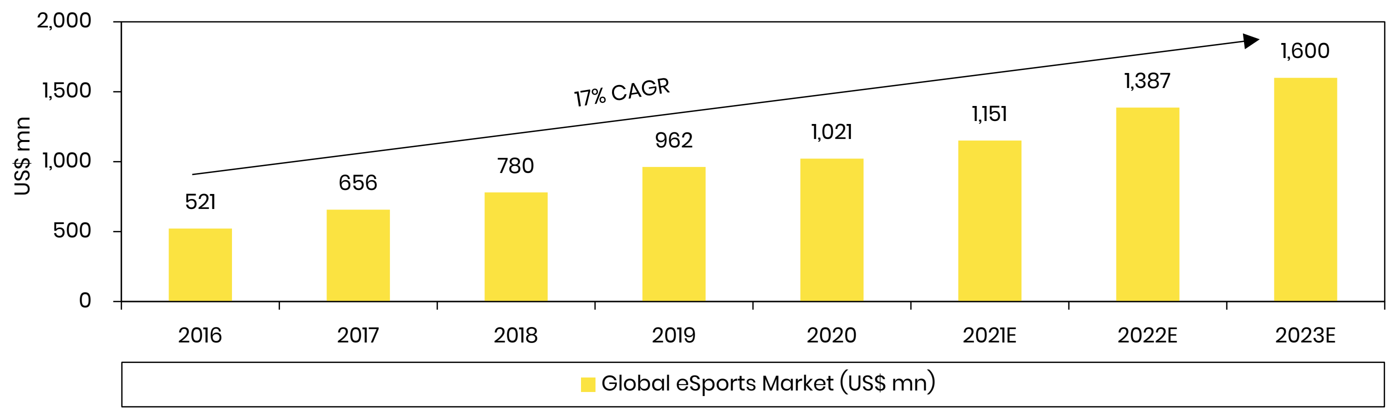
eSports

This vertical refers to an adjacent category of sporting events, which are played over electronic devices. These are professional games, with an entire ecosystem akin to traditional sporting events like teams, coaches, sponsors etc. There is a fine line between online gaming and eSports, which we shall dive deeper as we get into other segments. This is a segment which has largely come to life in the current millennial globally. This truly represents a new industry in itself catering to the GenZ. Industry sources peg the total prize money pool within the ESports industry in India to rise to USD13mn in FY25, from USD3.41212mn in FY21 and a mere USD 0.1mn in 2016.

A look at global data-points

Given the nascence of the industry, it is imperative to look at global trends to truly gauge the wave of eSports events. Bearing closer similarities from population demographics and increasing income levels, the Chinese eSports industry stood at US$164mn in 2018, which is expected to grow to US$617mn by 2023. On the global scale, similar figures correspond to US$780mn in 2018 and US$1,600mn in 2023. On the prize pool front, the same is expected to grow to US$544mn from US$160mn in 2018.

Global eSports market continues to grow



Source: Frost & Sullivan, DRHP, B&K Securities

Sponsorships drive a bulk of international eSports revenues, given the existence of large offline events. ~60% of all revenues are from sponsorships globally.

There have been certain events that can be considered benchmark and watershed points in the recent past.

- New games like Valorant have come to the fore, and entire tours have been created around the same with the most recent Valorant Champions tournament having a prize pool of US$1mn. This is similar to BWF Tour events like World Championships (Badminton).
- The Fortnite World Cup, held in the USA boasted a total prize pool of US$30mn, and prize money of US$3mn to the first placed gamer, similar to US Open (Tennis Grand Slam). Incidentally, this event was held at the same venue which hosts the US Open Grand Slam.
- The Asian Games 2022 shall feature 8 eSports games as a part of medal games, and thus there are 24 medals on offer in the prestigious continent level games. This was held as a demonstration event in 2018, and now is incorporated as a full-fledged medal sport.

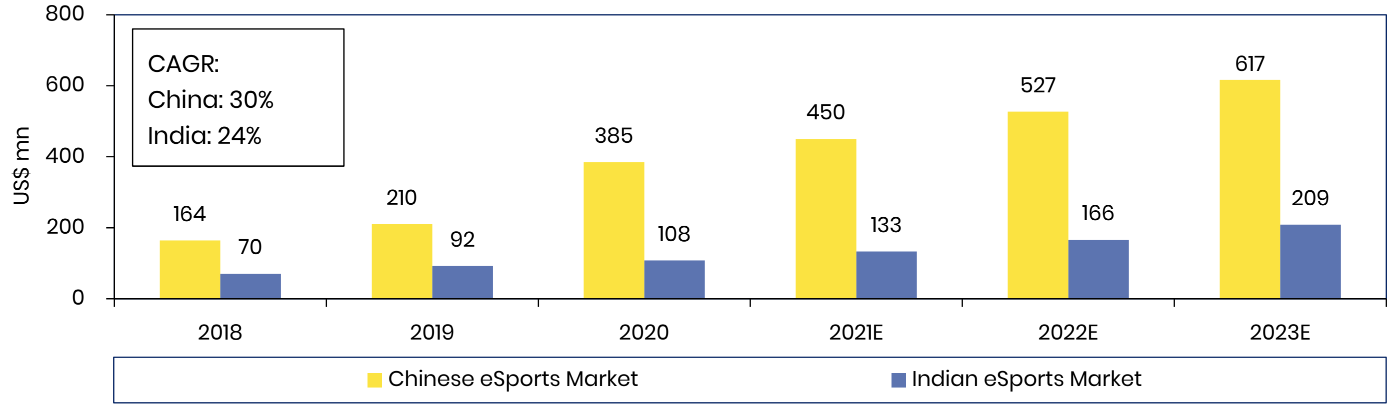
Where does India stand and how is the future ahead?

The Indian eSports industry is just beginning its ascent, aided by multiple tailwinds on both macro and micro grounds. Despite not having offline presence now due to the pandemic, the eSports events cumulatively accounted for Rs150mn in terms of prize money. This is only second to IPL, which offered prize money of Rs250mn. It is then no surprise that eSports tournaments are expected to surpass prize monies of IPL, and is expected to grow at ~40% CAGR over the next four years. The industry is expected to capture 85mn viewers in the next 4 years, making it an inevitable space for the advertisers and regulators alike.

There are three primary drivers for this growth: (i) burgeoning smartphone and mobile internet penetration, (ii) suitable demographics and (iii) participation by global behemoths in the Indian eSports arena. The first factor provides offline appeal and incentivizes brand spends. The second factor provides the fan-base for the serious players and teams, enhancing their brand value. The third factor aids swift and accelerated growth in this space, given the best of experience becomes available for both the publishers and the audience. It is in this light that the foray by Jio into gaming should be seen. To quote Mr Mukesh Ambani,

"Gaming will be bigger than music, movies and television shows put together."

Indian eSports market is just taking off



Source : Frost & Sullivan, DRHP, FICCI, ESFI, B&K Securities

Understanding the ecosystem

There are largely three participants in the primary ecosystem – the publisher, the broadcasters and the sponsors. From the perspective of players and teams globally, these games find favor on console/PCs. However, dominance of mobile gaming in India shall lead to eSports tournaments being held even for mobile games like Battlegrounds Mobile India (erstwhile PUBG).

The publisher is the creator of the game, and these games take millions of dollars to create, with a low probability of success. However, a successful game could reap in billions (Epic Games Fortnite generated revenues of US$5bn in 2020). This makes it inevitable for the publisher to ensure creation of a large player ecosystem for that particular game. Coming to broadcasters, eSports has traditionally been broadcasted on live streaming platforms like YouTube, Twitch, Douyu etc. OTT apps have taken over broadcasting large eSports tournaments off late as they saw increasing viewership. International eSports tours were already broadcasted by Indian OTT platforms like Hotstar. On the sponsors side, these have a much larger presence in offline events given the visibility dynamics. They are also a function of fan-base, and thus are the last entrants.

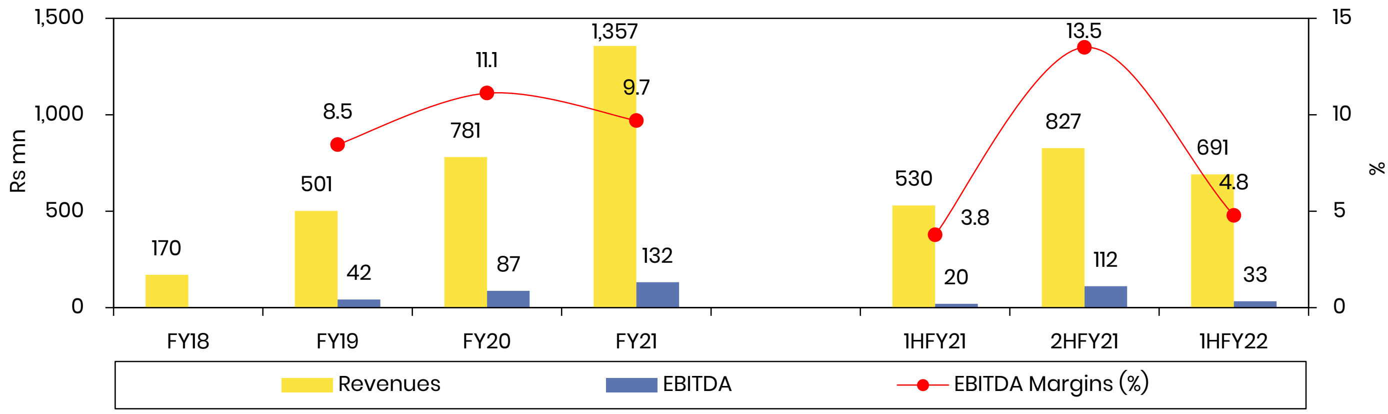
From the player's perspective, there are two kinds of players similar to traditional sports. The serious player base which compete in tournaments, and the casual players who occasionally play the game and serve as the fan base for the serious players. This is one big difference between the eSports and Freemium segment.

Where does Nazara fit into all of this?

For Nazara, the eSports segment represents all such new age gaming and entertainment properties for current millennial born populace. It is in this parlance that they acquired Nodwin Gaming, being one of their first acquisitions in this vertical. Nodwin Gaming acts as an event manager, someone who connects all the participants in the ecosystem as described earlier. Thus, Nodwin Gaming doesn't create games (the publisher does it), but simply creates and manages the eSports events for the publishers and acts as a liaison between players, sponsors, publishers and the broadcasters. This implies that there is no capital risk on its books.

Acting as an event manager, it gets into creating own IPs and also white-labeling of IPs. Nodwin should truly be looked as an IP company, given that it is the strength of IPs that will determine the traction of users, broadcasters and sponsors. Number of events is not a very useful metric here; rather nature of event is a better metric. The own IP model presents massive scale up opportunities, and Nodwin has created multiple such own IPs. White label IPs enable better sweating of assets, as here there is no risk with cost+ model being the monetization avenue. As a part of its eSports events, Nodwin has also undertaken offline events with marquee sponsors like Bharti Airtel. These offline events create a much stronger buzz and set in motion a virtuous cycle to enable sustained growth.

Nodwin has delivered stellar growth with positive margins



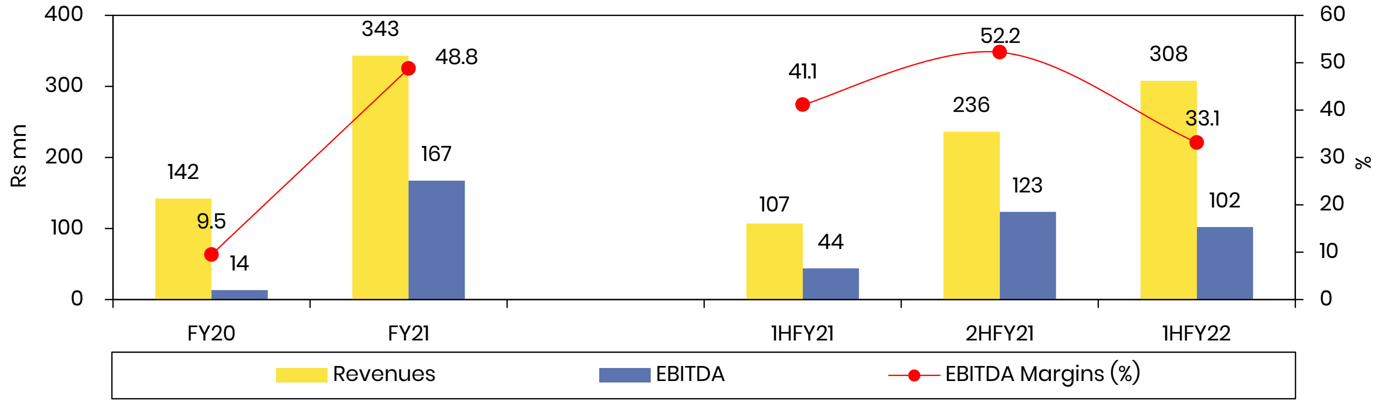
Source: Company, B&K Research

Diving further into Nazara's eSports verticals, it has acquired three more active companies. They are as under:

(i) Absolute Sports, with the brand name Sportskeeda acts as a news and content platform for traditional and eSports events. With the focus to provide granular news over a multitude of sporting events, it creates a loyal user base. Cross-selling of eSports from such platforms is also easy given users already visit the website.

The core concern on such portals revolves around is sustenance of traffic and managing CAC vs user monetization. Sportskeeda has already exhibited stellar profitability. Addition of new sports shall enable the sustenance of Monthly active users (MAUs), which saw massive boost in the pandemic.

Sportskeeda has delivered robust growth along with margin expansion



Source: Company, B&K Research

(ii) OML Entertainment is a recently acquired entity via a slump sale, where the talent management and IPs business was acquired. This truly puts Nodwin to the fore as an IP company, given that the creation and sustenance of IPs in India is a very long and arduous process. With stellar IPs like NH7 Weekender(10 annual editions done) and managing YouTube creators including ones with over 4mn subscribers, OML inclusion provides a massive cross-selling and influencer led nudge for the mixture of music, gaming and comedy. This synergy works well as the audience base is largely similar, and this aids in organization of offline eSports events with audience base beyond eSports fans.

(iii) PublishMe, largely a service company, aids publishers operating out of MENA region. This acquisition is aimed at opening the doors for Nodwin in MENA region. It already has its presence in South-East Asia region owing to its strategic partnerships with large publishers.

Better understanding the MOAT of Nodwin

Nodwin Gaming has been one of the pioneers of eSports in India, and thus enjoys unparalleled relationships with multiple large publishers. Despite being an event manager with largely no exclusivity, Nodwin remains the manager of choice for publishers. We see its MOATs as under:

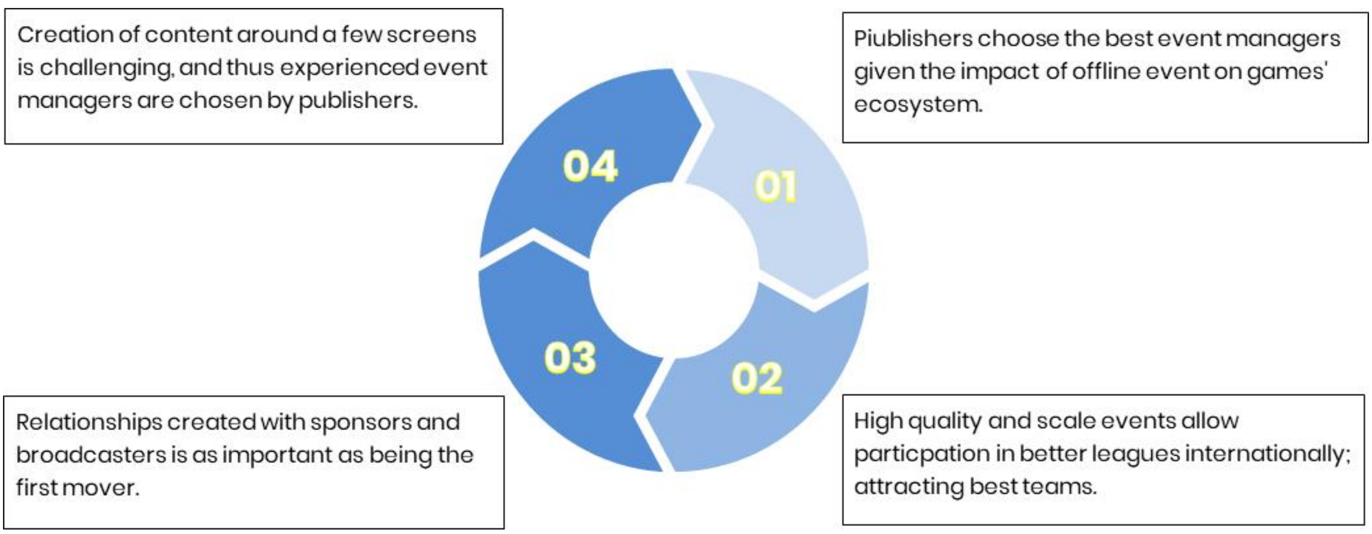
(i) The creation and sustenance of buzz around the game with growing player base is uber-critical for publishers. In this aspect, the online/offline events are organized, whereby publishers have to make sure the event doesn't droop. Thus, event manager plays a critical role here. With some of the largest publishers like Krafton (creator of PUBG/BGMI) having invested 15% equity stake in Nodwin (primary + secondary) for Rs1,640mn and Riot Games (publisher of Valorant) having chosen Nodwin for its flagship Valorant India Championships, it exhibits the strength of Nodwin.

(ii) The nature of the events held is the key to determining the strength of an event manager. Nodwin's events like the Valorant Conquerors Championships (VCC) offer Indian and the sub-continent teams to have a shot at participating at the coveted South Asia championships. This ensures the best of the class participation not only from India but also from neighboring nations. This is not restricted to only Valorant. Even the FIFA eSport event shall offer place in FIFA global finals to the winning team. Its chess tournament has attracted a few of the players ranked in Top-10 globally. Thus, the nature of these events is challenging to replicate for a competitor.

(iii) The first mover advantage is not something worth discounting in such arenas, given the relationships that are created with sponsors and broadcasters. A proven track record and insights on consumer behavior around the events is critical to assuage concerns of new participants in this ecosystem. Even today, Indian eSports tournaments do not find exclusive media rights buyers for want of audience.

(iv) The creation of content around a few screens is a challenging task. The activities included in broadcasting the events are similar to traditional sports broadcasting, where a single frame out of the multiple frames captured by multiple cameras is shown to the audience. Nodwin has improvised over the same as it grew with the market, and the aid of foreign partners. ESL, the largest eSports manager worldwide has an exclusive arrangement with Nodwin. ESL has also invested direct equity in Nazara, to play the Indian eSportification story. This content creation edge allows events akin to global standards in terms of production quality.

MOAT of Nodwin flows in a virtuous cycle



Source: Company, B&K Research

The roadmap ahead for eSports vertical of Nazara

The acquisition of OML shall allow Nodwin to offer sports, gaming and comedy to a similar demographic. The creation of offline events shall prove to be the next game-changer, as offline events are a true reflection of an events reach. It is thus easier to attract sponsors which are assured of active, engaged customer base. Nodwin's events are already marquee in nature as seen above. Thus, there shall be exponential growth in revenue stream from sponsorships. The global averages at ~60% for sponsorships income compares to less than 30% for Indian eSport tournaments today. Increase in sponsorships shall also be accompanied by exclusive media rights as audience grows. This shall substantially increase the absolute figure of media rights revenues. As the offline events pick up, they will enable efficacy in conversion and attribution for all participants in the ecosystem. A case in point is the IPL media rights, which were negotiated at Rs82bn for 9 year period ending 2017, and then they were sold for Rs163bn for a period of 5 years.

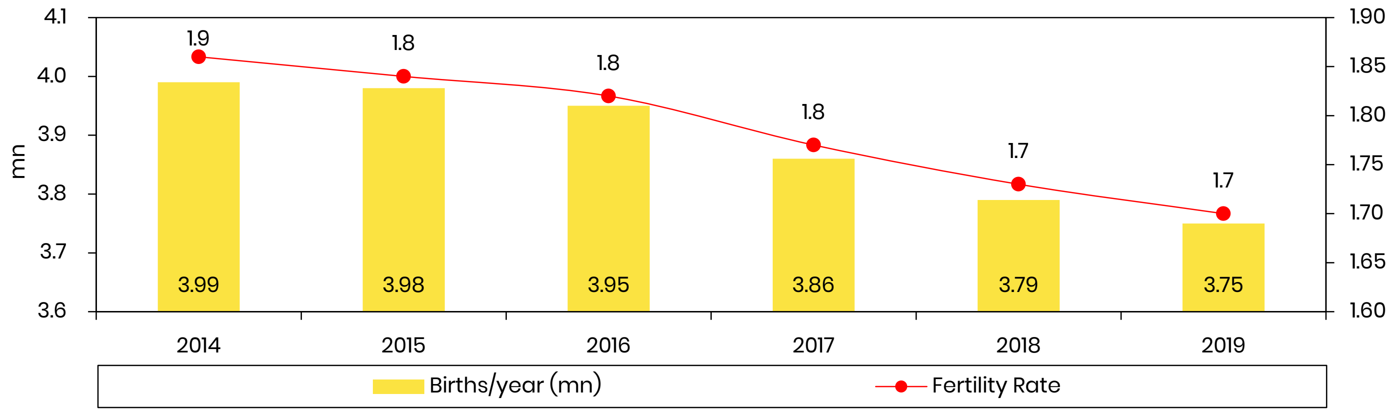
Gamified early learning

This segment refers to edutainment apps which cater to toddlers. The idea is to drive increasing screen times into better channels, and combining fun with learning. This provides a win-win solution for parents, schools and toddlers alike. Whilst this has been a fast growing industry globally, it has also come with its fair share of competition and regulation. We shall restrict our discussion to the markets of United States, given that is the major market for Kiddopia.

The market dynamics

The gamified early learning market, as per industry estimates has quadrupled in the past 4 years, and is expected to further treble in the next 3 years. However, this is an intensely competitive market with the common bottleneck being finite screen time. This pops up severe challenges for pure subscription companies, as they have to compete for screen time with free and freemium offerings. Thus, the competitive dynamics are not only limited to pure subscription companies like ABC Mouse and Lingo Kids. YouTube Kids is the most prominent freemium model out there. Looking from a different view, the competition for screen time is also with entertainment apps like Toca Boca or pure education apps like Khan Academy. The market size remains constrained by the children in the age range of 2-7, which stands at ~20mn and the birth rate continues to fall.

USA – Declining Births and Birth Rate



Source: DRHP, B&K Research

Marred with multiple headwinds; and a potential tailwind

The edutainment ecosystem got a massive tailwind during COVID, as families were restricted in homes and day care centres were closed. Directly or indirectly, the stimulus too played a part where aspirational families would have tried on subscription packages for edutainment. As these tailwinds recede, there shall be strain to continue with exponential growth trends in this space. Although edutainment might not directly compete with schools, it still competes for the time share of a child. Interactive learning might happen at community places, as the nation opens up.

In addition to these macro issues, another major change was affected by Apple in April'21 in a step to bolster user privacy. It gave an explicit option to users to prevent advertisers from using their device ID. This meant that attribution of ad spends became impossible, as advertisers couldn't track the conversion of clicks to actual subscriptions. This meant that the app couldn't track the journey of the user, and thus no programmatic insights could be achieved to undertake targeted advertising. This caused a massive issue for all companies, including behemoths like Facebook (now Meta), Snap, Peleton etc. Thus, apps had to look out for alternate channels to reach users, increasing the cost of marketing.

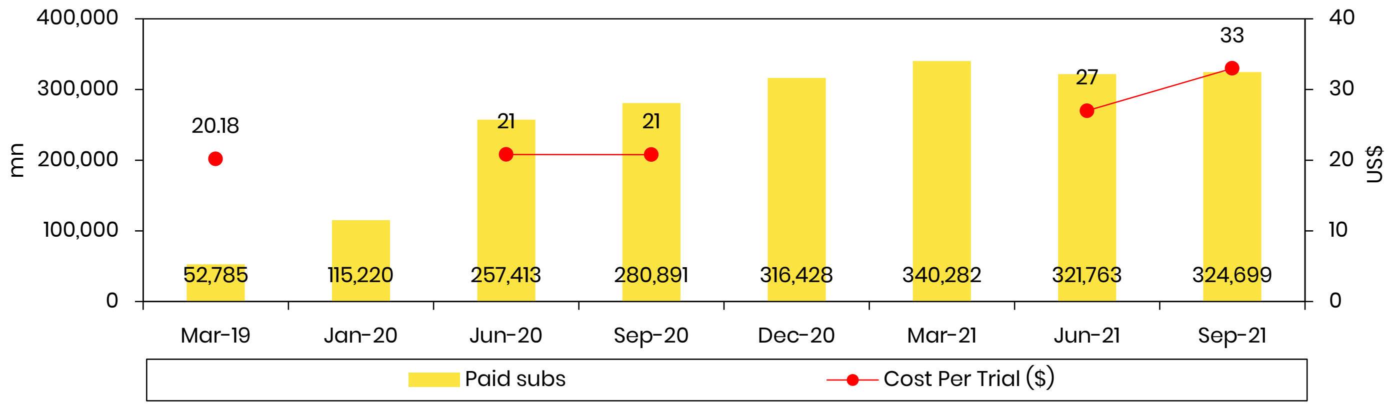
On the positive front, the ruling in Epic Games vs Apple ruling stands out. Whilst that is a separate matter in itself, we simply focus on the District Courts ruling that Apple cannot compel third party apps on the App Store to use its payment systems. This means that it can no longer charge the mandatory 30% commission it charges from in-app purchases. Whilst this ruling was obviously appealed by Apple and the verdict stayed for now, this is going to be a structural change in the way nations view monopolies like Apple and Google. Epic Games has recently filed another case in the Australian courts, which is already admitted. There are regulatory challenges being faced by Google in the EU over its dominant position. The 30% commission rule is also challenged in India to the CCI. It is only a matter of when and not if when these commission rates either decline. Play Store has already reduced to 15% for subscription services, and Apple has an 'App Store Small Business Program' where apps with business less than US$1mn in the previous year are charged 15% commission.

Where does Kiddopia stand?

Kiddopia is a pure subscription app, which offers monthly and annual subscription packages for US$7 and US$60 respectively. It offers all its offerings within a single app, unlike some of its competitors' strategy of having multiple apps for separate sub-verticals. The large size of the app, as a result of this is however not a concern as its usage is largely on non-cellular devices. It has been able to find its position within Top 3 edutainment apps on the App Store.

Kiddopia today has ~325K paying families, and this still remains below the peak paying base of ~340K in 4QFY21 due to the aforementioned headwinds. However, the silver lining is growth in paying family base (albeit marginally) delivered in 2QFY22. Another positive indication is its ability to sustain its ratio from free trial to activation at 71%, which likely indicates that it has been able to reach the right new audience, even if at a higher cost. Sustenance of this ratio would be another indicator on the efficacy of their marketing spends.

Cost per trial has remained range bound till Apple privacy regulations changed



Source: Company, B&K Research

On the unit economics front, Kiddopia is a very high operating leverage business once the Customer acquisition cost (CAC) to Long term value (LTV) equation is figured. Kiddopia has already achieved the ratio right, as it has been able to restrict its CAC to ~US$26-US$28, and it could potentially peak at US$30-US$32 due to continued disruption. At the same time, with the average user being on the platform for 13 months, the LTV is US$61. Even after excluding app store commissions, the unit economics works out to generate north of 20% margins on a sustainable base. The 1HFY22 margins of 33% shouldn't be extrapolated as there was a sharp decline in marketing costs and revenue is a function of cash collections which were growing healthily in 2HFY21.

Kiddopia – Unit Economics display strong margins

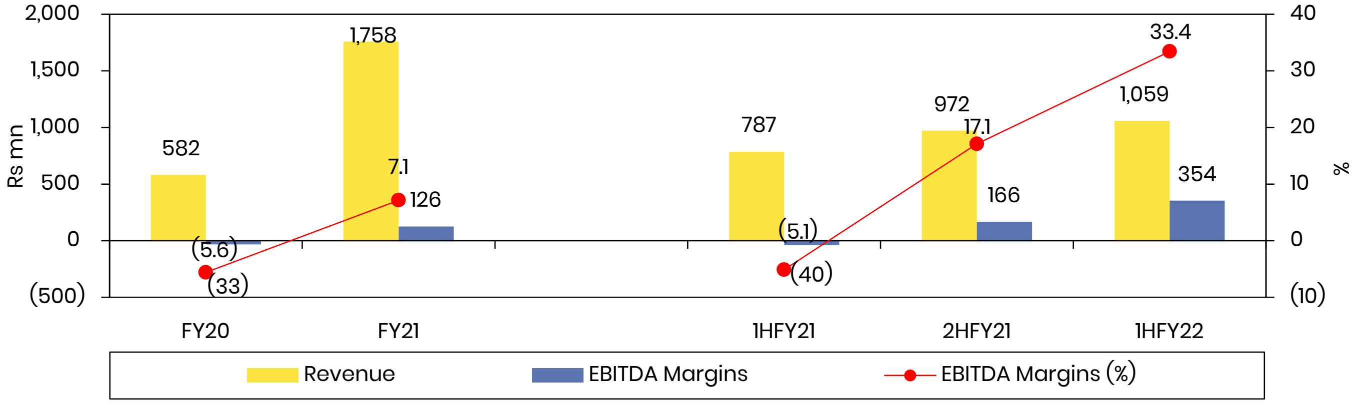
Particulars	USD
Lifetime Value (24 months)	61
(Less) App Store Commissions	28%
Net LTV (24 months)	44
(Less) Cost of Subscription	30
Gross Profit	14
Gross Margin	**32%**
Content Cost	8-10%
EBITDA Margin	**22-24%**

On the operational front, the company has scaled up sharply since the acquisition. It is also one of the 365 companies across the universe to have the KidSAFE plus COPPA certification, which is a FTC approved certification program. At the time of the acquisition, the contingent consideration to the incumbent promoters was decided as under:

- Cash consideration of Rs.100mn payable to promoters within 30 days from the later of (a) completion of 1 year from the second closing date (a) i.e. October 17, 2019; or (b) the Company achieving 80% of the second closing target revenue of USD 7.5 million within 12 months commencing from first closing date i.e. November 7, 2019. They also had a contingent issue of equity interest of Rs.135mn. As at the acquisition date, the fair value of the contingent consideration was ~Rs.235mn.
- In addition, the company had committed to purchase additional equity shares from the promoters on the terms set as:
    (i) Cash consideration of Rs.100mn. payable on target revenue of 80% of USD 17 million being achieved by the acquiree between 12 to 24 months from November 7, 2019.
    (ii) Cash consideration of upto Rs.100mn., which shall be an aggregate amount, equal to 50% of the audited EBIDTA generated in the time period between 24 to 36 months from the first closing date i.e. November 7, 2019 upon achieving target revenue, being no more than ₹ 100 million payable by Nazara to the Promoters of the Company, for purchase of additional equity shares from promoters. The consideration shall be payable on target revenue of 80% of USD 30.6 million being achieved by the acquiree between 24 to 36 months from November 7, 2019.

The revenues and margins have steadily improved with the increasing user base and operating leverage. Whilst there will be certainly moderation in revenue growth in FY23E as it will be a function of cash collections in FY22E, the bigger challenge is to continue adding paying families. Competitors like ABC Mouse are ~8x larger in size and are flush with cash with US$300mn fund raise in Jun-21, valuing them at US$3bn. Given their entrenched presence, they also have tie-ups with schools. Kiddopia's true test of execution is thus live, and we remain positive on the same owing to its App Store rankings, its ratings and the ability to add families despite a massive marketing hurdle. We believe that market will value its resilience once it proves its ability to sustainably add subscribers as alternate marketing channels become effective. The plan for geographical expansion seems to be on hold for now, as the headwinds in US market are substantial in themselves.

Kiddopia delivered stellar revenue growth boosted by multiple tailwinds



Source: Company, B&K Research

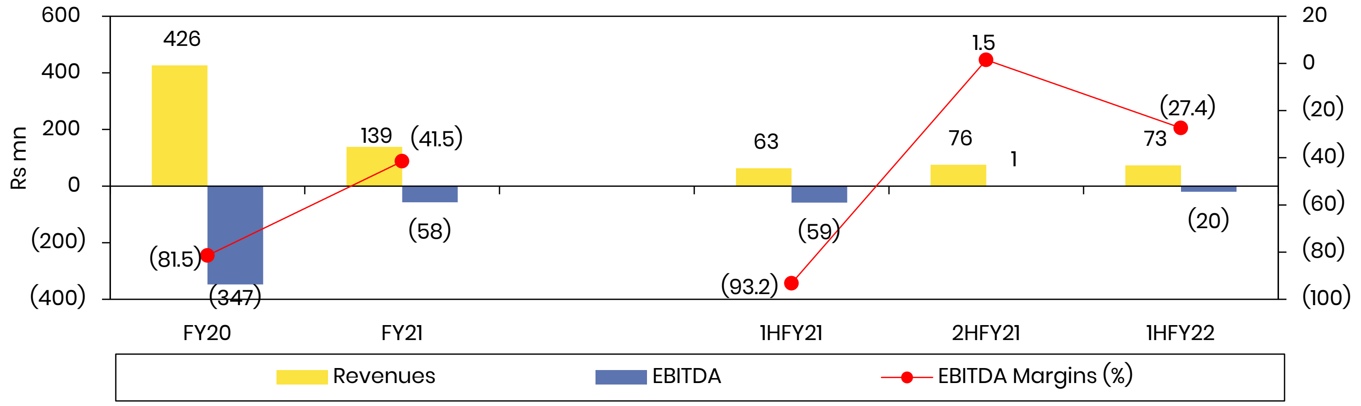
Real money gaming

This segment refers to live and/or event based games of skill, where players put in real money in a bid to win rewards. The idea is to exercise ones skill in winning the reward, and thus isn't based on chance. This also includes trivia games, where again the bedrock of outcome is based on knowledge rather than chance. This draws a fine line between gambling and skill based gaming, which has now passed the test of judiciary. Irrespective of that, the arena still finds itself in regulatory hotchpotch, with certain state legislature of a different state recently having banned the same. The monetization model is simple – the house always wins. Larger the volume, larger the profits subject to spends on customer acquisition.

Where is Nazara placed in this segment?

Nazara didn't enjoy the success that it did with the earlier two verticals in this segment. The core games sports here include cricket, football, rummy etc. The onslaught and success of Dream11 made it a winners' take all market, especially in the largest segment – cricket. Halaplay, the acquisition by Nazara couldn't scale up to match those engagement levels, and thus unit economics didn't favor reckless spends. This was the same time when there was judicial uncertainty over the legality of such games. It was in these conditions that Nazara limited the investments in Halaplay. However, it continued to view it as a very effective tool to get users which can be later cross-sold other offerings, and kept on increasing its stake in Halaplay. Another acquisition, whose brand name is Qunami, too didn't create meaningful splash in the overall scheme of things for Nazara.

Real Money Gaming – Stagnant numbers with declining margins



Source: Company, B&K Research

However, a new dawn is on the horizon in this segment with the acquisition of OpenPlay Technologies. OpenPlay runs its offerings under Classic Games, and offers Rummy as one of its core games. Despite being a distant #4 in their space, they have been profitable due to calibrated growth model with efficient marketing modes. The competition in this space remains intense, but the idea is to generate local network effects. Another approach is to expand the breadth of games on the platform, which draws in more users and more volumes.

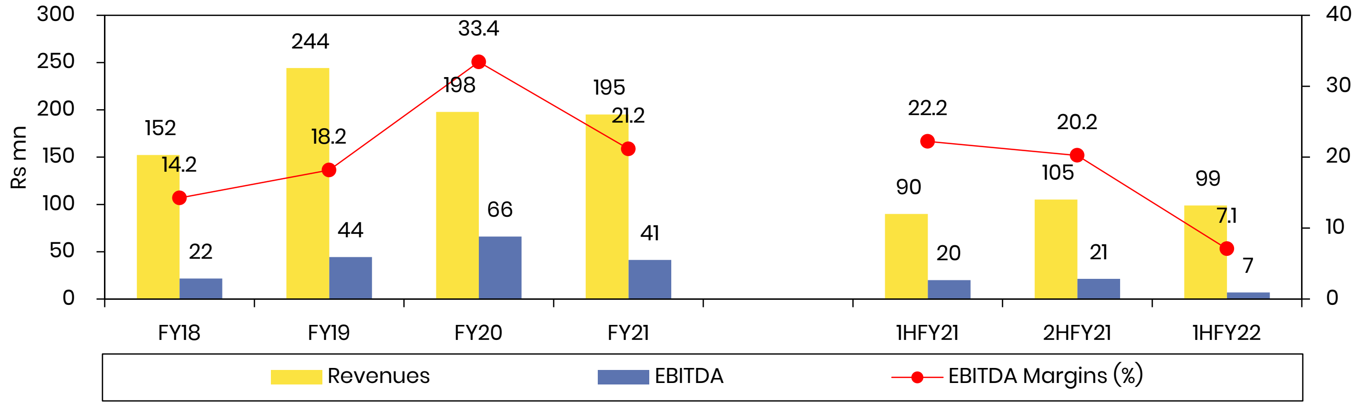
The more exciting part of the story is what they aim to do with this portal, and is currently a WIP. The incumbent promoter of OpenPlay, Mr. Sreeram Reddy Vanga has a long history of successful entrepreneurial stints in the gaming world. He sold off CozyGames, which in 2017 was the second largest bingo platform in the USA. Multiple Bingo websites like Gone Bingo, Bingo1, Bingo VIP club etc. were powered by CozyGames. Creation of such a platform in India where influencers can be given a SaaS like model to host trivia or skilled based games would open a large untapped opportunity. It would technically allow anyone to host online gaming events on their portal, generating both monetization and data insights. Given there is no execution yet, we do not ascribe any valuations. However, this remains a large optionality.

Freemium

This is a small and yet the most relatable segment to most of the populace. It consists of casual gamers, who play games on their mobile devices. These are usually App Store/Play Store based games, which are a source of entertainment and largely free for the user. These games are usually different from the ones played in eSports events. However, the ubiquitous nature of mobile gaming in India would cause some overlap. It is likely that casual gamers of eSports games would also be playing those games on mobile devices.

The category is named Freemium basis the revenue model, where games are made available for free to the users. Revenues are generated from advertisement or in-game purchases. Given the abysmal rate of both CPM and subscriptions in India, this segment has remained small in overall scheme of things despite having a massive user base and stickiness.

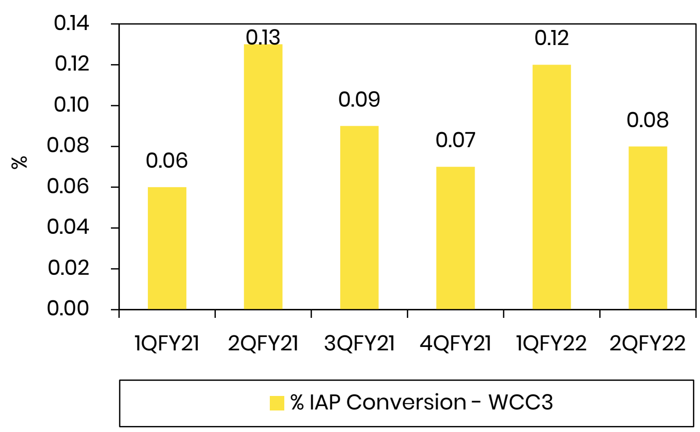
Freemium segment growth remains soft



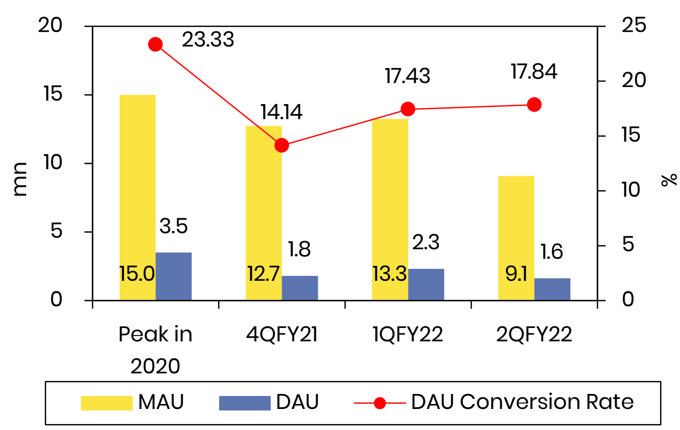
Source: Company, B&K Research

Nazara has multiple marquee games in this vertical, including the likes of WCC (multiple versions), Real Carrom etc. The MAU to DAU ratio remains stellar, with 9.1mn MAUs in Q2FY22 and 2.3mn DAUs. Whilst the IAP rates for WCC are markedly higher than for other games at ~0.10%, the absolute revenue still remains paltry in relation to Nazara as a whole. This is the primary cause of Nazara's inability to figure out CAC to LTV equation in this segment. Whilst the company expects ~4x surge in IAP revenues over the next 4 years with growing user base and increasing spends, this segment shall even then remain a small segment in overall scheme of things.

DAU conversion ratio has remained healthy



IAP conversions remain paltry even for flagship offerings

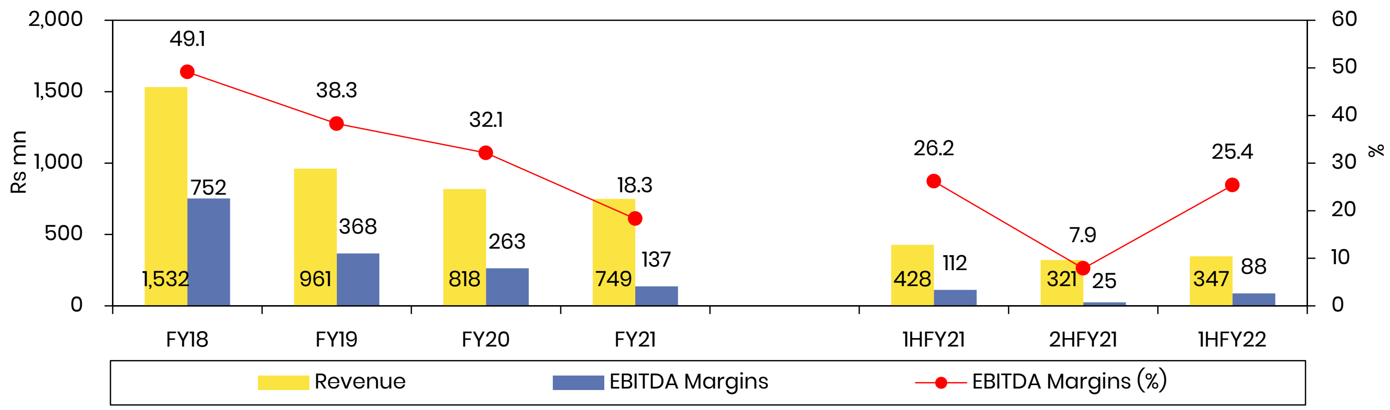


Source: Company, B&K Research

Telco subscription

The original business of Nazara, this business provides android and HTML5 games to mobile users predominantly to first time internet users and lacking strong data/handset ecosystem to leverage Play Store/App Store. The business model works through carrier billings, where telcos see this as a value add for their subscriber base. Whilst this business generated stellar cash flow, it saw decline in fortunes as the 4G ecosystem became ubiquitous in India. Globally, it still operates today in 58 countries having association with 52 operators and offers 1,021 android games. The major markets of operations are Africa, Middle East and Latin America. As 4G becomes prevalent in even these geographies, eventually telco subscription business shall continue to decline.

Revenues have been on a fall as business model become less relevant



Source: B&K Research, Company

Valuations: One of a kind company; one of a kind approach

We have approached the tech companies with our singular valuation framework of utility: discovery versus transactions and ability to undertaken subscriptions. This framework was discussed at length in our PB Fintech pre-IPO and IndiaMART initiations. Given that there are five separate verticals, each with their own independent ecosystems, we shall have to apply our framework on each vertical in isolation than for the company as a whole. With this approach, we undertake SoTP based approach to arrive at our target price. The strength of the eSports business and its absolute leadership position allows ascribing rich valuations, further supported by exponential growth. The gamified early learning segment remains in a storm, but pure subscription model and quality content proved by its app store ranking gives us confidence that the disruption is transient. Real money gaming provides massive option value, should the SaaS model be well executed. We believe freemium shall remain a small business with moderate growth, and thus assign benign multiples. Telco subscription business comes with a fast approaching end date. Adjusting for minority interests, we value the company at Rs3,287. This implies 9x FY24E total sales and 14x FY24E sales adjusted for minority.

Minority interests adjustments

Given Nazara's policy of acquiring varying amount of stakes in multiple companies, one needs to adjust for the minority interests to arrive at earnings attributable to the minority investors. Given differential holdings in companies classified under the same vertical, such adjustment is required to be made company wise rather than one fit number company wise or segment wise. Resultantly, our EPS estimates stand adjusted in that fashion.

Another issue arises whilst valuing segments basis sales multiples. One approach is to ascribe similar percentages as applied to earnings to cull out value for minority, that ain't the most accurate approach as it ignores the operating leverage benefit. One can use a factor multiplier approach to adjust for the same. Given the differential level of operating leverage in each business, their relative nascent stage of evolution and to err on the side of conservatism, we are not adjusting for operating leverage benefits whilst ascribing sales multiple to revenue figures. This won't meaningfully distort the conclusion as the lion's share of valuation comes from eSports segment, where operating leverage is relatively lower.

Assumptions and multiples

We assign multiples basis various parameters described in the table herewith. We evaluate the business and rate 1-5, with 5 being the best in that particular category. This aids in providing objective framework across different verticals to assign multiples basis forward sales figures.

Comparisons across segments

Segment	Essence of MOAT	Competitive pressures	Market Growth	Operating Leverage	Optionalities	Overall Score
eSports	5	5	4	3	4	4.2
Gamified Early learning	3	1	4	4	4	3.2
Real Money Gaming	2	1	4	4	4	3.0
Freemium	3	2	3	2	2	2.4
Telco subscription	2	1	1	1	1	1.2

We further discuss sustainable growth rates and sustainable unit economics for each of these verticals. The eSports segment looks the most lucrative even in the medium to long term. Sustained growth north of 25% over the next decade is plausible with industry tailwinds and discretionary spending on the rise. Kiddopia needs to find new families, and hence marketing spends shall always be critical to deliver volume growth. The real money gaming segment is a volume game, as larger the volume of games, easier the process to enhance users and transaction value. Given the relative small size of both these verticals, they could sustainably ~20% revenue growth over the medium term. Real money gaming will see faster growth in near term.

Across segments, kiddopia presents the largest scope for operating leverage led bottomline growth. Whilst its current volatile EBIT margins are due to advertisement speds fluctuations, the segment could sustainably deliver EBITDA margins north of 30%. The eSports segment shall see margins moderation as offline events open up. This segment is in development zone, as thus higher prize monies are better than higher margins for Nazara. The real money segment shall see gradual improvement of margins with increase in volumes.

SoTP based valuation framework

Nazara remains of a kind company, and various verticals in themselves do not have listed comparable. The comparable companies either are publishers too, or the pure eSport managers are private. Given the robuts growth visibility and absolute domination of Nazara, we ascribe 16x FY24E Sales (adjusted for minority). ABC mouse could be comparable competitor for Kiddopia, and it is valued at US$3bn as pre the latest funding round.

Given that it is ~8x the size of Kiddopia, and the associated network effects with being a market leader, we value it at 1/15th the value of ABC Mouse, i.e. ~US$200mn. This implies 12x (adjusted for minority) FY24E Sales. There remains upside potential here. The real money gaming segment, again has no comparable given Dream11 is too big to compare valuations with, and no other SaaS company of scale exists. Given the massive potential and our conservative revenue estimates of merely Rs910mn (run-rate of OpenPlay today), we are comfortable ascribing 12x FY24E sales.

SoTP based valuation

Particulars (Rs mn)	FY22E Revenues	FY24E Revenues	P/S Multiple	Minority Interest %	Revenue adjusted for minority	Valuation
Esports	2,726	6,431	15	35.9	4,125	62,372
Kiddopia	1,934	2,780	12	49.1	1,415	16,983
Real Money Gaming	420	945	12	0.0	945	11,340
Freemium	215	335	4	47.6	175	702
Telco Subscription	637	408	1	0.0	408	408
Total		**10,899**			**7,068**	**91,804**
Cash						3,727
No of shares						29
Price/share						**3,294**

What does reverse DCF imply?

Valuing Nazara via DCF might not be the appropriate approach given the existence of multiple verticals with different unit economics and nascent stage of evolution. We undertake reverse DCF analysis to measure the implied rate of revenue growth for the eSports segment, which accounts for ~65% of our SoTP based valuation.

Under the assumptions of 11.5% WACC, 5% terminal growth rate and 18% average EBITDA margins over the next 15 years, the implied revenue growth rate over FY23E numbers (first year including all acquisitions) comes to 21%. We have not increased margins at all, and despite that, the implied revenue growth rate at our target price is 21%. The implied sales multiple for the entire company shall be a tad lower. If global examples are anything to go by (China – 40% CAGR over the past decade), these growth trends are achievable.

Looking at what the current market price implies, we would ideally adjust for minority too. Even after making ~40% attribution to minority and assuming EBITDA margins of merely 24% over the next 15 years, the implied revenue growth rate for the company is 17%. The same at our TP comes to 23%.

Reverse DCF implied growth rates after adjusting for minority interests

Particulars	At CMP (Rs 2,350)	At our TP (Rs 3,287)
Average EBITDA Margins assumed	24%	
Minority Adjustment	40%	
WACC	12%	
Teminal Growth	5%	
Implied Revenue Growth	**17%**	**23%**

For comparison purposes, it would be worthwhile to note that our computation suggests that Titan/Westlife/Trent CMP implies 22$/2%/24% growth rate over the next two decades considering WACC and Terminal growth rates of 11% and 5% respectively. We take lower WACC given more established business model and keep terminal growth rate similar to Nazara to eliminate differences due to the same in implied growth rate computations.

Sensitivity to WACC remains high. At 11.5% WACC, the implied revenue CAGR at our TP stood at 22.8%. The same figure at 12% stands at 23.7%. On the terminal growth front, a change from 5% to 6% lowers the implied revenue growth rate from 22.8% to 21.4%.

The acquisition process

Given the acquisition based model, it is imperative to look at Nazara's acquisition strategy. The typical strategy is to acquire part stakes, and the consideration to be paid out in part cash and part stock. This works very well for Nazara given lower cash outflow involved, and ensures that investees' incumbent promoters continue to generate value from the company. As a result, until the pre-IPO round, Nazara had in total only raised Rs126mn in 2005-2007 and then Rs765mn in 2018.

Another concern remains on using equity as a currency is continuous dilution for investors. We have depicted above how Nazara has been able to successfully scale up its investees or cut the losses if things go unexpected. In this regard, we believe that the growth from acquisitions shall more than offset the dilution encountered by the minority investors.

Board Details

Board meeting attendance details

Name of the Director	Desgination	No. of meetings attended	No. of directorships in other public companies
Vikash Mittersain	Chairman & MD, Non-Independent, Executive	12	1
Nitish Mittersain	Joint-MD, Non-Independent, Executive	12	1
Kuldeep Jain	Director, Independent, Non-Executive	7	0
Sasha Mirchandani	Director, Independent, Non-Executive	11	2
Shobha Jagtiani	Director, Independent, Non-Executive	12	0
Probir Roy	Director, Independent, Non-Executive	12	0
Rajiv Ambrish Agarwal	Director, Non-Independent, Non-Executive	10	2
Karan Bhagat	Director, Non-Independent, Non-Executive	7	3

The board is composed of eight directors, out of which four are independent directors. The promoters occupy two seats out of eight. The attendance record of the board is decent, barring two non-executive directors.

The audit committee is also robust, with the chairman being an independent director.

Audit committee attendance details

Name of the Director	Desgination	No. of meetings attended - FY21 (of 5)
Sasha Mirchandani	Chairman	5
Probir Roy	Member	5
Shobha Jagtiani	Member	4
Nitish Mittersain	Member	5

Management Team

Vikash Mittersain – Chairman & MD	Mr. Vikash is the Chairman and MD of Nazara Technologies. He has been associated with the company since its incorporation. He has done his diploma in industrial electronics from Walchand College of Engineering, Sangli. He is the founder and president of India Business Group. His term will end in the year 2023.
Nitish Mittersain – Joint-MD	Mr. Nitish is the Joint-MD of Nazara Technologies. He holds a bachelor of commerce degree from the University of Mumbai. He is also the co-founder of the company and has been associated with Nazara since 1999. He is also a trustee of Dr. B. K. Goyal Heart Foundation and India Business Group.
Manish Agarwal – Chief Executive Officer	Mr. Manish is the CEO of the company and has been associated with Nazara since 2015. He holds a bachelor's degree in technology from the Regional Engineering College, Warangal and a post graduate diploma in Management from the Indian Institute of Management, Ahmedabad. Previously he was associated with Reliance Games for more than four years.
Rakesh Shah – Chief Financial Officer	Mr. Rakesh is the CFO of the company and has been associated with Nazara since 2010. He holds a bachelor's degree in Commerce from University of Bombay and he is a qualified Cost Accountant. He is an associate member of the Institute of Chartered Accountants of India. He has over 24 years of experience across fields.
Anupam Dhanuka – Cofounder & CEO – Paper Boat Apps Pvt. Ltd.	Mr. Anupam is the cofounder and CEO of Paper Boat Apps and has been associated since 2013. He holds a bachelor's degree in engineering from Mumbai University. Previously, he was associated with Walnut Labs Private Limited which was involved in the business of developing solutions for computer software and hardware.
Porush Jain – Founder & CEO – Absolute Sports Pvt. Ltd.	Mr. Porush is the founder and the CEO of Absolute Sports and has been associated with the company since 2010. He holds a bachelor's degree in technologies in mechatronics from the SASTRA University and a master's degree in business administration from Symbiosis International University, Pune. He has worked for two years with Infosys Technologies Ltd.
Pratik Shah – Additional Director – Halaplay Technologies Pvt. Ltd.	Mr. Pratik is an additional director of Halaplay Technologies and has been associated with them since 2010. He holds a bachelor's degree in engineering from Vishveswaraiah Technology University, Belgaum. Pratik has over 16 years of experience in building software products including the last seven years in sports gaming. He is the co-founder of Mastermind Sports Ltd.
Rajendran Ramasamy – Cofounder & CEO – Next Wave Multimedia Pvt. Ltd.	Mr. Rajendran is the cofounder & CEO of Next Wave Multimedia. He has been associated with them since 1995. He started Next Wave which provides digital marketing and communication solutions to top companies in India and Europe. He has created many digital campaigns for Fortune 100 companies in Europe covering web and mobile applications.
James Savio Saldanha – CEO – Nazara Technologies FZ LLC	Mr. James was appointed as the CEO of Nazara Technologies FZ LLC (Middle-east & Africa). He has been associated with the company for over 10 years. He holds a Bachelor of Commerce degree in economic legislation and business management from Chattrapati Shahu Ji Maharaj University, Kanpur. He has more than 10 years of experience in media and mobile entertainment.
Akshat Rathee – Cofounder & MD – Nodwin Gaming Pvt. Ltd.	Mr. Akshat is the co-founder and MD of Nowdin Gaming and has been associated with the company since 2014. He holds a bachelor's degree in computer engineering from Manipal Institute of Technology and a master's degree in business administration from Global Business School, New Delhi. He was also associated with at PGM Entertainment and Ernst & Young before Nodwin.

Income Statement

Period end (Rs mn)	Mar 18	Mar 19	Mar 20
Net sales	**1,705**	**1,698**	**2,475**
Growth (%)	*–*	*(0.4)*	*45.7*
Operating expenses	(1,260)	(1,594)	(2,532)
Operating profit	**446**	**104**	**(56)**
EBITDA	**446**	**104**	**(56)**
Growth (%)	*–*	*(76.6)*	*–*
Depreciation	(42)	(156)	(263)
Other income	98	164	155
EBIT	**502**	**112**	**(165)**
Finance cost	(10)	(9)	(12)
Exceptional & extradordinary	(358)	(9)	(18)
Profit before tax	**134**	**94**	**(196)**
Tax (current + deferred)	(122)	(49)	(72)
Profit / (Loss) for the period	**12**	**45**	**(268)**
P/L of Associates, Min Int, Pref Div	16	108	246
Reported Profit / (Loss)	28	152	(21)
Adjusted net profit	28	152	(21)
Growth (%)	*–*	*449.6*	*–*

Balance Sheet

Period end (Rs mn)	Mar 18	Mar 19	Mar 20
Share capital	3,562	4,079	5,011
Shareholders' funds	**3,562**	**4,079**	**5,011**
Minority Interests and others	420	323	690
Non-current liabilities	**331**	**178**	**359**
Other non-current liabilities	331	178	359
Current liabilities	**432**	**489**	**1,485**
Other current liabilities	432	489	1,485
Total (Equity and Liabilities)	**4,746**	**5,070**	**7,544**
Non-current assets	**1,789**	**1,921**	**3,747**
Fixed assets (Net block)	695	608	1,643
Non-current Investments	138	435	216
Long-term loans and advances	16	2	14
Other non-current assets	940	875	1,873
Current assets	**2,957**	**3,150**	**3,797**
Cash & current investment	2,042	2,172	2,234
Other current assets	914	977	1,563
Total (Assets)	**4,746**	**5,070**	**7,544**
Capital employed	4,314	4,581	6,059

Cash Flow Statement

Period end (Rs mn)	Mar 18	Mar 19	Mar 20
Profit before tax	**134**	**94**	**(196)**
Depreciation	42	156	263
Change in working capital	(567)	(107)	87
Total tax paid	(170)	(147)	(72)
Others	504	141	(104)
Cash flow from oper. (a)	**(57)**	**137**	**(22)**
Capital expenditure	(737)	(70)	(1,298)
Change in investments	(1,006)	(269)	692
Others	1,548	(337)	695
Cash flow from inv. (b)	**(195)**	**(676)**	**89**
Free cash flow (a+b)	**(252)**	**(539)**	**67**
Equity raised/(repaid)	3,562	517	931
Debt raised/(repaid)	–	(0)	–
Others	(3,104)	(401)	(898)
Cash flow from fin. (c)	**459**	**116**	**34**
Net chg in cash (a+b+c)	**206**	**(423)**	**101**

Key ratios

Period end (%)	Mar 18	Mar 19	Mar 20
Adjusted EPS (Rs)	1.1	5.5	(0.8)
Growth	*–*	*406.4*	*–*
CEPS (Rs)	2.7	11.2	8.8
Book NAV/share (Rs)	140.1	147.9	181.8
EBITDA margin	26.1	6.1	(2.3)
EBIT margin	29.4	6.6	(6.7)
Tax rate	91.0	52.3	(36.8)
RoCE	23.3	2.5	(3.1)
Net debt/Equity (x)	(0.5)	(0.5)	(0.4)
Du Pont Analysis - ROE			
Net margin	1.6	9.0	(0.9)
Asset turnover (x)	0.7	0.3	0.4
Leverage factor (x)	1.3	1.3	1.4
Return on equity	1.6	4.0	(0.5)

Valuations

Period end (x)	Mar 18	Mar 19	Mar 20
PER	–	–	–
PCE	–	–	–
Price/Book	–	–	–
Yield (%)	–	–	–
EV/EBITDA	(4.6)	(20.8)	39.6

Income Statement

Period end (Rs mn)	Mar 21	Mar 22E	Mar 23E	Mar 24E
Net sales	**4,542**	**5,932**	**8,255**	**10,899**
Growth (%)	*83.5*	*30.6*	*39.2*	*32.0*
Operating expenses	(4,090)	(4,725)	(6,734)	(8,861)
Operating profit	**452**	**1,207**	**1,521**	**2,038**
EBITDA	**452**	**1,207**	**1,521**	**2,038**
Growth (%)	*–*	*166.8*	*26.1*	*34.0*
Depreciation	(355)	(338)	(388)	(436)
Other income	143	223	249	283
EBIT	**241**	**1,092**	**1,383**	**1,886**
Finance cost	(9)	(9)	(9)	(9)
Exceptional & extraordinary	(65)	(24)	(24)	(24)
Profit before tax	**167**	**1,059**	**1,350**	**1,853**
Tax (current + deferred)	(31)	(265)	(337)	(463)
Profit / (Loss) for the period	**136**	**794**	**1,012**	**1,390**
P/L of Assoc., Min Int, Pref Div	(44)	(290)	(385)	(541)
Reported Profit / (Loss)	92	505	627	849
Adjusted net profit	92	505	627	849
Growth (%)	*–*	*446.2*	*24.3*	*35.3*

Balance Sheet

Period end (Rs mn)	Mar 21	Mar 22E	Mar 23E	Mar 24E
Share capital	6,582	7,086	7,713	8,562
Shareholders' funds	**6,582**	**7,086**	**7,713**	**8,562**
Minority Int. and others	1,208	1,498	1,883	2,424
Non-current liabilities	**302**	**360**	**398**	**442**
Other non-current liabilities	302	360	398	442
Current liabilities	**2,136**	**2,569**	**3,423**	**4,339**
Other current liabilities	2,136	2,569	3,423	4,339
Total (Equity and Liab.)	**10,227**	**11,513**	**13,418**	**15,766**
Non-current assets	**3,415**	**3,165**	**2,877**	**2,528**
Fixed assets (Net block)	1,302	1,052	763	415
Non-current Investments	122	122	122	122
Other non-current assets	1,991	1,991	1,991	1,991
Current assets	**6,812**	**8,347**	**10,541**	**13,239**
Cash & current investment	4,784	5,718	6,780	8,283
Other current assets	2,029	2,629	3,761	4,956
Total (Assets)	**10,227**	**11,513**	**13,418**	**15,766**
Capital employed	8,091	8,944	9,995	11,428

Cash Flow Statement

Period end (Rs mn)	Mar 21	Mar 22E	Mar 23E	Mar 24E
Profit before tax	**167**	**1,059**	**1,350**	**1,853**
Depreciation	355	338	388	436
Change in working capital	306	(105)	(239)	(236)
Total tax paid	(160)	(265)	(337)	(463)
Others	5	(455)	(554)	(714)
Cash flow from oper. (a)	**674**	**572**	**607**	**876**
Capital expenditure	(13)	(89)	(99)	(87)
Change in investments	(599)	(500)	(500)	(500)
Others	(2,063)	223	249	283
Cash flow from inv. (b)	**(2,675)**	**(366)**	**(350)**	**(304)**
Free cash flow (a+b)	**(2,001)**	**206**	**258**	**572**
Equity raised/(repaid)	1,571	(0)	–	0
Others	600	62	38	43
Cash flow from fin. (c)	**2,171**	**62**	**38**	**43**
Net chg in cash (a+b+c)	**169**	**269**	**296**	**615**

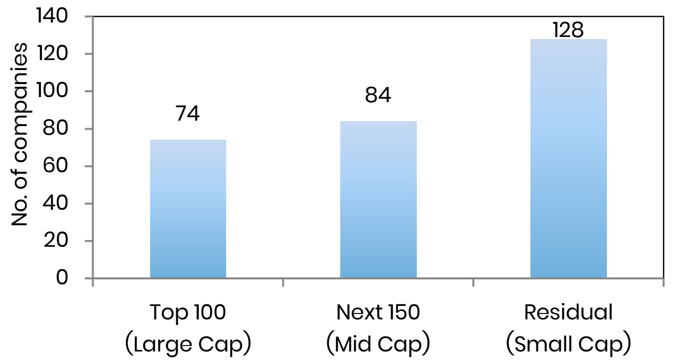
Key ratios

Period end (%)	Mar 21	Mar 22E	Mar 23E	Mar 24E
Adjusted EPS (Rs)	3.2	16.8	20.9	28.3
Growth	*–*	*425.7*	*24.3*	*35.3*
CEPS (Rs)	15.5	28.1	33.8	42.8
Book NAV/share (Rs)	228.0	236.3	257.2	285.5
EBITDA margin	10.0	20.3	18.4	18.7
EBIT margin	5.3	18.4	16.7	17.3
Tax rate	18.4	25.0	25.0	25.0
RoCE	3.4	12.8	14.6	17.6
Net debt/Equity (x)	(0.6)	(0.7)	(0.7)	(0.8)
Du Pont Analysis - ROE				
Net margin	2.0	8.5	7.6	7.8
Asset turnover (x)	0.5	0.5	0.7	0.7
Leverage factor (x)	1.5	1.6	1.7	1.8
Return on equity	1.6	7.4	8.5	10.4

Valuations

Period end (x)	Mar 21	Mar 22E	Mar 23E	Mar 24E
PER	707.5	134.6	108.3	80.0
PCE	146.1	80.6	66.9	52.9
Price/Book	9.9	9.6	8.8	7.9
Yield (%)	13.3	10.5	7.4	5.5
EV/EBITDA	133.9	51.5	40.2	29.2

B&K Universe Profile – by AMFI Definition



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings

	LARGE CAP (Market Cap > USD 2 bn)	MID & SMALL CAP (Market Cap < USD 2 bn)
BUY	>+15%	>+20%
HOLD	+15% to -10 %	+20% to -15 %
SELL	<-10%	<-15%

Disclaimer: This report was prepared, approved, published and distributed by Batlivala & Karani Securities India Private Limited ("B&K") located outside of the United States (a "non-US Group Company"), which accepts responsibility for its contents. It is distributed in the U.S. by Enclave Capital, a U.S. registered broker dealer, on behalf of B&K, only to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act") pursuant to the exemption in Rule 15a-6. Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or the Financial Industry Regulatory Authority, Inc. ("FINRA") or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization. Outside the United States, this report is distributed by B&K or an authorized affiliate of B&K.

The report has been compiled or arrived from sources believed to be reliable and in good faith, but no representation or warranty, express or implied is made as to their accuracy, completeness or correctness. B&K has not verified the factual accuracy, assumptions, calculations or completeness of the information. Accordingly, B&K accepts no liability whatsoever for any direct or consequential loss or damage arising from (i) the use of this communication (ii) reliance of any information contained herein, (iii) any error, omission or inaccuracy in any such Information or (iv) any action resulting there from. B&K provides the information for the purpose of the intended recipient's analysis and review and recipients are advised to verify the factual accuracy, assumptions, calculations and completeness of the information.

This report was produced by B&K solely for information purposes and for the use of the recipient. It is not to be reproduced, redistributed under any circumstances and is not to be copied or made available to any person other than the recipient. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions. This document does not constitute an offer of, or an invitation by or on behalf of B&K or its affiliates or any other company to any person, to buy or sell any security.

The views of any Analyst reflected in this report are given in compliance with the Research Analyst Regulations, 2014. All analysts covering the securities/ companies mentioned in this report have complied with the appropriate set of rules, regulations & procedures in their detailed coverage report(s) of the respective securities/companies. It is important to note that any dispute with respect to this Research Report, would not have access to stock exchange investor redressal forum or arbitration mechanism.

Analyst Certification: Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Disclosures, applying to B&K and the Analyst (together with associates and family members)

Ownership interest in the issuer of the securities mentioned	< 1%
Other financial interest in the issuer	None
Other material conflict of interest	None
Compensation/benefits received from issuer/3rd Parties in past 12 months:	
Public offerings managed/co-managed for issuer	None
Fees for merchant banking, investment banking or brokerage services (as percentage of issuer's turnover)	< 0.1%
Compensation for other services (as percentage of issuer's turnover)	< 0.1%
Analyst service as officer, director or employee of the issuer	None
Involvement in market-making in the issuer's securities	None

1. B&K or its Affiliates have not recently been the beneficial owners of 1% or more of the securities mentioned in this report.
2. B&K or its Affiliates have not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. B&K or its Affiliates have not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
4. However, one or more person of B&K or its affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon either on their own account or on behalf of their clients.
5. B&K or its Affiliates may, to the extent permitted by law, act upon or use the above material or the conclusions stated above or the research or analysis on which they are based before the material is published to recipients and from time to time provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.
6. As of the publication of this report, Enclave Capital does not make a market in the subject securities.

Important US Regulatory Disclosures on Subject Companies

Enclave Capital is the distributor of this document in the United States of America. Any US customer wishing to effect transactions in any securities referred to herein or options thereon should do so only by contacting a representative of Enclave Capital and any transaction effected by a U.S. customer in the securities described in this report must be effected through Enclave Capital (19 West 44th Street, suite 1700, New York, NY 10036. Tel No: (646) 454 8600).

Batlivala & Karani Securities India Pvt. Ltd.

Equity Research Division: Unit No. 1101, 1103, 1104, 11th Floor, Hallmark Business Plaza, Sant Dnyaneshwar Marg, Near Guru Nanak Hospital, Bandra East, Mumbai - 400 051, India. Tel: +91-22-4007 6000, Fax: +91-22-2651 0024 / +91-22-2640 1520.

Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata-700 001. Tel.: 91-033-2243 7902.

SEBI Registration No. for Batlivala & Karani Securities India Pvt. Ltd. (Research Entity) is INH300000211