



Game On!

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Nazara Technologies (NAZARA IN)

Company Initiation

Rating: BUY | CMP: Rs1,794 | TP: Rs2,342

Game On!

Key Financials - Consolidated

Y/e Mar	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	4,542	6,289	8,635	11,509
EBITDA (Rs. m)	452	945	1,113	1,495
Margin (%)	10.0	15.0	12.9	13.0
PAT (Rs. m)	92	389	519	695
EPS (Rs.)	3.0	12.8	17.0	22.8
Gr. (%)	(498.9)	321.0	33.4	33.9
DPS (Rs.)	-	-	-	-
Yield (%)	-	-	-	-
RoE (%)	1.6	5.7	7.2	8.9
RoCE (%)	1.0	7.8	9.9	13.4
EV/Sales (x)	11.0	7.9	5.7	4.3
EV/EBITDA (x)	110.2	52.7	44.5	32.9
PE (x)	591.4	140.5	105.3	78.7
P/BV (x)	8.3	7.8	7.3	6.7

Key Data NAZA.BO | NAZARA IN

52-W High / Low	Rs. 2,027 / Rs. 1,413
Sensex / Nifty	57,338 / 17,076
Market Cap	Rs. 55 bn / \$ 748 m
Shares Outstanding	30m
3M Avg. Daily Value	Rs. 1067.53m

Shareholding Pattern (%)

Promoter's	20.70
Foreign	8.96
Domestic Institution	3.55
Public & Others	66.79
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(3.3)	-	-
Relative	(11.3)	-	-

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We initiate coverage on Nazara Technologies with a 'BUY' rating as it 1) is a unique play on rising gaming culture, given Gen Z & millennials constitute ~65% of India's population demographics 2) has an early mover advantage in evolving Esports category (organized 82% unique Esports events with 73% share in total prize pool as of 2019), that is likely to disrupt traditional sports landscape in next 4-5 years and 3) offers a direct play on emerging Ed-Tech market via Kiddopia. Nazara has created an enviable business model via selective acquisitions (buys stake in gaming companies and lets erstwhile promoters run the show) to ride on the expected gaming sector boom in India. We believe that a portfolio approach to gaming eliminates shelf life risks, as business model can be altered depending on technological advancements, innovations and changing taste of consumers. With net cash balance sheet of Rs4.8bn, Nazara has plans to expand its gaming portfolio inorganically which offers distinct option value, in our view. We expect revenue/EBITDA CAGR of 36%/49% over FY21-24E as key categories viz; Kiddopia, Esports and Freemium offer huge scalability in the long term. Recent acquisition of OpenPlay acts as an additional growth kicker, in an otherwise competitive Real Money Gaming (RMG) segment fraught with regulatory hurdles. Initiate with a 'BUY' and DCF based TP of Rs2,342.

Kiddopia is a play on Ed-Tech: We believe Kiddopia is an emerging Ed-Tech play and will be a key growth lever for Nazara given 1) high propensity to pay in developed markets resulting in easy monetization 2) increasing thrust on E-learning post-COVID and 3) gamification and learning offer unique combination in attracting eyeballs, especially for toddlers. We expect sales/EBITDA CAGR of 41%/76% over FY21-24E.

Esports to be a disruptor over next 4-5 years: Nazara has presence in Esports/Esports media through established brands like Nodwin/SportsKeeda respectively. We believe Esports is likely to disrupt traditional sports landscape over next 4-5 years amid 1) rising prize pool 2) increase in number of broadcasting platforms (drives viewership) 3) increase in number of Esports teams/players (as professional gaming can evolve as a full time career) and 4) growing pie of millennial & Gen Z population who spend higher time on gaming/internet. We expect sales/EBITDA CAGR of 37%/14% over FY21-24E.

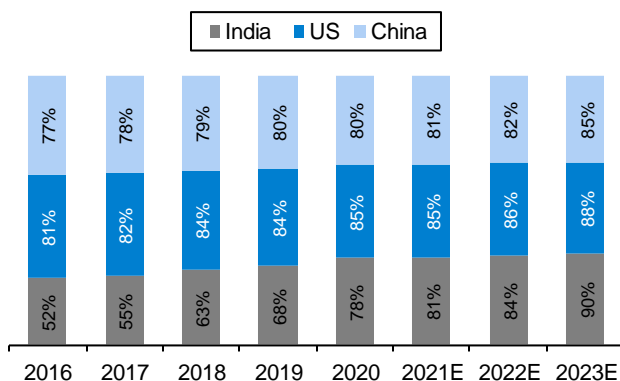
In-App Purchases (IAPs) to drive freemium business: We believe IAP model is set to gain traction within mobile gaming segment, due to increase in hard & mid-core gamers that have high propensity to pay. Nazara's IAPs for WCC3 has increased to 0.1% and management expects IAP conversion of 1% by FY25E. We expect sales/EBITDA CAGR of 31%/46% over FY21-24E, aided by rising contribution of IAPs (share to increase from 20% in FY21 to 35% in FY24E).

Valuation: Nazara is India's only listed gaming company with no competitive benchmarking. As business model is scalable and focus is on growth, we don't rule out intermittent volatility in profitability. Since India's mobile gaming industry is nascent with strong long term growth potential (38% CAGR over next 3 years), we value the stock using DCF methodology and arrive at a TP of Rs2,342. Initiate 'BUY'.

Story in Charts

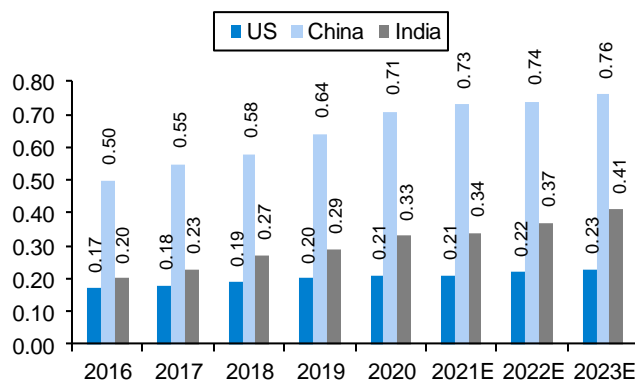
Indian Gaming Industry: A huge growth opportunity

Exhibit 1: India's smartphone penetration set to rise



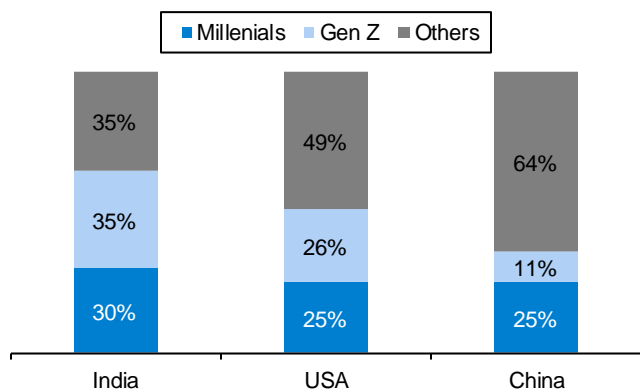
Source: Company, PL

Exhibit 2: Mobile gamers in India are ~46% of China (In bn)



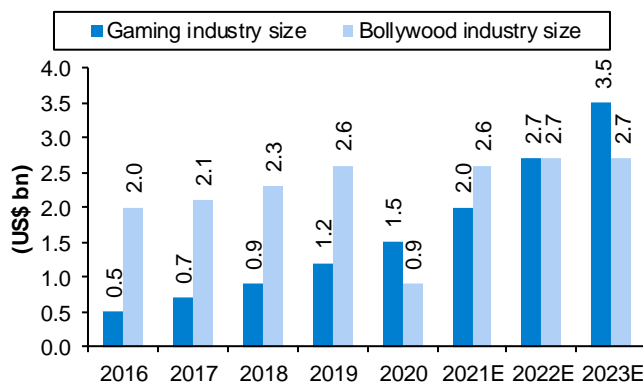
Source: Company, PL

Exhibit 3: Millennials & Gen Z's population mix trend (2020)



Source: Company, PL

Exhibit 4: Gaming to surpass Bollywood by 2023E



Source: Company, PL

Exhibit 5: Gaming market of India is in nascent stage

Particulars	Gaming revenue 2020 (US\$ bn)*	Online gamers 2020 (mn)
China	42.6	650
USA	39.0	166
India	1.5	380

Source: Company, PL * Includes mobile, PC & console revenue

Exhibit 6: India has very low penetration & ARPU v/s USA and China

Particulars	ARPU 2020 (US\$)	Gaming penetration (2020)
China	35.2	50%
USA	73.0	66%
India	8.8	30%

Source: Company, PL

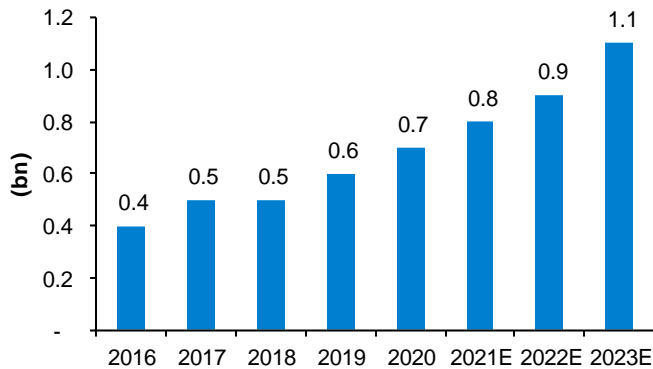
Exhibit 7: India: Casual gamers estimated at ~79% of total mix in 2025E

Type of Gamers - India (In mn)	2018	2020	2025E
Hard core gamers	5	10	30
Mid core gamers	15	35	100
Casual gamers	100	250+	500+
Total gamers	120	295	630

Source: Company, PL

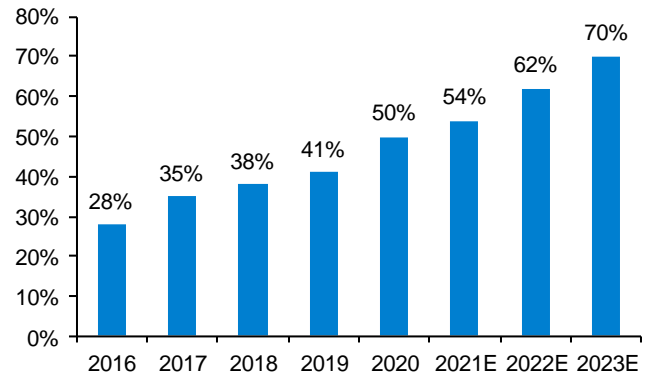
Key drivers for mobile gaming growth in India

Exhibit 8: Internet users in India to rise to 1.1bn in 2023



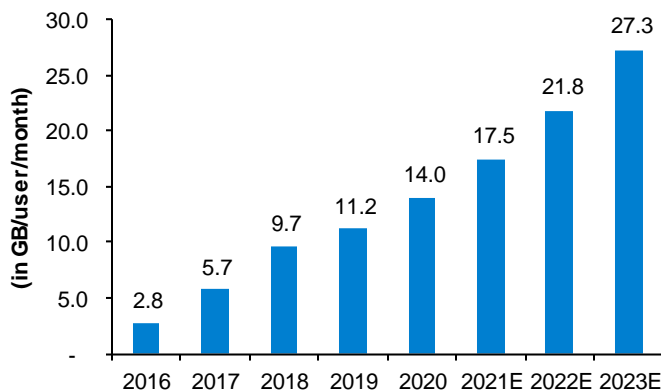
Source: Company, PL

Exhibit 9: India's internet penetration to rise to 70% by 2023



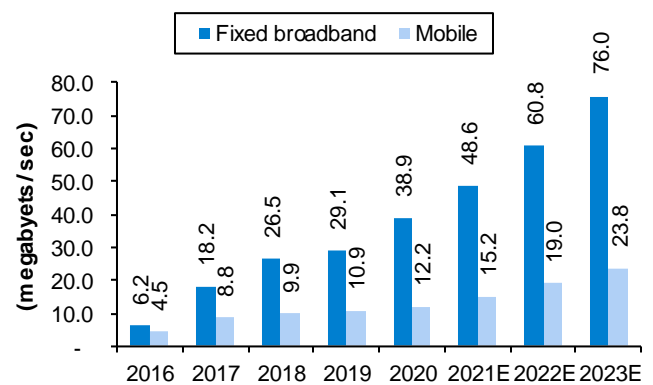
Source: Company, PL

Exhibit 10: India's data consumption to double in 3 years



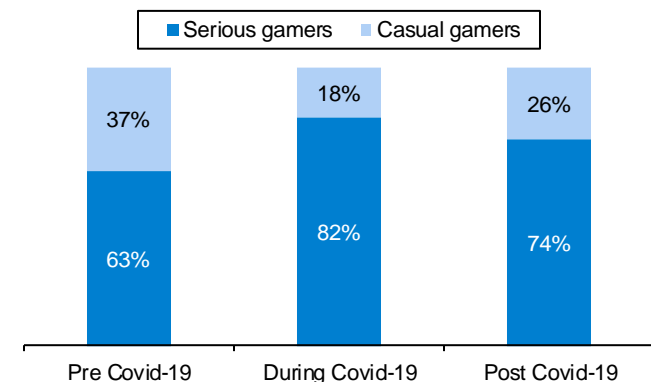
Source: Company, PL

Exhibit 11: India's internet speed to rise ~95% over 3 years



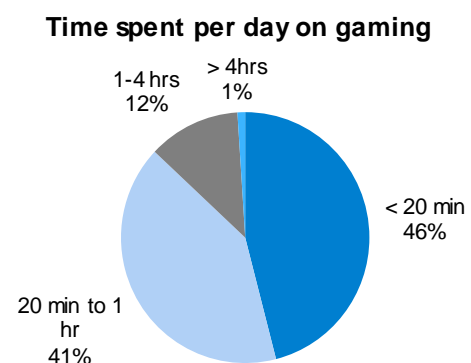
Source: Company, PL

Exhibit 12: COVID has increased gaming affinity by 11%



Source: Company, PL

Exhibit 13: 54% of players spend >20 mins/day on gaming



Source: FICCI, PL

Company Overview

A diversified gaming and sports media platform

Established in 1999, Nazara Technologies is a gaming and sports media company with diversified geographical presence in Indian (41% revenue contribution in FY21) and global markets. The company has offerings across interactive gaming, Esports and gamified early learning.

Some of its key IPs include 1) World Cricket Championship (WCC) and Carrom Clash in mobile games, 2) Kiddopia in gamified early learning, 3) Nodwin/SportsKeeda in Esports/Esports media and 4) Halaplay & Qunami in skill based, fantasy & trivia games. As a leading interactive & sports media platform, Nazara has 62.6mn MAUs across all games in FY21; up 56% YoY.

Exhibit 14: Business overview

Segment	Monetization model	IP name	Revenue contribution (FY21)	EBITDA margin (FY21)	Sales channel	Target audience	Key competitors	Geographic concentration
Gamified Early Learning	Subscription & In-App purchases	Kiddopia	39%	7%	App store	Toddlers aged between 2-7 years	ABC Mouse, World of Peppa Pig, PBS Kids Games, Adventure Academy	North America
E-Sports	Advertising, brand sponsorship & media rights licensing	Nodwin, SportsKeeda	37%	18%	OTT platforms/TV	Professional gamers	JIO Games, Gamerji, Gaming monk	India
Freemium	Advertising & In-App purchases	WCC	4%	21%	App store	Casual gamers	Subway Surfer, Ludo King, Candy Crush, Among US, Clash of Clans	India
Telco Subscription	Subscription of curated game packs	NA	16%	18%	Telecom service provider	First time gamers in emerging markets	NM (games are part of curated packs)	APAC
Real Money Gaming (Skill, Fantasy, Trivia)	Platform fee	Halaplay, Qunami	3%	NM	Direct to customer	Skilled gamers & sports fans	Dream11, MyTeam11, Loco, Brain Baazi, Qureka	India

Source: Company, PL

Since 2017, Nazara has expanded its business portfolio through strategic acquisitions. While three companies viz; Paper Boats, Nodwin Gaming and Absolute Sports scaled exponentially post-acquisition, Next Wave Multimedia's expansion is on track led by growth in IAPs with WCC3 launch.

Nazara has invested Rs5bn in strategic acquisitions over the last 5 years including the recent buyout of OpenPlay Technologies for a consideration of Rs1.9bn (Rs434mn to be paid in cash in first tranche and balance consideration will be paid in cash/stock). The company further intends to pursue inorganic opportunities in underserved markets for driving growth.

Exhibit 15: Key timeline of events

Year	Event
1999	Year of incorporation
2004	Launched Java games on pay per download model with BPL and Hutch
2005	First round of investment by WestBridge
2006	Commenced work with telecom operators such as Tata Teleservices Limited and Vodafone
2007	Second round of investment from WestBridge
2007	Commenced work with Bharti Airtel
2008	Signed an exclusive wireless content distribution agreement with Electronic Arts Asia Pacific to market, distribute, reproduce and sub-license its contents in India through specified distribution channels
2009	Launched the subscription based 'Games Club' model on Reliance Communications Infrastructure Limited
2011	Commenced business operations in the Middle East and established an office in Dubai
2013	Commenced business in Zambia, Uganda, Nigeria, Singapore, Mauritius and Kenya
2015	Commenced the Freemium business in India and executed exclusive licensing agreement for Chota Bheem*
2017	Acquisition of 52.3% stake in Next Wave
2018	Acquisition of 54.9% stake in Nodwin Gaming and launch of eSports business
2019	Acquisition of 100% stake in CrimzonCode
2019	Acquisition of 62.5% stake in Sports Unity
2019	Acquisition of 63.9% stake in Absolute Sports
2019	Acquisition of control in Halaplay
2020	Acquisition of 50.9% stake in Paper Boat
2021	Investment of Rs1bn by Instant Growth Limited in Nazara
2021	Investment of Rs1.09bn by Krafton Inc into Nodwin Gaming
2021	Acquisition of 100% stake in OpenPlay for Rs1.9bn

Source: Company, PL *Pursuant to changes in the agreement the license is now non-exclusive

Exhibit 16: Nazara spent Rs5bn on acquisitions in past five years

Name of company	Current stake	Cash Consideration (Rs mn)	Share swap (Rs mn)
Next Wave Multimedia Pvt Ltd	52%	300.3	227.9
Nodwin Gaming Private Limited	50%	355.3	414.3
Halaplay Technologies Private Limited	65%	318.5	-
Crimzoncode Technologies Private Limited	100%	16.9	13.1
Khichadi Technologies Private Limited	17%	7.5	-
Sports Unity Private Limited	63%	60.9	-
Absolute Sports Private Limited	74%	95.0	343.4
Paper Boat Apps Private Limited	51%	400.1	435.0
Nazara Technologies FZ LLC	100%	0.6	-
Nazara Pro Gaming Pvt Ltd	100%	0.1	-
Nazara Pte Limited	100%	0.1	-
Instasportz Consultancy Private Limited	9%	10.0	-
Moong Labs Technologies Private Limited	24%	10.0	-
Mastermind Sports Limited	26%	26.0	-
PublishMe	70%	200.0	-
OpenPlay Technologies*	100%	434.3	1,429.8
Total		2,235.6	2,863.6

Source: Company, PL

Note: OpenPlay acquisition is of Rs1.9bn and first tranche of Rs434mn is to be paid in cash. The nature of consideration for 2nd tranche (cash/stock) will be decided later. However, for representation purposes we assume stock.

Investment thesis

Gamified early learning offers huge scalability

Kiddopia is an emerging Ed-Tech play

Nazara entered the gamified early learning business via acquisition of Paper Boats (51% stake) in FY20 for a consideration (cash+stock) of Rs835mn. Kiddopia is the flagship early learning app of Paper Boats which creates an immersive experience by mixing games with learning for children aged between 2-7 years.

Monetization happens via subscription (there is an initial trial period of 7 days) and currently the plans are priced at US\$6.99 per month and US\$59.99 per year. Kiddopia has 321,763 paying subscribers as of 1QFY22 and the business is concentrated around US with iOS contributing ~93% of subscriber base.

In the past, Nazara has been investing aggressively (majority of Rs2.2bn of ad-spends in FY21 pertain to Kiddopia) to capture market share in the rapidly growing US gamified early learning market, that resulted in losses/sub-optimal margins (EBITDA losses in FY20 and meagre 7% EBITDA margin in FY21). However, we believe that the business has sound unit economics to potentially generate ~22-24% EBITDA margin on a steady state basis, in the near future.

Exhibit 17: Kiddopia: A major play on North America

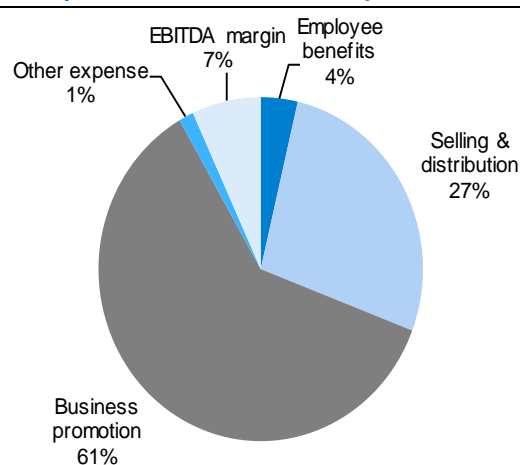
Target market	2 to 7 years
Monetization model	Subscription & In-App purchases (small component)
ARPU	US\$6-7 per month & US\$60 per year
Activation ratio	~70%
Monthly churn	~4-7%
Subscriber base (1QFY22)	3,21,763
Cost per trial (CPT)	US\$22-28
Subscriber mix	~31% subscribers opt for annual plans
Geographical presence	Present in 4 geographies; 89% of revenue is from North America
Popular characters	Captain Kidd and Alex the Explorer
US Apple App store rating	4.4 out of 5
Retention rate after 24 months of activation	~15%

Source: Company, PL

Exhibit 18: Kiddopia has steady state EBITDA margin of ~22-24%

Particulars	US\$
LifeTime-Value (LTV) - 2 years	61
Less:- App store commission @28%	17
Net LTV - 2 years	44
Less:- Cost of subscription	30
Gross Profit	14
Gross margin	32%
Content costs	~8-10%
EBITDA margin	~22-24%

Source: Company, PL

Exhibit 19: Business promotion is 61% of Kiddopia's cost structure (FY21)


Source: Company, PL

The gamified business has low entry barriers and familiarity of users with character/IPs acts as a moat, resulting in consumer stickiness. 1) Price point 2) content and 3) user interface are other few variables that hold key. Competition is stiff in the US market given presence of established players like Age of Learning, PBS, Hasbro, Spin Master, Playrix etc. Nonetheless, Kiddopia has established a strong consumer re-call via aggressive marketing and also stands to benefit from content arbitrage (lower costs - as content is created in India but sold in the US).

Exhibit 20: Competitive overview in the US gamified early learning market

Application	Parent Company	Monthly subscription	Annual Subscription	Business model	Target age group	Downloads
Kiddopia	Nazara	US\$6.99	US\$59.99	Subscription Model	2-7 years	NA
ABC Mouse	Age of learning	US\$9.95	US\$59.95	Subscription Model	2-8 years	NA
Adventure Academy	Age of learning	US\$12.99	US\$59.99	Subscription Model	8-13 years	NA
PBS Kids Games	PBS	NA	NA	It is a non-profit organization	3-8 years	NA
World of Peppa Pig	Hasbro	US\$4.99	Upto \$21.99 per year	Subscription Model	3+ years	NA
Toca Life World	Spin Master	NA	NA	Ad/IAPs	6-12 years	50mn+
Tow nship	Playrix	NA	NA	Ad/IAPs	3+ years	100mn+

Source: Company, PL

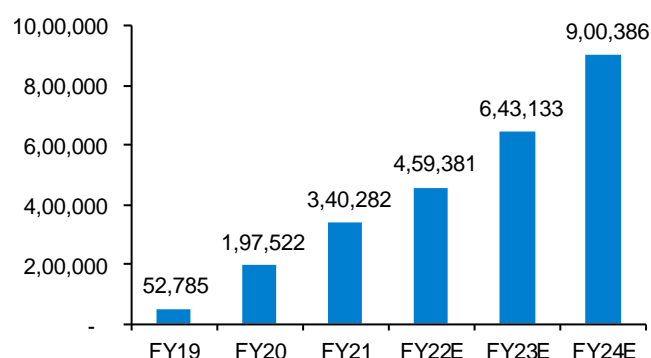
Further, gamification is in nascent stage/evolving and the opportunity size is huge in US itself (~25mn toddlers in the US). Nazara also plans to expand amongst new geographies of Germany, France and Spain and in age group of 8-12 years which can further lend scale to this business.

Exhibit 21: Gamified early learning has huge untapped potential

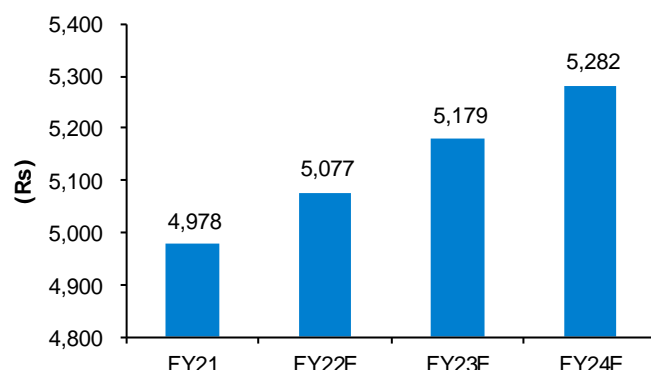
Geography	No of toddlers
US	~24.6mn
Germany	~4.7mn
France	~3.8mn
Spain	~2.1mn

Source: Industry, PL

Given huge untapped potential on offer and aggressive marketing plans, we expect Kiddopia's subscriber base to report a CAGR of 38% over FY21-FY24E. However, ARPU is expected to grow at a modest pace (2% CAGR over FY21-FY24E) amid stiff competition.

Exhibit 22: Kiddopia's subscribers to be at 0.9mn in FY24


Source: Company, PL

Exhibit 23: Kiddopia's ARPU to grow at 2% CAGR


Source: Company, PL

We believe Kiddopia is an emerging Ed-Tech play and will be a key growth lever for Nazara given 1) high propensity to pay in developed markets (business is US centric and iOS contributes around 93% of the subscriber base) resulting in easy monetization 2) increasing thrust on e-learning post-COVID 3) rising popularity of the app (Kiddopia is ranked 3rd on the US Apple App store with an average rating of 4.4 out of 5 in Dec 2020) and 4) gamification and learning offers a unique combination, especially to toddlers which helps in getting more eyeballs.

Exhibit 24: Kiddopia's Sales/EBITDA to grow at CAGR of 41%/76% in 3 years

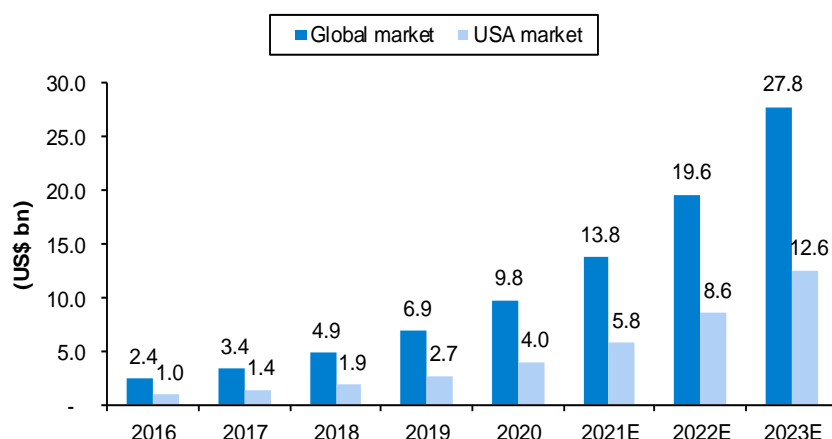
Particulars (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	191	1,758	2,420	3,446	4,906
YoY growth	NM	819.0%	37.6%	42.4%	42.4%
EBITDA	(35)	126	387	482	687
EBITDA Margin	NM	7.1%	16.0%	14.0%	14.0%

Source: Company, PL

Gamified early learning holds potential even in developed markets

Global/US gamified early learning market is expected to grow at a CAGR of 42%/47% over the next 3 years, as gamification is being embraced in developed world at a very fast pace. Given the ability and willingness to pay, we believe gamified learning (brings an element of fun into learning) holds immense potential in the developed world.

Exhibit 25: Global & US gamified early learning market to be 3x by 2023



Source: Company, PL

Kiddopia: India Opportunity

So far schools in India have not embraced gamification in learning believing that the concept takes out seriousness from a formal learning environment. However, gamification makes learning simple & easy and as teaching methods evolve, potential can be huge given there are 1.5mn schools in India with a student base of 253mn (K-12 count).

Further, the Ed-Tech market in India is growing exponentially (expected to reach a size of US\$3.6bn in 2023; 42% CAGR over 3-year period) and consists of more than 250 start-ups including big players like BYJUs, Vedantu, Unacademy etc. indicating that E-learning is gaining prominence.

While current focus in Ed-Tech market is around K-12 education and test preparation, its potential is huge as segments like gamified early learning, AI and robotics based education are yet to catch up in the Indian market (popular in developed world). Lesser consumer propensity to pay is a big challenge in India and can deter growth in near term.

Esports to emerge as mainstream sports

Nodwin - A leader in Indian Esports market

Nazara entered the Indian Esports market via acquisition of Nodwin Gaming (55% stake; which came down to 50% after Rs1.6bn investment by Krafton recently) in 2018 for a consideration of Rs770mn (cash + stock). Nodwin is a market leader in India with a share of 82% in unique Esports events and 73% in price pool in 2019.

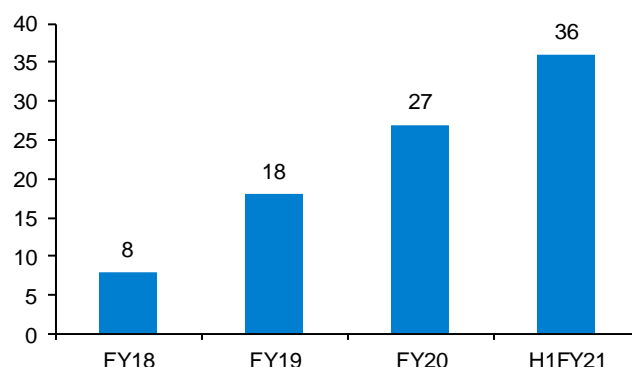
Nodwin hosts Esports tournaments that range from grass root level to state and national level competitions. Some of the key Esports tournaments hosted by Nodwin include DreamHack, ESL India Premiership, KO Fight Nights, Mountain Dew Arena, CII India gaming show and the Airtel India Esports tour. Over the years, number of clients/partners and price pool for Nodwin has increased to 36/US\$1.3mn as on 1HFY21.

Exhibit 26: Nazara (Nodwin) rules Esports landscape

Market share (2019)	Nazara	Others
Unique IPs	78%	22%
Unique Events	82%	18%
Unique Event Days	85%	15%
Prize Pool	73%	27%

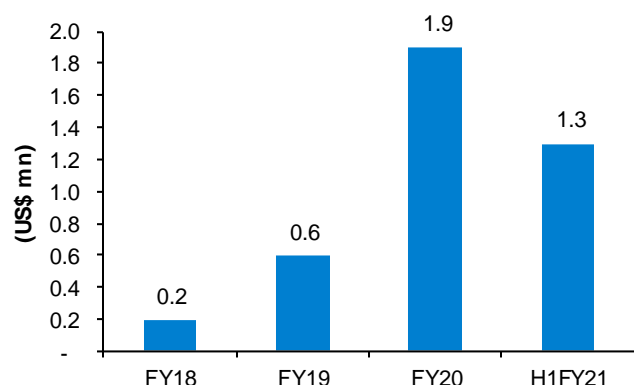
Source: Company, PL

Exhibit 27: Nodwin has 36 clients/partners as of 1HFY21



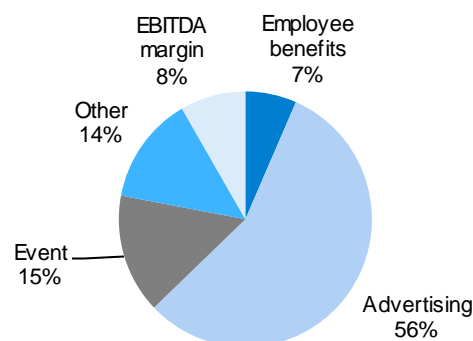
Source: Company, PL

Exhibit 28: Prize pool of Nodwin has witnessed steady rise



Source: Company, PL

Exhibit 29: A&P spends form 56% of Nodwin's cost structure



Source: Company, PL. Note: Figures as of FY21

While Indian Esports market is fragmented with number of players like JIO Games, Gamerji, Gaming Monk etc., Nodwin's leadership is likely to remain intact given -

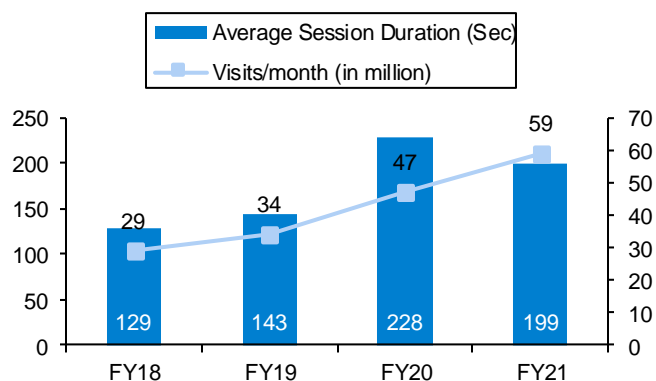
- Strong partnership with global Esports organizers and gaming publishers like ESL and Valve Corporation
- Access to plethora of own/joint/white label IPs (rights over professional Esports tournaments & content across grassroots/regional/national level)
- Well established relationships with media/OTT platforms and
- Strong growth opportunities in South Asia, Africa and Middle East (Krafton's Rs1.6bn infusion will be utilized to fund growth opportunities in these geographies).

SportsKeeda - A scalable platform with high operating leverage

In 2019, Nazara acquired 64% stake in Absolute Sports for a consideration of Rs438mn (cash & stock). Absolute Sports operates the web portal SportsKeeda which is India's largest Esports news destination platform. Apart from Esports, SportsKeeda also delivers content on traditional sports like WWE, Cricket, Soccer, and others. Monetization take place via ads displayed on web portal.

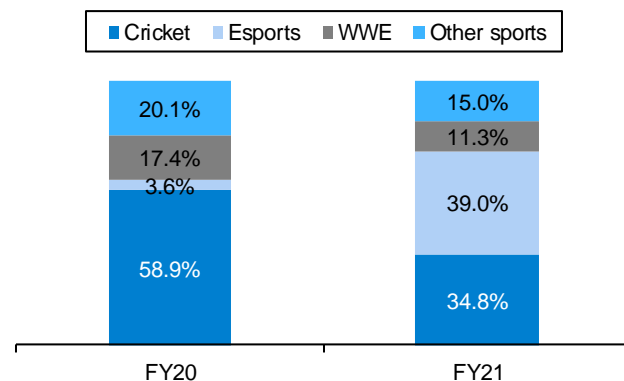
Over the years, SportsKeeda has witnessed increase in visitor traffic and average session duration thereby indicating high levels of engagement. The average MAUs also increased from 18mn in FY20 to 42mn in FY21.

Exhibit 30: SportsKeeda visitor traffic up 2x in last 3 years



Source: Company, PL

Exhibit 31: Esports share in visitor traffic up 11x to 39%



Source: Company, PL

When compared with other sporting websites in India namely CricBuzz and ESPN; SportsKeeda lags in most metrics (for eg: average visit per duration is low, bounce rate is high, key traffic source is via search and not direct) as India is a cricket crazy nation (most traffic of other portals is for cricket updates). However, comparison with other Esports portals across the world reveals that SportsKeeda is at par/better than most of them.

Exhibit 32: SportsKeeda lags in most metrics due to cricket fancy in India

Particulars	SportsKeeda	CricBuzz	ESPN Cric Info
Global Rank	967	559	999
Country Rank	579	52	162
Category Rank	14	1	1
Total Visits (mn)	61.3	119.1	70.63
Average Visit Duration	1 min 17 sec	7 min 54 sec	7 min 6 sec
Pages per visit	2.2	2.6	2.57
Bounce Rate	64.3%	39.4%	38.33%
Traffic by Country	US - 35.3% India - 12.0% UK - 5.9%	India - 70.0% Bangladesh - 9.6% US - 4.5%	India - 22.5% US - 19.2% UK - 11.7%
Traffic Source	Search - 85.8% Direct - 7.8%	Direct - 73.7% Search - 21.9%	Direct - 80.8% Search - 17.0%

Source: Similarweb, PL

Exhibit 33: SportsKeeda has better engagement metrics as compared to other Esports websites

Particulars	SportsKeeda	Dot Esports	Esports Observer	Esports Insider	ESTNN
Total Visits (mn)	61.3	14.8	0.2	0.2	1.0
Average Visit Duration	1 min 17 sec	56 sec	19 sec	1 min 21 sec	11 sec
Pages per visit	2.2	2.2	1.2	3.6	1.4
Bounce Rate	64.3%	64.6%	83.2%	71.7%	66.8%
Traffic by Country	US - 35.3% India - 12.0% UK - 5.9%	US - 29.7% Canada - 5.3% Philippines - 4.6%	US - 28.9% UK - 5.3% India - 5.3%	US - 21.0% UK - 10.9% India - 7.1%	US - 16.3% Germany - 6.6% Russia - 5.0%
Traffic Source (%)	Search - 85.8% Direct - 7.8%	Search - 84.8% Direct - 7.8% Social - 7.00%	Search - 74.9% Direct - 14.2% Social - 7.4%	Search - 64.5% Direct - 23.4% Social - 7.2%	Search - 90.4% Direct - 7.8%

Source: Similarweb, PL

Post-acquisition, Nazara scaled its SportsKeeda business (revenues of Rs343mn & EBITDA margin of 49% in FY21) amid renewed focus on US markets (key factor for 5x growth in sales in FY21). Given that business has limited content cost, operating leverage benefits kick in with rise in traffic from transitioning into a new geography. We believe SportsKeeda is well placed to capitalize on the expanding Esports landscape of India (viewers would come on the site to get updates/latest trends, as market for Esports develops).

Exhibit 34: Esports Revenue/EBITDA CAGR of 37%/14% over FY21-24E

Particulars (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	842	1,701	2,364	3,325	4,415
YoY growth	71.2%	102.1%	39.0%	40.7%	32.8%
EBITDA	75	305	318	349	453
EBITDA Margin	8.9%	17.9%	13.5%	10.5%	10.3%

Source: Company, PL

Esports to disrupt traditional sports landscape over next 4-5 years

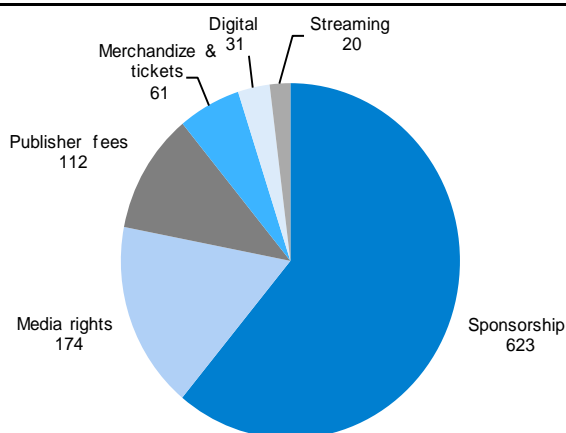
Esports (also known as electronic sports) is a form of video game competition played between professional players, individually or teams for a prize money. It is fast emerging as a spectator sport, driven by surge in live streaming platforms and increasing participation of professional gamers. The Esports ecosystem consists of Esports companies (organizers), publishers, media/streaming platforms, gamers, spectators and sponsors.

Exhibit 35: Esports Ecosystem – Business Overview

Entity in the value chain	Role of the entity	Key players	Monetization model
Esports companies (Organizers)	They host regular leagues & tournaments and provide gaming infrastructure to the players. Esports companies liaise with the publishers, broadcasting/streaming companies and sponsors to manage the entire event.	ESL, Major League Gaming, FazeClan, Team Liquid, Nodw in Gaming (Nazara's offering)	Media rights licensing, sponsorship, ticket & merchandise sales
Game Publishers	They make licenses available to Esports companies to help promote professional competition. These companies either develop the game internally or externally by a video game developer.	Sony Interactive Entertainment, Reliance JIO, Tencent, Microsoft Game Studios	Advertisement & IAPs
Broadcasters/streaming platforms	These companies show case live Esports content on their platform to viewers	MTV, Twitch, YouTube, Facebook, Voot	Advertisement showcased on platforms & subscription income
Gamers/Players	Engage audience with game play	NA	Prize money
Sponsors	NA	Airtel, Mountain Dew	Sponsorship of key IPs helps create brand visibility

Source: Company, PL

Exhibit 36: Sponsorship has 61% share in global Esports revenues (US\$ mn)



Source: Company, PL Note: Figures as of 2020

We believe Esports is likely to disrupt traditional sports landscape over next 4-5 years given 1) rising price pool 2) increase in number of broadcasting platforms (drives viewership) 3) increase in number of Esports teams/players (given professional gaming can evolve as a full time career) and 4) growing pie of millennial & Gen Z population which forms 65% of India's population mix who spends higher time on gaming/internet.

Exhibit 37: Dota 2 offers highest prize money in competitive Esports

Game	Prize money (US\$ mn)	Players	Tournaments
Dota 2	236	4066	1532
Counter-Strike: Global Offensive	118	14103	5825
Fortnite	108	4848	738
League of Legends	84	7828	2612
Star Craft II	36	2103	6189
Playersunkow n's Battlegrounds	34	3001	335
Overw atch	27	3551	750
Arena of Valor	27	716	64
Hearthstone	26	2573	938
Heroes of the Storm	19	1835	311

Source: Esportsearnings, PL

Exhibit 38: The International is the highest prized Esports tournament

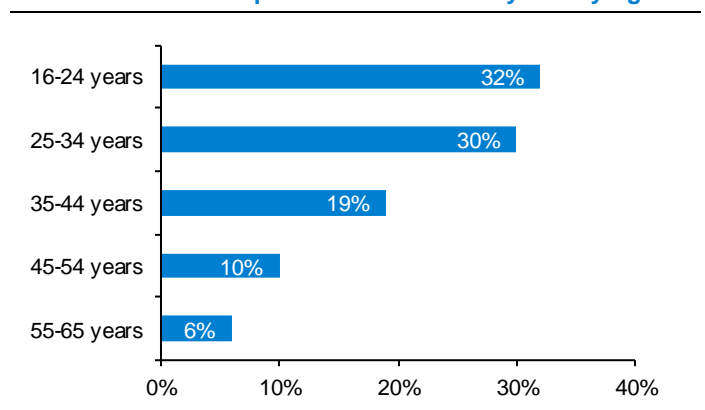
Tournaments	Prize Money (US\$ mn)	Game
The International 2019	34	Dota 2
The International 2018	26	Dota 2
The International 2017	25	Dota 2
The International 2016	21	Dota 2
The International 2015	18	Dota 2
Fortnite World Cup Finals 2019 – Solo	15	Fortnite
Fortnite World Cup Finals 2019 – Duo	15	Fortnite
The International 2014	11	Dota 2
PGI.S 2021 Main Event	7	Playersunkow n's Battlegrounds
LoL 2018 World Championship	6	League of Legends

Source: Esportsearnings, PL

Exhibit 39: Esports broadcasters have doubled in 2 years

2018	2019	2020
Dsports	Instagram	MX Player
Twitch	Jio	Rheo
You Tube	SonyLIV	Nimo
Facebook	Tw itch	TikTok
Hotstar	You Tube	MTV
Voot	Facebook	Jio
	Hotstar	SonyLIV
	Voot	Tw itch
		You Tube
		Facebook
		Hotstar
		Voot

Source: Company, PL

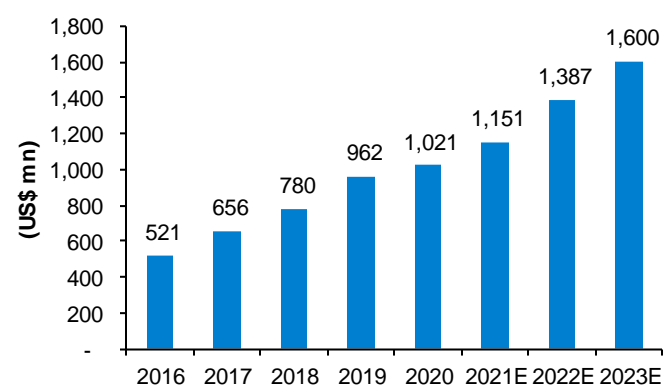
Exhibit 40: 62% of Esports audience is <34 years by age


Source: Company, PL

Global Esports market to grow at 16% CAGR over 2020-2023E

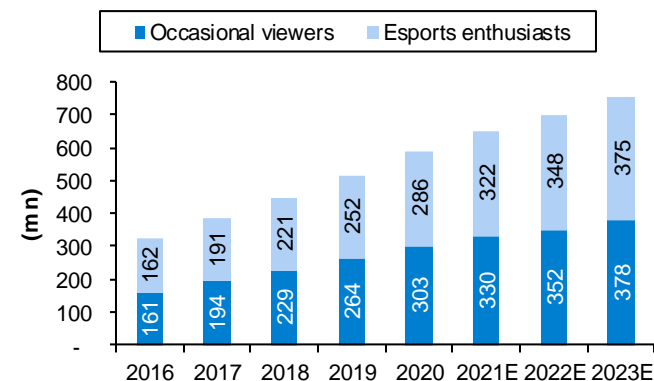
Amid 1) rise in Esports viewership, 2) popularity of big ticket tournaments and 3) increasing prize money, we believe the global Esports market will grow at 16% CAGR over next 3 years and reach a value of US\$1.6bn by 2023E. Further, rise in the number of streaming platforms and broadcasting services is likely to result in CAGR of 9% in audience growth covering 753mn viewers (i.e. 378mn casual viewers and 375mn Esports enthusiasts) over the next 3 years.

Exhibit 41: Global Esports market to be at US\$1.6bn in 2023E



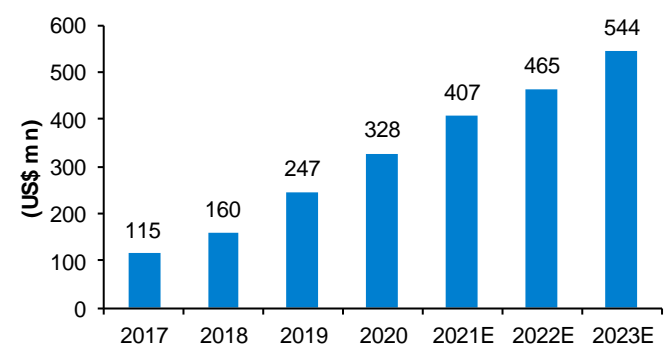
Source: Company, PL

Exhibit 42: Global Esports audience to be 753mn in 2023E



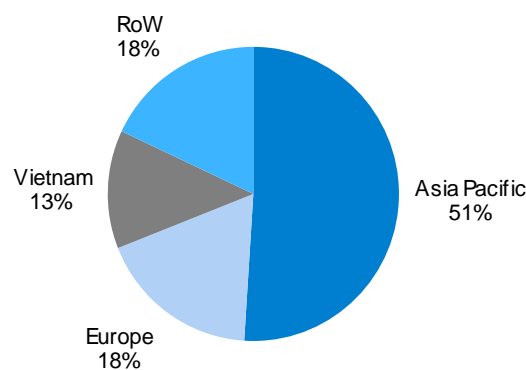
Source: Company, PL

Exhibit 43: Esports prize pool to rise 66% over 2020-23



Source: Company, PL

Exhibit 44: APAC has highest Esports viewership at 51%

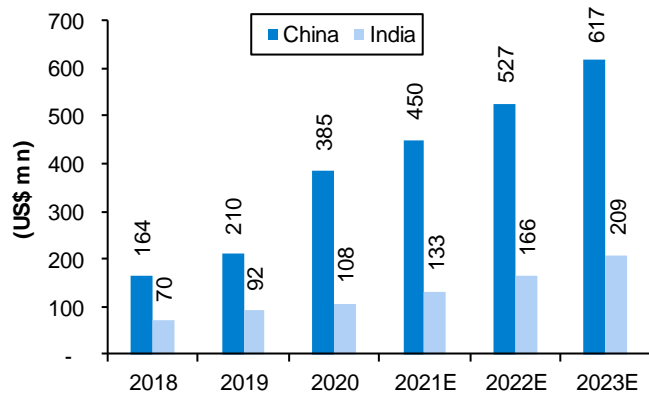


Source: Objectstyle, PL

Indian Esports market is fairly nascent and at the cusp of high growth

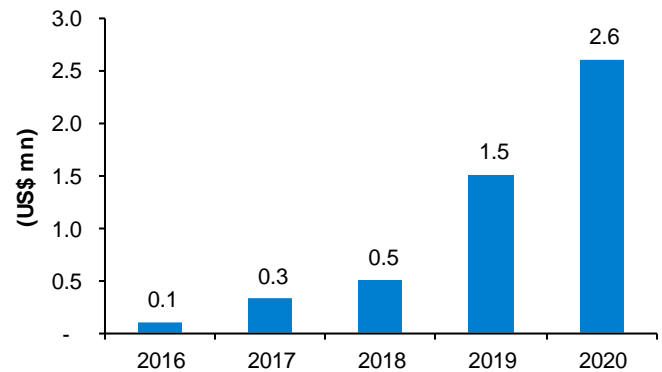
Indian Esports market was valued at US\$108mn in 2020 (~28% of the Chinese market) and is projected to grow at a CAGR of 25% over the next 3 years surpassing China (expected to grow at 17% CAGR) predominantly due to increased user engagement (rise in the number of Esports players/teams/audience), increasing prize pool and viewership. Further, as the market matures and an ecosystem develops with respect to payments, players and competitiveness, the sector is expected to witness exponential growth in years to come.

Exhibit 45: Indian Esports market is ~28% of Chinese mkt



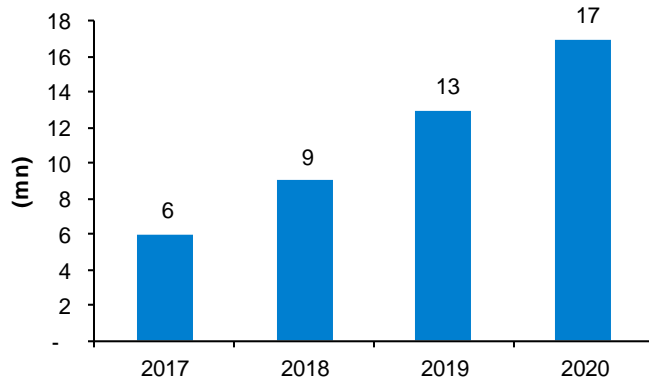
Source: Company, PL

Exhibit 46: Indian Esports prize pool up 5x over 2018-20



Source: Company, PL

Exhibit 47: Indian Esports audience has risen ~2x in 2 years



Source: Company, PL

Exhibit 48: Esports market of India at cusp of high growth

Particulars	2018	2019	2020	2021E
Esports teams	2,000	16,000	60,000	100,000
Esports players	20,000	80,000	150,000	600,000
International Esports teams	1	3	5	10
Women audience (% of watchers)	2%	5%	12%	18%
Esports game titles	6	6	9	15+

Source: FICCI, PL

Key growth drivers for Esports in India

Language localization: Earlier when PC gaming was more relevant in India most commentaries and storylines were in English. However, post PUBG boom, gamers and influencers have started using Hindi as a common language. In some cases, there has been infusion of regional languages too, which has increased number of gamers entering into Esports ecosystem.

IAP led growth: With rise in number of gamers, potential for IAPs increases as user engagement increases. This encourages game developers/publishers to provide engaging content for increasing user base, which in a way enhances Esports ecosystem (any publisher would want his/her game to be a part of Esports competition, as it increases popularity of that game and helps in driving IAPs). This is more relevant from India perspective as it is a “Free to Play” market and not a “Pay to Play” market.

IAPs can be a growth lever in freemium gaming market

Nazara's flagship freemium IP has strong engagement metrics

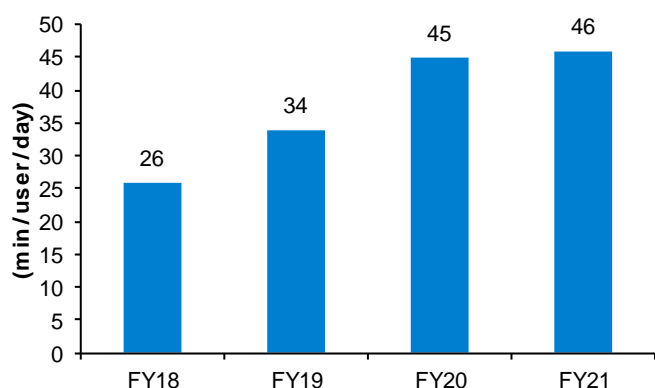
Nazara entered the freemium business via acquisition of Next Wave Multimedia (52% stake) in FY18 for a consideration (cash+stock) of Rs528mn. World Cricket Championship (WCC) is the flagship gaming title of Next Wave Multimedia targeted at casual/mid-core gamers aged between 15-35 years. Monetization happens via ads & IAPs. WCC franchise has witnessed meteoric rise in average time spent (47mins per day per user in 1QFY22) and has ~13.3mn MAUs with 100,000+ organic installs per day.

Exhibit 49: Freemium: Brief overview – 13.3mn MAUs, 110mn installs, 80% Ad revenue contribution

Popular games	WCC, BAT-Attack Cricket, Beach Cricket, Real Carrom
Target market	15-35 years
Revenue mix	Ads (~80%) & IAPs (~20%)
MAUs	~13.3mn for 1QFY22
Total installs across games	~110mn+
IAP conversion (% of DAUs) for WCC3	0.1%. Target is to reach 1% by FY25E.

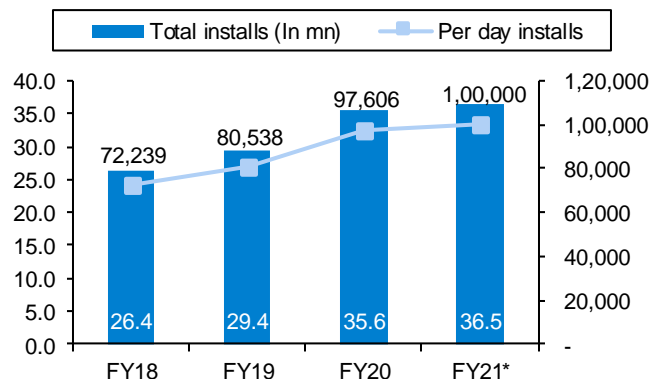
Source: Company, PL

Exhibit 50: WCC game time spent up 77% in 3 years



Source: Company, PL

Exhibit 51: WCC has 0.1mn + organic installs per day



Source: Company, PL

*FY21 figure is an approximation

The freemium mobile gaming market is highly competitive due to presence of multiple players and genres (board/action/adventure/card/strategy/puzzle/racing etc). Further, game development is a long drawn process and most IPs have limited shelf life due to 1) presence of multiple genres 2) different taste of players and 3) fatigue factor (bored after playing a game for long time).

Sports simulation is the only category which has high mass acceptance, due to underlying popularity of the sport itself. Nazara's freemium offering, WCC, is from sports simulation category. The game has developed a cult like following, as cricket draws 93% of sports viewers in India. Recently, WCC3 launch received strong response with 20K daily installs and 507K DAUs during 1QFY22. However, a cursory look at competitive scenario of Indian mobile gaming market reveals that, WCC is yet to establish itself as a leading IP.

Exhibit 52: PUBG Mobile and Free Fire have strong recall & high IAPs (2020)

Game	Game Type	Genre	Publisher	Downloads	MAUs	Consumer spends/IAPs
Ludo King	Casual gaming	Board	Gametion	1	1	
PUBG Mobile	Casual gaming	Action	Tencent	6	2	2
Free Fire	Casual gaming	Action	Sea	4	3	1
Candy Crush Saga	Casual gaming	Casual	Activision Blizzard		4	9
Carrom Pool	Casual gaming	Board	Miniclip	2	5	
Subw ay Surfers	Casual gaming	Arcade	Sybo	7	6	
Bubble shooter by llyon	Casual gaming	Casual	Miniclip	5	7	
Hunter Assassin	Casual gaming	Action	Ruby Oyun Ve Yazilim Danismanlik	3	8	
Callbreak Multiplayer	Transaction - based gaming	Card	Sujan Shakya		9	
Temple Run 2	Casual gaming	Action	Imangi	9	10	
Subw ay Princess Runner	Casual gaming	Action	Tax Vietnam Technology	8		
Hill Climb Racing	Casual gaming	Racing	Fingersoft	10		
Coin Master	Casual gaming	Adventure	Moon Active			3
Teen Patti	Transaction - based gaming	Casino	Octro			4
Clash of Clans	Casual gaming	Strategy	Supercell			5
Call of Duty: Mobile	Casual gaming	Action	Activision Publishing			6
Teen Patti Gold	Transaction - based gaming	Casino	Moonfrog			7
Lords Mobile	Casual gaming	Strategy	IGG			8
Gardenscapes	Casual gaming	Puzzle	Playrix			10

Source: FICCI, PL Note: Downloads/MAUs/IAPs are ranks/standings

IAPs will be a key growth lever in freemium business

We believe the IAP model (access to content is free but one has to pay for certain in-game functions and additional features) is set to gain traction within mobile gaming segment, due to increase in number of hard & mid-core gamers that have high propensity to pay. The count of hard & mid-core gamers is expected to increase by 3.0x/2.9x to 30mn/100mn by 2025E. IAPs also form a crucial link in transitioning casual gamers to serious gamers by offering lucrative opportunities to progress within the game.

Exhibit 53: IAPs to grow at 40% CAGR and surpass Ads over FY20-25E

Category - Casual Gaming	FY20-25E sales CAGR
IAPs	40%
Ads	27%

Source: Company, PL

Exhibit 54: IAPs to have 75% share in revenue for casual games by FY25E

Category - Casual Gaming	Sales mix (FY25E)
IAPs	75%
Ads	25%

Source: Company, PL

Exhibit 55: Candy Crush Saga has highest IAP revenue

Game	IAP revenue (2020)
Ludo King	~US\$6mn
Call of Duty	~US\$332mn
Candy Crush Saga	~US\$719mn
Clash of Clans	~US\$483mn
Clash Royale	~US\$209mn

Source: Industry, Company, PL

Nazara's WCC2 title had IAP conversion (as a % of DAUs) of 0.01%. However, post launch of WCC3 the IAP conversion increased to 0.1%. Going ahead, management expects IAP conversion of 1% by FY25E. Higher conversion requires making subtle changes in game setting (already evident in WCC3) that prompts users to pay. Given strong focus on increasing conversions, we expect contribution of IAPs to rise to 35% in FY24E.

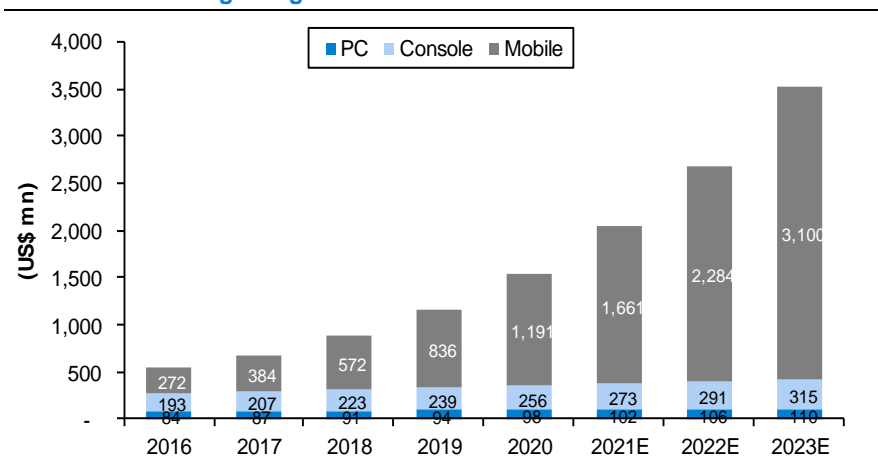
Exhibit 56: Freemium Revenue & EBITDA CAGR of 31%/ 46% over FY21-24E

Particulars (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	198	195	220	317	444
YoY growth	-19.0%	-1.3%	12.5%	44.5%	39.8%
EBITDA	66	41	57	86	129
EBITDA Margin	33.4%	21.2%	26.0%	27.0%	29.0%

Source: Company, PL

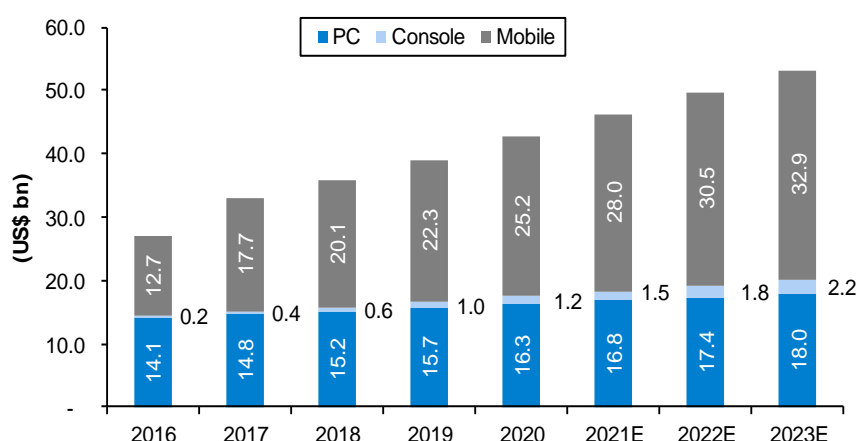
Indian gaming industry to outpace US & China over the next 3 years

The Indian mobile gaming industry is expected to grow at a CAGR of 38% over the next 3 years to reach a level of US\$3.1bn in 2023E. Comparatively, industry growth in the US/Chinese markets is expected to be at 10%/9% over the same period. 1) Favorable demographics (huge young population with higher disposable income and high propensity to spend), 2) increasing penetration of smartphones, 3) growth of digital infrastructure and 4) significant rise in quality of gaming content has set the stage for exponential rise in Indian gaming industry.

Exhibit 57: Mobile gaming accounts for 77% of Indian market


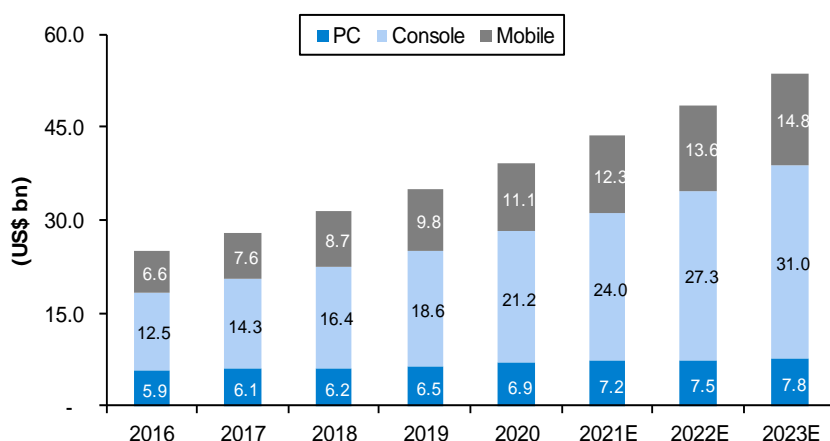
Source: Company, PL

Exhibit 58: Mobile & PC gaming forms 97% of Chinese market



Source: Company, PL

Exhibit 59: US gaming industry is dominated by console's (54% share)



Source: Company, PL

Relationship & reach is a key moat in telco business

Telco has high operating leverage but faces growth challenges

Under telco subscription business, Nazara offers catalogue of games to mass mobile and first time gamers in emerging markets of India, South Asia, Africa and Middle East. The games are available in bouquet formats through periodic subscriptions (daily/weekly/monthly) pursuant to arrangement with telecom operators.

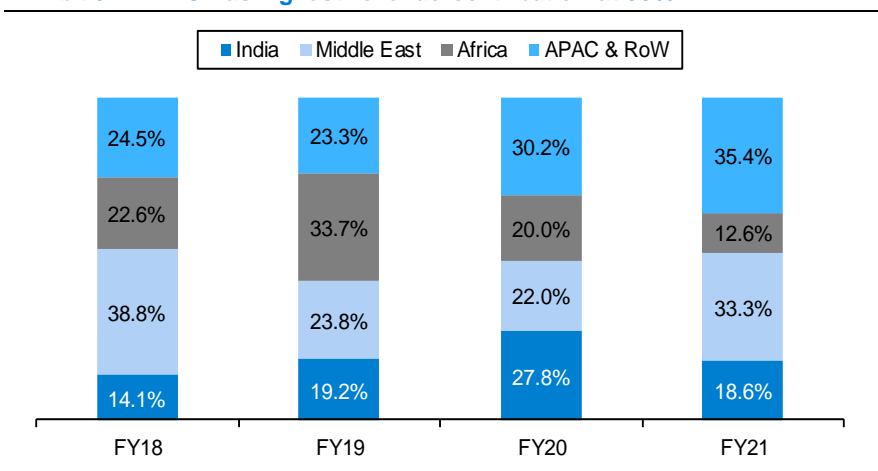
Nazara has a directory of ~1,000+ games distributed in 58 countries through arrangement with 52 telecom operators. The billing is managed by telecom operators and revenue is shared between Nazara and telecom partner as per the terms of agreement (ranges from 1-2 years). The business operates on an asset light model, using a content management platform of Nazara which links the content providers with subscribers through telco partners, and offers operating leverage as most costs are fixed in nature.

Exhibit 60: Telco business: Brief Overview

No of games	~1,000+
Reach	58 countries via 52 telecom operators
Select offerings	Games Hub, Games Club, Games Lounge
Are games developed in-house?	No
Nature of telco partnership	Non-exclusive
Content cost	~7%; high operating leverage
Rol on marketing spend	For every \$ spent, Nazara makes US\$3
Tech platform	Common across telcos

Source: Company, PL

Exhibit 61: APAC has highest revenue contribution at 35% in FY21



Source: Company, PL

Telco business has been facing growth challenges ever since the entry of JIO (offering games for free) and consolidation in Indian telecom space. Consolidation (led to subscriber churn) and free gaming subscription disrupted the India business (India telco revenues declined from Rs617mn in FY17 to Rs140mn in FY21). Further, given that propensity to pay in other emerging markets is low and business lacks consumer stickiness (games are not developed in-house and there is no exclusive arrangement with telecom partners), we expect the share of telco business to decline from 17% in FY21 to 6% in FY24E.

Disney tie-up to help leverage premium content of the franchise

Nazara has recently acquired rights to distribute a library of premium Disney and Star Wars games based on iconic stories and characters including Star Wars, Frozen, Big Hero 6, Cars, Duck Tales, Finding Dory, Toy Story and many others in 100 countries for three years. The Disney arrangement is exclusive in nature where premium games will be distributed through Nazara's network of telecom operators to their customer base. Since Disney & Star War characters are iconic in nature we believe these games would have higher acceptance in emerging markets especially with first time gamers.

Exhibit 62: Telco revenue to decline with EBITDA margin of ~21% over 3 years

Particulars (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	818	749	690	653	628
YoY growth	-14.9%	-8.4%	-7.9%	-5.4%	-3.8%
EBITDA	206	137	145	137	132
EBITDA Margin	25.2%	18.3%	21.0%	21.0%	21.0%

Source: Company, PL

Fantasy sports is a boon to real money gaming
Halaplay acquisition marks entry into Real Money Gaming

Nazara entered the RMG category after acquiring Halaplay for Rs319mn in 2019 (74% stake). However, post recent round of fund raising (Rs 180mn), Nazara's stake has been diluted to 65%. Through Halaplay, Nazara offers a sports fantasy platform, aimed at targeting sports fans in India. The company also operates BigPesa, a real money gaming & betting platform, through one of its subsidiaries in Kenya and also offers trivia games under the name, Qunami. Monetization happens via collection of platform fees.

Given regulatory risks surrounding RMG in India (see exhibit below) management scaled down the business considerably in FY21 (revenues declined 68% YoY to Rs 138mn). However, off-late regulatory risks have started receding with the Madras High Court striking down the TN gaming act that banned online games such as Rummy and Poker with high stakes. While it is difficult to say if other states will follow suit, Madras High Court's decision has reduced regulatory overhang surrounding RMG.

Exhibit 63: Divergent regulations surrounding RMG in India

State	Fantasy Gaming	Rummy	Poker	Act	Year of enactment
Tamil Nadu	Not allowed	Allowed	Allowed	Draft	-
Andhra Pradesh	Not allowed	Not allowed	Not allowed	Amendment to the AP Gaming Act 1974	2020
Telangana	Not allowed	Not allowed	Not allowed	Amendment to the Telangana Gaming Act 1974	2017
Gujarat	Allowed	Allowed	Not allowed	Amendment to the Gujarat Prevention of Gambling Act, 1887	2017
Nagaland	License needs to be obtained	License needs to be obtained	License needs to be obtained	Online Games of Skill Act	2016
Sikkim	Restricted to servers based in Sikkim	Restricted to servers based in Sikkim	Restricted to servers based in Sikkim	Sikkim Online Gaming Act	2009
Assam	Not allowed	Not allowed	Not allowed	Assam Game and Betting Act	1970
Odisha	Not allowed	Not allowed	Not allowed	Orissa Prevention of Gambling Act	1955
Meghalaya	License required	License required	License required	Ordinance	-

Source: FICCI, PL

OpenPlay acquisition is a shot in the arm for RMG

Given receding regulatory risks, Nazara has decided to make strategic investment of 100% in OpenPlay Technologies Pvt Ltd, a skill gaming company based out of Hyderabad, for a consideration of Rs 1.9bn. The first tranche consisting of Rs 434mn is payable in cash and the transaction is expected to culminate by 2QFY22. The nature of consideration for 2nd tranche (cash/stock) will be decided by the end of FY22.

Led by Sreeram Reddy Vanga, OpenPlay is India's fastest growing skill gaming company offering fantasy sports, quiz, rummy and various other games. Classic Rummy, Asli Rummy and KhelYaar are the flagship brands of OpenPlay. Top-line of OpenPlay has grown at a CAGR of 60% over FY19-21 and the current annualized run-rate is ~Rs 800mn. The business operates at an indicative EBITDA margin of 20%+. Given the launch of influencer hosted skill games, the paid user base is expected to rise in coming quarters driving growth.

We believe OpenPlay acquisition acts as a growth stimulus (sales to rise 8x in 3 years due to consolidation impact) for RMG segment and is expected to be EBITDA accretive (business has 20%+ EBITDA margin as compared to EBITDA loss of Rs 347mn/58mn reported by Halaplay in FY20/FY21 respectively) for Nazara.

Exhibit 64: OpenPlay acquisition to lend scale to RMG segment

Particulars (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	426	138	595	893	1,116
YoY growth	NM	-67.5%	330.0%	50.0%	25.0%
EBITDA	(347)	(58)	30	54	78
EBITDA Margin	NM	NM	5.0%	6.0%	7.0%

Source: Company, PL

Real money games have huge addressable market

Real money gaming offers participants a chance to win real money based on outcome or skill. Real money games are broadly classified in 2 formats viz:-

- **Non-fantasy RMG:** Under this format, players typically compete for prize money based on their skill. For example, multiple players can compete to play any card/board/action game for a prize money. Even trivia games (quizzing format) where awareness of a particular genre (Bollywood, Sports, GK etc) is tested falls under this category.
- **Online fantasy sports:** Under this format, players bet money on a certain outcome/chance (particular team or a set of players winning).

Exhibit 65: Key stats of non-fantasy RMG

Market revenue (FY20)	Rs 25-30bn
No of Gamers (FY20)	30-40 mn
Average commission for online rummy games	8-10%
Average spend/user/month on leading Rummy platforms (June 2020)	Rs 1,500-2,000
Average proportion of paying users (% of total registered users)	8-12%

Source: KPMG, PL

Exhibit 66: Key stats of Online Fantasy Sports (OFS) RMG

Market revenue (FY20)	Rs23-27bn
Contest Entry Amount (CEA)/ Gross Transaction Value (GTV) (FY20)	Rs160-170bn
No of OFS Real money gamers (FY20)	90-95 mn
Average commission for OFS	10-15%
Average spends/ user/year on some of the leading OFS platforms (FY20)	Rs6,000-7,000
Average proportion of paying users as a % of the active users (FY20)	15-20%

Source: KPMG, PL

While card based games like Rummy/Teen Patti/Poker continue to lead non-fantasy RMG category, newer formats are gaining traction (action/adventure etc) with the entry of multiple quizzing platforms like BaaziNow and Zupee. Even in online fantasy sports, we have seen emergence of new platforms like Dream11, MyTeam11, My11Circle, Halaplayetc. Cricket is India's most popular fantasy sport having ~85% share of overall contest entry amount for the industry.

Exhibit 67: Dream 11 has 100mn+ users, Halaplay at 10mn+

Application	Downloads (mn)
Dream11	100+ (users)
MyTeam11	18+ (users)
Halaplay	10+ (users)
11wickets	4+ (users)

Source: Company, PL

Exhibit 68: Key trivia based players in India

Application	Downloads (mn)
Loco	10
BrainBaazi	10
Qureka	10
Zupee	5
Qunami	0.4

Source: Company, PL

Financial Projections

Revenue/EBITDA CAGR at 36%/49% over FY21-FY24E

We expect revenue CAGR of 36% over FY21-FY24E given: -

- 2.6x increase in Kiddopia's subscriber base
- 40% CAGR in Esports business amid rising viewership (aids growth in media rights licensing) coupled with plans to increase number of IPs & geographical presence
- 31% CAGR in Freemium business driven by rising IAPs and
- Additional revenue kicker (~Rs800mn is the current annual run-rate) arising from acquisition of OpenPlay.

However, we expect telco subscription revenues to decline over next 3 years led by weakness in India and Africa.

Correspondingly, EBITDA CAGR is expected to be at 49% over FY21-FY24E given:

- Steady expansion in Kiddopia margins (management intends to remain in positive territory without sacrificing growth) and
- Strong growth in Freemium and SportsKeeda business which have superior margin profile.

Subscriber growth to drive 41% CAGR in Kiddopia revenues: We expect 41% revenue CAGR in gamified early learning business over FY21-FY24E buoyed by 1) 2.6x increase in subscriber base of Kiddopia and 2) plans to expand into new geographies of Germany, France and Spain and in new age group 8-12 years.

Nazara also plans to introduce new content, character and formats which shall aid subscription growth. However, we expect ARPU to grow at a modest CAGR of 2% over next 3 years due to stiff competition (annual packs of most peers are priced similarly at ~US\$60 odd).

After reporting losses in FY20, the gamified early learning business reported EBITDA margin of 7% in FY21. Management does not envisage to maximize margins (steadystate unit economics indicates EBITDA margin of ~22-24%) at the cost of growth, given Nazara has just 1.3% subscriber market share in the US.

However, recent change in the Apple policy that makes tracking device IDs difficult (unless users explicitly opt for it) is likely to keep marketing expenses low (makes targeted advertising difficult and impacts LTV/CAC ratio) for next few quarters aiding EBITDA margins. Consequently, we expect EBITDA margins to be at 16% in FY22E but gradually taper down to 14% in FY23E, as marketing expenses are expected to revert back to earlier levels.

Exhibit 69: Kiddopia's growth to be aided by 2.6x rise in subscribers

Particulars (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Number of paying subscribers	197,522	340,282	459,381	643,133	900,386
ARPU (Annual)	NM	4,978	5,077	5,179	5,282
Subscription revenue	128	1,694	2,332	3,331	4,756
YoY Growth	NM	1227.2%	37.7%	42.8%	42.8%
In-app sales	64	65	87	115	150
YoY Growth	NM	1.4%	35.0%	32.0%	30.0%
Revenues	191	1,758	2,420	3,446	4,906
YoY Growth	NM	819.0%	37.6%	42.4%	42.4%
EBITDA	(35)	126	387	482	687
EBITDA margin	NM	7.1%	16.0%	14.0%	14.0%

Source: Company, PL

Esports business to grow at 40% CAGR over FY21-FY24E: Esports business has 3 revenue streams viz; 1) media rights licensing 2) white label IPs and 3) sponsorships.

- **Media rights licensing (55% of sales in FY21):** Typically, media rights licensing contracts are for 3 years with an annual escalation of ~10%. Nazara makes money by selling IP rights of the content to broadcaster's/OTT platforms for a fee.
- **White label IPs (35% of sales in FY21):** Nazara manages entire event/tournament on behalf of the game publisher. However, if the IP is new or tournament is held offline, monetization via media rights licensing becomes difficult. In such cases, Nazara gets a fixed payment for managing the event.
- **Sponsorship (15% of sales in FY21):** Sponsorship agreements are executed with popular brands for marquee events. As per the agreement, sponsor agrees to pay a fixed amount to Nazara based on certain pre-determined milestones.

We expect Esports revenue (excluding SportsKeeda) to grow at 40% CAGR over FY21-FY24E as:

- Media rights licensing (55% of the revenue in FY21) is likely to grow at exponential pace given rapid rise in the number of OTT/broadcasting platforms (results in bidding war amongst players to get rights with rising Esports viewership)
- One licensing contract that was about to expire has been renewed (escalation yet to kick in) providing near term visibility and
- Plans to expand number of IPs and enter new geographies like South Asia, Middle East and Africa (funding of Rs 1.6bn from Krafton will be utilized).

Typically, Esports IPs take 3-4 years to breakeven and have steady state EBITDA margin of 6-8%. While EBITDA margin stood at 10% in FY21 (high as some of the IPs were not held due to COVID), we expect the same to remain in 7-8% range over FY22-24E.

SportsKeeda revenue to grow at 27% CAGR over 3 years with high operating leverage: We expect SportsKeeda revenues to increase at 27% CAGR over FY21-24E as 1) entry into the US market (53% of revenue in 1QFY22) will lead to higher inventory utilization (high Esports viewership in a developed market) and 2) it has plans to enter from text to video format which will drive viewership.

Further the business has high operating leverage as content cost is fixed and thus rising viewership results in better yields driving margins. While FY21 EBITDA margins were high at 49% on a steady state basis, we expect it to be at 40% in FY22E and then revert to ~25% level over FY23E and beyond, as investment in video content will result in higher content cost.

Exhibit 70: E-sports to grow at 37% CAGR with blended margin of ~10%

Particulars (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Esports revenues	775	1,357	1,900	2,756	3,720
<i>YoY Growth</i>	<i>57.6%</i>	<i>75.2%</i>	<i>40.0%</i>	<i>45.0%</i>	<i>35.0%</i>
SportsKeeda Revenues	67	343	463	570	695
<i>YoY Growth</i>	<i>NM</i>	<i>414.5%</i>	<i>35.0%</i>	<i>23.0%</i>	<i>22.0%</i>
Total revenues	842	1,701	2,364	3,325	4,415
<i>YoY Growth</i>	<i>71.2%</i>	<i>102.1%</i>	<i>39.0%</i>	<i>40.7%</i>	<i>32.8%</i>
Esports EBITDA	72	137	133	207	279
<i>Esports EBITDA margin</i>	<i>9.3%</i>	<i>10.1%</i>	<i>7.0%</i>	<i>7.5%</i>	<i>7.5%</i>
SportsKeeda EBITDA	3	167	185	142	174
<i>SportsKeeda EBITDA margin</i>	<i>4.6%</i>	<i>48.8%</i>	<i>40.0%</i>	<i>25.0%</i>	<i>25.0%</i>
Total EBITDA	75	305	318	349	453
<i>EBITDA margin</i>	<i>8.9%</i>	<i>17.9%</i>	<i>13.5%</i>	<i>10.5%</i>	<i>10.3%</i>

Source: Company, PL

Freemium business to grow at 31% CAGR on the back of rising IAPs: We expect freemium business to grow at a CAGR of 31% over FY21-FY24E backed by rising growth in IAPs. Nazara's WCC2 title had IAP conversion (as a % of DAUs) of 0.01%. However, post WCC3 launch, the IAP conversion increased to 0.1%. Going ahead, management expects IAP conversion of 1% by FY25E after making subtle changes in game settings.

Consequently, we expect 57% CAGR in IAPs revenue over FY21-24E. As far as ad-revenue is concerned, we expect a marginal decline of 1% YoY in FY22E due to fall in ad-rates amid COVID. However, we expect a CAGR of 23% over next 3 years backed by gradual improvement in ad-environment.

While EBITDA margin was low at 21% in FY21 due to WCC3 launch (promotional cost with respect to the game), going ahead we expect it to improve over the next 3 years amid 1) lower ad-spends and 2) rising focus on IAP conversions.

Exhibit 71 : Freemium business to grow at 31% CAGR over 3 years

Particulars (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
In-app sales	21	40	66	102	153
<i>YoY Growth</i>	19.4%	91.7%	65.0%	55.0%	50.0%
Advertising	177	155	154	215	291
<i>YoY Growth</i>	-22.0%	-12.2%	-1.0%	40.0%	35.0%
Revenues	198	195	220	317	444
<i>YoY Growth</i>	-19.0%	-1.3%	12.5%	44.5%	39.8%
EBITDA	66	41	57	86	129
<i>EBITDA margin</i>	33.4%	21.2%	26.0%	27.0%	29.0%

Source: Company, PL

Subdued outlook on Telco business: Telco revenues have declined from Rs1.5bn in FY18 to Rs749mn in FY21 due to:

- Disruption in Indian telco market, causing subscriber churn
- Delay in partnering with new telco's & launching new products with existing telco's, and
- Exit from Iran

As telco games are not developed in-house and are non-exclusive (other carriers can offer same games) in nature, growth challenges would persist. Consequently, we expect telco revenues to decline at a CAGR of 6% over FY21-24E. However, Nazara has recently acquired rights to distribute a library of Disney and Star Wars games in 100 countries for 3 years which can aid subscriber growth by leveraging on premium content.

EBITDA margin in telco business stood at 49%/38% in FY18/FY19 (declined due to fall in revenues, as costs are typically fixed in nature). However, margin erosion in the subsequent years was high (25% in FY20 and 18% in FY21) as all corporate overheads got allocated to telco subscription business in the last 2 years.

Given change in reporting, we expect EBITDA margin to be at 21% over the next 3 years. However, operationally (excluding allocation of companywide overheads) EBITDA margin of the business is much higher (~26-28% range).

Exhibit 72: Telco business to witness growth challenges

Particulars (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
India	227	140	105	82	65
YoY Growth	23.2%	-38.6%	-25.0%	-22.0%	-20.0%
Middle East	180	250	255	257	259
YoY Growth	-21.5%	39.1%	2.0%	1.0%	0.5%
Africa	164	94	61	42	29
YoY Growth	-49.5%	-42.4%	-35.0%	-32.0%	-30.0%
APAC	247	254	257	260	263
YoY Growth	10.5%	2.7%	1.5%	1.0%	1.0%
Rest of the World	0	12	12	12	13
YoY Growth	NM	5860.0%	2.0%	2.0%	2.0%
Revenues	818	749	690	653	628
YoY Growth	-14.9%	-8.4%	-7.9%	-5.4%	-3.8%
EBITDA	206	137	145	137	132
EBITDA margin	25.2%	18.3%	21.0%	21.0%	21.0%

Source: Company, PL

OpenPlay acquisition to provide revenue kicker to RMG: Acquisition of OpenPlay is likely to provide revenue kicker of ~Rs800mn (current annualized revenue run-rate) beyond FY22E resulting in 8x increase in top-line of RMG over 3 years on a low base. Further, OpenPlay has EBITDA margins of 20%+ but management expects the same to be in the range of ~8-9% going ahead as investments/spends are expected to rise. We expect blended EBITDA margins of 5-7% over FY22-24E for RMG segment due to existing losses in Halaplay.

Exhibit 73: RMG top-line to rise 8x in 3 years led by OpenPlay acquisition

Particulars (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Real money gaming revenue	426	138	595	893	1,116
YoY Growth	NM	-67.5%	330.0%	50.0%	25.0%
EBITDA	(347)	(58)	30	54	78
EBITDA margin	NM	NM	5.0%	6.0%	7.0%

Source: Company, PL

PAT to grow at 96% CAGR over FY21-24E

We expect PAT CAGR of 96% over FY21-FY24E backed by steady margin expansion in Kiddopia and Freemium business. Further, we expect A&P spends as a percentage of sales to decline from 50% in FY21 to 48% in FY24E as:

- Acceptability of Kiddopia is expected to rise with passage of time (will result in lower marketing spends & word of mouth publicity would help)
- Lower spends in Freemium business (focus on IAPs via improving game settings) and
- Increasing awareness towards Esports in India (results in lower publicity spends).

Valuation

Nazara is a hyper growth business model with a repository of IPs across segments. The entire gaming network has been created by acquisitions, a model which is difficult to successfully replicate, in our view. Management's focus to pursue further inorganic opportunities creates additional growth optionality.

Nazara is India's only listed gaming company (no peer comparison possible) having a scalable business model. Further, given that focus is on maximizing growth rather than profits, earnings based multiples hold little relevance. While a cursory look at global gaming companies reveals Nazara trades at higher valuations, we believe the premium is justified given better growth prospects in India (India's mobile gaming industry is expected to grow at 38% CAGR over the next 3 years in comparison with 9%/10% CAGR for China/US).

Exhibit 74: Peer analysis of global gaming companies

Particulars	Revenue (US\$ mn)			EBITDA (US\$ mn)			PAT (US\$ mn)			P/E (x)			EV/Sales (x)			EV/EBITDA (x)		
	CY20	CY21E	CY22E	CY20	CY21E	CY22E	CY20	CY21E	CY22E	CY20	CY21E	CY22E	CY20	CY21E	CY22E	CY20	CY21E	CY22E
Tencent holdings	69,938	89,616	1,07,024	32,830	31,035	35,825	23,191	23,774	25,663	26.0	25.4	23.5	9.0	7.0	5.9	19.1	20.2	17.5
Activision Blizzard	8,086	8,831	9,891	3,255	3,844	4,450	2,197	2,696	3,101	29.2	23.8	20.7	7.2	6.6	5.9	1.8	1.9	1.6
Ubisoft Entertainment *	1,772	2,595	2,756	622	1,106	1,144	-140	120	268	(56.8)	65.9	29.6	4.6	3.2	3.0	13.2	7.4	7.2
Electronic Arts*	5,537	5,629	7,495	1,665	1,314	2,610	3,039	837	814	13.6	49.4	50.8	7.2	7.1	5.3	23.9	30.3	15.3
International Games Sysytem	286	415	515	147	213	257	116	173	213	15.1	10.2	8.3	5.0	3.5	2.8	9.9	6.8	5.6
NetEase	10,688	13,477	15,673	2,611	2,941	3,568	1,750	2,356	2,780	37.4	27.7	23.5	5.2	4.1	3.6	21.4	19.0	15.7
Zynga	1,974	2,818	3,106	-206	660	777	-429	-103	116	(22.5)	(93.8)	83.1	4.9	3.4	3.1	(46.8)	14.6	12.4
Rovio Entertainment	311	327	350	69	50	54	37	30	34	17.8	22.1	19.3	1.8	1.7	1.6	8.2	11.3	10.3
Ten Square games SA	148	183	210	45	56	67	39	58	63	25.4	17.2	15.6	6.2	5.0	4.4	20.4	16.3	13.6
Average										9.5	16.4	30.5	5.7	4.6	3.9	7.9	14.2	11.0

Source: Bloomberg, PL *FY ends in March. Note: Tencent and NetEase are not outright gaming companies but business conglomerates

Considering gaming industry is nascent in India (penetration of 30% while China/US have penetration of 50%/66%) with favorable population demographics (Gen Z & millennials constitute ~65% of population mix) that offers huge long term potential, we believe DCF is an ideal tool to value the company. Further, as the focus is on growth, near term profitability can be erratic and volatile making relative valuation tools inappropriate.

We expect 32% revenue CAGR over the next 5 years (deemed as hyper growth period) after which we expect growth to stabilize at 16% CAGR over the next 5 years (deemed as moderate growth period). Further, we expect average EBITDA margin of 15% over the next 5 years. Assuming a terminal growth of 6% and WACC of 10%, we arrive at DCF value of Rs2,342 per share. Initiate 'BUY'.

Exhibit 75: DCF cash flow assumptions

Particulars	Rs mn
PV of Cash flow	66,409
Less: Debt	-
Add: Cash	3,724
Add: Investment	1,060
Net Asset Value	71,193
No of shares	30
Per share value (Rs)	2,342

Source: PL

Exhibit 76: DCF valuation assumptions

Equity Risk Premium	7.8%
Risk Free Rate	6.2%
Cost of Equity	9.7%
Debt to Capital ratio	0%
WACC	9.7%
Perpetual growth rate	6.0%

Source: PL

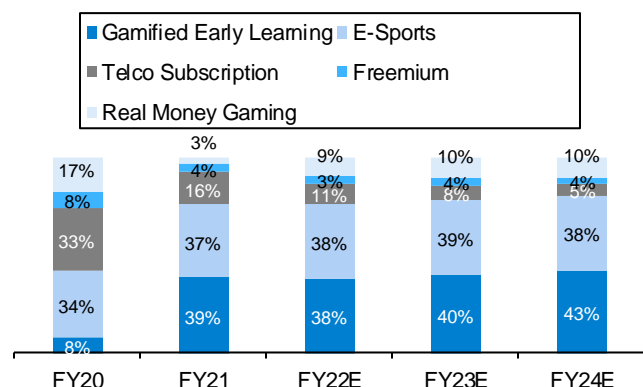
Exhibit 77: Cumulative FCFF to be at Rs22.2bn over 10 years

Particulars (Rs mn)	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
EBIT	97.6	579.5	714.2	1,047.4	1,700.6	2,585.1	3,179.2	3,803.1	4,469.7	5,128.5	5,865.4
Less: Taxes	17.9	156.5	178.5	261.8	425.2	646.3	794.8	950.8	1,117.4	1,282.1	1,466.3
NOPLAT	79.7	423.0	535.6	785.5	1,275.5	1,938.8	2,384.4	2,852.3	3,352.3	3,846.4	4,399.0
Add: Depreciation	354.8	365.9	399.3	448.1	524.0	612.6	687.2	767.5	883.2	966.2	1,056.9
Less: Capex	31.8	31.4	234.5	246.0	274.0	440.9	508.6	576.4	587.2	699.9	713.3
Less: Changes in working capital	(185.9)	352.2	324.0	299.1	266.5	188.1	42.5	(2.3)	206.4	395.7	(112.5)
FCFF	588.6	405.3	376.4	688.4	1,259.0	1,922.4	2,520.4	3,045.7	3,441.9	3,717.0	4,855.2

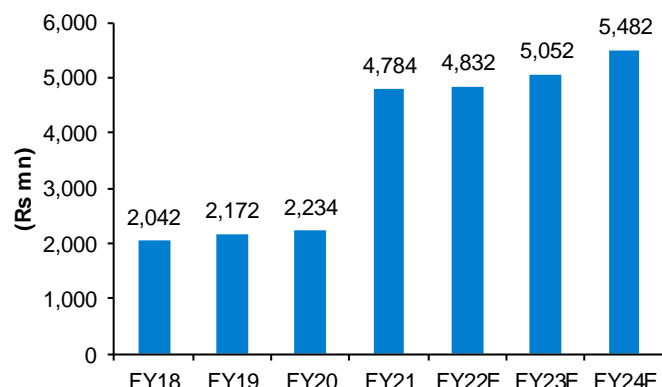
Source: Company, PL

Story in Charts

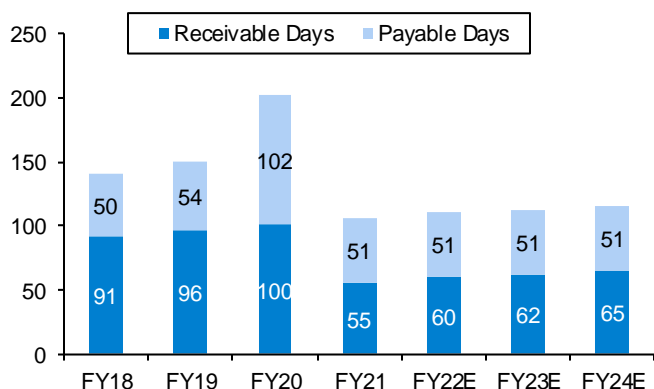
Financial snapshot

Exhibit 78: Esports & Kiddopia to form 81% of sales in FY24E


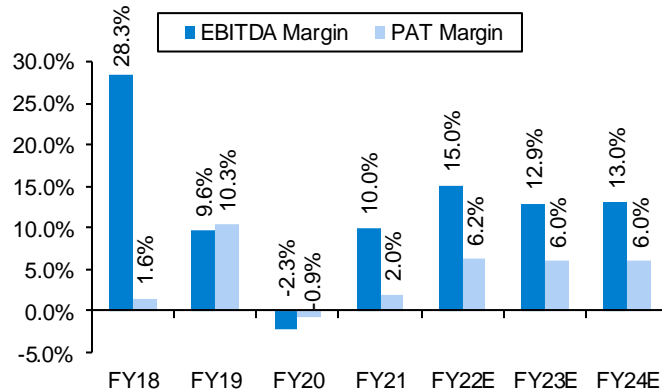
Source: Company, PL

Exhibit 79: Cash balance to be at Rs5.4bn in FY24E


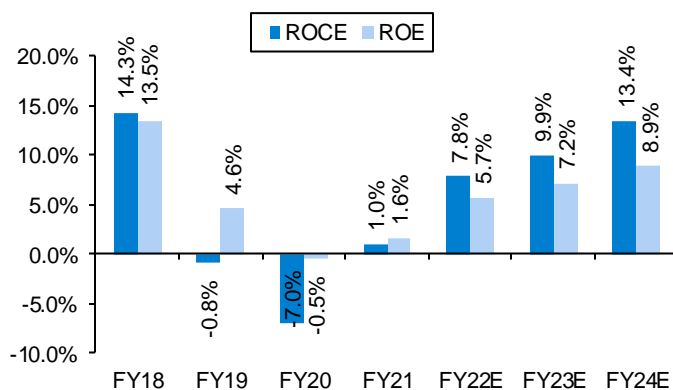
Source: Company, PL

Exhibit 80: Gaming has no inventory & lean working capital


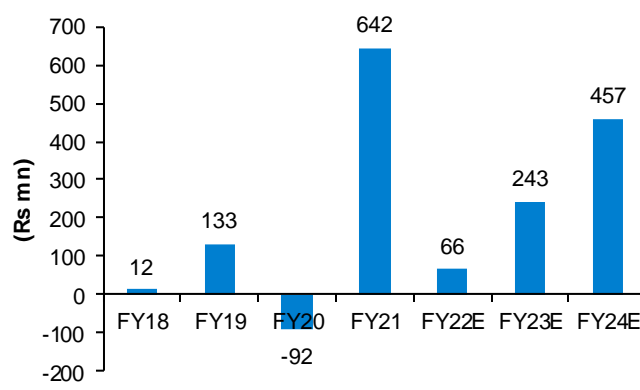
Source: Company, PL

Exhibit 81: EBITDA/PAT margins to expand over next 3 years


Source: Company, PL

Exhibit 82: RoE/RoCE to expand over next 3 years


Source: Company, PL

Exhibit 83: FCFF to be at Rs457mn in FY24E


Source: Company, PL Note: FCFF is calculated after reducing RoU & intangibles apart from routine PPE capex and hence figures won't match with Exhibit 77.

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	4,542	6,289	8,635	11,509
YoY gr. (%)	83.5	38.5	37.3	33.3
Employee Cost	487	597	734	863
Other Expenses	313	434	613	829
EBITDA	452	945	1,113	1,495
YoY gr. (%)	(899.0)	109.0	17.8	34.3
Margin (%)	10.0	15.0	12.9	13.0
Depreciation and Amortization	355	366	399	448
EBIT	57	532	714	1,047
Margin (%)	1.2	8.5	8.3	9.1
Net Interest	9	9	9	10
Other Income	143	220	259	311
Profit Before Tax	191	742	964	1,348
Margin (%)	4.2	11.6	11.2	11.7
Total Tax	31	199	241	337
Effective tax rate (%)	16.1	26.6	25.0	25.0
Profit after tax	160	543	723	1,011
Minority interest	44	149	204	317
Share Profit from Associate	(24)	(5)	-	-
Adjusted PAT	92	389	519	695
YoY gr. (%)	(533.9)	321.0	33.4	33.9
Margin (%)	2.0	6.2	6.0	6.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	92	389	519	695
YoY gr. (%)	(533.9)	321.0	33.4	33.9
Margin (%)	2.0	6.2	6.0	6.0
Other Comprehensive Income	(47)	30	-	-
Total Comprehensive Income	46	419	519	695
Equity Shares O/s (m)	30	30	30	30
EPS (Rs)	3.0	12.8	17.0	22.8

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	2,138	2,440	2,754	3,090
Tangibles	221	322	437	573
Intangibles	1,917	2,117	2,317	2,517
Acc: Dep / Amortization	860	1,226	1,625	2,073
Tangibles	182	263	350	449
Intangibles	678	963	1,275	1,624
Net fixed assets	1,278	1,214	1,129	1,017
Tangibles	39	60	86	124
Intangibles	1,239	1,154	1,042	893
Capital Work In Progress	24	24	24	24
Goodwill	1,684	1,684	1,684	1,684
Non-Current Investments	168	178	200	225
Net Deferred tax assets	(214)	(226)	(268)	(299)
Other Non-Current Assets	215	275	370	472
Current Assets				
Investments	1,060	1,060	1,060	1,060
Inventories	-	-	-	-
Trade receivables	686	1,034	1,467	2,050
Cash & Bank Balance	3,724	3,772	3,992	4,422
Other Current Assets	307	440	518	575
Total Assets	10,227	10,971	12,041	13,429
Equity				
Equity Share Capital	122	122	122	122
Other Equity	6,460	6,849	7,368	8,062
Total Network	6,582	6,971	7,489	8,184
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	35	41	56	75
Other non current liabilities	2	2	2	2
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	640	879	1,206	1,608
Other current liabilities	1,496	1,583	1,729	1,944
Total Equity & Liabilities	10,227	10,971	12,041	13,429

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	167	389	519	695
Add. Depreciation	355	366	399	448
Add. Interest	4	9	9	10
Less Financial Other Income	143	220	259	311
Add. Other	1	(287)	(264)	(178)
Op. profit before WC changes	527	477	663	975
Net Changes-WC	306	(110)	(105)	(181)
Direct tax	(160)	-	-	-
Net cash from Op. activities	674	367	558	793
Capital expenditures	(354)	(301)	(315)	(336)
Interest / Dividend Income	40	-	-	-
Others	(2,361)	(9)	(14)	(17)
Net Cash from Invt. activities	(2,675)	(310)	(329)	(353)
Issue of share cap. / premium	2,228	-	-	-
Debt changes	(53)	-	-	-
Dividend paid	-	-	-	-
Interest paid	(4)	(9)	(9)	(10)
Others	-	-	-	-
Net cash from Fin. activities	2,171	(9)	(9)	(10)
Net change in cash	169	48	220	430
Free Cash Flow	642	66	243	457

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	3.0	12.8	17.0	22.8
CEPS	14.7	24.8	30.1	37.5
BVPS	216.1	228.9	245.9	268.7
FCF	21.1	2.2	8.0	15.0
DPS	-	-	-	-
Return Ratio(%)				
RoCE	1.0	7.8	9.9	13.4
ROIC	4.7	20.0	24.6	33.4
RoE	1.6	5.7	7.2	8.9
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.7)	(0.7)	(0.7)
Net Working Capital (Days)	-	-	-	-
Valuation(x)				
PER	591.4	140.5	105.3	78.7
P/B	8.3	7.8	7.3	6.7
P/CEPS	122.2	72.4	59.5	47.8
EV/EBITDA	110.2	52.7	44.5	32.9
EV/Sales	11.0	7.9	5.7	4.3
Dividend Yield (%)	-	-	-	-

Source: Company Data, PL Research

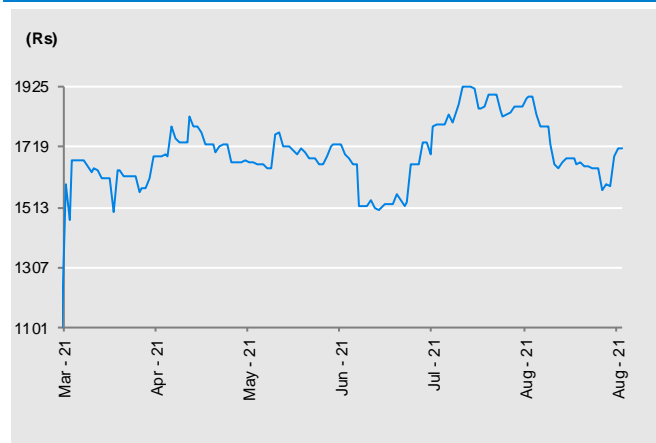
Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22
Net Revenue	1,304	1,234	1,312
YoY gr. (%)	-	41.7	45.0
EBITDA	273	118	301
YoY gr. (%)	-	2,399.6	(324.6)
Margin (%)	21.0	9.5	22.9
Depreciation / Depletion	115	75	84
EBIT	141	20	169
Margin (%)	10.8	1.6	12.9
Net Interest	3	1	2
Other Income	56	22	49
Profit before Tax	194	40	216
Margin (%)	14.9	3.3	16.5
Total Tax	13	(7)	76
Effective tax rate (%)	6.7	(18.0)	35.2
Profit after Tax	181	48	140
Minority interest	77	11	82
Share Profit from Associates	(2)	(6)	(5)
Adjusted PAT	102	32	53
YoY gr. (%)	-	(195.6)	(119.0)
Margin (%)	7.8	2.6	4.0
Extra Ord. Income / (Exp)	-	-	-
Reported PAT	102	32	53
YoY gr. (%)	-	(195.6)	(119.0)
Margin (%)	7.8	2.6	4.0
Other Comprehensive Income	(12)	8	30
Total Comprehensive Income	90	40	83
Avg. Shares O/s (m)	30	30	30
EPS (Rs)	3.4	1.0	1.7

Source: Company Data, PL Research

Notes

Notes

Price Chart

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Dish TV India	NR	-	74
2	Entertainment Network (India)	Hold	214	199
3	Indian Railway Catering and Tourism Corporation	Hold	2,654	2,661
4	Inox Leisure	BUY	380	316
5	Music Broadcast	Hold	24	25
6	Navneet Education	Accumulate	111	102
7	PVR	BUY	1,625	1,400
8	S Chand and Company	BUY	147	121
9	V.I.P. Industries	BUY	457	386
10	Zee Entertainment Enterprises	BUY	253	197

PL's Recommendation Nomenclature

Buy	: >15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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