

Nearly 40% upside seen in Nykaa stock in 1 year

Management's bullish commentary, profit outlook to aid shares: Experts

NIKITA VASHIST New Delhi, 19 June

Shares of FSN e-commerce Ventures, the parent company of Nykaa, zoomed nearly 5 per cent during intraday trade on Monday as most brokerages reiterated their 'buy' calls on the stock, after the firm's 2023 Investor Day.

The stock eventually settled 4 per cent higher at ₹150.45 apiece on the BSE against a 0.34 per cent dip in the BSE Sensex. Brokerages forecast up to 39.5 per cent upside from the current levels over the next one year. So far in 2023, the shares of the new-age company have declined nearly 3 per cent on the bourses. This is against the 3.8 per cent rally in the benchmark 30-pack index. The shares are still 19.8 per cent lower than their issue price of ₹187.50 (adjusted for 5:1 bonus issue in November 2022).

According to analysts, the stock could rerate as growth in the beauty and personal care (BPC) segment remains stable. But the level of competition and cash flow generation will be the key monitorables.

During its Investor Day on June 16, Nykaa's management said that the BPC business remains on a healthy growth trajectory. Fashion business will sharpen its focus on private labels and customer stickiness will eventually drive lower marketing costs. And new verticals, driven by SuperStore (eB2B), will require continued investments to achieve scale. "Unorganised retail was worth \$59 billion in FY22, forming the largest part of the BPC market. In the last 18 months, eB2B has progressed, with nearly 152,000 on-boarded retailers as of March 2023. Nykaa seeks to not only target kiranas but also specialty retailers. This is reflected in 60 per cent of revenues coming from non-kirana retailers. Further, semi-served tier 2+ retailers are the main targets set for Nykaa, which formed 84 per cent of the eB2B business," the management said.

NOT MERE COSMETIC CHANGES

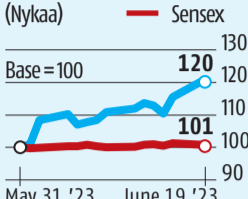
Balancing growth and margin expansion

Table with 5 columns: Particulars, FY23, FY24E, FY25E, FY26E. Rows include Net sales, Ebitda, Ebitda margin, Adjusted net profit.

*Earnings before interest, taxes, depreciation and amortisation Source: Company data, JM Financial

PROSPERING IN JUNE

FSNE-Commerce Ventures (Nykaa) Sensex



WHAT THE BROKERAGES SAY

MACQUARIE

MAINTAINS UNDERPERFORM TP: ₹115

Given no tangible medium-term growth/profitability targets, along with concerns around capital-intensive growth, the brokerage chose to maintain its underperform rating.

JEFFERIES

MAINTAINS BUY TP: ₹200

The brokerage retained its stance seeking comfort from the management's bullish commentary, hopes of a premiumisation trend working in favour of the company, and healthy profit outlook.

ELARA CAPITAL

MAINTAINS BUY TP: ₹210

Nykaa aspires to achieve revenue growth ahead of the industry average. We estimate revenue CAGR of 25.8 per cent in the online BPC segment, led by intensifying competition, near-to-medium term. Nykaa is also approaching the end of its peak investment cycle.

Nykaa's core BPC segment is trading at a fair 63x FY25 P/E, just 25 per cent higher than traditional BPC peer valuations.

We expect steady valuation re-rating in BPC, led by strong earnings CAGR of 38

*Target price

per cent in FY-E. Any improved visibility for Ebitda break-even or profit in the fashion business may aid share price performance.

JM FINANCIAL

MAINTAINS BUY TP: ₹210

We believe that Nykaa's segments can grow at multiples of base industry growth rates with substantial margin expansion opportunity driven by higher BPC/fashion consumption per capita and premiumisation.

With India's GDP per capita expected to reach \$5,500 by 2030, average BPC/fashion spends per capita may touch \$50/160 from \$15/54 in 2022.

Moreover, Nykaa aims to capture a more niche segment of the fashion market with higher average order value (AOV) while becoming a preferred partner for brands to launch new season styles.

KOTAK INSTITUTIONAL EQUITIES

MAINTAINS BUY TP: ₹210

Nykaa incurred Rs 250 crore of losses in FY23 from fashion and the new verticals (eB2B, Nykaa Man). We believe this can go down to Rs 210 crore in FY25 as channel economics improve.



Want to hedge against risky bets? Invest in current SGB tranche

But keep a 5-year horizon; choose gold ETFs if you wish to exit sooner

BINDISHA SARANG

Series I of the Sovereign Gold Bond Scheme (SGB) 2023-24 is open for subscription from June 19 until June 23, 2023. This tranche is being sold for ₹5,926 per gram, with a discount of ₹50 available to online subscribers.

Positive outlook

Gold, which has historically served as a hedge against inflation and other economic concerns, has delivered a compound annual growth rate (CAGR) of 9.5 per cent over the past 15 years, 7 per cent over 10 years, and 13 per cent over five years.

Vijay Kuppa, chief executive officer (CEO), InCred Money, says, "Gold also acts as a hedge for your equity portfolio as investors tend to move towards this safe-haven asset during recessionary scenarios and geopolitical tensions." In other words, gold tends to outperform during periods of risk aversion.

Gold's price has also received support from buying by central banks in the past year on account of growing concerns about the economic risks in the United States, whose currency, the dollar, serves as the world's reserve currency. Kuppa says, "This buying spree could continue so long as recession and geopolitical risks are present."

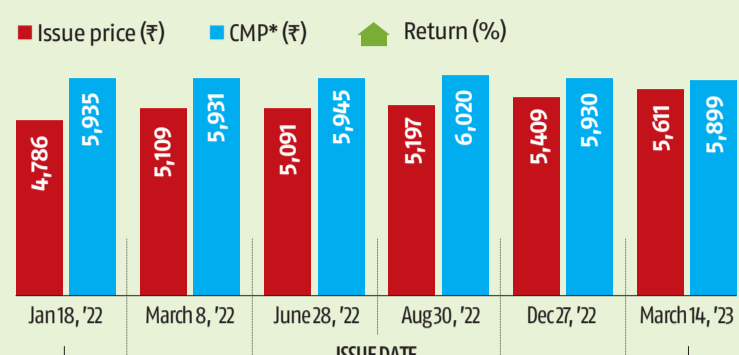
No issuer or purity risk

Since SGBs are issued by the Reserve Bank of India (RBI) on behalf of the government of India, there is no issuer risk. Investors also don't have to deal with purity-related concerns.

Col. Sanjeev Govila (Retd), a Securities and Exchange Board of India or Sebi-registered investment advisor and chief executive officer (CEO), Hum Fauji Initiatives, a financial planning firm, says, "SGBs are held in dematerialised form, so customers don't have to bear storage or security concerns either."

These bonds offer investors a return kicker. Govila adds, "They offer 2.5 per cent interest per year payable semi-annually. In addition, the price the investor gets on maturity is at par with gold's prevailing market price."

HANDSOME RETURNS FROM RECENT TRANCHES



*Current market price; Each unit of SGB is equivalent to one gram of gold. Compiled by BS Research Bureau Source: Bloomberg, exchange, RBI

Investors also enjoy tax benefits on these bonds. "Investors who hold them till maturity are exempted from taxation of capital gains," says Govila.

Low on liquidity

SGBs, however, come with a minimum lock-in period of five years. Dilshad Billimoria, board member, Association of Registered Investment Advisors, says, "After five years one can exit on the date of coupon payment."

These bonds are also listed on the exchanges. Investors can exit them anytime by selling their holdings on the exchanges. But they may have to sell them at a discount if liquidity is poor.

Investors must complete the full tenure of eight years if they want the capital gains tax benefit. Returns from SGBs are not guaranteed but depend on the prevailing market price.

Who should invest?

SGBs are suited for long-term investors willing to hold on to them for at least five years. Exchange-traded funds (ETFs) are better suited for investors with shorter horizons. Pankaj Shrestha, head invest-

ment services, Prabhudas Lilladher, says, "Investors with a short investment horizon and a preference for investing in tranches can consider gold ETFs due to their flexibility and liquidity. Gold ETFs don't have a lock-in, allowing investors to buy and sell units in real time during market hours." Shrestha adds that SGBs have become more attractive after the withdrawal of long-term capital gains (LTCG) benefit from gold ETFs and gold mutual funds, starting from April 1, 2023.

Kuppa says, "Indexation benefit is provided on long-term capital gains (when units are sold after three years) arising from the transfer of bonds. These benefits are not there in the case of other forms of gold investment."

Things to keep in mind

The price you get if you exit via the stock exchange is the market price for 999-purity gold, adjusted for demand-supply. Govila says, "This price will be influenced by the trading pattern at that time." While gold must be a part of your portfolio, you should avoid over-exposure. Billimoria says, "While SGBs are among the best ways to allocate to gold, investors should ensure that allocation to gold doesn't exceed 5-10 per cent of their total portfolio."

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VEDANTA LIMITED. NOTICE OF THE 58th ANNUAL GENERAL MEETING AND E-VOTING. Notice is hereby given that the 58th Annual General Meeting ("AGM/Meeting") of the Members of the Company is scheduled to be held on Wednesday, July 12, 2023 at 3:00 p.m.

देशविदेश

दृष्टिकोण

रांचीच्या प्रमुखपदी रवी सिन्हांची नियुक्ती

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समान नागरी लाजा जमिनात विरोध

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पुण्यात पिस्तुलाचा धाक दाखवून पत्नीवर अत्याचार

पुण्यात पिस्तुलाचा धाक दाखवून पत्नीवर अत्याचार. पुण्यात पिस्तुलाचा धाक दाखवून पत्नीवर अत्याचार...

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वेदांता लिमिटेड

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