

BROKER'S CALL

JM FINANCIAL Nykaa (Buy)

Target: ₹2,120

CMP: ₹1,370

The recent market turmoil in tech stocks has also engulfed Nykaa with concerns arising over future growth and profitability

While the company is likely to face newer challenges to tackle and opportunities to explore in a post-Covid world (finally?), data trends and Nykaa's strategic choices provide us with the confidence to believe that the company is positioned perfectly to sustain its profitable growth trajectory. Nykaa's Q3-FY22 GMV grew 29 per cent and 17 per cent QoQ in BPC and Fashion, respectively, raising concerns that growth in Fashion has started to taper off already. However, it needs to be understood that, unlike BPC, the Fashion vertical doesn't see as much seasonality and even 17 per cent q-o-q growth implies 119 per cent y-o-y growth. For comparison, Nykaa's Fashion GMV grew 14 per cent q-o-q in Q2-FY22 while growing 236 per cent y-o-y in 9M-FY22. Nykaa remains a differentiated player with its focus on 3 Cs - Content, Curation and Convenience - creating a rapidly growing and loyal consumer base. The company's unique solutions to consumers' and brands' pain-points create long-term stickiness that is likely to endure Nykaa's dominance in BPC while creating a niche positioning in Fashion. The recent share price correction provides an extremely encouraging risk-reward and we reiterate our 'Buy' rating with a March 2023 target price of ₹2,120.