Market snapshot

Equities - India	Close	Chg .%	CYTD.%
Sensex	71,658	0.4	17.3
Nifty-50	21,619	0.3	19.0
Nifty-M 100	47,107	0.3	49.1
Equities-Global	**Close**	**Chg .%**	**CYTD.%**
S&P 500	4,783	0.6	23.9
Nasdaq	14,970	0.8	42.0
FTSE 100	7,652	-0.4	3.1
DAX	16,690	0.0	19.9
Hang Seng	5,421	-0.5	-18.7
Nikkei 225	34,442	2.0	29.4
Commodities	**Close**	**Chg .%**	**CYTD.%**
Brent (US$/Bbl)	79	-0.3	-3.0
Gold ($/OZ)	2,024	-0.3	11.3
Cu (US$/MT)	8,269	0.1	-1.2
Almn (US$/MT)	2,188	-0.7	-6.2
Currency	**Close**	**Chg .%**	**CYTD.%**
USD/INR	83.0	-0.1	0.5
USD/EUR	1.1	0.4	2.1
USD/JPY	145.8	0.9	10.2
YIELD (%)	**Close**	**1MChg**	**CYTD chg**
10 Yrs G-Sec	7.2	-0.01	-0.1
10 Yrs AAA Corp	7.6	-0.01	-0.1
Flows (USD b)	**10-Jan**	**MTD**	**CY23YTD**
FIIs	-0.2	6.82	21.4
DIIs	0.25	1.80	22.3
Volumes (INRb)	**10-Jan**	**MTD***	**YTD***
Cash	1,044	1069	1069
F&O	6,18,769	4,10,092	4,10,092

Note: Flows, MTD includes provisional numbers.
*Average

Today's top research idea

Metro Brands: Adding feet's to the marathon

❖ The discretionary category has seen weak demand trends in the last few quarters, but METRO has continued to post industry-leading growth, led by steady footprint expansion.

❖ In the near term we see risk of growth moderation, losses in Fila and moderation in margins in the near term, but we expect the company to deliver secular 20% growth over the next five years.

❖ METRO has an opportunity to leverage Fila and Foot Locker to potentially generate INR15-20b in sales in the next three to five years, garnering about ~50% of consol. revenue with ~20% pre Ind-AS EBITDAM and ~15% PAT margin.

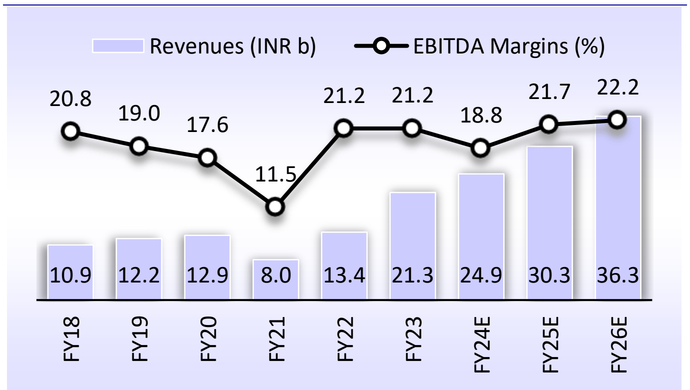
❖ It enjoys high RoIC of +50%, led by efficient store economics and working capital. We estimate revenue/PAT CAGR of 21%/31% over FY24-26E lead by healthy store additions and recovery in SSSG.

Research covered

Cos/Sector	Key Highlights
Metro Brands	Adding feet's to the marathon
Atul	Atul commences commercial production of caustic soda
Healthcare	Ozempic, Wegovy, at risk due to multiple lawsuits
EcoScope	Short-term impact of General Elections on the markets and economic indicators

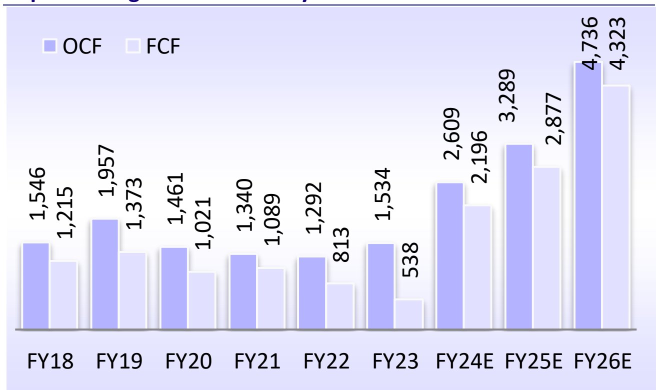
Chart of the Day: Metro Brands (Adding feet's to the marathon)

Expect revenue/EBITDA (pre Ind-AS 116) to grow at 20%/30% CAGR over FY24-26E



Source: MOFSL, Company

Expect cash generation to stay robust



Source: MOFSL, Company

Research Team (Gautam.Duggad@MotilalOswal.com)

In the news today

Kindly click on textbox for the detailed news link

1

SpiceJet shareholders approve plan to raise funds via issue of shares, warrants

The shareholders' nod comes a month after the budget carrier's board agreed to the proposal to raise Rs 2,250 crore by issuing up to 130 million convertible warrants and 320 million fresh equity shares

2

Retail inflation may have hit 4-month high of 5.9% in December on low-base effect

While CPI inflation is seen rising for the second consecutive month, economists expect industrial growth slowing down to an eight-month low of 3.5 percent in November

3

Maruti in discussion with Gujarat govt for land parcel for new plant: RC Bhargava

In an interaction with PTI, Bhargava said the auto major has inked an MoU with the Gujarat government for expanding business in the state.

4

Private capex has been very good, says Tata Power MD

According to Tata Power's Managing Director and Chief Executive Officer Praveer Sinh, the private sector is investing in new opportunities and technologies like artificial intelligence, sustainability, renewable energy and semiconductor technologies

5

Reliance Jio's Hathway, Hinduja arm in race to acquire Siti Networks

Siti Networks Limited is a multi-system operator and wired broadband service provider. It has a network of more than 33,000 kilometres of optical fibre and coaxial cable

6

Value retail to be a $170 billion market in India by 2026

The key to value retail in India lies in accessible pricing across essential categories, targeting the mass, economy, and mid-economy segments

7

NCLAT rejects Union Bank’s plea to oppose Darwin Platform Group’s bid for Lavasa Corp

The public sector lender contended for maximisation of the assets and submitted if a fresh process and fresh valuation were done, Lavasa Corporation would achieve more value.

MOTILAL OSWAL | MORNING INDIA

TOP PICK 2024

11 January 2024

Update | Sector: Retail

Metro Brands

BSE SENSEX	S&P CNX
71,658	21,619

metro BRANDS

Bloomberg	METROBRA IN
Equity Shares (m)	272
M.Cap.(INRb)/(USDb)	342.5 / 4.1
52-Week Range (INR)	1441 / 736
1, 6, 12 Rel. Per (%)	-6/14/27
12M Avg Val (INR M)	188

Financials &Valuations (INR b)

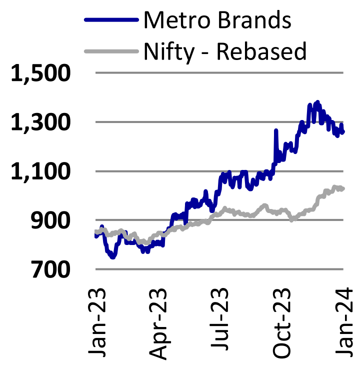
Y/E March	FY23	FY24E	FY25E
Sales	21.3	24.9	30.3
EBITDA	6.8	7.4	9.7
Adj. PAT	3.6	3.6	5.0
EBITDA Margin (%)	31.9	29.8	32.0
Adj. EPS (INR)	13.3	13.3	18.5
EPS Gr. (%)	70.7	0.4	38.7
BV/Sh. (INR)	58.3	66.9	78.8
Ratios			
Net D:E	0.2	0.2	0.2
RoE (%)	25.7	21.8	26.0
RoCE (%)	18.4	15.4	17.6
Payout (%)	37.4	37.2	37.2
Valuations			
P/E (x)	94.8	94.4	68.1
EV/EBITDA (x)	51.5	47.3	36.2
EV/Sales (X)	16.4	14.1	11.6
Div. Yield (%)	0.4	0.4	0.5
FCF Yield (%)	0.8	1.4	1.7

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	74.2	74.2	74.3
DII	6.1	5.7	4.7
FII	2.3	2.6	3.3
Others	17.5	17.5	17.7

FII Includes depository receipts

Stock's performance (one-year)



CMP: INR1,260 TP: INR1,530 (+21%) Buy

Adding feet's to the marathon

Fila and Foot Locker to add next leg of growth

Strong execution

The discretionary category has seen weak demand trends in the last few quarters, but METRO has continued to post industry-leading growth, led by steady footprint expansion. Although it could face moderation in SSSG and margin rebase in the near term, we expect the company to deliver secular 20% growth over the next five years, driven by its strong execution prowess evident from superlative store economics, a huge runway of footprint addition, excellent cashflow and ROIC profile, and new brand additions.

Steady store economics

METRO has a history of robust store economics with 2x revenue productivity (~INR25k revenue per sq. ft.) vs. Bata. It generates store-level EBITDA margin of ~25%, which results in a superior payback period of less than two years. The right store size, a wide product portfolio (with upcoming Fila and Foot Locker), and premiumization (2x ASP vs. Bata) help METRO achieve healthy store economics.

Huge footprint growth opportunity with internal accruals

METRO is expected to generate strong OCF (pre Ind-AS 116) of INR6b over FY24-25E, which can enable the company to fund the addition of over 250 stores per year. Moreover, its robust store economics, the addition of new formats in the pipeline (Fila and Foot Locker), and its 10-year track record of consistent store additions give us enough confidence in its ability to drive growth from internal accruals. With the addition of Fila and Foot Locker, the company has enabled seven formats to drive scale. Metro Brands has 795 stores across 5 formats in 189 cities against Bata's has around 2,150 stores in 725 cities, highlighting the huge growth potential ahead. We factor 21% revenue CAGR over FY24-26E led by 13% footprint CAGR.

Tapping growth through new brands

Fila and Foot Locker offers new growth engines. While Fila, in the near term, plans to focus on re-energizing its business by clearing the inventory. In the next three to five years, both brands could see about 400-500 store additions similar to the top sportswear brands in India, like Puma, Adidas, and Sketchers. With average revenue per store of INR20-30m (similar to Metro stores), both brands could garner about INR8-10b revenue from EBOs, online and other channels. Thus, METRO has an opportunity to leverage both brands in India to potentially generate INR15-20b in sales in the next three to five years, garnering about 50% of consol. revenue with ~20% pre Ind-AS EBITDA margin and ~15% PAT margin.

Valuation

METRO trades at rich valuations, at P/E of 55x on FY26 estimates, backed by: 1) a strong runway for growth, largely funded through internal sources, given its strong OCF-to-EBITDA ratio of over 50%; and b) superior store economics reflected in the balance sheet and a healthy RoIC of +50%. We believe the incremental opportunity in Fila and Foot Locker can further accelerate growth for METRO, which is not captured in the valuation. We factor in 21%/26% growth in revenue/EBITDA for FY24-26E and assign, PE of 60x on FY26E PAT of METRO's existing portfolio.

We have not factored Fila and Foot Locker earnings, but we believe they have revenue potential of INR15-20b over the next 3-5 years (i.e. 30-40% share of Metro). Since both the brands are at initial stage of investing, we value Fila/Foot Locker at a ~75% discount to the potential value which creates an option value of INR160 (Exhibit 2), thus arriving at a valuation of INR1,530 per share.

Valuation on FY26E

(INR/share)	Mar'26
EPS (INR)	23
Target P/E (x)	60
Target price for Metro Brands	**1,370**
Add: Option value for Fila/Foot Locker (Exhibit 2)	160
Target price for Metro Brands including option value	**1,530**
CMP	1,260
Upside (%)	21%

Source: MOFSL

Option value for Fila and Foot Locker

INRb	in next 3-5 years
Foot Locker revenue	10
Fila	10
Incremental revenue	20
PAT margin	14.5
PAT	2.9
Target P/E	15x
Market cap	44
No of shares	272
per share	160

Source: MOFSL

Atul

Atul commences commercial production of caustic soda

- Atul Products Ltd. (APL) has received required approval and licenses and commenced operations of its 300tpd caustic soda plant. It has also commenced a 50MW power plant at the site.
- Atul, the parent company, acquired 100% shares of APL on 13th Mar'21. The company made a total investment of INR10.4b, which was funded through a combination of debt and share capital.
- The project was undertaken to meet the business requirement.

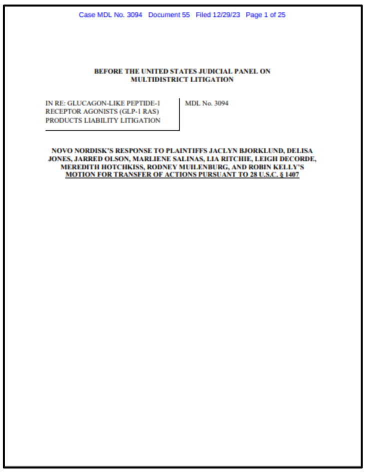
- ATPL is facing short-term challenges due to a global economic slowdown and overvaluation as a commodity chemical firm. We expect ongoing earnings fluctuations to continue for the company.
- The stock is trading at 46.4x FY25E EPS of INR154.1 and 27.6x FY25E EV/EBITDA. We value the stock at 40x Dec'25E EPS to arrive at our TP of INR7,025. We maintain our Neutral rating on the stock.
- The upside risk could be a faster-than-expected ramp-up of new projects and products. Downside risks include weaker-than-expected revenue growth and margin compression.

ATLP financial summary

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Sales	40.4	40.9	37.3	50.8	54.3	46.7	51.8	57.2
EBITDA	7.7	9.0	9.2	9.1	7.7	5.7	7.7	9.2
PAT	4.3	6.6	6.5	5.9	5.0	3.1	4.5	5.4
EPS (INR)	143.9	223.2	218.0	198.7	169.0	106.2	154.1	182.8
EPS Gr. (%)	56.2	55.2	-2.3	-8.8	-15.0	-37.2	45.1	18.7
BV/Sh.(INR)	921.8	1,065.5	1,292.3	1,495.8	1,581.9	1,677.1	1,813.0	1,973.4
Ratios								
Net D:E	0.0	0.0	(0.1)	0.0	-0.0	0.0	0.0	0.0
RoE (%)	17.1	22.5	18.5	14.3	11.0	6.5	8.8	9.7
RoCE (%)	16.0	21.2	17.7	13.7	10.5	6.5	8.5	9.2
Payout (%)	9.1	16.7	8.9	12.2	14.6	15.0	15.0	15.0
Valuations								
P/E (x)	49.7	32.0	32.8	36.0	42.3	67.3	46.4	39.1
P/BV (x)	7.8	6.7	5.5	4.8	4.5	4.3	3.9	3.6
EV/EBITDA (x)	27.7	23.5	22.8	23.3	27.2	37.0	27.6	23.0
Div. Yield (%)	0.2	0.5	0.3	0.3	0.3	0.2	0.3	0.4
FCF Yield (%)	0.9	2.4	1.9	(1.7)	-0.8	0.1	-0.5	1.0

Source: MOFSL, Company

Healthcare


Case MDL No. 3094 Document 55 Filed 12/29/23 Page 1 of 25

BEFORE THE UNITED STATES JUDICIAL PANEL ON MULTIDISTRICT LITIGATION

IN RE: GLUCAGON-LIKE PEPTIDE-1 RECEPTOR AGONISTS (GLP-1 RAS) PRODUCTS LIABILITY LITIGATION

MDL No. 3094

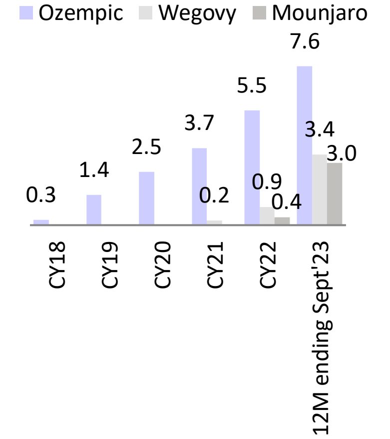
NOVO NORDISK'S RESPONSE TO PLAINTIFFS JACLYN BJORKLUND, DELISA JONES, JARRED OLSON, MARLIENE SALINAS, LIA RITCHIE, LEIGH DECORDE, MEREDITH HOTCHKISS, RODNEY MUILENBURG, AND ROBIN KELLY'S MOTION FOR TRANSFER OF ACTIONS PURSUANT TO 28 U.S.C. § 1407

Ozempic, Wegovy, at risk due to multiple lawsuits

Effectively raises concern on CDMO opportunity for manufacturing these drugs

- **With the growing sales of Glucagon-like peptide-1 (GLP-1) class of drugs, there has been increased prospects for contract manufacturing opportunities. The increasing number of indications (diabetes/weight loss) has boosted the demand for these drugs.**
- **However, there has been a significant increase in the number of litigations against the innovators (Novo Nordisk) for inadequate warnings about serious side-effects, especially while promoting weight loss. This raises concerns on the outlook of these drugs and subsequent CDMO opportunities.**
- **The US Judicial panel on multi-district litigation (JPML) has scheduled arguments on 25th Jan'24 to determine whether Multi-district litigation (MDL) can be established so that the lawsuits related to Ozempic/Wegovy can be centralized for pre-trial proceedings.**
- **Thereby, we remain cautious of the CDMO business opportunities for Indian pharma companies.**

GLP-1 sales in US has seen a sharp rise (USDb)

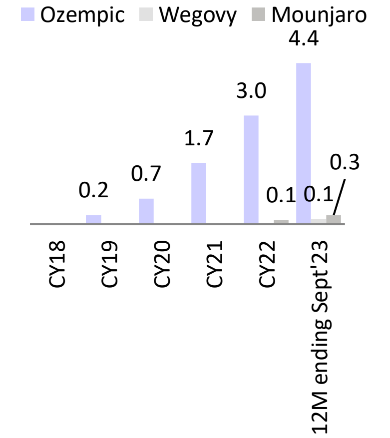


Source: MOFSL, Company

Significant surge in sales of GLP-1 class of drugs over the past three years

- The GLP-1 class of drugs has shown promising outcomes in treating type-2 diabetes. Particularly, Novo Nordisk introduced Ozempic (semaglutide) in early -CY18 to the US market for the treatment of type-2 diabetes. In just six years, the Ozempic global sales has reached USD12b (12M ending Sep'23). Further, given the effectiveness of Semaglutide for weight loss, Novo Nordisk has promoted it as an **off-label** drug under the 'Wegovy' brand. It was launched in Jun'21 and since then has garnered a global revenue to the tune of USD3.5b (12M ending Sep'23). Conceptually, the new class of medication (GLP-1) operates by delaying gastric emptying, promoting feelings of fullness, and encouraging users to eat less. Recently, USFDA approved Zepbound (tirzepatide) in Nov'23, a weight loss drug from Eli Lilly.

Ozempic sales have seen strong rise in ROW market (USDb)



Source: MOFSL, Company

Inadequate warnings of side-effects have led to multi-district litigation on Ozempic/Wegovy

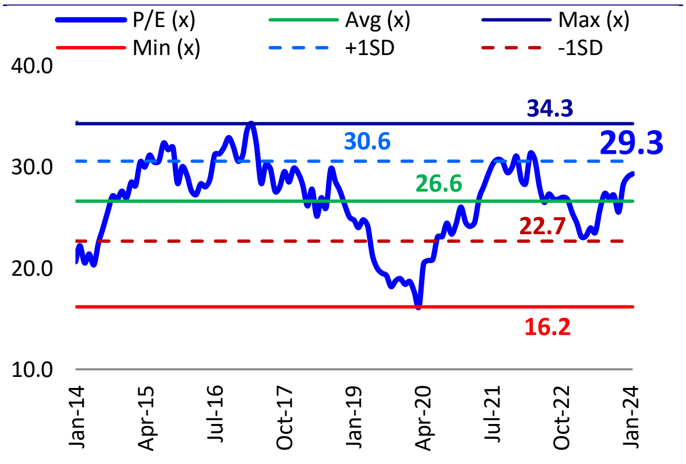
- There are certain long-term side-effects, which have raised concerns on the usage of these drugs for weight loss. USFDA, in its latest quarterly report on Adverse events (**FAERS**), has highlighted the correlation between the usage of GLP-1 class of drugs to incidents of suicide/suicide ideation, alopecia, and aspiration.
- The report indicated that USFDA has received 201 reports related to suicide/suicide ideation across GLP-1 set of drugs over 3M ending Sep'23. The agency is evaluating the need for a regulatory action.
- Further, USFDA also received 422 reports of alopecia over 3M ending Sep'23. Some of these reports are associated with stomach paralysis (Gastroparesis), which is believed to have been caused by the drugs' mechanism of action, which delays emptying of the stomach. Even European regulators are conducting investigations into the potential risks related to the consumption of Ozempic/Wegovy.

- Notably, Novo Nordisk reached a settlement regarding the misrepresentation of a USFDA warning about the risks associated with its then top-selling drug 'Victoza' to doctors/patients in CY17. The settlement led to a penalty payment of USD59m by Novo Nordisk.
- Interestingly, Novo Nordisk has indicated about the priority review status granted by the USFDA for its application of Wegovy as a treatment for reducing the risk of cardiovascular diseases.

Litigation outcome against innovator may reduce the scope of business for CDMO companies

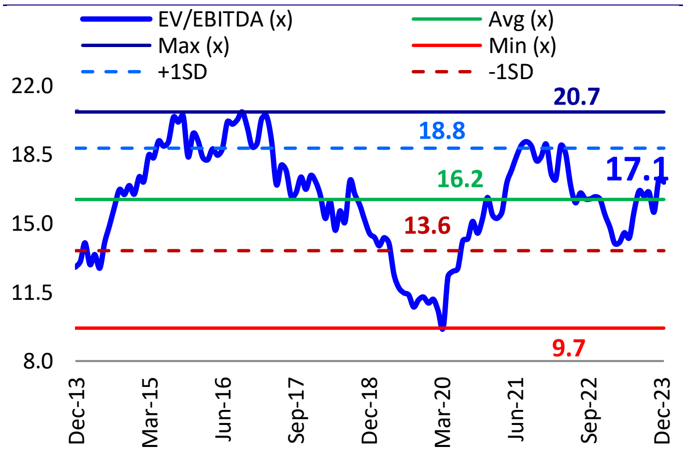
- With increased focus of innovators on marketing/promotional activities for blockbuster drugs and enhanced efforts toward developing drugs for unmet needs, the CDMO opportunity continues to expand significantly.
- Particularly within the GLP-1 class of drugs, there has been a substantial surge in demand due to their promising efficacy in treating type-2 diabetes and their additional indication related to weight loss.
- Further, given that these are peptide drugs (complex to manufacture), the CDMO opportunity could be limited to a few companies globally. **Based on our interaction with industry experts, companies such as DIVI, BIOS, and DRRD in the listed space have the capability to be present in entire/part of the manufacturing value chain**.
- However, the rising number of litigation on inadequate warnings about severe side-effects during weight loss promotions may not only jeopardize the product's potential at a global level but also the impact the opportunities for CDMOs.

P/E chart



Source: MOFSL, Company, Bloomberg

EV/EBITDA chart



Source: MOFSL, Company, Bloomberg

Short-term impact of General Elections on the markets and economic indicators

It is difficult to find a strong connection between them

The countdown begins in earnest: India prepares to hold its 18th Lok Sabha elections in Apr-May'24. General elections are assumed to have wide-ranging consequences, affecting not only the political and economic landscape but also the financial markets. In this note, we focus on the short-term impact of general elections on four broad parameters: 1) financial markets, 2) monetary variables, 3) fiscal parameters, and 4) indicators related to the rural economy. For most of our analysis, we consider data from the past five elections (i.e., 1999, 2004, 2009, 2014 and 2019) and analyze the changes in these indicators pre- and post-elections, i.e., six months before and after the election results. Overall, the benchmark large-cap equity market index (Nifty50) has increased both before and after the elections, with lower 10-year bond yield during most election periods and no uniform trends in the currency. Further, we find it difficult to establish any uniform patterns in monetary or fiscal variables vis-à-vis election years. Within the rural sector indicators, MSP hikes tend to be higher in the year before elections, but other indicators do not show any connection.

Impact on financial markets before and after elections:

- What are the typical behaviors of different financial markets before and after election results are announced? In this section, we provide answers using data on the equity market (Nifty-50 index), 10-yr bond yield, Indian Rupee vs. US Dollar (INR/USD), and foreign portfolio investment (FPI) flows. Broadly speaking, equity markets (and FPI equity flows) appear to grow in the six-month period before and after results, with lower yields in the majority of election periods and stronger/weaker INR/USD in the pre-/post-result periods during the last two elections.
- An analysis of the past five general elections suggests that the stock market (using point-to-point data) has exhibited higher returns in the run-up to elections, and while there are immediate fluctuations post-election results, the equity market totally absorbs them over time *(Exhibit 1)*. Nifty-50, a benchmark index of India's large-cap listed companies, has grown between 7% and 36% in the run-up (i.e., six months prior) to general elections since 1999, with an average growth of 21% during the last five elections. In the quarter following the election results, markets fell twice (in 2004 and 2019); however, they moved into the growth territory within the subsequent quarter (i.e., six months after the election results), with an average growth of 14% during the past five elections. The trends are broadly similar for the mid-cap and small-cap indices as well.
- A similar analysis for the benchmark 10-year government bond yield reveals that the yield fell four times in the last five pre-election periods (except in 2004), with an average decline of 40bp (one bp is one-hundredth of a percentage point – pp). Unlike the Nifty-50, the movements in the post-result period gain strength over time but do not change direction. For instance, the bond yield fell in three of the past five post-result periods (except in 2004 and 2009). The fall in yields in 1999, 2014 and 2019 in the month following the results exacerbated in three and six months after the results. Similarly, the 10-year yield rose in the month immediately post-results in 2004 and 2009, which increased further in the following three-month and six-month periods *(Exhibit 2)*.
- An analysis of the movements in INR/USD reveals that INR weakened in the pre-election period in 1999; it was broadly stable in 2004 and 2009; while it strengthened in 2014 and 2019 *(Exhibit 3)*. Interestingly though, the INR appeared to strengthen against the USD in the month post-elections every time, except in 2014. Over the next few months (i.e., six months post-results), however, INR strengthened against the USD in 2004 and 2009, while it weakened in 2014 and 2019 (when it had strengthened in the pre-election period). The only uniformity, thus, happens to be that the pre- and post-result movements in the INR/USD are opposite to each other, as confirmed by the past four general elections.
- In line with the trends seen in equity markets, the FPI equity inflows have also been positive during the past five pre- and post-election periods *(Exhibit 4)*. Notably, FPI equity inflows in the post-result six-month period were only 0.2x of the pre-results six-month period in 2019, while they were as much as 8.4x in 2009 (which suffered due to 2008 great financial crisis). Interestingly, the pre-election FPI equity inflows were ~USD10b each in 2014 and 2019, albeit they were notably lower in the post-result period in 2019 (only USD2.4b), compared to 2014 (only USD8.9b). The conclusions are not very different for total (equity + debt) FPI flows *(Exhibit 5)*.

DLF: Gurugram is magnet for higher growth curve; Ashok Tyagi, Whole Time Director

- Gurugram is magnet for higher growth curve, growth in Delhi slightly on conservative side
- Have set full year guidance of Rs. 13k cr sales in 3Q itself
- Will continue to generate FCF from operations on a sustainable basis; expect Rs. 500 – 1,000 cr FCF per quarter
- In the third year of real estate cycle, could sustain for at-least 3-4 years more

Read More

Delta Corp: October-November quarter impacted by higher GST regime; Anil Malani, President

- Oct-Nov quarter impacted by higher GST regime
- There was a slump in revenue as customers had to pay 28% GST upfront on chips
- Hopeful of revival in Q4
- Total claims in terms of GST show cause notices is about Rs. 23k-24k cr
- All cases w.r.t. GST show cause notices will be heard next month
- Q4 revenues will be similar to Q3
- Might pivot to realty business as there are no opportunities to grow casino business in India

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IRB Infra: Toll revenue up on the account of high traffic as well as project addition; Anil Yadav, Director

- Rs. 10k cr worth of orders executable in the next 2-3 years
- Rs. 20-25k cr worth of BOT projects coming up in the next few months
- Dec'23 monthly growth largely due to increased traffic
- Rate revision on April 1 expected from NHAI

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BLS International: Want to dilute 2.4 cr shares in BLS E-Services via an IPO; Shikhar Aggarwal, Director

- See a trend of more foreigners coming to India
- Realisations have increased in Q3
- Want to dilute 2.4cr shares in BLS E-services via an IPO
- See an increase in revenue from the contract in Canada
- Spanish government contract is at an increased service charge

Read More

Yatra Online: Had hoped for a diplomatic resolution to the Maldives matter; Dhruv Shringi, CEO

- Had hoped for a diplomatic resolution to the Maldives matter
- 2.1lk Indians travel to the Maldives which is relatively small vs total outbound tourism
- Lakshwadeep has seen as 30x increase in searches over last 4 days
- Ayodhya will not be a material revenue driver as supply is limited
- Seeing a new circuit being created in UP with Lucknow as base & trips to Ayodhya

Read More

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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