Trent Ltd (TRENT)

CMP: ₹ 1340 | Target: ₹ 1620 (21%) | Target Period: 12 months | **BUY**

August 12, 2022

Result Update

Dual engines of Westside+Zudio to accelerate growth

About the stock: Trent is India's leading retailer with a presence across various consumer categories (550+ stores). Inherent strength of brands (Westside, Zudio, Star, Zara) and accelerated store additions have led Trent to be among the fastest growing companies in our retail coverage universe.

- 'Westside' (72% of revenues) has proven to be one of the most profitable business models as it primarily focuses on selling private label brands (EBITDA margin: 11%, consistent SSSG: 10%+)
- 'Zudio' (28% of sales), the value fashion brand, continues to be the next leg of growth for Trent (revenue CAGR: 72% FY19-22)

Q1FY23 Results: Trent reported a superlative performance with industry best revenue growth and strong beat on almost all parameters (change in useful life of certain stores impacted PAT).

- On a favourable base, sales grew 405% YoY to ₹ 1653 crore (I-direct estimate: ₹ 1302 crore). On a three-year CAGR basis, revenue growth was at 29%, which is the highest among other lifestyle retailers
- Gross margin contraction was higher than anticipated (down 430 bps QoQ to 49.3% vs. I-direct estimate 52.3%). Lower gross margins could be possibly owing to limited price hike in Zudio format as it continues to price products at sharper price points (< ₹ 500) despite significant increase in cotton prices
- EBITDA, in absolute terms, came in much higher than our estimate at ₹ 304.1 crore (I-direct estimate: ₹ 256 crore, three-year CAGR: 23%)

What should investors do? Trent has been an exceptional performer with the stock price appreciating at ~35% CAGR in the last five years.

- Robust performance during challenging times and industry leading performance will continue to warrant premium valuations for Trent. Hence, we maintain our **BUY** rating on the stock

Target Price and Valuation: We value Trent at ₹ 1620 based on SOTP valuation.

Key triggers for future price performance:

- We pencil in 227 store additions between Westside and Zudio for FY23-24E
- Liquidity position remains robust with cash & investments worth ₹ 600+ crore that will enable it to tide over the current situation better than peers
- Zudio continues to be the growth engine for Trent. We expect revenues to grow at a CAGR of 50% in FY22-24E
- In the long run, the company aims to grow its revenue at CAGR of 25%+

Alternate Stock Idea: Apart from Trent, we also like Aditya Birla Fashion & Retail.

- ABFRL has charted out growth strategies to become a ~US$2.8 billion entity (₹ 21000 crore) by FY26E, translating to 15% CAGR in FY20-26E
- BUY with a target price of ₹ 350/share

TRENT LIMITED A TATA ENTERPRISE

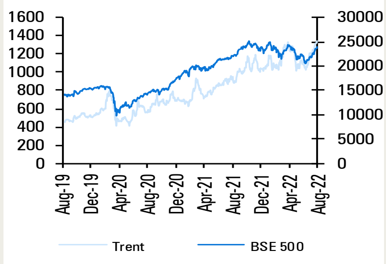
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	39,101.7
Total Debt (Mar-22) (₹ Crore)	497.4
Cash (Mar-22) (₹ Crore)	610.5
EV (₹ Crore)	38,988.6
52 week H/L	1359/ 852
Equity Capital (₹ Crore)	35.5
Face Value (₹)	1.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	37.0	37.0	37.0	37.0	37.0
FII	30.8	30.1	28.9	28.3	26.8
DII	7.8	11.2	12.5	13.4	14.6
Others	24.4	21.7	21.6	21.2	21.6

Price Chart



Recent event & key risks

- Westside reported 24% SSSG over pre-Covid levels (Q1FY20)
- **Key Risk:**(i) Slower ramp up of store network (ii) Re-imposition of lockdown restrictions leading to store closures

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ICICI Securities – Retail Equity Research

Key Financial Summary

Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	2,630.2	3,486.0	2,593.0	4,498.0	20.0%	7,127.4	8,584.5	38.1%
EBITDA	227.7	544.0	171.9	573.9		1,109.7	1,393.3	55.8%
PAT	97.0	122.8	(146.2)	105.8	13.0%	420.6	623.6	
EV/Sales (x)	17.1	13.5	18.2	10.6		6.6	5.5	
EV/EBITDA (x)	197.5	86.6	274.5	82.9		42.7	33.9	
RoCE (%)	10.1	15.9	4.3	14.1		29.4	33.1	
RoE (%)	5.9	5.1	-6.3	4.5		15.7	19.8	

Source: Company, ICICI Direct Research

Key takeaways of the recent quarter

- Trent's Q1FY23 revenue print is a strong beat on our/consensus estimates. Sales on a favourable base grew 405% YoY to ₹ 1653 crore (I-direct estimate: ₹ 1302 crore). On a three-year CAGR basis, revenue growth was at 29%, which is the highest among other lifestyle retailers (215% of pre-Covid levels). The growth was driven by robust store addition trajectory over the last two years. Fashion portfolio now is over 450 stores (Westside & Zudio) vs. ~200 in pre-Covid levels (2x+). The growth was also driven by healthy SSSG for Westside, which was at 24% in Q1FY23 (over Q1FY20). Back of the envelope calculation suggests, Westside to have crossed ₹ 1000 crore quarterly revenue mark for the first time (three year CAGR: ~17%). Also, revenue/sq ft for Westside appears to be significantly higher at ~₹ 13500 (annualised) that is higher than average run-rate of ~₹ 10500. We believe increased ASPs may have also translated into better throughput per store
- Zudio continues to gain market share in the value fashion space with robust growth. It has been the new growth engine for Trent given its scalable business model (one-third size of Westside format) and strong acceptance in Tier II/III cities with sharp price point assortment (ASP < ₹ 500). Zudio stores have multiplied ~6x in the last three years. Subsequently, revenue has also increased ~6x during the same period. As per our calculations, quarterly run-rate for Zudio is close to ₹ 500 crore
- Emerging categories like beauty and personal care, innerwear and home witnessed healthy traction and now contributes ~15% to sales. Online sales for Westside contributed ~6% and continued its healthy growth momentum (up 129% YoY) despite store operations normalising
- On the store addition front, the company added ~11 Zudio stores and four Westside stores. Fashion portfolio is now over 450 stores (Zudio: 246, Westside: 204). The management indicated that new stores added in the last 12 months have shown encouraging performance. This provides management a reason to double down on the growth agenda in the medium term
- Gross margin contraction was higher than anticipated (down 430 bps QoQ to 49.3% vs. I-direct estimate 52.3%). Lower gross margins may be possibly owing to limited price hike in Zudio format as it continues to price products at sharper price points (< ₹ 500) despite significant increase in cotton prices. Subsequently, EBITDA margins came in lower than our estimates at 18.4% (vs. I-direct estimate: 19.5%). However, given the strong beat on topline, EBITDA in absolute terms came in much higher than our estimate at ₹ 304.1 crore (I-direct estimate: ₹ 256 crore, three-year CAGR: 23%)
- The company revisited its estimates with respect to useful life of certain store assets. Consequently, it took a one-off additional depreciation charge in the quarter of ₹ 28 crore (depreciation expense up 40% QoQ). Also higher finance cost (up 22% QoQ) impacted PAT to a certain extent. Ensuing PAT came in at ₹ 103 crore (I-direct estimate: ₹ 106 crore, three year CAGR: 21%)
- The key positive surprise was the company specifically highlighting performance of Star Bazar (50-50 JV), which has witnessed improvement in store economics. The grocery arm of Trent reported its highest ever quarterly revenues in Q1FY23 with an impressive 18% revenue CAGR over Q1FY20. Sharp pricing and focus on fresh and own brands witnessed strong traction. The company expects the division to break even at EBITDA level and become a key growth engine in its portfolio, going forward. Share of profit from associates/JV (which includes Zara and Star Bazar) was at ₹ 34 crore in Q1FY23 vs. loss of ₹ 21 crore in Q1FY22 and ₹ 10 crore in Q4FY22

Trent has, over the years, consistently outperformed peers given the strong brand patronage (Westside, Zudio, Star, Zara) and proven business model (Westside: 100% private label). Healthy beat on the topline front, warrants upward revision to our revenue estimates for FY23-24E. We expect Westside and Zudio format to report revenue CAGR of 25% and 48%, respectively in FY20-24E. Share of Zudio format in standalone revenues to increase to 32% by FY24E. Furthermore, sharp increase in profits in share of associates (Zara and Star Bazar) during the quarter is a key positive and signals emphasis on cost cutting measures and its journey towards improving profitability of the 'Star' format. We build in revenue and EBITDA CAGR of 25% and 27%, respectively, in FY20-24E. Industry leading performance and consistent revenue growth to support premium valuations. We maintain BUY with a revised target price of ₹ 1620 (previous TP: ₹ 1470).\

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	1,652.9	1,302.6	327.3	405.0	1,185.3	39.5	Robust recovery on the back of improved demand and higher operational days in the fashion segment. Westside reported 24% SSSG vs. pre-covid levels
Other Operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Raw Material Expense	837.7	621.3	152.0	451.3	603.0	38.9	
Gross Profit	815.1	681.3	175.3	364.9	582.2	40.0	
Gross Profit Margin	49.3	52.3	53.6	-425 bps	49.1	19 bps	Gross margin contraction was higher than anticipated (down 430 bps QoQ to 49.3% vs. I-direct estimate 52.3%) mainly on account of higher share of Zudio format
Employee exp	115.1	112.0	76.3	50.9	100.7	14.3	
Other Exp	395.9	312.6	130.8	202.6	329.2	20.3	
EBITDA	304.1	256.6	-31.8	LP	152.3	99.6	Given the strong beat on topline, EBITDA in absolute terms came in much higher than our estimate at ₹ 304.1 crore (three-year CAGR: 23%).
EBITDA Margin (%)	18.4	19.7	-9.7	LP	12.9	555 bps	
Depreciation	120.2	85.7	62.2	93.2	80.9	48.6	Company revisited its estimates with respect to useful life of certain store assets and consequently has taken a one-off additional depreciation charge in the quarter of ₹ 28 crore
Other Income	41.5	47.1	52.3	-20.7	102.1	-59.4	Other income in the base quarter included rental waivers worth ₹ 35 crore
Interest	92.5	75.6	68.6	34.9	78.7	17.5	
Exceptional Income	0.0	0.0	0.0		-0.2		
PBT	133.0	142.4	-110.2	LP	94.7	40.4	
Tax Outgo	30.3	35.8	-26.5	-214.5	19.9	52.8	
Minority Interest							
PAT	102.6	106.6	-83.7	LP	74.9	37.1	Three year PAT CAGR: 21%

Source: Company, ICICI Direct Research

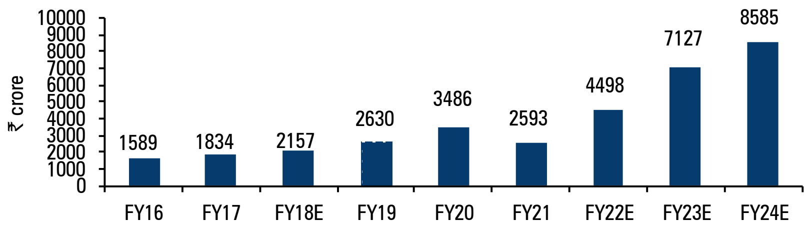
Exhibit 2: Change in estimates

	FY22	FY23E			FY24E		
(₹ Crore)	Actual	Old	New	% Change	Old	New	% Change
Revenue	4,498.0	6,130.0	7,127.4	16.3	7,845.0	8,584.5	9.4
EBITDA	573.9	966.8	1,109.7	14.8	1,289.0	1,393.3	8.1
EBITDA Margin (%)	12.8	15.8	15.6	-20 bps	16.4	16.2	-20 bps
PAT	105.8	360.3	420.6	16.7	566.6	623.6	10.1
EPS (₹)	3.0	10.1	11.8	16.7	15.9	17.5	10.1

Source: Company, ICICI Direct Research

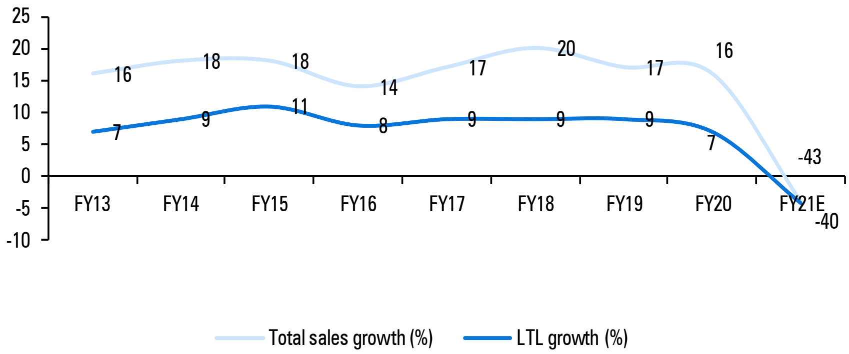
Financial story in charts

Exhibit 3: Revenue trend



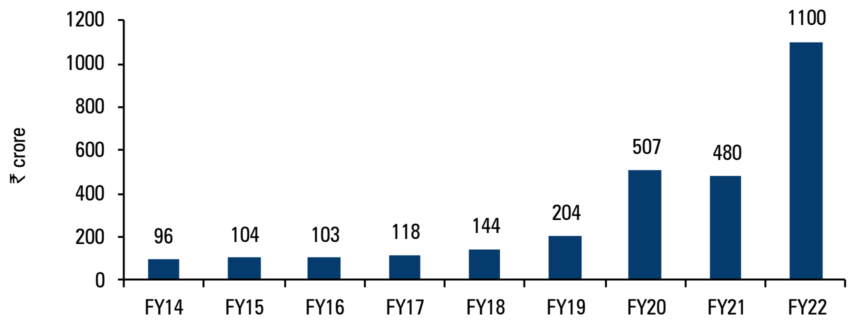
Source: Company, ICICI Direct Research

Exhibit 4: Westside revenue trend and same stores sales growth (SSSG)



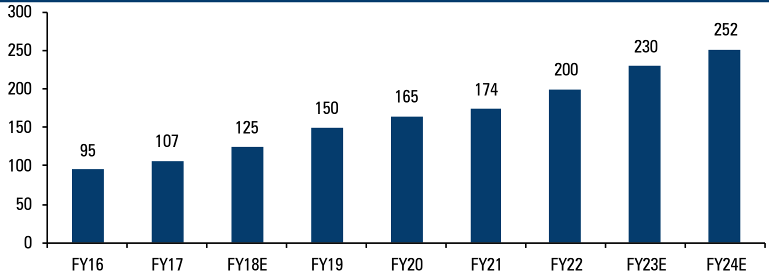
Source: Company, ICICI Direct Research

Exhibit 5: Zudio revenue trend



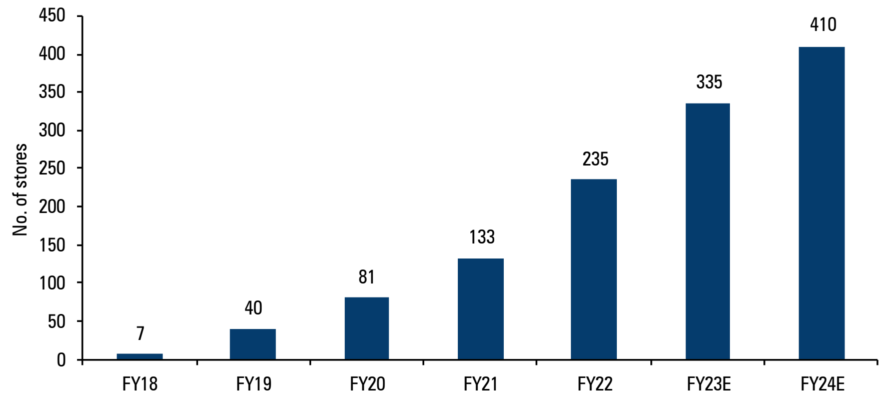
Source: Company, ICICI Direct Research

Exhibit 6: Westside store addition trend



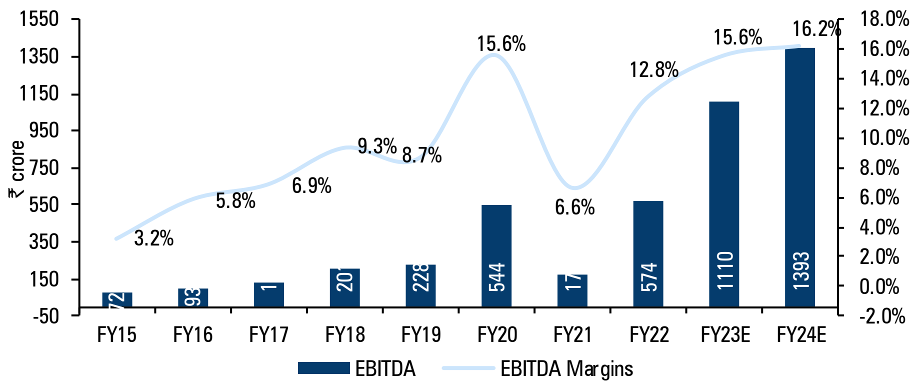
Source: Company, ICICI Direct Research

Exhibit 7: Zudio store addition trend



Source: Company, ICICI Direct Research

Exhibit 8: EBITDA and EBITDA margin trend (post Ind-AS 116)



Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Financial	FY24E (₹ cr)	Target Multiple	EV/Mcap	(₹ cr) Cash	Debt	Targeted Mcap (₹ cr)
Standalone revenues	Sales	7885	6.5x EV/Sales	49673	735	285	50122
Trent Hypermarket Ltd	Sales	931	1.0x Price/Sales	931			931
Trent -Inditex (Zara)	Sales	1261	5x Price/Sales	6305			6305
Booker & Other Subsidiaries	Sales	357	0.5x Price/Sales	179			179
Target Market Cap. (₹ cr)							57536
Target Price (₹)							1620

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement ₹ crore

	FY21	FY22	FY23E	FY24E
Total operating Income	**2,593.0**	**4,498.0**	**7,127.4**	**8,584.5**
Growth (%)	-25.6	73.5	58.5	20.4
Cost of Goods Sold	1,534.0	2,481.5	4,012.7	4,790.2
Gross Margin (%)	**40.8**	**44.8**	**43.7**	**44.2**
Employee Expenses	301.9	399.0	570.2	695.3
Operating & Other Expenses	585.2	1,043.7	1,434.8	1,705.7
Total Operating Expenditure	2,421.1	3,924.2	6,017.7	7,191.3
EBITDA	**171.9**	**573.9**	**1,109.7**	**1,393.3**
Growth (%)	-68.4	233.9	93.4	25.5
Depreciation	257.3	310.8	401.6	434.6
Interest	248.7	304.7	368.2	385.1
Other Income	201.6	175.2	185.3	197.4
PBT	**-133.5**	**106.1**	**525.2**	**771.0**
Share of Profit from JV	-71.4	5.1	16.2	50.2
Total Tax	-23.7	76.6	140.8	213.5
PAT	-181.1	34.6	400.6	607.6
Minority Interest	-35.0	-71.2	-20.0	-16.0
PAT after MI	**-146.2**	**105.8**	**420.6**	**623.6**
Extraordinary item	0.0	0.0	0.0	0.0
Reported PAT	**-146.2**	**105.8**	**420.6**	**623.6**
EPS (₹)	**-4.1**	**3.0**	**11.8**	**17.5**

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after tax	-146.2	105.8	420.6	623.6
Add: Depreciation	257.3	310.8	401.6	434.6
Add: Finance Cost	248.7	304.7	368.2	385.1
(Inc)/dec in Current Assets	215.7	-541.8	-372.2	-370.5
Inc/(dec) in CL and Provisions	-23.2	184.0	174.5	120.0
Others	-99.0	-100.3	0.0	0.0
CF from operating activities	**453.3**	**263.3**	**992.7**	**1,192.9**
(Inc)/dec in Investments	27.7	203.8	91.8	24.4
(Inc)/dec in Fixed Assets	-90.7	-206.7	-220.3	-200.0
Others	-36.0	-17.7	0.0	0.0
CF from investing activities	**-99.0**	**-20.6**	**-128.5**	**-175.6**
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.2	197.5	-196.0	-15.9
Less: Finance Cost & Others	-335.9	-374.2	-565.1	-629.3
Others	0.8	-62.8	-108.1	-151.5
CF from financing activities	**-334.9**	**-239.5**	**-869.2**	**-796.8**
Net Cash flow	19.5	3.2	-4.9	220.5
Opening Cash	61.8	81.3	84.5	79.6
Closing Cash	**81.3**	**84.5**	**79.6**	**300.1**

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet ₹ crore

(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	35.5	35.5	35.5	35.5
Reserve and Surplus	2,277.5	2,328.0	2,643.5	3,111.2
Total Shareholders funds	2,313.0	2,363.5	2,679.0	3,146.7
Total Debt	299.9	497.4	301.4	285.4
Other LT Liabilities	2,677.3	4,246.0	4,044.7	3,804.9
Deferred Tax Liability	-114.5	-126.4	-126.4	-126.4
Minority Interest / Others	44.5	44.5	46.0	46.0
Total Liabilities	**5,220.2**	**7,025.0**	**6,944.7**	**7,156.7**
Assets				
Gross Block	986.0	1,112.1	1,337.1	1,537.1
Less: Acc Depreciation	345.5	387.2	507.5	621.3
Capital WIP	108.0	104.7	100.0	100.0
Total Fixed Assets	748.4	829.7	929.6	1,015.8
Investments	1,515.4	1,311.6	1,219.8	1,195.4
Other Non-current Assets	2,471.28	4,034.72	3,753.42	3,432.56
Goodwill	66.8	69.7	69.7	69.7
Deferred Tax Asset	0.0	0.0	0.0	0.0
Inventory	428.4	867.8	1,171.6	1,458.2
Debtors	20.8	17.9	19.5	23.5
Loans and Advances	156.2	221.5	248.1	277.9
Cash	81.3	84.5	79.6	300.1
Other Current Assets	120.5	160.5	200.6	250.8
Total Current Assets	807.1	1,352.1	1,719.4	2,310.4
Creditors	274.6	378.0	604.7	695.6
Other Current Liab. & Prov.	114.2	194.7	142.5	171.7
Total Current Liabilities	388.8	572.7	747.2	867.3
Net Current Assets	418.4	779.4	972.2	1,443.2
Application of Funds	**5,220.2**	**7,025.0**	**6,944.7**	**7,156.7**

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios

(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹) (annualised)				
EPS	-4.1	3.0	11.8	17.5
Cash EPS	3.1	11.7	23.1	29.8
BV	65.1	66.5	75.4	88.5
DPS	1.0	1.2	3.0	4.4
Cash Per Share	2.3	2.4	2.2	8.4
Operating Ratios				
EBITDA Margin (%)	6.6	12.8	15.6	16.2
PBT Margin (%)	-5.1	2.4	7.4	9.0
PAT Margin (%)	-5.6	2.4	5.9	7.3
Inventory days	60.3	70.4	60.0	62.0
Debtor days	2.9	1.4	1.0	1.0
Creditor days	38.7	30.7	31.0	29.6
Return Ratios (%)				
RoE	-6.3	4.5	15.7	19.8
RoCE	4.3	14.1	29.4	33.1
RoIC	-9.4	19.3	44.8	52.2
Valuation Ratios (x) (annualised)				
P/E	-	450.1	113.2	76.4
EV / EBITDA	274.5	82.9	42.7	33.9
EV / Net Sales	18.2	10.6	6.6	5.5
Market Cap / Sales	18.4	10.6	6.7	5.5
Price to Book Value	20.6	20.2	17.8	15.1
Solvency Ratios				
Debt/EBITDA	1.7	0.9	0.3	0.2
Debt / Equity	0.1	0.2	0.1	0.1
Current Ratio	2.5	3.1	2.7	2.9
Quick Ratio	1.0	1.0	0.8	0.8

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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