

Yet another quarter of industry outperformance...

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' (70% 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%+)
- The next leg of growth for Trent continues to be from 'Zudio' (30% of sales), the value fashion brand, (revenue CAGR: 72% in FY19-22)

Q2FY23 Results: Trent continues to be the fastest growing apparel company with industry best revenue growth. Revenue compared to pre-Covid levels was at an impressive 220% vs. industry average of 120-135%.

- On a favourable base, sales grew 78% YoY to ₹ 1813.6 crore. On a three-year CAGR basis, revenue growth was at 30%, the highest among other lifestyle retailers
- Gross margins generally tend to be lower in Q2, mainly owing to EOSS (average gross margins in Q2: 46-48%). Q2FY22 was an unusual quarter wherein the company had recorded 52%+ gross margins. Hence, on a significantly high base, gross margins declined 510 bps YoY to 47.0%
- Furthermore, significantly higher opex (up 85% YoY) resulted in EBITDA margins declining 690 bps YoY to 15% (I-direct estimate: 17%). On a three year CAGR basis, EBITDA growth was at an impressive 27%

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 ₹ 1730 based on SOTP valuation.

Key triggers for future price performance:

- We pencil in 240 store additions between Westside and Zudio for FY23-24E
- Liquidity position remains strong with cash & investments worth ₹ 350+ 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 a 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 ₹ 380/share



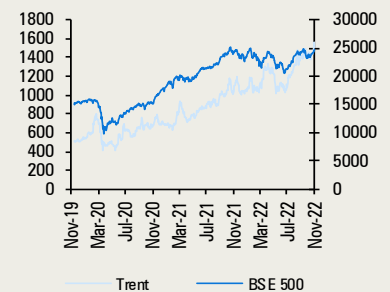
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	52,254.1
Total Debt (Mar-22) (₹ Crore)	497.4
Cash (Mar-22) (₹ Crore)	610.5
EV (₹ Crore)	52,141.0
52 week H/L	1571/ 971
Equity Capital (₹ Crore)	35.5
Face Value (₹)	1.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	37.0	37.0	37.0	37.0	37.0
FII	30.1	28.9	28.3	26.8	25.9
DII	11.2	12.5	13.4	14.6	15.2
Others	21.7	21.6	21.2	21.6	21.9

Price Chart



Recent event & key risks

- Westside reported 20% SSSG over pre-Covid levels (Q2FY20)
- **Key Risk:** (i) Slower store network ramp up, (ii) Lower than expected margins owing to inability to pass on input cost hike

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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%	7,730.9	9,219.5	43.2%
EBITDA	227.7	544.0	171.9	573.9		1,141.9	1,413.4	56.9%
PAT	97.0	122.8	(146.2)	105.8	13.0%	457.2	637.1	
EV/Sales (x)	18.7	14.8	20.0	11.6		6.7	5.6	
EV/EBITDA (x)	216.1	94.9	301.0	90.7		45.5	36.5	
RoCE (%)	10.1	15.9	4.3	14.1		28.6	32.0	
RoE (%)	5.9	5.1	-6.3	4.5		16.9	20.0	

Key takeaways of recent quarter

- Trent's Q2FY23 revenue print is a strong beat on our/consensus estimates. Sales on a favourable base grew 78% YoY to ₹ 1813.6 crore (I-direct estimate: ₹ 1714.3 crore). On a three-year CAGR basis, revenue growth was at 30%, the highest among other lifestyle retailers (220% of pre-Covid levels). The growth is driven by robust store addition trajectory over the last two years. Fashion portfolio now is over 500+ stores (Westside & Zudio) vs. ~220 in pre-Covid levels (2.5x+). Growth was also driven by healthy SSSG for Westside, which was at 20% in Q2FY23 (over Q2FY20). This would partly be driven by price hikes (~8-12%) taken by the company. Back of the envelope calculation suggests, Westside is currently operating at ₹ 5000+ crore annual sales run rate. Also, revenue/sq ft for Westside appears to be significantly higher at ~₹ 14000 (annualised), higher than average run rate of ~₹ 10500
- Inflationary stress has been more acute at the lower end of the fashion value chain (ASPS < ₹ 1000) as demand remains weak. However, Zudio (value fashion player) continues to defy all odds with sustained robust growth. As per our calculations, quarterly revenue for Zudio has crossed ₹ 500 crore quarterly mark, which is ~6x of pre-Covid levels. 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 a sharp price point assortment (ASP < ₹ 500). Zudio stores have multiplied ~5x in the last three years with overall outlets at 286
- Gross margins and EBITDA margins generally tend to be lower in Q2 mainly owing to EOSS (average gross margins in Q2: 46-48%). Q2FY22 was an unusual quarter wherein the company had recorded 52%+ gross margins. Hence, on a significantly high base, gross margins declined 510 bps YoY to 47.0% (I-direct estimate: 47.9%, Q2FY20: 47.8%). Pressure on gross margins could also be possibly owing to limited price hikes taken in Zudio format as it continues to price products at sharper price points (< ₹ 500) despite a significant increase in cotton prices. Furthermore, significantly higher opex (up 85% YoY) resulted in EBITDA margins declining 690 bps YoY to 15% (I-direct estimate: 17%). Absolute EBITDA grew 21% YoY to ₹ 267.5 crore (I-direct estimate: ₹ 296.6 crore, three-year CAGR: 27%)
- 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 their healthy growth momentum (up 32% YoY) despite store operations normalising
- On the store addition front, the company added 51 Zudio stores and 15 Westside stores in H1FY23. The fashion portfolio is now over 500 stores (Zudio: 286, Westside: 215). The management indicated that new stores added in the last 12 months have shown an encouraging performance. This provides the management a reason to double down on the growth agenda in the medium term. The company incurred a capex worth ₹ 195 crore in H1FY23, which is ~3x YoY
- The grocery arm of Trent (Star Bazar, 50-50 JV), continues to witness an improvement in store economics. It reported its highest ever quarterly revenues with an impressive 14% revenue CAGR over Q2FY20. Sharp pricing and focus on fresh and own brands witnessed strong traction. A major key positive was the company recording its highest ever share of profit from associates/JV (that includes Zara and Star Bazar) of ₹ 48 crore in H1FY23 vs. loss of ₹ 11 crore in H1FY22 (FY22: ₹ 5.1 crore). While Zara continues to be the most profitable brand, a material improvement in profitability for Star Bazar may have contributed to higher profits

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 28% and 52%, respectively, in FY20-24E. Share of the Zudio format in standalone revenues is expected to increase to 33% by FY24E. Furthermore, a sharp increase in profits in share of associates (Zara, Star Bazar) during H1FY23 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 29% 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 ₹ 1730 (earlier TP: ₹ 1665).

Exhibit 1: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	1,813.6	1,714.3	1,020.4	77.7	1,652.9	9.7	Robust recovery on the back of improved demand and higher store additions in the fashion segment. Westside reported 20% SSSG vs. pre-covid levels
Other Operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Raw Material Expense	961.9	893.2	488.7	96.8	837.7	14.8	
Gross Profit	851.7	821.2	531.8	60.2	815.1	4.5	
Gross Profit Margin	47.0	47.9	52.1	-515 bps	49.3	-235 bps	Gross margin contraction was higher than anticipated (down 515 bps YoY to 47% vs. I-direct estimate 47.9%) mainly on account of higher share of Zudio format
Employee exp	148.1	120.0	76.2	94.3	115.1	28.6	
Other Exp	436.1	404.6	234.3	86.2	395.9	10.2	
EBITDA	267.5	296.6	221.3	20.9	304.1	-12.0	three-year CAGR: 27%
EBITDA Margin (%)	14.8	17.3	21.7	-693 bps	18.4	-365 bps	
Depreciation	104.3	116.6	66.6	56.6	120.2	-13.2	
Other Income	168.0	49.8	94.9	77.1	41.5	304.8	Other income includes dividend received from subsidiary
Interest	88.0	95.2	72.6	21.2	92.5	-4.8	
Exceptional Income	0.0	0.0	-13.0		0.0		
PBT	243.2	134.6	163.9	48.4	133.0	82.9	
Tax Outgo	57.4	33.9	38.3	49.8	30.3	89.2	
Minority Interest							
PAT	185.9	100.7	125.6	47.9	102.6	81.1	Three year PAT CAGR: 40% (adjusting for other income)

Source: Company, ICICI Direct Research

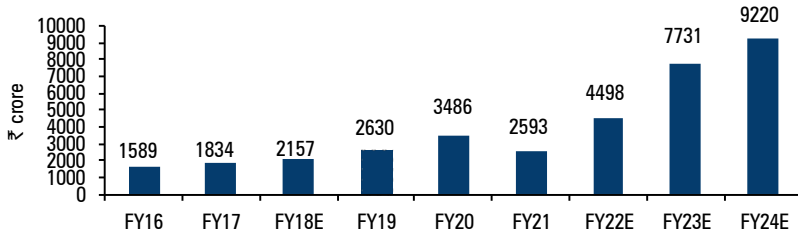
Exhibit 2: Change in estimates

(₹ Crore)	FY22	FY23E			FY24E		
	Actual	Old	New	% Change	Old	New	% Change
Revenue	4,498.0	7,127.4	7,730.9	8.5	8,584.5	9,219.5	7.4
EBITDA	573.9	1,109.7	1,141.9	2.9	1,393.3	1,413.4	1.4
EBITDA Margin (%)	12.8	15.6	14.8	-80 bps	16.2	15.3	-90 bps
PAT	105.8	420.6	457.2	8.7	623.6	637.1	2.2
EPS (₹)	3.0	11.8	12.9	8.6	17.5	17.9	2.2

Source: Company, ICICI Direct Research

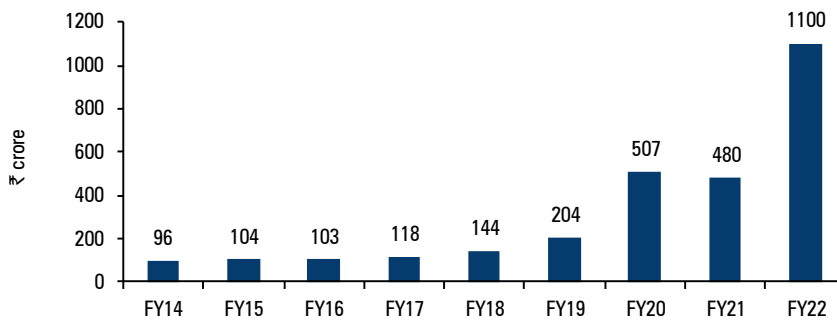
Financial story in charts

Exhibit 3: Revenue trend



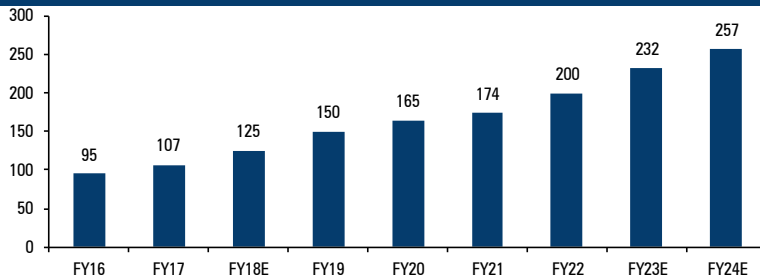
Source: Company, ICICI Direct Research

Exhibit 4: Zudio revenue trend



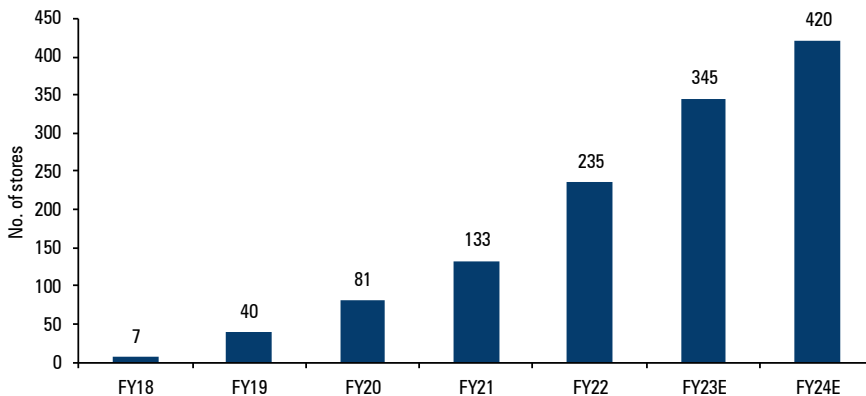
Source: Company, ICICI Direct Research

Exhibit 5: Westside store addition trend



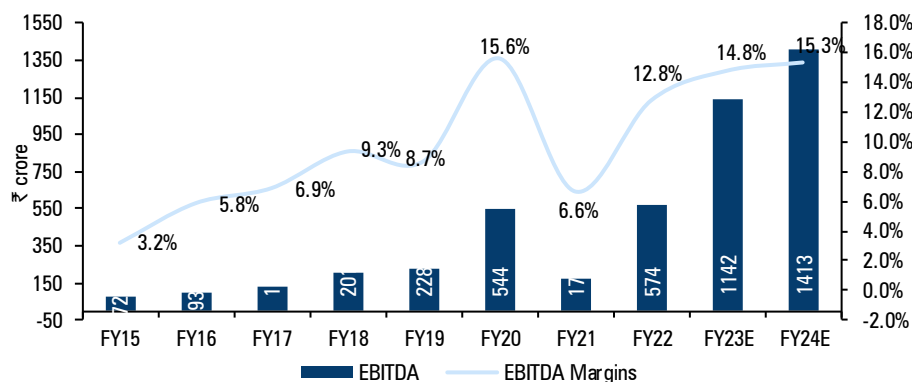
Source: Company, ICICI Direct Research

Exhibit 6: Zudio store addition trend



Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and EBITDA margin trend (post Ind-AS 116)



Source: Company, ICICI Direct Research

Exhibit 8: Valuation

	Financial	FY24E (₹ cr)	Target Multiple	EV/Mcap	(₹ cr) Cash	Debt	Targeted Mcap (₹ cr)
Standalone revenues	Sales	8520	6.3x EV/Sales	53673	894	285	54282
Trent Hypermarket Ltd	Sales	1039	1.0x Price/Sales	1039			1039
Trent -Inditex (Zara)	Sales	1261	5x Price/Sales	6179			6179
Booker & Other Subsidiaries	Sales	357	0.5x Price/Sales	179			179
Target Market Cap. (₹ cr)							61678
Target Price (₹)							1730

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 9: Profit and loss statement		₹ crore			
	FY21	FY22	FY23E	FY24E	
Total operating Income	2,593.0	4,498.0	7,730.9	9,219.5	
Growth (%)	-25.6	73.5	71.9	19.3	
Cost of Goods Sold	1,534.0	2,481.5	4,275.2	5,043.1	
Gross Margin (%)	40.8	44.8	44.7	45.3	
Employee Expenses	301.9	399.0	618.5	719.1	
Operating & Other Expenses	585.2	1,043.7	1,695.4	2,044.0	
Total Operating Expenditure	2,421.1	3,924.2	6,589.0	7,806.2	
EBITDA	171.9	573.9	1,141.9	1,413.4	
Growth (%)	-68.4	233.9	99.0	23.8	
Depreciation	257.3	310.8	464.1	496.3	
Interest	248.7	304.7	351.3	364.0	
Other Income	201.6	175.2	201.0	212.0	
PBT	-133.5	106.1	527.4	765.1	
Share of Profit from JV	-71.4	5.1	63.4	74.2	
Total Tax	-23.7	76.6	153.6	218.2	
PAT	-181.1	34.6	437.2	621.1	
Minority Interest	-35.0	-71.2	-20.0	-16.0	
PAT after MI	-146.2	105.8	457.2	637.1	
Extraordinary item	0.0	0.0	0.0	0.0	
Reported PAT	-146.2	105.8	457.2	637.1	
EPS (₹)	-4.1	3.0	12.9	17.9	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement		₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E	
Profit after tax	-146.2	105.8	457.2	637.1	
Add: Depreciation	257.3	310.8	464.1	496.3	
Add: Finance Cost	248.7	304.7	351.3	364.0	
(Inc)/dec in Current Assets	215.7	-541.8	-684.9	-293.7	
Inc/(dec) in CL and Provisions	-23.2	184.0	226.1	117.9	
Others	-99.0	-100.3	0.0	0.0	
CF from operating activities	453.3	263.3	813.8	1,321.5	
(Inc)/dec in Investments	27.7	203.8	196.7	22.3	
(Inc)/dec in Fixed Assets	-90.7	-206.7	-305.3	-200.0	
Others	-36.0	-17.7	0.0	0.0	
CF from investing activities	-99.0	-20.6	-108.5	-177.7	
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	-436.8	-529.5	
Others	0.8	-62.8	-117.2	-154.9	
CF from financing activities	-334.9	-239.5	-750.0	-700.3	
Net Cash flow	19.5	3.2	-44.7	443.5	
Opening Cash	61.8	81.3	84.5	39.7	
Closing Cash	81.3	84.5	39.7	483.2	

Source: Company, ICICI Direct Research

Exhibit 11: 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	2,670.9	3,148.7	
Total Shareholders funds	2,313.0	2,363.5	2,706.4	3,184.3	
Total Debt	299.9	497.4	301.4	285.4	
Other LT Liabilities	2,677.3	4,246.0	4,156.1	3,995.0	
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	7,083.5	7,384.3	
Assets					
Gross Block	986.0	1,112.1	1,422.1	1,622.1	
Less: Acc Depreciation	345.5	387.2	543.6	705.8	
Capital WIP	108.0	104.7	100.0	100.0	
Total Fixed Assets	748.4	829.7	978.5	1,016.3	
Investments	1,515.4	1,311.6	1,114.8	1,092.5	
Other Non-current Assets	2,471.28	4,034.72	3,727.05	3,393.00	
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	1,482.6	1,692.4	
Debtors	20.8	17.9	21.2	25.3	
Loans and Advances	156.2	221.5	248.1	277.9	
Cash	81.3	84.5	39.7	483.2	
Other Current Assets	120.5	160.5	200.6	250.8	
Total Current Assets	807.1	1,352.1	1,992.2	2,729.5	
Creditors	274.6	378.0	644.2	732.3	
Other Current Liab. & Prov.	114.2	194.7	154.6	184.4	
Total Current Liabilities	388.8	572.7	798.8	916.7	
Net Current Assets	418.4	779.4	1,193.4	1,812.8	
Application of Funds	5,220.2	7,025.0	7,083.5	7,384.3	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					
(Year-end March)	FY21	FY22	FY23E	FY24E	
Per share data (₹) (annualised)					
EPS	-4.1	3.0	12.9	17.9	
Cash EPS	3.1	11.7	25.9	31.9	
BV	65.1	66.5	76.1	89.6	
DPS	1.0	1.2	3.2	4.5	
Cash Per Share	2.3	2.4	1.1	13.6	
Operating Ratios					
EBITDA Margin (%)	6.6	12.8	14.8	15.3	
PBT Margin (%)	-5.1	2.4	6.8	8.3	
PAT Margin (%)	-5.6	2.4	5.9	6.9	
Inventory days	60.3	70.4	70.0	67.0	
Debtor days	2.9	1.4	1.0	1.0	
Creditor days	38.7	30.7	30.4	29.0	
Return Ratios (%)					
RoE	-6.3	4.5	16.9	20.0	
RoCE	4.3	14.1	28.6	32.0	
RoC	-9.4	19.3	38.7	51.1	
Valuation Ratios (x) (annualised)					
P/E	-	493.1	114.1	81.9	
EV / EBITDA	301.0	90.7	45.5	36.5	
EV / Net Sales	20.0	11.6	6.7	5.6	
Market Cap / Sales	20.1	11.6	6.7	5.7	
Price to Book Value	22.6	22.1	19.3	16.4	
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	3.0	3.1	
Quick Ratio	1.0	1.0	0.7	0.8	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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