

Zudio: Game changer for Trent!

About the stock: Trent is India's leading retailer with a presence across various consumer categories (600+ stores). Inherent strength of brands (Westside, Zudio, Star, Zara) and accelerated store additions has 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%+)
- 'Zudio' (30% of sales), the value fashion brand, continues to be the next leg of growth for Trent (revenue CAGR: 72% FY19-22)

Q3FY23 Results: Trent reported superlative sales number with growth beating our/consensus estimates. Acceptance of Zudio as a value fashion brand has been a game changer for Trent leading to fastest growing apparel company in India.

- On a slightly favourable base, revenue grew 61% YoY to ₹ 2171 crore. On a three-year CAGR basis, revenue growth was at an impressive 36%, which is the highest among other lifestyle retailers
- Gross margins for the quarter declined 590 bps YoY to 45.4% (I-direct estimate: 49%) possibly on account of a sharp rise in share of Zudio format (yields lower gross margins but has superior asset turn)
- Higher opex cost on account of new store openings resulted in EBITDA margins declining 620 bps YoY to 15.5%. Despite lower than anticipated margins, absolute EBITDA was at ₹ 336 crore (I-direct estimate: ₹ 337 crore) with three-year CAGR of 25%

What should investors do? Trent has been an exceptional performer with stock price appreciating at ~33% CAGR in the last five years.

- Robust performance during challenging times and industry leading growth 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 250 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 59% CAGR in FY20-24E
- In the long run, the company aims to grow its revenue at 25%+ CAGR

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 ₹ 340/share

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%	8,130.9	9,526.4	45.5%
EBITDA	227.7	544.0	171.9	573.9		1,152.1	1,460.4	59.5%
PAT	97.0	122.8	(146.2)	105.8	13.0%	500.4	676.5	
EV/Sales (x)	17.1	13.5	18.2	10.6		5.8	4.9	
EV/EBITDA (x)	197.5	86.6	274.5	82.8		41.2	32.2	
RoCE (%)	10.1	15.9	4.3	14.1		29.0	32.7	
RoE (%)	5.9	5.1	-6.3	4.5		18.3	20.8	



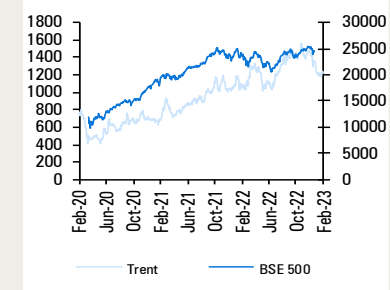
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	47,633.0
Total Debt (Mar-22) (₹ Crore)	497.4
Cash (Mar-22) (₹ Crore)	610.5
EV (₹ Crore)	47,519.9
52 week H/L	1566/ 980
Equity Capital (₹ Crore)	35.5
Face Value (₹)	1.0

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	37.0	37.0	37.0	37.0	37.0
FII	28.9	28.3	26.8	25.9	24.8
DII	12.5	13.4	14.6	15.2	16.1
Others	21.6	21.2	21.6	21.9	22.1

Price Chart



Recent event & key risks

- Westside reported 17% SSSG. Added 91 stores in Zudio format in 9MFY23
- **Key Risk:** (i) Slower ramp up of store network (ii) Lower than expected margin due to inability to pass on input cost hike

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Key takeaways of recent quarter

- Trent's Q3FY23 revenue print is a strong beat on our estimates. On a slightly favourable base, revenue grew 61% YoY to ₹ 2171 crore (I-direct estimate: ₹ 1886.9 crore). On a three-year CAGR basis, revenue growth was at an impressive 36%, the highest among lifestyle retailers. On the store addition front, the company has been aggressive on the Zudio format with the opening of 91 stores in YTD FY23 taking the total store count to 326. For Westside, the company added 11 new stores taking the total store count to 211. The Westside format has been performing well with SSSG of 17% in Q3FY23. Also, revenue/sq ft for Westside appears to be significantly higher at ~₹ 14000 (annualised), which is higher than average run-rate of ~₹ 10500. Back of the envelope calculation suggests the Zudio format has grown ~2.5x with share in revenue increasing significantly from ~30% to 40%+ (share of Zudio format in FY20 was at ~16%). Emerging categories like beauty and personal care, innerwear and home witnessed healthy traction and now contributes ~15% to sales
- 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. 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 ~8x in the last three years with overall outlets at 326
- Gross margins for the quarter declined 590 bps YoY to 45.4% (I-direct estimate: 49%) possibly on account of a sharp rise in share of Zudio format (yields lower gross margins but has superior asset turn). Higher opex cost on account of new store openings resulted in EBITDA margins declining 620 bps YoY to 15.5% (I-direct estimate: 17.9%). The previous quarter also had one-off benefits of rent waivers and reversals relating to inventory provisioning. Despite lower than anticipated margins, absolute EBITDA was at ₹ 336 crore (I-direct estimate: ₹ 337 crore) with three-year CAGR of 25%. A key aspect to highlight would be share of JV and associates (Star Bazar & Zara) reporting a remarkable turnaround with profit of ₹ 76.8 crore in 9MFY23 vs. ₹ 14.8 crore in 9MFY22. 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 formats to report revenue CAGR of 29% and 59%, respectively, in FY20-24E. We expect the growth trajectory to marginally moderate on a very strong base with Zudio gaining substantial scale. Share of the Zudio format in standalone revenues is expected to increase to 37% by FY24E. Furthermore, a sharp increase in profits in share of associates (Zara and Star Bazar) during 9MFY23 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, EBITDA CAGR of 29% and 28%, respectively, in FY20-24E. Industry leading performance and consistent revenue growth to support premium valuations. We recommend BUY and maintain our target price of ₹ 1730**

Exhibit 1: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Revenue	2,171.5	1,886.9	1,347.8	61.1	1,813.6	19.7	Westside reported 17% SSSG. Zudio continues to be the key growth engine
Other Operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Raw Material Expense	1,186.1	945.3	657.2	80.5	961.9	23.3	
Gross Profit	985.4	941.5	690.6	42.7	851.7	15.7	
Gross Profit Margin	45.4	49.9	51.2	-586 bps	47.0	-158 bps	Gross margins for the quarter declined by 590 bps YoY to 45.4% (I-direct estimate: 49%) possibly on account of sharp rise in share of Zudio format (yields lower gross margins but has superior A/To).
Employee exp	160.0	154.7	84.7	88.8	148.1	8.0	
Other Exp	489.9	449.1	314.1	56.0	436.1	12.3	
EBITDA	335.6	337.7	291.7	15.0	267.5	25.4	three-year CAGR: 25%
EBITDA Margin (%)	15.5	17.9	21.6	-619 bps	14.8	70 bps	
Depreciation	110.6	101.2	73.4	50.8	104.3	6.1	
Other Income	73.0	34.1	29.6	146.6	168.0	-56.5	Other income includes recognition of IND-AS 116 impact of lease modification/ termination
Interest	88.5	90.7	73.4	20.6	88.0	0.5	
Exceptional Income	0.0	0.0	0.0		0.0		
PBT	209.5	180.0	174.6	20.0	243.2	-13.9	
Tax Outgo	48.6	45.3	41.7	16.4	57.4	-15.4	
Minority Interest							
PAT	161.0	134.7	132.9	21.1	185.9	-13.4	

Source: Company, ICICI Direct Research

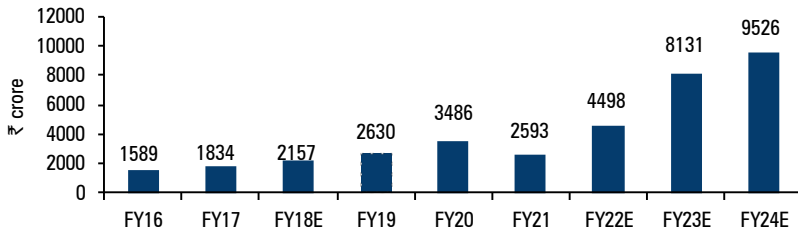
Exhibit 2: Change in estimates

(₹ Crore)	FY22	FY23E			FY24E		
	Actual	Old	New	% Change	Old	New	% Change
Revenue	4,498.0	7,730.9	8,130.9	5.2	9,219.5	9,526.4	3.3
EBITDA	573.9	1,141.9	1,152.1	0.9	1,413.4	1,460.4	3.3
EBITDA Margin (%)	12.8	14.8	14.2	-60 bps	15.3	15.3	0 bps
PAT	105.8	457.2	500.4	9.4	637.1	676.5	6.2
EPS (₹)	3.0	12.9	14.1	9.1	17.9	19.0	6.3

Source: Company, ICICI Direct Research

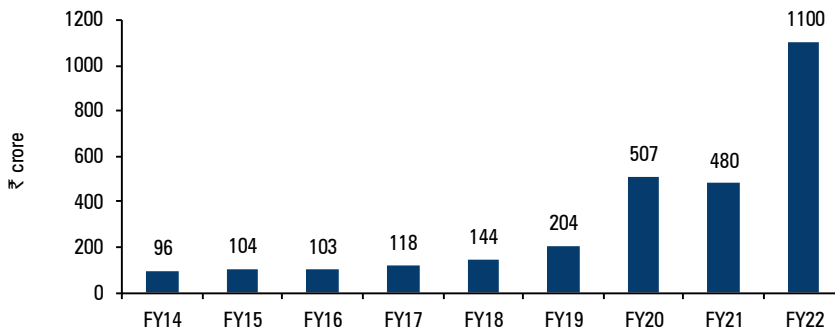
Financial story in charts

Exhibit 3: Revenue trend



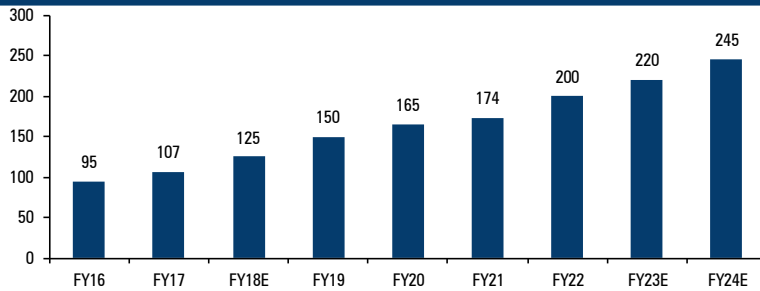
Source: Company, ICICI Direct Research

Exhibit 4: Zudio revenue trend



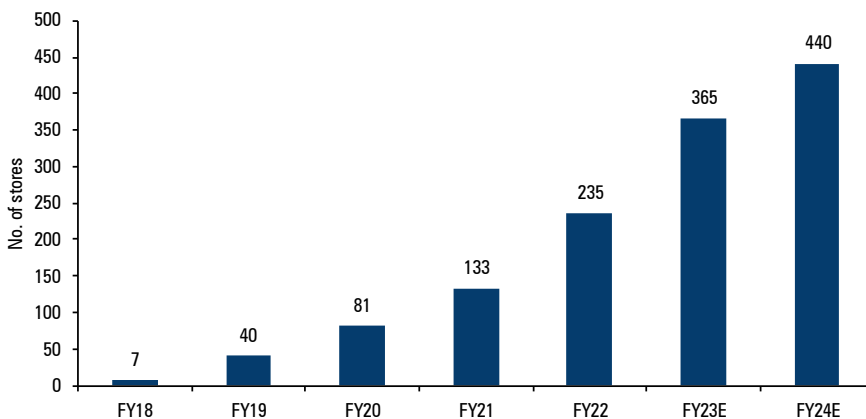
Source: Company, ICICI Direct Research

Exhibit 5: Westside store addition trend



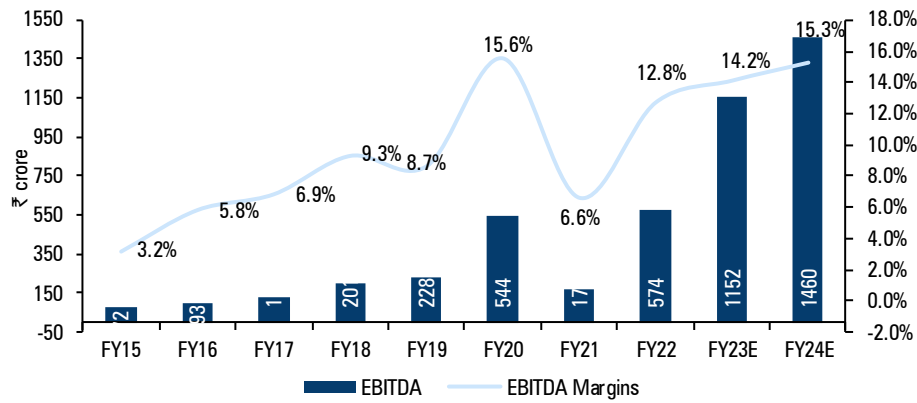
Source: Company, ICICI Direct Research

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	8826	6.0x EV/Sales	53400	845	285	53960
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)							61356
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	8,130.9	9,526.4	
Growth (%)	-25.6	73.5	80.8	17.2	
Cost of Goods Sold	1,534.0	2,481.5	4,496.4	5,211.0	
Gross Margin (%)	40.8	44.8	44.7	45.3	
Employee Expenses	301.9	399.0	634.2	743.1	
Operating & Other Expenses	585.2	1,043.7	1,848.2	2,112.0	
Total Operating Expenditure	2,421.1	3,924.2	6,978.8	8,066.0	
EBITDA	171.9	573.9	1,152.1	1,460.4	
Growth (%)	-68.4	233.9	100.8	26.8	
Depreciation	257.3	310.8	464.1	505.1	
Interest	248.7	304.7	351.3	380.9	
Other Income	201.6	175.2	211.4	219.1	
PBT	-133.5	106.1	548.1	793.5	
Share of Profit from JV	-71.4	5.1	74.0	80.1	
Total Tax	-23.7	76.6	161.8	227.1	
PAT	-181.1	34.6	460.4	646.5	
Minority Interest	-35.0	-71.2	-40.0	-30.0	
PAT after MI	-146.2	105.8	500.4	676.5	
Extraordinary item	0.0	0.0	0.0	0.0	
Reported PAT	-146.2	105.8	500.4	676.5	
EPS (₹)	-4.1	3.0	14.1	19.0	

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	500.4	676.5	
Add: Depreciation	257.3	310.8	464.1	505.1	
Add: Finance Cost	248.7	304.7	351.3	380.9	
(Inc)/dec in Current Assets	215.7	-541.8	-762.7	-273.1	
Inc/(dec) in CL and Provisions	-23.2	184.0	267.4	107.0	
Others	-99.0	-100.3	0.0	0.0	
CF from operating activities	453.3	263.3	820.6	1,396.4	
(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	-421.4	-655.0	
Others	0.8	-62.8	-128.0	-164.8	
CF from financing activities	-334.9	-239.5	-745.4	-835.7	
Net Cash flow	19.5	3.2	-33.3	383.0	
Opening Cash	61.8	81.3	84.5	51.1	
Closing Cash	81.3	84.5	51.1	434.1	

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	2,703.3	3,210.6	
Total Shareholders funds	2,313.0	2,363.5	2,738.8	3,246.2	
Total Debt	299.9	497.4	301.4	285.4	
Other LT Liabilities	2,677.3	4,246.0	4,171.6	3,901.8	
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	7,131.4	7,353.0	
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	3,384.21	
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	1,559.4	1,748.7	
Debtors	20.8	17.9	22.3	26.1	
Loans and Advances	156.2	221.5	248.1	277.9	
Cash	81.3	84.5	51.1	434.1	
Other Current Assets	120.5	160.5	200.6	250.8	
Total Current Assets	807.1	1,352.1	2,081.4	2,737.5	
Creditors	274.6	378.0	677.5	756.7	
Other Current Liab. & Prov.	114.2	194.7	162.6	190.5	
Total Current Liabilities	388.8	572.7	840.2	947.2	
Net Current Assets	418.4	779.4	1,241.3	1,790.3	
Application of Funds	5,220.2	7,025.0	7,131.4	7,353.0	

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	14.1	19.0	
Cash EPS	3.1	11.7	27.1	33.2	
BV	65.1	66.5	77.0	91.3	
DPS	1.0	1.2	3.5	4.8	
Cash Per Share	2.3	2.4	1.4	12.2	
Operating Ratios					
EBITDA Margin (%)	6.6	12.8	14.2	15.3	
PBT Margin (%)	-5.1	2.4	6.7	8.3	
PAT Margin (%)	-5.6	2.4	6.2	7.1	
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	18.3	20.8	
RoCE	4.3	14.1	29.0	32.7	
RoC	-9.4	19.3	38.8	50.1	
Valuation Ratios (x) (annualised)					
P/E	-	450.1	95.2	70.4	
EV / EBITDA	274.5	82.8	41.2	32.2	
EV / Net Sales	18.2	10.6	5.8	4.9	
Market Cap / Sales	18.4	10.6	5.9	5.0	
Price to Book Value	20.6	20.2	17.4	14.7	
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	3.0	
Quick Ratio	1.0	1.0	0.7	0.7	

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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