

Weak March revenue derails robust trajectory...

The Covid-19 pandemic had an unprecedented impact on retail industry, forcing temporary closure of physical stores from mid-March onwards in India. The same materially impacted Trent's performance in Q4FY20. In the apparel space, Trent has been a consistent outperformer with robust revenue growth (30%+ growth in previous three quarters). However, the revenue trajectory got de-railed significantly in Q4FY20. Standalone revenues (including Westside, Zudio formats) grew 8.1% YoY to ₹ 722.8 crore in Q4FY20. The management highlighted that for January-February, revenue grew a robust 33% YoY. Revenue growth was supported by healthy SSSG for Westside (in January-February) & exceptional ramp up in Zudio brand. Gross margins for the quarter fell 98 bps YoY to 46.5% due to a rise in share of revenue from Zudio format that has a lower margin profile. Negative operating leverage further dented margins. As per our calculations, EBITDA margins (adjusting for Ind-AS 116) fell 180 bps YoY to ~3.0%. EBIT fell 90% YoY to ₹ 2.1 crore in Q4FY20. Food & grocery stores (Star Bazaar, 50% JV) continued to operate in March. The management indicated that 70 fashion stores (~28%) resumed operations post relaxation in certain states.

Strong FY20 performance despite weaker Q4

Despite a subdued Q4FY20, Trent exited FY20 with robust revenue growth of 25.5% to ₹ 3177.67 crore (standalone). For YTD-February, revenue grew at a healthy 33% YoY. In FY20, revenues from Westside format (85% of revenues) grew 16% YoY. Growth was supported by store addition and strong SSSG of 7.3% YoY (YTD Feb SSSG: 12.6%). Trent's value fashion business under 'Zudio' brand has seen exceptional ramp up with revenues growing ~2.2x in FY20. Zudio now contributes almost 14% of revenues (up 600 bps YoY). Owing to increase in proportion of revenues from Zudio, gross margins fell 180 bps YoY to 49.5%. EBIT grew 17% YoY to ₹ 223 crore in FY20. Trent added 63 stores in FY20 (20 Westside, 41 Zudio & two Utsa). Opening of 21 stores (four Westside, 17 Zudio), which were under fit outs, was impacted in March. Earlier in the year, Trent acquired 51% stake in Booker for a consideration of ₹ 22.0 crore. Hence, consolidated revenue grew 33% YoY. We believe higher minority loss (~₹ 17 crore) pertains to the latest acquisition. Losses in the JV got bloated to ₹ 30.4 crore vs. ₹ 12.0 crore in FY19 (probably owing to higher losses in Trent Hypermarket).

Valuation & Outlook

The company has a healthy liquidity position with cash & current investments of ~₹ 840 crore (D/E: 0.1x) as on FY20. Net working capital cycle remained efficient at ~10% of revenues in FY20. We expect store addition momentum to decelerate in FY21E, as it focuses on maintaining liquidity to tide over uncertainties. Westside continues to be one of the most successful and established franchises (97% private label brands). Healthy performance in a challenging scenario instils confidence in the business model. Furthermore, being a net cash positive company, it would be in a better position to tide over current turbulent scenario. We maintain **BUY** with target price of ₹ 560 based on SOTP valuation.

Key Financial Summary

(₹Crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	2,157.5	2,630.2	3,486.0	3,277.4	4,530.2	14.0%
EBITDA	201.2	227.7	543.9	404.7	730.8	15.9%
PAT	87.0	97.0	122.8	34.6	278.4	
EV/Sales (x)	7.0	5.8	4.6	4.9	3.5	
EV/EBITDA (x)	74.8	66.4	29.3	39.4	21.8	
RoCE (%)	10.0	10.1	15.9	10.4	19.5	
RoE (%)	5.5	5.9	5.1	1.4	10.6	

Source: Company, ICICI Direct Research



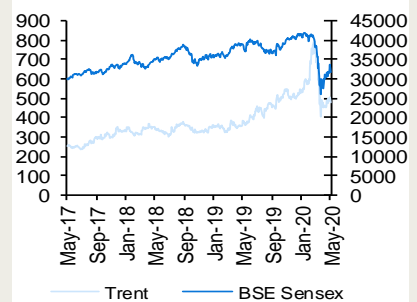
Particulars

Particular	Amount
Market Capitalisation (₹Crore)	14,687.7
Total Debt (Mar-20) (₹Crore)	299.7
Cash (Mar-20) (₹Crore)	61.8
EV (₹Crore)	14,925.6
52 week H/L (adjusted)	804 / 367
Equity Capital (₹Crore)	35.5
Face Value (₹)	1.0

Key Highlights

- For YTD-Feb, revenues grew at a healthy pace of 33%. However weak march led to growth of 26% in FY20
- Added 20 Westside, 41 Zudio and two Utsa stores during FY20

Price Chart



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Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	722.8	700.1	668.7	8.1	869.7	-16.9	Revenue for Jan-Feb period grew 33% YoY . Weak March impacted overall growth for Q4FY 20
Other Operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Raw Material Expense	387.0	371.1	351.5	10.1	429.4	-9.9	
Gross Profit	335.8	329.0	317.2	5.9	440.3	-23.7	
Gross Profit Margin	46.5	47.0	47.4	-98 bps	50.6	-319 bps	Decline in gross margins on account of increase in share from Zudio formats, which have a lower margin profile
Employee exp	75.8	77.0	67.5	12.3	80.5	-5.8	
Rent exp	39.0	126.0	84.2	-53.6	58.6		
EBITDA	92.9	14.0	33.8	175.4	173.5	-46.4	Adjusted EBITDA (Pre-IND AS 116) de-grew 31% YoY to ₹23.0 crore
EBITDA Margin (%)	12.9	2.0	5.0	781 bps	20.0	-709 bps	Reported higher EBITDA owing to implementation of Ind-AS 116. Adjusted EBITDA margins declined 180 bps YoY to 3.0%
Depreciation	61.2	16.2	13.5	351.7	57.9	5.6	
Other Income	34.4	34.4	8.8	289.6	38.2	-10.1	
Interest	59.5	13.5	10.3	479.1	59.3	0.3	
Exceptional Income	0.0	0.0	-0.5		0.0		
PBT	6.7	18.7	18.3	-63.6	94.6	-93.0	The net effect of IND-AS 116 led to PBT being lower by ₹3.7 crore
Tax Outgo	4.0	6.4	2.4	70.1	38.9	-89.6	Deffered tax asset write off led to higher tax rate: 60%
Minority Interest							
PAT	2.6	12.4	15.9	-83.6	55.7	-95.3	

Source: Company, ICICI Direct Research

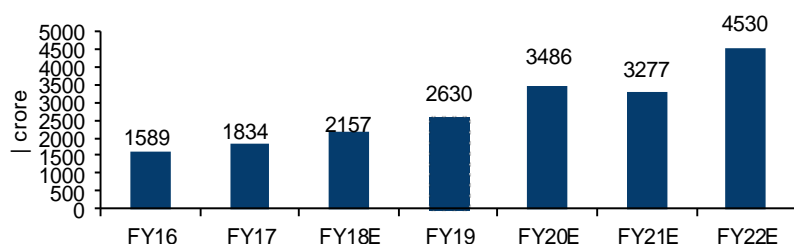
Exhibit 2: Change in estimates

(₹Crore)	FY21E			FY22E			Remarks
	Old	New	% Change	Old	New	% Change	
Revenue	3,214.2	3,277.4	2.0	4,575.0	4,530.2	-1.0	
EBITDA	281.8	404.7	43.6	425.4	730.8	71.8	Higher EBITDA and EBITDA margins owing to incorporation of IND-AS 116
EBITDA Margin (%)	8.8	12.3	358 bps	9.3	16.1	683 bps	
PAT	61.1	35.1	-42.5	269.8	278.9	3.4	Decline in PAT estimates for FY 21E owing to increase in losses from JV
EPS (₹)	1.7	1.0	-41.8	7.6	7.8	3.2	

Source: Company, ICICI Direct Research

Financial story in charts

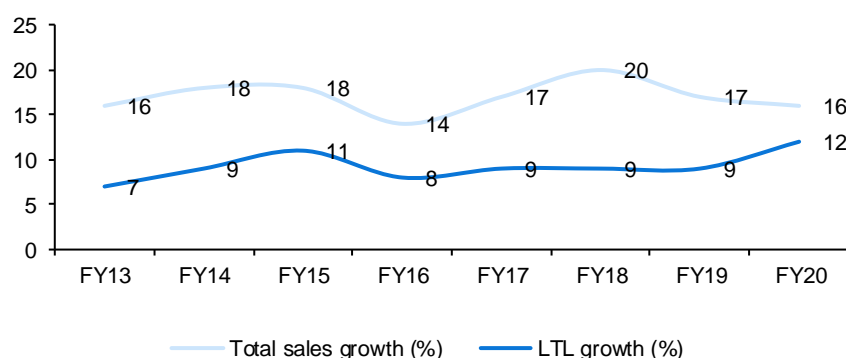
Exhibit 3: Revenue trend



We expect sharp recovery in FY22E with revenue growth of 38% YoY, translating into CAGR of 14% in FY20-22E

Source: Company, ICICI Direct Research

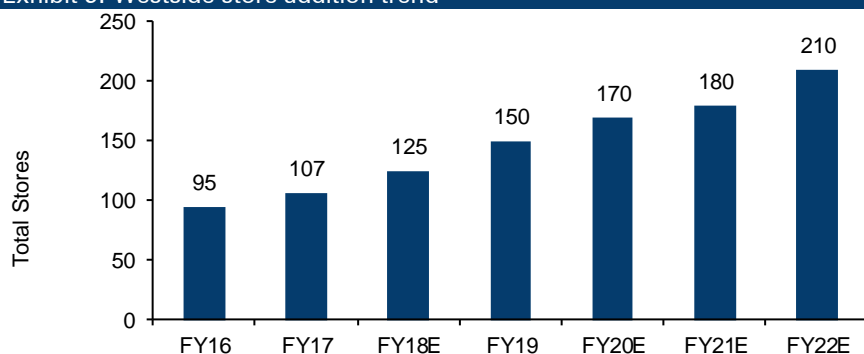
Exhibit 4: Westside revenue trend and same stores sales growth (SSSG)



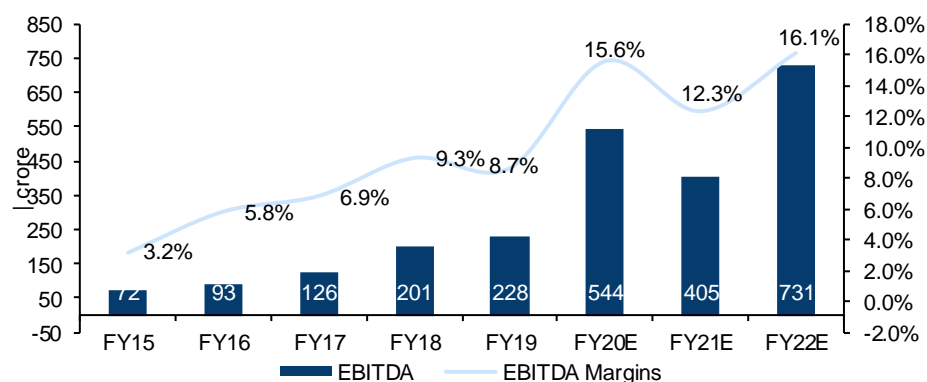
Westside has continued to deliver a robust performance with revenues growing at a CAGR of 20% in FY13-20. It has also consistently registered healthy SSSG

Source: Company, ICICI Direct Research

Exhibit 5: Westside store addition trend



Source: Company, ICICI Direct Research.

Exhibit 6: EBITDA, EBITDA margin trend (post Ind-AS 116)


Source: Company, ICICI Direct Research.

Exhibit 7: Valuation

	Financial	FY22E (₹cr)	Target Multiple	EV/Mcap	(₹cr) Cash	Debt	Targeted Mcap (₹cr)
Standalone revenues	Sales	4195	4.0x EV/Sales	16781	74	320	16535
Trent Hypermarket Ltd	Sales	680	0.5x Price/Sales	340			340
Trent - Inditex (Zara)	Sales	886	3.0x Price/Sales	2747			2747
Target Market Cap. (₹cr)							19622
Target Price (₹)							560

Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement					₹ crore				
(Year-end March)	FY19	FY20E	FY21E	FY22E					
Total operating Income	2,630.2	3,486.0	3,277.4	4,530.2					
Growth (%)	21.9	32.5	-6.0	38.2					
Cost of Goods Sold	1,311.4	1,881.8	1,786.2	2,432.7					
Gross Margin (%)	50.1	46.0	45.5	46.3					
Employee Expenses	286.8	358.5	403.1	507.4					
Operating & Other Expenses	804.3	701.8	683.4	859.3					
Total Operating Expenditure	2,402.5	2,942.0	2,872.7	3,799.4					
EBITDA	227.7	543.9	404.7	730.8					
Growth (%)	13.2	138.9	-25.6	80.6					
Depreciation	51.7	247.2	241.5	277.6					
Interest	36.8	245.8	234.2	243.5					
Other Income	40.8	144.5	131.1	135.9					
PBT	180.1	195.4	60.1	345.6					
Total Tax	73.6	59.0	15.1	89.9					
Tax rate (%)	40.9%	30.2%	25.2%	26.0%					
PAT	106.5	136.4	45.0	255.7					
Minority Interest	-2.1	-16.8	-18.0	-15.0					
Share of Profit from JV	-11.7	-30.4	-28.3	7.6					
PAT	97.0	122.8	34.6	278.4					
Growth (%)		26.6	-71.8	703.6					
Extraordinary item	0.0	0.0	0.0	0.0					
Reported PAT	97.0	122.8	34.6	278.4					
EPS (₹)	2.9	3.5	1.0	7.8					

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					₹ crore				
(Year-end March)	FY19	FY20E	FY21E	FY22E					
Profit after tax	97.0	122.8	34.6	278.4					
Add: Depreciation	51.7	247.2	241.5	277.6					
Add: Finance Cost	36.8	245.8	234.2	243.5					
(Inc)/dec in Current Assets	-217.6	-163.5	-128.6	-263.9					
Inc/(dec) in CL and Provisions	68.8	110.5	-25.0	91.6					
Others	0.0	0.0	0.0	0.0					
CF from operating activities	36.6	562.7	356.7	627.2					
(Inc)/dec in Investments	140.7	-627.8	154.3	27.8					
(Inc)/dec in Fixed Assets	-102.0	-178.2	-75.0	-180.0					
(Inc)/dec in CWIP	-77.6	63.9	3.3	0.0					
Others	2.9	-2,008.0	0.0	0.0					
CF from investing activities	-36.0	-2,750.2	82.6	-152.2					
Issue/(Buy back) of Equity	0.0	2.3	0.0	0.0					
Inc/(dec) in loan funds	102.7	-194.4	38.4	-17.7					
Less: Finance Cost & lease payment	-36.8	-409.3	-402.9	-436.1					
Others	-43.1	2,794.3	-13.9	-69.6					
CF from financing activities	22.9	2,192.9	-378.4	-523.5					
Net Cash flow	23.5	5.5	61.0	-48.5					
Opening Cash	32.8	56.3	61.8	122.8					
Closing Cash	56.3	61.8	122.8	74.3					

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet					₹ crore				
(Year-end March)	FY19	FY20E	FY21E	FY22E					
Liabilities									
Equity Capital	33.2	35.5	35.5	35.5					
Reserve and Surplus	1,615.4	2,352.5	2,373.3	2,582.0					
Total Shareholders funds	1,648.6	2,388.0	2,408.8	2,617.6					
Total Debt	494.1	299.7	338.1	320.4					
Other LT Liabilities	0.4	2,233.2	2,233.2	2,233.2					
Deferred Tax Liability	25.5	-110.4	-110.4	-110.4					
Minority Interest / Others	-2.9	80.3	80.3	80.3					
Total Liabilities	2,165.8	4,890.8	4,950.0	5,141.0					
Assets									
Gross Block	817.1	995.2	1,070.2	1,250.2					
Less: Acc Depreciation	255.6	340.6	413.4	498.4					
Capital WIP	87.2	23.3	20.0	20.0					
Total Fixed Assets	648.7	678.0	676.9	771.8					
Investments	915.3	1,543.1	1,388.8	1,361.0					
Other Non-current Assets	94.3	2,102.31	2,102.31	2,102.31					
Goodwill	68.2	69.5	69.5	69.5					
Deferred Tax Asset	0.0	0.0	0.0	0.0					
Inventory	497.0	607.8	682.4	868.8					
Debtors	16.5	17.1	22.4	31.0					
Loans and Advances	182.8	203.5	223.8	257.4					
Cash	56.3	61.8	122.8	74.3					
Other Current Assets	81.8	113.2	141.5	176.8					
Total Current Assets	834.4	1,003.4	1,192.9	1,408.4					
Creditors	245.0	297.7	293.6	399.9					
Other Current Liab. & Prov.	150.1	207.8	186.8	172.2					
Total Current Liabilities	395.0	505.5	480.4	572.1					
Net Current Assets	439.4	497.9	712.5	836.3					
Application of Funds	2,165.8	4,890.8	4,950.0	5,141.0					

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios									
(Year-end March)	FY19	FY20E	FY21E	FY22E					
Per share data (₹) (annualised)									
EPS	2.9	3.5	1.0	7.8					
Cash EPS	4.5	10.4	7.8	15.6					
BV	49.6	67.2	67.8	73.6					
DPS	1.4	1.0	0.4	2.0					
Cash Per Share	1.7	1.7	3.5	2.1					
Operating Ratios									
EBITDA Margin (%)	8.7	15.6	12.3	16.1					
PBT Margin (%)	6.8	5.6	1.8	7.6					
PAT Margin (%)	3.7	3.5	1.1	6.1					
Inventory days	69.0	63.6	76.0	70.0					
Debtor days	2.3	1.8	2.5	2.5					
Creditor days	34.0	31.2	32.7	32.2					
Return Ratios (%)									
RoE	5.9	5.1	1.4	10.6					
RoCE	10.1	15.9	10.4	19.5					
RoIC	16.2	28.0	13.4	30.6					
Valuation Ratios (x) (annualised)									
P/E	151.4	128.0	453.6	56.4					
EV / EBITDA	66.4	29.3	39.4	21.8					
EV / Net Sales	5.8	4.6	4.9	3.5					
Market Cap / Sales	5.6	4.5	4.8	3.5					
Price to Book Value	8.9	6.6	6.5	6.0					
Solvency Ratios									
Debt/EBITDA	2.2	0.6	0.8	0.4					
Debt / Equity	0.3	0.1	0.1	0.1					
Current Ratio	2.9	2.9	3.4	3.3					
Quick Ratio	1.1	1.0	1.2	1.2					

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Retail)

Exhibit 12: Top 5 Direct coverage universe (Indian)																				
	CMP			M Cap		EPS (₹)			P/E(x)			EV/EBITDA(x)			RoCE (%)			RoE (%)		
Company	(₹)	TP(₹)	Rating	(₹crore)	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	
Bata	1275	1450	HOLD	16399	29.9	20.7	36.3	42.7	61.5	35.2	30.3	42.0	24.2	21.6	13.5	22.1	18.9	12.2	19.0	
Titan	850	1150	BUY	75413	17.1	14.7	24.0	49.6	57.9	35.5	34.8	41.3	25.2	27.5	20.1	27.6	21.6	16.3	21.9	
Trent	442	560	BUY	14687	3.5	1.0	7.8	128.0	453.6	56.4	29.3	39.4	21.8	15.9	10.4	19.5	5.1	1.4	10.6	
ABFRL	111	140	BUY	8598	1.4	0.6	3.5	81.2	189.9	31.8	19.4	25.2	14.9	9.7	7.4	14.8	6.9	2.9	14.6	

Source: Company, ICICI Direct Research

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