CMP: ₹ 575

Target: ₹ 680 (18%)

Target Period: 12 months

August 14, 2020

Quality franchise to withstand near term headwinds

As expected, Trent reported a washout Q1FY21. High store concentration in worst hit Coivd-19 states (~ 17%, 16% of Westside, Zudio stores in Maharashtra) and higher presence in malls (~50% for Westside, 25% for Zudio) further hampered store operations due to stringent measures by local authorities. Subsequently, the company reported revenue de-growth of 87% YoY to ₹ 96.3 crore (April: 0%, May: 8%, June: 32% pre-Covid sales YoY). The company made provisions worth ₹ 40 crore towards inventories that led gross margins to contract substantially to 13.3% vs. 53% in Q1FY20. However, considering encouraging traction post lockdown relaxations, the company may reverse it in ensuing quarters. Due to cost rationalisation measures, other expenses, employee expenses de-grew 57%, 18% YoY, respectively. EBITDA losses were at ₹ 119.1 crore. Other income grew 50% YoY to ₹ 52.9 crore of which ₹ 36 crore pertains to rent related waivers. Owing to deferred tax asset (₹ 43 crore), Trent reported net loss of ₹ 139.5 crore. Overall 90% of Westside, Zudio stores have now reopened. EOSS, which began from August 1, saw healthy offtake with ~3x jump in revenues. As per the management, while footfalls are at ~35% of pre-Covid levels better conversion ratio, higher ATS led to sales at ~55% recovery rate.

Zudio: Next growth engine

Since the acquisition in FY18, revenues from value fashion brand Zudio, have grown from ₹ 144 crore to ₹ 507 crore as on FY20, translating into robust CAGR of 88%. In FY20, the company doubled Zudio stores from 40 to 81, whereas revenue grew 2.5x, indicating strong SSSG (certain stores generated ~₹ 15000 revenue/sq ft). The fact that Zudio is not promoted as Westside or a Tata brand signifies the inherent strength of the business model. With consumers expected to down trade, Zudio can be a beneficiary given its shaper price points offerings (two-third of products priced < ₹ 500) and scalability of the brand (average store size ~6000 sq ft, one-third of Westside store). Zudio turned EBIT positive in FY20 (₹ 8.0 crore).

Scaling up e-commerce play

Star Bazar (50% JV) performed reasonably well given robust traction in Star Quik (e-commerce). Trent scaled up its omni-channel play as ~20% of revenue from brick & mortar stores serviced through Star Quik. Post lockdown relaxation, e-com sales grew 50% for Westside. To strengthen its e-commerce channel, Trent launched 'westside.com', in addition to sales via Tata Cliq. While current share of e-com is miniscule (<5%), it is aiming to reach 10% of overall sales in medium term through sustained investments.

Valuation & Outlook

Trent was one of the fastest growing companies (30%+ growth) before pandemic significantly derailed the revenue trajectory. While discretionary spending may stay muted in near term, inherent strength of brands (Westside, Zudio, Star, Zara) and proven business model (Westside: 99% private label), will enable Trent to revive its revenue growth trajectory rapidly as and when the impact of Covid-19 is phased out. Also, healthy b/s (net cash positive) will enable it to tide over the current situation better than peers. We reiterate **BUY** with revised TP of ₹ 680 based on SOTP valuation (previous TP: ₹ 560).



BUY

ICICI direct

Particulars	
Particular	Amount
Market Capitalisation (₹Crore)	19,107.3
Total Debt (Mar-20) (₹Crore)	299.7
Cash (Mar-20) (₹Crore)	61.8
EV (₹Crore)	19,345.1
52 week H/L	804/367
Equity Capital (₹Crore)	35.5
Face Value (₹	1.0
Key Highlights	

- Q1FY21 was a washout quarter owing to store closures. Currently 90% of stores are operational with sales at ~55% of recovery rate
- Company added one Westside, four Zudio and Landmark stores in Q1FY21



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(previous 11 . \ 300).						
Key Financial Summary						
(₹Crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	2,157.5	2,630.2	3,486.0	2,776.1	4,411.2	12.5%
EBITDA	201.2	227.7	544.0	348.7	692.0	12.8%
PAT	87.0	97.0	122.8	16.7	270.0	48.3%
EV/Sales (x)	9.0	7.4	5.9	7.4	4.7	
EV/EBITDA (x)	96.8	85.8	38.0	59.2	29.9	
RoCE (%)	10.0	10.1	15.9	10.1	19.5	
RoE (%)	5.5	5.9	5.1	0.7	10.5	

Exhibit 1: Variance A		0.1EV.24E	0.157.20	V - V (0/)	0.457.20	0 - 0 /0/ \	Comments
	U IFT ZT	Q1FY21E	u 17 1 20	TOT (%)	u4F f 20	uou (%)	Comments
R evenue	96.3	207.1	767.2	-87.4	722.8	-86.7	Store closures for a major part of the quarter impacted sales
O ther O perating Income	0.0	0.0	0.0	0.0	0.0	0.0	
R aw Material Expense	83.5	101.5	360.7	-76.8	387.0	-78.4	
G ross Profit	12.8	105.6	406.5	-96.9	335.8	-96.2	
Gross Profit Margin	13.3	51.0	53.0	-3970 bps	46.5	-3317 bps	Decline in gross margins on account of provisioning towards inventory worth ₹40.0 crore
E mployee exp	60.8	58.0	74.2	-18.0	75.8	-19.8	
O ther E xp	71.1	93.2	168.5	-57.8	167.0		Rationalization of operating overheads led to other expenses declining by 58% YoY
E BIT D A	-119.1	-45.6	163.9	PL	92.9	PL	EBITDA losses curtailed to certain extent
EBITDA Margin (%)	-123.7	-22.0	21.4		12.9		
D epreciation	58.5	45.9	53.6	9.3	61.2	-4.3	
O ther Income	52.9	28.2	35.9	47.3	34.4	53.9	0 ther income includes rental waiver worth ₹36 crore
Interest	57.4	41.6	59.7	-3.9	59.5	-3.5	
Exceptional Income	0.0	0.0	0.0		0.0		
PBT	-182.2	-104.9	86.5	PL	6.7	PL	
Tax 0 utgo	-42.8	0.0	28.6	-249.7	4.0	-1,158.2	Deferred tax asset worth ₹43 crore
Minority Interest							
PAT	-139.4	-104.9	57.9	PL	2.6	PL	

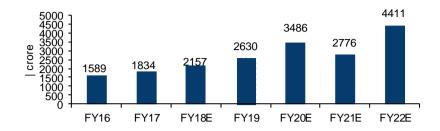
Source: Company, ICICI Direct Research

	FY21E			FY22E		Rem arks	
(₹Crore)	0 ld	Ne w	% Change	Old	Ne w	% Change	
Revenue	3,277.4	2,776.1	-15.3	4,530.2	4,411.2	-2.6	Factoring in the performance of Q1FY 21, we downgrade our estimates for FY 21E
EBITDA	404.7	348.7	-13.8	730.8	692.0	-5.3	
EBITDA Margin (%)	12.3	12.6	21 bps	16.1	15.7	-44 bps	
PAT	35.1	16.7	-52.5	278.9	270.0	-3.2	Decline in PAT estimates for FY 21E owing to increase in losses in JV in Q1FY 21
EPS (₹	1.0	0.5	-53.1	7.9	7.6	-3.2	

Source: Company, ICICI Direct Research

Financial story in charts

Exhibit 3: Revenue trend

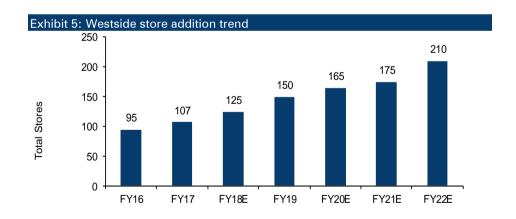


Source: Company, ICICI Direct Research

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

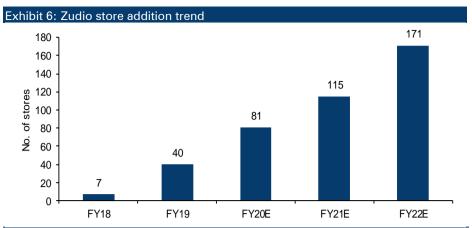


Source: Company, ICICI Direct Research

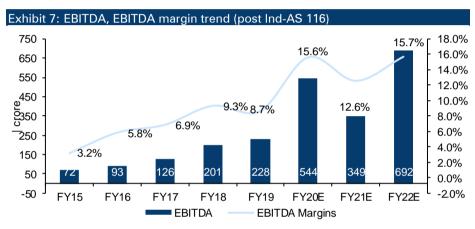


Source: Company, ICICI Direct Research.

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.



Source: Company, ICICI Direct Research.

Exhibit 8: Valuatio	n						
	Financial	FY22E (₹cr)	Target Multiple	EV/Mcap	(₹cr) Cash	Debt	Targeted Mcap (₹cr)
Standalone revenues	Sales	4021	5x EV/Sales	20106	85	320	19870
Trent Hypermarket Ltd	Sales	769	1x Price/Sales	769			769
Trent -Inditex (Zara)	Sales	877	4.0x Price/Sales	3506			3506
Target Market Cap. (₹cr)							24145
Target Price (₹							680

Source: Company, ICICI Direct Research



Financial summary

Exhibit 9: Profit and loss	₹	crore		
(Year-end March)	FY19	FY20E	FY21E	FY22E
Total operating Income	2,630.2	3,486.0	2,776.1	4,411.2
Growth (%)	21.9	32.5	-20.4	58.9
Cost of Goods Sold	1,311.4	1,881.8	1,540.8	2,368.8
Gross Margin (%)	50.1	46.0	44.5	46.3
Employee Expenses	286.8	358.5	352.6	494.1
Operating & Other Expenses	804.3	701.7	534.1	856.3
Total Operating Expenditure	2,402.5	2,942.0	2,427.4	3,719.2
EBIT DA	227.7	544.0	348.7	692.0
Growth (%)	13.2	138.9	-35.9	98.4
Depreciation	51.7	247.2	259.5	279.7
Interest	36.8	245.8	219.3	224.5
Other Income	40.8	144.5	194.3	167.6
PBT	180.1	195.4	64.3	355.4
Share of Profit from JV	-11.7	-30.4	-62.0	-10.9
Total Tax	73.6	59.0	0.6	89.6
PAT	94.9	106.0	1.7	255.0
Minority Interest	-2.1	-16.8	-15.0	-15.0
PAT after MI	97.0	122.8	16.7	270.0
Extraordinary item	0.0	0.0	0.0	0.0
Reported PAT	97.0	122.8	16.7	270.0
EPS (₹	2.9	3.5	0.5	7.6

(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after tax	97.0	122.8	16.7	270.0
Add: Depreciation	51.7	247.2	259.5	279.7
Add: Finance Cost	36.8	245.8	219.3	224.5
(Inc)/dec in Current Assets	-217.6	-163.5	-91.5	-277.3
Inc/(dec) in CL and Provisions	68.8	17.0	-0.5	48.2
Others	0.0	-60.0	0.0	0.0
CF from operating activities	36.6	409.3	403.5	545.0
(Inc)/dec in Investments	140.7	-627.8	77.2	29.3
(Inc)/dec in Fixed Assets	-102.0	-174.4	-115.0	-180.0
(Inc)/dec in CWIP	-77.6	63.9	3.3	0.0
Others	2.9	-22.5	0.0	0.0
CF from investing activities	-36.0	-760.9	-34.5	-150.7
lssue/(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	-330.8	-286.0	-371.9
Others	-43.1	880.0	-35.6	-67.5
CF from financing activities	22.9	357.1	-283.2	-457.1
Net Cash flow	23.5	5.5	85.8	-62.8
Opening Cash	32.8	56.3	61.8	147.6
Closing Cash	56.3	61.8	147.6	84.8

Exhibit 11: Balance sheet	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
L ia b ilitie s				
Equity Capital	33.2	35.5	35.5	35.5
Reserve and Surplus	1,615.4	2,352.5	2,333.6	2,536.1
Total Shareholders funds	1,648.6	2,388.0	2,369.2	2,571.7
Total Debt	494.1	299.7	338.1	320.4
Other LT Liabilities	0.4	2,326.6	2,259.9	2,112.6
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	4,984.3	4,937.1	4,974.5
Assets				
Gross Block	817.1	953.3	1,068.3	1,248.3
Less: Acc Depreciation	255.6	298.6	387.3	489.7
Capital WIP	87.2	23.3	20.0	20.0
Total Fixed Assets	648.7	678.0	701.0	778.6
Investments	915.3	1,543.1	1,466.0	1,436.6
Other Non-current Assets	94.3	2,102.31	1,931.50	1,754.20
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	646.5	846.0
Debtors	16.5	17.1	21.3	30.2
Loans and Advances	182.8	203.5	223.8	257.4
Cash	56.3	61.8	147.6	84.8
Other Current Assets	81.8	113.2	141.5	176.8
Total Current Assets	834.4	1,003.4	1,180.7	1,395.2
Creditors	245.0	297.7	253.3	292.0
Other Current Liab. & Prov.	150.1	114.4	158.2	167.6
Total Current Liabilities	395.0	412.0	411.5	459.7
Net Current Assets	439.4	591.4	769.2	935.5
Application of Funds	2,165.8	4,984.3	4,937.1	4,974.5

Exhibit 12: Key ratios				
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹) (annualised)				
EPS	2.9	3.5	0.5	7.6
Cash EPS	4.5	10.4	7.8	15.5
BV	49.6	67.2	66.6	72.3
DPS	1.4	1.5	1.0	1.9
Cash Per Share	1.7	1.7	4.2	2.4
Operating Ratios				
EBITDA Margin (%)	8.7	15.6	12.6	15.7
PBT Margin (%)	6.8	5.6	2.3	8.1
PAT Margin (%)	3.7	3.5	0.6	6.1
Inventory days	69.0	63.6	85.0	70.0
Debtor days	2.3	1.8	2.8	2.5
Creditor days	34.0	31.2	33.3	24.2
Return Ratios (%)				
RoE	5.9	5.1	0.7	10.5
RoCE	10.1	15.9	10.1	19.5
RolC	16.2	28.0	8.3	30.5
Valuation Ratios (x) (annualised)				
P/E	197.0	166.5	1,225.7	75.7
EV / EBITDA	85.8	38.0	59.2	29.9
EV / Net Sales	7.4	5.9	7.4	4.7
Market Cap / Sales	7.3	5.9	7.4	4.6
Price to Book Value	11.6	8.6	8.6	7.9
Solvency Ratios				
Debt/EBITDA	2.2	0.6	1.0	0.5
Debt / Equity	0.3	0.1	0.1	0.1
Current Ratio	2.9	2.9	3.8	4.5
Quick Ratio	1.1	1.0	1.4	1.6

Source: Company, ICICI Direct Research

Source: Company, ICICI Direct Research

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Sell: <-15%



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