



#### 3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	■	✓	■

+ Positive = Neutral - Negative

#### What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

#### Reco/View

	Change
Reco: Buy	↔
CMP: Rs. 906	
Price Target: Rs. 1,015	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

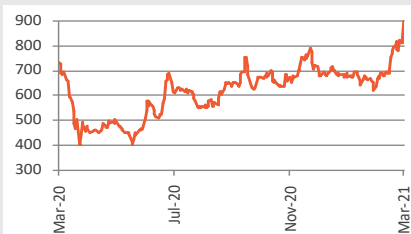
#### Company details

Market cap:	Rs. 32,207 cr
52-week high/low:	Rs. 809/368
NSE volume: (No of shares)	2.9 lakh
BSE code:	500251
NSE code:	TRENT
Free float: (No of shares)	22.4 cr

#### Shareholding (%)

Promoters	37.0
FII	30.0
DII	10.0
Others	23.0

#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	35.1	31.4	38.8	23.9
Relative to Sensex	31.3	9.4	7.7	3.3

Sharekhan Research, Bloomberg

#### Summary

- India's branded apparel industry is expected to clock a CAGR of 10% over FY2020-25 driven by better urban and rural demographics and a significant shift to branded products.
- With strong contribution from private labels, higher sales per sq.ft (versus peers) and a strong balance sheet, Trent is expected to be a key beneficiary of growing apparel demand in the coming years.
- Trent will continue to add 80-100 stores every year (including 25-30 Westside stores and 40-50 Zudio stores). This along with steady same-store-sales growth of 8-9% per annum will help revenues record a CAGR of 9% over FY2020-23E (to grow by 40% over FY21-23).
- We have increased our estimates for FY2023E by 5% to factor in strong revenue growth of FY2023. We maintain a Buy on the stock with a revised PT of Rs. 1,015.

The Indian branded apparel market is well-poised to grow at CAGR of 10% to \$100 billion by FY2025 driven by rising aspirations, a growing young population, increase in working women population and strong retail growth in tier-III/IV towns. Rising consumer aspirations and improving e-Commerce penetration have led to a sharp shift to branded products and hence the contribution of organised retail will rise to ~40% in the next five years from 33% currently. Trent, with 170 Westside stores (mid premium range of products) and 101 Zudio stores (value fashion stores) is well-poised to grab the large opportunity in the growing branded retail market in India. As almost 100% of revenues come from private labels, the company is ahead of peers in the apparel space. With strong growth anticipated in the tier 3/4 towns, we expect Trent to penetrate in these markets through its Zudio, while it continues to add Westside stores in the metros and tier-1 towns. We expect the company to maintain its streak of adding 20-25 Westside and 40-50 Zudio stores every year. This will be supported by strong cash flows, which will take care of the capex plan in the coming years. Trent's revenues grew at a CAGR of ~24% over FY2017-20. This was driven by an 18% growth in Westside sales (with SSSG of 8-9%) and a 4x increase in sales of the Zudio brand. FY2021 will be a one-off year affected by the pandemic, while recovery is anticipated from FY2022 with scare of virus receding and improving mobility. However, industry experts are anticipating strong growth in the FY2023/24 with key growth drivers in place. A 100% contribution from private labels, lesser shrinkages and efficient supply management will help OPM to improve to 18.4% (including the impact of Ind-AS116) in FY2023.

#### Our Call

**View: Maintain Buy with revised PT of Rs. 1,015:** According to apparel industry experts, FY2022 will be the year of revival with apparel sales expected to bounce back as footfalls improve in retail stores. The strategy of becoming all-season player, large focus on driving sales through omni-channels and thrust on branded women/kidswear segment will help branded retailers stay ahead of multi-brand outlets in the coming years. We expect the retail story to unfold strongly in FY2023/24. Trent with strong contribution from private labels, higher sales per sq.ft as compared to peers and a strong balance sheet is expected to be a key beneficiary of growing apparel market in the coming years. In view of this, we have increased our earnings estimates for FY2023. We maintain a Buy recommendation on the stock with revised sum-of-the-parts price target of Rs. 1,015.

#### Key Risks

If intensity of virus increases in the coming months resulting in yet another lockdown would act as a key risk to earnings estimates in the near to medium term.

#### Valuation (standalone)

Particulars	FY19	FY20*	FY21E*	FY22E*	FY23E*
Revenue	2,532	3,178	2,069	3,324	4,119
OPM (%)	9.5	17.6	5.6	16.7	18.5
Adjusted PAT	128	155	-127	181	319
Adjusted diluted EPS (Rs.)	3.6	4.3	-3.6	5.1	9.0
P/E (x)	-	-	-	-	101.1
P/B (x)	17.7	12.9	13.8	13.2	11.9
EV/EBIDTA (x)	-	47.3	-	44.5	35.1
RoNW (%)	7.7	7.4	-	7.6	12.4
RoCE (%)	11.0	13.8	1.1	9.6	12.8

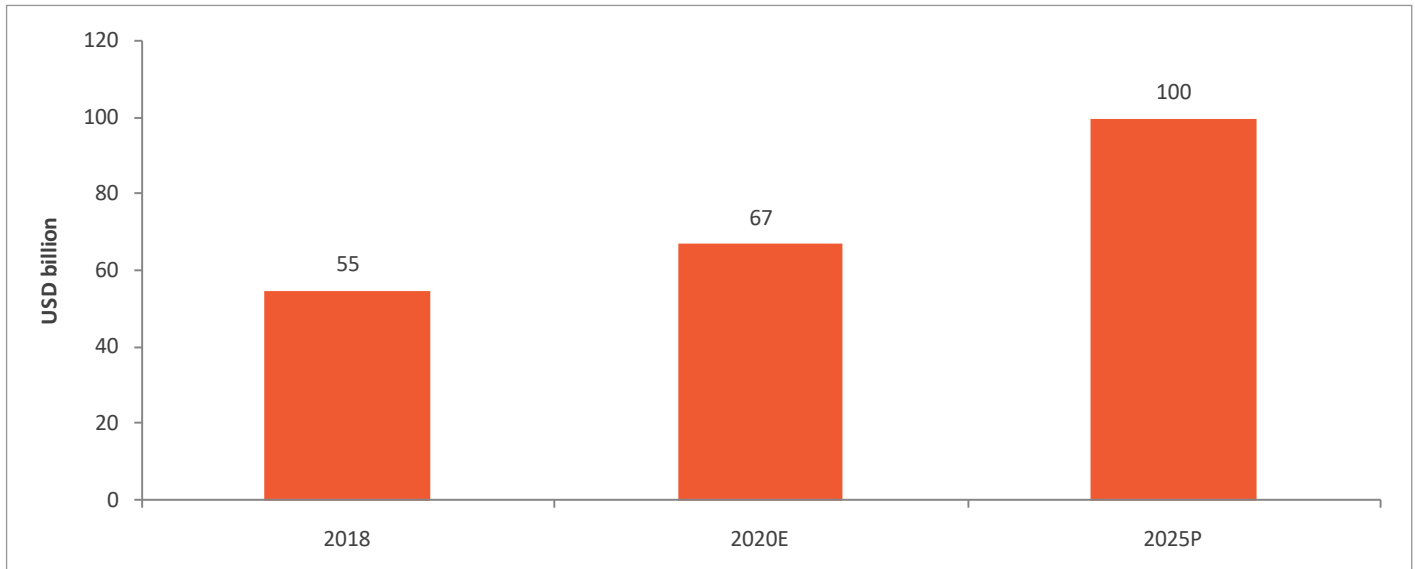
Source: Company; Sharekhan estimates

\* FY20, FY21, FY22 and FY23 OPM is after considering the impact of IndAS116

**Branded apparel industry to clock CAGR of 10% over FY2020-25**

The branded apparel industry’s growth is expected to record a 10% CAGR during FY2020-25, reaching a size of ~\$100 billion driven by improving aspirations, higher penetration of e-Commerce sales and deepening routes into the rural markets. Improving aspiration is one of the key trends for a shift to branded apparels as rising women population and growing young population (millennial) will help aspiration levels to go up. This will help organised retail market saliency to improve to 41% in the next five years from current 33%. Tier II, III & IV cities to lead the retail consumer spending (will be ~70% of total retail spending) in the next decade.

**Branded apparel market to touch USD100bn in 2025**



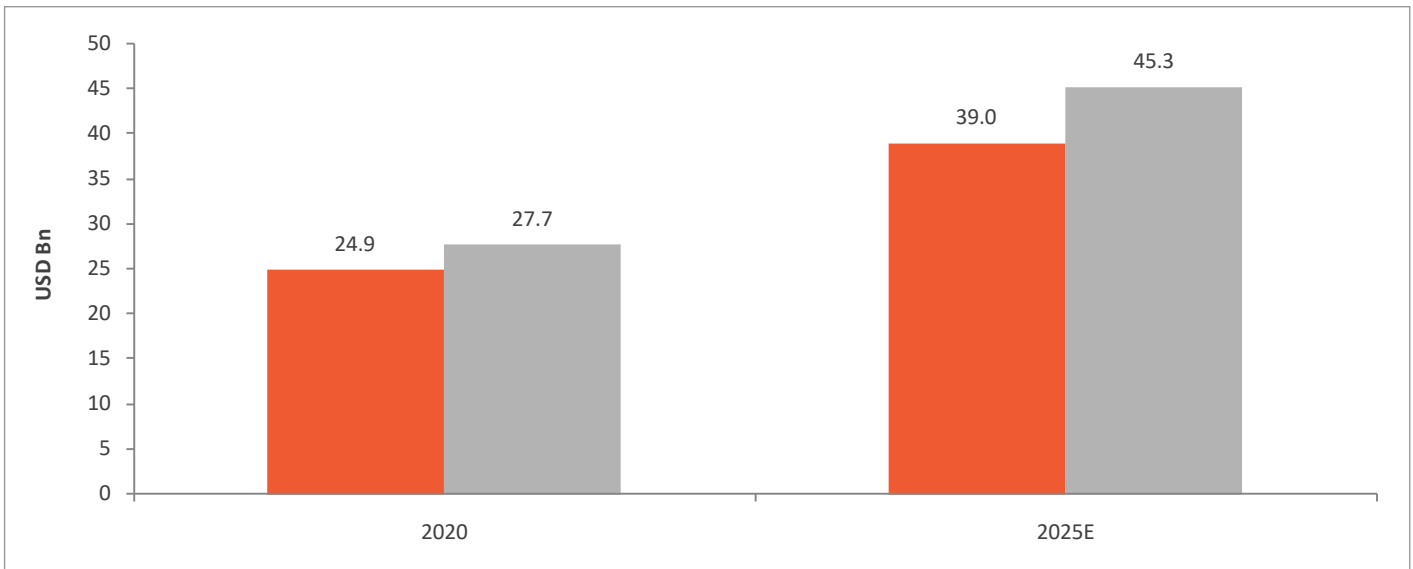
Source: ABFRL presentation

**Organised retail contribution to go upto 41% in CY25**



Source: ABFRL presentation

**Women and Men apparel market to grow at CAGR of 9-10% over CY20-25**

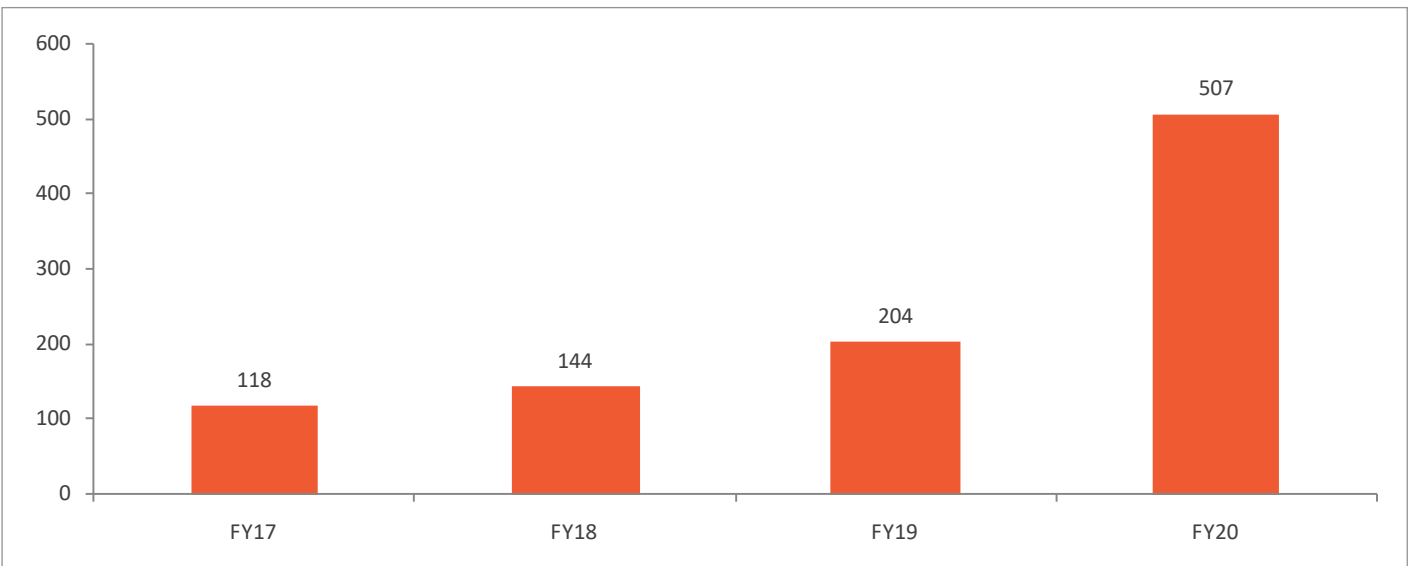


Source: ABFRL presentation

**Zudio to help deepen foray in tier III/IV towns**

Zudio’s business model is based on delivering on trend fashion without compromising quality and in-store experience, no major advertisement spends, keeping overheads to minimal and passing on cost-saving benefits to the customer upfront. The retail brand is currently present across in around 50 cities through 101 stores. The store size is around 5,000-8,000 sq.ft as against a Westside store’s size of 18,000 sq.ft. We believe Trent will use this store model to penetrate into tier 3/4 towns in the coming years.

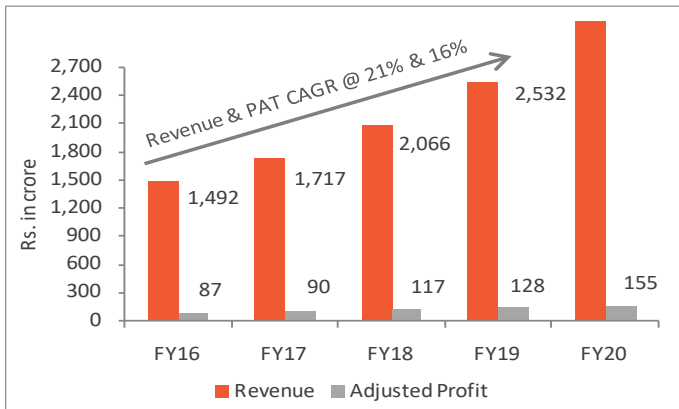
**Trend in Zudio revenues growth**



Source: Company; Sharekhan Research

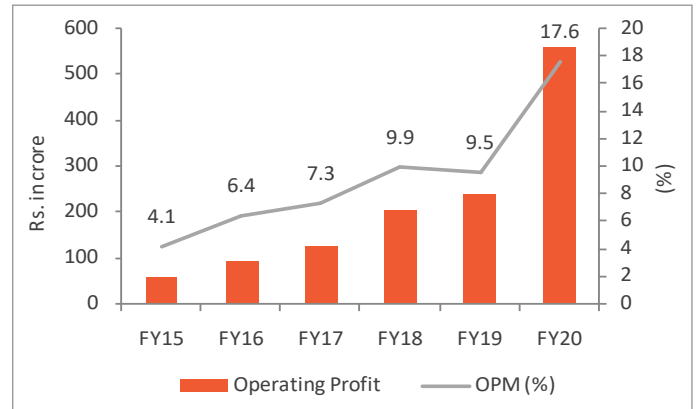
**Financials in charts**

**Trend in revenues and PAT**



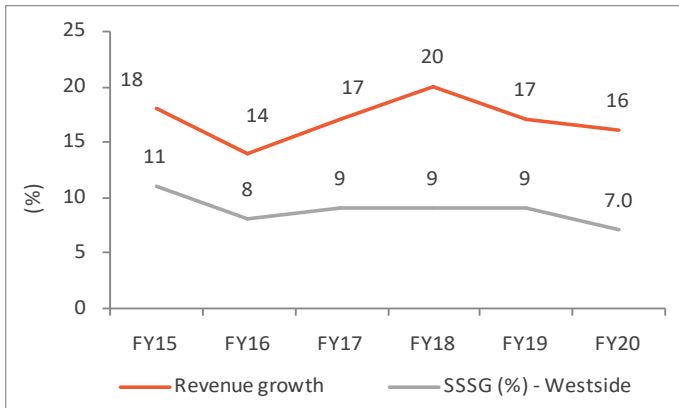
Source: Company, Sharekhan Research

**Trend in OPM (%)**



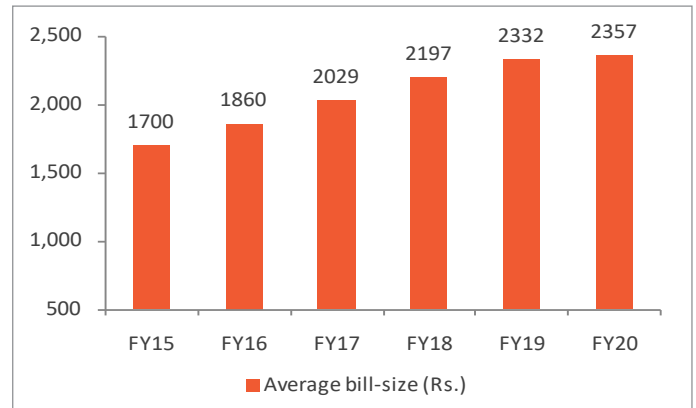
Source: Company, Sharekhan Research

**Consistent growth in Westside SSSG**



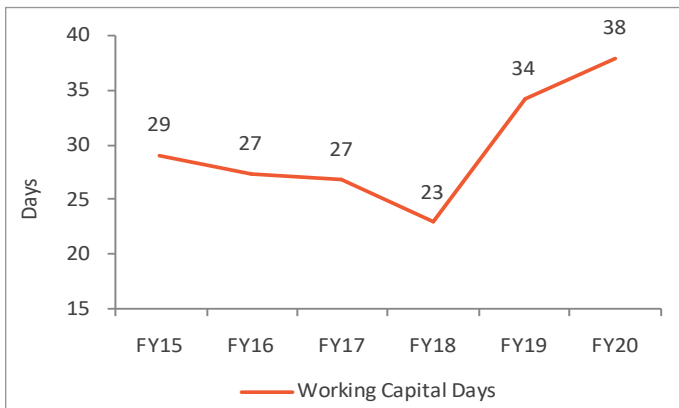
Source: Company, Sharekhan Research

**Trend in average billing (Westside)**



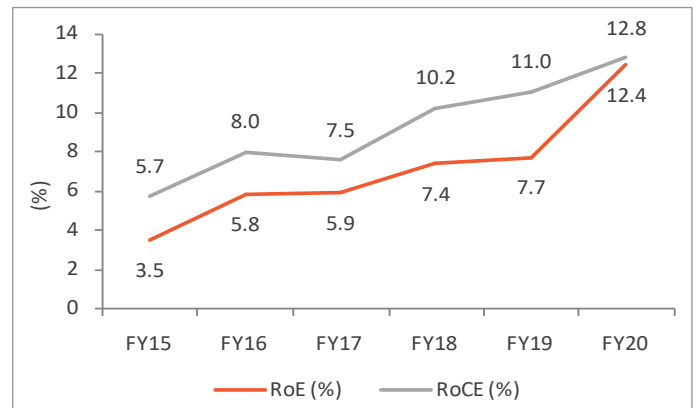
Source: Company, Sharekhan Research

**Stable working capital management**



Source: Company, Sharekhan Research

**Improving return profile**



Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Discretionary consumption to gradually recover:

Retail stores are operating at optimum utilisation post the easing of lockdown norms, resulting in a sequential recovery in revenue for most companies. With inter-city travel resuming and increased out-of-home consumption products (such as apparels and watches), retail companies will also post a consistent recovery in the coming quarters. With malls reopening and better festive/wedding demand, we will see branded apparel companies posting good performance in the coming quarters. Profitability would be severely impacted in FY2021, while we expect it to come back on track in FY2022 (with a strong recovery in sales). However, the sector's long-term growth prospects are intact as companies focus on expanding their reach, banking on e-Commerce channel to drive the next leg of growth, improving store fundamentals, and driving efficiencies to see better margins.

### ■ Company outlook - Strong recovery in FY2022; cost reduction to reduce stress on profitability

Trent's business recovered to ~83% of pre-COVID sales in Q3FY2021. All stores are operational and footfalls are recovering on month-on-month basis with overall improvement in mobility. Rental negotiations, employee cost savings and reduction in discretionary cost will lead to some structural cost savings which would help the company to post better margins in FY2022/23. The company has indicated that its pace of store expansions shall not be affected by near-term headwinds and likely to add 100 stores in FY2022. The company has prioritised cash conservation, by focusing on reducing costs, especially on discretionary front with a continued emphasis on maintaining adequate liquidity and minimal borrowings, which will help support profitability to some extent.

### ■ Valuation - Maintain Buy with revised PT of Rs. 1,015

According to apparel industry experts, FY2022 will be the year of revival with apparel sales expected to bounce back as footfalls improve in retail stores. The strategy of becoming all-season player, large focus on driving sales through omni-channels and thrust on branded women/kidswear segment will help branded retailers stay ahead of multi-brand outlets in the coming years. We expect the retail story to unfold strongly in FY2023/24. Trent with strong contribution from private labels, higher sales per sq.ft as compared to peers and a strong balance sheet is expected to be key beneficiary of growing apparel market in the coming years. In view of this, we have increased our earnings estimates for FY2023. We maintain a Buy recommendation the stock with revised sum-of-the-parts price target of Rs. 1,015.

#### Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Aditya Birla Fashion	-	-	59.5	41.7	18.5	13.2	-5.8	4.5	11.4
Trent	-	-	-	114.2	44.5	35.1	1.1	9.6	12.8

Source: Company, Sharekhan estimates

## About company

Trent is a leading branded retail company that operates Westside, a chain of departmental stores retailing apparel, footwear and other accessories, with over 99% contribution from own brands. Westside has presence of over 150 stores across 76 cities in India. It also operates value fashion chain Zudio, having 40 stores and books and music retail chain Landmark with five stores. Trent has a 50:50 JV with Tesco PLC UK to operate Star stores through Trent Hypermarket Private Limited. In addition, Trent has also two separate associations of 49% each with the Inditex Group of Spain to operate Zara and Massimo Dutti stores in India through Inditex Trent Retail India Private Limited.

Retail format	JV/Association
Westside	Owned by Trent
Zudio	Owned by Trent
Star	50:50 JV with Tesco PLC UK
Zara	49% association with Inditex group
Massimo Dutti	49% association with Inditex group

Source: Company

## Investment theme

Trent is the only branded retail player with close to 100% share of private brands with pan-India presence. Trent offers a strong set of brands catering to all categories of consumers, which has helped the company report the highest average revenue per square foot compared to other branded players. Trent has maintained its SSSG momentum over the years as well as the profitability is seen increasing y-o-y. Aggressive store expansion, better store fundamentals, higher contribution from private brands and innovative product offering in the premium and value fashion space would be key growth drivers for the company going ahead.

## Key Risks

- ◆ Any slowdown in the discretionary demand environment would impact SSSG, affecting revenue growth.
- ◆ Heightened competition, especially in the form of private labels by other branded players, would act as a threat to revenue growth.
- ◆ Any significant increase in key raw-material prices such as cotton would affect the company's profitability.

## Additional Data

### Key management personnel

Noel Tata	Chairman
Philip N Auld	Managing Director
P Venkatesalu	Executive Director & CFO
MehernoshSurti	Company Secretary

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Arisaig India Fund Limited	5.4
2	HDFC Asset Management Co Ltd	3.7
3	Franklin Resources Inc	1.8
4	L&T Mutual Fund Trustee Ltd	1.7
5	Sundaram Asset Management Co Ltd	1.7
6	SBI Life Insurance Co Ltd	1.5
7	HDFC Life Insurance Co Ltd	1.5
8	Emirate of Abu Dhabi UAE	1.0
9	Reliance Capital Trustee Co Ltd	0.9
10	Axis Asset Management Company	0.8

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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