

Magnificent execution leads to pre-festive bonanza

About the stock: Trent is India's leading retailer with a presence across various consumer categories (400+ 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' (75% 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: 8-9%)
- 'Zudio' (22% of sales), the value fashion brand, continues to be the next leg of growth for Trent (revenue CAGR: 50% FY18-21)

Q2FY22 Results: Trent delivered a blockbuster quarterly performance with significant beat on our/consensus estimates across all fronts. While revenue recovery rate was expected to reach close to pre-Covid levels, Trent reported its highest ever quarterly revenue in Q2FY22, followed by robust EBITDA margins.

- On a favourable base, revenue grew 126% YoY to ₹ 1020.4 crore (two-year CAGR: 12%).
- Reported robust EBITDA margins of 21.7% (Q2FY21: 1.4%, Q2FY20: 16.2%)
- On account of robust operational performance, PAT came in at ₹ 125.6 crore (Q2FY20: ₹ 38.3 crore, Q2FY21: (-) ₹ 48.1 crore).

What should investors do? Trent has been an exceptional performer with stock price appreciating at ~39% CAGR in the last five years.

- Robust performance during challenging times and industry leading performance will continue to warrant premium valuations to Trent. Hence, we maintain our **BUY** rating on the stock

Target Price and Valuation: We value Trent at ₹ 1330 based on SOTP valuation

Key triggers for future price performance:

- We pencil in 230 store additions between Westside and Zudio for FY22-24E
- Liquidity position remains robust with cash & investments worth ₹ 685 crore that will enable it to tide over the current situation better than peers
- Due to healthy beat on estimates, we revise our revenue and earnings estimates upwards for FY22/23E. We roll over our estimates to FY24E and build in revenue, earnings CAGR of 18%, 42%, respectively, in FY20-24E
- In the long run, the company aims to grow its revenue at CAGR of 25%+

Alternate Stock Idea: Apart from Trent, we also like TCNS Clothing.

- TCNS has emerged as the market leader in women's ethnic space. It has a healthy balance sheet with cash reserves worth ₹ 140 crore
- BUY with a target price of ₹ 860



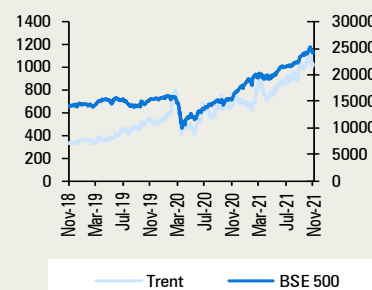
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	36,862.2
Total Debt (Mar-21) (₹ Crore)	299.9
Cash (Mar-21) (₹ Crore)	752.0
EV (₹ Crore)	36,410.2
52 week H/L	1208/ 588
Equity Capital (₹ Crore)	35.5
Face Value (₹)	1.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	37.0	37.0	37.0	37.0	37.0
FII	23.8	30.0	30.5	30.8	30.1
DII	14.6	10.0	10.3	7.8	11.2
Others	24.6	23.0	22.3	24.4	21.7

Price Chart



Recent event & key risks

- Surpassed pre-Covid revenues in Q2FY22
- Key Risk:** (i) Slower ramp up of store network (ii) Re-imposition of lockdown restrictions leading to store closures

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Key Financial Summary

Financials	FY19	FY20	FY21	4 year CAGR (FY16-20)	FY22E	FY23E	FY24E	4 year CAGR (FY20-24E)
Net Sales	2,630.2	3,486.0	2,593.0	22.0%	4,361.7	5,851.0	6,850.6	18.4%
EBITDA	227.7	544.0	171.9		630.3	916.8	1,121.4	19.8%
PAT	97.0	122.8	(146.2)	16.0%	181.3	353.1	494.7	41.7%
EV/Sales (x)	13.3	10.4	14.0		8.4	6.2	5.3	
EV/EBITDA (x)	153.2	66.8	211.8		58.1	39.9	32.5	
RoCE (%)	10.1	15.9	4.3		18.3	24.3	27.2	
RoE (%)	5.9	5.1	-6.3		7.4	13.0	16.0	

Key takeaways of recent quarter

- Trent witnessed a superlative recovery with sales coming in higher by ~25% compared to pre-Covid levels (Q2FY20). On a favourable base, revenue grew 126% YoY to ₹ 1020.4 crore two-year CAGR: 12%). Fashion business operated for 91% of trading days vs. 46% in Q1FY22. Consolidated revenues (that includes Booker India), grew 101% YoY to ₹ 1178 crore
- We believe Trent has continued to minimise discounting with lower EOSS days as reflected in its healthy gross margins: 52.1% (Q2FY20: 47.8%, I-direct estimate: 51.4%). Furthermore, tight leash on operating overheads translated into company reporting strong EBITDA margins of 21.7% (Q2FY21: 1.4%, Q2FY20: 16.2%) with absolute EBITDA increasing materially by 67% to ₹ 221.3 crore, compared to Q2FY20 levels
- Other income came in at ₹ 94.9 crore of which ₹ 12 crore pertains to lease rent waiver and others like investment and dividend income. On account of robust operational performance, PAT came in at ₹ 125.6 crore (Q2FY20: ₹ 38.3 crore, Q2FY21: (-) ₹ 48.1 crore). The company reported profit in share of JV worth ₹ 10 crore vs. loss of ₹ 16.2 crore in Q2FY21
- In H1FY22, the company added 31 new stores taking total count to 191 Westside and 147 Zudio stores. Further, it has a healthy store addition pipeline and would open once the necessary approvals are obtained
- Digital platforms continued to witness robust growth with sales increasing 95% YoY and revenue contribution to Westside increasing to more than 5%. Targeting online sales to reach 10% vs. current 5% over the next few years

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). The robust recovery depicts the inherent strength of the business model. We expect revenue trajectory to further accelerate in H2FY22 on the back of encouraging footfall trends and healthy square feet addition. During its recent AGM, the management has affirmed its aggressive store opening plans for its fashion format (Westside: 35 & Zudio: 75) in FY22 (outlined capex worth ₹ 200 crore in FY22E). Capex trajectory accelerated in H1FY22 with capex up 224% YoY to ₹ 68.7 crore. Trent continues to have healthy cash and investments worth ₹ 685 crore, which would enable it to tide over the current situation better than peers. We maintain BUY rating on the stock with a revised target price of ₹ 1330 (earlier ₹ 1100).

Exhibit 1: Variance Analysis

	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ (%)	Comments
Revenue	1,020.4	746.0	452.1	125.7	327.3	211.8	Robust recovery on the back of improved demand and higher store operational days (91% vs. 46% in Q1FY22)
Other Operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Raw Material Expense	488.7	362.6	267.3	82.8	152.0	221.6	
Gross Profit	531.8	383.4	184.8	187.7	175.3	203.3	
Gross Profit Margin	52.1	51.4	40.9	1123 bps	53.6	-146 bps	Gross margins remained healthy owing to lower EOSS days
Employee exp	76.2	82.1	57.4	32.8	76.3	-0.1	
Other Exp	234.3	194.0	121.0	93.5	130.8	79.1	
EBITDA	221.3	107.4	6.4	3,369.9	-31.8	-796.3	
EBITDA Margin (%)	21.7	14.4	1.4	2027 bps	-9.7	3139 bps	Strong topline growth and tight leash on operating overheads resulted in robust EBITDA margins
Depreciation	66.6	64.7	57.8	15.2	62.2	7.1	
Other Income	94.9	37.8	36.4	160.7	52.3	81.2	Other income includes rental waiver worth ₹ 12 crore. Also includes investment and dividend income
Interest	72.6	65.8	58.3	24.6	68.6	5.9	
Exceptional Income	-13.0	0.0	0.0		0.0		
PBT	163.9	14.7	-73.3	-323.6	-110.2	-248.7	
Tax Outgo	38.3	3.7	-25.2	-251.9	-26.5	-244.6	
Minority Interest							
PAT	125.6	11.0	-48.1	-361.1	-83.7	-250.0	Tracking its robust operational performance, company delivered significant beat on PAT

Source: Company, ICICI Direct Research

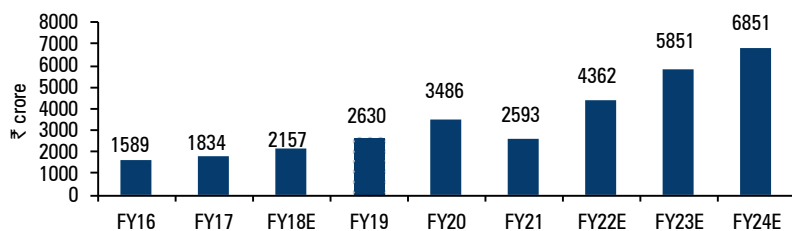
Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			FY24E
	Old	New	% Change	Old	New	% Change	New
Revenue	3,896.6	4,361.7	11.9	5,592.2	5,851.0	4.6	6,850.6
EBITDA	563.1	630.3	11.9	848.3	916.8	8.1	1,121.4
EBITDA Margin (%)	14.5	14.5	0 bps	15.2	15.7	50 bps	16.4
PAT	120.0	181.3	51.0	310.1	353.1	13.9	494.7
EPS (₹)	3.4	5.1	52.2	8.7	9.9	14.2	13.9

Source: Company, ICICI Direct Research

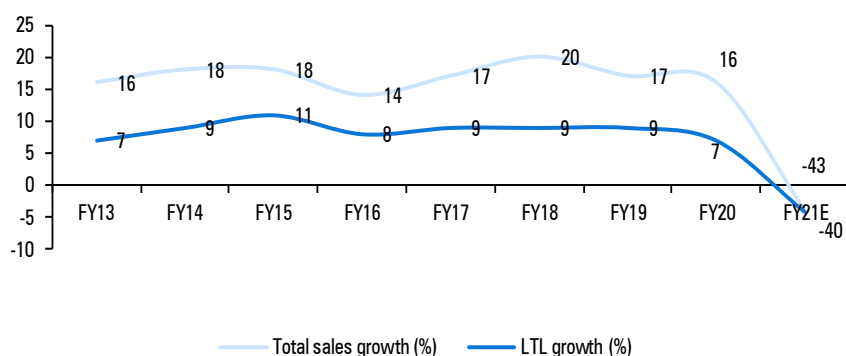
Financial story in charts

Exhibit 3: Revenue Trend



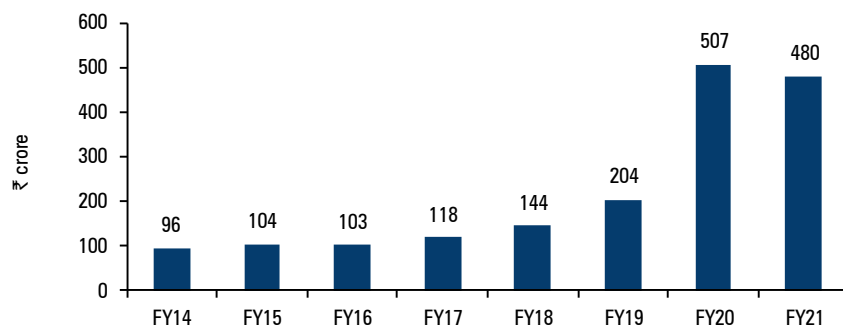
Source: Company, ICICI Direct Research

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



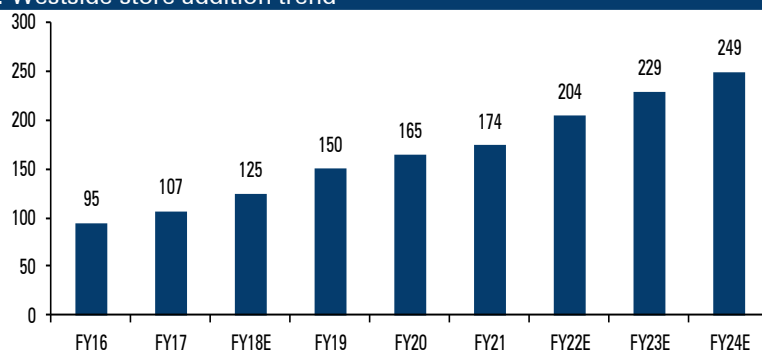
Source: Company, ICICI Direct Research

Exhibit 5: Zudio revenue trend

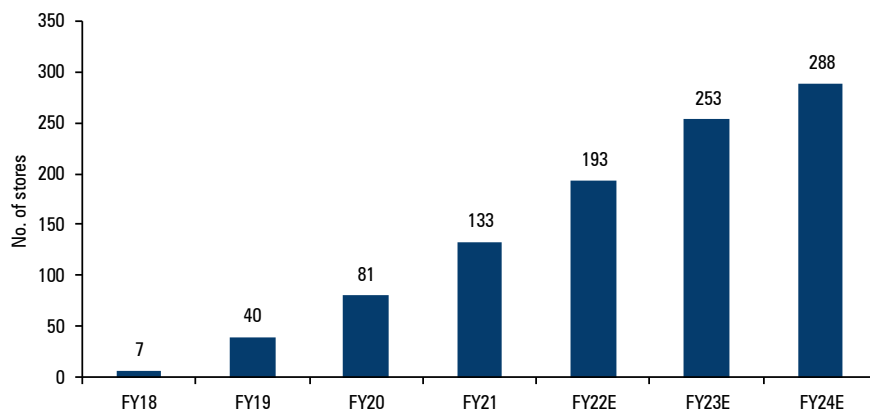


Source: Company, ICICI Direct Research

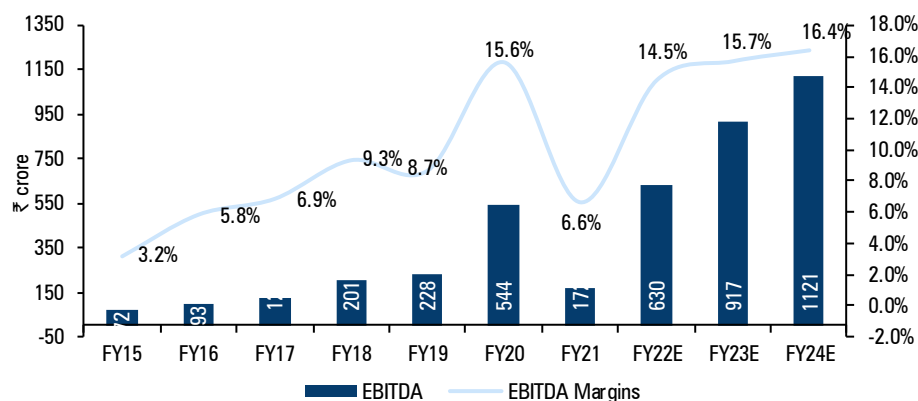
Exhibit 6: Westside store addition trend



Source: Company, ICICI Direct Research

Exhibit 7: Zudio store addition trend


Source: Company, ICICI Direct Research

Exhibit 8: EBITDA and EBITDA margin trend (post Ind-AS 116)


Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Financial	FY24E (₹ cr)	Target Multiple	EV/Mcap	(₹ cr) Cash	Debt	Targeted Mcap (₹ cr)
Standalone revenues	Sales	6181	6.5x EV/Sales	40174	648	285	40537
Trent Hypermarket Ltd	Sales	925	1.5x Price/Sales	1387			1387
Trent -Inditex (Zara)	Sales	1068	5x Price/Sales	5341			5341
Booker & Other Subsidiaries	Sales	342	0.5x Price/Sales	171			171
Target Market Cap. (₹ cr)							47436
Target Price (₹)							1330

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement ₹ crore				
	FY21	FY22E	FY23E	FY24E
Total operating Income	2,593.0	4,361.7	5,851.0	6,850.6
Growth (%)	-25.6	68.2	34.1	17.1
Cost of Goods Sold	1,534.0	2,412.0	3,212.2	3,719.9
Gross Margin (%)	40.8	44.7	45.1	45.7
Employee Expenses	301.9	453.6	608.5	712.5
Operating & Other Expenses	585.2	865.8	1,113.4	1,296.8
Total Operating Expenditure	2,421.1	3,731.4	4,934.1	5,729.2
EBITDA	171.9	630.3	916.8	1,121.4
Growth (%)	-68.4	266.7	45.5	22.3
Depreciation	257.3	287.0	322.1	354.7
Interest	248.7	290.4	304.4	323.0
Other Income	201.6	174.5	152.1	164.4
PBT	-133.5	227.3	442.6	608.1
Share of Profit from JV	-71.4	-16.2	7.5	38.7
Total Tax	-23.7	54.9	117.0	168.2
PAT	-181.1	156.3	333.1	478.7
Minority Interest	-35.0	-25.0	-20.0	-16.0
PAT after MI	-146.2	181.3	353.1	494.7
Extraordinary item	0.0	0.0	0.0	0.0
Reported PAT	-146.2	181.3	353.1	494.7
EPS (₹)	-4.1	5.1	9.9	13.9

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet ₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Liabilities				
Equity Capital	35.5	35.5	35.5	35.5
Reserve and Surplus	2,277.5	2,413.4	2,678.2	3,049.2
Total Shareholders funds	2,313.0	2,449.0	2,713.8	3,084.8
Total Debt	299.9	320.4	301.4	285.4
Other LT Liabilities	2,677.3	2,521.8	2,321.1	2,075.0
Deferred Tax Liability	-114.5	-114.5	-114.5	-114.5
Minority Interest / Others	44.5	44.5	44.5	44.5
Total Liabilities	5,220.2	5,221.1	5,266.2	5,375.2
Assets				
Gross Block	986.0	1,249.0	1,449.0	1,659.0
Less: Acc Depreciation	345.5	432.9	534.4	642.2
Capital WIP	108.0	25.0	25.0	25.0
Total Fixed Assets	748.4	841.0	939.6	1,041.8
Investments	1,515.4	1,333.5	1,306.9	1,280.7
Other Non-current Assets	2,471.28	2,251.66	2,031.04	1,784.14
Goodwill	66.8	66.8	66.8	66.8
Deferred Tax Asset	0.0	0.0	0.0	0.0
Inventory	428.4	728.9	961.8	1,163.7
Debtors	20.8	29.9	40.1	46.9
Loans and Advances	156.2	174.9	195.9	219.4
Cash	81.3	94.4	136.9	213.6
Other Current Assets	120.5	150.7	188.3	235.4
Total Current Assets	807.1	1,178.8	1,523.0	1,879.0
Creditors	274.6	363.5	484.0	540.1
Other Current Liab. & Prov.	114.2	87.2	117.0	137.0
Total Current Liabilities	388.8	450.7	601.0	677.2
Net Current Assets	418.4	728.1	921.9	1,201.8
Application of Funds	5,220.2	5,221.1	5,266.2	5,375.2

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement ₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after tax	-146.2	181.3	353.1	494.7
Add: Depreciation	257.3	287.0	322.1	354.7
Add: Finance Cost	248.7	290.4	304.4	323.0
(Inc)/dec in Current Assets	215.7	-358.5	-301.7	-279.3
Inc/(dec) in CL and Provisions	-23.2	61.9	150.4	76.1
Others	-99.0	0.0	0.0	0.0
CF from operating activities	453.3	462.1	828.1	969.2
(Inc)/dec in Investments	27.7	181.8	26.7	26.1
(Inc)/dec in Fixed Assets	-90.7	-180.0	-200.0	-210.0
Others	-36.0	20.0	0.0	0.0
CF from investing activities	-99.0	21.8	-173.3	-183.9
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.2	20.5	-19.0	-15.9
Less: Finance Cost & Others	-335.9	-440.1	-510.9	-563.2
Others	0.8	-51.1	-82.5	-129.5
CF from financing activities	-334.9	-470.8	-612.3	-708.6
Net Cash flow	19.5	13.1	42.5	76.7
Opening Cash	61.8	81.3	94.4	136.9
Closing Cash	81.3	94.4	136.9	213.6

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per share data (₹) (annualised)				
EPS	-4.1	5.1	9.9	13.9
Cash EPS	3.1	13.2	19.0	23.9
BV	65.1	68.9	76.3	86.8
DPS	1.0	1.3	2.5	3.5
Cash Per Share	2.3	2.7	3.9	6.0
Operating Ratios				
EBITDA Margin (%)	6.6	14.5	15.7	16.4
PBT Margin (%)	-5.1	5.2	7.6	8.9
PAT Margin (%)	-5.6	4.2	6.0	7.2
Inventory days	60.3	61.0	60.0	62.0
Debtor days	2.9	2.5	2.5	2.5
Creditor days	38.7	30.4	30.2	28.8
Return Ratios (%)				
RoE	-6.3	7.4	13.0	16.0
RoCE	4.3	18.3	24.3	27.2
RoIC	-9.4	26.1	38.5	41.4
Valuation Ratios (x) (annualised)				
P/E	-	203.4	104.4	74.5
EV / EBITDA	211.8	58.1	39.9	32.5
EV / Net Sales	14.0	8.4	6.2	5.3
Market Cap / Sales	14.2	8.5	6.3	5.4
Price to Book Value	15.9	15.1	13.6	11.9
Solvency Ratios				
Debt/EBITDA	1.7	0.5	0.3	0.3
Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	2.5	3.0	2.9	3.1
Quick Ratio	1.0	1.0	0.9	0.9

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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