Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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		↔	

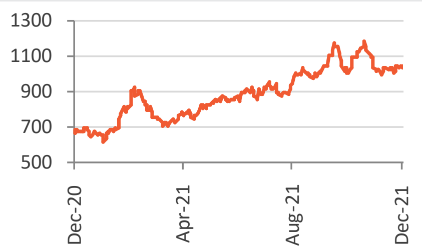
Company details

Market cap:	Rs. 37,326 cr
52-week high/low:	Rs. 1,208 / 588
NSE volume: (No of shares)	8.8 lakh
BSE code:	500251
NSE code:	TRENT
Free float: (No of shares)	22.4 cr

Shareholding (%)

Promoters	37.0
FII	30.7
DII	11.2
Others	21.16

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.3	2.4	23.6	56.2
Relative to Sensex	1.3	4.6	13.4	34.8

Sharekhan Research, Bloomberg

Stock Update

Trent Ltd

Q3 will be strong; Resilient business model and expansion plan augur well

Consumer Discretionary	Sharekhan code: TRENT
Reco/View: Buy ↔	CMP: Rs. 1,050
Price Target: Rs. 1,275 ↔	

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- We reiterate Buy on Trent with an unchanged PT of Rs. 1,275. Differentiated business model, strong store expansion plan, and healthy balance sheet (with cash of over Rs. 500cr) makes it a good pick in the retail space.
- According to industry reports, apparel & clothing sales crossed the pre-covid sales with growth of 6% each in October 2021 and November 2021 versus pre-covid sales due to strong demand during the festive season. However, rise in COVID-19 cases might put a pause to strong recovery in the retail space.
- Trent registered revenue growth of 25% in Q2FY2022 over Q2FY2020. With strong footfalls during the festive season, we expect revenue to grow by 30% in Q3FY2022 over Q3FY2020.
- Sustained store additions (added 31 stores in H1), increasing focus on digital sales, and expanding the differentiated portfolio would help the company to stay ahead of competition in the branded apparel space.

Retail industry data and industry commentary suggest strong pick-up in discretionary consumption post the easing of lockdown norms (especially during the festive season). Branded apparel and clothing sales stood ahead of pre-COVID level sales in October and November, with stores operational on all days and pick up in sales due to higher festive demand. Trent will be one of the key beneficiaries of faster recovery because of its differentiated product portfolio with faster inventory churn out. With strong growth momentum supported by the festive season, we expect the company's revenue to grow by 30% in Q3 with pickup in footfalls and higher spends per customer. Better operating leverage and cost-mitigation measures will help EBIDTA margin to remain high in Q3. However, the recent spike in COVID-19 cases and stringent norms imposed by the state government might pose a risk to the strong recovery in the performance.

- **Branded apparel sales cross pre-COVID sales in October/November 2021:** According to industry reports, apparel and clothing sales crossed pre-COVID sales for the first time since the pandemic, with sales growing by 6% each in October 2021 and November 2021 due to strong demand during the festive season. Mall operators stated that footfalls in Maharashtra recovered to 70% of pre-COVID levels (consumption has recovered to 90-95%), while in states/cities with lower restrictions, footfalls recovered to 85-90% (consumption grew by 18-25%). Similar trend was visible in December 2021. However, emergence of Omicron variant and rising COVID-19 cases in key states/cities might put a pause to the strong recovery seen in coming months.
- **Trent to post strong performance in Q3:** Trent posted strong performance in Q2FY2022 with revenue growing by 25% over Q2FY2020, led by pent-up demand, stores operating for a higher number of days, and recovery in footfalls. With the festive season in offering, the company maintained strong recovery momentum in October/November 2021. Our channel check suggests that footfalls were strong, inventory churn-out was faster, and spends per customer were higher in the past three months for the company. Thus, we expect Trent to post strong 30% growth in Q3FY2022 versus Q3FY2020. Better operating leverage, lesser discounts, and cost-mitigation measures will help EBITDA margin to remain high in Q3FY2022.
- **Sustained expansion and increased digital sales to drive growth ahead:** Despite COVID-19 headwinds, the company maintained its focus on steady expansion in key geographies. Under the Westside brand, the company added 11 stores in FY2021 and added 17 stores in H1FY2022. We expect the company to add 20-25 stores per annum under the Westside brand in the coming years. However, faster expansion can be seen under Zudio brand (with 60-70 stores p.a.) with focus on expanding reach in various micro markets. With pickup in online sales (Westside derives 5% of revenue from online sales), the company is planning to leverage on various Tata's digital platform (including launch of Tata Super app and Westside app) to increase sales through digital channels in the coming years. Thus, Zudio will add to revenue growth, while scale up in digital sales will help in steady inventory churn-out in the coming years.

Our Call

View: Maintain Buy with an unchanged PT of Rs. 1,275 – Strong recovery in discretionary consumption with stark improvement in footfalls and pent-up demand would help Trent to post strong performance in Q3FY2022. Though emergence of the third wave might act as a roadblock in the coming quarters, Trent's differentiated business model with 100% sales of in-house brand, strong inventory management, and sustained expansion plan will help the company to recover faster compared to retail brands in the current pandemic environment. Recent spike in COVID-19 cases and stringent restrictions imposed by Delhi has weakened sentiments for discretionary stocks. Any correction in the stock price of Trent from the current level is a good entry opportunity in quality retail play with a strong balance sheet and business model. We maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 1,275. The stock is currently trading at 34x/29x its FY2023/FY2024 EV/EBIDTA.

Key Risks

Any emergence of third wave would put a break on recovery momentum and will act as a key risk to our earnings estimates in the near term.

Valuation (Standalone) Rs cr

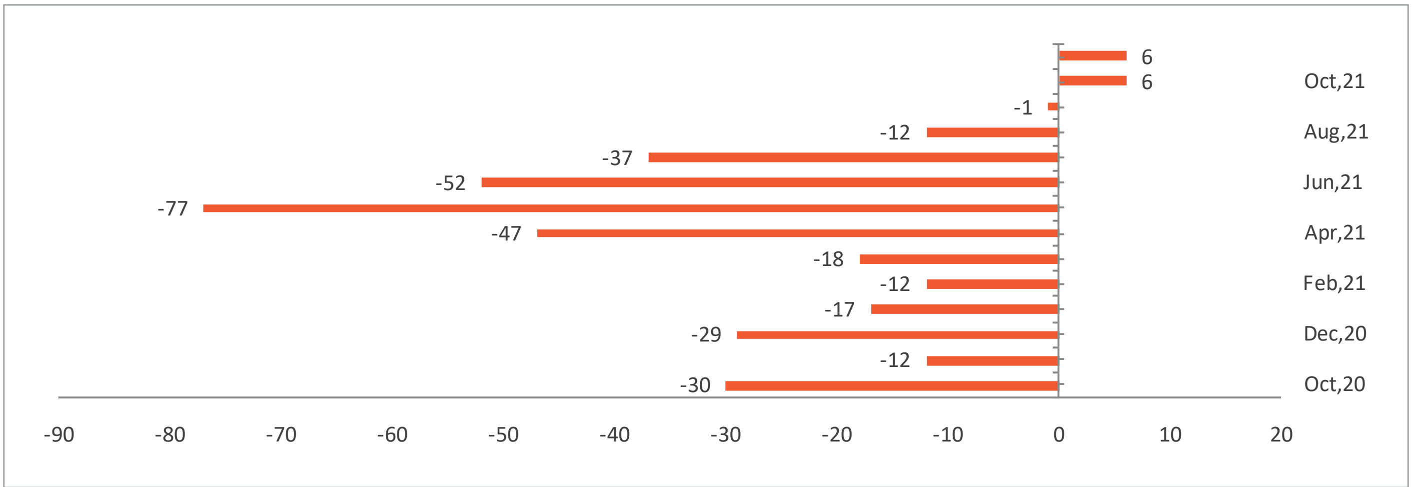
Particulars	FY21	FY22E	FY23E	FY24E
Revenue	2,048	3,328	4,441	5,190
OPM (%)	10.0	18.1	21.2	21.9
Adjusted PAT	-45	192	429	571
% YoY growth	-	-	123.1	33.2
Adjusted diluted EPS (Rs.)	-1.3	5.4	12.1	16.1
P/E (x)	-	-	87.1	65.4
P/B (x)	14.8	14.1	12.3	10.5
EV/EBIDTA (x)	95.2	48.4	34.0	28.8
RoNW (%)	-	7.4	15.1	17.4
RoCE (%)	3.3	9.6	14.5	16.7

Source: Company; Sharekhan estimates

Branded apparel sales cross pre-COVID sales in October 2021/November 2021; Trent to post strong Q3

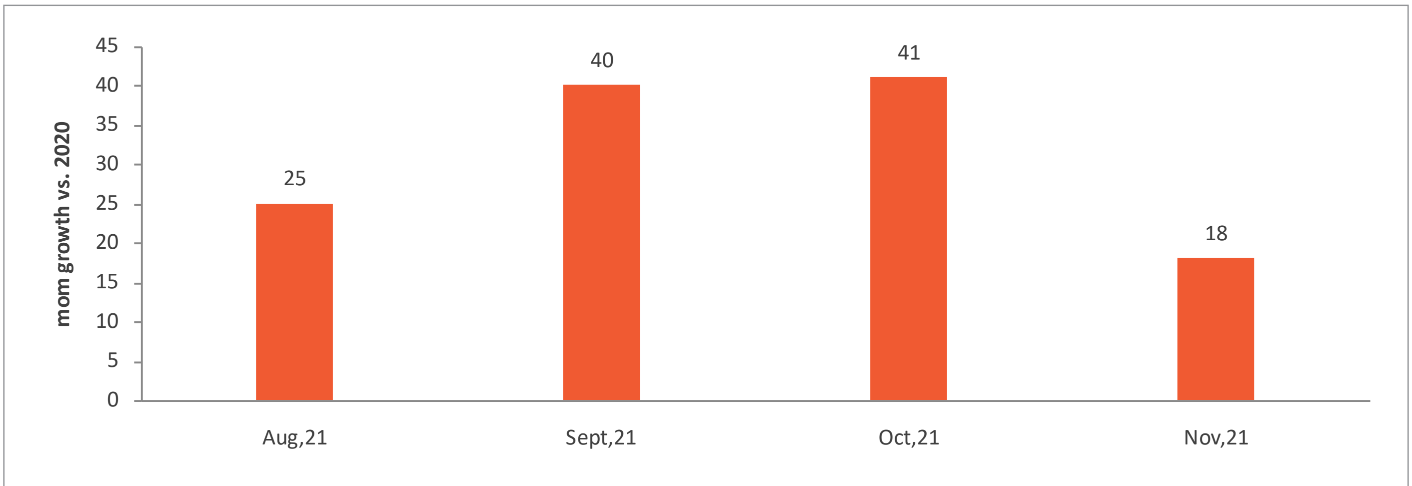
According to industry reports, apparel and clothing sales crossed pre-COVID sales for the first time since the pandemic with sales growing by 6% each in October 2021 and November 2021 versus October 2019 and November 2019, respectively, due to strong demand during the festive season. Sales grew by 41% and 18%, respectively, compared to October 2020 and November 2020 due to low base. Mall operators stated that footfalls in Maharashtra recovered to 70% of pre-COVID levels (consumption has recovered to 90-95%), while in states/cities with lower restrictions, footfalls have recovered to 85-90% (consumption grew by 18-25%). Similar trend was visible in December 2021. Trent will be one of the key beneficiaries of faster recovery because of its differentiated product portfolio with faster inventory churn out. With strong growth momentum supported by the festive season, we expect the company's revenue to grow by 30% in Q3 with pickup in footfalls and higher spends per customer. Better operating leverage and cost-mitigation measures will help EBIDTA margin to remain high in Q3. However, the emergence of Omicron variant and rising COVID-19 cases in key states/cities might put a pause to the strong recovery seen in the coming months.

Apparel and clothing sales recovered post pre-COVID levels in October/November 2021 (versus 2019)



Source: Industry reports; Sharekhan Research

Apparel and clothing growth stood strong in the past few months



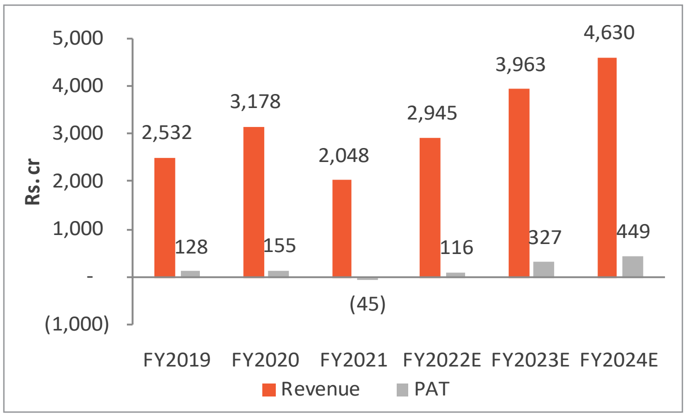
Source: Industry reports; Sharekhan Research

Sustained expansion and increased digital sales to drive growth ahead

Despite COVID-19 headwinds, the company maintained its focus on steady expansion in key geographies. Under the Westside brand, the company added 11 stores in FY2021 and added 17 stores in H1FY2022. We expect the company to add 20-25 stores per annum under the Westside brand in the coming years. However, faster expansion can be seen under Zudio brand (with 60-70 stores p.a.) with focus expanding reach in various micro markets. With pickup in online sales (Westside derives 5% of revenue from online sales), the company is planning to leverage on various Tata's digital platform (including launch of Tata Super app and Westside app) to increase sales through digital channels in the coming years. Thus, Zudio will add to revenue growth, while scale up in digital sales will help in steady inventory churn-out in the coming years.

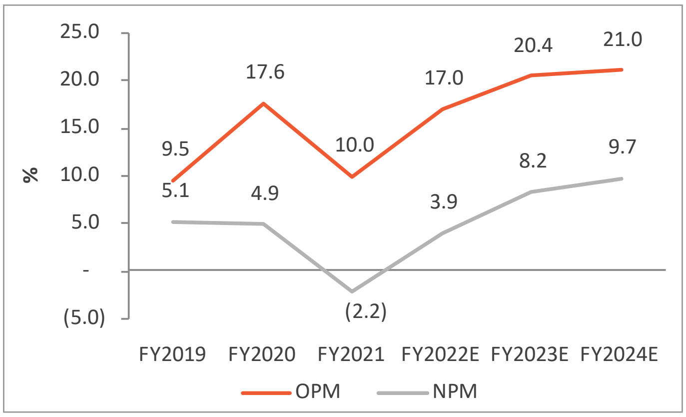
Financials in charts

Consistent growth in revenue and PAT



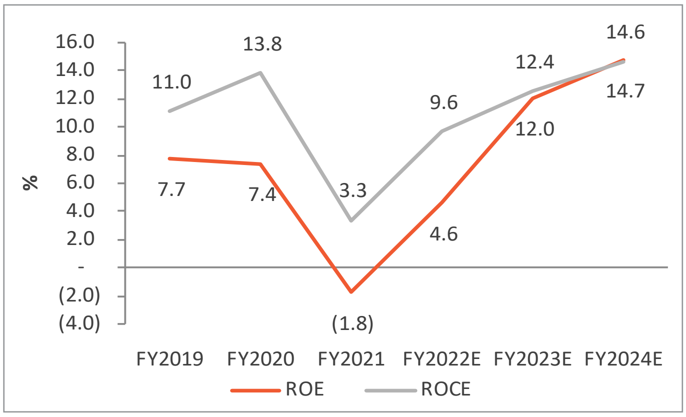
Source: Company, Sharekhan Research

Margins to improve from the current level



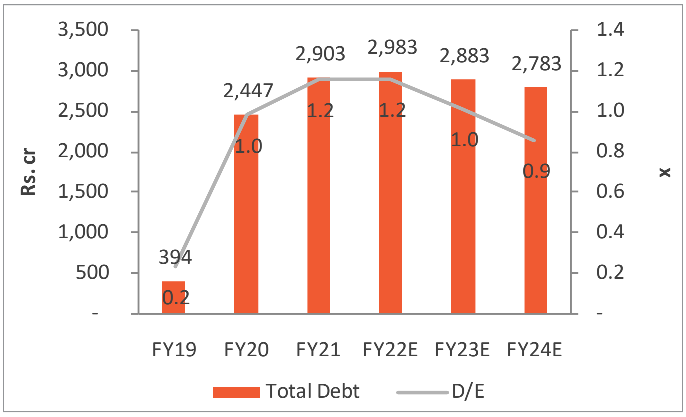
Source: Company, Sharekhan Research

Return ratios to rise going ahead



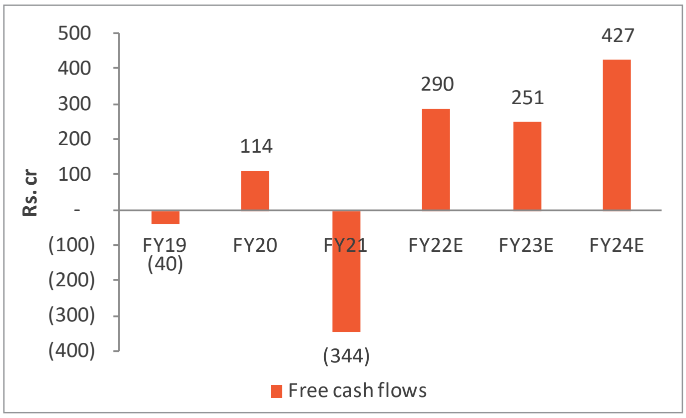
Source: Company, Sharekhan Research

Improvement in debt position



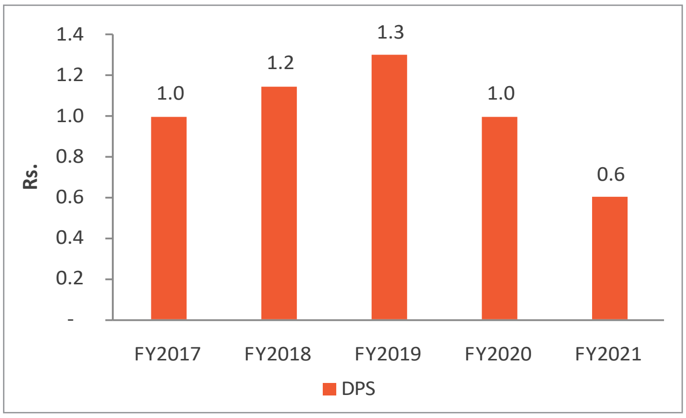
Source: Company, Sharekhan Research

Significant free cash flow generation



Source: Company, Sharekhan Research

Consistent dividend payout



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Long-term growth prospects intact

Recovery in performance of retail and hospitality companies would be much stronger and faster compared to recovery in performance after the first wave in FY2021. October 2021 and November 2021 sales for apparels and jewellery stood ahead of pre-COVID sales. Thus, we expect all branded apparel and retail companies to cross pre-COVID level sales in Q3FY2022. However, the recent spike in COVID-19 cases and rising fear about the new variant would affect footfalls and slowdown growth in the near term. Store-level efficiencies, stringent cost control, and negotiation with landlords would help operational cost to remain under control. We believe changing aspirations, higher sales through the e-commerce platform, and expansion in retail footprints in tier-3 and tier-4 towns would help keep the long-term structural story of the retail industry in India intact.

■ Company outlook - Strong growth momentum to sustain in Q3

The company's fashion business saw strong recovery in Q2FY2022 with revenue standing higher as compared to pre-COVID levels and has turned positive at the operating level. With strong recovery in the festive season, we expect Trent's sales to sustain strong growth momentum in Q3 with higher EBIDTA margin. Q4 performance would depend on intensity of spread of virus in the domestic market. Sustained store additions (added 31 stores in H1), increasing focus on digital sales, and expanding the differentiated portfolio would help the company to stay ahead of competition in the branded apparel space. Overall, growth is expected to recover strongly in FY2023, while profitability will improve gradually as operating leverage gets better.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 1,275

Strong recovery in discretionary consumption with stark improvement in footfalls and pent-up demand would help Trent to post strong performance in Q3FY2022. Though emergence of the third wave might act as a roadblock in the coming quarters, Trent's differentiated business model with 100% sales of in-house brand, strong inventory management, and sustained expansion plan will help the company to recover faster compared to retail brands in the current pandemic environment. Recent spike in COVID-19 cases and stringent restrictions imposed by Delhi has weakened sentiments for discretionary stocks. Any correction in the stock price of Trent from the current level is a good entry opportunity in quality retail play with a strong balance sheet and business model. We maintain our Buy recommendation on the stock with an unchanged price target (PT) of Rs. 1,275. The stock is currently trading at 34x/29x its FY2023/FY2024 EV/EBIDTA.

Peer Comparison

Company	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21E	FY22E	FY23E
Aditya Birla Fashion	-	-	91.4	47.4	26.7	18.1	-	1.5	8.4
Shoppers Stop	-	-	16.1	20.0	10.3	5.3	-	3.5	15.5
Trent	-	-	87.1	95.2	48.4	34.0	3.3	9.6	14.5

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 over 174 stores across 90 cities in India. Trent also operates value fashion chain Zudio, having 133 stores and books and music retail chain Landmark with six 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

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 its profitability is seen increasing on a y-o-y basis. 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 and CFO
Mehernosh Surti	Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Arisaig India Fund Limited	5.4
2	HDFC Asset Management Co. Limited	3.7
3	Franklin Resources Inc.	1.8
4	L&T Mutual Fund Trustee Limited	1.7
5	Sundaram Asset Management Co. Limited	1.7
6	SBI Life Insurance Co, Limited	1.5
7	HDFC Life Insurance Co. Limited	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 (Old data)

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 detoriating 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

Sharekhan

by BNP PARIBAS

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