Stock Update

Annual Report Review

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Trent Ltd

FY2022 – Comeback year; retail footprint widens

Consumer Discretionary	Sharekhan code: TRENT
Reco/View: Buy ↔	CMP: Rs. 1,049 / Price Target: Rs. 1,415 ↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 18.72

Updated Apr 08, 2022

Low Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

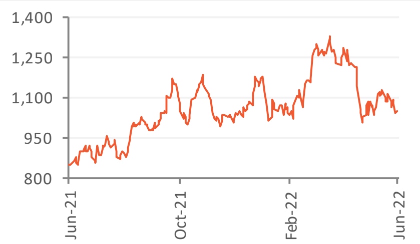
Company details

Market cap:	Rs. 37,291 cr
52-week high/low:	Rs. 1,347 / 832
NSE volume: (No of shares)	6.9 lakh
BSE code:	500251
NSE code:	TRENT
Free float: (No of shares)	22.4 cr

Shareholding (%)

Promoters	37.0
FII	28.9
DII	13.4
Others	20.65

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.5	-19.3	3.0	22.9
Relative to Sensex	3.4	-8.8	11.4	24.8

Sharekhan Research, Bloomberg

Summary

- We re-iterate a Buy rating on Trent with an unchanged PT of Rs. 1,415. Correction of 21% from highs offers a good entry opportunity in this quality retail play that has seen aggressive store expansions and has the best business model among peers. Stock trades at 28.6x/22.5x its FY2023E/24E EV/EBITDA.
- Amongst the retail universe, Trent registered strong performance in the current fiscal with revenues and PAT clocking a CAGR of 11%/30% over FY2020-22 backed by strong store expansion plan.
- Despite capex of Rs. 255 crore (on store additions), the company managed to retain cash position of Rs. 520 crore. Higher inventory on books (led by strong store expansions) drove down operating cash flows to Rs. 227 crore vs. Rs. 325 crore in FY2021.
- The company ended the fiscal with 200 Westside stores and a strong recovery in revenue per sq. ft to Rs. 9,950 (93% of pre-COVID levels). Zudio posted revenue of Rs. ~1,100 crore in FY2022 and ended the year with 400 stores.

A strong business model, efficient supply chain capabilities and aggressive store expansion plan aided Trent to post industry-leading performance in FY2022 despite two roadblocks of second and third COVID wave having an affect on retailers' performance. Trent's revenues/PAT grew at CAGR of 11%/30% over FY2020-22. The company added 139 stores under its various formats In FY2022 (including 26 Westside stores and 100 Zudio stores) taking total count close to 550 stores. The company's store addition under its key brands (Westside and Zudio) grew by 41% y-o-y, funded by internal cash flows and funds raised through equity issuance to promoters. The company ended the year with cash and cash equivalents of Rs. 520 crore on books. Though working capital was affected by higher inventory (due to store additions) in FY2022, we expect the working capital to improve once the churn out improves in the coming years (especially in new stores).

- **Balance sheet lean despite higher capex:** In FY2022, Trent opened 126 stores (at standalone level) and did a capital expenditure of Rs. 255 crore. The company utilised its free cash on books and funds raised through promoter funding (raised Rs. ~900 crore in FY2020) for its strong capex programme. Further the inventory on books increased by 2x to Rs. 823 crore due to significant increase in store addition resulting in the Rs. 98 crore reduction in standalone operating cash flows in FY2022. Despite strong capex programme and higher inventories on books, the cash at end of March 2022 stood at Rs. 520 crore (net cash stood at ~Rs. 20 crore). The company has maintained its aggressive store addition in the near to medium term to support its strong growth.
- **Westside & Zudio - Fundamentals improved substantially:** Westside registered strong recovery in FY2022 with revenues growing 93% on y-o-y basis to Rs. 2,725 crore (97% of pre-COVID levels). The company added 26 Westside stores in FY2022 (cumulative stores 200). Westside revenue per square feet stood at Rs. 9,950 (recovered to 93% of FY2020 levels). The brands overall bill size clocked a CAGR of 6% over FY2018-22 to Rs. 2,796 (with member's bill size increased by 7% to Rs. 3,283; members grew at CAGR of 14% to 77 lakhs). On the other hand, Zudio revenues grew by 2.3x over FY2020 to Rs. 1,100 crore driven by 2.9x strong store addition over FY2020-22 (233 stores at FY2022-end).
- **Retail industry registered strong growth in April-May,2022:** After short blip in the month of January 2022 affected by the COVID third wave, the retail industry saw strong month on month recovery from the month of Feb,22 on back recovery in the footfalls and strong pent-up demand. According to Industry reports, retail sales growth stood at 24% vs. pre-COVID level in the month of May 2022. In terms of category QSR, Jewellery, Footwear and Apparel & Clothing registered strong growth of 42%, 23%, 30% and 24% respectively (vs. pre-pandemic levels). We expect the momentum is likely to continue in the coming months unless another COVID-19 wave out a break on the recovery.

Our Call

View: Retain Buy with an unchanged price target of Rs. 1,415: Trent's growth prospects remain robust owing to an accelerating shift to branded products and growing appetite for aspirational yet strong value propositions. Innovation in the product portfolio, scaling up of supply chain, 100% contribution from own brands, aggressive store expansions and leveraging on digital presence will be key growth drivers in the medium term. We expect its revenues and PAT to grow at CAGR of 33% and 57% over FY2022-24E, which will one of the strongest amongst the peers. The stock has corrected by 21% from its recent high and is currently trading at 28.6x/22.5x its FY2023E/24E EV/EBITDA. We maintain a Buy recommendation on the stock with an unchanged SOTP based price target of Rs. 1,415.

Key Risks

A rise in COVID-19 cases 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	FY22	FY23E	FY24E
Revenue	2,048	3,881	5,583	6,871
EBITDA Margin (%)	10.0	16.3	20.5	21.7
Adjusted PAT	-45	263	359	615
% YoY growth	-	-	36.5	71.5
Adjusted diluted EPS (Rs.)	-1.3	7.4	10.1	17.3
P/E (x)	-	-	-	60.6
P/B (x)	14.8	13.7	12.3	10.4
EV/EBITDA (x)	99.3	40.9	28.6	22.5
RoNW (%)	-	10.0	12.5	18.6
RoCE (%)	3.3	9.6	12.1	15.9

Source: Company; Sharekhan estimates

Brand-wise differentiated growth strategy

Westside – Growth driven by multiple factors

In FY2022, Westside's revenue grew by ~93% y-o-y to Rs. 2,725 crore on a low base of ~50% decline in FY2021. As compared to FY2020, revenue declined by 3%. Westside's business model involves active control across the value chain with respect to key aspects of design, branding, sourcing, logistics, pricing, display, promotion and selling. This enables quick conversion from concept to products in stores, delivering latest fashion trends through a portfolio of exclusive retail brands. Over 85% of merchandise is near-shored from within India, thus ensuring increased agility and supply chain transparency. In FY22, Trent continued to focus on elevation of overall customer proposition with on-trend fashion, aspirational brand experience and convenient access across store & digital channels.

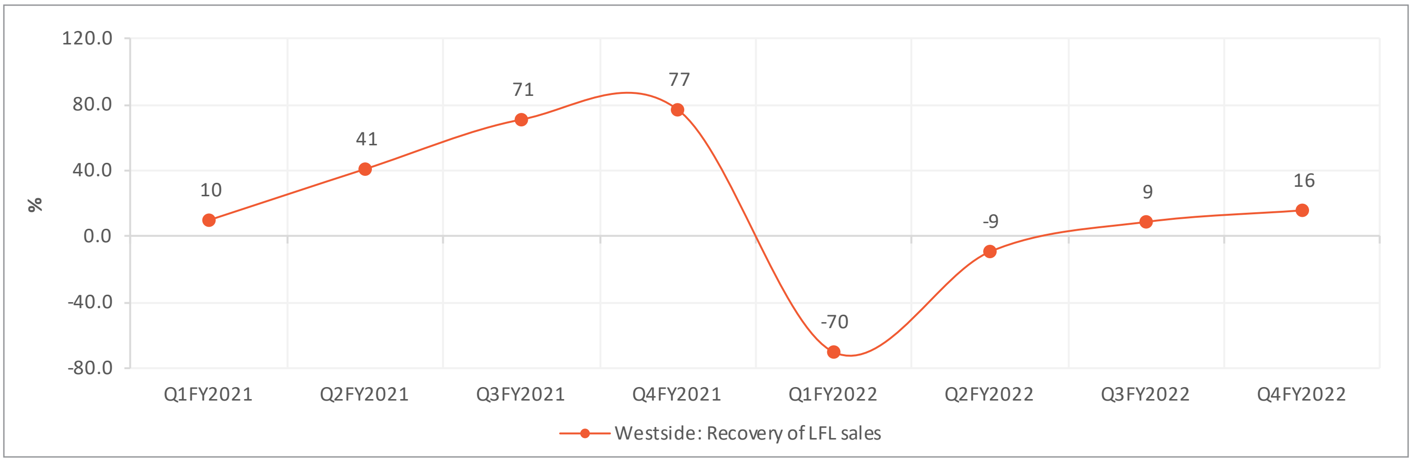
Westside's key initiatives in FY2022

- Responding with agility from a product perspective in a volatile pandemic backdrop
- Emphasis on freshness and on-trend fashion coupled with efficiency of supply chain
- Accelerating reach coupled with focus on high-quality store footprint with street presence; doubling down on the online channel
- Scaling and leveraging the annual subscription-based customer engagement program - WestStyleClub
- Leveraging social media to grow reach and actively appeal to a younger audience

Source: Company; Sharekhan research

In FY2022, sales performance was hit by various challenges given the wave two and three of the pandemic. Nevertheless, the business witnessed strong recovery of like-for-like (LFL) revenues starting with Q2FY2022.

Westside: Recovery of LFL sales from Q2FY2022



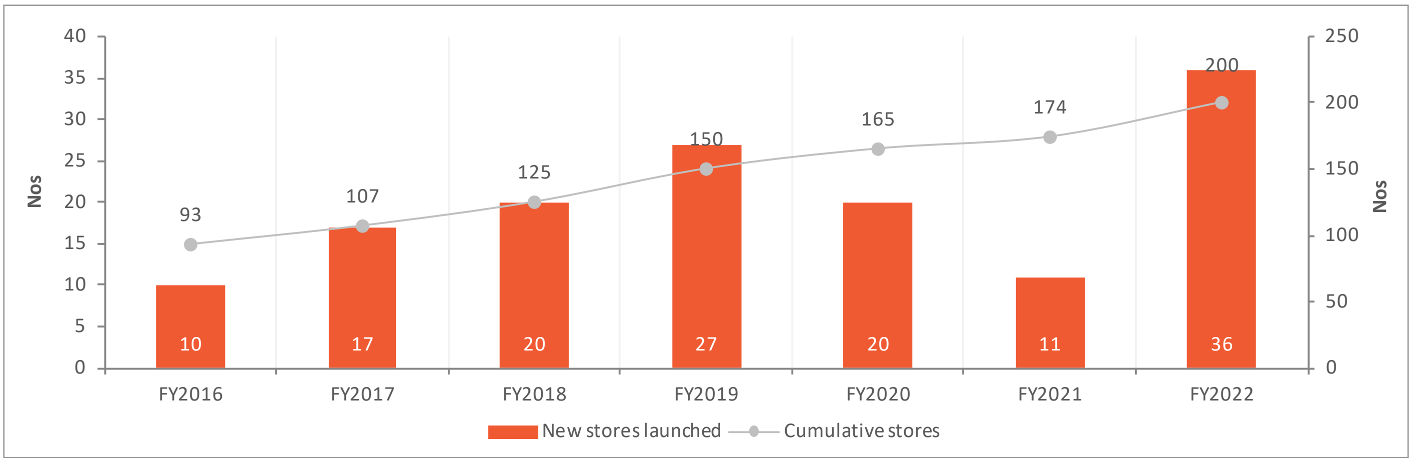
Source: Annual report, Sharekhan Research

Store-specific initiatives:

1. **Leasing cost rationalisation:** In FY2022, stores were temporarily shut for short periods or operated with government-mandated restrictions. Stores in malls typically faced greater constraints than standalone properties. The company actively engaged with its property partners to collaborate and navigate these circumstances and crystallized several arrangements with respect to rent and related charges.

2. **Store expansion and optimization/absorptions continued:** During FY22, Trent added 36 new Westside stores and absorbed/consolidated 10 stores. The company is evaluating numerous emerging micro-markets with significant growth potential across India to pursue a disciplined expansion strategy with strong focus on store level economics. The company also conducts active store optimization programs, which involve identifying brand diluting stores and refreshing them with newer stores in more attractive micro-markets.

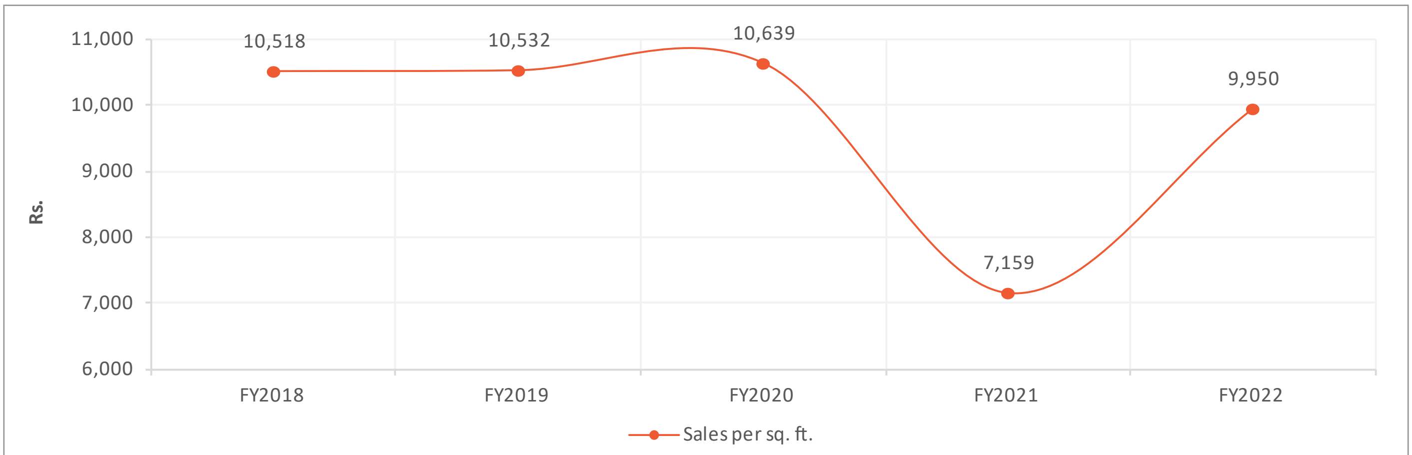
***Westside*: strong store additions in FY2022 amid disruptions**



Source: Company; Sharekhan Research

3. **Focus on modernization and space management:** Apart from store expansion, maintaining the quality of stores and ensuring consistent customer experience are key growth levers for Westside. As an ongoing initiative to emphasize contemporary look and feel and improve consistency of brand experience across the store portfolio, Westside is focused on modernising stores. Efficient utilization of retail space is one of the company's key initiatives. Westside continued to assess stores in terms of revenues and revisit space allocated to brands with differentiated performance.

***Westside*: Trend in sales per sq. ft. (annualised)**



Source: Company; Sharekhan Research

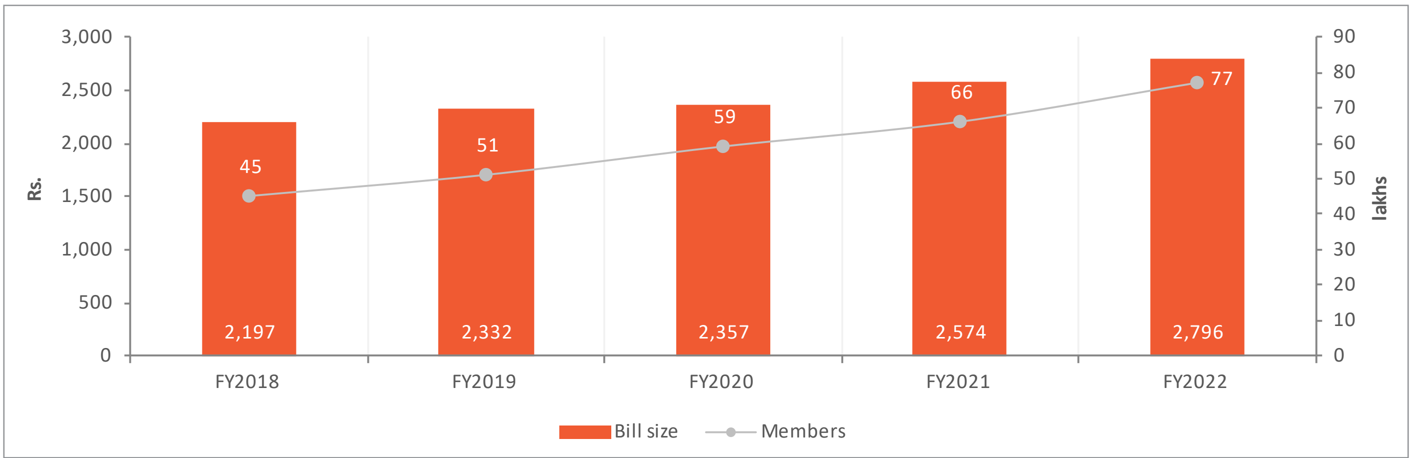
Customer communication through social media, WestStyleClub and customer feedback

Westside engages with its customers through a combination of personalized communication (achieved through WestStyleClub members) as well as mass communication (engaging social media content).

1. **Social media:** Platforms like Instagram, Facebook and YouTube facilitate the company's interaction and engagement with its customers. The company collaborates with leading fashion bloggers, vloggers, influencers, popular fashion events and youth events to reinforce its brand messages to a wider audience. The use of targeted communication methods enables the company to connect with its customers better and enhance customer satisfaction.

2. **WestStyleClub:** In FY2022, WestStyleClub (Westside's annual subscription program) received strong traction and welcomed over 1.4 million subscriptions to the Club. Targeted, customized, and topical campaigns along with data-driven analytics, has helped to achieve sales contribution of over 85% from members. The company continues to see strong engagement levels with its community of customers contributing to a growing trend of subscriptions, renewals and spends per visit.

Trend in WestStyleClub member addition and bill size



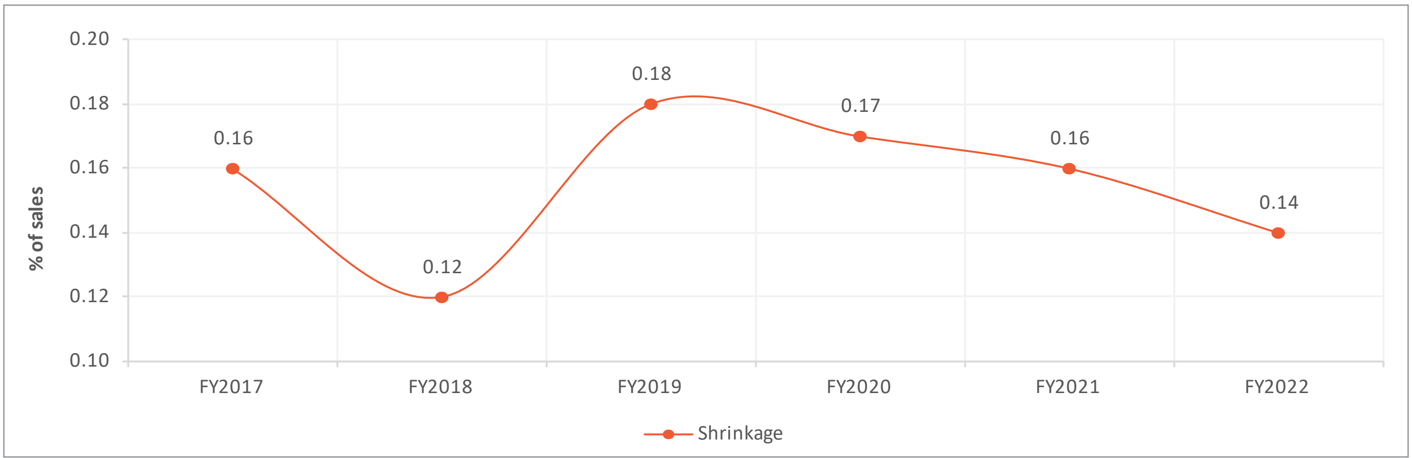
Source: Company, Sharekhan Research1

3. **Customer feedback:** Westside follows a comprehensive approach towards customer listening that consists of formal research, data analytics and informal feedback through customer support channels. The company's cloud-based online platform facilitates real-time and comprehensive feedback capture, response management and customer support. In FY22, Westside took a 360-degree view of customer feedback and support.

Sustainable supply chain

Westside's bouquet of exclusive brands allows greater control across the supply chain and this coupled with a strong inventory discipline ensures that the company delivers the latest fashion every week. The company is committed to investments in scaling and upgrading its supply chain network with a view to enabling sustainable long-term business growth. Consistent reduction in shrinkage is one of the measure of company's improving operating performance.

Westside: Shrinkage drops



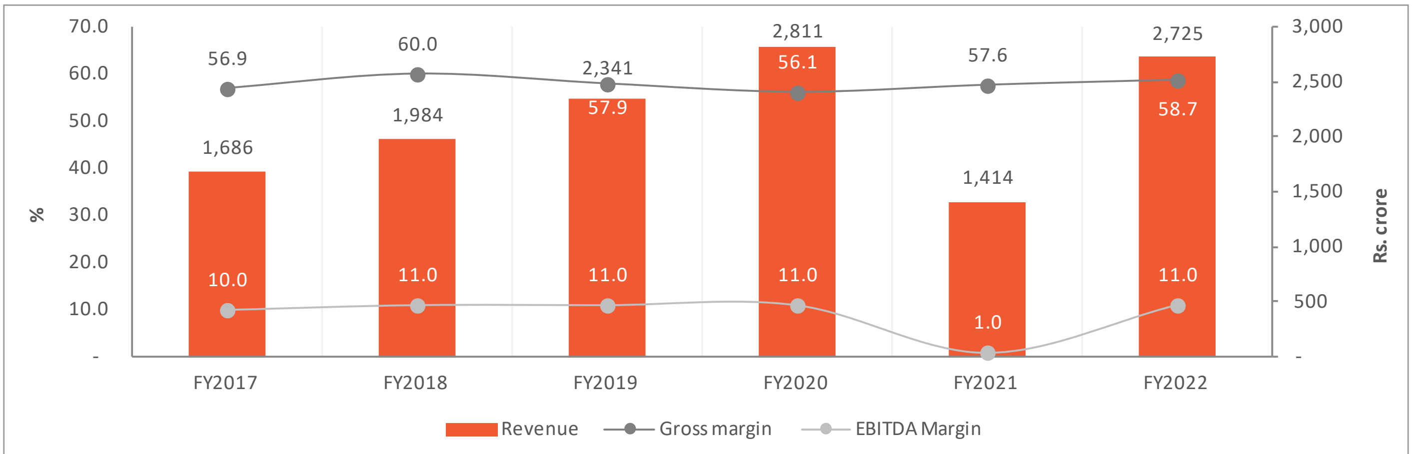
Source: Annual report, Sharekhan Research

Integrated stores and online presence

The company has adopted an entirely integrated model between its stores and online channels with almost 100% of the company's orders being serviced directly from stores. Westside reaches a growing online audience through Westside.com, an arrangement with Tata Cliq and now through Tata Neu - the recently launched super app that seeks to unite the Tata brand universe. The online channel registered 74% y-o-y growth in FY22 contributing to around 7% of Westside revenues. On an on-going basis, the share of online revenues has continued to remain over 5% even as the store business recovered sharply in recent quarters.

In FY2022, through business was hit by COVID-related challenges, Westside's revenue grew by ~93% y-o-y to Rs. 2,725 crore on a low base of ~50% decline in FY2021. As compared to FY2020, revenue declined by 3%. Gross margin improved by ~100 bps y-o-y to 58.7% aided by improved product mix and lower discounting. EBITDA margin for FY2022 came in at 11% on the back various cost reduction measures undertaken, sustainable supply chain, increase in customer bill size and reduction in shrinkage.

Westside: Trend in revenue, gross and EBITDA margin



Source: Annual report, Sharekhan Research

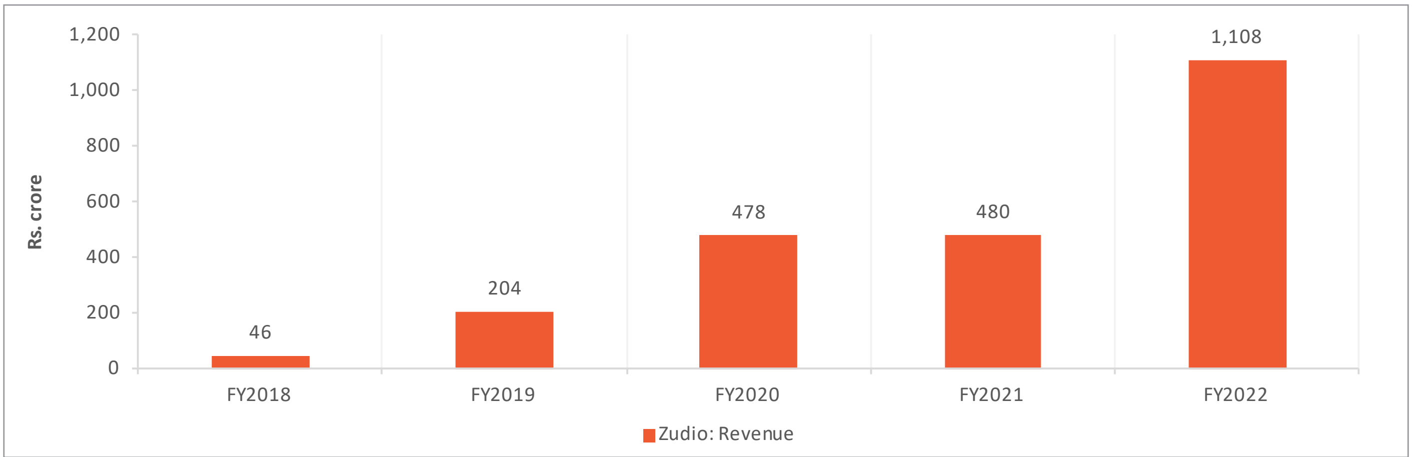
Zudio – Robust store addition in FY2022

Zudio's revenues grew by 2.3x in FY2022 aided by sharp store expansion during the year. Zudio has evolved into a rapidly growing concept that appeals to all with a deep commitment to being accessible across facets – fashion, reach and lifestyle. Exclusive offerings are curated in-house and made available at very sharp price points. As of March 2022, Zudio was present through 233 stores, including stores co-located with Star. The Zudio concept continues to see traction and registered encouraging results following the second wave with revenues exceeding Rs. 1,000 crore in FY22.

Key performance enablers

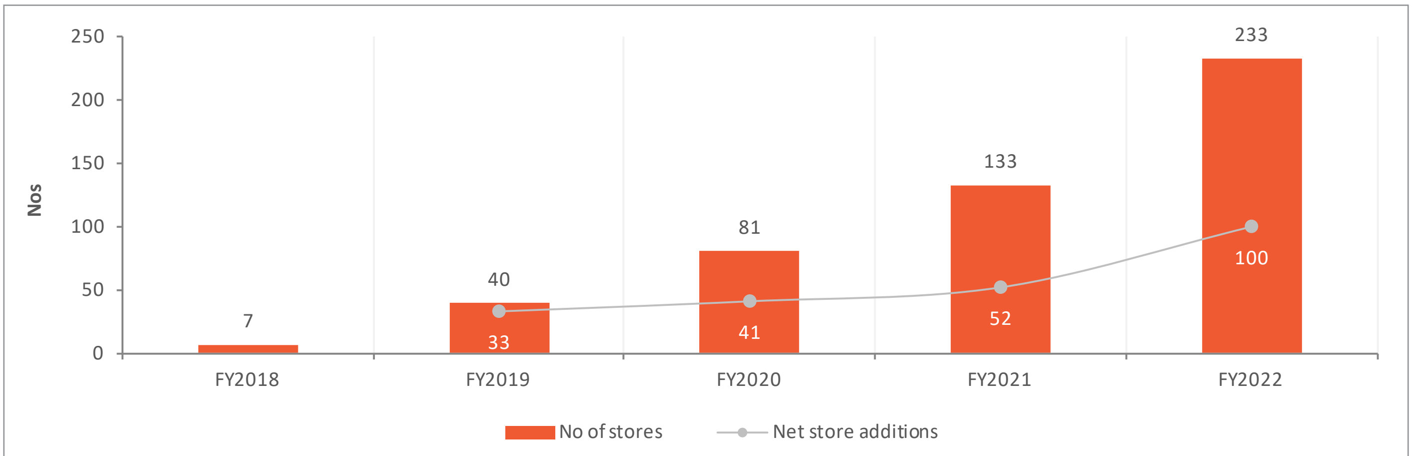
1. **Fresh fashion at stunning prices:** Zudio focuses entirely on exclusive branded offerings, curated in-house and in-line with the latest fashion trends at sharp prices. The offerings are constantly refreshed with the aim to provide new and updated merchandise to customers on every visit. The emphasis is on minimizing lead times and landing fresh collections in stores as quickly as possible. Merchandise is almost entirely sourced from within India as a matter of choice affording access, speed & flexibility.
2. **Vibrant stores:** Zudio stores are present in attractive/prominent locations and aim to offer an exciting shopping experience for customers. Prominent stores, striking windows and in-store displays and exciting store ambience are key factors leading to high footfalls.
3. **Expanding reach:** Zudio is now present across 233 locations. In FY2022, Zudio added 100 new stores to its portfolio. With an average store footprint of 6,000-8,000 sq.ft., the concept affords expansion across numerous micro-markets. The capital employed for a new company-leased and operated Zudio store is at Rs. 3-4 crore including capex, deposits and inventory.

***Zudio* – Revenue trend**



Source: Annual report, Sharekhan Research

***Zudio* – Accelerated store expansion**



Source: Annual report, Sharekhan Research

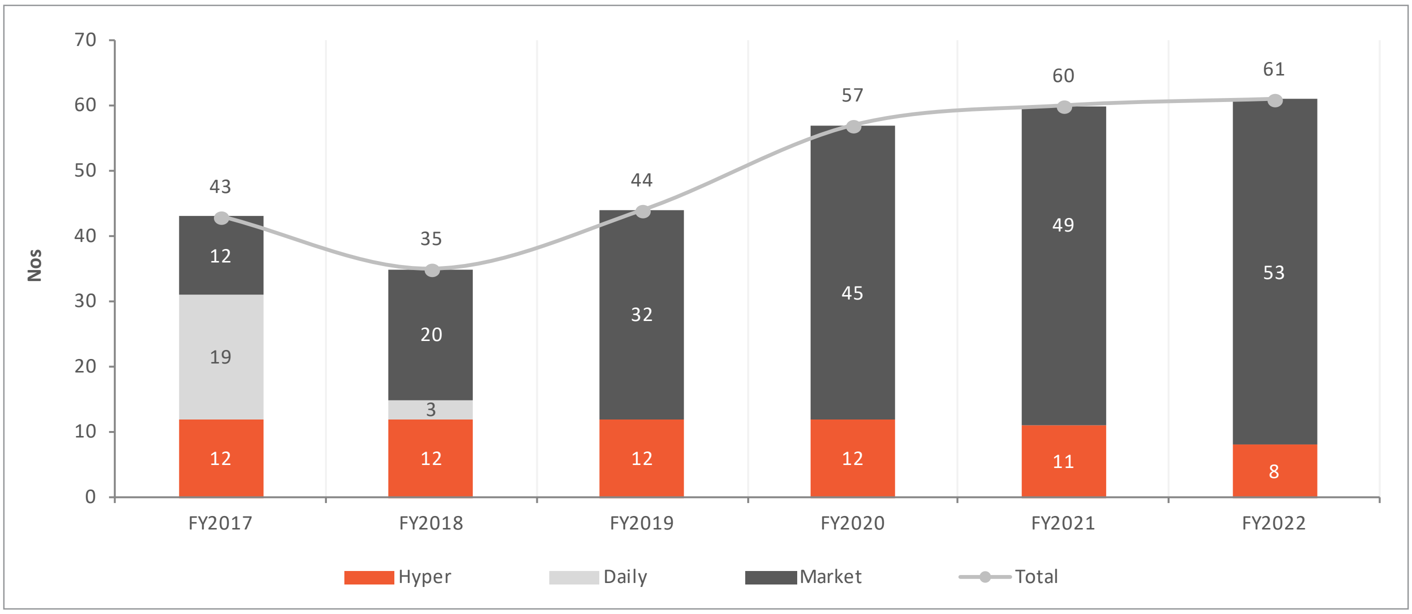
THPL (Star) – Steady growth continued

Star stores are primarily operated by Trent Hypermarket Private Limited (THPL) - a 50:50 JV between Trent Ltd. & Tesco Plc UK. The portfolio comprises hypermarket and supermarket stores focusing on categories like food and groceries, home care, apparel, home décor, health and beauty products. Current portfolio of 61 stores comprises 53 Star Market stores and 8 Star Hypers primarily concentrated in Bengaluru, Hyderabad, Mumbai and Pune. In addition, Fiora Hypermarket Ltd. (FHL), a subsidiary of the Company operates 7 Star Market stores and 2 Star Hypers primarily clustered in Ahmedabad and Surat. In FY2022, Star opened 12 new stores across THPL and FHL.

Clustered store expansion and increased online presence

Star has adopted a calibrated approach to expansion in the recent years. The company has continued to pursue a clustered approach with stores in the states of Maharashtra, Karnataka, Telangana and Gujarat with an aim of creating local scale and being closer to customers. This allows the company to achieve (a) better understanding of local needs and preferences, (b) cost efficiency due to economies of scale, and (c) increased brand visibility. Increasingly, the company's Star food business with tight footprint stores, sharp pricing and focus on fresh & own brands is a model that is witnessing resilient customer traction.

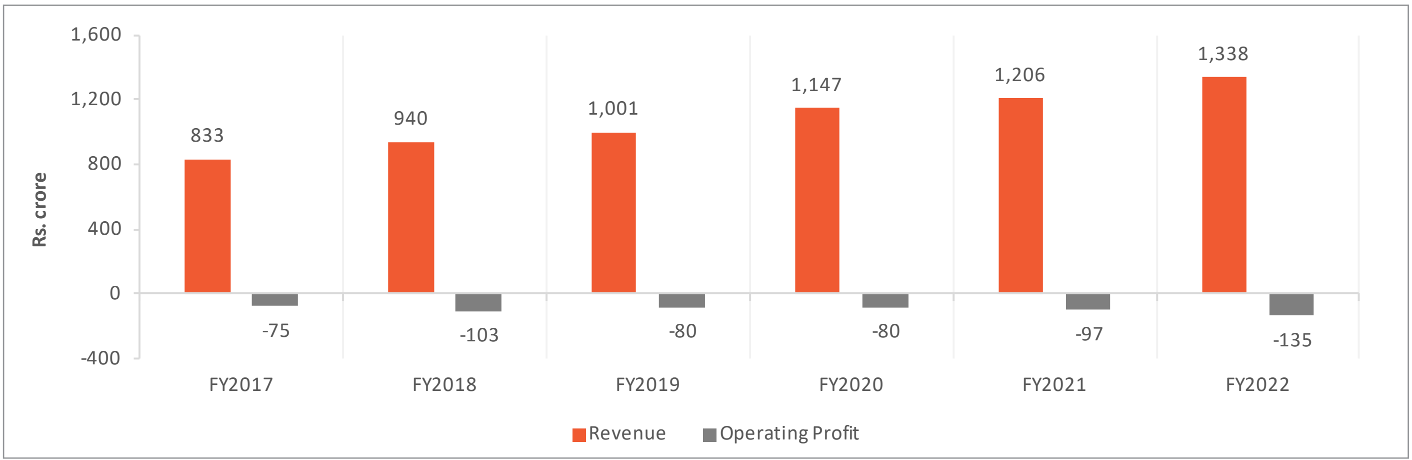
Star store additions over the years



Source: Annual report, Sharekhan Research

THPL delivered total income of Rs. 1,338 crore in FY2022, up from Rs. 1,206 crore in FY2021, a growth of 10.9%. The Star stores registered a corresponding marginal de-growth by 0.9% in LFL performance primarily on account of the Hyper stores located in malls which had higher restrictions during pandemic. The total comprehensive losses increased to Rs. 135 crore in FY2022 from Rs. 97 crore in FY2021 on the back of emphasis on sharp pricing and increase in other operating expenses.

Star - Revenue and PAT trend

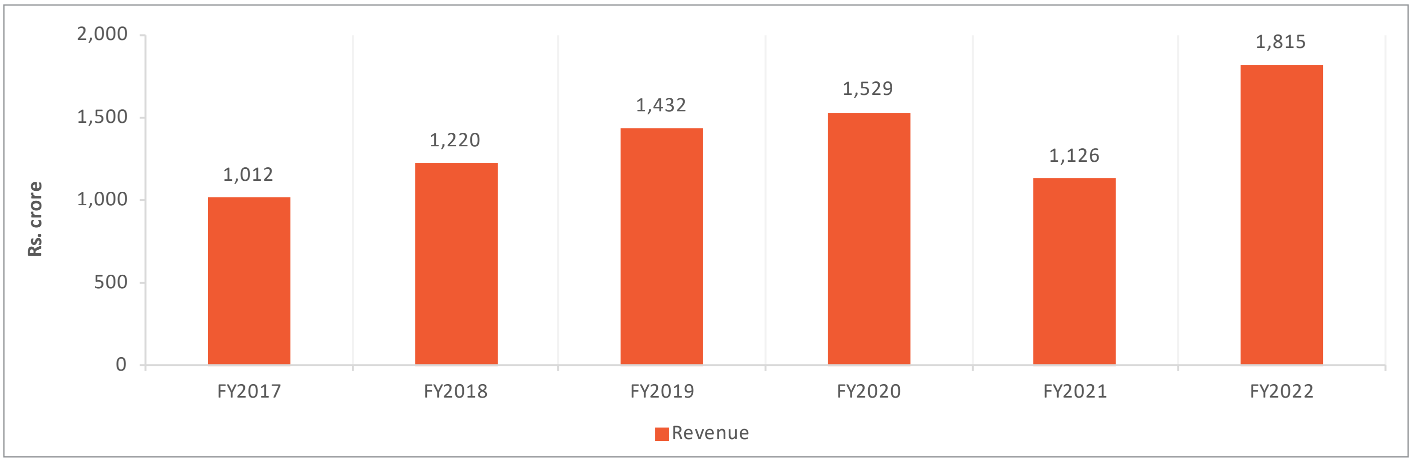


Source: Company, Sharekhan Research

Zara - Strong recovery in FY2022

Trent has two separate associations with the Inditex group of Spain with a shareholding of 51% (Inditex): 49% (Trent) – one entity to operate Zara stores and the other for Massimo Dutti stores in India. The entities essentially facilitate distribution of Zara & Massimo Dutti products in India through their respective stores. The entity for Zara currently operates 21 stores across 11 cities. The entity for Massimo Dutti operates three stores across two cities.

Inditex (Zara) growth in revenue



Source: Company, Sharekhan Research

Other key subsidiaries and alliances performance

- **Booker India Limited (BIL):** BIL was acquired by the company in FY2020. BIL and its wholly owned subsidiary operate cash and carry stores under the Booker Wholesale banner. Booker Wholesale operates on a footprint ranging between 15,000-20,000 sq. ft. and focuses on categories and assortments such as staples, processed foods, confectionery, personal care, home care, soft drinks, dairy etc. and serves kirana stores, traders, wholesalers, small businesses, hotels, restaurants and caterers. Booker stores operate out of 10 locations in 6 cities. The company is in the process of integrating its operations in the food & grocery space to realise efficiencies and to optimise presence. BIL registered consolidated revenues of Rs. 637 crore in FY2022 and excluding nonrecurring charges incurred losses of Rs. 104 crore (51% of this is attributable to the company, given the shareholding).

- **Fiora Business Support Services Limited (FBSSL):** FBSSL, a wholly-owned subsidiary, reported a total revenue of Rs. 60 crore and total comprehensive income of Rs. 11 crore for FY2022. It is engaged in providing business support and outsourcing services relating to accounting, merchandising, human resources, payroll, sourcing, warehousing, distribution etc. to Trent & associated businesses.
- **Fiora Hypermarket Limited (FHL):** Is a wholly owned subsidiary of the BIL, primarily operating a few of the Star stores in the context of the applicable regulations with respect to FDI in Multi Brand Retail Trading. FHL envisages a phased expansion of Star stores in select regions. In FY2022, FHL reported a total income of Rs. 155 crore and total comprehensive loss of Rs. 19 crore.
- **Fiora Online Limited (FOL):** A subsidiary of BIL, operates the Starquik online platform. In FY22, it reported a total revenue of Rs. 149 crore and total comprehensive loss of Rs. 37 crore.

Continued traction of store additions

The second and third wave of the pandemic hit branded retailers' operations in FY2022 due to closure of stores and restriction on mobility during the year. Sustained restrictions adversely affected activities across the company's value chain. Despite the disruptions, Trent maintained its focus on store addition and added 139 stores (net) in FY2022 including 100 Zudio stores, 26 Westside stores, 10 Star stores, 2 Utsa stores and 1 Booker store.

Presence in India

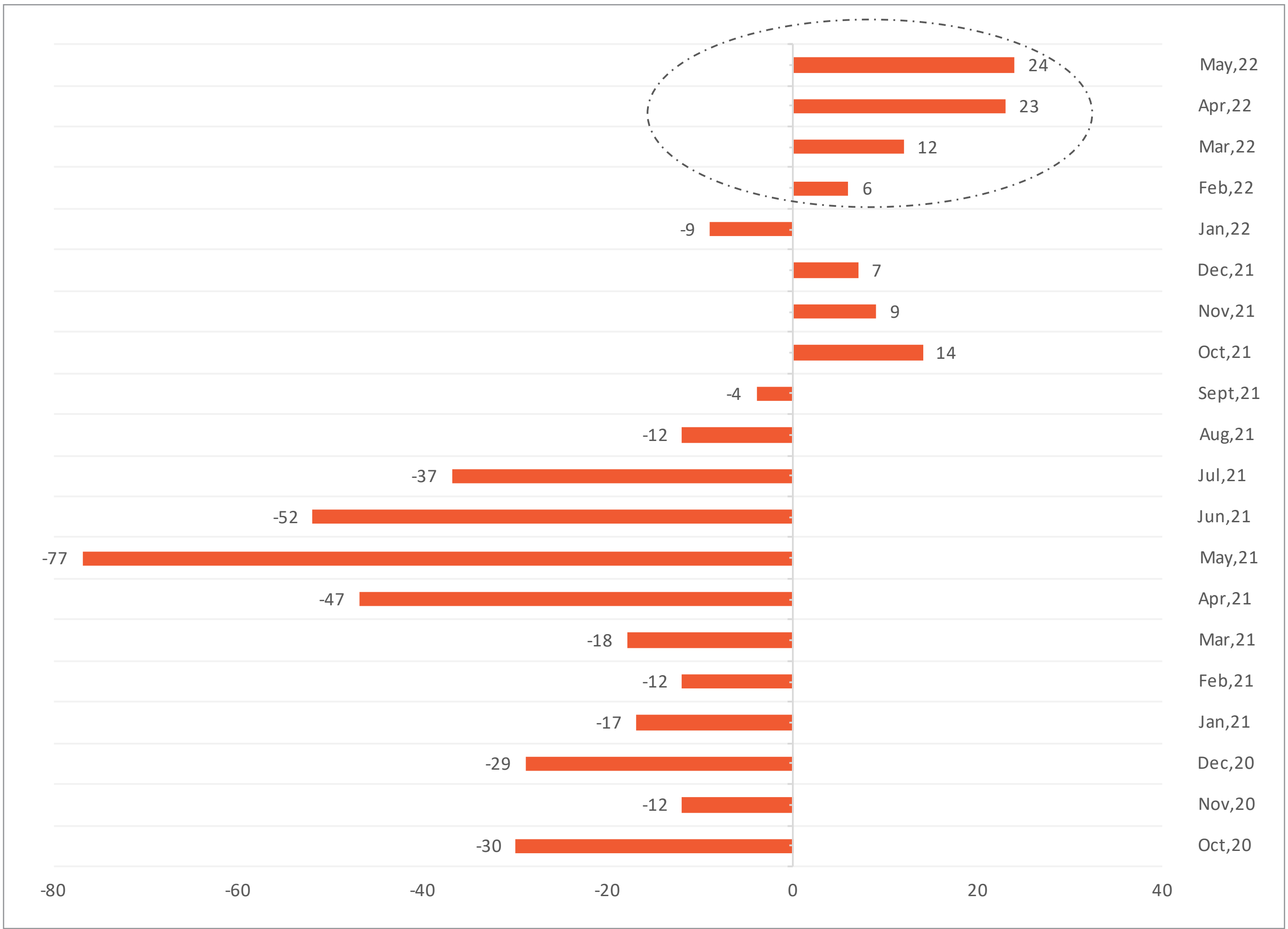
Retail concepts	FY20 Stores	FY21 Stores	FY22 Stores	FY20 Cities	FY21 Cities	FY22 Cities
Westside	165	174	200	87	90	89
Zudio	80	133	233	44	57	89
Star	57	60	70	7	7	9
Zara	22	21	21	12	11	11
Booker / Value Mandi	6	9	10	3	3	6
Landmark Xcite	4	6	6	3	4	4
Utsa	2	4	6	2	4	5
Massimo Dutti	3	3	3	2	2	2
Total	**339**	**410**	**549**	**90+**	**100+**	**120+**
Net store addition		**71**	**139**			

Source: Annual report, Sharekhan Research

Retail Industry witnessed strong growth in April-May 2022

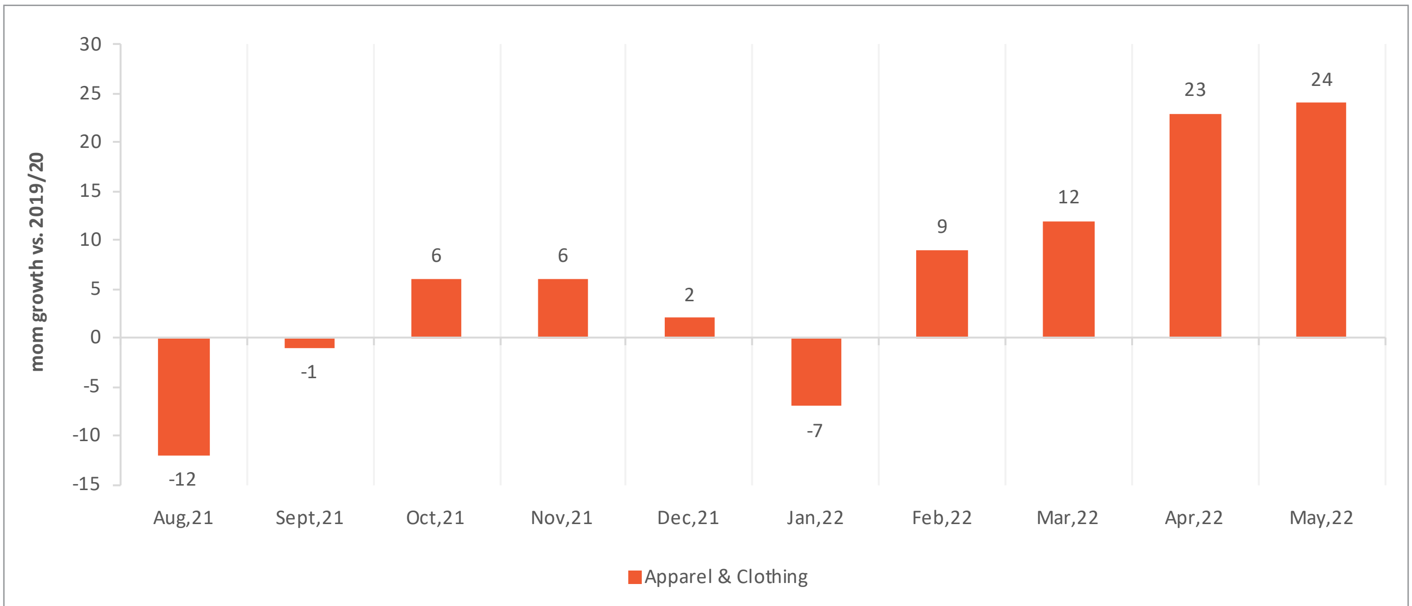
After a short blip in January 2022 affected by the third wave of COVID-19, the retail industry saw strong month on month recovery from the month of February-22 on back recovery in the footfalls and strong pent-up demand. According to Industry reports, retail sales growth stood at 24% vs. pre-covid level in the month of May,2022. According to industry experts, despite inflation customers are willing to come out and shop. Western & Eastern part of India registered growth of 29% and 30% (vs. pre-pandemic). In terms of category QSR, Jewellery, Footwear and Apparel & Clothing registered strong growth of 42%, 23%, 30% and 24% respectively (vs. pre-pandemic levels).

Retail industry witnessed strong recovery vs. pre-covid level in Apr-May, 22



Source: Industry Reports; Sharekhan Research

Apparel & Clothing witnessed strong recovery in past four months



Source: Industry Reports; Sharekhan Research

Risk management

The company has identified certain business specific risks and has laid down the steps it has undertaken to mitigate the risks.

Type of Risk	Complication	JV/Association
Business Environment Risk: adapting to market and trends	The company faces the risk of difficulty in adapting to market trends and reacting to changes in consumer expectations. Growing competition and attractiveness of the industry along with innovation in technology further pose challenges to the business on various fronts. Curating the retail space, offerings and display keeping in mind the micro markets, demographics and needs/ convenience of the consumers adds to the complexities involved and significantly impacts delivered margins.	• Trent continuously monitors the market and interacts with customers to understand the possible future needs. • The company strives to identify and incubate growth drivers/enablers to deliver business results year on year • Business continuity plans ensure that all systems necessary to manage operations are active and functional • Tailoring the space management algorithms in cognizance of regional/ local variations.
Data risk: information and cybersecurity	Increased reliance on digital systems raises the importance of cyber security. Possible impacts include loss of customer data, business interruptions, potential fines/ reputational damage, etc.	• Business systems are continually upgraded to mitigate the risk. Also, Trent is ISO 27001 certified which ensures that Information Security management system controls are in place and enforced. In FY2022, the company migrated their ERP systems to SAP Hana on cloud and consequently mitigated certain related risks.
Technology risk: e-commerce, social media & business operations	Customers are increasingly looking at e-commerce as a convenient channel for shopping. Brands are required to fulfil this expectation with the promise of offering a frictionless purchase journey. Difficulty in adopting relevant technology can pose a risk for growth agendas	• Trent actively pursues initiatives to strengthen technological capability and scalability of the business. An omni-channel focused approach integrating the online and physical stores is an additional step in this direction.
Scalability risk	Limited availability of quality real estate coupled with high rentals and non-adherence to committed schedules by developers pose significant challenges to deployment of strategic plans relating to expansion. Rapid expansion also entails scalability risks in areas of sourcing and supply chain capabilities.	• Rigorous property selection process through multiple filters applied on store quality and economics enables Trent to expand sustainably. Continuous monitoring of key performance indicators on upcoming projects helps the company retain visibility on delivery of store locations. • Increasing focus on agile and dependable sourcing, cost efficiencies across the supply chain and backend readiness are integral initiatives given the company's growth plans.
Partnership risk: JVs and associates	Trent has multiple alliances including with Tesco PLC and the Inditex Group. These alliances may entail certain risks including with respect to continuity. The associations with Inditex are dependent on the majority partner for permissions to use the said brands in India subject to its terms & specifications. Also, the entire control over core customer propositions is with the partner.	• Trent has sought to build on the respective relationships and leverage the learnings across concepts to the extent ossible/relevant • In the case of associations with Inditex, the company continues to view the said commitments primarily as a financial investment and are cognizant of related uncertainties given the nature of the arrangement.

FY2022 – Comeback Year

Despite the second and third waves of the pandemic, Trent delivered strong performance in FY2022 with robust growth in revenue and PAT

- Standalone revenue from operations grew by 89.5% y-o-y to Rs. 3,881 crore.
- EBITDA grew by over 3x in FY2022 to Rs. 633.5 crore from Rs. 203.8 crore in FY2021 backed by cost saving measures and operating efficiencies. EBITDA margin improved to 16.3% from 10% in FY2021.
- Other income was higher at Rs. 279 crore, up from Rs. 204 crore in FY2021 aided by higher treasury yields.
- Reported PAT for FY2022 came in at Rs. 249.6 crore against a loss of Rs. 51 crore in FY2021.
- Revenue and EBITDA registered a three-year CAGR of over 15% (FY2019 to FY2022) notwithstanding the interim impacts of the pandemic.
- The board declared a final dividend of Rs. 1.1 per share. Including the interim dividend of Rs. 0.60 per share, the total dividend for FY2022 stood at Rs. 1.7 per share.

Balance sheet – higher inventory days affected working capital in FY2022

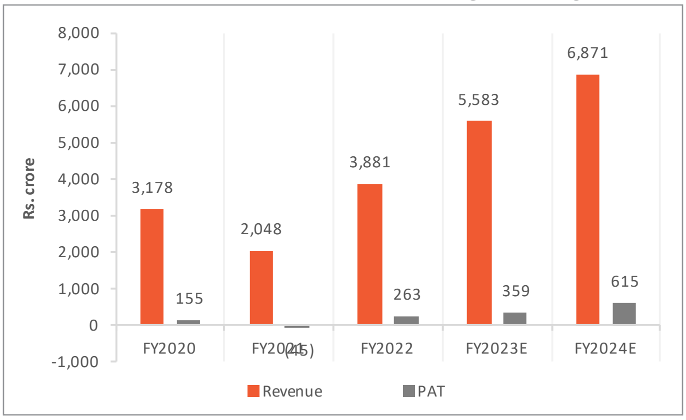
- Working capital days on books increased to 58 days in FY2022 from 22 days with a sharp increase in inventory days by 46 days to 101 days, which we believe is due to higher inventory maintained with new stores added during the year. However, the same is likely to correct with overall recovery in the store level sales in the coming months.
- Due to poor working capital management, cash from operations declined to Rs. 227 crore in FY2022 from Rs. 325 crore in FY2021.
- The company has cash & cash equivalents of ~Rs. 520 crore on its books with significant proportion of the current investments in highly liquid debt mutual funds.
- Debt/Equity (excluding lease liability) marginally declined to 0.07x in FY2022 from 0.12x n FY2021.
- Company issued 5,000 redeemable non-convertible debentures of Rs. 497 crore and repaid borrowings of Rs. 300 crore, resulting in increase in debt by 198 crore in FY2022.
- Dividend paid amounted to Rs. 43 crore, which is higher than Rs. 36 crore paid in FY2021.
- Capex for FY2022 (payment for property, plant, and equipment including intangibles) stood at Rs. 255 crore.
- RoE improved to 10% in FY2022 as against loss in FY2021 while RoCE improved to 9.6% in FY2022 versus 3.3% in FY2021.

Key highlights of Trent's AGM

- The company currently operates close to 550 stores across all brands. Westside currently has 203 stores (added 3 stores since the end of March 2022) and Zudio has 240 stores (added 7 stores since March 2022). The company added 47 stores of Westside in 2 years i.e., a 20% growth in new store openings as well as opened 146 new Zudio stores in 2 years i.e., 140% growth in new store openings. The company opened its 200th Westside store this year.
- The momentum in new store openings will be maintained from the past years and will continue to be aggressive based on availability of properties. The square footage aim for new West side stores will be around 20,000 sq feet. Quality of stores is the governing force behind new store openings. 99% of the stores breakeven across all brands.
- Trent views the Indian market to have a tremendous growth opportunity in the modern retail space as its capability remains untapped. The company is always looking for new store formats with 2-3 formats in the incubation phase and the company will try to mature them and launch them shortly.
- Trent's new club the WestStyleClub completed one year and recorded an annual subscription of 1.4 million subscribers.
- The company is dealing with competition through better fashion ability and prices. The company is trying to keep prices increase as low as possible during these high inflationary times.
- The company will contemplate its expansion in the Gulf, Sri Lanka and Bangladesh but as of now the focus being India.

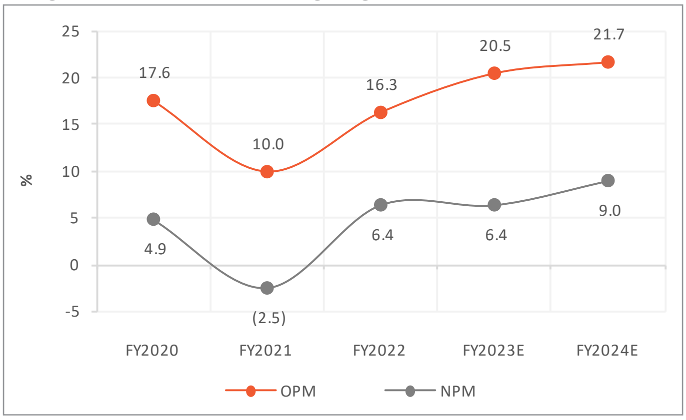
Financials in charts

Standalone revenue and PAT to improve significantly



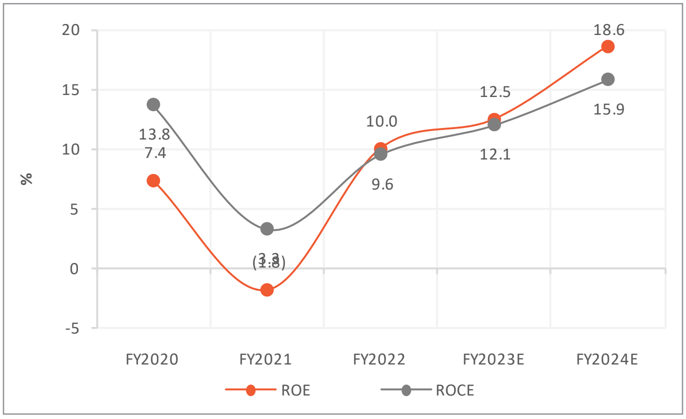
Source: Company, Sharekhan Research

Margin expansion expected going ahead



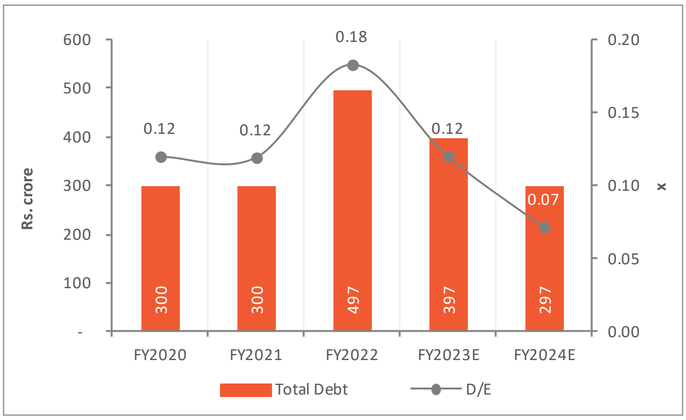
Source: Company, Sharekhan Research

Return ratios to see an uptick



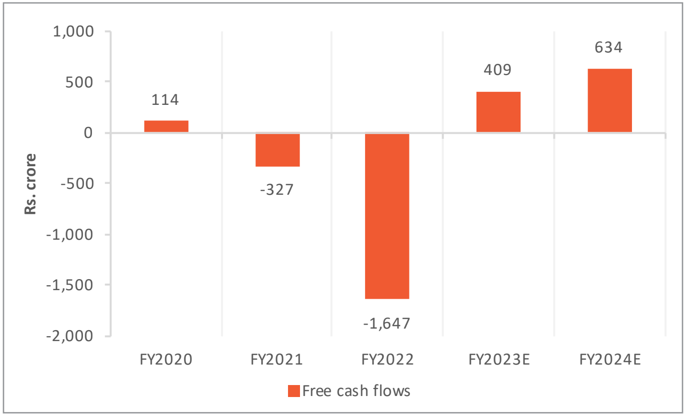
Source: Company, Sharekhan Research

Debt reduction with decline in D/E ratio in future



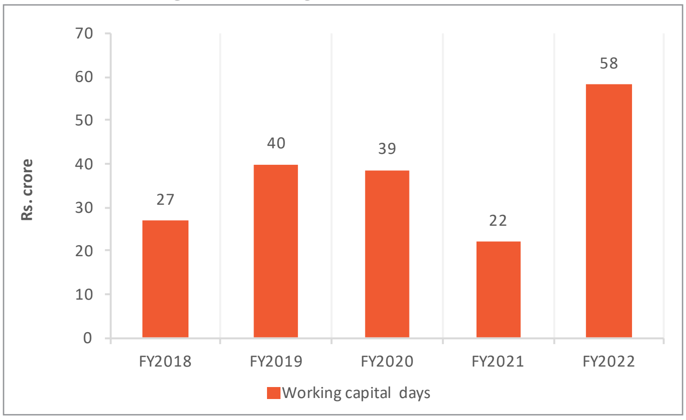
Source: Company, Sharekhan Research

Trend in free cash flows



Source: Company, Sharekhan Research

Trend in working capital days



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Medium-long term growth intact

After a strong Q3FY2022, retail companies were hoping for momentum to sustain in Q4FY22. However, emergence of the third COVID-19 wave had an impact on retail companies' performance due to lower footfalls and restrictions imposed on store operations in various states. Nevertheless, the third wave was short lived and companies started witnessing recovery from mid-February 2022. High inflation and global uncertainties will play on consumer sentiments in the near term despite receding pandemic risk. Drivers such as improved footfalls, postponement of the wedding season, and corporates/institutions operating at full capacity will help demand for discretionary products to remain high in the coming quarters. 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 keeping the medium-long term structural story of the retail industry in India intact.

■ Company Outlook – Faster recovery to growth ahead

Trent's fashion business clocked strong growth in Q4FY2022 with revenue crossing the pre-COVID levels. While the Omicron wave affected sales in January, recovery was strong in March 2022. The company added 125+ stores and total number of stores stood at 435 stores in FY2022. We expect the company to add 50-60 store per quarter to maintain the strong store addition to drive growth in the medium term. Accelerated store expansion program, increased contribution from the online channel pick up in food business will augur well for the company in the near term. Overall, growth is expected to recover strongly in FY2023, while profitability will improve gradually as pricing environment improves.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 1,415

Trent's growth prospects remain robust owing to an accelerating shift to branded products and growing appetite for aspirational yet strong value propositions. Innovation in the product portfolio, scaling up of supply chain, 100% contribution from own brands, aggressive store expansions and leveraging on digital presence will be key growth drivers in the medium term. We expect its revenues and PAT to grow at CAGR of 33% and 57% over FY2022-24E, which will one of the strongest amongst the peers. The stock has corrected by 21% from its recent high and is currently trading at 28.6x/22.5x its FY2023E/24E EV/EBITDA. We maintain a Buy recommendation on the stock with an unchanged SOTP based price target of Rs. 1,415.

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Aditya Birla Fashion	-	-	66.0	23.8	17.0	13.1	3.2	4.6	9.3
Shoppers Stop		80.3	27.4	14.8	8.3	6.4	2.4	8.8	13.4
Trent	-	-	60.6	40.9	28.6	22.5	9.6	12.1	15.9

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 stores have a footprint of 8,000-34,000 sq. ft across over 90 cities. Trent also operates value fashion chain Zudio, having a footprint of around 7000 sq. ft. and books and music retail chain Landmark. 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 a 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 CEO
Mehernosh Surti	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	St James Place PLC	7.25
2	Dodona Holdings Ltd	4.53
3	Arisaig India Fund Limited	3.53
4	Wasatch Advisors	2.42
5	Amansa Holdings Pvt Limited	2.35
6	Axis Asset Management Co. Ltd	1.72
7	Vanguard Group Inc	1.68
8	Blackrock Inc	1.56
9	Derive Trading Pvt Ltd	1.52
10	IDFC Life Insurance Co. Ltd	1.45

Source: Bloomberg

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

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