

## Festive season to aid in revenue recovery

Despite the challenging environment, Trent reported steady operational Q2FY21 numbers. With gradual opening of stores, it is seeing a rise in offtake on a MoM basis. Standalone revenues (including Westside, Zudio and Landmark formats) de-grew 44.7% YoY to ₹ 452.1 crore in Q2FY21 (I-direct estimate: 47.0% de-growth, Q1FY21: ₹ 96.3 crore). Owing to higher discounting and enhanced share of Zudio, gross margins fell sharply by 695 bps YoY to 40.9%. However, it has significantly curtailed operating overheads, with employee & other expenses down 31% each to ₹ 57.4 crore and ₹ 121.3 crore, respectively. Hence, EBITDA was at ₹ 6.4 crore (Q1FY21: ₹ 119 crore loss; with margin of 1.4%). Other income came in at ₹ 36.4 crore of which ₹ 22.4 crore pertains to lease rent waiver. Reported PBT losses narrowed down sequentially to ₹ 73.3 crore (Q1FY21: ₹ 182.2 crore). Owing to deferred tax asset (₹ 25.2 crore), the company reported net loss of ₹ 48.1 crore (Q1FY21: ₹ 139.5 crore loss). Given the inherent strength of the brands, recovery rate has improved significantly from mere 38% in July to 70% in October. Further, the management indicated that consumer sentiments have improved in the recent weeks running up to Diwali.

## Healthy balance sheet to assist in store expansion

With the current unprecedented scenario various retailers have significantly curtailed their store expansion guidance for FY21E. However, Trent is among the few retailers who has reiterated their stance of aggressively adding stores. In H1FY21, it added 11 additional stores (eight Zudio, two Westside, one Landmark). We expect store addition momentum to accelerate in H2FY21E. On b/s front, better inventory management has led to working capital release of ₹ 165 crore in H1FY21. Also, capex requirements were lower in H1FY21 (₹ 21.1 crore vs. ₹ 81.0 crore). Negative free cash flow worth ~ ₹ 95 crore was funded through its healthy liquidity position (cash & investments worth ₹ 630.7 core as on September 2020).

## Zudio: Next growth engine

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

## Valuation & Outlook

Trent has over the years consistently outperformed peers given the strong brand patronage (Westside, Zudio, Star, Zara) and proven business model (Westside: 99% private label). Given the encouraging trends in footfall traction, we anticipate revenue trajectory to further accelerate in H2FY21, coupled with better profitability. Also, healthy b/s (net cash positive) will enable it to tide over the current situation better than peers. We reiterate **BUY** with revised TP of ₹ 785 based on SOTP valuation (previous TP: ₹ 680).

### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	2,630.2	3,486.0	2,508.2	4,301.5	4,925.4	12.2%
EBITDA	227.7	544.0	186.9	683.9	797.9	13.6%
PAT	97.0	122.8	(84.3)	255.6	317.3	37.2%
EV/Sales (x)	8.7	7.0	9.6	5.6	4.9	
EV/EBITDA (x)	100.4	44.5	129.4	35.4	30.1	
RoCE (%)	10.1	15.9	4.4	19.5	20.8	
RoE (%)	5.9	5.1	-3.7	10.4	11.8	

Source: Company, ICICI Direct Research

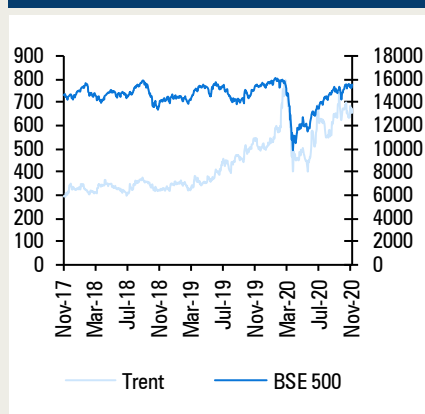


Particulars	Amount
Market Capitalisation (₹ Crore)	22,430.3
Total Debt (Mar-20) (₹ Crore)	299.7
Cash (Mar-20) (₹ Crore)	61.8
EV (₹ Crore)	22,668.1
52 week H/L	813 / 542
Equity Capital (₹ Crore)	35.5
Face Value (₹)	1.0

### Key Highlights

- Revenue recovery rate improved from 38% in July to 70% in October. Online sales grew 50%+ in Q2FY21
- Currently all the stores are operational
- Losses from JV declined sequentially from ₹ 38.8 crore to ₹ 16.2 crore
- Management remains cautiously optimistic on the outlook for accelerating recovery and return to profitability in the second half

### Price Chart



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**Exhibit 1: Variance Analysis**

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Revenue	452.1	433.5	818.0	-44.7	96.3	369.4	Increase in offtake witnessed on a month on month basis. Revenue recovery rate at ~70% in October
Other Operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Raw Material Expense	267.3	234.5	426.7	-37.4	83.5	220.0	
Gross Profit	184.8	199.0	391.3	-52.8	12.8	1,344.0	
Gross Profit Margin	40.9	45.9	47.8	-695 bps	13.3	2759 bps	Decline in gross margins owing to higher discounting and increase in share of Zudio format
Employee exp	57.4	60.7	82.6	-30.5	60.8	-5.6	
Other Exp	121.0	130.1	175.8	-31.2	71.1	70.3	Rationalisation of operating overheads led to other expenses declining by 31% YoY
EBITDA	6.4	8.2	132.8	-95.2	-119.1	LP	EBITDA losses curtailed to certain extent
EBITDA Margin (%)	1.4	1.9	16.2	-1482 bps	-123.7	NM	
Depreciation	57.8	60.3	58.5	-1.1	58.5	-1.2	
Other Income	36.4	39.7	43.3	-15.9	52.9	-31.2	Other income includes rental waiver worth ₹ 22.4 crore
Interest	58.3	60.3	59.8	-2.6	57.4	1.4	
Exceptional Income	0.0	0.0	0.0		0.0		
PBT	-73.3	-72.7	57.8	PL	-182.2	NM	Owing to Ind-AS 116, PBT lower by ₹ 21 crore
Tax Outgo	-25.2	0.0	19.5	-229.3	-42.8	-41.0	Deferred tax asset worth ₹ 25.2 crore
Minority Interest							
PAT	-48.1	-72.7	38.3	PL	-139.4	NM	

Source: Company, ICICI Direct Research

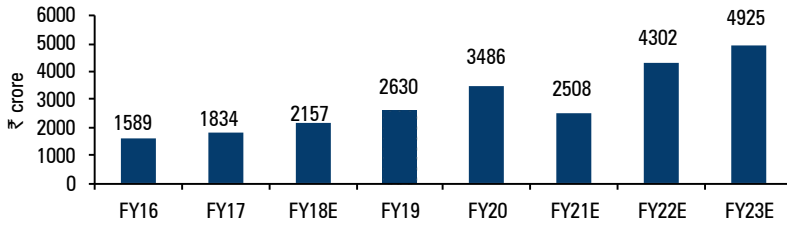
**Exhibit 2: Change in estimates**

(₹ Crore)	FY21E			FY22E			FY23E	Remarks
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	2,776.1	2,508.2	-9.7	4,411.2	4,301.5	-2.5	4,925.4	Factoring in the performance of H1FY21, we downgrade our earning estimates for FY21E owing to lower gross margins
EBITDA	348.7	186.9	-46.4	692.0	683.9	-1.2	797.9	
EBITDA Margin (%)	12.6	7.5	-511 bps	15.7	15.9	21 bps	16.2	
PAT	16.7	-84.3	PL	270.0	255.6	-5.3	317.3	
EPS (₹)	0.5	-2.4	PL	7.6	7.2	-5.4	8.9	

Source: Company, ICICI Direct Research

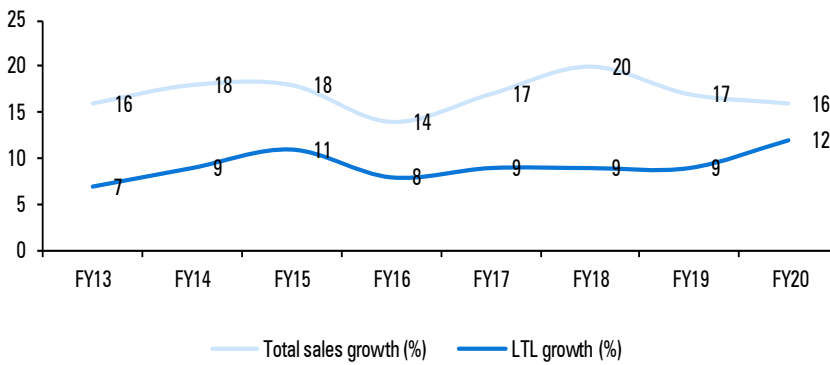
## Financial story in charts

Exhibit 3: Revenue trend



Source: Company, ICICI Direct Research

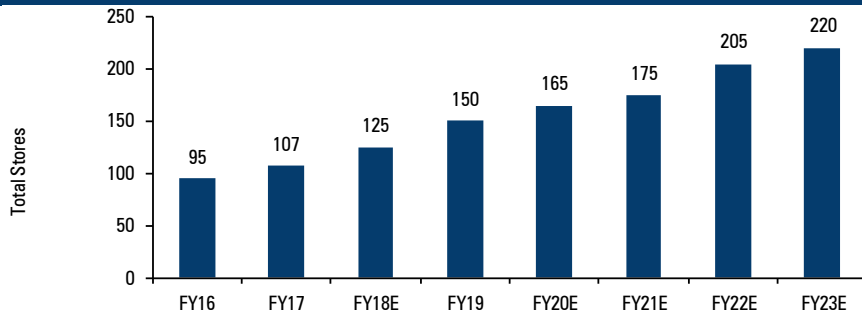
Exhibit 4: Westside revenue trend and same stores sales growth (SSSG)



Westside has continued to deliver a robust performance with revenues growing at a CAGR of 20% in FY13-20. It has also consistently registered healthy SSSG

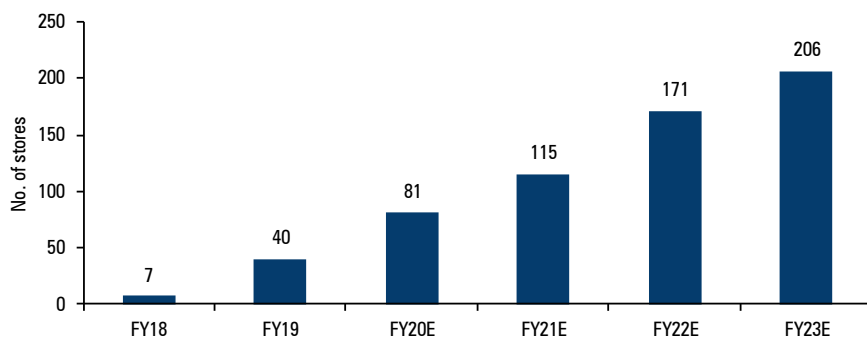
Source: Company, ICICI Direct Research

Exhibit 5: Westside store addition trend



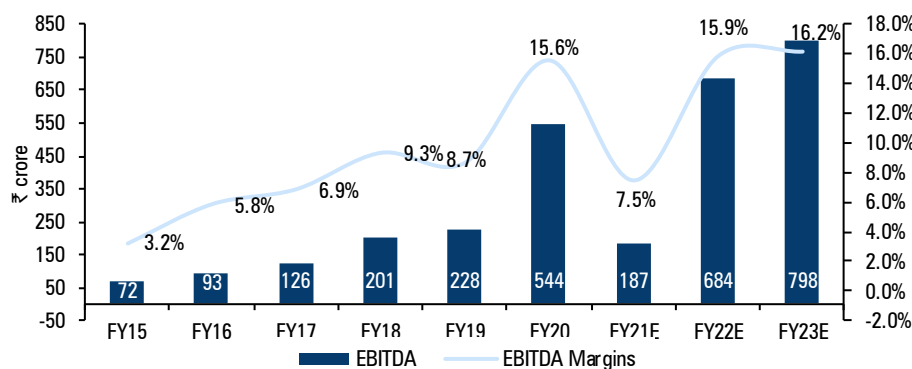
Source: Company, ICICI Direct Research.

Exhibit 6: Zudio store addition trend



Source: Company, ICICI Direct Research.

Exhibit 7: EBITDA, EBITDA margin trend (post Ind-AS 116)



Source: Company, ICICI Direct Research.

Exhibit 8: Valuation

	Financial	FY23E (₹ cr)	Target Multiple	EV/Mcap	(₹ cr) Cash	Debt	Targeted Mcap (₹ cr)
Standalone revenues	Sales	4530	5x EV/Sales	23105	270	301	23074
Trent Hypermarket Ltd	Sales	884	1.0x Price/Sales	884			884
Trent -Inditex (Zara)	Sales	981	4.0x Price/Sales	3925			3925
Target Market Cap. (₹ cr)							27883
Target Price (₹)							785

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 9: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Total operating Income</b>	<b>3,486.0</b>	<b>2,508.2</b>	<b>4,301.5</b>	<b>4,925.4</b>	
Growth (%)	32.5	-28.0	71.5	14.5	
Cost of Goods Sold	1,881.8	1,492.4	2,344.3	2,664.7	
<b>Gross Margin (%)</b>	<b>46.0</b>	<b>40.5</b>	<b>45.5</b>	<b>45.9</b>	
Employee Expenses	358.5	313.5	456.0	546.7	
Operating & Other Expenses	701.7	515.4	817.3	916.1	
Total Operating Expenditure	2,942.0	2,321.3	3,617.6	4,127.5	
<b>EBITDA</b>	<b>544.0</b>	<b>186.9</b>	<b>683.9</b>	<b>797.9</b>	
Growth (%)	138.9	-65.6	266.0	16.7	
Depreciation	247.2	256.3	279.7	298.0	
Interest	245.8	221.6	222.2	229.6	
Other Income	144.5	188.1	154.9	142.8	
<b>PBT</b>	<b>195.4</b>	<b>-102.9</b>	<b>337.0</b>	<b>413.2</b>	
Share of Profit from JV	-30.4	-67.4	-11.8	8.8	
Total Tax	59.0	-66.0	84.5	109.7	
PAT	106.0	-104.3	240.6	312.3	
Minority Interest	-16.8	-20.0	-15.0	-5.0	
<b>PAT after MI</b>	<b>122.8</b>	<b>-84.3</b>	<b>255.6</b>	<b>317.3</b>	
Extraordinary item	0.0	0.0	0.0	0.0	
<b>Reported PAT</b>	<b>122.8</b>	<b>-84.3</b>	<b>255.6</b>	<b>317.3</b>	
<b>EPS (₹)</b>	<b>3.5</b>	<b>-2.4</b>	<b>7.2</b>	<b>8.9</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after tax	122.8	-84.3	255.6	317.3	
Add: Depreciation	247.2	256.3	279.7	298.0	
Add: Finance Cost	245.8	221.6	222.2	229.6	
(Inc)/dec in Current Assets	-163.5	-27.0	-242.6	-161.0	
Inc/(dec) in CL and Provisions	17.0	41.7	30.9	67.6	
Others	-60.0	0.0	0.0	0.0	
<b>CF from operating activities</b>	<b>409.3</b>	<b>408.2</b>	<b>545.7</b>	<b>751.5</b>	
(Inc)/dec in Investments	-627.8	92.6	58.0	27.9	
(Inc)/dec in Fixed Assets	-174.4	-115.0	-180.0	-145.0	
(Inc)/dec in CWIP	63.9	3.3	0.0	0.0	
Others	-22.5	0.0	0.0	0.0	
<b>CF from investing activities</b>	<b>-760.9</b>	<b>-19.1</b>	<b>-122.0</b>	<b>-117.1</b>	
Issue/(Buy back) of Equity	2.3	0.0	0.0	0.0	
Inc/(dec) in loan funds	-194.4	38.4	-17.7	-19.0	
Less: Finance Cost & Others	-330.8	-306.4	-361.5	-394.2	
Others	880.0	-35.6	-63.9	-79.3	
<b>CF from financing activities</b>	<b>357.1</b>	<b>-303.6</b>	<b>-443.1</b>	<b>-492.5</b>	
Net Cash flow	5.5	85.6	-19.4	141.9	
Opening Cash	56.3	61.8	147.4	128.0	
<b>Closing Cash</b>	<b>61.8</b>	<b>147.4</b>	<b>128.0</b>	<b>269.9</b>	

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Liabilities</b>					
Equity Capital	35.5	35.5	35.5	35.5	
Reserve and Surplus	2,352.5	2,232.6	2,424.3	2,662.3	
Total Shareholders funds	2,388.0	2,268.2	2,459.8	2,697.8	
Total Debt	299.7	338.1	320.4	301.4	
Other LT Liabilities	2,326.6	2,241.9	2,102.6	1,938.0	
Deferred Tax Liability	-110.4	-110.4	-110.4	-110.4	
Minority Interest / Others	80.3	80.3	80.3	80.3	
<b>Total Liabilities</b>	<b>4,984.3</b>	<b>4,818.0</b>	<b>4,852.7</b>	<b>4,907.0</b>	
<b>Assets</b>					
Gross Block	953.3	1,068.3	1,248.3	1,393.3	
Less: Acc Depreciation	298.6	384.1	486.4	600.7	
Capital WIP	23.3	20.0	20.0	20.0	
Total Fixed Assets	678.0	704.2	781.8	812.6	
Investments	1,543.1	1,450.5	1,392.5	1,364.7	
Other Non-current Assets	2,102.31	1,931.50	1,754.20	1,570.41	
Goodwill	69.5	69.5	69.5	69.5	
Deferred Tax Asset	0.0	0.0	0.0	0.0	
Inventory	607.8	584.1	754.2	836.7	
Debtors	17.1	19.2	29.5	33.7	
Loans and Advances	203.5	223.8	250.7	280.8	
Cash	61.8	147.4	128.0	269.9	
Other Current Assets	113.2	141.5	176.8	221.1	
Total Current Assets	1,003.4	1,116.0	1,339.3	1,642.1	
Creditors	297.7	310.7	321.1	365.0	
Other Current Liab. & Prov.	114.4	143.0	163.5	187.2	
Total Current Liabilities	412.0	453.7	484.6	552.2	
Net Current Assets	591.4	662.3	854.7	1,089.9	
<b>Application of Funds</b>	<b>4,984.3</b>	<b>4,818.0</b>	<b>4,852.7</b>	<b>4,907.0</b>	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Per share data (₹) (annualised)</b>					
EPS	3.5	-2.4	7.2	8.9	
Cash EPS	10.4	4.8	15.1	17.3	
BV	67.2	63.8	69.2	75.9	
DPS	1.5	1.0	1.8	2.2	
Cash Per Share	1.7	4.1	3.6	7.6	
<b>Operating Ratios</b>					
EBITDA Margin (%)	15.6	7.5	15.9	16.2	
PBT Margin (%)	5.6	-4.1	7.8	8.4	
PAT Margin (%)	3.5	-3.4	5.9	6.4	
Inventory days	63.6	85.0	64.0	62.0	
Debtor days	1.8	2.8	2.5	2.5	
Creditor days	31.2	45.2	27.3	27.1	
<b>Return Ratios (%)</b>					
RoE	5.1	-3.7	10.4	11.8	
RoCE	15.9	4.4	19.5	20.8	
RoIC	28.0	-7.0	32.6	37.2	
<b>Valuation Ratios (x) (annualised)</b>					
P/E	195.4	-284.5	93.9	75.6	
EV / EBITDA	44.5	129.4	35.4	30.1	
EV / Net Sales	7.0	9.6	5.6	4.9	
Market Cap / Sales	6.9	9.6	5.6	4.9	
Price to Book Value	10.0	10.6	9.8	8.9	
<b>Solvency Ratios</b>					
Debt/EBITDA	0.6	1.8	0.5	0.4	
Debt / Equity	0.1	0.1	0.1	0.1	
Current Ratio	2.9	3.0	3.8	3.8	
Quick Ratio	1.0	1.2	1.4	1.5	

Source: Company, ICICI Direct Research

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Sell: <-15%



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