

February 5, 2021

Significant beat on profitability front

Trent's Q3FY21 results reflects the inherent strength of the brands and its robust business model made to combat challenges. Trent recorded smart recovery on the revenue front, with sales reaching 83% of pre-Covid levels. Revenue for Q3FY21 de-grew 16.6% YoY to ₹ 725.4 crore (I-direct estimate: ₹ 669.7 crore). Westside format reported sales recovery rate of 78% with same stores sales growth of negative 26%. Back of the envelope calculation suggest that Trent's value fashion brand *Zudio* may have reported positive growth in Q3FY21 on the back of healthy store additions during the quarter. Digital platforms witnessed robust 80% growth in Q3FY21 on a low base. Gross margins came in at a four-year high, which was a positive surprise and were significantly higher than our estimates. This is despite share of Zudio increasing in overall sales (yields lower gross margins than Westside) and higher discounting activities undertaken by other fashion retailers. Gross margins for Q3FY21 expanded significantly by 575 bps YoY to 56.4%. Margins also include reversal in inventory provisions taken in the previous quarter worth ₹ 14 crore. Even after adjusting for the same, gross margins were at 54.4% vs. I-direct estimate of 48.9%. Furthermore, cost control measures (employee & other expenses declining 15% and 14% to ₹ 68.5 crore and ₹ 160.3 crore, respectively), led to EBITDA margins improving materially by 490 bps YoY to 24.8% (I-direct estimate: 15%). Other income came in at ₹ 42.6 crore of which ₹ 19 crore pertains to lease rent waiver. On account of robust operational performance and lower effective tax rate (24% vs. 40% in Q3FY20), PAT grew 43% YoY to ₹ 79.6 crore (I-direct estimate: ₹ 7.5 crore).

Store addition pace picks up in Q3

On the back of healthy balance sheet, Trent was among the few retailers that had reiterated their stance of aggressively adding stores in FY21E. As on September 30, 2020, it had robust cash & investments worth ₹ 630.7 crore. Trent, during the quarter, added ~17 stores (12 Zudio stores, four Westside Stores and one Landmark store). For YTD FY21, store addition were at 28 (20 Zudio stores, four Westside Stores and one Landmark store). The company continues to aggressively add Zudio stores (company doubled Zudio stores from 40 to 81 in FY20) given the scalability of brand (average store size ~6000 sq ft, one-third of Westside store) and given its shaper price points offerings (two-third of products priced < ₹ 500). We pencil in 200 store additions between Westside and Zudio for FY21-23E.

Valuation & Outlook

Revenue trajectory continues to improve on a month on month basis with encouraging trends. The management indicated that January 2021 (end of season sale month) witnessed nearly 100% revenue recovery rate in both price and volume terms. 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 will further accelerate coupled with better profitability. We build in revenue and earnings CAGR of 16% and 40% in FY20-23E. We reiterate **BUY** rating and maintain target price of ₹ 820 based on SOTP valuation.

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	2,630.2	3,486.0	2,508.2	4,533.7	5,380.6	15.6%
EBITDA	227.7	544.0	186.9	720.9	871.7	17.0%
PAT	97.0	122.8	(86.7)	264.2	333.6	39.5%
EV/Sales (x)	8.6	6.9	9.5	5.3	4.4	
EV/EBITDA (x)	99.4	44.1	128.1	33.2	27.3	
RoCE (%)	10.1	15.9	3.9	20.5	22.5	
RoE (%)	5.9	5.1	-3.8	10.7	12.3	

Source: Company, ICICI Direct Research

Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	22,197.6
Total Debt (Mar-20) (₹ Crore)	299.7
Cash (Mar-20) (₹ Crore)	61.8
EV (₹ Crore)	22,435.5
52 week H/L	809 / 367
Equity Capital (₹ Crore)	35.5
Face Value (₹)	1.0

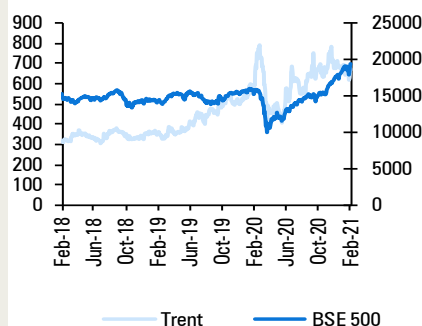
Key Highlights

- Consolidated revenues (which include Booker subsidiary) declined 14% YoY to ₹ 854 crore in Q3FY21
- Profits in JV/associates came in at ₹ 2.94 crore vs. loss of ₹ 16 crore in Q2FY21

Key Risks

- Re-imposition of lockdown restrictions leading to store closures or restricted movement of people negatively impacting store footfalls leading to lower in-store sales
- Delay in store rollout could lead to lower than estimated revenues

Price Chart



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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Revenue	725.4	669.7	869.7	-16.6	452.1	60.4	Recovery rate reached at 83% in Q3FY21 from 55% in Q2. Revenue trajectory improving on a month on month basis
Other Operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Raw Material Expense	316.5	342.2	429.4	-26.3	267.3	18.4	
Gross Profit	408.9	327.5	440.3	-7.1	184.8	121.2	
Gross Profit Margin	56.4	48.9	50.6	574 bps	40.9	1549 bps	Gross margins also includes reversal of inventory provision worth ₹ 14 crore
Employee exp	68.5	73.7	80.5	-14.8	57.4	19.4	
Other Exp	160.4	154.0	186.3	-13.9	121.0	32.5	Rationalisation of operating overheads led to other expenses declining by 14% YoY
EBITDA	180.0	99.8	173.5	3.7	6.4	2,722.4	Significant expansion in gross margins and cost control measures led to EBITDA margin expansion of 486 bps YoY
EBITDA Margin (%)	24.8	14.9	20.0	486 bps	1.4	2340 bps	
Depreciation	57.8	59.6	57.9	-0.2	57.8	0.0	
Other Income	42.6	30.9	38.2	11.3	36.4	17.0	Other income includes rental waiver worth ₹ 19 crore
Interest	60.6	61.2	59.3	2.2	58.3	4.0	
Exceptional Income	0.0	0.0	0.0		0.0		
PBT	104.2	10.0	94.6	10.1	-73.3	LP	Owing to Ind-AS 116, PBT lower by ₹ 14 crore
Tax Outgo	24.5	2.5	38.9	-36.9	-25.2	-197.3	
Minority Interest							
PAT	79.6	7.5	55.7	42.9	-48.1	LP	Lower tax rate and robust operational performance resulted in bottom-line growth of 43% YoY

Source: Company, ICICI Direct Research

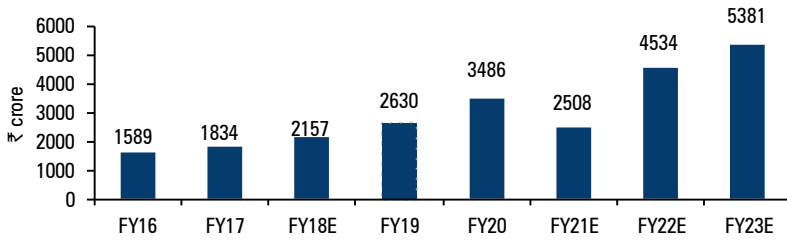
Exhibit 2: Change in estimates

₹ (Crore)	FY21E			FY22E			FY23E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	2,508.2	2,508.2	0.0	4,533.7	4,533.7	0.0	5,380.6	5,380.6	0.0
EBITDA	186.9	186.9	0.0	720.9	720.9	0.0	871.7	871.7	0.0
EBITDA Margin (%)	7.5	7.5	0 bps	15.9	15.9	0 bps	16.2	16.2	0 bps
PAT	-84.3	-86.7	-	264.2	264.2	0.0	333.6	333.6	0.0
EPS (₹)	-2.4	-2.4	-	7.4	7.4	0.0	9.4	9.4	0.0

Source: Company, ICICI Direct Research

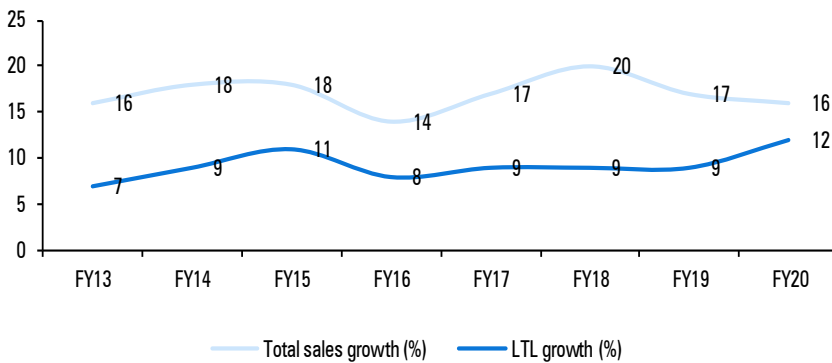
Financial story in charts

Exhibit 3: Revenue trend



Source: Company, ICICI Direct Research

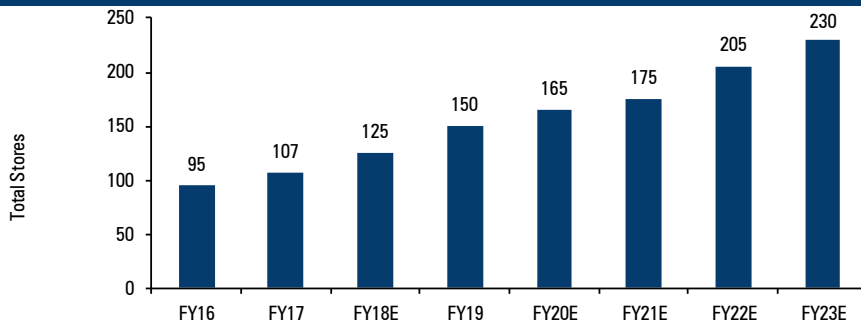
Exhibit 4: Westside revenue trend and same stores sales growth (SSSG)



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

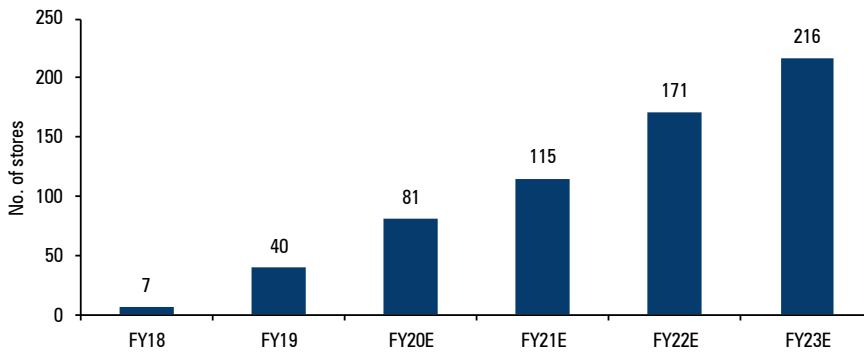
Source: Company, ICICI Direct Research

Exhibit 5: Westside store addition trend



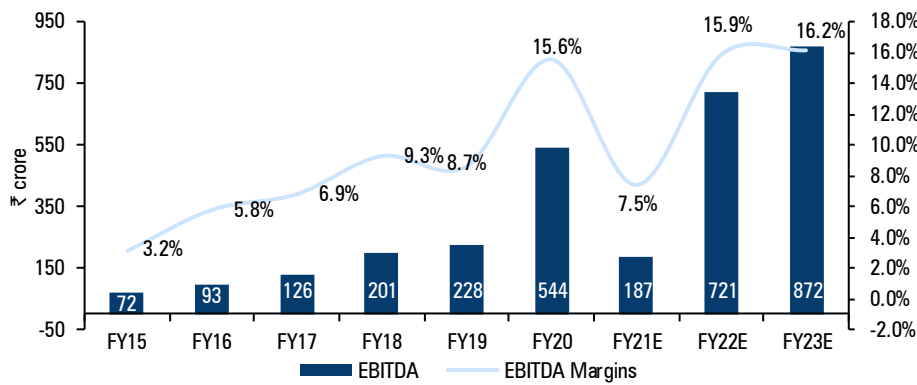
Source: Company, ICICI Direct Research.

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	4986	5x EV/Sales	24430	262	301	24390
Trent Hypermarket Ltd	Sales	884	1.0x Price/Sales	884			884
Trent -Inditex (Zara)	Sales	981	4.0x Price/Sales	3827			3827
Target Market Cap. (₹ cr)							29101
Target Price (₹)							820

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement		₹ crore			
	FY20	FY21E	FY22E	FY23E	
Total operating Income	3,486.0	2,508.2	4,533.7	5,380.6	
Growth (%)	32.5	-28.0	80.8	18.7	
Cost of Goods Sold	1,881.8	1,492.4	2,470.9	2,910.9	
Gross Margin (%)	46.0	40.5	45.5	45.9	
Employee Expenses	358.5	313.5	480.6	597.2	
Operating & Other Expenses	701.7	515.4	861.4	1,000.8	
Total Operating Expenditure	2,942.0	2,321.3	3,812.8	4,509.0	
EBITDA	544.0	186.9	720.9	871.7	
Growth (%)	138.9	-65.6	285.8	20.9	
Depreciation	247.2	256.3	294.8	330.5	
Interest	245.8	225.0	240.7	262.0	
Other Income	144.5	175.6	163.2	156.0	
PBT	195.4	-118.9	348.5	435.2	
Share of Profit from JV	-30.4	-59.9	-11.8	8.8	
Total Tax	59.0	-60.0	87.5	115.5	
PAT	106.0	-118.7	249.2	328.6	
Minority Interest	-16.8	-32.0	-15.0	-5.0	
PAT after MI	122.8	-86.7	264.2	333.6	
Extraordinary item	0.0	0.0	0.0	0.0	
Reported PAT	122.8	-86.7	264.2	333.6	
EPS (₹)	3.5	-2.4	7.4	9.4	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after tax	122.8	-86.7	264.2	333.6	
Add: Depreciation	247.2	256.3	294.8	330.5	
Add: Finance Cost	245.8	225.0	240.7	262.0	
(Inc)/dec in Current Assets	-163.5	-27.0	-284.9	-199.1	
Inc/(dec) in CL and Provisions	17.0	41.7	57.1	92.5	
Others	-60.0	0.0	0.0	0.0	
CF from operating activities	409.3	409.2	571.8	819.4	
(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	
CF from investing activities	-760.9	-19.1	-122.0	-117.1	
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	-309.8	-377.1	-471.7	
Others	880.0	-35.6	-66.0	-83.4	
CF from financing activities	357.1	-306.9	-460.9	-574.1	
Net Cash flow	5.5	83.2	-11.0	128.2	
Opening Cash	56.3	61.8	145.0	134.0	
Closing Cash	61.8	145.0	134.0	262.2	

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Liabilities					
Equity Capital	35.5	35.5	35.5	35.5	
Reserve and Surplus	2,352.5	2,230.2	2,428.3	2,678.5	
Total Shareholders funds	2,388.0	2,265.8	2,463.9	2,714.1	
Total Debt	299.7	338.1	320.4	301.4	
Other LT Liabilities	2,326.6	2,241.9	2,105.5	1,895.8	
Deferred Tax Liability	-110.4	-110.4	-110.4	-110.4	
Minority Interest / Others	80.3	80.3	80.3	80.3	
Total Liabilities	4,984.3	4,815.6	4,859.6	4,881.1	
Assets					
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	1,739.06	1,522.84	
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	795.0	914.0	
Debtors	17.1	19.2	31.1	36.9	
Loans and Advances	203.5	223.8	250.7	280.8	
Cash	61.8	145.0	134.0	262.2	
Other Current Assets	113.2	141.5	176.8	221.1	
Total Current Assets	1,003.4	1,113.6	1,387.5	1,714.8	
Creditors	297.7	310.7	338.5	398.8	
Other Current Liab. & Prov.	114.4	143.0	172.3	204.5	
Total Current Liabilities	412.0	453.7	510.8	603.2	
Net Current Assets	591.4	659.9	876.8	1,111.6	
Application of Funds	4,984.3	4,815.6	4,859.6	4,881.1	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per share data (₹) (annualised)					
EPS	3.5	-2.4	7.4	9.4	
Cash EPS	10.4	4.8	15.7	18.7	
BV	67.2	63.7	69.3	76.4	
DPS	1.5	1.0	1.9	2.3	
Cash Per Share	1.7	4.1	3.8	7.4	
Operating Ratios					
EBITDA Margin (%)	15.6	7.5	15.9	16.2	
PBT Margin (%)	5.6	-4.7	7.7	8.1	
PAT Margin (%)	3.5	-3.5	5.8	6.2	
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	
Return Ratios (%)					
RoE	5.1	-3.8	10.7	12.3	
RoCE	15.9	3.9	20.5	22.5	
RoIC	28.0	-7.0	34.4	39.5	
Valuation Ratios (x) (annualised)					
P/E	193.4	-	89.9	71.2	
EV / EBITDA	44.1	128.1	33.2	27.3	
EV / Net Sales	6.9	9.5	5.3	4.4	
Market Cap / Sales	6.8	9.5	5.2	4.4	
Price to Book Value	9.9	10.5	9.6	8.7	
Solvency Ratios					
Debt/EBITDA	0.6	1.8	0.4	0.3	
Debt / Equity	0.1	0.1	0.1	0.1	
Current Ratio	2.9	3.0	3.7	3.6	
Quick Ratio	1.0	1.2	1.4	1.4	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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