

## Another quarter of industry leading revenue growth...

**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 have 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)

**Q3FY22 Results:** The revenue trajectory continued to be robust with significant beat on our/consensus estimates and reported industry leading growth over pre-Covid levels. Profitability was a tad lower than our estimates, mainly owing to lower-than-expected gross margins.

- On a favourable base, revenue grew 86% YoY to ₹ 1347.8 crore (two-year CAGR: 24%). Westside format registered revenue worth ₹ 1000 crore (74% of revenue) with SSSG of 9% vs. pre-Covid levels and 49% vs. last year
- Reported gross margins of 51.2% (down 513 bps YoY), which were lower than our estimate 54%. EBITDA margins declined 320 bps YoY to 21.6%
- Tracking strong operational performance, PAT grew 67% YoY to ₹ 133 crore

**What should investors do?** Trent has been an exceptional performer with the stock price appreciating at ~35% CAGR in the last five years.

- Robust performance during challenging times and industry leading performance will continue to warrant premium valuations for 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 244 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
- On account of healthy beat on estimates, we revise our revenue and earnings estimates upwards for FY22E. We build in revenue and earnings CAGR of 19% and 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 Aditya Birla Fashion & Retail.

- ABFRL has charted out a growth strategy to become a ~US\$2.8 billion entity (₹ 21000 crore) by FY26E, translating to 15% CAGR in FY20-26E
- BUY with a target price of ₹ 360/share



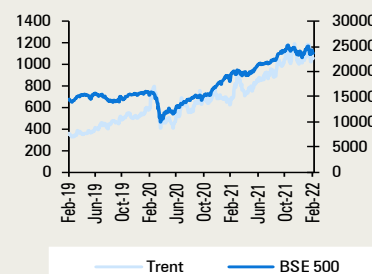
### Particulars

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	1211/ 677
Equity Capital (₹ Crore)	35.5
Face Value (₹)	1.0

### Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	37.0	37.0	37.0	37.0	37.0
FII	30.0	30.5	30.8	30.1	28.9
DII	10.0	10.3	7.8	11.2	12.5
Others	23.0	22.3	24.4	21.7	21.6

### Price Chart



### Recent event & key risks

- Profit from share of JV for YTD FY22 at ₹ 15 crore vs. loss of ₹ 52 crore YoY
- 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%	4,508.0	5,911.5	6,917.8	18.7%
EBITDA	227.7	544.0	171.9		633.4	926.3	1,132.4	20.1%
PAT	97.0	122.8	(146.2)	16.0%	195.9	356.6	496.6	41.8%
EV/Sales (x)	13.9	10.9	14.7		8.5	6.5	5.5	
EV/EBITDA (x)	160.7	70.1	222.4		60.6	41.4	33.8	
RoCE (%)	10.1	15.9	4.3		18.2	24.0	27.2	
RoE (%)	5.9	5.1	-6.3		8.0	13.1	16.0	

## Key takeaways of recent quarter

- Trent reported superlative revenue growth coming in higher by ~55% compared to pre-Covid levels (Q3FY21). On a favourable base, revenue grew 86% YoY (32% QoQ) to ₹ 1347.8 crore (two-year CAGR: 24%, I-direct estimate: ₹ 1182.4 crore). We believe the growth was mainly driven by healthy store addition pace, especially in the Zudio format. Trent's Westside format registered revenue worth ₹ 1000 crore (74% of revenue) with SSSG of 9% compared to pre-Covid levels and 49% compared to last year. Back of the envelope calculation suggests revenue from Zudio grew 2.6x vs. pre-Covid levels (two-year CAGR: 63%) driven by robust store addition trajectory (~2.5x store addition). Emerging categories like beauty and personal care, innerwear and home witnessed healthy traction
- Digital platforms continued to witness robust growth with revenue contribution to Westside increasing to more than 5% (despite stores running at 100% levels)
- Trent, over the last few quarters, had exhibited strong gross margin expansion, which was significantly higher than pre-Covid levels (54-56% vs. pre-Covid levels of 50-52%). During Q3FY22, the company reported gross margins of 51.2% (down 513 bps YoY), lower than our expectations of 54%. We believe increased raw material prices may have impacted margins. However, significantly higher revenues negated the negative impact of lower gross margins to a certain extent. EBITDA margins declined 320 bps YoY to 21.6% (I-direct estimate: 24.0%). Absolute EBITDA grew 62% YoY to ₹ 291.7 crore (two-year CAGR 30%, I-direct estimate: ₹ 284 crore)
- In 9MFY22, the company added 67 new stores taking the total count to 197 Westside (23 added) and 177 Zudio stores (44 added). Trent expects to exit FY22 with combined stores (Westside + Zudio) of more than 425 outlets (~50 new store addition in Q4FY22)
- At a consolidated level, the company in YTD FY22 reported revenue worth ₹ 3169 crore (up 87% YoY), with EBITDA margins improving sharply to 13.9% (vs. 2.9% in YTD FY21). Key positive highlight was the company reporting healthy profits in share of JV (Zara & Star) at ₹ 26.5 crore in Q3FY22 and ₹ 14.7 crore in YTD FY22. Improvement in profitability is on the back of emphasis on cost cutting measures and its journey towards improving profitability of the 'Star' format
- Over the recent quarters, Trent has retained the emphasis on inventory disciplines and initiatives to drive supply chain efficiencies. Trent commenced the autumn/winter end of season sale (EOSS) only on January 1, 2022 and exited the EOSS within planned timelines. While the Omicron wave impacted sales in January 2022, it was mitigated in part by the strong online traction for Westside and the recovery in the last fortnight has been encouraging

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. Revenue growth in recent quarters has been significantly ahead of its peers. During its recent AGM, the management affirmed its aggressive store opening plans for its fashion format (Westside: 35 & Zudio: 75) in FY22 (outlined capex worth ₹ 200 crore in FY22E). The company 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 target price of ₹ 1330.

**Exhibit 1: Variance Analysis**

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Revenue	1,347.8	1,182.4	725.4	85.8	1,020.4	32.1	Robust recovery on the back of improved demand and higher operational days in the fashion segment. Westside (74% of revenue) reported 9% SSSG vs. pre-covid levels
Other Operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Raw Material Expense	657.2	543.9	316.5	107.6	488.7	34.5	
Gross Profit	690.6	638.5	408.9	68.9	531.8	29.9	
Gross Profit Margin	51.2	54.0	56.4	-513 bps	52.1	-87 bps	Gross margins declined on a YoY basis, however was up 60 bps compared to pre-covid levels
Employee exp	84.7	82.8	68.5	23.6	76.2	11.2	
Other Exp	314.1	272.0	160.4	95.8	234.3	34.1	
EBITDA	291.7	283.8	180.0	62.1	221.3	31.8	Absolute EBITDA grew 62% YoY to ₹ 291.7 crore (2-year CAGR 30%)
EBITDA Margin (%)	21.6	24.0	24.8	-317 bps	21.7	-4 bps	Significantly higher revenues negated the negative impact of lower gross margins to a certain extent.
Depreciation	73.4	69.3	57.8	26.9	66.6	10.1	
Other Income	29.6	44.3	42.6	-30.4	94.9	-68.8	Other income includes rental waiver worth ₹ 10 crore
Interest	73.4	69.7	60.6	21.2	72.6	1.1	
Exceptional Income	0.0	0.0	0.0		-13.0		
PBT	174.6	189.1	104.2	67.6	163.9	6.5	
Tax Outgo	41.7	47.6	24.5	70.0	38.3	8.9	
Minority Interest							
PAT	132.9	141.5	79.6	66.9	125.6	5.8	Tracking its strong operational performance, company delivered significant beat on PAT

Source: Company, ICICI Direct Research

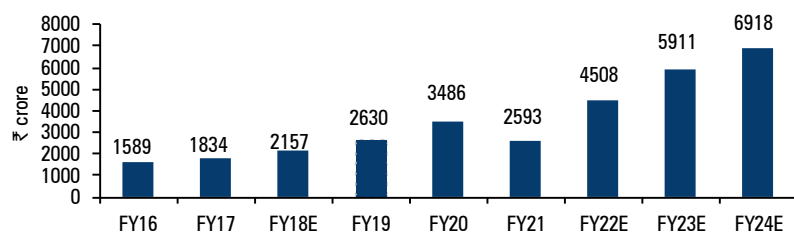
**Exhibit 2: Change in estimates**

(₹ Crore)	FY22E			FY23E			FY24E		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	4,361.7	4,508.0	3.4	5,851.0	5,911.5	1.0	6,850.6	6,917.8	1.0
EBITDA	630.3	633.4	0.5	916.8	926.3	1.0	1,121.4	1,132.4	1.0
EBITDA Margin (%)	14.5	14.1	-40 bps	15.7	15.7	0 bps	16.4	16.4	0 bps
PAT	181.3	195.9	8.0	353.1	356.6	1.0	494.7	496.6	0.4
EPS (₹)	5.1	5.5	8.0	9.9	10.0	1.3	13.9	14.0	0.5

Source: Company, ICICI Direct Research

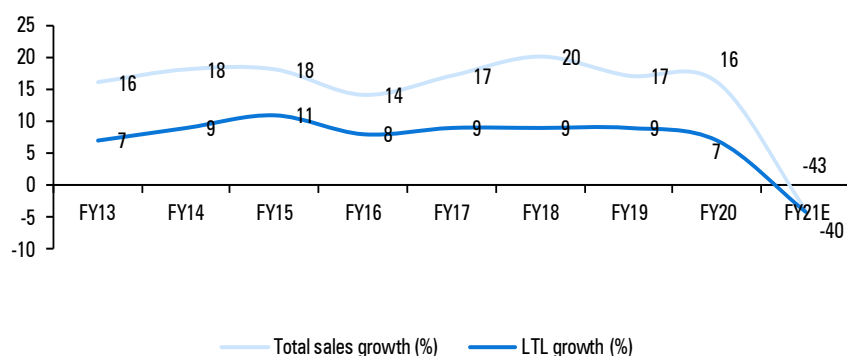
## Financial story in charts

Exhibit 3: Revenue trend



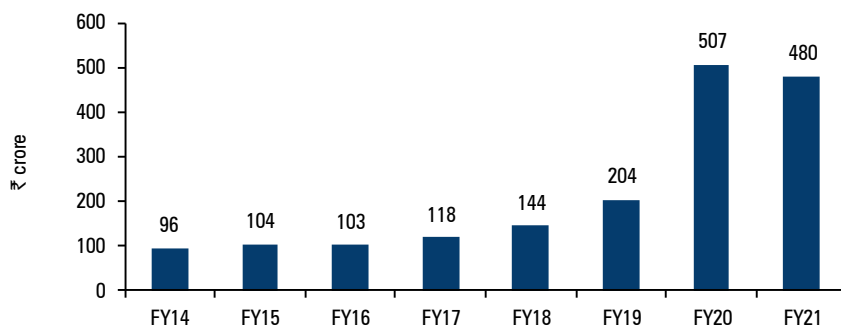
Source: Company, ICICI Direct Research

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



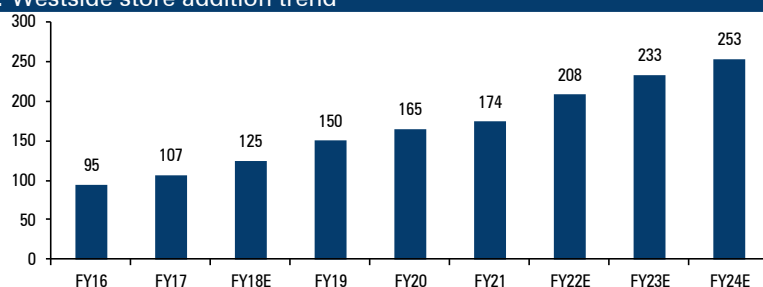
Source: Company, ICICI Direct Research

Exhibit 5: Zudio revenue trend



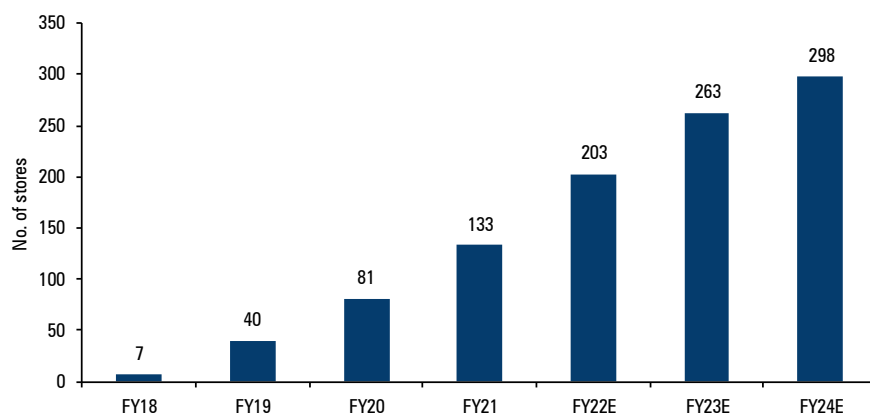
Source: Company, ICICI Direct Research

Exhibit 6: Westside store addition trend



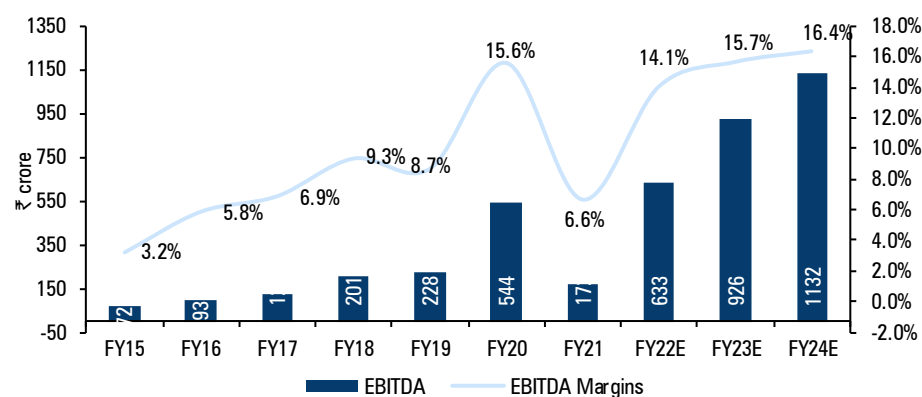
Source: Company, ICICI Direct Research

**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	6248	6.5x EV/Sales	40173	658	285	40546
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)							47445
Target Price (₹)							1330

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 10: Profit and loss statement					₹ crore
	FY21	FY22E	FY23E	FY24E	
<b>Total operating Income</b>	<b>2,593.0</b>	<b>4,508.0</b>	<b>5,911.5</b>	<b>6,917.8</b>	
Growth (%)	-25.6	73.9	31.1	17.0	
Cost of Goods Sold	1,534.0	2,479.4	3,245.4	3,756.3	
<b>Gross Margin (%)</b>	<b>40.8</b>	<b>45.0</b>	<b>45.1</b>	<b>45.7</b>	
Employee Expenses	301.9	405.7	614.8	719.4	
Operating & Other Expenses	585.2	989.5	1,125.0	1,309.5	
Total Operating Expenditure	2,421.1	3,874.6	4,985.1	5,785.3	
<b>EBITDA</b>	<b>171.9</b>	<b>633.4</b>	<b>926.3</b>	<b>1,132.4</b>	
Growth (%)	-68.4	268.5	46.3	22.3	
Depreciation	257.3	297.5	337.8	363.0	
Interest	248.7	290.4	304.4	331.0	
Other Income	201.6	180.3	153.7	166.0	
<b>PBT</b>	<b>-133.5</b>	<b>225.8</b>	<b>437.8</b>	<b>604.4</b>	
Share of Profit from JV	-71.4	5.2	17.1	45.0	
Total Tax	-23.7	60.0	118.3	168.9	
PAT	-181.1	170.9	336.6	480.6	
Minority Interest	-35.0	-25.0	-20.0	-16.0	
<b>PAT after MI</b>	<b>-146.2</b>	<b>195.9</b>	<b>356.6</b>	<b>496.6</b>	
Extraordinary item	0.0	0.0	0.0	0.0	
<b>Reported PAT</b>	<b>-146.2</b>	<b>195.9</b>	<b>356.6</b>	<b>496.6</b>	
<b>EPS (₹)</b>	<b>-4.1</b>	<b>5.5</b>	<b>10.0</b>	<b>14.0</b>	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
Profit after tax	-146.2	195.9	356.6	496.6	
Add: Depreciation	257.3	297.5	337.8	363.0	
Add: Finance Cost	248.7	290.4	304.4	331.0	
(Inc)/dec in Current Assets	215.7	-384.0	-286.6	-280.8	
Inc/(dec) in CL and Provisions	-23.2	75.0	143.5	76.5	
Others	-99.0	0.0	0.0	0.0	
<b>CF from operating activities</b>	<b>453.3</b>	<b>474.8</b>	<b>855.7</b>	<b>986.3</b>	
(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	
<b>CF from investing activities</b>	<b>-99.0</b>	<b>21.8</b>	<b>-173.3</b>	<b>-183.9</b>	
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	-450.5	-527.1	-579.5	
Others	0.8	-54.8	-83.4	-129.9	
<b>CF from financing activities</b>	<b>-334.9</b>	<b>-484.8</b>	<b>-629.4</b>	<b>-725.4</b>	
Net Cash flow	19.5	11.9	52.9	77.1	
Opening Cash	61.8	81.3	93.2	146.1	
<b>Closing Cash</b>	<b>81.3</b>	<b>93.2</b>	<b>146.1</b>	<b>223.2</b>	

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet					₹ crore
(Year-end March)	FY21	FY22E	FY23E	FY24E	
<b>Liabilities</b>					
Equity Capital	35.5	35.5	35.5	35.5	
Reserve and Surplus	2,277.5	2,424.4	2,691.9	3,064.3	
Total Shareholders funds	2,313.0	2,459.9	2,727.4	3,099.9	
Total Debt	299.9	320.4	301.4	285.4	
Other LT Liabilities	2,677.3	2,511.4	2,294.5	2,040.2	
Deferred Tax Liability	-114.5	-114.5	-114.5	-114.5	
Minority Interest / Others	44.5	44.5	44.5	44.5	
<b>Total Liabilities</b>	<b>5,220.2</b>	<b>5,221.7</b>	<b>5,253.3</b>	<b>5,355.5</b>	
<b>Assets</b>					
Gross Block	986.0	1,249.0	1,449.0	1,659.0	
Less: Acc Depreciation	345.5	432.9	534.4	650.5	
Capital WIP	108.0	25.0	25.0	25.0	
Total Fixed Assets	748.4	841.0	939.6	1,033.5	
Investments	1,515.4	1,333.5	1,306.9	1,280.7	
Other Non-current Assets	2,471.28	2,241.16	2,004.77	1,757.88	
Goodwill	66.8	66.8	66.8	66.8	
Deferred Tax Asset	0.0	0.0	0.0	0.0	
Inventory	428.4	753.4	971.7	1,175.1	
Debtors	20.8	30.9	40.5	47.4	
Loans and Advances	156.2	174.9	195.9	219.4	
Cash	81.3	93.2	146.1	223.2	
Other Current Assets	120.5	150.7	188.3	235.4	
Total Current Assets	807.1	1,203.0	1,542.6	1,900.4	
Creditors	274.6	373.6	489.0	545.4	
Other Current Liab. & Prov.	114.2	90.2	118.2	138.4	
Total Current Liabilities	388.8	463.8	607.3	683.8	
Net Current Assets	418.4	739.2	935.3	1,216.6	
<b>Application of Funds</b>	<b>5,220.2</b>	<b>5,221.7</b>	<b>5,253.3</b>	<b>5,355.5</b>	

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios					
(Year-end March)	FY21	FY22E	FY23E	FY24E	
<b>Per share data (₹) (annualised)</b>					
EPS	-4.1	5.5	10.0	14.0	
Cash EPS	3.1	13.9	19.5	24.2	
BV	65.1	69.2	76.7	87.2	
DPS	1.0	1.4	2.5	3.5	
Cash Per Share	2.3	2.6	4.1	6.3	
<b>Operating Ratios</b>					
EBITDA Margin (%)	6.6	14.1	15.7	16.4	
PBT Margin (%)	-5.1	5.0	7.4	8.7	
PAT Margin (%)	-5.6	4.3	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	30.3	30.2	28.8	
<b>Return Ratios (%)</b>					
RoE	-6.3	8.0	13.1	16.0	
RoCE	4.3	18.2	24.0	27.2	
RoIC	-9.4	25.3	37.9	41.4	
<b>Valuation Ratios (x) (annualised)</b>					
P/E	-	197.4	108.4	77.9	
EV / EBITDA	222.4	60.6	41.4	33.8	
EV / Net Sales	14.7	8.5	6.5	5.5	
Market Cap / Sales	14.9	8.6	6.5	5.6	
Price to Book Value	16.7	15.7	14.2	12.5	
<b>Solvency Ratios</b>					
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

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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