Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Trent Ltd

Mixed Q3; aggressive expansions and differentiated model to aid growth

Consumer Discretionary	Sharekhan code: TRENT

Reco/View: Buy	↔	CMP: **Rs. 1,076**	Price Target: **Rs. 1,275**	↔

↑ 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 Jan 08, 2022

Low Risk

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

Source: Morningstar

Summary

- Q3FY2022 was a mixed bag with strong y-o-y revenue growth of 86% (growth of 54% over Q3FY2020) to Rs. 1,347.8 crore while margins declined y-o-y (gross margin down by 513 bps and OPM lower by 317 bps) due to input cost inflation. PAT came at Rs. 132.9 crore.
- Westside's revenues crossed Rs. 1,000 crore with like-for-like growth of 9% and 49% against Q3FY2020 (pre-COVID) and Q3FY2021, respectively. Online channel registered 99% y-o-y growth. The company expects growth momentum to continue going ahead.
- The company operates 197 Westside stores and 177 Zudio stores (total 374 fashion stores) as on date and targets to have more than 425 fashion stores by March 2022.
- Trent is one of our preferred picks in the retail space due to its differentiated business model, strong store expansion plan and a healthy balance sheet. We maintain a Buy on the stock with an unchanged price target of Rs. 1,275.

Trent saw a month-on-month recovery in sales in Q3FY2022 and registered a y-o-y revenue growth of 85.8% to Rs. 1,347.8 crore (growth of 54% over Q3FY2020) aided by the festive season, relaxation of pandemic-related restrictions and increased pace of vaccination drive. However, the company's profitability was affected by high raw material prices, which dragged gross margin by 513 bps y-o-y to 51.2% and OPM by 317 bps y-o-y to 21.6%. Operating profit came in at Rs. 291.7 and PAT came in at Rs. 132.9 crore. Trent expects a faster recovery and eyes strong growth in the near term as Omicron wave recedes and vaccination continues. The company declared an interim dividend of Rs. 0.60 per equity share for FY2021-22.

Key positives

- Revenues grew by 54% over Q3FY2020 with Westside reporting revenue over Rs. 1,000 crore.
- The online channel grew by 99% over Q3FY2021; Westside registered over 5% revenues through online channel.
- Emerging categories such as beauty and personal care, innerwear and home saw strong traction.

Key negatives

- Gross margins/OPM declined by 513/317 bps y-o-y due to high input cost inflation.

Management Commentary

- The management is confident that recovery will be faster on the back of milder playout of the Omicron wave and the mature vaccination drive.
- The company continues to focus on accelerating its store expansion program and aims to have a network of more than 425 fashion stores by March 2022.
- A rapid shift to branded products, emergence of digital/seamless channels of engagement and a growing appetite for aspirational yet strong value propositions will aid growth over the company in the medium to long term.

Revision in earnings estimates – We have raised our earnings estimates for FY2022/FY2023/FY2024 to factor in better than expected performance in Q3 and faster recovery in the coming years.

Our Call

Valuation – Retain Buy with an unchanged price target of Rs. 1,275: Trent witnessed strong growth across businesses in Q3FY2022 with Westside registering a revenue of over Rs. 1,000 crore, a pick-up in Star (foods) business and a 99% y-o-y surge in the online channel's revenues. The company's 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. The stock is currently trading at 31.4x/26.3x its FY2023E/24E EV/EBIDTA. We maintain a Buy recommendation on the stock with an unchanged SOTP based price target of Rs. 1,275.

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.

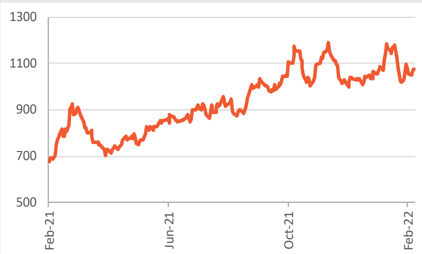
Company details

Market cap:	Rs. 38,234 cr
52-week high/low:	Rs. 1,212 / 669
NSE volume: (No of shares)	8.5 lakh
BSE code:	500251
NSE code:	TRENT
Free float: (No of shares)	22.4 cr

Shareholding (%)

Promoters	37.0
FII	29.5
DII	12.5
Others	21.00

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-3.9	-6.4	19.9	55.7
Relative to Sensex	-1.1	-3.5	12.5	40.8

Sharekhan Research, Bloomberg

Valuation (standalone) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	2,048	3,624	5,041	5,887
OPM (%)	10.0	17.8	21.1	21.9
Adjusted PAT	-45	224	519	689
Adjusted diluted EPS (Rs.)	-1.3	6.3	14.6	19.4
P/E (x)	-	-	73.7	55.5
P/B (x)	15.2	14.2	12.1	10.1
EV/EBIDTA (x)	97.5	47.0	31.4	26.3
RoNW (%)	-	8.6	17.8	19.9
RoCE (%)	3.3	9.6	16.4	18.7

Source: Company; Sharekhan estimates

Robust revenue growth of 85.8% y-o-y; margins impacted due to input cost inflation

Revenue grew by 85.8% y-o-y and 32.1% q-o-q to Rs. 1,347.8 crore ahead of our and street expectation of Rs. 1,197 crore with revenue recovering m-o-m led by improved customer sentiment which was further aided by the festive season. Revenue grew by 54% over Q3FY2020. Westside registered a revenue of over Rs. 1,000 crore in Q3FY2022 with like-for-like (LFL) growth of 9% over Q3FY2020 and 49% y-o-y. The online channel's revenue doubled y-o-y. As anticipated, gross margin and OPM declined y-o-y impacted by high input cost inflation. Gross margins shrunk by 513 bps y-o-y to 51.2% while OPM declined by 317 bps y-o-y to 21.6% (lagging our and the street's expectation of 23%). Operating profit grew by 62.1% y-o-y to Rs. 291.7 crore. Other income includes Rs. 9.8 crore with respect to wavier/reduction i-n rent and related charges. The company reported a net profit of Rs. 132.9 crore, up by 66.8% y-o-y. The Board declared an interim dividend of Rs. 0.60 per equity share aggregating to Rs. 21.33 crores for FY2021-22.

Strong growth across businesses

Q3FY2022 witnessed strong growth across businesses aided by rapid vaccinations, further relaxation of pandemic-related restrictions and the festive season. Store operations were normal during the quarter with a limited pandemic-related loss of trading days/time. In Q3FY2022, Westside registered revenues of over Rs. 1,000 crore registering a like-for-like growth of 9% and 49% against Q3FY2020 (pre-COVID levels) and Q3FY2021, respectively. Westside witnessed robust traction in the online channel with over 5% of revenues coming from online channels in 9MFY2022 even as stores recovered fully. Emerging categories like beauty and personal care, innerwear and home witnessed growing traction during the quarter.

Key quarterly highlights

- Trent's annual subscription model (WestStyleClub) witnessed positive offtake from customers in recent weeks with significant jump registered in on-going recruitment, initial spends, broad basing of category penetration and renewals. The management stated that the muted footfall recovery was compensated by significant growth in spends of StyleClub members.
- The company is committed to deliver an aspirational lifestyle experience to customers across portfolio and is prioritising renovating its stores and simultaneously consolidating/exiting stores that are suboptimal from a brand perspective. Trent continues to remain focused on accelerating its store expansion program and aims to have a network of more than 425 fashion stores by March 2022. As on date, the company operates 197 Westside and 177 Zudio stores.
- Trent's Star food business with tight footprint stores, sharp pricing and focus on fresh & own brands is witnessing resilient customer traction. The performance of Star stores is encouraging and the company continues to evolve its property portfolio to align with this proposition.

Results (standalone) Rs cr

Particulars	Q3FY22	Q3FY21	Y-o-Y %	Q2FY22	Q-o-Q %
Net revenue	**1,347.8**	**725.4**	**85.8**	**1,020.4**	**32.1**
Cost of goods sold	657.2	316.5	107.7	488.7	34.5
Gross profit	690.6	408.9	68.9	531.7	29.9
Staff cost	84.7	68.5	23.6	76.2	11.2
Other expenses	314.1	160.4	95.8	234.2	34.1
Operating profit	**291.7**	**180.0**	**62.1**	**221.3**	**31.8**
Other income	29.6	42.6	-30.4	94.9	-68.8
Interest	73.4	60.6	21.2	72.6	1.1
Depreciation	73.4	57.8	26.9	66.6	10.1
Profit before tax	174.6	104.2	67.6	176.9	-1.3
Tax	41.7	24.5	70.1	38.3	8.9
Adjusted PAT	**132.9**	**79.7**	**66.8**	**138.6**	**-4.1**
Exceptional items	0.0	0.0	-	-13.0	-
Reported PAT	**132.9**	**79.7**	**66.8**	**125.6**	**5.8**
EPS (Rs.)	3.7	2.2	66.8	3.9	-4.1
			bps		**bps**
GPM (%)	51.2	56.4	-513	52.1	-87
OPM (%)	21.6	24.8	-317	21.7	-4
NPM (%)	9.9	11.0	-112	13.6	-373
Tax rate	23.9	23.5	35	21.6	224

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector outlook – Improved footfalls and festive season would drive growth in the near term

Strong festive demand in October-November 2021, improved footfalls, higher ticket size, revenge buying, and stores operational for normal working hours (in most states) would lead to strong revenue performance for branded apparel companies in Q3FY2022. Branded apparel/retail companies crossed sales ahead of pre-COVID levels. Emergence of a third wave would act as a key risk to near-term performance. However, with reduction in cases and easing of lockdown norms, companies are expected to witness faster recovery coupled with increased footfalls and higher ticket-size spends. Efficiencies at store level, 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 – faster recovery to growth ahead

The company's fashion business clocked strong growth in Q3FY2022 with revenue crossing the pre-COVID levels. While the Omicron wave affected sales in January, recovery is expected to be faster on the back of milder playout of the Omicron wave and rapid vaccinations. Margins were hit by input cost inflation and the profitability is expected to improve as raw material prices stabilise. 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. 1,275

Trent witnessed strong growth across businesses in Q3FY2022 with Westside registering a revenue of over Rs. 1,000 crore, a pick-up in Star (foods) business and a 99% y-o-y surge in the online channel's revenues. The company's 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. The stock is currently trading at 31.4x/26.3x its FY2023E/24E EV/EBIDTA. We maintain a Buy recommendation on the stock with an unchanged SOTP based price target of Rs. 1,275.

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Aditya Birla Fashion	-	-	87.3	52.1	28.5	19.2	-	1.9	9.3
Shoppers Stop			22.8	21.1	9.4	6.1	-	5.8	12.7
Trent	-	-	73.7	97.5	47.0	31.4	3.3	9.6	16.4

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 around 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 Website

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

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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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