

BSE SENSEX
 57,167

 S&P CNX
 17,174


Stock Info

	TRENT IN
Bloomberg	TRENT IN
Equity Shares (m)	355
M.Cap.(INRb)/(USDb)	434.7 / 5.7
52-Week Range (INR)	1347 / 694
1, 6, 12 Rel. Per (%)	-2/13/47
12M Avg Val (INR M)	879
Free float (%)	63.0

Financials Snapshot (INR b)

INR billion	FY22E	FY23E	FY24E
Sales	45.8	67.5	86.5
EBITDA	6.2	11.2	15.2
NP	1.1	4.0	6.0
EBITDA Margin (%)	13.4	16.5	17.5
Adj. EPS (INR)	3.0	11.4	16.9
EPS Gr. (%)	NM	282.4	48.7
BV/Sh. (INR)	72.3	84.5	102.5

Ratios

Net D:E	1.1	1.0	0.9
RoE (%)	NM	15.5	19.3
RoCE (%)	4.7	10.8	12.2
Payout (%)	0.0	0.0	0.0

Valuations

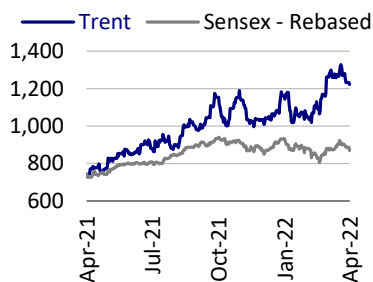
P/E (x)	NM	108.7	73.1
EV/EBITDA (x)	74.5	41.8	31.0
EV/Sales (x)	10.3	7.1	5.6
Div. Yield (%)	0.0	0.0	0.0
FCF Yield (%)	-0.3	0.5	1.6

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	37.0	37.0	37.0
DII	13.4	12.5	10.3
FII	28.3	28.9	29.9
Others	21.2	21.6	22.8

FII Includes depository receipts

Stock performance (one-year)



CMP: INR1,234 TP: INR1,430 (+16%) Upgrade to Buy

On a high growth path

Westside and Zudio continue to eye aggressive growth

- Our channel checks threw up positive feedback on store economics, store additions, and a revenue recovery in both Westside and Zudio, despite the impact of the COVID-19 pandemic.
- Both formats have a high fashion quotient. This, along with Zudio's sharp pricing, has allowed it to taste success across multiple cities, even as other retailers have been impacted by the pandemic.
- We have revised our FY24E revenue/EBITDA up by 5.8%/6.5% and are now building in 37%/57% revenue/EBITDA CAGR over FY22-24E on the back of a recovery from the COVID-19 pandemic, 33.5% footprint growth, and 9% SSSG on a stable state basis.
- We upgrade the stock to Buy, with a revised TP of INR1,430 per share.

Continues to grow at an accelerate pace

TRENT's growth in the last couple of years has been stupendous to say the least, growing at 15% over FY20-22E despite the impact of the COVID-19 pandemic. Its footprint addition has been strong (27% over FY20-22E) and much ahead of the industry. Even existing stores have done very well, with 9% SSSG (over the pre-COVID period). Based on our channel checks on store additions and performance of existing stores, We have revised our FY24E revenue/EBITDA up by 5.8%/6.5% and are now building in 37%/57% revenue/EBITDA CAGR on the back of a recovery from the COVID-19 pandemic, 33.5% footprint growth, and 9% SSSG on a stable state basis. Interestingly, all this growth has been largely funded internally.

Channel check offers confidence

We received good feedback on Westside and Zudio from multiple cities and towns. Westside and Zudio have seen a better recovery and achieved budgeted sales, with a healthy growth in the last couple of months v/s pre-COVID levels. This could be attributed to: a) its sticky customer base and targeting of customers through its membership program, b) higher fashion quotient in store inventory, which balances increasing prices, and c) a relatively less impacted affluent and youth customer compared to the lower middle-income group, which seemed to have curbed spending in many smaller cities as per our channel checks.

Zudio – The winner in Value Retail

Revenue from Zudio has more than doubled to INR11b in FY22E from INR4.8b in FY20, despite the impact from the COVID-19 pandemic. The same should grow 3x over the next two years to INR33b. Our estimates are based on our channel checks across multiple cities, which suggest that six-month old Zudio stores are garnering an annualized revenue run-rate of INR100m, i.e. INR14-15k/sq. ft., nearly 20-30% more than stores of a similar size. This is due to its vibrant product designs and sharp pricing with an ASP of INR300 and all products in the store priced below INR1,000. The store opening pipeline looks strong across cities, with an estimated annual store openings of 200, much above our estimate of 85 annual store openings.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

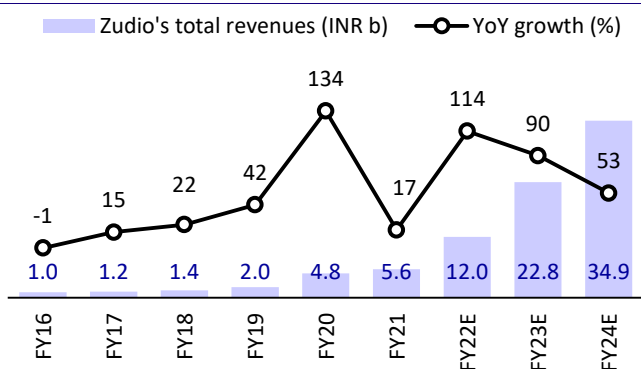
Valuation and view

TRENT’s successful store performance, healthy store economics, and aggressive growth offer a huge runway for growth over the next three-to-five years. We expect 37% revenue growth over FY22-25, 4% above our Retail coverage universe, which warrants a premium valuation. We have ascribed a 31x FY24 EV/EBITDA to the standalone business (Westside and Zudio, 15% premium for the last five years until the COVID-19 outbreak and 10% premium to our Retail coverage universe), 1x EV/sales to Star Bazaar, and 15x EV/EBITDA to Zara to arrive at our TP of INR1,430/share (from INR1,180/share earlier). We have upgraded the stock to Buy. The key downside risk to our thesis is a potential GST rate hike on apparels to 12% from 5%, which can adversely impact demand, especially in the price sensitive Value Retail segment. Increasing raw material prices can compel apparel retailers to undertake another round of price hikes, which can adversely impact sales volumes.

Zudio – Trendy products with a sharp pricing

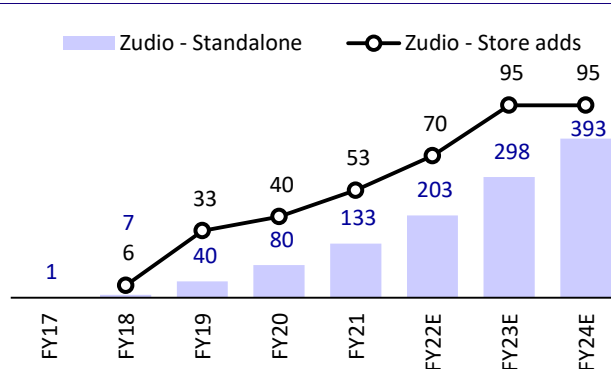
The store and products give a very trendy look and feel, targeting young value seeking consumers. The store has no false ceiling, but the interior and product color/design combinations are fashionable and appealing. It only offers Casual Wear. Despite operating on the outskirts of cities, it sells a high proportion of stylish Western wear. Its products are attractively priced, with an average price of INR300-400, ~65% of products priced below INR499, and no product priced over INR999. This is partly achieved by offering low-cost polyester blended fabric with cotton/viscose. Its product quality is below Westside. The low pricing is also achieved by passing on the benefits of lower gross margin (~30% v/s 55% of Westside) and no marketing cost (in line with Westside) to customers.

Exhibit 1: Expect Zudio to clock 71% revenue CAGR over FY22-24...



Source: MOFSL, Company

Exhibit 2: ...led by a strong focus on store additions



Source: MOFSL, Company

Higher throughput (revenue/sq. ft.) and quick inventory churn

Given the lower gross margin, Zudio’s success lies in its strong turnover – revenue/sq. ft. of INR12-15k (v/s an industry average of INR8-10k). This is derived through a combination of strong footfalls and healthy conversion, which is nearly ~2x v/s other Retail outlets in the Apparel/Value Fashion category. The store’s high fashion appeal and sharp pricing have led to encouraging operating metrics. The churn in store inventory is less than one month, with a weekly product refresh of ~15% (which means it changes its product every two months).

Exhibit 3: Per store metrics (INR m, unless stated)

Per store Metrics	Westside	Zudio
Size (sq. ft.)	15-25k	6-8k
Investment (INR/sq. ft.)	2,300	2,000
Size (in sq. ft.)	15,000	6,000
Rent/month/sq. ft. (INR)	100	80
Capex (INR m)	34.5	12
Franchisee fee	1	1
Security deposit (six month rental)	9	2.9
Stamp duty and registration	3	2
Consultancy/brokerage (15 days)	0.8	0.2
Total investment (INR m/store)	48.3	18.1

Source: MOFSL, Company

Aggressive store additions through the franchisee model

Zudio has adopted a unique FOCO (franchise owned, company operated) model, unlike the conventional COCO/FOFO model used in the industry. The franchisee incurs a capex of INR15-20m on a store size of 6k sq. ft., in turn receiving a fixed revenue share, while the company operates the store and retains any excess profits. Typically, the franchisee earns a revenue share of ~16% and 12-15% IRR, while the company on merely one-month of inventory capital will earn a strong RoCE.

Zudio could be a big revenue/EBITDA contributor in three-to-five years

Started just five years ago, Zudio has touched 200 standalone stores, with a revenue of INR11b in FY22E. At present, it constitutes 25% of standalone revenue, with ~200 stores. We factor in 463 stores and INR46b in revenue for FY25, contributing ~42% to overall revenue and 60% of incremental revenue over the next three years. This is still below the management's target to add 100 stores annually. It can garner stable state (pre-Ind AS 116) EBITDA margin of 6-7%. Its current revenue/sq. ft. of ~INR9k is much below LFL revenue/sq. ft. of INR14-15k.

Westside delivers high teen RoIC; RoI to improve with Zudio turning profitable

According to our calculations, Westside garners mid-to-high teens RoIC, but the upcoming investments in scaling up both Westside and Zudio may keep the return profile in single-digits. While RoCE/RoIC may languish in the near term, it will recover to healthy mid-teens over the next two-to-three years on: a) Zudio driving scale benefits, b) accelerated store additions, and c) back-end synergies. Over FY22-24, we expect consolidated revenue/EBITDA CAGR of 37%/57% and PAT to grow ~5.7x, driving RoIC of 11.6%/13.2% for FY23E/FY24E.

Exhibit 4: Westside to see healthy revenue growth...

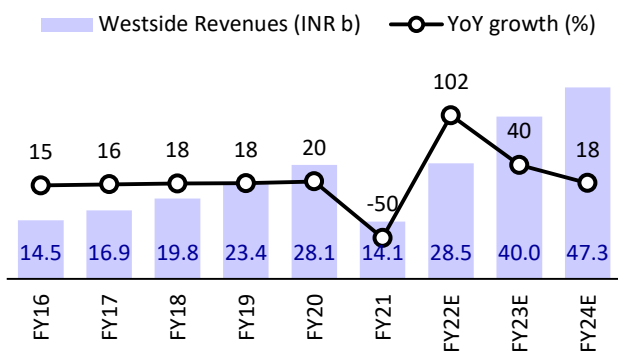


Exhibit 5: ...alongside store additions

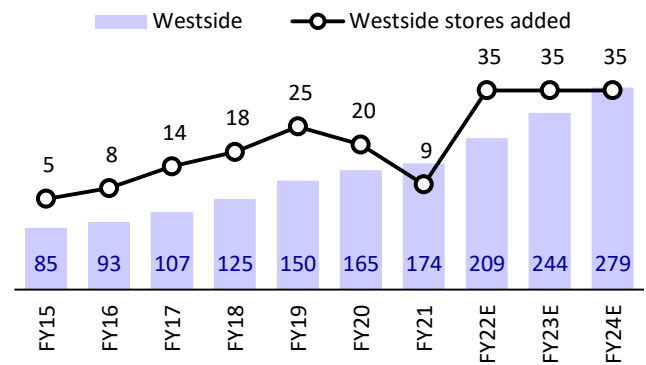


Exhibit 6: Translation of Westside's footfalls into revenue

Particulars	FY16	FY17	FY18	FY19	FY20	FY21
Footfalls (m)	25.2	26.1	36.1	45.0	50.9	51.9
YoY growth (%)	2.4	3.9	38.3	24.4	13.2	2.0
Stores	93.0	107.0	125.0	150.0	165.0	174.0
Footfalls/store ('000s)	283	261	312	327	323	306
YoY growth (%)		-7.5	19.2	5.0	-1.2	-5.3
Conversion rate (%)	30.9	31.8	25.0	22.3	23.4	10.6
Number of bills (m)	7.8	8.3	9.0	10.0	11.9	5.5
YoY growth (%)	5.3	6.8	8.7	11.2	18.8	-54.0
Average bill size (INR)	1,860	2,029	2,197	2,332	2,357	2,574
YoY growth (%)	9.4	9.1	8.3	6.1	1.1	9.2
Revenue (INR m)	14,472	16,859	19,836	23,407	28,110	14,135
YoY growth (%)	15.2	16.5	17.7	18.0	20.1	-49.7

Source: Company, MOFSL

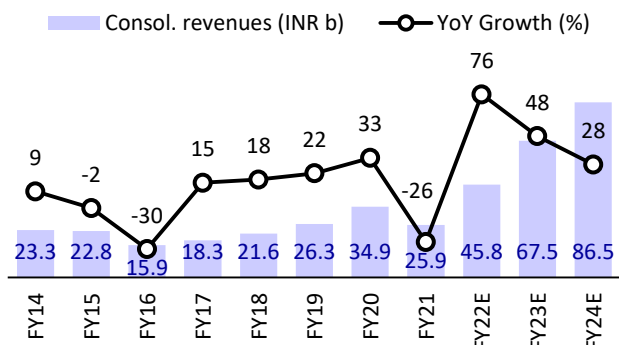
Exhibit 7: Comparative return analysis under all formats (FY20)

	Standalone	Westside	Zudio	Star	Zara	Investments	Consolidated
Revenue	31,777	27,152	5,070	12,289	15,705	1,518	34,860
EBITDA	2,901	2,987	(737)	(1,291)	1,865	1,518	2,404
EBITDA margin (%)	9.1	11.0	-14.5	-10.5	11.9	NA	6.9
Depreciation	671	543	128	655	396	NA	531
EBIT	2,230	2,444	(865)	(1,946)	1,469	1,518	1,873
EBIT margin (%)	7	9	-17	-16	9	NA	5
PAT	1,704	NA	NA	(1,710)	1,041	1,518	1,671
PAT margin (%)	5	NA	NA	-14	7	NA	5
Capital employed	26,918	24,118	2,800	6,116	5,514	NA	26,576
Share capital	24,990	22,190	2,800	5,616	5,514	6,629	23,880
Invested capital	10,409	7,609	2,800	4,984	3,780	6,629	10,814
RoCE (pre-tax, %)	9	10	NA	-32	27	NA	7.9
RoE (%)	8.1	NA	NA	-30	19	23	8.3
RoIC (post-tax, %)	13.2	20	-31	-39	26	14	11.9

*Capital employed includes investments both financial and in JVs/subsidiaries

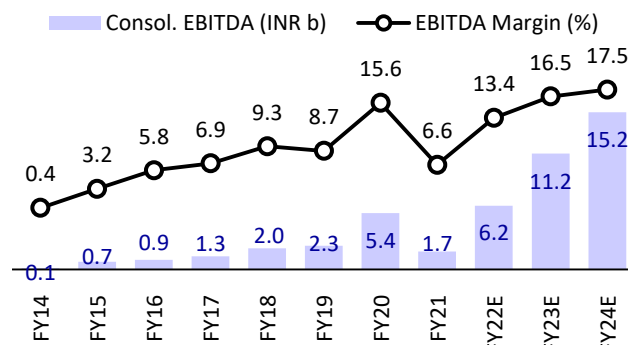
Source: MOFSL, Company

Exhibit 8: Expect consolidated revenue to grow at a healthy 37% CAGR over FY22-24



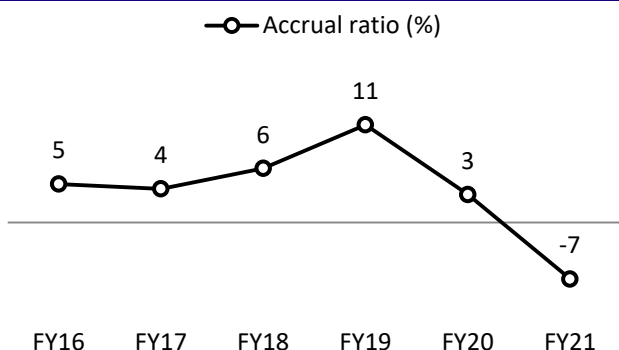
Source: MOFSL, Company

Exhibit 9: Expect 57% EBITDA CAGR over FY22-24



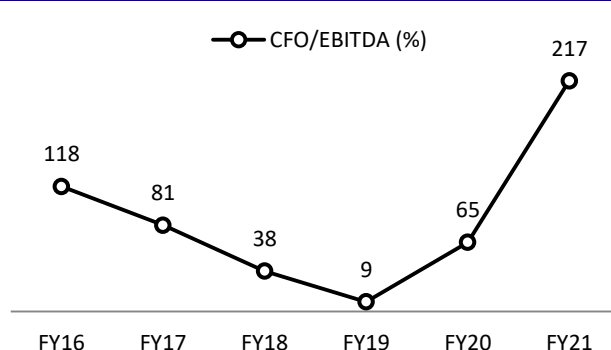
Source: MOFSL, Company

Exhibit 10: Accrual ratio trend



Source: MOFSL, Company

Exhibit 11: CFO/EBITDA shows an improvement



Source: MOFSL, Company

Exhibit 12: DuPont Analysis for RoE on reported numbers

DuPont Analysis (INR m)	FY16	FY17	FY18	FY19	FY20	FY21
Adjusted net profit	505	672	870	970	1,060	-1,803
Revenue	15,893	18,339	21,575	26,302	34,860	25,930
Net profit margin (%)	3.2	3.7	4.0	3.7	3.0	-7.0
Revenue	15,893	18,339	21,575	26,302	34,860	25,930
Total assets	21,566	22,165	23,354	25,587	55,066	52,108
Average total assets	21,816	21,865	22,759	24,470	40,326	53,587
Assets turnover (x)	0.73	0.84	0.95	1.07	0.86	0.48
Total debt	3,998	3,917	3,914	3,942	25,260	26,686
Total equity	14,644	15,477	15,954	16,465	23,880	23,130
Average equity	14,432	15,060	15,715	16,209	20,173	23,505
Average total assets	21,816	21,865	22,759	24,470	40,326	53,587
Financial leverage (x)	1.51	1.45	1.45	1.51	2.00	2.28
RoE as per DuPont Analysis (%)	3.5	4.5	5.5	6.0	5.3	-7.7

Source: Company, MOFSL

Exhibit 13: Valuation-based SoTP

Particulars	Financial metric	Multiple (x)	EBITDA/sales	Enterprise value
Westside and Zudio	EBITDA	31	15.7	493
Star	Sales	1	9.9	10
Zara	EBITDA	15	2.2	33
Total enterprise value				536
Net debt				28
Equity value				508
Shares (m)				355
TP				1,430
CMP				1,234
Upside				16%

Source: MOFSL, Company

Financials and valuations – consolidated

Consolidated Income Statement							(INR m)		
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Total Income from Operations	15,893	18,339	21,575	26,302	34,860	25,930	45,760	67,533	86,485
Change (%)	-30.4	15.4	17.6	21.9	32.5	-25.6	76.5	47.6	28.1
Raw Materials	7,956	9,028	10,315	13,114	18,818	15,340	25,374	36,955	47,022
Employees Cost	1,638	1,925	2,305	2,868	3,585	3,019	3,864	6,132	7,436
Rent and lease expenses	1,924	2,317	2,725	3,165	1,935	0	0	0	0
Advertising and Sales Promotion	440	481	418	0	0	0	0	0	0
Other Expenses	3,007	3,331	3,800	4,878	5,083	5,852	10,371	13,276	16,854
Total Expenditure	14,966	17,082	19,563	24,025	29,420	24,211	39,610	56,363	71,312
As a percentage of Sales	94.2	93.1	90.7	91.3	84.4	93.4	86.6	83.5	82.5
EBITDA	928	1,257	2,012	2,277	5,440	1,719	6,151	11,170	15,173
Margin (%)	5.8	6.9	9.3	8.7	15.6	6.6	13.4	16.5	17.5
Depreciation	386	413	455	517	2,472	2,573	3,025	3,590	4,581
EBIT	542	844	1,557	1,761	2,967	-854	3,125	7,580	10,591
Int. and Finance Charges	376	338	306	368	2,458	2,487	3,011	3,800	4,590
Other Income	573	605	442	408	1,445	2,016	1,613	1,613	2,016
PBT bef. EO Exp.	739	1,112	1,693	1,801	1,954	-1,325	1,728	5,392	8,017
EO Items	79	258	0	0	0	-10	-274	0	0
PBT after EO Exp.	818	1,370	1,693	1,802	1,954	-1,335	1,453	5,392	8,017
Total Tax	347	431	596	736	590	-237	690	1,357	2,018
Tax Rate (%)	42.4	31.4	35.2	40.9	30.2	17.8	47.5	25.2	25.2
MI/(Profit)/Loss from Assoc.	-79	91	227	95	304	714	-147	0	0
Reported PAT	550	849	870	970	1,060	-1,811	911	4,035	5,999
Adjusted PAT	505	672	870	970	1,060	-1,803	1,055	4,035	5,999
Change (%)	-7.5	33.0	29.5	11.6	9.2	-270.1	-158.5	282.4	48.7
Margin (%)	3.2	3.7	4.0	3.7	3.0	-7.0	2.3	6.0	6.9

Consolidated Balance Sheet							(INR m)		
Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Equity Share Capital	332	332	332	332	355	355	355	355	355
Total Reserves	14,312	15,145	15,621	16,133	23,525	22,775	23,686	27,721	33,720
Net Worth	14,644	15,477	15,954	16,465	23,880	23,130	24,041	28,076	34,075
Total Loans	3,998	3,917	3,914	3,942	25,260	26,686	33,083	41,763	50,444
Lease Liabilities					23,188	26,637	33,033	41,714	50,394
Deferred Tax Liabilities	-26	90	193	255	-1,104	-746	-746	-746	-746
Capital Employed	18,719	19,491	20,068	20,632	48,839	49,515	56,822	69,538	84,217
Gross Block	6,535	7,492	8,341	9,117	32,192	37,375	46,687	58,633	70,580
Less: Accum. Deprn.	2,024	2,266	2,478	2,757	3,977	7,093	10,118	13,708	18,289
Net Fixed Assets	4,511	5,226	5,864	6,360	27,114	30,438	36,568	44,925	52,290
Right to use assets					19,856	23,185	27,208	33,098	38,108
Goodwill on Consolidation	261	262	261	261	272	272	272	272	272
Capital WIP	537	55	96	872	231	231	231	231	231
Total Investments	10,670	10,800	10,229	8,828	15,148	15,550	13,498	13,498	13,498
Curr. Assets, Loans, and Adv.	5,554	5,823	6,904	9,265	11,197	10,000	11,982	19,155	29,014
Inventory	2,792	3,054	3,448	4,970	6,078	4,284	7,071	10,274	13,442
Account Receivables	130	59	151	165	171	208	218	337	441
Cash and Bank Balance	269	343	328	542	614	815	280	481	5,407
Loans and Advances	2,363	2,367	2,977	3,587	4,334	4,694	4,414	8,063	9,724
Curr. Liability and Prov.	2,821	2,673	3,286	4,955	5,123	6,976	5,730	8,544	11,088
Account Payables	1,662	1,422	2,084	2,450	2,976	2,746	3,372	5,053	6,611
Other Current Liabilities	997	1,056	997	2,293	1,893	4,026	2,154	3,287	4,273
Provisions	162	195	205	212	254	204	204	204	204
Net Current Assets	2,733	3,150	3,618	4,311	6,074	3,024	6,252	10,611	17,925
Appl. of Funds	18,719	19,491	20,068	20,632	48,839	49,515	56,822	69,538	84,217

E: MOSL estimates

Financials and valuations – consolidated

Ratios

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Basic (INR)									
EPS	1.5	2.0	2.6	2.9	3.0	-5.1	3.0	11.4	16.9
Cash EPS	2.7	3.3	4.0	4.5	10.6	2.3	12.3	22.9	31.8
BV/Share	44.1	46.6	48.0	49.5	71.9	69.6	72.3	84.5	102.5
DPS	9.0	1.0	1.1	1.3	1.0	0.0	0.0	0.0	0.0
Payout (%)	543.6	39.2	43.9	53.7	33.5	0.0	0.0	0.0	0.0
Valuation (x)									
P/E	812.1	610.6	471.5	422.6	413.9	-243.3	415.8	108.7	73.1
Cash P/E	460.3	378.1	309.5	275.8	116.1	532.5	100.5	53.8	38.8
P/BV	28.0	26.5	25.7	24.9	17.2	17.7	17.1	14.6	12.0
EV/Sales	26.0	22.6	19.2	15.7	13.3	17.9	10.3	7.1	5.6
EV/EBITDA	434.5	320.5	200.5	177.7	82.4	261.2	74.5	41.8	31.0
Dividend Yield (%)	0.7	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
FCF per share	-0.6	1.0	-0.9	-5.2	6.8	8.0	-3.3	6.7	21.1
Return Ratios (%)									
RoE	3.5	4.5	5.5	6.0	5.3	-7.7	4.5	15.5	19.3
RoCE	3.6	5.2	6.6	6.4	8.9	1.9	4.7	10.8	12.2
RoIC	4.1	7.5	11.4	10.5	9.6	-2.1	4.3	11.6	13.2
Working Capital Ratios									
Fixed Asset Turnover (x)	2.4	2.4	2.6	2.9	1.1	0.7	1.0	1.2	1.2
Asset Turnover (x)	0.8	0.9	1.1	1.3	0.7	0.5	0.8	1.0	1.0
Inventory (Days)	64	61	58	69	64	60	56	56	57
Debtor (Days)	3	1	3	2	2	3	2	2	2
Creditor (Days)	38	28	35	34	31	39	27	27	28
Leverage Ratio (x)									
Current Ratio	2.0	2.2	2.1	1.9	2.2	1.4	2.1	2.2	2.6
Interest Coverage Ratio	1.4	2.5	5.1	4.8	1.2	-0.3	1.0	2.0	2.3
Net Debt/Equity ratio	0.2	0.2	0.2	-0.4	0.7	0.9	1.1	1.0	0.9

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
OP/(Loss) before Tax	785	1,354	1,467	1,685	1,650	-2,038	1,453	5,392	8,017
Depreciation	387	413	455	517	2,472	2,573	3,025	3,590	4,581
Interest and Finance Charges	174	128	88	165	2,126	2,197	3,011	3,800	4,590
Direct Taxes Paid	-199	-384	-501	-791	-835	-11	-690	-1,357	-2,018
(Inc.)/Dec. in WC	313	-244	-643	-1,352	-1,033	1,063	-3,762	-4,158	-2,388
CF from Operations	1,460	1,268	866	223	4,381	3,783	3,037	7,267	12,782
Others	-366	-244	-98	-14	-828	-45	-1,465	-1,613	-2,016
CF from Operations incl. EO	1,094	1,024	769	210	3,553	3,738	1,572	5,654	10,766
(Inc.)/Dec. in FA	-1,307	-686	-1,068	-1,953	-1,142	-910	-2,760	-3,266	-3,266
Free Cash Flow	-213	339	-300	-1,743	2,411	2,828	-1,188	2,388	7,500
(Pur.)/Sale of Investments	-60	146	928	2,253	-6,574	1,400	2,052	0	0
Others	383	103	100	-670	-382	-308	1,613	1,613	2,016
CF from Investments	-984	-437	-40	-370	-8,098	181	905	-1,653	-1,250
Issue of Shares	840	-2,002	-1,024	0	9,349	-3	0	0	0
Inc./Dec. in Debt	-4	1,864	1,000	1,061	-1,773	0	0	0	0
Interest Paid	-213	-365	-317	-227	-2,511	-2,489	-3,011	-3,800	-4,590
Dividend Paid	-756	-11	-403	-459	-398	-355	0	0	0
Others	0	0	0	0	-50	-872	0	0	0
CF from Fin. Activity	-133	-514	-743	375	4,617	-3,719	-3,011	-3,800	-4,590
Inc./Dec. in Cash	-23	74	-15	214	72	201	-534	201	4,926
Opening Balance	292	269	343	328	542	614	815	280	481
Closing Balance	269	343	328	542	614	815	280	481	5,407

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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