



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 Feb 08, 2022

**Low Risk**

NEGL	<b>LOW</b>	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

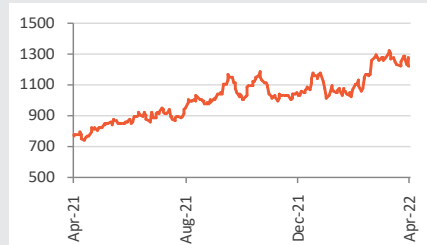
Company details

Market cap:	Rs. 43,570 cr
52-week high/low:	Rs. 1,347 / 737
NSE volume: (No of shares)	7.7 lakh
BSE code:	500251
NSE code:	TRENT
Free float: (No of shares)	22.4 cr

Shareholding (%)

Promoters	37.0
FII	28.9
DII	13.4
Others	20.65

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.0	20.4	21.9	58.8
Relative to Sensex	-2.8	20.3	26.4	43.7

Sharekhan Research, Bloomberg

Summary

- Q4FY2022 was a mixed bag with strong y-o-y revenue growth of 53% (63% growth over Q4FY2020) to Rs. 1,185.3 crore, while margins declined y-o-y (gross margins fell by 405 bps while EBITDA margins fell by 480 bps). PAT grew by 32% y-o-y to Rs. 75 crore.
- Like-for-like (LFL) sales grew by 21% y-o-y in Q4FY22 and 16% compared with Q4FY2020. Sales through online platform grew by 85% in Q4.
- The company operated 200 Westside stores and 235 Zudio stores (total 435 fashion stores) as on March 31, 2022. With strong liquidity, store additions are expected to be strong in the coming years.
- Strong momentum in LFL sales and store expansions will help Trent's revenues and PAT to clock CAGR of 33% and 57% over FY2022-24E. We maintain a Buy on the stock with a revised price target of Rs. 1,415.

Trent registered a mixed bag performance in Q4FY2022 with strong double-digit revenue growth while EBITDA margins fell due to higher inflation and a disruption in operations caused by the third COVID-19 wave. Revenues grew by 53.2% y-o-y to Rs. 1,185.2 crore, largely driven by higher like-for-like (LFL) sales growth and new store additions. LFL sales grew by 21% y-o-y in Q4FY22 and 16% compared with Q4FY2020. Gross margins decreased by 405 bps y-o-y to 49.1% due to higher raw material prices and higher discounts during end-of-season sales. This along with disruption caused by third COVID-19 wave resulted in EBITDA margin declining by 480 bps y-o-y to 12.9%. Higher other income and lower tax incidence led to a strong 31% y-o-y growth in PAT to Rs. 75 crore. For FY2022, Trent's revenues/PAT grew at CAGR of 11%/30% over FY2020-22. Net cash on books stood at Rs. 110 crore.

Key positives

- LFL sales grew by 21% y-o-y and 16% versus Q4FY2020.
- Sales through online platform grew by 85% in Q4; It grew by 74% and contributed 7% to Westside revenues in FY2022.
- Westside has almost reached to the revenues of annual run rate of Rs. 5,000 crore with 200 stores under operations.
- The company added over 125 stores in FY2022 and expected to maintain strong store addition in FY2023/24.

Key negatives

- Gross margins/OPM declined by 405/480 bps y-o-y due to high input cost inflation, higher discounts for end of season sales and incremental store addition added to costs.

Management Commentary

- Business was hit in January and February 2022 by the third wave of the pandemic. Consumer sentiments witnessed a strong recovery in the sentiments post receding of third covid wave. In March 2022, revenues grew strongly as compared to pre-pandemic levels. We expect the momentum to continue to in the coming months with increase in footfalls and higher ticket size consumption, which will help brands - Westside and Zudio to post strong double-digit LFL sales growth.
- The company added over 125 stores and total number of stores stood at 435 stores in FY2022. We expect the company to add 50-60 store per quarter to maintain the strong store addition to drive growth in the medium term.
- EBITDA margins recovered in the month of March with overall recovery in sales post quick recovery in consumer sentiments after the easing of third covid-19 wave. With LFL to be maintained in double digit, scale in revenue per sq.ft and high contribution from private brands will help EBITDA margins to consistently improve in the coming years.

**Revision in estimates** – We have fine-tuned our earnings estimates for FY2023 and FY2024 to factor in better than expected revenue performance while toned down the EBITDA margins.

Our Call

**View: Retain Buy with a revised price target of Rs. 1,415:** Despite hiccups in January-February, 2022, due to emergence of third wave, Trent registered strong performance in Q4FY2022 led by a strong recovery in March 2022. The company's growth 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. We expect its revenues and PAT to grow at CAGR of 33% and 57% over FY2022-24E, which will be one of the strongest amongst the peers. The stock is currently trading at 33.5x/26.3x its FY2023E/24E EV/EBITDA. We maintain a Buy recommendation on the stock with a revised SOTP based price target of Rs. 1,415.

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.

Valuation (standalone)

Particulars	FY21	FY22	FY23E	FY24E
Revenue	2,048	3,881	5,583	6,871
EBITDA Margin (%)	10.0	16.3	20.5	21.7
Adjusted PAT	-45	263	359	615
% YoY growth	-	-	36.5	71.5
Adjusted diluted EPS (Rs.)	-1.3	7.4	10.1	17.3
P/E (x)	-	-	-	70.8
P/B (x)	17.3	16.0	14.4	12.1
EV/EBITDA (x)	-	47.7	33.5	26.3
RoNW (%)	-	10.0	12.5	18.6
RoCE (%)	3.3	9.6	12.1	15.9

Source: Company; Sharekhan estimates

### Strong growth momentum continued in Q4; margins declined due to input cost inflation

Trent (standalone) revenues grew by 53.2% y-o-y to Rs. 1,185.3 crore. Revenues were 63% ahead of pre-covid sales in Q4FY2020. Westside's Like-for-like (LFL) sales growth stood at 21% y-o-y in Q4FY22. The business was impacted in January and February 2022 due to the third wave of the pandemic. However, consumer sentiment recovered strongly thereafter. Emerging categories like beauty and personal care, innerwear and home continued to gain traction with customers. Gross margins decreased by 405 bps y-o-y to 49.1% due to higher raw material prices and higher discounts during the end-of-season-sales. This along with disruption caused by third covid wave resulted in EBITDA margin declining by 480 bps y-o-y to 12.9%. EBITDA grew by 11.5% y-o-y to Rs. 152.3 crore. Higher other income and lower incidence of tax led to 31.6% y-o-y growth in the reported PAT to Rs. 74.9 crore. For full year FY22, revenue grew by 89.5% y-o-y to Rs. 3,880.7 crore, despite the second and third waves of the pandemic. EBITDA grew by over 3x in FY22 to Rs. 633.5 crore from Rs. 203.8 crore in FY21 backed by cost saving measures and operating efficiencies. Reported PAT for FY22 came in at Rs. 249.6 crore against a loss of Rs. 51 crore in FY21. Revenue and EBITDA registered a three-year CAGR of over 15% (FY2019 to FY2022) notwithstanding the interim impacts of the pandemic. The Board of Directors declared a final dividend of Rs. 1.1 per share. Including the interim dividend of Rs. 0.60 per share, the total dividend for FY22 stood at Rs. 1.7 per share.

### Strong growth across businesses despite impact of third COVID wave

In Q4, Westside registered an LFL growth of 16% versus FY20 and 21% versus FY21. Westside continued to drive its store expansion program in FY22, with the opening of its 200th store in Mumbai. According to the management, Westside is now trading at an annual revenue run-rate of over Rs. 5,000 crore and commands encouraging market presence and traction. The company's fashion concepts displayed resilience to pandemic related challenges in FY22 and registered growth compared to pre-pandemic levels in March 2022. The company's Star food business with tight footprint stores, sharp pricing and focus on fresh & own brands is a model that continued to see resilient customer traction. The performance of Star stores operating under this model is encouraging and the company is evolving its property portfolio to align with this proposition. Emerging categories like beauty and personal care, innerwear and home continued to gain traction with customers during the quarter.

### Other key highlights

- ◆ Trent's annual subscription model (WestStyleClub) continued to witness positive offtake from customers with significant jump registered in on-going recruitment, initial spends, broad basing of category penetration and renewals.
- ◆ The online channel registered a 74% y-o-y growth in FY22 and contributes to around 7% of Westside revenues in FY22.
- ◆ Tata's recently launched super app (Tata Neu) that seeks to unite the Tata brand universe will improve Westside's reach by increasing online audience through the app.

### Results (standalone)

	Rs cr				
Particulars	Q4FY22	Q4FY21	y-o-y (%)	Q3FY22	q-o-q (%)
<b>Net revenue</b>	<b>1,185.3</b>	<b>773.7</b>	<b>53.2</b>	<b>1,347.8</b>	<b>-12.1</b>
Cost of goods sold	603.0	362.3	66.4	657.2	-8.2
Gross profit	582.2	411.4	41.5	690.6	-15.7
Staff cost	100.7	68.2	47.6	84.7	18.8
Other expenses	329.2	206.6	59.4	314.1	4.8
<b>EBITDA</b>	<b>152.3</b>	<b>136.6</b>	<b>11.5</b>	<b>291.7</b>	<b>-47.8</b>
Other income	102.1	72.4	41.0	29.6	244.8
Interest	78.7	61.8	27.5	73.4	7.3
Depreciation	80.9	61.7	31.1	73.4	10.3
Profit before tax	94.9	85.5	10.9	174.6	-45.7
Tax	19.9	24.0	-17.2	41.7	-52.4
<b>Adjusted PAT</b>	<b>75.0</b>	<b>61.6</b>	<b>21.9</b>	<b>132.9</b>	<b>-43.5</b>
Exceptional items	-0.2	-4.7	-96.8	0.0	-
<b>Reported PAT</b>	<b>74.9</b>	<b>56.9</b>	<b>31.6</b>	<b>132.9</b>	<b>-43.7</b>
EPS (Rs.)	2.1	1.7	21.9	3.7	-43.5
			<b>bps</b>		<b>bps</b>
GPM (%)	49.1	53.2	-405	51.2	-211
EBITDA Margin (%)	12.9	17.7	-480	21.6	-879
NPM (%)	6.3	8.0	-163	9.9	-353
Tax rate	20.9	28.0	-710	23.9	-297

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Medium-long term growth intact

After strong Q3FY2022, retail companies were hoping for momentum to sustain in Q4. However, emergence of the third COVID-19 wave had an impact on retail companies' performance due to lower footfalls and restrictions imposed on store operations in various states. Nevertheless, the third wave was short lived and companies started witnessing recovery from mid-February 2022. High inflation and global uncertainties will play on consumer sentiments in the near term despite receding pandemic risk. Drivers such as improved footfalls, postponement of the wedding season, and corporates/institutions operating at full capacity will help demand for discretionary products to remain high in the coming quarters. Store-level efficiencies, 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 keeping the medium-long term structural story of the retail industry in India intact.

### ■ Company outlook - Faster recovery to growth ahead

Trent's fashion business clocked strong growth in Q4FY2022 with revenue crossing the pre-COVID levels. While the Omicron wave affected sales in January, recovery was strong in March, 22. The company added 125+ stores and total number of stores stood at 435 stores in FY2022. We expect the company to add 50-60 store per quarter to maintain the strong store addition to drive growth in the medium term. 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 a revised PT of Rs. 1,415

Despite hiccups in January-February, 2022, due to emergence of third wave, Trent registered strong performance in Q4FY2022 led by a strong recovery in March 2022. The company's growth 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. We expect its revenues and PAT to grow at CAGR of 33% and 57% over FY2022-24E, which will be one of the strongest amongst the peers. The stock is currently trading at 33.5x/26.3x its FY2023E/24E EV/EBITDA. We maintain a Buy recommendation on the stock with a revised SOTP based price target of Rs. 1,415.

### Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Aditya Birla Fashion	-	90.5	49.0	29.0	18.8	14.7	1.0	8.9	14.0
Shoppers Stop		58.0	28.0	15.7	9.9	7.7	2.9	11.1	16.1
Trent	-	-	70.8	47.7	33.5	26.3	9.6	12.1	15.9

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 stores have a footprint of between 8,000-34,000 sq. ft. across over 90 cities. Trent also operates value fashion chain Zudio, having a footprint of around 7000 sq. ft. and books and music retail chain Landmark. 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.

## Investment theme

Trent is the only branded retail player with close to 100% share of private brands with a 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 CEO
Mehernosh Surti	Company Secretary

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	St James Place PLC	7.25
2	Dodona Holdings Ltd	4.53
3	Arisaig India Fund Limited	3.53
4	Wasatch Advisors	2.42
5	Amansa Holdings Pvt Limited	2.35
6	Axis Asset Management Co. Ltd	1.72
7	Vanguard Group Inc	1.68
8	Blackrock Inc	1.56
9	Derive Trading Pvt Ltd	1.52
10	IDFC Life Insurance Co. Ltd	1.45

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 deteriorating 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

# Sharekhan

by BNP PARIBAS

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