Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update | Result Update

Trent Ltd

Strong Q1; festive season to add to cheer

Consumer Discretionary	Sharekhan code: TRENT
Reco/View: Buy ↔	CMP: Rs. 1,340	Price Target: Rs. 1,545 ↑

↑ 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 July 08, 2022

Low Risk

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

Source: Morningstar

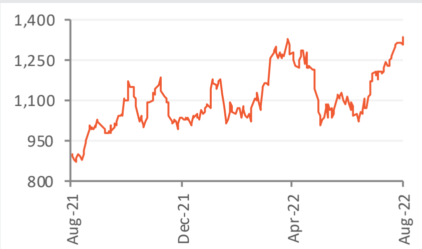
Company details

Market cap:	Rs. 47,635 cr
52-week high/low:	Rs. 1,347 / 853
NSE volume: (No of shares)	6.7 lakh
BSE code:	500251
NSE code:	TRENT
Free float: (No of shares)	22.4 cr

Shareholding (%)

Promoters	37.0
FII	27.4
DII	14.6
Others	20.97

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	12.0	29.8	24.6	48.8
Relative to Sensex	1.9	17.5	23.9	40.0

Sharekhan Research, Bloomberg

Summary

- Q1FY2023 saw a strong 5.1x y-o-y revenue growth driven by better consumer sentiments with EBITDA and adjusted PAT at Rs. 304.1 crore and 123.1 crore, respectively against a loss in the corresponding quarter last year. Gross margins fell 425 bps y-o-y impacted by higher raw material prices.
- Emerging categories such as beauty and personal care, innerwear and footwear continued to witness strong momentum and now contribute to over 15% of company's standalone revenues.
- With encouraging performance from new stores opened in the past 12 months, the company aims to double down on the growth agenda over the medium term.
- Strong momentum in like-for-like (LFL) sales and store expansions will help revenue and PAT to clock CAGR of 43% and 72% over FY2022-24E. We maintain a Buy on the stock with a revised price target of Rs. 1,545.

Q1FY2023 clocked strong revenue growth of 5.1x y-o-y and 2.2x over Q1FY2020 to Rs. 1,652.9 crore aided by buoyant consumer sentiments and a low base of Q1FY2022. Westside like-for-like growth came in at 24% over Q1FY2020. Online revenues through Westside.com, Tatacliq and Tata Neu grew by 129% q-o-q and contributed ~6% of Westside's revenues. Emerging categories (including beauty and personal care, innerwear and footwear) now contribute to over 15% of standalone revenues. Sustained input cost inflation led to a 425 bps y-o-y decline in the gross margins to 49.3%. EBIDTA margins came in at 18.4% as against a loss in Q1FY2022. EBIDTA/adjusted PAT stood at Rs. 304.1 crore/ Rs. 123.1 crore versus loss of Rs. 31.8 crore/Rs. 83.8 crore, respectively in Q1FY2022. Reported PAT stood at Rs. 105.4 crore.

Key positives

- Westside registered a LFL growth of 24% over Q1FY2020.
- Sales through online platform grew by 129% q-o-q and contributed ~6% to Westside revenues in Q1FY2023.
- EBIDTA margins came in at 18.4% against a loss in Q1FY2022.

Key negatives

- Gross margins declined by 425 bps y-o-y due to high input cost inflation.

Management Commentary

- Trent follows a differentiated model as compared to its peers even if it involves standing away from the predominant & proximate market practices of the time. The company has made a few unusual choices including completely own branded offerings, entirely direct-to-consumer reach, not discounting in season and not advertising, which are bringing good results.
- Company aims to double its store network over the medium term with strong traction received from the new stores and added omni-channel reach.
- Trent aims to achieve strong growth in the medium to long term as it continues to expand its reach and reinforce its lifestyle offerings across concepts, categories and channels.

Revision in estimates – We have raised our earnings estimates for FY2023 and FY2024 to factor in better-than-expected revenue performance and continued demand momentum.

Our Call

View: Retain Buy with a revised price target of Rs. 1,545: Trent registered strong revenue and PAT growth in Q1FY2023 led by a strong demand recovery. Online sales and emerging categories are seeing strong traction and now contribute ~6% and 15% of Westside's revenue and Standalone revenue, respectively. Innovation in the product portfolio, scaling up of the 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 Trent's revenues and PAT to grow at CAGR of 43% and 72% over FY2022-24E. The stock is currently trading at 33.6x/25.3x its FY2023E/24E EV/EBITDA. We maintain a Buy recommendation on the stock with a revised SOTP-based price target of Rs. 1,545.

Key Risks

Further rise in consumer inflation will affect demand and will act as a key risk to our earnings estimates in the near term.

Valuation (standalone) Rs cr

Particulars	FY21	FY22	FY23E	FY24E
Revenue	2,048	3,881	6,476	7,973
EBITDA Margin (%)	10.0	16.3	19.5	21.6
Adjusted PAT	-45	263	434	777
% YoY growth	-	-	65.3	79.0
Adjusted diluted EPS (Rs.)	-1.3	7.4	12.2	21.9
P/E (x)	-	-	-	61.3
P/B (x)	18.9	17.5	15.4	12.5
EV/EBITDA (x)	-	52.2	33.6	25.3
RoNW (%)	-	10.0	14.9	22.4
RoCE (%)	3.3	9.6	13.4	18.3

Source: Company; Sharekhan estimates

Strong growth driven by improved demand, albeit on a low base of Q1FY2022

Standalone revenues grew by 5.1x y-o-y on a low base of Q1FY2022 to Rs. 1,652.9 crore aided by strong recovery of consumer sentiments. Revenue registered three-year CAGR of 29%. Westside registered a LFL growth of 24% over Q1FY2020. Online revenues through Westside.com, Tatacliq and Tata Neu contributed ~6% of Westside's revenues, registering a 129% q-o-q growth in Q1FY2023. Gross margins decreased by 425 bps y-o-y to 49.3% due to a rise in raw material prices. EBIDTA margins came in at 18.4% against a loss in Q1FY2022. EBIDTA stood at Rs. 304.1 crore versus a loss of Rs. 31.8 crore in Q1FY2022. Adjusted PAT came in at Rs. 123.1 crore as compared to a loss of Rs. 83.8 crore in Q1FY2022. Exceptional items included a one-off additional depreciation charge due to revision of estimates with respect to useful life of certain store assets. Reported PAT stood at Rs. 105.4 crore.

Other key highlights

- Trent currently has a portfolio of over 450 fashion stores. Across concepts, the performance of new stores added in the last 12 months is encouraging and in line with the company's expectations.
- Across concepts, emerging categories (including beauty and personal care, innerwear and footwear) witnessed traction from customers and now contribute to over 15% of the company's standalone revenues.
- *WestStyleClub* (Trent's annual subscription program) continued to witness positive offtake from customers with significant and sustained growth in recruitments/renewals which rose 37% q-o-q.
- The company is significantly investing in resetting the technology stack across the entire value chain to make it commensurate with the growing scale and the growth agenda.

Results (standalone) Rs cr

Particulars	Q1FY23	Q1FY22	y-o-y (%)	Q4FY22	q-o-q (%)
Net revenue	**1,652.9**	**327.3**	**-**	**1,185.3**	**39.5**
Cost of goods sold	837.7	152.0	-	603.0	38.9
Gross profit	815.1	175.3	-	582.2	40.0
Staff cost	115.1	76.3	50.9	100.7	14.3
Other expenses	395.9	130.8	-	329.2	20.3
EBITDA	**304.1**	**-31.8**	**-**	**152.3**	**99.6**
Other income	41.5	52.3	-20.7	102.1	-59.4
Interest	92.5	68.6	34.8	78.7	17.5
Depreciation	92.2	62.2	48.2	80.9	14.0
Profit before tax	161.0	-110.2	-	94.9	69.7
Tax	37.9	-26.5	-	19.9	90.9
Adjusted PAT	**123.1**	**-83.8**	**-**	**75.0**	**64.0**
Exceptional items	-17.6	0.0	-	-0.2	-
Reported PAT	**105.4**	**-83.8**	**-**	**74.9**	**40.8**
EPS (Rs.)	3.5	-2.4	-	2.1	64.0
			bps		**bps**
GPM (%)	49.3	53.6	-425	49.1	19
EBITDA Margin (%)	18.4	-	-	12.9	555
NPM (%)	7.4	-	-	6.3	112
Tax rate	23.5	24.0	-48	20.9	262

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – FY2023 to be bounce-back year for retail/ discretionary companies

During the pandemic, out of home/discretionary consumer goods & services were severely affected due to restriction on mobility, cut on discretionary spends to buy more of essentials and restriction put by government authorities affecting the retail store operations. Footwear, branded apparels, restaurants/fine-dine, beverages & confectionaries, multiplexes, hotels and amusement parks companies' registered muted performance in FY2021 and FY2022. However, with the receding scare of pandemic, the performance of these companies is expected to see strong revival in FY2023. Better operating leverage and improved efficiencies would help branded apparel and retail companies to post higher margins in the coming years. Market share gains, higher traction on e-commerce platform, strong retail space expansion strategy and sustained expansion of product portfolio will help them to post consistent growth in the medium term.

■ Company Outlook – Strong growth expected in FY2023

Trent's fashion business clocked strong growth in Q1FY2023 with revenue growing 2.2x of the pre-COVID levels. The company is seeing a strong pick-up in new initiatives/categories as seen through increased contribution from online sales and emerging categories. Accelerated store expansion program, increased contribution from the online channel and pick up in the foods 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. 1,545

Trent registered strong revenue and PAT growth in Q1FY2023 led by a strong demand recovery. Online sales and emerging categories are seeing strong traction and now contribute ~6% and 15% of Westside's revenue and Standalone revenue, respectively. Innovation in the product portfolio, scaling up of the 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 Trent's revenues and PAT to grow at CAGR of 43% and 72% over FY2022-24E. The stock is currently trading at 33.6x/25.3x its FY2023E/24E EV/EBITDA. We maintain a Buy recommendation on the stock with a revised SOTP-based price target of Rs. 1,545.

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Aditya Birla Fashion	-	50.0	36.1	28.6	15.2	12.1	3.2	13.6	16.8
Shoppers Stop	-	-	45.3	20.2	12.3	10.1	2.4	9.5	13.4
Trent	-	-	61.3	52.2	33.6	25.3	9.6	13.4	18.3

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 18,000-34,000 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.

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 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, omni-channel network and innovative product offerings 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	St James Place PLC	7.36
2	Dodona Holdings Ltd	4.53
3	Arisaig India Fund Limited	2.25
4	Vanguard Group Inc	1.92
5	Axis Asset Management Co. Ltd	1.88
6	Wasatch Advisors	1.77
7	SBI Life Insurance	1.73
8	Derive Trading Pvt Ltd	1.52
9	Blackrock Inc	1.48
10	HDFC Life Insurance Co Ltd	1.45

Source: Bloomberg

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

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Priya Sonavane; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.