Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Trent Ltd

Mixed performance; Westside delivered strong same store sales

Consumer Discretionary	Sharekhan code: TRENT

Reco/View: Buy ↔	CMP: **Rs. 1,649**	Price Target: **Rs. 1,750** ↑

↑ 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 18.26

Updated Oct 08, 2022

Low Risk

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

Source: Morningstar

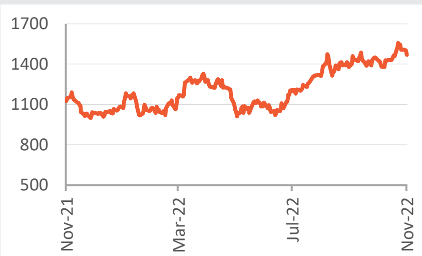
Company details

Market cap:	Rs. 52,214 cr
52-week high/low:	Rs. 1,571 / 971
NSE volume: (No of shares)	7.0 lakh
BSE code:	500251
NSE code:	TRENT
Free float: (No of shares)	22.4 cr

Shareholding (%)

Promoters	37.0
FII	26.6
DII	15.2
Others	21.22

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.2	6.2	45.3	30.6
Relative to Sensex	-8.1	-0.8	25.1	25.2

Sharekhan Research, Bloomberg

Summary

- Q2FY2023 saw a strong 78% y-o-y revenue growth driven by higher footfalls with EBITDA and adjusted PAT at Rs. 267.5 crore and Rs. 185.9 crore, respectively. Gross margins and EBITDA margins fell by 515 bps y-o-y and 693 bps y-o-y (to 14.8%).
- Emerging categories such as beauty and personal care, innerwear and footwear continued to witness strong momentum and now contribute to over 15% of the company's standalone revenues.
- With encouraging performance from new stores opened in the past 12 months and strong like-for-like growth in the Westside brand; the revenues are expected to grow in double digits in the coming years.
- Strong momentum in like-for-like (LFL) sales and store expansions will help revenue and PAT to clock CAGR of 38% and 65.4% over FY2022-25E. We maintain a Buy on the stock with a revised price target of Rs. 1,750.

Trent clocked strong revenue growth of 78% y-o-y and 120% over Q2FY2020 to Rs. 1,813.6 crore aided by buoyant consumer sentiments and strong improvement in footfalls. Westside like-for-like growth came in at 20% over Q2FY2020. Online revenues through Westside.com, Tatacliq and Tata Neu grew by 32% y-o-y 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 and end-of-season sales led to a 515 bps y-o-y decline in the gross margins to 46.96%. EBIDTA margins came in at 14.8% as against 21.7% in Q2FY2022, down by 693 bps y-o-y. EBIDTA/adjusted PAT stood at Rs. 267.5 crore/Rs. 185.9 crore versus EBIDTA/PAT of Rs. 221.3 crore/Rs. 138.6 crore, respectively, in Q2FY2022. For H1FY2023, revenues grew by 2.6x y-o-y to Rs. 3,466.5 crore, EBIDTA margins stood at 16.5% and Adjusted PAT grew by 5.6x y-o-y to Rs. 308.9 crore.

Key positives

- Westside registered an LFL growth of 20% over Q2FY2020.
- Sales through online platform grew by 32%y-o-y and contributed ~6% to Westside revenues in Q2FY2023.
- Star Bazaar registered highest ever quarterly revenues; 14% CAGR over Q2FY2020.

Key negatives

- Gross margins declined by 515 bps y-o-y due to high input cost inflation.

Management Commentary

- Westside registered like-for-like sales growth of 20% vs Q2FY2020. The company is focusing on curating the store portfolio to achieve an elevated brand experience even as a store expansion and improvement programme.
- Trent follows a differentiated model 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.
- Across Westside and Zudio, the company has a portfolio of over 500 stores. The 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 earnings estimates – We have broadly maintained our earnings estimates for FY2023 and FY2024. Q3 performance is likely to be boosted by higher festive sales. We have introduced FY2025E earning estimates through this note.

Our Call

View – Retain Buy with a revised price target of Rs. 1,750: Trent posted mixed performance in Q2FY2023. 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 a CAGR of 38% and 65% over FY2022-25E. The stock is trading at 32.5x/25.5x its FY2023E/24E EV/EBITDA. We maintain a Buy recommendation on the stock with a revised SOTP-based price target of Rs. 1,750.

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	FY25E
Revenue	2,048	3,881	6,894	8,481	10,215
EBITDA Margin (%)	10.0	16.3	18.9	22.0	22.2
Adjusted PAT	-45	263	575	896	1,188
% YoY growth	-	-	-	55.9	32.7
Adjusted diluted EPS (Rs.)	-1.3	7.4	16.2	25.2	33.4
P/E (x)	-	-	90.9	58.3	43.9
P/B (x)	20.8	19.2	16.1	12.8	10.0
EV/EBITDA (x)	-	57.2	32.5	25.5	21.4
RoNW (%)	-1.8	10.0	19.3	24.5	25.5
RoCE (%)	3.3	9.6	15.7	19.8	22.1

Source: Company; Sharekhan estimates

Mixed Q2 – revenue registered strong double digit growth; margins decline

Trent clocked strong revenue growth of 78% y-o-y and 120% over Q2FY2020 to Rs. 1,813.6 crore aided by buoyant consumer sentiments and strong improvement in footfalls. Revenues were in-line with our expectation of Rs1785.7crore. Westside like-for-like growth came in at 20% over Q2FY2020. Online revenues through Westside.com, Tatacliq and Tata Neu grew by 32% y-o-y 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 and end-of-season sales led to a 515-bps y-o-y decline in the gross margins to 46.96%. EBIDTA margins came in at 14.8% as against 21.7% in Q2FY2022, down by 693 bps y-o-y. EBITDA margins were lower than our expectation of 17.5%. EBIDTA/adjusted PAT stood at Rs. 267.5 crore/Rs. 185.9 crore versus EBIDTA/PAT of Rs. 221.3 crore/Rs. 138.6 crore, respectively in Q2FY2022.

Results (Standalone) Rs cr

Particulars	Q2FY23	Q2FY22	Y-o-Y %	Q1FY23	Q-o-Q %
Net revenue	**1,813.6**	**1,020.4**	**77.7**	**1,652.9**	**9.7**
Cost of goods sold	961.9	488.7	96.8	837.7	14.8
Gross profit	851.7	531.7	60.2	815.1	4.5
Staff cost	148.1	76.2	94.3	115.1	28.6
Other expenses	436.1	234.2	86.2	395.9	10.2
EBITDA	**267.5**	**221.3**	**20.9**	**304.1**	**-12.0**
Other income	168.0	94.9	77.1	41.5	304.8
Interest	88.0	72.6	21.2	92.5	-4.8
Depreciation	104.3	66.6	56.6	92.2	13.1
Profit before tax	243.2	176.9	37.5	161.0	51.1
Tax	57.4	38.3	49.8	37.9	51.4
Adjusted PAT	**185.9**	**138.6**	**34.1**	**123.1**	**51.0**
Exceptional items	0.0	-13.0	-100.0	-17.6	-100.0
Reported PAT	**185.9**	**125.6**	**47.9**	**105.4**	**76.3**
EPS (Rs.)	5.2	3.9	34.1	3.5	51.0
			BPS		**BPS**
GPM (%)	46.96	52.11	-515	49.32	-235
EBITDA Margin (%)	14.75	21.68	-693	18.40	-365
NPM (%)	10.2	13.6	-334	7.4	280
Tax rate	23.6	21.6	195	23.5	5

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Festive season to bring cheers

Branded apparel and retail companies witnessed good momentum in July and August 2022, driven by higher footfalls, higher demand and push in sales through EOSS (end of season sales). Barring 15 days of the Shraadh period, the industry witnessed good traction throughout the quarter. The upcoming festive season will be one of strong season for retail and hotel companies after two years of a lull affected by pandemic-led restrictions. Thus, H2FY2023 revenue growth for branded apparel and retail companies will be led by higher demand during festive & wedding season and higher ticket purchases. Market share gains, higher traction on e-commerce platform, strong retail space expansion strategy and sustained product portfolio expansion will help post consistent growth in the medium term for retail companies. Better operating leverage and improved efficiencies would help branded apparel and retail companies to post higher margins in the coming years.

■ Company Outlook – Strong growth expected in FY2023

Trent's fashion business clocked strong growth in H1FY2023, with revenue growing 2.0x of the pre-COVID levels. The company is seeing a strong pick-up in new initiatives/categories through increased contributions 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 the pricing environment improves.

■ Valuation – Maintain Buy with a revised PT of Rs. 1,750

Trent posted a mixed performance in Q2Fy2023. 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 a CAGR of 38% and 65% over FY2022-25E. The stock is trading at 32.5x/25.5x its FY2023E/24E EV/EBITDA. We maintain a Buy recommendation on the stock with a revised SOTP-based price target of Rs. 1,750.

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Aditya Birla Fashion	-	72.1	46.3	30.5	17.7	14.2	3.2	11.7	15.3
Shoppers Stop	-	-	49.1	22.9	13.9	11.3	2.4	9.8	13.8
Trent	-	90.9	58.3	57.2	32.5	25.5	9.6	15.7	19.8

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 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 also has 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

Source: Company Website

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	Dodona Holdings Ltd.	4.53
2	St James Place PLC	2.42
3	Arisaig India Fund Limited	2.25
4	Axis Asset Management Co. Ltd.	1.91
5	Wasatch Advisors	1.77
6	SBI Life Insurance	1.73
7	Vanguard Group Inc.	1.69
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

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