

3R MATRIX	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✓	✗
+ Positive = Neutral - Negative			

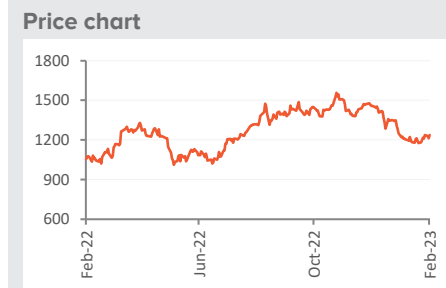
What has changed in 3R MATRIX			
	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✗	↔	✗

ESG Disclosure Score		NEW
ESG RISK RATING		18.26
Updated Dec 08, 2022		
Low Risk		
NEGL	LOW	MED
0-10	10-20	20-30
	30-40	40+

Source: Morningstar

Company details	
Market cap:	Rs. 43,938 cr
52-week high/low:	Rs. 1,571 / 984
NSE volume: (No of shares)	7.2 lakh
BSE code:	500251
NSE code:	TRENT
Free float: (No of shares)	22.4 cr

Shareholding (%)	
Promoters	37.0
FII	25.5
DII	16.1
Others	21.4



Price performance					
(%)	1m	3m	6m	12m	
Absolute	1.3	-16.0	-5.8	17.2	
Relative to Sensex	1.4	-16.1	-8.9	12.3	

Sharekhan Research, Bloomberg

Consumer Discretionary		Sharekhan code: TRENT	
Reco/View: Buy	↔	CMP: Rs. 1,236	Price Target: Rs. 1,550
↑ Upgrade	↔ Maintain	↓ Downgrade	

<p>Summary</p> <ul style="list-style-type: none"> Trent delivered yet another quarter of industry outperformance in Q3FY2023 with 60%+ revenue growth, while EBITDA margin fell 619 bps y-o-y to 15.5% on normalisation of fixed cost (including rent); PAT grew 21% y-o-y, led by strong revenue growth. Westside's like-for-like growth stood at 17%; contribution of emerging categories increased to 18% in Q3FY2023 from 15% in Q2FY2023. With encouraging performance from new stores opened in the past 12 months and strong like-for-like growth in Westside, revenue is expected to grow in double digits ahead of peers in the coming quarters. The stock has corrected by 20% from its high and is trading at attractive valuations of 28x/22x/18x its FY2023E/FY2024E/FY2025E EV/EBITDA. We maintain Buy with a revised PT of Rs. 1,550.

Trent reported yet another quarter of strong revenue growth of 61% y-o-y (and a 36% CAGR over Q3FY2020) to Rs. 2,171.5 crore, aided by strong growth across key brands. *Westside's* like-for-like growth came in at 17% over Q3FY2022. According to the company, Q3FY2023 numbers are not strictly comparable on a y-o-y basis due to impact of rent waiver and lowering of provisioning impact. EBITDA margin came in at 15.5%, down 619 bps y-o-y. However, the same improved by 70 bps on a sequential basis. EBITDA grew by 15% y-o-y to Rs. 335.6 crore. This along with higher other income led to PAT growth of 21% y-o-y to Rs. 161 crore. For 9MFY2023, revenue grew by 2.1x y-o-y to Rs. 5,638.2 crore, EBITDA margin stood at 16.1% and adjusted PAT grew by 2.6x y-o-y to Rs. 452.2 crore.

- Key positives**
- Westside* registered LFL growth of 17% over Q3FY2022.
 - Emerging categories, including beauty and personal care, innerwear, and footwear contribution increased to 18% in Q3 from 15% in Q2.
 - Revenue crossed the Rs. 2,000 crore quarterly mark for the first time.

- Key negatives**
- Gross margin declined by 586 bps y-o-y due to high input cost inflation.
- Management Commentary**
- Westside* registered like-for-like sales growth of 17% vs. Q3FY2022. The company is focusing on curating the store portfolio to achieve an elevated brand experience even as the company continues to pursue its store expansion and improvement programme.
 - During the quarter, Trent entered into a 50:50 joint venture with the MAS Group of Sri Lanka for design, development, and manufacture of lingerie, activewear, and related apparel products.
 - Online revenue through *Westside.com* and other Tata group platforms contributed over 6% of *Westside's* revenue.
 - Trent operates 211 *Westside* stores, 326 *Judio* stores, and 21 stores across other lifestyle concepts.

Revision in estimates – We have fine-tuned our earnings estimates for FY2023/FY2024/FY2025 to factor in higher-than-expected revenue growth and lower EBITDA margin. Q4 is expected to be another strong growth quarter due to the low base of Q4FY2022 as January 2022 was impacted by Omicron wave.

Our Call

View: Retain Buy with a revised PT of Rs. 1,550: Trent's Q3 performance was ahead of our as well as street expectation on account of strong topline growth, driven by strong growth across key brands. Innovation in the product portfolio, scaling up of the supply chain, 100% contribution from own brands, aggressive store expansion, and leveraging on digital presence will be key growth drivers in the medium term. We expect Trent's revenue and PAT to report a CAGR of 43% and 66%, respectively, over FY2022-FY2025E. The stock has corrected by ~20% from its recent high and is trading at 28x/22x/18x its FY2023E/FY2024E/FY2025E EV/EBITDA. With risk reward, strong growth prospects, and a lean balance sheet, we maintain our Buy recommendation on the stock with a revised SOTP-based price target (PT) of Rs. 1,550.

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	7,416	9,208	11,234
EBITDA Margin (%)	10.0	16.3	17.3	20.0	20.3
Adjusted PAT	-45	263	559	878	1,199
% YoY growth	-	-	112.7	57.1	36.6
Adjusted diluted EPS (Rs.)	-1.3	7.4	15.7	24.7	33.7
P/E (x)	-	-	78.6	50.0	36.6
P/B (x)	17.5	16.1	13.6	10.8	8.5
EV/EBITDA (x)	115.6	48.1	27.7	21.7	17.9
RoNW (%)	-	10.0	18.8	24.1	25.9
RoCE (%)	3.3	9.6	15.5	19.6	22.3

Source: Company; Sharekhan estimates

Mixed Q3 – Strong double-digit revenue growth; Margins decline on a y-o-y basis

Trent reported strong revenue growth of 61.1% y-o-y to Rs. 2,171.5 crore, aided by robust growth across key brands. Revenue was ahead of our and average street expectation of Rs. 1,913 crore and 1,937 crore, respectively. Westside's like-for-like growth came in at 17% over Q3FY2022. Online revenue through Westside.com and other Tata group platforms contributed ~6% to Westside's revenue. Emerging categories (including beauty and personal care, innerwear, and footwear) now contribute to over 18% of standalone revenue (up from 15% in Q2FY2023). Sustained input cost inflation led to a 586-bps y-o-y decline in gross margin to 45.4% and a 619-bps y-o-y decline in EBITDA margin to 15.5% (EBITDA margin was also impacted by normalisation of fixed cost). EBITDA margin was lower than our and average street expectation of 17-18%. Strong revenue growth was negated by higher input costs and increased employee and other expenses, leading to 15% y-o-y growth in EBITDA to Rs. 335.6 crore. This coupled with higher other income led to 21.1% y-o-y growth in adjusted PAT to Rs. 161 crore, ahead of our and average street expectation of Rs. 132 crore and Rs. 137 crore, respectively. During the quarter, the company entered into a 50:50 joint venture with the MAS Group of Sri Lanka for design, development, and manufacture of lingerie, activewear, and related apparel products. At Q3FY2023-end, Trent operates 211 Westside stores, 326 Zudio stores, and 21 stores across other lifestyle concepts.

Results (Standalone)

Particulars	Q3FY23	Q3FY22	y-o-y (%)	Q2FY23	q-o-q (%)
Net revenue	2,171.5	1,347.8	61.1	1,813.6	19.7
Cost of goods sold	1,186.1	657.2	80.5	961.9	23.3
Gross profit	985.4	690.6	42.7	851.7	15.7
Staff cost	160.0	84.7	88.8	148.1	8.0
Other expenses	289.3	135.4	113.7	257.8	12.2
Total operating expenses	649.8	398.8	62.9	584.2	11.2
EBITDA	335.6	291.7	15.0	267.5	25.4
Other income	73.0	29.6	146.6	168.0	-56.5
Interest	88.5	73.4	20.6	88.0	0.5
Depreciation	110.6	73.4	50.8	104.3	6.1
Profit before tax	209.5	174.6	20.0	243.2	-13.9
Tax	48.6	41.7	16.4	57.4	-15.4
Adjusted PAT	161.0	132.9	21.1	185.9	-13.4
EPS (Rs.)	4.5	3.7	21.1	5.2	-13.4
			bps		bps
GPM (%)	45.4	51.2	-586	47.0	-158
EBITDA Margin (%)	15.5	21.6	-619	14.8	70
NPM (%)	7.4	9.9	-245	10.2	-283
Tax rate	23.2	23.9	-71	23.6	-42

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – On the path to achieve strong growth

Q3FY2023 was characterised by diverse trends for branded apparel and retail companies as strong festive and wedding demand in October was followed by a dull period up to mid-December and then pick up in demand in the last 15 days of December. Steady demand for premium products and better consumer sentiments in urban markets/metros augurs well for branded apparel and the retail segment in the quarters ahead. In H2FY2023, revenue growth for branded apparel and retail companies will be boosted by higher demand during the festive and wedding season and increased ticket purchases. In the medium-long term, market share gains, higher traction on the e-commerce platform, a strong retail space expansion strategy, and sustained expansion of product portfolio will help branded apparel and retail companies to post consistent growth. 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 continued its strong growth momentum in Q3FY2023. The company posted revenue growth at 2.3x of the pre-COVID levels and PAT growth at 8.4x of the pre-COVID levels in 9MFY2023. Trent is seeing strong pick-up in new initiatives/categories through increased contributions from online sales and emerging categories. Accelerated store expansion programme, 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. 1,550

Trent's Q3 performance was ahead of our as well as street expectation on account of strong topline growth, driven by strong growth across key brands. Innovation in the product portfolio, scaling up of the supply chain, 100% contribution from own brands, aggressive store expansion, and leveraging on digital presence will be key growth drivers in the medium term. We expect Trent's revenue and PAT to report a CAGR of 43% and 66%, respectively, over FY2022-FY2025E. The stock has corrected by ~20% from its recent high and is trading at 28x/22x/18x its FY2023E/FY2024E/FY2025E EV/EBITDA. With risk reward, strong growth prospects, and a lean balance sheet, we maintain our Buy recommendation on the stock with a revised SOTP-based price target (PT) of Rs. 1,550.

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Aditya Birla Fashion	-	80.8	41.1	25.1	15.0	12.3	3.2	11.0	14.3
Shoppers Stop	-	75.8	40.2	21.2	12.2	10.0	2.4	10.7	14.4
Trent	167.2	78.6	50.0	48.1	27.7	21.7	9.6	15.5	19.6

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 7,000 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 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
P Venkatesalu	Executive Director and CEO
Neeraj Basur	Chief Financial Officer
Mehernosh Surti	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Dodona Holdings Ltd.	4.53
2	Wasatch Advisors	3.00
3	Arisaig India Fund Ltd.	2.15
4	Axis Asset Management Co. Ltd.	1.91
5	SBI Life Insurance	1.81
6	Vanguard Group Inc.	1.70
7	Blackrock Inc.	1.55
8	Derive Trading Pvt. Ltd.	1.52
9	HDFC Life Insurance Co. Ltd.	1.52
10	Nippon India Life Asset Management	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

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