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### 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**

<b>ESG RISK RATING</b>	<b>18.66</b>			
Updated Jul 08, 2023				
<b>Low Risk</b>				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

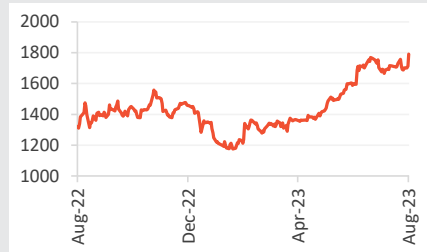
### Company details

Market cap:	Rs. 63,666 cr
52-week high/low:	Rs. 1,806 / 1,155
NSE volume: (No of shares)	4.8 lakh
BSE code:	500251
NSE code:	TRENT
Free float: (No of shares)	22.4 cr

### Shareholding (%)

Promoters	37.0
FII	21.2
DII	20.4
Others	21.5

### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	6.8	21.7	44.9	35.8
Relative to Sensex	5.8	15.1	36.1	23.7

Sharekhan Research, Bloomberg

## Trent Ltd

### Strong revenue performance in tough times

<b>Consumer Discretionary</b>	<b>Sharekhan code: TRENT</b>
<b>Reco/View: Buy</b>	<b>CMP: Rs. 1,791</b>   <b>Price Target: Rs. 2,150</b>
↑ Upgrade	↔ Maintain   ↓ Downgrade

### Summary

- Trent maintained its strong growth momentum in Q1FY2024 with y-o-y revenue growth of 54% (35% CAGR over FY20-24) versus low single-digit apparel industry growth affected by weak consumer demand.
- Like-for-like (LFL) growth stood at 12%, well ahead of peers who saw a decline or flat LFL. Well-defined strategies with value offerings will help Trent in maintaining double-digit LFL in the coming quarters.
- We expect Trent's revenue and PAT to grow at a 33% and 61% CAGR, respectively, over FY23-25E led by strong store expansion, sustained double-digit like-for-like growth in Westside, a scale-up in emerging categories and improved contribution from Zudio.
- Stock currently trades at 28.9x/22.6x its FY2024E/25E EV/EBIDTA. We maintain our Buy rating on Trent with a revised PT of Rs. 2,150.

Trent posted the ninth consecutive quarter of an over 50% revenue growth in Q1FY2024, with the company's revenue growing by 53.5% y-o-y to Rs. 2,536.4 crore, ahead of ours and the average street expectation of Rs. 2,211 crore and Rs. 2,271 crore, respectively. Revenue growth is strong compared to its peers and amid muted growth in the brand apparel space. Gross margins and EBITDA margins fell by 479 bps and 398 bps y-o-y to 44.5% and 14.4%, respectively, which we believe is due to changing mix (increased contribution from Zudio). EBITDA margins came in lower at 14.4%. EBITDA grew by 20.2% y-o-y to Rs. 365.7 crore and adjusted PAT rose by 20.5% y-o-y to Rs. 148.3 crore. During Q1FY2024, Trent added 7 Westside (to 221 stores) and 40 Zudio stores (to 388 stores). Total sales area stands at 7mn+ sq. ft (Westside – 4mn+ sq. ft and Zudios – 3 mn+ sq. ft).

### Key positives

- Fashion concepts registered LFL growth of 12% over Q1FY2023.
- Contribution of emerging categories, including beauty and personal care, innerwear and footwear improved to 19% (versus 15% in Q1FY2023).
- Cash & cash equivalents on books stood at ~Rs. 500 crore at Q1FY2024-end.
- Star market business reported 33% y-o-y revenue growth (strong LFL and volume growth); own brand share improved to 35% from 24% in Q1FY2023.

### Key negatives

- Gross/EBITDA margins declined by 479 bps/398 bps y-o-y to 44.5%/14.4%, respectively.

### Management Commentary

- Fashion concepts like-for-like growth stood at 12% in Q1FY2024 in a muted demand environment.
- Online revenues through Westside.com and other Tata Group platforms contributed 4% of Westside revenues in Q1FY2024. Westside.com contributed 32% of the overall online revenues.
- Emerging categories (including beauty and personal care, innerwear, and footwear) continued to gain traction with customers and contributed to over 19% of standalone revenue.
- Cash and cash equivalents on books stood at ~Rs. 500 crore. Outstanding debt in NCDs is at Rs. 500 crore.
- Star business reported 33% y-o-y growth aided by continued customer traction. Management has indicated that almost, the entire growth was from like-for-like stores and the volume growth was also strong and comparable. Trent expects Star business to be the key and additional growth engine in the company's portfolio.
- During Q1FY2024, Trent added 7 Westside and 40 Zudio stores across 35 cities. The company plans to continue with its expansion agenda over the medium and long term.

**Revision in earnings estimates** - We have fine-tuned our earnings estimates for FY2024 and FY2025 to factor in higher-than-earlier-expected revenue growth and lower-than-expected EBITDA margins.

### Our Call

**View: Retain Buy with a revised price target of Rs. 2,150:** Trent posted strong revenue performance in Q1FY2024 amid sluggish demand environment. Innovation in the product portfolio, scaling up of supply chain, 100% contribution from own brands, aggressive store expansion, and leveraging on digital presence will be key growth drivers in the medium term. The stock is currently trading at 28.9x/22.6x its FY2024E/FY2025E EV/EBIDTA. With long-term growth prospects intact and a strong balance sheet among the retail companies, we maintain our Buy recommendation on the stock with a revised SOTP based PT of Rs. 2,150.

### Key Risks

Any slow recovery in consumer demand will act as a key risk to our earnings estimates in the near term.

### Valuation (Standalone)

Particulars	FY22	FY23	FY24E	FY25E
Revenue	3,881	7,715	10,725	13,654
EBITDA Margin (%)	16.3	14.5	17.3	17.9
Adjusted PAT	263	555	1,012	1,441
% YoY growth	-	-	82.4	42.5
Adjusted diluted EPS (Rs.)	7.4	15.6	28.5	40.5
P/E (x)	-	-	62.9	44.2
P/B (x)	23.4	20.7	15.8	11.8
EV/EBITDA (x)	69.8	41.6	28.9	22.6
RoNW (%)	10.0	19.1	28.5	30.6
RoCE (%)	9.6	14.5	21.7	25.5

Source: Company; Sharekhan estimates

## Good Q1 – Strong 54% y-o-y revenue growth; EBITDA margin fell by ~400 bps y-o-y

Trent (standalone) revenue grew by 53.5% y-o-y to Rs. 2,536.4 crore, much ahead of ours and the average street's expectation of Rs. 2,211 crore and Rs. 2,271 crore, respectively. Revenue growth is strong compared to other branded apparel companies and in the backdrop muted growth in the brand apparel space. Gross margins decreased by 479 bps y-o-y to 44.5%, which we believe is due to changing mix (increased contribution from Zudio). EBITDA margins declined by 398 bps y-o-y to 14.4%, which is lower than our expectation of 17.7% and average street expectation of 16.8%. EBITDA grew by 20.2% y-o-y to Rs. 365.7 crore and adjusted PAT increased by 20.5% y-o-y to Rs. 148.3 crore. PAT came in below ours and average street expectation of Rs. 175-178 crore. At Q1FY2024-end, Trent operates 632 stores of fashion and 65 food and grocery stores.

### Key business updates

- ◆ Fashion concepts LFL growth stood at 12% in Q1FY2024 on the backdrop of muted demand environment.
- ◆ Emerging categories (beauty and personal care, innerwear and footwear) now contribute to over 19% of standalone revenues. Online revenues through Westside.com and other Tata Group platforms contributed 4% of Westside revenues in Q1FY2024. Westside.com contributed 32% of the overall online revenues.
- ◆ The Star business, consisting of 65 stores, reported 33% y-o-y growth aided by continued customer traction. Management has indicated that almost, the entire growth was from like-for-like stores and the volume growth was also strong and comparable. The business experienced an all-round operating performance improvement. Trent expects Star business to be the key and additional growth engine in the company's portfolio.
- ◆ As of Q1FY2024-end, cash and cash equivalents on books stood at ~Rs. 500 crore and outstanding debt in NCDs is at Rs. 500 crore.
- ◆ During Q1FY2024, Trent added 7 Westside and 40 Zudio stores across 35 cities. At Q1FY2024-end, Trent operates 632 stores of fashion concepts including 211 Westside stores, 388 Zudio stores, and 23 stores across other lifestyle concepts along with 65 food and grocery stores. The company plans to continue with its expansion agenda over the medium and long term.

### Results (Standalone)

Particulars	Rs cr				
	Q1FY24	Q1FY23	y-o-y (%)	Q4FY23	q-o-q (%)
<b>Net revenue</b>	<b>2,536.4</b>	<b>1,652.9</b>	<b>53.5</b>	<b>2,077.2</b>	<b>22.1</b>
Cost of goods sold	1,407.0	837.7	67.9	1,229.8	14.4
Gross profit	1,129.5	815.1	38.6	847.4	33.3
Staff cost	185.4	115.1	61.1	156.9	18.2
Rent expenses	282.2	165.8	70.2	163.9	72.1
Other expenses	296.2	230.1	28.7	314.5	-5.8
Total operating expenses	763.8	511.0	49.5	635.3	20.2
<b>EBITDA</b>	<b>365.7</b>	<b>304.1</b>	<b>20.2</b>	<b>212.0</b>	<b>72.4</b>
Other income	49.8	41.5	19.9	129.1	-61.5
Interest	89.1	92.5	-3.6	88.3	1.0
Depreciation	133.5	92.2	44.8	128.1	4.2
Profit before tax	192.8	161.0	19.8	124.8	54.5
Tax	44.5	37.9	17.5	19.7	-
<b>Adjusted PAT</b>	<b>148.3</b>	<b>123.1</b>	<b>20.5</b>	<b>105.1</b>	<b>41.0</b>
Exceptional items	0.0	-17.6	-	0.0	-
<b>Reported PAT</b>	<b>148.3</b>	<b>105.4</b>	<b>40.6</b>	<b>105.1</b>	<b>41.0</b>
EPS (Rs.)	4.2	3.5	20.5	3.0	41.0
			<b>bps</b>		<b>bps</b>
GPM (%)	44.5	49.3	-479	40.8	374
EBITDA Margin (%)	14.4	18.4	-398	10.2	421
NPM (%)	5.8	7.4	-160	5.1	78
Tax rate	23.1	23.5	-45	15.7	735

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Long-term growth prospects intact

Organic same-store-sales of retail companies is likely to be muted due to weak consumer sentiments as higher inflationary pressures affected demand, while revenue growth is expected to be largely driven by strong store expansion. We expect growth to be muted in H1FY2024 but expect it to gradually recover pre-festive season. Branded retail & apparel companies are likely to benefit from steady demand for premium products and better consumer sentiments in urban markets/metros in the quarters ahead. 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 eyed in FY2024

Trent continued its momentum of strong double-digit revenue and PAT growth in Q1FY2024 with revenue growing by 54% y-o-y and PAT growing by 21% y-o-y. The company's strong execution capabilities aided to achieve strong 2.5x revenue growth and 3.6x PAT growth in FY2023 over FY2020. Trent is seeing strong pick-up in new initiatives/categories through increased contributions from online sales and emerging categories. An 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 FY2024, while profitability will improve gradually as the pricing environment improves.

### ■ Valuation - Maintain Buy with a revised PT of Rs. 2,150

Trent posted strong revenue performance in Q1FY2024 amid sluggish demand environment. Innovation in the product portfolio, scaling up of supply chain, 100% contribution from own brands, aggressive store expansion, and leveraging on digital presence will be key growth drivers in the medium term. The stock is currently trading at 28.9x/22.6x its FY2024E/FY2025E EV/EBITDA. With long-term growth prospects intact and a strong balance sheet among the retail companies, we maintain our Buy recommendation on the stock with a revised SOTP based PT of Rs. 2,150.

#### Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Aditya Birla Fashion	-	-	-	19.0	18.4	14.3	4.1	2.4	4.3
Shoppers Stop	72.4	94.6	37.3	14.7	13.7	10.7	9.9	9.3	15.3
Trent	-	62.9	44.2	41.6	28.9	22.6	14.5	21.7	25.5

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 7,000-10,000 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.

## 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
Palaniswamy Venkatesalu	Executive Director & Chief Executive Officer
Neeraj Basur	Chief Financial Officer
Krupa Anandpara	Company Secretary & Compliance Officer

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Dodona Holdings Lts	4.53
2	Wasatch Advisors	3.00
3	SBI Life Insurance	2.32
4	Blackrock Inc	1.75
5	Vanguard Group Inc	1.74
6	Axis Asset Management Co.Ltd	1.63
7	HDFC Life Insurance Co Ltd	1.49
8	Arisaig India Fund Limited	1.20
9	Nippon India Life Asset Management	0.97
10	ICICI Prudential Life Insurance Co Ltd	0.89

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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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

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Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: [complianceofficer@sharekhan.com](mailto:complianceofficer@sharekhan.com)

For any complaints/grievance, email us at [igc@sharekhan.com](mailto:igc@sharekhan.com) or you may even call Customer Service desk on - 022- 41523200/022 - 33054600