Stock Update

Result Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Trent Ltd

Strong performance in a tough business environment

Consumer Discretionary	Sharekhan code: TRENT

Reco/View: Buy	↔	CMP: Rs. 2,428	Price Target: Rs. 2,750	↑

↑ 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 Updated Aug 08, 2023	18.66

Low Risk

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

Source: Morningstar

Summary

- Trent maintained its strong growth momentum in Q2FY2024 with 59% y-o-y revenue growth (37% CAGR over FY2020-FY2024) versus low single-digit apparel industry's growth affected by weak consumer demand.
- Like-for-like (LFL) growth stood at 10%, well ahead of peers who saw subdued LFL during Q2. Focus on providing consistent value to customers will help in maintaining double-digit LFL going ahead.
- Strong earnings growth visibility with double-digit growth in the core Westside brand and strong scale-up in Zudio in the coming years.
- The stock currently trades at 39.3x/29.9x/24.1x its FY2024E/FY2025E/FY2026E EV/EBIDTA. We maintain Buy with a revised PT of Rs. 2,750.

Trent posted the 10th consecutive quarter of over 50% revenue growth in Q2FY2024, with revenue growing by 59% y-o-y to Rs. 2,890.7 crore, ahead of our as well as street's expectation. Revenue growth is strong compared with its peers and amid muted growth in the branded apparel space. Gross margin fell by 230 bps y-o-y to 44.7% due to change in the mix, while EBIDTA margin improved by 119 bps y-o-y to 15.9%, led by better operating leverage. EBIDTA grew by 72.3% y-o-y to Rs. 460.9 crore and reported PAT grew by 56% y-o-y to Rs. 289.7 crore. In H1FY2024, revenue grew by 57% y-o-y to Rs. 5,427.2 crore, EBIDTA margin decreased by 126 bps y-o-y to 15.2%, and PAT grew by 50.4% y-o-y to Rs. 437.9 crore.

Key positives

- Fashion concepts registered LFL growth of 10% over Q2FY2023.
- Contribution of emerging categories, including beauty and personal care, innerwear and footwear improved to 19%.
- Cash & cash equivalents on books stood close to Rs. 700 crore in September 2023.
- Star market business reported 30% y-o-y revenue growth; entire growth was largely driven by strong LFL growth and volume growth.

Key negatives

- Gross margin fell by 230 bps y-o-y to 44.7% in Q2.

Management Commentary

- During Q2FY2024, Trent added six Westside (total 223 stores) and 27 Zudio stores (total 411 stores). Four stores each of Westside and Zudio were consolidated during the quarter.
- The company will expand and deepen its store presence with the aim of coming to close proximity and convenience of customers.
- Q2 was the second consecutive quarter of double-digit LFL in its fashion concept. Focus on delivering consistent value to customers and providing elevated brand experience in its stores help to report good LFL growth.
- Gross margin of Westside and Zudio continued to remain consistent with earlier trends.
- The company continued to see good traction across its offerings, resilience in the business model, and attractiveness on different platforms.

Revision in earnings estimates - We have fine-tuned our earnings estimates for FY2024, FY2025, and FY2026 to factor in yet another quarter of strong performance in Q2FY2024.

Our Call

View: Retain Buy with a revised PT of Rs. 2,750: Trent posted yet another quarter of strong revenue performance in Q2FY2024 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 39.3x/29.9x/24.1x its FY2024E/FY2025E/FY2026E 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 price target (PT) of Rs. 2,750 (rolling it over September 2025 earnings).

Key Risks

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

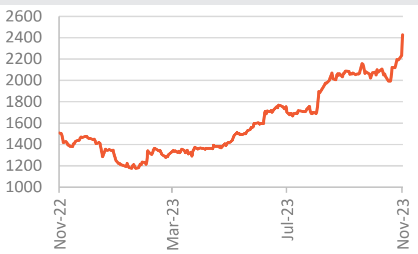
Company details

Market cap:	Rs. 86,319 cr
52-week high/low:	Rs. 2,454 / 1,155
NSE volume: (No of shares)	5.8 lakh
BSE code:	500251
NSE code:	TRENT
Free float: (No of shares)	22.4 cr

Shareholding (%)

Promoters	37.0
FII	26.9
DII	14.9
Others	21.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.8	35.8	69.5	61.0
Relative to Sensex	17.7	37.4	64.3	54.9

Sharekhan Research, Bloomberg

Valuation (Standalone) Rs cr

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	7,715	11,696	14,898	18,589
EBITDA Margin (%)	14.5	15.8	16.9	17.3
Adjusted PAT	555	1,007	1,493	1,985
YoY growth (%)	-	81.7	48.2	33.0
Adjusted diluted EPS (Rs.)	15.6	28.3	42.0	55.8
P/E (x)	-	85.7	57.8	43.5
P/B (x)	28.0	21.5	15.9	11.7
EV/EBITDA (x)	56.4	39.3	29.9	24.1
RoNW (%)	19.1	28.4	31.6	31.0
RoCE (%)	14.5	21.7	26.2	28.5

Source: Company; Sharekhan estimates

Strong Q2 with double-digit revenue growth and improvement in EBIDTA margins

Trent (standalone) revenue grew by 59% y-o-y to Rs. 2,890.7 crore, ahead of our and average street expectation of Rs. 2,759 crore and Rs. 2,683 crore, respectively. Like-for-like growth stood at 10% in Q2. Gross margin decreased by 230 bps y-o-y to 44.7% due to changing mix (increased contribution from Zudio) and higher raw-material expenses. On the other hand, EBIDTA margin improved by 119 bps y-o-y to 15.9%, ahead against our expectation of 14% and average street expectation of 13.3%. Better operating leverage led to strong expansion in EBIDTA margins. EBIDTA grew by 72.3% y-o-y to Rs. 460.9 crore, while reported PAT grew by 56% y-o-y to Rs. 289.7 crore, ahead of our and average street expectation of Rs. 169-171 crore. In H1FY2024, revenue grew by 57% y-o-y to Rs. 5,427.2 crore, EBIDTA margin decreased by 126 bps y-o-y to 15.2%, and PAT grew by 50.4% y-o-y to Rs. 437.9 crore.

Results (Standalone) Rs cr

Particulars	Q2FY24	Q2FY23	y-o-y (%)	Q1FY24	q-o-q (%)
Net revenue	**2,890.7**	**1,813.6**	**59.4**	**2,536.4**	**14.0**
Cost of goods sold	1,599.7	961.9	66.3	1,407.0	13.7
Gross profit	1,291.1	851.7	51.6	1,129.5	14.3
Staff cost	210.6	148.1	42.2	185.4	13.6
Rent expenses	275.8	178.3	54.7	282.2	-2.2
Other expenses	343.8	257.8	33.4	296.2	16.1
Total operating expenses	830.2	584.2	42.1	763.8	8.7
EBITDA	**460.9**	**267.5**	**72.3**	**365.7**	**26.0**
Other income	151.1	168.0	-10.1	49.8	-
Interest	92.3	88.0	4.9	89.1	3.6
Depreciation	144.8	104.3	38.9	133.5	8.5
Profit before tax	374.8	243.2	54.1	192.8	94.4
Tax	85.1	57.4	48.3	44.5	91.1
Adjusted PAT	**289.7**	**185.9**	**55.9**	**148.3**	**95.4**
EPS (Rs.)	8.1	5.2	55.9	4.2	95.4
			bps		**bps**
GPM (%)	44.7	47.0	-230	44.5	13
EBITDA Margin (%)	15.9	14.8	119	14.4	153
NPM (%)	10.0	10.2	-23	5.8	418
Tax rate	22.7	23.6	-89	23.1	-39

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Long-term growth prospects intact

Organic same-store sales of retail companies are 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. In H1FY2024, growth remained muted, but we expect it to gradually recover prior to the festive season. Branded retail and 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 H1FY2024 with revenue growing by 57% y-o-y and PAT growing by 50% y-o-y. The company's strong execution capabilities aided to achieve robust 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 contribution 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. 2,750

Trent posted yet another quarter of strong revenue performance in Q2FY2024 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 39.3x/29.9x/24.1x its FY2024E/FY2025E/FY2026E 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 price target (PT) of Rs. 2,750 (rolling it over September 2025 earnings).

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Aditya Birla Fashion	-	-	-	19.2	18.5	14.5	4.1	2.4	4.3
Shoppers Stop	57.7	-	37.3	12.4	12.0	9.4	9.9	8.5	13.2
Trent	-	85.7	57.8	56.4	39.3	29.9	14.5	21.7	26.2

Source: Company, Sharekhan estimates

About the 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 its 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 with 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 and Chief Executive Officer
Neeraj Basur	Chief Financial Officer
Krupa Anandpara	Company Secretary and Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Dodona Holdings Ltd.	4.8
2	Wasatch Advisors	3.0
3	SBI Life Insurance Co. Ltd.	2.2
4	Amansa Holdings Pvt. Ltd.	2.2
5	Vanguard Group Inc.	2.1
6	Blackrock Inc.	1.8
7	Derive Trading Pvt. Ltd.	1.5
8	Axis Asset Management Co. Ltd.	1.5
9	HDFC Life Insurance Co. Ltd.	1.2
10	Arisaig India Fund Limited	1.2

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

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