



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	■	↔	■

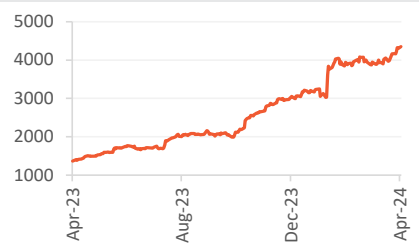
Company details

Market cap:	Rs. 1,54,690 cr
52-week high/low:	Rs. 4,499/1,307
NSE volume: (No of shares)	8.4 lakh
BSE code:	500251
NSE code:	TRENT
Free float: (No of shares)	22.4 cr

Shareholding (%)

Promoters	37.0
FII	27.6
DII	13.9
Others	21.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.0	32.6	103.1	214.7
Relative to Sensex	8.9	30.1	88.1	194.1

Sharekhan Research, Bloomberg

Consumer Discretionary

Sharekhan code: TRENT

Reco/View: Buy

CMP: Rs. 4,351

Price Target: Rs. 4,800

Upgrade ↔ Maintain ↓ Downgrade

Summary

- Trent posted yet another stellar quarter in Q4FY2024 with revenues growing by 53% y-o-y to Rs. 3,187 crore, EBITDA margin rising sharply by 477 bps y-o-y to 15% and adjusted PAT growing by 2.75x y-o-y to Rs. 289 crore.
- Fashion concepts delivered a well over 10% y-o-y life-for-like (LFL) growth; emerging categories now contribute over 20% of standalone revenues.
- It added 12 Westside stores and 86 Zudio stores across 65 cities (including 25 new cities) during the quarter.
- Stock trades at 50x/38x its FY2025E/FY2026E EV/EBIDTA. We maintain Buy with a revised SOTP-based PT of Rs. 4,800.

Trent continued to post stellar performance in Q4FY2024 with revenues growing above 50% y-o-y, while strong expansion in EBIDTA margins led to robust bottom-line growth. Revenue grew by 53.4% y-o-y to Rs. 3,187 crore, with like-for-like (LFL) growth well above 10%. Gross margins improved by 449 bps y-o-y to 45.3%. Better operating leverage aided the company to report a 477 bps y-o-y expansion in EBITDA margin to 15%, ahead of ours and the average street expectation of 13.4%. EBIDTA grew by 2.25x y-o-y to Rs. 477 crore, while the adjusted PAT grew by 2.75x y-o-y to Rs. 289 crore. An exceptional gain of Rs. 543.4 crore (Rs. 364.8 crore net of tax) includes gains realised due to reassessment of recognition of the right of use assets and corresponding lease liability. Reported PAT stood at Rs. 654 crore. FY2024 was robust with revenues growing by 55% y-o-y to Rs. 11,927 crore, EBITDA margins rising by 160 bps y-o-y to 16.2% and PAT almost doubling y-o-y to Rs. 1,070 crore. At FY2024-end, the company's store portfolio includes 232 Westside stores, 545 Zudio and 34 stores across lifestyle concepts.

Key positives

- Fashion concepts registered like-for-like growth of 10% y-o-y.
- The Star business reported a 30% y-o-y revenue growth, largely driven by strong growth in LFL stores.
- Emerging categories including beauty & personal care, inner wear and footwear contribute 20% of standalone revenues (versus 18% in Q4FY2023).

Key negatives

- Gross margins fell by 66 bps q-o-q.

Management Commentary

- Company added 12 Westside and 86 Zudio stores across 65 cities including 25 new cities in Q4FY2024, taking the total to 232 Westside, 545 Zudio and 34 stores across other lifestyle concepts.
- Trent plans to continue store expansion plans with the aim of coming in proximity and convenience of customers.
- Fashion concepts registered a 10% y-o-y LFL growth in Q4FY2024; focus continues to be on delivering consistent value to customers through attractive product offerings and providing an enhanced brand experience.
- Emerging categories (beauty and personal care, innerwear and footwear) continued to gain traction with customers; contributed to over 20% of standalone revenues (versus 18% in Q4FY2023).
- Online revenues continue to grow profitably through Westside.com and other Tata group platforms currently contribute over 6% of Westside revenues.
- Gross margins of Westside and Zudio remained consistent.
- The Star business, consisting of 66 stores, delivered strong 30% y-o-y growth (almost all growth is from like-for-like stores); management eyes Star as a key and additional growth engine in the company's portfolio.

Revision in estimates – We have raised our earnings estimates for FY2025 and FY2026 to factor in yet another quarter of strong performance in Q4FY2024 and reassessment of recognition of the right of use assets and corresponding lease liability.

Our Call

View - Retain Buy with a revised PT of Rs. 4,800: Trent continued its strong growth momentum in Q4FY2024 in contrast to muted industry growth, registering an over 50% y-o-y revenue growth and sharp EBITDA margin expansion during the quarter. Innovation in product portfolio, 100% contribution from own brands, aggressive store expansions, scaling up of the Star business and leveraging on digital presence will be key growth drivers in the medium term. Stock is currently trading at 50x/38x its FY2025E/FY2026E EV/EBIDTA. With long-term growth prospects intact and a strong balance sheet among retail companies, we maintain a Buy recommendation on the stock with a revised SOTP-based price target (PT) of Rs. 4,800.

Key Risks

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

Valuation (Standalone)

Particulars	FY23	FY24	FY25E	FY26E
Revenue	7,715	11,927	16,393	21,543
EBITDA Margin (%)	14.5	16.2	16.6	17.0
Adjusted PAT	555	1,070	1,772	2,469
% YoY growth	111.0	93.0	65.5	39.3
Adjusted diluted EPS (Rs.)	15.6	30.1	49.8	69.5
P/E (x)	-	-	87.3	62.7
P/B (x)	50.2	34.8	25.2	18.1
EV/EBITDA (x)	-	67.9	50.1	38.3
RoNW (%)	19.1	28.4	33.4	33.6
RoCE (%)	14.5	24.5	36.7	38.7

Source: Company; Sharekhan estimates

Stellar Q4 – Beat on all fronts

Trent's standalone revenue grew by 53.4% y-o-y to Rs. 3,187 crore, ahead of our expectation of Rs. 3,116 crore and average street expectation of Rs. 3,124 crore. Gross margins and EBIDTA margins rose by 449 bps and 477 bps y-o-y to 45.3% and 15%, respectively. EBITDA margin came in better than our and average street expectation of 13.4%. EBIDTA grew by 2.25x y-o-y to Rs. 477 crore. In line with growth in EBITDA, adjusted PAT grew by 2.75x y-o-y to Rs. 289 crore, ahead of our and average street expectation of Rs. 207-211 crore. Exceptional gain of Rs. 543.4 crore (Rs. 364.8 crore net of tax) includes gains realised due to reassessment of recognition of the right of the used assets and corresponding lease liability. Reported PAT stood at Rs. 654 crore. In FY2024, revenue grew by 54.6% y-o-y to Rs. 11,927 crore, EBIDTA margins rose by 165 bps y-o-y to 16.2%, and adjusted PAT grew by 93% y-o-y to Rs. 1,070 crore. The board has declared a final dividend of Rs. 3.2 per share for FY2024. During Q4FY2024, the company added 12 Westside and 86 Zudio stores, taking the total to 232 Westside, 545 Zudio and 34 stores across other lifestyle concepts.

Results (Standalone)					Rs cr	
Particulars	Q4FY24	Q4FY23	y-o-y (%)	Q3FY24	q-o-q (%)	
Net revenue	3,186.9	2,077.2	53.4	3,312.5	-3.8	
Cost of goods sold	1,743.7	1,229.8	41.8	1,790.4	-2.6	
Gross profit	1,443.3	847.4	70.3	1,522.1	-5.2	
Staff cost	297.8	156.9	89.8	244.1	22.0	
Rent expenses	285.5	163.9	74.2	285.8	-0.1	
Other expenses	382.7	314.5	21.7	369.0	3.7	
Total operating expenses	966.0	635.3	52.0	899.0	7.5	
EBITDA	477.3	212.0	-	623.2	-23.4	
Other income	73.3	129.1	-43.3	76.8	-4.6	
Interest	32.2	88.3	-63.6	95.7	-66.4	
Depreciation	146.8	128.1	14.6	157.5	-6.8	
Profit before tax	371.6	124.8	-	446.7	-16.8	
Tax	82.9	19.7	-	103.1	-19.6	
Adjusted PAT	288.8	105.1	-	343.6	-16.0	
Exceptional items	364.8	0.0	-	0.0	-	
Reported PAT	653.5	105.1	-	343.6	90.2	
EPS (Rs.)	8.1	3.0	-	9.7	-16.0	
			bps		bps	
GPM (%)	45.3	40.8	449	46.0	-66	
EBITDA Margin (%)	15.0	10.2	477	18.8	-384	
NPM (%)	9.1	5.1	400	10.4	-131	
Tax rate	22.3	15.7	655	23.1	-78	

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Near term outlook bleak; long-term growth prospects intact

Demand stayed muted in Q4, with a gradual recovery expected from FY2025. In the near term, revenue growth for the branded retail & apparel companies is likely to be largely driven by store expansion, steady demand for premium products and better consumer sentiments in urban markets/metros. In the medium to 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 post consistent growth. Better operating leverage, improved efficiencies and improved mix would help branded apparel & retail companies to post higher margins in the coming years.

■ Company outlook - Multiple levers in place to drive long-term growth

Trent continued its momentum of strong double-digit revenue and PAT growth in FY2024 with revenue growing by 55% y-o-y and PAT almost doubling y-o-y. Company's strong execution capabilities aided it to achieve a robust 3.8x revenue growth and 6.9x PAT growth in FY2024 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 a pick-up in foods business will augur well in the near term. We expect the company's revenue and PAT to clock 34% and 52% CAGR over FY2024-26E.

■ Valuation - Maintain Buy with a revised PT of Rs. 4,800

Trent continued its strong growth momentum in Q4FY2024 in contrast to muted industry growth, registering an over 50% y-o-y revenue growth and sharp EBITDA margin expansion during the quarter. Innovation in product portfolio, 100% contribution from own brands, aggressive store expansions, scaling up of the Star business and leveraging on digital presence will be key growth drivers in the medium term. Stock is currently trading at 50x/38x its FY2025E/FY2026E EV/EBITDA. With long-term growth prospects intact and a strong balance sheet among retail companies, we maintain a Buy recommendation on the stock with a revised SOTP-based price target (PT) of Rs. 4,800.

Peer comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Aditya Birla Fashion	-	-	-	22.8	17.7	13.6	0.8	1.7	3.2
Trent	-	87.3	62.7	67.9	50.1	38.3	24.5	36.7	38.7

Source: Company, Sharekhan estimates

About company

Trent is part of the Tata Group and operates a portfolio of retail concepts. Its primary customer propositions include Westside, one of India's leading chains of fashion retail stores, Zudio, a one stop destination for great fashion at great value and Trent Hypermarket, which operates in the competitive food, grocery and daily needs segment under the Star banner. Westside stores have a footprint of 20,000-30,000 sq. ft. across 102 cities. Zudio, the value fashion format destination, operates with stores having a footprint of 7,000-10,000 sq. ft. Trent's supermarket concept – Star, offers a curated assortment of products including FMCG, staples and a comprehensive fresh offering. 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	4.53
2	Wasatch Advisors	3.00
3	SBI Life Insurance Co Ltd	2.44
4	Amansa Holdings Pvt Ltd	2.13
5	Blackrock Inc	2.12
6	Vanguard Group Inc	2.06
7	Derive Trading Pvt Ltd	1.35
8	Axis Asset Management Co.Ltd	1.29
9	UTI AMC	0.98
10	Nippon Life India Asset Management Company	0.84

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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