

June 19, 2023

Store addition trajectory for Zudio to be ~ 2x in FY24E

About the stock: Trent is India's leading retailer with a presence across various consumer categories (600+ stores). Inherent strength of brands (Westside, Zudio, Star, Zara) and accelerated store additions have led Trent to be among the fastest growing companies in our retail coverage universe.

- 'Westside' (60% of revenues) has proven to be one of the most profitable business models as it primarily focuses on selling private label brands
- 'Zudio' (40% of sales), the value fashion brand, continues to be the next leg of growth for Trent

Key AGM Highlights:

- Consolidated revenues (including JV-Star & Zudio) surpass ₹ 10000+ crore sales mark in FY23.** Zudio has demonstrated strong ability to gain market share in value fashion segment with focus on improving profitability
- Zudio now contributes 40% to standalone revenues** (from merely 16% in FY20), with gross revenues surpassing ₹ 3200+ crore in FY23. EBIT margins improved 100 bps YoY to 7.0% Trent will continue accelerated store additions for Zudio with opening of 200+ stores in FY24 to 550+ stores (added 117 stores in FY23)
- Westside reported gross revenue worth ₹ 4655 crore with record high EBITDA and EBIT margins of 13% and 11%, respectively, in FY23.** SSSG was at healthy 49% YoY (partly aided by favourable base). **With Westside firing on all cylinders, we expect the format to have registered 25%+ RoIC during FY23.** Trent expects to add 30 Westside outlets in FY24
- Trent's grocery format Star Bazar continued its calibrated store expansion strategy (added two stores in FY23) with higher emphasis on profitability. **Despite muted store addition, revenue grew 35% YoY in FY23E implying healthy SSSG.** Enhanced store operational performance led to PBT losses narrowing down to ₹ 104 crore in FY23 (FY22: loss of ₹ 138 crore)

What should investors do? In the retail space, Trent has been an exceptional performer with stock price appreciating at 40% CAGR in the last 5 years. Over the last six years (FY17-23), Trent has delivered industry leading sales growth of ~30% vs. industry average of 12%. Given the strong operating performance, Trent witnessed a sharp jump in RoE profile to 17% in FY23 (~5% in FY20).

- Robust performance during challenging times and industry leading performance will continue to warrant premium valuations to Trent. Hence, we maintain our **BUY** rating on the stock

Target Price and Valuation: We value Trent at ₹ 2030 based on SOTP valuation.

Key triggers for future price performance:

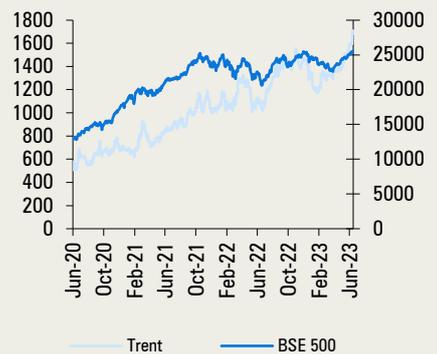
- We pencil in 295 store additions between Westside and Zudio for FY24-25E
- Liquidity position remains robust with cash & investments worth ₹ 600+ crore that will enable it to tide over the current situation better than peers
- Zudio continues to be the growth engine for Trent. We expect its revenues to grow at a CAGR of 31% in FY23-25E



Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	60,429.9
Total Debt (Mar-23) (₹ Crore)	498.0
Cash (Mar-23) (₹ Crore)	632.3
EV (₹ Crore)	60,295.6
52 week H/L	1720/ 1000
Equity Capital (₹ Crore)	35.5
Face Value (₹)	1.0

Price Movement



Key Risks

- Slower ramp up of store network
- Lower than expected margins owing to inability to pass input cost hike

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Key Financial Summary

Financials	FY19	FY20	FY21	FY22	FY23E	3 year CAGR (FY20-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales	2,630.2	3,486.0	2,593.0	4,498.0	8,242.0	33.2%	10,063.6	11,969.0	20.5%
EBITDA	227.7	544.0	171.9	573.9	1,073.7	25.4%	1,401.9	1,715.2	26.4%
PAT	97.0	122.8	(146.2)	105.8	444.7	53.6%	602.8	770.6	31.6%
EV/Sales (x)	21.6	17.2	23.1	13.4	7.3		6.0	5.0	
EV/EBITDA (x)	250.0	110.1	348.9	105.1	56.2		43.0	35.0	
RoCE (%)	10.1	15.9	4.3	14.1	26.5		29.7	30.6	
RoE (%)	5.9	5.1	-6.3	4.5	17.1		19.2	20.1	

Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
	FY22	FY23	FY24E	FY25E
Total operating Income	4,498.0	8,242.0	10,063.6	11,969.0
Growth (%)	73.5	83.2	22.1	18.9
Cost of Goods Sold	2,481.5	4,719.7	5,675.9	6,678.7
Gross Margin (%)	44.8	42.7	43.6	44.2
Employee Expenses	399.0	655.2	785.0	945.6
Operating & Other Expenses	1,043.7	1,793.4	2,200.9	2,629.6
Total Operating Expenditure	3,924.2	7,168.4	8,661.8	10,253.8
EBITDA	573.9	1,073.7	1,401.9	1,715.2
Growth (%)	233.9	87.1	30.6	22.3
Depreciation	310.8	493.7	563.2	676.0
Interest	304.7	369.2	398.9	442.5
Other Income	175.2	260.9	231.5	275.3
PBT	106.1	468.7	671.3	872.0
Share of Profit from JV	5.1	83.5	102.8	128.8
Total Tax	76.6	158.4	201.3	260.2
PAT	34.6	393.7	572.8	740.6
Minority Interest	-71.2	-51.0	-30.0	-30.0
PAT after MI	105.8	444.7	602.8	770.6
Extraordinary item	0.0	0.0	0.0	0.0
Reported PAT	105.8	444.7	602.8	770.6
EPS (₹)	3.0	12.5	17.0	21.7

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after tax	105.8	444.7	602.8	770.6
Add: Depreciation	310.8	493.7	563.2	676.0
Add: Finance Cost	304.7	369.2	398.9	442.5
(Inc)/dec in Current Assets	-541.8	-595.1	-425.2	-429.6
Inc/(dec) in CL and Provisions	184.0	364.2	41.9	198.1
Others	-100.3	-475.9	0.0	0.0
CF from operating activities	263.3	600.8	1,181.5	1,657.5
(Inc)/dec in Investments	203.8	174.6	91.0	20.9
(Inc)/dec in Fixed Assets	-206.7	-220.0	-448.3	-450.0
Others	-17.7	23.4	0.0	0.0
CF from investing activities	-20.6	-22.1	-357.4	-429.1
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	197.5	0.6	-98.0	0.0
Less: Finance Cost & Others	-374.2	-509.0	-727.7	-906.9
Others	-62.8	-68.5	-59.8	-77.5
CF from financing activities	-239.5	-576.9	-885.5	-984.4
Net Cash flow	3.2	1.8	-61.3	244.1
Opening Cash	81.3	84.5	86.3	25.0
Closing Cash	84.5	86.3	25.0	269.0

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Liabilities				
Equity Capital	35.5	35.5	35.5	35.5
Reserve and Surplus	2,328.0	2,559.9	3,102.5	3,796.0
Total Shareholders funds	2,363.5	2,595.5	3,138.0	3,831.6
Total Debt	497.4	498.0	400.0	400.0
Other LT Liabilities	4,246.0	3,983.7	3,655.3	3,190.4
Deferred Tax Liability	-126.4	-156.1	-156.1	-156.1
Minority Interest / Others	44.5	46.0	46.0	46.0
Total Liabilities	7,025.0	6,967.0	7,083.2	7,311.9
Assets				
Gross Block	1,112.1	1,360.7	1,810.7	2,260.7
Less: Acc Depreciation	387.2	489.5	663.3	889.4
Capital WIP	104.7	101.7	100.0	100.0
Total Fixed Assets	829.7	972.9	1,247.4	1,471.3
Investments	1,311.6	1,137.0	1,046.0	1,025.1
Other Non-current Assets	4,034.72	3,766.57	3,377.24	2,927.32
Goodwill	69.7	78.4	78.4	78.4
Deferred Tax Asset	0.0	0.0	0.0	0.0
Inventory	867.8	1,361.2	1,709.4	2,033.1
Debtors	17.9	34.4	27.6	32.8
Loans and Advances	221.5	254.3	284.8	319.0
Cash	84.5	86.3	25.0	269.0
Other Current Assets	160.5	212.9	266.1	332.7
Total Current Assets	1,352.1	1,949.1	2,313.0	2,986.6
Creditors	378.0	665.2	777.5	914.9
Other Current Liab. & Prov.	194.7	271.7	201.3	262.0
Total Current Liabilities	572.7	936.9	978.8	1,176.8
Net Current Assets	779.4	1,012.2	1,334.2	1,809.8
Application of Funds	7,025.0	6,967.0	7,083.2	7,311.9

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹) (annualised)				
EPS	3.0	12.5	17.0	21.7
Cash EPS	11.7	26.4	32.8	40.7
BV	66.5	73.0	88.3	107.8
DPS	1.2	1.1	1.7	2.2
Cash Per Share	2.4	2.4	0.7	7.6
Operating Ratios				
EBITDA Margin (%)	12.8	13.0	13.9	14.3
PBT Margin (%)	2.4	5.7	6.7	7.3
PAT Margin (%)	2.4	5.4	6.0	6.4
Inventory days	70.4	60.3	62.0	62.0
Debtor days	1.4	1.5	1.0	1.0
Creditor days	30.7	29.5	28.2	27.9
Return Ratios (%)				
RoE	4.5	17.1	19.2	20.1
RoCE	14.1	26.5	29.7	30.6
RoIC	19.3	32.8	35.4	36.6
Valuation Ratios (x) (annualised)				
P/E	571.0	135.9	100.2	78.4
EV / EBITDA	105.1	56.2	43.0	35.0
EV / Net Sales	13.4	7.3	6.0	5.0
Market Cap / Sales	13.4	7.3	6.0	5.0
Price to Book Value	25.6	23.3	19.3	15.8
Solvency Ratios				
Debt/EBITDA	0.9	0.5	0.3	0.2
Debt / Equity	0.2	0.2	0.1	0.1
Current Ratio	3.1	2.5	2.9	2.9
Quick Ratio	1.0	0.7	0.7	0.7

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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