

Trent

Surprises positively

Trent's 3Q performance surprised positively. Revenue recovery at 83% of base quarter was commendable (HSIE: 81% recovery). Westside recovered 78% (In-line). Hence, the revenue beat has come from its value play – Zudio. Bigger surprise was on GM recovery, which expanded 574bp YoY to 56.4% (HSIE: 48%). We suspect GM expansion was led by (1) write back of the conservative inventory provisions made in 1Q (Impact of Rs. 140mn in 3Q), (2) better GMs in Zudio. Note: GMs are still down ~280bp in 9MFY21. Costs continue to normalise; hence, EBITDAM beat lags GM beat. We maintain our SELL recommendation on the stock with an SOTP-based TP of Rs. 575/sh (implying 32x FY23 EV/EBITDA). Note: TP change largely mimics EPS change.

- 3QFY21 highlights:** Revenue recovery at 83.4% of 3QFY20 (Rs. 7.25bn vs HSIE: Rs. 7.05bn) was better than expected. Westside recovered 78% YoY (LTL growth: -26%), implying that Zudio overshot expectations. MoM sales trends are encouraging. Jan-21 EoS sales witnessed similar traction as 3QFY20. GMs expanded 574bp YoY to 56.4% (HSIE: 48%). We believe GM expansion was led by (1) write back of the conservative inventory provisions made in 1Q (Impact of Rs. 140mn in 3Q), and (2) better GMs in Zudio. Note: GMs are still down ~280bp in 9MFY21 (47.6%). Rental concessions in 3Q/9MFY21 stood at Rs. 188/772mn. However, cost of retailing seems to be normalising faster than expected (31.6% vs HSIE: 28.3%). Ergo, EBITDAM expansion (486bp) lagged GM expansion. Adj. PBT/PAT declined/grew - 3%/+43%. YoY to Rs. 1/.8bn respectively. Rs. 0.8bn of the Rs. 9.5bn raised in FY20 (via Tata Sons) remain unutilized. The Board approved an enabling resolution to raise Rs. 5bn via NCD issuance largely to refinance existing debt.
- Outlook:** Trent's revenue and margin recovery seem most promising within our apparel universe. It remains well-capitalised (net cash position (ex-JV/associate investments of Rs. 8.15bn in 1H). However, valuations remain uncomfortably high (>40x FY23 EV/EBITDA). Ergo, we maintain our SELL recommendation on the stock with an SOTP-based TP of Rs. 575/sh.

Quarterly financial summary

(Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY19	FY20	FY21E	FY22E	FY23E
Net Revenue	7,254	8,697	(16.6)	4,521	60.4	25,317	31,777	20,111	37,740	45,947
EBITDA	1,800	1,735	3.7	64	2,718.8	2,365	5,632	2,255	6,615	7,732
APAT	797	557	42.9	(481)	(265.6)	1,275	1,546	(941)	1,589	1,696
EPS (Rs)	2.2	1.6	42.9	(1.3)	(266.3)	3.8	4.3	(2.6)	4.5	4.8
P/E (x)						183.1	162.8	(267.5)	158.4	148.4
EV/EBITDA (x)						99.9	44.3	110.9	38.4	33.4
Core RoCE(%)						7.5	7.2	(0.3)	6.8	6.8

Source: Company, HSIE Research, Standalone Financials

Change in estimates

(Rs mn)	FY21E			FY22E			FY23E		
	New	Old	Change (%)	New	Old	Change (%)	New	Old	Change (%)
Revenue	20,111	19,180	4.9	37,740	37,241	1.3	45,947	45,591	0.8
Gross Profit	9,868	8,531	15.7	18,367	17,992	2.1	21,935	21,666	1.2
Gross Profit Margin(%)	49.1	44.5	459 bps	48.7	48.3	35 bps	47.7	47.5	22 bps
EBITDA	2,255	1,458	54.6	6,615	6,365	3.9	7,732	7,551	2.4
EBITDA margin (%)	11.2	7.6	361 bps	17.5	17.1	44 bps	16.8	16.6	26 bps

Source: Company, HSIE Research

SELL

CMP (as on 4 Feb 2021)	Rs 670
Target Price	Rs 575
NIFTY	14,896

KEY CHANGES	OLD	NEW
Rating	SELL	SELL
Price Target	Rs 565	Rs 575
EBITDA %	FY21E	FY22E
	+3.9	+2.4

KEY STOCK DATA

Bloomberg code	TRENT IN
No. of Shares (mn)	355
MCap (Rs bn) / (\$ mn)	238/3,263
6m avg traded value (Rs mn)	726
52 Week high / low	Rs 809/365

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.2	19.5	11.5
Relative (%)	(24.4)	(14.8)	(12.6)

SHAREHOLDING PATTERN (%)

	Jun-20	Sep-20
Promoters	74.99	74.99
FIs & Local MFs	6.56	5.39
FPIs	9.62	10.27
Public & Others	8.83	9.35
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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