

## Revenue recovery, strong liquidity to aid future growth

Trent has recorded impressive recovery on the growth front, with growth reverting to the positive territory. Revenue for the quarter grew 7% YoY (6.7% QoQ) to ₹ 773.7 crore. Westside revenues (~80% of sales) were broadly at last year's levels with negative SSSG of ~4% (negative SSSG of 28% in Q3FY21). Zudio continues to perform well with back of the envelope calculations suggesting 30%+ growth in Q4FY21. Revenue trajectory had continued to improve on a month on month basis but a sharp drop in revenues was witnessed following the temporary partial lockdowns in various states from mid-March onwards. Digital platforms witnessed robust 150% growth in Q4FY21 on a low base. For the first time, over 5% of Westside revenues were recorded through online channels in Q4 as well as in the financial year. This was the second consecutive quarter wherein it recorded a strong beat on gross margins with expansion of 670 bps YoY to 53.2% (despite higher share of Zudio revenues). Margins may also include reversal in inventory provisions taken in the previous quarters. Following the strong gross profits, EBITDA margins came in at 17.7% (Q3FY21: 24.8%, Q4FY20:12.9%). Absolute EBITDA grew 47% YoY to ₹ 136.6 crore. Other income came in at ₹ 72 crore (up 2x from Q4FY20) of which ₹ 11 crore pertains to lease rent waiver. On account of a steady operational performance and benign base of Q4FY20, Trent reported PAT of ₹ 56.9 crore vs. ₹ 2.6 crore in Q4FY20 (Q3FY21: ₹ 79.6 crore).

### Store addition pipeline remains healthy for FY22E

On the back of healthy b/s, Trent was among the few retailers that reiterated its stance of aggressively adding stores in FY21. During the financial year, it added 52 Zudio stores (total 133) and nine Westside stores (total 174). Trent has a healthy store addition pipeline (19 Westside, 15 Zudio stores) and would open once Covid related restrictions are eased. The company continues to aggressively add Zudio stores given scalability of brand (average store size ~6000 sq ft, one-third of Westside store) and given its shaper price points offerings (two-third of products priced < ₹ 500). We pencil in 226 store additions between Westside and Zudio for FY21-23E.

### Valuation & Outlook

The management remains cautiously optimistic on the medium-term outlook, with demand expected to rebound strongly from Q2FY22E onwards. Despite the retail sector being the worst impacted in FY21, Trent has displayed a resilient show. While H1FY21 was severely impacted (net loss: ₹ 187 crore), Trent through its strong brand patronage witnessed a sharp recovery in H2FY21 (net profit: ₹ 136 crore). On the balance sheet front, Trent has significantly focused on reducing working capital and freeing up cash through redeployment of old inventory and reducing fresh buys. Liquidity position remains healthy with cash & investments worth ₹ 752 crore as on FY21. Owing to the near term headwinds, we revise our revenue, EBITDA estimates downwards by ~12%, 15%, respectively, in FY22E. The company has converted certain fixed expenses to variable, which would protect margins in case of uncertainties. We build in revenue and earnings CAGR of 15% and 36%, respectively, in FY20-23E. We maintain **BUY** with a revised target price of ₹ 900 based on SOTP valuation (earlier TP: ₹ 820).

### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	2,630.2	3,486.0	2,593.0	4,027.7	5,234.7	14.5%
EBITDA	227.7	544.0	171.9	616.2	848.0	16.0%
PAT	97.0	122.8	(146.2)	165.9	314.5	36.8%
EV/Sales (x)	10.0	7.8	10.5	6.8	5.2	
EV/EBITDA (x)	115.4	49.8	158.3	44.4	32.1	
RoCE (%)	10.1	15.9	4.3	16.5	22.1	
RoE (%)	5.9	5.1	-6.3	6.8	11.8	



### Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	27,655.6
Total Debt (Mar-21) (₹ Crore)	299.7
Cash (Mar-21) (₹ Crore)	752.1
EV (₹ Crore)	27,203.2
52 week H/L	945 / 401
Equity Capital (₹ Crore)	35.5
Face Value (₹)	1.0

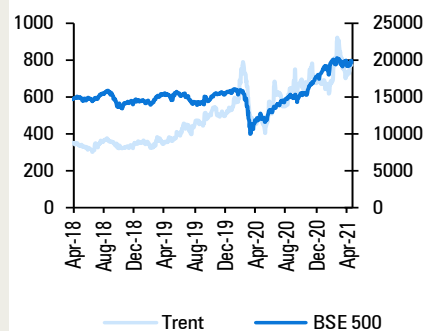
### Key Highlights

- Over 5% of Westside revenue were recorded through online channels
- Loss in JV/associates came in at ₹ 19.2 crore vs. loss of ₹ 29.4 crore in Q4FY20

### Key Risks

- Extension of lockdown restrictions leading to store closures or restricted movement of people negatively impacting store footfalls resulting in lower in-store sales
- Delay in store rollout could lead to lower than estimated revenues

### Price Performance



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**Exhibit 1: Variance Analysis**

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Revenue	773.7	809.5	722.8	7.0	725.4	6.7	Westside sales nearly recovered to its pre-covid levels, with SSSG at (-) 4%
Other Operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Raw Material Expense	362.3	429.9	387.0	-6.4	316.5	14.5	
Gross Profit	411.4	379.7	335.8	22.5	408.9	0.6	
Gross Profit Margin	53.2	46.9	46.5	671 bps	56.4	-320 bps	
Employee exp	68.2	76.1	75.8	-10.0	68.5	-0.5	
Other Exp	206.6	171.6	167.0	23.7	160.4	28.8	
EBITDA	136.6	132.0	92.9	46.9	180.0	-24.1	Significant expansion in gross margins and cost control measures led to EBITDA margin expansion of 479 bps YoY
EBITDA Margin (%)	17.7	16.3	12.9	479 bps	24.8	-716 bps	
Depreciation	61.7	59.5	61.2	0.9	57.8	6.7	
Other Income	72.4	36.2	34.4	110.7	42.6	70.2	Other income includes rental waiver worth ₹ 12 crore
Interest	61.8	63.6	59.5	3.9	60.6	2.0	
Exceptional Income	-6.3	0.0	0.0		0.0		
PBT	79.2	45.0	6.7	1,089.0	104.2	-24.0	
Tax Outgo	22.3	11.3	4.0	452.2	24.5	-9.1	
Minority Interest							
PAT	56.9	33.7	2.6	2,071.5	79.6	-28.6	Lower tax rate and robust operational performance resulted in strong bottom-line growth YoY

Source: Company, ICICI Direct Research

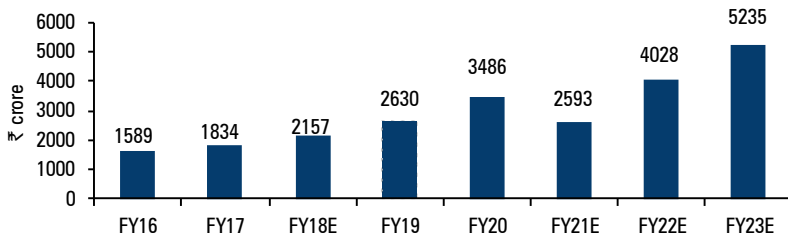
**Exhibit 2: Change in estimates**

(₹ Crore)	FY21E	FY22E			FY23E		
	Actual	Old	New	% Change	Old	New	% Change
Revenue	2,593.0	4,533.7	4,027.7	-11.2	5,380.6	5,234.7	-2.7
EBITDA	171.9	720.9	616.2	-14.5	871.7	848.0	-2.7
EBITDA Margin (%)	6.6	15.9	15.3	-60 bps	16.2	16.2	0 bps
PAT	-146.2	264.0	165.9	-37.2	333.6	314.5	-5.7
EPS (₹)	-4.1	7.4	4.7	-37.2	9.4	8.8	-5.7

Source: Company, ICICI Direct Research

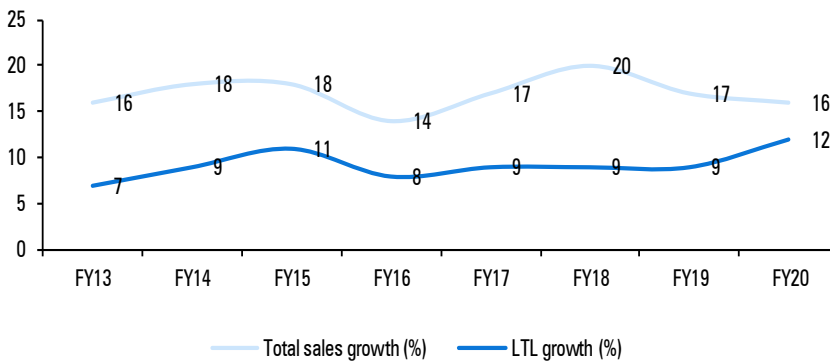
## Financial story in charts

Exhibit 3: Revenue trend



Source: Company, ICICI Direct Research

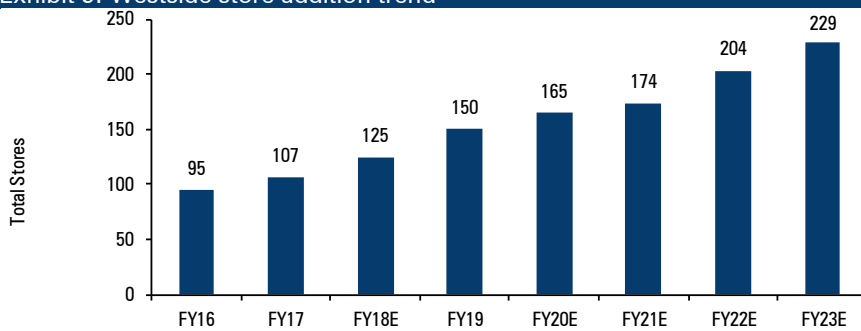
Exhibit 4: Westside revenue trend and same stores sales growth (SSSG)



Westside has continued to deliver a robust performance with revenues growing at a CAGR of 20% in FY13-20. It has also consistently registered healthy SSSG

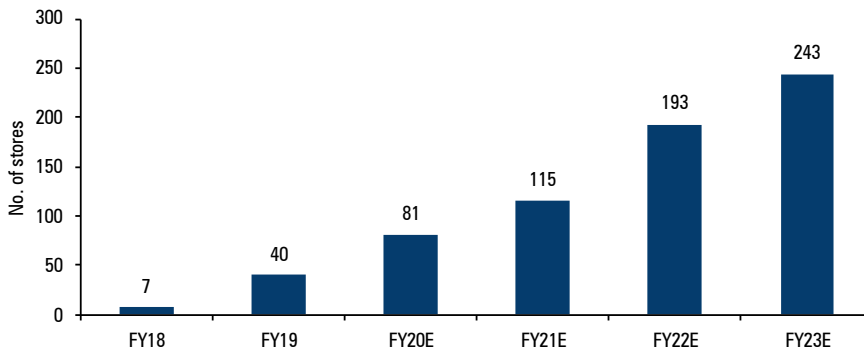
Source: Company, ICICI Direct Research

Exhibit 5: Westside store addition trend



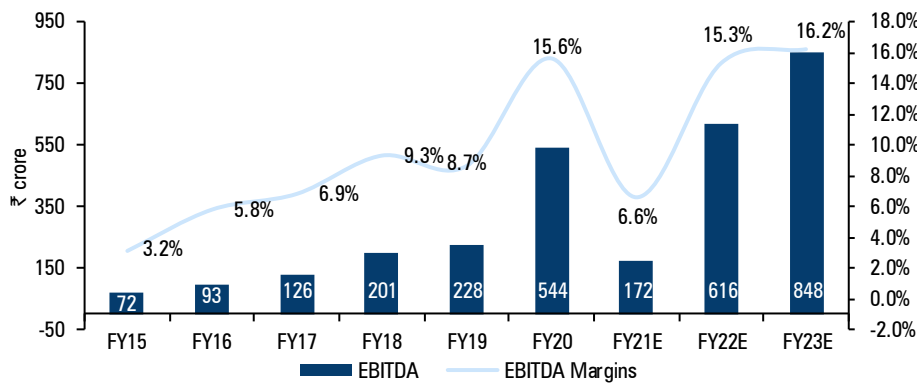
Source: Company, ICICI Direct Research.

Exhibit 6: Zudio store addition trend



Source: Company, ICICI Direct Research.

Exhibit 7: EBITDA, EBITDA margin trend (post Ind-AS 116)



Source: Company, ICICI Direct Research.

Exhibit 8: Valuation

	Financial	FY23E (₹ cr)	Target Multiple	EV/Mcap	(₹ cr) Cash	Debt	Targeted Mcap (₹ cr)
Standalone revenues	Sales	4840	5x EV/Sales	26376	721	301	26796
Trent Hypermarket Ltd	Sales	884	1x Price/Sales	884			884
Trent -Inditex (Zara)	Sales	964	4x Price/Sales	4240			4240
Target Market Cap. (₹ cr)							31919
Target Price (₹)							900

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 9: Profit and loss statement		₹ crore			
	FY20	FY21E	FY22E	FY23E	
<b>Total operating Income</b>	<b>3,486.0</b>	<b>2,593.0</b>	<b>4,027.7</b>	<b>5,234.7</b>	
Growth (%)	32.5	-25.6	55.3	30.0	
Cost of Goods Sold	1,881.8	1,534.0	2,207.2	2,831.9	
<b>Gross Margin (%)</b>	<b>46.0</b>	<b>40.8</b>	<b>45.2</b>	<b>45.9</b>	
Employee Expenses	358.5	301.9	418.9	581.0	
Operating & Other Expenses	701.7	585.2	785.4	973.6	
Total Operating Expenditure	2,942.0	2,421.1	3,411.4	4,386.6	
<b>EBITDA</b>	<b>544.0</b>	<b>171.9</b>	<b>616.2</b>	<b>848.0</b>	
Growth (%)	138.9	-68.4	258.5	37.6	
Depreciation	247.2	257.3	297.6	330.8	
Interest	245.8	248.7	255.4	272.3	
Other Income	144.5	201.6	145.0	151.8	
<b>PBT</b>	<b>195.4</b>	<b>-133.5</b>	<b>208.2</b>	<b>396.7</b>	
Share of Profit from JV	-30.4	-71.4	-17.8	1.2	
Total Tax	59.0	-23.7	49.5	103.5	
PAT	106.0	-181.1	140.9	294.5	
Minority Interest	-16.8	-35.0	-25.0	-20.0	
<b>PAT after MI</b>	<b>122.8</b>	<b>-146.2</b>	<b>165.9</b>	<b>314.5</b>	
Extraordinary item	0.0	0.0	0.0	0.0	
<b>Reported PAT</b>	<b>122.8</b>	<b>-146.2</b>	<b>165.9</b>	<b>314.5</b>	
<b>EPS (₹)</b>	<b>3.5</b>	<b>-4.1</b>	<b>4.7</b>	<b>8.8</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit after tax	122.8	-146.2	165.9	314.5	
Add: Depreciation	247.2	257.3	297.6	330.8	
Add: Finance Cost	245.8	248.7	255.4	272.3	
(Inc)/dec in Current Assets	-163.5	215.7	-311.5	-243.3	
Inc/(dec) in CL and Provisions	17.0	-46.3	47.5	118.3	
Others	-60.0	-71.2	0.0	0.0	
<b>CF from operating activities</b>	<b>409.3</b>	<b>458.0</b>	<b>454.9</b>	<b>792.6</b>	
(Inc)/dec in Investments	-627.8	27.7	60.6	29.1	
(Inc)/dec in Fixed Assets	-110.5	-90.7	-180.0	-145.0	
Others	-22.5	-36.0	0.0	0.0	
<b>CF from investing activities</b>	<b>-760.9</b>	<b>-99.0</b>	<b>-119.4</b>	<b>-115.9</b>	
Issue/(Buy back) of Equity	2.3	0.0	0.0	0.0	
Inc/(dec) in loan funds	-194.4	0.0	20.6	-19.0	
Less: Finance Cost & Others	-330.8	-335.9	-366.8	-468.3	
Others	880.0	-3.5	-42.3	-77.8	
<b>CF from financing activities</b>	<b>357.1</b>	<b>-339.4</b>	<b>-388.5</b>	<b>-565.0</b>	
Net Cash flow	5.5	19.6	-52.9	111.6	
Opening Cash	56.3	61.8	81.5	28.6	
<b>Closing Cash</b>	<b>61.8</b>	<b>81.5</b>	<b>28.6</b>	<b>140.2</b>	

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Liabilities</b>					
Equity Capital	35.5	35.5	35.5	35.5	
Reserve and Surplus	2,352.5	2,277.5	2,401.9	2,637.8	
Total Shareholders funds	2,388.0	2,313.0	2,437.4	2,673.3	
Total Debt	299.7	299.7	320.4	301.4	
Other LT Liabilities	2,326.6	2,700.8	2,588.6	2,393.5	
Deferred Tax Liability	-110.4	-114.5	-114.5	-114.5	
Minority Interest / Others	80.3	44.5	44.5	44.5	
<b>Total Liabilities</b>	<b>4,984.3</b>	<b>5,243.5</b>	<b>5,276.4</b>	<b>5,298.1</b>	
<b>Assets</b>					
Gross Block	953.3	1,024.1	1,287.1	1,432.1	
Less: Acc Depreciation	298.6	383.6	489.2	606.6	
Capital WIP	23.3	108.0	25.0	25.0	
Total Fixed Assets	678.0	748.5	822.9	850.5	
Investments	1,543.1	1,515.4	1,454.8	1,425.7	
Other Non-current Assets	2,102.31	2,471.28	2,279.24	2,065.87	
Goodwill	69.5	66.8	66.8	66.8	
Deferred Tax Asset	0.0	0.0	0.0	0.0	
Inventory	607.8	428.4	684.2	860.5	
Debtors	17.1	20.8	27.6	35.9	
Loans and Advances	203.5	156.2	174.9	195.9	
Cash	61.8	81.5	28.6	140.2	
Other Current Assets	113.2	120.5	150.7	188.3	
Total Current Assets	1,003.4	807.3	1,065.9	1,420.8	
Creditors	297.7	274.6	332.6	426.7	
Other Current Liab. & Prov.	114.4	91.1	80.6	104.7	
Total Current Liabilities	412.0	365.7	413.1	531.4	
Net Current Assets	591.4	441.7	652.7	889.3	
<b>Application of Funds</b>	<b>4,984.3</b>	<b>5,243.5</b>	<b>5,276.4</b>	<b>5,298.1</b>	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Per share data (₹) (annualised)</b>					
EPS	3.5	-4.1	4.7	8.8	
Cash EPS	10.4	3.1	13.0	18.2	
BV	67.2	65.1	68.6	75.2	
DPS	1.5	1.0	1.2	2.2	
Cash Per Share	1.7	2.3	0.8	3.9	
<b>Operating Ratios</b>					
EBITDA Margin (%)	15.6	6.6	15.3	16.2	
PBT Margin (%)	5.6	-5.1	5.2	7.6	
PAT Margin (%)	3.5	-5.6	4.1	6.0	
Inventory days	63.6	60.3	62.0	60.0	
Debtor days	1.8	2.9	2.5	2.5	
Creditor days	31.2	38.7	30.1	29.8	
<b>Return Ratios (%)</b>					
RoE	5.1	-6.3	6.8	11.8	
RoCE	15.9	4.3	16.5	22.1	
RoIC	28.0	-9.4	25.5	37.4	
<b>Valuation Ratios (x) (annualised)</b>					
P/E	225.2	-	166.7	87.9	
EV / EBITDA	49.8	158.3	44.4	32.1	
EV / Net Sales	7.8	10.5	6.8	5.2	
Market Cap / Sales	7.9	10.7	6.9	5.3	
Price to Book Value	11.6	12.0	11.3	10.3	
<b>Solvency Ratios</b>					
Debt/EBITDA	0.6	1.7	0.5	0.4	
Debt / Equity	0.1	0.1	0.1	0.1	
Current Ratio	2.9	2.5	3.1	3.0	
Quick Ratio	1.0	1.0	1.1	1.0	

Source: Company, ICICI Direct Research

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