

Trent Ltd

Bigger, Bolder and Better

Trent, one of the most successful retailers in India, has built durable moats by significantly scaling up its retail footprint, establishing itself as a powerful design house and expanding under different retail formats. Trent's standalone (Westside and Zudio) sales and EBITDA have grown at CAGR of 17% and 33% over FY13-22 with EBITDA margin improvement from low single digits to 16.3% in FY22. We expect its standalone sales/EBITDA/PAT to grow at CAGR of 25/23/36% respectively over FY20-24E. We remain bullish on the business fundamentals of Trent and initiate with an ADD rating and TP of Rs1280, valuing standalone (Westside and Zudio) operations and Zara at 33x EV/EBITDA FY24E while Star at 1.5x FY24E sales.

Aggressive store expansion

Over the past four years, Trent opened 301 stores of Westside and Zudio. To put things into perspective, until FY18, the company had 132 stores (Westside at 125 and Zudio at 7) while at the end of FY22, the count has moved up to 433 (Westside at 200 and Zudio at 233). Over the past 10 years, management has patiently tried and tested sustainability of the business model before replicating it on a pan-India basis. We believe this expansion spree will continue over the next two years and increase store counts from 433 in FY22 to 578 by FY24E. With improved scale, we expect 1) TRENT to post sales CAGR of 25% over FY20-24E, 2) achieve economies of scale & improve pricing power with vendors in the long term, and 3) improve synergy, leading to cost savings.

Best in class execution

Westside has clocked in high single digits of SSG every year over the past 10 years through its private label strategy, fast fashion model and strong control over supply chain. It has developed strong customer loyalty, which can be judged by sustained rise in footfalls of 2x, bill size CAGR of 7% and 2x increase in Clubwest members over FY17-22. Despite the pandemic inflicted two years, Westside maintained sales/sqft of Rs10k over the same period.

Growth lever: Zudio ready to capture value for money market

Zudio store count has gone fivefold from 40 to 233 and increased sales contribution to standalone operations from 8% to 27% (FY22 contribution is based on estimates) over FY19-22. Its core value proposition is fashionable merchandise at sharp pricing. Value fashion makes more than 75% of total apparels market in India. Everything at Zudio is priced below Rs999. We expect Zudio to ramp-up store base from 233 to 323 and sales to grow at CAGR of 41% to Rs19.9bn over FY20-24E.

Valuations

We expect Trent to open 145 new stores over the next two years and expect its standalone sales/EBITDA/PAT to grow at CAGR of 25/23/36% respectively over FY20-24E. We remain bullish on the business fundamentals of Trent and initiate with an Add rating and TP of Rs1280, valuing standalone (Westside and Zudio) operations and Zara at 33x EV/EBITDA FY24E while Star at 1.5x FY24E sales.

Financial and valuation summary

YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenues	34,860	25,930	44,980	71,119	85,484
EBITDA	5,440	1,719	5,739	9,739	12,121
EBITDA margin (%)	15.6	6.6	12.8	13.7	14.2
Adj. Net profit	1,060	(1,801)	620	2,883	4,286
Adj. EPS (Rs)	3.5	(4.1)	3.0	8.1	12.1
EPS growth (%)	18.4	nm	nm	172.4	48.7
PE (x)	349.8	nm	405.8	149.0	100.2
EV/EBITDA (x)	79.4	249.4	75.6	44.4	35.7
PBV (x)	18.0	18.6	18.2	16.5	14.4
RoE (%)	5.3	(7.7)	2.7	11.6	15.4
RoCE (%)	12.8	3.7	7.1	16.6	19.6

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Initiating Coverage

India I Retail

19 July, 2022

ADD

Price: Rs1,209

Target Price: Rs1,280

Forecast return: 6%

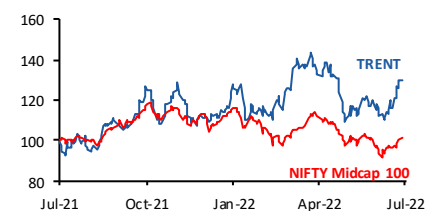
Institutional Research

Market Data

Bloomberg:	TRENT IN
52 week H/L:	1,347/838
Market cap:	Rs429.6bn
Shares Outstanding:	355.5mn
Free float:	63.0%
Avg. daily vol. 3mth:	682,213

Source: Bloomberg

TRENT relative to Nifty Midcap 100



Source: Bloomberg

Shareholding pattern

	Mar-22	Dec-21	Sep-21	Jun-21
Promoter	37.0	37.0	37.0	37.0
FIIs	28.3	28.9	30.1	30.3
DIIIs	13.0	12.0	10.7	10.3
Public/other	21.7	22.0	22.2	22.4

Source: BSE



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Thesis Snapshot

Centrum vs consensus

YE Mar (Rs bn)	Centrum FY23E	Consensus FY23E	Variance (%)	Centrum FY24E	Consensus FY24E	Variance (%)
Revenue	71,119	63,504	12.0	85,484	78,297	9.2
EBITDA	9,739	9,913	-1.8	12,121	12,851	-5.7
PAT	2,883	3,589	-19.7	4,286	5,387	-20.4
EPS	8.1	10.2	-20.6	12.1	15.4	-21.4

Source: Bloomberg, Centrum Broking

Trent versus NIFTY Midcap 100

	1m	6m	1 year
TRENT IN	15.8	3.5	38.9
NIFTY Midcap 100	9.8	(9.4)	2.8

Source: Bloomberg, NSE

Key assumptions

YE Mar	FY23E	FY24E
Westside – stores (x)	230	255
Westside – sales (Rs mn)	48,322	57,410
Zudio - stores	283	323
Zudio - sales	15,698	19,911

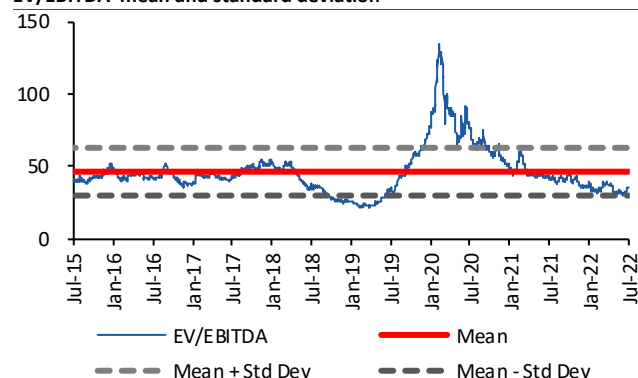
Source: Centrum Broking

Valuations

We initiate with ADD rating on the stock with TP of Rs1280. We value standalone operations (Westside and Zudio) and Zara ta 33x EV/EBITDA and Start at 1.5x sales of FY24 estimates. Current valuation is at 20% discount to 5-year average.

Valuations	Sales	EBITDA	Multiple	EV (Rsmn)
Standalone		12,911	33	420,245
Star (JV: 50%)	16,940		1.5	13,044
Zara (Associate: 49%)		3,921	33	62,830
Total				457,554
Net Debt				2,791
Market Cap				454,878
Shares o/s (mn)				355
TP (Rs/share)				1,280

EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap Rs mn	CAGR FY22-FY24E (%)			P/E (x)			EV/EBITDA (x)			ROE (%)		
		Sales	EBIDTA	EPS	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Trent	4,29,465	37.9	45.3	101.3	405.8	149.0	100.2	75.6	44.4	35.7	1.2	7.5	13.3
Aditya Birla Fashion & Retail	2,45,412	27.4	32.5	-	-	87.2	52.7	24.8	17.0	14.1	-4.0	10.1	13.6
Go Colors	54,047	37.1	46.5	79.2	148.6	69.1	46.3	43.8	27.1	20.4	16.7	22.3	26.3
Manyavar	2,69,695	22.2	17.2	21.2	85.2	71.5	58.0	51.2	45.5	37.3	29.0	32.0	32.0
Shoppers Stop	59,273	26.9	63.5	-	-	98.1	85.9	29.6	12.7	11.1	-48.0	36.8	54.2
TCNS Clothing	33,446	34.9	88.1	-	-	32.9	24.9	39.5	14.1	11.2	-0.9	15.1	17.2

Source: Company, Centrum Broking

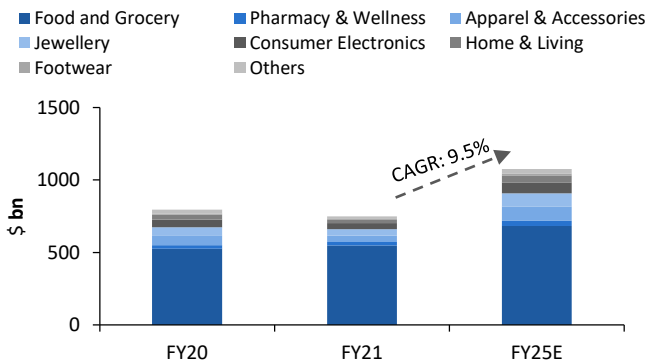
The Indian Retail Juggernaut

Indian retail – A Trillion dollar opportunity

India’s retail market is estimated at \$748bn in FY21. It is expected to grow at CAGR of 10% over next five years to reach USD 1.1tn by FY25 as per Biba DRHP April’22. The penetration of organized retail market is estimated at 12% in FY21 at USD 90bn and is expected to grow at 20% to \$21bn in FY25.

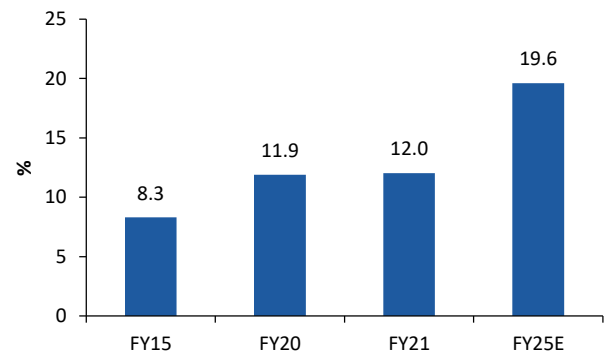
The transition from traditional retail to organized one is driven by changing consumer expectations, rising middle class households, higher disposable income and favourable demographic mix. Growth is expected to strengthen, with convenience of online shopping, an increase in mall culture in smaller towns and plethora of choices.

Exhibit 1: India’s retail market – a \$1tn opportunity



Source: Technopak Analysis, Biba DRHP April’22, Centrum Broking

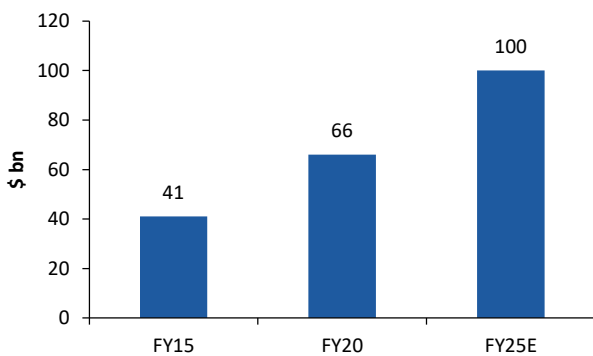
Exhibit 2: Organised retail contribution - 20% by FY25



Source: Technopak Analysis, Biba DRHP April’22, Company, Centrum Broking

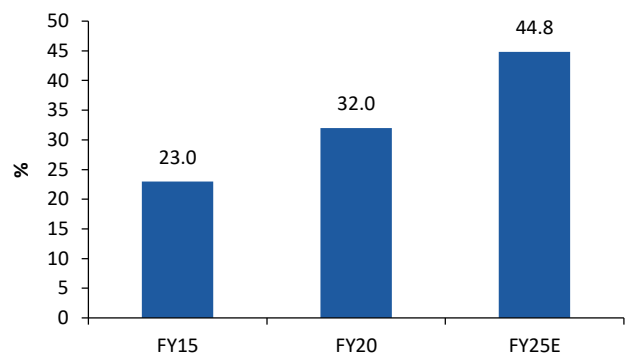
Indian apparel & accessories retail market stood at \$66bn in FY20 and is expected to grow at CAGR of 9% to \$100bn by FY25. Share of unorganized retail is expected to decline from 68% to 55% over FY20-25. The decline in unorganized market will be on account of increased share from organized Brick & Mortar (B&M) and e-commerce channel.

Exhibit 3: India’s apparel retail – a \$100bn opportunity



Source: Technopak Analysis, Biba DRHP April’22, Centrum Broking

Exhibit 4: Organised apparel retail - 45% by FY25



Source: Technopak Analysis, Biba DRHP April’22, Company, Centrum Broking

Journey from Unorganized, Unbranded to Organized, Branded

Till 1995, organized apparel retail was synonymous with Exclusive Branded Outlets (EBOs) of handful of apparel retailers. Brands such as Van Heusen, Arrow, Raymond, Vimal and Bombay Dyeing signified organized apparel retailing. Biba and Fab India created ethnic category in organized retailing back in early 1990s. From 1995 – 2000s Shopper’s Stop, Westside, Pantaloons created the concept of selling through Large Format Stores (LFS). Period from 2000-15 was marked by bifurcation of apparel retailing into specialized groups such as India, Casual, Sportswear, Daily wear and Denim wear. Existing retail players expanded their retail footprint during this period. The current phase of 2016 and onwards represents distinct segmentation of channels of organized retail for apparel. EBOs have emerged as a core channel for branded apparels. During this period value for money retailers such as VMART, Max Fashion, fbb registered better growth and tried to bridge the gap for the aspiring consumers residing in tier II/III towns of India. E-commerce as a channel has picked up pace over last 3-4 years.

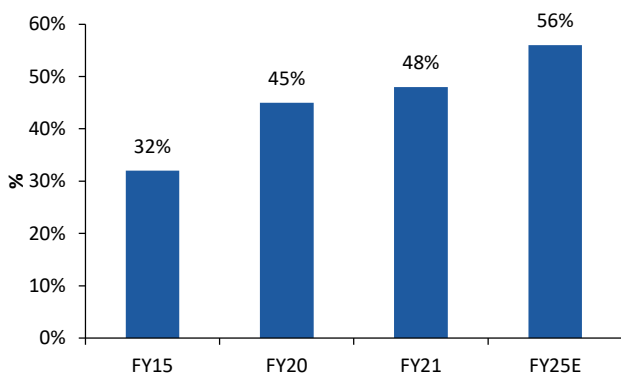
Exhibit 5: Organized Apparel Retail’s Evolution in India



Source: Technopak Analysis, Biba DRHP April’22, Centrum Broking

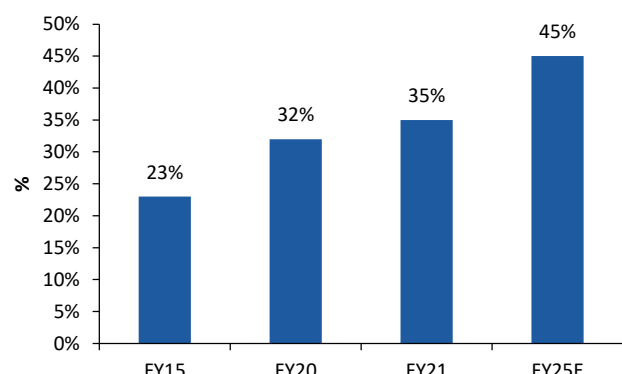
Given the organized apparel retail (includes sales from EBOs, MBOs, LFS and E-commerce) largely sells branded apparel, the growth of organized retail is poised to be a key growth enabler for growth of branded apparel (registered trademarks and are regularly patronized by the customers and sold through organized retail and trade channels). Branded apparel’s contribution is expected to go up from 32% in FY20 to 45% in FY25.

Exhibit 6: Share of branded apparel to grow



Source: Technopak Analysis, Biba DRHP April’22, Centrum Broking

Exhibit 7: ...with increase in Organised apparel retail



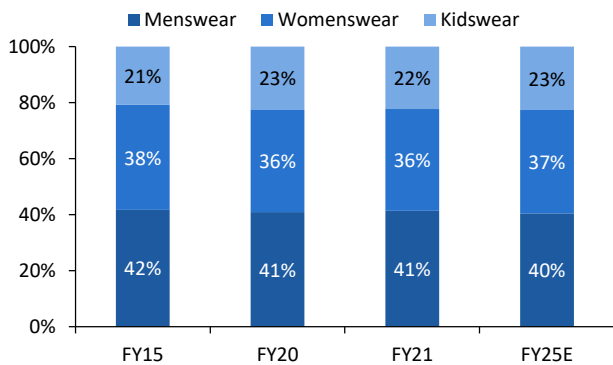
Source: Technopak Analysis, Biba DRHP April’22, Company, Centrum Broking

Western wear for Men and Indian wear for Women

Men’s apparel constituted ~41% and Women apparel share was estimated to be ~36% of the total apparel market in FY 2020. The balance ~23% is contributed by kids’ apparel. Out of the total apparel market, Indian wear accounted for approximately 31% or Rs1.4Lcr (\$19bn) and the balance 69% of the market comprised of western wear in FY20. The high

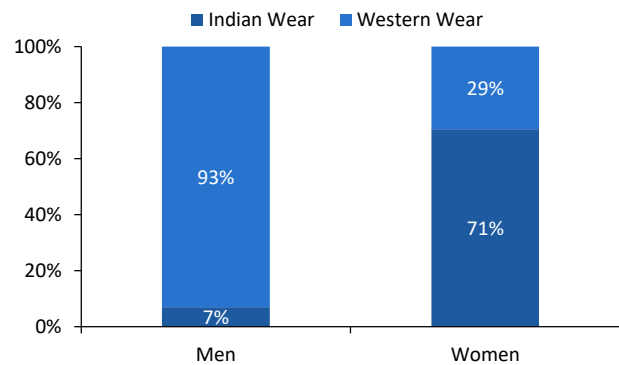
share of Indian wear in the total apparel is a unique feature of apparel market in India. In women wear market, Indian wear contributed ~71% to the total market and is expected to be the fastest growing segment in Indian Apparel market. However, for men and kids, the contribution of western wear is significant. For men’s Indian wear accounts more mere 7%.

Exhibit 8: Men category largest among three in apparel



Source: Technopak Analysis, Biba DRHP April’22, Centrum Broking

Exhibit 9: Western wear for Men’s and Indian for Women



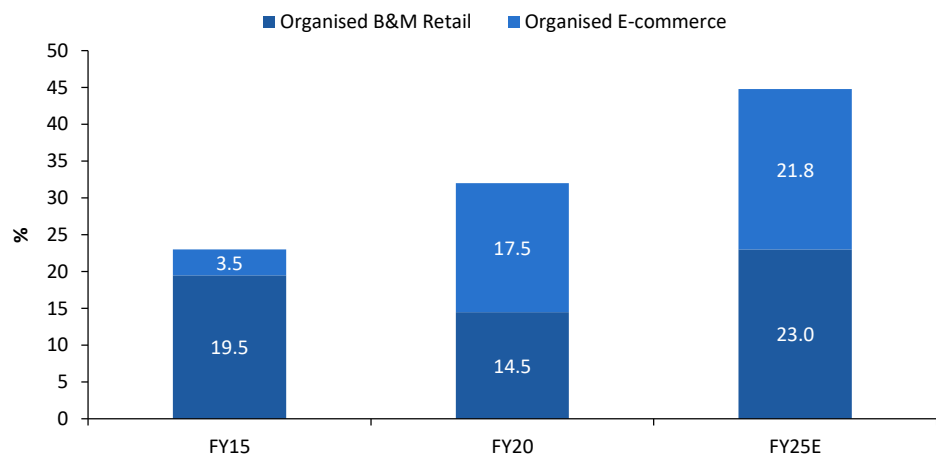
Source: Technopak Analysis, Biba DRHP April’22, Company, Centrum Broking

The disproportionate size of Indian wear in womenswear is an outcome of the distinct positioning of Indian wear for women compared to that for men in India. For Indian women, Indian fashion is a mainstream need for daily wear use (in addition to strong occasion wear) whereas for men it is currently restricted to occasion wear viz. weddings and festivals. Within Indian wear for kids, Indian wear for boy’s accounts for 7% of overall apparel for boys, while Indian wear for girls is ~21% of the overall apparel market for girls.

EBOs and E-commerce - key channels for apparel retailing

The organized apparel retail market was ~32% of the total apparel market in India in FY20. Organized B&M was 14.5% while organized e-commerce was 17.5% of the total apparel retail. The organized market share is expect to inch up from 32% in FY20 to 45% by FY25, with organized B&M making up 23% and e-commerce making up 22% of the total.

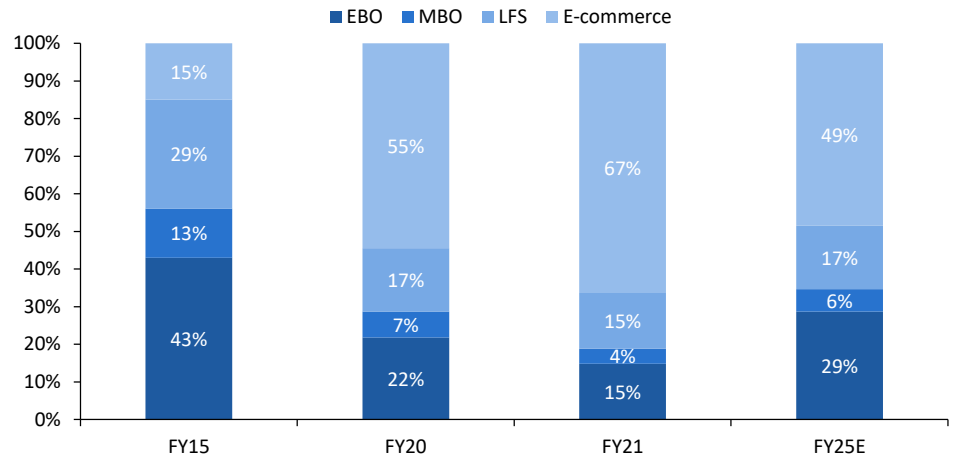
Exhibit 10: Organized Apparel Retail to reach 45% in FY25



Source: Technopak Analysis, Biba DRHP April’22, Centrum Broking

The share of sales from EBOs in total organized apparel retail is expected to increase from 22% in FY20 to 29% in FY25. The share of LFS will remain same at 17%.

Exhibit 11: E-commerce and EBOs – key channels in organized apparel retail



Source: Technopak Analysis, Biba DRHP April'22, Centrum Broking

Company Description

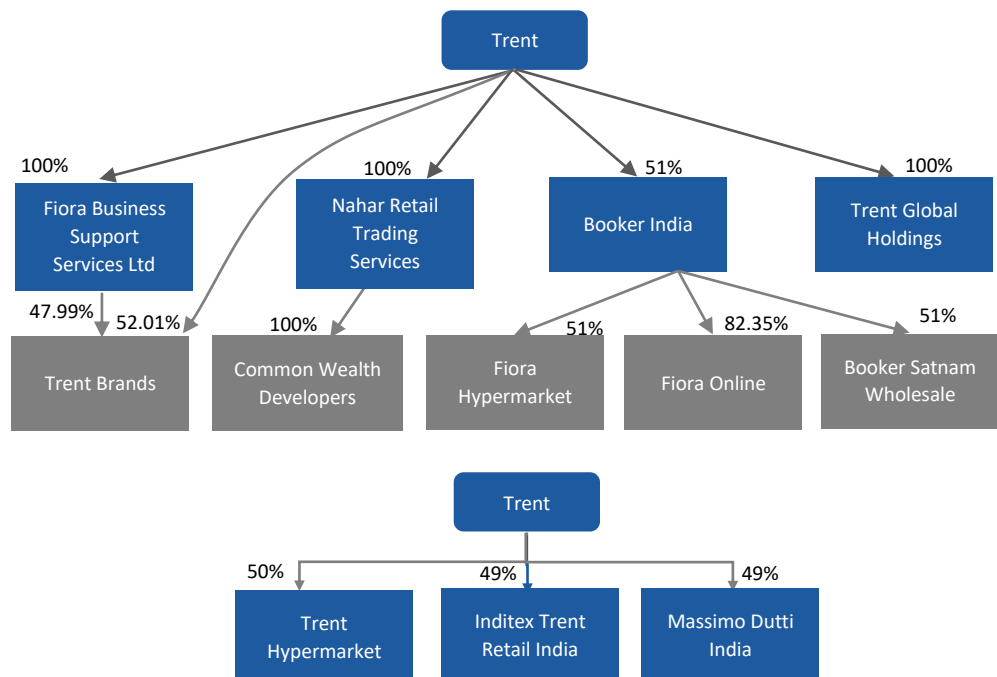
Established in 1998 and part of the Tata Group, Trent is headquartered at Mumbai with pan-India operations. The company is one of the leading players in the branded retail industry in the country. It primarily operates stores across five formats – *Westside*, *Zudio*, *Landmark*, *Utsa* and *Star*. *Westside* offers an exclusive range of its own branded fashion apparels and is the mainstay of the company’s retail business. It has already established 200 *Westside* stores across 89 cities, measuring on an average 20k sqft. *Zudio* offers fashion at good prices. The company has established 233 *Zudio* stores across 89 cities, with an average store size of 7k sqft. *Star Bazaar* is a fresh food and grocery retail chain, operating 53 supermarkets and 8 hypermarkets concentrated in Bengaluru, Hyderabad, Mumbai and Pune. Apart from this, *Fiora Hypermarket* (FHL), a subsidiary of Trent, operates 2 *Star Hypermarket* and 7 *Star Market* stores clustered in Ahmedabad and Surat. In FY22, *Star* opened 12 new stores across THPL and FHL. *Landmark*, a family entertainment concept, operates through four independent stores and retails through nine select *Westside* locations. The company also runs six *Utsa* stores offering ethnic apparel, beauty products and accessories. Trent also has financial investments in *Zara* and *Massimo Dutti*.

Exhibit 12: Different store concepts



Source: Company, Centrum Broking

Exhibit 13: TRENT corporate structure



Source: Company, Centrum Broking

Exhibit 14: Key Managerial personnel

Name	Designation	Qualification	Commencement	Age
Mr. N N Tata	Chairman	Bachelor's degree	1997	65
Mr. P. Venkatesalu	Executive Director, CEO	MBA, Symbiosis	2008	-
Mr. Neeraj Basur	CFO	C.A., C.S.	2022	52
Mr. M. M. Surti	Company Secretary	C.S.	2009	-

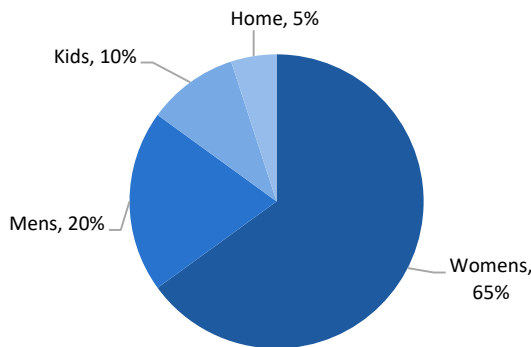
Source: Company, Centrum Broking

Investment Thesis

Westside: well-executed retail model

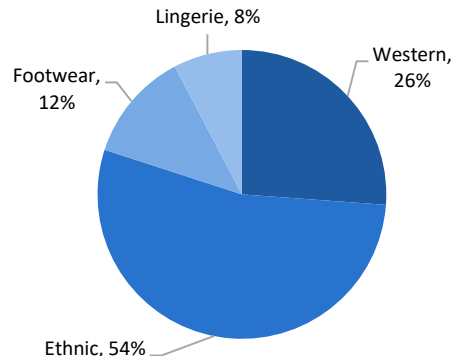
Westside accounts for ~73% of TRENT’s standalone sales and ~63% of consolidated sales in FY22. Westside is positioned as an aspirational retailer selling its own brands, with strong focus toward female consumers. It has 25 brands that are all designed in-house. Women contribute ~65% to total of Westside sales while men contribute 20%, children at 10% and the home category makes up the remaining 5% of sales as per our channel checks.

Exhibit 15: Women category contributes most



Source: Centrum Broking

Exhibit 16: Ethnic wear – a key category in women



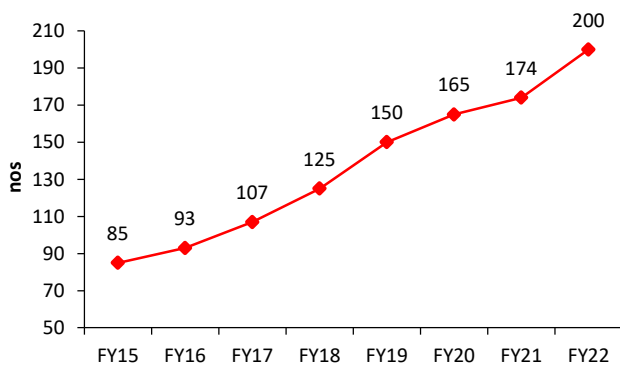
Source: Centrum Broking

Westside, unlike other retailers, treaded store expansion cautiously. In India, several retailers focus on store expansion and revenue growth, although it comes at the cost of profitability. With a 1.3bn population, the retail segment looks too profitable to ignore. However, if consumer choices of that region are not well understood and if expansion is not well managed, retailer runs into inventory risk, low profitability, high debt, low inventory turns and weak ROCE.

Over FY09-16, Westside opened an average of 10 stores each year. The company tried and tested economics of the store and then only went ahead with store expansion. This has led to lower store closure (which is a costly affair), better sales/sqft & EBITDA/sqft and healthy ROCE. Over FY16-22 pace of expansion increased. Over FY16-22 Westside store count more than doubled from 93 to 200. We estimate 25-30 new store openings year on year for next three years at least.

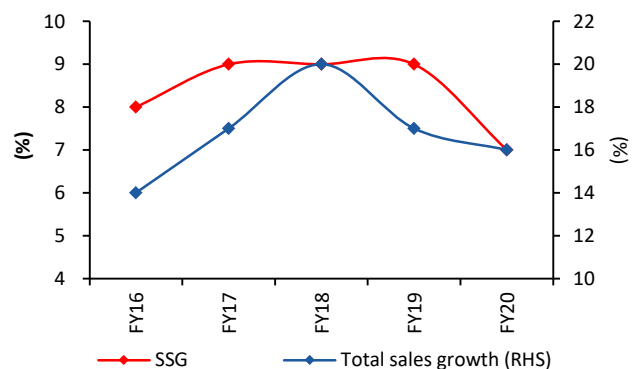
Despite rapid store expansion, Westside is able to maintain its consistent SSG growth rate. We believe the consistency in SSG in Westside is on account of – sharp execution, higher contribution from private label and increasing loyal customer base.

Exhibit 17: Aggressive expansion in recent past



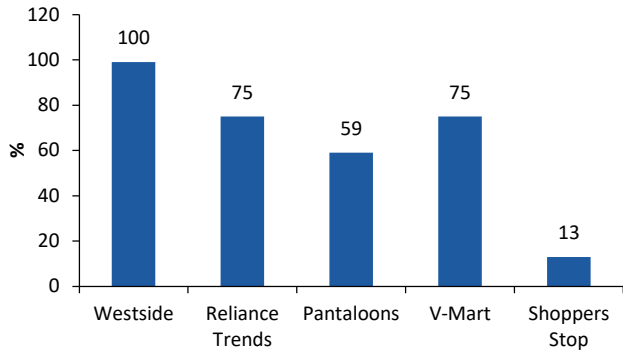
Source: Company, Centrum Broking

Exhibit 18: ...and yet maintaining healthy SSG growth



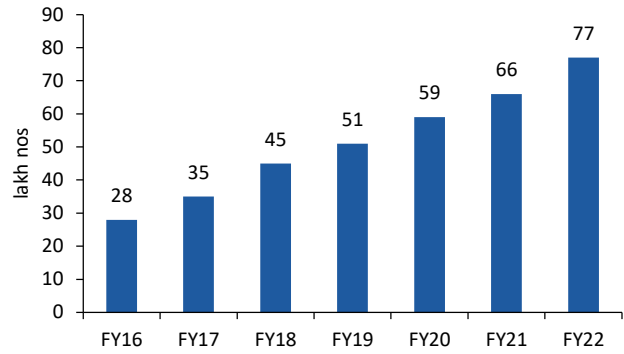
Source: Company, Centrum Broking

Exhibit 19: Highest contribution from private labels



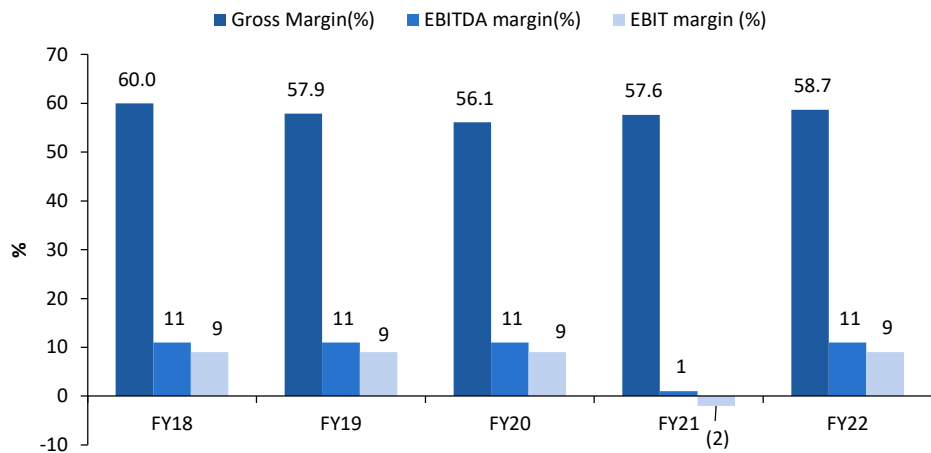
Source: Company, Centrum Broking

Exhibit 20: 2.5x+ Clubwest members over FY16-22



Source: Company, Centrum Broking

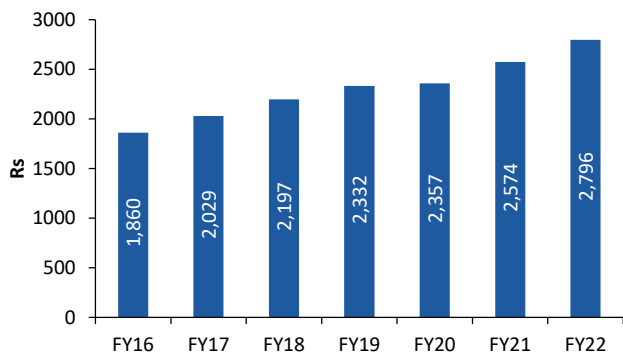
Exhibit 21: Westside margins steady



Source: Company, Centrum Broking

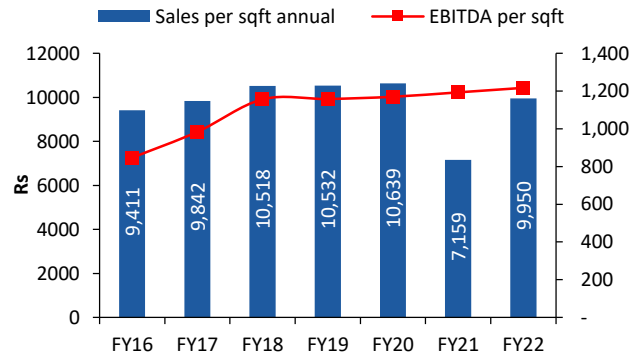
Westside has consistently improved upon its key retail metrics over a long period of time. Effective utilization of retail space has to be key endeavours of retailers. Per sqft metric is the key one to judge retailers' performance. Westside regularly assesses stores in terms of revenue and revisits space allocated to brands with differentiated performance.

Exhibit 22: Bill size CAGR of 7% over FY16-22



Source: Company, Centrum Broking

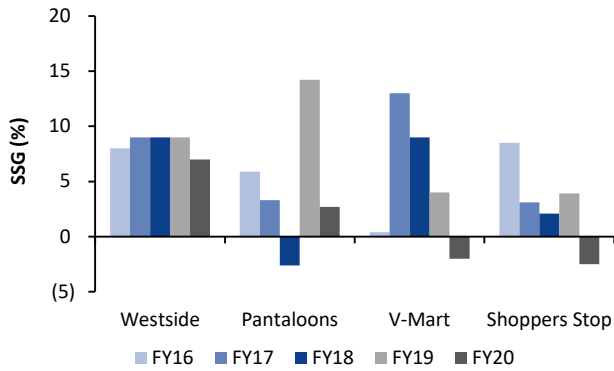
Exhibit 23: Stable sales per sqft metric over FY16-22



Source: Company, Centrum Broking; Note: FY21 was impacted led by COVID

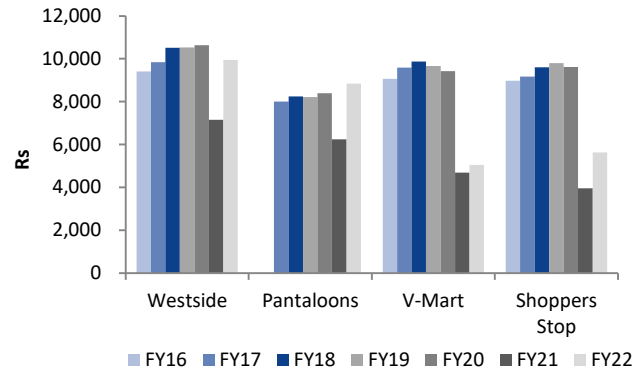
Westside has been one of the rare successes, especially among urban retailers. What separates it from the rest is its ability to consistently grow at the SSG level. Over last 10 years Westside has grown its SSG at high single digits every year. Led by the private label strategy, Westside sales per sqft also has been industry-leading. Not only that, it has improved every year over the past five years.

Exhibit 24: Ahead of peers in terms of SSG consistency



Source: Company, Centrum Broking; Note: FY21 data not available for Westside

Exhibit 25: Best in class sales per sqft

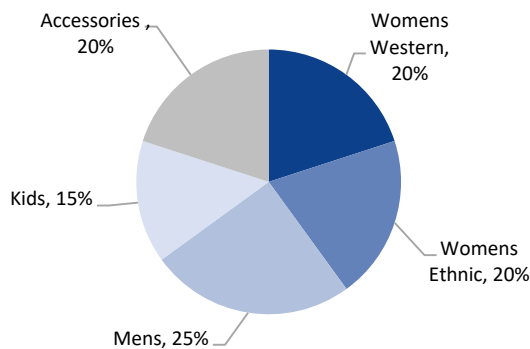


Source: Company, Centrum Broking; Note: FY21/22 data impacted due to pandemic

Zudio: growth driver in medium term

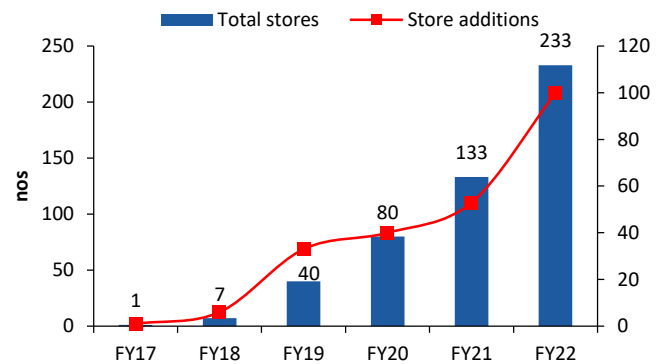
Zudio addresses consumers who are value conscious, but aspire to be fashionable. The merchandise in its stores is fresh, colorful and vibrant, appealing to the youth. Over the past five years, since its inception, the company has set up 233 *Zudio* stores across India. During FY22, it added 100 stores.

Exhibit 26: Women wear remains key focus area



Source: Company, Centrum Broking

Exhibit 27: Store expansion spree over FY17-22



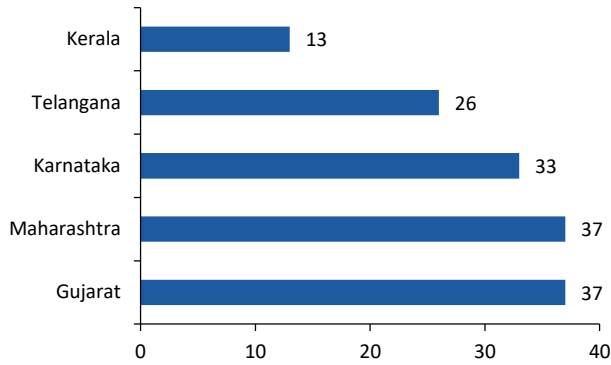
Source: Company, Centrum Broking

Management says cost is not a decisive factor in fast fashion unlike in a commodity or a grocery business. It is relatively easy to raise prices in fast fashion. And, since the company can raise prices, it can spend a lot too to keep up with the market share. However, once the threshold price is reached, women think price to be irrational. Several brands fail when they are unable to raise prices. Hence, in fast fashion, it is not the ability to raise prices but keeping price points sharp that are critical for growth sustainability.

One key value proposition for *Zudio* has been 100% private label offering with current fashion trends and sharp price points. Our channel checks suggest merchandise in *Zudio* is priced below Rs999. Approximately 75% of men and women’s merchandise is priced below Rs599 while ~80% of children’s merchandise is below Rs299. Average selling price (ASP) remains flat over the past three years, and the company manages to sell at half the price points of its competitor, *Fab India*.

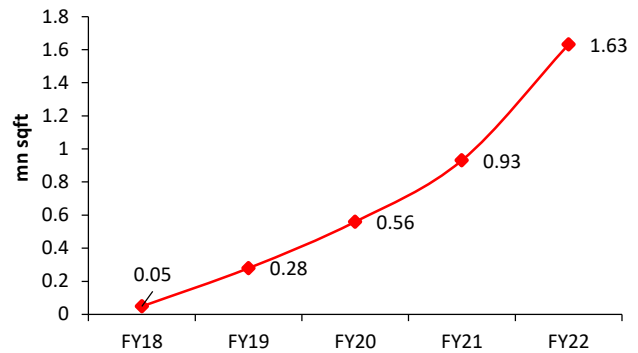
Apart from sharp price points, since *Zudio* is pitched toward the youth, it is critical to be closely synchronized with evolving trends. Hence, minimizing lead times and landing fashion collection fast into stores has been key areas of focus.

Exhibit 28: Top five states for Zudio



Source: Company, Centrum Broking

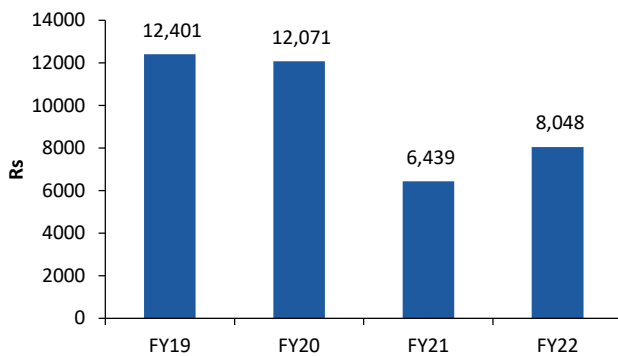
Exhibit 29: Sharp uptick in retail footprint



Source: Company, Centrum Broking

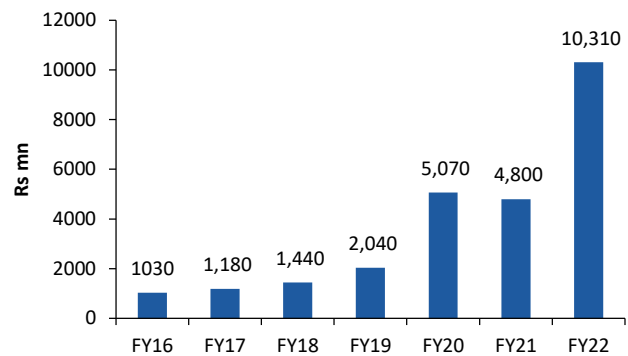
Zudio average store size has been in the range of 6,000-8,000 sqft, with expansion across several micro markets. It has expanded its stores across West India, primarily in Maharashtra & Gujarat and in South India across Karnataka, Telangana and Kerala. Our channel checks suggest the company has specifically avoided North India to date. It only has a presence in Punjab and Bihar, with two stores each. One key reason has been these regions face strong winters, and, hence, winter merchandise remains a key. However, since the shelf life of winter merchandise is limited, there lies huge inventory risk.

Exhibit 30: Moderation in sales/sqft due to pandemic



Source: Company, Centrum Broking; Note: FY21 impacted on account of COVID

Exhibit 31: 10x sales in Zudio over FY16-22



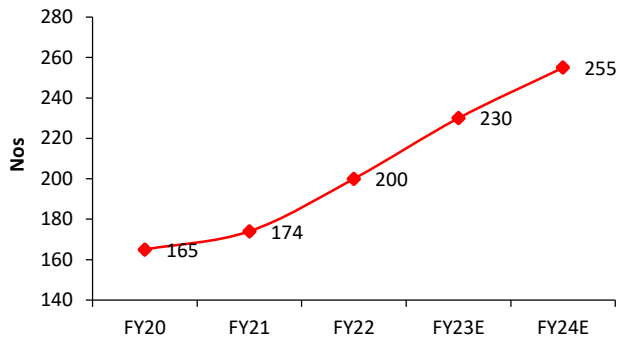
Source: Company, Centrum Broking; Note: FY22 sales number not disclosed yet

Zudio standalone stores have been in operations since FY17 and yet the company has delivered on key retail metrics. Despite being a Tata company, it has strategically kept its association with the Tata brand separate. Zudio, unlike Westside, is not on being marketed as a Tata brand. This was a conscious decision taken by management. Management believes Tata's brand image is perceived as something, which is trustworthy, safe and consistent. These qualities are required in banking or in the jewelry business. However, in case of fast fashion, these are not key parameters. Zudio is expected to surprise customers every time they enter the stores. The stores are more vibrant with colorful merchandise. TRENT does not pay anything for advertising Zudio stores. It relies on word of mouth publicity. Despite no advertisements, Zudio has been able to grow at a rapid pace, which speaks volumes about sustainability of the business model and management's execution skills.

Aggressive retail footprint expansion

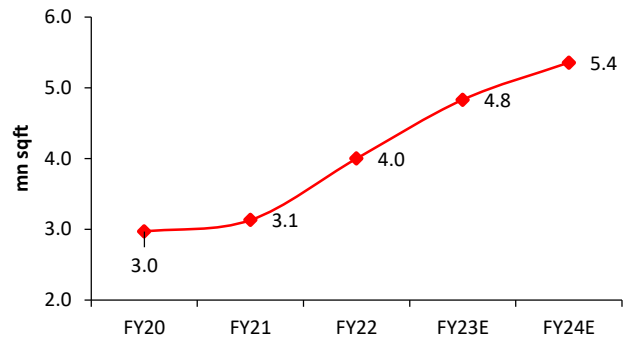
Trent management had guided for aggressive retail footprint expansion since FY19. However, on account of pandemic the expansion slowed down dramatically in FY21. But starting FY22, the company has again picked up the pace of store expansion. During the pandemic, strong brands with healthy balance sheet have started expanding aggressively. Regional or smaller retailers with weak balance sheet suffered while big brand retailers such as Trent, Go Colors, Shoppers Stop, ABFRL and TCNS have benefitted during the pandemic.

Exhibit 32: Store expansion in Westside



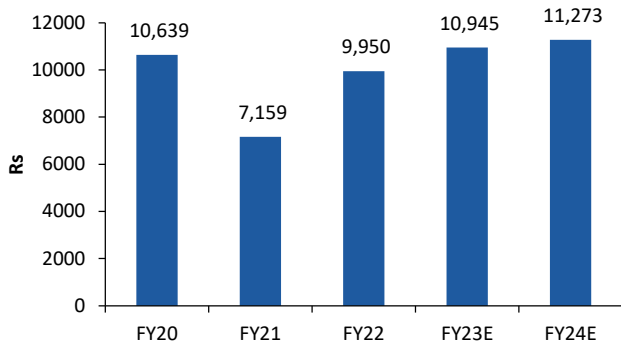
Source: Company, Centrum Broking

Exhibit 33: Westside retail space to increase by 35%



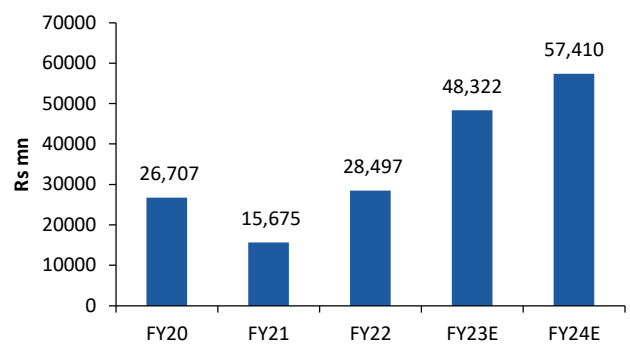
Source: Company, Centrum Broking

Exhibit 34: Improvement in sales/sqft FY20-24E



Source: Company, Centrum Broking

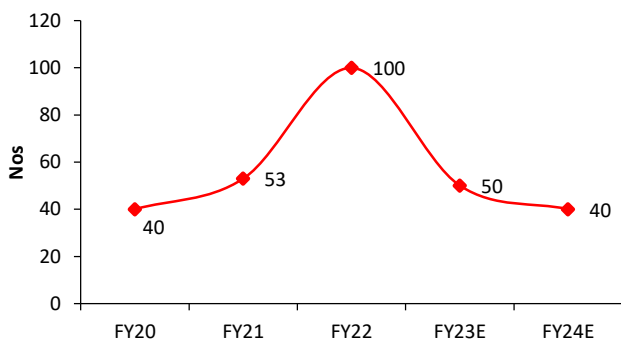
Exhibit 35: Westside sales CAGR of 21% over FY20-24E



Source: Company, Centrum Broking

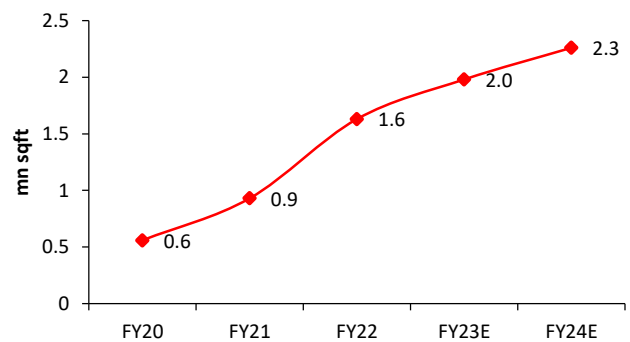
Apart from Westside, Zudio store expansion too will continue at aggressive pace. We expect Zudio store count to increase from 233 to 323 over FY22-24E. We also estimate sales/sqft in Zudio stores to improve at CAGR of 8% over the similar time frame. Led by store expansion and sales/sqft we estimate Zudio sales to almost double to Rs19.9bn over FY22-24E.

Exhibit 36: Healthy new store openings of Zudio



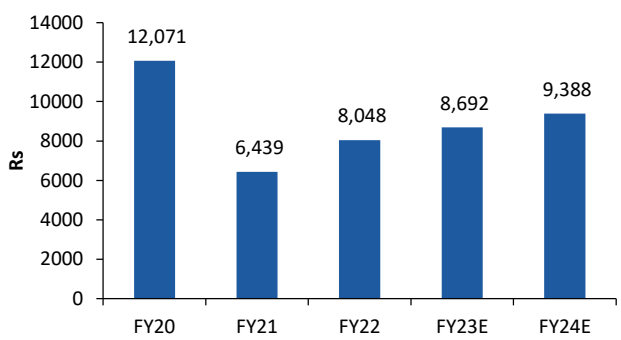
Source: Company, Centrum Broking

Exhibit 37: ...driving the retail footprint expansion



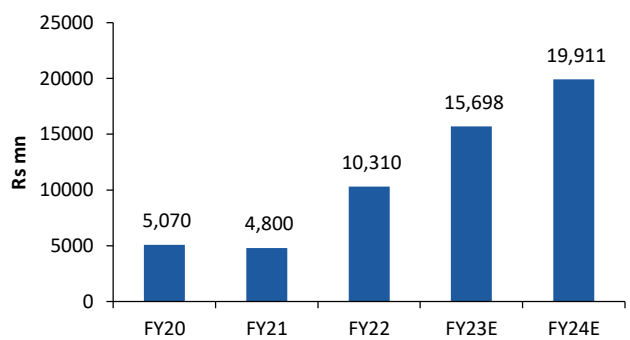
Source: Company, Centrum Broking

Exhibit 38: Gradual improvement in sales/sqft at Zudio



Source: Company, Centrum Broking

Exhibit 39: Zudio sales to almost grow 4x over FY20-24E



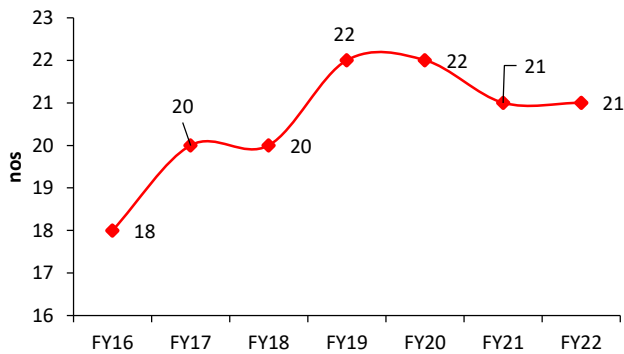
Source: Company, Centrum Broking

Zara to offset losses from Star

Zara brand’s popularity to continue

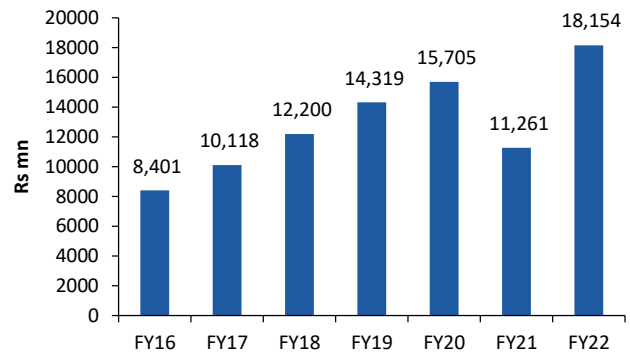
TRENT has two separate associations with the Inditex Group of Spain with a shareholding of 51% Inditex: 49% TRENT. One entity operates Zara stores while the other Massimo Dutti stores in India. The two entities essentially facilitate distribution of Zara and Massimo Dutti products in India through their respective stores. The entity for Zara stores currently operates 21 outlets in Delhi, Mumbai, Bengaluru, Pune, Surat, Jaipur, Chandigarh, Chennai, Mohali, Hyderabad, Kolkata and Gurugram. The entity for Massimo Dutti operates three stores.

Exhibit 40: Zara store count over FY16-22



Source: Company, Centrum Broking

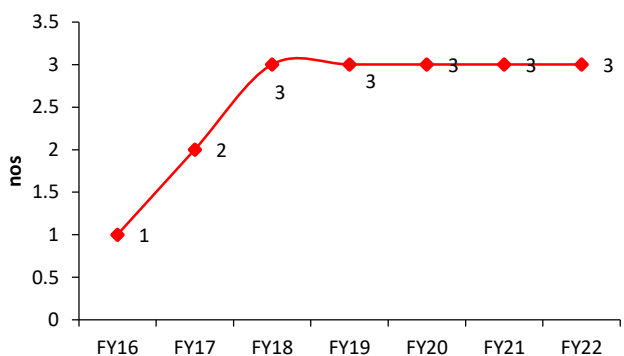
Exhibit 41: Zara sales CAGR 14% over FY16-22



Source: Company, Centrum Broking; Note: FY21 sales impacted due to COVID

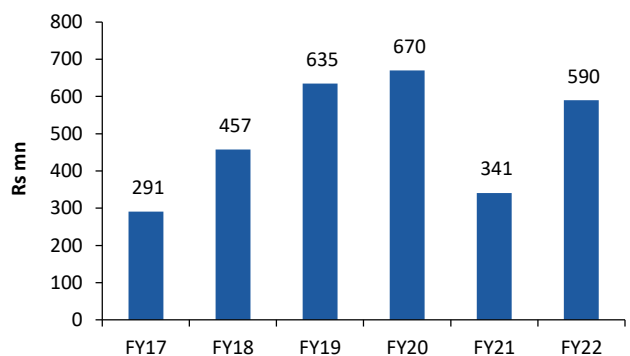
The two entities are required to source merchandise only from the Inditex Group. Also, the choice of product is at Inditex Spain’s discretion. Entities are dependent on the Inditex Group for permissions to use the said brands in India subject to terms and specifications. Brand ownership and arrangement for merchandise supply (with the majority partner entirely controlling core customer propositions and terms thereto), TRENT views its related commitments as a financial investment.

Exhibit 42: Massimo store count remains subdued



Source: Company, Centrum Broking

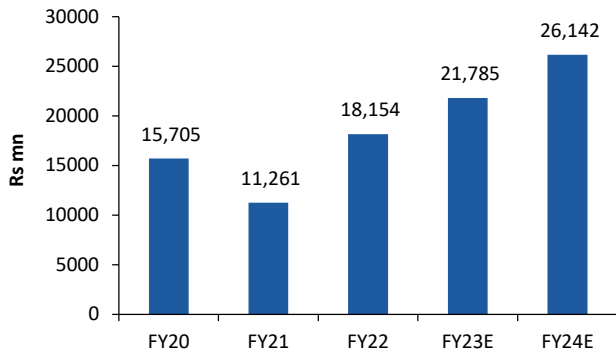
Exhibit 43: Massimo’s sales CAGR at 15% over FY17-22



Source: Company, Centrum Broking; Note: FY21 sales impacted due to COVID

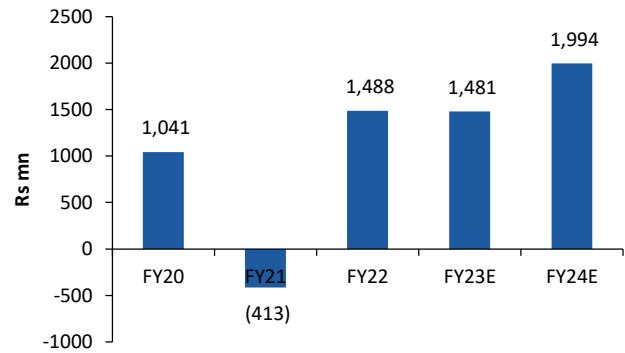
Although both entities are financial investments for TRENT, we believe it will continue to add to profitability over the next three years. Profitability from *Zara* would largely offset losses from *Star-Tesco JV*.

Exhibit 44: Zara’s sales CAGR 14% over FY20-24E



Source: Company, Centrum Broking

Exhibit 45: Zara’s PAT CAGR at 18% over FY20-24E

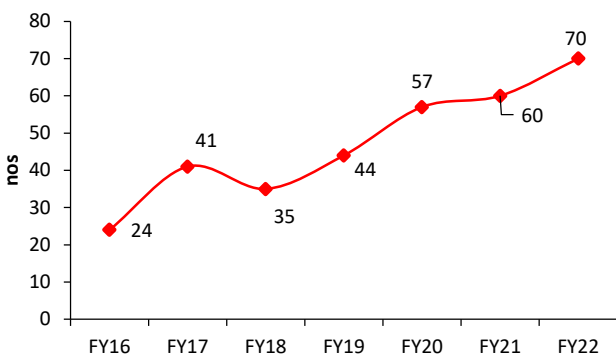


Source: Company, Centrum Broking

Star caters to customer’s FMCG needs

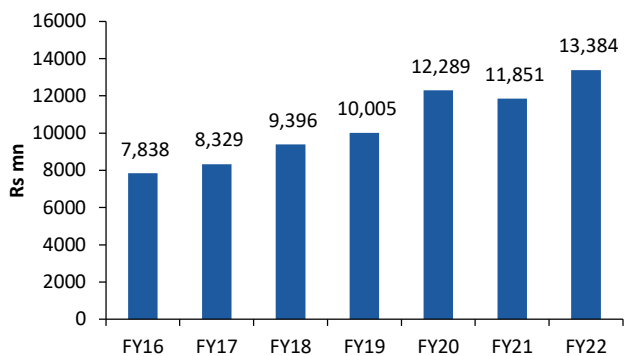
Star stores are primarily operated by Trent Hypermarket (THPL), a 50:50 JV between TRENT and Tesco Plc UK. The portfolio comprises hypermarket and supermarket stores focusing on categories, such as food & groceries, home care, apparels, home decor and health & beauty products. The current portfolio of 61 stores comprises 8 Star Hyper and 53 Star Market. Stores primarily concentrated in Bengaluru, Hyderabad, Mumbai and Pune. In addition, Fiora Hypermarket (FHL), a subsidiary of the company, operates two Star Hyper and seven Star Market stores primarily at Ahmedabad and Surat.

Exhibit 46: Star’s store count ~3x over FY16-22



Source: Company, Centrum Broking

Exhibit 47: Star’s sales CAGR of 9% over FY16-22



Source: Company, Centrum Broking

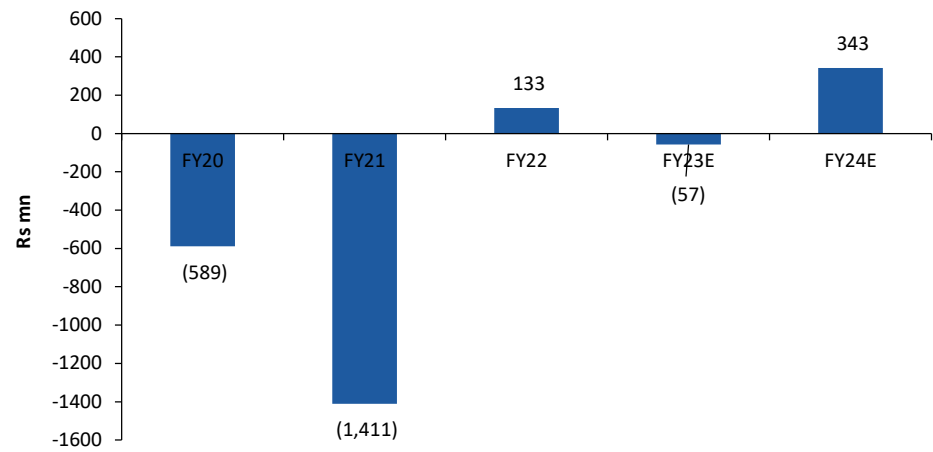
Starquik, the online grocery portal, is witnessing encouraging customer traction in micro markets addressed, as per management. The business is tightly integrated with stores bringing omni-channel convenience for the customer. Management intent is to scale up omni-channel operations over time.

...yet Star will continue to incur losses

Although Star has delivered a revenue CAGR at 10% over FY17-22, it is yet to become profitable. Star (Trent Hypermarket) witnessed encouraging traction in FY20, with revenue growing by 23% at Rs12.3bn YoY, aided by 13 new store additions and strong like-to-like (LFL) growth of 9.9%, but losses widened from Rs0.9bn in FY19 to Rs1.6bn in FY20 on the back of sharp pricing, lower other income and accounting change following adoption of the Ind AS 116 standard. After showing improvement in performance in FY21 (narrowed losses to Rs0.9bn), Star’s losses widened back to Rs1.4bn in FY22.

Although Star commands average gross margin of approximately 20% over FY16-22, we believe higher other expenses will continue over the next three years. Unless TRENT is able to manage overhead, it will continue to incur losses until FY24, according to our analysis.

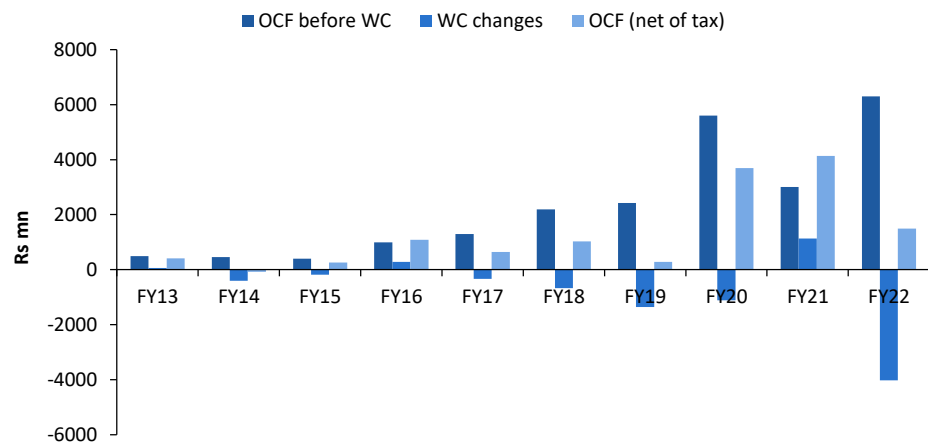
Hence, although Zara may continue to grow over FY20-24E, we believe profit from Zara will get offset by losses from Star.

Exhibit 48: JV/Associates to contribute to profits by FY24E

Source: Company, Centrum Broking

Sharply improving cash flow from operations (Standalone)

Exhibit 49: Healthy OCF generation, grew 13x over the decade



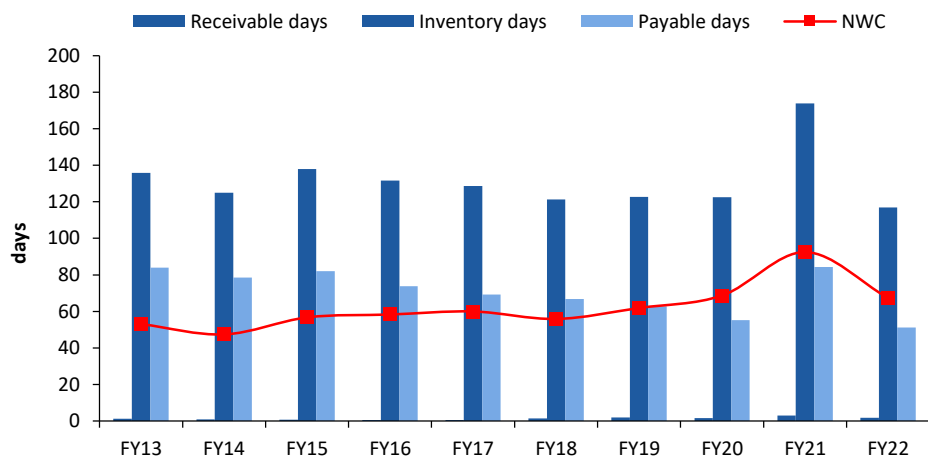
Source: Company, Centrum Broking

Trent’s profitability and cash flows have grown throughout the decade multiplying by 13 times from low base. It witnessed significant uptick in the recent years growing nearly 5x in the last 5 years. Working capital movement has been range bound.

Stable cash conversion cycle

Westside and Zudio’s significant increase in operations kept inventory days high in the range of 120-130 days. Payable days also fell slightly to 55-65 days from range of 75-85 days in first half of the decade. As a result, Net working capital (NWC) days normalized to 60-70 days from marginally lower levels. Retail model helps receivable days to remain negligible strengthening the cash conversion cycle.

Exhibit 50: Cash conversion cycle remained stable over 10 years

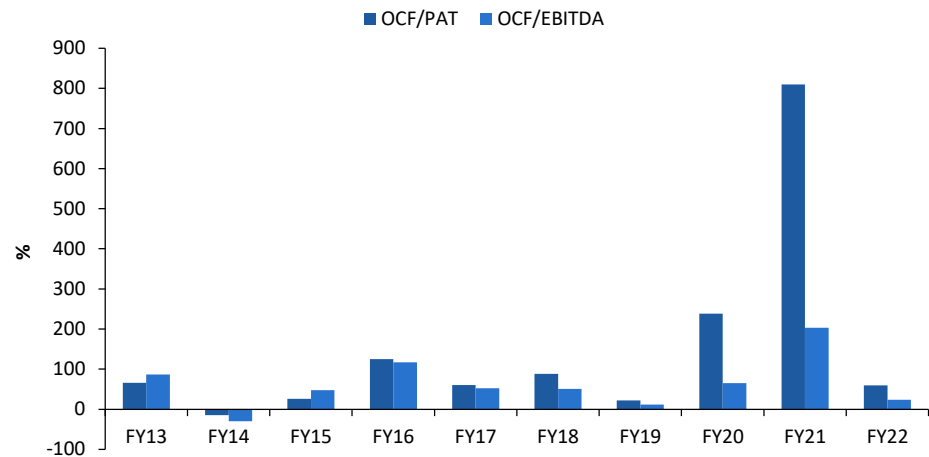


Source: Company, Centrum Broking

Conversion of OCF to EBITDA

Conversion of OCF to EBITDA and PAT has been positive though fluctuating over the decade especially in second half of the decade. This is majorly due to the significant growth witnessed during that period. The conversion ratios are expected to stabilize going ahead.

Exhibit 51: Positive EBITDA to OCF conversion though not yet stabilized

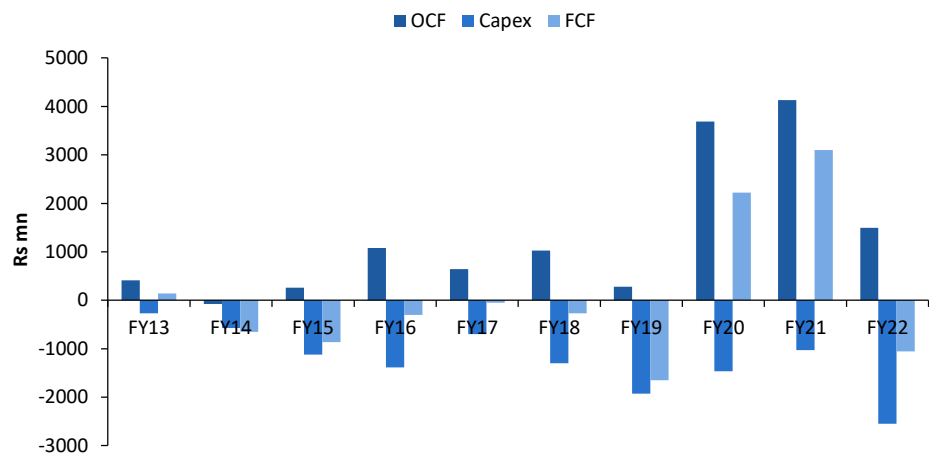


Source: Company, Centrum Broking

FCF generation picking up pace

Increasing capex and lower cash flows in the first half of decade kept FCF under pressure. As the capex paid off in the second half of decade with strong growth and cash flows, FCF generation entered the positive territory. Capex intensity has only been increasing over the decade restricting FCF growth though it is gaining traction and has scope for further improvement. As a result, cumulative FCF generation over last 10 years stood at Rs615mn.

Exhibit 52: Increasing capex intensity restricted FCF generation

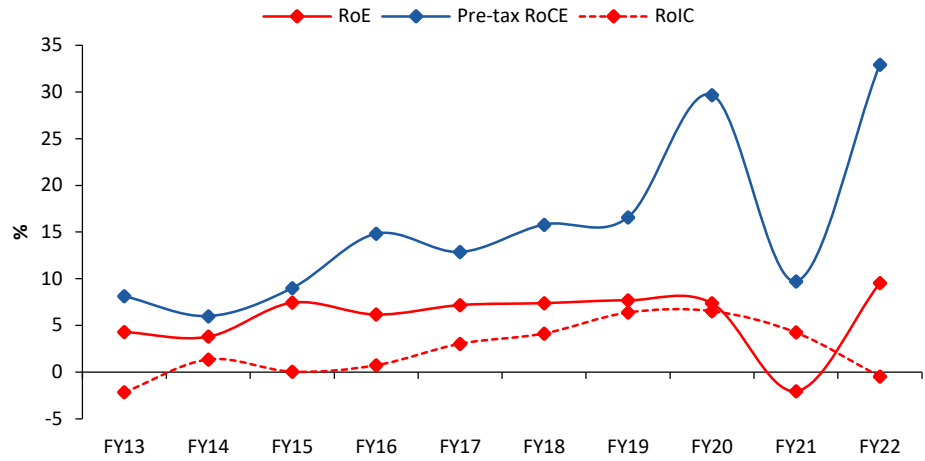


Source: Company, Centrum Broking

Return ratios improving gradually

Return ratios were impacted by Covid in FY21. As a result, over the last five years, average Pre-tax RoCE for Trent stood at 21% and RoE at 6%. Return on Invested Capital (RoIC) on average over FY18-22 stood at 4%.

Exhibit 53: Further scope for improvement in return ratios



Source: Company, Centrum Broking

P&L					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Revenues	34,860	25,930	44,980	71,119	85,484
Operating Expense	18,818	15,340	24,815	38,897	46,403
Employee cost	3,585	3,019	3,990	5,156	6,445
Others	7,018	5,852	10,437	17,327	20,516
EBITDA	5,440	1,719	5,739	9,739	12,121
Depreciation & Amortisation	2,472	2,573	3,108	3,397	3,779
EBIT	2,967	(854)	2,631	6,342	8,342
Interest expenses	2,458	2,487	3,047	3,079	3,432
Other income	1,445	2,016	1,752	1,028	1,047
PBT	1,954	(1,325)	1,335	4,291	5,956
Taxes	590	(237)	766	1,365	1,821
Effective tax rate (%)	30.2	17.9	57.4	31.8	30.6
PAT	1,364	(1,088)	569	2,926	4,135
Minority/Associates	(304)	(714)	51	(43)	151
Recurring PAT	1,060	(1,801)	620	2,883	4,286
Extraordinary items	0	(10)	(274)	0	0
Reported PAT	1,060	(1,811)	346	2,883	4,286

Ratios					
YE Mar	FY20A	FY21A	FY22A	FY23E	FY24E
Growth (%)					
Revenue	32.5	(25.6)	73.5	58.1	20.2
EBITDA	138.9	(68.4)	233.8	69.7	24.5
Adj. EPS	18.4	nm	nm	172.4	48.7
Margins (%)					
Gross	46.0	40.8	44.8	45.3	45.7
EBITDA	15.6	6.6	12.8	13.7	14.2
EBIT	8.5	(3.3)	5.8	8.9	9.8
Adjusted PAT	3.0	(6.9)	0.9	4.1	5.0
Returns (%)					
ROE	5.3	(7.7)	2.7	11.6	15.4
ROCE	12.8	3.7	7.1	16.6	19.6
ROIC	5.9	(1.4)	1.6	6.0	7.7
Turnover (days)					
Gross block turnover ratio (x)	3.7	2.6	3.9	5.4	5.9
Debtors	2	3	2	1	1
Inventory	107	123	95	93	96
Creditors	53	68	48	46	52
Net working capital	127	92	92	64	55
Solvency (x)					
Net debt-equity	0.1	0.0	0.2	0.1	0.1
Interest coverage ratio	2.2	0.7	1.9	3.2	3.5
Net debt/EBITDA	0.4	(0.5)	0.7	0.3	0.2
Per share (Rs)					
Adjusted EPS	3.5	(4.1)	3.0	8.1	12.1
BVPS	67.2	65.1	66.5	73.1	83.7
CEPS	9.9	2.2	10.5	17.7	22.7
DPS	1.5	1.0	1.2	1.5	1.5
Dividend payout (%)	49.1	nm	123.3	18.5	12.4
Valuation (x)					
P/E	349.8	nm	405.8	149.0	100.2
P/BV	18.0	18.6	18.2	16.5	14.4
EV/EBITDA	79.4	249.4	75.6	44.4	35.7
Dividend yield (%)	0.1	0.1	0.1	0.1	0.1

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Equity share capital	355	355	355	355	355
Reserves & surplus	23,525	22,775	23,285	25,634	29,387
Shareholders fund	23,880	23,130	23,640	25,990	29,743
Minority Interest	796	445	459	459	459
Total debt	2,997	0	4,974	4,974	4,975
Non Current Liabilities	22,523	26,148	41,653	41,953	42,253
Def tax liab. (net)	0	0	0	0	0
Total liabilities	50,197	49,723	70,726	73,375	77,429
Gross block	9,533	9,860	11,463	13,063	14,488
Less: acc. Depreciation	(2,986)	(3,455)	(4,214)	(5,280)	(6,435)
Net block	6,546	6,405	7,249	7,783	8,053
Capital WIP	233	1,080	1,047	448	448
Net fixed assets	7,474	8,152	8,994	10,214	10,484
Non Current Assets	23,199	26,885	42,858	43,152	46,401
Investments	7,359	8,166	7,574	7,574	7,574
Inventories	6,078	4,284	8,678	11,068	13,336
Sundry debtors	171	208	179	183	186
Cash & Cash Equivalents	614	815	864	1,863	2,183
Loans & advances	860	260	264	264	264
Other current assets	9,314	8,467	7,850	7,850	7,004
Trade payables	2,977	2,746	3,780	6,040	7,250
Other current liab.	1,824	4,704	2,658	2,658	2,658
Provisions	72	65	96	96	96
Net current assets	12,165	6,519	11,300	12,435	12,970
Total assets	50,197	49,723	70,726	73,375	77,429

Cashflow					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Profit Before Tax	1,650	(2,038)	1,387	4,248	6,107
Depreciation & Amortisation	2,472	2,573	3,108	3,397	3,779
Net Interest	2,126	2,197	2,814	3,079	3,432
Net Change – WC	(1,033)	1,063	(4,293)	(135)	(1,061)
Direct taxes	(835)	(11)	(816)	(1,365)	(1,820)
Net cash from operations	3,553	3,739	585	8,196	9,391
Capital expenditure	(1,559)	(1,134)	(2,709)	(1,001)	(1,425)
Acquisitions, net	(220)	(450)	(663)	0	0
Investments	(6,573)	1,400	2,084	(1,581)	(3,249)
Others	75	341	1,848	1,028	1,047
Net cash from investing	(8,278)	156	560	(1,554)	(3,628)
FCF	(4,725)	3,896	1,145	6,642	5,763
Issue of share capital	9,324	(3)	5,513	184	(135)
Increase/(decrease) in debt	(930)	0	(3,009)	0	0
Dividend paid	(398)	(355)	(427)	(533)	(533)
Interest paid	(2,511)	(2,489)	(2,463)	(3,079)	(3,432)
Others	(843)	(848)	(694)	(2,215)	(1,343)
Net cash from financing	4,641	(3,695)	(1,080)	(5,643)	(5,443)
Net change in Cash	(83)	201	65	999	320

Source: Company, Centrum Broking

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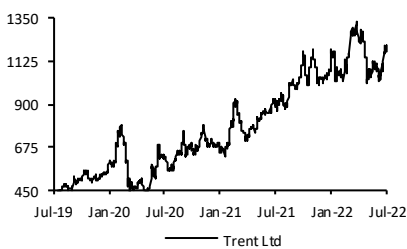
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Trent Ltd



Source: Bloomberg

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