

Healthy store addition drives revenue growth...

Trent reported a healthy set of Q4FY19 numbers, with a significant beat on the topline front. Standalone revenues (including Westside, Zudio and Landmark formats) grew robustly by 26.5% YoY to ₹ 668.7 crore (I-direct estimate: ₹ 623.89 crore). Gross margins for the quarter declined 286 bps YoY to 47.4%. However, on account of positive operating leverage, EBITDA margins improved 30 bps YoY to 5.0%.

Westside continues to register healthy SSSG

Westside (~92% of standalone revenues) continued to deliver a superior performance with healthy revenue growth of 18% YoY in FY19. Westside is considered one of the most successful and established franchises, consistently delivering high single digit SSSG (FY13: 7%, FY14: 9%, FY15: 11%, FY16: 8%, FY17: 9%, FY18: 9% and FY19: 9%) and deriving ~96% of share of revenues from private label brands. The management accelerated its store expansion pace by adding record number of stores in FY19 (added 20 Westside stores in FY19 vs. 18 in FY18). Healthy store addition coupled with steady SSSG is expected to drive revenues, going forward. Hence, we build in 8% SSSG for FY20E/FY21E and expect Westside stores to increase from current 145 to 190 by FY21E (22 stores each year).

Enhanced store opex curtail EBITDA growth

For FY19, EBITDA margins contracted 60 bps YoY to 8.7% with absolute EBITDA increasing 14% YoY to ₹ 227.7 crore. We believe the pressure on margins was owing to increase in share of revenues from Zudio format which has a lower gross margin profile (~40%) compared to Westside (~60%). Furthermore, aggressive store expansion across formats (gross store addition: Westside 27 and Zudio 33), resulted in an increase in employee and rental expenses.

Valuation & Outlook

On a consolidated basis, Trent reported healthy revenue growth of 22% YoY to ₹ 2630.2 crore, driven by robust growth in the Westside Format. Rapid scaling up of its latest value fashion apparel business, 'Zudio' also assisted in incremental revenue growth. Furthermore, share in loss of associates/JV declined from ₹ 22.6 crore in FY18 to ₹ 11.7 crore in FY19 owing to improved performance in Zara and Star Bazaar. On the balance sheet front, accelerated store addition resulted in spike in working capital days (NWC increased by ~12 days to 37 days). We expect the revenue growth momentum to sustain and expect consolidated revenues to grow at a CAGR of 20% in FY19-21E with EBITDA margin expansion of 150 bps to 10.1% by FY21E. Accelerated store addition in the Westside format, rightsizing of Star Bazaar stores coupled with consistent growth in Zara are further expected to accelerate Trent's financial performance. Hence we maintain our **BUY** recommendation on the stock with SOTP based TP of ₹ 415/share.

Key Financial Summary

(₹ Crore)	FY17	FY18	FY19E	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	1,833.9	2,157.5	2,630.2	3,185.3	3,763.6	20%
EBITDA	125.7	201.2	227.7	297.9	381.6	29.4%
PAT	84.9	87.0	94.9	170.3	240.6	
EV/Sales (x)	6.7	5.7	4.7	3.9	3.3	
EV/EBITDA (x)	98.0	61.2	54.5	41.8	32.7	
RoCE (%)	7.4	10.0	10.1	12.1	14.4	
RoE (%)	3.8	5.5	5.8	9.7	12.7	

Source: Company, ICICI Direct Research



Particulars

Market Capitalisation (₹ Crore)	11,962.8
Total Debt (Mar-19) (₹ Crore)	494.2
Cash (Mar-19) (₹ Crore)	51.6
EV (₹ Crore)	12,405.3
52 week H/L (adjusted)	399 / 290
Equity Capital (₹ Crore)	33.2
Face Value (₹)	1.0

Key Highlights

- Record number of stores added in FY19 (20 Westside stores)
- Westside reported healthy SSSG of 9% in FY19
- Share in loss of associates/JV (Zara and Star bazaar) declined from ₹ 22.6 crore in FY18 to ₹ 11.7 crore in FY19
- Maintain our recommendation to **BUY** with a revised target price of ₹ 415

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Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	668.7	623.9	528.7	26.5	656.5	1.9	Steady SSSG and accelerated store expansion resulted in healthy topline growth
Other Operating Income	0.0	0.0	0.0	0.0	0.0	0.0	
Raw Material Expense	351.5	309.4	262.8	33.8	308.3	14.0	
Gross Profit	317.2	314.4	265.9	19.3	348.2	-8.9	
Gross Profit Margin	47.4	50.4	50.3	-286 bps	53.0	-273 bps	Decline in gross margins on account of increase in share from Zudio formats, which have a lower margin profile
Employee exp	67.5	67.4	53.2	26.9	65.5	3.2	
Rent exp	84.2	84.8	71.2	18.2	82.5		
EBITDA	33.8	31.2	24.9	35.5	72.6	-53.5	
EBITDA Margin (%)	5.0	5.0	4.7	34 bps	11.1	-601 bps	Positive operating leverage resulted in EBITDA margin expansion
Depreciation	13.5	11.8	11.1	21.9	11.6	16.9	
Interest	10.3	8.4	7.5	37.3	8.8	16.7	
Exceptional Income	-0.5	0.0	0.0		0.0		
PBT	18.3	21.6	16.8	8.9	61.6	-70.3	
Tax Outgo	2.4	7.4	5.2	-53.9	21.4	-88.9	
Minority Interest							
PAT	15.9	14.3	11.7	36.7	40.3	-60.4	

Source: Company, ICICI Direct Research

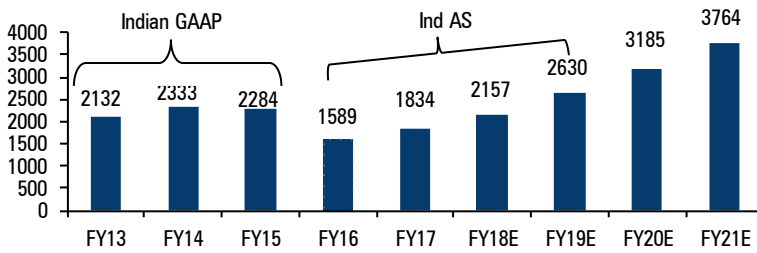
Exhibit 2: Change in estimates

₹ (Crore)	FY19E	FY20E			FY21E
		Old	New	% Change	Introduced
Revenue	2,630.2	3,296.5	3,185.3	-3.4	3,763.6
EBITDA	227.7	323.5	297.9	-7.9	381.6
EBITDA Margin (%)	8.7	9.8	9.4	-46 bps	10.1
PAT	94.9	215.0	170.3	-20.8	240.6
EPS (₹)	2.9	6.5	5.1	-20.8	7.2

Source: Company, ICICI Direct Research

Financial story in charts

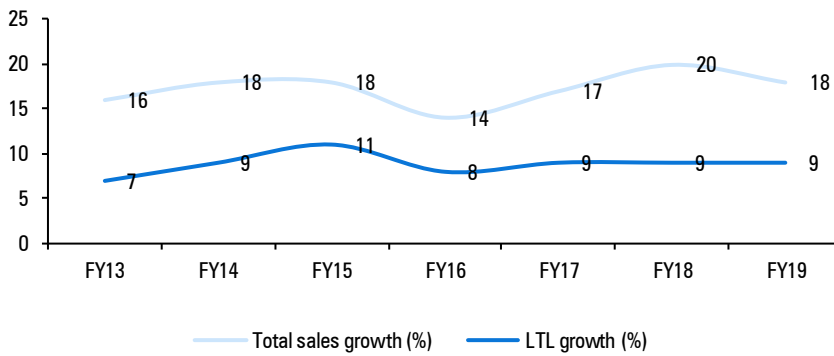
Exhibit 3: Revenue trend post Ind-As implementation



We expect consolidated revenues to grow at a CAGR of 20% in FY19-21E to ₹ 3763.6 crore driven by aggressive store addition across Westside and Zudio format

Source: Company, ICICI Direct Research

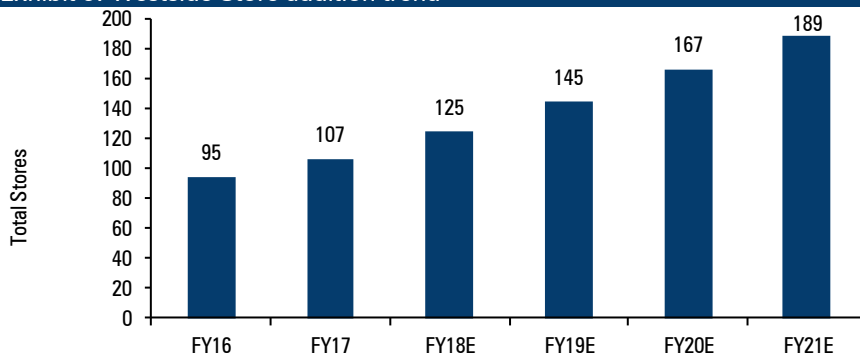
Exhibit 4: Westside revenue trend and same store sales growth (SSSG)



Westside has continued to deliver robust performance with revenues growing at a CAGR of 21% in FY13-19. It has also consistently registered high single digit SSSG

Source: Company, ICICI Direct Research

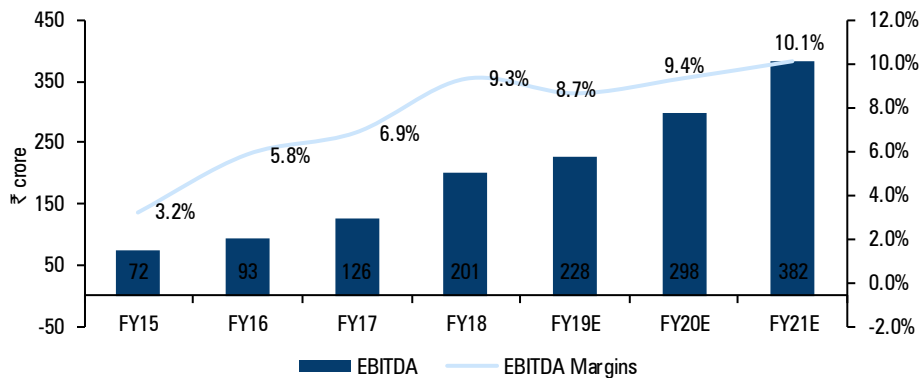
Exhibit 5: Westside Store addition trend



The management plans to increase its presence in Tier II, III cities through the franchise route, which currently comprises ~10% of overall stores. It opened 20 Westside stores, which is the highest ever store addition in a single year. We expect the aggressive store expansion to further accelerate to ~190 stores by FY21E

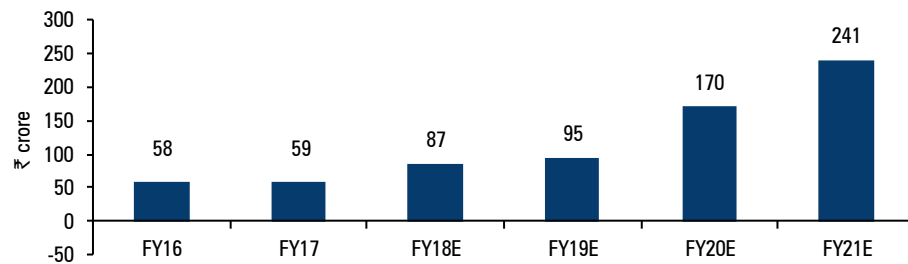
Source: Company, ICICI Direct Research

Exhibit 6: Expect EBITDA margins to improve 160 bps in FY18-21E



Source: Company, ICICI Direct Research

Exhibit 7: Consolidated PAT trend



We expect JVs/associates (Zara, Trent Hypermarket) to contribute a profit of ₹ 40 crore by FY21E compared to current loss of ₹ 11.7 crore in FY19

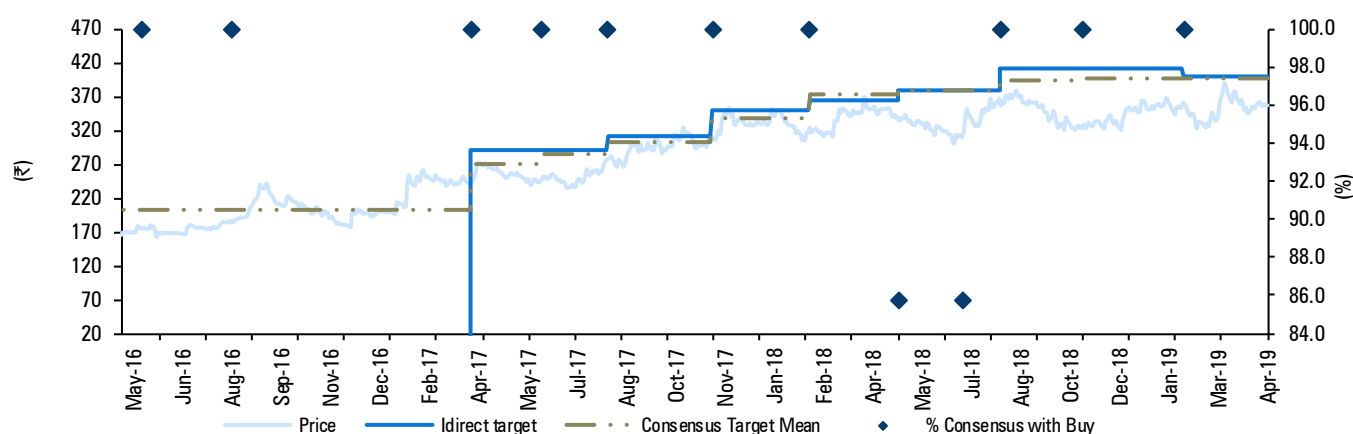
Source: Company, ICICI Direct Research

Exhibit 8: Valuation

	Financial	FY21E (₹ cr)	Target Multiple	EV	(₹ cr) Cash	Debt	Targeted Mcap (₹ cr)
Standalone revenues	Sales	3669	2.9x EV/Sales	10786	15	523	10278
Trent Hypermarket Ltd	Sales	696	1.0x EV/Sales	723	15		738
Trent -Inditex (Zara)	Sales	984	2.7x EV/Sales	2678	22		2700
Target Market Cap. (₹ cr)							13716
Target Price (₹)							415

Source: Company, ICICI Direct Research

Exhibit 9: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 10: Top 10 Shareholders

Rank	Investor Name	Last Filing Date	% O/S	Position (m)	Change (m)
1	Tata Group of Companies	31-Dec-18	32.3%	107.4	0.0
2	ARISAIG Partners (Asia) Pte. Ltd.	31-Dec-18	8.1%	27.0	0.0
3	Dodona Holdings, Ltd.	31-Dec-18	5.0%	16.6	0.0
4	HDFC Asset Management Co., Ltd.	31-Dec-18	4.2%	14.1	0.2
5	Franklin Templeton Asset Management (India) Pvt. Ltd.	31-Dec-18	2.9%	9.6	7.3
6	Prazim Trading & Investment Co. Pvt. Ltd.	31-Dec-18	2.7%	9.1	0.0
7	Derive Trading Pvt. Ltd.	31-Dec-18	2.7%	9.1	0.0
8	Amansa Capital Pte Ltd.	31-Dec-18	2.6%	8.8	0.0
9	L&T Investment Management Limited	31-Dec-18	2.0%	6.7	0.0
10	Sundaram Asset Management Company Limited	31-Dec-18	1.9%	6.4	0.8

Source: Reuters, ICICI Direct Research

Exhibit 11: Recent Activity

Buys			Sells		
Investor Name	Value	Shares	Investor Name	Value	Shares
Franklin Templeton Asset Management (India) Pvt. Ltd.	38.03	7.30	Norges Bank Investment Management (NBIM)	-11.72	-2.25
Sundaram Asset Management Company Limited	4.04	0.78	Reliance Nippon Life Asset Management Limited	-4.76	-1.04
Mirae Asset Global Investments (Hong Kong) Limited	1.44	0.31	SBI Life Insurance Co., Ltd.	-1.25	-0.24
HDFC Life Insurance Company Limited	0.96	0.18	Alquity Investment Management Ltd.	-0.19	-0.04
HDFC Asset Management Co., Ltd.	0.9	0.2	Taurus Asset Management Co. Ltd.	-0.16	-0.03

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	32.6	32.6	32.6	32.6	32.6
FII	24.9	24.6	24.3	23.8	22.8
DII	14.7	15.1	15.1	15.8	16.9
Others	27.8	27.7	28.0	27.9	27.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Total operating Income	2,157.5	2,630.2	3,185.3	3,763.6
Growth (%)	17.6	21.9	21.1	18.2
Cost of Goods Sold	1,031.5	1,311.4	1,538.5	1,810.3
Gross Margin (%)	52.2	50.1	51.7	51.9
Employee Expenses	230.5	286.8	334.5	387.6
Operating & Other Expenses	694.3	804.3	1,014.5	1,184.1
Total Operating Expenditure	1,956.3	2,402.5	2,887.4	3,382.0
EBITDA	201.2	227.7	297.9	381.6
Growth (%)	60.0	13.2	30.8	28.1
Depreciation	45.5	51.7	63.5	73.8
Interest	30.6	36.8	40.0	39.8
Other Income	44.2	40.8	41.4	39.5
PBT	169.3	180.1	235.8	307.6
Total Tax	59.6	73.6	82.5	107.6
PAT	109.7	106.5	153.2	199.9
Minority Interest	0.0	0.0	0.1	0.1
Share of Profit from JV	-22.6	-11.7	17.2	40.8
PAT	87.0	94.9	170.3	240.6
Growth (%)		9.0	79.6	41.2
Extraordinary item	0.0	0.0	0.0	0.0
Reported PAT	87.0	94.9	170.3	240.6
EPS (₹)	2.6	2.9	5.1	7.2

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	33.2	33.2	33.2	33.2
Reserve and Surplus	1,562.1	1,613.3	1,715.5	1,859.8
Total Shareholders funds	1,595.4	1,646.5	1,748.7	1,893.1
Total Debt	391.4	494.2	526.4	523.1
Other LT Liabilities	2.3	0.4	0.5	0.5
Deferred Tax Liability	19.3	25.5	25.5	25.5
Minority Interest / Others	0.8	-2.9	-2.9	-2.9
Total Liabilities	2,009.2	2,163.7	2,298.2	2,439.2
Assets				
Gross Block	742.9	844.7	1,024.7	1,189.7
Less: Acc Depreciation	231.5	283.2	346.7	420.4
Capital WIP	9.6	87.2	70.0	65.0
Total Fixed Assets	521.0	648.7	748.0	834.2
Investments	1,056.0	915.3	860.4	817.4
Other Non-current Assets	97.1	94.3	103.7	114.1
Goodwill	67.9	68.2	68.2	68.2
Deferred Tax Asset	0.0	0.0	0.0	0.0
Inventory	344.8	497.0	593.4	670.2
Debtors	15.1	16.5	21.8	25.8
Loans and Advances	140.3	188.3	194.0	258.0
Cash	32.8	51.6	39.8	15.4
Other Current Assets	60.3	81.8	102.2	127.8
Total Current Assets	593.3	835.3	951.2	1,097.2
Creditors	208.4	245.0	274.0	322.4
Other Current Liab. & Prov.	117.8	153.1	159.3	169.4
Total Current Liabilities	326.2	398.0	433.2	491.7
Net Current Assets	267.1	437.3	518.0	605.4
Application of Funds	2,009.2	2,163.7	2,298.2	2,439.2

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after tax	87.0	94.9	170.3	240.6
Add: Depreciation	45.5	51.7	63.5	73.8
(Inc)/dec in Current Assets	-68.2	-223.2	-127.8	-170.3
Inc/(dec) in CL and Provisions	65.3	71.8	35.2	58.5
Others	0.0	0.0	0.0	0.0
CF from operating activities	129.6	-4.8	141.3	202.5
(Inc)/dec in Investments	57.6	140.7	54.9	43.0
(Inc)/dec in Fixed Assets	-82.4	-102.0	-180.0	-165.0
(Inc)/dec in CWIP	-4.1	-77.6	17.2	5.0
Others	-68.9	2.9	-9.4	-10.4
CF from investing activities	-97.7	-36.0	-117.3	-127.4
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	-4.3	102.8	32.3	-3.3
Others	-29.0	-43.1	-68.1	-96.2
CF from financing activities	-33.4	59.7	-35.8	-99.5
Net Cash flow	-1.5	18.8	-11.9	-24.4
Opening Cash	34.3	32.8	51.6	39.8
Closing Cash	32.8	51.6	39.8	15.4

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per share data (₹) (annualised)				
EPS	2.6	2.9	5.1	7.2
Cash EPS	4.0	4.4	7.0	9.5
BV	48.0	49.5	52.6	57.0
DPS	1.2	1.3	2.1	2.9
Cash Per Share	1.0	1.6	1.2	0.5
Operating Ratios				
EBITDA Margin (%)	9.3	8.7	9.4	10.1
PBT Margin (%)	7.8	6.8	7.4	8.2
PAT Margin (%)	4.0	3.6	5.3	6.4
Inventory days	58.3	69.0	68.0	65.0
Debtor days	2.6	2.3	2.5	2.5
Creditor days	35.3	34.0	31.4	31.3
Return Ratios (%)				
RoE	5.5	5.8	9.7	12.7
RoCE	10.0	10.1	12.1	14.4
RoIC	17.5	16.2	18.0	20.3
Valuation Ratios (x) (annualised)				
P/E	137.4	126.1	70.2	49.7
EV / EBITDA	61.2	54.5	41.8	32.7
EV / Net Sales	5.7	4.7	3.9	3.3
Market Cap / Sales	5.5	4.5	3.8	3.2
Price to Book Value	7.5	7.3	6.8	6.3
Solvency Ratios				
Debt/EBITDA	1.9	2.2	1.8	1.4
Debt / Equity	0.2	0.3	0.3	0.3
Current Ratio	2.4	2.9	3.1	3.1
Quick Ratio	0.9	1.1	1.1	1.2

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct coverage universe (IT)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Bata India	1,460	1,300	Buy	18,870	17.4	25.3	30.1	83.8	57.7	48.6	43.4	31.0	26.2	19.9	25.1	25.8	15.1	19.0	19.7
Shoppers Stop (SHOSTO)	452	545	Hold	3,979	1.3	10.3	12.9	342.7	43.7	35.0	21.4	17.7	14.8	9.6	12.3	14.4	1.2	9.0	10.4
Titan Company (TITIND)	1,156	1,290	Buy	102,641	12.7	16.5	21.3	90.8	70.2	54.4	58.5	45.8	35.6	29.3	31.3	33.8	22.2	23.7	25.5
Trent	360	415	Buy	11,962	2.6	2.9	5.1	137.4	126.1	70.2	61.2	54.5	41.8	10.0	10.1	12.1	5.5	5.8	9.7
ABFRL	212	250	Buy	16,168	1.5	2.2	3.4	138.9	98.6	62.7	34.9	27.9	22.8	8.5	11.4	13.5	10.8	13.2	17.2

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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