

## Creating new growth engines and expanding offerings

We organized an interactive session with Mr. P. Venkatesalu, Executive Director and CEO of Trent, to discuss the industry outlook, a new large opportunity for the company, and its growth and margin outlook. Here are the key insights from the discussion:

- **Building a platform:** Trent is building a platform to scale up 4-5 large formats. Each format has to pass the test of a) customer relevance, b) potential to achieve critical mass, and c) bringing resilience to wither the competition. However, it is cognizant of capital efficiency, and therefore it focuses on a) building in-house instead of growing through acquisitions and b) does not ramp up all formats aggressively at the same time. However, it is evaluating formats that can operate at scale. Star, Samoh and Utsa could be the next levers of growth.
- **Own brand, own label:** Trent always focuses on bringing exclusivity to its offerings; therefore, it will continue to own the complete retail network and sell only own brands. New platforms will work on two guiding principles: 1) value category will be a key play in any new offering; 2) it will try to keep women as the center point of product proposition.
- **Star, solved a lot of puzzle:** Star has solved three key factors that a brand needs to offer exclusivity: 1) fresh category, 2) private labels, and c) value offerings. Star has driven healthy improvements in footfalls recently. This provides potential to scale up the brand's footprint in the format aggressively.
- **Expand the offering:** Trent is continuously working on new categories in each format to increase customer wallet share and improve store productivity. For instance, beauty, lingerie and innerwear, and footwear have become sizeable contributors to store revenues.

### Trent Limited



**Mr. P. Venkatesalu, ED & CEO**

Mr. P. Venkatesalu is the Executive Director and CEO of Trent Limited since Oct, 2021 appointed for a term of three years. Prior to the role he was Executive Director (Finance) and CFO of the Trent Limited. Mr. P. Venkatesalu joined Tata Administrative Services in 2001 and was formerly with Tata Sons as a part of the group finance team. He joined the company in 2008 and has been with the company for 13 years and heads the Finance & Accounts, Legal and Secretarial functions.

## Detailed points

### Trent idea to remain differentiated in the market

Trent will continue to create differentiation by operating through own channel, limiting offerings to private label brands and bringing all the products under one umbrella.

- The strong **supply chain** keeps product availability intact at stores.
- Trent **does not prefer the online platform**, where it can increase revenue but return rates are high at 30%.
- In addition, it does **not give discounts or advertise, which saves margins**.
- Any bad real estate would slow a brand's growth as customer attraction declines, so the company keeps rationalizing **real estate**.
- Inditex has closed one-third of its stores in the last 10 years.
- LTL is an important metric to look at, but it is grossly overrated, as store densification will cannibalize revenue and impact LTL but will grow the market share over time. Similarly, a store that scales to maturity at an accelerated pace may slow down LTL growth. Hence, the quality of revenue is more important than volume.

### Building a platform

- The management does not want Trent to be only a Westside/Zudio business, it plans to create multiple formats under Trent. While some of the formats may not find success, it will ensure capital allocation discipline and organic growth.
- Trent is a platform where back-end is integrated to get the learnings and infrastructure of the formats. Hence, Trent would want to see a few engines of growth to play. For instance, Zudio would not have been possible without Westside.
- It wants to ensure that every format becomes relevant to customers, reaches the critical mass and brings resilience.

**The introduction of a new range of products and private label brands has improved the quality of financials.** Zudio is now different from what it was three years ago. The company has added beauty products, innerwear and Star FMCG products to its stores.

### **India's strong demographic a tailwind for retail business**

- For the next two decades, the absolute growth in the Indian market would be over 15%, led by an increase in per capita income, high female employment, premiumisation and underpenetrated markets, among others.
- India is now aging with few employment and optimum level of compensation. Hence, aspirational customers need products at a value price, which offers a huge opportunity in the value space.
- Trent is also targeting women customers, as there is no example of a non-women brand succeeding.

### **Star Bazaar opportunity**

- With 60 stores, the brand has a lot of room to grow.
- A grassroots level Kirana retailer is seen as an unorganized player, but they have strong execution and therefore, it is difficult to compete with them. The next generation of Kirana stores does not want to sit in the shop. Moreover, a majority of foreign players have shut their shops due to regulatory changes. This leaves a lot of potential for domestic organized food retail players.
- A customer wants products to be available conveniently and fresh but at a value price. Star is trying to tap this opportunity through the private label route.
- The company targets to deliver vegetables and fruits, which are high-consumption items. The share of the organized food market is negligible.
- A standalone online food business is less viable and needs other revenue contributions through cross-selling and new categories to become profitable.

### **Valuation and view**

- Trent's industry-leading revenue growth was driven by: a) healthy SSSG and productivity, b) robust footprint additions, and c) a healthy scale-up opportunity in Zudio offers a huge runway for growth over the next three to five years.
- The company's grocery segment, Star, with a presence of merely 65 stores and annualized revenue of INR18.1b (FY23) presents a huge opportunity to support growth. Its own brand strategy and curated range are seeing strong customer reception.
- We factor in standalone revenue/EBITDA CAGRs of 46%/51% over FY23-25, led by a strong 25% footprint addition and healthy SSSG.
- We assign 37x EV/EBITDA to the standalone business (Westside and Zudio; premium over our Retail Universe, given its superlative growth), 2x EV/sales to Star Bazaar, and 15x EV/EBITDA to Zara on Sep'25E, and arrive at a TP of INR3,140. We reiterate our BUY rating on the stock.

## Financials and valuations

### Standalone - Income Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Total Income from Operations</b>	<b>25,317</b>	<b>31,777</b>	<b>20,475</b>	<b>38,807</b>	<b>77,152</b>	<b>1,23,239</b>	<b>1,64,868</b>	<b>2,08,814</b>
Change (%)	22.5	25.5	-35.6	89.5	98.8	59.7	33.8	26.7
Raw Materials	12,324	16,037	10,296	19,009	42,156	69,014	92,739	1,17,980
Employees Cost	2,524	3,131	2,550	3,379	5,801	8,996	11,871	14,826
Other Expenses	4,924	4,950	5,591	10,084	18,003	26,188	34,622	43,642
<b>Total Expenditure</b>	<b>22,951</b>	<b>26,145</b>	<b>18,437</b>	<b>32,472</b>	<b>65,959</b>	<b>1,04,199</b>	<b>1,39,231</b>	<b>1,76,448</b>
% of Sales	90.7	82.3	90.0	83.7	85.5	84.6	84.5	84.5
<b>EBITDA</b>	<b>2,366</b>	<b>5,632</b>	<b>2,038</b>	<b>6,335</b>	<b>11,193</b>	<b>19,040</b>	<b>25,637</b>	<b>32,366</b>
Margin (%)	9.3	17.7	10.0	16.3	14.5	15.5	15.6	15.5
Depreciation	465	2,311	2,359	2,831	4,632	5,955	6,715	7,485
<b>EBIT</b>	<b>1,902</b>	<b>3,321</b>	<b>-321</b>	<b>3,505</b>	<b>6,560</b>	<b>13,086</b>	<b>18,922</b>	<b>24,882</b>
Int. and Finance Charges	368	2,383	2,380	2,933	3,572	3,812	4,032	4,352
Other Income	363	1,518	2,042	2,790	4,117	3,705	3,705	3,705
<b>PBT bef. EO Exp.</b>	<b>1,897</b>	<b>2,456</b>	<b>-658</b>	<b>3,362</b>	<b>7,105</b>	<b>12,979</b>	<b>18,596</b>	<b>24,235</b>
EO Items	-5	0	-63	-132	0	0	0	0
<b>PBT after EO Exp.</b>	<b>1,892</b>	<b>2,456</b>	<b>-721</b>	<b>3,230</b>	<b>7,105</b>	<b>12,979</b>	<b>18,596</b>	<b>24,235</b>
Total Tax	617	909	-211	734	1,559	3,122	4,649	6,100
Tax Rate (%)	32.6	37.0	29.3	22.7	21.9	24.1	25.0	25.2
Minority Interest	0	0	0	0	0	0	0	0
<b>Reported PAT</b>	<b>1,276</b>	<b>1,546</b>	<b>-510</b>	<b>2,496</b>	<b>5,546</b>	<b>9,857</b>	<b>13,947</b>	<b>18,135</b>
<b>Adjusted PAT</b>	<b>1,279</b>	<b>1,546</b>	<b>-465</b>	<b>2,598</b>	<b>5,546</b>	<b>9,857</b>	<b>13,947</b>	<b>18,135</b>
Change (%)	9.6	20.9	-130.1	-658.4	113.5	77.7	41.5	30.0
Margin (%)	5.1	4.9	-2.3	6.7	7.2	8.0	8.5	8.7

### Standalone - Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	332	355	355	356	356	356	356	356
Total Reserves	16,636	24,627	24,803	26,845	30,444	40,301	54,248	72,382
<b>Net Worth</b>	<b>16,968</b>	<b>24,983</b>	<b>25,159</b>	<b>27,200</b>	<b>30,799</b>	<b>40,656</b>	<b>54,603</b>	<b>72,738</b>
Total Loans	3,942	24,468	28,612	45,893	43,186	46,487	50,396	54,402
Lease Liability		21,471	25,612	40,835	38,206	38,206	38,206	38,206
Deferred Tax Liabilities	-72	-1,070	-1,080	-1,225	-1,540	-1,540	-1,540	-1,540
<b>Capital Employed</b>	<b>20,838</b>	<b>48,382</b>	<b>52,690</b>	<b>71,868</b>	<b>72,445</b>	<b>85,603</b>	<b>1,03,459</b>	<b>1,25,599</b>
<b>Net Fixed Assets</b>	<b>6,271</b>	<b>26,175</b>	<b>29,232</b>	<b>45,083</b>	<b>43,659</b>	<b>45,221</b>	<b>46,510</b>	<b>47,125</b>
Right to use assets		19,041	22,265	37,336	34,346	34,346	34,346	34,346
Capital WIP	850	231	340	448	415	415	415	415
<b>Total Investments</b>	<b>9,410</b>	<b>16,068</b>	<b>17,292</b>	<b>17,239</b>	<b>16,483</b>	<b>16,483</b>	<b>16,483</b>	<b>16,483</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>9,001</b>	<b>10,399</b>	<b>9,126</b>	<b>14,126</b>	<b>21,114</b>	<b>37,537</b>	<b>58,552</b>	<b>84,772</b>
Inventory	4,894	5,865	3,946	8,225	13,369	20,259	27,102	34,326
Account Receivables	141	133	206	163	314	675	903	1,144
Cash and Bank Balance	509	441	669	744	789	2,377	12,671	27,574
Loans and Advances	3,457	3,960	4,306	4,994	6,642	14,226	17,875	21,728
<b>Curr. Liability &amp; Prov.</b>	<b>4,696</b>	<b>4,492</b>	<b>3,301</b>	<b>5,028</b>	<b>9,226</b>	<b>14,052</b>	<b>18,500</b>	<b>23,196</b>
Account Payables	2,289	2,565	2,196	3,142	6,437	9,792	13,099	16,591
Other Current Liabilities	2,221	1,710	938	1,572	2,121	3,592	4,732	5,936
Provisions	186	218	167	314	669	669	669	669
<b>Net Current Assets</b>	<b>4,306</b>	<b>5,907</b>	<b>5,826</b>	<b>9,098</b>	<b>11,888</b>	<b>23,484</b>	<b>40,051</b>	<b>61,576</b>
<b>Appl. of Funds</b>	<b>20,838</b>	<b>48,381</b>	<b>52,690</b>	<b>71,868</b>	<b>72,445</b>	<b>85,603</b>	<b>1,03,459</b>	<b>1,25,599</b>

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>3.8</b>	<b>4.3</b>	<b>-1.3</b>	<b>7.3</b>	<b>15.6</b>	<b>27.7</b>	<b>39.2</b>	<b>51.0</b>
Cash EPS	5.2	11.6	5.7	16.3	30.6	47.6	62.2	77.1
BV/Share	51.1	75.2	75.7	81.9	92.7	122.3	164.3	218.9
DPS	1.3	1.0	0.0	1.7	2.2	0.0	0.0	0.0
Payout (%)	40.8	23.0	0.0	24.2	14.1	0.0	0.0	0.0
<b>Valuation (x)</b>								
P/E	749.7	663.3	-2,204.1	394.7	184.9	104.0	73.5	56.6
Cash P/E	549.9	248.5	506.4	176.6	94.2	60.6	46.4	37.4
P/BV	56.5	38.4	38.1	35.2	31.1	23.6	17.6	13.2
EV/Sales	38.0	33.0	51.5	27.6	13.8	8.7	6.4	5.0
EV/EBITDA	406.6	186.4	516.9	169.0	95.4	56.2	41.5	32.5
Dividend Yield (%)	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0
FCF per share	-4.7	7.4	8.7	-1.4	12.6	4.8	29.9	43.7
<b>Return Ratios (%)</b>								
RoE	7.7	7.4	-1.9	9.9	19.1	27.6	29.3	28.5
RoCE	7.4	8.7	2.4	7.7	11.3	15.8	17.7	18.4
RoIC	13.3	10.0	-0.7	6.2	9.5	16.4	20.2	24.0
<b>Working Capital Ratios</b>								
Fixed Asset Turnover (x)	3.0	3.2	2.1	3.5	5.7	NA	NA	NA
Asset Turnover (x)	1.2	0.7	0.4	0.5	1.1	1.4	1.6	1.7
Inventory (Days)	71	67	70	77	63	60	60	60
Debtor (Days)	2	2	4	2	1	2	2	2
Creditor (Days)	33	29	39	30	30	29	29	29
<b>Leverage Ratio (x)</b>								
Current Ratio	1.9	2.3	2.8	2.8	2.3	2.7	3.2	3.7
Interest Cover Ratio	5.2	1.4	-0.1	1.2	1.8	3.4	4.7	5.7
Net Debt/Equity	-0.4	0.3	0.4	1.0	0.8	0.7	0.4	0.1

### Standalone - Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	1,896	2,454	-658	3,362	7,105	12,979	18,596	24,235
Depreciation	465	2,311	2,359	2,831	4,639	5,955	6,715	7,485
Interest & Finance Charges	180	2,058	2,084	2,725	3,411	3,812	4,032	4,352
Direct Taxes Paid	-781	-807	-1	-782	-1,869	-3,122	-4,649	-6,100
(Inc)/Dec in WC	-1,356	-1,112	1,131	-4,020	-2,707	-10,008	-6,273	-6,622
<b>CF from Operations</b>	<b>404</b>	<b>4,905</b>	<b>4,915</b>	<b>4,116</b>	<b>10,579</b>	<b>9,616</b>	<b>18,421</b>	<b>23,350</b>
Others	-122	-1,220	-782	-2,624	-3,951	-3,705	-3,705	-3,705
<b>CF from Operating incl EO</b>	<b>282</b>	<b>3,685</b>	<b>4,133</b>	<b>1,492</b>	<b>6,628</b>	<b>5,911</b>	<b>14,715</b>	<b>19,644</b>
(Inc)/Dec in FA	-1,859	-1,050	-1,031	-1,979	-2,144	-4,216	-4,095	-4,095
<b>Free Cash Flow</b>	<b>-1,577</b>	<b>2,635</b>	<b>3,102</b>	<b>-487</b>	<b>4,485</b>	<b>1,695</b>	<b>10,621</b>	<b>15,550</b>
(Pur)/Sale of Investments	2,234	-5,870	1,195	2,317	57	0	0	0
Others	-833	-650	-557	-397	657	3,705	3,705	3,705
<b>CF from Investments</b>	<b>-457</b>	<b>-7,570</b>	<b>-393</b>	<b>-59</b>	<b>-1,430</b>	<b>-510</b>	<b>-389</b>	<b>-389</b>
Issue of Shares	0	9,498	0	0	0	0	0	0
Inc/(Dec) in Debt	1,061	-2,725	0	1,969	-1,202	0	0	0
Interest Paid	-220	-2,437	-2,376	-2,350	-3,557	-3,812	-4,032	-4,352
Dividend Paid	-459	-520	-355	-426	-394	0	0	0
Others	0	0	-780	-552	0	0	0	0
<b>CF from Fin. Activity</b>	<b>382</b>	<b>3,816</b>	<b>-3,512</b>	<b>-1,359</b>	<b>-5,153</b>	<b>-3,812</b>	<b>-4,032</b>	<b>-4,352</b>
<b>Inc/Dec of Cash</b>	<b>206</b>	<b>-69</b>	<b>229</b>	<b>74</b>	<b>45</b>	<b>1,588</b>	<b>10,294</b>	<b>14,903</b>
Opening Balance	303	509	441	669	744	789	2,377	12,671
<b>Closing Balance</b>	<b>509</b>	<b>441</b>	<b>669</b>	<b>744</b>	<b>789</b>	<b>2,377</b>	<b>12,671</b>	<b>27,574</b>

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