

Trent Q2FY24 Standalone results were better than our expectation. Strong LFL growth @ 10% in Fashion concept stores along with aggressive store expansion especially in Zudio drove standalone growth.

- Revenue recorded 59.4% growth on YoY basis to Rs 28907.2mn aided by strong store additions and 10% LFL in Fashion concept stores.
- Store count for Q2FY24 stood at 661 (~223 Westside, 27 other concepts and 411 Zudio) as against 500 last year (210 Westside and 290 Zudio).
- EBIDTA** margins stood at 15.9% as against 14.8% YoY. In absolute terms EBIDTA was up 72.3% at Rs 4608.5 mn mainly driven by topline which led to some cost leverage.
- EBIT margins (as mentioned in Press-Release) :** Operating EBIT 10.8% v/s 9.7% YoY (*Operating EBIT % is on net revenue and is excluding non-operating items & IndAS 116 impact*)
- Raw Materials to Revenue**, due to higher contribution from Zudio, stood at 55.3% as against 53% YoY and 55.5% in Q4FY23. *Important to note that on QoQ basis despite End of Season Sales management was able to maintain gross margins.*
- Employee Cost** on a QoQ basis was higher by 13.6% to Rs 2758.4mn in line with Revenue growth.
- PAT stood at Rs 2896.7mn up 56% YoY and 95.4% QoQ.

Outlook

- Outperformer in the entire retail apparel space where everyone is struggling.
- Store expansion strategy remains intact
- Trent's longer-term focus** is to be a "Portfolio of Brands" which are originated and scalable, like Westside and Zudio that are now both profitable and sustainable business models.
- Contribution i.e. Share of Profit from JV's and Associate remain positive at Rs 253.7mn indicating Zara has been performing well and loses in Star Bazaar reducing.

Financial Summary Standalone

Y/E Mar (Rs mn)	FY21	FY22	FY23	FY24e	FY25e
Netsales	20,475	38,807	77,152	114,870	146,867
% Growth	(35.6)	89.5	98.8	48.9	27.9
EBIDTA	2,926	6,983	11,193	17,474	22,637
Margins	14	18	15	15	15
PAT	(510.2)	2,598.0	5,545.7	7,971.0	10,572.6
growth (%)	(133.0)	(609.2)	113.5	43.7	32.6
EPS	(1.4)	7.3	15.6	22.4	29.7
P/E (x)	(1,691.6)	332.2	155.6	108.3	81.6
P/B (x)	34.3	31.7	28.0	22.7	18.1
EVEBITDA (x)	294.7	124.2	77.5	49.6	38.1
ROCE (%)	2.3	12.9	18.3	27.1	29.5
RoE (%)	(2.0)	9.6	18.0	21.0	22.1

Source: Dalal and Broacha

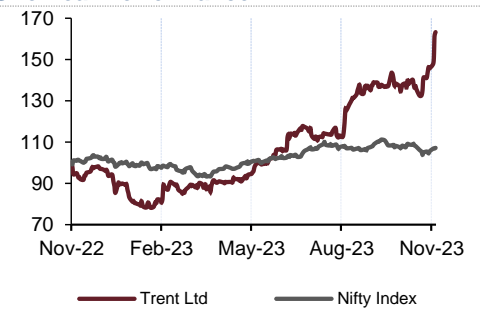
Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	2,340	-4

Market data

Current price	Rs	2,454
Market Cap (Rs.Bn)	(Rs Bn)	872
Market Cap (US\$ Mn)	(US\$ Mn)	10,475
Face Value	Rs	1
52 Weeks High/Low	Rs	2504.95 / 1155
Average Daily Volume	('000)	3,613
BSE Code		500251
Bloomberg		TRENT.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-23	Jun-23
Promoters	37.01	37.01
Public	62.99	62.99
Total	100	100

Source: Bloomberg

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Consolidated Results

- **Revenue** grew by 53% YoY to Rs 29824.2mn (QoQ +13%)
- **EBIDTA margins stood at 15% v/s 13% YoY and 14% QoQ**
- PAT adjusted owners shares stood at Rs 2347.3mn as against Rs 930.2mn +152% YoY and Rs +35% on QoQ basis
- Share of Profits from JV and Associates stood at +ve Rs 253.7mn as against Rs 139.6mn YoY. For H1FY24 too it was +ve Rs 519.6mn as against Rs 479.7mn YoY.

Other KTA's

- **Industry:** Market conditions subdued and challenging. Trent was outperformer
- **Emerging categories** (19% of Revenue) including beauty and personal care, innerwear and footwear continued to gain traction with customers. (this would **AID** margins going forward)
- Cash flow from Operations stood at Rs 7576mn v/s Rs 803.6mn YoY

Financials: Standalone

- CAGR over Q2FY20 @ 37% for Revenues | 60% on PBT
- LFL @ 10%
- Operating EBIT 10.8% v/s 9.7% YoY
- Inventory levels YoY flat at Rs 13768.8 despite strong topline growth
- Dividend from Zara received ~ Rs 733.4mn as indicated from Cash Flow Statement.

STAR Business:

- Revenue +30% YoY to Rs 7080mn | CAGR @ 20% over Q2FY20 | mainly contributed by LFL of 29%
- Stores @ 65/- Retail Area 1mn sqft.
- Business experienced an all-round operating performance improvement, driven by fresh, general merchandise & apparel categories
- 66% own brands v/s 54% YoY | General Merchandise and Apparels @ 32% v/s 27% YoY

Share of P&L from JV and Associates @ Rs 253.7mn +82% YoY (indicating lower loss in Star Bazar)

Quarterly Financials

TRENT Particulars (Rs Mns)	Q2FY24	Q2FY23	YoY Growth	Q1FY24	QoQ Growth
Revenue	28,907.2	18,136.1	59.4%	25,364.3	14.0%
Raw Material	15,996.5	9,619.0	66.3%	14,069.7	13.7%
Employee Cost	2,105.8	1,481.0	42.2%	1,854.1	13.6%
Rent Exps	2,758.4	1,783.1	54.7%	2,821.7	
Other Expenses	3,438.0	2,577.7	33.4%	2,962.2	16.1%
EBIDTA	4,608.5	2,675.3	72.3%	3,656.6	26.0%
Depreciation	1,448.4	1,043.0	38.9%	1,334.9	8.5%
Interest	923.3	880.1	4.9%	891.4	3.6%
PBT (before O.Inc & Exceptional)	2,236.8	752.2	197.4%	1,430.3	56.4%
Other Income	1,510.8	1,680.2	-10.1%	497.7	203.6%
Exceptional Items					
PBT Reported	3,747.6	2,432.4	54.1%	1,928.0	94.4%
PAT (reported)	2,896.7	1,858.5	55.9%	1,482.7	95.4%
Adjusted PAT	2,896.7	1,858.5	55.9%	1,482.7	95.4%
Equity	355.49	355.49	0.0%	355.49	0.0%
EPS (on adj)	8.15	5.23	55.9%	4.17	95.4%
Tax Rate	23%	24%		23%	
% to Revenue					
Raw Material	55.3%	53.0%		55.5%	
Other Expenses	11.9%	14.2%		11.7%	
EBIDTA Margins	15.9%	14.8%		14.4%	
Westside Store	223	210	6%	221	0.9%
Zudio Store	411	290	42%	388	5.9%
Other concepts	27			23	17.4%
Total Stores	661	500	32%	632	4.6%
CONDOLIDATED	Q2FY24	Q2FY23	YoY Growth	Q1FY24	QoQ Growth
Revenue	29824.20	19527.40	53%	26283.70	13%
EBIDTA Margins	15%	13%		14%	
PAT (owners share)	2347.30	930.20	152%	1734.80	35%
Sh of Pft/Loss of JV	253.70	139.60	82%	265.90	-5%

Source: Company

Outlook and valuations

Trent SOTP Method					
Segment	Particulars	FY25	Metric	Multiple (X)	Value/ Per Share Contribution
Westside + Zudio PAT (excluding Post Tax Zara Div)	PAT Standalone (Rs Mns)	9823	P/E	70	687,583
Star Bazaar 50% JV	Sales (Rs Mns)	15515	P/Sales	3	46,546
Zara Trents Share 49%	PAT (Rs Mns)	2617	P/E	30	78,525
Booker India 51%	Sales (Rs Mns)	4229	P/Sales	3	12,688
Less: Debt (Rs Mns)					4,983
Add: Cash + Invest (Rs Mns) less Inv in Subs					11,371
Total Value in Mns					831,730
NO. of Shares (In Mns)					355
Value Per Share Rs					2,340
CMP					2,428
Upside					-4%

Trent for Q2FY24 grew at a CAGR (over Q2FY20) of 37%+ in Revenue and 60%+ on PBT. With the aggressive store expansion, right product mix we expect this business to consistently deliver CAGR of 25%+ for couple of years.

Emerging categories contributed 19% to standalone Revenue in Q2FY24 which according to us are margins accretive

Additional triggers of growth in place:

1. The New **JV with MAS Group** of Sri Lanka for design, development and manufacture of lingerie, activewear and related apparel products is another lever of growth.

2. Star Business progressing well: Management has been successfully scaling up Own-brands from 54% in Q2FY23 to 66% in Q2FY24, secondly general merchandise and apparel's contribution too has increased by 5%, which in our view will help scale up margins at a faster pace.

Conclusion: While the discretionary category is seeing a challenging demand environment, and peers seeing a decline in same store as well as overall sales growth, Trent has been an outperformer with record 10% LFL growth which justifies its premium valuation.

Higher Zudio stores will continue to limit Gross margins expansion going forward, however as their throughput gets closure to the matured stores the profitability growth will get better as operating leverage will kick-in.

We have revised our numbers post Q2FY24 and Based on our SOTP valuation we arrive at a target price of Rs 2340 (i.e 12 months perspective) as we expect the stock to get **Re-Rated** looking at very strong performance in a challenging environment.

The stock reacted positively with 9% upside post declaring Q2FY24 numbers. We believe that the down-side in the stock is limited as the company has strong sustainable business model with very high growth potential. Market volatility should be used to "Buy" with long-term perspective.

Financial

STANDALONE											
P&L (Rs mn)	FY21	FY22	FY23	FY24E	FY25E	Cash Flow St. (Rs. mn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	20,475.3	38,807.3	77,151.9	114,870.0	146,867.4	Net Profit	(510.2)	2,496.3	5,545.7	7,971.0	10,572.6
Cost of sales	(17,549.1)	(31,824.5)	(65,959.4)	(97,395.7)	(124,230.4)	Add: Dep. & Amort.	2,358.7	2,830.8	4,632.1	5,820.1	7,086.7
Operating Profit	2,926.2	6,982.8	11,192.5	17,474.3	22,637.0	Cash profits (Inc)/Dec in	1,848.5	5,327.1	10,177.8	13,791.1	17,659.3
Depreciation	(2,358.7)	(2,830.8)	(4,632.1)	(5,820.1)	(7,086.7)	Sundry debtors	(72.4)	42.4	(151.0)	(154.0)	(130.7)
PBIT	567.5	4,152.0	6,560.4	11,654.2	15,550.3	Inventories	1,919.5	(4,278.8)	(5,144.3)	(5,555.6)	(5,280.3)
Other income	1,154.3	2,142.3	4,117.0	3,165.3	3,355.2	Loans/advances	(345.2)	(688.7)	(1,648.1)	(1,192.5)	(1,538.6)
Interest	(2,379.8)	(2,932.7)	(3,572.3)	(4,191.6)	(4,808.7)	Current Liab and Provisions	2,428.9	(1,058.5)	5,213.6	3,645.7	3,224.3
Profit before tax	(658.0)	3,361.6	7,105.1	10,628.0	14,096.8	Change in working capital	3,930.8	(5,983.6)	(1,729.8)	(3,256.4)	(3,725.2)
Exceptional and Extra Ordinary lte	(63.4)	(131.6)	-	-	-	CF from Oper. activities	5,779.2	(656.4)	8,448.0	10,534.7	13,934.1
PBT (Post Extra Ordinary)	(721.4)	3,230.0	7,105.1	10,628.0	14,096.8	CF from Inv. activities	(6,741.2)	(18,736.7)	(2,418.5)	(15,553.5)	(16,027.5)
Provision for tax	211.2	(733.7)	(1,559.4)	(2,657.0)	(3,524.2)	CF from Fin. activities	1,190.6	19,467.7	(5,984.6)	6,356.8	6,095.6
Reported PAT	(510.2)	2,496.3	5,545.7	7,971.0	10,572.6	Cash generated/(utilised)	228.7	74.5	44.9	1,338.1	4,002.1
MI	-	-	-	-	-	Cash at start of the year	440.5	669.2	743.8	788.7	2,126.7
Adjusted PAT	(510.2)	2,598.0	5,545.7	7,971.0	10,572.6	Cash at end of the year	669.2	743.8	788.7	2,126.7	6,128.9
Balance Sheet	FY21	FY22	FY23	FY24E	FY25E	Ratios	FY21	FY22	FY23	FY24E	FY25E
Equity capital	355.5	355.5	355.5	355.5	355.5	OPM	14.3	18.0	14.5	15.2	15.4
Reserves	24,803.1	26,844.9	30,443.9	37,632.8	47,423.4	NPM	(2.4)	6.3	6.8	6.8	7.0
Net worth	25,158.6	27,200.4	30,799.4	37,988.3	47,778.9	Tax rate	(32.1)	(21.8)	(21.9)	(25.0)	(25.0)
Non Current Liabilities	25,174.8	45,312.7	41,965.7	49,160.7	56,100.1	Growth Ratios (%)					
Current Liabilities	6,737.3	5,608.4	10,446.1	14,035.7	17,198.2	Net Sales	(35.6)	89.5	98.8	48.9	27.9
CAPITAL EMPLOYED	57,070.7	78,121.5	83,211.2	101,184.7	121,077.2	Operating Profit	(48.0)	138.6	60.3	56.1	29.5
Non Current Assets	41,817.4	59,594.3	57,546.6	66,177.6	74,121.1	PBIT	(82.9)	631.6	58.0	77.6	33.4
Fixed Assets	29,572.8	45,531.2	44,074.2	52,435.0	60,375.8	PAT	(133.0)	(609.2)	113.5	43.7	32.6
Non Current Investments	11,146.1	12,821.9	11,917.9	12,188.7	12,188.7	Per Share (Rs.)					
Deferred Tax Asset	1,080.1	1,225.3	1,540.3	1,540.3	1,540.3	Net Earnings (EPS)	(1.4)	7.3	15.6	22.4	29.7
Long Term Loans and Advances	18.4	15.9	14.2	13.6	16.3	Cash Earnings (CPS)	5.2	15.3	28.6	38.8	49.7
Current Assets	15,253.4	18,527.2	25,664.6	35,007.1	46,956.1	Dividend	0.6	1.7	2.2	1.6	1.6
Current investments	6,145.7	4,417.4	4,564.8	5,666.6	6,666.6	Book Value	70.8	76.5	86.6	106.9	134.4
Inventories	3,945.7	8,224.5	13,368.8	18,924.4	24,204.6	Free Cash Flow	(2.7)	(54.6)	17.0	(14.1)	(5.9)
Trade Receivables	205.7	163.3	314.3	468.3	599.0	Valuation Ratios					
Cash and Bank Balances	669.2	743.8	788.7	2,126.7	6,128.9	P/E(x)	(1,691.6)	332.2	155.6	108.3	81.6
Short Term Loans and Advances	749.2	261.5	167.9	201.5	241.8	P/B(x)	34.3	31.7	28.0	22.7	18.1
Other Current Assets	3,537.8	4,716.7	6,460.1	7,619.7	9,115.2	EV/EBITDA(x)	294.7	124.2	77.5	49.6	38.1
CAPITAL DEPLOYED	57,070.7	78,121.5	83,211.2	101,184.7	121,077.2	Div. Yield(%)	0.0	0.1	0.1	0.1	0.1
						FCF Yield(%)	(0.1)	(2.2)	0.7	(0.6)	(0.2)
						Return Ratios (%)					
						ROE	(2.0)	9.6	18.0	21.0	22.1
						ROCE	2.3	12.9	18.3	27.1	29.5

Source: Dalal & Broacha Research, Company

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