

Trent Ltd.**₹ 251****Grooming Up !!!****Accumulate**

Feb 03, 2017

Company Background

Trent Limited is engaged in the retail sale of readymade garments. The Company's segments include Retailing and Others. It primarily operates stores across three formats: Westside, Star Bazar and Landmark. Westside offers apparel, footwear and accessories for men, women and children, along with furnishings, decor and a range of home accessories. It offers products in approximately 60 cities across over 90 stores. Star hypermarket and convenience store chain offers a range of products, including staple foods, beverages, health and beauty products, apparel, home furnishings, vegetables, fruits, dairy and non-vegetarian products. The Star brand operates through approximately 30 stores under Star Daily, Star Market & Star Hyper banners. Landmark is a family entertainment format that offers a range of toys, front-list books and sports merchandise. Westside offers in-house fashion brands, such as Wunderlove, Sassy Soda, StudioWest, Zuba, Bombay Paisley, Denim Shop & Gourmet West, etc.

Key Highlights

- ➔ A lot of factors would contribute rise in organised retail spending in coming years. Most research studies suggest rising incomes in the next decade. In addition to this, increased availability of credit and social acceptance of consumption aided by borrowings will continue to influence spends.
- ➔ Westside model involves active control across the value chain with respect to design, branding, sourcing, logistics, distribution, pricing, display and promotion of over 90 percent of the product range retailed. This model is more robust and empirical evidence also seems to suggest that globally, retailers who control the entire value chain are relatively more successful.
- ➔ Trent operates 11 Star Dailies, 5 Star Market & 10 Star Hypers in the cities of Mumbai, Pune & Bangalore. The performance of the newer stores (opened in the last couple of years) is broadly in line with expectations, thereby providing support to the effectiveness of the strategy being adopted. Thus the headroom for expansion is substantial and the rollout could be further accelerated.
- ➔ The landmark business strategy has also been revamped which has helped curtailing the old operational inefficiencies to a great extent.

Key Financials

Year Ended 31 st	Mar 14	Mar 15	Mar 16
Revenue (INR mn)	13,915.8	16,183.8	16,627.2
Rev. growth (%)	32.15	16.30	2.74
EBITDA (INR mn)	1,119.4	1,092.3	1,955.9
Net profit (INR mn)	542.4	1,000.3	778.5
Shares outstanding (mn)	33.2	33.2	33.2
EPS (INR)	15.1	28.1	21.6
EPS growth (%)	(13.74)	85.53	(23.09)
P/E (x)	67.70	52.31	73.46
RONW (%)	1.87	2.43	4.85
ROCE (%)	2.47	3.65	7.26

Nishant Chopra

nishantc@indiratrade.com

Info Codes

Reuters	: TREN.NS
Bloomberg	: TRENT:IN
NSE	: TRENT
BSE	: 532343

Market Data

52 Wk Range (₹)	: 135 / 261
Shares in Issue (mn)	: 332.0
Mkt. Cap (₹ bn)	: 83.33
BSE 2 Wk Avg Vol	: 180000

Share Holding Pattern (%)

Promoters Holding	: 32.61
Corporate Holding	: 00.00
Domestic Institution	: 15.46
Foreign Institution	: 27.09
Public & Others	: 24.83

Investment Theme

Economy is a key factor impacting the performance of organized retail. Indian economy is expected to grow at 7-7.8%. The per capita income is expected to grow by 7.3 % to INR 100,000. India is also one of the fastest growing retail and e-commerce markets in the world, and is projected to reach USD 1.3 trn by FY20. While Urbanisation in Metro and Tier I cities is earning good for Organised Retail, Rapid urbanization in tier 2 and tier 3 cities is influencing the traction for organized retail in these cities. Indian Demographics with 50% of its population in the working age wields significant consumption potential. The increasing desires to look good & presentable, influenced by western culture and exposure to e-commerce and social media have boosted the demand for more fashionable clothing & lifestyle products. We therefore feel the prospects of the company are good.

The West side is better !

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 14	Mar 15	% Chg	Mar 16	% Chg
Net Sales	13,170.1	14,400.4	9.3	15,916.6	10.5
Other Income	745.7	1,783.4	139.2	710.6	(60.2)
Change in Stocks	168.5	(138.4)	(182.1)	158.0	(214.2)
Raw Material Con.	6,733.5	6,672.0	(0.9)	7,370.6	10.5
Employee Exp.	1,044.8	1,239.9	18.7	1,325.0	6.9
Indirect Taxes	0.0	0.0	#DIV/0!	0.0	#DIV/0!
Other Exp.	5,213.7	6,177.6	18.5	6,351.2	2.8
Operating Exp.	12,992.0	14,089.5	8.4	15,046.8	6.8
Operating Profit	1,092.3	1,955.9	79.1	1,738.4	(11.1)
Total Interest	153.8	168.6	9.6	416.6	147.1
Gross Profit	938.5	1,787.3	90.4	1,321.8	(26.0)
Net Dep.	256.0	398.4	55.6	352.6	(11.5)
Total Taxation	140.1	388.6	177.4	190.7	(50.9)
Net Profit/Loss	542.4	1,000.3	84.4	778.5	(22.2)

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 13	Mar 14	Mar 15	Mar 16
SOURCES OF FUNDS	18,721.5	16,538.5	16,362.6	18,258.6
Equity Share capital	402.3	332.3	332.3	332.3
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	14,988.0	12,831.9	13,386.9	13,805.5
Secured Loans	1,000.0	1,000.0	0.0	0.0
Unsecured Loans	2,331.2	2,374.3	2,643.4	4,120.8
USES OF FUNDS	18,721.5	16,538.5	16,362.6	18,258.6
Gross Block	3,753.2	4,801.2	5,556.4	6,448.1
Less : Revaluation Reserves	0.0	4.3	41.6	3.8
Less : Accumulated Depreciation	926.0	1,367.5	1,637.1	1,789.2
Net Block	2,827.2	3,429.4	3,877.7	4,655.1
Capital Work in Progress	260.1	363.6	461.8	536.6
Investments	10,404.4	8,624.0	10,374.5	10,590.5
Current Assets	5,196.5	5,133.9	4,151.9	4,405.1
Less : Current Liabilities	2,049.8	2,480.6	3,258.9	2,394.8
Total Net Current Assets	3,146.7	2,653.3	893.0	2,010.3
Misc. Expenses not writtenoff	2,083.1	1,468.2	755.6	466.1
NOTE				
Book Value of Unquoted Investments	10,387.7	8,607.3	10,357.8	10,573.8
Market Value of Quoted Investments	18.2	18.9	23.4	19.5
Contingent Liabilities	1,725.9	1,681.8	1,638.9	1,413.8
Dividend (%)	70.0	70.0	100.0	90.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Dec 15	Mar 16	Jun 16	Sep 16
Net Sales	3,699.4	3,914.7	4,351.2	4,302.1
Cost Of Sales	3,779.7	3,654.7	4,237.9	3,922.9
Operating Profit	(80.3)	260.0	113.3	379.2
Other Income	432.9	238.4	368.6	236.7
Adjusted PBDIT	352.6	498.4	481.9	615.9
Financial Expenses	79.3	92.7	93.8	72.1
Depreciation	95.3	85.6	90.5	98.9
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	178.0	320.1	297.6	444.9
Tax Charges	7.8	87.1	86.9	72.6
Reported Profit	170.2	233.0	210.7	372.3
Extra Ordinary Items	(2.8)	0.0	0.0	0.0
Other Non Cash Adjust	0.1	0.0	0.0	0.0
Adjusted Net Profit	173.1	233.0	210.7	372.3

52 Week Index Relative Percentage Appreciation



Trent vs SENSEX

Risks Associated

- Significant number of global retailers already having presence in India & many global brands plan to roll out stores and consequently, the shortage of quality malls/ standalone real estate in high street locations is seen as a major impediment to the expansion plans of the organized retail in the near term.
- In Retail the availability of relevant talent at acceptable compensation levels continues to be an issue. And employing expatriates, with the attendant higher costs, becomes inevitable in certain areas due to paucity of talent as a company attempts to scale up significantly.
- Electricity is one of the largest components of Retail costs and has increased significantly in recent years, Separately, higher power deficits in select cities has led to increased load shedding and has meant more reliance on generators, which adds to costs.
- Several online players have sought to disrupt the retail market in the last few years with deep discounting funded by overseas shareholders. The sustainability of such deep discounting is debatable but nevertheless it needs to be handled at least in case of target audiences.
- The taxation regime in India and the multiplicity of taxes still continues to be an issue. The primary negatives being the increase in the service tax which has contributed to an increase in the already high cost of occupancy. Further, the increase in the excise duty on readymade garment would impact the margins.

Trent

In a Nutshell

Established in 1998 and part of the Tata group, Trent operates Westside, one of India's largest and fastest growing retail chains; Star Bazaar, a hypermarket chain and Landmark a family entertainment format store. The company has already established 90 Westside departmental stores measuring 8,000-34,000 sqft in floor space across 60 cities. The Westside stores have several departments to meet the varied shopping needs of customers. These include menswear, women's wear, kids' wear, footwear, cosmetics, perfumes and handbags, household furniture accessories, lingerie, and gifts. Well-designed interiors, sprawling space, prime locations and coffee shops enhance the customers' shopping experience. Trent ventured into the hypermarket business in 2004 with Star Bazaar, providing an ample assortment of products made available at the lowest prices, aptly exemplifying its 'Helping you spend less' motto. This store offers customers an eclectic array of products that include staple foods, beverages, health and beauty products, vegetables, fruits, dairy products, consumer electronics, and household items, at the most affordable prices. Star Bazaar also includes a large range of fashionable in-house garments for men, women and children, exclusively available at the store. In addition, Trent acquired a 76 percent stake in Landmark, one of the largest books and music retail chains in the country and began operations in 1987 with its first store in Chennai with a floor space of 5,500 sqft. Landmark sparked the trend of stocking curios and other gift items. We feel with consumer spending on the rise profits may flow in all 3 formats of Trent.

Indira Group Offices

Registered Office : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007
Tel : 022-66224202 **Fax** : 022-66224201 **Email** : im@indiratrade.com

Administrative Office : 204-205 "Amardarshan" 28/2 Old Palasia, Indore (MP) 452018
Tel : 0731-4097170 **Fax** : 0731-4215999 **Email** : customercare@indiratrade.com

Institutional Dealing Unit : 5, Indira House, 3rd Floor, Topiwala Lane, Lamington Road, Mumbai – 400007
Tel : 022-66224209 **Fax** : 022-66224201 **Email** : ie@indiratrade.com

Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months	Reduce : Expected to depreciate up to 10% over 12-months
Accumulate : Expected to appreciate 10% to 20% over 12-months	Sell : Expected to depreciate 10% or more over 12-months
Trade Buy : Expected to appreciate more than 10% over 45-days	Trade Sell : Expected to depreciate more than 10% over 45-days

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