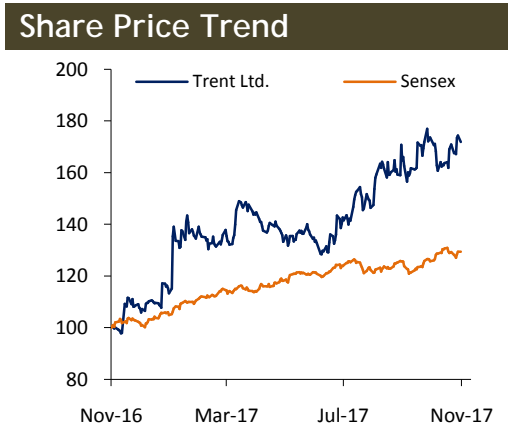


Sector	Retail
Recommendation	BUY
Upside	22.3%

Stock Data	
Sensex	33,562
52 Week h/l (₹):	348 / 177
Market cap (₹ Cr) :	11,299
BSE code:	500251
NSE code:	TRENT
FV (₹):	1.0
Div yield (%):	0.29

Shareholding Pattern			
	Mar-17	Jun-17	Sep-17
Promoters	32.6	32.6	32.6
DII+FII	38.8	38.7	38.5
Individuals	28.6	28.7	28.9

Source: www.bseindia.com



Prices as on 22/11/2017

Analyst- Khadija Mantri
research@iifl.com

November 23, 2017

Aggressive expansion plan for Westside bodes well for growth

Trent is aggressively expanding its flagship Westside business, which has grown at 17% CAGR (FY10-17) in sales. The company plans to add 20-25 stores in the next two years scaling up to ~150 stores by FY19E. The company targets to achieve break-even in 12 months for the new stores. Westside's USP is its own private label offerings (95%), which provide it the control over merchandise design, quality and entire value chain. This in turn helps it control costs and achieve better gross margins in the range of 48-50% vs. 35% of its peer i.e. Shoppers Stop. We believe that increasing share of apparels (77% of sales in FY17) in discretionary spending and well established franchise in women's wear category (~52% of apparel sales in FY17) provides it a competitive edge. We anticipate Westside to register 17.3% sales CAGR over FY17-20E (comprising 97% of standalone sales).

Revamp of 'Star Bazaar' to lead to turnaround

Trent expects that adoption of mid-size 8,000-10,000sq ft 'Star Market' format (earlier 5,000- 50,000 sq ft) will prove to be more conducive for revenue per sq feet growth and margins as well. Hence, the company plans to open 15-20 Star Market stores in order to reach 200 stores mark in the next three years (65 stores by year end). In Star Bazaar too, the company plans to offer 70-80% of own private labels (currently 50%). We believe, over 200 private label SKUs and increasing share of FMCG products will generate faster sales and higher margins. Further, India's food industry is envisaged at Rs 23 lakh cr representing huge opportunity for supermarkets. Thus, we expect 12.3% sales CAGR over FY17-20E and breakeven at operating level in FY20E.

Financial Summary

Consolidated ₹ cr	FY17	FY18E	FY19E	FY20E
Revenue	1,834	2,195	2,566	2,958
YoY Growth (%)	15	20	17	15
EBITDA Margin (%)	6.9	8.6	9.1	9.5
PAT	59	118	184	247
YoY Growth (%)	0	102	55	34
EPS (₹)	1.8	3.6	5.5	7.4
P/E (x)	191.1	95.4	61.4	45.8
ROE (%)	3.8	7.3	10.4	12.2

Source: Company, IIFL Research, Zara and THPL JVs impact incorporated at PAT level as per IND-AS

Zara - a tailwind for profits

Trent's JV with Inditex for Zara has been the most consistent performer, delivering sales at a CAGR of ~45% (FY11-17). It has an average store sale of ₹ 50 cr p.a. Zara is a global player with excellent sourcing capabilities and inventory management. The company plans to open 2-3 Zara stores annually over the next three to four years in India. Zara's profits would grow at a CAGR of 30.9% over FY17-20E, while contributing ~ 22% to Trent's bottom-line.

Store additions and lower rentals to strengthen margins

Trent's increasing scale through store additions in Westside along with better product mix in Star Bazaar is likely to increase its profitability. Moreover, focus on mid-sized stores in Star Bazaar may lead to decline in rentals, thereby, improving margins. We expect a 260 bps expansion in EBITDA margins by FY20E to 9.5% (6.9% in FY17).

Outlook and Valuation

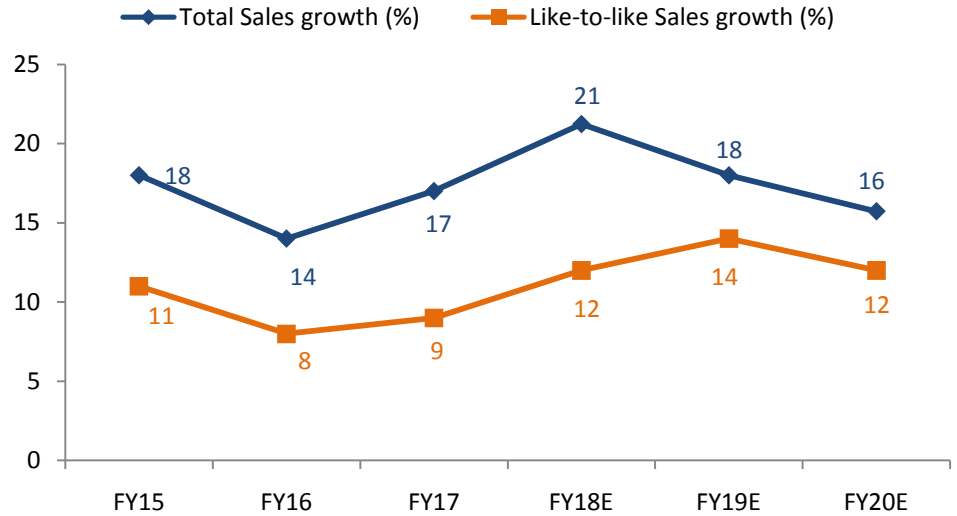
Retail industry contributes over 20% to India's GDP (Source: Trent FY17 Annual Report). The Indian retail market is expected to reach US\$ 1.3 trn by 2020 (US\$ 641 bn in 2016) driven by increasing fashion consciousness, rising disposable income and increasing spends in Tier-II and Tier-III cities. We believe Trent is well poised to tap this opportunity given its dominance in Women's apparel (Westside and Zara JV), restructuring of Star Bazaar business and focus on private labels. We expect sales and PAT to grow at a CAGR of ~17% and ~61% over FY17-20E respectively. Trent currently trades at 45.8x FY20E EPS, whereas its peers Avenue Supermarts and Shoppers Stop trade at 52x and 49x FY20E EPS respectively. Trent's PEG ratio (based on earnings CAGR FY17-20E) at 0.75 is also lesser than Avenue Supermarts and Shoppers Stop. On a relative basis, Trent has more upside potential given stronger earnings prospects, hence, we recommend Buy, valuing it at 56x FY20E at Rs 416.

Peer Comparison

Companies	Sales CAGR (FY17-20E)	PAT CAGR (FY17-20E)	P/E (FY20E)	PEG ratio
Trent	17%	61%	45.8	0.75
Shoppers Stop	9%	*47%	49.0	0.90
Avenue Supermarts	29%	44%	52.0	1.20

Source: Company, IIFL Research, Cogencis and Bloomberg for consensus estimates for Shoppers stop, and Avenue Supermarts, * CAGR from FY18-20E

Westside - Attractive sales growth trend

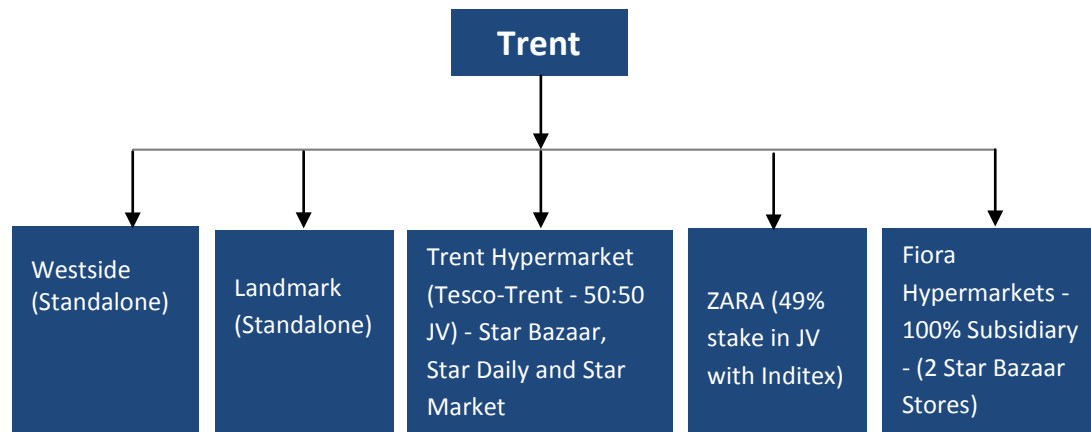


Source: Company, IIFL Research

Company Background

Trent primarily operates stores across three formats i.e. Westside, Landmark and Star. Westside is Trent’s flagship format, which offers apparel, footwear and accessories along with furnishings and home accessories. It is present in 61 cities with 108 stores. Landmark offers a range of toys, front-list books and sports merchandize. Trent Hypermarket Private Limited (THPL) is a 50:50 joint venture (JV) between Trent and UK-based Tesco Plc. THPL operates Star Bazaar, Star Market and Star Daily retail businesses and has 42 stores. These stores offer staple foods, beverages, health & beauty products, etc. It also has two separate JVs with Inditex group of Spain i.e. Zara with a shareholding of 51% (Inditex):49% (Trent), and the other for Massimo Dutti stores with the similar shareholding pattern.

Trent’s key businesses



Source: Company, IIFL Research



IIFL

Premia Research

Disclaimer

Recommendation Parameters for Fundamental/Technical Reports:

Buy – Absolute return of over +10%

Accumulate – Absolute return between 0% to +10%

Reduce – Absolute return between 0% to -10%

Sell – Absolute return below -10%

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