

25 Sep 2024 16:11:35 ET | 47 pages

Trent Ltd (TREN.NS)

Initiate at Buy: On the Fast (Fashion) Growth Trend; New Top Pick



CITI'S TAKE

We initiate on Trent, Tata Group's fashion & lifestyle business, with a Buy and an SOTP-based TP of Rs9,250. Its transformation from a single-format (Westside) to a multi-format (Westside, Zudio, Star, Samoh, Utsa, Misbu, etc.) and multi-category (fashion & lifestyle, grocery, beauty personal care & fashion accessories) player led to a higher revenue CAGR (36% in FY19-24) vs. India's leading consumer discretionary and retail peers. We model for Trent industry-leading rev/EBITDA/PAT CAGRs of 41/44/56% in FY24-27E. Leveraging on its supply chain, as well as learnings from Westside and Zudio, Trent is turning around Star and can meaningfully scale up other pilot projects (Misbu, Samoh, MAS JV). In addition to ranking it a top pick in our India consumer discretionary and retail coverage, we include Trent in our Pan-Asia high-conviction Focus List. Risks: a slowdown in Zudio store expansion, keener competition, limited success in new formats.

Outpacing peers, driving Street upgrades — Trent has a higher revenue CAGR than India's leading listed consumer discretionary and retail companies, led by store expansion under Zudio along with rising rev per sq ft at Westside and Zudio. FY25 and FY26 consensus rev/EBITDA/EPS have in just 12 months jumped 26/51/87% and 39/63/127%, respectively, defying weak consumer sentiment, a slowdown in discretionary spending, and downgrades for most other consumer stocks.

Adding organic growth engines — Trent launched Zudio in FY18 and is piloting more formats to add 2-3 more growth engines. Star (grocery) is already showing turnaround signs and can be meaningfully scaled up if profitability is sustained. Such other formats as Misbu (beauty, personal care & fashion accessories), Samoh (fashion & lifestyle) and MAS JV (intimate wear & other apparel) also have the potential to ramp up in the medium term and drive further upside.

Valuation and pecking order — Our TP of Rs9,250 is based on SOTP: (a) standalone business: 65x Jun'26E EV/EBITDA, a 20% premium to the average EV/EBITDA for high-growth consumer peers - justified in our view given its stronger rev/EBITDA CAGRs of 41/44% in FY24-27E; 6-17% above consensus); (b) Star: 6x Jun'26E EV/Sales on turnaround signs; (c) Zara: 35x Jun'26E EV/EBITDA, lower than peers for slower growth. Our India consumer discretionary and retail pecking order is Trent, Jubilant FoodWorks, Kalyan Jewellers, and Devyani International.

Buy

Price (25 Sep 24 15:30)	Rs7,614.90
Target price	Rs9,250.00
Expected share price return	21.5%
Expected dividend yield	0.1%
Expected total return	21.5%
Market Cap	Rs2,707,002M US\$32,377M

Price Performance

(RIC: TREN.NS, BB: TRENT IN)



Earnings Summary

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2023A	5,546	15.60	111.0	na	87.9	19.1	0.0
2024A	8,925	25.10	60.9	na	60.9	23.7	0.0
2025E	17,210	48.41	92.8	157.3	45.1	33.0	0.1
2026E	24,887	70.01	44.6	108.8	35.0	36.2	0.3
2027E	33,943	95.48	36.4	79.8	27.7	38.8	0.5

Source: Powered by dataCentral

Ashish Kanodia, CFA^{AC}

+91-22-6175-9805

ashish.kanodia@citi.com

See Appendix A-1 for Analyst Certification, Important Disclosures and Research Analyst Affiliations.

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TREN.NS: Fiscal year end 31-Mar						Price: Rs7,614.90; TP: Rs9,250.00; Market Cap: Rs2,707,002m; Recomm: Buy					
Profit & Loss (Rsm)	2023	2024	2025E	2026E	2027E	Valuation ratios	2023	2024	2025E	2026E	2027E
Sales revenue	77,152	119,266	184,758	256,901	337,208	PE (x)	na	na	na	na	79.8
Cost of sales	-42,156	-65,407	-99,246	-137,344	-179,427	PB (x)	87.9	60.9	45.1	35.0	27.7
Gross profit	34,996	53,859	85,512	119,558	157,781	EV/EBITDA (x)	na	na	88.2	62.2	46.5
Gross Margin (%)	45.4	45.2	46.3	46.5	46.8	FCF yield (%)	0.1	0.2	0.6	0.9	1.2
EBITDA (Adj)	11,193	19,269	30,461	43,040	57,348	Dividend yield (%)	0.0	0.0	0.1	0.3	0.5
EBITDA Margin (Adj) (%)	14.5	16.2	16.5	16.8	17.0	Payout ratio (%)	14	13	10	30	40
Depreciation	-4,632	-6,385	-7,885	-10,040	-12,127	ROE (%)	19.1	38.2	33.0	36.2	38.8
Amortisation	0	0	0	0	0	Cashflow (Rsm)	2023	2024	2025E	2026E	2027E
EBIT (Adj)	6,560	12,884	22,577	33,001	45,221	EBITDA	11,193	19,269	30,461	43,040	57,348
EBIT Margin (Adj) (%)	8.5	10.8	12.2	12.8	13.4	Working capital	-2,707	-2,725	-4,893	-6,490	-8,354
Net interest	-3,572	-3,094	-1,405	-1,779	-2,136	Other	-1,857	-3,061	-5,737	-8,296	-11,314
Associates	0	0	0	0	0	Operating cashflow	6,628	13,484	19,832	28,255	37,680
Non-Op/Except/Other Adj	4,117	3,509	1,774	1,961	2,173	Capex	-4,950	-7,241	-4,260	-4,760	-4,760
Pre-tax profit	7,105	13,300	22,946	33,183	45,258	Net acq/disposals	3,436	2,224	-940	-1,149	-1,396
Tax	-1,559	-4,375	-5,737	-8,296	-11,314	Other	84	32	192	211	232
Extraord./Min.Int./Pref.div.	0	5,434	0	0	0	Investing cashflow	-1,430	-4,985	-5,008	-5,698	-5,924
Reported net profit	5,546	14,358	17,210	24,887	33,943	Dividends paid	-393	-783	-1,721	-7,466	-13,577
Net Margin (%)	7.2	12.0	9.3	9.7	10.1	Financing cashflow	-5,152	-6,425	-8,340	-16,156	-24,399
Core NPAT	5,546	8,925	17,210	24,887	33,943	Net change in cash	46	2,074	6,484	6,400	7,356
Per share data	2023	2024	2025E	2026E	2027E	Free cashflow to s/holders	1,679	6,243	15,572	23,495	32,920
Reported EPS (Rs)	15.60	40.39	48.41	70.01	95.48						
Core EPS (Rs)	15.60	25.10	48.41	70.01	95.48						
DPS (Rs)	2.20	3.20	4.84	21.00	38.19						
CFPS (Rs)	18.65	37.93	55.79	79.48	105.99						
FCFPS (Rs)	4.72	17.56	43.80	66.09	92.60						
BVPS (Rs)	86.64	125.10	168.67	217.67	274.96						
Wtd avg ord shares (m)	356	356	356	356	356						
Wtd avg diluted shares (m)	356	356	356	356	356						
Growth rates	2023	2024	2025E	2026E	2027E						
Sales revenue (%)	98.8	54.6	54.9	39.0	31.3						
EBIT (Adj) (%)	87.2	96.4	75.2	46.2	37.0						
Core NPAT (%)	111.0	60.9	92.8	44.6	36.4						
Core EPS (%)	111.0	60.9	92.8	44.6	36.4						
Balance Sheet (Rsm)	2023	2024	2025E	2026E	2027E						
Cash & cash equiv.	789	2,862	9,346	15,746	23,103						
Accounts receivables	314	786	1,012	1,408	1,848						
Inventory	13,369	15,648	21,260	28,154	36,954						
Net fixed & other tangibles	51,208	35,250	44,235	51,422	57,878						
Goodwill & intangibles	777	744	744	744	744						
Financial & other assets	16,754	19,291	21,813	24,712	28,049						
Total assets	83,211	74,581	98,409	122,185	148,576						
Accounts payable	6,437	7,523	10,124	14,077	18,477						
Short-term debt	0	0	0	0	0						
Long-term debt	4,980	4,986	4,986	4,986	4,986						
Provisions & other liab	40,996	17,601	23,339	25,741	27,365						
Total liabilities	52,412	30,109	38,449	44,803	50,828						
Shareholders' equity	30,799	44,472	59,961	77,382	97,748						
Minority interests	0	0	0	0	0						
Total equity	30,799	44,472	59,961	77,382	97,748						
Net debt (Adj)	4,191	2,124	-4,360	-10,760	-18,117						
Net debt to equity (Adj) (%)	13.6	4.8	-7.3	-13.9	-18.5						

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Executive Summary

We initiate on Trent (Tata Group's fashion & lifestyle business) with a Buy rating and a TP of Rs9,250. Trent is one of the leading and fastest growing fashion & lifestyle retailers in India. As on 1QFY25, Trent operated 823 fashion stores - 228 Westside, 559 Zudio and 36 Other lifestyle/fashion formats (Utsa, Misbu, Samoh) and 72 Star stores (grocery supermarket under a 50:50 JV between Trent & Tesco Plc UK). Trent also has a 35% financial stake in company operating 23 Zara and 49% financial stake in a company operating 3 Massimo Dutti stores in India. While incumbents have focused on 'Buying' businesses/growth, Trent's strategy has been to 'Build' businesses - either organically or through global partnership/tie-ups.

Value retailing in India is undergoing a paradigm shift led by consumers being more discerning and aspirational and hence the need for (a) better shopping experience (shift from unorganized to organized); (b) fashionable product (fast fashion); (c) better value proposition (affordability); and (d) increasing wardrobe size. While there are multiple players in value fashion retailing such as Max Fashion (518+ stores; opened first store in 2006), VMart (370+ stores; opened first store in 2003), the industry dynamics has changed meaningfully FY19 onwards as Zudio started to scale (from 56 stores in FY19 to 559 stores as on 1QFY25) leveraging on the erstwhile investments of Trent/Westside in backend supply chain which allows active ownership across the value chain - technology stack, design, branding, sourcing, logistics, warehousing, pricing, display, promotion and selling. This has enabled quick conversion "from concept to shelf", delivering latest fashion trends every week through a portfolio of exclusive retail brands (20+).

Pecking order: Within our Consumer Discretionary and Retail coverage universe, we are Buy rated on Trent, Kalyan Jewellers, Devyani International and Jubilant FoodWorks - our pecking order is now: Trent, Jubilant FoodWorks, Kalyan Jewellers, Devyani International. Within our Consumer Durable and Electricals coverage - we are Buy rated on Crompton, Polycab, RR Kabel and Voltas - our pecking order is: Polycab, RR Kabel, Crompton and Voltas.

Our FY25E-27E revenue and EBITDA estimates are 6-15% and 6-17% above consensus. We think there is risk to consensus earnings upgrade led by (a) uptick in store expansion for Zudio - added 14 net stores in 1QFY25 vs guidance of 200 store addition in FY25 (added 193 in FY24 and 119 in FY23); and (b) increase in avg store size for Zudio - 1QFY25 avg store size increased by 20% YoY to ~9,300 sq ft.

Investment Thesis

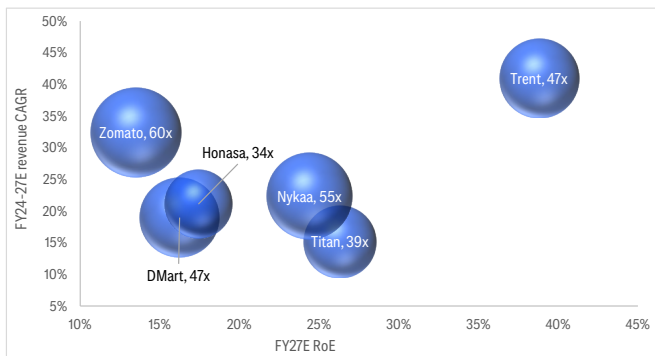
■ **Multi-Pronged Growth Drivers:** Over the past decade, Trent has evolved from a single format (Westside) to multi-format (Westside, Zudio, Star, Samoh, Utsa, Misbu, etc.) and multi-category (fashion & lifestyle, grocery, beauty personal care & fashion accessories) player leading to (a) acceleration in growth rate (led by Zudio): 36% revenue CAGR over FY19-24 (despite the impact of Covid and slowdown in discretionary consumption) vs 15% during FY14-19; and (b) increased profitability/RoCE: 47% PAT CAGR over FY19-24 vs 23% during FY14-19. We expect Standalone revenue/EBITDA/PAT CAGR of 41%/44%/56% over FY24-27E led by sustained store expansion under Zudio, improvement in overall throughput and margin expansion (led by operating leverage).

- **Star Is Turning Around:** While Star has been loss making (Rs10.6bn cumulative PAT loss over FY12-23), over the last few qtrs, there are signs of business turning around in terms of better LFL growth, increasing revenue per sq ft and profitability. This is also leading to acceleration in the pace of store expansion - management in its FY24 AGM has highlighted that they are ready to launch Star as the third engine of growth for Trent and expect to add 20-25 stores (highest in the last 8-10years) in FY25E (added 6 stores in 1QFY25) and increase the pace of store expansion further going forward.
- **Formats Under Pilot/Incubation Can Surprise:** Trent is piloting few new formats across fashion & lifestyle (under Utsa, Samoh) and beauty, personal care, fashion accessories and décor (under Misbu). Trent has also announced partnering with MAS Amity Pte. (MAS) Ltd to form a 50:50 JV for sourcing, design and manufacture of lingerie, activewear and related products. While these formats are still in the early days, Samoh and MAS JV could potentially ramp-up the pace/scale-up meaningfully given the category complexity, Trent's experience and retail presence bundled with technical and backend (sourcing, manufacturing, designing, etc) capability of MAS.

Valuations

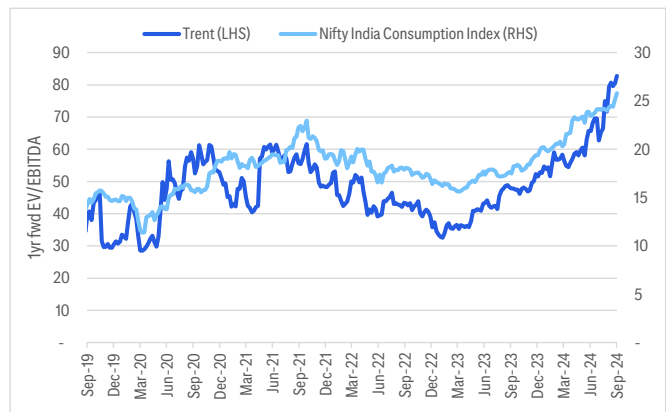
While Trent's stock price had a phenomenal journey over the last 5yr (72% CAGR) – it was led by (a) earnings growth (62% reported EPS CAGR); and (b) overall re-rating in Indian Consumer Companies. Also, we don't think it is right to compare Trent's multiple to most other consumer / retail companies given significant difference in the growth profile (ex-Trent, we estimate avg 16% revenue CAGR over FY24-27E for our India coverage consumer discretionary, retail and consumer durables / electricals companies). We believe, given higher growth rate of Trent, it should be compared to other wider consumer names (within Citi India coverage universe) with relatively higher growth (as well as scale/leadership position). Amongst the 6 high growth stocks (Trent, Zomato, Nykaa, Honasa, DMart and Titan), Trent is trading at premium to Honasa (36% premium) and Titan (20% premium), at par to DMart and at discount to Zomato (20% discount) and Nykaa (15% discount) despite highest growth expectations amongst all these 6 companies.

Figure 1. Valuation Comparison for wider Consumer names with high growth expectations



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Size of the bubble denotes FY27E EV/EBITDA multiple
Source: Citi Research, Citi Research Estimates

Figure 2. Trent vs Nifty India Consumption Index - 1yr fwd EV/EBITDA



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Source: Citi Research, Bloomberg

Key Risks

Post the successful scale-up of Zudio, multiple players have forayed/increased their focus in the value retailing segment. While the value apparel segment is large (USD50-70bn) and highly unorganized, increasing store density may put pressure on overall profitability. Most of the recent value fashion players have similar price points (everything under Rs999), store size and experience, etc. but what truly differentiates them is the value proposition (fashion and quality of the product).

The competitive intensity and the industry landscape may also change materially led by foray of Primark, Shein (ET; July 4, 2024), etc. in India. The competitive intensity will not only be about customer/market share but also for talent (for e.g., the business head for InTune and Style Up are ex-Trent employee), real estate and sourcing/vendor, etc.

Figure 3. Multiple large players aspire to scale up in the value segment

Company	Format	Store count	Comments
Reliance Retail	Yousta	35+	Forayed in Aug'23 Plans to identify and open at least 200 stores; aims to be a large player in the market over the next 3yrs
Shoppers Stop	InTune	31+	Forayed in June'23 Plan to add 80 stores in FY25 which will take the InTune store count to 100 by the end of FY25. Sales per sq ft of Rs11,000; 80% full price sell thru; 33% conversion; EBITDA positive at store level
ABFRL	Style Up	32+	Forayed in 2019 Plans to add over 30 new stores in FY25

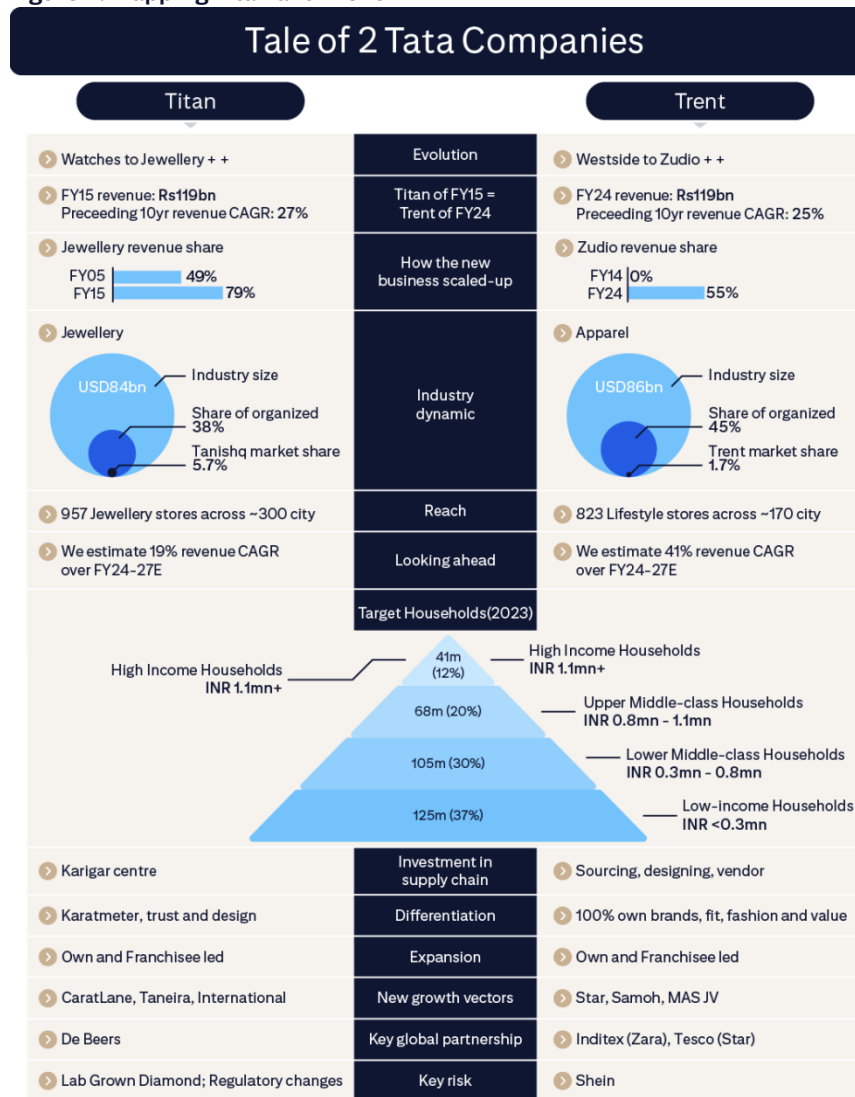
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Source: Citi Research, Company Reports

Tale of 2 Tata Companies

Titan and Trent: A perspective on business evolution, growth and scale

Although Titan and Trent operate in different business segments/verticals, we believe, there are multiple similarities in which both these companies have created market leadership position and scaled-up their businesses profitably. Some of the key similarities are (a) investment in supply chain/back end - helps in building competitive advantage for the long run; (b) expanding store through own and franchise model – leveraging Tata brand and trust factor, superior profitability; (c) long gestation period while investing in new formats – for e.g., investments in *Cartalane* by Titan and investment in *Star* by Trent despite both businesses taking time to turn profitable; (d) partnering with global brands and incorporating some of their best practices in India; and (e) adding new growth engines organically.

Figure 4. Mapping Titan and Trent



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The above is not an exhaustive list

Source: Citi Research, Company Reports and Citi Research Estimates

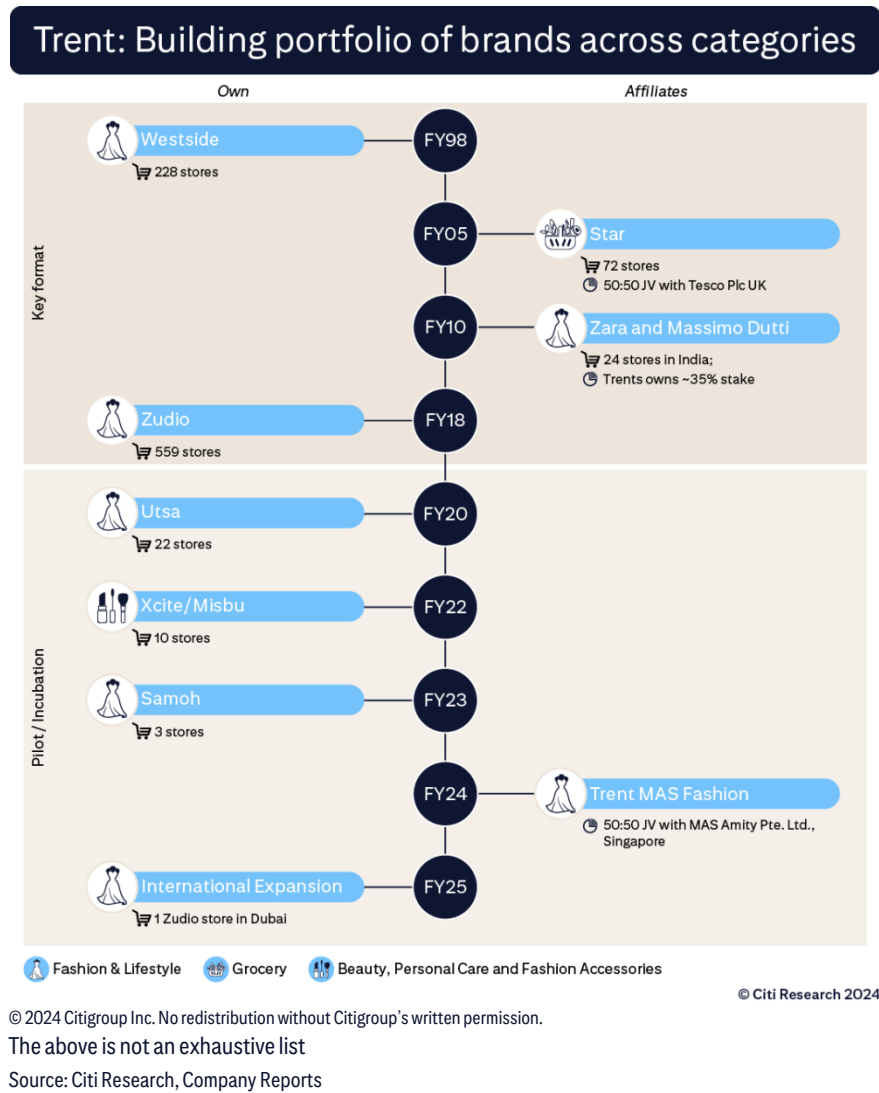
Trent: Expanding Categories And Building Portfolio Of Brands

Company overview

Trent Limited (“Trent”) was originally incorporated as Lakme Limited (“Lakme”) in 1952 and was in the business of manufacturing, sale and export of cosmetics, toiletries and perfumery products. However, in 1998, Lakme decided to divest from its cosmetics business and pursue apparel retailing by opening a chain of departmental stores across the country which subsequently led to the change in the name of the company from Lakme to Trent.

Today, Trent is one of the largest and fastest growing fashion & lifestyle retailers in India boasting a portfolio of 100% private labels / own brands (20+ brands) which are retailed exclusively through its own retail formats - across Westside, Zudio, Utsa, Samoh, Misbu. Unlike many other brands/retailers, Trent’s products are not available on marketplaces/aggregators. Only Westside products are sold online through its own website/app and through Tata Cliq and Tata Neu.

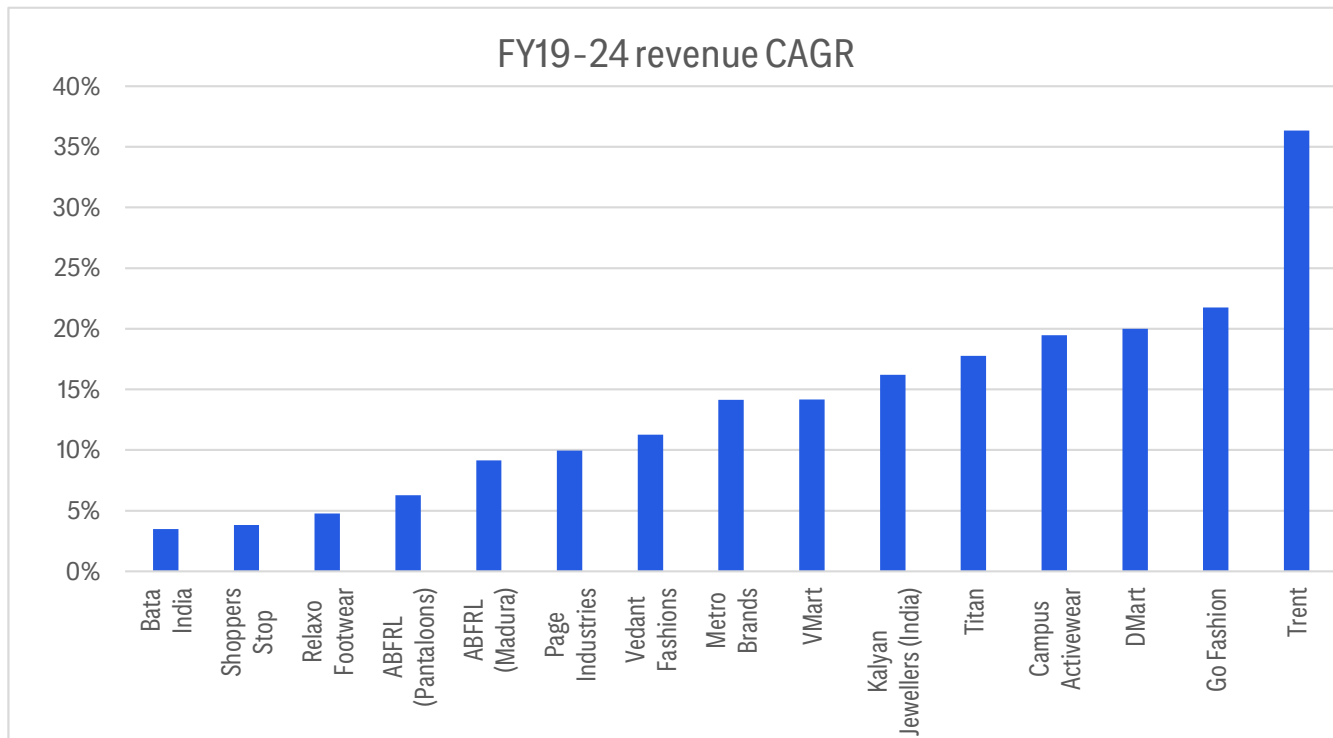
Figure 5. Trent - Portfolio of Concepts/Brands



Trailblazing Growth

Over the last 5yrs (FY19-24), Trent has reported highest revenue CAGR amongst some of the leading listed Consumer Discretionary and Retail companies in India. Trent's strategy to "Build" rather than "Buy" has been a key driver of creating successful new growth engines. During the initial phase, Trent invested intensively in its supply chain to create a resilient business; revenue growth during FY09-19 was 17% and was predominantly led by Westside (from 36 stores in FY09 to 150 stores in FY19 implying 15% store CAGR). However, revenue growth rate during FY19-24 more than doubled to 36% CAGR (despite Covid led disruption and slowdown in discretionary spending) led by Trent expanding its brand portfolio through Zudio (from 56 stores in FY19 to 545 stores in FY24) and steady state growth under Westside (9% store CAGR; 232 stores in FY24).

Figure 6. Trent has registered highest revenue CAGR over FY19-24 across Consumer Discretionary and Retail companies



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Source: Citi Research, Company Reports and Citi Research Estimates

Leveraging On Its Integrated Supply Chain

One of the key drivers of Trent’s success has been freshness of product and zero-discounting (except for the end of season sale) and advertisement. This was made possible due to Trent’s erstwhile investment in backend supply chain which allows active ownership across the value chain - technology stack, design, branding, sourcing, logistics, warehousing, pricing, display, promotion and selling. This has enabled quick conversion “from concept to shelf”, delivering latest fashion trends every week through a portfolio of exclusive retail brands.

On the front end, while the portfolio of formats (and brands) is highly differentiated in terms of product, category, pricing/value proposition, target customer, experience, etc, at the backend, all the formats (Westside, Zudio, Star, Samoh, Misbu, etc.) are seamlessly and completely integrated in terms of supply chain, logistics, warehousing, technology, operations, etc. Trent was the first Indian company to launch the “Fast N Fab” concept – a capsule collection of three to four looks in each brand hits select stores on the third Friday each month. Fast N Fab brings the latest fashion trends from the “design room to the store” in **just 12 days**.

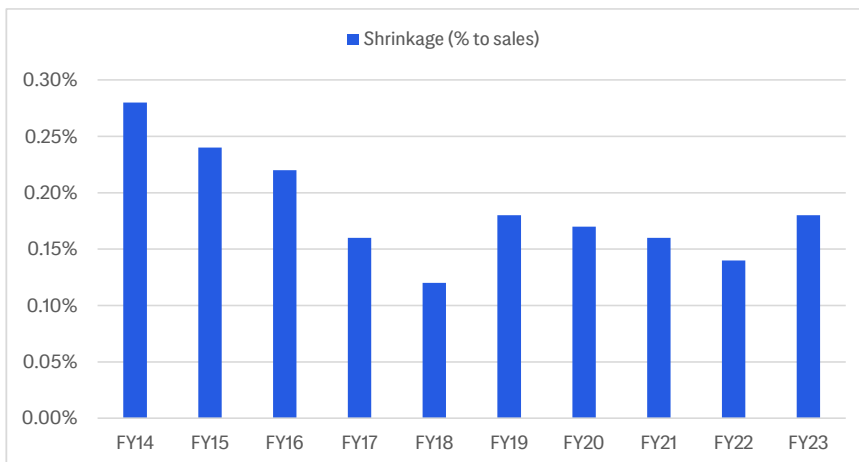
Figure 7. Indicative timeline and process on how Trent’s “Fast N Fab” drives a design from “concept to shelf” for its power brands in less than 2 weeks

Day	Process
Day 1	The process is initiated through a creative meeting where ideas are presented. Once approved, the tech packs are created.
Day 2	The factory receives the tech packs and creates samples.
Day 3	The samples are checked and signed off.
Day 4-7	The garments get into the production cycle.
Day 8-10	The garments are packed and transferred to stores. Samples are shot in the in-house studio.
Day 11-12	The garments are sent to the stores for display.

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Source: Citi Research, Company Reports and Citi Research Estimates

Figure 8. Trent has one of the lowest shrinkages (consistently) in the industry



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Source: Citi Research, Company Reports

Building Multi-Dimensional Growth Strategies

Over the past decade, Trent has evolved from a single format (Westside) to multi-format (Westside, Zudio, Star, Samoh, Utsa, Misbu. Etc.) and multi-category (fashion & lifestyle, grocery, beauty personal care & fashion accessories) player leading to (a) acceleration in growth rate (led by Zudio): 36% revenue CAGR over FY19-24 (despite the impact of Covid and slowdown in discretionary consumption) vs 15% during FY14-19; and (b) increased profitability/RoCE: 47% PAT CAGR over FY19-24 vs 23% during FY14-19. We expect revenue/EBITDA/PAT CAGR of 41%/44%/56% over FY24-27E led by sustained store expansion under Zudio, improvement in overall throughput and margin expansion (led by operating leverage). We see further upside risks to our revenue estimates from (a) potential ramp-up of stores under Samoh and/or Misbu; and (b) ability to replicate Zudio’s success in international market (opened first Zudio store in Dubai).

Trent operates (a) 823 stores in fashion & lifestyle category comprising of its flagship format of Westside (228) and Zudio (559) and pilot formats of Misbu,

Samoh and Utsa (36 stores collectively); (b) 72 Star (grocery retailing; 50:50 JV with Tesco Plc); (c) 23 Zara/3 Massimo Dutti (35%/49% stake held by Trent).

Westside: A Destination Brand

Westside opened its first store in 1998 and is the flagship formats of Trent offering 100% in-house brands (20+ brands; divided into Modern and Contemporary) across apparel, innerwear, footwear, accessories for women (shelf space and product offering are skewed slightly towards women), men and children along with a wide range of home furnishings and décor. Each brand under Westside seeks to address a unique customer need, catering to individual styles and aspirations across lifestyle categories including fashion, beauty, lingerie and footwear.

Figure 9. Brand portfolio of Westside



Source: Company Reports

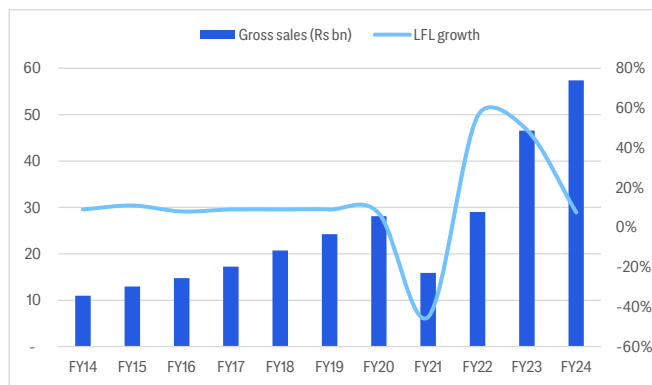
Westside is a destination retail format with business model focusing on elevation of overall customer proposition with on-trend fashion, aspirational brand experience (large store size) and convenient access across store and digital channels (online exclusively through Westside.com, Tata CliQ and Tata Neu only). The format has consistently reported positive LFL (avg ~9%) during FY11-20. As on 1QFY25, Westside operated 228 stores (4.6mn sq ft retail area; avg store size of ~20,000 sq ft) spread across 86 cities.

Figure 10. Westside store addition has been relatively moderate (11% CAGR over FY14-24)



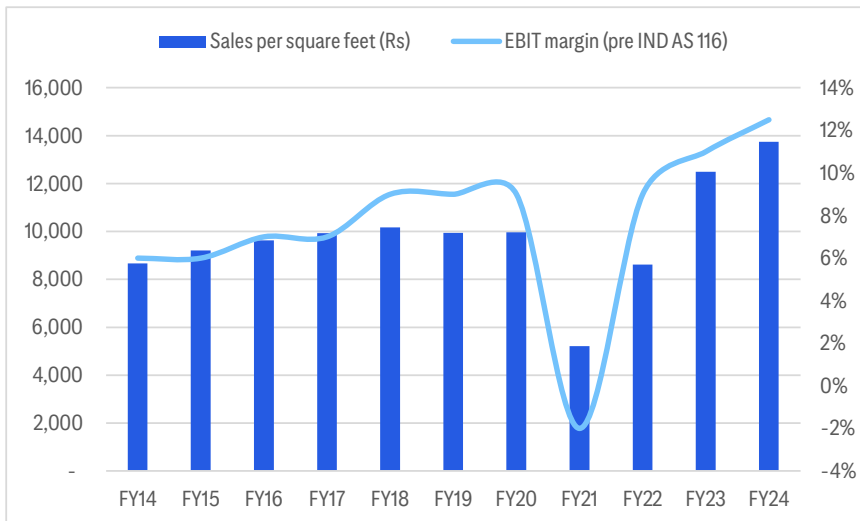
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Figure 11. Westside avg LFL of 12% (Industry leading) led to revenue CAGR of 18% over FY14-24



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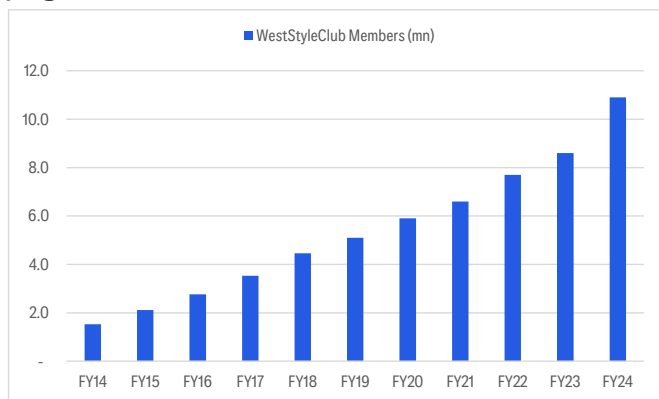
Figure 12. Despite slowdown in discretionary spending, Westside sales per sq ft has continue to grow which also led to margin improvement



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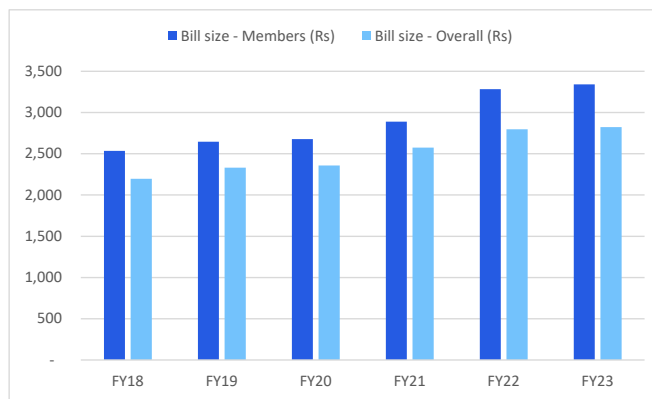
Westside also has a membership program “WestStyleClub” (10.9mn members as on FY24); members accounts for more than 80% of revenue.

Figure 13. Westside has continuously grown its loyalty program member



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Figure 14. Members on an avg spend 15-20% more on per bill



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Zudio: Turbocharging Growth

Zudio has been the fastest growing format for Trent and surpassed Westside in terms of store count in FY22 and in terms of revenue in FY24. Zudio was carved out as a separate format (from Star) in FY18 and is known for offering fast fashion products (100% own brands) at a very sharp price (everything is priced below

Rs999) for women, men and children. As on 1QFY25, Trent operated 559 Zudio stores (5.2mn sq ft area; avg store size of ~9,300 sq ft) spread across 164 cities.

While the GM is meaningfully lower for Zudio vis-à-vis Westside (Citi est: ~40% for Zudio vs ~55% for Westside), EBIT margin is only ~100bps lower for matured store (Citi est) led by much higher revenue per sq ft (Citi est:~1.5x of Westside).

Figure 15. Indicative store economics for Westside and Zudio

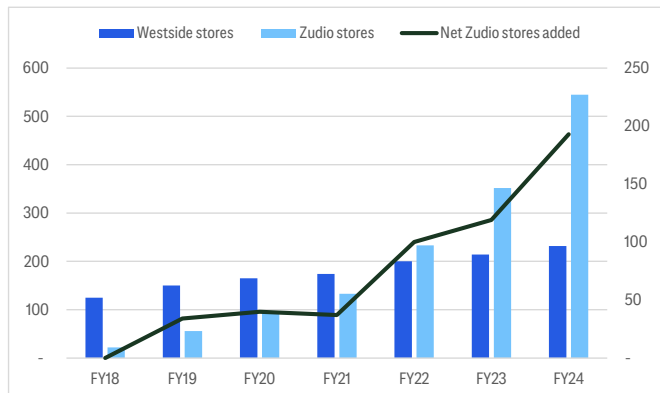
Indicative matured store economics (COCO)	Per store (Rs mn)		Per sq ft (Rs)	
	Westside	Zudio	Westside	Zudio
Revenue	280	200	14,000	20,000
Gross profit	154	80	7,700	8,000
<i>Gross margin</i>	55.0%	40.0%	55.0%	40.0%
Operating cost	113	55	5,670	5,500
<i>As % of sales</i>	40.5%	27.5%	40.5%	27.5%
EBITDA	41	25	2,030	2,500
<i>EBITDA margin</i>	14.5%	12.5%	14.5%	12.5%
Depreciation	4.2	2.0	210	200
<i>As % of sales</i>	1.5%	1.0%	1.5%	1.0%
EBIT	36	23	1,820	2,300
<i>EBIT margin</i>	13.0%	11.5%	13.0%	11.5%
Capex	25	10	1,250	1,000
Inventory	35	15	1,750	1,500
Deposit	25	10	1,250	1,000
Capital Employed	85	35	4,250	3,500
RoCE (pre-tax)	43%	66%	43%	66%
Avg store size (sq ft)	20,000	10,000	20,000	10,000

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Source: Citi Research Estimates

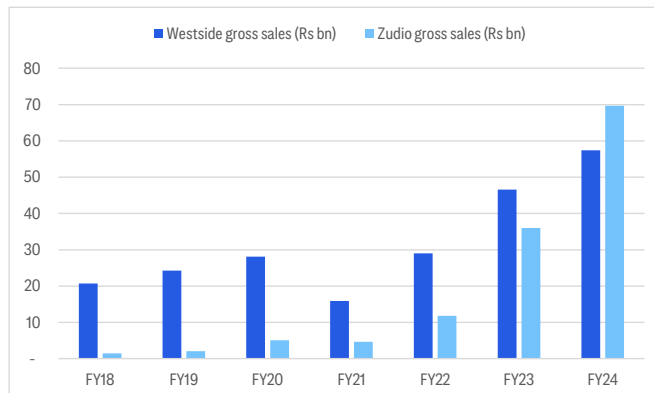
Led by better store economics, large opportunity size (value segment) and better value proposition (latest fashion under Rs999), Zudio has outpaced Westside in terms of store count as well as in terms of revenue.

Figure 16. Led by aggressive store expansion...



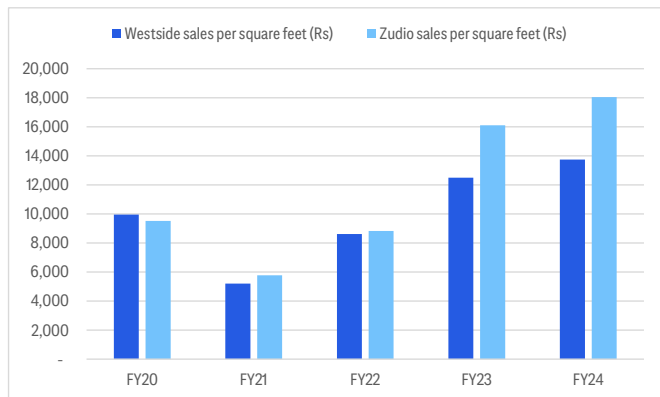
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Figure 17. ...Zudio has surpassed Westside



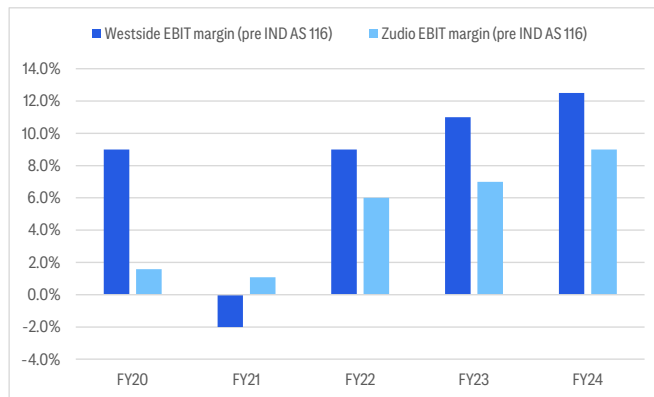
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Figure 18. Zudio's revenue per sq ft is higher vs Westside...



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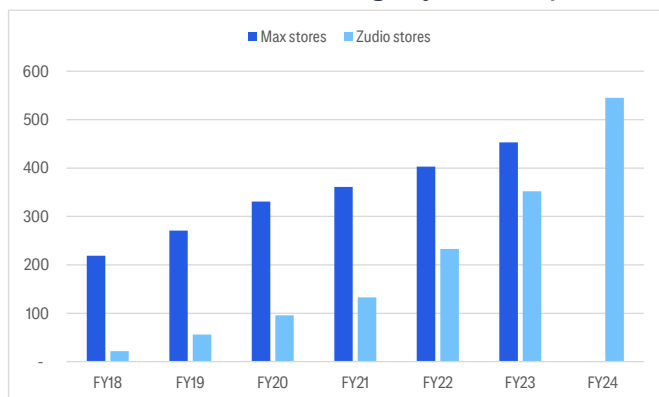
Figure 19. ...however, margin for Zudio is lower vs Westside



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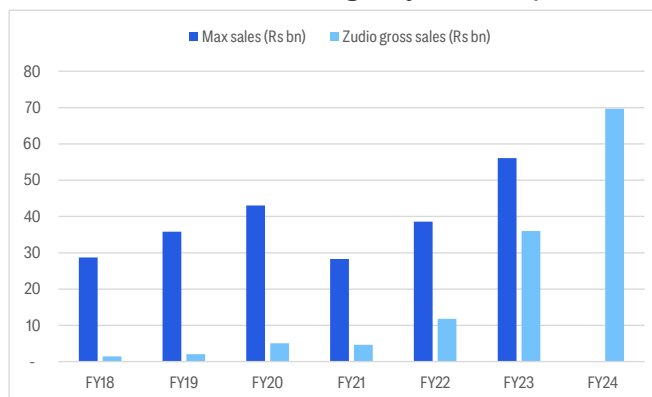
Despite multiple retailers operating in the value retailing segment for more than a decade, Zudio despite being a new entrant has surpassed most of the existing players (in terms of revenue as well as stores). For e.g., Max Fashion (value retailing player) took more than 15yrs to reach 450+ stores and Rs50bn+ revenue while Zudio was able to reach 500+ stores and Rs70bn+ revenue in just 7yrs.

Figure 20. Max took 16yrs to reach 453 stores, Zudio reached 500+ stores count during 7th year of its operation



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Figure 21. Max took 16yrs to reach Rs56bn revenue, Zudio reached Rs70bn revenue during 7th year of its operation



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Potential To Increase Zudio's Presence To 2,000+ Stores

Prima facie, it may appear that Zudio's current store count of 550+ implies that incrementally the store addition may slow down and reaching 2,000+ stores might be difficult. However, our analysis suggests, the headroom to grow Zudio is much higher (we estimate potential to reach 2,000+ stores in the medium term). The opportunity is not only to open more number of stores in existing cities but also to enter into newer cities – for e.g., while Tanishq/Manyavar/Dominos are present in 279/255/427 cities, Zudio is present in only 164 cities.

Figure 22. Zudio is present in only 164 cities

Format	Stores	City
Tanishq	464	279
Zudio	559	164
Manyavar	660	255
Titan World	665	328
Titan EyE+	898	353
Jockey EBO	1,513	485
Bata India	1,916	NA
Domino's	2,029	427
Lifestyle (Brands)	2,636	NA

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Source: Company Reports and Citi Research Estimates

Figure 23. Our analysis implies Zudio can open 15 stores per 10mn population

Details	
Zudio revenue per store (Rs mn) (A)	200
Avg bill value (Rs) (B)	1,500
No of bills required (C= A/B)	133,300
No of visits per year (D)	2
% of people shopping at Zudio (E)	10%
Population required per Zudio store (F = (C/D/E)	667,000
Potential Zudio store per 10mn population	15

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Source: Citi Research Estimates

Figure 24. State wise current and potential store count; Zudio can potentially open 2,000+ stores in India

State/ UT	Population (mn)	2023 Per Capita GDP (USD)	Zudio store	VMart and Unlimited store	Max Fashion store	Zudio store per 10mn population	Potential Zudio stores
Uttar Pradesh	237	1,208	33	139	38	1.4	356
Bihar	128	735	9	59	4	0.7	192
Maharashtra	127	3,591	86	5	48	6.8	190
West Bengal	99	1,922	23	19	29	2.3	149
Madhya Pradesh	87	1,795	15	18	14	1.7	131
Rajasthan	82	2,089	21	28	12	2.6	122
Tamil Nadu	77	3,868	24	29	62	3.1	115
Gujarat	72	3,843	82	11	22	11.4	108
Karnataka	68	4,172	58	17	66	8.5	102
Andhra Pradesh	53	3,047	18	9	32	3.4	80
Odisha	46	2,042	8	10	11	1.7	70
Jharkhand	40	1,319	6	26	6	1.5	60
Telangana	38	4,283	42	15	44	11.0	57
Kerala	36	3,556	44	4	64	12.2	54
Assam	36	1,670	9	13	6	2.5	54
Punjab	33	2,621	15	4	11	4.6	49
Chhattisgarh	30	1,918	5		5	1.6	46
Haryana	30	4,092	13	4	10	4.3	45
Delhi	22	5,940	14	5	6	6.5	32
Jammu & Kashmir	14	2,015	2	8	2	1.5	20
Uttarakhand	12	3,253	7	14	7	6.0	18
Himachal Pradesh	7	3,192	1	1	1	1.3	11
Tripura	4	2,175		3	1		6
Meghalaya	3	1,717	1	1		2.9	5
Manipur	3	1,556	2		1	6.2	5
Nagaland	2	2,064	1		1	4.4	3
Puducherry	2	3,403			3		3
Goa	2	7,039	5		5	31.6	2
Arunachal Pradesh	2	2,801		1	1		2
Mizoram	1	3,088					2
Chandigarh	1	5,565		1	1		2
Sikkim	1	7,719	1			14.5	1
Andaman and Nicobar Islands	0	3,602					1
Daman & Diu	-	NA			1		-
Total store	1,396		545	444	514		2,093

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Potential store count for Zudio is assuming 15 stores per 10mn population; the above is not an exhaustive list

Source: Citi Research, Company Reports and Citi Research Estimates, MoSPI

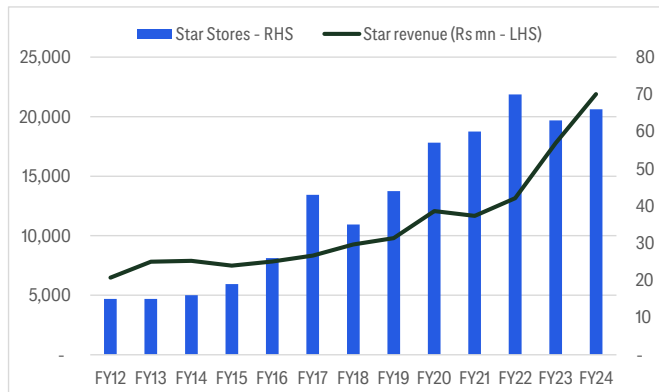
Star: Finally Turning Around

Star stores (avg size 20,000 sq ft) are primarily operated by Trent Hypermarket (THPL) - a 50:50 JV between Trent & Tesco Plc UK. The store comprises “hypermarket” and “supermarket” stores offering food and groceries, home care, apparel, home décor, health and beauty products. Trent currently operates 72 Star stores under THPL and Fiora Hypermarket Ltd (subsidiary of Trent) across 10 cities.

Trent ventured into grocery retailing in 2004 and has tried multiple formats like “Star Bazaar”, “Star Market” and “Star Daily”. Trent has always seen grocery retailing as a large opportunity (large market; highly unorganized) and hence has been seriously pursuing it with a long-term vision (Trent invested ~Rs7.3bn in THPL till FY24 vs cumulative net capex of ~Rs18bn over FY11-24 under standalone entity).

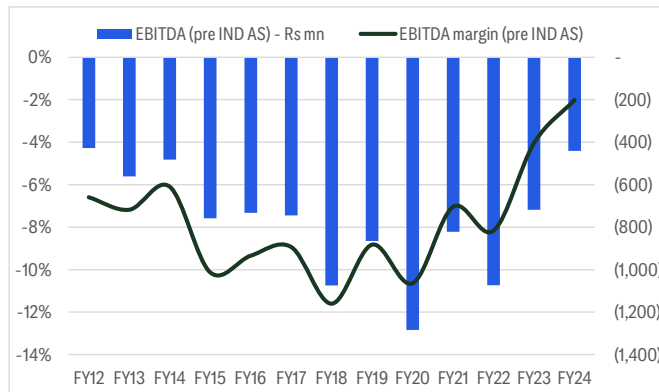
While the business has been loss making at Pre IND-AS-116 EBITDA/PAT level (Rs9.5bn/ Rs10.6bn cumulative EBITDA/PAT loss over FY12-23), over the last few qtrs, there are early sign of business turning around in terms of LFL growth, revenue per sq ft and profitability. This is also leading to acceleration in the pace of store expansion - management in its FY24 AGM has highlighted that they are ready to launch Star as the third engine of growth for Trent and expect to add 20-25 stores (highest in the last 8-10years) in FY25E (already added 6 stores in 1QFY25) and increase the pace of store expansion further going forward.

Figure 25. Revenue growth rate has picked up since FY22



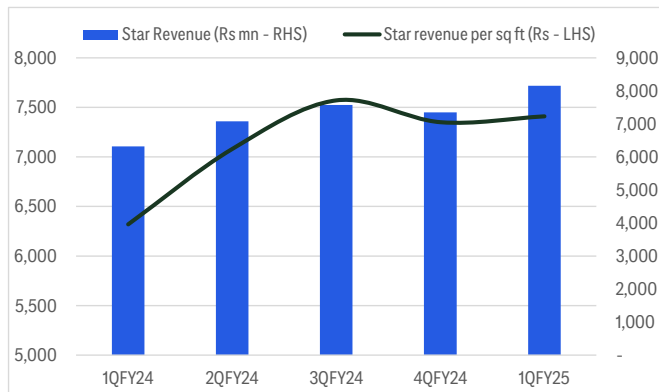
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Figure 26. Absolute EBITDA level loss has also declined



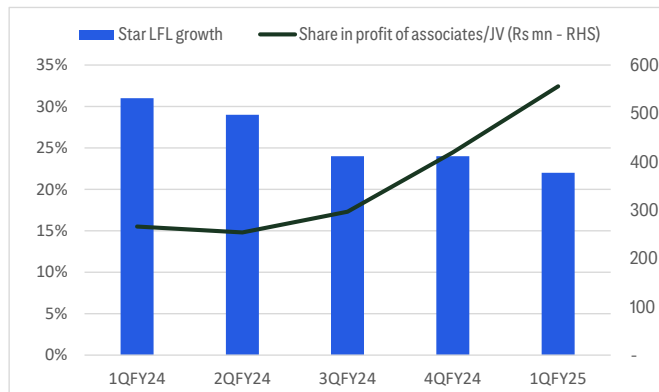
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Figure 27. Star revenue and revenue per sq ft has been on a growth trajectory for last few qtrs



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Figure 28. Star LFL and Trent's share in profit of associates and JV has been on a positive trajectory for last few qtrs



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Star has started to deploy the same playbook as Westside and Zudio (only own brands, no distribution, no 3rd party products, no advertisements) and appears to have found the winning combination of price point, availability and range (fresh category, co-locating Zudio, etc). Most of the Star stores are already profitable or breaking even. However, unlike apparel where Trent can expand in any city, in case of grocery, Star will follow clustered approach (similar to DMart) and will first increase its store density in existing markets before adding any new city.

Star has increasingly evolved into a sustainable model with growing sales densities and repeat customers. Some of the key initiative undertaken by Trent/Star to improve the business performance includes (a) co-locating Zudio stores with Star – aids in better footfall and margin; (b) increased focus on private label; and (c) increasing contribution from fresh and general merchandise.

Star’s exclusive retail brand offerings include (a) **Klia**: Cleaning-aids and home care products; (b) **Fabsta**: Packaged food and beverages; (c) **Skye**: Personal care products; (d) **Smartle**: General merchandise (cookware, dining, storage, home utility, bath ware, home furnishing, toys, stationery, small appliances and backpacks); and (e) **Star**: Branded staples and fresh products.

Figure 29. Some of Star's product offering under its private label

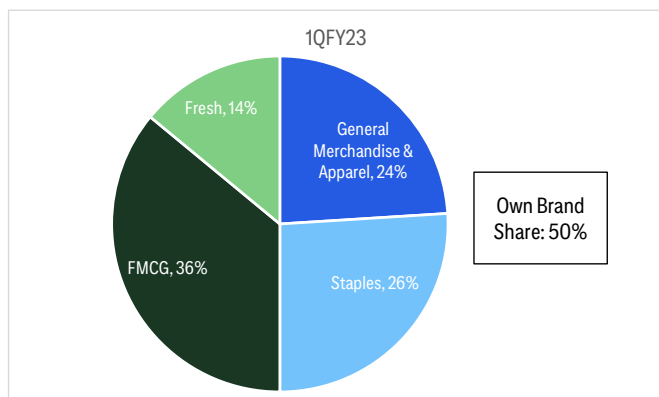


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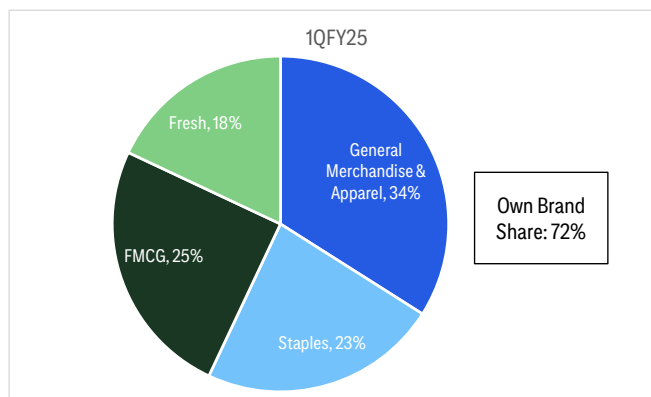
The improvement in profitability (reduction in losses) is primarily driven by increase in share of own brands (50% in 1QFY23 to 72% in 1QFY25) and better product mix (a) share of general merchandise and apparel increased from 24% in 1QFY23 to 34% in 1QFY25; (b) share of fresh increased from 14% 1QFY23 to 18% in 1QFY25.

Figure 30. Share of own brands increased from 50% in 1QFY23...



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Figure 31. ... to 72% in 1QFY25



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How is Star differentiating itself?

Grocery retailing is an active bet for Trent given large opportunity (USD670bn), predominantly unorganized, fragmented market and significant complexity driving meaningful entry barriers. Also, grocery retailing in India has low gross margin led by (a) predominantly branded grocery retailing (and hence profit pool is with the brand); and (b) no pricing power given MRP framework (unlike many other develop countries where retailers can fix their own price). Also, these retailers compete against “kirana” store (80%+ of grocery retailing in India) whose cost of doing business is materially lower compared to organized retailers, for e.g., most kirana store are operated by family members (lower employee cost), on owned premise (no rental cost), low tax rate, low overhead cost and negligible shrinkage.

Can Star Grow Profitably Amid Increasing Competition in Grocery?

There are 4 types of players in grocery retailing (a) kirana store (accounts for 80%+ of grocery retailing); (b) modern trade (key players are Reliance Retail, DMart, Star, More, etc), (c) online grocery (Amazon, DMart Ready, etc) and (d) Quick commerce (Blinkit, Zepto, Flipkart Quick, etc). Given the large industry size and all these 4 players solving for different needs, we believe, there is a market for all 4 to co-exist without engaging in discounting led competition. Within the modern trade, most players have refrained from fresh (20-25% of fresh and grocery market) as a category (given backend complexity; limited shelf life) and Star is differentiating itself on this led by extensively offering fresh (strengthened its focus on its fresh business by improving sourcing and store & supply chain infrastructure) across vegetables, fruits, bakery and non-vegetarian (Meat, Chicken and Sea Food).

Figure 32. Star offers wide assortment of fresh product across vegetables and fruits...



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Figure 33. ... as well as across meat, chicken and sea foods



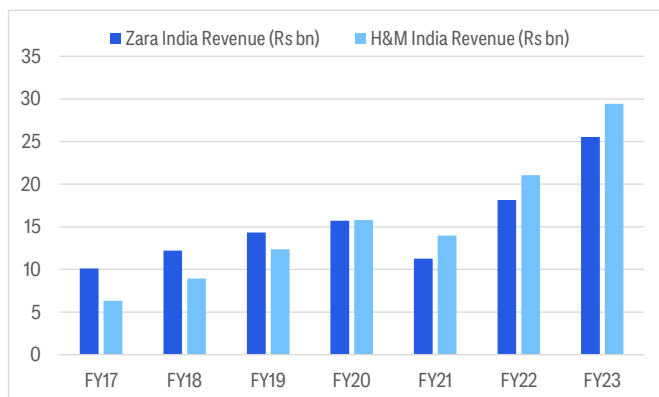
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Zara: Moderate Growth, High Profitability

Trent has two separate associations with the Inditex group of Spain – one entity to operate Zara (under Inditex Trent Retail India Private Limited; 'ITRIPL') and the other for Massimo Dutti (Massimo Dutti India Private Limited; 'MDIPL') in India. ITRIPL operates 23 Zara stores in India and MDIPL operates 3 Massimo Dutti stores in India (as on FY24). Trent currently owns 49% stake in MDIPL and 34.94% stake in ITRIPL (Trent used to own 49% stake in ITRIPL which subsequently got reduced to 34.94% led by share Buyback by ITRIPL in Aug 2024). Trent views its investment in these 2 entities as purely financial in nature given all the strategic decision in terms of sourcing, store expansion, etc. are determined by Inditex group.

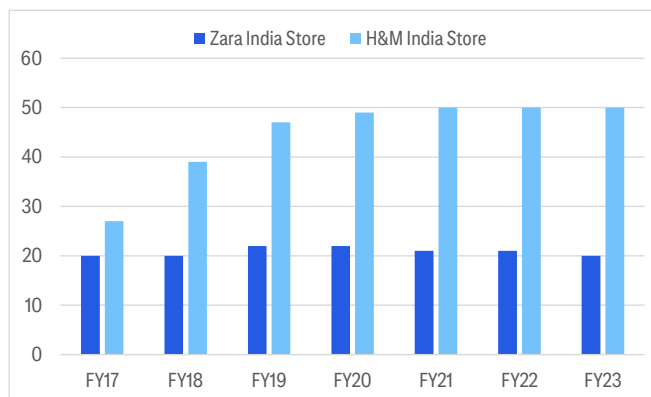
While Zara India has been profitable (barring FY21), it has been relatively lagging on growth – primarily due to calibrated store expansion as its focus is on presence only in very high-quality retail spaces (for better brand and customer experience and profitability). While H&M opened its first store in India in 2015 vs Zara opening its first store in India in 2010, H&M surpassed Zara in terms of revenue in FY20 led by aggressive store expansion. However, Zara continue to lead on profitability vis-à-vis H&M in India. We expect store expansion for Zara will continue to be calibrated with continued focus on profitability - we estimate 22%/25% revenue/PAT CAGR over FY24-27E (15%/24% CAGR over FY20-24).

Figure 34. H&M India surpassed Zara India on revenue...



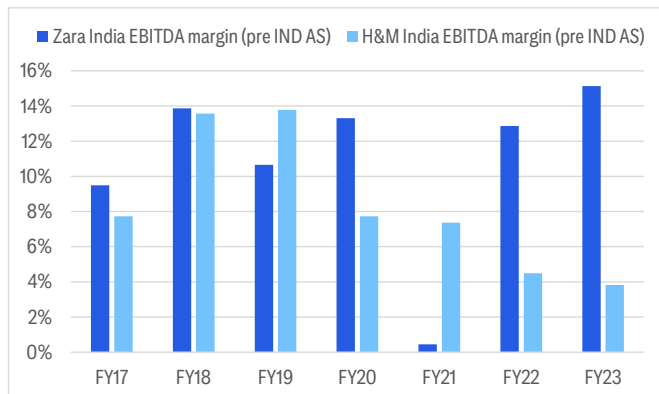
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Figure 35. ... led by aggressive store expansion vis-à-vis Zara



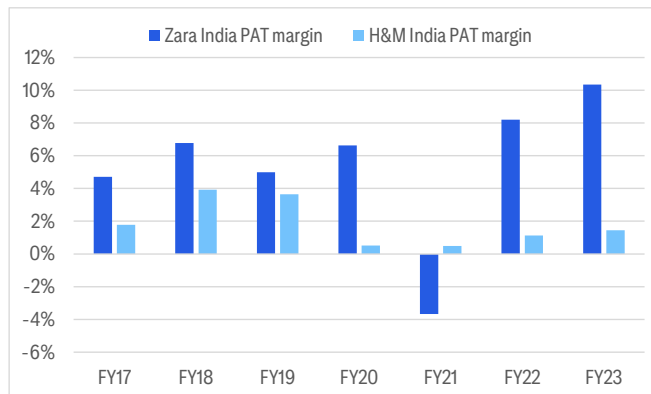
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Figure 36. However, Zara India's profitability in terms of EBITDA margin...



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Figure 37. ... as well as in terms of PAT margin is materially ahead of H&M India



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Formats Under Pilot/Incubation Can Surprise And Drive Further Upside

With Westside and Zudio having meaningfully scaled up leading to much better overall profitability and cash flows, we believe, Trent's ability (and pace) of incubating new formats will get accelerated and even if some of pivot doesn't scale-up/succeed, the cost of failure incurred will not be meaningful. Also, while some of the store formats/business verticals are new, Trent already has experience and exposure to these categories through Westside and Zudio. Share of emerging categories (which includes beauty & personal care, innerwear and footwear) contributed ~20% of standalone revenue in FY20 (implying revenue of ~Rs24bn)

We also see potential to carve out some of the key private brands as standalone store formats (similar to what Trent did with Zudio and Utsa). Management in the

FY23 AGM highlighted that they are aiming to make Misbu and Utsa ready for aggressive expansion; Star in 1-2 years will join as the 3rd engine in the Trent story hopefully followed by Misbu and Utsa.

Misbu: Reimagining The Lifestyle Offering

Trent is piloting a new format “Misbu” for beauty, personal care, fashion accessories and decor since FY23. Similar to Westside and Zudio, the concept leverages Trent’s platform for backend while being differentiated in customer facing aspects. To ramp-up its beauty and personal care offering, Trent has also onboarded Anil Chopra (former CEO and MD of Lakmé) as a consultant.

Figure 38. Misbu stores are relatively smaller in size and offers beauty, personal care, fashion accessories and decor



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Samoh: Crafting The Luxe Odyssey

Samoh (derived from the fusion of 'Samaroh,' symbolizing gatherings, and 'Moh,' representing love) is the latest format in Trent’s portfolio of fashion & lifestyle. Samoh opened its first store in Lucknow in FY24 and currently operates 5 stores across 4 cities (Lucknow, Bengaluru, Mumbai and Hyderabad). While Trent’s existing presence in fashion & lifestyle is in the mass to affordable price points, products under Samoh are occasion wear, operates at relatively higher price point and is aimed towards providing a luxury and sophistication to its customers.

There are currently no large pan-India players in the premium occasion wear (ex-wedding) category as this space is likely dominated by local, regional brands at the low-to-mid end of the pricing spectrum and by couture, boutiques, designer wear, etc on the higher end of the pricing spectrum, in our view. With rising population of higher income class households in India bundled with lack of competition, Samoh can meaningfully scale-up if it is able to find the right product value proposition.

Figure 39. Samoh offers premium shopping experience



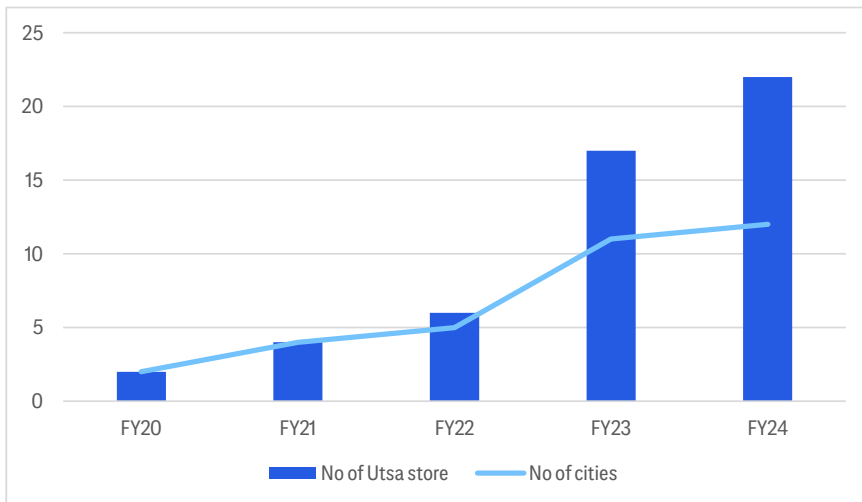
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Utsa: Yet To Find The Right Fit

In FY20, Trent started “Utsa” as a standalone format to reach out to customers where Westside stores cannot reach (due to large store size). Utsa (22 stores) operates smaller store formats (~3,000 sq ft) and caters only to women’s category across apparel, footwear, innerwear, beauty and accessories across multiple private label brands (curating the best from Westside). Utsa is also a private label brand under Westside offering ethnic wear apparel. We believe, growth for Utsa will be gradual given relatively smaller target audience, products, and categories.

Figure 40. Store as well as city expansion for Utsa has been slow and gradual



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JV with MAS: Has Right To Win

In Jan 2023, Trent announced partnering with MAS Amity Pte. (MAS) Ltd to form a 50:50 JV for sourcing, design and manufacture of lingerie, activewear and related products. MAS earlier had a presence in India through retail lingerie business under 'Amante'. However, in 2021, MAS sold this business to Reliance Retail (as per corporate filling, Amante India's revenue in FY24 was ~Rs1,712mn).

MAS is a global apparel tech conglomerate providing concept-to-delivery solutions for the world's leading apparel brands such as Victoria's Secret, NIKE, lululemon, Calvin Klein, Gap, Marks & Spencer, Hanes Brands, Speedo, Ralph Lauren, Tommy Hilfiger, Triumph, New Balance, Patagonia, Walmart, Target, Lacoste, Jockey, etc. Some of the key product categories in which MAS operates are Intimate wear, Leisure & Athleisure wear, Training & Performance wear, Swimwear, Famtech, Adaptive Apparel, Wearable Technology, Health Tech and Shapewear.

Figure 41. Indicative list of product categories in which MAS operates



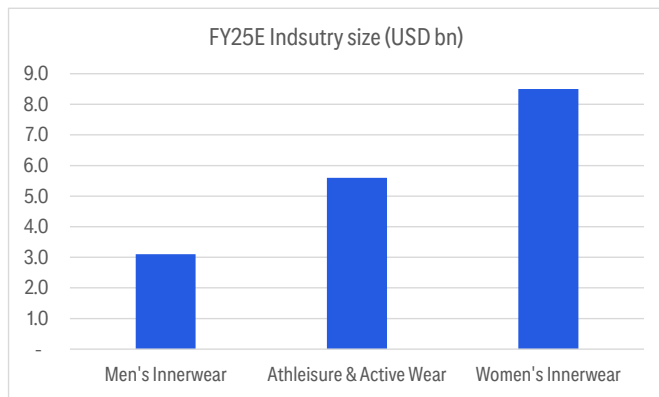
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The 'Right to Win': In case of female innerwear (especially in case of bra) and athleisure wear, growth for organized players is coming largely through first time brand buyers and hence size and fit play a very important role (~80% of women wear the wrong bra size). We believe, branded female innerwear and athleisurewear can only scale-up meaningfully either through EBO or through LFS/departmental stores and not through general trade/MBOs given (a) the sensitivity and taboos surrounding discussing/buying intimate apparel; (b) availability of trial room; (c) product is not only utility but also fashionable; and (d) relatively higher SKUs across design/usage and size and hence the need for more shelf space and better display.

While the JV is still in the early stages, it can be a meaningful growth driver in the next 3-5yrs given (a) Trent's retail presence and brand positioning around inclusivity and diversity; (b) technical and backend (sourcing, manufacturing, designing, etc) capability of MAS; (c) lack of competition (with scale) in the female innerwear and athleisure wear categories; and (d) large market opportunity size.

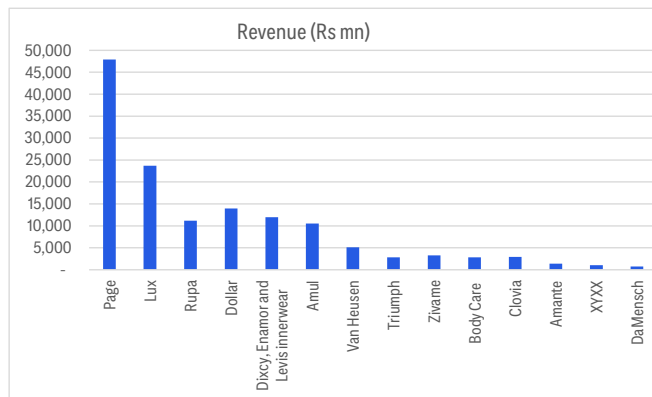
Figure 42. Women's innerwear industry is larger than men's innerwear and athleisure & active wear industry...



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Source: Company Reports and Citi Research Estimates

Figure 43. ...however, the top players in India are mostly men's innerwear dominated



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Revenue for Amul and Triumph is for FY22; for all other companies, revenue is for FY23

Source: Company Reports and Citi Research Estimates

International Expansion: Early Days

With India business now on a strong footing (on growth and profitability), Trent is also eyeing international expansion and has opened its first international store (Zudio) in Dubai, UAE in Aug'24. While we see merit in international expansion given Zudio's value proposition and fashion offering, we believe, from a scale/saliency perspective, this may not become meaningful in the medium term.

Financial Overview

Near-term Growth And Profitability Outlook Upbeat

We expect Trent to continue its store expansion pace (23% CAGR over FY24-27E vs 32% over FY20-24) driving revenue/EBITDA/PAT CAGR of 41%/44%/56% over FY24-27E (vs 39%/36%/55% over FY20-24). This would primarily be led by (a) Zudio: 29%/35% store/area CAGR and 10% revenue per sq ft CAGR leading to 56% gross revenue CAGR (65% over FY20-24); and (b) Westside: 5%/7% store/area CAGR and 8% revenue per sq ft CAGR leading to 17% gross revenue CAGR (20% over FY20-24). On margins, we expect moderate EBITDA margins expansion (by 90bps over FY24-27E) led by benefit of operating leverage/ increase in the share of matured stores (23% store CAGR over FY24-27E vs 32% over FY20-24) partly offset by investments in scaling up other pilot projects/formats. Overall, we expect recurring PAT CAGR of 56% over FY24-27E led by flow through of EBITDA.

Figure 44. Key format wise estimates for Trent

Key assumptions	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY20-24 CAGR/Change	FY24-27E CAGR/Change
Standalone										
Westside										
Stores	165	174	200	214	232	240	256	272	9%	5%
Net stores added	15	9	26	14	18	8	16	16		
Sales per square feet (Rs)	9,963	5,208	8,616	12,493	13,743	14,842	16,029	17,151	8%	8%
YoY growth	0%	-48%	65%	45%	10%	8%	8%	7%		
Gross sales (Rs mn)	28,110	15,890	29,000	46,550	57,389	69,668	80,962	92,219	20%	17%
YoY growth	16%	-43%	83%	61%	23%	21%	16%	14%		
LFL	7%	-45%	56%	49%	8%	6%	6%	6%		
EBIT margin (pre IND AS 116)	9.0%	-2.0%	9.0%	11.0%	12.5%	12.8%	13.1%	13.5%	350 bps	96 bps
Zudio										
Stores	96	133	233	352	545	744	954	1,164	54%	29%
Net stores added	40	37	100	119	193	199	210	210		
Sales per square feet (Rs)	9,530	5,777	8,836	16,110	18,044	20,209	22,331	24,117	17%	10%
YoY growth	28%	-39%	53%	82%	12%	12%	11%	8%		
Gross sales (Rs mn)	5,070	4,630	11,833	36,000	69,663	123,630	188,514	263,986	93%	56%
YoY growth	149%	-9%	156%	204%	94%	77%	52%	40%		
LFL	7%	-45%	56%	49%	10%	10%	8%	6%		
EBIT margin (pre IND AS 116)	1.6%	1.1%	6.0%	7.0%	9.0%	10.5%	11.0%	11.5%	742 bps	250 bps
Key Affiliates										
Star										
Stores	49	52	61	56	66	86	111	146	8%	30%
Net stores added	10	3	9	(5)	10	20	25	35		
Revenue (Rs mn)	12,062	11,668	13,145	17,767	21,889	31,362	45,524	65,328	16%	44%
YoY growth	23%	-3%	13%	35%	23%	43%	45%	44%		
EBITDA margin	-6.5%	-2.9%	-4.3%	-0.9%	1.2%	3.3%	3.9%	4.5%	767 bps	330 bps
Zara										
Stores	22	21	21	20	23	25	28	31	1%	10%
Net stores added	-	(1)	-	(1)	3	2	3	3		
Revenue (Rs mn)	15,705	11,261	18,154	25,538	27,689	33,690	40,920	50,107	15%	22%
YoY growth	10%	-28%	61%	41%	8%	22%	21%	22%		
EBITDA margin	15.2%	3.2%	14.5%	16.3%	15.2%	15.2%	15.2%	15.2%	4 bps	4 bps

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Source: Company Reports and Citi Research Estimates

Snapshot Of Key Financial Statements

Figure 45. Snapshot of Income statement

Rs mn	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenue	31,777	20,475	38,807	77,152	119,266	184,758	256,901	337,208
EBITDA	5,583	2,038	6,335	11,193	19,269	30,461	43,040	57,348
EBITDA (pre IND AS 116)	2,879	(848)	3,053	6,753	13,957	24,196	34,710	46,894
EBIT	3,272	(321)	3,505	6,560	12,884	22,577	33,001	45,221
EBIT (pre IND AS 116)	2,303	(1,421)	2,398	5,352	11,789	21,916	31,907	43,567
PBT	2,456	(658)	3,362	7,105	13,300	22,946	33,183	45,258
Adj PAT	1,546	(447)	2,628	5,546	8,925	17,210	24,887	33,943
Adj EPS (Rs)	4.3	(1.3)	7.4	15.6	25.1	48.4	70.0	95.5

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Source: Company Reports and Citi Research Estimates

Figure 46. Snapshot of key ratios

Key Ratios	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Gross margin	49.5%	49.7%	51.0%	45.4%	45.2%	46.3%	46.5%	46.8%
EBITDA margin	17.6%	10.0%	16.3%	14.5%	16.2%	16.5%	16.8%	17.0%
EBITDA margin (pre IND AS 116)	9.1%	-4.1%	7.9%	8.8%	11.7%	13.1%	13.5%	13.9%
EBIT margin	10.3%	-1.6%	9.0%	8.5%	10.8%	12.2%	12.8%	13.4%
EBIT margin (pre IND AS 116)	7.2%	-6.9%	6.2%	6.9%	9.9%	11.9%	12.4%	12.9%
Adj PAT margin	4.9%	-2.2%	6.8%	7.2%	7.5%	9.3%	9.7%	10.1%
RoCE (pre tax)	9%	-5%	8%	16%	28%	38%	43%	47%
RoE	7%	-2%	10%	19%	24%	33%	36%	39%

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Source: Company Reports and Citi Research Estimates

Figure 47. Snapshot of Balance sheet

Rs mn	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity	24,990	25,159	27,200	30,799	44,472	59,961	77,382	97,748
Debt	2,997	2,999	4,974	4,980	4,986	4,986	4,986	4,986
Lease liability	22,277	25,583	40,835	38,206	12,398	17,231	17,845	17,483
Total liabilities	50,264	53,741	73,009	73,985	61,855	82,177	100,212	120,216
Net block	7,085	7,027	7,917	9,457	13,456	15,436	17,393	18,826
Lease assets	19,041	22,265	37,336	34,346	11,891	16,334	16,623	16,146
Non Current Investment	9,556	11,427	13,100	12,189	13,089	14,371	15,781	17,333
Current Investment	6,800	6,146	4,417	4,565	6,202	7,442	8,931	10,717
Cash	441	669	744	789	2,862	9,346	15,746	23,103
Inventory	5,865	3,946	8,225	13,369	15,648	21,260	28,154	36,954
Other assets	5,163	5,591	6,383	8,497	11,433	14,220	19,557	25,498
Other liabilities	3,687	3,330	5,112	9,226	12,726	16,232	21,973	28,360
Net WC	7,782	6,877	10,239	13,428	17,217	28,594	41,484	57,195
Total assets	50,264	53,741	73,009	73,985	61,855	82,177	100,212	120,216

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Source: Company Reports and Citi Research Estimates

Figure 48. Snapshot of Cash flow statement

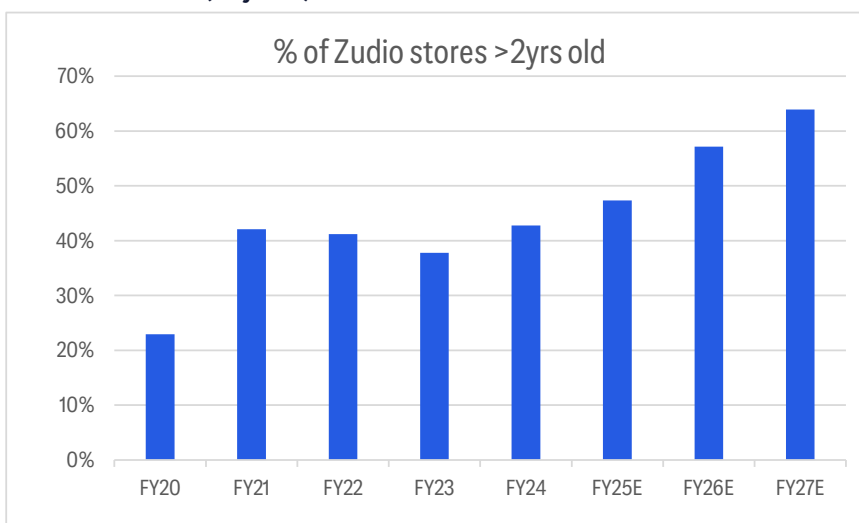
Rs mn	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
CFO before WC changes	5,605	2,115	6,294	11,204	19,151	30,461	43,040	57,348
WC changes	(1,112)	1,131	(4,020)	(2,707)	(2,725)	(4,893)	(6,490)	(8,354)
Tax paid	(807)	(1)	(782)	(1,869)	(2,942)	(5,737)	(8,296)	(11,314)
Cash flow from operating activities	3,685	3,245	1,492	6,628	13,484	19,832	28,255	37,680
Capex (net)	(1,050)	(808)	(1,979)	(2,144)	(3,819)	(3,636)	(4,133)	(4,122)
Others	(6,520)	415	1,920	714	(1,166)	(1,373)	(1,565)	(1,802)
Cash flow from investing activities	(7,570)	(393)	(59)	(1,430)	(4,985)	(5,008)	(5,698)	(5,924)
Issue of shares	9,498	-	-	-	-	-	-	-
Borrowings (net)	(1,930)	-	1,969	-	-	-	-	-
Lease liability	(796)	(540)	(552)	(1,202)	(2,566)	(5,215)	(6,912)	(8,685)
Finance cost	(2,437)	(1,728)	(2,350)	(3,557)	(3,076)	(1,405)	(1,779)	(2,136)
Dividend	(520)	(355)	(426)	(393)	(783)	(1,721)	(7,466)	(13,577)
Others	-	-	-	-	-	-	-	-
Cash flow from financing activities	3,815	(2,623)	(1,359)	(5,152)	(6,425)	(8,340)	(16,156)	(24,399)
CFO (pre IND AS 116)	982	359	(1,791)	2,189	8,171	13,567	19,924	27,225
FCF (pre IND AS 116)	(68)	(449)	(3,770)	45	4,352	9,931	15,791	23,103

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Source: Company Reports and Citi Research Estimates

Led by majority of Zudio expansion being through franchise and increasing share of matured stores, we est Trent to generate cumulative FCF of Rs49bn over FY25E-27E and increase its RoE/ROCE from 24%/28% in FY24 to 39%/47% in FY27E.

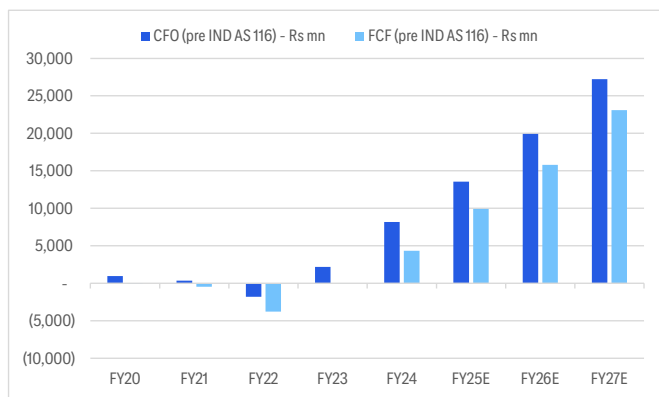
Figure 49. While absolute store addition for Zudio will remain elevated, share of matured stores (>2yr old) will increase from 43% in FY24 to 64% in FY27E



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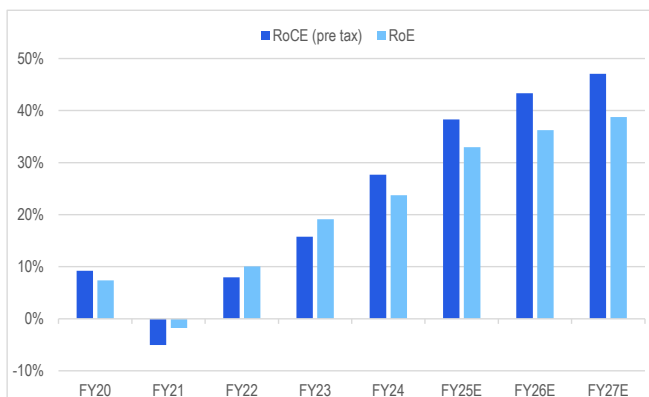
Source: Company Reports and Citi Research Estimates

Figure 50. We expect Trent to generate positive FCF over FY25E-27E...



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Source: Company Reports and Citi Research Estimates

Figure 51. ... and RoE/RoCE to continue to improve

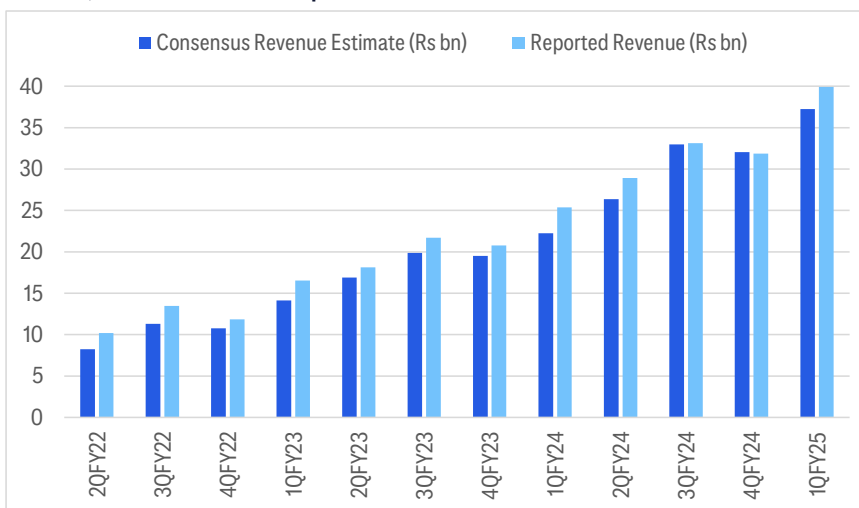


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A “Beat And Raise” Track Record

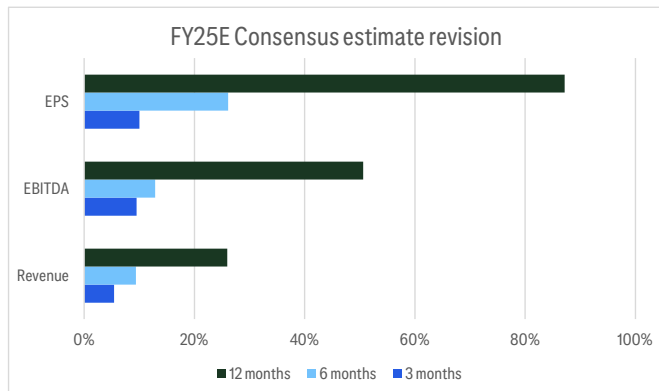
Trent has been surprising consensus on growth and profitability leading to continuous upgrades. Trent’s revenue was ahead of consensus est (by 5% or more) in 10 out of last 12 qtrs. In the last 12m, consensus increased their revenue/EBITDA/EPS est by 26%/51%/87% and 39%/63%/127% for FY25 and FY26. This was despite weak consumer sentiment, slowdown in discretionary spending and earnings downgrade across most other consumer names.

Figure 52. Trent’s reported revenue was ahead of consensus estimates (by 5% or more) in 10 out of last 12 qtrs



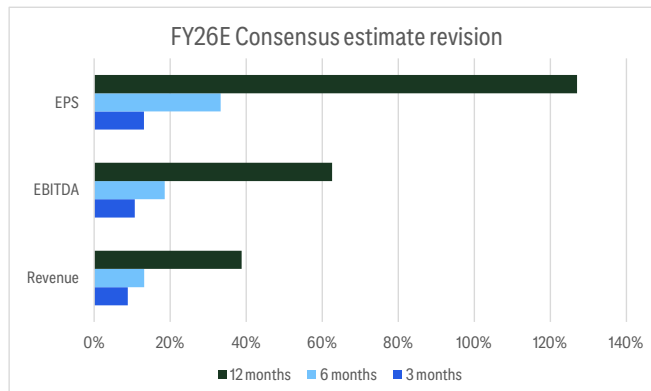
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Source: Bloomberg, Company Reports and Citi Research Estimates

Figure 53. Consensus has upgraded their FY25E...



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Source: Citi Research, Bloomberg

Figure 54. ... as well as FY26E estimates for Trent

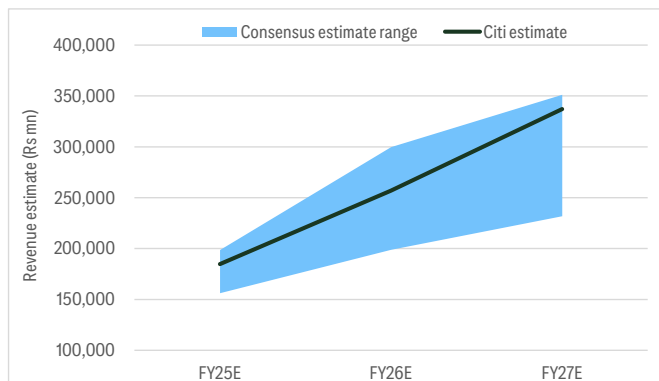


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Source: Citi Research, Bloomberg

Citi vs Consensus Estimate: We Are More Upeat

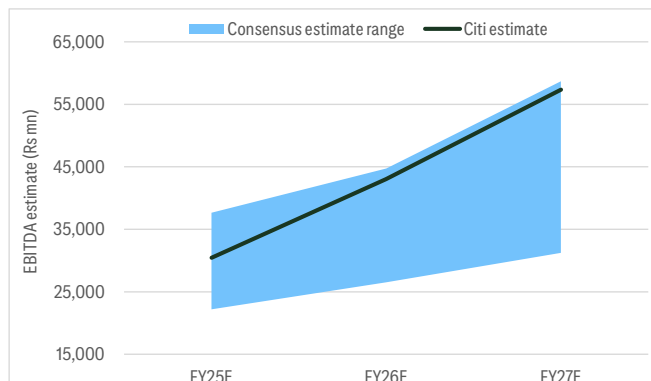
Our FY25E-27E revenue and EBITDA estimates are 6-15% and 6-17% above consensus. We think there is risk to consensus earnings upgrade led by (a) uptick in store expansion for Zudio - added 14 net stores in 1QFY25 vs guidance of 200 store addition in FY25 (added 193 in FY24 and 119 in FY23); and (b) increase in avg store size for Zudio - 1QFY25 avg store size increased by 20% YoY to ~9,300 sq ft.

Figure 55. Citi vs Consensus revenue estimate



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Source: Citi Research Estimates, Bloomberg

Figure 56. Citi vs Consensus EBITDA estimate



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Source: Citi Research Estimates, Bloomberg

Valuations: Will Continue To Look Optically Expensive

We initiate coverage on Trent with a Buy rating and TP of Rs9,250 - we value the Trent using SoTP (details below); Trent is our top pick within our India Consumer Discretionary and Retail coverage universe. We value most Indian Consumer/Retail companies on a P/E basis given relatively steady growth, profitability, and simple business structure. However, Trent is growing at a much faster pace and has multiple businesses that are in different stages of growth, profitability, and scale

and hence we believe that a SoTP based approach is appropriate to value the stock. Our target multiple of 65x June'26E EV/EBITDA for Standalone business (92% of our SoTP) is at 20% premium to the average EV/EBITDA multiple of other high growth consumer companies - Zomato, Nykaa, Honasa, DMart and Titan (trades between 44x-74x). We believe, the premium is justified given (a) higher growth (2x vs Citi estimates for Zomato, Nykaa, Honasa, DMart and Titan); (b) improving business prospects and return profile (franchise led store expansion); (c) potential catalyst from new formats scaling-up; and (d) ability to gain market share in an unorganized / unbranded category. We value (a) Star on 6x Jun'26E EV/Sales – in-line with DMart's current valuation given better growth (we est 44% revenue CAGR over FY24-27E vs 19% for DMart) but lower profitability (4.5% EBITDA margin by FY27E vs 8.8% for DMart); (b) Zara: 35x Jun'26E EV/EBITDA – in-line with peers with similar growth trajectory and at ~50% discount to our Standalone business (given relatively slower growth vs Standalone business - we estimate 22% revenue CAGR for Zara vs 41% for Standalone business).

Figure 57. Trent: SoTP valuation

SoTP	Multiple	Target Multiple	Fair Value (Rs bn)	Stake	Per Share Value (Rs)	Comments
Standalone (Westside, Zudio)	EV/EBITDA	65	3,030	100%	8,500	We believe, higher multiple is justified given better growth outlook - we estimate 41%/44%/56% revenue/EBITDA/PAT CAGR over FY24-27E.
THL - JV (Star Bazaar)	EV/ Sales	6	303	50%	450	After prolonged period of relatively slow growth and loss, Star seems to be turning around with growth and profitability both likely to improve meaningfully going forward - we estimate 44% revenue CAGR and 360bps EBITDA margin expansion over FY24-27E.
Inditex - Associate (Zara and Massimo Dutti)	EV/EBITDA	35	231	35%	250	We believe, lower multiple is justified given relatively lower growth (22%/22%/25% revenue/EBITDA/PAT CAGR over FY24-27E).
Total EV			3,564		9,200	
Less: Net Debt			(22)		(50)	
Equity Value			3,586		9,250	

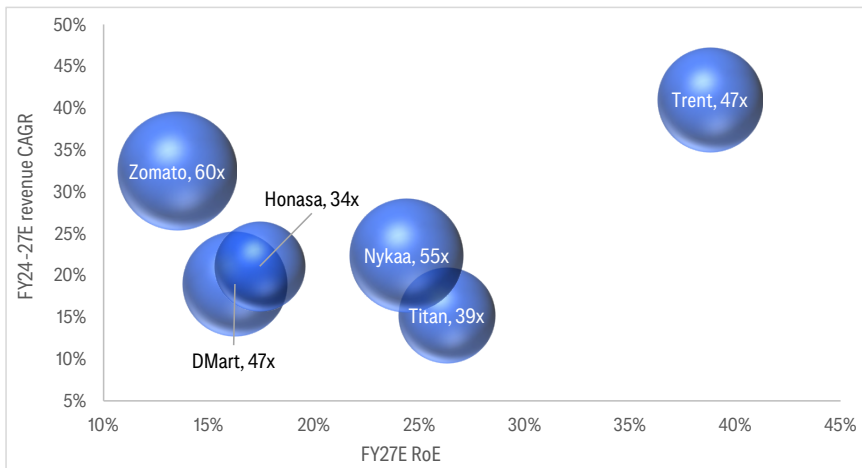
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Source: Company Reports and Citi Research Estimates

Is Trent Really Trading At Expensive Valuations vs Other High Growth Consumer Companies?

We don't think it is right to compare Trent's multiple to most other consumer / retail companies given significant difference in the growth profile. We believe, given the higher growth rate of Trent, we should compare it with other wider consumer names (within Citi India coverage universe) with relatively higher growth (as well as scale/leadership position). Amongst the 6 high growth stocks (Trent, Zomato, Nykaa, Honasa, DMart and Titan), Trent is trading at premium to Honasa (36% premium) and Titan (20% premium), at par to DMart and at discount to Zomato (20% discount) and Nykaa (15% discount) despite highest growth expectations amongst all these 6 companies.

Figure 58. Valuation Comparison for wider Consumer names with high growth



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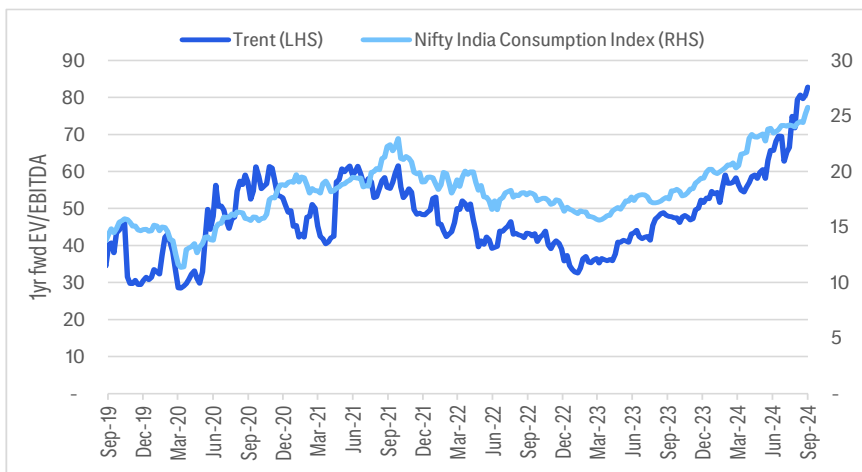
Size of the bubble denotes FY27E EV/EBITDA multiple

Source: Citi Research Estimates

Re-rating In Multiple Was Primarily Driven By Overall Re-rating Across Consumer Names

While Trent's multiple has re-rated, it was partly also led by overall re-rating in the valuation across India Consumer Companies. Pre-covid, Trent's EV/EBITDA multiple has traded at 1.6x premium to Nifty India Consumption Index. The premium currently stands at 2.2x; we believe the premium is warranted given the recent acceleration in growth and profitability of Trent vis-à-vis pre-covid period.

Figure 59. Trent vs Nifty India Consumption Index - 1yr fwd EV/EBITDA



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Source: Citi Research, Bloomberg

Sensitivity Analysis: Long Term Ask Rate Is Moderate

Given multiple growth engines under incubation and existing business currently undergoing rapid expansion, we believe the valuations may remain elevated for a prolonged period. Assuming 15%/12% p.a. return expectations, we look at what the long-term exit multiple may look like assuming a range of revenue CAGR (15-30%; FY2-24 CAGR was 39%) and EBITDA margin (13%-18%; FY24 margin was 16.2%).

Figure 60. Sensitivity table based on growth and EBITDA margin assuming 15% p.a. stock price return expectations

Exit EV/EBITDA FY37E		Revenue CAGR (FY27E-37E)					
		15%	18%	21%	24%	27%	30%
EBITDA margin FY37E	13%	65	50	39	31	24	19
	14%	61	47	36	29	22	18
	15%	57	44	34	27	21	17
	16%	53	41	32	25	20	16
	17%	50	39	30	24	19	15
	18%	47	36	28	22	17	14

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Source: Citi Research Estimates

Figure 61. Sensitivity table based on growth and EBITDA margin assuming 12% p.a. stock price return expectations

Exit EV/EBITDA FY37E		Revenue CAGR (FY27E-37E)					
		15%	18%	21%	24%	27%	30%
EBITDA margin FY37E	13%	49	38	30	23	18	14
	14%	46	35	27	21	17	13
	15%	43	33	26	20	16	12
	16%	40	31	24	19	15	12
	17%	38	29	23	18	14	11
	18%	35	27	21	17	13	10

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Source: Citi Research Estimates

Given the opportunity size (USD86bn apparel industry in FY24), changing consumer behavior / growing wardrobe size, fragmented market, relatively small scale of Trent (1.7% market share in FY24; we estimate 3.2% by FY27E) bundled with execution track record of Trent, we see merit in Trent's ability to grow at ~20% CAGR in the medium to long term (implying market share of 7.5% by FY37E).

Figure 62. Even if Trent grows at 20% CAGR over FY27-37E, its market share will still be in high-single digits only

Details	FY18	FY20	FY24	FY27E	FY37E
Apparel Industry (USD bn)	46	56	86	134	346
CAGR		11%	11%	16%	10%
Trent's revenue (USD bn)	0.3	0.4	1.5	4.2	26
CAGR		24%	39%	41%	20%
Trent's market share	0.6%	0.7%	1.7%	3.2%	7.5%
Jewellery Industry (USD bn)	45	56	84	124	
CAGR		12%	10%	14%	
Titan's revenue (USD bn)	1.6	2.1	4.8	8.1	
CAGR		13%	23%	19%	
Titan's market share	3.6%	3.7%	5.7%	6.5%	

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Source: Citi Research, Company Reports and Citi Research Estimates

Mapping Growth, Valuation And Preferred Picks

Pecking order: Within our Consumer Discretionary and Retail coverage universe, we are Buy rated on Trent, Kalyan Jewellers, Devyani International and Jubilant FoodWorks - our pecking order is now: Trent, Jubilant FoodWorks, Kalyan Jewellers, Devyani International. Within our Consumer Durable and Electricals

coverage – we are Buy rated on Crompton, Polycab, RR Kabel and Voltas - our pecking order is: Polycab, RR Kabel, Crompton and Voltas.

Figure 63. India valuation comps - Consumer Discretionary, Retail and Consumer Durable / Electrical Companies

	Rating	Mkt Cap Share Price Target Price			P/E (x)		EV/EBITDA (x)		RoE		FY24-27E CAGR		
		(USD Mn)	(Rs)	(Rs)	FY 26	FY 27	FY 26	FY 27	FY 26	FY 27	Revenue	EBITDA	EPS
Consumer Discretionary and Retail													
Aditya Birla Fashion & Retail	Sell	4,419	346	260	nm	nm	16.4	13.6	-3.2%	4.6%	16%	25%	nm
Asian Paints	Sell	37,358	3,255	2,400	61.8	57.7	41.9	38.6	23.9%	23.5%	7%	2%	0%
Avenue Supermarts	Sell	41,938	5,384	3,550	90.3	75.4	56.0	46.6	16.2%	16.5%	19%	22%	22%
Bata India	Sell	2,200	1,430	1,050	45.3	41.5	17.0	15.6	21.5%	21.6%	7%	12%	14%
Devyani International	Buy	3,123	216	215	nm	79.9	23.2	18.5	15.7%	22.1%	23%	30%	90%
Jubilant FoodWorks	Buy	5,563	707	715	nm	89.3	30.2	25.7	16.0%	17.8%	14%	17%	29%
Kalyan Jewellers	Buy	9,503	770	770	64.3	49.8	35.9	28.7	23.5%	25.2%	31%	27%	39%
Page Industries	Sell	5,673	42,493	33,100	59.9	52.1	40.9	35.9	47.1%	51.9%	13%	15%	17%
Pidilite Industries	Sell	20,046	3,293	2,300	72.5	65.0	48.2	43.2	22.4%	21.9%	11%	12%	13%
Titan	Neutral	40,488	3,813	4,110	67.5	56.5	46.2	38.7	26.3%	26.3%	15%	19%	19%
Trent	Buy	32,458	7,617	9,250	108.9	79.8	62.3	46.6	36.2%	38.8%	41%	44%	56%
Consumer Durables/Electricals													
Crompton Greaves Consumer	Buy	3,367	437	550	44.1	37.7	27.6	23.5	18.0%	18.8%	12%	17%	19%
Havells	Neutral	15,544	2,071	2,000	69.5	56.4	48.0	39.4	21.1%	23.0%	13%	20%	22%
Polycab	Buy	11,864	6,591	7,600	43.2	36.7	29.6	25.0	21.9%	21.8%	18%	16%	15%
R R Kabel	Buy	2,298	1,698	2,300	39.1	30.6	27.1	21.5	20.6%	21.7%	18%	24%	28%
Voltas	Buy	7,553	1,907	1,756	66.0	n/a	51.1	n/a	14.1%	n/a	15%	71%	95%

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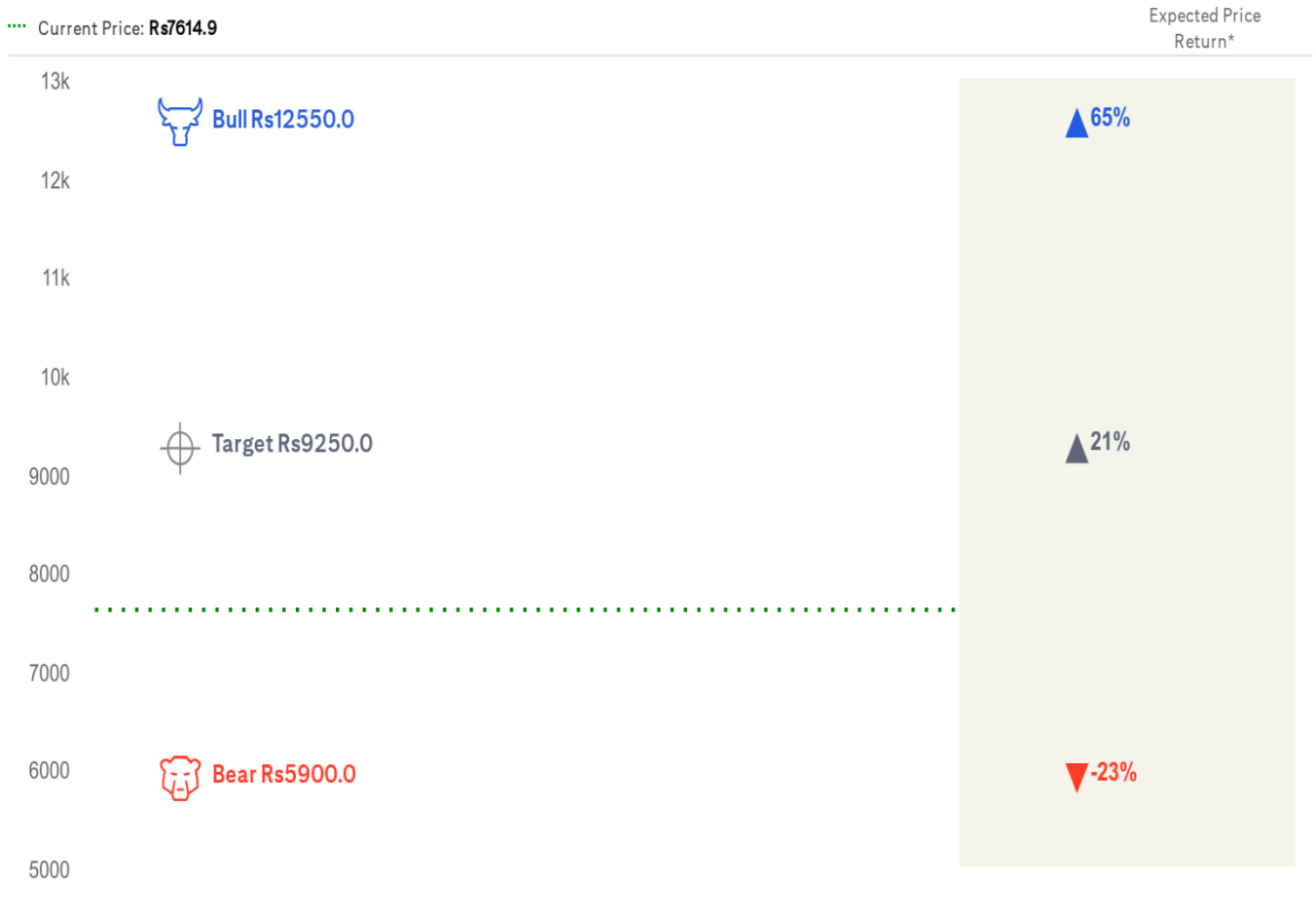
Prices as on September 24, 2024. Voltas CAGR is for FY24-26E; Consensus estimates for Non-rated (NR) stocks. 1= Buy; 2= Neutral; 3= Sell

Source: Citi Research, Powered by dataCentral

Companies Mentioned:

Trent Ltd (TREN.NS; Rs7614.9; 1; 25 Sep 24; 15:30)
Aditya Birla Fashion and Retail (ADIA.NS; Rs343.4; 3; 25 Sep 24; 15:30)
Amazon.com, Inc. (AMZN.O; US\$193.96; 1; 24 Sep 24; 16:00)
Asian Paints (ASPN.BO; Rs3245.0; 3; 25 Sep 24; 15:30)
Associated British Foods (ABF.L; £22.95; 2; 24 Sep 24; 16:30)
Avenue Supermarts (AVEU.NS; Rs5265.5; 3; 25 Sep 24; 15:30)
Bata India Ltd (BATA.NS; Rs1428.4; 3; 25 Sep 24; 15:30)
Crompton Greaves Consumer Electricals (CROP.BO; Rs442.55; 1; 25 Sep 24; 15:30)
Devyani International Ltd (DEVY.NS; Rs208.69; 1; 25 Sep 24; 15:30)
Dollar General (DG.N; US\$84.99; 2; 24 Sep 24; 16:00)
Fsn E-Commerce Ventures (FSNE.BO; Rs197.4; 3; 25 Sep 24; 15:30)
Gap Inc. (GAP.N; US\$20.73; 1; 24 Sep 24; 16:00)
Havells India (HVEL.BO; Rs2069.1; 2; 25 Sep 24; 15:30)
Hennes & Mauritz (HMb.ST; SKr182.55; 3; 24 Sep 24; 17:30)
Hindustan Unilever (HLL.BO; Rs2950.2; 1; 25 Sep 24; 15:30)
Honasa Consumer (HONA.NS; Rs476.8; 1; 25 Sep 24; 15:30)
Inditex (ITX.MC; €53.26; 1; 24 Sep 24; 17:30)
Jubilant FoodWorks (JUBI.BO; Rs701.85; 1; 25 Sep 24; 15:30)
Kalyan Jewellers India (KALN.NS; Rs758.2; 1; 25 Sep 24; 15:30)
lululemon (LULU.O; US\$263.55; 2; 24 Sep 24; 16:00)
Marks & Spencer (MKS.L; £3.75; 2; 24 Sep 24; 16:30)
Nike Inc (NKE.N; US\$87.46; 1; 24 Sep 24; 16:00)
Page Industries (PAGE.NS; Rs41920.05; 3; 25 Sep 24; 15:30)
Pidilite Industries (PIDI.NS; Rs3256.7; 3; 25 Sep 24; 15:30)
Polycab India (POLC.NS; Rs6685.95; 1; 25 Sep 24; 15:30)
R R Kabel (RRKA.NS; Rs1688.5; 1; 25 Sep 24; 15:30)
Ralph Lauren Corporation (RL.N; US\$190.61; 2; 24 Sep 24; 16:00)
Reliance Industries (RELI.BO; Rs2986.8; 2; 25 Sep 24; 15:30)
Target Corp (TGT.N; US\$156.18; 1; 24 Sep 24; 16:00)
Tesco (TSCO.L; £3.64; 1; 24 Sep 24; 16:30)
Titan Company (TITN.BO; Rs3748.0; 2; 25 Sep 24; 15:30)
Voltas (VOLT.BO; Rs1906.0; 1; 25 Sep 24; 15:30)
Walmart Inc (WMT.N; US\$80.67; 1; 24 Sep 24; 16:00)
Zomato (ZOMT.BO; Rs286.0; 1; 25 Sep 24; 15:30)

Bull/Bear: Trent Ltd (TREN.NS)



*Current Price and expected returns as of 25 September 2024

BULL Assumptions

Revenue CAGR of 46% over FY24 -27E with avg EBITDA margin of 17.8% for Standalone; Standalone gets valued at 75x June'26E EV/EBITDA
Revenue CAGR of 49% over FY24 -27E for THL; THL gets valued at 10x June'26E EV/Sales

BASE Assumptions

Revenue CAGR of 41% over FY24 -27E with avg EBITDA margin of 16.8% for Standalone; Standalone gets valued at 65x June'26E EV/EBITDA
Revenue CAGR of 44% over FY24 -27E for THL; THL gets valued at 6x June'26E EV/Sales

BEAR Assumptions

Revenue CAGR of 37% over FY24 -27E with avg EBITDA margin of 15.3% for Standalone; Standalone gets valued at 50x June'26E EV/EBITDA
Revenue CAGR of 31% over FY24 -27E for THL; THL gets valued at 4x June'26E EV/Sales

Trent Ltd

Company description

Trent Limited (established in 1998) is part of the Tata Group and operates a portfolio of retail concepts. The primary customer propositions of Trent include (a) Westside - one of India's leading chains of fashion retail stores; (b) Zudio - a one stop destination for great fashion at great value; and (c) Star - operates in the competitive food, grocery and daily needs segment primarily under Trent Hypermarket Private Limited (a 50:50 JV between Trent & Tesco Plc UK).

Trent is piloting new formats/market which include (a) Samoh - a differentiated & elevated occasion wear offering; (b) Misbu - offers a curated & compelling range of beauty, personal care and fashion accessories; (c) Utsa - curating the best of Westside ethnic wear and accessories at accessible locations; and (d) International - opened its first international store under 'Zudio' in Dubai, UAE.

Trent also has (a) financial interest in associate companies which operates Zara and Massimo Dutti stores in India; and (b) formed a JV with MAS Amity Pte. Ltd. for jointly developing a business of intimate wear and other apparel related products.

Investment strategy

We rate Trent as Buy. Trent has built strong portfolio of highly differentiated brands with value for money proposition across the price pyramid. Trent's growth trajectory has been on a transformational journey since FY18 led by incubation of Zudio as a new growth driver which benefited from the supply chain / backend foundation laid by Westside. We expect Trent will continue to outpace the industry and peers on growth and will continue to gain market share in a highly fragmented and unorganized fashion & lifestyle industry. We also expect Trent to add another 2-3 new growth engines (amongst the existing pilot projects in process) in the medium-term which could further accelerate growth (and keep valuation / multiples elevated); Star could be one of them which is already showing early signs of store growth acceleration and improvement in profitability. We estimate 41%/44%/56% Standalone revenue/EBITDA/PAT CAGR over FY24-27E - highest amongst our coverage universe.

Valuation

Trent has multiple business that are in different stages of growth, profitability and scale and hence we believe that a SoTP based approach is appropriate to value the stock. We arrive at a target price of Rs9,250.

Standalone: We value standalone entity on 65x EV/EBITDA on June'26E leading to FV of Rs8,500/share. We believe, higher multiple is justified given better growth outlook - we estimate 41%/44%/56% revenue/EBITDA/PAT CAGR over FY24-27E (vs 39%/36%/55% CAGR over FY20-24). While our target multiple implies a considerably higher premium vs other Consumer

Discretionary and Retail companies, we believe that either of these comps is not comparable with Trent given (a) significantly higher growth (along with profitability); (b) better track record of building new growth drivers; and (c) depressed profitability given higher store growth.

Star: We value Star on 6x Jun'26E EV/Sales – in-line with DMart's current valuation given better growth (we est 44% revenue CAGR over FY24-27E vs 19% for DMart) but lower profitability (4.5% EBITDA margin by FY27E vs 8.8% for DMart).

Zara: 35x Jun'26E EV/EBITDA – in-line with peers with similar growth trajectory and at ~50% discount to our Standalone business (given relatively slower growth vs Standalone business – we estimate 22% revenue CAGR for Zara vs 41% for Standalone business)

Trent is already net debt free, and cash is valued at Rs50/share.

Risks

Key downside risks that could cause Trent's stock price to trade below our target price include: (a) slowdown in the pace of store expansion; (b) further slowdown in discretionary spending by consumers; (c) increase in competitive intensity from new and existing players; (d) higher raw material price bundled with Trent's inability to take commensurate price hike; (e) limited traction in new formats; and (f) inability to launch new product/design in-line with latest fashion trends.

Key upside risks that could cause Trent's stock price to trade above our target price include: (a) significant improvement in overall consumer sentiment leading to pick-up in demand; (b) successful scale-up of new formats; (c) better-than-expected improvement in growth and profitability for Star; and (d) increase in the pace of store acceleration for Westside and Zudio.

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Appendix A-1

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IMPORTANT DISCLOSURES

Trent Ltd (TREN.NS)
Ratings and Target Price History
Fundamental Research



*Indicates Change

Rating/target price changes above reflect Eastern Time

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