

# EQUITY RESEARCH REPORT



OCTOBER  
2024

Prepared by:  
CA. Harshita Jain

# TRENT LIMITED

Sector: Retail



**CMP: ₹ 7,768.05**

**CMP: ₹ 4,775**

## STOCK SCAN

**Rating: SELL**

NSE: TRENT	BSE: 500251
52 W High/Low	₹8,345/₹1,945
Market Cap (Cr)	₹2,76,064
Traded Volume	5.71 lakhs
% 1 Yr return	276.98%
Book Value	₹ 134.73

## TRENT: Risk of correction!

-Over the last five years between FY19 and FY24, Trent has reported the highest revenue CAGR amongst retail companies in India.

-The company is set to declare its earnings for the second quarter of FY25 on 7<sup>th</sup> Nov'24

-Trent the fourth most valuable company within the Tata Group. It has a well-capitalised balance sheet which remain best-in-class. However, its heady valuation restrains us from becoming constructive on the stock. Hence, we maintain SELL with a Relative Valuation-based TP of INR 4,775/sh.

## STOCK PRICE CHART (1Y)



## SHAREHOLDING PATTERN

### AS AT SEPTEMBER 2024

Promoters	37.01%
FII	23.61%
DII	16.39%
Public	22.99%

## 1. If one excludes profits from exceptional items then ratios aren't as exciting

Particulars	Exceptional Items considered	Exceptional Items NOT considered
Net Profit Margin	12%	6%
Operating Profit Margin	16%	10%
ROA	20%	10%
ROE	45%	24%
3 Year CAGR	72%	31%

The ratios are reduced by half if we remove the gains from exceptional items for the financial year ended 2024

## 2. Loss-making operations of 5 out of 7 subsidiaries as well as those operated through JVs impacting the consolidated profits

Out of 7 subsidiaries 5 subsidiaries reported a loss. The performance of some of the owned non-apparel formats (Landmark, Booker India) as well as those operated through JVs, including Star Bazaar, remain subdued. These continue to incur losses although the net losses reported by Star Bazaar stores reduced in FY2024.

### **3. Stiff competition in the Indian retail industry**

2023 was relatively a tough year for retail in India. The market is very competitive. Indian retail sector is highly fragmented with more than 90% of its business being run by the unorganized retailers like the traditional family run stores and corner stores along with competition from various organised players, online segments and emergence of start-ups and PE/IPO-led funding of new ventures.

Trent is carrying high inventory on the books (inherent in the retail business). The risks of the inventory getting obsolete, damaged or out of fashion continue.

# COMPANY OVERVIEW



The Company was originally incorporated as Lakme Limited (“Lakme”) on December 5, 1952. Lakme was in the business of manufacturing, sale and export of cosmetics, toiletries, perfumery, apparel & soft goods retailing. The name of Lakme Limited was changed to Trent Limited with effect from January 1, 1998. Trent is a part of Tata Ecosystem and fourth most valuable company within the Tata Group. During the year 2023-2024 Trent has added 811 stores across 178 cities.

## BRANDS UNDER TRENT:

### (A) Fashion & Lifestyle-

The logo for Westside, featuring a stylized, cursive 'W' followed by the word "ESTSIDE" in bold, black, sans-serif capital letters.

Offers fashion apparel, footwear & accessories for women, men and children and home furnishings. Has 232 stores across 91 cities Online reach through Westside.com, Tata CliQ & Tata Neu.

The logo for XCITE | MISBU. "XCITE" is in bold, black, sans-serif capital letters. A vertical line separates it from "MISBU", which is also in bold, black, sans-serif capital letters. Below "MISBU" is the tagline "SHOP. SWIPE. SLAY" in a smaller, black, sans-serif font.

Offers a range of beauty, personal care, fashion accessories and decor targeted at Gen Z and millennials.

The logo for Zudio, featuring the word "Zudio" in a bold, black, sans-serif font.

Zudio offers fashion at irresistible prices for women, men and children.

The logo for Utsa, featuring the word "utsa" in a stylized, cursive, black font.

Utsa offers apparel, footwear, innerwear, beauty & accessories.

The logo for SAMOH, featuring the word "SAMOH" in a bold, black, sans-serif font.

Samoh focuses on traditional & ethnic wear.

## BRANDS UNDER TRENT:

### (B) Food & Grocery-



A **TATA** and **TESCO** Enterprise



Star is based on a supermarket concept. It has an assortment of products including FMCG, staples and a comprehensive fresh offering (vegetables, fruits, dairy & non-vegetarian products).

### (C) Key Subsidiaries & Alliances-

Booker is engaged in wholesale cash and carry business.

Provides services to Kirana Stores, traders, hotels, restaurants, caterers and small businesses.

BIL was acquired by the Company in FY20. BIL operates 4 cash and carry stores under the Booker Wholesale banner.



Trent has two separate associations with the Inditex group of Spain with a shareholding of 51% (Inditex) 49% (Trent) – one entity to operate Zara stores and the other for Massimo Dutti stores in India.



## BOARD OF DIRECTORS:

Chairman

Mr. Noel Tata

CFO

Mr. Neeraj Basur

ED & CEO

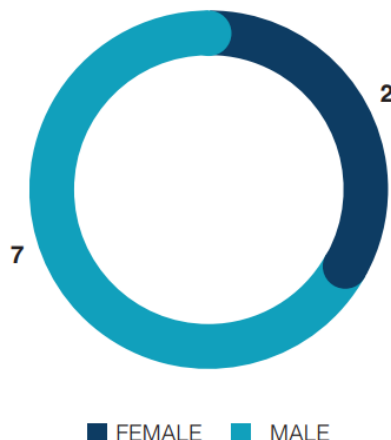
Mr. P. Venkatesalu

Non-ED Non-ID

Mr. Harish Bhat,

Mr. Bhaskar Bhat

Board Gender Diversity



Chairman Emeritus  
Simone Tata

Independent Directors

Mr. Jayesh Merchant,  
Ms. Susanne Given,  
Mr. Ravneet Singh Gill,  
Ms. Hema Ravichandar,  
Mr. Johannes Holtzhausen

**The ratio of the remuneration of each director to the median remuneration of the employees of the Company and the percentage increase in remuneration during FY24**

Name	Ratio to Median remuneration*	Percentage increase in remuneration*
<b>Non-Executive Directors:</b>		
Mr. Noel N. Tata	17.09	63.78
Mr. Bhaskar Bhat	9.17	42.75
Mr. Harish Bhat <sup>#</sup>	4.90	98.98
Mr. Jayesh Merchant	13.01	3.79
Ms. Susanne Given	4.90	25.97
Mr. Ravneet Singh Gill	7.67	62.75
Ms. Hema Ravichandar	8.67	59.65
Mr. Johannes Holtzhausen <sup>®</sup>	5.09	350
<b>Executive Directors:</b>		
Mr. Venkatesalu Palaniswamy	178.36	31.12
<b>Chief Financial Officer</b>		
Mr. Neeraj Basur <sup>§</sup>	-	-

## 1. Indian retail sector-vastly unorganized & complex



- ❑ The Indian retail sector is highly fragmented with more than 90% of its business being run by the unorganized retailers like the traditional family run stores and corner stores.
- ❑ The organised retail market in India has 12% share of the total retail market and has a growth rate of 10% over 2021-32.
- ❑ In 2022, traditional retail, organised retail and E-commerce segments accounted for 81%, 12% and 8% of the market, respectively.

## 2. High growth potential in Indian retail is attracting investors

- ❑ On 21<sup>st</sup> Aug'24 French sports retailer  announced to invest €100 million in India over five years to expand its store network to 190 stores. Currently Decathlon is operating 127 stores, the company aims to open 63 new stores.



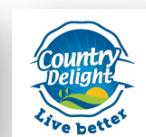
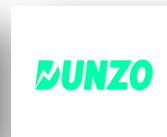
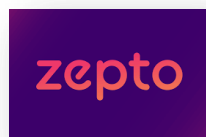
- ❑  the Swedish furniture maker has completed phase one, where they invested in the three markets Hyderabad, Navi Mumbai & Bengaluru. Ikea's next destination is Delhi-NCR, where it will first start online sales in the first quarter of 2025 and then open its first physical store at its first 'Lykli' centre, which would come up in Gurugram in 2026.
- ❑ Swedish retailer  has launched its home decor and accessories products such as dinnerware and bed linen in India called “H&M HOME”
- ❑  a UAE-based retail company on 8<sup>th</sup> Sept’24 unveiled plans for investing \$480 million to construct India's biggest shopping mall in Ahmedabad. At present, Lulu Group has malls in six Indian cities - Bengaluru, Coimbatore, Hyderabad, Kochi, Lucknow, and Thiruvananthapuram.

### 3. Increase in digital payment methods in retail

- ❑ As per RBI digital payments in India grow from 162 crore transactions in FY2012-13 to over 14,726 crore transactions in 2023-24
- ❑ According to Global Data’s 2023 Financial Services Consumer Survey, mobile and digital wallets have eclipsed traditional payment modes

## 4. Rise of e-commerce and quick commerce

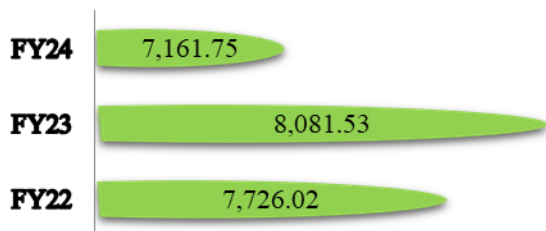
- ❑ According to TRAI, as of March 2024, there were 954m internet subscribers, up from 881m in March 2023. This strong momentum is encouraging merchants to enter the e-commerce space.
- ❑ Many domestic and international e-commerce retailers such as Flipkart, Amazon and Myntra offer benefits, including discounts and cashback on various products listed on their platforms through their respective shopping events Flipkart Big Billion Days, Amazon Great Indian Sale, and Myntra Big Fashion Festival Sale, thereby encouraging consumers to shop online.
- ❑ Global Data's E-Commerce Analytics reveals that India's e-commerce market value is set to increase at a compound annual growth rate (CAGR) of 18.7% from INR12.2trn in 2024 to INR 24.1trn in 2028.
- ❑ Quick commerce is altering India's retail and last-mile delivery landscape challenging traditional retail concepts with a focus on rapid deliveries. A number of players have emerged like Zomato-owned Blinkit, Swiggy Instamart, Dunzo Daily, Country Delight, and Zepto. The quick commerce industry in India is projected to touch US\$ 5.5 billion by 2025, as per a RedSeer report.



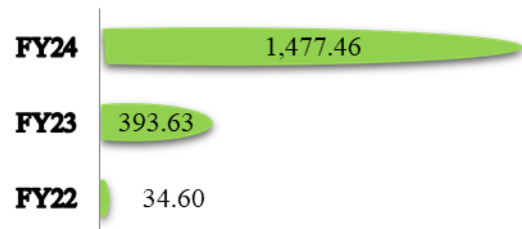
# RATIO & DU-PONT ANALYSIS

RATIO ANALYSIS					Remarks
Type	Particulars	FY22	FY23	FY24	
<b>Liquidity Position- STRONG</b>					Trent has limited dependence on external borrowings, with outstanding debt in the form of NCDs worth Rs. 498.6 crore as on March 31, 2024 which is due for repayment in May 2026. It has free cash and bank balance and liquid investments of Rs. 1,017.3 crore as on March 31, 2024. Going forward, the cash flows are expected to improve, driven by store additions and its product portfolio.
	Current ratio	2.72	2.17	2.01	
	Quick ratio	0.96	0.61	0.71	
	Cash ratio	0.94	0.58	0.66	
<b>Solvency Position- STRONG</b>					Company has evolved its business model & strategy and has accelerated the launch of stores appealing w.r.t look, feel, micro-market & experience. This strategy also involves a periodic review of store portfolio and consolidation / closure of existing stores that are not representative of the Company's brand proposition. Hence, lease term is reassessed which has resulted in reduction of lease liability & hence improvement in ratio.
	Debt Equity	200%	172%	43%	
	Int Coverage	1.02	1.93	6.14	
<b>Activity Position- WEAK</b>					<ol style="list-style-type: none"> <li>1. Trent faces intense competition from domestic, international brands as well as online segments.</li> <li>2. Is carrying high inventory on the books (inherent in the retail business).</li> <li>3. The risks of the inventory getting obsolete, damaged or out of fashion continue.</li> <li>4. Trent has made significant investments in technology pertaining to warehouse management and strengthening its back-end processes, which have reduced the inventory days.</li> </ol>
	Receivable Days	2	1	2	
	Inventory Days	95	86	77	
	Payable Days	48	40	38	
	Working Capital Cycle	49	47	41	
	Fixed Asset Turnover ratio	6.59	10.33	12.27	
<b>Profitability Position- STRONG</b>					<p>Trent has reported an improvement in its operating profit margin (OPM), which rose to 15.9% in FY2024 due to:</p> <ol style="list-style-type: none"> <li>1. Benefits of economies of scale</li> <li>2. Increasing contribution of Zudio to the overall sales</li> <li>3. Transforming from a single-format to a multi-format player</li> </ol>
	Net Profit Margin	2%	5%	12%	
	Operating Profit Margin	5%	8%	16%	
	ROA	2%	6%	20%	
	ROE	5%	18%	45%	
<b>Du-Pont Analysis- TRENT IS HEALTHY!</b>					<p>Trent's increase in ROE is due to increase in profits and sales: Logged a rise in the net profits</p> <p>Using its assets effectively which can be seen by an uptick in the total asset turnover ratio</p> <p>Has limited dependence on external borrowings</p> <p>Hence, Trent is successfully managing its production costs, allowing it to generate a higher profit margin. It is also able to utilise its assets better and able to reduce its financial leverage by reducing the debt component.</p>
	Net Profit Margin	2%	5%	12%	
	Total asset Turnover	0.67	1.04	1.62	
	Financial Leverage	2.88	3.19	2.29	
	ROE	5%	18%	45%	

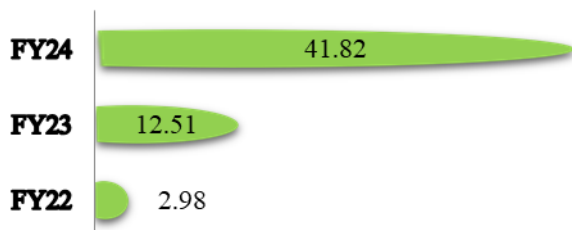
## Balance Sheet Size (₹ CR)



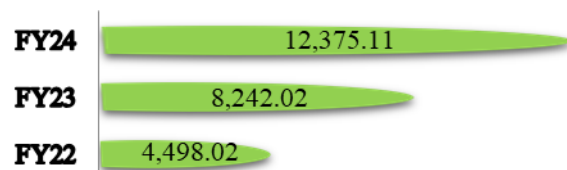
## Profit After Tax (₹ CR)



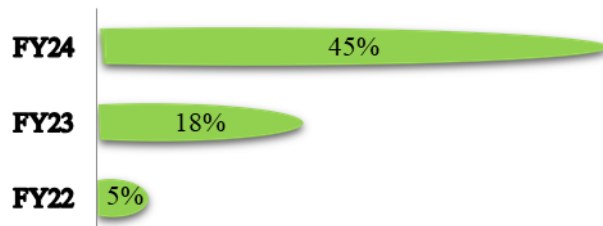
## EPS (₹)



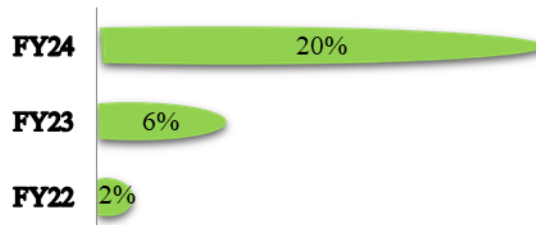
## Revenue from Operations (₹ CR)



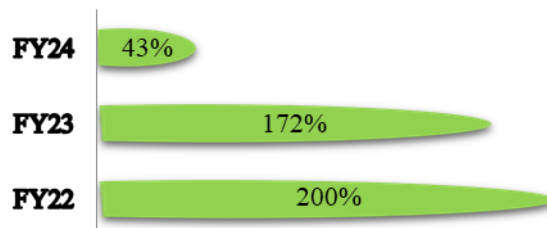
## ROE (%)



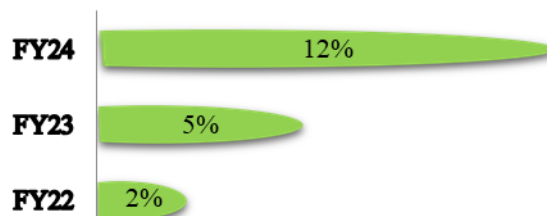
## ROA (%)



## Debt to Equity (%)



## Net Profit Margin (%)



# FINANCIALS

## BALANCE SHEET

### TRENT LIMITED BALANCE SHEET

						(In crores)
		As on march 23	As on march 24	As on march 25E	As on march 26E	As on march 27E
	<b>ASSETS</b>					
A)	<b>NON- CURRENT ASSETS</b>					
1	Property, plant & equipment	871	1,146	2,936	4,186	5,140
2	Capital work- in -progress	102	224	560	811	1,175
3	Investment Property	27	27	28	28	27
4	Goodwill on consolidation	27	27	27	27	27
5	other Intangible assets	51	47	47	47	47
6	Right of use assets	3,550	1,202	896	1,298	1,881
7	Financial assets					
8	Investments	564	696	696	1,009	1,461
9	Loans	2	2	2	2	3
10	Other financial assets	137	448	448	649	939
11	Deferred tax assets	156	54	54	79	114
12	Other non current assets	216	178	178	258	374
	<b>Total non-current assets</b>	<b>5,704</b>	<b>4,052</b>	<b>5,873</b>	<b>8,394</b>	<b>11,191</b>
B)	<b>CURRENT ASSETS</b>					
1	Inventories	1,361	1,583	2,692	3,552	5,419
2	Financial assets					
3	Investments	546	720	720	1,043	1,510
4	Trade receivables	34	82	79	133	169
5	Cash and cash equivalents	83	295	200	200	200
6	Other balances with banks	3	3	-	-	-
7	Loans	17	17	17	25	36
8	Other financial assets	119	140	140	203	294
9	Current tax assets	17	4	4	6	8
10	Other assets	188	254	254	367	532
	<b>Total current assets</b>	<b>2,369</b>	<b>3,097</b>	<b>4,105</b>	<b>5,529</b>	<b>8,169</b>
	<b>Assets held for sale</b>	<b>9</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>
	<b>Total assets</b>	<b>8,082</b>	<b>7,162</b>	<b>9,992</b>	<b>13,937</b>	<b>19,373</b>

# FINANCIALS

## BALANCE SHEET

### TRENT LIMITED BALANCE SHEET

(In crores)

As on march 23 As on march 24 As on march 25E As on march 26E As on march 27E

#### C) EQUITY & LIABILITIES

##### Equity

1	Equity share capital	36	36	36	36	36
2	Other equity	2,560	4,032	5,797	8,205	11,799
3	<b>Equity attributable to owners of the Company</b>	<b>2,595</b>	<b>4,068</b>	<b>5,832</b>	<b>8,241</b>	<b>11,835</b>
4	Non-controlling interests	67	35	35	35	35
	<b>Total equity</b>	<b>2,663</b>	<b>4,103</b>	<b>5,867</b>	<b>8,276</b>	<b>11,870</b>

#### D) NON CURRENT LIABILITIES

##### Financial liabilities

1	Borrowings	498	499	647	897	1,063
2	Lease liabilities	3,750	845	1,098	1,520	1,802
3	Other financial liabilities	8	5	5	8	11
4	Provisions	59	160	160	232	336
5	Other non current liabilities	9	9	9	12	18
	<b>Total non-current liabilities</b>	<b>4,325</b>	<b>1,518</b>	<b>1,919</b>	<b>2,669</b>	<b>3,230</b>

#### E) CURRENT LIABILITIES

##### Financial liabilities

1	Borrowings	-	-	-	-	-
2	Lease liabilities	216	409	531	736	872
3	Trade payables	665	774	1,316	1,737	2,649
4	Other financial liabilities	79	160	160	231	335
5	Other current liabilities	118	150	150	217	315
6	Provisions	12	19	19	27	39
7	Current tax liabilities	2	30	30	43	63
	<b>Total current liabilities</b>	<b>1,094</b>	<b>1,541</b>	<b>2,205</b>	<b>2,992</b>	<b>4,273</b>

	<b>Total equity and liabilities</b>	<b>8,082</b>	<b>7,162</b>	<b>9,992</b>	<b>13,937</b>	<b>19,373</b>
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# FINANCIALS

## PROFIT AND LOSS

### PROFIT & LOSS STATEMENT

	(In crores)				
Particulars	As on march 2023	As on march 2024	As on march 2025E	As on march 2026E	As on march 2027E
Revenue from operations	8,242	12,375	17,927	25,968	37,618
Other income	261	289	769	1,115	1,353
<b>Total income</b>	<b>8,503</b>	<b>12,664</b>	<b>18,696</b>	<b>27,083</b>	<b>38,971</b>
Expenses:					
cost of goods sold	4,720	6,959	10,104	14,760	21,206
Employee benefits expense	655	1,037	1,689	2,403	3,301
Finance costs	369	319	125	163	225
Depreciation and	494	671	534	797	1,105
Other expenses	1,793	2,457	3,860	5,657	8,136
<b>Total expenses</b>	<b>8,031</b>	<b>11,443</b>	<b>16,312</b>	<b>23,779</b>	<b>33,973</b>
Share of profit/(loss) of joint ventures and	83	124	124	124	124
Profit/(loss) before exceptional items and tax	555	1,345	2,508	3,428	5,121
Total exceptional items	(3)	576	-	-	-
<b>Profit/(loss) before tax</b>	<b>552</b>	<b>1,921</b>	<b>2,508</b>	<b>3,428</b>	<b>5,121</b>
<b>Total tax expense</b>	<b>158</b>	<b>443</b>	<b>752</b>	<b>1,028</b>	<b>1,536</b>
<b>Profit/(loss) for the year</b>	<b>394</b>	<b>1,477</b>	<b>1,755</b>	<b>2,399</b>	<b>3,585</b>
Less- Profit/loss attributable to non	(51)	(9)	(9)	(9)	(9)
<b>Profit/loss attributable to owner of the company</b>	<b>445</b>	<b>1,487</b>	<b>1,765</b>	<b>2,409</b>	<b>3,594</b>
<b>EPS</b>	<b>13</b>	<b>42</b>	<b>50</b>	<b>68</b>	<b>101</b>

## CASH FLOW (EXTRACT)

<u>CASH FLOW STATEMENT</u>					
					(In crores)
Particulars	As on march 23	As on march 24	As on march 25E	As on march 26E	As on march 27E
<b>Cash Flow from operations</b>					
Profit/(loss) for the year	394	1,477	1,755	2,399	3,585
ADD- Non cash expenses					
Depreciation and amortisation expense	494	671	534	797	1,105
Share of profit/(loss) of joint ventures and associates	(83)	(124)	(124)	(124)	(124)
Other income	(261)	(289)	(769)	(1,115)	(1,353)
Finance costs	369	319	125	163	225
<b>Cash flow before WC changes</b>	<b>912</b>	<b>2,055</b>	<b>1,521</b>	<b>2,120</b>	<b>3,438</b>
<b>Cash flow from WC changes</b>	<b>(326)</b>	<b>(162)</b>	<b>(564)</b>	<b>(747)</b>	<b>(1,357)</b>
<b>Cash flow from Operations</b>	<b>586</b>	<b>1,893</b>	<b>957</b>	<b>1,373</b>	<b>2,081</b>
<b>Cash flow from Investing Activity</b>	<b>185</b>	<b>1,386</b>	<b>(1,462)</b>	<b>(2,096)</b>	<b>(2,449)</b>
<b>Cash Flow from financing activity</b>	<b>(771)</b>	<b>(3,068)</b>	<b>408</b>	<b>723</b>	<b>368</b>
Total cash generated for the year	0	211	(98)	-	-
Opening Cash for the year	86	86	298	200	200
Closing Balance for the year	86	298	200	200	200
Closing balance As per B/S	86	298	200	200	200



# (A) VALUATION USING DCF

Cost of Equity Calculations	
Year	Market Return
2004	2,048.22
2024	33,066.13
<b>Return on Market</b>	<b>14.92%</b>
10-Year G-Sec Par Yield	6.75%
<b>Risk Free Rate</b>	<b>6.75%</b>
Beta	1.04
<b>Cost of Equity</b>	<b>15.25%</b>

Weighted Average Cost of Capital	
Target debt to capital	0.54
<b>Weight of Debt</b>	<b>0.54</b>
<b>Cost of Debt</b>	<b>7%</b>
<b>Weight of Equity</b>	<b>0.46</b>
<b>Cost of Equity</b>	<b>15%</b>
<b>WACC</b>	<b>11%</b>

Particulars	Mar 25E	Mar 26E	Mar 27E
Profit/loss attributable to owner of the company	1,765	2,409	3,594
Add: Depreciation and amortisation expense	534	797	1,105
Add: Net Interest (1-tax rate)	88	114	158
Less: WC changes	564	747	1,357
Less: FA Investment	2,355	2,699	3,006
Free Cash flow to firm (FCFF)	5,305	6,766	9,220
Terminal Value			161,510
Total	5,305	6,766	170,730
Discounting @WACC 11%	1.00	0.90	0.81
PV of future cash flows	5,305	6,102	138,848
<b>PV of Free Cash flow to firm (FCFF)</b>	<b>150,255</b>		
Less: Borrowings	2,077		
<b>PV of Free Cash flow to Equity (FCFE)</b>	<b>148,178</b>		
No. of shares	35.55		
<b>Intrinsic Value per share</b>	<b>4,168</b>		
CMP	7,518		
<b>Overvalued</b>	<b>80%</b>		

We have valued the business using Discounted Cash Flow model to arrive at **Target Price of INR 4,168** per share for Trent's business, which is **overvalued by 80%** from current market price

## (B) RELATIVE VALUATION

EV/EBITDA			
	EV	EBITDA	EV/EBITDA
Avenue Supermarts	264,093	4,251	62
Aditya Birla Fashion & Retail	40,200	1,811	22
Trent	267,931	2,920	92
		<b>Average</b>	<b>59</b>

**Intrinsic value/share=**  
**Rs. 5202**

**OVERVALUED**

EV/Sales			
	EV	Sales	EV/Sales
Avenue Supermarts	264,093	50,789	5
Aditya Birla Fashion & Retail	40,200	13,996	3
Trent	267,931	12,375	22
		<b>Average</b>	<b>10</b>

**Intrinsic value/share=**  
**Rs. 4955**

**OVERVALUED**

Final Intrinsic Value per share Trent Ltd		
(A)	EV/EBITDA	5,202
(B)	EV/Sales	4,955
<b>Avg(A)+(B)</b>	<b>Intrinsic value per share of Trent</b>	<b>4,775</b>
	CMP of Trent	7,518
	Downside	-36%

We have valued the business assigning equal weightage to FY25E EV/EBITDA multiple and EV/Sales multiple to arrive at **Target Price of INR 4, 775** per share for Trent's business, which is **overvalued by 36%** from current market price

Trent the fourth most valuable company within the Tata Group. It has a well-capitalised balance sheet which remain best-in-class. However, its heady valuation restrains us from becoming constructive on the stock. Hence, we maintain SELL with a Relative Valuation-based TP of INR 4,775/sh.

## RATING CRITERIA

BUY: >+15% return potential

SELL: >10% Downside return potential

❓ **Disclaimer:** This report is made for academic purposes and is not meant for commercial usage.

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