Trent Limited

November 23, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	285.01 (Enhanced from 160.01)	CARE AA+; Stable / CARE A1+	Reaffirmed
Short-term bank facilities	65.00	CARE A1+	Reaffirmed
Non-convertible debentures	500.00	CARE AA+; Stable	Reaffirmed
Commercial paper	300.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has reaffirmed the ratings of bank facilities, long-term and short-term instrument of Trent Limited (Trent). The ratings continue to factor strong parentage of Tata Sons Pvt Ltd (TSPL) and expected need-based support to Trent. The ratings factor the company's leading position in the domestic retail industry with 705 stores spread across more than 140 cities as on September 30, 2023 and presence in different retail formats/product categories like apparel, footwear, accessories, groceries through joint venture (JV) with the British major, Tesco PLC (Tesco), for Trent's Star Bazaar and association with Inditex (Zara & Massimo Dutti) in the high street fashion segment. Furthermore, the company has recorded healthy operating performance in FY23 and H1FY24 with total operating income growth of 83.37% in FY23 and 48.4% in H1FY24 on y-o-y basis while the operating margins improved to 13.39% in FY23 and to 16.65% in H1FY24. The improvement has been driven by increase in same-store sale and increase in average bill size. CARE Ratings expects the operational performance to continue driven by improvement in same-stores sales and addition of new stores going ahead with aggressive expansion under the brand Zudio.

The ratings continue to factor in Trent's seasoned management, strong capital structure and debt metrics (excluding lease liabilities) and a strong liquidity position reflected from cash and liquid investments of ₹794.58 crore as on September 30, 2023.

The ratings are, however, tempered by continued losses in some of its retail format like Booker India and JV like Star Bazaar necessitating regular funding support along with presence in the highly competitive branded retail industry which is vulnerable to changes in fashion trends/consumer preferences and economic cycles.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in financial profile on back of sustained same-store sales growth over the next two fiscals for all brands.
- Improvement in operational performance and improvement in return on capital employed (ROCE) above 25%.

Negative factors

- Increase in working capital intensity or weakening of debt credit metrics leading to further deterioration of capital structure.
- Significantly higher-than-anticipated support to subsidiaries/JV.

Analytical approach: Consolidated

Consolidated and factoring linkages with Tata Sons Pvt Ltd, applying parent notch up factoring the strong managerial and financial linkages. The subsidiaries and joint ventures being considered for consolidation are in **Annexure-6**.

Outlook: Stable

CARE Ratings have assigned Stable outlook on account that Trent will continue with a strong operational performance with improvements in the financial performance and robust liquidity backed by brand loyalty across various formats.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers:
Key strengths

Experienced management team and strong parentage: Trent is part of Tata Group, enjoys strong managerial and financial support from TSPL which is expected to fund Trent on need basis as seen historically. During FY20, Tata Sons Private Limited infused ₹950 crore into Trent Limited for funding its expansion plans and back-end investments in warehousing and allied activities etc. Furthermore, being part of the Tata group, Trent enjoys strong financial flexibility. The company is headed by Noel N Tata (Chairman) who is assisted by a team of experienced professionals across various functions. CARE Ratings expects that the strong parentage will continue and the company will continue to benefit from experienced management in the medium to long term.

Diversified geographical presence, established brands and tie-ups with reputed retailers: Trent is one of the leading retail players in the Indian retail industry with the series of established brands across retail segments. Trent operates in both the value and lifestyle segments with an exclusive owned brand portfolio across Westside (Lifestyle), Zudio (Value fashion retail), Utsa (Ethnic Fashion retail). Trent operates around 705 stores in over 140 cities as on September 30, 2023, under various segments across India. Westside accounted for the majority of the company's revenues and derives its entire revenue from its own private label brands. Star stores are primarily operated by Trent Hypermarket Private Limited (THPL) - a 50:50 JV between Trent Ltd & Tesco PLC UK. Under the star brand, the company has 70 Star Hyper stores and Star Market stores.

Strong operating performance and improved profitability: Total Operating Income has increased from ₹4,488.13 crore in FY22 to ₹8230.12 crore in FY23, a growth of 83.37% led by increase in volume and price inflations. Total sales from Westside increased by 53.8% to ₹4,437 crore and total sales from Zudio increased 187.4% to ₹3,467 crore in FY23. Sales per Sq.ft from Star Bazaar also increased by 62.53% in FY23 to ₹22,594 sq.ft (PY: 13,901). Westside accounted for around 51% of total revenues of Trent. Simultaneously, the company has been focusing on increasing the footprint of Zudio by rapidly opening of additional 125 stores totaling 352 stores across 119 cities as on March 31, 2023. In H1FY24, the company recorded 48.39% growth YoY in revenue from operations at ₹5611 crore.

The gross margin for Westside moderated slightly at 55.1% (PY: 58.7%) however overall operating margin improved from 11% in FY22 to 13% in FY23. This was mainly due increase in average bill size for Westside from ₹2,796 in FY22 to ₹2,835.30 in FY23. The operating profit improved by 88% to ₹1,102.25 crore in FY23 which also improved the margins to 13.39% (PY: 13.03%). In H1FY24, the company recorded operating margin of 16.65% led by the on-set of early festive season.

Strong financial profile and liquidity position: The overall gearing including lease liabilities for Trent improved to 1.79x as of March 31, 2023 (from 2.02x as of March 31, 2022) and 1.68x as on September 30, 2023. The capital structure has improved, and the interest coverage ratio has also improved which led strong to net profits. The company's liquidity remains comfortable with cash and bank balances of ₹151.46 crore coupled with liquid investments to the tune of ₹643.12 crore for September 30, 2023.

Trent's inventory stocking policy is mostly on 'outright purchase' basis which makes it vulnerable to inventory obsolescence and blocking of working capital in case of a slowdown. However, the company's inventory per square feet has largely remained stable. Also, as majority of sales occur in cash, the collection cycle is low. The operating cycle remained stable at 34 days as of March 31, 2023 (35 days as on March 31, 2022).

Key weaknesses

Subdued performance of subsidiaries/JV; Positive momentum expected going forward: Trent's retail format like Booker India continue to incur PAT loss of ₹92.21 crore in FY23 (₹119.38 crore loss in PY) necessitating funding support. The JV and associates had mixed performance in FY23 with Trent Hypermarket Private Limited (THPL) reporting a loss of ₹103.10 crore in FY23 (₹136.95 crore in FY22); while Inditex reported a profit of ₹263.75 crore (PY: ₹148.69 crore) and Massimo Dutti also reported profit of ₹11.1 crore in FY23 (PY: ₹1.45 crore in FY22). Hence, going forward the FMCG segment is also likely to improve with higher footfalls in malls seen over early FY23.

Exposed to intensifying competition and economic cyclicality: Shoppers Stop, Lifestyle International, Aditya Birla Fashion, and other physical retailers are strong rivals of Trent. Online retailers such as Amazon, Flipkart, and Myntra pose a competitive threat for Trent. The overall growth of Trent's same-store sales could be impacted by increased competition from both brick and mortar and internet businesses. Because entrance barriers to the branded garment market are low, unorganised players pose a serious threat to the company's market share. The retail sector also remains susceptible to adverse macroeconomic environment for being discretionary in nature.

Liquidity: Strong

Liquidity remains strong led by cash and bank balance of ₹151.46 crore and liquid investment to the tune of ₹643.12 crore as on September 30, 2023. Therefore, excluding the lease liabilities, the company is net debt free as there is no long-term debt and no major repayment. The outstanding NCD of ₹500 crore has bullet repayment in FY27. The company has minimal working capital utilisation, additionally, the capital expenditure (CAPEX) requirement expected to be funded mostly by internal accruals.

Environment, social, and governance (ESG) risks

Being under the Tata Sustainability Group (TSG) the company identifies material sustainability issues despite being in the retail sector and not being exposed to most environmental risks. The company identified the Product Stewardship risk through recycling of waste and conservation of natural resources and has adopted a method to reduce it by reducing the fabric waste and using of Forest Stewardship Council (FSC) and Better Cotton Initiative (BCI) cotton. The company is also looking into usage of sustainable logistics to save cost and use alternative fuel.

Under the Corporate Governance, the company has adopted the Tata Code of Conduct which facilitates a fair working environment and appropriate behaviour by employees. The company, through its Business Responsibility & Sustainability Report, reports transparently all the compliance they have adhered. The company is adopting NGRBC Principles and Core Elements into its code of conduct through various internal policies and principle-wise disclosures.

Retail businesses face issues related to privacy as a result of the rising use of customer data brought about by the expansion of e-commerce. Therefore, to address this social risk, Trent's information technology teams' main areas of focus is cyber security. To reduce the risk, business systems are updated frequently. Due to their reliance on human capital for their safety and general well-being, companies in this manpower-intensive sector run the danger of experiencing disruptions. Furthermore, the company may face social risks as a result of human rights issues. Because it relies so heavily on outside suppliers, the corporation, as a retailer, is also impacted by other social aspects like sustainable products and supply chains, as well as ethical sourcing. Sustainability in the social and environmental domains is still emphasised by the corporation across its value chain.

Applicable criteria

Consolidation
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Policy on default recognition
Policy on Withdrawal of Ratings
Rating Outlook and Credit Watch
Retail
Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Consumer services	Retailing	Distributors

Trent is a part of the Tata group, with the Tata group holding 37.01% (Tata Sons Pvt Ltd holding 32.45%) as on September 30, 2023. Trent is present in retail segment and is present in all segments in fashion from value fashion to luxury products. It runs Westside (Lifestyle retailing) and Zudio (Value retailing) primarily in retail apparels, beauty and fashion segment. As of March 31, 2023, Trent has 214 Westside across 90 cities and 352 Zudio stores in the portfolio across 119 cities. The company also operates six standalones (in addition to Shop in Shop). The company has seven subsidiaries, a joint venture with Trent Hypermarket Pvt Ltd and two associations with Inditex of Spain and Massimo Dutti as on September 30, 2023.

The company is present in grocery retailing through its JV with Tesco PLC, UK, Trent Hypermarket Private Limited which operates Star Stores (63 stores across 10 cities). Furthermore, Trent's JV with the Inditex group (wherein Trent holds 49%) operates 20 ZARA stores in 11 cities and three Massimo Dutti in two cities.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	H1FY24 (UA)
Total operating income	4,488.13	8,230.12	5,742.86
PBILDT	584.83	1,102.25	956.04
PAT	34.60	393.69	394.73
Overall gearing (times)	2.02	1.79	1.68
Interest coverage (times)	1.80	2.70	5.09

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'
Note: Financials as per CARE Ratings Methodology

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial paper-Commercial paper (Standalone)	-	-	-	7 days – 1 year	300.00	CARE A1+
Debentures-Non-convertible debentures	INE849A08082	31-05-2021	5.78	May 29, 2026	500.00	CARE AA+; Stable
Fund-based - LT/ ST-Working capital limits	-	-	-	-	75.00	CARE AA+; Stable / CARE A1+
Fund-based - LT/ ST-Working capital limits	-	-	-	-	210.01	CARE AA+; Stable / CARE A1+
Non-fund-based - ST-BG/LC	-	-	-	-	65.00	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT/ ST-Working capital limits	LT/ST*	210.01	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (25-Nov-22) 2)CARE AA+; Stable / CARE A1+ (04-Oct-22)	1)CARE AA+; Stable / CARE A1+ (05-Oct-21)	1)CARE AA+; Stable (14-Aug-20)
2	Non-fund-based - ST-BG/LC	ST	65.00	CARE A1+	-	1)CARE A1+ (25-Nov-22) 2)CARE A1+ (04-Oct-22)	1)CARE A1+ (05-Oct-21)	1)CARE A1+ (14-Aug-20)
3	Fund-based - LT/ ST-Working capital limits	LT/ST*	75.00	CARE AA+; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (25-Nov-22) 2)CARE AA+; Stable / CARE A1+ (04-Oct-22)	1)CARE AA+; Stable / CARE A1+ (05-Oct-21)	1)CARE AA+; Stable (14-Aug-20)
4	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (09-Aug-21)	1)CARE AA+; Stable (14-Aug-20)
5	Commercial paper	ST	-	-	-	-	-	1)Withdrawn (11-Aug-20)
6	Commercial paper	ST	-	-	-	-	-	1)Withdrawn (11-Aug-20)
7	Debentures-Non-convertible debentures	LT	500.00	CARE AA+; Stable	-	1)CARE AA+; Stable (25-Nov-22)	1)CARE AA+; Stable (05-Oct-21)	-

						2)CARE AA+; Stable (04-Oct-22)	2)CARE AA+; Stable (24-May-21)	
8	Commercial paper-Commercial paper (Standalone)	ST	300.00	CARE A1+	-	1)CARE A1+ (25-Nov-22)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	Simple
2	Debentures-Non-convertible debentures	Simple
3	Fund-based - LT/ ST-Working capital limits	Simple
4	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Annexure-6: List of Subsidiaries for Trent Limited as on March 31, 2023

S. No	Name of companies/ Entities	% of holding
1.	Fiora Business Support Services Ltd.	100%
2.	Trent Brands Limited	0% (merged with Nahar w.e.f March 23, 2023)
3.	Nahar Retail Trading Services Ltd.	100%
4.	Fiora Hypermarket Ltd	0% (100% of the above held by Booker India Ltd)
5.	Fiora Online Limited	0% (88.24% of the above held by Booker India Ltd)
6.	Trent Global Holdings Limited	100%
7.	Booker India Limited	51% (Balance with Tesco Overseas Investment Ltd.)
8.	Booker Satnam Wholesale Limited	0% (merged with Booker India Limited w.e.f April 19, 2023)
9.	Common Wealth Developers Limited	0% (merged with Nahar w.e.f March 23, 2023)

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: 079 40265617 E-mail: ranjan.sharma@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: 91 22 6754 3404 E-mail: saikat.roy@careedge.in	Pulkit Agarwal Director **CARE Ratings Limited** Phone: 912267543505 E-mail: pulkit.agarwal@careedge.in Arti Roy Associate Director **CARE Ratings Limited** Phone: 912267543657 E-mail: arti.roy@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information,
please visit www.careedge.in