May 10, 2024

Trent Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debenture (NCD) programme	500.00	500.00	[ICRA]AA+ (Stable); reaffirmed
Total	**500.00**	**500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in Trent's strong parentage, extensive experience of its management team as well as financial flexibility for being a Tata Group entity. ICRA expects its parent, Tata Sons Private Limited (TSPL; rated [ICRA]AAA (Stable)/ [ICRA]A1+), to provide need-based funding support to Trent. The rating derives strength from Trent's established track record in the domestic retail industry, its diversified formats as well as product offerings across various segments viz. apparel, footwear, accessories, groceries, among others, and its wide geographical presence through more than 875 stores as on March 31, 2024. ICRA notes the established presence of Trent's flagship format, Westside (accounting for over 39% of its consolidated revenues in 9M FY2024) and its continued high share (~100%) of private label brands in the total sales mix, resulting in high life-to-like (LTL) sales growth, supporting its gross margin of the format. This coupled with accelerated store expansion (added 193 stores in FY2024, taking the total to 545 stores as on March 31, 2024) in its value fashion format, Zudio, and its significant LTL sales growth resulted in a robust YoY consolidated revenue growth despite subdued market conditions and its overall impact on the domestic retail industry. ICRA expects Trent to continue to witness a healthy revenue growth, led by continued store expansion and strong LTL sales growth across its key formats. Despite increasing contribution of Zudio to its total sales (which rose to 55% in 9M FY2024 from 25% in FY2022), impacting the consolidated gross margins, Trent has reported a 240-bps improvement in its operating profit margin (OPM), which rose to 15.9% in FY2024 owing to the benefits of economies of scale. ICRA expects Trent's OPM to remain rangebound over the near term despite increasing contribution of Zudio to the overall sales. The rating also derives strength from the net cash surplus position of the company as well as its strong liquidity position, with free cash and bank balances and liquid investments of Rs. 1,017.3 crore as on March 31, 2024. Despite continued annual capital expenditure (capex) of ~Rs. 500 crore(as per ICRA estimates), ICRA expects Trent's capital structure and coverage metrics to remain healthy, supported by its high cash accruals.

ICRA notes the intense competition in the domestic branded apparel segment in which Trent operates. There are domestic as well as international brands along with a few established organised retail players in the brick-and-mortar as well as online segments. Besides, the business remains vulnerable to any economic slowdown. Moreover, the company remains exposed to various risks associated with carrying high inventory on the books, as inherent in the retail business. The risks of the inventory getting obsolete, damaged or out of fashion continue. However, over the years, Trent has made significant investments in technology pertaining to warehouse management and analytics as well as strengthening its back-end processes, which have reduced the inventory days in a phased manner. The rating also factors in the loss-making operations of some of the owned non-apparel formats (Misbu/Xcite , Booker India) as well as those operated through joint ventures (JVs), including Star Stores, which have been impacting the consolidated profitability and necessitating regular investments to support growth and loss funding.

The Stable outlook reflects ICRA's opinion that Trent will maintain its strong liquidity profile, supported by healthy (and improving) cash flows due to its established presence in the branded apparels segment, which will limit its dependence on external debt.

Key rating drivers and their description

Credit strengths

Strong parentage of the Tata Group and extensive experience of the management – Trent, being a part of the Tata Group, enjoys exceptional financial flexibility. ICRA expects its parent, TSPL (rated [ICRA]AAA (Stable)/ [ICRA]A1+), to provide need-based funding support to Trent. The company also benefits from the extensive experience of its management and its established track record in the domestic retail industry.

Established branded apparel player with wide geographical presence and diversified product offerings – Trent operated more than 875 stores across more than 160 cities in India as on March 31, 2024. It has a wide geographical presence in India and offers diverse products across varied segments including apparel, footwear, accessories, groceries, beauty products, among others. Westside, Trent's flagship format, has a strong brand connect with a loyal customer base, generating more than 39% of its consolidated revenues in 9M FY2024. With accelerated store expansion in the Zudio segment, its revenue contribution increased to 55% of Trent's consolidated revenues in 9M FY2024. Despite the decline in discretionary spending amid inflationary pressure in FY2024, Westside witnessed a healthy LTL sales growth, led by its differentiated product portfolio. Zudio also registered a significant YoY growth in revenues in FY2024, led by healthy LTL sales growth and accelerated expansion of stores (added net 193 stores in FY2024).

Continued net cash surplus status and strong liquidity position – 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. It had free cash and bank balance and liquid investments of Rs. 1,017.3 crore as on March 31, 2024, resulting in continued cash surplus position. Along with the controlled working cycle, this has helped limit its dependence on debt.

Sharp uptick in revenues over the last two years with accelerated store expansion and strong LTL sales growth; expected to continue going forward – Trent registered its highest ever revenues in FY2024, which increased significantly by 50% over FY2023, led by accelerated store expansion of Zudio and strong LTL across its key formats. Besides, the company benefitted from the economies of scale, resulting in 240 bps improvement in its OPM, which touched 15.9% in FY2024.

Credit challenges

Loss-making operations of some of the owned formats as well as those operated through JVs impacting the consolidated profitability – 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, led by growing share of private label sales to 69% in Q4 FY2024. This necessitates regular investments to support growth as well as loss funding. Improvement in the financial performance of these formats as well as the quantum of funding support to JVs will remain a key monitorable, going forward.

Stiff competition in the Indian retail industry; revenues susceptible to macro-economic environment – The company faces stiff competition owing to the presence of numerous players in the unorganised segment along with competition from various organised players in the brick-and-mortar and online segments. The retail sector also remains susceptible to adverse macroeconomic environment for being discretionary in nature. Moreover, the company remains exposed to various risks associated with carrying high inventory on the books, as inherent in the retail business. The risks of the inventory getting obsolete, damaged, or out of fashion remain. However, over the years, Trent has made significant investments in technology pertaining to warehouse management and analytics as well as strengthening its backend processes, which have reduced its inventory days in a phased manner.

Environmental and Social Risks

Environmental risks: Trent, which belongs to the retail sector, has low exposure to environmental risks. The sector does not face any major physical climate risk. The company, being a part of the Tata Group, follows the climate change policy, which focuses on areas such as energy waste management, supply chain efficiency and product stewardship.

Social risks: Increasing access to customer data following growing penetration of e-commerce poses privacy and legal risks for retail entities. Trent continuously upgrades its business systems to mitigate this cyber security risk. Being a manpower intensive segment, retail entities are exposed to the risks of disruptions due to inability to properly manage human capital in terms of their safety and the overall well-being. The company is also accountable for responsible sourcing, product and supply chain sustainability, given the high reliance on external suppliers. The company has been subscribing to social compliance platforms for evaluating vendors on key aspects including labour standards, health and safety, management systems, business ethics and environmental safety.

Liquidity position: Strong

The liquidity position of Trent is strong, supported by free cash and bank balance and liquid investments of Rs.1,017.3 crore as on March 31, 2024. Besides, its sanctioned fund-based limits of Rs. 350.01 crore, which remain entirely unutilised as on March 31, 2024, provide cushion to the liquidity. Going forward, the cash flows are expected to improve, driven by healthy store additions and its differentiated product portfolio. Free cash flows along with healthy cash and bank balance and liquid investments are expected to be more than sufficient to meet ICRA estimated annual capex requirement of ~Rs. 500 crore towards store expansion. ICRA also notes that Trent's debt profile comprises only NCDs amounting to Rs. 498.6 crore as on March 31,2024, which is due for repayment in May 2026.

Rating sensitivities

Positive factors – The rating may be upgraded if the company is able to report a sustained improvement in revenues, profits and return indicators, while maintaining a healthy credit profile and strong liquidity position. Improvement in the operating performance of JVs, limiting incremental support in the form of investments would also be a key rating monitorable. The return on capital employed (ROCE) improving to above 25% on a sustained basis would also be a positive rating factor.

Negative factors – The rating may be downgraded in case of a sharp decline in sales/ profitability or if any significant debt-funded capex/ acquisition or a stretch in the working capital cycle adversely impacts its credit metrics and/or the liquidity position on a sustained basis. Any revision in the funding support policy of TSPL towards Trent or any weakening in the credit profile of TSPL will also be negative factors.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Retail
Parent/Group support	Parent - Tata Sons Private Limited (rated [ICRA]AAA (Stable)/ [ICRA]A1+) ICRA expects TSPL to provide need-based funding support to Trent. There also exists the track record of TSPL having extended financial support to Trent in the past, whenever a need has arisen.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of Trent Limited. As on March 31, 2024, the company had seven subsidiaries, two joint ventures and two associates, which are all enlisted in Annexure-2.

About the company

Trent Limited is a part of the retail venture of the Tata Group. With more than 875 stores as on March 31, 2024 (681 stores as on March 31, 2023), Trent operates through eight different store concepts. These include a) Westside, Zudio and Utsa offer fashion retailing through owned formats. Zara and Massimo Dutti offer fashion retailing through alliances/associations with Inditex Group, Spain (with a 49% share of Trent), b) Landmark (the company is in the process of revamping it and has developed a new identity of the format under the brand name of Misbu/Xcite) offers a curated range of beauty, personal care and fashion accessories, c) Star Stores, via its 50% JV, Trent Hypermarket Private Limited, offers grocery retailing and d) Booker Wholesale operates cash-and-carry stores.

Key financial indicators (Audited)

Trent Consolidated	FY2023	FY2024
Operating income	8,242.0	12,375.1
PAT	310.2	1,353.9*
OPBDIT/OI	13.5%	15.9%
PAT/OI	3.8%	10.9%
Total outside liabilities/Tangible net worth (times)	2.0	0.7
Total debt/OPBDIT (times)	4.0	0.9
Interest coverage (times)	2.7	5.4

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation;*including exceptional gain of Rs.576.07 crore*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31,2024 (Rs. Crores)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
					May 10, 2024	May 11, 2023	May 16, 2022	May 20, 2021
1	NCD	Long term	500.00	498.6	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE849A08082	Non-Convertible Debenture Programme	May 31, 2021	5.78%	May 29, 2026	500.00	[ICRA]AA+ (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Fiora Business Support Services Limited	100.0%	Full Consolidation
Nahar Retail Trading Services Limited	100.0%	Full Consolidation
Fiora Hypermarket Limited^	-	Full Consolidation
Fiora Online Limited^	-	Full Consolidation
Trent Global Holdings Limited	100.0%	Full Consolidation
Booker India Limited	51.0%	Full Consolidation
Trent Global Trading LLC^	-	Full Consolidation
Trent Hypermarket Private Limited	50.0%	Equity method
Inditex Trent Retail India Private Limited	49.0%	Equity method
Massimo Dutti India Private Limited	49.0%	Equity method
Trent MAS Fashion Private Limited	50.0%	Equity method

Source: Company; ^step-down subsidiaries of Trent Limited; ***Fiora Hypermarket Limited and Fiora Online Limited are wholly owned subsidiaries of Booker India Limited and Trent Global Trading LLC is a wholly owned subsidiary of Trent Global Holdings Limited***

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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