May 11, 2023 (Revised)

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)	500.00	500.00	[ICRA]AA+(Stable); reaffirmed
Total	**500.00**	**500.00**	

^Instrument details are provided in Annexure-1

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 fund infusion to Trent. The rating derives strength from Trent's established track record in the domestic retail industry, its wide geographical presence through more than 680 stores as well as its diversified product offerings across various segments viz. apparel, footwear, accessories, groceries, among others. ICRA notes the established presence of Trent's flagship format, Westside (accounting for over 56% of revenues at the consolidated level in 9M FY2023), its continued high share (~100%) of private label brands in the total sales mix and improved same-store sales growth (SSSG) from H2 FY2022. This coupled with accelerated store expansion in its value fashion format, Zudio, resulted in a robust YoY sales growth of 98% (consolidated) in FY2023. ICRA expects Trent to witness a healthy revenue growth in the medium term, led by continued store expansion and high SSSGs across its key formats. The operating profit margins are expected to improve owing to the operating leverage. The rating also derives strength from the net cash surplus position as well as strong liquidity position, with cash and liquid investments of Rs. 628.9 crore as on March 31, 2023.

ICRA notes the intense competition in the fashion segment in which Trent operates, characterised by domestic as well as international brands along with a few established 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, out of fashion etc. continue. However, over the years the management has made significant investments in technology pertaining to warehouse management and analytics as well as strengthening its backend processes, which resulted in reduction of inventory days in a phased manner. The rating also factors in the loss-making operations of some of the owned non-apparel formats (Landmark, Booker India) as well as those operated through joint ventures (JVs), including Star Stores, 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, which will limit its dependence on external debt. Trent will continue to benefit from its established presence in the apparel segment.

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, to provide need-based fund 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 operates more than 680 stores across over 250 cities in India as on March 31, 2023. It has a wide geographical presence in major states of 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 55% of its revenues in 9M FY2023. Westside witnessed a healthy recovery in revenues in FY2022 and 9M FY2023, led by pick-up in discretionary spending, improving SSGs and retail footprint expansion. Also, Zudio registered a healthy growth in revenues in 9M FY2023, led by accelerated expansion of stores and high SSG.

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. 497.4 crore as on March 31, 2023. It had cash and bank and liquid investments worth Rs. 628.9 crore as on March 31, 2023, resulting in continued cash surplus position. In FY2023, Trent reported an all-time high revenue of Rs. 8,242 crore (at the consolidated level), led by accelerated store expansion of Zudio and improving SSG across its key formats. Notwithstanding the decline in gross margins, Trent benefitted from the operating leverage, resulting in expansion in its EBIT (earnings before interest and tax) margins in FY2023. Along with the controlled working cycle, this helped limit its dependence on debt.

Credit challenges

Loss-making operations of some of the owned formats as well as those operated through JVs – The performance of some of the owned non-apparel formats (Landmark, Booker India) as well as those operated through JVs, including Star Bazaar, remained subdued and these continue to incur losses, although the overall losses reported by Star Bazaar stores reduced in FY2023. This necessitates regular investments to support growth as well as for loss funding. Improvement in 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 macro-economic 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.

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 risks. The company, for being a part of the TATA Group, follows the climate change policy, which focuses on areas such as energy conservation supply-chain efficiency and waste management.

Social risks: Increasing usage of customer data following growing penetration of e-commerce poses privacy and legal risks for retail entities. Cyber security is among the key focus areas of information technology teams at Trent. Business systems are continually upgraded to mitigate the risk. Being a manpower intensive segment, entities are exposed to the risks of disruptions due to inability to properly manage human capital in terms of their safety and overall well being. Besides, human rights issues could pose social risks for the company. As a retailer, the company is also subject to other social factors such as responsible sourcing, product and supply chain sustainability, given the high reliance on external suppliers. The company continues to emphasise on social and environmental sustainability across its value chain. With the aim of achieving secure working conditions and positive footprints across the supply chain, the company subscribes to robust social compliance platforms for evaluating vendors on key aspects including labour standards, health and safety, management systems, business ethics and environmental safety. The vendors are required to be formally certified to be compliant on key social and environment related parameters.

Liquidity position: Strong

The liquidity position of Trent is strong, supported by cash and bank and liquid investments of Rs.628.9 crore as on March 31, 2023. Besides, its sanctioned fund-based limits of Rs. 350.01 crore, which remain entirely unutilised as on March 31, 2023, provide additional liquidity to the company. Going forward, the cash flows are expected to improve, in anticipation of healthy demand momentum, steady store expansions being undertaken by the company as well as its effective working capital management. Thus, free cash flows along with healthy cash and liquid balance are expected to be sufficient to meet the capex requirements of the company. ICRA estimates an annual capital expenditure (capex) of Rs. 300-350 crore towards these store expansions. The debt profile comprises only NCDs, which are due for repayment in FY2026.

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 a sharp decline in sales/ profitability or if any significant debt-funded capex or a stretch in the working capital cycle adversely impacts its credit metrics and/or the liquidity position. 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 Rating approach – Implicit Support from Parent or group Consolidation
Parent/Group Support	Parent Group- Tata Sons Private Limited (rated [ICRA]AAA(Stable)/[ICRA]A1+) ICRA expects TSPL to provide need-based fund to Trent. There also exists a 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, 2023, the company had four subsidiaries, five step-down subsidiaries, one joint venture 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 680 stores as on March 31, 2023 (539 stores as on March 31, 2022), Trent operates through eight different store concepts. These include a) fashion retailing through owned formats of Westside, Zudio, Utsa, Zara and Massimo Dutti through alliances/associations with Inditex Group, Spain (with 49% share of Trent), b) family entertainment store, Landmark, which is involved in retailing of toys, gadgets, stationery items and books, c) grocery retailing though Star Stores, via its 50% JV, Trent Hypermarket Private Limited, and d) Booker Wholesale, which operates cash-and-carry stores.

Key financial indicators (Audited, Consolidated)

	FY2022(A)	FY2023(A)
Operating Income (Rs. crore)	4,498.0	8,242.0
PAT (Rs. crore) *	29.5	310.2
OPBDIT/OI (%)	14.7%	13.0%
PAT/OI (%)	0.7%	3.8%
Total Outside Liabilities/Tangible Net Worth (times)	2.2	2.0
Total Debt/OPBDIT (times)	7.2	4.2
Interest Coverage (times)	2.0	2.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company, ICRA Research; All ratios as per ICRA's calculations; ^The financial statements of FY2022 and FY2023 are reported numbers, based on Ind AS 116

**PAT excludes the share of profit from JV and associates*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					May 11,2023	**May 16,2022**	**May 20, 2021**	**-**
1	NCD	LT	500.0	497.95*	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-

*Amount in Rs. Crore;*As on March 31,2023*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - 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, is available on ICRA's website: Click Here

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	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-2: List of entities considered for consolidated analysis

Company Name	Trent Group's Ownership	Consolidation Approach
Fiora Business Support Services Limited	100%	Full Consolidation
Trent Brands Limited^	100%	Full Consolidation
Common Wealth Developers Limited	100%	Full Consolidation
Nahar Retail Trading Services Limited	100%	Full Consolidation
Fiora Hypermarket Limited^	-	Full Consolidation
Fiora Online Limited^	-	Full Consolidation
Trent Global Holdings Limited	100%	Full Consolidation
Booker India Limited	51%	Full Consolidation
Booker Satnam Wholesale Limited^	-	Full Consolidation
Trent Hypermarket Private Limited	50%	Equity method
Inditex Trent Retail India Private Limited	49%	Equity method
Massimo Dutti India Private Limited	49%	Equity method

***Source**: Company; ^ step-down subsidiaries of Trent Limited; Trent Brands Limited and Commonwealth Developers Limited merged with Nahar Retail Trading Services Limited and Booker Satnam Wholesale Limited merged with Booker India Limited as on March 31,2023*

***Note**: ICRA has taken a consolidated view of Trent Limited, its subsidiaries, JV and associates while assigning the ratings*

Corrigendum

Rationale dated May 11,2023 has been corrected with revision as detailed below:

- Change made in the liquidity section on page no.3.
- The amount of sanctioned fund-based limit changed to Rs.350.01 crore from Rs.225.01 crore earlier.
- Rating methodology with respect to consolidation has been added in analytical approach segment on page no.3.

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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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