Trent Limited

August 14, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	85.00 (enhanced from 65.00)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	8.00 (reduced from 18.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	93.00 (Rs. Ninety Three crore only)		
Non-Convertible Debentures	300.00(400.00) (Rs. Three hundred crore only)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings assigned to the bank facilities and instruments of Trent Limited factor in its established portfolio of private brands, continued growth of Westside and Zudio retail formats, experienced management, comfortable liquidity and improved operational performance in FY20. The ratings are also supported by its strong parentage- Trent Ltd (Trent) is a part of the Tata Group, with the group holding 37.01% as on March 31, 2020. The ratings also factor in the established partnerships like Joint Venture (JV) with British major, Tesco PLC (Tesco), for Trent's Star Bazaar and association with Inditex (Zara) in fashion segment.

The ratings are, however, tempered by the continued losses in some of its subsidiaries/JVs, Landmark and challenging outlook of retail industry due to uncertainties brought about by Covid 19.

<u>Rating Sensitivities</u>

Positive Factors

- Revival of consumer demand to normalcy levels leading to improvement in its operational performance along with significant growth in its sales and improvement in its profitability margins as well as debt coverage indicators on a sustained basis

Negative factors

- Significant adverse impact on the liquidity, working capital cycle and debt coverage indicators of the company
- Significantly higher than anticipated support to subsidiaries/JV's.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage and an experienced management team: Trent is a part of the USD 100 billion Tata Group which comprises over 100 operating companies in seven business sectors namely communications and information technology, engineering, materials, services, energy, consumer products and chemicals. The group has operations in more than 100 countries across six continents, and its companies export products and services to 85 countries. The combined market capitalization of publicly listed Tata Group companies was Rs.10,52,926 crore as of June 22, 2020.
The group holding in Trent is around 37.01% (which includes about 32.45% direct stake of Tata Sons Private Limited) as on March 31, 2020. The company is headed by Mr. Noel N Tata (Chairman) & Mr. Philip Auld (Executive Director) who is assisted by a team of experienced professionals across various functions. Trent's market capitalization was Rs.21,871 crore as of July 20, 2020.
During FY20, Tata Sons Private Limited infused Rs.950 crore into Trent Limited to funding for its expansion plans and back end investments in warehousing and allied activities etc.

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 such as Trent (Standalone) operates in multiple retail formats in both the value and lifestyle segments such as Westside (life style), Zudio (Value fashion retail), Landmark (Books and Music). Trent operates 330 stores (including stores operated by Inditex Trent Retail India Pvt Ltd. and Trent Hypermarket Private Ltd) as on March 31, 2020 under various segments across India. During FY20, the Company added 63 stores (20 Westside, 41 Zudio & 2 Utsa). Westside accounted for over 80% of the company's revenues and derives its entire revenue from its own private label brands.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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 10 star Hyper stores and 39 Star market stores. In addition, Fiora Hypermarket Ltd. (FHL), a subsidiary of the Company, operates 2 Star Hyper and 6 Star Market stores.
Star Bazaar stores have shown improvement in performance during the year but continue to make losses for Trent at consolidated level. THPL delivered total revenue from operations of Rs.1,228.92 crore in FY20 vis-à-vis Rs.1000.54 Crore in FY19. However the losses widened from Rs.91.54 crore in FY19 to Rs.155.14 crs in FY20.

Landmark stores continue to underperform on account of low demand for certain categories of products like books and music (as digital mode is preferred), stiff competition in case of certain mature stores. In addition to the independent stores, Landmark merchandise is also retailed through select 9 Westside locations currently as a shop-in-shop model. As on March 20, 2020 Landmark has 4 independent stores. The company also entered into wholesale cash and carry segment through acquisition of Booker India Ltd and Booker Satnam Wholesale P.L. in Q2FY20

Westside and Zudio drive growth: Trent's flagship format Westside accounted for around 80% of the Company's revenues in FY20 (90% in FY19). It is operating through 165 stores spread across 76 cities in India. Sales per square feet remained stable at Rs.10, 393 in FY 20 as compared to Rs.10,462/- in FY 19. Same store sales growth for Westside for FY 20 was 7% (9% in FY 19). Own brands contributed over 99 percent of total revenues (98% in FY 19). Westside's "own-brand-led" business model allows active control across the value chain with respect to key aspects of design, branding, sourcing, logistics, pricing, display, promotion and selling. On standalone basis Westside's PBILDT margins remained improved to 20.88%. Total revenues from Zudio were Rs.507 Crs in FY 20 (Rs.204 crore in FY19) across platforms like Tatacliq, shop in shop of Westside and standalone stores, a more than 50% increase from FY19.

Adequate liquidity and capital infusion from Tata Sons: The overall gearing including lease liabilities for Trent stood at 1.0x as of March 31, 2020 (moderated from 0.30x as of March 31, 2019)while the total debt (excluding lease liabilities) has come down to Rs.299.74 crore as of March 31, 2020 from Rs.494.14 crore as of March 31, 2019.Consequently, other debt coverage indicators such as PBILDT interest coverage moderated from 5.61x as on March 31, 2019 to 2.69x as on March 31, 2020 and total debt/GCA moderated from 2.91x as on March 31, 2019 to 5.83x as on March 31, 2020.
During FY 20, Tata Sons Private Limited infused Rs. 950 crore into Trent Limited to funding for its expansion plans and back end investments in warehousing and allied activities etc. The company's liquidity remains comfortable with cash and liquid investments of 650.0 crore at the end of June 2020.

Low Working Capital Cycle
Trent 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 the sales occur in cash, the collection cycle is low. However as on March 31, 2020 Trent's cash conversion cycle increased to 46 days (PY: 37 days). The Company's working capital utilization has continued to remain minimal in the past year.

Key Rating Weaknesses
Subdued performance of subsidiaries/JV; additional investments to fund losses and support growth: Some of the company's JV's and Subsidiaries continue to incur losses, thereby requiring support from Trent Limited. The total investments in subsidiaries stood at Rs.198.89 crore (PY: Rs.153.32 crores) and in JVs at Rs.512.19 crores (PY: Rs.491.58crores). Investment in its associates with Inditex (Zara and Massimo Dutti) remained unchanged at Rs.50.13 crs and in Tata Unistore Ltd (Tata CLiq) at Rs.89 crore.
Improvement in loss making subsidiaries/JVs' financial performance and reduced capital requirement from Trent will remain key rating concerns.

High competition in fashion retail: The Company is competing with the crowded branded apparel segment and facing the steep competition from unorganized players as the entry barrier is low. Hence in future higher competition may curtail company's growth

As of July 2020, ~ 80% of Trent's fashion stores have resumed operations, in addition to Trent's food stores which were operational during the lockdown. Following the COVID-19 related developments, the opening of 21 stores (4 Westside and 17 Zudio), otherwise under fit outs, were impacted in March and early April. The company is also looking at various cost control measures like lease renegotiation, rental waivers etc.

The recovery is expected to slow and gradual thereby a decline in operational as well as financial performance of the company is likely in the near term.

Industry Outlook

In view of the COVID19 outbreak and lowering of the discretionary spending by the consumers in these times of economic downturn, the outlook for the Indian retail sector is 'Negative' in the short to medium term. The impact on demand, which is expected to remain muted at least for the next three or four quarters, will be more in case of players with presence in non-essential items and luxury segments. However, the expected support from the government in terms of financial stimulus packages and wage support subsidy as well as rental waivers from the mall-owners which would help the retailers to bring down their fixed costs, will reduce the impact on their credit profile to an extent. The retailers with presence in essential commodities continue to have some cash flows to support their fixed costs.

After the control of the spread of the coronavirus and post the lock-down period, the spending as well as shopping patterns of the consumers are expected to change significantly. The consumers are likely to curtail their discretionary spending with reduced income in their hands as well as tendency to preserve cash. Also, more preference is likely towards online channels in order to avoid crowded spaces. In such times, the retailers with presence across the retail segments (grocery, apparel, appliances, accessories) as well as who have an omni-channel strategy with presence in both offline and online channels are expected to have a quicker recovery.

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***Liquidity:* Strong**

Liquidity is marked by healthy cash accruals against nil repayment obligations and liquid investments to the tune of Rs.650 crore as at end of June 2020. The company has repaid an existing NCD of Rs. 100 crores in FY 20. It has an outstanding NCD of Rs.300.0 crore which is repayable in FY22. The company has minimal utilization of its bank lines. The company has been receiving funding support from its promoters is expected to continue going forward.

Analytical approach: Standalone

Applicable Criteria:

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Rating Methodology: Organised Retail Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company

Trent Ltd (Trent) is a part of the Tata Group, with the group holding 37.01% as on March 31, 2020. Trent is present in retail segment and is present in all segments in fashion from value fashion to luxury products. It runs Westside, a chain of lifestyle retail stores, and Landmark, a books and music chain. As on March 31, 2020, Trent had 165 operational Westside stores, 4 operational Landmark stores, 80 Zudio stores. The company is also present in grocery retailing through its JV Trent Hypermarket Private Limited which operates Star Stores. The Company has nine subsidiaries, a joint venture with Tesco PLC and two associations with Inditex of Spain as on 31st March 2020.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	2552.12	3280.85
PBILDT	280.76	685.09
PAT	127.49	154.58
Overall gearing (times)- Including lease liabilities	0.30	1.00
Interest coverage (times)	5.61	2.69

A: Audited

Status of non-cooperation with previous CRA:
Not Applicable

Any other information:
Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Bills discounting/ Bills purchasing	-	-	-	60.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	8.00	CARE A1+
Fund-based - LT-Bills discounting/ Bills purchasing	-	-	-	25.00	CARE AA+; Stable
Debentures-Non Convertible Debentures INE849A08074	26-July-2018	8.75%	26-July-2021	300.00	CARE AA+; Stable
Commercial Paper	-	-	-	0.00	Withdrawn
Commercial Paper	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Bills discounting/ Bills purchasing	LT	60.00	CARE AA+; Stable	-	1)CARE AA+; Stable (16-Aug-19)	1)CARE AA+; Stable (23-Jul-18)	1)CARE AA+; Stable (03-Jan-18)
2.	Non-fund-based - ST-BG/LC	ST	8.00	CARE A1+	-	1)CARE A1+ (16-Aug-19)	1)CARE A1+ (23-Jul-18)	1)CARE A1+ (03-Jan-18)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (03-Jan-18)
4.	Fund-based - LT-Bills discounting/ Bills purchasing	LT	25.00	CARE AA+; Stable	-	1)CARE AA+; Stable (16-Aug-19)	1)CARE AA+; Stable (23-Jul-18)	1)CARE AA+; Stable (03-Jan-18)
5.	Debentures-Non Convertible Debentures INE849A08074	LT	300.00	CARE AA+; Stable	-	1)CARE AA+; Stable (16-Aug-19)	1)CARE AA+; Stable (23-Jul-18)	1)CARE AA+; Stable (03-Jan-18)
6.	Commercial Paper	ST	-	-	-	1)CARE A1+ (16-Aug-19)	1)CARE A1+ (23-Jul-18)	1)CARE A1+ (03-Jan-18) 2)CARE A1+ (11-Sep-17) 3)CARE A1+ (30-Jun-17)
7.	Commercial Paper	ST	-	-	-	1)CARE A1+ (16-Aug-19)	1)CARE A1+ (23-Jul-18)	1)CARE A1+ (03-Jan-18) 2)CARE A1+ (11-Sep-17) 3)CARE A1+ (30-Jun-17)

Annexure 3: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Commercial Paper	Simple
2.	Debentures-Non Convertible Debentures	Simple
3.	Fund-based - LT-Bills discounting/ Bills purchasing	Simple
4.	Non-fund-based - ST-BG/LC	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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