

Trent Limited

August 16, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long term Bank Facilities	65.00 (65.00)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Short term Bank Facilities	18.00 (18.00)	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	83.00 (Rs. Eighty three crore only)		
Commercial Paper	400.00 (400.0) (Rs. Four Hundred Crore only)	CARE A1+ (A One Plus)	Reaffirmed
Non-Convertible Debentures	400.00 (400.0) (Rs. Four Hundred Crore only)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has reaffirmed the ratings assigned to bank facilities, long term and short term instrument of Trent Limited (Trent). The rating factors in strong growth of Westside and Zudio formats of the company. The ratings of Trent are supported by its strong parentage, experienced management, healthy capital structure and comfortable liquidity position. The ratings also factor in the Joint Venture (JV) with the British major, Tesco PLC (Tesco), for Trent's Star Bazaar format which is likely to result in operational improvement due to Tesco's established track record in the retail segment and reduction in financial commitments towards the hypermarket segment for Trent and Trent's association with the Inditex (Zara)

The ratings are, however, tempered by the continued losses in some of its subsidiaries/JVs like Trent HyperMarket JV, Landmark and challenging outlook for the lifestyle retailing segment due to intense competition.

The ability of Trent to maintain a favorable capital structure and stabilize the business of its subsidiaries remains the key rating sensitivity.

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 as at February 12, 2019 was Rs.10,88,446.05 crore.

The group holding in Trent is around 32.61% (which includes about 27.74% direct stake of Tata Sons Limited) as on March 31, 2019. The company is headed by Mr. Noel N Tata (Chairman) & Mr. Philip Auld (Managing Director) who is assisted by a team of experienced professionals across various functions.

Established Brands with a long track record: Trent is one of the leading retail players in the Indian retail industry with the series of established brands in various retail segments. Trent operates in multiple retail formats in both the value and lifestyle segments such as Westside (life style), Star Bazaar (Hypermarket, Value retail), Landmark (Books and Music), Zara (life style) etc. Trent operates 264 stores (including stores operated by Inditex Trent Retail India Pvt Ltd. and Trent Hypermarket Private Ltd) as on March 31, 2019 under various segments across India.

Westside and Zudio drive growth: Trent's flagship format Westside accounted for around 90% of the Company's revenues in FY 19. It is operating through 150 stores across 76 cities in India. Trent added net stores of 27 in FY19 the highest ever in a year. Sales per square feet increased to Rs. 10,225/- in FY 19 from Rs. 9980/- in FY18.

The company posted growth of 6.1% in the bill size to Rs.2332 in FY19 from Rs.2197 in FY18. Total sales grew by 17% in FY19 (20% in FY18). Same store sales growth for Westside was similar as FY18 i.e. 9%. Own brands contributed over 97 percent of total revenues. 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 steady at 11%. Gross margins dipped as a result of price rationalization in certain kidswear and menswear products.

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

During FY18, Trent had acquired value fashion apparel business 'Zudio' from Trent Hypermarket Private Limited (THPL). 'Zudio' is into fashion retailing with lower price points as compared to 'Westside'. As of March 2019, it has presence through 40 standalone stores as well as 16 Star locations. Total revenues from Zudio were Rs. 204 crores in FY19 across platforms like tatacliq, shop in shop of westside and standalone stores, a 42% increase from FY18.

Star Bazaar and Landmark: 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 12 star Hyper stores and 32 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 income of Rs.1,009 Crores in FY19 vis-à-vis Rs.969 Crores in FY18. The losses declined from Rs. 90.32 Crores in FY18 to Rs.84.56 Crores in FY19. 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 11 Westside locations currently as a shop-in-shop model. As on March 31, 2019 Landmark has 5 independent stores.

Comfortable capital structure with moderate liquidity back up owing to expansion; capital infusion expected from Tata Sons: Since FY 18, the Company has been on a store expansion drive with focus on Westside and Zudio. As a result, this has resulted in a moderation in liquidity and marginal decline of its capital structure. Standalone level overall gearing ratio stood at 0.30x as on March 31, 2019, a marginal increase from March 2018 level (0.25x). Similarly, Total debt to GCA also marginally declined from 2.57x in FY 18 to 2.91x in FY19.

There has been moderation in the company's cash position as on 31st March 2019 with the total cash and liquid investments of Rs. 180 crore as against Rs. 400 crore as on 31st March 2018.

As of 30th June 2019, cash and liquid investments stood at Rs.284.54 crore of which cash and bank balance was Rs.52.06 crore and liquid investments of Rs.232 crore. There has been preferential allotment of Rs.950 crore in August 2019 by Tata Sons Limited to fund its expansion plans and back end investments in warehousing etc.

Key Rating Weaknesses

Subdued performance of subsidiaries/JV's; additional investments to fund losses and support growth: THPL reported a consolidated income Of Rs. 1022 crores in FY19 as compared Rs. 964.63 crores in FY18. The losses increased from Rs. 66.12 crores in FY 18 to Rs. 91.46 in FY 19 on a consolidated basis. Trent's investments in THPL stood at Rs.490.19 crores in FY 19 (Rs.405.0 crores in FY18).

Improvement in loss making subsidiaries/JV's 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

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[Factoring Linkages in Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology – Retail](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Trent Ltd (Trent) is a part of the Tata Group, with the group holding 32.61% as on March 31, 2019. 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, Star Bazaar, a hypermarket chain and Landmark, a books and music chain. As on March 31, 2019, Trent had 150 operational Westside stores, 5 operational Landmark stores, 40 Zudio stores, hence present at all segments in the fashion business ranging from value fashion to Luxury. The company is present in grocery retailing through its JV Trent Hypermarket Private Limited which operates Star Stores. The current portfolio of 39 stores comprise of 10 Star Hyper stores and 29 Star Market stores located in Bengaluru, Hyderabad, Kolhapur, Mumbai and Pune. In addition, Fiora Hypermarket Ltd. (FHL), a wholly owned subsidiary of Trent operates 2 Star Hyper and 3 Star Market stores. Further, Trent's JV with Inditex group (wherein Trent holds 49%) operates 22 ZARA stores in 10 cities and 3 Massimo Dutti in 2 cities.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2087.72	2552.12
PBILDT	251.46	280.76
PAT	116.74	127.49
Overall gearing (times)	0.25	0.30
Interest coverage (times)	5.83	5.61

A: Standalone 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	-	-	-	40.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	18.00	CARE A1+
Fund-based - LT-Bills discounting/ Bills purchasing	-	-	-	25.00	CARE AA+; Stable
Debentures-Non Convertible Debentures	September 15, 2016	7.84	10-Sep-2019	400.00	CARE AA+; Stable
Commercial Paper	-	-	-	300.00	CARE A1+
Commercial Paper	-	-	7 days to 364 days	100.00	CARE A1+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Bills discounting/ Bills purchasing	LT	40.00	CARE AA+; Stable	-	1)CARE AA+; Stable (23-Jul-18)	1)CARE AA+; Stable (03-Jan-18)	1)CARE AA+; Stable (24-Mar-17) 2)CARE AA+ (09-Sep-16)
2.	Non-fund-based - ST-BG/LC	ST	18.00	CARE A1+	-	1)CARE A1+ (23-Jul-18)	1)CARE A1+ (03-Jan-18)	1)CARE A1+ (24-Mar-17) 2)CARE A1+ (09-Sep-16)
3.	Debentures-Non Convertible Debentures	LT	-	-	-	-	1)Withdrawn (03-Jan-18)	1)CARE AA+; Stable (24-Mar-17) 2)CARE AA+ (09-Sep-16)

4.	Fund-based - LT-Bills discounting/ Bills purchasing	LT	25.00	CARE AA+; Stable	-	1)CARE AA+; Stable (23-Jul-18)	1)CARE AA+; Stable (03-Jan-18)	1)CARE AA+; Stable (24-Mar-17) 2)CARE AA+ (09-Sep-16)
5.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (24-Mar-17) 2)CARE AA+ (09-Sep-16)
6.	Debentures-Non Convertible Debentures	LT	400.00	CARE AA+; Stable	-	1)CARE AA+; Stable (23-Jul-18)	1)CARE AA+; Stable (03-Jan-18)	1)CARE AA+; Stable (24-Mar-17) 2)CARE AA+ (13-Sep-16)
7.	Commercial Paper	ST	300.00	CARE A1+	-	1)CARE A1+ (23-Jul-18)	1)CARE A1+ (03-Jan-18) 2)CARE A1+ (11-Sep-17) 3)CARE A1+ (30-Jun-17)	1)CARE A1+ (24-Mar-17) 2)CARE A1+ (13-Sep-16)
8.	Commercial Paper	ST	100.00	CARE A1+	-	1)CARE A1+ (23-Jul-18)	1)CARE A1+ (03-Jan-18) 2)CARE A1+ (11-Sep-17) 3)CARE A1+ (30-Jun-17)	1)CARE A1+ (24-Mar-17)

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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