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Industry View
In-Line

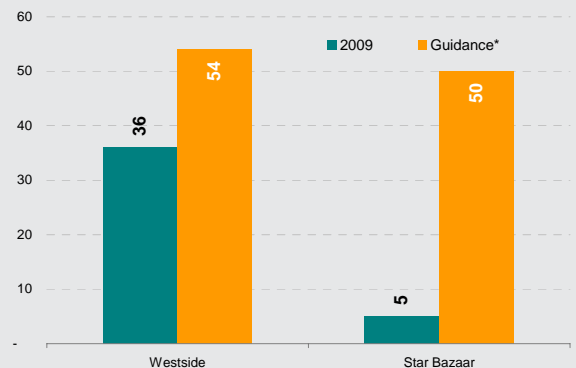
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Trent Ltd: Management Meeting Notes

Trent likely to be the flagship retail company for the Tata Group: We met Mr. P. Venkatesalu, Group CFO, Trent Ltd. (NC, Mkt. Cap US\$277mn). Following are the key takeaways:

- From emerging businesses, Tata group has identified Retail as a priority business along with Financial Services and Telecom.
- Despite multiple entities in retail business from Tata group (Trent, Croma and Titan), management believes all Tata big box retail businesses with focus on apparel and grocery should be housed in Trent Ltd.
- Despite the slow start, renewed aggression in store openings planned (a target of 18 new *Westside* department stores in next two years and 45 new *Star Bazaar* Hypermarkets in next five years to add to existing 38 *Westside* and 5 *Star Bazaars*) reflects management's focus and conviction behind the formats *Westside* and *Star Bazaar*.
- Management believes that capital required for funding their next 12-18 months store expansion plans is in place.
- The company has tied up with Tesco to operate its supply chain and logistics for its Hypermarket format *Star Bazaar*.
- According to management, Trent is experiencing SSGs (improved same store sales growth) on back of economic recovery. According to management, *Westside* and *Star Bazaars* are clocking SSGs of 6-7% and 50-55%, respectively.

Trent is planning aggressive Expansion especially in Star Bazaar format



Source: Company Data, *Note: The company has guided for 54 *Westside* department stores by F2011E and 50 *Star Bazaars* hypermarkets by F2014.

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Trent Ltd. businesses can largely be classified as Westside (department stores), Star Bazaar (hypermarkets), Landmark (Books & Music) and others. Management has chartered growth plans for Westside and Star Bazaars.

Last 12 months had been difficult....: The Westside format saw flat to negative same store value growth in F2009 owing to general slowdown in the economy. Its EBIT margin was in the range of 2-3%, the management estimates. The company also observed a peculiar phenomena where the footfalls fell but the billing rate went up as "browsers" delayed their impulse purchases during the period.

... However, SSGs has picked up on economic recovery: Management informs that the Westside format is exhibiting higher SSGs at 6-7% compared to marginally negative in F2009, driven by improved macro sentiment and the festival season, and Star Bazaar 50-55%, buoyed partially by food inflation of 15-20%.

Trent Ltd. is capital efficient compared to Pantaloon Retail: According to management, Trent is likely to spend around Rs1,000-Rs1,200 and Rs1,700-Rs2,000 per sq. ft. for its Westside and Star Bazaar formats including incremental working capital requirement. This compared quite favourably with PRIL's around Rs3,500-4,000 per sq ft.

Trent Ltd. is working capital efficient also: On working capital front, Trent Ltd. has superior working capital cycle at 0.7% of sales compared to 24.9% of PRIL.

Exhibit 1

Trent Ltd: Efficient Working Capital

Rs Mn	Trent	PRIL	SS
Debtors	128	2,881	127
Inventory	1,631	17,711	1,704
Creditors	1,699	5,974	2,231
WC	59	14,618	(400)
Sales	8,852	58,665	13,065
NWC as a % of Sales	0.7%	24.9%	-3.1%

Source: Company data, Morgan Stanley Research

Arrangement with Tesco: Trent has entered into a franchise and wholesale supply arrangement with Tesco. Under the wholesale supply arrangement, Tesco will take care of the complete backend of the business including sourcing, warehousing and logistics, and will be responsible to supply merchandise to the store gates. Also under the franchisee agreement, Tesco will provide its retail expertise and technical capability processes, and best practices in functions like marketing, stock management, retail information systems, and front-end services. According to management, it is likely Tesco's India operations will be fully functional over the next 6-12 months.

Westside stores are profitable, the management does not visualize a need of a partner in the same: Leaving aside relatively challenging F2009, the management believes Westside stores are profitable on their own, and is confident of the format. It does not envisage the need of a partner. The stores had marginally negative SSG for F2009. Management also believes that the format can clock sustainable 6-7% EBIT margin in the long run. Despite initial slow progress, the company is now confident with the format and is ready to scale up the model at a faster pace subject to availability of desirable retail locations. What is interesting is the fact that despite 10 years of operations, it has continued with most of its stores with negligible closing relocation of the stores.

Other Businesses: Landmark is a primarily music and books format targeted at young urban group. Additionally, Trent also has a few other businesses like Fashion Yatra (only one store), Sisley and Zara JV (an exclusive tie up for All India). Though the businesses allow Trent to experiment with different formats/merchandise, management suggested the focus is on Westside and Star Bazaar currently.

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Exhibit 2

India Retail Comps (Consensus)

Retail Company	Ccy	Price	Mkt. Cap.	EV	EV/Sales				EV/EBITDA			P/E Ratio		
					11-Oct	USD Mn	USD Mn	2008	2009E	2010E	2011E	2009E	2010E	2011E
Trent	INR	669.0	275.0	315.5	1.76x	1.40x	1.04x	0.84x	159.5x	48.5x	31.4x	669.0x	318.6x	109.7x
Shopper'S Stop Ltd	INR	277.4	203.5	251.9	0.87x	0.79x	0.66x	0.53x	17.2x	11.1x	8.8x	199.4x	35.6x	24.2x
Titan Industries	INR	1,423.3	1,329.5	1,393.8	1.68x	1.52x	1.28x	1.07x	19.0x	16.0x	12.8x	31.1x	25.7x	19.3x
Pantaloon Retail	INR	330.7	1,108.4	1,950.5	1.38x	1.08x	0.89x	0.68x	11.4x	8.5x	7.4x	29.5x	21.4x	15.2x
Mean			729.1x	977.9x	1.4x	1.2x	1.0x	0.8x	51.8x	21.0x	15.1x	232.2x	100.3x	42.1x

Source: Factset

Trent Ltd. Businesses:

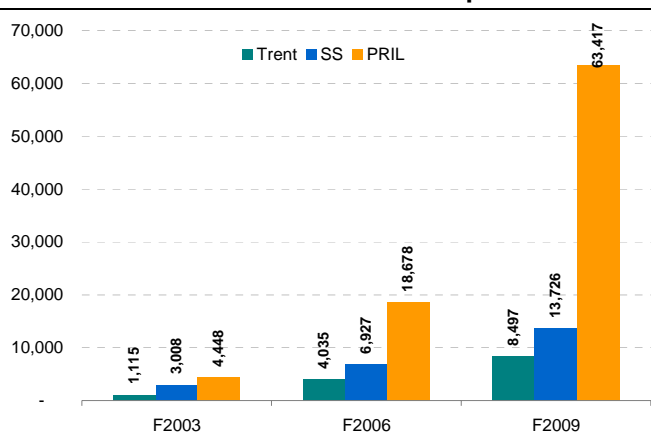
Trent has primarily three business formats: Trent Ltd. businesses can largely be classified as Westside, Star Bazaar Landmark and others. Despite starting early in 1998, Trent's progress has rather been slow compared to its peers like Shopper's Stop and Pantaloon Retail due to measured approach of the company to the business and the differentiated business model with very high private label/in-house offerings that takes time to attract footfalls.

Apparel contributes 70% to the revenue and occupies 60% of the space.

Westside's Transition: Westside stores started initially with a western bent that did not work well with Indian consumers. Over time Westside have started stocking the product offering more suitable to Indian mass market. The same is also reflected in flat average ASPs in nominal terms for its merchandise. Also, the stores have transitioned from being primarily an apparel outlet to lifestyle stores and have started stocking footwear, home categories and toys.

Exhibit 3

Trent has rather been slow to scale up

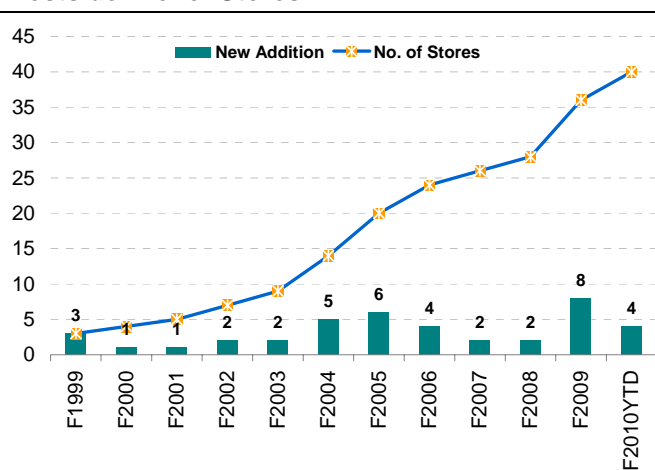


Source: Company data

Westside: Westside, the flagship format of the company with 40 department stores across 22 cities is primarily a private label fashion apparel format. The median size of a Westside stores is around 20,000 sq. ft. The company emphasizes role of private label that contributes a high 85% of the merchandise as the strategy that not only facilitates better margins but also allows better control over merchandise design and quality.

Exhibit 4

Westside: No. of Stores



Source: Company data

Westside also runs a loyalty programme called Clubwest with more than 1mn members. Management attributes more than 60% of its sales to Clubwest members. In terms of advertising and promotions, Westside has completely stopped TV advertising and relies more on local mass media and direct promotion material to its Clubwest members.

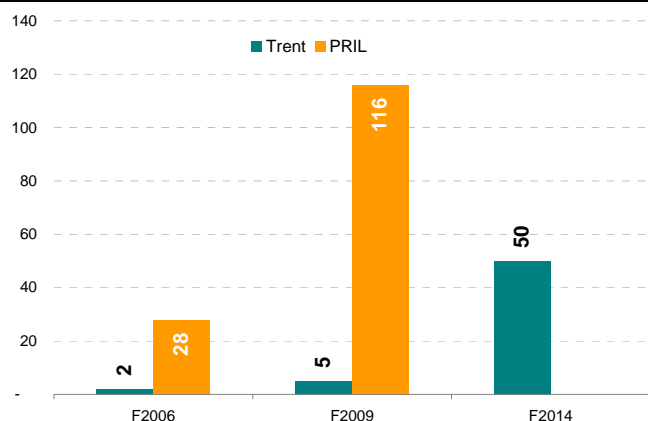
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Star Bazaar: The company believes that opportunity in big format grocery retail is substantial and also acknowledges challenges in the space. Star Bazaar is a big box format with 50,000-60,000 sq. ft. primarily skewed towards food. Food contributes 70-75% of the revenue in the format and commands 18-20% gross margin. The format is currently loss making with five outlets and management believes the format needs support before it becomes self sustainable. It also appreciates that the competition in the space is formidable and ahead of it in terms of execution.

Exhibit 5

Star Bazaar: Competition is ahead in terms of size and scale



Source: Morgan Stanley Research, Trent Data from the company

Exhibit 6

Trent Ltd.: 1QF10 Results

Rs Mn	1QF10	Stand Alone Year Ended Mar09	Consol Year Ended Mar10
Net Sales	1,194	4,964	8,247
Other Operating Income	29	176	250
Net Sales	1,223	5,140	8,497
Stock Adjustment	(24)	(286)	(290)
Consumption of Raw Materials	2	21	42
Purchase of Traded Goods	573	2,810	5,201
Gross Profit	672	2,595	3,544
Employee Expenses	90	393	706
Advertisement and Sales Promotion	110	454	543
Other Expenditure	434	1,687	2,388
Total Other expenses	634	2,533	3,638
Operating Profit	38	62	(94)
Other Income	66	326	355
Interest	5	13	96
Depreciation	22	92	159
PBT	78	283	6
Tax	26	15	3
Net Profit	51	268	2
<i>GP Margin (%)</i>	<i>56.3</i>	<i>52.3</i>	<i>43.0</i>
<i>OP Margin (%)</i>	<i>3.2</i>	<i>1.3</i>	<i>-1.1</i>
<i>PBT Margin (%)</i>	<i>6.5</i>	<i>5.7</i>	<i>0.1</i>
<i>NP Margin (%)</i>	<i>4.3</i>	<i>5.4</i>	<i>0.0</i>

Source: Company data

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Financial Summary

Income Statement

Rs million	F2009	F2008	F2007	F2006	F2005
Net Sales	8,497	7,180	6,094	4,035	2,344
Stock Adjustments	(290)	(183)	(469)	(229)	(147)
Raw Materials	5,243	4,243	3,916	2,370	1,302
Power & Fuel Cost	300	219	160	108	68
Employee Cost	696	541	388	245	154
Other Manufacturing Expenses	321	247	193	126	85
Selling and Administration Expenses	2,037	1,630	1,327	905	617
Miscellaneous Expenses	230	167	127	89	69
Total Expenditure	8,538	6,864	5,641	3,614	2,148
Operating Profit	(41)	316	452	421	196
Other Income	355	372	225	158	130
Interest	149	150	109	67	25
Depreciation	159	125	95	100	47
Profit Before Tax	5	413	474	412	255
Tax	3	72	123	123	58
Net Profit before Minority Interest	2	340	350	289	197
Minority Interest	(8)	4	11	8	1
Extraordinary Items	34	99	47	48	38
Adjusted Net Profit	(24)	237	293	233	158

Balance Sheet

Rs million	F2009	F2008	F2007	F2006	F2005
Equity capital	195	195	158	144	131
Reserves Total	5,795	6,040	3,894	2,699	2,152
Net worth	5,990	6,235	4,052	2,843	2,284
Minority Interest	8	26	34	17	6
Secured Loans	2,056	973	868	680	-
Unsecured Loans	1	1,007	1,310	1,102	574
Total	8,055	8,241	6,263	4,642	2,863
Net Block	3,633	2,856	2,410	2,218	704
Capital Work in Progress	139	237	132	54	36
Investments	2,421	3,807	2,187	1,620	1,513
Cash and Bank	194	189	233	169	89
Inventories	1,751	1,510	1,324	791	376
Sundry Debtors	133	122	102	26	16
Loans and Advances	2,155	1,813	1,730	1,267	891
Total Current Assets	4,040	3,445	3,157	2,084	1,283
Current Liabilities	1,840	1,838	1,422	1,092	489
Provisions	542	396	380	349	205
Total Current Liabilities	2,382	2,234	1,802	1,441	694
Net Current Assets	1,658	1,211	1,355	643	589
Net Deferred Tax	10	(58)	(54)	(64)	(71)
Total	8,054	8,241	6,263	4,641	2,859

Source: Capitalineplus

Ratio Analysis

	F2009	F2008	F2007	F2006	F2005
Effective tax rate (%)	59.3	17.5	26.0	29.8	22.7
EPS (Rs)	-	16.0	19.9	18.4	13.9
BVPS (Rs)	306.7	319.3	257.1	197.0	174.1
Profitability ratios					
Gross margin ()	41.7	43.5	43.4	46.9	50.7
Operating margin ()	-0.5	4.4	7.4	10.4	8.4
Pre-tax margin ()	0.1	5.7	7.8	10.2	10.9
Net margin ()	-0.3	3.3	4.8	5.8	6.8
Valuation ratios					
P/E	NM	41.4	33.3	36.1	47.6
P/BV	2.2	2.1	2.6	3.4	3.8
ROE ()	-0.4	3.9	5.7	6.8	6.2
ROCE ()	1.6	4.7	5.5	5.5	4.9
EV/EBITDA	47.1	21.4	18.3	19.3	28.1
Leverage ratios					
Net debt/ equity	0.31	0.29	0.48	0.57	0.21
Total debt/ equity	0.34	0.32	0.54	0.63	0.25
Turnover days					
Inventory (days of net sales)	75.2	82.9	84.9	95.7	90.9
Receivables (days of net sales)	5.7	6.5	6.7	5.8	3.3
Payables (days of net sales)	79.0	93.5	97.6	113.7	123.1
Cash cycle (days of net sales)	1.9	(4.1)	(6.0)	(12.2)	(28.9)

Source: Capitalineplus

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Industry Coverage: India Retail

Company (Ticker)	Rating (as of)	Price (10/12/2009)
Hozefa Topiwalla		
Pantaloon Retail (PART.BO)	O (06/12/2009)	Rs334.8
Titan Industries Ltd (TITN.BO)	U (04/13/2009)	Rs1,467.25

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