http://deadpresident.blogspot.com

Trent (C.M.P 715.00) is the Tata group promoted retail company. It runs the **Westside** brand of departmental stores. Last year **Trent picked up a 74% stake in landmark** in an all cash deal. Landmark is a Chennai based books, stationery and music retailer that is fast expanding across all the cities of India.

Consolidated Sales for Trent for Fy 06 was Rs 405 crores. The figure was generally lower because the company could not merge Landmark's full year revenue with itself. It had bought oat the Chennai retailer in August 2005. Normally I would assume that full year sales should have been around Rs 450 crores had Trent included the full year sales of landmark.

Simone Tata the chair person of Trent has a very different working style compared to the new first generation entrepreneurs. She wants to keep the processes absolutely efficient and in the process lost the first mover advantage to Pantaloon retail. While Pantaloon has over 3.2 million square feet of retail space Trent has only 20% of that space.

Inspte of being labeled as a slow mover Trent has increased sales by between 40% to 50% for the past 4 years . Profits have also moved up but the best part has been the change in the nature of profits. About 4 years back Trent used to derive 100% of its profits from investing activities while now this figure has substantially gone down as operating profits have increased year on year/.

Recently Trent announced entered into a memorandum of understanding with DLF for anchoring the DLF's next 12 malls through Westside, Landmark or Star India Bazaar (Trent's hypermarket model). The total square footage from this alliance works out to over 1 million square feet!

While these numbers might appear to be normal a back of the envelope calculation makes the numbers very appealing. Trent with a total square foot area of 600,000 square feet is adding another 1 million square feet. This means that the company expects to be about three times its size (aided with growth in same stores sales) over the next two or three years. When contacted the company declined to comment stating that they would discuss these things at its Annual General meeting.

Today Trent declared a Rights issue to raise Rs 130 crores through equity and Rs 200 crores through Non convertible debenture. If we add the Rs 70 crore of cash the company is already sitting on Trent should have a cash of about Rs 400 crores after they complete their various offering.

- **My sense is that a Tata group company with strong integrity and management skills would not raise cash unless it has concrete plans up its sleeve . The last time Trent raised Rs 117 crore from shareholders they acquired Landmark so some major expansion should be on the anvil.**
- **Trent's RoE stands at 13%. This is abysmally low compared to Pantaloon's 25%. The primary reason for this low RoE has been the huge cash the company holds . The raising of further cash through the new offering installs belief that the company has found use for the old cash and also for the new one hence revenues, profits and efficiency ratios should go up.**
- **High margin private label contribute to about 80% of Trent's revenues. More over Trent is in the high margin lifestyle business where margins and profits are substantially better compared to the hypermarket model of business.**

Trent should declare an Eps of Rs 30 for Fy 07 and Rs 45 for Fy 08. Available at a trailing PE of 36 times and growing at 50% each year Trent is an excellent pick for a risk averse investor who wants to play the Great Indian consumer story. Also a company with a market cap of Rs 1000 crores raising money to create a war chest of Rs 400 crores menas that they have something up their sleeve?