CRISIL Ratings

CONFIDENTIAL

RL/ABDFVL/348327/NCD/0724/93961/168550612
July 23, 2024

Mr. Jagdish Bajaj
Chief Financial Officer
Aditya Birla Digital Fashion Ventures Limited
Piramal Agastya Corp Park,
Bldg A, 4th & 5th Flr,
Unit 401, 403, 501, 502, Lbs Rd Na,
Mumbai City - 400070
9702065901

Dear Mr. Jagdish Bajaj,

Re: Review of CRISIL Rating on the Rs.200 Crore Non Convertible Debentures of Aditya Birla Digital Fashion Ventures Limited

All ratings assigned by CRISIL Ratings are kept under continuous surveillance and review.

CRISIL Ratings has, after due consideration, reaffirmed the CRISIL AA- (pronounced as CRISIL double A minus rating) rating for the captioned Debt Programme. Securities with this rating are considered to have high degree of safety regarding timely servicing of financial obligations. Such securities carry very low credit risk.. However, the rating continues to be under Rating Watch with Negative Implications. The Rating Watch reflects an emerging situation, which may affect the credit profile of the rated entity.

In the event of your company not making the issue within a period of 180 days from the above date, or in the event of any change in the size or structure of your proposed issue, a fresh letter of revalidation from CRISIL Ratings will be necessary.

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As per SEBI circular (reference number: CIR/IMD/DF/17/2013; dated October 22, 2013) on centralized database for corporate bonds/debentures, you are required to provide international securities identification number (ISIN; along with the reference number and the date of the rating letter) of all bond/debenture issuances made against this rating letter to us. The circular also requires you to share this information with us within 2 days after the allotment of the ISIN. We request you to mail us all the necessary and relevant information at debtissue@crisil.com. This will enable CRISIL Ratings to verify and confirm to the depositories, including NSDL and CDSL, the ISIN details of debt rated by us, as required by SEBI. Feel free to contact us at debtissue@crisil.com for any clarification you may need.

Should you require any clarification, please feel free to get in touch with us.

With warm regards,

Yours sincerely,

Anil More
Associate Director - CRISIL Ratings

Nivedita Shibu
Director - CRISIL Ratings

Rating Rationale

July 04, 2024 | Mumbai

Aditya Birla Digital Fashion Ventures Limited

'CRISIL AA-' assigned to Non Convertible Debentures; Placed on 'Watch Negative'

Rating Action

Rs.200 Crore Non Convertible Debentures	**CRISIL AA-/Watch Negative (Assigned; Placed on 'Rating Watch with Negative Implications')**

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1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has assigned its '**CRISIL AA-'** rating to the non-convertible debentures (NCDs) of Aditya Birla Digital Fashion Ventures Limited (ABDFVL) and placed it on '**Rating Watch with Negative Implications'**

ABDFVL is a subsidiary of Aditya Birla Fashion and Retail Ltd (ABFRL; rated 'CRISIL AA+/Rating Watch with Negative Implications/CRISIL A1+'), and the rating watch follows a similar rating action on the parent.

ABFRL's ratings were placed on rating watch with negative implications on April 29, 2024, following the announcement of the scheme of arrangement between ABFRL and Aditya Birla Lifestyle Brands Ltd (ABLBL). The scheme, inter alia, provides for demerger, transfer and vesting of the Madura Fashion & Lifestyle Business (MF&L) from ABFRL into ABLBL. CRISIL Ratings believes that upon the resolution of watch, the rating of ABDFVL is unlikely to change by more than one or two notches.

The assigned rating on the NCDs of ABDFVL factors in the strong operational, managerial and financial support from ABFRL. ABDFVL was set-up by ABFRL for foraying into digital platform for Direct to Consumer (D2C) business by building a portfolio of distinct new age brands across fashion and lifestyle segments. TMRW is the brand created in ABDFVL, which will be the 'House of Brands' to build digital native brands. ABDFVL has bought a majority stake in brands such as Bewakoof, Urbano, The Indian Garage Co (TIGC) and Vierdo. Further, ABFRL is building a central advanced technology platform at ABDFVL, which will offer comprehensive support to brands, covering research and development (R&D), operations and advertisement. These strengths are partially offset by the company's modest scale of operations and weak financial risk profile.

In fiscal 2024, its second year of operations, ABDFVL reported operating income of Rs 423 crore; revenue is expected to grow at a healthy 50-60%, albeit on a modest base, over the medium term. Owing to extensive investment in developing technology, and hence the related investments being incurred on manpower, the company is reporting operating losses, which are expected to continue, but reduce over medium term, as revenue ramps up.

ABFRL is incurring total investment of Rs 750 crore in ABDFVL. Of this, Rs 650 crore has already been invested and the balance Rs 100 crore is expected to be infused in the first quarter of fiscal 2025. Support from ABFRL will be forthcoming if needed, as ABDFVL is a strategically important entity. It is essentially an extension of ABFRL, established to strengthen the group's presence in digital-first next-gen brands. ABDFVL will leverage ABFRL's experience in the retail sector, its strong management, and support functions.

Analytical Approach

- CRISIL Ratings has applied its parent notch-up framework and factored in the operational, managerial and financial support available to ABDFVL from its parent, ABFRL.
- CRISIL Ratings has combined the business and financial risk profiles of ABDFVL and its subsidiaries. This is because all these companies are in the same business and have strong financial and operational linkages.
- Goodwill arising from mergers / on consolidation from the subsidiary has been amortised over 5 years and other intangible assets, which includes brands and trademarks are amortised over 10 years, given the strong brand value of the acquired entities and expectation of returns being spread over a longer tenure.

Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

Strong operational, managerial and financial support from the parent, ABFRL: The company is a wholly owned subsidiary of ABFRL. Key personnel of ABFRL Mr Ashish Dixit, CEO and Mr Jagdish Bajaj, CFO are on the board of the company and are actively involved in the day-to-day affairs of the entity taking financial decisions and deciding on long-term strategy related matters.

ABDFVL is led by Mr. Prashanth Aluru who is the CEO and co-founder. Mr. Aluru comes with extensive experience in digital and technology across strategy, growth and investing.

Of the total planned investments of Rs 750 crore, the parent has already infused Rs.650 crore since incorporation, which includes Rs 500 crore through equity and Rs 150 crore through optionally convertible redeemable preference shares (OCRPS). While OCRPS is optionally convertible and redeemable, they are intended to remain with ABDFVL for the long term, despite the current three-year tenure. Also, the company plans to infuse the remaining OCRPS of Rs 100 crore in the first quarter of fiscal 2025. The company also intends to raise funds for future growth by onboarding financial investors over the medium term. ABFRL, will, nevertheless, continue to be the largest and majority shareholder in the company.

Also, support from ABFRL will be forthcoming if needed, as ABDFVL is a strategically important entity and essentially an extension of ABFRL, established to strengthen the group's presence in digital-first next-gen brands. Besides, ABDFVL will leverage on ABFRL's experience in the retail sector, its strong management, and support functions.

Benefits of the technology platform and centre of excellence for its brands: ABDFVL has been set up to foray into digital platform for D2C business by building a portfolio of distinct new age brands across fashion and lifestyle segments. ABDFVL is the primary holding company that has acquired majority stake in brands such as Bewakoof, Urbano, The Indian Garage Co (TIGC) and Vierdo.

In addition to investing in these brands, ABDFVL shall operate as a centre of excellence to support these smaller acquired entities /brands across verticals such as supply chain, logistics and market research. Further a central advanced technology platform is being developed to offer comprehensive support to all these brands, covering R&D, operations and advertisement.

Weaknesses:

Nascent stage of operations: Company, having been set-up in February 2022, started operations in fiscal 2023 and has acquired six D2C brands since then. However, the company is in nascent stage of operations and yet expanding its business. Further, owing to extensive investment in developing technology, and hence the related investments being incurred on manpower, the company is reporting earnings before interest, tax, depreciation and amortisation (EBITDA) losses, which is expected to continue. Nonetheless, the same is likely to reduce gradually over the medium-to-long term with operating leverage benefit as scale of operation expands.

Exposure to intense competition: The D2C segment, especially in the digital space has intense competition. With low entry barrier, the industry is flooded with numerous players selling their products through multiple platforms. Hence establishing the brand and leveraging the same amidst stiff competition will remain crucial.

Weak financial risk profile- The financial risk profile of ABDFVL remains weak owing to erosion of networth due to losses incurred in the inception stage. The company proposes to raise funds from external investors in addition to ABFRL, which will support operations and financial risk profile over the medium term. Hence, timely fund raising will be critical for the company’s growth plan and shall remain key rating sensitivity factor.

Liquidity: Adequate

While the company is reporting cash losses owing to its nascent stage of operations, liquidity is backed by the flexibility enjoyed by virtue of regular fund infusion by the parent. The company is likely to incur cash losses over the medium term. Currently, the company does not have any external long-term borrowing and no major debt-funded capex plan. As of May 2024, fund-based bank line of Rs 128 crore was utilised (~62%) which provides additional cushion.

Rating Sensitivity factors

Upward factors:

- Any change in the credit rating of parent- ABFRL by one or more notches
- Substantial and sustained increase in scale leading to cash breakeven and operating profitability

Downward factors:

- Change in the credit rating of the parent, ABFRL, by one or more notches
- Change in the parent's stance of support or change in shareholding
- Higher-than-expected losses at operating level.
- Delay in fund raising.

About the Company

ABDFVL was incorporated in April 2022 as a wholly owned subsidiary of ABFRL. The board of ABFRL approved to set-up a new subsidiary, for foraying into D2C business towards building a portfolio of distinct, new-age, digital brands across categories in fashion, beauty and other allied lifestyle segments. ABDFVL is referred as ‘House of Brands’ and has a separate brand identity as TMRW. ABDFVL is the primary holding company and has acquired majority stake in popular brands (though subsidiaries) that are essentially targeting the millennials and Gen Z segment.

Key Financial Indicators

As on / for the period ended March 31	Unit	2024	2023
Revenue	Rs crore	423	107
Profit after tax (PAT)	Rs crore	-210	-56
PAT margin	%	-49.6	-54.0
Adjusted debt / adjusted networth	Times	0.38	0.28
Adjusted Interest coverage	Times	-11.03	-22.4

Above numbers are CRISIL Ratings adjusted numbers.

Any other information: Not Applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

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For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Non convertible debentures*	NA	NA	NA	200.00	Simple	CRISIL AA-/Watch Negative

**Yet to be issued*

Annexure – List of Entities Consolidated

Names of entities consolidated	Extent of consolidation	Rationale for consolidation
Prataya E-commerce P Ltd	Full consolidation	Subsidiary
Imperial Online Services P Ltd	Full consolidation	Subsidiary
Awesomefab Shopping Pvt Ltd	Full consolidation	Subsidiary
Bewakoof Brands Pvt Ltd	Full consolidation	Subsidiary
Next Tree Products Pvt Ltd	Full consolidation	Subsidiary
Styleverse Lifestyle Pvt Ltd	Full consolidation	Subsidiary

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non Convertible Debentures	LT	200.0	CRISIL AA-/Watch Negative		--		--		--		--	--

All amounts are in Rs.Cr.

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufaturing and service sector companies
Rating Criteria for Retailing Industry
CRISILs Criteria for Consolidation
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

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