

Press Release

Blue Horizon Hotels Private Limited

December 05, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 510.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 510.00 crore bank facilities of BLUE HORIZON HOTELS PRIVATE LIMITED. The outlook is '**Stable**'.

Blue Horizon Hotels Private Limited (BHHPL) was incorporated January, 2007, by Late Mr. A. M. Rama Raju. BHHPL was established with the objective of constructing malls, hotels and commercial complexes as well as residential buildings. BHHPL is currently managed by, Mr. A. C. Srinivasa Raju, Mr. A.V. Nitin Raju and Mr. V. Sachin Raju.

BHHPL derives its revenues through leasing of space at its marquee property, Vega City Mall. The mall has area 4.5 lakh sq. ft. and located at Bannerghatta Road, Bangalore. The mall is fully operational and entire area has been leased out to 144 tenants.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the BHHPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

BHHPL was founded by Late Mr. A. M. Rama Raju in 2007. Now, Mr. A. C. Srinivasa Raju, Mr. A.V. Nitin Raju and Mr. V. Sachin Raju are the promoters and look after the day-to-day operations of the company. The promoters have a decade experience in the field of real estate. Their experience helped in getting a long-term deals with top brands, such as PVR, Lifestyle, SPAR to name a few. The extensive experience of the promoters is reflected through the nearly full occupancy levels of the mall. Acuite believes that BHHPL will continue to benefit from promoters' extensive experience over the near to medium term.

• Healthy cash flows supported by healthy occupancy and diversified clientele

Vega City Mall is one of the largest malls in South Bangalore (with a leasable area of 4.5 lakh sq. ft.) with occupancy of 97 per cent as on October 31, 2019. The mall has over 130 stores which are occupied by a diverse mix of established retail domestic and international brands. The top 8 brands in terms of area occupied include PVR, Lifestyle, SPAR, Fun City Kids Entertainment, H &M, Max, Night Club and Home Centre, are the anchor clients. The tenants have diverse profile including fashion, electronics, hypermarkets and supermarkets, food and beverages, entertainment among others. The business risk profile is also supported by long tenure of the leases with built-in revenue escalations and lock-in periods, thereby providing stability to the business risk profile.

Acuite believes that BHHPL will maintain business risk profile supported by the diversified clientele, healthy occupancy and favorable location of Vega City Mall.

• Expectations of improvement in debt servicing ability on account of refinancing

BHHPL's debt servicing ability underpinned by the steady operating income coupled with the ballooning nature of principal repayments. BHHPL is currently in process of refinancing its lease rental discounting Loan of Rs.510.00 crore at 10.00 per cent by January, 2020. Acuite has relied upon the key terms of the refinance to arrive at the rating on the proposed facility. The key terms are currently being negotiated and the rating is based on the assumption of interest rate of 10.0 per cent per annum and a fifteen year ballooning repayment structure. The

repayment will happen only to the extent of the loan and the balance Rs.64.00 crore is expected to be refinanced at the end of the loan tenure. The staggered repayment pattern is expected to result in a comfortable debt servicing indicator over the near to medium term. Any significant deviations in the actual sanction term vis-à-vis Acuite's assumptions will be a key rating sensitivity factor.

Weaknesses

• Susceptibility to lessee' underperformance along with occupancy and renewal risk

BHHPL primarily generates cash flows from leave and license agreements with its tenants at the mall. The company's ability to meet its repayment obligations will be dependent on the continued and timely flow of rentals under the leave and license arrangement. The occurrence of events such as delays in receipt of rentals, or early exits/renewal by lessee due to the latter's lower than expected business performance may result in disruption of cash flow streams, thereby affecting BHHPL's debt servicing ability. The renewals leasing at better terms, any significant renegotiations by the lessees can adversely impact the cash flows from the mall. Further, any significant increase in competition from any other large format mall in a competitive market like Bangalore may result in the company facing occupancy and renewal risks.

Liquidity Position: Adequate

Vega City Mall was launched on November, 2017. The area of 4.5 lakh sq.ft. is leased out to 144 tenants. BHHPL's liquidity is likely to be adequate marked by adequate estimated cash inflow in the range of Rs.74-95 crore for FY2020-FY2022, The cash inflow of the company is expected to improve on the account of increase in rental income at the rate of 15% after three years. However, the repayments which were at around Rs.90 crore in FY2020 are expected to be around Rs.59 crore post the refinancing exercise. Additionally, the reduction of interest rate to 10 per cent from the existing 15.5 per cent is likely to result in improvement in free cash flows to the company. The cash flow available for debt servicing is estimated to remain the range of Rs.10-12 crores post the refinancing exercise. The company maintains unencumbered cash and bank balances of Rs.0.90 crore as on March 31, 2019. Acuite believes that the liquidity of BHHPL is likely remain adequate over near to medium term.

Rating Sensitivities

- Refinancing of Rs.510.00 crore at the rate of 10 percent by January 2020.
- Decline in occupancy level leading to cash flow mismatch.

Outlook: Stable

Acuite believes that BHHPL will maintain a 'Stable' outlook over the medium term from its Directors' industry experience. The outlook may be revised to 'Positive' in case of the company generates healthy net cash accruals while maintaining a comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of any significant stretch in its receivables leading to deterioration of its financial flexibility and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	67.33	17.28	0.00
PAT	Rs. Cr.	-114.21	-43.75	-0.01
PAT Margin	(%)	-169.62	-253.20	0.00
Total Debt/Tangible Net Worth	Times	-7.75	13.94	6.10
PBDIT/Interest	Times	0.38	0.27	0.00

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	510.00	ACUITE BBB- / Stable

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About Acuité Ratings & Research:

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