

Press Release
Blue Horizon Hotels Private Limited

November 23, 2020



Rating Assigned

Total Facilities Rated*	Rs.630.00 crore
Long Term Rating	ACUITE BB/Outlook: Stable (Converted from Provisional Rating to Final Rating)

* Refer Annexure for details

Rating Rationale

Acuité has converted the provisional rating assigned on the Non-Convertible Debentures (NCDs) issue aggregating to Rs.630.00 crore of Blue Horizon Hotels Private Limited (BHHPL) to final rating of '**ACUITE BB**' (**read as ACUITE double B**). The outlook is '**Stable**'. The conversion of the rating from a provisional rating to a final rating reflects satisfactory completion of the documentation as required by Acuité.

Acuité has received the following final documents from SRPL:

- Term Sheet with all the terms and condition of the NCDs
- Debenture Trust Deed
- Confirmation from trustee regarding the compliance with all the terms and conditions of the term sheet

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. As on date, the mall has been leased out to 150 tenants.

Analytical Approach

Acuité 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 of experience in the field of real estate. The experience of the promoters is reflected through the nearly full occupancy levels of the mall and has helped in getting long-term deals with top brands, such as PVR, Lifestyle, SPAR, to name a few.

Acuité believes that BHHPL will continue to benefit from promoters' extensive experience over the near to medium term.

• **Healthy cash flows supported by healthy occupancy rate and diversified reputed clientele**

Vega City Mall is one of the largest malls in South Bangalore (with a leasable area of 4.5 lakh sq. ft.) with a healthy occupancy rate of ~97 per cent as on September, 2020. The mall has over 130 stores which are occupied by a diverse mix of well-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 along with other tenants. The tenants have a diverse profile including fashion, electronics, hypermarkets & supermarkets, food & beverages, entertainment, among others. The business risk profile is also supported by the long tenure of the leases with built-in revenue escalations and lock-in periods, thereby providing stability to the business risk profile of the company.

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

Weaknesses

• Refinancing risk of the proposed NCD

The proposed NCD of Rs.630 crore will be having a tenor of 4 years with bullet redemption of 25 percent at the end of third year and 75 percent at the end of fourth year. The total coupon for the NCD is divided into two parts, one will service per month and the second will be paid as redemption premium at the end of third and fourth year, respectively. The total repayment (including the principal and redemption premium) at the end of third year will be around Rs.221.10 crore and at the end of fourth year will be around Rs.697.00 crore. The standalone cash flows of the mall are not sufficient to take off the repayment obligations falling due at the end of third and fourth year.

The company is planning to repay the obligations falling due at the end of third year by lease rents from one of its commercial property situated at Whitefield, Bangalore (in which the company has 50 percent share of the lease rents) and sale of residential units from the project situated in Kothanur, Bangalore (in which the company holds 20 units). For the obligations falling due at the end of fourth year, the company is planning to refinance the same with an LRD loan. The promoters are also exploring the option of equity dilution for raising funds to repay the NCD.

Acuité believes that the timeliness of such refinancing measures will be critical for the company to maintain a stable credit profile and will be a key rating sensitivity.

• Significant moderation in the operational performance in FY2021

The average footfalls in Vega City mall have remained around 4 lakh per month in last two years ending FY2020. However, the operations of the mall were severely impacted from April - June 2020 due to imposition of Covid-19 lockdown restrictions. The ease in lockdown restrictions from July, 2020 resulted in resumption in the operations of the mall and as of September 2020, the overall operations resumed around 90 percent. Moreover, the lockdown restrictions have led to a reduction in footfall levels in FY2021 impacting the operational performance of the tenants. BHHPL has provided average lease discounts of around 50 percent to its tenants in the view of the same from April- September 2020 and the same is expected to continue over the near term for some anchor tenants like PVR, where the operations are yet to resume. This is expected to impact the cash inflows of the company for FY2021.

Acuité believes that the ability of the company to come back to operational stability and to retain its tenants will be a key rating sensitivity.

• Susceptibility to lessee underperformance along with occupancy and renewal risk

BHHPL primarily generates cash flows from lease 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 lease and license arrangement. The occurrence of events such as delays in receipt of rentals, or early exits/renegotiation 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.

Rating Sensitivities

- Timely refinancing measures for the redemption of the proposed NCD
- Improvement in the operational performance aided by increased footfalls and timely lease collection from its tenants

Material Covenants

None

Liquidity position: Adequate

BHHPL's liquidity is likely to be adequate marked by adequate estimated cash inflow in the range of Rs.35-91 crore for FY2021-FY2023. The cash inflow of the company is expected to improve over the medium term on account of timely escalations in rental income. However, the cash inflow in FY2021 is expected to decline on account of discounts allocated in lease rentals to the tenants due to covid-19 disruptions. The repayment obligations are expected to be around Rs.6.30 crore post the refinancing of existing loan in FY2021 and later on is expected to be Rs.24 crore and Rs.47 crore in FY2022 and FY2023 respectively. The cash flow available for debt servicing is estimated to remain the range of Rs.20-64 crores post the refinancing exercise for FY2021-

2023 period. Acuité believes that the company is likely to face challenges in FY2024 in FY2025 for the redemption of the proposed rated NDC in the absence of proper refinancing measures.

Outlook: Stable

Acuité believes that BHHPL will maintain a 'Stable' outlook over the medium term on account of established presence of Vega City Mall in Bangalore and reputed clientele. The outlook may be revised to 'Positive' in case of the company generates healthy and higher than expected revenues and profitability leading to improved cash flows. Conversely, the outlook may be revised to 'Negative' in case of any further delay in the refinancing of its existing debt leading to cash flow mismatches.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	73.79	67.24
PAT	Rs. Cr.	(58.34)	(114.21)
PAT Margin	(%)	(79.06)	(169.86)
Total Debt/Tangible Net Worth	Times	(4.02)	(7.75)
PBDIT/Interest	Times	0.84	0.38

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

None

Any other information

Salient feature of the NCD:

- The NCD will have bullet redemption of 25 percent at the end of third year and 75 percent at the end of fourth year at 14.8 percent IRR

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
01-Oct-2020	Proposed Non-Convertible Debenture	Long Term	630.00	Provisional ACUTE BB/Stable (Assigned)
23-Mar-2019	Proposed Long Term Loan	Long Term	510.00	ACUITE BBB- (Withdrawn)
05-Dec-2019	Proposed Long Term Loan	Long Term	510.00	ACUITE BBB-/Stable (Assigned)

***Annexure – Details of instruments rated**

ISIN	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
INE416S07035	Secured Redeemable Non-Convertible Debentures	26-Oct-2020	2.5% P.A.P.M UNTIL 30-SEP-2021, 6% P.A.P.M UNTIL 26-Oct-2024	26-Oct-2024	630.00	ACUITE BB/Stable (Converted from Provisional to Final)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Nitul Dutta Senior Analyst - Rating Operations Tel: 022-49294053 nitul.dutta@acuite.in	

About Acuité Ratings & Research:

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