

Press Release
Blue Horizon Hotels Private Limited

January 08, 2021



Rating Update

Total Facilities Rated#	Rs.630.00 Cr
Long Term Rating	ACUITE D Issuer not co-operating* (Downgraded from ACUITE C)

#Refer Annexure for details

*The issuer did not co-operate; based on best available information.

Rating Rationale

Acuité has downgraded the long term rating to '**ACUITE D**' (**read as ACUITE D**) from '**ACUITE C**' (**read as ACUITE C**) on the Rs.630.00 Cr Non-Convertible Debentures of Blue Horizon Hotels Private Limited (BHHPL). This is now an indicative rating and is based on the best available information.

The downgrade of the rating is on account of sharp deterioration in the business risk profile of the company and the consequent delay in coupon payments which was due on 30th November and 31st December, 2020 for the rated Non-Convertible Debentures. The delay in coupon payment is attributable to delays in collection of rentals.

Acuité had requested for information from the rated entity regarding the coupon payment; however had received limited response.

Acuité believes that information risk is a critical component in such ratings, and non-cooperation by the issuer along with an unwillingness to provide information could be a sign of potential deterioration in its overall credit quality.

This rating is therefore being flagged as "Issuer not-cooperating", in line with prevailing SEBI regulations and Acuité's policies.

About the Company

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.

• Diversified and reputed clientele with healthy occupancy rate

Vega City Mall is one of the largest malls in South Bangalore (with a leasable area of 4.5 lakh sq. ft.) with 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, includes PVR, Lifestyle, SPAR, Fun City Kids Entertainment, H &M, Max, Night Club

and Home Centre along with other tenants. The tenants have diverse profile including fashion, electronics, hypermarkets & supermarkets, food & 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 of the company.

Weaknesses

- **Delays in repayment of coupon payment for the rated NCD**

The company has delayed in paying the coupon payment falling due on 30th November and 31st December, 2020 in due time for the rated NCD on account of delays in collection of lease rentals from the tenants. The company requested for an extension in the timeline for the payments of the same to the debenture holders.

- **Refinancing risk of the NCD**

The rated NCD of Rs.630 Cr 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 serviced 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 Cr and at the end of fourth year will be around Rs.697.00 Cr. The standalone cash flows of the mall are currently not sufficient for 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 timeliness of such refinancing measures for maintaining stable credit profile will be a key rating sensitivity factor.

- **Significant moderation in the operational performance in FY2021**

The average footfalls in Vega City mall has 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 has led to 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.

- **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 NCD
- Improvement in the operational performance aided by increased footfalls and timely lease collection from its tenants
- Timely repayment of the coupon payments of the rated NCD

Material Covenants

None

Liquidity position: Stretched

BHHPL's liquidity is stretched marked by inadequate cash inflows for servicing its debt obligation in due time. The company has delayed in paying the coupon payment due on 30th November and 31st December, 2020 for the rated NCD in due time on account of delays in collection of lease rentals from the tenants. 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 interest repayments are expected to be around Rs.6.73 Cr post the refinancing exercise in FY2021 and later on is expected to be Rs.25.17 Cr and Rs.37.80 Cr in FY2022 and FY2023 respectively.

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

Efforts made by Acuité to obtain interest payment confirmation and limitations regarding information availability:

Sr. No	Date	Day	Communication sent to Debenture Trustee	Communication sent to Issuer
1	31-Dec-20	Thursday	Confirmation sought, no response	Confirmation sought, no response
2	4-Jan-21	Monday	Confirmation sought, no response	Confirmation sought, no response
3	5-Jan-21	Tuesday	Confirmation sought, no response	Confirmation sought, no response
4	6-Jan-21	Wednesday	Confirmation sought, no response	Confirmation sought, no response
5	7-Jan-21	Thursday	Confirmation sought, default intimation received	Confirmation sought, no response

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Real Estate Entities- <https://www.acuite.in/view-rating-criteria-63.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
10-Dec-2020	Secured Redeemable Non-Convertible Debentures	Long Term	630.00	ACUITE C (Downgraded; Indicative)
23-Nov-2020	Secured Redeemable Non-Convertible Debentures	Long Term	630.00	ACUITE BB/Stable (Converted from Provisional to Final) (Assigned)
01-Oct-2020	Proposed Non-Convertible Debenture	Long Term	630.00`	Provisional ACUITE 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 D Issuer not co-operating (Downgraded from ACUITE C)

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About Acuité Ratings & Research:

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