

Press Release

Blue Horizon Hotels Private Limited

January 12, 2023



Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	630.00	ACUITE B+ Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	630.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE B+**' (read as **ACUITE B plus**) from '**ACUITE D**' (read as **ACUITE D**) on the Rs.630.00 Crore Non-Convertible Debentures of Blue Horizon Hotels Private Limited (BHHPL). The outlook is '**Stable**'.

Rationale for upgradation

Rating upgrade takes into account the improvement in operations of Vega city mall leading to better cash flows and regularization of obligations in NCD repayments. Company in April 2022 company has already repaid Rs. 60.0 crores of principal obligations of NCD through sales proceeds of Whitefield commercial project. However, rating is constrained by the inadequacy of cash flow from mall operations to repay the NCD obligations and hence has a refinancing risk.

About the Company

Blue Horizon Hotels Private Limited (BHHPL) was incorporated in 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.

Standalone (Unsupported) Rating

Not Applicable

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 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 a healthy occupancy rate of ~96 per cent as on December, 2022. 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 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

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.

Refinancing Risk

The cashflow from mall operations are inadequate to repay the NCD obligation and hence the refinancing of debts by LRD facility in future becomes key rating sensitivity and exposes the company to refinancing risk.

ESG Factors Relevant for Rating

The construction industry is prone to releasing GHG and better use of technology to provide a green building structure is key. Further efficient use of material and better waste disposal and promotion of efficient alternatives are other key issues. Employee health and safety management is of prime importance for the industry. Safe building structures by using quality material is of utmost significance. Following the labour laws and labour rights is critical point to evaluate. Further ethical business practices and legal and regulatory compliance hold utmost significance. Other issues include management compensation and Board oversight. Likewise, corruption and bribery associated with getting licenses and permits are other material issues to the industry. The company is committed towards minimal GHG emission further the efficient use of material with minimal wastage is key focus of the company in order to maintain better environment and optimize cost. The company further focuses on employee health and safety and follows all the safety norms at their construction site. Further the company adheres to the labour laws and hiring of labour is a transparent process. The company is complying with the legal and regulatory requirements and have the permits in place from the concerned departments.

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

Adequate

Company generated net cash accruals of Rs. 7.37 Cr in FY 2022 after reporting improvement in lease rentals. Company has unencumbered cash and bank position of Rs. 1.80 Cr in FY 2022. In April 2022 company has already repaid Rs. 60.0 crores of principal obligations of NCD through sales proceeds of Whitefield commercial project. Going forward in October 2023 company will monetize the Epitele Elan project and expects proceeds of Rs. 30 Cr and another Rs. 127.60 Cr company expects to raise from LRD facilities which they are planning to avail in the near term. By October 2024 company has to pay off entire pending portion of NCDs along with redemption for which the company plans to avail another LRD facility of Rs. 724.54 Cr to finance the obligations.

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 lower occupancy levels of mall or lower than anticipated revenue or profitability resulting into liquidity issues.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	56.98	43.11
PAT	Rs. Cr.	(28.46)	(46.96)
PAT Margin	(%)	(49.95)	(108.92)
Total Debt/Tangible Net Worth	Times	(3.21)	(3.73)
PBDIT/Interest	Times	1.28	0.74

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

Not Applicable.

Any other information

None.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Real Estate Entities: <https://www.acuite.in/view-rating-criteria-63.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Feb 2022	Non Convertible Debentures	Long Term	630.00	ACUITE D (Issuer not co-operating*)
08 Jan 2021	Non Convertible Debentures	Long Term	630.00	ACUITE D (Downgraded and Issuer not co-operating*)
10 Dec 2020	Non Convertible Debentures	Long Term	630.00	ACUITE C (Downgraded and Issuer not co-operating*)
23 Nov 2020	Non Convertible Debentures	Long Term	630.00	ACUITE BB Stable (Assigned)
01 Oct 2020	Proposed Non Convertible Debentures	Long Term	630.00	ACUITE Provisional BB Stable (Assigned)
23 Mar 2020	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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Not Applicable	INE416S07035	Non-Convertible Debentures (NCD)	26 Oct 2020	2.5	26 Oct 2024	Simple / Complex	630.00	ACUITE B+ Stable Upgraded

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Shreyansh Singh Analyst-Rating Operations Tel: 022-49294065 shreyansh.singh@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.