

Press Release

Blue Horizon Hotels Private Limited

April 28, 2023



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Non Convertible Debentures (NCD)	630.00	ACUITE D Downgraded	-
Total Outstanding Quantum (Rs. Cr)	630.00	-	-

Rating Rationale

Erratum: In the original PR dated April 17, 2023, the Other Factors affecting Rating Section was not updated. However, the same is now being updated in this version.

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

Rationale for Downgrade

Rating downgrade factors in the intimation mail received from debenture trustee confirming the default in partial payment of interest on NCDs issued by the company bearing ISIN INE416S07035.

About the Company

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

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.

Default in partial interest payment

The company has defaulted on its interest payment obligation due on 31st March 2023 indicating liquidity constraints in the company.

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

Not Applicable

Material covenants

None

Liquidity Position

Stretched

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 crore of principal obligations of NCD through sales proceeds of Whitefield commercial project. The company has however defaulted in partial interest repayment showing stress in the liquidity position of the company.

Outlook

Not Applicable

Other Factors affecting Rating

On 03-April-2023, the issuer submitted to Acuite, its 'No default statement' (NDS) mentioning 'No Default' for the month of March 2023. However, on 14-April-2023, Acuite received an intimation of default from the Debenture Trustee referencing a communication from a debenture-holder about non-payment of partial interest on NCDs issued by the company bearing ISIN INE416S07035.

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)

None

Any other information

Not Applicable

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, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite'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
12 Jan 2023	Non Convertible Debentures	Long Term	630.00	ACUITE B+ Stable (Upgraded from ACUITE D)
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)

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	630.00	ACUITE D Downgraded

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About Acuité Ratings & Research

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