

April 15, 2021

Bhutan Ventures Hospitality Private Limited: Rating reaffirmed; rating removed from watch with developing implications and Negative outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (US\$ million)	Current Rated Amount (US\$ million)	Rating Action
Long Term Fund Based – Term Loan	30.00	30.00	[ICRA]BB- reaffirmed; rating removed from watch with developing implications and Negative outlook assigned
Total	30.00	30.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook for Bhutan Ventures Hospitality Private Limited (BVHPL) factors in the uncertain prospects for the company given that the medical situation in Bhutan is still evolving and global immunisation drive is still underway. The Negative outlook on the rating is in line with ICRA's outlook for the sector. Travel and tourism is one of the worst hit sectors due to the Covid-19 pandemic, with recovery expected to come up to pre-Covid levels only over the medium term. BVHPL's properties continue to remain shut since February 2020 and in absence of any near-term visibility on the revival in international travel and tourism, BVHPL's credit profile is expected to remain under pressure. The extent of the adverse impact on the company's revenues and cash accruals and, thus, its credit profile, is tied to how prolonged the curb on international tourism sustains owing to the pandemic and the severity of measures taken by the relevant authorities to contain it.

Although the restructuring of the term loan and deferment of debt repayments to June 2022 provides some interim relief, timely funding support from the promoters and operators would remain key rating sensitivities. ICRA also notes the risks associated with the hospitality industry pertaining to seasonality, general economic slowdown and exogenous shocks (such as natural calamities, geopolitical crises and disease outbreaks, among others).

The rating, however, continues to derive comfort the strong financial background of the company's promoters and commitment to the company and management tie-up with Six Senses, an international hospitality group. The financial commitment of the promoters and operator has been demonstrated by earlier equity infusions to fund the company's project cost escalations as well as infusion of interest free unsecured loans to support the timely servicing of debt repayments. BVHPL's tie-up with Sustainable Luxury Management (Thailand) Limited under the Six Senses brand, an international hotel management brand known for its sustainable luxury hospitality, would benefit BVHPL with access to its brand equity and global marketing network over the medium term. Six Senses is part of the InterContinental Hotels Group (IHG Group).

Key rating drivers and their description

Credit strengths

Strong financial background of the promoters provides financial flexibility and demonstrated equity commitment - BVHPL is a joint venture between three promoters, Mr. Dasho Sangay Wangchuk from Bhutan, Mr. Chalermchai Mahagitsiri from Thailand, and Sunny Orient Investments Limited. Mr. Dasho Sangay Wangchuk's¹ other business interests include banking, insurance, construction, etc. Mr. Chalermchai Mahagitsiri is the CEO of the PM Group, which is a major privately held Thai

¹ Mr. Dasho is the chairman of Druk PNB Bank (51% subsidiary of PNB Bank, India) and he is also a major stake holder in Bhutan GIC Reinsurance Company Limited (GIC, India being the Indian partner).

conglomerate with interests in industrial products, consumer products, property development, entertainment, education and investments. The third promoter entity, Sunny Orient Investments Limited, is a subsidiary of Cordoba Homes Limited, an investment holding company with investments across entities primarily engaged in property investments and management. While the initial project size was estimated at ~\$50 million, to be funded by a \$30-million bank term loan and the balance from promoters' equity contribution, the project cost was escalated to ~\$72 million (as on December 31, 2018) and the entire additional funding (i.e., ~\$22 million) was contributed by the promoters. Further, in CY2020, unsecured loans to the tune of NU 12.34 crore was infused by the promoters to fund the debt repayments and other fixed operating expenses of the properties of BVHPL.

Management tie-up with reputed international hospitality group, Six Senses - BVHPL has a management tie-up with Six Senses, which is a brand known for its sustainable luxury hospitality. The brand currently manages 20 hotels/luxury resorts across Europe, Africa, West Asia and Asia Pacific. Furthermore, in February 2019, Six Senses was acquired by the Inter Continental Hotels Group (IHG Group) from Pegasus Capital Advisors. Accordingly, ICRA expects BVHPL to benefit from its association with Six Senses in terms of global branding and marketing network.

Credit challenges

Covid-19 to adversely impact BVHPL's operations until the medical situation changes significantly; restructuring of loans provides interim relief, and timely financial support from promoters /operator will be critical - Owing to the ongoing Covid-19 pandemic, the operations of BVHPL have been adversely impacted by the restrictions on international travel and all its properties are closed down at present. As a result, BVHPL had initially availed a moratorium from its lenders on its quarterly term loan principal repayments due in the quarters ending June 2020 and September 2020. Thereafter, in September 2020, the company had applied to its lender for restructuring its term loans and the same was approved in December 2020, which provided interim relief with regard to the debt repayment obligations. Going forward, until there is meaningful ramp up of operations once the sector opens up, timely financial support from promoters will be crucial.

Cyclical industry; vulnerable to general economic slowdown and exogenous factors - Due to its presence in the hospitality industry, the company is susceptible to risks arising from seasonality, general economic slowdowns and exogenous shocks (such as natural calamities, geopolitical crisis and disease outbreaks, among others).

Liquidity position: Stretched

BVHPL's liquidity remains stretched. While the company has taken measures to rationalise its costs and limit its cash burn to a considerable extent, since its properties remain non-operational and there is uncertainty related to the commencement of operations in the near term, the absence of any revenues is expected to exert stress on the company's liquidity position in the near term. Although the debt repayments were deferred post the restructuring of the term loan in December 2020 and the company has received advance bookings to the tune of NU 6.4 crore; speedy ramp up of operations once the sector opens up and timely financial support from its operator/promoters to support its funding requirements and debt servicing obligations will be key monitorables. As on December 31, 2020, the company had cash and bank balance of ~NU 3.4 crore.

Rating sensitivities

Positive factors - The outlook can be revised to Stable if the company is able to ramp up occupancy rates after the travel restrictions related to Covid-19 are lifted and the company reports a sustained improvement in profitability margins and overall credit metrics.

Negative factors - Negative pressure on BVHPL's rating could arise if the prolonged impact of the pandemic leads to a slower-than-anticipated recovery in operating metrics. Further, any delay in receiving funding support from the promoters/operator, weakening of its debt servicing indicators and liquidity position could put pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for entities in the Hotel Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in May 2013, Bhutan Ventures (BVHPL) is a joint venture between three promoters, Mr. Dasho Sangay Wangchuk, Mr. Chalermchai Mahagitsiri from Thailand, and Sunny Orient Investments, a wholly-owned subsidiary of Cordoba Homes Limited. The company was incorporated for the development of luxury resorts at five key tourist locations in Bhutan—viz., Thimphu, Paro, Puncakha, Gangtey and Bumthang. BVHPL has entered into a management contract with Sustainable Luxury Management (Thailand) Limited, under its Six Senses brand for managing all of its five properties. Six Senses currently operates Six Senses Spas and luxury resorts at many international locations across Europe, Africa, West Asia and Asia Pacific. In February 2019, the business of Six Senses was acquired by the IHG Group from the private equity fund, Pegasus Capital Advisors, for a cash consideration of \$300 million. The project was conceptualised considering the growing popularity of Bhutan in international tourism as well as the limited availability of high-end luxury properties in the land, which is in line with the Bhutan Government's policy of promoting 'high-value and low impact' tourism.

Key financial indicators

OEL Consolidated	CY2019 (Audited)	CY2020 (Unaudited)
Operating Income (Rs. crore)	23.3	4.5
PAT (Rs. crore)	(23.6)	(42.1)
OPBDIT/OI (%)	(72.0%)	(348.5%)
PAT/OI (%)	(101.6%)	(942.3%)
Total Outside Liabilities/Tangible Net Worth (times)	1.6	2.2
Total Debt/OPBDIT (times)	(13.4)	(15.3)
Interest Coverage (times)	(1.4)	(1.8)

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History			
		Type	Amount Rated (US\$ million)	Amount Outstanding as of Dec 31, 2020 (US\$ million)	Date & Rating in 15-Apr-21	Date & Rating in FY2021		Date & Rating in FY2020 23-Jul-19	Date & Rating in FY2019 -
						22-Jan-21	30-Oct-20		
1	Fund-based-Term Loan	Long-term	30	27	[ICRA]BB-(Negative)	[ICRA]BB- &; rating watch with developing implications	[ICRA]BB- &; rating watch with developing implications	[ICRA]BB (Stable)	-

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (US\$ million)	Current Rating and Outlook
NA	Term Loan	Oct'14	NA	Dec'30	30.00	[ICRA]BB-(Negative)

Source: Company

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
N.A.	N.A	N.A.

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