HIYAA 7000
Housing Units

The Facts

Analysis of the EMI Calculations

01

HIYAA 7000 Housing Units

The Facts

What is the composition of the principal loans for the project?

HIYA 7000 Housing Units (Total : RF 6,692,287,000)		
	15% Equity Loan	**85% Loan**
Amount	RF 1,003,842,000	RF 5,688,438,000
Borrowed From	Credit - Suisse	ICBC
Loan Start	28th January 2018	20th April 2018

What is the Interest Rates used by HDC after Nov 2018?

- 6.8%

What is the targeted effective interest rate before Nov 2018?

- 4.0%

Analysis of the EMI Calculations

Is the current Interest Rate correct?

- No. The cost of Financing would be *LIBOR*+3.3%, at current LIBOR of 0.3% the actual interest rate is 3.36%. Even if at the highest LIBOR in the recent past of about 2.0%, the maximum interest rate would be below 5.0%.

What does it mean?

- HDC has ***added a further*** 3+% margin, and with a fixed EMI, the benefit of lower LIBOR will give a ***huge financial benefit*** to HDC out of this project ***at the expense of the people.***

Any other adverse effect on interest?

- Yes. The DELAY in project handover has ***increased*** the interest from $45m to $57.6m (***Additional*** $12m being passed on to the people)

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What is the unit cost currently calculated by HDC?

The cost incurred – extracted from what HDC Presented		Per Unit	Per Unit (MVR)
Project construction cost	434,000000.00	62,000.00	956,040.00
Marketing and administration expenses			
Project management cost (establishment of PIU)			
Interest Cost during construction*	57,644,228.27	8,235.00	126982.00
Land Cost			
	491,644,228.27	**70,234.89**	**1,083,022.00**

If the interest rate is wrong, what effect does it have on the EMI?

- Decisive impact as shown in the table below:

Interest rate (%) 3.36	EMI (Rf/month)
6.78	7503.00
6	6978.00
5	6331.00
4	5717.00
3.36	5341.00

03

HIYAA 7000 Housing Units

The Facts

Analysis of the EMI Calculations

Any additional reason for increase in EMI?

- Yes!
  - The total cash flow out of the project was supposed to be Rf 9.4 billion including cost of finance but now it is Rf 15.7 billion (an additional Rf 6.3 billion)
  - Moreover, HDC says they have to refinance Rf 3.2billion over the next 5-6 years, and it's done either through a bond or similar arrangement or as a govt loan carrying an interest of 13% which amounts to Rf 6.3 billion!

04

HIYAA 7000 Housing Units

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Analysis of the EMI Calculations

05

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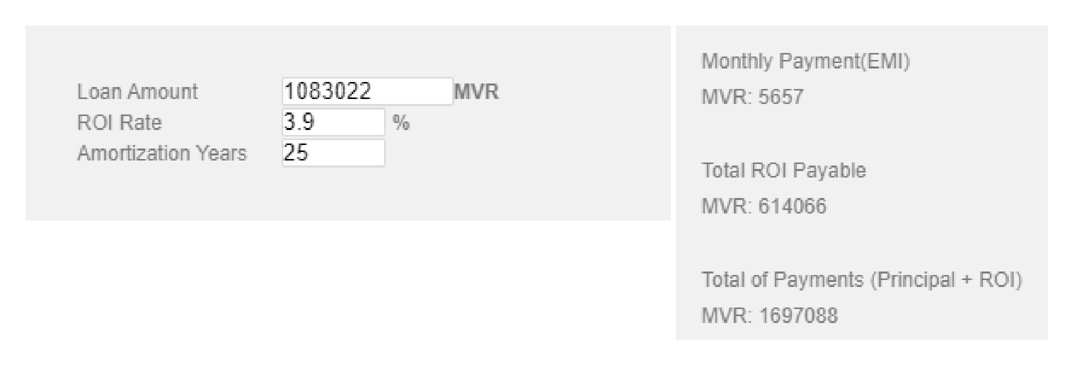
Is this the same amount as that was before Nov 2018?

- No! Before Nov 2018, it was decided to refinance at 4% which amounts to Rf 1.9 billion instead of Rf 6.3billion, and the total project cash outflow would have been (9.4+1.9=) Rf 11.3 billion instead of Rf 15.7 billion

- If the current govt maintained effective interest rate at about 4%, the EMI can be maintained at about Rf 5600 for 25 years.

Can anyone easily do this EMI calculation?

- Of course!
  - Try: HDFC EMI Calculator (https://www.hdfc.com.mv/calculator/emicalculator/)



Government policies and the rise and fall of HDC

06

HIYAA 7000 Housing Units

The Facts

How did HDC fail to secure refinancing loan at interest below 4%?

- At the end of 2017, HDC completed audited financials without a single qualification, and was the only company to complete an international credit rating exercise, and in early 2018, receive a B+ rating.
- Net assets grew from Rf 2.28 billion (2013) to Rf 16.15 billion (2018)
- Healthy gearing ratio and other key rations showed borrowing capacity of the company
- Investment properties jumped up from Rf 416 million (2013) to Rf 16.39 billion (2018)
- Recurring income rose from Rf 58 million (2013) to Rf 250 million (2018)
- The financial strength of HDC was robust enough to allow raise finance from an international bond to finance all cashflow deficits created from the 7000 housing units project and secure a financial package at below 4%.
- Since Nov 2018, government economic policies and HDC's corporate strategy had lost its clear sense of direction and specific strategy it had for project deficit financing

Government policies and the rise and fall of HDC

- From late 2018 onwards HDC has been branded as a company that was in a huge financial crisis (no such issues other than common tight / negative cashflow situation during heavy investment period) and created a perceived bankruptcy status.
- Several international partners and financial institutions were shocked by the news that came directly from key policymakers and sometimes statements made by new management during their first few months. Many local and international financial institutions started questioning the corporate creditworthiness of the company.
- With all such continued damages to the corporate image and mismanagements of several ongoing projects, HDC Credit rating dropped from B+ to CCC within just one year of its initial rating announced in 2018.
- Additionally, government credit rating also has dropped from B+ to CCC.
- New management took 2 years to realize that the way forward is to obtain favorable cashflow finance as planned by the previous management. However, the environment changed and attractiveness of HDC is perceived to be different *and potential borrowing cost from international market for HDC jumped from 4% to 13+%.*

HIYAA 7000 Housing Units

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Impact from finishing costs

What impact would the inclusion of finishing cost have?

- EMI calculated based on current loan interest rates and current Libor rate (Variable – can go high or low) without any cost other than Construction cost and interest paid (with additional USD12 million incurred because of delay is handover) is MVR 5341. With additional costs HDC initially budgeted for the EMI calculated based on current loan interest rates and current Libor rate is MVR 5548.

- The difference in both *EMI calculated with additional cost budgeted (not incurred) by HDC and without additional cost initially budgeted by HDC comes to MVR 207.* This clearly shows EMI (MVR 7500) decided by the government is to cover heavy refinancing cost (assume to be 13% p.a) to finance cashflow deficit created during the first 5-6 years of the project. The only way EMI can go down is by obtaining better refinance cost, presumably same finance cost or better than the existing loan finance cost. *Other costs such as land, project management, finishing cost etc has no significant impact (about MVR 207) on EMI of the project*

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Cost Analysis

Facts

- Unit cost: USD 62,000 (16 towers and 7000 units)
- Number of floors: 25 Floors (Number of Piles used in foundation: 16000+)

Construction Cost Analysis

- Construction Rate based on GFA (including corridors, staircase, lift, balcony etc.): MVR 1319 / sqft
- PO Construction Rate calculation was based on Carpet Area and Spokesperson stated MVR 1631 is construction rate which is based on Carpet Area.

Cost Comparison between 7000 housing units and pervious social housing:

- Previous social housing contracts were signed when official local bank construction rate was at MVR 750 (when USD rate was at 12.85)
- 7000 Project contracts were signed when official local bank construction was at MVR 1250 (when USD rate was at 15.42)
- CMEC Social housing projects are only buildings of 4 floors with no elevators requires simple raft foundation and no pile foundation required

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Cost Analysis

How CSCC Contract succeeded compared to other proposals and rational reasoning for 25 floor Towers?

- Obtaining a contractor is not the difficult part of the project but, obtaining a confirmed financing offer from internationally accepted financial institutions, especially with Equity loan and with below 4% interest rate is very challenging.
- Current government plans to give all equity from government budget for social housing while 7000 units were delivered without a single MVR from government budget.
- None of the contractors during the initial proposal submissions offered a confirmed finance from any bank other the finance offers arranged by CSCC

Why 25 floors?

- To save land for future housing, government decided to do all possible 16 towers of 25 floors from the initial confirmed finance package; zones within 4km radius from airport has a height restriction of 14 floors (45 meter).

HIYAA 7000 Housing Units

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Cost Analysis

- By going from towers of 14 floors to towers of 25 floors, 7000 project has saved land area for approximately additional 2800 units (population of 14000); 12 towers of 14 floors. This land area saved is approximately 370,000 sqft and in monetary terms it is a saving of more than MVR 1 Billion (USD 72 million) if land price is considered at Hulhumale Base Rate MVR 3000 per sqft.

Unit cost of $47000 is signed for the first time by this govt?

- No. Two such EPC were signed in 2018 and in one such case (Synohydor 2500 units) equity loan was also signed for USD47000 per unit in early 2018.

This govt does not pay any payments for social housing? Or is it just being treated differently for the 7000 units project only?

- The latter Some of the facts about FDC Housing Projects
- Three EPC contracts of 2000 units each signed with three Indian contractors
- Indian Exim finance packages are being arranged under following terms;
- 80 – 85% of the project value to be financed under Exim finance

HIYAA 7000 Housing Units

The Facts

Cost Analysis

- 15 – 20% of the project value (equity portion) to be directly from government budget (in the case of 7000 arranged by contractor through an international bank)
- All loan commitment fees to be paid by the government from government budget (in the case of 7000 paid by CSCC on behalf of borrower – HDC)
- All loan insurance fees to be paid by the government from government budget (in the case of 7000 paid by CSCC on behalf of borrower – HDC)
- Prices of the land (business arrangements between HDC and FDC for land plots are not clear) or whether land is given for free is not clear
- FDC residential projects announced from Male' has no charges for the land for developers to pay for the land.
- Additionally, its is worth noting that *all other social housing loans are directly paid from government budget* while collections are done through different mechanisms such as arrangements made with HDC and HDFC on behalf of the government. *Cashflow created from EMIs (collections from owners) for all other social housing never matches with the cash outflow (loan repayments)* and government budget covers any differences as the loan repayments of all social housing are directly made by the government from government budget.

HIYAA 7000 Housing Units

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Cost Analysis

Is it true that HDC subsidized all project management and admin costs?

- No. The project management and all administrative works were done in-house in a very cost effective manner. Those costs were insignificant compared to the initial budgeted amounts.

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