Mauritius Housing Company Ltd

("MHC or the "Company")

Management Discussion & Analysis

Directors are pleased to submit the Financial Statements and this management discussion paper for the period ended 30 June 2024. The financial reports have been prepared in accordance with the Bank of Mauritius guidelines on public disclosures of information and the international financial reporting standards and other accounting standards where applicable.

1.0 The Economic Environment

The latest economic conditions remained challenging due to factors such as inflation and global slow down. At this junction, the economy seems to cope with the shocks. The latest indications show that the Mauritian economy growth rate was around 7%. Different sectors of the economy have shown good momentum and there was a high degree of optimism namely in the construction industry which grew by 18.1%, the manufacturing industry grew by 3.9%, the financial sector grew by 4.4% and the growth rate in real estate stood at 2%.

Total investment in the economy grew by 30.9%, compared to 7.8% in 2022. FDI inflows for 2023 amounted to Rs 37 billion, exceeding the previous record of Rs 33.5 billion registered the year before. Exports of goods and services increased by Rs 30.8 billion in 2023 to reach Rs 347 billion. The unemployment rate as at end of 2023 stood at 6.1 %. Headline inflation stood at around 7%. Public sector debt stood at 78% of GDP at end of 2023.

Government in its last budget 2024/2025 continued to underscore a philosophy fostering resilience, inclusive growth and sustainable development. For the coming year, the challenges are even bigger. The aim is to build a strong economy by promoting a higher economic growth, more jobs, higher revenue, higher investment, higher foreign direct investment, and higher exports.

New measures earmarked are the introduction of an agri-voltaic scheme, subsidies to promote solar energy, initiatives to restore coastlines, promote sustainable villages and the extension of the home ownership scheme.

Further to the implementation of new policies, the sectors that contributed most to support the economic activities are tourism, construction which continued their growth, the solid performance of the financial sector, growth in consumption, investment and net exports.

From a monetary policy perspective, the key rate remained unchanged at 30 June 2024 since December 2022. The interest rates on housing credits remained at an average to 5% to 6% over the current period. The stability in the key interest rate and financing encouraged further expansion in the construction of residential buildings with a growth rate of 24.3%.

The housing credit expanded by 18.4% annually although, high borrowing and construction costs persisted after the Covid period, the demand for residential property remained elevated and did not affect households' investments in residential projects. The demand for housing loans decelerated in the first half of 2023 and a pick-up was noted in the second half of the financial year.

Source: Bom
Statistic Mauritius / Budget speech 2024/2025

Overview

This current financial year has been a year of continuity for the Company. Despite a dynamic and often challenging environment, we have made significant advancement in areas such as customer experience, process improvement, products creation, sustainability, controls and financial performance. Our commitment to creativity, serviceability, customer orientation remained in the forefront of our objectives. These guided our actions and decisions throughout the year. Other focus was to consolidate our business environment, by increasing returns, reducing costs, increasing our asset base, improving non-performing assets ("NPA") and come with innovative products that suit our customer needs.

Enhancing customer experience remained a top priority. During the year, we implemented several new initiatives to improve the service delivery which includes electronic communication, analytics for personalized service and a streamlined complaint resolution process. To better serve our customers we also extended our services by relocating one of our branches with a view to enhance accessibility and convenience for our clients. This relocation aligns with our commitment.

During the year, we launched the Smart Pel account, a new product that provides extended facilities compared to the existing one. For loan clients, we launched the flood relief loan to assist individuals who have been victims due to recent flood which occurred in the country. We also enhanced most of our loan products such the eco loan and the diaspora loan which created momentum.

As regards liquidity and treasury management, we implemented a prudent approach to ensure good returns on our investments. All excess funds were properly and timely monitored including the maturity and symmetry of all assets and liabilities. We continued to consolidate our deposit base, by promoting our deposit products while retaining sufficient liquid assets to meet unforeseen liquidity needs.

To further focus on the market, the marketing and communication department worked closely with our sales team with the main objectives to come with innovative products and be in line with the customers' expectations. We used several new channels to improve on our communication with the public at large. These actions largely contributed on achieving the sales objectives.

Investing in technology was crucial for our growth strategy. We have allocated substantial resources to upgrade our IT infrastructure, cybersecurity measures, data analytics and report generation capabilities. Our focus on digital transformation is aimed at improving efficiency, reducing costs, and delivering superior customer experiences. We will soon be embarking on a mobile platform where accessibility to account information will be a reality.

Apart from the business operations, we have focused a lot on the risk aspect and the applicability of guidelines and regulations during this current year. Where applicable, policies were updated to established additional control across the organisation. Lot of enhancement was also brought to consolidate the risk framework. Risks identification and implementing control has been done across the organisation. Efforts have been put for the categorisation of risk including their impact on our financials. Management is committed for a proper control and enhancing them with emerging measures. Additionally, the implementation of the Climate-related and Environmental Financial Risk Management and training program for AML/CFT are underway.

2.0 Financial Review

2.1 Performance Against Objectives

To maintain growth several objectives were set. The aim was to improve and consolidate key areas and be in line with the Company's mission. The focus was to increase revenue, contain costs, reduce NPA, increase the deposit base, implement cost savings measures, increase returns to shareholders and improve efficiency.

The table below gives a comparison between objectives set and actual results. `

Objectives	Budgeted 23/24	Achieved 23/24	Expected June 24/25
Gross Profit (Rs m)	157	163.1	195
Net Profit (Rs m)	132	136.7	159
NPA Level %	13	13.3	11.5
Cost to Income Ratio %	82	82.4	79
Total Assets Growth (Rs m)	13,062	13,138	14,136
Housing Loan Assets Growth (Rs m)	11,219	11,266	12,327

a) Gross profit was forecasted to Rs 157m; we have achieved Rs 163.1m, a positive performance of 3.88%.
b) Net profit was budgeted to Rs 132m; we have achieved an amount of Rs136.7m, a positive performance of Rs 4.7m.
c) The objective for non-performing loan was set to 13%; the ratio achieved stood at 13.3%.
d) Cost was contained as far as possible but due to committed cost, a marginal increase was noted. Cost to income was set to be at 82%. Achieved ratio stood at 82.4% compared to the initial target. This was mainly due to revision in salary which was due since 2021.
e) Total assets grew to Rs 13,138m compared to budgeted amount of Rs 13,062m.
f) The loan portfolio was over achieved by 0.41% that is Rs 11,266m compared to the budgeted amount of Rs 11,219m.

2.2 Key Financial Indicators

Statement of Profit and Loss (Rs m)	Year ended 30 June 2024	Year ended 30 June 2023	Year ended 30 June 2022
Interest Income	802.6	628.0	406.01
Interest Expense	372.6	290.0	144.51
Net Profit	136.7	103.7	96.9
Retained Earnings	2,195.2	2,182	2,137.7
Interest Cover (Times)	2.15	2.16	2.81
Net Profit Margin (%)	14.7	14.0	18.6
Statement of Financial Position (Rs m)			
Housing Loans Assets	11,266	10,476	9,895.6
Fixed Assets (Net of Depreciation)	550.8	504.5	549.2
Total Assets	13,138.9	13,054.1	11,870.9
Net Assets	3,479.3	3,483.7	3,471.6
Shareholders' Funds	3,252.0	3,239.1	3,227.07
Capital Employed	9100.3	7,884.7	7,401.7
PEL & JPS (Capital Deposited)	1,924.8	1,678.1	1,640.73
HDC (Capital Deposited)	5,872.2	6,097.0	5,311.51

Performance Ratios			
Interest Income Growth (%)	27.7	54.6	11.1
Total Income Growth (%)	26.2	41.6	7.9
Interest Expense Growth (%)	28.4	100.7	-33.17
Total Expense Growth (%)	22.3	35.6	8.9
Total cost to Total income (%)	82.4	85.0	88.9
ROCE (%)	1.50	1.32	1.31
EPS (Rs)	6.84	5.19	4.85
Net Interest Margin/ Interest Earning Assets (%)	3.81	3.18	2.55
Net Interest Income /Total Assets	3.28	2.59	2.20
Return on Total Assets (%)	1.04	0.79	0.82
Return on Shareholders' Funds (%)	4.20	3.20	3.01
Total Income to Capital Employed	10.22	9.34	7.02
Reserves	3,252	3,239	3,271.6
Current Ratio	0.72	1.19	1.23
Gearing (Times)	1.62	1.83	1.69
Asset Quality			
Non-Performing Loan	13.3	14.3	13.5
Portfolio Quality (%)	5.21	5.22	5.53
Debt Coverage Ratio	53.0	50.0	56.09

2.3 Financial Analysis

(i) Summarised Income Statement

Items	30June 2024 Rs m	30 June 2023 Rs m	30 June 2022 Rs m
Net interest income	429.9	337.9	261.5
Other income	128.0	109.2	114.3
Operating income	**557.9**	**447.1**	**375.8**
Non- interest expenses	(394.7)	(337.2)	(317.9)
Operating profit before impairment	**163.2**	**109.9**	**57.9**
Provision on other assets	2.2	(0.3)	(0.2)
Impairment provision	(38.0)	(6.5)	8.5
Profit on sale of foreclosed properties	9.5	0.5	7.4
Provision for loss on disposal- property development	-	(1.3)	
Increase in fair value adjustment-investment properties	(0.2)	1.4	23.3
Profit for the year	**136.7**	**103.7**	**96.9**

a) Revenue

Our gross revenue for the 12 months ended 30 June 2024 stood at Rs 930.5m compared to June 2023 which amounted to Rs 737.2m. Gross revenue rose by 26.2% compared to the corresponding period. The improved performance is mainly attributable to interest income on our loan business, interest on deposits and other fee income relating to our core business.

b) Other Income

Other income grew by 17.2%, amounting to Rs 127.9m for the year ended 30 June 2024 compared to Rs 109.2m for 2023. This was driven by the main loan business items consisting of fees and commission income, policy fees and other income.

c) Expenses

Interest Expense

Interest expense amounted to Rs 372.6m for the year ended 30 June 2024 as compared to Rs 290.0m for 2023. Interest expense represents interest payable on borrowings, savings, and term deposits accounts. The increase in interest is mainly due to the increase in deposits and interest paid for borrowings in relation to loan contracted for Residence Clos Verger project.

Non-interest Expense

Non-interest expense amounted to Rs 394.7m for the year ended 30 June 2024 compared to Rs 337.2m for 2023, that is an increase of 17.0%. Cost was contained as far as possible but some fixed costs increased during the year as well as operating costs. The depreciation charge increased slightly by 5.5% in due to additions in our fixed assets. The recurrent expenses increased due to increase general maintenance due to rise in prices of materials and software costs. The personnel expenses stood at Rs 232.2m compared to Rs 191.6m; a net increase of Rs 40.5m. The increase in personnel expenses is mainly due to revision exercise in salary which also included back pay payment from July 2021.

d) Cost Ratios

The total cost stood at Rs 767.4m at June 2024 compared Rs 627.2m at June 2023. Total cost consists of two major elements that is interest cost amounting to Rs 394.7 and operating expenses amounting to Rs 394.7m. Total cost increased by 22.3% due to increase in business activities.

Cost to income ratio stood at 85.0% as at June 2023 and for the current year at June 2024 the cost to income has decreased to 82.4%. The cost to income ratio has improved by 2.6%. Non-interest expense to total income ratio stood at 42.3% compared to 53.7% for 30 June 2023. Personnel expenses to total operating expenses stood at 58.8% at June 2024 compared to 56.8% at June 2023.

e) Other items affecting the income statement

The Company made provision against its financial assets including loans and investment in deposits as required by IFRS 9 and Bank of Mauritius guidelines. For the year ended 30 June 2024, an additional provision of Rs 38.0m has been provided compared to Rs 6.5m in June 2023. The additional impairment provision was mainly due to credits classification and changes in economic conditions. There has been an increase in prudential provision due to increase in new loans granted to customers.

Foreclosed properties where legal all issues were cleared were put for sale. A net gain of Rs 9.5m has been realised following disposal. The sale of the Le Hochet project (phase 1) was also completed except for one property. Additionally, our investment properties maintained its fair value compared to last year.

Our operating profit grew by 48.4% that is from Rs 109.9m for June 2023 to Rs 163.2m in June 2024. This performance is the result of continuous growth in the sales volume, improved fee income, our product development strategies in line with the market demand, increase in return on investment, improvement in the recovery process for default cases and the cost containment strategies put forward.

Our net profit for June 2024 stood at Rs 136.7m compared to Rs103.7m for 30 June 2023. Our net profit has improved by 31.8% after accounting for some exceptional items such as impairment for non-performing accounts and gain on sales of foreclosed properties.

The earnings per share for the year under review increased to Rs 6.84 compared to Rs 5.19 for 30 June 2023. The return on capital employed was 1.50% as at 30 June 2024 whilst as at 30 June 2023 it stood at 1.32%.

(ii) Assets and liabilities at 30 June 2024

Items	June 2024 Rs m	Jun 2023 Rs m	Jun 2022 Rs m
Cash & cash equivalents	327.7	148.1	373.3
Treasury deposits	1325.0	2,275.0	1,375.0
Property development	207.5	120.6	136.4
Loan to customers	10,396.7	9,641.0	9069.2
Investment property	106.9	153.0	151.6
Investment in subsidiary	25.0	25.0	-
Property & equipment	550.8	504.6	549.2
Intangible assets	96.9	115.4	132.3
Other assets	57.7	18.3	26.9
Asset held for sale	44.7	53.1	57.0
Total Assets	**13,138.9**	**13,054.1**	**11,870.9**
Equity	3,479.3	3,483.7	3,471.6
Savings & deposits	8,232.4	8,334.7	7450.1
Borrowings	499.6	515.2	324.8
Insurance funds	136.9	123.9	123.9
Other payables	790.7	596.6	500..5
Total Equity & Liabilities	**13,138.9**	**13,054.1**	**11,870.9**

Our total assets increased by 9.9% from Rs 13.05bn in June 2023 to Rs 13.13bn in June 2024. For the year under review, loan business and raising of deposits were the two main objectives. We reviewed several of our existing products to be in line with the market. The introduction of the new PEL smart deposits was done during the current year which now provide enhanced facilities. Our philosophy to enhance the customers' experience was high in our agenda. The loan approval process was revisited. To this end our product and services were geared to provide high level of services.

Cash Flow Position

The Company is sufficiently liquid to cater for all cash requirements whether for the short-term or long-term. At 30 June 2024, cash in hand and at bank balances amounted to Rs 1,625.7m compared to Rs 2,423.1m as at 30 June 2023. A sum of Rs 327.7m at 30 June 2024 stood as a working capital whilst Rs 1,325.0m of the total funds were judiciously placed in fixed deposits and treasury bills in order to secure a good return. This amount was also used as our compliance requirements for deposits held. Repayment from loans, fee income and deposits mainly contributed to meet all commitments as regards to business activities such as grant of credits and operational activities. For the year under review, we opted for funding facilities namely from deposits from individuals, corporate and the senior citizen groups.

Loans to Customers

Gross loans to customers increased by 7.5% to reach Rs 11,266.7m at 30 June 2024 as compared to Rs 10,476.7m at 30 June 2023. Net amount after impairment stood at Rs 10,396.6m as compared to Rs 9,641.0m as at 30 June 2023.

This performance was driven by granting of loans to individuals mostly for construction, renovation, and purchase of properties. Despite a very competitive environment we were able to grant loans at competitive rates. Our mixed portfolio such as normal housing loans, flexi loan products, the diaspora schemes and the senior citizen scheme were the preferred products for our customers. The introduction of the Eco Loan Scheme at start of the year also had some positive impact.

(i) Impairment on Financial Assets

Our philosophy to help customers who have financial constraints remained the top most priority. With the recent changes in the system our credit underwriting, methodology was enhanced to approve quality loans. This resulted to lesser new default cases. Year by year we have noted a decrease in the number of our non-performing loans. We provided continued support to customers who were in difficult financial difficulties. Clients who were facing financial difficulties to service their loans were able to benefit from our restructuring solutions.

For the current year, our impaired loans stood at Rs 1,495.8m compared to Rs 1,505m mainly due to increase in interest accrued following non-payment of contractual instalments. The overall non-performing loan ratio stood at 13.3% compared to 14.3% for the year ended 30 June 2023. The coverage ratio for the period stood at 53% compared to 50%.

The Company ensures that adequate provision is made in line with the guideline issued by the Bank of Mauritius and IFRS 9 – Financial Instruments. Total provision for non-performing loans stood at stood at Rs 792.3m as at 30 June 2024. The debt coverage ratio stood at 53% at June 2024.

(ii) Portfolio Provision

In addition to the provisions on impaired loan, the Company provides for a prudential portfolio provision on non-impaired loans based on the micro and macro-economic indicators and the 12-month expected credit losses. The prudential portfolio provision stood at Rs 77.1m as at 30 June 2024 as compared to Rs 80.8m as at 30 June 2023.

Investment Property

a) Investment properties decreased from Rs 153.0m (June 2023) to Rs 106m (June 2024) mainly due to part of the head office building previously rented were transferred to property plant and equipment as it is planned to convert it into office space. The investment property was revalued as per the Company's policy.

b) In prior year, the Company incorporated a new subsidiary, namely MHC Properties Ltd, to cater for the development of projects. The subsidiary is 100% owned with a stated capital of Rs 25m. As at date, no transfer of assets has been affected and the operation has not yet started.

Intangible Assets

Intangible assets mainly relate to the implementation of the Core Banking System which went live in November 2019. As at 30 June 2024, new additions for the upgrading of the system and part payment for the implementation of Mobile Banking was effected. The total intangible assets stood at Rs 96.9m at 30 June 2024 compared to Rs 115.4m at 30 June 2023 net of depreciation.

Other Assets

Other assets increased from Rs 18.3m in June 2023 to Rs 57.6m as at 30 June 2024 due to the increase in interest receivable on treasury deposits and savings accounts. The other main items included under other assets at 30 June 2024 are staff loans, receivable for rent, prepayments, fixed charges fees paid on behalf of customers and part payment on accounts for fixed assets.

Property Development

Items under property development mainly consist of the Le Hochet project phase 2 relating to infrastructure cost, one housing unit in phase 1 of the project and investment for the new project at Residence Clos Verger. As at 30 June 2024 the balance stood at Rs 207.5m compared to Rs 120.5m at June 2023.

Deposits

(i) PEL/JPS

PEL deposits increased by 10.4%, that is, from Rs 1,964.0m in June 2023 to Rs 2,169.3m in June 2024. The new smart Pel was introduced in December 2023 with enhanced features in replacement of the initial PEL savings account. The new savings account remains a prerequisite to avail of a loan since it inculcates customers to save for the future in view to constitute a capital and to use the amount saved for the construction.

(ii) Housing Deposit Certificate (HDC)

The HDC decreased by 4.8% as at 30 June 2024 to reach Rs 6,063.0m compared to Rs 6,370.6m in June 2023. The decrease in HDC was mainly one major deposit reaching maturity and which was not renewed. The HDC product remains one of the main sources of funding for our operation and remains one of the competitive products in the market.

Borrowings

Borrowings decreased from Rs515.0m as at June 2023 to Rs 499.5m as at June 2024. No loans were contracted during the year and the decrease was mainly due to repayment of instalments.

Retirement Benefits Obligations

The fund obligations increased by 28.3% from to Rs 500.4m in June 2023 to Rs 642.5m in June 2024.This increase is mainly due to the new salary increase and commitment over the long term. Consequently, the Company has taken measures to reduce the obligation over the next seven years.

Equity

Total equity decreased by 0.12% to reach Rs 3,479.3m as compared to Rs 3,483.7m as at 30 June 2023. Asum of Rs 17.2m has been transferred from life insurance reserve further to the adequacy of the fund capital and obligation as per statutory requirements. Additionally, and amount of Rs 113.4m was charged to other comprehensive income following the actuarial report for the re-measurement of the post-employment benefit obligation. Further to these adjustments the retained earnings increased from Rs 2,182.3 to Rs 2,195.2m.

Return on shareholders' fund stood at 4.20% in June 2024 as compared to 3.20% in June 2023. The increase in return is mainly attributable to the increase in profits.

Capital Adequacy

Capital Adequacy Ratio measures the percentage of a financial institution's capital to its risk weighted assets. Capital is split into two tiers when computing the capital adequacy:

i. Tier 1 refers to core capital, the sum of paid of share capital, statutory reserves, and revenue reserves; and
ii. Tier 2 refers to lesser quality components to absorb losses and includes undisclosed reserves, revaluation reserves, general banking reserves, portfolio provisions and subordinated long-term debt. Risk-weighted assets are determined by applying prescribed risk weightings to and off-balance sheet exposures according to relative credit risk of the counterparty.

The minimum capital adequacy requirement by the Bank of Mauritius is at 10%. Capital Adequacy Ratio as at 30 June 2024 stood to 35%.

3.0 Risk Management Policies and Controls

MHC has a Risk Management Committee which is responsible in setting up risk strategies to assess and monitor the risk management process at MHC and it also has the responsibility for advising the Board of Directors on MHC's overall current and future risk appetite, overseeing management's implementation of the risk appetite framework and reporting on the state of risk culture of MHC.

The Corporate Governance Report provides further details on the risk policies at MHC.

4.0 Concentration of Risk Policies

MHC follows the principles described in the Bank of Mauritius Guideline on Credit Concentration Risk regarding its exposure to credit risk. The Asset and Liability Committee (ALCO) monitors the risk concentration. Further details are provided in the Corporate Governance Report.

5.0 Related Party Transactions, Policies and Practices

The Company follows the principles described in the Bank of Mauritius Guideline on Related Party Transactions and IAS 24 – Related Party Disclosures for all transactions and balances with related parties. Note 32 to the financial statements provides details on related parties transactions and balances. MHC has also adopted a new Related Party Transaction Policy on 29 June 2022.

6.0 Statement of Corporate Governance Policies

MHC has a Corporate Governance Committee in place and which is headed by a chairperson. The responsibilities of the Committee are to:

- Provide expertise in the areas of corporate governance;
- Ensure that the Board of Directors is up to the standard with the Code of Corporate Governance; and
- Report on its deliberations to the Board of Directors.

The Corporate Governance Report provides further details on the corporate governance policies followed by MHC.

7.0 Outlook

As we look to the future, we remain optimistic and resolute in our strategic direction. Our focus will continue to be on driving innovation, enhancing operational efficiency, and expanding our market presence. We are dedicated to fostering a culture of excellence and integrity, ensuring that we remain a trusted financial institution for years to come.

With the current economic environment and fluctuating interest rates, customers normally shop around before contracting new-credits. They have priority towards their expenditure. We will try to remain in the forefront in helping many individuals to undergo for a residential project. Our objective for the next financial year is based on granting more loans and raising deposits. We expect to increase our asset base by 8.2% and increase our profit by 20%. We also expect to increase our earnings per share by more than 7%. Among our objectives for 2024/2025 we will continue to:

a) Develop our customised products to market trend.
b) Explore the possibility for new market segments.
c) Bring growth in the main asset (loan portfolio), as well as savings and deposits.
d) Reduce non-performing assets by adopting new strategies for recovery.
e) Continue with cost containment strategies.
f) Improve on customer service and go digital.

The mobile banking is planned for launch this financial year. This will reinforce the operational capabilities as well as adopting technology-based practices. The continuous review of processes and procedures will be a priority to offer a better-quality service to our customers. It will serve as the differentiating factor to acquire new business as well as retain existing customers.

The project at residence Clos Verger, Rose-Hill is expected to be completed and sales completed before the end of the next financial year. We expect to grow even further to the satisfaction of all our stakeholders.

8.0 Cautionary Note on Forward-Looking Statement

The MDA includes forward-looking statements and there are risks that forecasts, projections and assumptions contained therein may not materialize and that actual results may vary materially from the plans and expectations. MHC has no plans to update any forward-looking statements periodically and therefore users are advised not to place any undue reliance on such forecasts.

The Board is kindly requested to consider this management discussion paper and the Financial Statements for period ending June 2024 and approval.

This Paper has been submitted at our Audit Committee of 30th September 2024 and was recommended to the Board for approval.

Approved by the Board on 30 SEP 2024

CHAIRMAN	**MANAGING DIRECTOR**	**DIRECTOR**