

Evaluation of the Efficiency and Profitability of Housing Finance Companies in India – A Purposive Study

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ABSTRACT

One of humanity's basic requirements is housing, and as the population and level of life rise, so does the need for housing; hence, financing the purchase of a home became necessary. The fact that we view homes as the finest investments and wish to spend our savings or hard-earned money to purchase one is a good indicator of the housing sector's importance. In order for the Indian economy to expand and develop, housing is essential. Based on secondary data, the study's primary goal is to use ratio analysis to assess and contrast the stability of home financing businesses' present financial performance with potential future outcomes. The gathered information has been examined in terms of profitability, liquidity, efficiency, and revenues. Specific housing finance institutions emerged as a result of the demand for funding to buy a home. The modern-day Housing Finance Companies, or HFCs, have increased their lending throughout time, helping the housing industry to flourish. In the past, home finance firms outperformed banks for long-term capital sources, concentrated lending, reduced operational expenses, and better customer service, even while banks had somewhat lower loan rates. Over the past five years, leading home finance businesses like HDFC and LIC Home Finance have seen a 9.41% increase in loan books, boosting their overall market share by 47.36%. Given these circumstances, the current study makes an effort to assess LIC Housing Finance Limited's and HDFC's operating performance. The 2010–2021 timeframe was chosen for the study. The study comes to the conclusion that HDFC and LIC Home Finance are the top home finance entities in India based on the overall ranking of ratio analysis.

1. INTRODUCTION

Every penny spent on housing and building contributes significantly to the expansion and upward trajectory of the Indian economy. The GDP (Gross Domestic Product) of our country increased by .78 rupees for every single rupee of investment in building a house. One type of non-banking financial institution is a home finance company (HFC). It is dedicated to the financing of home development and acquisition, which includes purchasing a piece of land for the building of new homes. According to the financing Act of 2019, the Reserve Bank of India (RBI) and the National Home Bank (NHB-87) have authority over Indian home financing firms. One of every human being's essential necessities is housing; the others are food, clothing, and education. One of every human being's essential necessities is housing; the others are food, clothing, and education. One crucial element and indicator of a person's socioeconomic standing is their housing. When it comes to policy efforts and interventions, it is considered a crucial sector. Since the Stone Ages, people have understood the importance of shelter as a civic requirement, and this has shaped their ideas and inventions. The economic situation has improved as a result of the rise of several HFCs in both the organized and unorganized sectors. The HFCs have a lot of potential.

The efficiency with which HFCs may access resources determines their level of success. Thankfully, the development of an integrated national home financing system has received a lot of attention in the past several years. The establishment of the premier home finance organization, National Home Bank, has given housing finance a boost. India's urban population has been expanding quickly. According to the most recent study, 36.36 percent of people live in cities. It is projected that 3.12 crore dwelling units would be needed in India's metropolitan regions by 2030. More than 250 auxiliary sectors, including builders, developers, civil engineers, suppliers, building workers, value estimators, property advisors, furnishers, interior designers, and plumbers, are closely linked to the housing industry both forward and backward. On the scale of the economy's multiplier impact, housing comes in fourth place, while when it comes to the overall linkage effect, it ranks third out of 14 key industries. In India, real estate and housing industry is the second-largest employer after agriculture. With indirect jobs included, the labor-intensive industry employs almost 33 million

people. About 70% of them are employed in the infrastructure industry, while the remaining 30% are in the real estate industry.

The industry is projected to create 47 million new jobs, bringing the overall number of workers in the sector to 83 million by 2022, according to industry estimates. Significant macroeconomic impacts are caused by housing and building activity levels, both directly and indirectly. Direct affects include the consumer price index and interest rates, On the other hand, indirect benefits include multiplier effects brought on by job opportunities in the industry and the "wealth" affecting spending habits. The home financing industry has grown and evolved over time as a result of several financial reforms; yet, the share of home loans in GDP has remained at around 7%, which is significantly lower than the levels reached in other developed countries. It demonstrates the extent of potential for additional market penetration. The ratio of mortgages to GDP is expected to rise as economies of scale and better demographics take place. However, the stakeholders must deal with issues and roadblocks that may arise from shifting economic cycles, ambiguities surrounding land acquisition regulations, modifications to the policy framework, and systemic risk that may result from fast increase of credit facilitation with inappropriate norms for due diligence.

LICHF and HDFC have been compared on five important measures (consistency, honesty, brand image and customer service, distribution, and book quality). HDFC is regarded as the industry standard in the housing finance market due to its consistent profitability and sustainable growth rate. Only one of these criteria shows LICHF consistently outperforming HDFC, even with the valuation disadvantage. In light of this, the current study looks at the financial results of HDFC and LICHF in India.

Literature Review

Plenty of studies have been conducted on the subject of housing financing firms. Because some of the studies are either fully or partially connected to LICHF and HDFC's current housing finance research, a review of such studies is conducted to identify those that are more relevant to the theme matter of the current research.

In their research, K and Ahuja (2020) attempted to investigate the financial activities of chosen home finance companies that are traded on a reputable stock exchange. Using financial metrics like valuation, solvency, liquidity, and profitability ratios, they conducted an analysis and concluded that, in comparison to other housing finance companies, Crest Venture and India Bulls perform better in terms of investment, India Bulls performs better overall, and India Bulls and Crest Venture do reasonably well in terms of liquidity.

Satyanarayana and Ramu (2019) evaluated the financial performance of five public and five private HFCs in India from 2009 to 2018 through the use of some financial ratios, means, and a student t-test as descriptive statistics. They discovered that the profitability and operational ratios of both public and private HFCs were greatly impacted by regulatory actions and policy changes.

In their 2018 study, Meghna .S and RC Babu examined the financial standing of NBFCs involved in home loans. The firms chosen for the study are those that are listed on the reputable stock market. Ratios are computed, tabulated, and shown visually under camel parameters. Additionally, statistical methods like ANOVA (f-test) have been used to evaluate the hypothesis that looks at the differences across the businesses. GRUH financing is ranked first in this study, according to the data, subsequent to GIC home finance and Dewan house financing Ltd and Last place goes to LICHF.

According to Sivaramakrishna (2017), HDFC can sustain a recovery rate of around 98%. Overall, the LICHF's performance in the home financing sector is commendable.

According to Roy (2016), LICHF has a major influence on the expansion of liberal financing into the housing industry.

In their analysis, Jasmindeep et al. (2015) found that HDFC ranks first among all institutions in terms of loans approved, disbursed, and outstanding, whereas PNB ranks lowest in terms of all these metrics. But in terms of both the authorized distribution and the remaining balance, LICHF has had the highest compound growth rate.

According to Srinivas S.P. (2015), house loan disbursements grew at a rising pace during 2000–01; the growth rate was 13.7% in 2000–01 compared to the previous year, and it reached 76% in 2002–03. Housing loans have increased due to a number of factors, including (i) easy access to financing, (ii) population growth, (iii) nuclear families, (iv) newer financial segments, (v) the Indian economy's urbanization; (vi) a lack of available homes; (vii) falling house-to-income ratios; etc.; and (viii) tax advantages.

The primary goal of the bank, according to Singh Fulbag et al. (2014) in their study discovered that it is needed to establish and promote housing financial institutions in the nation and offer refinance services to scheduled commercial banks and housing finance corporations. Additionally, tax refunds on home loans have been offered for the salaried part. Based on LIC Housing Finance Ltd.'s case study, the study looks at the portfolio amounts, defaults, and individual house loan disbursements by area for the previous 10 years, or 1995–1996 to 2004–2005. This is accomplished by computing relevant ratios with the help of cumulative annual growth rates and percentages.

Rao K.N. (2013) notes that during the past six years, house loans in India have grown exponentially. Numerous reasons, such as favorable liquidity conditions, low rates of interest, the availability of tax shelters for principal and interest payments, increased demand from middle-class recipients, a decrease in regulatory finances, and the convenience of tangible security, have contributed to the rise in home loans. The two main companies involved in house loan disbursement are HDFC and LICHFL. For a maximum of two to three decades, these banks will provide house loans with a maximum of 85% of the property's worth.

OBJECTIVES OF THE STUDY

- To observe and evaluate LIC Housing Finance Limited's & HDFC'S Limited's operating performance.
- To examine, using a variety of metrics, the financial performance of HDFC'S and LIC Housing Finance Limited.

RESEARCH DESIGN

It is a descriptive-analytical paper. The data used in this investigation is secondary. The study's secondary sources of data are the annual reports of LIC HFL and HDFC. Financial ratios, percentages, compound growth rates, the other methods were used to examine the data.

ANALYSIS AND OUTCOMES

There are several ways to evaluate LICHFL and HDFC's performance. The following tables provide the analysis and presentation of LICHFL and HDFC's primary operational and financial metrics.

1. Operational Indicators

1.1 Loan grants/Sanctioned

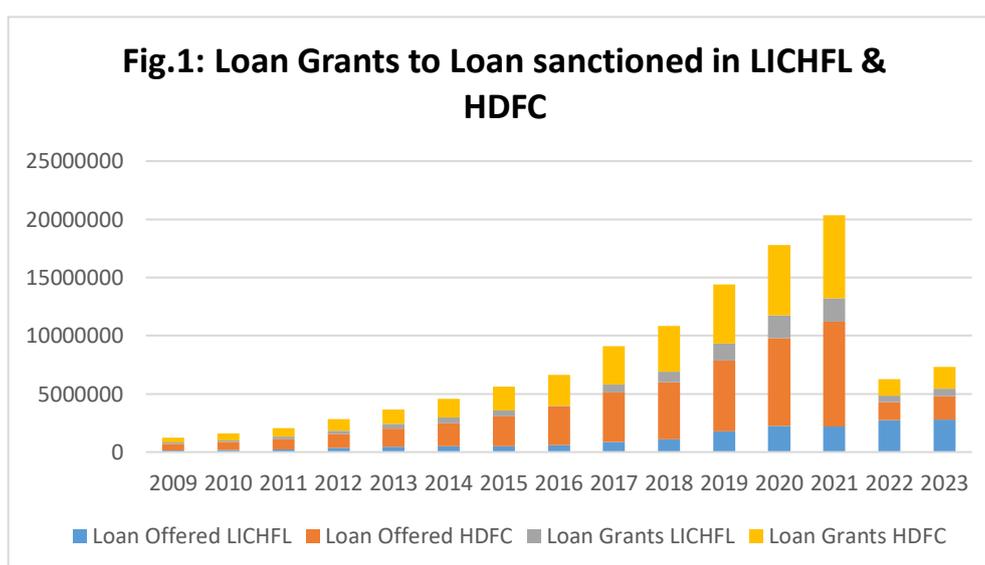
The loan awards to sanctions show how much money the corporations are really spending. Book figures were the only loans that were approved. The real distributions show how the housing corporations have contributed to the nation's housing unit growth. Table 1 describes the loans that HDFC and LICHFL approved and disbursed between 2009 and 2023. The aforementioned table showed that, from 91.56 % in 2008-09 to 23.06 percent in 2022-23, the percentage of individual loan disbursements to the overall loan amount distributed by LICHFL fluctuated throughout the study period. In contrast, HDFC's share of individual loan disbursements to total loan amounts disbursed rose from 84.69 percent in 2008-09 to 95.59 percent in 2022-23. It suggests that these two home finance organizations focus more on personal loans than business loans. Individual loans were for 95.46 percent of LICHFL's total loans, while corporate loans made up 4.54%. In the same year, HDFC's individual and corporate loan proportions were 67.17 percent and 32.83 percent, respectively.

Table 1. Loan Grants to Loan Sanctions of LICHFL and HDFC (millions of rupees)

Year	Loan Offered		Loan Grants		% of Loan Grants to Loan Offered	
	LICHFL	HDFC	LICHFL	HDFC	LICHFL	HDFC
2008-09	143358	530515	131259	449274	91.56	84.69
2009-10	174369	687977	160837	580301	92.24	84.35
2010-11	210985	904125	201816	761656	95.65	84.24
2011-12	359344	1173157	319083	995087	88.80	84.82
2012-13	469341	1521556	410381	1269682	87.44	83.45

2013-14	520918	1971533	465042	1620675	89.27	82.20
2014-15	514703	2563367	489551	2067920	95.11	80.67
2015-16	610523	3333193	51211	2617799	83.93	78.54
2016-17	861821	4252000	707124	3287490	82.05	77.32
2017-18	1089847	4916600	876201	3965000	80.40	80.65
2018-19	1804317	6061100	1485293	5041300	82.32	83.17
2019-20	2260292	7518500	1991239	6031400	88.09	80.22
2020-21	2203450	9015400	2002707	7111300	90.89	78.88
2021-22	2750470	1550000	536620	1449840	19.51	93.53
2022-23	2779870	2000000	641150	1910540	23.06	95.52

(Sources: LoanpayoutregisterofLICHFL&HDFC)



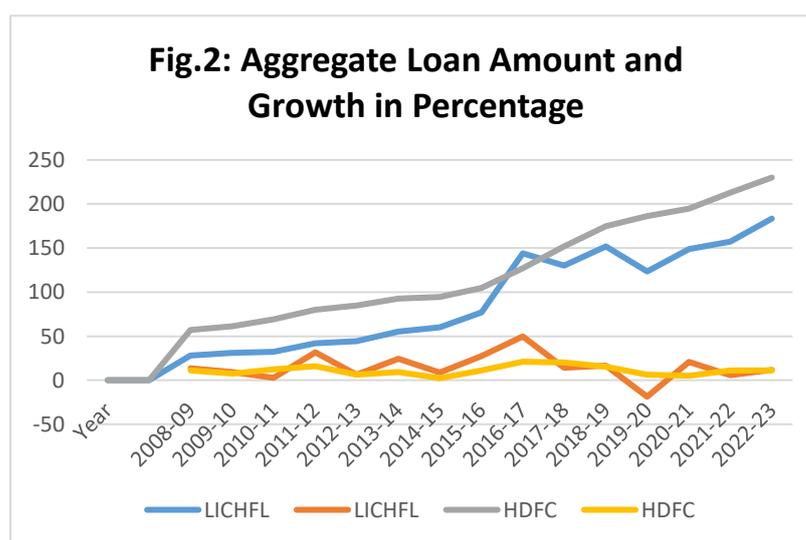
1.2 Average Loan Amount

From one industry to another and from one loan recipient to another, the amount of the home loan fluctuated. Housing loans ranged from a few lakhs to few millions of rupees. The amount and quantity of loans disbursed in a given year were used to determine the average loan size. Housing finance companies' investment patterns on different housing projects were shown by the average loan size. Table 2 provides information on the mean amount of loans disbursed by HDFC and LICHFL between 2008-09 and 2022-23.

Table 2: Aggregate Loan amount of LICHFL and HDFC

	LICHFL		HDFC	
Year	Average Loan Amount	Year to Year Growth in percentage	Average Loan Amount	Year to Year Growth in percentage
	(Rs. in Millions)		(Rs. in Millions)	
2008-09	28	13.25	57	11.14
2009-10	31	9.44	61.2	7.55
2010-11	32	2.57	68.8	12.42
2011-12	42	31.84	79.8	15.99

2012-13	44	6.22	84.6	6.02
2013-14	55	24.65	92.4	9.22
2014-15	60	8.72	94.5	2.27
2015-16	77	27.59	105	10.9
2016-17	144	49.63	127	20.9
2017-18	130.3	13.93	152	20.28
2018-19	152	16.47	175	15.03
2019-20	123.3	-18.75	186	6.1
2020-21	149	20.59	195	4.84
2021-22	157	5.38	213	10.94
2022-23	183.4	11.7	230	10.8



From Rs. 28 million during 2008-09 to Rs. 183.4 million in 2022-23, the mean loan size of LICHFL climbed by 13.25 percent during 2008-09 and then fell to 11.7 percent during 2022-23. For HDFC, the average loan size grew from Rs. 57 million in 2008-09 to Rs. 230 million in 2022-23. The average loan size growth was 11.14 percent during 2008-09 and 10.8 percent in 2022-23. According to the data, HDFC consistently has a higher mean loan amount than LICHFL and has a strong growth record. When compared to LICHFL, HDFC's average loan amount was 100% larger at the start of the research period and 25.40% larger at the conclusion of the period of study. Although there was no steady rise over the research period, the average loan amount of LICHFL and HDFC had increased; this indicates that the beneficiaries' loan amounts for housing finance had been steadily rising as a result of growing requirements.

1.3 CapitalStructureRatios

1.3.1 Debt-EquityRatio: More precisely, it is emphasized as a manifestation of the connection between the long-term debt and the finances of the shareholders. The optimal ratio is 2:1, meaning that one rupee of borrowed funds should support every rupee of shareholder money financing. A higher ratio suggests that the company is in a riskier financial situation, meaning that it has been supported by a larger outside fund than the owner's fund contribution, and vice versa. Table 3 shows that LICHFL's debt-to-equity ratio was 0.78 in 2008-09 and varied between 0.78 and 1.12 over the study period. In contrast, over the research period, HDFC's range was 0.64 to 1.02. It's interesting to see that, whereas HDFC's debt-to-equity ratio varied during the research period, LICHFL's climbed steadily from 2008-09 to 2016-17, starting at 0.78 to 1.12. When comparing LICHFL and HDFC, LICHFL's debt equity position is superior to HDFC.

1.3.2 Debt Ratio: It displays the percentage of long-term borrowing in capital employed, just like the debt equity ratio. A low ratio gives creditors protection, whereas a large ratio aids management in equity trading. It should be mentioned that the debt ratio can be determined as well using the total assets. Typically, it relates to the

proportion of total assets to total debt (the long-term debt plus current liabilities). According to the data, LICHFL and HDFC's debt ratios are smaller than one between 2008–09 and 2012–13, indicating that the firms are using both their total long-term and current obligations to finance their fixed assets. It was discovered to have climbed to greater than 1 for both LICHFL and HDFC starting in 2013–14.

1.3.3 Interest Coverage Ratio: It is required of the companies to consistently pay interest on the loans borrowed. This ratio makes it easier for the potential lender to assess the company's ability to consistently pay interest from its entire revenue. Interest coverage ratios, also called as debt service converge ratios, are used to examine the ability to pay interest. A higher ratio indicates the firm's ability to pay interest and improves safety, and vice versa. Less frequently, the ratio indicates a smaller business cushion, which might have an impact on the firm's ability to pay interest on a regular basis. According to the data, LICHFL's interest coverage ratio peaked in 2017–18 at 0.140 and fell to its lowest point in 2019–20 at 0.122. In contrast, HDFC's ratio peaked in 2013–14 at 0.165 and fell to its lowest point in 2008–09 at 0.131. From the overall capital structure ratios' evaluation it is vivid that debt-equity ratios of LICHFL are better than HDFC Limited, whereas debt ratio and interest coverage ratios position of HDFC Limited are far better than LICHFL during study period.

Table-3. Capital Structure ratios of LICHFL and HDFC from 2008-09 to 2022-23

YEAR	DEBT EQUITY		DEBT		INTEREST COVERAGE	
	LIC	HDFC	LIC	HDFC	LIC	HDFC
2008-09	0.78	0.64	0.81	0.64	0.129	0.131
2009-10	0.85	0.68	0.83	0.68	0.128	0.137
2010-11	0.87	0.75	0.85	0.77	0.133	0.143
2011-12	0.95	0.77	0.94	0.85	0.136	0.155
2012-13	0.92	0.87	0.93	0.93	0.132	0.164
2013-14	1.02	1.02	1.03	1.03	0.129	0.165
2014-15	1.05	0.97	1.06	1.04	0.129	0.153
2015-16	1.11	0.57	1.12	0.58	0.133	0.151
2016-17	1.12	0.59	1.14	0.64	0.134	0.14
2017-18	1.02	0.57	1.01	0.63	0.14	0.151
2018-19	1.08	0.65	1.09	0.65	0.133	0.163
2019-20	0.82	0.38	0.83	0.51	0.122	0.152
2020-21	0.78	0.43	0.88	0.65	0.134	0.147
2021-22	0.81	0.94	1.01	0.66	0.129	0.149
2022-23	0.85	0.98	1.05	0.84	0.131	0.151

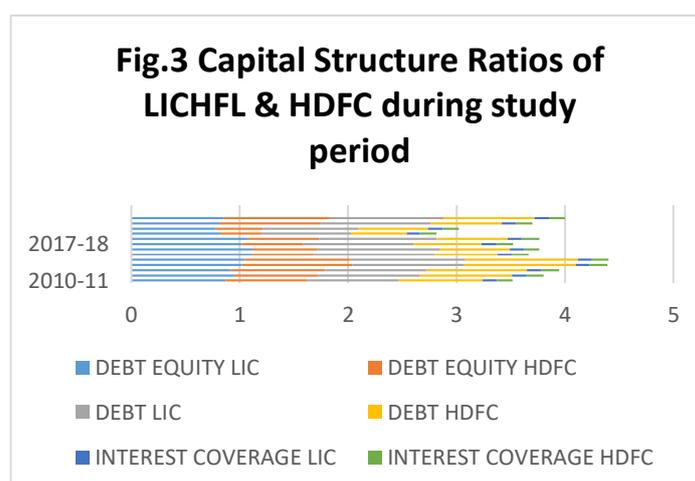
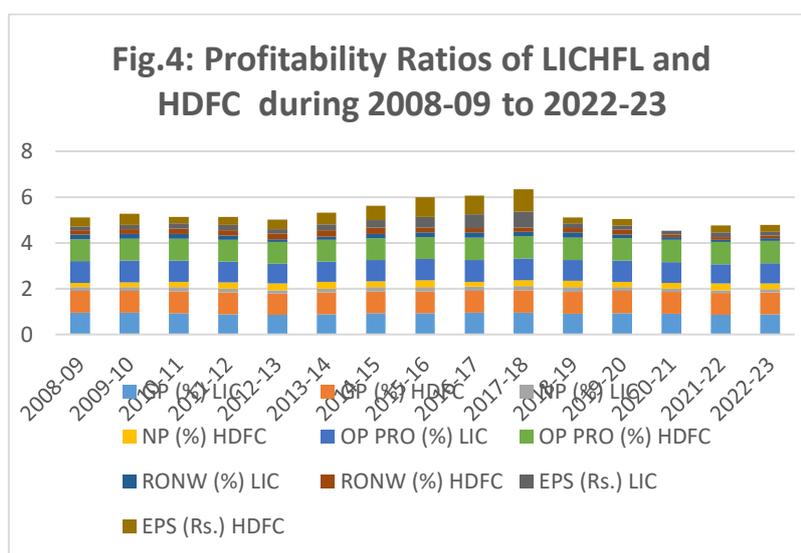


Table-5 Profitability measurement of LICHFL and HDFC

YEAR	GP/Sales		NP/Sales		OP Prof/Sales		Return/NW		EPS (Rs.)	
	LIC	HDFC	LIC	HDFC	LIC	HDFC	LIC	HDFC	LIC	HDFC
2008-09	0.9513	0.9425	0.1593	0.1990	0.9528	0.9617	0.1904	0.1996	0.1619	0.3944
2009-10	0.9434	0.9488	0.1681	0.2148	0.9449	0.9606	0.2002	0.2145	0.1967	0.4765
2010-11	0.9320	0.9507	0.1757	0.2319	0.9337	0.9594	0.208	0.2267	0.2388	0.2824
2011-12	0.8902	0.9455	0.1678	0.2767	0.8990	0.9532	0.1742	0.2509	0.2235	0.3454
2012-13	0.8460	0.9466	0.1372	0.3039	0.8493	0.9521	0.1202	0.2669	0.1692	0.4161
2013-14	0.8787	0.9493	0.1652	0.2938	0.8823	0.9537	0.1550	0.2813	0.2456	0.5038
2014-15	0.9178	0.9569	0.1782	0.2663	0.9203	0.9598	0.1808	0.2828	0.3287	0.6207
2015-16	0.9248	0.9626	0.1782	0.2972	0.9265	0.9646	0.2113	0.2039	0.4559	0.8577
2016-17	0.9446	0.9688	0.1837	0.2071	0.9464	0.9704	0.2379	0.1737	0.6259	0.8024
2017-18	0.9554	0.9670	0.1905	0.2487	0.9573	0.9686	0.1954	0.1859	0.6975	0.9845
2018-19	0.8970	0.9667	0.2100	0.2744	0.8984	0.9681	0.2337	0.2041	0.2053	0.2410
2019-20	0.9357	0.9691	0.1489	0.2390	0.9369	0.9703	0.1608	0.2167	0.1811	0.2791
2020-21	0.8968	0.9701	0.1377	0.2497	0.8993	0.9731	0.1332	0.1105	0.1476	0
2021-22	0.8483	0.9689	0.1148	0.2865	0.8509	0.9787	0.0927	0.1142	0.2044	0.2984
2022-23	0.8706	0.9697	0.1276	0.2698	0.8735	0.9801	0.1066	0.1212	0.1677	0.2989

(Source: Annual Reports of LICHFL & HDFC)



From the above table 4 and figure 4, it has been found that LICHFL, due to its huge infrastructure and heavy manpower, its gross profits and net profits were found throughout the study period lesser than HDFC as HDFC is applying dynamic strategies continuously in order to minimize its operating and non-operating expenses. It is also discovered that the operating profits and return on net worth ratios are also so prominent in HDFC than LICHFL. Finally the EPS declaration throughout the study period also so attractive in case of HDFC than LICHFL.

LIMITATIONS

- The study solely relies on secondary data.
- There is a fifteen-year restriction on the study time.
- The study's findings are limited to the financial outcomes of particular home financing firms.

CONCLUSIONS

Its marketing network is the key to LICHFL and HDFC's success in the home finance sector and always these firms are coming up with new products into the market which are tailored according to the suitability and synchronization with current savings and purchasing power of the citizens of India.. They employ more people in marketing than in the typical workplace. Both of these housing organizations need to change and differentiate themselves from other financial businesses to give their consumers the most benefit, even though they are capable of authorizing loan disbursements and offering customer service. They must modify and differentiate their range of services to satisfy the demands of the market segment if they are to maintain a stable future in the housing industry. HDFC's RONW has been stronger than LICHF's, despite LICHF's book value growth rate being greater and steadier on an organic basis. Based on the performance of all home loans issued to grantees, HDFC has outperformed LICHFL, and we would rank LICHF's disclosure criteria as superior to HDFCs. From the perspective of capital structure compositions, LICHFL appears to have a larger debt/equity ratio, whereas HDFC appears to have a superior debt ratio and interest coverage ratio. In the case of HDFC alone, EPS appears to be steady and at a reasonable level. In our opinion, HDFC is an exceptionally strong housing financing organization, even if it may not be LICHFL. It is possible to draw the conclusion that LICHFL and HDFC's financial metrics have been consistent throughout time, and that HDFC has outperformed than LICHFL in the financial and operational areas over the research period.

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