FINANCIAL PERFORMANCE ANALYSIS OF SELECTED INDIAN NBFCs IN HOUSING FINANCE

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Abstract: The objective of this paper is to analyze the financial health of the NBFCs that are into Housing Finance in India. The companies that are listed and can accept public deposits under NHB have been selected for the study. Ratios under CAMEL parameters are calculated, tabulated and presented graphically. Also, statistical tool, ANOVA (F-test) has been used to check the hypothesis that checks the difference between the companies on the basis of Capital adequacy, asset quality, management efficiency, earnings quality and liquidity. The companies GRUH Finance is ranked first in this study followed by GIC Housing Finance and Dewan Housing finance Ltd. The last rank is secured by LICHFL.

***Index Terms* – CAMEL, NBFC, Housing finance, National Housing Bank**

1. INTRODUCTION

According to Wallace F. Smith "Housing finance is a factor of production quite distinct from labor, materials and risk-taking." The price of other factors involved in housing construction need to be paid mostly in cash at time they are used. From the foregoing definition it is obvious that housing sector is indissolubly linked with the financial sector. The fact is that housing is a very expensive commodity which needs heavy capital outlay testifies to the vital role of finance in housing sector. In fact, housing leans heavily on finance which makes housing function of finance to considerable extent.

1.1 RATIONALE

The following study is been taken up to closely and critically examine the financial health of the companies selected. NBFCs are an integral part of our economy. It contributes to more than 20 percent to the GDP of the Indian Economy and the Housing Sector contribution to GDP will rise to 6%. Also the housing investment has been growing annually at the rate of 18%-20%. (Business Standard) NBFCs also help in easy acquirement of loans and advances but they lack a certain amount of credibility for the savers. Therefore taking up this project would help to know the backing of the NBFCs selected here and would help the investors to critically look and the financials of the company and interpretation and take the investment decision wisely.

2. LITERATURE REVIEW

Suresh Vadde (2011) in his article "Performance of non-banking financial companies in India - an evaluation" from the Journal of Arts Science & Commerce which was published on March 2009 conducted a study to know the financial health of 3 NBFCs with reference to that of HDFC. The article also showcases the complete structure of assets and liabilities of the selected companies. The study excludes the data of HDFC bank. The data was collected from various sources like RBI Bulletin which gave information of financial and investment companies that were required for this research. Dr. C. Thilakam and M. Sarvanan (2014) in their study of "CAMEL Analysis of NBFCs in Tamil Nadu" study 36 NBFCs in Tamil Nadu to evaluate the financial health of each firm using parameters like Capital adequacy, asset quality, management quality, earning and liquidity. The period of the study is from 2003-2012. The findings of the study suggest that the RBI regulations have made the NBFCs to perform better and seriously. The study compares and contrasts all the companies and in the end tries to give suggestions in order to overcome the challenges faced by those NBFCs that hinder their path of growth and development. Pankaj Chadha (2013) in his study "Performance analysis & benchmarking of selected listed housing finance companies in India- a camel approach" aims to find out the financial health of the listed companies for a period of 5 years through camel model. According to the study, first position was secured by GRUH Finance, second position was shared by GIC and HDFC and third by Dewan Housing Finance Ltd. Last position was obtained by LICHFL. Basically, low cost and long term funds help HFCs to gain profitability according to this article. Dr. P.S. Ravindra, Dr. P. Viswanadham and Ch. Trinadha Rao (2013) in their study "Operational and Financial

Performance Evaluation of Housing Finance Companies in India (A Case Study of LIC Housing Finance Limited and HDFC)" states that housing sector is a very strong sector with strong integrations both backward and front. The primary objective of the study is to evaluate the financial performance of LIC Housing.

3. RESEARCH METHODOLOGY

3.1 Title of the project

Financial Performance Analysis of selected Indian NBFCs in Housing Finance

3.2 Statement of the problem

The problem has been taken up because NBFCs are a crucial part of the economy and have been coming at par to the services provided by the commercial banks when it comes to providing housing services. The growth rate of housing finance over the past decade has been 18% and the rate of growth in commercial banks in the housing sector has been 10.71% (According to IBEF) whereas the housing finance companies have been growing at the rate of 19% which is way more than the commercial banks so we can say that they are at par with each other. Also, it is said that in the coming 4 years the HFCs will grow at a rate of 40%-45% (According to CRISIL report). Also, the introduction of Real Estate Regulation Act in different states has proved out to be an opportunity for all the housing finance companies in India. This study aims to critically examining the performance of these Housing finance companies in the current scenario.

3.3 Objectives of the study

To examine the financial performance of the selected Housing Finance Companies during the period 2012-13 to 2016-17.

3.4 Scope of the Study

The project will cover only the 5 selected companies that are:-

i. Can Fin Homes Limited
ii. Dewan Housing Finance Corporation Limited
iii. GRUH Finance Limited
iv. LIC Housing Finance Limited
v. General Insurance Corporation of India Housing Finance Limited

The data that will be analyzed and measured to check the financial performance of the above companies will range from the years 2012-2017 that are 5 years because the effect of cyclical fluctuations which may have happened in the economy during this particular time period can be studied well.

3.5 Hypothesis

1. H_0- There is no significant difference with respect to Capital Adequacy among the selected Housing Finance Companies
   H_1- There is significant difference with respect to Capital Adequacy among the selected Housing Finance Companies.
2. H_0- There is no significant difference with respect to Asset Quality among the selected Housing Finance Companies
   H_1- There is significant difference with respect to Asset Quality among the selected Housing Finance Companies
3. H_0- There is no significant difference with respect to Management Efficiency among the selected Housing Finance Companies
   H_1- There is significant difference with respect to Management Efficiency among the selected Housing Finance Companies
4. H_0- There is no significant difference with respect to Earnings Quality among the selected Housing Finance Companies
   H_1- There is significant difference with respect to Earnings Quality among the selected Housing Finance Companies
5. H_0- There is no significant difference with respect to Liquidity position among the selected Housing Finance Companies
   H_1- There is significant difference with respect to Liquidity position among the selected Housing Finance Companies

3.6 Type of research:-

The following research is said to be an analytical research as it aims to analyze the financial performance of the selected Indian NBFCs in Housing Finance.

3.7 Population size:-

The no. of Housing finance companies registered under section 29A OF The National Housing Bank Act, 1987 and are allowed to accept public deposits without any prior permission from NHB is 12.

3.8 Sample size

The sample size for the research includes 5 Housing Finance companies.

i. Can Fin Homes Limited
ii. Dewan Housing Finance Corporation Limited
iii. GRUH Finance Limited

iv. LIC Housing Finance Limited
v. General Insurance Corporation of India Housing Finance Limited

3.9 Sampling technique

Non-probability sampling technique has been used for this study. Under non- probability sampling, purposive sampling has been used which selects the company on the following criteria:-

i. The Housing Finance Companies under NBFCs should be registered under National Housing Bank and should be able to accept Public deposit without prior permission of National Housing Bank.
ii. The Housing finance company should be listed on stock exchange that can be either NSE or BSE.

3.10 Data collection method

Secondary data will be used for the study and the various sources from which the data will be collected would be RBI Bulletin and National Housing Bank website.

3.11 Tools to be used

i. CAMEL Model
ii. ANOVA (F-test)

3.12 Limitations

The study is just limited to the assessing the financial performance of 5 companies. Also, only past 5 years data is being taken into consideration to assess the financial performance of the given companies. Only secondary sources of data will be used like online sources, journals, magazines, RBI Bulletin etc.

4. ANALYSIS

4.1 CAPITAL ADEQUACY

It is a measure to calculate the HFCs capital. It expresses the overall financial position of the companies undertaken. The ratios under it are:-

Table 1- Table showing Capital Adequacy Ratios

RATIOS	CANFIN	DHFL	GRUH	LIC	GIC	F-Ratio
Net worth to Total Assets	8.55	8.34	8.08	7.44	11.89	
Rank	2	3	4	5	1	18.1659
Debt Equity Ratio	9.496	9.172	9.456	9.95	8.80	
Ranking	4	2	3	5	1	4.56416
Capital Adequacy Ratio	17.804	17.228	16.482	16.366	16.5	
Ranking	1	2	4	5	3	3.45
Overall Group Ranking	2.33333	2.33	3.6666	5	1.6666	

- It can be seen from the above table that GICHFL has the highest Networth to Total assets Ratio i.e. 11.89 followed by CANFIN Homes with 8.55. The lowest ratio being secured by LICHFL with 7.44 percent.
- The debt equity ratio is maximum in GICHFL which has a ratio of 8.8. the lowest average debt equity ratio is secured by LICHFL with 9.95.
- All the companies are having a good position in terms of Capital Adequacy. CANFIN Homes has the highest CAR i.e. 17.08 percent with least ratio being obtained by GICHFL i.e. 16.5% on average
- On the basis of the overall ranking that is based on the 3 parameters we can say that GICHFL was at the first position followed by a tie between CANFIN Homes and DHFL which secure the same rank (2.333). LICHFL has the least of all the HFCs because of its poor performance in terms of Capital Adequacy.

Hypothesis testing

The results of ANOVA, F-ratio given in the table shows that there is significant difference between the HFCs with respect to Capital Adequacy. There the null hypothesis is being rejected. The conclusion being that the HFCs are significantly different in terms of Capital Adequacy.

4.2 Asset Quality

Assets determine the strength of a Housing Finance Company The ratio under it is:-

Table 2-Table showing Asset Quality Ratios

RATIOS	CANFIN	DHFL	GRUH	LIC	GIC	F-Ratio

Return on Assets	1.582	1.94	2.582	1.404	1.77	5.11905
Rank	4	2	1	5	3	
Overall Group Ranking	4	2	1	5	3	

- We can say from the following results that GRUH Housing Finance Ltd. has the highest Return on Assets i.e. 2.582, followed by DHFL that has return on assets of 1.94. The least average return on asset is 1.404 which secured by LICHFL.
- The overall ranking shows that GRUH has secured the first rank in terms of Asset Quality with its return on asset being 2.582 followed by DHFL (1.94) AND GICHFL (1.77). The last rank is secured by LICHFL due to its poor performance with respect to Asset Quality.

Hypothesis testing

The results of ANOVA-single factor shows that there is significant difference between the HFCs with respect to Asset Quality. There the null hypothesis is being rejected. The conclusion being that the HFCs are significantly different in terms of Asset Quality.

4.3 Management Efficiency

This aims to know how efficient and effective the management of the particular company is.

Table 3-Table showing Management Efficiency Ratios

RATIOS	CANFIN	DHFL	GRUH	LIC	GIC	F-Ratio
Cost to Income Ratio	21.62	25.46	17.31	14.86	23.22	
Rank	3	5	2	1	4	19.9405
Expenses to Average Total Assets	0.07713	0.0899	0.0802	0.07634	0.01206	
Ranking	5	3	2	4	1	9.26487
Return on Net Worth	16.288	18.652	28.658	17.312	16.324	
Ranking	5	2	1	3	4	5.8895
Overall Group Ranking	4.3333	3.333	1.666	2.666	3	

- Each company has an average that is less than 1 when it comes to Expenses to Average Total Assets Ratio. The first position is obtained by GICHFL that is 0.01206 followed by GRUH Housing Finance with a ratio of 0.0802. The least ratio is obtained by CANFIN Homes that has a ratio of 0.07713.
- With respect to Cost to Income Ratio, LICHFL secures the first rank with a ratio of 14.86 on an average basis. The least cost to Income Ratio is obtained by DHFL that has a ratio of 25.46.
- In terms of return on Net Worth, GRUH Finance secures the first position with a ratio of 28.658. The least Return on Net Worth Ratio is secured by CANFIN Homes with a ratio of 16.288.
- Based on the results of the 3 parameters we can conclude that GRUH comes at the first position with an average rank of 1.666, followed by LICHFL that has an average rank of 2.666 and DHFL which has got an average rank of 3.333. the least position is secured by CANFIN Homes (4.3333) because of its poor performance in Management Efficiency.

Hypothesis testing

The results of ANOVA-single factor shows that there is significant difference between the HFCs with respect to Management Efficiency. There the null hypothesis is being rejected. The conclusion being that the HFCs are significantly different in terms of Management Efficiency.

4.4 EARNINGS

Earnings Ratio aims to measure the capital levels of the company so that it can maintain a good position in the market. The ratio under earnings can be shown as follows:-

Table 4- Table showing Earnings Ratio

RATIOS	CANFIN	DHFL	GRUH	LIC	GIC	F-Ratio
Net Interest Margin	3.006	2.854	4.21	2.372	3.836	
Rank	3	4	1	5	2	38.7476
Overall Group Ranking	3	4	1	5	2	

- From the above results on an average basis we can see that GRUH Housing Finance secures the first rank with an average Net Interest Margin of 4.21 percent. The least ratio is obtained by LICHFL that is 2.372 percent.
- Based on the overall results we can conclude that GRUH Housing finance has the first rank in terms of Earnings Ratio followed by GICHFL and CANFIN Homes. The last rank is obtained by LICHFL due to its poor performance on the grounds of Earning Ratio.

Hypothesis testing

The results of ANOVA-single factor shows that there is significant difference between the HFCs with respect to Earnings. There the null hypothesis is being rejected. The conclusion being that the HFCs are significantly different in terms of Earnings.

4.5 LIQUIDITY

Liquidity refers to the short term position of the current assets and liabilities of the company.

Table 5- Table showing liquidity ratio

RATIOS	CANFIN	DHFL	GRUH	LIC	GIC	F-Ratio
Current Ratio	9.602	6.152	6.73	5.31	6.77	4.65052
Rank	1	4	3	5	2	
Liquid Ratio	9.602	6.15	6.724	5.304	6.73	4.64923
Ranking	1	4	3	5	2	
Overall Group Ranking	1	4	3	5	2	

- From the above results we can say that in terms of Current Ratio CANFIN Homes has secured the highest position with a ratio of 9.602. The least ratio is secured by LICHFL that has an average current Ratio of 5.31.
- In terms of Liquid Ratio CANFIN Homes acquires the first rank with a ratio of 9.602. The least ratio is secured by LICHFL that has an average current Ratio of 5.304.
- Based on the parameters of Liquidity, we can say that CANFIN Homes has secured the overall first rank (1) followed by GICHFL (2), GRUH Finance (3) and the last position is obtained by LICHFL (5) due to its poor performance on the grounds of Liquidity

Hypothesis testing

The results of ANOVA-single factor shows that there is significant difference between the HFCs with respect to Liquidity. There the null hypothesis is being rejected. The conclusion being that the HFCs are significantly different in terms of Liquidity.

4.6 OVERALL RANKING

The overall ranking is based on the average of the ratios calculated which are Capital Adequacy, Asset Quality, Management Efficiency, Earnings and Liquidity over a period of 5 years that is from 2013-2017. The following table shows the overall ranking based on the average of all the ratios calculated.

Table 6 :- Overall Ranking based on CAMEL parameters

CAMEL PARAMETERS	CANFIN	DHFL	GRUH	LIC	GIC
Capital Adequacy (C)	2.33333	2.33	3.66667	5	1.66667
Asset Quality (A)	4	2	1	5	3
Management (M)	4.3333	3.333	1.666	2.666	3
Earnings (E)	3	4	1	5	2
Liquidity (L)	2	4	3	5	2
Average	3.133327	3.1326	2.066533	4.5332	2.333333
Relative Overall Ranking	4	3	1	5	2

We can clearly see that the first position is obtained by GRUH which has an average overall ranking of 2.066533 under CAMEL Model Analysis followed by GICHFL which secures the second position. The third rank is obtained by DHFL. The last position is secured by LICHFL with an average overall ranking of 4.5332.

5. CONCLUSION

The following study is based on the financial performance analysis and economic value added by the Housing Finance Companies in India. From this study we can say that over the period of 5 years, the Housing Finance Companies have seen reduction in the interest margin ratio. Also, the net worth to total assets ratio has been fluctuating over the years. The capital adequacy is satisfactory as all the companies in the current financial year maintain a ratio above 15% as suggested by RBI. The companies are highly liquid which implies that fund is not effectively utilized. The companies rely mostly on outsider's funds. Also, the study takes into consideration the economic value added by the Housing Finance Companies. It has been observed that the companies have been generating negative EVA over the years and eroding shareholder's value. The positive EVA generated by some companies in some years is not able to compensate for the negative EVA generated in other years respectively. Even though the NBFCs are portrayed as performing well financially, but in reality the economic value is eroding which seems to be a phenomenon which is not understandable.

Scope for further study

The following study can also be extended to commercial banks or a comparative study can be done between commercial banks and NBFCs to both commercial banks in Housing Finance and NBFCs.

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