International Journal of Advanced Research in Commerce, Management & Social Science (IJARCMSS)
ISSN : 2581-7930, Impact Factor : 5.880 , Volume 05, No. 01(II), January - March, 2022, pp 103-107

GROWTH AND PERFORMANCE OF SELECTED HOUSING FINANCE COMPANIES IN INDIA

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ABSTRACT

Housing is one of the primary needs of mankind. The efforts to secure a decent housing have been jointly pursued by individuals as ends, political agents a means, international organisations as directives and economic agencies as market demand everywhere. The major intend of this research paper is thus to analyze the growth and performance of the two listed housing finance companies (HFCs)in India namely Dewan Housing Finance Corporation and CanFin Homes from 1990-91 to 2020 -21. Sample size for this study has been selected based on purposive sampling. The time period selected is substantial to draw an objective analysis of performance and trends outcome. The source of the data was collected from the annual reports of HFCs and tools like SPSS & excel has been used for statistical analysis, grouping and tabulation.

Keywords: *Performance, Housing Finance Companies, National Housing Bank.*

Introduction

Food, clothing and shelter are the three basic necessities of mankind. Among these, housing comprises a very major part of the social and physical environment where an individual grows as a responsible citizen. The importance of housing is universally recognized in creating employment, maintaining health and social stability and preserving decent human life. Nevertheless, housing is a living problem for the million shelterless especially in the developing countries. The housing inadequacy has both qualitative and quantitative aspects. The problem has been worsening in India owing to rapid increase in population. The housing condition of a large percentage of Indian population in towns and villages reflect the lack of availability of houses at affordable rate. It would take decades of saving for a person to be able to afford a house. Urbanization is a worldwide phenomenon and India is no exception. Though India’s rate of urbanization is relatively low, the rise and density of population is much larger. It is an acknowledged fact that the supply of dwelling units has not kept pace with demand which is an increasing fact owing to the growth in population. The performance of the banks and HFCs were studied based on their span of tenure and products.

Review of Literature

Victor Mints (2000) threw a light on the major reasons for the failure of the housing finance system in Russia which was being implemented by the Russian government. They decided that the only chance to establish the housing finance system in Russia is to find investors who will not necessitate return on investments proportionate to their risk.

Alex J. Pollock (2003) made a study on the risk distribution in American Housing Finance. The giant American housing finance sector is as important politically as it is financially, which makes it hard to reform. From the 1980s on, it was unique in the world for its overreliance on the “government-sponsored enterprises” (“GSEs), Fannie Mae and Freddie Mac—privately owned but privileged and with “implicit” government guarantees and which together dominated the market for single family home mortgages in US.

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Gus Freeman and Siji Sudarsanan (2012) evaluated the impact of the financial crisis on the housing finance system of Kuwait. They discovered that even though the financial crisis had major impact on the economy of Kuwait but it had a slight impact on the housing demand.

Pushpa Sangwan and Kanwar Bhan (2012) evaluated and compared the house loan schemes of Public and Private sector banks in India.

Pankaj Chadha and Vanitha Chawla (2013) analysed the financial performance of selected housing finance companies and benchmarked them based on CAMEL parameters. The data was analysed using CAMEL parameters that is Capital Adequacy, Asset Quality, Management, Earnings and Liquidity.

Soniya Mohil (2013) evaluated the performance of housing finance companies by using the financial parameters such as Paid up Capital, Free Reserve, Net Owned Fund, Public Deposits and Outstanding Housing Loans. For analysis of data Sudent's t-test tool was used that displayed significant difference in the mean value of financial parameters of public and private sector HFCS.

Kavitha (2017), in her study analysed the financial performance of listed five HFCs using Camel model. By analysing the performance of the companies, she observed that, the deposits which are mainly taken for 2-5 years are rendered as a loan for long periods. As a result, even the well- established companies are facing the problem of asset liability mismatches.

Research Gap

Various studies have been conducted with regard to HFCs in India as well as in abroad and have briefly examined the areas of housing finance industry in their respective countries. Majority of the studies related to housing finance in India are based on the marketing effectiveness, customer perceptions regarding home loan, the extent of performance of bank and other financial institutions in housing loan sector. The present study focuses on the financial performance of housing finance companies based on certain parameters which were so far not done by the previous researchers.

An Overview of Housing Finance Industry in India

India is powering ahead as the fastest growing economy and is urbanising at a rapid pace. It witnessed a major economic change in the year 2016 and 2017 with the introduction of demonetisation and Goods and Service Tax (GST) Bill respectively. Improved current balance, lower inflation and notable reduction in the fiscal deficit to Gross Domestic Product (GDP) ratio, reinstated India as the fastest growing economy. The housing and real estate market saw an important event as the Real Estate (Regulation and Development) Act, 2016 (RERA) came into force on May 1, 2017 which enabled a greater sheerness and answerability on the part of developers and an assurance to home buyers. Housing, as an important sector of an economy which has interlink ages with 269 other industries have a direct impact on employment generation, GDP growth and consumption pattern in the economy. The housing finance market is dominated by commercial banks, Housing finance companies (HFCs), co-operative banks, Micro finance institutions (MFI), and Non- Government Organisations (NGO). While the RBI regulates commercial and co-operative banks, HFCs are regulated by NHB.

Housing Finance Industry in India

The housing finance industry has undergone tremendous change in its structure from its formation stage. The housing revolution in India can be studied with five phases.

Phases of Housing Finance Industry in India

Phase I	Before 1970	Government Domination
Phase II	1970-80	HUDCO and HDFC establishment
Phase III	1980-90	Establishment of NHB
Phase IV	1990-2000	Liberalisation of Interest rate
Phase V	2000 to Present	High Growth

National Housing Bank (NHB)

National Housing Bank is a wholly owned subsidiary of Reserve Bank of India (RBI), set up on 9th July 1988 under the National Housing Bank Act, 1987. NHB is a high point financial institution for housing. It has been instituted with an objective to function as a principal agency in helping housing finance institutions both at local and regional levels and to provide financial and other support, supplementary to such institutions and for matters connected therewith. It performs multidimensional activities such as regulation and supervision, financing, promotion and development. In addition to this, it is entrusted with the responsibility of issuing Certificate of registration (CoR) to HFCs for commencement and carrying on the business of housing finance in India. It guarantees for the loan taken by HFCs from the open market. A HFCs cannot carry on housing finance activities without obtaining CoR, as it will be an offence punishable under the provision of the NHB Act, 1987. For commencing the housing finance business, a HFCs has to obtain a CoR and a minimum net owned fund of Rs. 10 crores. NHB grants loans and advances to HFCs, where the security for the advances are the asset that are created through the advance. Home finance is the provision of finance to such institutions which are involved in housing finance. NHB purchases stock share, bonds and other securities of companies involved in housing finance. It draws, accepts, discounts and re-discounts bill of exchange for housing finance. It can buy or sell or deal in mortgage of immovable properties belonging to HFIs. It may write off or set aside loans belonging to HFCs. NHB promote mutual funds, mortgage banks, undertake house mortgage insurance and provides research and survey on construction activities. It formulates various schemes for extension of housing credit and plays an important role for using these schemes for EWS as single tenant and radial houses. It plays the role of Central Nodal Agency (CNA) in implementation of government schemes for housing to the targeted segments.

Profile of the Selected Housing Finance Companies (HFCS) in India

Banks and HFCs are an important player in the housing finance industry. These sectors have always been revived by the regulators and policy makers to implement market-based solutions with due regard to affordability and constancy. Both banks and HFCs lend loans and make investment, however there are few differences among both of these. HFCs cannot accept demand deposits, they cannot issue cheques drawn on itself and are not part of the payment and settlement system. HFCs are not provided with deposit insurance facility to its depositors from Deposit Insurance and Credit Guarantee Corporation (DICGC) which is in case of banks.

S No	Name Of the HFCs	Market Cap (Rs. Crore)	
		2012	2021
1.	Housing Development Finance Corporation Ltd (HDFC)	120,009.69	435,097.24
2.	LIC Housing Finance (LICHFL)	14,294.58	18,663.64
3.	Dewan Housing (DEWAN)	2,477.82	524.08
4.	Can Fin Homes Limited (CANFIN)	340.77	7,630.40

Source: Market Cap data of HFCs from moneycontrol.com

Can Fin Homes Ltd.

Can Fin Homes Ltd was incorporated on 29th October, 1987 with its first branch inaugurated at Bangalore on 26th December, 1987. It was the first Housing Finance Company started by the nationalized bank that is Canara bank in India. Its main aim is to encourage home proprietorship, boosting the housing stock in the country and changing the lives of Indian households by easy approach to home finance. CFHL has crossed a market capitalization of more than Rs.5,000 crore as on 31st March, 2017. Its loan approval during the year 2016-17 was Rs. 5,451 crores with a loan disbursement of Rs.4,792 crore. There has been a steady growth on loan book size of Rs.13,313 crore which increased by 25% during the previous year. The Assets under Management (AUM) of the company stood at Rs.13,458 crore during the year 2016-17. Capital Adequacy Ratio (CAR) and Net Interest Margin (NIM) stood at 18.50% and 3.54% respectively during the year 2016-17.

Canfin Homes Ltd Canfin Homes Ltd. is a housing finance company supported by NHB on a regional level established under the Indian Companies Act in the International Year of Shelter for homeless, 1987 in association with UTI, HDFC, ICICI and Canara Bank Financial Services Ltd. The main objective is to lend money to individuals, cooperatives and corporate bodies for acquisition or construction of residential units only. (Source: Annual Report CFHL)

Dewan Housing Finance Corporation Ltd.

Dewan Housing Finance Corporation Ltd. was incorporated on 11th April 1984 by Mr.Rajesh Kumar Wadhwan. It is the second private HFC to be established and among 50 biggest financial companies in India. Its vision is to transform the lives of Indian households by allowing easy access to home ownership. The AUM of the company stood at Rs.83,560 crore during the year 2016-17 with a year to year growth of 20%. Due to the decline of cost of funds the NIM of the company stood at 2.99% in the FY 2017. The CAR of the company was 19.12% which was above the minimum regulatory requirement of NHB at 12% during the FY 2017.Dewan Housing Finance Corporation Ltd (DHFL) DHFL was incorporated in 1984 for providing home loans to middle and lower income group. DHEL is honoured to be one of the four corporations to participate in the pilot securitization project launched by National Housing Bank.

The Purpose of Analysis

The purpose of analysis consists of diagnosing the information contained in the financial statements so as to judge the profitability and soundness of a firm. It enquires into factors such as trends in the earnings of a firm, its capacity to meet obligations, and tide over debt collection period, sufficiency of assets, investments and capital structure. In this section, a comparison of financial performance of DHFL is made with that of CANFIN Homes in terms of profitability, solvency, liquidity and capital structure.

The study is based on secondary data. The present study covers a period of ten years, from 2011 to 2012. Out of 23 number of life insurance companies operating in India, two housing finance companies, namely, CANFIN and DHFL. In this paper, an attempt has been made to study the operational and financial performance of selected housing finance companies. The data collected from annual reports of the two housing finance companies has been tabulated.

Data Analysis and Discussion:

The chapter deals with the financial Performance of selected Life insurance company's i.e. three Private Limited companies of India, to evaluate financial Performance of each company under study the ratios have been observed for the period of seven years. The purpose of this analysis is to know the financial Performance of each company in congruence with the objective of the study. The ratios calculated for the purpose are discussed as below:

- Net Profit Margin
- Return on Assets
- Return on Net worth
- Earning per Share
- Capital Adequacy Ratio

Table 1: Ratios

S No	Ratios	Net Profit Margin %		Return on Assets %		Return on Net Worth %		Earning per Share Rs	
	Year	**CANFIN**	**DHFL**	**CANFIN**	**DHFL**	**CANFIN**	**DHFL**	**CANFIN**	**DHFL**
1.	2012	15.29	12.4	1.61	1.42	12.59	15.07	21.36	28.97
2.	2013	13.78	11.08	1.33	1.26	13.8	13.96	26.42	38.47
3.	2014	13.1	10.64	1.28	1.21	16.73	14.8	36.96	41.23
4.	2015	10.56	10.39	1.03	1.14	11.17	13.4	41.45	47.82
5.	2016	14.5	9.97	1.45	1.07	17.89	14.53	59.02	25
6.	2017	17.38	-171.6	1.75	-21.38	21.85	36.22	17.68	95.76
7.	2018	18.85	-146.01	1.81	-15.85	19.24	13.43	21.49	39.55
8.	2019	17.18	-8.04	1.58	-0.97	16.65	-12.78	22.29	-33.02
9.	2020	18.52	11.42	1.78	1.16	17.49	0	28.25	-433.76
10.	2021	22.59	32.72	2.06	3.13	17.47	0	34.25	-479.61
11.	Mean	16.1750	-22.7030	1.5680	-2.7810	16.4880	10.8630	30.9170	-62.9590
12.	Median	16.2350	10.5150	1.5950	1.1500	17.1000	13.6950	27.3350	33.7200
13.	Std. Deviation	3.44122	72.62840	.30250	8.50218	3.18057	12.94107	12.49681	210.10328
14.	Range	12.03	204.32	1.03	24.51	10.68	49.00	41.34	575.37
15.	Minimum	10.56	-171.60	1.03	-21.38	11.17	-12.78	17.68	-479.61
16.	Maximum	22.59	32.72	2.06	3.13	21.85	36.22	59.02	95.76

(Source: Annual Reports Dewan Housing Finance Corporation Ltd.)
(Source: Annual Reports CANFIN Homes Ltd.)

Summary of Findings

- The average ratio of Return on Assets is the higher in case of CANFIN HO MES. The values of standard deviation imply that the performance of CANFIN is the most consistent while the performance of DHFL is the least consistent out of the two companies selected for the study.
- The average ratio of Earnings per share is the higher in case of CANFIN which is followed by DHFL. The values of standard deviation imply that the performance of CANFIN is the most consistent while the performance of DHFL is the least consistent.

- The average ratio of Net Profit Margin is the higher in case of CANFIN which is followed by DHFL. The values of standard deviation imply that the performance of CANFIN is the most consistent while the performance of DHFL is the least consistent. companies selected for the study.
- The average ratio of Return on Net Worth is the higher in case of CANFIN which is followed by DHFL. The values of standard deviation imply that the performance of CANFIN is the most consistent while the performance of DHFL is the least consistent out of the two companies selected for the study.

Conclusion

In order to be profitable, HFCs have to maintain low-cost and long-term sources of funds which will enable them to avoid discrepancy problems and also provide higher profitability in operations. Performance of companies can affect the economy as a whole and therefore it requires empirical analysis to judge the financial performance. For measuring the financial performance financial ratio such as profitability ratio, solvency ratio and liquidity ratio need to be calculated. The study revealed that in terms of the performance CANFIN Housing Finance outperforms the DHFL.

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