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A COMPARATIVE STUDY BETWEEN PUBLIC AND PRIVATE HOUSING FINANCE COMPANIES (HFCs) IN INDIA

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Abstract

A house is a basic necessity, a symbol of security, and a measure of socioeconomic status and pride. In India the policy reforms in the housing sector have led to an increase in the number of banking and non-banking financial institutions providing different types of housing finance services. In this regard, the public (HFCs) and private HFCs are operating at different levels to provide housing finances to all the sections of society. The present study is an attempt to comparatively analyze the financial performance of five public HFCs and five private HFCs in India for the period of 2009-2018. The collected data were analyzed using descriptive statistics in the form of means and a student t-test was conducted to compare the performance of public and private HFCs with regard to various financial ratios. The result showed that profitability, and operating ratios significantly influenced the financial performance of public and private HFCs. The present study calls for regulatory measures and policy reforms to improve the profitability and operating efficiency of both public and private HFCs. This study has an implication in improving the housing finance sector from the perspective of Indian HFCs.

Keywords: *HFCs (Housing Finance Companies), Profitability Ratios, Operating Ratios.*

Introduction

Housing Finance Companies" (HFC's) form a major component of the mortgage lending institutions in India and are specialized institutions set up for lending in housing. Housing finance industry grew phenomenally, registering exponential and sustained growth at 20% CAGR over the last 10 years driven by supportive fiscal, monetary and legal policies. Banks and Housing Finance Companies (HFCs), are the major players in the housing finance market in India. HFCs are non-banking financial organizations registered with the National Housing Bank (NHB) established in 1988, under the NHB Act, 1987. HFCs accounted for almost more than 40% of the total housing finance industry as of March 2017. The total housing loan portfolio was at a minimal of Rs 30,000 crores in 1997-1998 and grew to over Rs.14.4 lakh Crores by 2017 (ICRA). Housing Development Finance Corporation (HDFC) is the

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first and country's largest private sector housing finance company set up in 1977. Keeping in view of the transformation and liberalization of the housing finance sector in India, and its increasing role in the financial inclusion of recent times, it is imperative that the performance of the HFC's have to be studied, in respect to profit earning capacity.

It is observed that there is a lack of empirical studies on the performance and profitability of public and private HFCs in India. In view of this, the present study is a relevant effort to assess and compare the performance of the public and private HFCs . The study will help to formulate the strategies to improve the service in both the sector to foster the long term existence of HFCs. Thus, in short, it can be comprehended that every now and then the monitoring and evaluation of different aspects of HFCs operating in India is crucial.

Research Objectives

- To compare and evaluate the financial performance of public and private HFCs during a period of ten years from 2008-09 to 2017-18.
- To compare and evaluate the operational performance of public and private HFCs during a period of ten years from 2008-09 to 2017-18.

Methodology of Study

- **Sampling Design**

In 2018, as on March 31st, there are 91 specialized HFC's in the country (73 being public limited companies and 18 being private limited companies). Out of these, 12 HFCs were approved to accept deposits, under section 29A of the NHB Act, 1987. Out of 12 HFC's, 10 HFCs were selected, and were further categorized into public HFCs and private HFCs, each category containing five companies. The five select public sector HFCs are Housing Urban Development Corporation Ltd.(HUDCO), LIC Housing Finance Limited (LICHFL), Can Fin Homes limited (CanFinHFL), PNB housing finance Ltd(PNBHFL) and GIC Housing Finance Ltd (GIC HFL), and five select private sector HFCs are Housing development finance Corporation Ltd (HDFC) Dewan Housing finance Corporation Ltd (DHFL), ICICI Housing Finance (ICICIHFL), GRUH Ltd and BNP-SUNDARAM Housing finance Ltd .

- **Scope of the Study**

The present research study covers a decade of a period of ten years, i.e., between 2008-09 and 2017-18. The select public and select private HFC's constituted 50% of the housing loans outstanding.

- **Analytical Tools**

Financial Tools

To achieve the above objectives, the researcher makes an attempt to study the financial and operational performance of the public and private HFC's. The operational performance has been analyzed using two operating ratios viz Operating Expense ratio and Cost of Debt Ratio and the financial performance has been analyzed using five profitability ratios of Return on Assets, Return on Capital Employed, and Return on Equity, Operating Profit Margin and Net Profit Margin.

Statistical Tools

Simple statistical tools like mean and standard deviation have been used. Additional quantitative tools such as *t*-test have been used to test the statistical significant difference in the financial parameters to determine the overall trend and performance between the private and public HFCs. For the statistical analysis of data, Statistical Package of Social Sciences (SPSS) Version 24 was used. After the data is analyzed statistically, the results have been interpreted.

- **Research Hypothesis**

For achieving the above, the following hypothesis has been formulated:

Null Hypothesis (H_0): There is no significant difference between public and private HFCs with regard to their profitability ratios.

Alternative Hypothesis (H_1): There is a significant difference between public and private HFCs with regard to their profitability ratios.

Null Hypothesis (H_0): There is no significant difference between public and private HFCs with regard to their operating ratios.

Alternative Hypothesis (H_2): There is a significant difference between public and private HFCs with regard to their operating ratios.

- **Profitability Ratios**

The profitability refers to the returns generated, i.e., the company's earnings or profits over the expenses or on the assets. Profitability ratios make a holistic assessment of financial performance of the business entity, as they measure and indicate the power and the ability of a concern in the earning power of profits. In this study, the profitability of public HFCs and private sector HFCs have been measured by means of a few financial ratios, namely, Return on Assets (ROA), Return on Capital Employed (ROCE), Return on Equity,(ROE) Operational Profit Margin(OPM) and Net Profit Margin (NPM).

Hypothesis Testing-Findings

H_1: There is a significant difference between public and private HFCs with regard to their profitability ratios.

According to the Table 4.5, t-test revealed a significant difference with respect to RoA ($t=3.184$; $p<0.05$), ROCE ($t=3.746$; $p<0.05$) and ROE ($t=2.781$; $p<0.05$). Therefore, the null hypothesis was rejected and alternate hypothesis which stated that there is a significant difference between public and private HFCs with regard to ROA, ROCE, and ROE is accepted.

As examined in Table 4.5, it can be inferred that, the mean value of ROA for the whole period of study in the case of private HFCs is 2.05; whereas, the same for public HFCs stood at 1.70, indicating that the assets of private HFCs generate better returns compared to their public sector counterparts. The mean value of the ROCE for private HFCs is 13.05; whereas, the same for public HFCs is 11.17, indicating that the capital employed by private HFCs yields better returns compared to their public sector counterparts. The mean value of the ROE for

private HFCs is 0.188 (18.81%); whereas, the same for public HFCs is 0.156, (15.57%) indicating that the shareholders' capital of private HFCs yields better returns compared to the public HFCs. Thus overall the data reveals that private HFCs have fared better returns on capital investment when compared with the public HFCs.

However when it has come to two remaining ratios, no variations i.e statistical difference between private and public HFCs in terms of operating profit margin(OPM) ($t=0.675$; $p>0.05$) and net profit margin (NPM) ($t=1.534$; $p>0.05$) was observed. Therefore, the null hypothesis is accepted and the alternate hypothesis that there is a significant difference between public and private HFCs with regard to their operating ratios is rejected. As indicated in Table 1, the mean value of the operating profit margin for private HFCs is 27.07; whereas for public HFCs it is 26.07, which are more are less the same, indicating that private HFCs and public HFCs are almost on par with each other, in terms of their operating profits. This indicates that both public and private HFCs had similar control on the cost as well as the loss. In view of the above parameters, with regard to the profitability ratio the proposed hypothesis was partially accepted.

Table 1: Differences in the Profitability Ratio of Private and Public HFCs

	Group	N	Mean	Std. Deviation	t	Sig.
ROA	Private	50	2.054	0.644	3.184	0.002
	Public	50	1.699	0.455		
ROCE	Private	50	13.05	2.981	3.746	0.000
	Public	50	11.166	1.937		
ROE	Private	50	0.188	0.067	2.781	0.007
	Public	50	0.156	0.046		
Operating Profit Margin	Private	50	27.065	6.147	0.675	0.502
	Public	50	26.074	8.381		
Net Profit Margin	Private	50	18.513	5.892	1.534	0.129
	Public	50	16.96	4.065		

- **Operating Ratios**

In a business context, operating efficiency refers to the extent to which the resources of an organization are utilized optimally. Operating ratios measure operating performance and the optimal utilization of resources to generate a favorable income. In this study, operating expense ratio and the cost of debt ratio are applied to evaluate the operating efficiency of public and private HFCs.

Hypothesis Testing-Findings

H_2: There is a significant difference between public and private HFCs with regard to their operating ratios.

Table 2: Differences in the Operating Ratio of Private and Public HFCs

	Group	N	Mean	Std. Deviation	t	Sig.
Operating Expenses Ratio	Private	50	9.282	5.968	3.467	0.001
	Public	50	6.235	1.731		
Cost of Debt Ratio	Private	50	11.587	3.368	3.759	0.000
	Public	50	9.55	1.827		

From the table 2 it can be inferred that the applied t-test revealed a significant difference in the operating expense ratio ($t=3.467$; $p<0.05$) and cost of debt ratio ($t=3.759$; $p<0.05$) between private and public HFCs. Therefore, the null hypothesis was rejected and alternate hypothesis which stated that there is a significant difference between public and private HFCs with regard to operating ratios is accepted.

In Table 2 the mean value of the operating expenses ratio for private HFCs is 9.28; whereas, the same for public HFCs is 6.24, implying that private and public HFCs are different and private HFCs incur more operating expenses in relation to their revenues. Also as indicated in the table, the mean value of the cost of debt Ratio for private HFCs is 11.59; whereas, the same for public HFCs is 9.55, which indicates that private and public HFCs are different and private HFCs spend more expenses on their debts compared to their public sector counterparts. The data suggest that private HFCs incur more operating costs in relation to their income and have higher debts.

Findings

From the above analysis it can be observed that Private HFCs performed better than their public counterparts ensuring higher sustainability to generate profits and effective utilization of funds.

They have been better performers than Public HFCs in spite of their higher operating costs and cost of borrowings. Contrary to the profitability ratios, public HFCs performed better than private HFCs with regard to the the operating expenses ratio and the cost of debt ratio , being lower indicating that they managed to control their operating expenses. Hence forth it is suggested that while Private HFCs should focus on controlling their operating expenses, Public HFCs should focus on better and effective utisation of financial resources.

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