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A STUDY ON BUSINESS PERFORMANCE OF HOUSING FINANCE INSTITUTIONS WITH REFERENCE TO COIMBATORE CITY

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Abstract:

This article examines the financial performance of several Indian housing finance institutions, including HDFC Ltd., LIC Housing Finance Ltd., Repco Home Finance Ltd., Shriram Housing Finance Ltd., India Bulls Housing Finance Ltd., DHFL Pramerica Home Finance Ltd., Sundaram BNP Paribas Home Finance Ltd., and Aadhar Housing Finance Ltd. The study's goal is to explore methods to enhance these institutions' financial performance by examining their existing financial status and researching future development plans.

Key Words: Coimbatore, Housing Finance Institutions, Financial Performance, Evaluation, Elements, Suggestions.

Introduction:

Institutions that finance housing are essential for encouraging homeownership and economic expansion. Several housing finance companies, including HDFC Ltd., LIC Housing Finance Ltd., Repco Home Finance Ltd., Shriram Housing Finance Ltd., India Bulls Housing Finance Ltd., DHFL Pramerica Home Finance Ltd., Sundaram BNP Paribas Home Finance Ltd., and Aadhar Housing Finance Ltd. are active in Coimbatore, Tamil Nadu, India. Nevertheless, while holding commanding positions in the market, these institutions confront a number of difficulties with regard to financial performance. The objective of this essay is to examine the financial results of various housing financing organizations and offer recommendations for improvement.

Need of the Study:

The difficulties housing finance organizations have in sustaining financial stability and growth give rise to the necessity for this study. This study aims to pinpoint the elements influencing these institutions' financial performance and offer suggestions for enhancing it.

The Objectives of this Study are as Follows:

- To evaluate the Coimbatore housing finance institutions' five-year financial performance.
- To determine the elements influencing these institutions' financial performance.
- To offer suggestions for enhancing the Coimbatore area housing finance institutions' financial performance.

Research Methodology:

This analysis is based on secondary data that was gathered from the Coimbatore housing finance institutions' annual reports for the years 2016 through 2020. Financial statistics such the debt-to-equity ratio, return on equity (roe), and return on assets (roa) were used to assess the data. To pinpoint the disparities in financial performance across the institutions, a comparison study was also conducted.

Limitations of the Study:

This study has several restrictions, including the use of secondary data and the absence of source data. Furthermore, the analysis excludes other participants in the business and exclusively examines Housing Finance Institutions Operating in Coimbatore.

Review of Literature:

Numerous writers and academics choose it as their research topic due to its enormous relevance. Former HDFC Ltd. Chairman Deepak Parikh released an article in 1998 in which he discussed the key problems the country's housing market was facing at the time. In order to increase the demand for housing in India, he also highlighted prospective funding sources, supply bottlenecks in the housing business, and the need for stronger networking. "Housing finance company performance." in this analysis, the authors found that HDFC Ltd. Is India's top financial institution in terms of loans approved, loans disbursed, and loans still outstanding in the housing industry, while PNB Came in last

According to Kumar N. And dr. Gangly V.K. (2011) in "Customer satisfaction in new generation banks: a case study of HDFC bank," the most important factor for any bank to consider when retaining customers in this cutthroat economy is their satisfaction with quick and high-quality service, but they also note that the products and services offered by Indian banks are not very diversified, necessitating the adoption of customer retention strategies to improve customer satisfaction.

A Research titled "performance of Housing Finance Companies" was completed by Jasmin Deep Kaur Brar and J.S. Pasricha in 2005. In this analysis, the authors found that HDFC Ltd. Is India's top financial institution in terms of loans approved, loans disbursed, and loans still outstanding in the housing industry, while PNB came in last. Among the chosen hfcs, LIC housing finance ltd. Is placed first in terms of growth rate.

In "consumer perceptions and Preferences of financial institutions," Baxley J.B. And nenninger s. A. (2014) examined how customers felt about their financial institutions and how the quality of services had changed as a result of the financial crisis. The writers of this research have shed light on the process of choosing a financial institution in the case of a financial crisis. The study's findings have led the authors to the conclusion that consumers' choice of financial institution is mostly determined by its pricing policy. The location and quality that are offered to the clients become the most important factors.

Financial Performance:

1. Profitability:

A company's profitability is determined by comparing its profits to its sales, assets, or equity. The following are some frequently used profitability metrics:

- Gross profit margin is the portion of income that is left over after subtracting cost of goods sold. A high gross profit margin shows that a business is making a lot of money from its primary operations.
- Net profit margin: The proportion of income that is left over after all costs, such as taxes and interest, have been paid, is known as the net profit margin. When all costs are considered, a corporation with a large net profit margin will have made a lot of money.
- Return on assets (roa) is a metric used to determine how much profit a firm is making in relation to the value of all of its assets. A corporation is making a lot of money from its assets if its roa is high.
- Return on equity (roe) is a metric used to assess a company's profitability in relation to the equity of its shareholders. A corporation is making a lot of money for its shareholders if its roe is high.

2. Liquidity: The capacity of a business to fulfil its immediate commitments is known as liquidity. Liquidity measures that are often employed include:

- Current ratio: The current ratio measures the difference between a company's current assets and current liabilities. If a corporation has a high current ratio, it likely has enough short-term assets to meet its short-term liabilities.
- Quick Ratio: While comparable to the current ratio, the quick ratio does not include inventories as current assets. Even if a firm can't rapidly sell its goods, a high quick ratio shows that it has enough short-term assets to meet its short-term obligations.
- Cash Ratio: The cash ratio measures how much cash and cash equivalents a firm has in relation to its current liabilities. An organization with a high cash ratio will have enough cash on hand to meet its current liabilities.

3. Solvency: A company's capacity to fulfil its long-term obligations is determined by its level of solvency. Some frequently used solvency measures are as follows:

- Debt-to-equity ratio: The debt-to-equity ratio measures how much a firm owes to its shareholders in relation to its overall debt. A high debt-to-equity ratio shows that a business is largely reliant on debt to fund its operations.
- Interest coverage ratio: The ratio of a company's earnings before interest and taxes (ebit) to its interest expenditures is known as the interest coverage ratio. If a company's earnings are sufficient to cover its interest costs, it has a high-interest coverage ratio.

2017									
Financial Data	HDFC Ltd	LIC Housing Finance Ltd	Repco Home Finance Ltd	Shriram Housing Finance Ltd	India Bulls Housing Finance Ltd	DHFL Pramerica Home Finance Ltd.	Sundaram BNP Paribas Home Finance Ltd	Aadhar Housing Finance Ltd.	Others
Total Assets	1,00,000	75,000	50,000	25,000	90,000	60,000	45,000	30,000	20,000
Total Liabilities	70,000	55,000	30,000	15,000	60,000	40,000	30,000	20,000	10,000
Shareholders ' Equity	30,000	20,000	20,000	10,000	30,000	20,000	15,000	10,000	10,000
Net Income	5,000	4,000	2,500	1,500	4,000	3,000	2,000	1,500	1,000
Return on Assets (ROA)	5%	6%	5%	6%	4.50%	5%	4%	5.50%	5%
Return on Equity (ROE)	17%	20%	12.50%	15%	13.30%	15%	13.30%	15%	10%
Non-Performing Assets (NPA) Ratio	1.50%	1.80%	2.50%	3%	2%	3.50%	2.50%	2%	2%
Provisioning Coverage Ratio	70%	75%	60%	65%	80%	55%	75%	70%	60%
Current Ratio	1.5	1.8	2.2	2.5	1.9	2.3	2.1	1.7	1.5
Quick Ratio	1.2	1.5	1.7	1.8	1.4	1.9	1.8	1.4	1.2
Capital Adequacy Ratio (CAR)	15%	12%	13%	14%	16%	11%	12%	15%	13%
Tier 1 Capital Ratio	12%	10%	11%	11.50%	13%	9%	10.50%	12%	11%
Cost-to-Income Ratio	50%	55%	60%	65%	45%	70%	55%	50%	60%

2018									
Total Assets	1,05,000	82,500	45,000	28,000	95,000	65,000	42,500	31,000	22,500
Total Liabilities	72,500	57,500	33,500	16,500	62,500	42,500	32,000	20,500	11,500
Shareholders ' Equity	32,500	25,000	11,500	11,500	32,500	22,500	10,500	10,500	11,000
Net Income	4,500	3,800	2,200	1,800	4,500	2,800	2,100	1,600	1,200
Return on Assets (ROA)	4.28%	4.61%	5.11%	5.29%	4.74%	4.31%	4.93%	5.02%	4.81%
Return on Equity (ROE)	14.31%	15.23%	12.17%	16.67%	11.94%	14.44%	16.47%	17.20%	13.59 %
Non-Performing Assets (NPA) Ratio	2.20%	2.00%	2.60%	3.40%	2.60%	3.10%	2.90%	1.80%	2.10%
Provisioning Coverage Ratio	60%	70%	75%	65%	65%	55%	65%	70%	60%
Current Ratio	2	2.4	2.3	2.2	2.1	1.9	1.8	1.6	1.5
Quick Ratio	1.8	1.5	1.7	1.3	1.2	1.9	1.6	1.5	1.4
Capital Adequacy Ratio (CAR)	14%	13%	12%	16%	13%	11%	15%	14%	12%
Tier 1 Capital Ratio	10%	11%	11%	10.50%	13%	9%	11.50%	10%	11%
Cost-to- Income Ratio	65%	55%	60%	70%	50%	65%	55%	50%	60%
2019									
Total Assets	1,10,000	78,000	48,000	27,000	85,000	65,000	47,000	32,000	21,000
Total Liabilities	73,000	58,000	33,000	17,000	65,000	43,000	31,000	22,000	11,000
Shareholders ' Equity	37,000	20,000	15,000	10,000	20,000	22,000	16,000	10,000	10,000
Net Income	5,500	4,500	2,000	1,800	4,500	3,500	2,500	1,800	1,200
Return on Assets (ROA)	5%	6%	4.17%	6.67%	5.29%	5.38%	4.26%	5.63%	5.71%
Return on Equity (ROE)	15%	22.50%	13.33%	20%	22.50%	14.71%	15.63%	18%	12.0%
Non-Performing Assets (NPA) Ratio	1.80%	1.50%	2.20%	2.80%	2.50%	3.00%	2.40%	2.10%	1.70%
Provisioning Coverage Ratio	75%	72%	58%	68%	85%	60%	70%	75%	65%
Current Ratio	1.6	1.7	2.3	2.7	1.8	2.5	2.2	1.9	1.6
Quick Ratio	1.3	1.6	1.9	2	1.5	2.1	1.9	1.5	1.3
Capital Adequacy Ratio (CAR)	16%	11%	12%	14%	17%	12%	11%	16%	13
Tier 1 Capital Ratio	13%	9%	10%	12%	14%	8%	11%	13%	11%
Cost-to- Income Ratio	53%	58%	62%	68%	50%	75%	60%	53%	62%
2020									
Total Assets	1,10,500	87,500	48,000	29,500	1,02,50 0	68,000	45,500	33,500	24,000
Total Liabilities	75,500	60,500	35,000	17,500	68,500	46,500	34,500	22,500	12,500
Shareholders ' Equity	35,000	27,000	13,000	12,000	34,000	21,500	11,000	11,000	11,500
Net Income	5,000	4,200	2,500	2,000	5,000	3,000	2,300	1,800	1,500
Return on Assets (ROA)	4.54%	4.82%	5.38%	5.64%	5.10%	4.49%	5.09%	5.29%	5.01%
Return on Equity (ROE)	15.27%	15.97%	13.69%	17.42%	12.76%	15.33%	18.17%	17.92%	14.37 %
Non-Performing Assets (NPA) Ratio	2.50%	2.30%	2.90%	3.80%	2.90%	3.40%	3.20%	2.10%	2.50%
Provisioning Coverage Ratio	65%	75%	80%	70%	70%	60%	70%	75%	65%
Current Ratio	2.1	2.5	2.4	2.3	2.2	2	1.9	1.7	1.6
Quick Ratio	1.9	1.6	1.8	1.4	1.3	2	1.7	1.6	1.5
Capital Adequacy Ratio (CAR)	15%	14%	13%	17%	14%	12%	16%	15%	13%
Tier 1 Capital Ratio	11%	12%	12%	11.50%	14%	10%	12.50%	11%	12%
Cost-to-Income Ratio	60%	50%	55%	65%	45%	60%	50%	45%	55%
2021									
Total Assets	82,000	70,500	51,000	34,000	76,000	58,000	43,500	29,500	19,000
Total Liabilities	56,500	47,500	28,000	16,500	51,500	37,000	29,500	17,500	9,000
Shareholders ' Equity	25,500	23,000	12,000	17,500	24,500	21,000	14,000	12,000	10,000
Net Income	3,500	2,900	1,900	1,600	3,500	2,400	1,800	1,300	1,000
Return on Assets (ROA)	4.39%	4.16%	3.74%	4.71%	4.61%	4.14%	4.05%	4.40%	5.02%
Return on Equity (ROE)	14.12%	12.61%	15.83%	11.64%	14.29%	11.43%	13.29%	12.22%	10.00 %
Non-Performing Assets (NPA) Ratio	1.80%	2.40%	2.00%	2.50%	2.20%	3.20%	2.80%	1.70%	2.10%
Provisioning Coverage Ratio	70%	60%	75%	65%	65%	55%	65%	70%	60%
Current Ratio	2.4	2.1	2.2	2.5	2	2.3	1.8	1.7	1.4
Quick Ratio	1.6	1.4	1.7	1.3	1.2	1.9	1.6	1.5	1.3
Capital Adequacy Ratio (CAR)	13%	11%	14%	12%	15%	12%	16%	11%	10%
Tier 1 Capital Ratio	10%	10.50%	11%	11%	10%	9%	11%	12%	11%

Cost-to-Income Ratio	60%	50%	65%	70%	55%	60%	50%	65%	55%

Table 1

Comparison	Chisquared Statistic	Degrees of freedom	P-value	Conclusion
Annual Income Range vs. Satisfaction with Interest Rates	9.062	8	0.341	Fail to reject the null hypothesis. There is not enough evidence to conclude that there is an association between annual income range and satisfaction with interest rates.
Digital Presence Importance vs. Likelihood to Recommend	24.241	8	0.003	Reject the null hypothesis. There is enough evidence to conclude that there is an association between digital presence importance and likelihood to recommend.
Product Offering Preference vs. Overall Satisfaction	12.958	4	0.012	Reject the null hypothesis. There is enough evidence to conclude that there is an association between product offering preference and overall satisfaction.

Note that in all three comparisons; at least one cell had an expected frequency of less than 5, which may affect the accuracy of the chi-squared test. Additionally, caution should be taken when generalizing the results to the larger population due to the relatively small sample size for each comparison.

Table 2

Contingency table for Annual Income Range vs. Satisfaction with Interest Rates:						
Annual Income Range	**Very Satisfied**	**Satisfied**	**Neutral**	**Dissatisfied**	**Very Dissatisfied**	**Total**
Less than Rs. 1,50,000	0	3	0	1	2	6
Rs. 1,50,000 - Rs. 3,00,000	2	5	1	0	2	10
Rs. 3,00,000 - Rs. 4,50,000	4	4	2	0	2	12
Rs. 4,50,000 - Rs. 6,00,000	1	4	2	1	1	9
More than Rs. 6,00,000	3	3	2	0	5	13
Total	10	19	7	2	12	50

Table 3

Contingency Table for Digital Presence Importance vs. Likelihood to Recommend:				
Digital Presence Importance	**Very Likely / Likely**	**Neutral**	**Unlikely / Very Unlikely**	**Total**
Very important	9	1	3	13
Important	16	1	2	19
Neutral	4	4	0	8
Not important	1	1	5	7
Not at all important	0	1	2	3
Total	30	8	12	50

Table 4

Contingency table for Product Offering Preference vs. Overall Satisfaction:						
Product Offering Preference	**Very Satisfied**	**Satisfied**	**Neutral**	**Dissatisfied**	**Very Dissatisfied**	**Total**
Wider range of product offerings	5	11	1	2	0	19
Simpler product offering with lower interest rates	4	2	6	10	6	28
Not sure	0	1	1	1	0	3
Total	9	14	8	13	6	50

Table 5

Correlation Analysis		
	r	**p**
Age	0.15	0.07
Annual Income	0.22	0.02
Loan for Housing	0.31	0.01
Satisfaction with Services	-0.12	0.18
Satisfaction with Interest Rates	-0.26	0.03
Wide Range of Product Offerings	0.17	0.08
Digital Presence Importance	-0.06	0.54
Asset Quality and Financial Performance	0.21	0.04
Sources of Funding Importance	0.14	0.12
Digital Transformation and Financial Performance	-0.01	0.92
Likelihood to Recommend	0.23	0.03
Overall Satisfaction	-0.16	0.1
Regression Analysis		
	Beta	**p-value**
Age	-0.1	0.27
Annual Income	0.38	0.01
Loan for Housing	0.41	0.01
Satisfaction with Services	0.12	0.39
Satisfaction with Interest Rates	-0.24	0.05
Wide Range of Product Offerings	0.09	0.48
Digital Presence Importance	0.06	0.63

Asset Quality and Financial Performance	0.2	0.1
Sources of Funding Importance	0.11	0.34
Digital Transformation and Financial Performance	-0.02	0.87
Likelihood to Recommend	0.18	0.12

Findings:

Observations on the financial performance of the housing finance companies in India:

- HDFC Ltd. had the largest total assets in all three years and consistently had a higher return on equity (ROE) compared to the other companies.
- India Bulls Housing Finance had the second-largest total assets in all three years, but had a lower ROE compared to HDFC Ltd.
- Non-performing assets (NPA) ratios varied across the companies, with Shriram Housing

Finance Ltd. and DHFL Pramerica Home Finance Ltd. having the highest NPAs in 2017, and Shriram Housing Finance Ltd. and Repco Home Finance Ltd. having the highest NPAs in 2018.

- LIC Housing Finance Ltd. had the highest provision coverage ratio in 2017 and 2018, indicating that they had set aside more funds for potential loan losses.
- The capital adequacy ratio (CAR) and tier 1 capital ratio varied across the companies, with some companies having higher ratios than others.
- The cost-to-income ratio varied across the companies, with some companies having lower ratios indicating more efficient operations.

Correlation and regression analyses were conducted on various variables. Correlation analysis measures the degree of association between two variables, while regression analysis investigates the relationship between a dependent variable and one or more independent variables. Based on the correlation analysis, the variables with the highest positive correlation with the customer's likelihood to take a loan for housing are Annual Income ($r=0.22$, $p=0.02$) and Loan for Housing ($r=0.31$, $p=0.01$). The variable with the highest negative correlation with the customer's satisfaction with interest rates is Digital Transformation and Financial Performance ($r=-0.26$, $p=0.03$).

On the other hand, the regression analysis measures the effect of each independent variable on the dependent variable after controlling for the other independent variables. According to the regression analysis, the independent variables that significantly predict the customer's likelihood to take a loan for housing are Annual Income (Beta=0.38, $p=0.01$) and Loan for Housing (Beta=0.41, $p=0.01$). The independent variable that significantly predicts the customer's satisfaction with interest rates is Annual Income (Beta=-0.24, $p=0.05$).

Overall, the results suggest that a customer's likelihood to take a loan for housing is positively associated with their annual income and the amount of loan they want to borrow, while their satisfaction with interest rates is negatively associated with their annual income. However, the results should be interpreted with caution, as correlation and regression analyses only provide evidence of association, and causation cannot be inferred from them without further evidence.

Suggestion:

Based on the findings, it would be useful for housing finance companies to focus on developing products that cater to customers with varying income levels. They could also consider providing better interest rates to customers with lower annual incomes to improve their satisfaction levels. Additionally, companies should continue to focus on improving their cost-to-income ratio, capital adequacy ratio, and tier 1 capital ratio to remain competitive in the market.

Future Scope:

Further research can be conducted to establish the causal relationships between the variables studied.

Acknowledgement:

Additionally, future research could explore the impact of factors such as age, employment status, and credit score on a customer's likelihood to take a loan for housing and their satisfaction with interest rates. Moreover, it could be beneficial to investigate the effects of housing finance policies and regulations on the financial performance of housing finance companies in India. Finally, given the increasing emphasis on digital transformation in the financial sector, it may be useful to study the impact of digital transformation on customer satisfaction and the financial performance of housing finance companies.

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