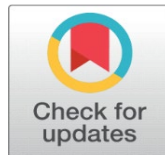
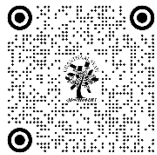


AN ANALYTICAL STUDY ON THE FINANCIAL PERFORMANCE OF LEADING HFC OF INDIA

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ABSTRACT

This paper embarks on an analytical journey to scrutinize financial performance of leading Housing Finance Companies (HFCs) in India, entities pivotal to the nation's economic fabric due to their crucial role in fulfilling housing finance needs. Given the significant contribution of these institutions to the housing sector and, by extension, to the overall economic development, understanding their financial health becomes imperative. Through a meticulous examination of various financial performance indicators over a defined period, this study aims to shed light on the operational efficiency, profitability, liquidity, and solvency of these pivotal institutions. Adopting a structured methodology, the paper selects prominent HFCs based on specific criteria, leveraging public financial data and employing an array of analytical tools for an in-depth analysis. With an industry overview setting the context by delineating the current market landscape, regulatory environment, and competitive dynamics, the study progresses to a detailed financial performance analysis. Here, a comparative approach is adopted, benchmarking selected HFCs against industry averages and each other, using a suite of financial ratios that encapsulate profitability, liquidity, solvency, and operational efficiency.

1. INTRODUCTION

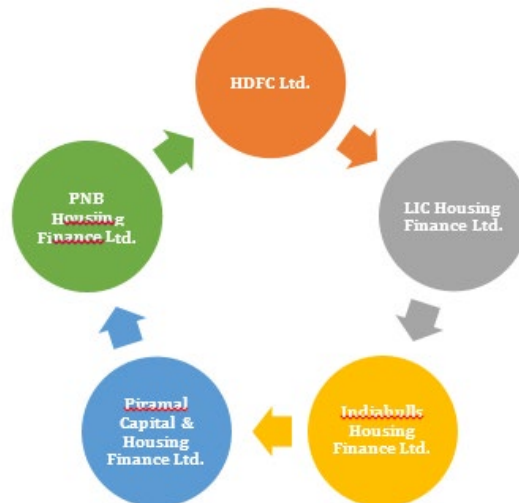
The housing finance sector is a cornerstone of India's economic framework, significantly influencing the nation's progress by enabling millions to realize their dream of homeownership. Central to this sector's operations are HFCs, which are specialized institutions dedicated to providing financial support for acquiring, constructing, renovating, and repairing residential properties. These entities differ from traditional banks by focusing solely on housing finance. This specialization allows them to offer a range of products designed to meet the varied housing needs of India's diverse population. Regulatory oversight for these companies is provided by the National Housing Bank among other regulatory bodies, which ensures that their activities are in sync with national objectives like financial inclusion and ensuring housing for everyone. The impact of HFCs on the Indian economy is profound and multifaceted. Beyond simply facilitating the ownership of homes, these companies are pivotal in propelling the growth of the housing sector, which is a significant component of the country's GDP. They do so by gathering funds from different sources and directing these into the real estate market.¹ This injection of capital not only helps individuals achieve their dream of homeownership but also stimulates the growth of related industries such as construction, real estate, and home improvements. The ripple

effect of this stimulation includes job creation, economic advancement, and a substantial contribution to the socio-economic development of the nation. Moreover, HFCs are crucial players in the execution of government housing policies, especially those aimed at making homes affordable for the economically weaker sections and low-income groups of the society. Through the deployment of innovative financing methods and the utilization of government-backed schemes, these companies are at the vanguard of tackling the challenge of housing affordability. By doing so, they significantly contribute to societal welfare and stability. The efforts of HFCs in this direction not only help in bridging the urban-rural divide but also in promoting inclusivity and equal opportunities for all segments of the population.

HFCs operate under the oversight of the National Housing Bank (NHB) Act, 1987 which was established on July 9, 1988, pursuant to NHB Act, 1988. The Finance Act of 2019 introduced amendments that transferred regulatory authority to the RBI, reinforcing the framework governing these entities. In recent times, the housing finance sector has encountered challenges in liquidity, leading to a deceleration in growth. The sector is currently witnessing a bifurcation, favouring HFCs with robust financial health over their less resilient counterparts. Stronger HFCs enjoy the advantage of accessing funds from diverse sources such as mutual funds, insurance companies, and banks, thus averting liquidity crises. Conversely, weaker HFCs struggle with liquidity challenges. In response, both the Government of India and the RBI have implemented a series of measures aimed at revitalizing the housing finance market and addressing the prevailing issues.

2. INDUSTRY OVERVIEW OF THE TOP 5 HFCs

India's GDP growth rate in the second quarter of FY24 was 7.6%, surpassing that of major economies, such as US, UK, China, Russia, etc. Approximately 84 HFCs have been awarded Certificates of Registration pursuant to Section 29A of the NHB Act, 1987, within India. This research focuses on a comprehensive performance evaluation of the top five Housing Finance Companies among them, as depicted in the Picture 1 hereinbelow.²



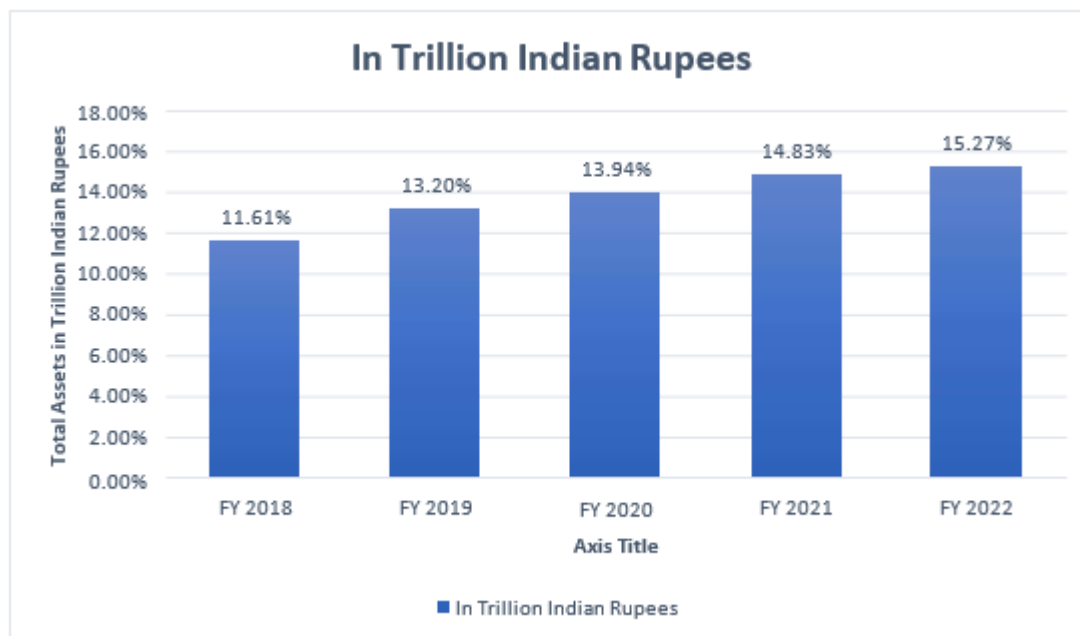
Picture 1: Top HFCs in India

3. TOTAL ASSETS OF HFCs IN INDIA

In the fiscal year ending in 2022, the landscape of India's housing finance sector witnessed a noteworthy expansion in terms of total assets. Specifically, the cumulative asset base of companies operating within this sphere surpassed the 15 trillion Indian rupee threshold, as depicted under Graph 1 herein below. This development underscores a positive trajectory in the accumulation of assets, highlighting a robust period of growth and resilience within the housing finance market in India.

This upward movement in asset valuation marks a continuation of growth momentum for the sector, reflecting an environment where HFCs have been successful in augmenting their financial resources. The increase in total assets is indicative of several underlying factors, including an uptick in loan disbursements, heightened consumer confidence in housing finance products, and perhaps, an expansion in the customer base accessing housing loans for both residential and investment purposes.

Despite encouraging growth in total assets, it's imperative to note a nuanced aspect of this development. The rate at which assets grew during this particular fiscal year experienced a noticeable deceleration. While the sector continued to expand its asset base, the pace at which this expansion occurred slowed down compared to the growth rate observed in the preceding fiscal year. This deceleration in asset growth rate could be attributed to a variety of economic, regulatory, and market dynamics. Factors such as interest rate fluctuations, changes in regulatory policies affecting the housing finance sector, market saturation, and evolving consumer preferences might have played a role in moderating the speed of asset growth.



Graph 1

Net Profit of Top Five HFCs in India during Financial Year 2022-2023

HDFC Ltd. stands as a premier institution in India, specializing in housing finance. Founded in 1977, its core mission has been to augment the nation's residential housing inventory by offering financing solutions in a methodical and proficient way. A net profit of ₹5,398 Crore indicates a strong financial performance, as shown in Table 1, which can be attributed to its broad portfolio of products, extensive distribution network, and the increasing demand for housing in India. HDFC's performance is also bolstered by its efficient management of credit risks and a diversified funding base, including retail deposits.

LIC Housing Finance Ltd. stands as a premier institution in India's housing finance sector, supported by LIC. Its profit of ₹1,193.48 Crore showcases its solid presence in the housing finance sector, as shown in Table 1. The company's performance can be linked to its extensive customer base, leveraging the vast network of LIC for cross-selling, and the trust associated with the LIC brand. Its product offerings cater to various customer segments.

Indiabulls Housing Finance Ltd. is a part of the Indiabulls Group. A net profit of ₹302.61 Crore, as shown in Table 1, though lower compared to HDFC Ltd. and LIC HFL, still indicates a healthy performance. The company has been focusing on improving its asset quality, maintaining liquidity, and diversifying its loan portfolio to include more retail home loans, which typically carry lower risk compared to corporate loans.

Piramal Capital & Housing Finance Limited is a subsidiary of the Piramal Group, a global business conglomerate. With a net profit of ₹173 Crore, as shown in Table 1, it reflects a steady performance in a competitive market. The company offers wide range of financial services including housing finance, real estate finance, & corporate lending. Its strategic approach to risk management, focus on high-quality loan book growth, and leveraging the broader Piramal Group's network and capabilities contribute to its financial outcomes.

PNB Housing Finance Ltd. is promoted by Punjab National Bank. The net profit of ₹383 Crore, as shown in Table 1, highlights its robust position in the market. The company benefits from the strong brand and network of PNB, allowing it to access a wide customer base. PNB HFL has been focusing on expanding its retail loan portfolio, optimizing funding costs, and improving its operational efficiency to drive growth.

Name of the HFC	2022-2023
HDFC Ltd.	₹5,398 Crore
LIC HF Ltd.	₹1,193.48 Crore
Indiabulls HF Ltd.	₹302.61 Crore
Piramal Capital & Housing Finance Limited	₹173 Crore
PNB HF Ltd.	₹383 Crore

Table 1

The performance of these HFCs is influenced by various factors, including interest rate movements, regulatory changes, economic conditions, and the overall demand for housing in

India. The differences in net profits can be attributed to the size of the company, operational efficiency, risk management practices, and diversification of loan portfolios. The real estate sector's health and government initiatives aimed at promoting affordable housing also plays crucial role in shaping performance of HFCs.

4. IMPACT OF EXTERNAL FACTORS ON FINANCIAL PERFORMANCE MACROECONOMIC FACTORS

The landscape of macroeconomic factors, including but not limited to GDP growth rates, inflation levels, and the fluctuations of interest rates, plays a critical and influential role in defining the financial frameworks and operational success of HFCs.

Starting with GDP growth, this metric is often viewed as a barometer of economic health and has a direct correlation with the housing finance sector. An ascending GDP growth rate is indicative of an expanding economy, where individuals experience increases in income and subsequently, an uplift in consumer confidence. This economic prosperity creates a ripple effect, enhancing the demand in the housing sector as more individuals find themselves in a position to invest in real estate, thus driving the need for housing finance. In essence, a thriving economy, as reflected through robust GDP growth, fosters an environment ripe for the flourishing of housing finance by bolstering both the capacity and the confidence of consumers to invest in housing.

However, the macroeconomic environment is not solely about GDP growth; inflation and interest rates play equally pivotal roles. Inflation, in moderation, is a sign of a growing economy, but its management is key. Central banks frequently address escalating inflation by elevating interest rates, a strategy aimed at mitigating inflationary tendencies. This action directly influences the cost of borrowing. Consequently, for consumers, elevated interest rates result in higher costs for loans, encompassing housing mortgages, potentially prompting a re-evaluation of their buying choices. This is where the dual-edged sword of inflation and interest rate management reveals itself - while aiming to stabilize the economy, these measures can inadvertently exert a cooling effect on the demand for housing finance, as higher borrowing costs can sideline potential buyers.

Moreover, the state of the real estate market itself - encompassing housing supply dynamics, pricing trends, and the overall sentiment of buyers - is a critical determinant of housing finance

demand. A real estate market that's characterized by affordable housing options and is buoyed by trends such as urbanization, generally signals strong growth opportunities for HFCs. This is because affordable and accessible housing stimulates market participation from a wider section of the society, thereby increasing the demand for housing finance. On the contrary, the real estate market is not immune to volatility. Factors like speculative pricing leading to inflated property values, or an oversupply scenario where the market is flooded with more houses than there are buyers, can

severely impact demand. Such market volatility not only affects the immediate demand for housing but also poses long-term risks to the sustainability of housing finance demand, as it shakes consumer confidence and investment sentiment.⁵

5. POLICY AND REGULATORY CHANGES

In recent years, the housing finance sector has undergone a transformation, driven by a comprehensive overhaul of regulatory frameworks aimed at increasing transparency, enhancing accountability, and ensuring stability within the industry. This period has seen the introduction and implementation of several key legislative measures that have reshaped the operational and financial landscape of HFCs, presenting both challenges and opportunities.

One of the cornerstone reforms in this wave of regulatory change has been the RERA Act, 2016 enacted to bring about paradigm shift in way real estate sector operates. RERA's primary objective is to protect the interests of homebuyers while ensuring fair play in real estate transactions. This has been achieved by mandating the registration of real estate projects and real estate agents, promoting transparency in project marketing and execution, and establishing mechanisms for the speedy redressal of disputes. For HFCs, this has meant a more reliable framework within which to operate, as the risk of default on loans backed by real estate projects is mitigated by the increased accountability RERA imposes on developers.

Another significant regulatory measure is the introduction of the Goods and Services Tax (GST) Act, 2017 which aimed to unify India's sprawling tax system into a single, comprehensive tax regime, impacting all sectors of the economy, including housing finance. By subsuming multiple previous taxes into one, GST has simplified the tax structure for HFCs, potentially reducing administrative burdens and compliance costs. However, it has also necessitated adjustments in accounting practices and operational strategies to align with the new tax code.

The Insolvency and Bankruptcy Code (IBC), 2016 has been another pivotal reform, introducing a consolidated legal framework to address corporate insolvency and bankruptcy. For the housing finance sector, IBC has provided a clearer pathway for the resolution of insolvency cases involving real estate companies, thereby reducing the risk associated with lending to the sector. This has the potential to improve the credit environment and enhance the stability of HFCs by ensuring timely recovery of dues and reducing non-performing assets.

While these regulatory reforms have collectively aimed to streamline processes, protect consumer interests, and foster a more structured and reliable housing market, they have also introduced certain challenges. HFCs have had to bear the brunt of increased compliance costs and the need for operational adjustments to align with the new regulatory requirements. However, these challenges have been accompanied by significant opportunities. The increase in transparency and accountability has bolstered consumer trust in the housing finance sector, potentially leading to an expanded customer base. Moreover, the efficiency and stability brought about by these reforms have opened new avenues for growth, allowing HFCs to explore new markets and customer segments.

As HFCs navigate through this dynamic regulatory environment, they are poised at the intersection of challenges and opportunities. Adapting to new regulatory norms demands agility and foresight, but it also offers the promise of accessing untapped markets and strengthening customer relationships. The ongoing evolution of regulatory frameworks underscores the need for HFCs to remain vigilant and responsive to both the challenges and opportunities that lie ahead, ensuring their continued growth and contribution to a more structured and robust housing finance sector.

6. TECHNOLOGICAL ADVANCEMENTS

The transformation of the housing finance sector through the integration of advanced technologies marks a pivotal shift in how HFCs operate, interact with customers, and approach market opportunities. This digital revolution, characterized by the adoption of digital platforms, the application of artificial intelligence (AI), and the strategic use of data analytics, has significantly enhanced the operational efficiency, risk management practices, and customer service strategies of HFCs.

Digital platforms serve as the backbone of this transformation, providing a seamless, efficient channel for customer interactions and transactions. Through these platforms, HFCs offer a range of online services, from loan applications to

account management, thereby reducing processing times and improving the customer experience. The integration of AI and machine learning technologies further revolutionizes HFC operations by introducing sophisticated risk assessment models. These models leverage vast amounts of data to predict loan default risks more accurately, allowing for more informed lending decisions and the development of tailored financial products.

Moreover, data analytics play a crucial role in understanding customer needs and behaviors, enabling HFCs to design personalized financial solutions and marketing strategies. This customer-centric approach, powered by technology, not only enhances satisfaction and loyalty but also opens up avenues for cross-selling and up-selling of financial products. The technological evolution within the housing finance sector has also democratized access to financial services, breaking down traditional barriers to entry. By leveraging digital platforms and mobile technology, HFCs are now able to extend their reach to previously underserved or inaccessible markets. This expansion is further facilitated by the development of innovative financial products that cater to the unique needs of these new customer segments, thereby promoting financial inclusion.

However, the path of digital transformation is fraught with challenges. Cybersecurity stands out as a critical concern, as the increasing reliance on digital platforms and the storage of sensitive customer data expose HFCs to heightened risks of data breaches and cyber-attacks. This necessitates a robust cybersecurity framework, combining advanced security technologies and protocols with ongoing vigilance to protect against evolving cyber threats.

Additionally, the rapid pace of technological advancement requires HFCs to continuously invest in updating their technology infrastructure and in the training and development of their workforce. This not only ensures that they remain at the forefront of innovation but also addresses the skill gaps that may arise as job roles evolve in response to new technologies. However, these necessary investments in technology and human capital contribute to rising operational costs, posing a significant challenge to maintaining competitiveness and profitability.

7. CONCLUSION

The comprehensive analysis conducted on financial performance of leading HFCs in India has yielded insightful findings, underscoring the pivotal role these institutions play in the broader economic landscape and particularly in facilitating housing finance. This study aimed to dissect the financial health of major HFCs, scrutinizing their profitability, liquidity, solvency, and operational efficiency, while also considering the impact of external macroeconomic and regulatory factors on their performance.

The findings reveal that the leading HFCs in India demonstrate a robust financial structure characterized by solid profitability, prudent liquidity management, and strong solvency positions. These institutions have shown resilience in the face of economic fluctuations and regulatory changes, adapting their business models and strategies to maintain competitiveness and sustainability. The operational efficiency of these HFCs, as reflected in their cost management and asset turnover ratios, indicates effective management practices and strategic allocation of resources.

However, the study also highlighted areas of concern, including the need for enhanced risk management practices in light of increasing credit and operational risks. The evolving regulatory landscape and technological advancements present both challenges and opportunities for HFCs. To navigate these dynamics successfully, HFCs must continue to innovate, particularly in adopting digital technologies that enhance customer experience and operational efficiency.

CONFLICT OF INTERESTS

None.

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