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Performance Appraisal of HFIs (HDFC & LICHFL)- Financial Analysis through CAMEL Approach

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ABSTRACT

Performance Appraisal of HFIs can be done through the different parameters. It may be through checking the Operational Efficiency of the HFIs. It may be done through the customer aptitude analysis because customers are the most important aspect of the HFIs. But in this paper only the Financial aspect is taken. To check the financial performance of these HFIs, CAMEL approach is used. There may be so many approaches to check the financial efficiency of the HFIs. But in this paper CAMEL approach is taken as base. The various ratios defining the CAMEL approach are calculated to check the financial performance of these two HFIs. The statistical tools like arithmetic mean, standard deviation, coefficient of variation, coefficient of correlation, t-test are used. The graphical representation is made through bar graphs and line graphs to make comparison more effective. A null hypothesis is tested in this paper which is "There is a no significant difference between the Financial Performance of HDFC and LICHFL". To test whether the Hypothesis had been accepted or rejected, the secondary data collected from the annual reports of the HDFC and LICHFL is compared on the basis of different parameters and t-test is used to check each parameter. After applying various statistical tools on the secondary data, it may be concluded that there is NO SIGNIFICANT difference between the financial performance of the HDFC and LICHFL.

Keywords: *CAMEL Approach, Performance Appraisal, Financial Analysis*

Housing in India varies from palaces of erstwhile maharajas to modern apartment buildings in big cities to tiny huts in far-flung villages. There has been tremendous growth in India's housing sector as incomes have risen. The Human Rights Measurement Initiative finds that India is doing 60.9% of what should be possible at its level of income for the right to housing. According to the Times of India, "a majority of Indians have per capita space equivalent to or less than a 10 feet x 10 feet room for their living, sleeping, cooking, washing and toilet needs. The average is 103 sq ft per person in rural areas and 117 sq ft per person in urban areas. 99 percent of rural households have access to electricity. Although cities

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have better facilities than villages in India & provide full-day water supply. Almost all States such as Gujarat, Madhya Pradesh, Maharashtra, West Bengal, Tamil Nadu and others provide a continuous power supply.

To overcome this problem, Govt. has started a lot of schemes to provide houses to the houseless families. But the main role is played by the Housing Finance Institutions by providing easy finance to the persons who seek home loans. The housing finance sector in India is divided into two sections: Public Sector and Private Sector. Both the sectors are playing a good role in this area. But it depends upon the financial performance of these HFIs that which sector is doing good.

Performance Appraisal of HFIs can be done through the different parameters. It may be through checking the Operational Efficiency of the HFIs. It may be done through the customer aptitude analysis because customers are the most important aspect of the HFIs. But in this paper only the Financial aspect is taken. To check the financial performance of these HFIs, CAMEL approach is used. There may be so many approaches to check the financial efficiency of the HFIs. But in this paper CAMEL approach is taken as base.

The 'CAMEL' approach was developed by bank regulators in the US as a means of measurement of the financial condition of a financial institution. Accordingly, the 'Uniform Financial Institutions Rating System' was established by the Federal Financial Institutions Examination Council in the US.

REVIEW OF LITERATURE

The problem of housing and housing finance is nationwide problem. Review of literature has been done under the following headings:

- Policies/Plans launched by Govt.
- Cross-Country Experiences on Policy Measures for Promoting Housing Sector
- Researches by different Research Scholars

Brar, Jasmindeep et.al. (2005) conducted a study entitled "Performance of Housing Finance Companies" and the objectives of this study were: to study the operational performance, and the financial performance of the selected institutions. The study covers three institutions viz. HDFC, LIC & PNB. The study is based on secondary data that have been collected from the annual reports and web sites of the institutions selected under study. It covers the period from 1990-91 to 2002-03. The performance of the selected institutions has been studied by using percentages, compound growth rates and various ratios.

Singh, Fulbag. et.al. (2006) wrote an article entitled "Housing Finance in India – A Case Study of LIC Housing Finance Limited'' and in this paper they described housing, as one of the three basic needs of life, always remains on the top priority of any person, economy, government and society at large. In India, the majority of the population lives in slums and shabby shelters in rural areas. From the last decade, the Government of India has been continuously trying to strengthen the housing sector by introducing various housing loan schemes for rural and urban populations. The first attempt in this regard was the National Housing Policy (NHP), which was introduced in 1988. The National Housing Bank (NHB) was set up in 1988 as an apex institution for housing finance and a wholly-owned subsidiary of Reserve Bank of India (RBI). The main objective of the bank is to promote and establish the housing financial institutions in the country as well as to provide refinance facilities to housing finance corporations and scheduled commercial banks. Moreover, for the salaried section, the tax rebates on housing loans have been introduced. The paper is based on the case study of LIC Housing Finance Ltd., which analyzes region-wise disbursements of individual house loans their portfolio amounts and the defaults for the last ten years, i.e., from 1995-96 to 2004-05 by working out relevant ratios in terms of percentage and the compound annual growth rates.

Srinivas, S.P. (2006) wrote a paper entitled "Is Housing Finance Safe as a House? Or Delinquency in Housing Finance" in which he revealed that disbursement of home loans increased at an increasing growth rate during the growth rate of disbursement in 2000-01 compared to the earlier year was 13.7% which increased up to 76% in 2002-03.

Kumar, Ashok (2008), wrote an article "The Future Outlook" in which he was of in the opinion that housing continues to be one of the thrust areas of the economy for the policy makers. Rising income levels coupled with increased rate of formation of new households has contributed to a steady growth in demand for housing. Added to this is a significant shift in home-ownership pattern with younger population are striving to acquire their own houses. This phenomenon of early purchase has resulted in increased demand for housing loans".

Batra, Vibha (2009) analyzed the growth trends in the domestic mortgage market, the financial performance of Housing Finance Com-panies (HFCs) over the financial year 2009 and the current financial year. A significant increase followed by a decrease in interest rates, slowdown in economic activity, correction in property prices in most geographies, and the introduction of "8% home loan schemes" have added interest-ing dimensions to the Indian mortgage finance market in the recent past.

RESEARCH METHODOLOGY

A variety of housing finance providers like commercial banks, insurance companies, term lending institutions, public and private housing finance companies are offering housing finance in the whole country. However, the following two institutions have been selected for the present research paper.

- LIC Housing Finance Corporation Limited (Public Sector Enterprise)
- Housing Development Finance Corporation (Private Sector Enterprise)

The reason behind, is that LIC Housing Finance Ltd in case of Public Sector and HDFC Ltd in case of Private Sector are specially meant for housing finance sector. These institutions are the competitors of each other in this sector and have been taken up for the study to make a good comparison between public sector financial institutions (LICHFL) and private sector financial institutions (HDFC).

This research paper is based on secondary data. Secondary Data relating to home loan disbursement, size and tenure of housing loan, interest rates, default rates, reasons for default, taxability, and exemptions/rebate/deductions from income tax and like were collected relating to the selected HFIs from regional offices of the selected HFIs, RBI Regional Office, State Planning Board, Bureau of Economics and Statistics, the publications and reports of various banks and other financial institutions and the Department of Economics and statistics. The data of the last 6 years i.e., from 2015-16 to 2020-21 is taken to find out the trend and to draw the conclusions.

Data Analysis

As the CAMEL acronym has been discussed above. Ratios calculated to test each acronym are as follows:

Sr.No.	CAMEL Parameters	Ratio Tested
1.	Capital Adequacy (C)	a.) Capital (Net Worth) to Total Assets b.) Debt equity ratio c.) Capital Adequacy Ratio
2.	Asset Quality (A)	a.) Gross NPA to Loans & Advances b.) Return on Assets
3.	Management (M)	a.) Expenses to Average Total Assets b.) Cost to income ratio c.) Return on Net Worth
4.	Earnings (E)	a.) Net Interest Margin/ Average Total Assets b.) Interest income / Avg. Total Assets
5.	Liquidity (L)	a.) Current Ratio

The various ratios defining the CAMEL approach are calculated to check the financial performance of these two HFIs. The statistical tools like arithmetic mean, standard deviation, coefficient of variation, coefficient of correlation, t-test are used and the following is the comparative analysis:

Sr. No.	Parameter or basis of comparison	Value of 't'	Significance Value	Conclusion
1.	Equity Ratio	14.288	0.000	SIGNIFICANT
2.	Debt-Equity Ratio	13.813	0.000	SIGNIFICANT
3.	Capital Adequacy Ratio	1.844	0.102	INSIGNIFICANT
4.	Gross NPA to Advances Ratio	0.930	0.392	INSIGNIFICANT
5.	Return on Assets	6.671	0.000	SIGNIFICANT
6.	Expenses to Average Total Assets Ratio	1.680	0.124	INSIGNIFICANT
7.	Cost to Income Ratio	8.490	0.000	SIGNIFICANT
8.	Return on Equity	0.284	0.782	INSIGNIFICANT
9.	Net Interest Margin to Average Total Assets Ratio or Net Asset Margin Ratio	2.018	0.071	INSIGNIFICANT
10.	Gross Interest Income to Average Total Assets Ratio	0.325	0.752	INSIGNIFICANT
11.	Current Ratio	6.518	0.001	SIGNIFICANT
12.	Earnings Per Share	1.953	0.079	INSIGNIFICANT
13.	Price Earnings Ratio	6.621	0.000	SIGNIFICANT

CONCLUSION

Testing of Hypothesis

"There is no significant difference between the Financial Performance of HDFC and LICHFL."

The above Null Hypothesis had been taken. To test whether the Hypothesis had been accepted or rejected, the secondary data collected from the annual reports of the HDFC and LICHFL is compared on the basis of different parameters and t-test is used to check each parameter.

The overall results regarding the significance of difference are summarized in the following table.

	Significant	Insignificant	Total
Number	6	7	13
Percentage	46.15	53.85	100

It is very much clear that the share of parameters is more than 50% who advocate that the difference between the financial performances between these two HFIs is INSIGNIFICANT. Therefore, it may be concluded that there is NO SIGNIFICANT difference between the financial performance of the HDFC and LICHFL.

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Conflict of Interest

The author declared no conflict of interest.

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