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COMPARATIVE ANALYSIS OF SELECTED INDIAN HOUSING FINANCE COMPANIES BASED ON CAMEL APPROACH

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Abstract

Good Corporate Governance is important for sound management of any organization. Non-Banking Financial Institutions like Housing Finance Companies are no exception and there has been ever-increasing demand for transparency. HFCs are facing more number of challenges in comparison with commercial banks and concentrate more on efficiency in order to survive, so there is much importance of sound management. The main aim of this research paper is to analyze the financial performance of the listed Five Housing Finance Companies (HFCs) in India, namely Can Fin Homes, DEWAN Housing finance, PNB Housing finance, LIC Housing, HDFC, by using the CAMEL model (Capital Adequacy, Asset Quality, Management Efficiency, Earning Capability and Liquidity). On the basis of corporate governance practices & disclosures in the annual report for the year 2007-2008 to 2016-2017. For this purpose, corporate governance score (CG score) is calculated for each HFCs across the different parameters as per the Companies Act. These components are used to reflect financial performance, operating soundness and regulatory compliance of financial institutions.

Keywords: *National Housing Bank (NHB), Corporate Governance, CAMEL model, Housing Finance Companies (HFC).*

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INTRODUCTION

Housing is one of the primary human needs and is second to the need for food and clothing. Housing finance is a specific form of finance and efficiency of housing finance system in a country is one of the basic indicators of the growth of its economy. The appearance of a formal institutional system for housing finance has been quite late in India, with the formation of National Housing Bank (NHB) in 1988, since then housing is being accorded high priority by the Government. Housing and housing finance activities in India have witnessed tremendous growth over the years. Some of the factors that have led to this growth are - tax concessions to borrowers, increase in disposable income levels, changing age profile of the borrowers, easy availability of loans, nuclear families and urbanization, etc. As per 11th Five Year Plan (2007-2012) the total number of houses that would be required cumulatively in the plan period is slated at 45 million units (7 million backlog plus 38 million additional units) which will require an investment of around Rs.10 trillion between 2007-

2012, i.e. Rs.2 trillion per year. Housing Finance Companies (HFCs) play an important role in the Indian housing finance market. They compete with banks in offering home loans and other related products. Apart from traditional home loans, other products offered by HFCs are Loans against Property, Builder Loans and others. Unlike the other nonbanking finance companies which are governed by the Reserve Bank of India (RBI), the housing finance companies are governed by the National Housing Bank (NHB). Housing Finance Companies (HFCs) that once dominated the market as the most prominent group are facing serious competition from the commercial banks (CBs). In respect of HFCs, apart from their gradually lowering market share year after year, there has been significant pressure on their profitability because of the thinning profit margins arising from competition and increased cost of funds. Hence, enhanced operational as well financial efficiency is necessary for survival and growth of HFCs in India. There is also a need to study the performance analysis of HFCs, especially in the present scenario of cut-throat competition thrown up by many organizations into housing finance industry. The present study put focus on the analysis of financial performance of the HFCs whose business is primarily housing finance.

Literature Review

Prasuna (2003) examined the performance of 65 Indian banks according to the CAMEL Model and concluded that better service quality, innovative products and better bargains were beneficial because of the prevailing tough competition.

Baral (2005) studied the performance of joint ventures banks and commercial banks in Nepal by applying the CAMEL Model. The study revealed that the financial health of joint ventures is more effective than that of commercial banks.

Bodla and Verma (2006) investigated the performance of SBI and ICICI through CAMEL model for the period of 2000-01 to 2004-05. With the reference to the Capital Adequacy, it concluded that SBI has an advantage over ICICI. Regarding to assets quality, earning quality and management quality, they inferred that ICICI has an edge upon SBI.

Gupta and Kaur (2008) examined the performance of Indian private Sector banks by using CAMEL model and by assigning rating to the top five and bottom five banks. The CAMEL model revealed that HDFC was at its higher position of all private sectors banks in India succeeded by the Karur Vysya and the Tamilnad Mercantile Bank.

Dashand Das (2009) have analyzed the performance of public sector banks with that of private/ foreign banks under CAMELS framework. The findings concluded that

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private/foreign banks have an edge over the public sector banks. The two factors of the CAMEL parameters that contribute to the best performance of the private banking/foreign were the Management Soundness and Earnings and Profitability.

Kaur (2010) have made an analysis of commercial banks operating in India with reference to CAMEL approach. He has categorized the banks into Public sector Bank, Private sector Banks and Foreign Banks. His analysis revealed that the best bank from the public sector has been awarded to Andhra Bank and State Bank of Patiala. In the category of private sector banks, Jammu and Kashmir Bank has been assigned the first rank succeeded by HDFC Bank. Among the foreign sector banks, Antwerp has bagged the first rank followed by JP Morgan Chase Bank.

Moreover, Siva and Natarajan (2011) empirically tested the applicability of CAMEL norms and its consequential impact on the performance of SBI Groups. The study concluded that annual CAMEL scanning helps the commercial bank to diagnose its financial health and alert the bank to take preventive steps for its sustainability.

Recently, Srinivas and Saroja (2013) conducted a study to compare the financial performance of HDFC Bank and ICICI Bank using CAMEL framework and found no significance difference between the ICICI and HDFC bank's financial performance but they concluded that the ICICI bank performance is slightly less compared with HDFC.

Similarly, Tripathi and Meghani (2014) conducted a study to compare the financial performance of Axis and Kotak Mahindra bank (Private Sector banks). The CAMELS analysis and t-test concluded that there is no significance difference between the Axis and Kotak Mahindra bank's financial performance but the Kotak Mahindra bank performance is slightly less compared with Axis Bank.

OBJECTIVES OF THE STUDY

To compare the financial performance of selected housing finance companies and standard them based on the CAMEL parameters.

METHODOLOGY

Purposive Sampling design has been followed wherein the HFCs for evaluation have been selected on the following criteria:

HFCs are registered with National Housing Bank and eligible to accept public deposits and HFCs listed in any of the stock exchange (NSE or BSE) This study use the secondary data collected from the published annual reports of the respective HFCs. Relevant information

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regarding the list of HFCs having registration are collected from the website of National Housing Bank (NHB). (Annexure-I). The evaluation of performance of Housing Finance Companies can be measured by a number of indicators. However, in present study, CAMEL parameters are used to study the financial performance of HFCs.

CAMEL APPROACH

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. This system was also adopted by national Credit Union Administration NCUA in Oct 1987 (Milligan, 2002). Here, the acronym 'CAMEL' stands for, Capital Adequacy (C), Asset Quality (A), Management (M), Earnings (E) and Liquidity (L). CAMEL model assesses the overall condition of the Financial Institution, its strengths and weakness (Sarker, 2005). In India too, initiatives in the direction of assessment of financial stability of financial institutions have been in place since the early 1990s.

1) Capital Adequacy

A minimum amount of capital is necessary to maintain the safety and soundness of the financial institution. Capital adequacy acts as an important indicator to build and maintain the investors' confidence in the NBFCs. It helps the NBFCs to absorb the risk of potential losses in the adverse Economic conditions and provides a hedge against insolvency. It reflects the ability of the top management to raise the additional capital for the further needs. Following ratios are taken into consideration to judge the capital adequacy of the two NBFCs.

Debt-Equity Ratio:

This ratio indicates the proportion of outsider's funds and shareholders' funds used in the capital structure of the NBFC. Higher ratio indicates less protection available to outsiders and vice-versa.

2) Asset Quality

Quality of the assets should be the parameter to assess the financial health of the financial institution rather than the quantity of the assets. It shows the pattern of employment of funds to generate the earnings for the NBFCs. To check the asset quality of the NBFCs generally gross and net NPAs (non-performing assets) are analyzed which are as follows:

Return on assets

The return on assets ratio measures how effectively a company can earn a return on its investment in assets. In other words, ROA shows how efficiently a company can convert the money used to purchase assets into net income or profits.

3) Management Efficiency

Efficiency of the management decides the future of the business. It is the management which takes all important decisions relating to capital structure, earnings and assets of the business on the basis of their risk perception. Management efficiency of the NBFCs can be ensured by proper planning, coping with changing environment, adherence with regulatory framework and generate the earnings by maximum utilization of available resources.

Return on Net worth (RONW):

It shows the capability of the management to use the shareholders funds to create the maximum returns for them. It is very useful ratio from the shareholders point of view to analyze and compares the returns while investing. It is obtained by dividing the net profits (after int. and taxes) by the shareholders funds. Higher ratio shows better efficiency of the management.

4) Earning Quality

Sustained earnings provide the strong base to the NBFCs to grow in the future, to remain competitive and to increase the capital base internally. Quality of earnings is reflected in the form of higher profitability and continuous growth in earnings which shows better utilization of its assets.

Interest Income to Total Assets:

Interest is the primary source of income for the gold loan NBFCs. Interest income includes interest from gold loans, interest from investments and interest from bank deposits. It indicates the ability of the NBFCs to generate the interest income from its gold lending business mainly. Higher ratio is preferable.

5) Liquidity

Adequate liquidity is required in any business to take the advantage of favorable investment opportunities and to meet the short term obligations when they arise. Housing loan NBFCs in the category of not accepting public deposits, liquidity does not pose major challenge for them which are otherwise the greatest challenge for their banking counterpart.

Liquid Assets to current liabilities:

This ratio reflects the overall liquidity position of the concerned NBFCs. Housing loan NBFCs hold liquid assets in the form of cash in hand and bank balances.

Table analysis

Table: 1 Capital Adequacy (C) of Selected HFC's from 2007-2008 to 2016-2017 as per 'CAMEL Debt-Equity Ratio

Year	Can Fin Home	DEWAN Housing Finance	LIC Housing Finance	HDFC Housing Finance	GIC Housing Finance
2007-2008	7.71	9.06	11.11	5.79	6.68
2008-2009	6.69	12.93	11.38	6.38	7.12
2009-2010	6.79	10.26	10.26	6.35	6.79
2010-2011	4.95	8.60	9.10	4.78	5.70
2011-2012	5.70	8.34	8.42	5.05	6.37
2012-2013	7.84	8.48	9.06	4.38	6.17
2003-2014	10.38	9.48	9.49	4.03	6.71
2014-2015	9.00	8.74	10.64	4.23	7.58
2015-2016	9.82	10.28	10.51	4.42	8.38
2016-2017	10.44	8.88	10.05	4.85	8.80
Average	7.93	9.50	10.00	5.03	7.03
Ranking	3	4	5	1	2

Source: computed values from respective annual reports

Each industry has different Debt to Equity ratio benchmarks, as some firms tend to use more debt financing than others. A lower debt to equity ratio usually implies a more financially stable business. Companies with a higher debt to equity ratio are considered more risky to creditors and investors than companies with a lower ratio. In terms of Debt Equity ratio, HDFC secured top position with a lowest average value of 5.03 followed by GIC and CANFIN with an average value of 7.03 and 7.93 respectively.

Table: 2 Asset Quality (A) of Selected HFC's from 2007-2008 to 2016-2017 as per 'CAMEL Return on Assets

Year	Can Fin Home	DEWAN Housing Finance	LIC Housing Finance	HDFC Housing Finance	GIC Housing Finance
2007-2008	1.41	1.83	1.65	2.88	2.24
2008-2009	1.61	1.32	1.80	2.25	1.95
2009-2010	1.78	1.45	1.64	2.43	2.19
2010-2011	1.85	1.58	1.85	2.53	3.05
2011-2012	1.61	1.42	1.41	2.46	1.37

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2012-2013	1.33	1.26	1.27	2.48	1.78
2003-2014	1.28	1.20	1.37	2.40	1.76
2014-2015	1.03	1.13	1.23	2.35	1.53
2015-2016	1.45	1.07	1.27	2.45	1.55
2016-2017	1.74	3.13	1.27	2.21	1.57
Average	1.51	1.54	1.48	2.44	1.90
Ranking	4	3	5	1	2

Source: computed values from respective annual reports

The Return on Assets Ratio measures how effectively a company can earn a return on its investment in assets. In case of Return on Assets, the above table shows that HDFC is at the top position with a highest average of 2.96 that a higher ratio is more favorable to investors because it shows that the company is more effectively managing its assets to produce greater amounts of net income, followed by GIC 1.90 and DEWAN HF 1.54. LICHFL was at the last position with lowest average of 1.48.

Table: 3 Management Ability of Selected HFC's from 2007-2008 to 2016-2017 as per 'CAMEL Return on Net worth (RONW)

Year	Can Fin Home	DEWAN Housing Finance	LIC Housing Finance	HDFC Housing Finance	GIC Housing Finance
2007-2008	12.72	18.85	21.13	20.39	17.82
2008-2009	12.79	18.99	23.79	17.47	16.37
2009-2010	14.25	16.69	19.54	18.69	17.33
2010-2011	13.51	17.12	23.37	20.41	24.39
2011-2012	12.59	15.07	16.08	21.67	11.87
2012-2013	13.80	13.95	15.78	19.52	15.43
2003-2014	16.73	14.79	17.48	19.46	15.97
2014-2015	11.17	13.40	17.72	19.34	15.59
2015-2016	17.89	14.53	18.15	20.78	17.01
2016-2017	21.85	36.22	17.43	18.77	17.62
Average	14.73	17.96	19.04	19.65	16.94
Ranking	5	3	2	1	4

Source: computed values from respective annual reports

The Higher the ratio of Return on Net Worth shows that the better efficiency of the management and it helps track a company's progress and ability to maintain a positive earnings trend., the above table reveals that HDFC Housing Finance secured a top position with a highest average value of 19.65 followed by LIC Housing Finance (19.04) and DEWAN Housing Finance (17.96). CANFIN was at the preceding position with a lowest average rate of 14.73.

Table: 4 Earning Quality of Selected HFC's from 2007-2008 to 2016-2017 as per 'CAMEL Interest Income to Total Assets

Year	Can Fin Home	DEWAN Housing Finance	LIC Housing Finance	HDFC Housing Finance	GIC Housing Finance
2007-2008	12.62	15.83	18.53	29.79	15.39
2008-2009	14.14	12.50	18.45	20.88	15.64
2009-2010	18.33	14.79	19.15	25.05	14.08
2010-2011	18.17	18.29	21.09	27.50	14.23
2011-2012	15.29	12.41	14.95	23.78	14.76
2012-2013	13.78	10.96	13.50	22.96	15.39
2003-2014	13.10	10.64	14.34	22.53	15.64
2014-2015	10.56	10.39	12.99	21.86	14.08
2015-2016	14.50	9.97	13.39	22.95	14.23
2016-2017	17.39	32.72	13.80	22.47	14.76
Average	14.79	14.85	16.02	23.98	14.82
Ranking	5	3	2	1	4

Source: computed values from respective annual reports

A Positive Net interest margin indicates that the fund manager made good decisions and was able to get a profit on his investments. In the same way a negative ratio indicates that the fund lost on investments when an interest expense exceeds investment earnings. It is noticed from the above table that HDFC was at top position with its highest Net interest income to average total asset ratio, followed by LIC Housing Finance (16.02), and Can Fin Homes (14.79) held bottom position.

Table: 5 Liquidity of Selected HFC's from 2007-2008 to 2016-2017 as per 'CAMEL Current Assets to current liabilities:

Year	Can fin Home	DEWAN Housing Finance	LIC Housing Finance	HDFC Housing Finance	GIC Housing Finance
2007-2008	16.73	60.14	16.9	14.22	1.13
2008-2009	29.88	52.27	12.05	7.57	1.13
2009-2010	13.77	65.69	13.3	7.96	1.12
2010-2011	0.13	1.45	0.52	0.43	0.56
2011-2012	0.11	0.72	0.51	0.37	0.66
2012-2013	0.06	0.44	0.39	0.36	0.33
2003-2014	0.05	0.47	0.47	0.3	0.33
2014-2015	0.05	0.32	0.46	0.27	0.24
2015-2016	0.05	0.44	0.44	0.26	0.26
2016-2017	0.04	1.31	0.44	0.34	0.04
Average	6.08	18.32	4.54	3.21	0.58
Ranking	2	1	3	4	5

Source: computed values from respective annual reports

The Current ratio measures the short term liquidity position of a company by showing its ability to pay off its current liabilities with current assets. If a firm has enough current assets to cover its total current liabilities, the firm will be able to pay off its obligations, otherwise company has to sell off any long-term or capital assets. In terms of current ratio, DEWAN Housing Finance secured top position with an average value of 18.32, followed by Can Fin Home and LIC Housing Finance with an average value of 6.08 and 4.54 respectively. GICHFL was at last position with an average value of 0.58.

Table: 5 Overall Ranking of Selected HFC's as per 'CAMEL

CAMEL Parameter	Can fin Home	DEWAN Housing Finance	LIC Housing Finance	HDFC Housing Finance	GIC Housing Finance
Capital Adequacy	3	4	5	1	2
Asset Quality	4	3	5	1	2
Management Efficiency	5	3	2	1	4
Earnings	5	3	2	1	4
Earnings					
Earnings					
Earning					
Liquidity	2	1	3	4	5
Average	3.8	2.8	3.4	1.6	3.4
overall Ranking	5	2	3.5	1	3.5

5.1 CONCLUSION

Housing finance is a low margin, high volume business and even the most established HFCs have seen reduction in the interest margin. Apart from the higher cost of funds for HFCs, there is the problem of maturity mismatches (asset-liability mismatches) because, HFCs main source of fund is Deposit for 2 to 5 year, while typically the loans are extended for much higher tenors. In order to be profitable, HFCs are required to maintain low-cost & long-term sources of funds which will enable them to avoid mismatch problems and also provide higher profitability in operations.

CAMEL approach is significant tool to assess the financial strength of housing financial institutions and suggest necessary measures to improve the performance. In this study according to the CAMEL Model ranks were given. By observing overall ranking positions it can be concluded that among the five housing financial institutions HDFC is showing

dominant position and Can Fin Home stood at least position so they need to improve their performance.

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