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A Study of Financial and Operational Efficiency of HDFC and LIC Housing Finance Companies.

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ABSTRACT:

Since housing is one of the essential needs of mankind, the demand for shelter increases with the growth of population and standard of living. Therefore the need to finance the purchase of a house appeared. The value of housing can be estimated based on the fact that we consider housing as the best investment and want to invest our hard earned money or savings in a house. Housing plays a crucial role in the growth and development of the Indian economy. The main objective of the study is to evaluate and compare the stability of housing finance companies in the current\economic development with future scenarios using ratio analysis and this research is based on secondary data. The collected information was analyzed in terms of efficiency, liquidity, income and profitability. The need for finance to buy a house/housing financial institutions was emphasized. Housing Finance Companies (HFCs), as they are now called, have increased their lending over the years, contributing to the growth of the housing sector. Historically, banks have had slightly lower lending rates, but mortgage companies have gained better customer service, lower operating costs, long-term funding sources and targeted lending to fend off the competition. Popularhousing finance companies like HDFC, LIC Housing Finance grew loans22-37 percent in the year ended March 2021, increasing their market share. Keeping these facts in mind, this paper has tried to assess the performance of LIC Housing Finance Limited and HDFC. 2018-2022 was chosen as the period of the study. The study claims that HDFC (Housing Development Finance Corporation Limited) and LICHFL are the best housing finance companies in India as per the ratio analysis overall ranking.

Introduction:

The housing finance industry plays an important role in facilitating home ownership by providing financial assistance to individuals and families. The prominent players in this sector in India are Housing Development Finance Corporation Limited (HDFC) and LIC Housing Finance Limited (LIC HFL). As two of India's leading housing finance companies, HDFC and LIC HFL have attracted significant attention from investors, analysts and policy makers due to their significant impact on the country's housing market and the overall financial system. The objective of this study is to examine and compare the financial performance and operational efficiency of HDFC and LIC HFL. This provides valuable information about their competitive position, operational strategies and overall sustainability.1977. Founded in 2011, HDFC has emerged as a pioneer in housing finance in India, playing a key role in expanding access to housing finance and promoting home ownership. With a strong presence, extensive branch network and diversified product portfolio, HDFC has consistently delivered strong financial results, making it a preferred choice for investors interested in housing finance. On the other hand, LIC HFL, a subsidiary of Life Insurance Company of India (LIC), has also established itself in the housing finance market since 1989. LIC HFL has rapidly expanded its operations and diversified its product offerings to meet the diverse needs of home buyers across the country.\ nAlthough HDFC and LIC HFL operate in the same industry, their financial performance and operational efficiency may differ. differences in business models, market position, risk management practices and regulatory environments. Therefore, a comparative analysis of key financial indicators such as asset quality, profitability, liquidity and solvency ratios together with performance indicators such as loan repayment efficiency, cost-to-income ratio and customer service quality provides valuable information about HDFC's relative strengths. and LIC HFL and weaknesses. By examining these factors in detail, this study aims to provide stakeholders with an in-depth view of the competitive dynamics of the housing finance industry in India and inform strategic decision-making processes.

Literature review :

1) **Suresh Vadde (2011**) in his article "Performance of Banking Financial companies in India - an assessment" published in Journal of Arts Science and Commerce in March 2009 conducted a study to find out the financial position of three NBFCs in relation to HDFC. The article also presents the complete structure of assets and liabilities of the selected companies. inquiry does not include HDFC Bank information. The data was collected from various sources like RBI Bulletin which provided information about financial and investment companies required for this study.

2) **Dr. C. Thilakam and M. Sarvanan (2014)** in their study “CAMEL Analysis of NBFCs in Tamil Nadu” examined 36 NBFCs in Tamil Nadu to assess the financial health of each company using parameters such as capital adequacy, asset quality, management quality and earnings. . and liquidity. The research period is 2003-2012. The findings of the study show that RBI regulations have made NBFCs better and more serious. The study compares and contrasts all the companies and finally tries to give recommendations to overcome the challenges faced by 4444 NBFCs which hinder their growth and development.

3) **Meghna Sarda and Ramesh Chandra babu, 2018**, in their study “Analysis of Housing Finance of Selected NBFCs in India” examines the financial position of NBFCs in the housing finance sector. Companies listed on a reputable stock exchange were selected for the study. Ratios of camel parameters are calculated, tabulated and presented graphically. Statistical tools, ANOVA (f-test) were also tested to test the hypothesis of company differences, based on the analysis, GRUH Finance is first in this study followed by GIC house finance and Dewan house finance ltd. . The final view is provided by LICHFL.

4) **Satyanarayana and Ramu, 2019**, evaluate the financial performance of five public sector and five private sector HFCs in India in a 2009 study, Comparative Study of Public and Private Housing Finance Companies (HFCs) in India - 2018. descriptive statistics in the form of averages and Student's t-test and some financial indicators. They found that regulatory initiatives and policy reforms related to profitability and efficiency had a significant impact on the performance of HFCs in the public and private sectors.

5) **K and Ahuja, 2020** in their article "Financial Performance of Indian Housing Finance Companies" . See housing finance company financial transactions 2014-2015 2018-2019. The selected housing finance companies are listed on a respected stock exchange. They used financial parameters such as liquidity, solvency, value-to-profit ratio to analyze the conclusion that Crest Enterprise and Indian Bulls perform well in liquid period, Indian bulls have a better overall productivity position, and investment crest risk capital is better. work better compared to other selected housing finance companies.

Objectives:

- To compare and analyse the profitability ratios, solvency ratio of HDFC and LIC housing finance companies.
- To evaluate the valuation analysis of HDFC and LIC housing finance companies.

Hypothesis:

- Null hypothesis(H0): There is no significant difference between GDP ratio of HDFC and LIC housing finance companies.
- Alternative hypothesis(H1): There is significant difference between GDP ratio of HDFC and LIC housing finance companies.

Data analysis:

Anova analysis for the profitability ratio and solvency ratio.

1) Solvency ratio

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
current_ratio	Between Groups	.718	1	.718	.567	.473
	Within Groups	10.130	8	1.266		
	Total	10.848	9			
dividend_payout_ratio	Between Groups	463.080	1	463.080	20.963	.002
	Within Groups	176.727	8	22.091		
	Total	639.807	9			
debt_to_equity_ratio	Between Groups	75.570	1	75.570	298.271	.000
	Within Groups	2.027	8	.253		
	Total	77.597	9			
retention_ratio	Between Groups	463.897	1	463.897	20.998	.002
	Within Groups	176.736	8	22.092		
	Total	640.633	9			

Interpretation:

Based on the results of the ANOVA analysis, it can be observed that the p-values (0.473) of the flow ratio are greater than the significance level (a = 0.05). So we cannot reject the null hypothesis of this ratio which shows that there is no significant difference between HDFC and LIC Housing Finance in terms of their current ratio and leverage ratio. However, the p-values (0.002, 0.000 and 0.002) of dividend payout ratio, debt ratio and equity ratio are below the significance level. So we reject the null hypothesis of these ratios which suggest that there is a significant difference between HDFC and LIC Housing Finance in terms of dividend payout ratio, debt to equity and retention rate. This indicates that there are significant differences in dividend distribution and profit distribution between these firms, which may reflect differences in their financial strategies or operational priorities.

2) Profitability ratio

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
net_profit	Between Groups	76.951	1	76.951	.134	.724
	Within Groups	4605.771	8	575.721		
	Total	4682.722	9			
return_on_capital_employed	Between Groups	.497	1	.497	.437	.527
	Within Groups	9.100	8	1.138		
	Total	9.598	9			
return_on_net_worth	Between Groups	5.960	1	5.960	.546	.481
	Within Groups	87.250	8	10.906		
	Total	93.210	9			
asset_turnover_ratio	Between Groups	1.945	1	1.945	.071	.796
	Within Groups	217.753	8	27.219		
	Total	219.697	9			

INTERPRETATION:

Based on the ANOVA analysis results, it can be observed that for all the profitability ratios analyzed - net profit, return on capital employed, return on net worth, and asset turnover ratio - the p-values (0.724, 0.527, 0.481, and 0.796 respectively) are considerably greater than the significance level (α = 0.05). Therefore, we fail to reject the null hypothesis for all these ratios, indicating that there is no significant difference between HDFC and LIC Housing Finance concerning these profitability metrics. This suggests that both companies perform similarly in terms of net profit, return on capital employed, return on net worth, and asset turnover ratio. The lack of significant differences implies that the observed variations in these ratios could be due to random chance rather than systematic differences between the two companies.

Correlation analysis for valuation ratios

Correlations

		enterprise_value	EBITDA	Net_operating_revenue
enterprise_value	Pearson Correlation	1	.897**	.959**
	Sig. (2-tailed)		.000	.000
	N	10	10	10
EBITDA	Pearson Correlation	.897**	1	.917**
	Sig. (2-tailed)	.000		.000
	N	10	10	10
Net_operating_revenue	Pearson Correlation	.959**	.917**	1
	Sig. (2-tailed)	.000	.000	
	N	10	10	10

**. Correlation is significant at the 0.01 level (2-tailed).

Interpretation:

Based on the correlation test results for HDFC and LIC companies over the five-year period, there is a strong positive correlation between their enterprise values, EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization), and net operating revenue. The Pearson correlation coefficients indicate highly significant correlations between these variables ($p < 0.01$), with coefficients ranging from 0.897 to 0.959. This suggests that as enterprise value increases, so does EBITDA and net operating revenue for both HDFC and LIC companies. Similarly, a strong positive correlation exists between EBITDA and net operating revenue, indicating that higher EBITDA is associated with higher net operating revenue. These findings imply a close relationship between financial performance metrics, highlighting the consistency in the financial operations of both companies over the five-year period.

Conclusion:

In conclusion, the comprehensive analysis of financial and operational efficiency across five years reveals nuanced differences between HDFC and LIC Housing Finance companies. While the ANOVA analysis suggests that HDFC and LIC Housing Finance exhibit similar trends in terms of profitability metrics such as net profit, return on capital employed, return on net worth, and asset turnover ratio, significant disparities emerge in liquidity and leverage ratios. HDFC and LIC Housing Finance diverge notably in dividend payout ratio, debt ratio, and equity ratio, indicating distinct approaches to profit distribution and financial leverage. Additionally, the strong positive correlation observed in enterprise values, EBITDA, and net operating revenue underscores the consistent financial performance and operational synergy between HDFC and LIC Housing Finance over the study period. These insights highlight the multifaceted nature of financial and operational efficiency in the housing finance sector, guiding stakeholders in strategic decision-making and performance evaluation.

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