

Regulatory Impact on Financial Performance: A Study of Indian Housing Finance Companies

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Abstract- *In established market economies, the importance of board governance frameworks rose over time as the number of financial irregularities in the business sector increased, notably throughout the twentieth century. This revealed the inefficiencies that existed throughout the governance system. In addition, the framework of effective corporate governance became more widely known as a result of the gradual liberalization of international financial markets, trade, and investment, as well as the opening up of the global economy. This was considered to be an essential instrument for the continuous expansion of the global economy. Different corporate governance standards have developed all over the world as a consequence of the conclusions of a series of expert committees. Essential metrics that are used in order to assess the financial performance of housing finance businesses (HFCs).*

Keywords - Framework, Evaluating, Housing, Finance

INTRODUCTION

The Change In Corporate Governance

According to Indian history, Patliputra, the capital of the Mauryan Empire, was seen as the perfect example of a city that adhered to good governance rules during the third century B.C. Patliputra was thought to be the ideal example. In his book Arthshastra, Chanakya outlined the qualities that define an ideal kind of person and how they should be possessed by the leader of any company. These characteristics are as follows:

- The subjects' welfare;
- The subjects' well-being.

The monarch will naturally be delighted if these two are followed, and anything that is acceptable and beneficial to the people will likewise be desired and advantageous to the king. By substituting the state with the organization, the king with the head of the organization or the board of a company, and the subjects with the shareholders, we can easily apply the principles of corporate governance, which state that the public interest should take precedence over

the private interest and that the resources of the corporation should not be used for personal gain. These principles are readily applicable to this scenario. The following are the obligations that are implied when the king's authority is applied to a business entity:

- Preserving the wealth of the shareholders
- Responsible use of resources;
- Preservation of wealth;
- Transparency and accountability.

The concept of business law was first conceived of and developed in the middle of the 1800s. The primary reason for this action was to protect the interests of the investors of the joint stock companies. The suggestion that the Board of Directors (BOD) should act as trustees for the shareholders was conceived as a result of the need for an appropriate governance structure. In order to ensure that the interests of the shareholders are protected, the Board of Directors would be responsible for supervising the administration of the firm. Over the course of time, institutional investors gradually gained shareholdings from individuals, and as a result of worldwide privatization, the state's authority over assets was gradually superseded by market forces. This resulted in the formation of the ideas of a great number of professionals, including those who felt that efficient governance is a useful indicator of successful market systems.

In established market economies, the importance of board governance frameworks rose over time as the number of financial irregularities in the business sector increased, notably throughout the twentieth century. This revealed the inefficiencies that existed throughout the governance system. In addition, the framework of effective corporate governance became more widely known as a result of the gradual liberalization of international financial markets, trade, and investment, as well as the opening up of the global economy. This was considered to be an essential instrument for the continuous expansion of the global economy.

Different corporate governance standards have developed all over the world as a consequence of the conclusions of a series of expert committees. These standards are a reflection of the requirements of an economy that is both competitive and international. In many countries across the world, the structure of corporate governance is primarily focused on the company's internal operations. It focuses largely on bringing attention to the various levels of management structure composition. Based on the notion that an appropriate structure would automatically assure good delivery, different levels have different compositions. This is done in order to accommodate the different levels. It is important to note that all corporate governance systems are supported by five primary pillars, which will be discussed in more detail later on in this section. The following are some examples:

1. Responsibility
2. Equity
3. Openness
4. Moral rectitude
5. Social duty

The ownership structure of the organization has an impact on the challenges that arise while attempting to sustain these pillars. 2) "Insider" (concentrated) ownership structures are the two types of corporate ownership structures. 1) "Outsider" ownership structures are more distributed. The concentrated ownership structure is characterized by the concentration of ownership control within the hands of a small number of individuals, families, holding companies, banks, or other enterprises that are not related to the financial sector. An insider's ability to exert influence over the company is facilitated by a number of different tactics inside this framework. The most prominent characteristic of this structure is that the bulk of the company's voting shares are held by individuals who are already employed by the business. A significant number of nations, especially those governed by civil law, have systems of ownership that are increasingly concentrated. Within the framework of distributed ownership models, there are several owners, each of whom owns a small share of the firm individually. There is little need for small shareholders to maintain a careful check on the activities of a firm since they are not often involved in the decision-making process regarding management or policy. Both the United States of America and the United Kingdom are examples of common law states that have ownership systems that are dispersed. Regarding corporate governance, the difficulties that arise vary

according to the ownership structure of the company.

Framework for evaluating housing finance companies' financial performance:

There are a number of essential metrics that are used in order to assess the financial performance of housing finance businesses (HFCs). When conducting an assessment of the current status of the financial system, financial regulators often make use of the CAMEL framework. It is a representation of: Capital Adequacy: This refers to whether or not the bank has enough capital to offset any losses that may occur.

The term "asset quality" refers to the degree to which the bank's loans and other assets are functioning properly.

Capability of Management: To what extent does the bank's management team possess the necessary skill and experience?

Earnings Sufficiency: Does the bank generate sufficient revenue to stay in business?

Is there sufficient cash on hand for the bank to meet its immediate requirements? This is referred to as the liquidity position.

The market risk sensitivity of the bank refers to the degree to which it is subject to swings in interest rates, currency rates, or other different market situations.

By integrating the CAMEL method with a variety of other tools, a framework will be constructed for the purpose of conducting an analysis of the HFCs that have been selected. The framework will integrate the following ratios in addition to the CAMEL approach, which is mentioned earlier:

1. Profitability:
 - A. Return on Equity (ROE): calculates the profit a business makes on the investment made by its shareholders. A higher ROE indicates more effective equity usage.
 - B. Return on Assets (ROA): Indicates the amount of profit an organization makes from all of its assets. A greater return on assets (ROA) indicates more profitably allocated assets.
 - C. Net Interest Margin (NIM): Indicates the discrepancy between interest paid on borrowings and interest received on loans. Better profitability from core loan activity is indicated by a higher NIM.

2. Liquidity:
 - A. Current Ratio: evaluates a company's capacity to use its present assets to pay its short-term debt. Sufficient resources to pay off short-term obligations are guaranteed by a strong current ratio.
 - B. Liquidity Coverage Ratio (LCR): Shows how resilient a business is to transient liquidity problems. A robust LCR demonstrates perseverance in cash flow management..
3. Solvency:
 - A. Debt-to-Equity Ratio: determines how much of the company's debt is funded by equity by measuring its leverage. A lower ratio indicates a less risky of default and a more balanced capital structure.
4. Efficiency:
 - A. Operating Expense Ratio: calculates the operating expenses of the company as a proportion of the whole revenue. Better cost management and operational effectiveness are indicated by a lower ratio.
5. Extra Points to Think About:
 - A. Growth **Rate**: Examine patterns in the loan portfolio, clientele, and general expansion of the business.
 - B. Asset Quality: To evaluate the effectiveness of credit risk management, consider the proportion of non-performing assets (NPAs).
 - C. Dividend Payout: Examine the dividend policy and history of the firm to comprehend its emphasis on returns to shareholders.

Corporate governance: When evaluating the effectiveness of certain HFCs, the organization's actions carried out in the context of corporate governance will also be taken into account.

A. Kavitha(2017) A strong corporate governance system is an important component of the management of any firm. There is a significant desire for transparency, and non-banking financial organizations such as home financing businesses are certainly not an exception to this trend. In order to be successful, smaller financial institutions (HFCs) need to overcome more challenges than commercial banks and place a greater emphasis on efficiency. This requires careful management. This research paper's primary objective is to use the CAMEL

model (Capital Adequacy, Asset Quality, Management Efficiency, Earning Capability, and Liquidity) to analyze the financial performance of the five Housing Finance Companies (HFCs) that are listed in India. These HFCs are Can Fin Homes, DEWAN Housing Finance, PNB Housing Finance, LIC Housing, and HDFC. The analysis will be based on the disclosures and corporate governance policies that were made in the annual reports for the years 2007–2008 through 2016–2017. The Companies Act stipulates that the corporate governance score, often known as the CG score, is assigned to each HFC based on a number of different factors. These factors are used to depict the operational stability of financial institutions, as well as their compliance with regulatory requirements and their financial performance.

Ray and Mohan (2004) carried out an empirical comparison of the performance of banks operating in the public sector and those operating in the private sector. This article compares the physical quantities of inputs and outputs from three distinct types of banks: public, private, and foreign banks. The purpose of this comparison is to investigate the efficiency with which banks maximize their income. The study covers a period of eight years, beginning in 1992 and ending in 2000. The study collaborated with 58 different banks in total in order to achieve its objectives. During the survey, twenty banks from the commercial sector, eleven institutions from other countries, and twenty banks from the public sector participated.

HFC types:

- Public limited companies: The company is registered under the Companies Act and is traded on stock exchanges such as HDFC and LIC Housing Finance.
- Due to the fact that they are not listed on stock exchanges, private limited companies often concentrate their efforts on certain markets or geographic regions.
- The non-banking financial companies (NBFCs) that are a subset of the housing finance companies (HFCs) that are primarily engaged in house financing are regulated by the Reserve Bank of India.

Why go with HFCs?

- Specialization: Compared to conventional banks, they provide reasonable interest rates

and customized solutions because to their experience in house financing.

- Flexible options: They often provide more adaptability in terms of lending conditions and required down payment.
- Speedier processing: In comparison to some banks, HFCs could offer speedier loan approval procedures.
- Extra services: A few HFCs provide value-added services such as financial planning and property help.

OBJECTIVES OF THE STUDY

1. To study on housing finance companies' financial performance
2. To study on leadership positions in the home financing sector with their separate firms.

RESEARCH METHODOLOGY

Research Design

The purpose of a research design is to act as a guide or blueprint about the execution of the investigation. It outlines the procedures that must be followed in order to collect the data that is necessary in order to organize and/or solve a research problem. In the research design, the foundation for carrying out the investigation is given out in detail. For the purpose of defining the issue, establishing a strategy for addressing the problem, and developing an appropriate research technique, this study has used both primary and secondary sources of information.

Type of research design

CAMEL is a grading system that is built on the basis of financial ratios. Using this paradigm allows for internal quality control, maintenance, and monitoring to be carried out. In order to evaluate the overall performance of the home finance sector, the major objective of the construction of this system was to gather information. The risk and financial stability of a financial institution, on the other hand, are now evaluated utilizing this methodology of assessment. This technique is also recommended by the Reserve Bank of India (RBI) for the purpose of assessing the overall performance of Indian banks and other financial institutions. Additionally, study methods such as experimental, correlational, causal-comparative, quasi-experimental, and descriptive research were used in order to arrive at the conclusion.

Sources and Data Gathering:

- Source of data:

Various secondary sources of data have been used, including the websites of the Reserve Bank of India (RBI) and the National Housing Bank (NHB), the annual reports of the housing financing firm that is relevant, and publications or journals in which the involved organizations have published their respective figures. Over the course of ten years, beginning in 2011–2012 and continuing through 2020–21, the annual reports of the companies provided the information that was required for research on financial parameters, websites that handle money, CMIE prowess software, and compliances with corporate governance regulations.

Sampling

When it came to grouping home finance corporations, the two types that were used were public deposit-taking businesses and non-deposit-taking organisations. Ninety-nine Hybrid Fuel Cells (HFCs) were registered as of the 30th of June, 2020. The majority of them, seventeen, had been granted a Certificate of Registration (COR), which gave them the authority to take deposits from members of the overall public. In order to be able to accept deposits from the general public, six of the seventeen HFCs that were permitted to do so were had to get official license from the NHB. According to the NHB Trends and Progress Report of HFCs 2020, the remaining 84 firms do not support the practice of accepting deposits. For the purpose of this analysis, the researcher selected ten companies that have been listed on stock markets between the years 2012 and 2021, which is a span of ten years.

DATA ANALYSIS

Whenever there is a division of ownership, control, and management, the Board of Directors is the entity that has the greatest amount of power when it comes to concerns of corporate governance. The Board of Directors, which is comprised of the management, is the entity that is accountable for monitoring the day-to-day operations of the company. The role of these directors is to serve as a mediator between the shareholders and the management. All management actions are within the purview of the Board of Directors, who are accountable to the shareholders. CG is what it is because of the Board of Directors. A wide variety of responsibilities are carried out by them on behalf of the organization, such as

establishing objectives, formulating and enforcing policies, and assessing the efficiency of the chief executive officer and related management

professionals. They increase the value of the company to shareholders, reduce the expenses of the agency, and provide incentives to top executives.

Table 1. Net Profit Margin (%)

Name of the Company	Year											Mean	S.D.
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017			
Indiabulls HFL	12.82	14.17	13.86	18.16	13.78	11.70	12.49	10.48	14.47	17.34	13.93	2.36	
Sahara Housing Finance Company Ltd.	17.01	19.15	19.46	19.05	16.24	13.84	11.49	10.90	12.11	13.40	15.27	3.33	
HDFC Ltd.	27.36	20.51	24.36	26.99	23.42	22.62	22.07	21.37	22.59	21.96	23.33	2.29	
Edelweiss Housing Finance Ltd.	15.96	17.30	17.45	19.72	14.54	12.84	13.79	12.29	12.91	13.20	15.00	2.49	
IIFL Finance Corporation Ltd.	15.71	13.02	15.03	15.85	12.42	10.66	10.62	10.39	9.67	25.95	13.93	4.81	
Mean	18.23	16.81	18.71	20.78	16.76	15.61	15.19	14.05	15.10	18.60			
	5.12	2.85	4.07	4.27	4.21	5.30	4.93	4.82	4.77	4.99			

Table 2. ANOVA Table for Net Profit Margin

Source	Sum of Squares	Df	Mean Square	F	Sig.
Between Companies	778.004	5	155.601	25.760	1%
Between Years	233.424	9	25.936	4.294	1%
Error	271.820	45	6.040		
Total	1283.247	59			

CONCLUSIONS

The present examination, which was carried out with regard to the financial performance of HFCs, revealed the current state of affairs regarding the finances of HFCs. This information was one of the things that was provided. In India, there is a significant demand for housing supply, which may be satisfied by housing finance companies (HFCs), who provide house loans to customers who demonstrate an interest in obtaining them. This criterion is satisfied by HFCs via the offering of home loans to customers as a way of satisfying this requirement. HDFC Ltd. and EDELWEISS HOUSING FINANCE house finance Ltd. have both been successful in preserving their leadership positions in the home financing sector with their separate firms. Both of these companies are home financing companies. On the other hand, IIFL Housing Finance Corporation Ltd. is compelled to have a consistent financial position since the loan activities that they participate in are larger than the revenue and investment returns that they create. This means that they are required to maintain consistency

in their financial situation. The position that they will have in the year that is to come will be affected as a consequence of this. In spite of the fact that there are a few other HFCs that are doing better in terms of business, in order for them to be able to compete with commercial banks, they need to broaden their market region and gain a bigger client base. Additionally, in order to fulfill the criteria, the National Housing Bank is required to provide housing finance companies (HFCs) additional assistance in the form of refinancing. The liquidity position of housing finance companies (HFCs) would improve as a result of this, and it would be easier for them to lend money to housing projects that have a greater potential for profit.

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