International Journal of Advance and Innovative Research
Volume 11, Issue 3 (II): July – September 2024
ISSN 2394 - 7780

FINANCIAL ANALYSIS OF LIC HOUSING FINANCE LIMITED AND PNB HOUSING FINANCE LIMITED

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ABSTRACT

With a strong 13% Compound Annual Growth Rate (CAGR), the Indian housing finance sector is expanding because to increased earnings, improved affordability, and significant government backing. India's housing market reflects the country's social progress and economic expansion.

In the past few years, specifically post-Covid, there has been a consistently robust performance, punctuated by occasional seasonal dips. LIC Housing Finance and PNB Housing Finance Limited, are leading housing finance companies in India, has shown a significant growth since their inception. They are reliable and stable player in the finance-housing sector. Financial analysis of the housing companies allows us to identify their financial strengths and weaknesses. Therefore, the primary aim is to analyse the financial strengths and weakness of the prominent housing finance companies i.e., LIC and PNB Housing Financing Limited on the basis of the last five years financial statement.

Keywords: *Housing Finance Sector, Financial Analysis, Profitability and Financial Strength.*

1. INTRODUCTION

PNB Housing Finance Limited and LIC Housing Finance Limited are both registered under National Housing Bank in India. PNBHFL was incorporated in year 1998 whereas LICHFL founded in 1989. Both are prominent housing finance companies in India having a primary goal to provide long-term financing to their customers for buying and constructing their home in India. They also offer loans for buying real estate for business purpose also. Loan are given to the professional and business for buying shops, showrooms, hostel, office etc.

Since the formation of the Modi Government and providing housing to the poor and underprivileged section of the society the housing finance industry got a boost. The base rates are basically decided by the RBI. So, most of the housing finance companies provide loan at competitive rates. The government salaried employees are preferred by the housing finance and they also check the CIBIL score before any disbursement of the loan.

Therefore, the loan repayment capacity is perfectly evaluated by the companies before giving any loans to the customers. The India’s high growth is largely depended on the infrastructure development and housing is the most important of all. India is a big market for the housing finance companies and favourable government policies has given a significant growth to the housing finance business. Even today the public and private housing finance largely differs in their services.

The private housing finance is growing with a faster rate because they provide door-step services to their customers. All small and big things are being done by their customer relationship manager which is not the same in the public owned housing finance companies. But by the time they also stated valuing their customers and their behaviour towards customers is now improving. The rate of interest is found slightly lower in case of public sector housing finance companies. This study focuses on the financial position of the public sector housing finance companies and also reveals their performance in India under the favourable environment of government.

2. RESEARCH METHODOLOGY

Research Type: Analytical Research. This research is an analytical research in which the financial data of last five year from 2020 to 2024 has been taken. The data was tabulated and analysed thereafter.

Objective of Study: To understand the financial position of the PNB Housing Finance and LIC Housing Finance on the basis of the last five years financial data of the selected companies.

Data Collection: Last five years data was collected from the published annual reports of PNB and LIC Housing finance. This article is based on the secondary data collected from the LIC and PNB websites from their annual reports that includes balance sheet, profit and loss account and ratio analysis. Revenue, Expenses, Profit/Loss, Current Ratio, Quick Ratio, Debt Equity Ratio, Net Profit Margin (%), Return On Capital Employed (%), Asset Turnover Ratio are taken into consideration for the study.

 ISSN 2394 - 7780

3. DATA PRESENTATION AND ANALYSIS

Table No. 1. Financial Data of PNB Housing Finance (in Cr. INR) from Mar-20 to 2024

Particulars	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
Total Revenue	8,489.55	7,624.08	6,200.73	6,529.66	7,057.09
Total Expenses	7,678.54	6,417.05	5,116.77	5,168.75	5,103.19
Profit/Loss For The Period	646.24	929.9	836.48	1,046.00	1,508.01
Current Ratio	1.13	1.1	1.06	0.98	0.6
Quick Ratio	23.91	22.36	21.67	28.38	27.94
Debt Equity Ratio	8.6	6.75	5.44	4.9	3.68
Net Profit Margin (%)	8.04	12.22	13.38	16.27	21.77
Return On Capital Employed (%)	8.85	9.2	8.16	8.15	8.91
Asset Turnover Ratio	0.11	0.11	0.09	0.1	0.1

The following interpretation has been drawn on the basis of the above table no.1:-

- There is a declining trend in total revenue from Mar-20 to Mar-22, followed by a slight recovery in Mar-23 and Mar-24.
- Total expenses have been decreasing consistently from Mar-20 to Mar-24, which is positive and indicates cost management efforts.
- The profit for the period has been increasing overall, with a minor dip in Mar-22, indicating improved profitability over time.
- The current ratio shows a worrying decline, dropping below 1.0 in Mar-23 and further to 0.6 in Mar-24, suggesting potential liquidity issues.
- The quick ratio remains exceptionally high, indicating that the company holds significant quick assets relative to its current liabilities.
- The debt equity ratio shows a declining trend, indicating the company is reducing its reliance on debt financing, which is a positive sign.
- The net profit margin has been improving steadily, suggesting better profitability and efficient cost management.
- The ROCE remains fairly stable with slight fluctuations, indicating consistent returns on capital employed over the years.
- The asset turnover ratio has remained low and fairly stable, suggesting that the company's asset utilization for generating revenue is not very high.

Table No. 2. Financial Data of LIC Housing Finance (in Cr. INR) from Mar-20 to 2024

Particulars	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
Total Revenue	19,706.88	19,880.22	20,005.31	22,728.21	27,277.80
Total Expenses	16,424.70	16,515.09	17,218.06	19,167.44	21,213.43
Profit/Loss For The Period	2,403.66	2,741.13	2,286.00	2,891.17	4,759.56
Current Ratio	2.16	1.75	1.56	0.55	0.56
Quick Ratio	28.92	31.7	39.55	41.18	38.69
Debt Equity Ratio	10.52	10.13	9.07	9.03	8.04
Net Profit Margin (%)	12.19	13.77	11.48	12.76	17.5
Return On Capital Employed (%)	8.61	7.79	6.81	7.26	8.61
Asset Turnover Ratio	0.1	0.09	0.08	0.09	0.1

The following interpretation has been drawn on the basis of the above table no.2:-

- Total revenue has shown a steady increase over the five years, indicating growth in the company's top line. The most significant increase occurred between Year 4 and Year 5.
- Total expenses have also been increasing over the years, reflecting higher operational costs. The increase in expenses is less steep than the revenue growth, which is positive for profitability.
- Profits have been increasing overall, with a dip in Year 3. The substantial increase in Year 5 indicates significant improvements in profitability.

- The current ratio has been declining, falling below 1.0 in Year 4 and Year 5. This shows that liquidity is there and company has to struggle to meet short-term liabilities.
- The quick ratio is exceptionally high, indicating that the company has substantial quick assets. Despite the low current ratio, this high quick ratio suggests that the company can still cover its immediate liabilities.
- The debt equity ratio is high but shows a decreasing trend, indicating that the company is gradually reducing its reliance on debt financing.
- The net profit margin has generally increased, with a significant jump in Year 5. This indicates improved profitability and cost management.
- The ROCE shows fluctuations, with a decline up to Year 3 and a subsequent recovery. By Year 5, the ROCE has returned to the initial value, indicating stable returns on the capital employed.
- The asset turnover ratio remains low but stable, indicating that the company's efficiency in utilizing its assets to generate revenue has not changed significantly.

Hypothesis Testing
First Hypothesis:

H0: There is no significant difference between profitability of PNB Housing Finance and LIC Housing Finance.

H1: There is significant difference between profitability of PNB Housing Finance and LIC Housing Finance.

Calculations
Treatment one (PNB)

N_1: 5, $df_1 = N - 1 = 5 - 1 = 4$; M_1: 993.33, SS_1: 416766.39, $s_{21} = SS_1/(N - 1) = 416766.39/(5-1) = 104191.6$

Treatment two (LIC)

N_2: 5, $df_2 = N - 1 = 5 - 1 = 4$, M_2: 3016.3, SS_2: 4038997.33, $s_{22} = SS_2/(N - 1) = 4038997.33/(5-1) = 1009749.33$

$t = -2022.98/\sqrt{222788.19} = -4.29$

Interpretation
The calculated t-value is -4.28593 and the p-value is .002666 which is less than .05.

Therefore, H1 is accepted that is there is significant difference between profitability of PNB Housing Finance and LIC Housing Finance.

Second Hypothesis:

H0: There is no significant difference between the return on capital employed PNB Housing Finance and LIC Housing Finance.

H1: There is significant difference between return on capital employed PNB Housing Finance and LIC Housing Finance.

Calculations
Treatment one (PNB)

N_1: 5, $df_1 = N - 1 = 5 - 1 = 4$, M_1: 8.65, SS1: 0.9, $s_{21} = SS_1/(N - 1) = 0.9/(5-1) = 0.23$,

Treatment two (LIC)

N_2: 5, $df_2 = N - 1 = 5 - 1 = 4$, M_2: 7.82,SS2: 2.58 , $s_{22} = SS_2/(N - 1) = 2.58/(5-1) = 0.65$

T-value Calculation

$t = .84/\sqrt{0.17} = 2.01$

Interpretation
The calculated t-value is 2.00813. The calculated p-value is .079508 which is more than.05.

Therefore, H0 is rejected. So, there is significant difference between return on capital employed PNB Housing Finance and LIC Housing Finance.

4. COMPARATIVE ANALYSIS OF PNB HOUSING FINANCE AND LIC

LIC Housing Finance has significantly higher revenue compared to PNB Housing Finance. Both companies show fluctuations, but LIC Housing Finance demonstrates a more robust growth trend, particularly with a substantial increase in Mar-24. LIC Housing Finance also has higher expenses than PNB Housing Finance, which aligns with its higher revenue. PNB Housing Finance shows a decrease in expenses over time, while LIC Housing Finance's expenses increase, reflecting its growth. Both companies show an overall increase in profits, with LIC Housing Finance achieving much higher profit figures. LIC Housing Finance's profit growth is particularly notable in Mar-24.

Both companies show a declining current ratio, with values below 1.0 in recent years, indicating potential liquidity issues. LIC Housing Finance starts with a higher current ratio, suggesting initially better liquidity management. Both companies have very high quick ratios, indicating a strong ability to cover immediate liabilities. LIC Housing Finance consistently has a higher quick ratio than PNB Housing Finance. Both companies are reducing their debt equity ratios, with PNB Housing Finance achieving a more significant reduction. However, LIC Housing Finance maintains a higher ratio, indicating more reliance on debt.

Both companies show improvements in their net profit margins. PNB Housing Finance demonstrates a steeper increase, especially in Mar-24, indicating more effective profitability improvements. Both companies have relatively stable ROCE figures, with slight fluctuations. PNB Housing Finance shows a more consistent performance, while LIC Housing Finance demonstrates a slight recovery in Mar-24. Both companies have low asset turnover ratios, indicating similar levels of asset utilization efficiency. The ratios remain stable over the years for both companies.

5. CONCLUSION

Revenue and Profitability: LIC Housing Finance generates significantly higher revenue and profits compared to PNB Housing Finance. Both companies are improving profitability, with LIC showing a substantial increase in the latest year.

Liquidity: Both companies have declining current ratios, with potential liquidity risks. LIC Housing Finance has a better initial liquidity position but still faces challenges. High quick ratios for both companies suggest strong immediate liquidity, though PNB's ratio slightly lags behind LIC's.

Debt Management: PNB Housing Finance shows a more significant reduction in debt equity ratio, indicating better debt management. LIC Housing Finance, while reducing debt, still maintains a higher ratio, reflecting greater reliance on debt financing.

Efficiency and Profitability: PNB Housing Finance shows better improvements in net profit margins and more stable ROCE. Both companies need to work on improving asset utilization as indicated by the low asset turnover ratios.

6. SUGGESTIONS

Liquidity Improvement: Both companies should focus on improving the current ratio to ensure better liquidity management.

Revenue Growth: PNB Housing Finance should focus on strategies to boost revenue to catch up with the industry leader, LIC Housing Finance.

Cost Management: Continue with cost management practices to sustain profitability improvements.

Debt Reduction: LIC Housing Finance should aim to further reduce its debt equity ratio to enhance financial stability.

Asset Utilization: Both companies should explore ways to enhance the efficiency of their assets in generating revenue.

In conclusion, LIC Housing Finance leads in revenue and profit metrics, while PNB Housing Finance shows better improvements in debt management and profitability ratios. Both companies have areas to address in terms of liquidity and asset utilization efficiency.

ISSN 2394 - 7780

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