A comparative evaluation of the selected housing finance organisations is made by the researcher by using the following parameters, viz.,

1. Lending Operations
2. Operational Efficiency
3. Profitability
4. Liquidity
5. Long-term financial position.

1. **Analysis of Lending Operations**:

   An attempt is made to evaluate the lending operations of the four selected housing finance organisations for a period of five years. Lending is the primary business of HFCs. Lending operations determine the survival, growth and progress of the HFCs. Lending operations also indicate financial strength of HFCs. The ultimate objective of every organisation is to maximise the value of the company. This objective can be attained by the HFCs by adopting ideal lending policy.
In a highly competitive environment and in a growing economy, HFCs have to find ways of surging ahead of competition by improved and effective functioning and technological upgradations. As of now, the major share of the housing finance market is held by a few institutions. Increased volume of business is crucial for increasing the income of the HFCs.

The housing finance has gradually undergone a change. This is on account of more institutions entering this business, liberal interest rates, repeal of Urban Land Ceiling and Regulation Act, entry of banks with distinct advantage etc., are the factors which have made housing finance more competitive. Thus, housing finance has become a low margin business. An increased volume of housing finance is very much necessary to increase profit. All the selected housing finance organisations have already taken a number of strategic decisions to increase their lending operations by opening more offices, aggressive marketing and tie up with corporates for lending to their employees and marketing through popular websites. As a result, loans are available at the doorsteps of the customers. Information on loans is available on the Net and sanction of loans is also done through the Net. With thin spreads and competitive rates of interest, tailor made schemes for the borrowers is the need of the hour.

The lending performance of the selected HFOs has been tested by making the inter-and-intra-institutional comparisons of:
a. Loan approvals and disbursements,
b. Compositions of advances to different sectors,
c. Recovery of loans,
d. Interest rate structure, and
e. Interest spread.

a) **Loan Approvals and Disbursements:**

Table 6.1 exhibits the loan approvals of selected HFOs for the period 1995-96 to 1999-2000.

Table 6.1 reveals loan approvals performance of selected housing finance organisations. The loan approvals of HDFC in the year 1996-97 has grown by 21.74 per cent when compared to the year 1995-96. It has gone up to 28.93 per cent in the year 1997-98. In 1998-99 it went down to 25.24 per cent but in the year 1999-2000 it has reached the growth rate of 30.29 per cent.

DHFL has shown a negative growth in 1996-97 i.e., loan approvals have decreased from Rs. 90.23 crore in 1995-96 to Rs.57.63 crore in 1996-97 and picked up in 1997-98, recording a substantial growth rate of 78.36 per cent. The growth rate has declined considerably to 0.49 per cent during the year 1998-99 but in 1999-2000 once again it reached a very good growth rate of 75.41 per cent.

In case of CFHL, the growth rate showed an increase of 0.57 per cent in 1996-97 over the loan approvals of the year 1995-96. In 1997-98 its growth rate improved to 5.68 per cent. But in the year 1998-99
Inclusive of project loans.

Source: Complied from the Annual Reports of HFCs for the relevant years.

Note: 1. 1 Crore = 10 million
2. 1 Lakh = 100,000

### TABLE - 6.1
Loan Approvals

<table>
<thead>
<tr>
<th>Year</th>
<th>Loan approvals (Rs. in crore)</th>
<th>Growth rate (in percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
</tr>
<tr>
<td>1995-96</td>
<td>2071.46</td>
<td>90.23</td>
</tr>
<tr>
<td>1996-97</td>
<td>2521.70</td>
<td>57.63</td>
</tr>
<tr>
<td>1997-98</td>
<td>3251.27</td>
<td>102.79</td>
</tr>
<tr>
<td>1998-99</td>
<td>4071.76</td>
<td>103.29</td>
</tr>
<tr>
<td>1999-2000</td>
<td>5305.15</td>
<td>181.18</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Inclusive of project loans.

Source: Complied from the Annual Reports of HFCs for the relevant years.
and 1999-2000, it has registered a growth rate of 24.48 per cent and 49.89 per cent respectively.

LICHFL has achieved a moderate growth rate of 4.98 per cent in the year 1996-97 over the preceding year. In the year 1997-98, its growth rate was 10.78 per cent. In 1998-99, the growth rate has considerably gone up to 24.69 per cent and in 1999-2000, the growth rate has increased to 27.77 per cent.

It is observed that HDFC has maintained steady and consistent growth in loan approvals over the period under study with the average growth rate of 26.55 per cent in spite of acute competitions compared to other organisations under study. DHFL has shown very erratic performance during the said period. It has shown negative performance [(-) 36.13 per cent] in 1995-96 and also very abnormal growth rate of 78.36 per cent and 75.41 per cent in the years 1996-97 and 1998-99 respectively. Even then, it has registered an average growth rate of 29.53 per cent, which is the highest when compared to other organisations covered by the study. CFHL has gradually increased its loan approvals and the growth rate has shown an increasing trend. Same is the case with LICHFL but in the year 1999-2000 the growth rate is not that encouraging when compared to the performance of CFHL and DHFL. The average growth rate of LICHFL is comparatively low when compared to other organisations.
Table 6.2 exhibits the loan disbursed by the selected HFOs for the period 1995-96 to 1999-2000.

Table 6.2 reveals the position of loan disbursements of selected housing finance organisations under study. The percentage growth rate of loan disbursements of HDFC varied between 24.36 per cent and 31.20 per cent. The loan disbursement position is satisfactory during the period.

DHFL has shown wide fluctuating growth rate. In 1996-97, it showed negative growth rate of (-) 26.16 per cent. In 1997-98, it showed a substantial increase of 43.20 per cent. The growth rate again touched a very low of 0.15 per cent in 1998-99. The loan disbursements suddenly went up considerably to 77.05 per cent. In 1996-97 and 1998-99 the loan disbursement position was very unsatisfactory followed by quite a good performance in 1997-98 and 1999-2000.

The growth rate of CFHL varied between (-) 17.86 per cent and 41.63 per cent. The growth rate in the year 1996-97 was negative i.e., (-) 17.86 per cent over the last year and in 1997-98, it has jumped to 33.44 per cent. It has again gone down to 10.56 per cent in 1998-99 and it has registered a remarkable recovery and reached 41.36 per cent, which is the highest over the period.

The position of LICHFL is quite satisfactory in spite of moderate decline in the growth rate in 1997-98 to 8.50 per cent from 12.47 per...
TABLE - 6.2
Loan Disbursements

<table>
<thead>
<tr>
<th>Year</th>
<th>Loan disbursements (Rs. in crore)</th>
<th>Growth rate (in percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
</tr>
<tr>
<td>1995-96</td>
<td>1683.55</td>
<td>87.24</td>
</tr>
<tr>
<td>1996-97</td>
<td>2100.78</td>
<td>64.42</td>
</tr>
<tr>
<td>1997-98</td>
<td>2753.61</td>
<td>92.25</td>
</tr>
<tr>
<td>1998-99</td>
<td>3424.27</td>
<td>92.39</td>
</tr>
<tr>
<td>1999-2000</td>
<td>4492.74</td>
<td>163.58</td>
</tr>
<tr>
<td>Average</td>
<td>27.86</td>
<td>23.56</td>
</tr>
</tbody>
</table>

- Inclusive of project loans.

Source: Complied from the Annual Reports of HFCs for the relevant years.
cent in 1996-97. The growth rate thereafter went up to 20.40 per cent and 33.06 per cent in the year 1998-99 and 1999-2000 respectively.

It is observed that HDFC has achieved a milestone by maintaining consistent growth rate in loan disbursements over the period with the average growth rate of 27.86 per cent. The average growth rate is the highest when compared to other organisations. DHFL has failed to maintain consistency in its loan disbursements but the average growth rate is high when compared to CFHL and LICHFL. CFHL's position is more or less similar to that of DHFL but its average growth rate is very low when compared to other three institutions. LICHFL's growth rate has shown an increasing trend except in the year 1997-98. Thus, HDFC and LICHFL's position is quite satisfactory when compared to DHFL and CFHL.

b) Composition of Advances to Different Sectors:

In this part an attempt is made to compare the pattern of advance by the HFCs by distinguishing the individuals from the corporate and other advances. In case of DHFL separated data are not available and in case of HDFC, CFHL and LICHFL segregated data are available. The comparative analysis is, therefore, made only under categories, viz., 1. Individuals and 2. Corporate and others.

The pattern of advances of the selected HFCs for the period under study is given in Table 6.3.
TABLE - 6.3
Composition of Advances to Different Sectors

(Rs. in crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>HDFC</th>
<th>DHFL</th>
<th>CFHL</th>
<th>LICHFL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Individual</td>
<td>Corps &amp; others</td>
<td>Total</td>
<td>Individual</td>
</tr>
<tr>
<td>1995-96</td>
<td>3240.76 (68.36)</td>
<td>1499.92 (31.64)</td>
<td>4740.68 (100.0)</td>
<td>NA</td>
</tr>
<tr>
<td>1996-97</td>
<td>3819.17 (66.89)</td>
<td>1890.15 (33.11)</td>
<td>5709.32 (100.0)</td>
<td>NA</td>
</tr>
<tr>
<td>1997-98</td>
<td>4663.12 (67.15)</td>
<td>2280.96 (32.85)</td>
<td>6944.08 (100.0)</td>
<td>NA</td>
</tr>
<tr>
<td>1998-99</td>
<td>5361.46 (68.52)</td>
<td>2587.80 (31.48)</td>
<td>8197.26 (100.0)</td>
<td>NA</td>
</tr>
<tr>
<td>1999-2000</td>
<td>7239.42 (71.94)</td>
<td>2823.58 (28.06)</td>
<td>10063.00 (100.0)</td>
<td>NA</td>
</tr>
<tr>
<td>Average</td>
<td>68.57</td>
<td>31.43</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Figures in brackets indicate percentage.

- Corporate and others include corporate bodies, builders and Co-operative Housing Societies.

Source: Complied from the Annual Reports of HFCs for the relevant years.
All the institutions have given importance to individual lending as is evident from Table 6.3 and in that LICHFL is in the lead and the average lending during the period 1995-96 to 1999-2000 comes to 93.01 per cent. The individual lending by HDFC has varied between 66.89 and 71.94 per cent, registering an average rate of 68.57 per cent and it is also found that individual advances outstanding have marginally increased from year to year. CFHL has advanced loans at an average rate of 79.68 per cent during the period.

Out of the advances to corporate and others, share of HDFC and CFHLs is relatively high when compared to LICHFL. The HFCs, thus have significantly contributed to individual housing needs which is the basic requirement of the people in a developing country.

c) Recovery of Loans:

In this part, an attempt is made to analyse the recovery position of the selected HFOs. The recovery rate is computed as under:

\[
\text{Rate of Recovery of loans} = \frac{\text{Loans recovered}}{\text{Loans outstanding at the beginning of the year}} \times 100
\]

Percentage of recovery of loans is computed on loans outstanding at the beginning of the year, as sometimes loans are disbursed at the end of the year. In such a case the repayment starts from next year. Hence, percentage is computed on the loan amount at the beginning of the year. The information relating to repayment of principal loan
amount and loans outstanding as on 31st March and percentage of recovery is given in Table 6.4.

It is observed in Table 6.4 that the LICHFL has maintained a consistent recovery rate in the range of 11.70 per cent and 14.95 per cent. HDFC on the other hand has shown a very exorbitant rate of recovery of loans, which is in the range of 18.42 per cent and 32.23 per cent. HDFC’s percentage of recovery of loans is comparatively higher than most other organisations under study. The recovery percentage of DHFL has varied between 9.76 per cent and 22.73 per cent. It has shown a violent fluctuation during the said period. In the year 1996-97 it went down to 7.85 per cent from 9.76 per cent in 1995-96 and similarly in 1998-99 it came down to 14.81 per cent from 16.36 per cent in 1997-98. Recovery rate has once again gone up to 22.73 per cent in 1999-2000. CFHL has succeeded in maintaining the recovery rate in the range of 15.02 per cent and 19.18 per cent.

The average recovery rate of LICHFL stood at 13.00 per cent, which is comparatively low when compared to the rest of the institutions. The average rate of recovery of HDFC is relatively higher when compared to the remaining institutions. The average recovery rates of DHFL and CFHL were 14.30 per cent and 16.69 per cent respectively.
Table 6.4  
Percentage of Recovery of Loans to Outstanding Loans

<table>
<thead>
<tr>
<th>Years</th>
<th>Repayment of principal loan amount (Rs. in crore)</th>
<th>Loans outstanding as on 31st March (Rs. in crore)</th>
<th>Percentage of recovery</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
</tr>
<tr>
<td>1995-96</td>
<td>690.42</td>
<td>32.44</td>
<td>57.89</td>
</tr>
<tr>
<td>1996-97</td>
<td>1132.14</td>
<td>30.40</td>
<td>71.72</td>
</tr>
<tr>
<td>1997-98</td>
<td>1518.86</td>
<td>68.89</td>
<td>82.45</td>
</tr>
<tr>
<td>1998-99</td>
<td>2149.08</td>
<td>65.81</td>
<td>88.16</td>
</tr>
<tr>
<td>1999-2000</td>
<td>2649.00</td>
<td>107.08</td>
<td>115.48</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled from the Annual Reports of HFCs for the relevant years under study.

Note: Recovery of principal amount of loan = Outstanding balance at the beginning of year (1st April) + Loan disbursed during the year - Outstanding loans at the end of the year (31st March)
d) **Interest Rate Structure:**

Interest rate is used for comparison. The latest lending interest rates are taken for comparison. Table 6.5 reveals the interest rates charged by the respective institutions and EMI amount. EMI amount is given for information purpose.

Table 6.5 clearly reflects that the two institutions viz., HDFC and LICHFL have adopted single interest rate irrespective of the loan amount i.e., 13 per cent p.a. HDFC is charging 13 per cent p.a. on all types of schemes irrespective of period of loan (i.e., the same rate of interest on loans taken for all purposes) whereas LICHFL is charging 13 per cent p.a. for schemes No. 1 to 4 and 13.50 per cent p.a. for the scheme No. 5 (schemes as given in chapter V). It is 14 per cent p.a., if the period of loan is 16 to 20 years.

CFHL is charging 13.25 per cent p.a. on loans taken for the purpose of acquisition/construction of houses and 13.50 per cent p.a. on loans taken for repairs/renovation/upgradation/extension, etc. But DHFL has adopted varying rates of interest for the different loan limits. For example, up to Rs. 25,000, it is 12 per cent p.a., above Rs. 25,000 up to Rs. 10 lakh, it is 13.25 per cent and above Rs. 10 lakh up to 25 lakh it is at 14 per cent p.a.

It is observed that the rate of interest charged by DHFL is low when compared to other HFCs, up to a loan limit of Rs. 25,000. HDFC charges a flat rate of interest of 13 per cent on loans irrespective of
### TABLE - 6.5
Interest Rate Structure

<table>
<thead>
<tr>
<th>Term of loan years</th>
<th>HDFC</th>
<th>DHFL</th>
<th>CFHL*</th>
<th>LICHFL**</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. 5</td>
<td>13.00% p.a.</td>
<td>12.00% p.a.</td>
<td>13.25% p.a.</td>
<td>14.00% p.a.</td>
</tr>
<tr>
<td>b. 7</td>
<td>2,370</td>
<td>1,826</td>
<td>1,899</td>
<td>1,944</td>
</tr>
<tr>
<td>c. 10</td>
<td>1,536</td>
<td>1,475</td>
<td>1,552</td>
<td>1,598</td>
</tr>
<tr>
<td>d. 15</td>
<td>1,290</td>
<td>1,224</td>
<td>1,307</td>
<td>1,357</td>
</tr>
<tr>
<td>e. 20</td>
<td>1,187</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### II. Rate of Interest chargeable

<table>
<thead>
<tr>
<th>a. Up to Rs.25,000</th>
<th>Single rate irrespective of loan amount, i.e., 13.00%</th>
<th>12.00%</th>
<th>13.25%</th>
<th>14.00%</th>
<th>Single rate irrespective of loan amount, i.e., 13.00% and 13.50%</th>
</tr>
</thead>
<tbody>
<tr>
<td>b. Rs.25,001 to Rs.10,00,00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Rs.10,00,001 to Rs.25,00,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- 13.75% per annum for rapiers/renovation/upgradation/extension.

** a) 14.00% per annum if loan term is from 16 to 20 years.
   b) 13.50% per annum for repairs/renovation (Home improvement) (i.e., for scheme No. 5).
   c) 13.00% per annum for the schemes No.1 to 4.
their size and period. This rate works out cheaper when compared to the remaining three institutions for loans exceeding Rs.25,000.

e) Interest Spread:

The rates at which the funds are borrowed and lent are indicative of the interest spread. If sufficient margin is available after payment of interest, it reflects that there is a good co-ordination between lending and borrowing policy. Lack of synchronisation between these two will adversely affect the financial health of a firm. If the interest spread is high, it denotes that the funds are efficiently used. It also indicates that the funds are borrowed at a very economical rate.

Interest spread is computed and expressed in percentage as given under:

\[
\text{Interest spread to interest received ratio} = \frac{\text{Interest received} - \text{interest paid} \times 100}{\text{Interest received}}
\]

Table 6.6 reveals percentage of interest spread for the period 1995-96 to 1999-2000.

Table 6.6 reveals the ratio of interest spread to interest received of the selected HFOs. Interest spread ratio of HDFC varied between 25.47 per cent and 29.64 per cent. In the first three years, it registered a continuous increase, though it declined marginally in the last two years. Its average interest spread ratio of 27.73 per cent is the
highest when compared to the remaining units under study. This fact reveals that HDFC's proportion of debt to equity is lower as compared to remaining units. Thus, HDFC has a good/comfortable interest spread.

In case of DHFL, the ratio varied between 21.77 per cent and 27.10 per cent. It is observed that the ratio has continuously increased from year to year. In spite of this increasing trend, its average percentage of interest spread is the lowest when compared to the remaining three HFOs. This reveals that the interest paid on borrowed funds has been considerably reduced by the corporation.

In case of CFHL the ratio varied between 23.12 per cent and 26.23 per cent. In the first three years, it recorded continuously declining trend. Though it increased considerably in the fourth year, it again declined in the fifth year. It is observed that in spite of frequent fluctuations in the ratio, its average ratio of interest spread is just above the average ratio of the DHFL and is below the average ratio of HDFC and LICHFL.

In case of LICHFL the ratio varied between 23.04 per cent and 28.64 per cent. It is interesting to note that the ratio has shown a continuous declining trend. This fact shows that LICHFL has not been able to reduce its interest burden. Even then, its average ratio is high when compared to DHFL and CFHL.
The percentage of interest spread is lower as a result of excessive use of debt which ultimately increases the interest burden of HFCs.

When a comparative evaluation is made the percentage of interest spread indicates that HDFC has the most satisfactory position than that of the remaining units. Further, an increasing trend in the ratios of DHFL, a declining trend in LICHFL and a fluctuating trend in HDFC and CFHL are observed during the study period.

However, when the ratios are compared to industry’s average ratio, HDFC and LICHFL have maintained a slightly higher ratio than the industry’s average ratio as indicated in Table 6.6.

2. Analysis of Operational Efficiency:

Any organisation to be an asset to the society, should put its resources to best use, that is, optimum utilisation of various scarce resources like men, money, machines, materials, etc., so as to attain the enterprise objectives at optimum cost. This depends on the efficiency of the management. Operational efficiency is one of the parameters adopted to evaluate the efficiency of the management. Operational efficiency is a systematic and objective way of judging the institution’s efforts in discharging its affairs at minimum cost. Operational expenses are the major expenses, which swallow the major portion of the earnings of an enterprise. Hence, the enterprise needs to take utmost care and caution to control such expenses.
TABLE - 6.6
Interest Spread to Interest Received Ratio

| Year   | HDFC | DHFL | CFHL | LICHFL | HDFC | DHFL | CFHL | LICHFL | HDFC | DHFL | CFHL | LICHFL | HDFC | DHFL | CFHL | LICHFL | HDFC | DHFL | CFHL | LICHFL | Industry's Average
<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1996-97</td>
<td>360.05</td>
<td>16.09</td>
<td>22.47</td>
<td>105.97</td>
<td>1216.31</td>
<td>69.73</td>
<td>93.85</td>
<td>399.77</td>
<td>29.60</td>
<td>23.07</td>
<td>23.94</td>
<td>26.51</td>
<td>25.78</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1998-99</td>
<td>427.43</td>
<td>21.10</td>
<td>28.44</td>
<td>139.87</td>
<td>1677.90</td>
<td>82.41</td>
<td>108.41</td>
<td>545.82</td>
<td>25.47</td>
<td>25.60</td>
<td>26.23</td>
<td>25.63</td>
<td>25.73</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1999-2000</td>
<td>500.70</td>
<td>23.25</td>
<td>28.00</td>
<td>143.35</td>
<td>1937.65</td>
<td>85.80</td>
<td>112.97</td>
<td>622.30</td>
<td>25.84</td>
<td>27.10</td>
<td>24.79</td>
<td>23.04</td>
<td>25.19</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>27.73</td>
<td>24.47</td>
<td>24.83</td>
<td>26.14</td>
<td>25.79</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled from the annual reports of HFCs for the relevant years.
In this part, an attempt is made to compare the operational expenses to gross income and each component of operational expenses to total operational expenses.

The total operating expenses are categorised into four groups and they are:

1. Interest and other charges: This head of expenditure includes interest paid on loans, deposits, bonds and debentures and other financial charges.
2. Staff expenses: salaries, bonus, contribution to provident fund and other funds, staff training and welfare expenses are included in the category of expenses.
3. Establishment expenses: This category of expenses comprise rent, rates and taxes, repairs and maintenance, electricity charge, insurance and general office expenses.
4. Other expenses: These consist of all those expenses which are not covered in the categories mentioned in the aforesaid paragraphs. These aspects are analysed as under.

I. Comparison of Different Heads of Expenses to Gross Income:

In this part a comparative evaluation is made on the following basis.

(a) Percentage of Interest and Other Expenses to Gross Income:

This percentage establishes relationship between the interest and other expenses paid on the borrowed funds and the gross income. This is the indicator which measures efficiency of HFOs in raising funds
reasonably at lower cost. A lower percentage reveals that the funds are acquired at lower cost and leaves a higher margin for shareholders and shows the efficiency of the enterprise. On the other hand, a high ratio reflects the lack of efficiency.

Interest and finance charges are shown separately in the profit and loss account. These charges vary from one company to another company as the percentage of shareholders funds to borrowed funds of different companies differ.

Thus, the percentage of interest and other charges to gross income is computed as under.

\[
\text{Percentage of interest} = \frac{\text{Interest and other charges}}{\text{Gross income}} \times 100
\]

Table 6.7 shows the percentage of interest and other charges to gross income.

Table 6.7 reveals that the percentage of interest and other charges paid on funds borrowed to the gross income. The percentage in case of HDFC varied in the range of 67.50 per cent to 71.34 per cent. The average percentage is 69.17, which is lowest when compared to other units under study during the period.

In contrast, DHFL's percentage has varied between 68.77 per cent and 74.93 per cent. The average percentage is 72.08 per cent. In the case of CFHL the percentage has varied between 73.49 per cent and
TABLE - 6.7
Percentage of Interest and Other Charges to Gross Income

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest and other charges (Rs. in crore)</th>
<th>Gross income (profit) (Rs. in crore)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
</tr>
<tr>
<td>1995-96</td>
<td>662.96</td>
<td>47.43</td>
<td>61.64</td>
</tr>
<tr>
<td>1996-97</td>
<td>836.26</td>
<td>53.64</td>
<td>71.38</td>
</tr>
<tr>
<td>1997-98</td>
<td>982.80</td>
<td>58.09</td>
<td>76.30</td>
</tr>
<tr>
<td>1998-99</td>
<td>1250.47</td>
<td>61.31</td>
<td>79.97</td>
</tr>
<tr>
<td>1999-2000</td>
<td>1436.95</td>
<td>62.55</td>
<td>84.97</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled from the Annual Reports of HFCs for the relevant periods.
76.78 per cent, which gives an average of 74.96 per cent. It is the highest average when compared to the rest of the institutions. LICHFL has maintained the ratio in the range of 69.45 per cent and 74.21 per cent, i.e., at an average of 71.83 per cent.

It is observed that the interest and other charges constitute a lion's share of the total gross income earned by these institutions. In case of HDFC and LICHFL the percentage has shown an increasing trend during the period. Whereas the DHFL has managed to reduce this percentage, i.e., the percentage shows on declining trend. This is an indication that DHFL has not much dependent on borrowed funds and capital is acquired at low rates. DHFL has increased its volume of operations during the study period. In case of CFHL the ratio fluctuates erratically. It has shown increasing trend up to the period of 1997-98 and it has considerably declined to 73.73 per cent in 1998-99 from 76.28 per cent in 1997-98 and again it has gone up to 74.97 per cent in 1999-2000.

(b) Percentage of Staff Expenses (manpower cost) to Gross Income:

This percentage is useful in understanding the total expenditure incurred on manpower when compared to gross income. This percentage emphasises the portion of the gross income that is spent on staff. A lower percentage implies that the enterprise is operating with
minimum expenditure on its staff or a better control by the institution over these expenses and *vice versa*.

Table 6.8 exhibits the percentage of the total staff expenses to gross income for the period 1995-96 to 1999-2000.

Table 6.8 shows that the average percentage of staff expenses to gross income of HDFC is 1.29 per cent and that of DHFL is 2.85 per cent. In case of CFHL and LICHFL it is 2.59 per cent and 1.61 per cent respectively during the period under study.

Therefore, it seems HDFC and LICHFL have succeeded in maintaining a low percentage of staff expenses to gross income. Whereas in case of DHFL and CFHL this percentage is quite higher that is of the order of 2.85 per cent and 2.59 per cent respectively.

In other words, the percentage showed a declining trend in both HDFC (except 1999-2000) and LICHFL (except 1997-98). In case of DHFL and CFHL, it has shown an increasing trend. Thus, HDFC's average percentage is lowest (1.29 per cent) when compared to rest of the institutions and DHFL's average percentage is very high (2.85 per cent) when compared to other institutions during the period under study.

(c) **Percentage of Establishment Expenses to Gross Income:**

This percentage is useful in knowing the total establishments cost incurred on office building, general office expenses, etc., when
TABLE - 6.8
Percentage of Staff Expenses to Gross Income

<table>
<thead>
<tr>
<th>Year</th>
<th>Staff expenses (Rs. in crore)</th>
<th>Gross income (Rs. in crore)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
</tr>
<tr>
<td>1995-96</td>
<td>13.34</td>
<td>1.52</td>
<td>1.78</td>
</tr>
<tr>
<td>1996-97</td>
<td>15.78</td>
<td>1.97</td>
<td>2.13</td>
</tr>
<tr>
<td>1997-98</td>
<td>17.97</td>
<td>2.44</td>
<td>2.40</td>
</tr>
<tr>
<td>1998-99</td>
<td>21.60</td>
<td>2.60</td>
<td>3.05</td>
</tr>
<tr>
<td>1999-2000</td>
<td>27.33</td>
<td>2.84</td>
<td>3.77</td>
</tr>
<tr>
<td>Average</td>
<td>1.29</td>
<td>2.85</td>
<td>2.59</td>
</tr>
</tbody>
</table>

Source: Compiled from the Annual Reports of HFCs for the relevant years.
compared to the gross income. If the establishment cost are less it indicates that the enterprise is operating with the minimum expenditure on its establishment purposes and vice versa. The size of the cost determine the margin of income available to the owners.\textsuperscript{1}

Table 6.9 shows the percentage of establishment expenses to gross income for the period 1995-96 to 1999-2000.

Table 6.9 reveals that the average percentage of establishment expenses to gross income of LICHFL and HDFC is significantly low, i.e. 0.38 per cent and 0.55 per cent respectively during the period under study. In case of DHFL and CFHL it is 1.51 per cent and 1.62 per cent respectively. In case of CFHL the percentage has registered a continuous increasing trend. This denotes that the establishment expenses rose sharply over the period under study.

The efforts of LICHFL and HDFC in keeping down the average percentage of establishment expenses, in spite of having more number of branches and Regional offices are commendable. In contrast, DHFL and CHFL's average percentage is considerably high when compared to LICHFL and HDFC.

(d) Percentage of Other Expenses to Gross Income:

This percentage establishes the relationship between other expenses and gross income of the enterprise. It is useful in understanding the size and significance of the other expenses when
### TABLE - 6.9
Percentage of Establishment Charges to Gross Income

<table>
<thead>
<tr>
<th>Year</th>
<th>Establishment charges (Rs. in crore)</th>
<th>Gross income (Rs. in crore)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
</tr>
<tr>
<td>1995-96</td>
<td>5.59</td>
<td>1.04</td>
<td>1.11</td>
</tr>
<tr>
<td>1996-97</td>
<td>7.09</td>
<td>1.14</td>
<td>1.50</td>
</tr>
<tr>
<td>1997-98</td>
<td>7.55</td>
<td>1.22</td>
<td>1.75</td>
</tr>
<tr>
<td>1998-99</td>
<td>9.40</td>
<td>1.33</td>
<td>1.80</td>
</tr>
<tr>
<td>1999-2000</td>
<td>11.03</td>
<td>1.32</td>
<td>2.00</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled from the annual reports of HFCs for the relevant years.
compared to the gross income. A higher percentage exhibits a larger share of the other expenses in the gross income and *vice versa*.

Thus, percentage of other expenses to gross income is computed as under:

\[
\text{Percentage of other expenses to gross income} = \frac{\text{Other expenses}}{\text{Gross income}} \times 100
\]

Table 6.10 portrays the percentage of other expenses to gross income for the period 1995-96 to 1999-2000.

Observation of Table 6.10 shows that the average percentage of other expenses to the gross income of LICHFL is remarkably low, i.e., 1.19 per cent when compared to the other institutions. LICHFL has succeeded in keeping its average percentage of other expenses at a low level despite of continuous increase in other expenses. HDFC and CFHL have maintained an average of 1.70 per cent and 2.01 per cent respectively during the said period.

In case of DHFL, it showed a very high percentage, i.e., 6.03 per cent when compared to the HDFC, CFHL and LICHFL.

HDFC has registered a continuous decrease, in other expenses during the period, but it significantly declined in the last two years. In case of DHFL it fluctuates erratically that is in the first three years of the period under study it has shown an increasing trend and in the last
### TABLE 6.10

Percentage of Other Expenses to Gross Income

<table>
<thead>
<tr>
<th>Year</th>
<th>Establishment charges (Rs. in crore)</th>
<th>Gross income (Rs. in crore)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
</tr>
<tr>
<td>1995-96</td>
<td>19.31</td>
<td>3.66</td>
<td>1.50</td>
</tr>
<tr>
<td>1996-97</td>
<td>24.49</td>
<td>4.57</td>
<td>1.56</td>
</tr>
<tr>
<td>1997-98</td>
<td>26.43</td>
<td>5.28</td>
<td>2.17</td>
</tr>
<tr>
<td>1998-99</td>
<td>24.59</td>
<td>5.12</td>
<td>2.08</td>
</tr>
<tr>
<td>1999-2000</td>
<td>27.87</td>
<td>5.10</td>
<td>2.85</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled from the annual reports of HFCs for the relevant years.
two years a declining trend. CFHL has also not succeeded in keeping the other expenses reasonably stable.

II. Comparison of Each Head of Expenses to Total Operating Cost:

An attempt is made in this part to compare each head of expenses to the total operating expenses during the period. This part aims at assessing the operational efficiency of the selected housing finance organisations in terms of cost incurred.

This helps to measure the share of each category of cost in the total operating cost and in taking steps to control cost if it is controllable.

Total operating cost include staff expenses, establishment expenses and other expenses where interest and other charges are excluded. Efficiency is tested on the following basis.

a. Percentage of staff expenses to total operating cost,
b. Percentage of establishment expenses to total operating cost, and
c. Percentage of other expenses to total operating cost.

(a) Percentage of Staff expenses to Total Operating Cost:

The percentage of staff expenses to total operating cost measures the size of the remuneration paid to the staff employed in the total operating cost incurred by the institutions. Staff expenses for this
purpose include salary, bonus, contribution to provident fund and other funds, staff training and welfare cost. The total operating cost includes in addition to the above, the establishment and other cost.

A higher percentage reveals a larger share of the staff expenses compared to other category of cost. It may also indicate the institution's inability to control its staff cost. A lower percentage, on the other hand, is an indicator of lower expenditure on the staff, i.e., manpower resources or a better control by the institution over these cost.

Thus, it is computed as under:

\[
\text{Ratio of staff expenses to total operating cost} = \frac{\text{Staff expenses}}{\text{Total operating cost}} \times 100
\]

Table 6.11 portrays the staff expenses to total cost ratio of HDFC varied between 33.32 per cent and 41.27 per cent. From 1996-97, the ratio has been continuously increasing. This fact denotes that the staff expenditure was not under control.

In case of DHFL, the ratio showed the variation in the range of 24.44 per cent and 30.67 per cent. It has shown a continuous increasing trend right from first year of the study period.

CHFL's ratio has varied between 37.97 per cent and 44.01 per cent. In the first two years it recorded an increasing trend revealing
TABLE - 6.11

Percentage of Staff Expenses to Total Operating Cost

<table>
<thead>
<tr>
<th>Year</th>
<th>Staff expenses</th>
<th>Total operating expenses</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
</tr>
<tr>
<td>1995-96</td>
<td>13.34</td>
<td>1.52</td>
<td>1.78</td>
</tr>
<tr>
<td>1996-97</td>
<td>15.78</td>
<td>1.97</td>
<td>2.13</td>
</tr>
<tr>
<td>1997-98</td>
<td>17.97</td>
<td>2.44</td>
<td>2.40</td>
</tr>
<tr>
<td>1998-99</td>
<td>21.60</td>
<td>2.60</td>
<td>3.05</td>
</tr>
<tr>
<td>1999-2000</td>
<td>27.33</td>
<td>2.84</td>
<td>3.77</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled from the annual reports of HFCs for the relevant years.
continuous rise in the staff expense. It declined considerably in the third year, i.e., 1997-98 but again it increased in 1998-99 and declined marginally in 1999-2000.

In case of LICHFL, the ratio has varied between 45.37 per cent and 57.56 per cent. Though the cost sharply increased in the year 1996-97, thereafter it has registered a declining trend in the last three years of the period under study. This reflects that the expenditure incurred on manpower resources has considerably reduced in LICHFL.

However, the average ratio of DHFL is lower (27.36 per cent) when compared to the other three institutions. Whereas the average ratio of LICHFL is higher (50.32 per cent) when compared to the rest of the corporations. In other words, the staff expenses form a major part of the total cost incurred by CFHL. This suggests that the staff expenditure is more significant in case of HFCs.

(b) Percentage of Establishment Expenses to Total Operating Cost:

Establishment cost refers to the cost incurred by an institution for maintenance of office buildings. It includes rent, rates and taxes, repairs and maintenance, electricity charges, insurance and general office expenses. This ratio indicates the quantum and significance of the establishment cost in the total cost incurred by an institution. A lower ratio shows a lesser share of establishment cost compared to
other category of cost. It may also indicate the institution’s efficiency
to minimise its establishment cost and vice versa.

Thus, it is computed as under:

\[
\text{Ratio of establishment cost} = \frac{\text{Establishment cost}}{\text{Total operating cost}} \times 100
\]

Table 6.12 shows percentage of establishment expenses to total
operating expenses during the period under study.

Table 6.12 exhibits, the establishment cost to total operating cost
ratio of HDFC which has varied between 14.53 per cent and 16.91 per
cent. In the first two years, it showed a moderate increase from 14.62
per cent to 14.97 per cent. Though it declined marginally in 1997-98
(14.53 per cent), it again increased to 16.91 per cent in 1998-99 and
again declined to 16.65 per cent in 1999-2000. This fact indicates the
violent fluctuation in the establishment cost.

In case of DHFL, it has fluctuated between 13.65 per cent and
21.60 per cent. In the first three years, it has recorded a declining
trend and in the year 1998-99 it has increased to 14.70 per cent and it

In case of CFHL it showed a variation in the range of 23.20 per
cent and 28.90 per cent. Though the cost sharply increased to 28.90
per cent in 1996-97 from 25.28 per cent in 1995-96, from the year
1996-97 it registered a declining trend. This clearly reveals that the
### TABLE 6.12

<table>
<thead>
<tr>
<th>Year</th>
<th>Staff expenses (Rs. in Crore)</th>
<th>Total operating expenses (Rs. in Crore)</th>
<th>Percentage of Establishment Expenses to Total Operating Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-96</td>
<td>1.04</td>
<td>6.22</td>
<td>0.17</td>
</tr>
<tr>
<td>1996-97</td>
<td>1.13</td>
<td>5.19</td>
<td>0.17</td>
</tr>
<tr>
<td>1997-98</td>
<td>1.22</td>
<td>6.32</td>
<td>0.17</td>
</tr>
<tr>
<td>1998-99</td>
<td>1.32</td>
<td>8.94</td>
<td>0.17</td>
</tr>
<tr>
<td>1999-00</td>
<td>1.43</td>
<td>9.40</td>
<td>0.17</td>
</tr>
<tr>
<td>Average</td>
<td>1.32</td>
<td>8.94</td>
<td>0.17</td>
</tr>
</tbody>
</table>

*Source: Compiled from the annual reports of HFCs for the relevant periods.*
expenditure incurred on establishment has been significantly reduced by the corporation.

In case of LICHFL, the ratio varied between 9.43 per cent and 15.05 per cent. From 1996-97, it recorded an increasing trend reflecting a continuous rise in the establishment cost.

However, the average ratio of LICHFL is 12.17 per cent, which is comparatively lower than the HDFC, DHFL and CFHL. The average ratio of CFHL is 26.21 per cent, which is relatively higher when compared to HDFC, DHFL and LICHFL. The average ratio of HDFC and DHFL is in between the two extreme, i.e., 15.54 per cent and 16.30 per cent respectively.

(c) Percentage of Other Expenses to Total Operating Cost:

The expenses other than staff and establishment expenses are listed under this category of cost. This includes travelling and conveyance, printing and stationery, postage, telephone and telex, advertising, professional fees, Directors sitting fees, miscellaneous expenses, etc.

This ratio establishes a link between other expenses and total expenses. If other expenses are less, that shows that the enterprise is operating with minimum other expenditures. This is an indicator for measuring the enterprise ability to control this cost. This is computed as under:
Table 6.13 shows the percentage of other expenses to the total operating expenses.

Table 6.13 depicts the other expenses to total expenses ratio of HDFC varied between 42.08 per cent and 51.71 per cent. In the year 1996-97, it has marginally increased to 51.71 per cent from 50.50 per cent in 1995-96. Since 1996-97 it registered a declining trend reflecting a continuous decline. This indicates that the other expenses have been reduced by the corporation.

In case of DHFL, the ratio has varied between 55.08 per cent and 59.90 per cent. In this case also, the ratio has gone up to 59.50 per cent in 1996-97 from 58.84 per cent in 1995-96, thereafter, it recorded a declining trend revealing continuous decrease in other expenses.

In case of CFHL, The ratio varied between 30.01 per cent and 34.34 per cent. In the year 1996-97, it has sharply declined to 30.06 per cent from 34.17 per cent in the year 1997-98, it has gone up to 34.34 per cent and it has again gone down to 30.01 per cent. It has again increased to 33.06 per cent in 1999-2000. This implies that there have been erratic fluctuations in the other cost.

In case of LICHFL, the ratio varied between 33.01 per cent and 39.58 per cent. Though the ratio significantly decreased to 33.01 per
### TABLE – 6.13

Percentage of Other Expenses to Total Operating Cost

<table>
<thead>
<tr>
<th>Year</th>
<th>Staff expenses (Rs. in crore)</th>
<th>Total operating expenses (Rs. in crore)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
</tr>
<tr>
<td>1995-96</td>
<td>19.31</td>
<td>3.66</td>
<td>1.50</td>
</tr>
<tr>
<td>1996-97</td>
<td>24.49</td>
<td>4.57</td>
<td>1.56</td>
</tr>
<tr>
<td>1997-98</td>
<td>26.43</td>
<td>5.28</td>
<td>2.17</td>
</tr>
<tr>
<td>1998-99</td>
<td>24.59</td>
<td>5.12</td>
<td>2.08</td>
</tr>
<tr>
<td>1999-2000</td>
<td>27.87</td>
<td>5.10</td>
<td>2.85</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Compiled from the annual reports of HFCs for the relevant years.
cent from 37.64 per cent in 1995-96, from the year 1996-97 it recorded an increasing trend.

However, the average ratio of DHFL is 57.81 per cent, which is very high when compared to the remaining units under study. Whereas the average ratio of CFHL is 32.38 per cent when compared to rest of the units. Similarly, the average ratio of HDFC and LICHFL is 47.88 per cent and 37.51 per cent respectively.

3. Profitability Analysis:

A company is known by the profit it earns. The profit reflects the quality of its products or services, the competence of its management and the efficiency in its working. Profits are indeed the very lifeblood of any business. It is profit that makes the company grow; it is profit that attracts investors and it is profit that attracts the finances required for expansion, etc. Thus, making enough profit, is essential for the continued survival of the company.

Management, owners, creditors and society at large are interested in the profitability of a company. "Creditors, banks and financial institutions are interested in profitability ratios, since they indicate liquidity or capacity of the business to meet interest obligations and regular and improved profit to enhance the long term solvency position of the business. Owners are interested in profitability for they indicate the grown of and the rate of return on their investment"1
“Profits are relative, a large company may have profits much more than a smaller one but the smaller one may be better organised and more profitable. The submission made is that one should not look at mere numbers because the numbers can be misleading. What one must examine is the profitability – the returns earned on capital invested and margins as this really differentiates the efficient from the inefficient – the good from the bad.”2

Profitability is, therefore, an indication of overall efficiency of the business concern. A lower profitability may arise due to poor operational performance and lack of control over the expenses. The profitability of business concerns can be evaluated by the use of margin ratios, returns ratios and earning ratios.

A. Margin Ratios:

Margins indicate the return a company makes on its operations. “It is important that margins be examined as they give a tremendous insight into the company’s workings, demand for its products and its efficiency.”3 Margin ratios include:

1. Operating profit margin ratio, and
2. Net profit margin ratio.

1. **Operating Profit Margin Ratio:**

   This ratio is a link between the operating profit and gross income from operations expressed as a percentage. Operating profit
margin refers to profit arrived at after deducting all operating costs but before providing for interest and taxes. On the other hand, gross profit/income means the incomes earned by HFCs from operations. Gross income is taken as a denominator because HFCs are the trading concerns/financial institutions, where the question of sales does not arise.

A high ratio of operating profit margin is an indication that operating costs are kept low. A low ratio shows that operating costs are more and it is a symptom of ineffective control over the operating costs.

The margin ratio is computed as under:

\[
\text{Operating Profit/Margin Ratio} = \frac{\text{Operating Profit}}{\text{Gross Income}} \times 100
\]

Table 6.14 reveals the operating profit margin of HDFC which varied between 92.35 per cent and 94.16 per cent. It fell from 92.51 per cent in 1995-96 to 92.35 per cent in 1997-98. It again picked up in last two years i.e., 93.53 per cent and 94.16 per cent in 1998-99 and 1999-2000 respectively. The average operating profit margin of this corporation during the period of study is 92.99 per cent.

As against this, the ratio of DHFL is varied between 88.20 per cent and 89.30 per cent. It is observed that the ratio has shown a declining trend in the first three years i.e., 89.23 per cent in 1995-96 to 88.20 per cent in 1997-98. Further, it is below the average ratio of
### TABLE - 6.14
Operating Profit Margin Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating profit (Rs. in crore)</th>
<th>Gross Profit (Rs. in crore)</th>
<th>Ratio (in percentage)</th>
<th>Industry's Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
<td>LICHFL</td>
</tr>
<tr>
<td>1995-96</td>
<td>908.65</td>
<td>56.48</td>
<td>77.60</td>
<td>312.77</td>
</tr>
<tr>
<td>1996-97</td>
<td>1169.15</td>
<td>64.73</td>
<td>88.58</td>
<td>384.93</td>
</tr>
<tr>
<td>1997-98</td>
<td>1334.16</td>
<td>71.07</td>
<td>91.12</td>
<td>460.91</td>
</tr>
<tr>
<td>1998-99</td>
<td>1639.37</td>
<td>76.46</td>
<td>99.43</td>
<td>535.69</td>
</tr>
<tr>
<td>1999-2000</td>
<td>1897.76</td>
<td>81.22</td>
<td>103.61</td>
<td>616.53</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Compiled from the annual reports of HFCs for the relevant years.

**Note:**
1. Operating profit refers to gross income generated from operations after deducting the total operating cost but before providing for interest on borrowed funds (long-term) and tax.
2. Gross income means the total gross profits earned from the various activities.
88.82 per cent and has continuously increased in last two years, i.e., 88.97 per cent and 89.30 per cent in 1998-99 and 1999-2000 respectively. The average operating profit margin ratio of 88.82 per cent during the period under study is lowest compared to other three institutions during the same period.

In case of CFHL, the ratio varied between 91.42 per cent and 94.07 per cent. In the years 1995-96 and 1996-97, the ratio is higher than its average operating profit margin ratio, while the operating profit margin ratio during the rest of three years is below its average operating profit margin ratio of 92.27 per cent. It rose from 92.51 per cent in 1995-96 to 94.07 per cent in 1996-97. Hereafter, it fell continuously in the rest of the period i.e., 91.70 per cent to 91.42 per cent. This is an evidence of the increase in operating expenses or decrease in the gross income.

In case of LICHFL, the ratio varied between 92.75 per cent and 95.52 per cent. The ratio showed a continuous increasing trend during the period. This shows an improvement in the ratio. The operating profit margin in the first two years is below the average operating profit margin ratio. Since the year 1997-98, the ratio is higher than the average ratio. The average operating profit margin ratio during the period under study is 94.51 per cent, which is the highest compared to the rest of the institutions during the same period. This fact denotes that the company has taken enough care to keep operating costs at low.
However, HDFC and LICHFL's operating profit margin ratios have maintained lead over the industry's average operating profit margin ratios during the entire period of study as indicated in the above table. This is an indication of good management performance.

As against this, CFHL has failed to maintain consistency in the ratio. In the first two years, its ratio is relatively higher than industry's average ratio. The ratio is below the industry's average ratio in rest of the period.

It is observed that DHFL's ratio never surpass the industry's average ratio during the entire period of study. This ratio is supported by the findings of the net profit margin.

The operating profit margin ratio assists in evaluating the net profit margin performance of an enterprise. Though it is difficult to fix up a standard operating profit margin ratio for a business unit, a thirty per cent operating profit margin is considered as standard by one expert on quantitative technique.

B. Net Profit Margin Ratio:

This ratio establishes the relationship between net profit and gross income. It is arrived at by dividing a company's net profit after interest and tax by gross income from operations and expressing the result as a percentage of gross income. This ratio is a better measure of profitability than the operating profit margin ratio as the amount of
interest paid by one company would be different from the amount of interest paid by another company and therefore, dependent upon the source of funds of the respective organisation.

Net profit margin is arrived when operating expenses, interest and taxes are subtracted from the gross income. The researcher has taken gross income from operations as a denominator as the HFCs are the financial institutions.

Thus it is computed as under:

\[
\text{Net Profit Margin Ratio} = \frac{\text{Net Profit}}{\text{Gross Income}} \times 100
\]

It provides considerable insight into the overall efficiency of the enterprise. Other things being equal, it also reflects the fixed burden of a particular enterprise. A higher ratio indicates the higher overall efficiency of the enterprise and better utilisation of resources. A low ratio, on the contrary, reflects a poor financial planning and low efficiency.

Table 6.15 reveals that the net profit margin ratio of HDFC varied between 19.05 per cent and 20.31 per cent during the period. The maximum of 20.31 per cent was obtained during the year 1997-98. The ratio was 19.92 per cent in the year 1995-96, made a good progress in the second and third year of operation and then declined in the year 1998-99 to 19.05 per cent from 20.31 per cent in the year 1997-98. It again increased to 19.94 per cent in 1999-2000. The
### TABLE - 6.15
Net Profit Margin Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Net profit (Rs. in crore)</th>
<th>Gross income (Rs. in crore)</th>
<th>Ratio (in percentage)</th>
<th>Industry’s Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
<td>LICHFL</td>
</tr>
<tr>
<td>1995-96</td>
<td>195.69</td>
<td>8.80</td>
<td>11.56</td>
<td>51.66</td>
</tr>
<tr>
<td>1996-97</td>
<td>247.89</td>
<td>7.81</td>
<td>12.10</td>
<td>63.38</td>
</tr>
<tr>
<td>1998-99</td>
<td>333.90</td>
<td>12.00</td>
<td>14.71</td>
<td>101.14</td>
</tr>
<tr>
<td>Average</td>
<td>19.76</td>
<td>13.44</td>
<td>12.88</td>
<td>16.75</td>
</tr>
</tbody>
</table>

**Source:** Compiled from the annual reports of HFCs for the relevant years.

**Note:** Net profit means profit arrived after deducting the interest on borrowed funds (long-term) and tax, i.e., the profits available for dividend.
average net profit ratio is high in 1995-96, 1997-98 and 1999-2000 and
is low in 1996-97 and 1998-99 when compared to net profit ratio. It
has registered the highest average net profit margin ratio of 19.76 per
cent compared to the other three units under study. It shows that the
management of HDFC has not only been able to run the business
profitably but also with reasonable operating expenses. It again shows
that HDFC has succeeded in reducing the fixed interest burden to a
very great extent.

In case of DHFL, the ratio varied between 10.67 per cent and
15.80 per cent. The highest ratio of 15.80 per cent was recorded in
the year 1999-2000. The net profit margin ratio has declined to 10.67
per cent in the second year from 13.90 per cent in the first year. From
the year 1997-98 and onwards, it has made a very good progress. The
net profit margin ratio when compared to average net profit margin
ratio is low in the second and third year and is high in the first, fourth
and fifth year of the period under study.

In the case of CFHL, the ratio varied between 11.19 per cent and
13.78 per cent. The maximum of 13.78 per cent was recorded in the
year 1995-96. It has gone down to 12.85 per cent in the year 1996-97
and 11.19 per cent in the year 1997-98. After that the ratio has
considerably increased to 13.56 per cent in the year 1998-99 and again
it declined in 1999-2000 to 13.05 per cent.
CFHL’s average net profit ratio of 12.88 per cent is higher in 1995-96, 1998-99 and 1999-2000 and lower in 1996-97 and 1997-98 when compared to the net profit margin of the same period under study. It is evident from Table 6.15 that the average net profit ratio is the lowest compared to the remaining three units under study. It shows that the performance of the CFHL is not satisfactory, i.e., the management’s inefficiency in using the resources and minimising the cost is reflected in the above ratio.

In case of LICHFL, the ratio varied between 15.32 per cent and 18.07 per cent. The ratio which was 15.32 per cent in the year 1995-96 and made a continues progress up to 1998-99 and then declined to 16.90 per cent in the year 1999-2000. The highest ratio of 18.07 per cent registered in the year 1997-98. The average net profit margin ratio of 16.75 per cent is more in the first two years and is less in the next three years when compared to net profit ratio of the period under study.

However, the net profit margin ratio of HDFC and LICHFL is far above industry’s average ratio during the entire period of study. As against to this, both DHFL and CFHL’s ratio is far below the industry’s average during the period of study.

This indicates that the HDFC and LICHFL are managed efficiently when compared to DHFL and CFHL.
2. **Return Ratios**:

These ratios indicate the return on total assets, capital employed and shareholders' investment. This is useful in determining the return on investment. The return ratios consist of:

i) Return on Assets (ROA)

ii) Return on Capital Employed (ROCE), and

iii) Return on Equity (ROE).

i) **Return on Assets (ROA)**:

This ratio is measured by comparing net profits with assets of the organisation. The ROA ratio is also called profit to assets ratio.

The objective of determining ROA is to understand how effectively the funds pooled together have been used in the business. This ratio may impede fair comparisons of profitability between competing firms, or in respect of the same firm, between several accounting periods during an era of rapid price change.

It is computed to know the productivity of the total assets. There are different approaches in practice to define net profits and assets. For the current analysis, net profits are profits after tax plus interest and total assets are aggregate of current assets and fixed assets excluding fictitious assets such as miscellaneous expenditure.
There are three methods for computing ROA ratio. The researcher has adopted the method for computing the ROA ratio is as under and it is expressed in percentage.

\[
\text{ROA Ratio} = \frac{\text{Net profit after tax} + \text{Interest}}{\text{Total Assets}} \times 100
\]

The higher ratio shows that the total assets are used efficiently and vice versa.

Table 6.16 shows the net profit to total assets for the period under study.

Table 6.16 shows that the ROA ratio of HDFC varied in the range of 11.39 per cent and 12.68 per cent. The ratio has increased from 12.38 per cent in 1995-96 to 12.68 per cent in 1996-97. In the year 1997-98, it has declined to 12.07 per cent and followed by an increase of 12.57 per cent in 1998-99. It again declined to 11.39 per cent in 1999-2000. The average ratio of 12.22 per cent is comparatively higher than the average of LICHFL but lower than the average of DHFL and CFHL during the period under study. The performance of this corporation in terms of ROA ratio is not impressive when compared to DHFL and CFHL.

The ROA ratio of DHFL varied between 12.38 per cent and 13.34 per cent. The performance in the year 1996-97 and 1997-98 is very impressive when compared to its average performance. The performance in the remaining years of the study period is not
TABLE - 6.16
Percentage of Return on Assets

<table>
<thead>
<tr>
<th>Year</th>
<th>Net profit after tax plus interest (Rs. in crore)</th>
<th>Total assets (Rs. in crore)</th>
<th>Ratio (in percentage)</th>
<th>Industry's Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
<td>LICHFL</td>
</tr>
<tr>
<td>1995-96</td>
<td>858.65</td>
<td>56.23</td>
<td>73.20</td>
<td>285.87</td>
</tr>
<tr>
<td>1996-97</td>
<td>1104.15</td>
<td>61.45</td>
<td>83.48</td>
<td>357.18</td>
</tr>
<tr>
<td>1997-98</td>
<td>1276.16</td>
<td>68.47</td>
<td>87.42</td>
<td>434.41</td>
</tr>
<tr>
<td>1998-99</td>
<td>1584.36</td>
<td>73.31</td>
<td>94.68</td>
<td>507.09</td>
</tr>
<tr>
<td>1999-2000</td>
<td>1838.76</td>
<td>76.92</td>
<td>99.76</td>
<td>588.03</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled from the annual reports of HFCs for the relevant years.
satisfactory when compared to its average performance. The average ROA ratio of this company is above the average ROA ratio of HDFC and LICHFL but below the average ROA ratio of CFHL.

In case of CFHL, the ratio varied between 12.42 per cent and 13.77 per cent. The ratio has increased from 13.40 per cent in 1995-96 to 13.77 per cent in 1996-97 and thereafter it has registered a continuous declining trend from 13.77 per cent in 1996-97 to 12.42 per cent in 1999-2000. It is interesting to note that the average ratio of 13.19 per cent is the highest when compared to HDFC, CFHL and LICHFL's average ratio. This fact reflects that in spite of a continuous decline in the ratio, it has maintained a very good average ratio. Hence, the performance of this company in terms of ROA ratio is very satisfactory.

In case of LICHFL, the ROA ratio varied between 11.26 per cent and 12.29 per cent. The ratio has continuously increased in the first three years of its operation, i.e., from 11.26 per cent in 1995-96 to 12.29 per cent in 1997-98. In the last two years it showed a declining trend, i.e., 12.12 per cent in 1998-99 and 11.75 per cent in 1999-2000. Its performance with regard to this ratio is very impressive from 1996-97 to 1998-99. The average ROA ratio of this corporation was the lowest with a ratio of 12.53 per cent when compared to the rest of HFCs during the period under study. This is an evidence of poor performance by the LICHFL when compared to other HFOs.
However, the average ROA ratio of all the four HFCs when compared to the industry's average ratio, CFHL and DHFL are faring better than the remaining two HFCs. HDFC's position is not satisfactory. But the redeeming feature in it is nearer to industry's average ratio. The average ROA ratio of LICHFL is unsatisfactory. This fact shows that HDFC and LICHFL have to take necessary steps to improve their performance.

ii) Return on Capital Employed:

Return on capital employed (ROCE) indicates the earning capacity of an enterprise on the capital employed in the business. This is considered as the best tool to measure the overall profitability and efficiency of a business. This is used as a basis for various decisions as it relates to the benefits obtained in the form of income with the sacrifice made in the form of capital employed. This is also named as Return on Investment (ROI) or overall profitability ratio. It reflects percentage of return on the capital employed in the business.

The term capital employed means long-term funds supplied by the outsiders and owners of the company.

Net profit connotes the net profit after tax plus interest on long-term debt.

The functions of management such as budgeting and planning start with determination of a minimum rate of return on capital
employed. If the rate of return generated from the investment is lower than this minimum rate of return, then the investment decisions are considered infructuous and hence rejected. However, the experts' opinion is that it is practically difficult to set a standard rate on ROCE as it is influenced by a number of factors such as business risk, inflation, changes in economic conditions, the type of industry, competition prevailing, etc. Different views prevail with regard to standard rate, bank rate, discount rate on gilt edged securities and opportunity rates are some of the rates suggested as the benchmark for this ratio. However, it is left to the discretion of management to set some rate against which they can compare the actual result with a view to measuring their efficiency or the overall performance of the business.

Thus, ROCE basis indicates a test of profitability related to the sources of long-term funds. A comparison of this ratio with the ratio of other similar firms and with the industry average provides sufficient proof of how efficiently the long-term funds of owners and creditors are being used. The higher ratio reflects that institution has efficiently utilised its capital employed.

Thus, it is computed as under.

\[
\text{ROCE} = \frac{\text{Net profit after taxes} + \text{Interest}}{\text{Capital employed}} \times 100
\]
Table 6.17 show return on capital employed.

Table 6.17 depicts that ROCE ratio of HDFC varied between 12.19 per cent and 13.46 per cent. The ratio has shown a fluctuating trend during the said period. ROCE ratio has increased from 13.08 per cent during 1995-96 to 13.46 per cent during 1996-97. Then it has declined to 12.86 per cent in the year 1997-98 and it again increased to 13.43 per cent in the year 1998-99. The ratio once again declined to 12.19 per cent in the year 1999-2000. The average ratio of this company is above the average ratio of LICHFL and below the average of DHFL and CFHL. The average ratio of 13.00 per cent is below the actual ROCE ratio in the years 1995-96, 1996-97 and 1998-99 and above the ROCE ratio in the years 1997-98 and 1999-2000. This reveals that the management should make an all out effort to improve its performance in order to raise the rate of ROCE.

In case of DHFL, ROCE ratio varied between 12.84 per cent and 13.81 per cent. DHFL has also not succeeded in maintaining a stable ROCE ratio as it erratically fluctuated from year to year as is evident from Table 6.17. The ratio fell from 13.07 per cent in 1995-96 to 12.94 per cent in 1996-97. It registered a maximum of 13.81 per cent in 1997-98. Thereafter, it has shown a continuous declining trend. The average ratio of 13.27 per cent is comparatively higher than HDFC and LICHFL, while the average ratio is lower when compared to CFHL's average ratio. Actual ROCE ratio is above the average ROCE ratio in
**Table 6.17**

Percentage of Net Profit After Tax (NAPT) Plus Interest to Capital Employed

<table>
<thead>
<tr>
<th>Year</th>
<th>NPAT plus interest (Rs. in crore)</th>
<th>Capital employed (Rs. in crore)</th>
<th>Ratio (in percentage)</th>
<th>Industry's Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
<td>LICHFL</td>
</tr>
<tr>
<td>1995-96</td>
<td>858.65</td>
<td>56.23</td>
<td>73.20</td>
<td>285.87</td>
</tr>
<tr>
<td>1996-97</td>
<td>1104.15</td>
<td>61.45</td>
<td>83.48</td>
<td>357.18</td>
</tr>
<tr>
<td>1997-98</td>
<td>1276.16</td>
<td>68.47</td>
<td>87.48</td>
<td>434.41</td>
</tr>
<tr>
<td>1998-99</td>
<td>1584.36</td>
<td>73.31</td>
<td>94.68</td>
<td>507.09</td>
</tr>
<tr>
<td>1999-2000</td>
<td>1838.76</td>
<td>76.91</td>
<td>99.76</td>
<td>588.03</td>
</tr>
</tbody>
</table>

**Average**

<table>
<thead>
<tr>
<th>HDFC</th>
<th>DHFL</th>
<th>CFHL</th>
<th>LICHFL</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.00</td>
<td>13.27</td>
<td>13.55</td>
<td>12.48</td>
</tr>
</tbody>
</table>

**Source:** Compiled from the annual reports of HFCs for the relevant years.

**Note:** Capital employed includes net worth and long-term borrowed funds.
the years 1997-98 and 1998-99 and below the average ROCE ratio in the rest of the years during the period under study.

In case of CFHL, the ROCE varied in the range of 12.73 per cent and 14.09 per cent. It rose from 13.73 per cent in 1995-96 to 14.09 per cent in 1996-97. Then it declined to 13.59 per cent in the year 1997-98 and it again moderately increased to 13.63 per cent in the year 1998-99 and it again declined to 12.73 per cent in 1999-2000. This company has registered the highest average ROCE when compared to HDFC, DHFL and LICHFL during the period. The actual ROCE ratio is above the average ratio except in 1999-2000. The average ROCE can be largely considered as satisfactory.

In case of LICHFL, the ROCE ratio varied between 11.93 per cent and 12.84 per cent. The ratio has shown a continuous increasing trend in the first three years, i.e., 11.93 per cent, 12.43 per cent and 12.84 per cent in 1995-96, 1996-97 and 1997-98 respectively. The ratio has declined in the last two years, i.e., 12.71 per cent and 12.49 per cent in 1998-99 and 1999-2000 respectively. The average ratio of this corporation is the lowest compared to other corporations during the same period. But its average ratio is above the actual ROCE ratio except in the first year of its operation. The ratios of this corporation are unsatisfactory compared to the ratios of all other corporations. This calls for taking necessary steps on the part of the management to improve its performance.
However, the average ratio of DHFL and CFHL is far above the industry's average ratio. In contrast to this the average ratio of HDFC is just below the industry's average ratio and LICHFL's average ratio is far behind the industry's average ratio. The performance of DHFL and CFHL appear impressive. On the other hand, the performance of HDFC and LICHFL is unsatisfactory in terms of ROCE. A trend of fluctuations in the ratios is observed in all the four HFCs. This calls for management's of these HFOs to take suitable measures to improve their performance.

iii) **Return on Equity:**

The return on equity (ROE) measures the return on the investment made by shareholders. It enables to check whether or not the returns are adequate and equal to, better or inferior to other alternatives available. The profitability ratios based on shareholders' equity are known as ROE.

The earning of satisfactory rate of return on the equity is the most desirable objective of any business. The extent to which is achieved is reflected through the ratio of net profit to net worth (owners' equity). ROE ratio is, therefore, of great interest to present and prospective shareholders. Most firms are interested either in maximising the return on owners' investment or at least, in maintaining profit at a satisfactory level.
Its adequacy can be judged by i) comparing it with the past record of the same firm, ii) inter-firm comparison, and iii) comparison with the overall industry average.¹⁴ Thus, a comparison reveals the relative performance and the strength of the company in attracting future investment.

In general, highly geared company will have a high ROE, on account of availability of the tax shield on interest pay outs. However, the risk associated with a highly leveraged firm is fairly high. This ratio is a measure of the percentage of net profit to shareholders' funds. It is also called return on proprietors' funds, productivity or equity block or return on shareholders' equity (ROSE).

Thus, it is expressed as under:

\[
\text{ROE} = \frac{\text{Net Profit}}{\text{Net Worth}}
\]

Net profit refers to profit arrived at after deducting tax, interest and dividend on preference shares. Net worth includes equity share capital, share premium, revenue reserve, capital reserve, retained earnings and surplus after deduction of miscellaneous expenses.

The ROE ratio of HDFC varied between 13.24 per cent and 19.17 per cent. The ROE ratio of this unit has shown continuously increasing trend, as it is evident from Table 6.18. However, its performance seems to be impressive compared to the performance of the rest of the
### TABLE - 6.18

Return on Equity Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Net profit (Rs. in crore)</th>
<th>Net worth (Rs. in crore)</th>
<th>ROE Ratio (in percentage)</th>
<th>Industry's Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
<td>LICHFL</td>
</tr>
<tr>
<td>1996-97</td>
<td>241.64</td>
<td>7.81</td>
<td>12.10</td>
<td>63.38</td>
</tr>
<tr>
<td>1997-98</td>
<td>293.36</td>
<td>10.38</td>
<td>11.12</td>
<td>87.73</td>
</tr>
<tr>
<td>1998-99</td>
<td>333.90</td>
<td>12.00</td>
<td>14.71</td>
<td>101.14</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled from the annual reports of HFCs for the relevant years.
units under study. It is observed that the average ROE ratio of HDFC (16.17 per cent) is far below the average ratio of CFHL and LICHFL and is marginally above the average ratio of DHFL.

In case of DHFL, the ROE ratio varied between 13.74 per cent and 17.33 per cent. DHFL has not maintained consistency, i.e., shown a zigzag trend during the said period. ROE ratio declined in the second year followed by an improvement in the third year. In the fourth year the ratio was down by 15.77 per cent followed by its recovery in the fifth year. The average ROE ratio of 15.98 is the lowest when compared to the rest of HFCs during the same period. The performance of this unit in terms of average ROE is anything but satisfactory. Hence, the management needs to take care of improving its ROE.

In case of CFHL, the ROE varied in the range of 16.30 per cent and 21.25 per cent. The ROE ratio showed fluctuations during the period. It has declined from 21.25 per cent to 19.53 per cent and to 16.30 per cent in 1995-96, 1996-97 and 1997-98 respectively. It has shown a continuous declining trend in the first three years of its operation. In the year 1998-99 its ROE ratio increased to 18.85 per cent followed by a decline in the ratio to 16.89 per cent in 1999-2000. The average ratio of 18.56 is comparatively higher than the average ratio of HDFC and DHFL and lower than the average ratio of LICHFL. The performance of this institution is satisfactory in spite of ups and downs in the ROE ratio.
The ROE ratio of LICHFL varied between 17.49 per cent and 21.67 per cent. ROE ratio has registered an increasing trend in the first three years of operation, i.e., 17.49 per cent in 1995-96 to 21.67 per cent in 1997-98. But sad to say ROE ratio declined in the last two years, i.e., 20.98 per cent in 1998-99 to 19.27 per cent in 1999-2000. But the redeeming feature is that the ROE ratio of LICHFL when compared to the ROE ratios of the remaining three HFOs had recorded the highest percentage (19.62 per cent) very impressive performance indeed.

However, the average ROE ratio of CFHL and LICHFL is very satisfactory when compared to the industry’s average ROE ratio of 17.58 per cent. As against this the average ROE ratio of HDFC is not satisfactory (16.17 per cent) when compared to industry’s average of 17.58 per cent. The performance of DHFL in terms of average ROE is very unsatisfactory (15.98 per cent) when compared to industry’s average ROE ratio 17.58 per cent. This fact reflects the HDFC as well as DHFL need to take steps to improve their performance.

C. **Earnings:**

The earnings ratios show the earnings per equity share and provides a measure whereby the performance of a company can be compared with others: Earnings ratios include:
1. **Earnings Per Share (EPS):**

This ratio reflects the earnings attributable to a share. It determines the profit available to the owners' on a per share basis. It helps in determining the market price of the equity shares of a company. EPS ratio is widely used as a measure of profitability of a firm from the shareholders' point of view. EPS ratio does not indicate the effect of increase in equity capital as a result of retention of earnings.

"As a profitability ratio, the EPS can be used to draw inferences on the basis of (i) its trend over a period of time, (ii) comparison with the EPS of other firms, and (iii) comparison with the industry average."^5

Thus, EPS is computed as under.

\[
EPS = \frac{\text{Net profit available to equity holders}}{\text{Number of equity shares outstanding}}
\]

The profits available to the equity shareholders are represented by net profits after taxes and preference dividend.

Table 6.19 exhibits the information relating to EPS of the selected housing finance organisations during the period under study.
TABLE – 6.19
Earning Per Share (Face Value of Shares of Rs.10 each)

<table>
<thead>
<tr>
<th>Year</th>
<th>HDFC</th>
<th>DHFL</th>
<th>CFHL</th>
<th>LICHFL</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-96</td>
<td>16.10</td>
<td>3.14</td>
<td>5.64</td>
<td>6.88</td>
<td>7.94</td>
</tr>
<tr>
<td>1996-97</td>
<td>20.30</td>
<td>2.78</td>
<td>5.90</td>
<td>8.44</td>
<td>9.36</td>
</tr>
<tr>
<td>1997-98</td>
<td>24.30</td>
<td>3.78</td>
<td>5.42</td>
<td>11.69</td>
<td>11.30</td>
</tr>
<tr>
<td>1999-2000</td>
<td>33.73</td>
<td>4.57</td>
<td>7.22</td>
<td>14.53</td>
<td>15.01</td>
</tr>
<tr>
<td>Average</td>
<td>24.49</td>
<td>3.71</td>
<td>6.27</td>
<td>11.00</td>
<td>11.37</td>
</tr>
</tbody>
</table>

Source: Compiled from the Annual Reports of HFCs for the relevant years.

Table 6.19 reveals that the EPS of HDFC varied between Rs.16.10 and Rs.33.73 per share during the year under study. EPS has continuously shown an increasing trend. The average EPS of Rs.24.49 is the highest when compared to other HFCs during the period under study. EPS of this company is very satisfactory.

EPS of DHFL varied in the range of Rs.2.78 and Rs.4.57. In the year 1996-97 the EPS declined to Rs.2.78 from Rs.3.14. Thereafter EPS has increased in the remaining years during the period. The average EPS of Rs.3.71 is the lowest when compared to the other HFCs under study. EPS of this company is not impressive.

EPS of CFHL varied in the range of Rs.5.42 and Rs.7.22. EPS increased from Rs.5.64 in 1995-96 to Rs.5.90 in 1996-97. It declined to Rs.5.42 in 1996-97 but it went up to Rs.7.18 and Rs.7.22 in 1998-99 and 1999-2000 respectively. The average EPS is comparatively high.
when compared to DHFL and very low when compared to HDFC and LICHFL. The EPS of this company is not satisfactory.

In case of LICHFL, EPS varied between Rs.6.88 and Rs.14.53. EPS has increased from year to year, i.e., from Rs.6.88 in the year 1995-96 to Rs.14.53 in the year 1999-2000. The average EPS of this company is comparatively far above the average EPS of DHFL and CFHL but far below the average of HDFC. EPS of this company is satisfactory as EPS stands more than the face value of shares of Rs.10 each.

However, when average EPS of all the four units are compared to industry’s average EPS, the average EPS of HDFC is significantly higher (Rs.24.49) than industry’s average EPS of Rs.11.37. This is the only company among the selected HFOs, which has maintained very good EPS. As against this, the remaining three companies have not succeeded in maintaining a good average of EPS as the average EPS of these companies is below the industry’s average EPS.

2. Dividend per Share (DPS):

The dividend paid for share is taken as the basis for finding out the actual amount received by the shareholders on their share capital.

Dividend per share (DPS) helps in knowing the income, which the shareholders really receive as a reward for their money invested in business. The profits after taxes concern to shareholders. DPS is a
very useful indicator for the shareholders to know their income/return on their investment. Thus, a large number of present and potential investors are interested in knowing the DPS rather than the EPS. DPS measures the earnings distributed to equity shareholders. DPS also influences the market value of shares. A higher DPS indicates a higher amount of dividend on the investment made in equity shares and efficiency of management in utilising available resources.

DPS can be used as a basis of comparison with the DPS of other firms, and with the industry average.

Thus, DPS is computed as under.

\[
DPS = \frac{\text{Dividend paid to shareholders}}{\text{Number of common shares outstanding}}
\]

The DPS for the period 1995-96 to 1999-2000 is given in Table 6.20.

**TABLE - 6.20**

<table>
<thead>
<tr>
<th>Year</th>
<th>HDFC</th>
<th>DHFL</th>
<th>CFHL</th>
<th>LIC(FL )</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-96</td>
<td>3.70</td>
<td>2.00</td>
<td>2.00</td>
<td>1.80</td>
<td>2.38</td>
</tr>
<tr>
<td>1996-97</td>
<td>4.50</td>
<td>1.40</td>
<td>2.00</td>
<td>2.00</td>
<td>2.48</td>
</tr>
<tr>
<td>1997-98</td>
<td>7.50</td>
<td>1.40</td>
<td>2.20</td>
<td>2.50</td>
<td>3.40</td>
</tr>
<tr>
<td>1998-99</td>
<td>8.50</td>
<td>1.50</td>
<td>2.20</td>
<td>3.00</td>
<td>3.80</td>
</tr>
<tr>
<td>1999-2000</td>
<td>19.00</td>
<td>1.50</td>
<td>2.30</td>
<td>3.00</td>
<td>6.45</td>
</tr>
<tr>
<td>Average</td>
<td>8.64</td>
<td>1.56</td>
<td>2.14</td>
<td>2.46</td>
<td>3.7</td>
</tr>
</tbody>
</table>

Source: Compiled from the Annual Reports of HFCs for the relevant years.
Table 6.20 reveals that the DPS of HDFC varied between Rs.3.70 and Rs.19.00. DPS has significantly increased from year to year. DPS is exceptionally impressive in the year 1999-2000. The share of Rs.10 each earns at an average of Rs.8.64. DPS indicates that the shareholders of this company have been receiving constantly increasing dividends. The average DPS of this company is the highest when compared to the other units during the period. This fact reflects management's efficiency in using the available resources.

DPS of DHFL varied between Rs.1.40 and Rs.2.00. The dividend declined from Rs.2.00 in 1995-96 to Rs.1.40 in 1996-97. A similar situation prevailed in 1997-98. But the DPS in 1999-2000 is Rs.1.50. The average DPS of this company was the lowest when compared to the average DPS of the rest of HFCs. The DPS of DHFL is far from satisfactory.

In case of CFHL, DPS varied between Rs.2.00 and Rs.2.30. DPS of CFHL reflects that the shareholders have been receiving a constantly increasing dividend throughout the period under study. The average DPS of Rs.2.14 when compared to the average DPS of HDFC is far below and LICHFL is just below and DHFL is far above. The DPS is comparatively better than DHFL.

In case of LICHFL, DPS varied in the range of Rs.1.80 and Rs.3.00. DPS showed a continuous increasing trend. The shareholders of this company have also been receiving constantly increasing
The average dividend of Rs.2.46 per share when compared to DHFL and CFHL is quite satisfactory and to HDFC is very unsatisfactory.

However, when the average DPS of all the four companies is compared to industry's average DPS, HDFC is the only company among the four selected HFOs, which has registered not only the highest average but the average DPS is also higher than industry's average. In contrast to this, DHFL, CFHL and LICHFL's average DPS is relatively lower than industry's average. This shows that these companies need to take steps to improve their DPS.

3. **Dividend Pay Out Ratio**:

This ratio shows the amount paid out of earnings. This ratio enables the investor to determine the percentage of annual earnings paid to the shareholders in the form of dividends and the amount ploughed back in the business for its long-term growth show that the company has been paying a percentage of its earnings to the shareholders in the form of dividend. The pay out ratio is the indicator of the amount of earning that has been retained in the business. The lower the pay out ratio, the higher is the amount of earnings retained in the business and vice versa. A lower pay out ratio reflects the conservative attitude of management and strengthens the financial position of the firm. Dividend pay out ratio establishes relationship
between DPS and EPS and is expressed as a percentage. Thus, dividend pay out ratio is computed as under:

\[ \text{Dividend pay out ratio} = \frac{\text{DPS} \times 100}{\text{EPS}} \]

Table 6.21 predicts the percentage of DPS and EPS of the selected HFOs during the period. The dividend pay out ratio of HDFC varied between 22.17 per cent and 56.33 per cent during the said period. The ratio has continuously shown an increasing trend except in 1996-97. The ratio is especially very impressive in the first two years. It has gone up to 30.86 per cent in 1997-98 and it has gone down to 30.32 per cent in 1998-99 and it again increased to 56.33 per cent in 1999-2000. It reveals the company has not succeeded in retaining its earnings. The position in 1999-2000 is not impressive as the company has retained only 43.67 per cent of its earnings. The average ratio of 32.33 per cent when compared to DHFL and CFHL is lower and to LICHFL is higher. This indicates that the financial position in terms of dividend pay out ratio is satisfactory.

DHFL's ratio varied between 63.69 per cent and 31.13 per cent during the study period. The company has succeeded in improving its position from year to year as is evident from Table 6.21 by way of constantly declining its pay out ratio. The average ratio is relatively higher when compared to other HFOs during the same period under
### TABLE - 6.21
Dividend Pay out Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Dividend per share (Rs.)</th>
<th>Earning per share (Rs.)</th>
<th>ROE Ratio (in percentage)</th>
<th>Industry's Average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
<td>LICHFL</td>
</tr>
<tr>
<td>1995-96</td>
<td>3.70</td>
<td>2.00</td>
<td>2.00</td>
<td>1.80</td>
</tr>
<tr>
<td>1996-97</td>
<td>4.50</td>
<td>1.40</td>
<td>2.00</td>
<td>2.00</td>
</tr>
<tr>
<td>1997-98</td>
<td>7.50</td>
<td>1.40</td>
<td>2.20</td>
<td>2.50</td>
</tr>
<tr>
<td>1998-99</td>
<td>8.50</td>
<td>1.50</td>
<td>2.20</td>
<td>3.00</td>
</tr>
<tr>
<td>1999-2000</td>
<td>19.00</td>
<td>1.50</td>
<td>2.30</td>
<td>3.00</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Compiled from the annual reports of HFCs for the relevant years.
study. This fact reveals that the financial position in terms of average pay out ratio is not satisfactory.

The ratio of CFHL varied between 31.86 per cent and 40.59 per cent during the study period. The ratio showed a fluctuating trend. The company has not done well in maintaining consistent ratio. The company has done well in the last year by keeping the ratio at a low level. The ratio has declined to 33.90 per cent in 1996-97 from 35.46 per cent in 1995-96. In 1997-98, it went up to 40.59 per cent and dropped to 30.64 per cent in 1998-99 and it again went up to 31.86 per cent in 1999-2000. The average ratio is of the order of 34.49 per cent, which is above the average of LICHFL and HDFC and is below the average of DHFL. This indicates that the company has retained an average of 65.51 per cent of its earnings. The financial position of this company in terms of average pay out ratio is also satisfactory.

In case of LICHFL, the ratio varied between 20.65 per cent and 26.16 per cent during the period. The ratio has shown constantly declining trend (except in 1998-99). This fact indicates that the company has succeeded in improving its retained earnings position from year to year. It has registered the lowest average ratio of 22.83 per cent when compared to other companies during the same period. In other words, the company has retained 87.17 per cent of its earnings. Hence, the financial position of this company is very strong in terms of average retained earnings.
The industry's average ratio is compared to the average ratio of all the four companies. The average pay out ratio of LICHFL and HDFC is lower than industry's average ratio. This shows that financial position of these two companies is very satisfactory, whereas the average pay out ratio of DHFL and CFHL is higher than industry's average ratio. This fact indicates that these companies should improve their retained earnings position.

4. **Liquidity Analysis**:

**Liquidity Ratios**:

These ratios measure the ability of the firm to pay its current obligations, usually within a period of one year. The emphasis here is on the objective of ensuring that a firm does not suffer from lack of liquid cash and at the same time it should not have surplus cash. The aim of these ratios is to prevent the company from falling into financial crises due to lack of sufficient liquidity. Failure to achieve this goal affects the credit image, creditors confidence and may even end in law suits forcing the closure of the company. Likewise, a high degree of liquidity is also undesirable since idle funds will not yield any return. Hence, it is necessary to strike a judicious balance between the two extremes.

These ratios are based on the relationship between current assets and current liabilities.
The most commonly accepted ratios denote the extent of liquidity or lack of it and they are:

1. **Current Ratio**
2. **Acid-Test Ratio**

**1. Current Ratio:**

It is one of the ratios grouped under liquidity ratios. This ratio is also called working capital ratio. It is expressed as pure ratio or percent ratio.

The current ratio as a measure of short-term financial liquidity of the company reveals that the current assets are large enough to pay its current maturing debts. Current ratio is, therefore, the measure of a firm's short-term solvency. 'It indicates the availability of current assets in rupees for every one rupee of current liability. A ratio of greater than one means that the firm has more current assets than current claims against them.'

Current ratio is ascertained by dividing the current assets by current liabilities.

\[
\text{Current Ratio} : \frac{\text{Current Assets}}{\text{Current Liabilities}}
\]

'Current assets' mentioned in the aforesaid formula include cash and those assets which can be converted into cash in the operational...
cycle of the firm usually one year. Current assets include cash on hand, cash at bank, temporary investments like marketable securities and money at call and short notice, accounts receivables, bills receivables, inventories, debtors, loans and advances, and accrued incomes.

Items like prepaid expenses and advance tax are also included in current assets. The researcher while calculating the current ratios has included prepaid expenses and advance income tax and short-term investments and housing loans due for payment in the current assets, since the firms are trading concerns/financial institutions.

Current liabilities refer to all the obligations maturing within a period of one year. These liabilities include creditors, bills payable, accrued expenses, short-term bank loans, income tax liabilities and long-term debts maturing in the current year.

The conventional method of deriving current ratios based on the traditional parameters like cash on hand, cash at bank, debtors, etc., is followed here. Similarly the liability parameters like creditors, outstanding expenses, etc., are taken as basis for calculating the current ratios for the respective periods.

Table 6.22 reveals current ratios of the selected HFOs for the period 1995-96 to 1999-2000.
### TABLE - 6.22

Current Ratios for the period 1995-96 to 1999-2000

<table>
<thead>
<tr>
<th>Year</th>
<th>Current assets (Rs. in crore)</th>
<th>Current liabilities (Rs. in crore)</th>
<th>Current Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
</tr>
<tr>
<td>1995-96</td>
<td>1439.77</td>
<td>34.91</td>
<td>52.29</td>
</tr>
<tr>
<td>1996-97</td>
<td>1903.92</td>
<td>45.76</td>
<td>80.33</td>
</tr>
<tr>
<td>1997-98</td>
<td>2090.76</td>
<td>50.79</td>
<td>68.23</td>
</tr>
<tr>
<td>1998-99</td>
<td>2208.45</td>
<td>60.32</td>
<td>74.64</td>
</tr>
<tr>
<td>1999-2000</td>
<td>3199.02</td>
<td>71.99</td>
<td>66.96</td>
</tr>
</tbody>
</table>

Source: Compiled from the annual reports of HFCs for the relevant years.
The current ratio of HDFC varied between 3.90 and 2.72 during the period under study. The ratio is constantly declining. Even then, the ratio is more than the conventional norm of 2:1. The current ratio position for the entire period reveals that the ratios are apparently satisfactory. This indicates that the liquidity position of the company is favourable.

In case of DHFL, the ratio varied between 3.51 and 1.99 during the period. The ratio is showing consistently an increasing trend. The current assets have exceeded the current liabilities except in the first year of operation. This fact indicates that the short-term solvency position of the company is satisfactory.

In contrast, in case of CFHL, the ratio varied between 5.58 and 2.88 during the period under study. In spite of frequent fluctuations, the ratio is maintained at a high level. This higher ratio indicates that the company's liquidity position is very satisfactory and is able to meet out its current obligations. The current ratio position is exceptionally good in 1995-96 and 1996-97. Thereafter, it is found that there is a marginal dip in the ratios. This appears to be better performance of the company in managing working capital as also cash management position.

In case of LICHFL, the ratio varied between 1.94 and 1.54 during the study period. The current ratio's position for the entire period is
below the conventional norm. This reflects that the liquidity position of the company is not satisfactory.

However, it is observed that liquidity position of all the selected HFOs except that of LICHFL is satisfactory.

When a comparative evaluation is made, the current ratios of CFHL are higher than that of the other companies and the ratios of LICHFL are lower than that of the other companies during the entire period.

The current ratio of HDFC and DHFL shows a relatively satisfactory position as their current assets are more than their current liabilities.

A very significant trend is observable in case of CFHL as its current ratios for the entire study period are far above the conventional current ratio.

The HFOs are the financial institutions. Therefore, it is very much necessary to maintain high liquidity ratio. The companies have to take necessary steps to improve their liquidity position.

2. Acid Test Ratio :

It is said that Acid Ratio is a variant of the current ratio. The other test of liquidity is the quick or acid test, which is used to examine whether or not a company has adequate cash or cash equivalents to
meet its current obligations without having to resort to liquidating non-cash assets such as stocks. It is a test of relative availability of quick assets to discharge the current obligations. The ratio establishes a relationship between quick/liquid assets and current liabilities.

Quick Test Ratio is also known as liquid ratio or acid test ratio. Liquid assets refer to those assets, which can be converted into cash instantaneously or reasonably soon, without loss of value. Quick assets comprise of cash, book debts and marketable securities. Inventories are excluded from the definition of quick assets, as they are considered to be less liquid and require some time for being converted into cash, and their value has also a tendency to fluctuate.

Quick ratio is determined by dividing the total quick assets by total current liabilities.

\[
\text{Quick ratio} = \frac{\text{Current Assets - Inventories}}{\text{Current liabilities}}
\]

As a general rule, the safe ratio is 1:1 which means that liquid assets should be equal to current liabilities.

The researcher has not computed this ratio separately for analysis as the housing finance organisations selected for the study are financial institutions and they are no inventories and therefore, the current ratio serves both the purposes.
5. **Analysis of Long-term Financial Position**

The term 'solvency' denotes the ability of a firm to meet its long-term obligations. Financial leverage or capital structure ratios measure the long-term financial strength or the position. In other words, financial leverage measures the extent to which the assets or financed by borrowed funds and owned funds.

Financial leverage reflects capital gearing of the organisation. Capital gearing refers to the composition of the capital structure. That is the proportion between the funds provided by owners and lenders. Financial leverage ratios indicate mixture of funds provided by owners and lenders. It is suggested that there should be an appropriate mixture between debt and owners' equity in financing the firm's assets. This is important since the manner in which assets are financed has a number of implications. The following three reasons are identified to throw light on the importance of maintaining an appropriate mixture of debt and owners’ equity.

1. It is advised that between debt and equity, debt is more risky from the firm's point of view. The firm has a legal obligation to pay interest to debt-holders, irrespective of whether the profits are earned or not.

2. Owners are benefited by employment of debt in two ways:
   a) the shareholders can retain control of the firm with a limited stake, and
b) the shareholders' earnings will be magnified, when the firm earns a rate of return on the total capital employed that is higher than the interest rate on the borrowed funds.

'The process of magnifying the shareholders' return through employment of debt is called financial leverage or trading on equity'. The leverage, however, can work in opposite direction as well. The earnings of shareholders will be reduced if the cost of debt is higher than the firm's overall rate of return. Besides, there is a threat of insolvency too and if the firm is actually liquidated for non-payment of debt-holder's dues, the worst sufferers will be the owners. The use of debt capital in excessive proportions, therefore, magnifies the shareholders' earnings and at the same time increases the risk.

3. A highly debt-burdened firm will find difficulty in raising funds from creditors and owners in the future. Creditors treat the owners' equity as margin of safety; if the equity base is thin, the creditors' risk will be high. Leverage ratios, therefore, are calculated to measure financial risk and the firm's ability of using debt for the benefit of shareholders.

Thus, the ratio of shareholders' funds and borrowed funds is of critical importance to the firm's profitability and growth. Firms that are highly leveraged are those that are very dependent on borrowed funds. The availability of funds for the shareholders are reduced
considerably if debt capital is heavy in any organisation at the time of liquidation.

The financial leverage ratios are calculated from the balance sheet items. There are variations of these ratios. All these ratios serve the purpose of determining the long-term financial position of the firm.

The following variants of leverage ratios are studied.

1. Debt-Equity Ratio,
2. Total Debt Ratio,
3. Proprietary Ratio/Equity Ratio,
4. Current Liabilities to Net Worth, and
5. Interest Coverage Ratio

1. **Debt-Equity Ratio**:

   The ratio between the borrowed funds and owners' funds is called debt-equity ratio (D/E). It reflects the relative proportion of outsiders and the owners in financing the assets of HFCs. It also indicates the extent to which the HFCs depend upon debt for their existence. This ratio provides a margin of safety to the creditors.

   The D/E ratio is an important tool used by top management for measuring the extent of financial risk. A high ratio denotes a larger share of financing by the outsiders compared to the owners and therefore, a high level financial risks and *vice versa*. 
The conventional norm of D/E ratio is 1:1 and it is computed as follows.

\[
\text{Debt-Equity Ratio} = \frac{\text{Long-term Debt}}{\text{Net worth}}
\]

Long-term debt includes loan funds, bonds and deposits accepted for more than 12 months. Net worth connotes: equity share capital and reserves and surplus such as share premium, special reserves, general reserves, shelter assistance reserve and capital reserve after deduction of miscellaneous expenses like preliminary expenses, share issue expenses, debenture issue expenses, etc.

Table 6.23 reveals the debt-equity ratio of the selected HFOs for the period in consideration.

Table 6.23 portrays the debt equity ratio of HDFC varied between 6.20 and 3.52 during the study period. The ratio has shown constantly an increasing trend. This indicates that proportion of debt to equity is high. This fact shows relatively higher level of financial risk of the HDFC.

In case of DHFL, the ratio varied between 7.35 and 5.89 during the same period. The ratio has shown frequent fluctuations. The proportion of debt to equity of this company is relatively high and reflects higher level of risk.
### TABLE - 6.23

Debt-Equity (D/E) Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Total debt (Rs. in crore)</th>
<th>Equity/Net worth (Rs. in crore)</th>
<th>D/E Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
</tr>
<tr>
<td>1995-96</td>
<td>5115.03</td>
<td>376.86</td>
<td>478.62</td>
</tr>
<tr>
<td>1996-97</td>
<td>6587.66</td>
<td>417.90</td>
<td>529.69</td>
</tr>
<tr>
<td>1997-98</td>
<td>8148.45</td>
<td>435.97</td>
<td>575.35</td>
</tr>
<tr>
<td>1998-99</td>
<td>9823.58</td>
<td>459.39</td>
<td>616.16</td>
</tr>
<tr>
<td>1999-2000</td>
<td>12988.54</td>
<td>512.05</td>
<td>696.17</td>
</tr>
</tbody>
</table>

Source: Compiled from the annual reports of HFCs for the relevant years.
In case of CFHL, the ratio varied between 8.80 and 7.90 during the period. In spite of declining trend in D/E ratio, the ratio is at a higher level. This indicates comparatively higher level of financial risk.

In case of LICHFL, the ratio varied between 7.49 and 7.11 during that period. Though there are frequent changes, the ratio is at a higher level, reflecting higher risk.

All the four selected HFOs have relied on long-term loans in relation to equity. Hence, creditors’ risk is higher in all the four companies.

When a comparative evaluation is made, D/E ratios of HDFC are lower than that of the other companies during the entire period of study. This is followed by DHFL and LICHFL. D/E ratios of CHFL are higher than that of the other companies during the entire period of five years.

Further, D/E ratio of all the four companies is comparatively higher than that of the conventional ratio of 50:50.

2. **Funded Debt to Total Capitalisation Ratio:**

It is another ratio used to analyse the long-term financial position of HFCs. This ratio establishes a link between the long-term debt raised from outsiders and total long-term funds available in the HFCs. It helps to ascertain the size/share of long-term debt in total...
capitalisation. A higher ratio indicates a too heavy debt burden, which increases the fixed charges upon the earnings, decreases earnings available for distribution among shareholders and reduces the margin of safety for the lenders. It is also called Total Debt Ratio.

Thus, it is computed as under.

\[
\text{Total Debt Ratio} = \frac{\text{Funded Debt}}{\text{Total Capitalisation}} \quad \text{or} \quad \frac{\text{Funded Debt}}{\text{Total Debt}} \frac{\text{Capital Employed}}{\text{Capital Employed}}
\]

Though there is no 'rule of thumb'/accepted standards still the lesser the reliance on outsiders the better it will be for the unit. If this ratio is between 50 to 55 per cent, it will be better for the organisation.

Funded debts or long-term debts refer to loan funds, bonds/debentures and deposits.

Total capitalisation is called capital employed which includes net worth, long-term debt and net current assets.

Table 6.24 reveals percentage of funded debt to total capitalisation of the selected HFOs during the given period. The ratio of HDFC varied between 86.11 per cent and 77.89 per cent during the period as indicated in Table 6.24. The ratio has increased from
TABLE – 6.24  
Funded Debt – Total Capitalisation Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Funded debt (total debt) (Rs. in crore)</th>
<th>Total capitalisation (total liabilities) (Rs. in crore)</th>
<th>Ratio (in percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
</tr>
<tr>
<td>1995-96</td>
<td>5115.03</td>
<td>376.86</td>
<td>478.62</td>
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<tr>
<td>1997-98</td>
<td>8148.45</td>
<td>435.97</td>
<td>575.35</td>
</tr>
<tr>
<td>1998-99</td>
<td>9823.58</td>
<td>459.39</td>
<td>616.16</td>
</tr>
<tr>
<td>1999-2000</td>
<td>12988.54</td>
<td>512.05</td>
<td>696.17</td>
</tr>
</tbody>
</table>

Source: Compiled from the annual reports of HFCs for the relevant years.
year to year. This indicates a higher debt burden on the HDFC and a lower margin of safety for the lenders.

In case of DHFL, the ratio varied between 88.03 per cent and 85.49 per cent during the period. The ratio of this company showed a gradual decreasing trend. This implies that the company has been attempting to reduce the debt burden. In spite of the declining trend, the company’s debt burden ratio is relatively higher.

The ratio of CFHL varied in the range of 89.80 per cent and 88.76 per cent during the period. Though there is a declining trend the ratio indicates comparatively too heavy debt burden on the part of the company and higher financial risk.

In contrast, in case of LICHFL, the ratio varied between 88.34 per cent and 87.67 per cent during the period. In spite of frequent fluctuations, the ratio is at a higher level. This higher ratio indicates a heavy debt burden and low margin of safety for the lenders.

However, it is observed that all the four selected HFOs have relied on long-term debt in relation to total capitalisation which, in turn, has increased the interest burden and reduced the earnings of shareholders.

When a comparative evaluation is made, HDFC’s ratios are lower than that of other companies and CFHL has a higher ratios than that of the remaining companies during the entire period.
Further, the creditors on their part are not free from risks. The debt to total capital employed ratio throughout the period under review is far from the conventional ratio of 1:1.

3. Proprietary Ratio:

It is a variant of debt-equity ratio. It establishes relationship between the proprietors' or shareholders' funds and the total tangible assets. This is an important ratio used for determining long-term solvency of the HFCs.

The purpose of this ratio is to measure conservation of capital structure and shows the extent of shareholders' funds in the total assets of the units. Higher ratio indicates the better long-term solvency position of HFCs and vice versa.

This ratio focuses the attention on the general financial strength of the HFCs. This ratio is an important tool to creditors, in measuring the proportion of shareholders funds in the total assets employed in the business. A higher proprietary ratio denotes relatively little danger to the outsiders in the event of forced reorganisation or winding up of HFC. A low proprietary ratio indicates greater risk to the outsiders.

This ratio is also called Equity Ratio, or Net worth to total Assets Ratio, etc.
The ratio is computed as under:

\[
\frac{\text{Proprietary Ratio}}{\text{Equity Ratio}} = \frac{\text{Net worth}}{\text{Shareholder's funds}} = \frac{\text{Total Assets}}{\text{Total Assets}}
\]

Total assets include current assets and fixed assets (tangible) after deduction of fictitious assets like miscellaneous expenditure.

It is evident from Table 6.25 that the HDFC's ratio varied between 22.28 per cent and 13.89 per cent during the period under study. Though the ratio has shown constantly declining trend from year to year, i.e., it fell from 22.78 per cent in 1995-96 to 13.89 per cent in 1999-2000. The ratio is comparatively higher. This indicates a good long-term solvency position of HDFC and creditors risk is less.

The ratio of DHFL, varied between 14.51 per cent and 11.97 per cent during the study period. In spite of frequent fluctuations, the ratio of net worth to total assets is high in the last two years. This shows that long-term solvency position is comparatively better in the last two year than that of the first three years and creditors' risk is relatively lower in the last two years when compared to the first three years.

In contrast, in the case of CFHL, the ratio varied between 11.24 per cent and 10.20 per cent. Though there is frequent change in the ratio, the ratio is at lower level. This reveals that the long-term financial position is comparatively not satisfactory and creditors risk is very high.
### TABLE - 6.25

Percentage of Net Worth to Total Assets

<table>
<thead>
<tr>
<th>Year</th>
<th>Net worth (Rs. in crore)</th>
<th>Total assets (Rs. in crore)</th>
<th>Net Worth to total assets Ratio (in percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
</tr>
<tr>
<td>1995-96</td>
<td>1451.82</td>
<td>53.21</td>
<td>54.39</td>
</tr>
<tr>
<td>1996-97</td>
<td>1612.75</td>
<td>56.85</td>
<td>62.97</td>
</tr>
<tr>
<td>1997-98</td>
<td>1777.24</td>
<td>59.90</td>
<td>68.22</td>
</tr>
<tr>
<td>1998-99</td>
<td>1971.84</td>
<td>76.09</td>
<td>78.03</td>
</tr>
<tr>
<td>1999-2000</td>
<td>2095.97</td>
<td>86.92</td>
<td>87.55</td>
</tr>
</tbody>
</table>

Source: Compiled from the annual reports of HFCs for the relevant years.
In case of LICHFL, the ratio varied between 12.33 per cent and 11.79 per cent. In spite of frequent fluctuations, the ratio is at a lower level. This lower ratio indicates lower long-term financial solvency position of the company and greater risk to the creditors.

However, it is observed that all the four selected HFOs except HDFC have not been able to keep the ratio at higher level.

When a comparative evaluation is made, HDFC’s ratios are higher than that of other companies and CFHL’s ratios are lower than that of the other companies during the period under study.

Further, creditors have to bear the greater risk as the ratio is the lowest. This in turn affects the long-term solvency position of the companies.

4. **Current Liabilities to Net Worth Ratio**

This ratio establishes relationship between current liabilities and shareholders’ equity. Experts opine that the ideal current liabilities to net worth ratio should be 35 per cent for a business concern. This norm implies that a higher ratio results in higher liabilities in relation to net worth. Hence, it would be unfavourable to the firms. However, some financial experts are of the opinion that the current liabilities should not be included in total debt, because the former are not related to long-term commitments and hence they favour current liabilities to net worth ratio for a proper analysis in addition to debt-equity ratio.
The ratio is calculated as under.

\[
\text{Current liabilities to Net worth} = \frac{\text{Current liabilities}}{\text{Net worth}} \times 100
\]

The current liabilities to net worth ratio of HDFC varied between 50.51 per cent and 25.43 per cent as is indicated in Table 6.26. The ratio has been constantly increasing from year to year. In the first two years of operation, the ratio is favourable as it is below the conventional norm of 35 per cent. From third year onwards, the ratio seems unfavourable as it is far above the conventional norm. The ratio especially in the last two years is not impressive.

In the case of DHFL the ratio varied between 33.00 per cent and 22.60 per cent during the period under study. In spite of frequent fluctuations, the ratio is below the conventional norm. This lower ratio is favourable to the company and lower liabilities in relation to net worth.

In case of CFHL, the ratio varied between 33.21 per cent and 22.55 per cent. Though there is frequent variations, the ratio is below the conventional norm. This lower ratio shows that the proportion of current liabilities to net worth is very satisfactory.

In contrast, in case of LICHFL, the ratio varied between 48.13 per cent and 24.77 per cent. The ratio is favourable only in 1996-97 and in the rest of the years the ratio is higher than the conventional.
TABLE - 6.26
Current Liabilities to Net Worth Ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>Current liabilities (Rs. in crore)</th>
<th>Net Worth (Rs. in crore)</th>
<th>Ratio (in percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
</tr>
<tr>
<td>1995-96</td>
<td>369.26</td>
<td>17.56</td>
<td>12.89</td>
</tr>
<tr>
<td>1996-97</td>
<td>507.72</td>
<td>16.32</td>
<td>14.40</td>
</tr>
<tr>
<td>1997-98</td>
<td>645.99</td>
<td>17.38</td>
<td>18.30</td>
</tr>
<tr>
<td>1998-99</td>
<td>811.39</td>
<td>17.20</td>
<td>25.91</td>
</tr>
<tr>
<td>1999-2000</td>
<td>1058.66</td>
<td>22.30</td>
<td>19.74</td>
</tr>
</tbody>
</table>

Source: Compiled from the annual reports of HFCs for the relevant years.
norm. Hence, the ratio is unfavourable from the company's point of view.

When a comparative evaluation is made, the ratio indicates that the DHFL and CFHL have the most favourable position than that of HDFC and LICHFL.

Further, wide fluctuations are observed in the ratios of all the four companies during the study period. This reveals that the managements of these companies have not given enough attention to control these fluctuations.

5. **Interest Coverage Ratio**:

This ratio is one of the most conventional coverage ratios to measure the firm's debt servicing capacity. It is the ratio of earnings before interest and taxes to the interest burden on account of debt. This ratio also measures the financial break even point. If this ratio is equal to one, it indicates that the HFCs have reached the stage of financial break even point. If it is more than one, it indicates that financial risk is fully covered, leaving some surplus to the shareholders. If it is less than one, it shows that the financial risk is not fully covered and it also highlights borrowing policy of the HFCs and that they are not based on their ability to generate adequate level of EBIT. This ratio is worked out as under:

\[
\text{Interest Coverage Ratio} : \frac{\text{EBIT}}{\text{Interest expenses}}
\]
EBIT/profit before interest is defined as the difference between total income generated from the operations and all operating expenses but before providing for interest and taxes.

Thus \( EBIT = \text{Total income} - \text{All operating expenses but before providing for interest and taxes} \)

Interest tax to be paid by the corporation refers to total financial cost (interest cost + other financial charges).

In case of HDFC, the ratio varied between 1.37 and 1.31 during the period under study as is revealed in Table 6.27. This fact shows that the ratio is more than one throughout the entire period. This ratio of more than one indicates the HDFC's earnings have been adequate to absorb the interest charges fully leaving some surplus. However, the ratio has increased to 1.37 in 1996-97 over the preceding year ratio 1.34. Thereafter, the ratio has shown a continuous declining trend. This is on account of the declining earnings and increasing interest burden.

In case of DHFL, the ratio varied between 1.30 and 1.18 for the period under study. The ratio of this company reveals favourable results as it showed a continuous increasing trend. The ratio of more than one are maintained throughout the study period. This indicates that the earnings of this company are sufficient to bear the interest charges and leave some surplus.
<table>
<thead>
<tr>
<th>Year</th>
<th>EBIT (Net trading profit) (Rs. in crore)</th>
<th>Interest charges (Rs. in crore)</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HDFC</td>
<td>DHFL</td>
<td>CFHL</td>
</tr>
<tr>
<td>1995-96</td>
<td>908.65</td>
<td>56.48</td>
<td>77.60</td>
</tr>
<tr>
<td>1996-97</td>
<td>1169.15</td>
<td>64.73</td>
<td>88.58</td>
</tr>
<tr>
<td>1997-98</td>
<td>1334.16</td>
<td>71.07</td>
<td>91.12</td>
</tr>
<tr>
<td>1998-99</td>
<td>1639.37</td>
<td>76.46</td>
<td>99.43</td>
</tr>
<tr>
<td>1999-2000</td>
<td>1897.76</td>
<td>81.22</td>
<td>103.61</td>
</tr>
</tbody>
</table>

Source: Compiled from the annual reports of HFCs for the relevant years.
In case of CFHL, the ratio varied between 1.26 and 1.19 during the period under study. In spite of frequent changes, the ratio is more than one throughout the period of study. This reveals that the earnings of the company are also enough to cover interest charges and leave some surplus.

In case of LICHFL, the ratio varied between 1.34 and 1.29 during the period under study. Though there is frequent variation, the ratio is more than one during the entire period of study. This fact reflects that the company’s earnings are adequate to meet the interest burden.

However, it is significant to note that all the four companies have maintained the ratio of more than one during the entire period of study. The ratios are less than 1½ times in all the cases. This shows the excessive use of debt.

When a comparative evaluation is made, HDFC’s ratios are higher than that of the other companies, which indicate very favourable earnings position and CFHL’s ratios are lower than that of the other companies, which indicate satisfactory earnings position.
References:


