

## A CRITICAL APPRAISAL OF ICICI HOME FINANCE COMPANY IN INDIA

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### ABSTRACT

Finance is very necessary to construct a house whatever size and level it may be of. In the present age, due to rapid growth in population and urbanization, income per capita is so less that a person finds him unable to manage his finance in the construction of the house. Therefore, some financial institutions have been established to provide adequate finance for housing construction. Among them, ICICI Home Finance Company Ltd. is a major player in the home loan category with attractive interest rates and a host of incentives to the customers seeking a home loan. It was incorporated on May, 28, 1999 as 100% subsidiary of ICICI Personal Financial Services Limited with the objectives of providing long term housing loans to individuals and corporate. The company was registered on March 30, 2000 with National Housing Bank. With effect from May 03, 2002, ICICI Home Finance Company has become a 100% subsidiary of ICICI Bank Ltd. It has already engaged in this field more than 10 years. So, it is a time to analysis the home finance status and financial performance of ICICI Home Finance Company critically. That's why, the investigators have decided to analysis the performance of ICICI Home Finance Company from 2007-08 to 2013-14. All the information has collected through secondary data. The analysis is based on different financial ratios as well as statistical tools like graphs, percentages and growth rates. The findings reveal that the home finance status of ICICI Home Finance Company is decreasing year by year but the profitability is increasing due to financial leverage which is helpful to maximize the wealth of shareholders.

**KEYWORDS:** Housing Finance, ICICI Home Finance Company, Financial and Operational performance.

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**INTRODUCTION:**

Home, a sweet home is a place where we return after a hard day's work and relax, a place where we share precious moments with our family, a place that gives us a sense of belonging. So, now-a-days housing is not only a basic necessity for human living, but also an indicator of the progress of the nation in terms of human development and welfare. As per the Article 19(1)(e) of the Constitution of India, " All citizens shall have the right to reside and settle in any part of the territory of India." Thus, housing being a basic need for the family, is a life time investment and so it is mainly centered around on lack of adequate finance at supply and demand end. Housing, being a long durable asset, the housing finance required is generally a long term credit in nature.

When the housing financial market was not developed fully, the informal sources of financing played a major role in housing finance. As home loan is an integral part of every person who dreams and wants to have a living space of his own, so it is collected from the informal sources of financing, i.e., money lenders, friends, relatives and family saving etc. Traditionally, informal sources of housing finance played a major role in housing finance, but with the rapid growth of urbanization and improved income as a result of economic development since independence, the government recognized the critical importance of housing finance and the need for development of multi-institutional network to meeting the growing investment needs of housing sector.

Evolution of formal housing finance began with the establishment of public sector agencies for housing by both central and state governments. Initially, the government financial support to housing had been centralized and directed through the State Housing Boards (SHB) and development authorities. Attempts were also made to organize co-operative Housing financing Societies (CHFS) at primary level, Apex co-operative housing Federations (ACHFs) at state level and National Cooperative Housing Federation at national level. In spite of these developments, SHB and other housing agencies were continuously facing the problem of inadequate housing finance. So, in 1970, the govt. of India decided to establish Housing and Urban Development Corporation Ltd. (HUDCO) as a fully owned central Govt. enterprise to finance housing and urban infrastructure activities including housing. In this series, in 1988, National Housing Bank (NHB) was set up as a subsidiary of RBI to provide refinance facilities to banks, housing finance companies, Co-operative Housing finance societies etc. In 1977, the Housing Development Finance cooperation (HDFC) was setup as the first company of its kind in the private sector to offer home loans in India. It was sponsored by the ICICI and IFC. In 1984, Dewan housing finance company came into existence. In 1989, LIC of India promoted LIC housing company Ltd. These new

economic policies launched in early 1990s paved the way for the entry of commercial banks into the housing finance sector.

The entry of commercial banks was definitely a landmark in the housing finance sector. Initially, they entered the housing finance market cautiously on small scale. Before directly entering into housing finance, some banks have found expedient to setup separate subsidiaries to specialize in housing finance.

So, in this research paper, the researchers have chosen ICICI Home finance Company Ltd, which is a subsidiary company of ICICIC Bank Ltd., to critically analyze the housing finance status of it.

#### **HISTORICAL BACKGROUND OF ICICI HOME FINANCE COMPANY LTD.:**

On 5<sup>th</sup> January, 1955, the Industrial credit and investment corporation of India was setup to encourage and assist industrial development in India. It was incorporated with the collective efforts of the major three, named World Bank, Govt. of India and Indian Industry's representatives. The establishment has been taken place with a view to aid Indian business by acting as a source of finance to medium and long term projects. In 1990s, the ICICI institution started diversifying its operations and end up at the wholly owned subsidiary called ICICI bank. The bank was established in 1994 and became the first bank listed on NYSE (New York Stock Exchange). In 1999, ICICI launched retail finance – car loans, home loans, and loans for consumer durables. In this reference, ICICI Home finance Company Limited was incorporated on May 28, 1999 as 100% subsidiary of ICICI Personal Financial Services Ltd. ICICI HFC Ltd. was setup with the objectives of providing long term housing loans to individuals and corporate. The company was registered on March 30, 2000 with National Housing Bank under National housing Bank Act, 1987 in terms of Housing Finance companies Directions, 1989. In 2001, the Board of ICICI Ltd. and ICICI bank approved the merger of ICICI with ICICI Bank. With effect from May 03, 2002, ICICI Home Finance has become a 100% subsidiary of ICICI bank Ltd.

Since making its maiden venture in the Home loan segment in 1999, ICICI bank has been breathing down the neck of market leader HDFC with its aggressive marketing strategies. ICICI Bank is the largest provider of Home loans in India. ICICI home loans offer unbeatable benefits to ensure that its clients get the best deal without any hassles. It offers easy loan to purchase or construct a flat or a house. The benefits associated with ICICI Home Loan that gives them an edge over other players in market are as follows:

- Attractive and customer- friendly loan interest rates.
- Term loans up to 20 years are available.
- Loan comes with a free personal accident insurance policy.

- Premium charged in case of insurance options for home loans is also attractive.
- Simplified and easy documentation work.
- Door-step-service.
- Home loans can be sanctioned even before selecting the property.
- No fee is charged on part-pre payment.
- 100% funding on special properties.

The various policies of ICICI Home loans are Fixed Rate Home loan, Adjustable Rate Home Loan, Floating Rate Home loan, Smart Fix Home loan, Money saver Home loan and other types of Home loans include Land Loans, office Premises loans, Home improvement loan and Home loan for NRI. One can also leverage one's existing property to get a loan against property, property overdraft or lease rental discounting. All of these are available at a fixed rate or an adjustable rate of interest.

Another significant feature of ICICI Home loan is also to allow the customer transfers the balance of his/her existing loan from another banks and home loans are liable to tax benefits. Thus, ICICI Bank home loans bring to us a home loan power-packed with numerous facilities making it the perfect home finance option for us.

#### **NEED OF THE STUDY:**

Finance is very necessary to construct a house whatsoever size and level it may be of. In the present age, due to rapid growth in population and urbanization, the income per capita is so less that a person finds him unable to manage his finance in the construction of the house. He spends his income in urgent needs of his family and so there is no scope left for saving and if he saves, he saves it for the education of his children, for health care, marriage purposes etc. If somehow, he manages to think about the house, then a big amount is spent on purchasing of land and construction. Undoubtedly, he needs a large sum of money. Therefore, some financial institutions have been established to provide adequate finance for housing construction. Housing Finance facility, on the one hand, is the basic need of human being and on the other hand, is the indicator of social and economic development of the country.

There are many nationalized banks that offer finance for affordable housing but they take too much time. Their processing of loan given is very much complicated and they require endless paper work. But, now-a-days, there are many housing finance institutes and banks in private sector to provide us quick services at attractive interest rates without any complicated process and with a multiple other benefits. Besides it, now interest rates are becoming globally competitive and declining continuously.

Among them, ICICI Home Finance Company Ltd. is major player in the home loan category with attractive interest rates and a host of incentives to the customers seeking a home loan. That is why; the need of this research paper is to evaluate critically ICICI Home Finance Company.

#### **OBJECTIVES OF THE STUDY:**

There are three main objectives of our study. These are as follows:

- a. To analyze the home finance status of ICICI Home Finance Company.
- b. To analyze the financial performance of ICICI Home Finance Company.
- c. To evaluate critically ICICI Home Finance Company.

#### **REVIEW OF LITERATURE:**

Review of literature helps a researcher to get acquainted with his or her selected research problem and also may provide some guidelines in selecting a proper research methodology. It is also helpful in finding out the research gaps in the existing literature.

1. Brar, Jasmindeep et. Al. (2005), "Performance of Housing Finance Companies" – The objectives of this study were: to study the operational performance and financial performance of the selected institutions. The study covers three institutions, viz. HDFC, LIC and PNB. The study is based on secondary data that have been collected from the annual reports and websites of the institutions selected under study. It covers the period from 1990-91 to 2002-2003. The performance of the selected institutions has been studied by using the percentages, compound growth rates and various ratios. Findings of the study are- HDFC comes at the top among all the institutions as far as loan sanctioned, disbursement and the loan outstanding are concerned, PNB has the last rank for both loans sanctioned and disbursed. However, the compound growth rate for the loan sanctioned, disbursement and outstanding has been highest in the case of LICHF.
2. Rao, K.N. (2006) "Housing Finance- A Global Perspective" - In this article, the author mentions that home loans have been registering exponential growth in India during the last six years. Easy liquidity conditions, low interest rates, availability of tax shelters on repayment of principle and interest surging demand from middle income borrowers, lower regulatory capital, the comfort of tangible security have all collectively contributed to the spurt in home loans. HDFC, ICICI and SBI are the major players in disbursement of home loans. These banks sanction up to 85% of the cost of the property as home loan for a maximum period of 20 to 30 years.
3. Singh, Fulbag et.al. (2006) "Housing Finance in India – A case study of LIC Housing Finance limited"

In this paper, the authors have studied the housing finance in India. Housing, as one of the three basic needs of life, always remains on the top priority of any person, economy, government and society at large. This paper is based on the case study of LIC Housing finance Ltd., which analyzes region-wise disbursements of individual house loans, their portfolio amounts and the defaults for the last ten years i.e. from 1995-96 to 2004-05 by working out relevant ratios in terms of percentage and the compound annual growth rates.

4. Jasmine Tiwana and Jagpal Singh (2012)

In their paper, it is discussed about the regulatory aspects pertaining to housing finance companies in the light of various directions and guidelines issued by National Housing Bank. NHB, an apex level institution wholly owned by the Reserve bank of India was set up in 1988 under National housing Bank Act 1987. It promotes housing finance institutions, issues directions and provide finance and other support to the institutions.

5. Sangwan ,Pushpa, K. B. (2012) : "A comparative Analysis on Home loans of Public and Private sector Banks in India" -She conducted a comparative analysis of home loans of public and private sector banks in India. This study outlined the satisfaction level of customers and problems faced by them in obtaining the home loans. The study has taken four commercial banks in Chandigarh city namely, HDFC, PNB, Union Bank of India and ICICI. It includes two public sector banks and two private sector banks. The customers have more satisfaction towards the services offered by private banks more when compared to the public banks.

6. Ravindra, Dr. P.S ,D.P. (2013) "Operational and Financial performance Evaluation of Housing Finance Companies in India (a case study of LICHFL and HDFC)-He has evaluated the operational performance of LIC Housing Finance Ltd. and HDFC. Top housing finance companies such as HDFC,LIC housing finance witnessed loan book growth of 22-37% during the year ended March 2012, thereby increasing their market share. It was conducted that the success of LICHFL and HDFC in the housing finance industry is in its marketing network. They have more number of marketing personnel than the regular office staff. Even though, these two housing agencies are good in sanctioning loan disbursal and delivery of services to the customers, they have to modify and differentiate their services from other financial companies, which assure maximum benefits to the customers.

7. Kaur, Inderbir (2013) "comparative study of Housing Loan of HDFC and ICICI Bank"-The objective s of this study are to undertake the comparative analysis of privatize banks (HDFC Bank and ICIC Bank) in housing loan sector. The other objectives are to study consumer preference for the

above two mentioned housing finance players and to analyze the satisfaction level of private banks (HDFC Bank and ICICI Bank) Home loan consumers. The findings of this study are that the people prefer HDFC Bank more than ICICI Bank for personal loans in private sector. Mostly people prefer government banks for loans especially older persons. But, younger population preference is changing and they prefer more private banks because of the services and facilities provided by the private banks. The interest rate is lower in government banks but services and facilities are not up to the mark.

### **LIMITATIONS OF THE STUDY**

The limitations of the study are as follows:

1. The study is based on the performance of the last seven years (2007-08 to 2013-14) of the ICICI Home Finance Company.
2. The study does not contain the comparison of ICICI Home Finance Company with other similar housing companies.
3. The area of the study is kept limited due to the shortage of time and financial position.
4. The operational and financial performance of the ICICI Home Finance Company is only taken in to consideration but the consumers' perceptions are not taken in the area of the study.

### **RESEARCH METHODOLOGY**

To fulfill the objectives of the present study, following research methodology has been used:

#### **1. Selection of Home Finance Company for study-**

As stated in the "need of the study", one home finance company namely, ICICI Home Finance Company operating in Indian private sector as a major player in home loan category has been selected for the purpose of the study.

#### **2. Collection of data**

The main sources of secondary data are published annual reports, manuals, pamphlets, books, business magazines, journal and articles and other printed literature of the institution.

#### **3. Analysis of Data**

Critical analysis of data is very skillful task of all the stages of the research. To achieve the desired objectives, the collected data has been analyzed by using statistical tools like percentages, growth rates as well as financial ratios. Some important financial ratios like Current Ratio, Debt-Equity Ratio, Return on Capital Employed, Earning per share have been computed and for critical evaluation of Home Finance status, the non-performing assets are taken as a base for analyzing the ICICI Housing Finance Company.

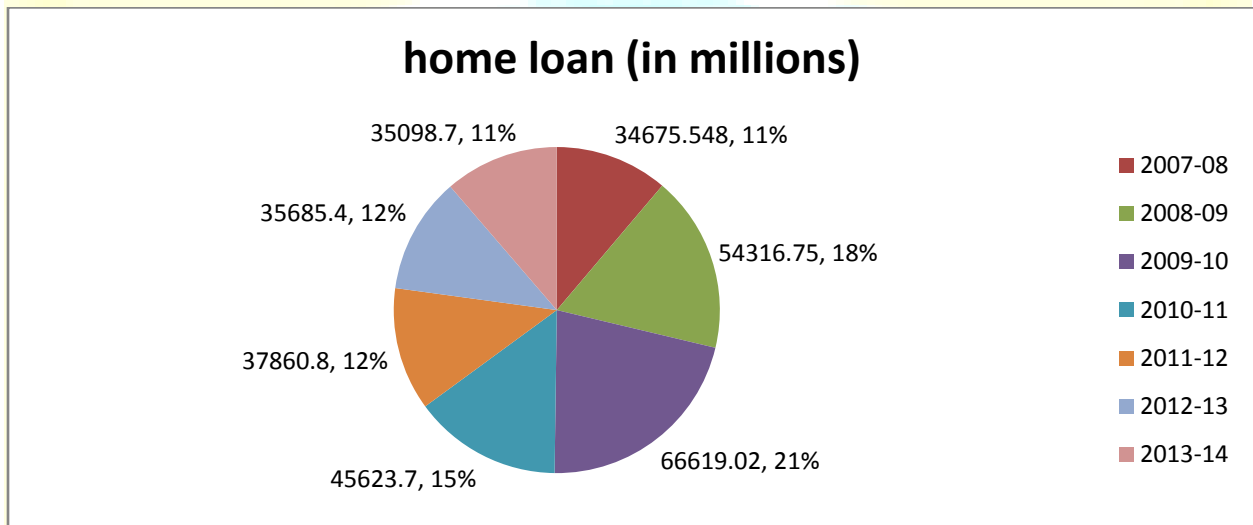
4. Period of analysis

In order to achieve the objectives of the study, a time-series data on the relevant indicators have been collected from 2007-08 to 2013-14.

**FINDINGS AND SUGGESTIONS**

**FINDING 1:**

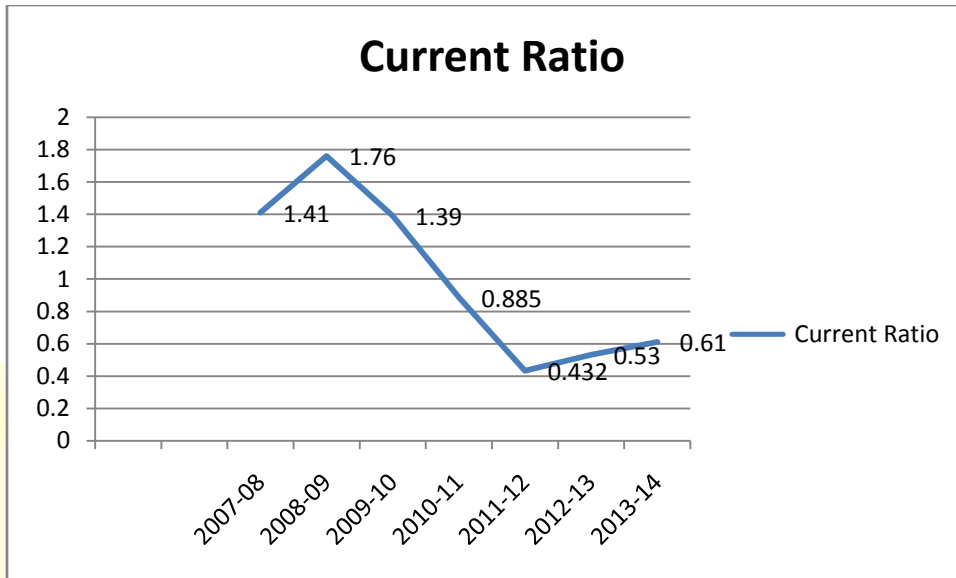
Total amount of home loan of ICICI Housing Finance Company was in increasing trend up to 2009-2010 but after this, the trend of providing home finance by ICICI Housing Finance Company is decreasing year by year.



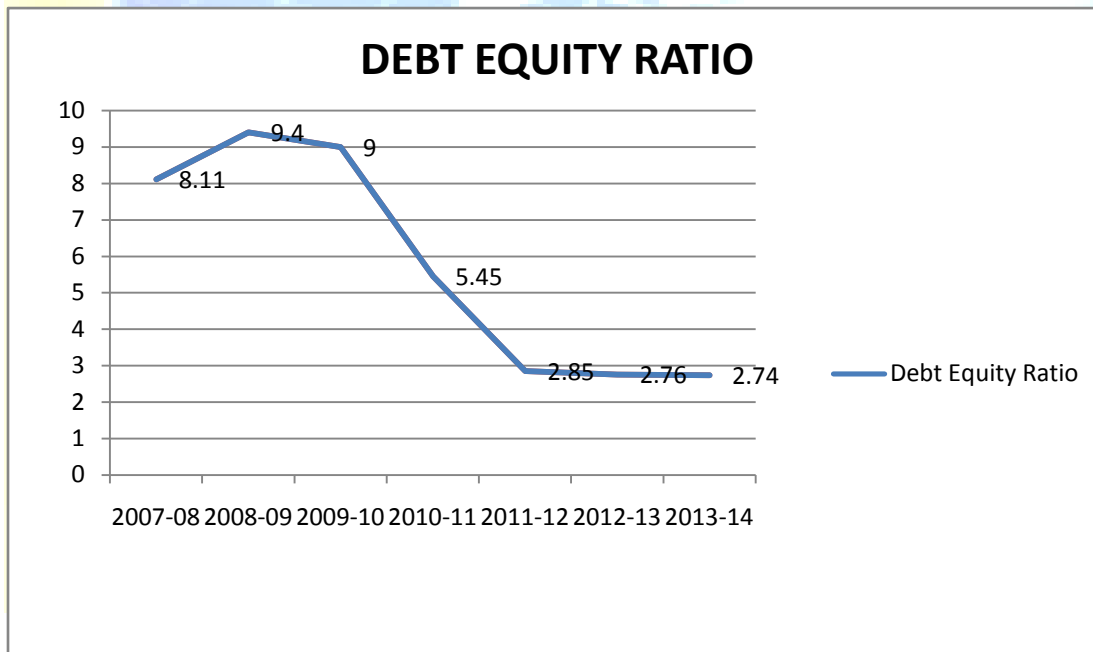
**FINDING 2:**

**2(1):** The liquidity position of ICICI H. F. Company is decreasing year by year but it is high in the year 2008-09 and a little bit increment can be seen in between 2012-13 and 2013-14.



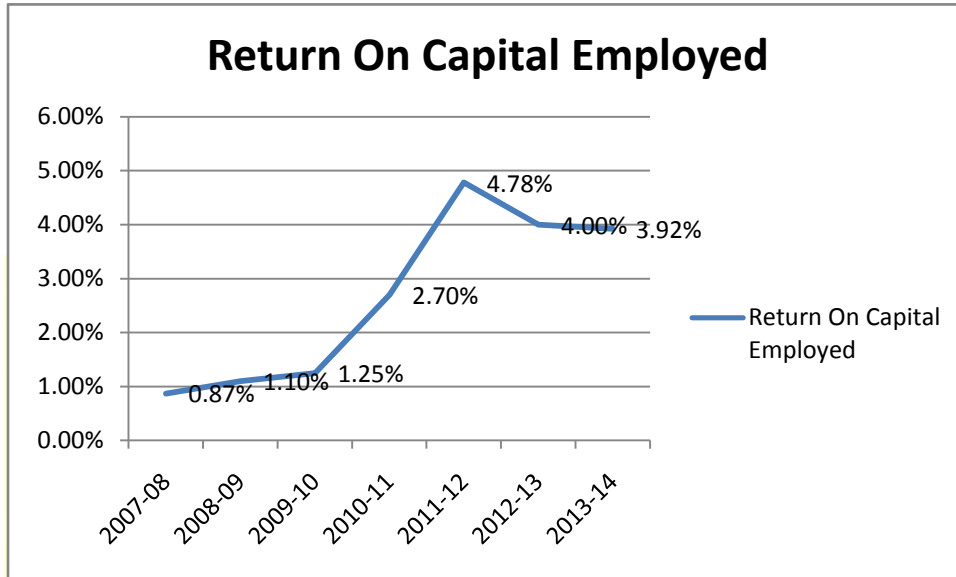


**2(2):** The solvency position of ICICI H.F. Company seems to be good because the debt-equity ratio is declining year by year. In 2008-09 it was 9.4 but in 2012-13 it was just 2.74 which highlight the strong solvency status of ICICI Home Finance Company.



**2(3):** As  
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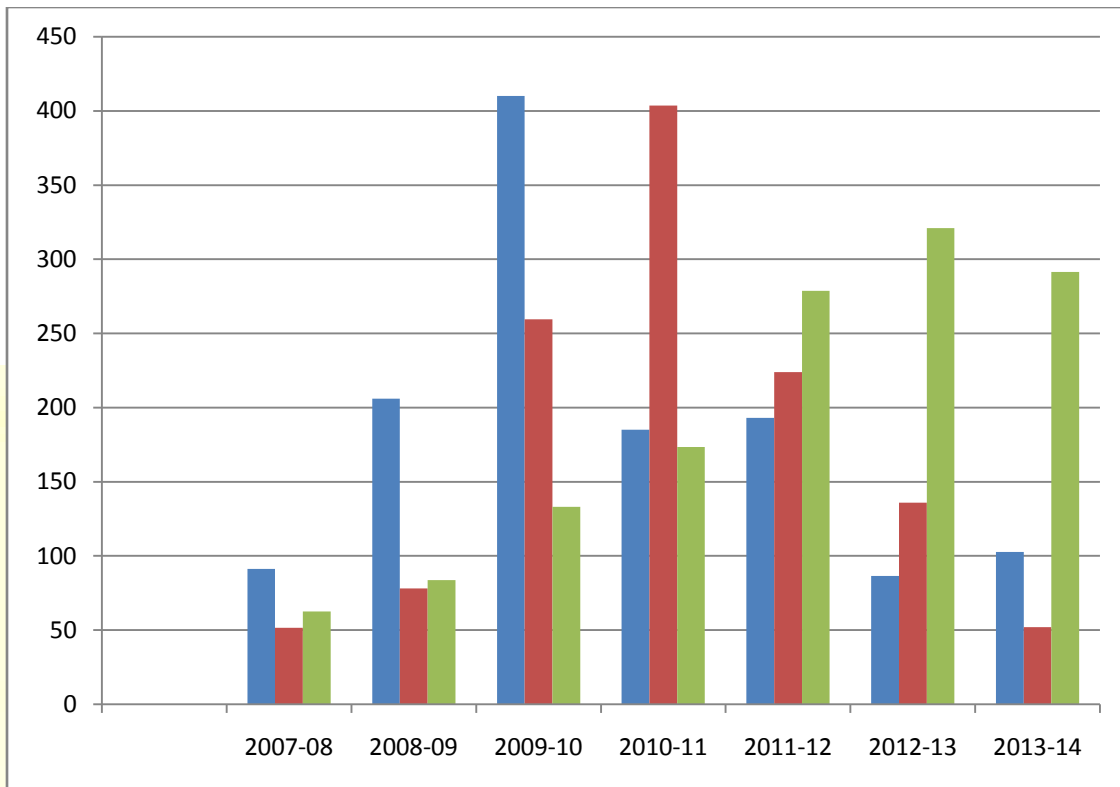
solvency condition of ICICI Home Finance Company is good, therefore the profitability position of company is also good because company is taking the benefits of financial leverage



**INTERPRETATION 3**

By analyzing the non-performing assets of ICICI Housing Finance Company, the interpretation can be drawn that there is a continuously increment in loss of outstanding home loans up to 2012-13 but from 2013-14 the trend is improving gradually.

Column1	Column2	Column3	Column4
YEAR	NON-PERFORMING ASSETS		
	SUB STANDARD	DOUBTFUL	LOSS
2007-08	91.34	51.64	62.49
2008-09	206.03	78.17	83.75
2009-10	410.04	259.49	133.07
2010-11	184.99	403.59	173.54
2011-12	193	224	278.8
2012-13	86.5	136	320.9
2013-14	102.7	52	291.4



### **SUGGESTIONS**

1. Due to less recovery of housing loan, by ICICI Home Finance Company, its operational performance is going to be effective negatively. The liquidity ratio shows its effect. So, first of all, ICICI should improve its liquidity position its liquidity position by paying more attention towards recovery of housing loan which should be improved only by making effective plan regarding this.
2. The solvency and profitability position of ICICI home finance company is good but it can be made more effective and better by giving more emphasis on recovery of interest income.
3. The total of ICICI home finance company was increasing continuously up to 2009-10. So the company changed its policies which helped it to reduce Non Performing-Assets. Now the company should adopt the same policies in future to maintain that position of NPA and try to recover the doubtful loans and loss of outstanding home loans.
4. To play a major role of financier in the field of housing loan in government as well as in private real estate schemes, ICICI home finance company should try to make its interest rates and incentives more attractive rather than others for the customers seeking home loan.

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