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Strategic Financial Management for Housing Finance Companies in India: A Multivariate Approach

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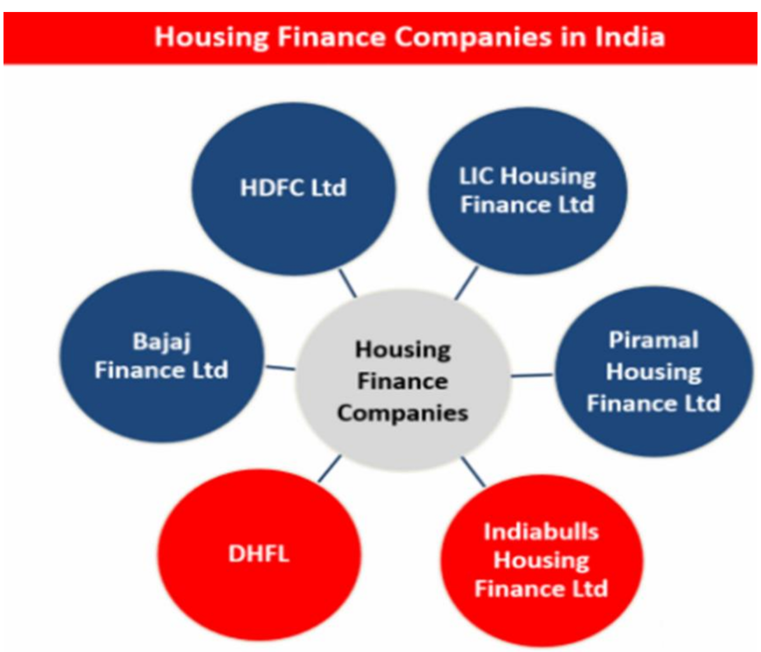
Abstract:
Housing Finance Companies (HFCs) have traditionally played a significant role in India's formal housing finance sector. However, their prominence has waned since the fiscal year 2003 when Commercial Banks (CBs) surpassed them in market share, holding over 70 percent of the market compared to HFCs' 28 percent. Cooperative sector institutions occupy a much smaller share, approximately 0.5 percent. Despite their specialization in housing finance, HFCs face increasing challenges to their market share and profitability, particularly the smaller ones. Many smaller HFCs have already succumbed to competitive pressures. The introduction of the 'Base Rate' by the Reserve Bank of India compelled commercial banks to charge higher lending rates to HFCs, placing additional cost pressures on these institutions. Given this evolving landscape, the financial performance of HFCs has become crucial for their survival and growth. In this context, this paper aims to achieve the following objectives: (i) provide an overview of the institutional housing finance system in India, (ii) conduct a comprehensive examination of the role of HFCs in the changing housing finance market, including their principal challenges, (iii) analyze the determinants of superior financial performance in HFCs using Multivariate Discriminant Analysis (MDA) methodology, and (iv) propose effective strategies to enhance the financial performance of HFCs in the context of financial management.

Keywords: Housing Finance Companies (HFCs,) Market Share, Financial Performance, Multivariate Discriminant Analysis (MDA,) Financial Management

INTRODUCTION

The field of "Housing Finance Management" has been extensively studied in financial literature, revealing that housing has significant potential to stimulate socio-economic growth, particularly in emerging nations like India. The significant linkages between the housing sector and more than 250 other industries underscore its crucial function as a catalyst for rapid economic expansion. Concurrently, the fact that it is considered an essential requirement for human existence highlights its significant impact on society.



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In light of the considerable potential, housing construction has become a prominent focal point in the policy-making and budgetary decisions of governments worldwide, particularly in developing countries. India has demonstrated a noteworthy dedication to housing development from the late 1970s, even though the official institutional housing financing system was established relatively recently with the foundation of the National Housing Bank (NHB) in 1988. During the pre-reform era, the institutional housing finance market was predominantly controlled by housing finance corporations (HFCs), as observed in historical records. Nevertheless, a significant change had place when commercial banks (CBs) began to participate in the housing finance industry during the latter part of the 1990s. The decision made by central banks to adopt this strategic approach was motivated by the implementation of financial sector deregulation policies in 1991. This constituted a significant obstacle for housing finance companies (HFCs), which had previously dominated as specialized entities in this field. The co-operative sector institutions also had a marginal presence in this context, accounting for around 0.5% of the market share.
The introduction of commercial banks into the home finance market led to heightened competition, which subsequently caused a notable decline in the relative prominence of housing finance companies (HFCs). Since 2003, commercial banks have replaced HFCs as the dominant intermediary group and have consistently held this position. According to the most recent data, commercial banks currently dominate the housing financing sector with a market share of 70%. In contrast, housing finance firms maintain a market share of approximately 28%. For a comprehensive breakdown, please refer to Table

Table I: Break-up of Home Loan Portfolio among HFCs and CBs

Particulars	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10*
HFCs	354	468	598	734	912	1082	1219
CBs	894	1347	1852	2310	2557	2724	2918
Total	1249	1815	2450	3044	3468	3806	4137
Credit Growth – HFCS	27%	32%	28%	23%	24%	19%	17%
Credit Growth – CBs	158%	51%	38%	25%	11%	07%	11%
Credit Growth – Total	100%	45%	35%	24%	14%	10%	12%
Share of HFCs in Total Credit	28%	26%	24%	24%	26%	28%	29%
Share of CBs in Total Credit	72%	74%	76%	76%	74%	72%	71%

(* For the nine months ended Dec.2009, growth rates are annualized over March 2009)

Note: Amounts in Rs. billion.

Source: *Housing Finance Companies and Indian Mortgage Market,* ICRA, Feb. 2010.

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In addition to the decline in market share, Housing Finance Companies (HFCs) have an additional challenge in comparison to Commercial Banks (CBs): the necessity to uphold a higher Capital Adequacy Ratio (CAR) of 12%, in contrast to the 9% stipulation for CBs. The financing expenses of Housing Finance Companies (HFCs), especially smaller ones that heavily depend on Commercial Banks (CBs) for their funding, are expected to be negatively affected by the regulatory choices made by the Reserve Bank of India (RBI) since July 2021. HFCs are currently facing a range of issues that need them to prioritize operational efficiency in order to effectively navigate and thrive in the current era of globalization. This era is marked by intense competition and limited profit margins.

RESEARCH GAP

Within the domain of research gaps, a conspicuous dearth of studies exists that have explored the operational efficiency of Housing Finance Companies (HFCs) in India. The existence of this gap can be ascribed to the historical circumstances, as the development of a structured housing finance system in the nation commenced in 1988. This milestone was marked by the establishment of the National Housing Bank (NHB) and the formulation of the National Housing Policy, which coincided with the initiation of operations by the majority of Housing Finance Companies (HFCs). In 2021, Manoj conducted a significant endeavor aimed at evaluating the operational efficiency of HFCs in India. This analysis not only classified these organizations into broader categories but also proposed measures to improve their operational efficiency and competitiveness. This study utilized analytical techniques such as the Cost to Income ratio and ROE decomposition analysis to provide significant findings regarding the competitive environment and operational efficiency of HFCs. Additionally, it offers recommendations to enhance their market positions. However, there is a significant research void in the field, focused on the identification of the precise factors that impact the financial performance of these Housing Finance Companies (HFCs). The primary objective of this work is to fill the existing research gap by identifying the unique factors and developing a discriminant function that is specifically designed for HFCs.

SIGNIFICANCE OF THE STUDY

The study's importance is emphasized by the extensive acknowledgment in scholarly works of the crucial role that housing plays in stimulating a country's economic progress. The extensive interconnections between the housing sector and over 250 associated industries position it as a significant driver of economic expansion, particularly in emerging economies such as India. Significantly, the housing sector in India holds the distinction of being the second most prominent contributor to employment, surpassed solely by the agricultural industry. Nevertheless, when confronted with obstacles such as the decline in market share for Housing Finance Companies (HFCs), increasing constraints on profitability, and escalating fund expenses, it becomes imperative to examine the elements that impact the financial performance of these HFCs. This research is of great significance as it focuses on the crucial need for HFCs to improve their financial performance and operational efficiency in a constantly changing environment. Moreover, the limited availability of empirical research in this particular field amplifies the importance of identifying the factors that contribute to exceptional financial performance. This identification allows for the identification of specific areas that require focused attention and the development of suitable strategies to enhance the financial performance of housing finance corporations (HFCs). Furthermore, the significance of the study encompasses the domain of policy-making. The utilization of scientific research findings is crucial in influencing well-informed and logical decision-making processes, both on a broader scale including governmental bodies and administrations, as well as on a smaller scale pertaining to individual HFCs. The research findings presented in this study are significant contributions to the field, since they give valuable insights that can inform policy decisions based on a robust empirical framework.

OBJECTIVE OF THE STUDY

1. **To conduct a comprehensive review of the institutional housing finance system in India and the role played by Housing Finance Companies (HFCs):** The first objective is to thoroughly examine the housing finance system in India, including the structure, regulations, and the specific roles played by HFCs. This will provide a foundational understanding of the housing finance landscape.
2. **To examine in-depth the challenges faced by HFCs in the evolving housing finance market in India:** The second objective is to delve deeply into the challenges that HFCs encounter within the dynamic housing finance market in India. This involves identifying and analyzing the specific issues and hurdles they face.
3. **To investigate the determinants influencing the successful financial performance of HFCs using Multivariate Data Analysis (MDA):** The third objective is to analyze the factors that impact the financial performance of HFCs. This includes using MDA techniques to identify and measure these determinants.
4. **To assess the predictive capacity of the model across major HFCs in India:** This objective aims to evaluate the accuracy and reliability of the model developed in the previous objective by applying it to major HFCs in India. This assessment will determine how well the model predicts the financial performance of these companies.
5. **To propose strategies to improve the financial performance and competitiveness of HFCs:** The final objective is to provide actionable recommendations and strategies for enhancing the financial performance and competitiveness of HFCs in India, based on the findings and analysis conducted in the previous objectives.

HYPOTHESES:

1. **H1:** There is a significant relationship between the performance of HFCs in India and the specific determinants analyzed through MDA.
2. **H2:** The housing finance market in India is experiencing significant transformations, and HFCs are facing new challenges that impact their operations and performance.
3. **H3:** The model developed using MDA will have a statistically significant predictive capacity in assessing the financial performance of major HFCs in India.
4. **H4:** The strategies proposed in the study will have a positive and significant impact on the financial performance and competitiveness of HFCs in India.

RESEARCH METHODOLOGY

The primary objective of this research paper is twofold. Firstly, it aims to conduct a comprehensive examination of the housing finance market in India using a descriptive-analytical approach. This examination includes a detailed analysis of the role played by Housing Finance Companies (HFCs) within this market. Secondly, the paper seeks to identify and discuss the

challenges faced by HFCs in the dynamic landscape of the housing finance market, as well as the factors that contribute to their robust financial performance. Furthermore, this study adopts an exploratory methodology in order to develop viable ways for improving the financial performance of Housing Finance Companies (HFCs).
The principal research approach employed in this study is Multivariate Discriminant Analysis (MDA), which is implemented using a 'Purposive Sampling' methodology. The HFCs can be classified into two distinct categories, namely "Profit making" and "Loss Making," which are determined by their profit after tax (PAT) for the most recent financial year (FY 2009). Four highly profitable hybrid financial corporations (HFCs) are chosen based on their sustained profitability in the fiscal year 2009, with a requirement of continuous profitability in the two preceding financial years. In a similar vein, three HFCs that have continually incurred losses since fiscal year 2009 have been selected. The sample comprises of seven HFCs, with four being profit-making and three being loss-making. This selection was made in order to ensure consistency in performance and to observe any significant differences between the two groups.
The discriminant function, which is obtained by Multiple Discriminant Analysis (MDA), is used to calculate the discriminant scores for the seven High-Frequency Components (HFCs) present in the sample. The cut-off score is determined as the average of the two group scores. The discriminant function is subsequently utilized to ascertain scores for the subsequent eight highest-frequency customers (all of which are profitable) in order to validate whether these scores align with the range computed utilizing group scores. Significantly, these 15 Housing finance companies (HFCs) cover nearly the entirety of the HFC market in India.

Multivariate Discriminant Analysis (MDA)
The conventional method of ratio analysis is a univariate approach that is constrained by its dependence on a solitary variable. Altman et al proposed a solution to address this constraint by introducing a statistical methodology called Multi Discriminant Analysis (MDA). The Multidimensional Analysis (MDA) technique is utilized to categorize items into predetermined groups by considering their unique features. As a result, MDA produces a linear combination of these properties that effectively distinguishes or classifies the groupings. The discriminant function can be formulated in the following manner.

$$Z = b_1X_1 + b_2X_2 + \ldots\ldots\ldots\ldots\ldots + b_nX_n$$

where $b_1, b_2, \ldots\ldots b_n$ are discriminant coefficients,
$X_1, X_2, \ldots\ldots\ldots\ldots X_n$ are independent variables, and
Z is the discriminant score.

The pertinent data pertaining to each Housing Finance Company (HFC) is acquired from their publicly accessible annual reports. Furthermore, the Centre for Monitoring of Indian Economy (CMIE) maintains an electronic database called CMIE Prowess, which gathers industry-level summaries. The National Housing Bank (NHB), which serves as the industry regulator, is the primary source of data pertaining to registered Housing Finance Companies (HFCs).

INCREASING SUSCEPTIBILITY OF REGISTERED HOUSING FINANCE COMPANIES (HFCS) AS A RESULT OF REGULATORY AND RELATED CONCERNS
Housing Finance Companies (HFCs) in India have numerous obstacles in comparison to Commercial Banks (CBs). In 2021, the Reserve Bank of India (RBI) issued a directive that required the adoption of the Base Rate, starting from July 1, 2021. This policy posed an increased level of intricacy for Housing Finance Companies (HFCs). In accordance with the aforementioned instruction, commercial banks (CBs) were prohibited from providing loans at interest rates that were lower than the Base Rate. Given that a significant number of housing finance companies (HFCs) depend on term loans obtained from commercial banks (CBs) to secure their financing, the implementation of the Base Rate system would result in elevated funding expenses for HFCs in the foreseeable future. HOUSING FINANCE COMPANIES (HFCS) encounter numerous obstacles. One of the few relative advantages they enjoy is their specialized experience as devoted players in the housing finance industry, in contrast to commercial banks that provide housing loans in addition to a range of banking services. Housing finance is an industry that exhibits a notable feature of modest profit margins coupled with substantial transaction volumes. The spreads (margins) of even established HFCs have witnessed a decrease, declining from above 2.5 percent in FY 2008 to approximately 2.20 to 2.30 percent in FY 2009. There has been a modest improvement observed in smaller HFCs, as their margins have increased from 2.4 percent in FY 2008 to 2.5 percent in FY 2009. However, it is important to note that these margins continue to remain very low. Furthermore, it can be observed that there has been a consistent increase in the non-performing assets (NPAs) of housing finance companies (HFCs) since the fiscal year 2009.

Housing finance companies (HFCs) generally incur greater costs of funds in comparison to commercial banks (CBs). Smaller Housing finance companies have elevated finance expenses. In 2004, a time characterized by notable consolidations within the HFC sector, it was observed that HFCs with capital up to Rs 150 crore exhibited the highest proportion of non-performing loans at 9.4 percent. In contrast, HFCs with capital ranging from Rs 150 crore to Rs 500 crore had a lower percentage of bad debts at 5.3 percent, while well-capitalized HFCs with capital exceeding Rs 500 crore had the lowest proportion of non-performing loans at 1.6 percent. The net non-performing asset (NPA) levels of the initial two cohorts of housing finance companies (HFCs), namely those with capital up to Rs 500 crore, exhibited significantly higher NPA levels compared to the majority of commercial banks (CBs) in their wholesale banking activities. Furthermore, Housing finance companies (HFCs) encounter the issue of maturity mismatches, which is sometimes referred to as asset-liability mismatches. Housing finance companies (HFCs) commonly acquire capital from public deposits that have a duration of 3 to 5 years, whereas they provide loans with significantly longer repayment periods of 15 years or beyond. Nevertheless, prominent entities such as HDFC possess the advantage of accessing cost-effective and enduring funding sources, which effectively mitigate the challenges arising from maturity mismatches. Consequently, this enables them to achieve enhanced profitability in the realm of housing loans. Due to escalating competition and declining profitability, numerous smaller HFCs have been compelled to cease their activities, with the majority being bought by their parent corporations. The aforementioned phenomenon is particularly conspicuous within the realm of housing finance companies (HFCs) that maintain affiliations with banking institutions, wherein the parent banks have bought their HFC subsidiaries. In these circumstances, the availability of low-cost financing to banks can provide advantages for the future home finance operations of the parent bank. Table II presents a comprehensive summary of notable occurrences of consolidation within the realm of Housing Finance Companies (HFCs) in India.

Table II: Major Consolidations among the HFCs in India – an Overview.

Name of the HFC	Kind of consolidation that has happened
Andhra Bank Housing Finance Ltd.	Got merged with its own parent bank, Andhra Bank in 2002
ViBank Housing Finance Ltd.	Got merged with its own parent bank, Vijaya Bank in 2003
BOB Housing Finance Ltd.	This is the HFC subsidiary of Bank of Baroda (BOB). It has already been merged with BOB, after getting clearance from the RBI in 2006
Ind Bank Housing Finance Ltd.	Because of huge losses, already stopped operations, both lending and acceptance of deposits. At present, engaged in recovery of overdue accounts alone. Is in the process of getting merged with its parent, viz. Indian Bank which has 75 % stake.
SBI Home Finance Ltd.	Erosion of net worth because of huge losses. Its registration was cancelled by the NHB (2005).Since stopped its operations.
Vysya Bank Housing Finance Ltd.	This HFC was promoted by Vysya Bank in 1990. Later in 2003, it was taken over by a larger HFC viz. Dewan Housing Finance Corporation. The merged entity is now DFHL Vysya Housing Finance Ltd.
Housing loans portfolio of Citibank	Taken over by LIC Housing Finance Ltd., an HFC sponsored by Life Insurance Corporation Ltd. (LIC), in 2003.
Tata Home Finance Ltd.	Taken over by IDBI bank in September 2003.
Mahrishi Housing Development Finance Corporation (MHDFC)	This HFC from the Maharishi group is in the process of getting taken over by Religare group, a Delhi-based financial services company (2009).
BHW Home Finance Ltd.	Acquired by Deutsche postbank–largest retail bank in Germany (2008).

Source: Compiled by the author, from sources like NHB, RBI, respective HFCs/parent banks

HFCs in India encounter an additional hurdle compared to CBs, which is the lack of parity in the Capital Adequacy Ratio (CAR). As of 2009, HFCs are required to maintain a minimum CAR of 12 percent, while CBs only need to have a 9 percent CAR. To summarize, HFCs in India face several challenges and disadvantages when compared to CBs, highlighting the importance of focusing on operational efficiency to succeed in an era characterized by narrowing profit margins and intense competition.

In 2021, the Reserve Bank of India (RBI) introduced the 'Base Rate' for determining bank lending rates, which became effective on July 1, 2021. The Base Rate is composed of the banks' cost of deposits or funds, accounting for adjustments related to reserve requirements, common overhead costs, and a profit margin. According to the RBI's directive, all new loans or loan renewals must be priced with reference to the Base Rate, and lending below this rate is strictly prohibited by the RBI, except for specific cases such as staff loans or loans against deposits. Additionally, the Base Rate is subject to mandatory quarterly reviews.

Commercial banks (CBs) have the flexibility to add tenor premiums, credit charges, and other customer-specific charges on top of the Base Rate to determine their actual lending rates. The RBI has set a deadline for CBs to modify their benchmarks and the methodology for calculating the Base Rate, with this deadline extending until December 2021. The Base Rate for most public sector banks falls within the range of 7.75% to 8.25%, with SBI having a rate of 7.50%. Private sector banks and foreign banks, on the other hand, offer rates that are 0.50% to 0.75% lower (refer to Table III).

Table III: Base Rate of Major Commercial Banks in India.

Name of the Bank	Base Rate	Name of the Bank	Base Rate
Bank of Tokyo Mitsubishi Bank	05.50 %	Allahabad Bank Bank of Baroda Bank of India Canara Bank Central Bank of India IDBI Bank Indian Bank Oriental Bank of Commerce Punjab National Bank UCO Bank Union Bank of India	08.00 %
DBS Bank Dhanalakshmi Bank IndusInd Bank HSBC Yes Bank	07.00 %		
Citibank HDFC Bank Kotak Mahindra Bank Standard Chartered Bank Bank of Nova Scotia	07.25 %	South Indian Bank	08.10 %
Axis Bank ICICI Bank Sinhan Bank State Bank of India State Bank of Indore	07.50 %	Punjab & Sind Bank	08.20 %
Corporation Bank Developmental Credit Bank State Bank of Bikaner & Jaipur State Bank of Hyderabad State Bank of Mysore State Bank of Travancore Federal Bank	07.75 %	Andhra Bank Bank of Maharashtra Dena Bank Indian Overseas Bank Syndicate Bank United Bank of India Vijaya Bank	08.25 %
		Karur Vysya Bank	08.50 %
		Karnataka Bank	08.75 %
Courtesy: NHB Website, as of 20 Sept. 2010. (Presentation by Karnad, Renu S., MD, HDFC)			

DETERMINANTS OF FINANCIAL PERFORMANCE OF HOUSING FINANCE COMPANIES: AN MDA APPROACH

In the present investigation, we have predefined two categories: (i) Profitable HFCs and (ii) Unprofitable HFCs. For the Multivariate Discriminant Analysis (MDA), this study employs 21 financial ratios. You can find the list of these 21 ratios, along with their definitions provides the mean and standard error values for each of these 21 ratios, separately for (i) Profitable HFCs and (ii) Unprofitable HFCs. Among these 21 ratios, only five have been incorporated into the discriminant function, namely, X1, X2, X3, X4, and X7. The discriminant function can be expressed as follows:

$Z = 5.35\ X1 + 19.579\ X2 - 13.871\ X3 - 18.48\ X4 + 9.083\ X7$

Table IV: Mean Scores and Standard Error for Profit Making and Loss making HFCs

Sl. No	Name of the Ratio (Notation)	Profit making HFCs		Loss Making HFCs	
		Mean	Std. Error	Mean	Std. Error
01	Total Income to HL Assets (X_1)*	0.1231	0.0103	0.1780	0.1126
02	Other Income to Total Income (X_2)*	0.0607	0.0262	0.1533	0.2257
03	Total Expenses to HL Assets (X_3)*	0.1051	0.0118	0.3845	0.3922
04	Interest Expenses to Total Income (X_4)*	0.6957	0.0250	1.0726	0.3686
05	Interest Expenses to HL Assets (X_5)	0.0858	0.0047	0.3257	0.3913
06	Spread to HL Assets (X_6)	0.0372	0.0060	-0.1476	0.2804
07	Interest Expenses to Total Expenses (X_7)*	0.8206	0.0489	0.7455	0.1881
08	Establishment Exp./Total Expenses (X_8)	0.1408	0.0247	0.1181	0.1282
09	PBDITA to HL Assets (X_9)	0.1091	0.0086	0.1947	0.2348
10	PBIT to HL Asset (X_{10})	0.1111	0.0094	0.1932	0.2341
11	PAT to HL Asset (X_{11})	0.0186	0.0063	-0.1327	0.1582
12	Return on Capital Employed(ROCE)(X_{12})	0.0236	0.0056	-9.5217	16.4225
13	Current Ratio (X_{13})	1.6675	2.8835	6.6467	10.3640
14	PBDITA to Total Income (X_{14})	0.8850	0.0692	0.6550	0.2598
15	PBIT to Total Income (X_{15})	0.9015	0.0717	0.6485	0.2659
16	Debt Equity Ratio (D/E Ratio) (X_{16})	9.7425	2.4536	2.0800	3.2725
17	Interest Coverage Ratio (X_{17})	1.3075	0.1132	0.4767	0.2376
18	PBT to Total Income (X_{18})	0.2058	0.0731	-0.4240	0.1863
19	PAT to Total Income (X_{19})	0.1505	0.0492	-0.4262	0.1866
20	Return on Net Worth (RONW) (X_{20})	0.1908	0.0507	-0.1084	0.2301
21	Staff Expenses to Total Expenses (X_{21})	0.0386	0.0272	0.1365	0.0821

[* These five ratios viz. X_1, X_2, X_3, X_4 and X_7 alone are variables in the Discriminant function]

Source: Output of MDA using 21 Financial Ratios.

The standardized and unstandardized canonical discriminant function coefficients resulting from the Multivariate Discriminant Analysis (MDA), from which the discriminant function is derived, are presented in Table V.

Table V: Discriminant Function Co-efficients (Profit Making and Loss making HFCs)

Standardised		Unstandardised	
Total Income to HL Assets (X_1)	05.35	Total Income to HL Assets (X_1)	74.670
Other Income to Total Income (X_2)	19.579	Other Income to Total Income (X_2)	135.769
Total Expenses to HL Assets (X_3)	-13.871	Total Expenses to HL Assets (X_3)	-55.881
Interest Expenses to Total Income (X_4)	-18.48	Interest Expenses to Total Income (X_4)	-79.002
Interest Expenses to Total Expenses (X_7)	09.083	Interest Expenses to Total Expenses (X_7)	72.735
		Constant	-1.631

Source: Output of MDA using 21 Financial Ratios.

Table VI: Wilk's Lambda (MDA) for Profit Making and Loss making HFCs.

Wilk's Lambda				
Test of Function(s)	**Wilk's Lambda**	**Chi-Square**	**df**	**Sig.**
1	0.002	14.988	5	0.010

Source: Output of MDA using 21 Financial Ratios.

The group of 15 HFCs, comprising 12 HFCs that generate profits and 3 HFCs that incur losses, demonstrate scores that fall well within the predetermined range, which is determined by the cut-off score. It is worth mentioning that the chosen HFCs effectively encompass a significant portion of the HFC market, comprising more than 97% of the overall market share. The previous paragraph emphasized the significant predictive ability of the discriminant function. There is a need to undertake a comprehensive examination of the composition of the function, with a particular focus on the five ratios X1, X2, X3, X4, and X7. The predictor variables have a crucial role in determining the financial performance of HFCs. By taking into account the polarity (positive or negative) and composition (the elements in the numerator and denominator), further observations can be made. This knowledge can be employed to develop significant operational strategies. It is worth noting that there are only five characteristics that underlie all five predictor variables.

LIMITATIONS OF THE STUDY:

1. **Scope Limitations:** The study may have limited its focus to the specific challenges faced by smaller and mid-sized HFCs in India. It might not account for broader industry trends or the unique challenges faced by the largest HFCs.
2. **Data Limitations:** The study should explicitly state the sources and quality of data used for analysis. The data's accuracy and relevance to the research question can impact the findings.
3. **Generalizability:** The study's findings and recommendations may not be generalizable to other countries or financial market contexts. The Indian HFC industry might have unique characteristics that do not apply elsewhere.
4. **Timeframe Limitations:** The study refers to the RBI directive from July 2021, which implies that it may not consider more recent developments and regulatory changes. Financial markets are dynamic, and circumstances change over time.
5. **Methodological Limitations:** The study should outline the research methods and techniques used. If the methodology is flawed or biased, it can affect the validity of the findings.

RECOMMENDATIONS:

1. **Diversification of Funding Sources:** Smaller and mid-sized HFCs should explore alternatives to traditional bank loans. They can consider raising funds through bonds, securitization, or attracting core public deposits to reduce dependence on costlier sources of finance.
2. **Emphasize Due Diligence:** HFCs, irrespective of their size, should focus on maintaining higher asset quality and reducing Non-Performing Assets (NPAs). This can be achieved through robust due diligence processes and risk assessment mechanisms.
3. **Enhance 'Other Income':** HFCs should explore opportunities to increase their non-interest income, which can help offset the adverse impact of rising funding costs. This might include fee-based services, insurance products, or other financial services.
4. **Technological Integration:** Implementing modern technology and digital platforms can streamline operations, reduce costs, and improve customer service. It's crucial for HFCs to keep up with technological advancements.
5. **Skilled Workforce:** Investing in training and retaining skilled and knowledgeable staff is essential. This will enable HFCs to adapt to changing market conditions and offer superior customer service.
6. **Consider RMBS Financing:** Residential Mortgage-Backed Securities (RMBS) financing can provide an alternative source of funding for HFCs. Exploring this option might help in reducing funding costs.

CONCLUSION:

In conclusion, the study highlights the challenges faced by smaller and mid-sized HFCs in India due to their limited capacity to access economical sources of finance. It emphasizes the adverse impact of the RBI directive on the 'Base Rate' from July 2021 on funding costs for all HFCs, especially the smaller entities. The study recommends several strategies to address these challenges, including diversifying funding sources, focusing on asset quality, increasing non-interest income, embracing technology, and investing in a skilled workforce.

However, it's important to recognize that the effectiveness of these recommendations may vary depending on the specific circumstances of each HFC. The financial industry is subject to ongoing changes, and adaptation to evolving market conditions is vital for long-term success. Smaller and mid-sized HFCs must carefully assess their individual situations and tailor their strategies accordingly to navigate the challenges in the dynamic landscape of the Indian housing finance sector.

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