A Study on Risk Management in Non-Banking Finance Company of Home First Finance Company India Ltd

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***Abstract*: Home First Finance Company India Limited is the company which is concentrating more on the affordable group of people, it actually takes higher risk in terms of relaxation in documentation to the people who ever faces difficulty in facing the large public sector banks and other high end NBFC. So, they provide the loan with comparatively higher rate of interest to compensate the risk factor carried out by the company. Also, how the interest rate is fixed is, through its cost of fund, Administration fund, NPA and the profit margin of the company.**

Home first follows, diminishing and floating rate type of interest. Its targeted audience are low-income formal group people i.e., Bus drivers, school teacher, clerk, auto driver, (mix of both salaried and self-employed group).

So, from the above statement it is much clear that, the company not only asses the documentation part of its customer but it also looks 360 degrees of the customers opportunity sides where the risk part arises again. It talks about the Credit Risk Management part. So, to conclude that whether home first is performing well or not and what will be its future performance, SWOT of the company is analysed through its financial performance and through that the risk exposure was quantified. And the annual balance sheet was analysed by using break even sales, trend analysis, Compound annual growth rate, common size balance sheet, Return on Investment.

***Keywords*: HFFC, Risk exposure, Credit risk, NPA, Financial Risk.**

1. Introduction

The Housing finance sector is one of the core sectors in the economic development of India. So, the purpose of the study is to concentrate on financial performance of Home First Finance Company India Ltd. This study attempted to find out whether Home First Finance Company India ltd have performed well or not. The main objective of the study is to evaluate the risk exposure of the company in the last five years and to predict the future performance of the company. For this purpose, a balance sheet of five years was analysed using breakeven point and trend analysis.

1.1. Objectives of the study

- To evaluate the risk exposure of Home First India Ltd.
- To observe the NPA pattern of the company.
- To analyze the financial performance of Home First India Ltd.
- To study about the impact of profitability towards performance of Home First India Ltd.
- To predict the future performance of Home First India Ltd

1.2. Scope of the study

This study helps to find out financial soundness as well as sustainability of the business future of HFFC and to identify the overall performance of financial for the past five years. The profits and risk are the test of efficiency and a measure of a control which reflect the efficiency of the management. To know the business ethics followed by the company in financial activity in Home First India Ltd.

1.3. Limitation of the study

- The study is limited to the period of 5years only.
- Data of the study has taken from annual report of the company

2. Review of literature

Rushali Parakh, Renuka Deskmukh (2020)[1], "A Comparative Analysis on Credit Risk Management in NBFC Sector and Its Impact on Their Market Capitalisation" the main objectives are to analyze credit risk management of three different companies, to analyze impact of NPA on Return on Equity. The author has used statistical tool such as ANOVA and compute data through various financial ratios. Data that I have used is from company's income and financial statement which got it from company's annual report for the year 2018-2019 and I have used data from articles, journal and newspaper to analyze the data

Barun Srivastava & Ravi Singh Rana (2019)[2] have analyzed "Global Journal of Engineering Science and Researches Risk Management Issues in Nbfc's in India" the objective is to identify and understand various types of risks faced by NBFCs in India and to find out different types of risk management techniques adopted by selected NBFCs in India. The data analyzed using statistical tools, and technical such as T-Test and CAMEL Model.

Devi Suganda Pagadala (2017)[3] has proposed a research study on, "Risk Management Practices of Selected Microfinance Institution in Telangana, India," the main objectives after this research is to study the risk management methods of microfinance in India. This study concludes that there is a positive relationship between risk management methods of MFIs and risk variables

Dr. S. Shanthakumari & S. Kokilavizhi, (2019)[4], has analyzed "A Study on Risk Towards Working Capital with Reference to City Union Bank" the objective is to evaluate the risk exposure of the bank in the last five years and to analyze the financial performance of the bank. The tool used for calculation of financial performance analysis is following Statistical tools were applied to analyze the statistical data collected. I) Ratio analysis ii) Trend regression.

Ms. Kiran Hiremath(2018)[5], "IMPACT OF FINANCIAL RISK MANAGEMENT MEASURES ON FINANCIAL PERFORMANCE OF A BANK – CASE OF AXIS BANK" in this study, the components of financial risk, interest risk, foreign exchange risk, capital management risk and liquidity risk. Bank performance is measured by return on equity and return on assets.

Singh and Sharma (2018)[6, has] analyzed the impact of credit risk on the profitability of public-sector banks. Secondary data were collected from journals, blogs, Reserve Bank of India Reports for a period of six years, i.e., from 2011 to 2016. We find the ROA-CAR relationship, LPNPL, to be significant and positive, while the negative ROA-NPLR relationship is. Credit risk forecasts 55.7 percent of the return on assets, meaning that CAR, NPLR and LPNPL have a significant influence on ROA. NPLR is the single most powerful predictor of the bank's profitability among credit risk indicators, while CAR and LPNPL are not the main predictors of its profitability.

Dr. Rajashekhar C. Koppad, (2020)[7], "Bankers Primarily Deal with Various Forms of Risk - An Empirical Study" This research aims to address the following key question (Has an impact on the financial results of the selected Indian Public Sector Banks. This analysis is focused on the secondary knowledge. The data needed for this study were gathered from various sources, such as monthly RBI bulletins, published by RBI, Govt. Of India, RBI annual reports, publications and updates of various banks.

Waemustafa and Sukri (2015)[8] found that banks particular determinants of credit risk are interestingly impacted the credit risk arrangement or formation of Islamic and Conventional banks. While risky sector financing like regulatory capital (REGCAP) and Islamic Contract are noteworthy to credit risk of Islamic banks and for Conventional Banks, debt-to-total asset ratio, loan loss provision, liquidity, earning management, size and REGCAP are critical elements affecting credit risk.

Aditi Kumari, Priyanshu Agarwal, Paritosh Aditya (2021)[9], "A STUDY ON PERFORMANCE EVALUATION AND RISK MANAGEMENT – A CASE OF YES BANK" in this study the author used descriptive study to know the previous details of data in risk. To identify the and analyze of relationship between the profitalitability and liquidity in yes bank.

Gurpreet Kaur and Renuka Sharma (2017)[10], "Financial Risk Assessment and Management by Banks" the objective is to aim of their paper is to study the present status of riskness & distress being exposed to bank by reviewing the past published and unpublished research work on the same topic in a well-organized manner to provide quick and easy access to the future researchs of the same field.

3. Research Methodology:

3.1. Research Design:

Research **i**s an investigation to discover facts Clifford woody defines research as "comparising of defining and recording problem, formulating hypothesis or suggestion, solution, collecting, organizing and reaching conclusion.

3.2. Source of Data

The present study is based on the secondary data only. The secondary data were those data collected from the company home page of company, NHB website, RBI, from ICRA. To understand the lending and financial performance of the company I have used only secondary data. It made adequate care to test the reliability of the data. The relevant data is collected and analyzed for the fulfillment of the objectives of the study.

3.3. Tools used

Tools used for analysis of financial risk profile

The tool used for calculation of financial performance analysis is following Statistical tools were applied to analyze the statistical data collected.

1. Break Even Sales
2. Trend Analysis
3. Compound Annual Growth Rate
4. Common Size Balance Sheet
5. Return on Investment

4. Data Analysis

Data analysis refers to the certain measures along with searching for patterns of relationship that exist among data groups and to evaluates the company's business and financial risks, and uses this evaluation to project the level and stability of its future financial performance in various likely scenarios.

TABLE NO.1

BREAK EVEN SALES

Year	Fixed cost	Total contribution	Total sales	Break even Sales
2016-17	355.12	94.29	92.73	349.24
2017-18	312.34	146.28	142.91	304.81
2018-19	205.74	271.02	256.84	194.97
2019-20	107.96	419.68	395.80	101.82
2020-21	80.62	489.16	471.12	77.65

Interpretation

The above table shows the breakeven sales for five years i.e., 2017-21. The breakeven level means there are no profit and no loss. If the firm's sale goes above the breakeven level, it shows that the firm earns more profit and vice versa. Here the breakeven sales for four years show decrease from the year 2021.

2017 is the favorable period for the firm. Because the breakeven sales high in that year to compare with others at 349.24. The firm got more profit due to more sales. If the firm sales go above this limit, it makes chance to more profit. From the year 2017-21, there are no big changes in their breakeven sales.

TABLE NO.2

TREND ANALYSIS

CASH			**PROFIT BEFORE TAX**		**PROFIT AFTER TAX**	
YEAR	**AMOUNT**	**TREND %**	**AMOUNT**	**TREND %**	**AMOUNT**	**TREND %**
2017	176.98	**100**	13.67	**100**	8.77	**100**
2018	23.01	**13.00**	38.32	**280.32**	25.20	**287.34**
2019	191.98	**108.46**	65.29	**477.61**	45.72	**521.31**
2020	222.06	**125.45**	107.33	**785.14**	79.55	**907.04**
2021	679.87	**384.08**	134.04	**983.18**	100.14	**1141.81**

Interpretation

The cash percentage was increase for year by year. The Profit before tax percentage was increased year by year. It was good performance to the company. The profit after tax percentage was increased to year by year.

TABLE NO.03

COMPOUND ANNUAL GROWTH RATE

(Rs in lakhs)

YEAR	**CASH**
2017	176.98
2018	23.01
2019	191.98
2020	222.06
2021	679.87

$$CAGR = \left(\frac{\text{Ending Value}}{\text{Beginning Value}}\right)^{\left(\frac{1}{\#\text{ of years}}\right)} - 1$$

$$= \left(\frac{679.87}{176.98}\right)^{\left(\frac{1}{5}\right)} -1$$

CAGR = -0.23.

Interpretation

From the above analysis the researcher found that the compound annual growth rate is **-0.23** between the year 2017 and 2021.

TABLE NO.04
RETURN ON INVESTMENT:

Year	Operating Profit	Capital Employed	Ratio
2016-17	92.73	858.79	0.11
2017-18	142.91	1210.59	0.12
2018-19	259.98	529.71	0.49
2019-20	398.66	950.6	0.42
2020-21	477.12	1402.58	0.34

Interpretation

The above table shows that the Return-on-Investment ratio. In the year of 2016-17 it was 0.11, in the year of 2017-18 was increased to 0.12 and then again increased for the year 2018-19 to 0.49. In the year 2019-20 it was decreased to 0.42 and for the last year small decrease to 0.34.

The highest Return on Investment ratio is 0.49 in the year 2018-19, and the lowest ratio is 0.11 in the year 2016-17. So, the Return-on-Investment ratio is fluctuated trend.

TABLE NO.05
COMMON SIZE BALANCE SHEET FROM 2017-2021

Particulars	2017	2018	2019	2020	2021
SOURCE OF FUNDS					
Shares	10.32	10.32	12.67	15.66	17.48
Reserve and surpluses	297.52	322.78	509.99	917.77	1363.06
Non-current liability	550.95	877.48	7.04	17.17	22.03
Current liability and provisions	131.49	161.76	1951.82	2529.61	3107.58
Total	990.28	1372.35	2481.53	3480.21	4510.16
APPLICATION OF FUNDS					
Fixed assets	2.62	6.14	17.43	21.00	16.67
Non-current asset	791.23	1305.98	6.36	11.35	10.94
Current assets, loan advances	196.43	60.23	2456.31	3447.85	4482.55
Total	990.28	1372.35	2481.53	3480.21	4510.16

Interpretation

Common size statement indicates the relationship of various items with some common item. From the above common size balance sheet, we can see that reserve and surplus as well as loan finds forms the major items source of funds for company. Fixed asset forms a major part of the application of finds of the company followed by current assets, loan and advance. Out of current assets, inventories form a major element followed by sundry debtors and cash and bank. Provision forms an insignificant position out of current liabilities.

From the above statement the share capital amount for five years is same, but while calculating the percentage of share capital over the sources of funds it will differ from year to year. It is applicable for all the items in the balance sheet. According to this, in the year of 2017 the percentage of reserve and surplus is high, and the loan funds come down in negative effect.

In case of application of funds there are no huge changes in the additional investment. And the current assets are decreased in every year. But in the case of fixed assets, it was increased from the year 2017 to 2021.

Findings

2017 is the favorable period for the firm. Because the breakeven sales high in that year to compare with others at 349.24. The firm got more profit due to more sales. If the firm sales go above this limit, it makes chance to more profit. From the year 2017-21, there are no big changes in their breakeven sales.

The cash percentage was increase for year by year. The Profit before tax percentage was increased year by year. It was good performance to the company. The profit after tax percentage was increased to year by year.

From the above analysis the researcher found that the compound annual growth rate is **-0.23** between the year 2017 and 2021.

In case of application of funds there are no huge changes in the additional investment. And the current assets are decreased in every year. But in the case of fixed assets, it was increased from the year 2017 to 2021.

The highest Return on Investment ratio is 0.49 in the year 2018-19, and the lowest ratio is 0.11 in the year 2016-17. So, the Return-on-Investment ratio is fluctuated trend.

Suggestion

In order to earn more profit, the company should reduce the expenses.
The company should maintain adequate retained income
Better asset utilization program must be made.
Better working capital should be maintained.
It is suggested that the company can increase the cash & bank balance and loans and advance where Standard Deviation is less which is less risky.
In the year of 2021 the firm increase potion levels avoid Risk Management.

Conclusion

The study entitled "A Study on Risk Management of Home First Finance Company India Risk Management represents the snap not of a concern's activities at the end of particular period. Risk Management reveals how a business has prospered under the leadership of its management personnel. Financial appraisal is a technique to evaluate the past, current and projected performance of the concern.

The present study was undertaken with the objective of evaluating the financial stability. The data for the present study was obtained from the financial statements and accounting records

The firm has to go for diversification and expansion of the product. The firm is maintaining more cash than necessary. It can be used for some other purposes. It has an enough liquidity position because the current ratio and quick ratio are in satisfactory position. This study aims to find out the short-term and long-term solvency position and profitability performance of the firm. The firm can concentrate more in maintaining retained income. Thus, the company should improve their position by utilizing their assets and liabilities in correct time.

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