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"A Financial Analysis of Home First Finance Company Through CAMELS Rating"

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INTRODUCTION:

***Abstract*:**

This research paper is about the financial analysis of home first finance company India Ltd. Through CAMELS model. The aim of the study is to identify the strength and weak of HFFC.the review of literature play very vital role. The data collection tool was secondary data collection. This research includes Last 4-year data. Study include P&L account and balance sheet of HFFC. The analysis is done through the different ratios of different parameters of the CAMELS.

***Key words*:** strength, weakness, CAMELS, HFFC.

In 1995, Padhmanabhan committee encouraged the CAMELS ratings comprising of six factors to gauge the performance of the Indian banks. It has encouraged a slightly exclusive version to assess the overseas banks handing their operations in India. The CACS model consists of Capital Adequacy, Assets Quality, Compliance, Systems and Controls. The modern model, after vital revision, is named as CALCS duly incorporating the term liquidity.

The acronym CAMELS method for assessment stands for following:

C – Capital Adequacy

A - Assets Quality

M - Management Efficiency

E – Earnings

L – Liquidity

S – Sensitivity to Market Risk

- **Capital Adequacy**

  Capital adequacy ratio is likewise called capital to chance property ratio, is the ratio of banks capital to its hazard. National regulators music a banks CAR to ensure that it can soak up an affordable amount of loss and complies with statutory capital necessities. It is a measure of banks capital.

- **Assets Quality**

  Assets satisfactory ratio method the ratio of one. Non-performing property and without duplication real estate owned, and different repossessed assets of the borrower and its subsidiaries to 2. Total fairness plus loan loss reserves (as determined in accordance with GAAP) of the borrower its subsidiaries.

- **Management Efficiency**

  A control performance ratio is a monetary ratio designed to measure the performance of control in controlling the working capital or different assets used by the business. For instance, the inventory turnover ratio. Also referred to as an interest ratio, or an performance ratio.

- **Earnings**

  The price/income ratio, also referred to as the P/E ratio, tells buyers hoe plenty a agency is well worth. The P/E ratio really the stock rate divided by means of the business enterprise's income in line with share for a chosen duration like the past one year. The fee/income ratio conveys how lots investors will pay in line with percentage for $1 of profits.

- **Liquidity**

  In finance, the quick ratio also known as the acid-take a look at ratio is a sort of liquidity ratio, which measures the ability of a enterprise to apply its close to cash or short belongings to extinguish of retire its contemporary liabilities right away. Liquidity ratio are an crucial class of economic metrics used to determine a debtor's capacity to repay modern debt responsibilities without raising external capital.

- **Sensitivity to Market Risk**

  Sensitivity to marketplace threat is a normally defined as the degree to which adjustments in hobby fees, foreign exchange rate, commodity fees, or fairness expenses can adversely affect profits or/and capital. When comparing this element, consideration should take delivery of to control's capability to identity, measures, reveal, and manage marketplace danger; the group's length; the nature and complexity of its activities; and the adequacy of its capital and profits in terms of its degree of market threat publicity.

- **Ratios used for the CAMELS model are as follow:**

CAMELS	Parameters	Measurement
C	Capital Adequacy Ratio	1. Total Capital 2. Ratio of total equity to long term debts 3. Ratio of total equity to total liabilities
A	Assets Quality Ratio	1. The coverage of non-performing loan 2. Ratio of total loans to total assets 3. Impaired loans ratio
M	Management Efficiency Ratio	1. Operating expense to total assets 2. Staffing expense to total assets
E	Earning Quality Ratio	1. Return on assets 2. Return on Equity 3. The efficiency of the operational activity
L	Liquidity Ratio	1. Ratio of liquid assets in total deposit 2. Ratio of loans to total deposits 3. Ratio of liquid assets in total assets
S	Sensitivity Ratio	1. Ratio of Total Assets to Total Sector assets 2. Debt to assets ratio

LITERATURE REVIEW:

1. **(Dr. Monali Ray, 2021)** CAMEL rating system is used to evaluate the overall performance of the banks and to determined their strength and weaknesses. Small finance banks are a result of RBI's efforts to promote niche banking. The aim behind these to provide financial inclusion to sections of the economy such as small business units, small and marginal farmers, micro and small industries and unorganized sectors entities which are not being served by other banks in unbanked and under banked region.

2. **(Md Saiful Islam, 2019)** Banking industry, one of the most promising industry in our country, has been playing a vital role in achieving economic growth and sustainability of Bangladesh since 1972. for the assessment of performance of banks in Bangladesh bank, the central bank of Bangladesh, has recommended two supervisory rating models- 1. CAMELS Models 2. CAC S Models.

3. **(Mohanty, 2017)** this study analyses the relative performance of selected commercial banks using CAMEL rating system and provides a relative ranking under each of the sub-parameters independently, taking each of the parameters and finally through a composite ranking taking all the parameters together. There is statistically significant difference between the CAMEL ratio of selected commercial banks in India.

4. **(Rozina Akter, 2018)** NBFC is one of the significant sectors in every economy. NBFCs is one kind of financial institution that provide certain types of banking services, but not hold a banking license. The goal of the research are to explore soundness of NBFCs in Bangladesh by using CAMELS model and their future forecast of rating point by CAMELS model.

5. **(Sarit Biswas, 2020)**The banking sector in Indian context has been witnessing several dynamic changes from time to time. The research articles aim to measures the performance of the new generation private banks in India using the CAMELS model's approach. The study may be beneficial to the stakeholders in taking suitable decisions related to these banks.

Research Objective:

1. To study the Capital Adequacy ratio of Home First Finance Company.
2. To study the Assets Quality ratio of Home First Finance Company.
3. To study the Management Efficiency ratio of Home First Finance Company.
4. To study the Earning Quality ratio of Home First Finance Company.
5. To study the Liquidity ratio of Home First Finance Company.
6. To study the Sensitivity ratio of Home First Finance Company.

Scope of the study:

The scope of the study is to evaluate the performance of Home First Finance Company we have chosen the CAMELS model which measures the performance of Home First Finance Company from each of the important parameter like Capital Adequacy, Assets Quality, Management Efficiency, Earning quality, Liquidity and Sensitivity.

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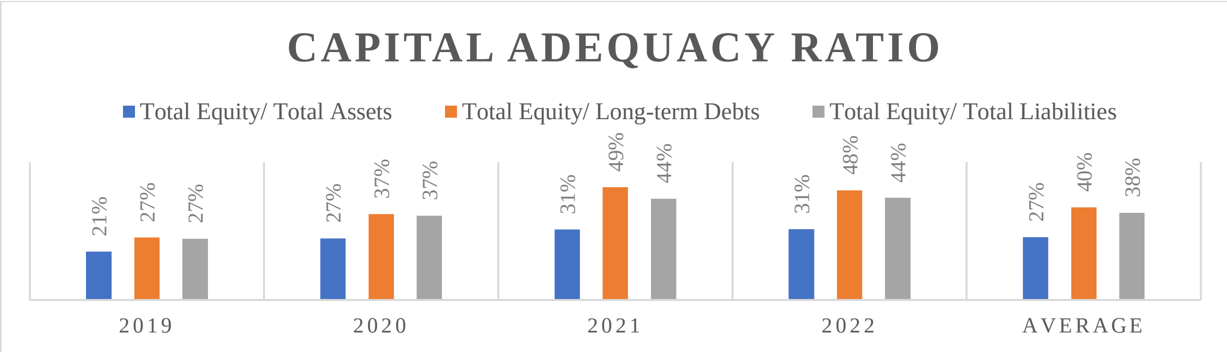
DATA ANALYSIS AND INTERPRETATION:

1. Capital Adequacy Ratio:

The sub-parameters of Capital Adequacy could be evaluated on this section which are total fairness to general belongings, total equity to long time-money owed and, total fairness of liabilities.

This table includes the Capital Adequacy ratios for the years 2019 to 2022; where the overall equity to general belongings of HFFC has been increasing gradually from the year 2020. Although, it's far observed that the ratio has been rising and declining over time; however constantly controlled to upward push with a massive sharp increasing in 2021 to 49% from 37% in 2020.



2. Assets Quality Ratio:

The sub-parameters ratio of property best will be evaluated on this section that are loans provisions to net hobby earnings, overall loans to total belongings and mortgage provisions to total loans.

Years	Total Equity/ Total Assets	Total Equity/ Long-term Debts	Total Equity/ Total Liabilities
2019	21%	27%	27%
2020	27%	37%	37%
2021	31%	49%	44%
2022	31%	48%	44%
Average	**27%**	**40%**	**38%**

Years	Loan provisions/ Net interest income	Total Loans/ Total Assets	Loan provisions/ Total Loans
2019	1%	86%	0%
2020	2%	87%	1%
2021	1%	74%	1%
2022	1%	84%	1%
Average	**1%**	**83%**	**1%**

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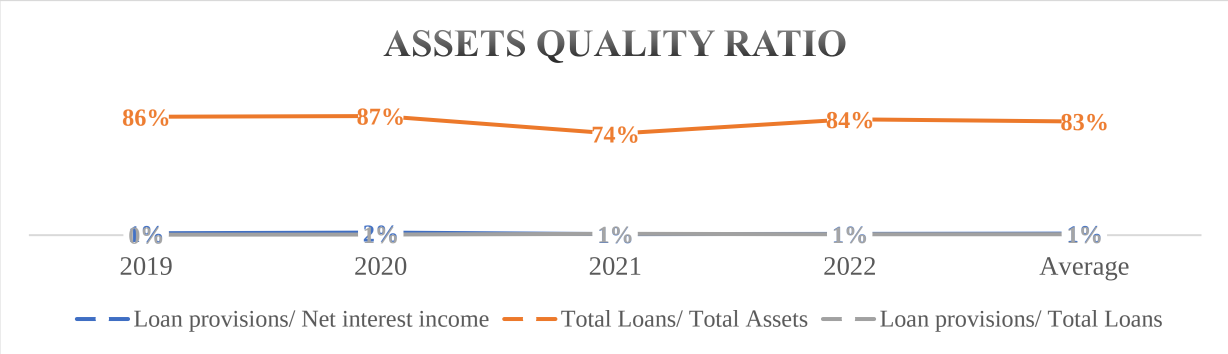
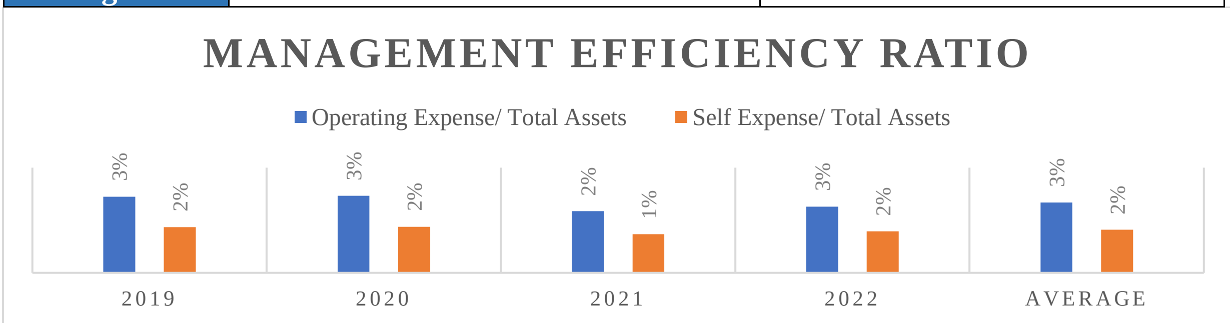


Includes the assets great ratios for the years 2019 to 2022. Hear, the mortgage provisions to internet hobby earnings for 2022 is same as the average. Since, this ratio well-known shows the bank capability to use the interest profits to protect towards credit score losses, a lower ratio is preferential. Similarly, the loan provisions to overall loans ratio for 2022 is identical as average. It is good signal which shows the banks capacity to offer loans to their clients who will repay on time.

3. Management efficiency Ratio:

The sub-parameters ratio of management best will be evaluated in this phase that are running fee to general belongings and group of workers rate to total belongings.

Years	Operating Expense/ Total Assets	Staff Expense/ Total Assets
2019	3%	2%
2020	3%	2%
2021	2%	1%
2022	3%	2%
Average	**3%**	**2%**



This desk includes the management first-rate ratio for the years 2022 to 2019. Earlier it changed into discussed within the method phase, low ratios are correct indicator of management fine. But pay attention both the ratios in 2022 are same as the average. So, the HFFC can carry out higher in terms of dealing with their working and staffing prices.

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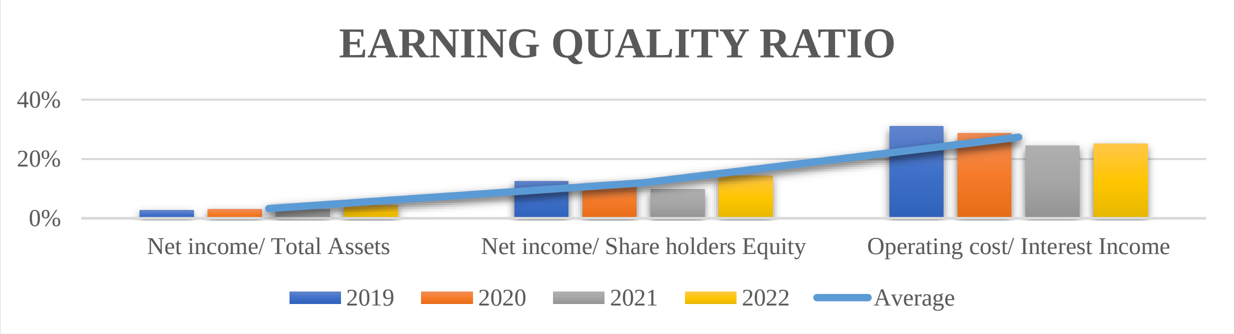
4. Earning Quality Ratio:

The sub-parameters ratio of incomes exceptional will be evaluated in this phase which might be internet income to total property (ROA), operating price to interest profits and overall income to general fairness or total head workplace budget (ROE).

Years	Net income/ Total Assets	Net income/ shareholders' equity	Operating costs/ Interest Income
2019	3%	12%	31%
2020	3%	11%	29%
2021	3%	10%	25%
2022	4%	14%	25%
Average	**3%**	**12%**	**27%**



This table includes the incomes great ratios for the years 2019 to 2022. In the return on property in a throughout the period of 2019 to 2021 in the common ratio are three% and 2022 in growth the score the 4%. In the return on equity in 2019 is 12%, in 2020 and 2021 it decreases 11% and 10%. In 2022 it increases by 14%. The common return on equity is 12%.

5. Liquidity Ratio:

The sub-parameters ratio of liquidity chance will be evaluated on this segment that are Ratio of liquid property in general deposit, Ratio of loans to overall deposits, and Ratio of liquid assets in total assets.

Years	Liquid assets/ Total Deposits	Loans/ Total Deposits	Liquid assts/ Total Assets
2019	30.67311072	341.0616712	0.077365
2020	1.06331884	14.43224219	0.063805
2021	1.316894779	6.443383837	0.150742
2022	0.996892217	6.425834899	0.130519
Average	**8.512554139**	**92.09078303**	**0.105608**

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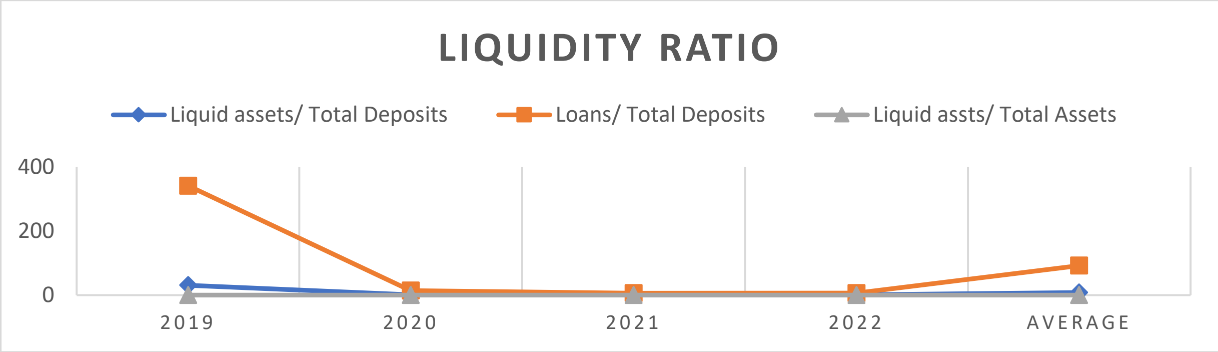
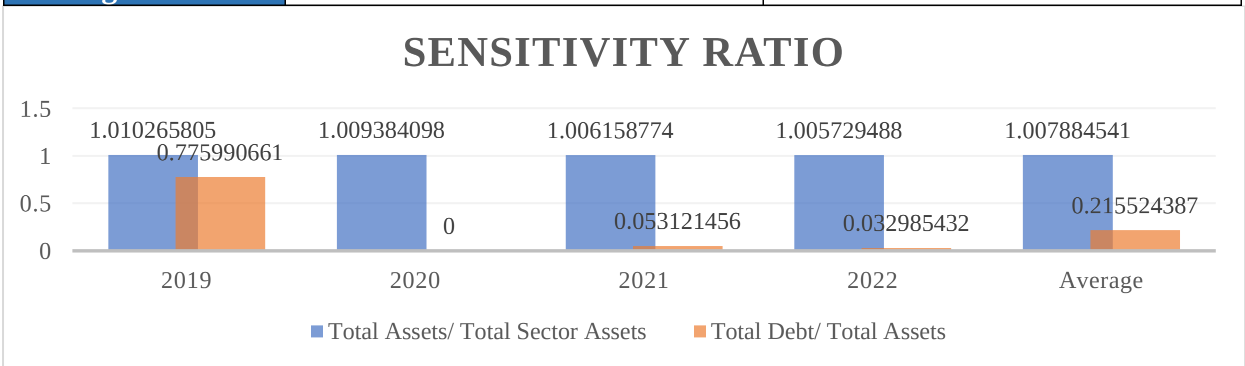


This table includes the liquidity chance ratios for the years 2019 to 2022. It may be evaluated based on the effects that for 2019 the liquidity ratio are better than their average which means decrease liquidity risk for the financial institution. In 2020 the liquidity ratio is 1.0.33 that's much less than the average.

6. Sensitivity Ratio:

The sub-parameters of the sensitivity ratios is general assets to general quarter assets and debt to property ratios.

Years	Total Assets/ Total Sector Assets	Total Debt/ Total Assets
2019	1.010265805	0.775990661
2020	1.009384098	0
2021	1.006158774	0.053121456
2022	1.005729488	0.032985432
Average	**1.007884541**	**0.215524387**



This table includes the sensitivity ratios for the years 2019 to 2022. The common ratio of the total belongings to total sector property is 1.007. There may be very much less exceptional in common and all year's ratios of the full belongings to general quarter assets. At the same manner the full debt to total property ratio is likewise very much less specific between the average and whole years ratios. The common of the debt to overall belongings ratio is zero.

FINDINGS:

In the existing have a look at the CAMELS score model has been used for the evaluation in overall performance of Home First Finance Company, which constitutes as vital factor of Home First Finance Company. In this take a look at the overall overall performance of the Capital Adequacy Ratio is increase each year in the course of 2019 to 2022. In the Capital Adequacy Ratio, the overall equity capital is better so that the profit of the agency is boom in each yr. In this have a look at the general overall performance of the Assets Quality Ratio is similar to same in each year. The overall performance of the Assets Quality Ratio is as comparable as equal in all the years. There is not any big one of a kind among all the years. The Management efficiency ratio indicates the how green a business enterprise's management is at retaining prices low while generating the revenue or income. The typical performance of the Management Efficiency Ratio is just like identical in every years. So, on this examine we find the monetary overall performance of HFFC in the direction of the CAMELS technique.

CONCLUSION:

This is due to the reality that the Capital Adequacy ratio for HFFC for 2022 have sustained to be above their average percent for all years. This suggests that bank is prepared to shield towards possible risks and shape robust capital shape. The modern-day examine completely hired secondary records and the analysis turned into completely based totally on monetary records. However, secondary information acquired from economic reports of banks or via National bank can have potential bias. Thus, future research is suggested to verify and triangulate secondary facts by means of primary records such as interviewing.

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