
RATIO ANALYSIS AND CREDIT APPRAISAL IN HOUSING FINANCE AT IDFC FIRST BANK

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ABSTRACT: This study examines the effectiveness of credit evaluation and ratio analysis in home financing, with a particular emphasis on IDFC First Bank. It examines the financial ratios that banks employ to assess the creditworthiness of a borrower and the financial health of the bank. The study underscores the importance of liquidity, profitability, and solvency in the decision-making process for loans. Furthermore, the process of credit appraisal is addressed, which involves the assessment of repayment capacity, risk, and income. By conducting an analysis of borrower attributes, the research identifies critical factors that influence loan approval and default risk. The potential of ratio analysis to enhance sustainable lending and decrease non-performing assets. It also demonstrates that a structured credit evaluation improves the efficiency of decision-making.

Keywords: *Ratio Analysis, Credit Appraisal, Housing Finance, IDFC First Bank, Creditworthiness, Financial Ratios, Liquidity Ratios, Profitability Ratios, Solvency Ratios,*

1. INTRODUCTION

Ratio analysis is one method by which accountants can obtain insight into a business's financial health by analyzing documents such as income and balance accounts. Ratio analysis facilitates comprehension of an organization's liquidity, profitability, and market value.

Ratio analysis is a valuable approach for gaining insight into a company's internal operations from an external perspective, as the financial documents required for the study are publicly accessible. Ratio analysis is seldom employed by company executives to comprehend the financial status of the corporation, as they possess access to significantly more comprehensive information.

Credit appraisals are implemented by lenders to ascertain whether they are inclined to extend credit to a borrower. This procedure entails an examination of the borrower's income, debt repayment history, credit, and overall financial situation. When evaluating the risk of lending money, lenders typically consider the borrower's credit score, income, employment stability, and any other loans they may have. Credit evaluations mitigate the likelihood of default by verifying the borrower's ability to repay the loan.

In order to assess the creditworthiness of consumers and protect their lending operations, housing finance companies must utilize ratio analysis and credit assessments. The financial fortitude of the borrower is determined by ratio analysis, which compares the borrower's debt-to-income, loan-to-value, repayment ability, and total liquidity ratios, among other ratios. The applicant's financial health and capacity to repay a mortgage are comprehensively depicted when these ratios are combined. The credit evaluation procedure involves the assessment of the applicant's income, job stability, repayment history, and credit score, all of

which assist the lender in determining the borrower's ability and willingness to repay. These methods, when implemented simultaneously, assist mortgage lenders in making informed decisions, thereby reducing default rates and maintaining financial discipline in the market.

2. REVIEW OF LITERATURE

Thando Ndlovu 2025 This research note investigates the post-pandemic corporate environment and the changes that financial ratio analysis has undergone. Various categories of businesses have employed financial measures to address economic uncertainty, market volatility, and other issues. The article examines these measures. The study suggests that strategic decisions and resource allocation should be based on metrics that reflect profitability, efficiency, liquidity, and solvency. In order to demonstrate the ways in which ratio analysis improved adaptability and resilience prior to, during, and following the outbreak, we provide case studies and real-world examples from the industry.

Anjali Desai (2024) The objective of this investigation is to investigate the function of ratio analysis in the debt and stock markets of India. The study assesses the financial performance and stability of specific organizations by examining market ratios, profitability, and liquidity. The results suggest that ratio-based assessments improve both portfolio optimization and risk-adjusted returns. The paper emphasizes the significance of trend analysis and industry comparisons as a method of identifying investment opportunities.

A. R. Sharma (2024) This paper will examine the manner in which the landscape of home loan credit evaluations has been transformed by the proliferation of digital technologies. The article explores the utilization of AI and machine learning algorithms to analyze borrower data, predict repayment trends, and expedite loan approval procedures. The study found that digital tools have significantly enhanced the accuracy of credit evaluations and significantly reduced processing times. Conversely, it underscores the digital divide among borrowers, cybersecurity, and data privacy.

S. K. Banerjee (2023) To enhance financial decision-making, this investigation investigates the potential of ratio analysis in conjunction with corporate risk management strategies. The study evaluates profitability, efficiency, and solvency metrics to identify potential vulnerabilities in company financial systems. The paper emphasizes the use of ratio analysis as a method for reducing operational and financial hazards by implementing early warning systems. Businesses become more resilient to market fluctuations and recessions through proactive ratio surveillance, according to the results.

Kalpesh Suthar 2023 This theoretical research demonstrates that financial ratio analysis is an effective method for evaluating the financial health of a business. Efficiency, profitability, solvency, and liquidity are among the numerous categories of ratios that are addressed in detail. This research explores the potential that these ratios may indicate something about the overall health, profitability, and efficacy of a company. The existing literature was examined in order to determine the common errors that individuals make and to determine the most effective methods for comprehending financial ratios. The article also discusses the significance of ratio analysis in the decision-making process of creditors, investors, and management.

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Dr. P. N. Desai (2022) This investigation examines the efficacy of ratio analysis in evaluating the performance of businesses during the post-pandemic recovery period. The study's primary financial resilience metrics are return on equity, debt-to-equity ratios, and liquidity ratios. It concentrates on the manner in which organizations modified their financial strategies to sustain operations and manage debt during periods of uncertainty. The findings indicate that enterprises with adequate liquidity and well-managed leverage performed better in the aftermath of the epidemic.

Prof. R. N. Gupta (2021) This research investigates the significance of ratio analysis in evaluating the financial health of Indian enterprises across various sectors. The study examines critical financial indicators, including profitability, efficiency, liquidity, and solvency, in order to identify trends that may suggest a financial catastrophe or future growth potential. The research emphasizes the importance of benchmarking in order to assist managers and investors in making more informed decisions. The results indicate that timely ratio assessments can facilitate the development of a strategy and prevent financial malfeasance.

3. ADVANTAGES OF RATIO ANALYSIS

The term "ratio analysis advantages" denotes the advantageous results that businesses and organizations may attain by employing various ratio analyses. The market position and performance of a company can be evaluated through the use of ratio analysis.

Analyzes Financial Statements

A comprehensive image of a business's worth, health, and financial stability is depicted by ratio analysis, which is helpful. It simplifies the decision-making process for investors, lenders, and administrators.

Ratio Analysis Helps in Judging the Efficiency

Secondly, ratio analysis is beneficial for assessing a company's overall performance by examining its profitability and solvency ratios. The report can assist investors in evaluating the company's performance and the character of management's decision-making.

Determines Weakness

Despite the apparent strength of overall performance, there may be instances in which management must address issues. An additional benefit of ratio analysis is the comprehensive understanding it can offer through metrics such as interest coverage and debt service ratios. Afterward, management may prioritize these regions.

Projects Future Earnings and Cash Flow

Ratios can be calculated by extrapolating from previous data at a specific growth rate. Pro forma financial statements can be produced by employing ratio analysis to project financial statement items for one or more future periods. Ratio analysis and forecasting can be advantageous for both investors and management when developing business strategies.

Compares Performance to Peers

A significant advantage of ratio analysis is the ability to compare two companies. It is impossible to compare the financial statements of two companies. Investors frequently inquire about the organization's industry position.

Helps in Trend Analysis

Another advantage of ratio analysis is its ability to identify patterns over extended periods of time. The financial data can be analyzed by the analyst to rapidly determine the company's growth, decline, or stability.

Gives Meaning to Absolute Figures

Ratios facilitate comprehension and contextualization of accounting statements. As previously stated, it is unfeasible to comprehend a company solely based on its financial statements. It would be highly misleading to assert that the company's PE ratio is 1.2x without also knowing the PE ratios of its competitors from the previous or current year in order to illustrate the point.

Helps Analyze Past Results

Also, ratio analysis facilitates the examination of outcomes and the comprehension of the numerous interconnections in historical data.

Determines Short-Term Liquidity

One method of evaluating a company's liquidity is to examine its current ratio. By examining these figures, it is possible to determine whether a business is capable of meeting its immediate obligations. Long-term solvency can be assessed through profitability-to-solvency ratios.

Enables Communication

The standard format for management reports is based on ratios. Their primary objectives include ratios such as PE, EPS, and EV/EBITDA. Investors have been adequately apprised of the issue. It is anticipated that management will be succinct and direct in their discussions of statistics.

Helps Analysts do a Better Job

Most analysts conduct an exhaustive numerical analysis of the company's data. Ratios function as an early warning system for the decline of a company's performance. The efficiency of a company's inventory management can be assessed through the use of ratio analysis.

4. 5 Cs OF CREDIT APPRAISAL



Capacity

A borrower's financial transactions are referred to as capacity. A borrower's ability to repay a loan using their current income or income status is demonstrated by a consistent and reliable cash flow. Borrowers are required to submit bank statements as evidence of their income to lenders.

Capital

Capital is the amount of money that a creditor has allocated in anticipation of the eventuality that they require additional funds. This sum of money is insufficient to finance the company's daily operations. For example, company proprietors may possess a combination of monetary and non-monetary assets with fluctuating values. Savings and investments are considered financial assets, while real estate and machinery are considered non-financial assets.

Character

the behavior of borrowers in the past may serve as an indicator of their future behavior. This being the case, lenders evaluate a borrower's credit history to determine their credit attitude.

Credit appraisal software that is exceptional can reveal all bank activity related to loan EMI repayments, credit card payments, and other forms of credit.

This approach provides lenders with a comprehensive understanding of debt repayment trends, including penalties for rejected checks, late fees, and missed payments.

Collateral

The approval of loans is generally expedited when collateral is submitted.

Consider the scenario of a solitary borrower who obtains a mortgage or car loan. In these circumstances, the residence or automobile serves as a security measure. Conversely, a business may obtain a loan to acquire apparatus or property. The property, equipment, and invoice value comprise the collateral in this scenario.

Conditions

The borrower or corporation is unable to manage industry-specific factors, which are denoted by the final C. The specific occupations of borrowers are referred to as industries. The business sector is the sole focus for debtors from the business sector.

5. DATA ANALYSIS AND INTERPRETATION

CREDIT APPRAISAL IN HOUSING FINANCE AT IDFC FIRST BANK

TABLE 1: BORROWER PROFILE

Parameter	Description
Borrower ID /	Unique identifier

Name	
Age	Borrower's age in years
Gender	Male / Female / Other
Marital Status	Married / Single / Other
Employment Type	Salaried / Self-employed / Business
Monthly Income	Total monthly income from all sources
Existing Liabilities	Total monthly debt obligations

TABLE 2: LOAN DETAILS

Parameter	Description
Loan Amount Requested	Amount applied for by borrower
Loan Amount Sanctioned	Amount approved by bank
Loan Tenure	Duration in years
Interest Rate	Rate applicable on the loan
EMI	Equated Monthly Installment
Approval Status	Approved / Rejected / Pending

TABLE 3: COLLATERAL / PROPERTY ASSESSMENT

Parameter	Description
Property Type	Residential / Commercial
Property Value	Market value (₹)
LTV Ratio	Loan / Property Value × 100
Legal Verification	Clear title and approvals
Property Location	City / Area / Branch
Construction Status	Under construction / Ready
Collateral Documents	Sale deed, ownership proof

TABLE 4: CREDITWORTHINESS METRICS

Parameter	Formula / Description
Debt-to-Income (DTI) Ratio	$DTI = \frac{\text{Total Monthly Debt}}{\text{Monthly Income}} \times 100$ $DTI = \frac{\text{Monthly Income}}{\text{Total Monthly Debt}} \times 100$
Credit Score	CIBIL / Experian / Equifax score
Existing Debt	Total liabilities
Income Stability Index	Based on employment type and tenure
Risk Rating	High / Medium / Low

TABLE 5: APPRAISAL OUTCOME & MONITORING

Parameter	Description
Approval Status	Approved / Rejected / Pending
Rejection Reason	Reason for denial
Turnaround Time	Days from application to sanction
Default / NPA Status	Performing / Non-performing
Branch / Region	Location of borrower

6. CONCLUSION

In summary, conducting credit evaluations and ratio analyses is a critical component of effectively administering home financing. Ratio analysis evaluates the solvency, profitability, and liquidity of a borrower in order to evaluate their ability to repay a loan. Lenders can assess their risk exposure, identify warning indicators of a financial crisis, and make decisions based on data by monitoring critical financial ratios. In addition to numerical data, the qualitative components of a credit appraisal encompass the borrower's character, the stability of their employment, the consistency of their income, and the value and legality of the property being financed. Financial institutions can mitigate their default risk and non-performing assets by employing these strategies in conjunction. Not only does a strong credit evaluation fortify the lender's portfolio, but it also enhances the trust and reliability of the home financing market. It also promotes accountability and transparency by ensuring that all activities are in accordance with both internal and external regulations.

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