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

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**ABSTRACT:** The purpose of this paper is to determine how well IDFC First Bank's credit evaluation and ratio analysis processes home loan applications. The purpose of this research is to look into how financial ratios are used to determine a creditor's creditworthiness and the overall health of the bank. The findings show that solvency, profitability, and liquidity are the three most important elements for informed loan decision-making. The assessment of a borrower's creditworthiness, which includes factors such as income, risk, and loan repayment capabilities, is also emphasized. An examination of applicant profiles reveals critical information about default risk variables and loan acceptance. How ratio analysis can help improve long-term financial stability and reduce non-performing assets. A thorough review of credit improves clarity and decision-making.

**Keywords:** *Liquidity Ratios, Solvency Ratios, Profitability Ratios, Loan-to-Value Ratio (LTV), Creditworthiness Assessment, Cash Flow Analysis*

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## 1. INTRODUCTION

A corporation's financial health is evaluated using ratio analysis, which compares the income statement to the balance sheet. Ratio analysis can be used to gain a more comprehensive understanding of specific aspects of a business. Illustrations include liquidity, profitability, and market worth. Given that all necessary financial papers are publicly available, ratio analysis is an excellent method for acquiring an outside perspective on a company's actions. Corporate personnel rarely use ratio analysis because they have access to more precise data that better reflects the organization's financial situation.

Lenders use the credit evaluation procedure to determine a borrower's loan eligibility. The method evaluates the borrower's income, creditworthiness, and ability to repay the loan. Financial

institutions frequently analyze the borrower's income, employment status, and current liabilities when assessing the risk of loan approval. The primary goal of credit evaluation, which includes determining the borrower's financial status, is to reduce the risk of default. Ratio analysis and credit evaluation are critical components of mortgage finance, allowing lenders to secure their lending activities by assessing borrowers' creditworthiness. The borrower's financial strength is determined through ratio analysis, which includes the study of several ratios such as debt-to-income, loan-to-value, repayment ability, and total liquidity. These ratios help determine the borrower's ability to repay the loan.

The credit review system takes into account the applicant's credit score, repayment history, income, and employment stability. This helps the

lender to assess the borrower's willingness and ability to repay the loan. These changes will allow lenders to make more informed decisions and promote economic accountability within the home loan market. Lenders can be confident that consumers' debt obligations will remain manageable thanks to credit evaluation and ratio analysis. Financial institutions can improve customer service and promote responsible lending and borrowing by using these appraisal strategies for accurate evaluation.

By combining quantitative financial ratio analysis and qualitative credit evaluation, home loan organizations can increase profitability while reducing risk. This dual strategy is critical for economic development since it facilitates consumer credit acquisition, improves the banking system, and fosters a robust real estate market.

## 2. RELATED WORK

Prof. R. K. Mehta (2025) According to Professor R. K. Mehta's (2025) research, financial ratio analysis is an effective tool for evaluating performance and developing strategy in modern businesses. It emphasizes the use of liquidity, solvency, profitability, and attrition ratios to evaluate a company's operational effectiveness and financial stability. According to the research, monitoring ratios allow for more informed investment selections and timely modifications. Research shows that organizations that use ratio analysis for strategic planning outperform their competitors in terms of resource management and profitability. The investigation also evaluates technical tools capable of computing and disseminating ratios independently. Consistent

implementation of ratio analysis in management evaluations guarantees that financial indicators are in line with business goals. The findings show that ratio analysis is an important tool for developing future plans and promoting growth.

Thando Ndlovu 2025 The research found that post-pandemic financial ratio analysis has changed. This article discusses how financial ratios have helped various industries handle market volatility, economic uncertainty, and other issues. Research shows that efficiency, profitability, solvency, and liquidity ratios affect resource allocation and strategy. In this article, empirical case studies and examples examine how ratio analysis affects a company's adaptation and resilience during and after a pandemic. Financial research benefits business governance, risk management, and trend forecast. It shows how traditional ratio models fail in unknown conditions. The cross-sectoral evaluation in this piece improves business financial readiness.

Prof. Anjali Desai (2024) Examines how ratio analysis guides Indian debt and equity investments. The study evaluates organizations' financial performance and stability using market indicators, profitability, and liquidity. Ratio-based assessments improve portfolio optimization and risk-adjusted returns. The post emphasizes trend study and industry analysis for profitable investment prospects. Using ratios alone during market volatility is risky since they could pose huge threats at any time. Combining ratio analysis with qualitative assessments and predictive modeling is advised. The study found that ratio analysis helps



investors make decisions in volatile markets.

Dr. A. R. Sharma (2024) Examines how digital technology has affected house loan lenders' creditworthiness assessments. AI and machine learning algorithms can improve loan approval, repayment behavior estimates, and borrower data analysis. Numerous research show that automated technologies improve credit evaluation accuracy and lowered processing times. Cybersecurity, data privacy, and client digital access disparities are also highlighted. The report emphasizes the need for strict data privacy laws and secure digital device education to increase mortgage access.

Kalpesh Suthar 2023 This theoretical study shows that financial ratio analysis measures corporate efficiency and performance well. This document discusses efficiency, profitability, solvency, and liquidity ratios. It examines how these ratios indicate the company's operational efficiency, financial stability, and performance. The post examined relevant literature to determine effective and ineffective financial ratio evaluation methods. It examines how ratio analysis might influence manager, creditor, and investor decisions. The course includes theoretical foundations and practical examples to help students grasp ratios in financial analysis. Ratio-based performance benchmarking evaluates corporate performance. Pradip Kumar Das 2023 Examines how ratio analysis may improve Tata Steel Ltd. decision-making. Profitability, efficiency, solvency, and liquidity are used to assess financial accounts over many fiscal years. The document suggests investors and management use these KPIs to make

strategic and operational decisions. It analyzes your finances and identifies tendencies that could hurt your future earnings. The findings suggest that ratio analysis can predict financial stability and inform investment decisions. Secondary data from financial databases and annual reports informed our conclusions. The paper examines ratio analysis's limitations, such as its historical data and inability to account for industry swings.

Prof. M. L. Sharma (2022) Examines ratio analysis's effectiveness in post-pandemic company performance. The study identifies liquidity, debt-to-equity ratio, and return on equity as financial health indicators. As demonstrated above, firms adjusted their financial strategy to maintain operations and pay off debts during uncertainty. Organizations with controlled debt and strong revenue sources were better prepared for post-epidemic issues. The study examines how ratio adjustments between organizations affect individuals. Dynamic ratio analysis can indicate organizational fluctuations in real time. The study argues that ratio analysis is essential for recovery monitoring and investment decision-making.

Dr. P. N. Desai (2022) Energy efficiency, environmental effect, and green construction laws are reviewed before loan acceptance. Sustainability indices boost apartment building profitability and environmental responsibility, according to the study. The essay emphasizes standardized green grading and sustainability indicator measurement difficulties. According to studies, sustainability-based credit assessments can improve green housing markets and other environmental activities.

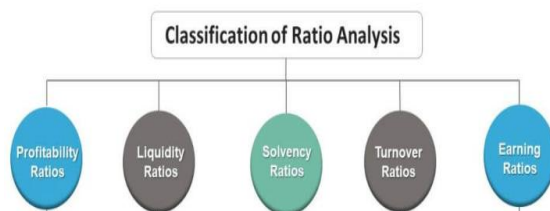




Prof. R. N. Gupta (2021) Found that ratio analysis is essential for assessing India's different businesses' financial viability. To determine financial growth or instability, the analysis assesses profitability, efficiency, liquidity, and solvency. The report suggests administrators and investors use industry benchmarks to make better decisions. Quick ratio assessments can aid strategy planning and minimize financial mismanagement, research shows. The study shows that ratio analysis is limited and emphasizes qualitative assessments. The proposals involve systematic ratio evaluation and analytical tool training for financial specialists. The paper states that ratios are still essential for financial decision-making.

Prof. L. S. Rao (2021) This research rural house loan appraisal issues. Many rural residents cannot get property values, informal loans, or credit histories. Since credit rating models often ignore rural areas, more regional evaluation methods are needed. This article examines rural housing funding and whether government subsidies lessen credit risk. A credit assessment system that considers remote purchasers' particular situations is essential.

### 3. CLASSIFICATIONS OF RATIO ANALYSIS



#### PROFITABILITY RATIOS

Profitability ratios compare a company's earnings to its costs. Profitability indicators show investors how well a

company uses its assets to create revenue. Companies with high profitability ratios are attractive investments.

**Gross Profit Margin:** According to the Gross Profit Margin ratio, a corporation is profitable when revenue exceeds product costs. A high gross margin indicates a company's expertise or pricing power.

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Net Sales}} \times 100$$

**Net Profit Margin:** After taxes and interest, the net profit margin is the percentage of sales that are profitable. Cost minimization boosts operational efficiency and net profit margins. Divide revenue by net income to solve.

$$\text{Net Profit Margin} = \frac{\text{Net Profit After Tax}}{\text{Net Sales}} \times 100$$

**Return on Equity (ROE):** ROE evaluates a company's profit from its owners' capital. A high ROE suggests good equity usage. An increase in ROE shows efficient utilization of equity capital to create returns for owners.

$$\text{ROE} = \frac{\text{Net Profit After Tax} - \text{Preference Dividend}}{\text{Average Shareholders' Equity}} \times 100$$

**Return on Assets (ROA):** A company's ROA measures how well it turns assets into profit.

$$\text{ROA} = \frac{\text{Net Profit After Tax}}{\text{Average Total Assets}} \times 100$$

#### LIQUIDITY RATIOS

Company liquidity shows its ability to meet short-term obligations and financial adaptability. Strong liquidity ratios help businesses handle unexpected costs and economic downturns. A company's liquidity ratio measures its capacity to weather unforeseen expenses or income drops without debt. Liquid assets stabilize the financial system.

**Current Ratio:** The current ratio shows that current assets cover short-term



liabilities, indicating a company's liquidity. If the ratio surpasses one, the firm can meet its obligations. Many investors pick a ratio between 1.5 and 3, suggesting a healthy asset-liability balance.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

**Quick Ratio (Acid-Test Ratio):** A company's quick ratio, sometimes called the acid-test ratio, assesses its ability to cover short-term liabilities with liquid assets. To get it, remove inventory from current assets. The absence of inventory makes the assessment more hesitant. A company's liquidity ratio reflects financial strength.

$$\text{Quick Ratio} = \frac{\text{Quick Assets}}{\text{Current Liabilities}}$$

### SOLVENCY RATIOS

Company solvency assesses its capacity to meet long-term financial obligations. These ratios grow when a company's assets and liabilities are severely out of balance. This improves the company's long-term viability. A high debt load may make you more susceptible to economic downturns and rising interest rates. Solvency ratios compare a company's financial stability and debt management to its industry and competitors.

**Debt-to-Equity Ratio:** Company asset financing is assessed by debt-to-equity ratio. More ratios may suggest risk and leverage. Businesses are less likely to have loan servicing issues with a low debt-to-equity ratio.

$$\text{Debt-to-Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholders' Equity}}$$

**Interest Coverage Ratio:** Organizations' interest coverage ratios assess their interest obligation capacity. EBIT indicates a company's solvency. Increasing the ratio indicates better interest commitment

ability. Low interest coverage ratio businesses struggle to repay loans on time, making them financially insecure. A low TIE ratio suggests the corporation may struggle to pay interest and retain operational earnings.

$$\text{Interest Coverage Ratio} = \frac{\text{Earnings Before Interest and Taxes (EBIT)}}{\text{Interest Expense}}$$

### TURNOVER RATIOS

Financial measures like turnover ratios reflect how well a company turns assets and resources into revenue. These ratios show a company's capacity to turn fixed assets, accounts receivable, and inventory into cash or sales within an accounting period.

**Inventory Turnover Ratio:** Inventory turnover ratio evaluates how often a company sells and restocks its goods.

$$\text{Inventory Turnover Ratio} = \frac{\text{Cost of Goods Sold (COGS)}}{\text{Average Inventory}}$$

**Accounts Receivable Turnover Ratio:** The Accounts Receivable Turnover Ratio measures a company's credit customer payment collection.

$$\text{Accounts Receivable Turnover Ratio} = \frac{\text{Net Credit Sales}}{\text{Average Accounts Receivable}}$$

**Accounts Payable Turnover Ratio:** One way to assess how quickly a company fulfills its obligations is to look at its accounts payable turnover ratio.

$$\text{Accounts Payable Turnover Ratio} = \frac{\text{Net Credit Purchases}}{\text{Average Accounts Payable}}$$

**Asset Turnover Ratio:** An organization's asset utilization is measured by its asset turnover ratio.

$$\text{Asset Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Total Assets}}$$

**Fixed Asset Turnover Ratio:** An organization's asset utilization is measured by its asset turnover ratio.

$$\text{Fixed Asset Turnover Ratio} = \frac{\text{Net Sales}}{\text{Average Net Fixed Assets}}$$





### EARNING RATIOS

Earnings ratios help investors assess investment profitability. Investors and owners can use these ratios to calculate interest. Fundamental business analysis helps predict future performance.

**Earnings per share (EPS):** Profits per share (EPS) measure investor profits. It incorporates the latest PS. Adjusted diluted EPS includes convertible debt.

$$EPS = \frac{\text{Net Profit After Tax} - \text{Preference Dividend}}{\text{Number of Equity Shares Outstanding}}$$

**Dividends payout ratio:** Dividend payout ratios show companies can pay dividends. 30 and 50% is ideal. Any variation from that 50% is risky.

$$\text{Dividend Payout Ratio} = \frac{\text{Dividend per Share (DPS)}}{\text{Earnings per Share (EPS)}} \times 100$$

**Dividend per share (DPS):** Considering a percentage of total outstanding shares, the dividend payout ratio measures a company's net income distributed to shareholders.

$$DPS = \frac{\text{Total Dividends Paid to Equity Shareholders}}{\text{Number of Equity Shares Outstanding}}$$

## 4. DATA ANALYSIS AND OUTCOME ASSESSMENT IDFC FIRST BANK KEY FINANCIAL RATIOS

IDFC First Bank Key Financial Ratios	Mar '25	Mar '24	Mar '22	Mar '21	Mar '20
<b>Investment Valuation Ratios</b>					
Face Value	10	10	10	10	10
Dividend Per Share	0	0	0	0	0
Operating Profit Per Share (Rs)	11.22	8.82	5.9	5.16	4.76
Net Operating Profit Per Share (Rs)	49.85	42.89	27.62	28.13	33.76
Free Reserves Per Share (Rs)	0	0	0	0	0
Bonus in Equity Capital	0	0	0	0	0

### Profitability Ratios

Interest Spread	9.74	10.07	9.87	9.49	10.62
Adjusted Cash Margin(%)	21.39	24.47	18.12	16.89	-4.45
Net Profit Margin	4.08	9.7	0.77	3.02	-17.5
Return on Long Term Fund(%)	68.53	70.6	51.32	63.45	62.35
Return on Net Worth(%)	3.92	9.13	0.62	2.69	-18.45
Adjusted Return on Net Worth(%)	22.27	27.54	15.68	15.29	-7.27
Return on Assets Excluding Revaluations	51.91	45.57	33.88	31.54	32.02
Return on Assets Including Revaluations	51.91	45.57	33.88	31.54	32.02

### Management Efficiency Ratios

Interest Income / Total Funds	11.41	11.32	9.72	10.23	10.27
Net Interest Income / Total Funds	6.03	6.14	5.5	4.73	3.8
Non Interest Income / Total Funds	2.18	2.21	1.8	1.44	1.09
Interest Expended / Total Funds	5.38	5.18	4.23	5.5	6.47
Operating Expense / Total Funds	5.64	6.03	5.22	4.3	3.44
Profit Before Provisions / Total Funds	2.31	2.33	1.86	1.66	1.25
Net Profit / Total Funds	0.47	1.1	0.07	0.31	-1.8
Loans Turnover	0.17	0.18	0.16	0.17	0.19
Total Income / Capital Employed(%)	13.59	13.53	11.52	11.67	11.36
Interest Expended / Capital Employed(%)	5.38	5.18	4.23	5.5	6.47
Total Assets Turnover Ratios	0.11	0.11	0.1	0.1	0.1
Asset Turnover Ratio	0.12	0.12	0.1	0.11	0.11

### Profit And Loss Account Ratios

Interest Expended / Interest Earned	47.14	45.74	43.47	53.76	62.98
Other Income / Total Income	16.05	16.36	15.59	12.37	9.59
Operating Expense / Total Income	41.53	44.54	45.29	36.83	30.31
Selling Distribution Cost Composition	1.28	0	0.91	0.51	0.85

#### Balance Sheet Ratios

Capital Adequacy Ratio	0	0	0	0	0
Advances / Loans Funds(%)	85.94	85.88	80.5	78.31	65.14

#### Debt Coverage Ratios

Credit Deposit Ratio	94.5	100.39	112.54	121.18	126.92
Investment Deposit Ratio	34.25	39.25	46.95	58.82	76.36
Cash Deposit Ratio	5.52	6.25	5.32	5.22	5.5
Total Debt to Owners Fund	7.66	7.81	7.52	7.5	7.95
Financial Charges Coverage Ratio	1.88	1.88	1.92	1.6	1.39
Financial Charges Coverage Ratio Post Tax	1.14	1.21	1.07	1.1	0.75

#### Leverage Ratios

Current Ratio	0.05	0.06	0.08	0.1	0.17
Quick Ratio	17.58	17.49	12.56	10.63	9.05

#### Cash Flow Indicator Ratios

Dividend Payout Ratio Net Profit	0	0	0	0	0
Dividend Payout Ratio Cash Profit	0	0	0	0	0
Earning Retention Ratio	100	100	100	100	0
Cash Earning Retention Ratio	100	100	100	100	0
Adjusted Cash Flow Times	27.09	22.6	28.62	28.75	0

## CREDIT APPRAISAL IN HOUSING FINANCE AT IDFC FIRST BANK

TABLE 1: BORROWER PROFILE





Parameter	Description
Borrower ID / Name	Unique identifier
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	$DTI = \frac{\text{Total Monthly Debt}}{\text{Monthly Income}} \times 100$ $DTI = \frac{\text{Total Monthly Debt}}{\text{Monthly Income}} \times 100$
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

## 5. CONCLUSION

Effective housing loan management requires credit screening and ratio analysis. Liquidity, profitability, and solvency are ratio analysis' major elements for assessing a borrower's financial status and loan repayment ability. Creditors can analyze risk, spot financial difficulty early, and make educated decisions by assessing key financial characteristics. Non-factual factors are considered during credit rating. The collateralizer's attitude, career, and collateralized asset income dependability are factors. These approaches may reduce defaults and non-performing loans for banks and other financial organizations. Better credit ratings make lenders more trustworthy and grow the lender portfolio, benefiting the home finance market. It ensures everyone follows the rules, promoting accountability and transparency.

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