Introduction case study solution

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Short Description
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Introduction

Patel Housing finance Corporation (PHFC), the first private sector housing finance company of India
is the brainchild of D.H. Patel who was doyen of financial world. The company began operations on
July 18, 1978. In its earlier years, Patel was able to mobilize funds and get support from diverse
sources namely IEIEI, of which Patel was Chairman at that time, IFC, his Royal Highness, Rashid
Oberoi and most importantly the Indian Government. D.H. Patel was a man ahead of his times;
though he was a product of the system, yet he had a different philosophy. He was a man who
constantly thought out of the box. A man who never asked the question: Why? But rather, why not?
For many years he nurtured the idea of enabling households in India to access housing earlier in their
life cycle rather than at the end when lumpsum payments were received. The first five years of this
company were spent in “Learning by Doing”, a philosophy which had been imbibed by

the
organization. From its inception, PHCF had been a pioneer in the activities they had undertaken. For
example, they began to accept mortgages on deposit of title basis rather than a registered "English
Mortgage", thus saving considerable stamp duty for the borrower. They also introduced resourceraising products like "Certificate of Deposit". Their efforts got a boost when the government decided
to give income tax exemptions under Section 80L to their deposit.
During the initial years, PHFC was supported by large loans from USAID which stands
testimony to the fact that even in their infancy, their credibility as an institution was accepted
internationally, which led to a strong growth in their initial years. By the end of their fifth year, they
had a disbursement of Rs.109 crores and the profit after tax was Rs.4.33 crores. The first five years
formed the solid foundation for the epic journey of this institution. The institution was being exposed
to the international management practices courtesy USAID. PHFC was in the process of establishing
itself as a company, which was flexible in its interaction with customers and at the same time
responsive to their stated and unstated needs. By the end of the last century, PHFC had created a
network of institutions providing services in banking, real estate, mutual funds, IT enabled services,
stock market, credit rating and in Insurance (both life and general). Till mid -1990s PHFC was the
biggest name in the Housing Finance industry having no real competition. The second largest

operator was in the public sector domain and was no real competition to them. PHFC had
demonstrated that simple products, well executed can catch the imagination of the people. PHFC,
from its very first day of operations, had built a principle-centered organization, an organization that
has been built on the basis of fairness, kindness, efficiency and effectiveness. It gradually built trust
between people, strengthening communications and a participative management style. Trust was the
very cement for meaningful relationships and an open and creative management style.

Services in PHFC is not the icing on the cake – it is the ingredient that the cake!! This emphasis on service epitomized the culture at the company, but somehow the sheer size of the organization and its early domination had made the staff and the management complacent. With liberalization, nationalized banks were forced by market conditions to enter the retail loan sector which saw PHFC (the Elephant) being attacked from all sides by the new entrants who took pot shots at the leader who because of its size was too big to miss and it could not retaliate. Salt was rubbed into wounds when IEIEI, the promoter of PHFC, entered the housing finance industry, and in a short of five years, reached the top position.

Product Profile

Since liberalization commenced in 1991, PHFC had substantially with an average rate of 30% per annum in terms of housing loans disbursed. During the earlier years of its operations, PHFC had a monopoly in the housing finance market in India, providing plain vanilla products to people who opted for housing finance. The main thrust was on processing applications, which arrived at its doorsteps. The proliberalisation policies of the government saw a large number of players entering the market along with an increased demand for home loans. Thus, to meet increased demand and to compete with the increased supply, PHFC took up the challenge through product innovation as well as improved marketing focus. Product innovation, carried out at its New Delhi office, involved a changeover in terms of providing flexibility in repayment of loans.

Till 1997, PHFC was a single product company but later on adopting a proactive strategy, the company began offering products, which suited the customer-specific requirements. Flexible repayment options like step-up repayment facility (surf), flexible loan installment plan (flip), balloon payment, and structured repayment plan were introduced. These flexible repayment options gave the customers the freedom to structure the repayment schedule to suit them. Till 1999, fixed rate loans were provided on annual rest basis. Later, the flexible interest rate regime began along with monthly rest calculations only in November 2001. The company offered specially designed life insurance cover at attractive price from PHFC standards life, home / accident insurance products from PHFC Chabra General Insurance Company Ltd., automatic repayment of PHFC bank savings account with the low average quarterly balance, free PHFC bank international credit card and lower interest for other loans availed from PHFC bank.

Earlier, salaried class employees formed a major segment of the customer because the income proof was easily documented. In the case of self-employed persons, although cash rich, the lack of supporting documents for income proved to be a hindrance. Later, to compete with the market forces, the Gwalior office of the company devised strategies to exploit the self-employed group of customers by offering collateralized loans. Due to lack of documented income, loan was provided on the basis of various liquid securities such as NSC and fixed deposits which were kept as mortgage with the company. This segment now contributed up to 6-7% of the customers in value terms at the Indore branch (the national average being 5% only). The interest rates on loans were subjected to negotiations from customer to customer depending upon the loan amount and profile of the customers. The deal was negotiated considering the risk profile, creditworthiness of the customer, his past track record with respect to loan repayment as well as his present financial and social status. As part of its policy, the company charged 2% of the balance principle amount as prepayment charges in a fixed interest rate loans. However, this was not applicable for flexible interest rate loans. The

company also provided refinance facility to housing loan customers of other institutions as well as rental discounting for reputed and creditworthy builders and contractors.

Marketing

The marketing efforts of PHFC centered around its customers. Its major strength was its vast database and experienced personnel. In addition to providing housing finance, quality services were rendered to customers through additional services such as loan counseling, property identification, technical and legal advice, and other property related solutions. In order to cater to the needs of the customers, PHFC had a wide network of 173 offices across the country. It conducted outreach programs at over 90 locations. The company had a tie up with a number of blue chip companies whereby, the employees of the company were provided with easy home loans and the blue chip company automatically deducted EMI payments from employee salaries. This arrangement benefited the blue chip companies as they were able to show it as a staff welfare activity and at the same time, in case of employee default, PHFC did not hold the company liable. As on March 2004, the company had a number of subsidiary companies like PHFC Developers Ltd., PHFC Investments Ltd., PHFC Holding Ltd., PHFC Asset Management Company Ltd., PHFC Standards Life Insurance Company limited to name a few. It was able to cross-sell and offers customers a wide range of customer products and services under the PHFC brand. The company had a three-pronged approach to target customers. First, it had a call centre, where loan queries from existing and potential customers were attended. Secondly, the referral channel where existing customers referred potential customers and thirdly, a subsidiary called Patel Housing Finance Services India Limited, the employees of which were called “feet on street”. The customers identified by any of the three methods were directly contacted and negotiated by PHFC personal, ensuring that at all times service quality was maintained.

In case of a high level lead i.e., a commercially important customer or where loan amount was high, or customer enjoying a high stature in society, the customer was directly handled by the operation’s

head. The company did not believe in a brand ambassador nor did it advertise in electronic media. It
believed that its existing customers were its best brand ambassadors. This was contrast to its
immediate rival IEIEI Bank, which used celebrity endorsement for product promotion. Customers,
especially non-resident Indians could use the services of PHFC through a website www.PHFC.com
which proved to be a good marketing tool. The company also participated in property fairs and
exhibition fairs in different parts of the country.
PHFC was known for its service quality and the speed of loan disbursement which was a
minimum of two hours and a maximum of five days. The bank had the advantage of a wide network
and as an employee put it, “ at PHFC a customer can take a loan from Indore buy a property in
Manipur take a disbursement in Hyderabad and service his loan from Nagpur “. The company
accepted Cheques from anywhere without any clearing charges. PHFC used various promotional tools
to attract customers like its Diwali Bonanza where the loans were available at lower rates of interest.
These programs proved to be very successful. The company was a member of the Credit Information
Bureau Ltd (CIBIL). The Bureau traced the payments record of customers and collated individual
credit information. The customers who had defaulted on previous loans and credit card payments with
other banks were recorded by CIBIL and this record was shared with member banks. This ensured
quality credit appraisal of customers and allowed PHFC to offer more attractive rates to customers.
The bank adopted a humane approach in collecting its receivables, which was also a unique feature
highly appreciated by its customers. PHFC had the lowest NPA of 1.10% in the industry.
Human Resource
Human resources were PHFC’s most valuable assets. The efficiency of PHFC’ staff was evident from
the fact that the number of offices Increased from 41 in 1998 to 173 as on 2004 as against the
number of employees, which increased from 806-1,230 during the same period. Total assets per

employees as on March 31,2004 stood at Rs 26.08 crores as compared to Rs 22.85 crores in the
previous year. The net profit per employee as on March 31,2004 was Rs 69 lakhs as compared to Rs
60 lakhs in the previous year. The biggest challenge faced by the company was employee retention.
The new players in the market found PHFC an attractive target for employee recruitment as the
company had a comprehensive training program, which helped to develop human skills. PHFC has a
training centre at Shimla, near Delhi. Training took place at all levels in mixed groups. So a young
recruit could attend the training program with vice-president of the company. The training
programmes consisted of attitudinal change workshops, international skill to name a few. Each branch
nominated employees across all levels for a minimum of 2-3 workshops a year.
PHFC was extremely people-focused and ensured a healthy work environment. Branch
offices had their own in-house pantry, gymnasium, and library, to serve their employees. The work
culture was westernized with an open door policy and employees at all levels were on first name
basis. Top-level executives enquired about personal problems of lower level employees and met
personal needs for recognition and concern. Financial needs were also fulfilled, as the salary was at
par with the best in the industry. Employee’s stock options were also provided as incentives to
employees. At the employee put it “monetary incentives tend to get spent but stock options provided a
security for the future “.The performance appraisal followed by PHFC was unique. 80% of it was
quantifiable and 20% was based on superior on superior review. The company had hired one of the
HR consultants in the country who had devised a unique system of appraisal for the company. Key
result areas of each level were identified and quantified. Thus, even an accounts officer was evaluated
on the number of times accounting reports had reached the head office on time. This reduced personal

bias to a great extent. Due to these practice, the company had the lowest employee turnover in industry.

Financial

PHFC has improved financial performance over the years. The loan approvals increased to Rs 15,216 crores in 2003-04 from Rs 1,494 crores in 1994-95. Whereas disbursements were Rs 1,212 crores in 1994-95, increasing to Rs 12,697 crores in 2003-04. Its gross income increased from Rs 780 crores (in 1994-95) to Rs 2976 crores (in 2003-04). Profit after tax has also registered growth from Rs 146 crores (in 1994-95) to 852 crores (in 203-04) The share price of PHFC has also increased from Rs 102.50 (on 01-04-1995) to Rs 645 (1-04-2004).

Future Ahead

Although PHFC had tried to change itself from initially a monopoly regime to a market competition scenario, the company faced a number of issues. IEIEI, the current market leader in home loan disbursements was able to undercut interest rates. Being the original player, competitors targeted PHFC customers for refinance facility, trying to get the customer to switch banks and offering them attractive schemes in the bargain. Secondly, PHFC had a low employee turnover and therefore had to teach its old employees new tricks. Nationalized banks which have so far not been very aggressive in the home loan market have a distinct advantage as far as cost of funds is concerned, customer base and distribution network. It is a matter of time before they aggressively expand operations. Foreign banks are already operating in the market using high quality of services as their USP. In this scenario, the top management wonders whether the elephant can dance.

1. Evaluate the strategies used by the management in the changed scenario.

2. Which strategies the company adopt for the future?

3. Evaluate the performance of the company financially, using financial ratios and figures.

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Details

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