LOAN MANAGEMENT AND PROFITABILITY OF RETAIL MICROFINANCE COMPANY IN NEPAL

A Dissertation submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master's Degree

By

Kriti Thapa
Campus Roll No.: 118/076
Exam Roll No.: 23474/20
Registration No.: 7-2-503-38-2014
Campus: Shanker Dev Campus
Putalisadak, Kathmandu

May, 2024

Certificate of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **"Loan Management and Profitability of Retail Microfinance Company in Nepal".** The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are citedin the reference section of the dissertation.

……..

Kriti Thapa

May, 2024

Report of Research Committee

Mrs. Kriti Thapa has defended research proposal entitled **"Loan Management and Profitability of Retail Microfinance Company in Nepal"** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Dr. Binita Manandhar and submit the thesis for evaluation and viva voce examination.

Dr. Binita Manandhar
Dissertation Supervisor
Signature: …….

Dissertation Proposal Defended Date:
……

Dissertation Submitted Date:
……

Asso. Prof. Dr. Sajeeb Kumar Shrestha
Head, Research Department
Signature: …….

Dissertation Viva Voce Date:
……

Approval Sheet

We, undersigned, have examined the thesis entitled **"Loan Management and Profitability of Retail Microfinance Company in Nepal"** presented by Kriti Thapa a candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the dissertation is acceptable for the award of degree.

……
Dr. Binita Manandhar
Dissertation Supervisor

……..
Internal Examiner

……..
Internal Examiner

……..
External Examiner

……..
Asso. Prof. Dr. Sajeeb Kumar Shrestha
Chairperson, Research Committee

……
Asso. Prof. Krishna Prasad Acharya
Campus Chief

Acknowledgement

It brings me great satisfaction to witness the positive impact of my creation, which contributes value to others. This thesis represents a step towards fulfilling the prerequisites for earning a Master of Business Studies (MBS) degree, and throughout the research process, I have acquired a substantial amount of knowledge. While I take pride in the self-driven effort and dedication I invested in this thesis, it's essential to acknowledge the invaluable support provided by my supervisor, without whom its completion would not have been possible.

Firstly, I want to express my sincere thanks to my thesis supervisor, Dr. Binita Manandhar from Shanker Dev Campus. She provided valuable assistance and guidance from the very beginning when I chose my topic and throughout my entire study.

I am thankful to my parents and friends who always encouraged and inspired me continuously in whatever way it is possible. Lastly, I would like to conclude that I am very grateful to all of my lecturers, professors and well-wishers who have directly or indirectly contributed to accomplishing this task.

Kriti Thapa

Shanker Dev Campus

Table of Contents

Lists of Tables

List of Figures

Abbreviations

ANOVA	Analysis of Variance
BL	Bank Leverage
BZ/BS	Bank Size
CV	Coefficient of Variation
DER	Debt Equity Ratio
DMB	Deposit Money Banks
DR	Debt Ratio
EPS	Earnings Per Share
i.e.	That is
ICR	Interest Coverage Ratio
LDR	Loan to Total Deposit Ratio
LLP	Loan Loss Provision Ratio
LR	Liquidity Ratio
MPT	Modern Portfolio Theory
MR	Market Risk
NEPSE	Nepal Stock Exchange
NPL	Non - Performing Loan
NRB	Nepal Rastra Bank
OLS	Ordinary Least Square
ROA	Return on Assets
ROE	Return on Equity
SD	Standard Deviation
SME	Small and Medium Size Enterprises

Abstracts

The main objective of this study is to examining the loan management and profitability of retail microfinance company in Nepal. The descriptive and causal research design has been adopted for the study. The study used secondary data of five microfinance companies in Nepal of ten years i.e. 2012/2013 to 2021/2022 data has been analyzing by using different statistical tools. Data is received from the annual report of selected microfinance company's website. ROA and ROE are taken as indicator of profitability of microfinance companies whereas; debt equity ratio, debt ratio, interest coverage ratio and size are the key factors of debt management. The collected information and the numerical data has been analyzed by using excel software and historical trend, descriptive statistics, correlation, ANOVA and regression tools are used and tables, graphs are used to show the data and results clearly.

The results of the correlation analysis reveal certain relationships within the study. Firstly, there is a positive relationship of loan to deposit ratio with ROA and ROE. There is a positive correlation of the debt equity ratio, debt ratio and interest coverage ratio with return on assets and return on equity, while company size shows a negative association with return on assets and return on equity. These positive correlations indicate favorable conditions, suggesting that an increase in loan-to-deposit ratio, debt-equity ratio, debt ratio, or interest coverage ratio is associated with higher returns on assets and return on equity. However, an increase in company size is linked to a decrease in the performance of retail microfinance companies, as reflected in lower returns on assets and equity.

From the regression analysis, the loan-to-deposit ratio has a positive but not statistically significant impact on return on assets and a negative and insignificant impact on return on equity. The debt-equity ratio has a negative and insignificant impact on the return on assets but a positive and significant impact on the return on equity. The return on assets is positively and significantly influenced but the return on equity is positively and insignificantly influenced by the debt ratio. Interest coverage ratio has a positive and insignificant effect on profitability i.e. return on assets and returns on equity. The performance of microfinance is positively and insignificantly influenced by the size of microfinance companies.

Keywords: Loan to Deposit Ratio, debt-equity ratio, debt ratio, interest coverage ratio, profitability, microfinance

CHAPTER I
INTRODUCTION

BackgroundoftheStudy

The modern complex economic system cannot function without the bank. The bank helps in the mobilization and allocation of scarce resources, which are essential for economic development.Thebankingsystemhasfacilitatedpersonaltransactionssuchasdepositand remittance of money, lending and borrowing of money. It has made it easier to develop agriculture, industry and trade(Cheney and Moses, 1999). At thesametime, it has helped to accelerate the pace of economic development. Bank plays the intermediary role by receivingsavingsprimarilyfromhouseholdsandtransformingthemintoloansto business firmsandotherstomakeinvestmentsinbuildingfactories,plantsandequipment.Thebank collects idle money from people. This money is channeled by banks to individuals, businessesandthegovernmentforproductiveinvestments.Thisincreasescapitalformation byincreasingproductiveinvestments.This,inturn,raisesthelevelofemployment,income andstandardofliving.Banksdonotkeepacentpercentreserveagainstthedeposittomeet the demands of depositors, as all depositors do not need money at the same time. Banks with a small reserve satisfy their demand whenever demonstrated and grant loans from excessreservesthatdepositorsneedtoneedyfeasiblesubscribers.Loansandadvancesare theimportantitemontheassetssideofthebalancesheetofcommercialbanks.Banksearn interestoncreditsandadvances,whichisoneofthemajorsourcesofincomeforthebanks. Banks prepare credit portfolios, otherwise it will not only add bad debts but also affect profitability adversely (Oddy and Winsor, 1990).

Microfinance institutions play a crucial role in fostering economic development, particularly in underserved communities. By providing financial services to low-income individuals and small businesses, microfinance facilitates the redirection of limited resourcestoneedysectors.Individualscandeposit theirsurplusmoneywithmicrofinance institutions, which in turn usethesefundsto offer loansand advances forvarious income-generating activities. Loans are especially significant for microfinance institutions as they formasubstantialportionoftheirtransactions,investmentactivities,andprofitability.The successofamicrofinanceinstitutionheavilyreliesoneffectiveloanmanagement.Key

factors that determine its strength include the quality of the loan portfolio, the mix of risk assets, and a robust credit administration system. By extending loans, microfinance institutionssignificantlycontributetothegrowthofnewbusinesses,therebyimprovingthe overalleconomichealthofthecountry.Variousloanforms,suchasoverdrafts,cashcredits, direct loans, and bill discounting, are commonly offered by microfinance institutions.

Loans and advances constitute a significant portion of a microfinance institution's assets, and the interest income generated from these loans greatly contributes to its profitability. To achieve the desired returns, it is crucial for microfinance institutions to effectively manage their loan assets, ensuring they remain performing and liquid. By maintaining an efficientloanmanagementsystem,microfinanceinstitutionscan fulfil theirpivotalrolein supporting economic development and empowering marginalized communities (Khan, 1982).

Loanmanagementreferstothesystematicadministrationandmonitoringofloansprovided by financial institutions or lenders to individuals, businesses, or other entities. Effective loan management is essential for both borrowers and lenders to ensure the smooth functioning of the lending process. It involves various key aspects, including loan origination,underwriting,disbursement,repaymentschedule,andriskassessment.Lenders use loan management systems and software to streamline these processes, enabling them to assess the creditworthiness of applicants, determine appropriate interest rates, and establishrepaymentterms.Borrowersbenefitfromloanmanagementpracticesthatprovide transparency, flexibility, and assistance in meeting their financial obligations. In essence, loan management plays a crucial role in maintaining the financial stability of both borrowersandlenderswhilepromotingresponsiblelendingandborrowingpractices(Keen and Willcocks, 2017).

Efficienthandlingofdebtplaysacriticalroleinshapingacompany'sfinancialwell-being and profitability. Skill full management of debt can offer opportunities for growth and increasedreturns,whilepoordebtmanagementcanleadtofinancialdifficultiesandhinder profitability.Effectivedebtmanagement involves findingtherightbalance between using debt for expansion and maintaining a manageable level of debt. Employing debt strategically can magnify returns on equity (ROE) during periods of growth, as borrowed fundsgeneratehigherprofitsthanborrowingcosts.Nevertheless,excessivedebtcanresult insignificantinterestexpensesthateatintoprofitability,particularlyinchallenging

economic conditions. A well-executed approach to debt structure, which includes an appropriate blend of long-term and short-term debt, can provide financial flexibility and stability, positively influencing profitability. Prudent management also takes into account interestcoverageratios,ensuringthatthecompanygeneratesenoughoperatingearningsto comfortably meet interest payments. Investors and analysts frequently evaluate a company's debt management practices to assess its financial risk and growth potential. Research conducted by Baker and Powell in 2016 delves into the interplay between debt management and profitability, underscoring the significance of maintaining an optimal debt-to-equity ratio. Their study offers valuable insights into the intricate relationship between debt and profitability, assisting businesses in making well-informed decisions concerning their financial structure (Barkar and Powell, 2016).

ProblemStatement

Microfinance institutions serve as vital components of the financial system and play a catalytic role in driving the economic development of a nation, particularly in the context of developing countries. While their primary objective is profit and wealth maximization, microfinance institutions also bear the responsibility of safeguarding the interests of their stakeholders. In many developing countries, including Nepal, the challenge of capital formation and its proper utilization is prevalent. In the absence of specialized institutions, microfinance institutions in these countries shoulder additional responsibilities and often function as development banks. Lending has become a critical issue, especially in the context of developing countries like Nepal.

Many business enterprises, particularly smaller ones, often struggle with subpar performanceduetothevariouschallengesencounteredbytheirmanagersorownerswhen making financial decisions. The choices firms make regarding their sources of funding ultimately lead to different capital structures, and these can significantly impact overall companyperformance.It'scrucialtorecognizethatfinancingisanindispensableaspectof business operations. Companies rely on financing to support both their fixed assets and working capital needs, and in the fiercely competitive business environment, access to financial resources is essential for a company's survival. Therefore, financing plays an indispensable and pivotal role in the world of business (Erasmus and Josephine, 2014).

Microfinanceinstitutionsfacethetaskofaddressingthepressingneedforcapitalformation and effective utilization, particularly among underserved communities. By providing access to financial services and offering small loans to low-income individuals and small businesses,microfinanceinstitutionsfillthegapleftbytraditionalcommercialbanks.They play a vital role in channelling funds to sectors that lack access to formal financial institutions. Moreover, microfinance institutions prioritize financial inclusion and social empowerment, aiming to uplift marginalized communities by providing them with the necessaryfinancialresourcesandsupporttostartorexpandtheirbusinesses.Byextending credittothosewhoaretraditionallyexcludedfromtheformalbankingsector,microfinance institutions contribute to poverty alleviation and the overall socio-economic development of the country. Credit activities are the major banking functions and the most valuable commodity for credit institutions. In situations where credit is not adequately harnessed, managed, and handled, it has a crippling impact on banks, decreasing their efficiency, profitability and thus further contributing to banking crises and loss (Berger and Christa 2009).

The possibility that a creditor will default on a loan by failing to meet his obligations is knownascreditrisk.Whenacreditordefaults,itistheconsequenceofreplacingcashflow. From its inception, analyzing the financial soundness of creditors has been a central bankingpractice.Themostcriticalfeatureofthebankingindustryiscreditmanagement.It is the riskiest and most complex task undertaken by banks, as well as the most lucrative. The capacity of a bank to balance credit risk has always been crucial to its financial importance.Withoutanappropriateriskmanagement,monitoring,andfollow-upplan,this would not be possible. The hazard grows when credit principles are breached. Good banking policies enable bank management to set criteria for examining and accepting individual credit applications to ensure that loans given are repaid (Cai and Anjan, 2008).

Manyfactorsareaffectingtheprofitabilityofthecompany.Externalfactorslikeeconomic policies, a country's economic development, the industry structures are essential for a company.However, when investorsfocus on a specificindustry,they are moreconcerned about how to select the one with the highest profitability from many competitors. Capital structure plays an extremely important role in the profitability of a company. The equity structure affects the way of operation and management of the company. Using equity financingislessriskybutimpliesadilutionofcontrolofexistingshareholders.It’spossible

to divert control of the company and the new shareholders can have different thoughts running the company. The capital structure may reveal if leverage financing is rational. Moreover, debt can also affect companies' profitability (Zhang et al., 2020).

In summary, microfinance institutions assume a crucial role in the context of capital formation and utilization in developing countries. They act as catalysts for economic development, filling the gaps left by traditional commercial banks and specialized institutions,andpromotingfinancialinclusionandempowermentamongmarginalized communities. The problem statements are:

- WhatistheexistingpositionofLTDR,DER,DR,ICRSIZEandprofitability of microfinance institutions?
- WhatistherelationshipbetweenLTDR,DER,DR,ICRSIZEand theprofitability of microfinance institutions?
- HowdoLTDR,DER,DR,ICRSIZEimpactonprofitabilityi.e.,ROA,ROEof microfinance institutions?

1. 3ObjectiveoftheStudy

Theobjectives ofthestudyareasfollows;

- To analyze the existing position LTDR, DER, DR, ICR SIZE and profitability of microfinance institutions.
- ToexaminetherelationshipbetweenLTDR,DER,DR,ICRSIZEandprofitability of microfinance institutions.
- TofindouttheimpactofLTDR,DER,DR,andICRSIZEonprofitabilityi.e., ROA, and ROE of microfinance institutions.

RationaleoftheStudy

Researchitselfisimportantbecauseitaimstogainknowledgeandtoaddnewliteraturein existing fields. The significance of this study lies mainly in filling a research gap in the study of loan management of microfinance. This study will contribute significantly to solving the problem existing in microfinance to formulate the policy and strategies to maintain credit activities effectively. Mainly, the study is important for the researcher to fulfil the academic requirements of a master's degree. On the other hand, the study is important for microfinance, scholars, investors, students, government and many other parties.Toconclude,this study willbehelpful to thosewho want to study in further detail

and widely in this field. At last, it is expected that the study will be a drop of literature in the field of microfinance and loan management analysis.

As a business student, it is a golden opportunity to show skill in financial analysis; this report will show the intelligence and skill of the student. This report is a criterion for evaluationofthestudent'squalifications.Thisthesiswillprovidestudentsanexperiencein financialanalysis.Thisthesiswillprovideinformationtothestudentastohowthebusiness houseisrunning.Thisthesismightbeusefulforthosewhoarewillingtoknowsomething aboutloanmanagementinmicrofinance.Thisthesismaybeusefulforlibrarypurposesso that any student wanting to prepare a report can have some ideas about it. This thesis can be used as a guideline while preparing a small project report.

LimitationsoftheStudy

Thisstudyisfocusedonloanmanagementpracticesoftheselectedmicrofinance.This study has its limitations. The following are the limitations of the study:

- Thisstudyisconcentratedontheloanmanagementandprofitabilityofretail microfinance institutions in Nepal.
- Chhimek, Nerude, Swabalamban, Deprosc andNirdhan Utthan Lagibitta Bittiya Sanstha Limited are taken as a sample for the study.
- Thisstudyis basedonsecondary data.
- Thestudy covers ten years ofdatafrom fiscal year2012/2013 to2021/2022.

CHAPTER II
LITERATUREREVIEW

This chapter presents the efforts that have been made to examine and review some of the related books and articles published in different economic journals, bulletins, dissertation papers,magazines,newspapers,andwebsites.Thischapterisacomprehensivestudyofthe conceptualframework,areviewofbooks,journalsandvarioustypesofresearchregarding theimpactofdebtmanagementontheprofitabilityofmicrofinancecompanies.Reviewof Literature can be studied by dividing it into the following ways i.e. Theoretical Review, conceptual review and Empirical Review.

ConceptualReview

ConceptofLoan Management

Loans and advances dominate the assets side of the balance sheet of any bank, similarly, earnings from such loans and advances occupy a major space in the income statement of thebank.Lendingcanbesaidtobetheraisondeterofabank.However,itisveryimportant to maintain that most bank failures in the world are due to shrinkage in the value of loans andadvances(DahalandDahal,2002).Sothemanagementofloansisamajortaskforany banks and financial institutions. Let's bifurcate the term loan management to deliver a meaningfulsenseofthetopic.CambridgeInternationalofEnglishdubbedthetermloanas aboveandthe'management'isthecontrolandorganizationofsomething.In otherwords, the management of a company is/ are the group of people responsible for controlling and organizing it. So, loan management means proper meaning, organizing and controlling of lending money from the bank.

The 'loan management' term concerned matters being presented as loan administration involves the creation and management of risk assets, the process of lending takes into consideration the people and system required for the evaluation and approval of loan requests,negotiationofterms,documentation,disbursement,administrationofoutstanding loansand workouts,knowledgeoftheprocess andawarenessofitsstrengthand weakness are important in setting objective and goals for lending activities and for allocating available funds to various lending function such as commercial, instalment and mortgage portfolios (Johnson and Johnson, 1940).

Debt financing sources may also exert different effects on managerial incentives and resolve moral hazard issues. In addition, when ownership and control over a firm are diluted, managerial optimality rather than shareholder optimality should be considered (Zwiebel,1996).Bankdebtmaydecreasemanagerialincentivestounderperform,resolving themoral hazardissuebyagreatermonitoringabilityofbanks.As afinalpayoff,apriori, decreasedbyinterestpayments,overallmanagerialincentivesdecreasewithanyadditional external finance. Bank debt, in turn, may enhance managerial performance and improve a project's probability of success by exerting greater influence on its management (Stiglitz, 1985; Besanko and Kanatas, 1993).

Here are some ratios that measure the impact of loan management on the profitability of microfinance companies that are operating in Nepal.

- **Loantototaldeposit ratio**

The loan-to-total deposit ratio is used by banks and financial institutions to assess their lending practices and overall financial health. It is calculated by dividing the total amount ofloansextendedbytheinstitutionbythetotaldepositsitholds.Thisratioprovidesinsight into the bank's liquidity and risk exposure, as a higher ratio indicates that a larger portion of customer deposits is being used to fund loans, potentially increasing the institution's vulnerability to economic downturns or unexpected withdrawal demands. Conversely, a lower ratio suggests a more conservative lending approach with a higher proportion of depositsheldin reserve, whichmayoffergreaterstabilitybutcouldalsolimitprofitability A typical target for the LDR depends on a bank's risk tolerance, regulatory requirements, and market conditions. Banks with higher LDRs may be seen as more aggressive in their lending practices, while those with lower LDRs may be viewed as more conservative. It's important to note that the LDR can vary widely among banks and can also change over time.AhighLDRmayindicatethatabankisusingmoreofitsdepositsforlending,which could lead to profitability through interest income but also carries higher risks if a significant portion of the loans turns bad (Ogunmakinju, 2022).

- **Debt-equityratio**

The debt-to-equity (D/E) ratio is used to evaluate a company's financial leverage. It is calculatedbydividingacompany'stotalliabilitiesbyitsshareholderequity.TheD/Eratio is ameasure ofthedegreeto which a company is financing its operations with debt rather thanitsresources.Itisaparticulartypeofgearingratioandisanimportantmetricin

corporate finance. A higher D/E ratio suggests more risk among similar companies, while aparticularlylowonemayindicatethatabusinessisnottakingadvantageofdebtfinancing to expand. Investors will often modify the D/E ratio to consider only long-term debt because it carries more risk than short-term obligations. The D/E ratio varies by industry and is best used to comparedirect competitorsor to measure the change in thecompany's reliance on debt over time (Sharma et al, 2018)

- **Debt ratio**

The debt-to-assets ratio is a ratio that measures the proportion of a company's total assets thatarefinancedbydebt.Ithelpsassessthefinancialriskandleverageofacompany.Here's a simple explanation: Imagine you have a collection of toys, and you want to figure out how many of them you bought with borrowed money (debt) compared to how many you bought with your own money (equity). In a business context: Debt represents money borrowed from lenders,suchas banksorbondholders.Assetsareallthethingsacompany owns,likebuildings,equipment,cash,andinventory.Thisratiotellsyouthepercentageof a company's assets that are financed by debt. A higher debt-to-assets ratio indicates that a larger portion of the company's assets is funded through borrowing, which can increase financial risk because the company has more debt obligations to meet. however, a lower debt-to-assets ratio means that the company relies less on borrowed money and has more of its assets financed by equity or internal funds, which can be seen as a safer financial position. The ideal debt-to-assets ratio can vary depending on the industry, company size, andfinancialgoals.Someindustries,likeutilities,maynaturallyhavehigherdebt-to-assets ratios, while others, like technology startups, might aim for lower ratios to minimize financial risk. Companies use this ratio to assess their financial health, make borrowing decisions, and determine their ability to meet debt obligations (Sharma et al., 2018).

- **Interestcoverageratio**

The interest coverage ratio (ICR) is a ratio that measures how well a company can handle its interest payments on outstanding debt. It's computed by dividing a company's earnings before interest and taxes (EBIT) by its interest expenses for a specific period. The ICR is also referred to as the times interest earned (TIE) ratio. A higher ICR signifies that the companygeneratesmoreearningstocoveritsinterestobligations,whichisapositivesignal for investors, creditors, and lenders. Conversely, a lower ICR suggests thatthe company's earningsmaynotbesufficienttomeetitsinterestpayments,raisingconcernsforinvestors, creditors,andlenders.TheidealICRcanvarybyindustry,butgenerally,ahighercoverage

ratioismorefavourable.Inessence,theinterestcoverageratio(ICR)assessesacompany's abilitytomeetitsinterestobligations,calculatedbydividingEBITforaspecificperiodby interest expenses for the same period, often a year (Pradhan, 2017).

- **Firm size**

Total assets are defined as the sum of net fixed assets, total intangibles, total investments, net current assets, and other assets. It assesses whether the size of the firm is related to performance.(Sufianetal.,2009)foundapositiveimpactoffirmsizeonperformance.The studyconcludedthatalargefirmsizereducedcostsduetotheeconomiesofscalethatthis entails,largefirmscanalsoraisecapitalatalowercost.Jonsson(2008)showedthatbigger firms have higher profitability as compared to smaller firms.

Conceptof return

Profitabilityorreturn,inthecontextoffinanceandbusiness,referstothe measurementof a company's ability to generate earnings and financial gains relative to its investments, assets,orequity.Itisacriticalmetricthatassessestheefficiencyandsuccessofabusiness inutilizingitsresourcestocreatevalueforitsshareholdersorstakeholders.Profitabilityis typicallyquantifiedthroughvariousfinancialratiosandmetrics,suchasnetprofitmargin, returnonassets(ROA),returnonequity(ROE),andearningspershare(EPS).Theseratios provide insights into a company's ability to generate profits from its sales, assets, and shareholders'equity.Highprofitabilityindicatesthatacompanyiseffectivelymanagingits operations, while low profitability may signal inefficiencies or challenges that need addressing (Brealey et al., 2017). In this study return on assets and return on equity are adopted to analyze the profitability of microfinance companies in Nepal.

- **Returnonassets**

Return on assets (ROA) is a financial ratio that shows the percentage of profit that a company earns from its overall resources (total assets). Return on assets is a key profitability ratio that measures the amount of profit made by a company per dollar of its assets. This ratio is calculated as net profit after tax divided by the total assets. This ratio measures the operating efficiency of the company based on the firm’s generated profits fromitstotalassets.Itshowstheefficientmanagementofusingassetstogenerateearnings. The ratio of net income to total assets measures the return on total assets (ROA) after interest and taxes (Siraj and Pillai, 2012).

- **Returnonequity**

The amount of net income returned as a percentage of shareholder's equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested (Siraj and Pillai, 2012).

Creditevaluation

This is a very sensitive stage because it helps ensure loan quality. In simple terms, the giving of credit rests on the sureness the lender has in the borrower's ability to pay (creditworthiness).Creditworthiness istheabilityandthereadinessofaborrowerto settle his or her debt. This is one of numerous issues which determine what should go into the credit policies of a lender. A lot of financial models come into play when assessing the creditworthiness of the deficit units. The most commonly used are the five financial analysis tools which include character, capital, capacity, condition, and collateral. These tools are generally known as the 5c of credit. (corporatefinanceinstitute.com)

- **Character**

Character signifies the customer's preparedness and willpower to settle his or her debt. Character is usually known when the lender engages in a one-on-one talk with the borrowers; scrutinizes their debt history and also how they manage their finances and operationalaspectsoftheirbusiness.Characterisconsideredthemostimportantofthefive C's because refusal to do due diligence will lead to a clear case of moral hazard.

- **Capacity**

Capacityisaquantitative financial analysistodecidewhetherthe customers can pay back what they have taken. capacity is the ability of the borrower to generate cash from the overall operations to pay for the loans given. Capacity is very important to the lender because it serves as a form of assurance that the loan can be recovered.

- **Capital**

Capital is also referred to as the net worth which represents funds set aside to cater for unexpected losses. Thus, it serves as a cushion for the business. The lender is very interested in the capital adequacy of the borrower.

- **Condition**

Condition is the outward factors that can have an impact on the credit portfolio of a business. This can take the form of economic policies prevailing in the country and the international market at large. Lenders will be in a safe position if they consider the effect of the economic conditions on both the borrowers and themselves.

- **Collateral**

Collateral is the property ofa lender in exchange forthe loan given. It serves as insurance for the lender when the borrower cannot settle his or her debt. Collateral is considered as insulation against default but a lender shouldn't give out loans based on collateral. Credit officers should not only consider these 5C's but to gain a better understanding of how to analyze the credit risk factors, some principal economic determinants that control the performanceofaloanportfolioandtheimpacttheseeconomicfactorshaveononeanother must be determined. These factors include inflation, interest rate, GDP, and the market value of collaterals.

EmpiricalReview

Areviewofliteratureiswrittenbythescholarstodeterminetheexistingknowledgewhich includes major findings as well as theoretical and methodological contributions to a particular topic. The major purpose of literature review is, thus to find out what research studieshavebeenconductedinthechosenfieldofstudyandwhatremainstobedone.This section briefly reviews the existing studies, related to the subject matter of the study as follows.

Ogunmakinju,(2022)conductedaresearchoncreditmanagementeffectsandperformance of deposit money Banks in Nigeria. The objective of the study was to investigate credit management effects and the performance of the Deposit Money Banks in Nigeria. The researcher used descriptive statistics and multiple regression to analyze the data. The findingsshowedthatnon-performingloanswereinsignificantlypositivetoinfluenceprofit after tax (PAT), loan to deposit ratio revealed a positive significant impact on PAT, and capital adequacy ratio exhibited a positive insignificant impact on PAT. The study concludedthatnocausalrelationship betweennon-performingloan(NPL)andprofitafter tax(PAT),loanlossprovisionandprofitaftertaxhavenocausalrelationship,loanto

depositratio(LDR)andprofitaftertax(PAT)revealednouniorbi-directionalrelationship, and capital adequacy ratio (CAR) move free without any direction.

ÇollakuandAliu,(2021)conductedaresearchontheImpactofNon-PerformingLoanson a Bank's Profitability: Empirical Evidence from commercial banks in Kosovo. The objectiveofthestudywastoexaminetheimpactofnon-performingloansonKosovobanks' profitability. The researcher used multi-variable regression to analyze the data.The findings showed that the effect of non-performing loans on profitability is statistically significant. The study concluded that the a need for increased oversight by the Central Banks of Kosovo. The size of a bank plays a crucial role in attaining improved financial outcomes and can act as a cushion in the event of loan defaults.

Upreti, (2021) conducted a research on the credit management of commercial banks concerning(NIBLandNIL)Banks.Theobjectiveofthestudywastoanalyzethefunctions, procedures, and activities of commercial banks' credit. The findings showed that NIC has consistentlymaintainedahigherratioofloansandadvancestototaldeposits,indicatingits strengthineffectivelyutilizingitstotaldepositsforlendingpurposes.Theaverageinterest income to loan and advances ratio for NIB didn't exhibit a clear trend. Furthermore, there is a moderate, negative correlation observed between non-performing loans and loans for NIB. The study concluded that there is a relationship between a decrease in loan management performance and a subsequent decrease in non-performing loans.

Anggari and Dana, (2020) conducted a research on the Effect of Capital Adequacy Ratio, third-party funds, Loan Deposit Ratio, and Bank Size on Profitability in Banking Companies on IDX. The objective of the study was to analyze the effect of Capital Adequacy Ratio (CAR), Third Party Fund, Loan Deposit Ratio (LDR), and Bank Size on ProfitabilityinbankingcompanieslistedontheIndonesiaStockExchange.Theresearcher used multiple regression to analyze the data. The findings showed that the Capital Adequacy Ratio, third-party fund, and Bank Size have a positive and significant effect on profitability.Meanwhile, theLoanDepositRatio hadapositiveandinsignificanteffecton theProfitabilityofBankingCompaniesintheIndonesiaStockExchangeduringthe2016– 2018 period.The study concluded effective bank management should prioritize maintaining a high Capital Adequacy Ratio (CAR) to enhance risk-bearing capacity, leadingtoincreasedprofitabilityandimprovedfinancialperformance.Banksoflargersizes

shouldensuresoundassetmanagement,astotalassetscorrelatewithincreasedprofitability while adhering to standards set by Bank Indonesia is essential.

Nugraha et al., (2020) conducted a research on the influence of company size, asset structure,companygrowth,andProfitabilityondebtpolicy.Theobjectiveofthestudywas to determinethedeterminants ofdebt policy in thefoodand beverageindustrysub-sector. Theresearcherused the ordinaryLeast SquareMethod (OLS) method to analyzethedata. Theresults showed that twovariables affect debt policy, including tangibility which has a positiveinfluenceondebtpolicyandcompanygrowthhasanegativeeffectondebtpolicy. While company size and profitability do not affect debt policy.

Nurdani and Rahmawati, (2020) conducted a research on the effect of firm sizes, profitability, dividend policy, asset structure, sales growth, and Free Cash Flow on Debt Policy (On Manufacturing Companies Listed on The Indonesia Stock Exchange. The objective of the study was to examine the effect of company size, profitability, dividend policy, asset structure, companygrowth and free cash flowon debt policy. Theresearcher used a multiple regression model toanalyse data. The findings showed thatthe size of the company has a negative and not significant effect on debt policy, and profitability has a negativeandsignificanteffectondebtpolicy.Dividendpolicyvariablesandassetstructure haveanegativeandsignificanteffectondebtpolicy.Whilesalesgrowthandfreecashflow do not affect debt policy.

(Wuave et al., 2020) conducted a research on the effect of liquidity management on the financial performance of banks in Nigeria. The objective of the study was to examine the effect of liquidity management on the financial performance of banks in Nigeria. The researcher used a Panel regression to analyze the data. The findings showed that liquidity ratio (LQR) has a positive and significant effect on the financial performance of DMB as measured by return on assets (ROA), return on equity (ROE), and net interest margin (NIM). The study concluded that banks in Nigeria should establish soundgovernance and riskmanagementsystemsby developingstrategies, andpolicies forliquiditymanagement thatarewellintegratedintoitsriskmanagementpracticesaswellasestablishacontingency fundingplantoaddressanyliquidityshortfallduringperiodsofstressoremergency while ensuringthatactivemonitoringliquidityfundingneedstoavertanyliquiditychallengethat could trigger crisis in the banks is promptly addressed.

Zelalem, (2020) conducted a research on the impact of financial leverage on the performance of commercial banks: evidence from selected commercial banks in Ethiopia. Theobjectiveofthestudywastoinvestigatetheeffectoffinancialleverageonthefinancial performance of Ethiopian Commercial Banks. The researcher used descriptive statistics andafixedeffectmodeltoanalysethedata.ThefindingsshowedthatDebtRatio(DR)has a negative insignificant effect on Banks' performance measured by Return on Assets (ROA)andReturnonEquity(ROE)whileDebtEquityRatio(DER)andInterestCoverage Ratio (ICR)have asignificant positive effect on Banks'performance measured by Return on Assets (ROA) and Return on Equity (ROE).

Zhangetal.,(2020)conductedaresearchonthedebt'seffectonprofitability.Theobjective ofthestudy was to understandtheimpact ofdebt ratio on profitability theresearcherused descriptive statistics, correlation and multiple regression for analyzing the data.the findings showed Corporate profitability is negatively correlated with debt ratio, tax ratio, andintangibleassets.ThestudyconcludedthattheAssetsgrowthisnotrelatedtocorporate profitability.

Reschiwati,(2019)conductedaresearchontheeffectofliquidity,profitability,andsizeof companiesonfirmvalue.Theobjectiveofthestudywastoexamineandanalyzetheeffect of liquidity, profitability, the size of the firm, and its value in capital structure. The researcher used descriptive statistics, a Panel data regression model and a t-test in the research. The findings showed that liquidity, profitability, and firm size significantly influence capital structure. Capital structure is not a mediator of the influence of liquidity and profitability on firm value. The study concluded that capital structure is a mediator of the effect of firm size on firm value.

Kajola et al., (2019) conducted a research on the liquidity and profitability dynamics: evidence from theNigerian banking sector. Theobjective ofthestudy was to examine the effectofliquiditymanagementonprofitabilityintendepositmoneybanksinNigeria.The researcherusedrandomeffectsgeneralizedleastsquaresasanestimationtechniquetofind out the impact of liquidity management on profitability. The findings showed a positive andstatisticallysignificantrelationshipbetweentwoliquiditymanagementproxies(current ratio and liquidity ratio) and return on asset. The study concluded that for sustainable profitability to be achieved, the board of directors and top financial managers of banks shouldputinplacearobustframeworkthatwillefficientlymanagetheirbanks'liquidity.

Specifically, utmost attention should be taken to the management of the current ratio and liquidity ratio as well as the investment of excess liquidity in short-term assets.

Gurung, (2019) conducted a research on comparative study on liquidity and credit management practices of commercial banks in Nepal with reference to Nepal Investment BankLtd.andHimalayanBankLtd.Theobjectiveofthestudywastoanalysethetrendof liquid assets maintained by the selected banks. The researcher used descriptive statistics, correlation and regression to analyze the data. The findings showed that HBL is better positionedtomeetitsshort-termobligationswithinayearthanNIBL.HBL'shigherratios ofcashandbankbalance tocurrentassetsandcurrentliabilitiesalsoindicatethatNIBLis better equipped to meet its cash needs promptly and fulfil its financial obligations when required. The study's findings suggest that HBL currently holds a slightly higher current ratio compared to NIBL.

Ghimire, (2018) conducted a research on the credit management of joint venture commercial Bank-Nepal Investment Bank and Bank of Kathmandu. The objective of the studywastoexaminetheefficiencyofselectedbanks.Tofindoutstrengthsandweaknesses in credit administration the major findings where BOK has maintained higher credit and advancestototaldeposit.Fixeddepositisthemainsourceofgrantingcreditforbothbanks. Credit loss provisioning is in a decreasing trend so; it indicates an efficient credit policy. Interest rate affects the amount of deposit, which in turn affects credit.

Tuladhar, (2017) conducted a research on the loan management of Standard Chartered Bank Nepal Limited (SBL) in comparison to other joint venture banks in Nepal. The objective of the study was to study fund mobilization and Loan management concerning fee-based off-balance sheet transactions and fund-based on-balance sheets. The findings showedthatthethreebanks'managementofliquidity,liabilities,andprofitability.Itnotes that the current ratios among the banks are similar, with high total liability to total assets ratios due to substantial shareholder equity. Himalayan Bank Limited (HBL) emphasizes savings and fixed loan management over current loans, resulting in a lower non-interest-bearing loan management ratio. HBL also leads in deploying total loan management for earning activities, suggesting strong fund mobilization efforts. However, SBL stands out for superior profitability, with the highest earnings per share (EPS) among the banks studied.

Habibetal.,(2016)conductedaresearchontheimpactofdebtontheprofitabilityoffirms with evidence from the non-financial sectorofPakistan. Theobjectiveofthestudy was to investigate the relationship between debt and the profitability of firms with empirical evidence from the non-financial sector of Pakistan.The researcher used a random effect regression analysis to analyze the data.The findings showed a significant but negative relationship between short-term debt, long-term debt, total debt, and return on assets. The studyconcludedanegativerelationshipbetweendebtandprofitability,i.e.,increasingdebt incapitalstructurewilldecreaseprofitability.Therefore,companiesshouldpreferinternal financing or other sources of financing on debt financing.

Pradhan and Khadka, (2016) conducted a research on the effect of debt financing on the profitabilityofNepalesecommercialbanks.Theobjectiveofthestudywastoexaminethe effectofdebtfinancingontheprofitabilityofNepalesecommercial banks. Theresearcher used a multiple regression model to analyze the collected data.The findings showed profitabilityisnegatively related to long-termdebt tototalassets, totaldebt tototalassets, and debt to equity ratio. The regression result showed that beta coefficients are positively significant forshort-term debt to total assets, interest coverage ratio, and sizeof thebanks with profitability. Whereas the beta coefficients are negatively significant for long-term debttototalassets,totaldebttototalassets,anddebttoequityratiowithprofitability.The study concluded that in Nepalese commercial banks, long-term debt to total assets, total debt to total assets, debt to equity ratio, and interest coverage ratio significantly influence profitability. Additionally, bank size is also observed to have a significant impact on their profits.

Lekhak,(2016)conductedaresearchontheloanmanagementofHBLcommercialbanks. Theobjectivestudyofwastoexaminethetotalamountofloansdisbursedconcerningtotal depositswithintheselectedperiod.Theresearcherusedfinancialaswellasstatisticaltools are used to analyze the collected data. The findings revealed that deposit collection and loan disbursement are positively correlated and there is a negative trend of individual growth of loan disbursement and loan collection. If loan collection is high, then there will be a high amount of loan disbursement. The deposit collection is directly affecting the disbursement of the loan.

Nepal, (2015) conducted a research on the credit management of commercial banks in Nepal.TheobjectiveofthestudywastoassessthecreditpracticesofselectedNepalese

commercialbanks.Theresearcherusedfinancialaswellasstatisticaltoolsareusedtomake the analysis more convenient, reliable, and authentic. The findings revealed that the repayment is satisfactory in the agro-based industry and production sector compared to other sectors. Management quality and credit efficiency of selected banks were found satisfactoryastheyhavestandardcreditpractices.Creditdisbursementandrepaymenthave a significant relationship. The flow of new credit depends upon the recovery status.

Summaryofreviewedarticles

S.N.	Sources	Topic	Objectives	Methodology	Findings
1.	Ogunmakinju (2022)	Credit management effects and Performanceofdeposit money Banks in Nigeria	To investigate credit management effects and the performance oftheDepositMoney Banks in Nigeria.	Descriptive and regression analysis	Thefindingsreportedthatnon-performing loans were insignificantly positive to influence profit after tax (PAT), loan to deposit ratio revealed a positive significant impact on PAT, and capital adequacy ratio exhibited a positive insignificant impact on PAT. loan to deposit ratio (LDR) and profit after tax (PAT) revealed no uni or bi-directional relationship, and capital adequacy ratio (CAR) moved free without any direction
2.	Çollakuand Aliu (2021)	Impact of Non-Performing Loans on Bank's Profitability: Empirical Evidence from Commercial Banks in Kosovo	To examine the impact of non-performing loans on Kosovo banks' profitability	Multi-variable linear regression	The results showed that the effectofnon-performingloans on profitability is statistically significant and shows that for each 1% increase in NPL, the Return of Assets decreases by 0.19%,holdingothervariables constant.

3.	Anggariand Dana (2020)	The Effect of Capital Adequacy Ratio, Third Party Funds, Loan to Deposit Ratio, Bank Size on Profitability in BankingCompanieson IDX	To analyze the effect of Capital Adequacy Ratio (CAR), Third Party Fund, Loan to DepositRatio(LDR), and Bank Size to Profitability in banking companies listed on the Indonesia Stock Exchange	Multiple linear regression	The results of this study indicate that the Capital Adequacy Ratio, Third Party Fund, and Bank Size have a positive and significant effect on profitability. Meanwhile, the Loan Deposit Ratio has a positive and insignificant effect on the Profitability of Banking Companies in the Indonesia Stock Exchange during the 2016–2018 period.
4.	Nugraha et al. (2020)	The influence of company size, asset structure,company growth, and Profitability on debt policy	To determine the determinants of debt policyinthefoodand beverage industry sub-sector	Ordinary LeastSquare Method(OLS)	The results showed that two variables affect debt policy, includingtangibilitywhichhas a positive influence on debt policy and company growth has a negative effect on debt policy. While company size and profitability do not affect debt policy
5.	Nurdaniand Rahmawati (2020)	The Effect of Firm Sizes, Profitability, Dividend Policy, Asset Structure, Sales Growth and Free Cash Flow on Debt Policy (On Manufacturing Companies Listed on The Indonesia Stock Exchange 2015-2018)	Toexaminetheeffect of company size, profitability,dividend policy,asset structure, company growthandfreecash flowondebtpolicy	Multiple regression analysis	The analysis shows that the size of the company has a negative and not significant effect on debt policy, and profitabilityhasanegativeand significant effect on debt policy. Dividend policy variables and asset structure haveanegativeandsignificant effect on debt policy. While sales growth and free cash flowdonotaffect debt policy.

6.	Wuaveetal. (2020)	Effect of liquidity management on the financial performance of banks in Nigeria	Toexaminetheeffect of liquidity managementonthe financialperformance ofbanks in Nigeria	Panel regression analysis	The study finds that liquidity ratio(LQR)hasapositiveand significant effect on the financialperformanceofDMB as measured by return on assets(ROA),returnonequity (ROE) and net interest margin(NIM).
7.	Zelalem (2020)	The Impact ofFinancial Leverage on the Performance of Commercial Banks: EvidencefromSelected Commercial Banks in Ethiopia	To investigate the effect of financial leverage on the financialperformance of Ethiopian Commercial Banks	ex-postfacto and longitudinal research design	Theresultofthestudyshowed that Debt Ratio (DR) has a negativeinsignificanteffecton Banks'performancemeasured by Return on Assets (ROA) and Return on Equity (ROE) while Debt Equity Ratio (DER) And Interest Coverage Ratio (ICR) have a significant positive effect on Banks' performance measured by Return on Assets (ROA) and Return on Equity (ROE)
8.	Zhangetal. (2020)	Debt effect on profitability	To understand the impact of debt ratio on profitability	Descriptive research design	Corporate profitability is negativelycorrelatedwithdebt ratio, tax ratio and intangible assets. Assets growth is not related to corporate profitability
9.	Reschiwati (2019)	Effect of Liquidity, Profitability, and Size of Companies on Firm Value	To examine and analyzetheeffectof liquidity,profitability, thesize ofthefirmandits value in capital structure	Causal and descriptive research design	The results of this study indicate that liquidity, profitability, and firm size significantly influence capital structure. Capital structure is notamediatoroftheinfluence ofliquidity andprofitability on firmvalue,whilecapital

					structure is a mediator of the effect of firm size on firm value.
10.	Kajolaetal., (2019)	Liquidity and ProfitabilityDynamics: Evidence from the Nigerian Banking Sector	Toexaminetheeffect of liquidity management on profitability in ten deposit money banks in Nigeria	random effects generalized leastsquares asestimation technique	The results reveal a positive and statistically significant relationship between two liquidity management proxies (current ratio and liquidity ratio) and return on asset. The study did not find empirical evidenceinsupportofloan-to-deposit ratio and deposit-to-asset ratio as influencing the profitability of the selected banks, as results produced an insignificant relationship with profitability
11.	Habibetal., (2016)	Impact of debt on the Profitability of firms; Evidencefromthenon-financial Sector of Pakistan	To investigate the relationship between debt and profitability of firms with empirical evidence from the non-financial sector of Pakistan	Random effect regression analysis	Results indicate a significant but negative relationship betweenshort-termdebt,long-term debt, total debt, and return on assets.
12.	Pradhanand Khadka (2016)	The Effect of debt financing on the profitability of Nepalese commercial Banks	Toexaminetheeffect of debt financing on theprofitabilityofthe Nepalesecommercial banks	Regression model	The result shows a positive relationship of banks' profitability with short-term debt to total assets, interest coverage ratio and size of the banks. However, profitability is negatively related to long-term debt to total assets, total debttototalassetsanddebtto equityratio.Theregression

	result shows that beta coefficients are positively significant for short-term debt to total assets, interest coverage ratio and size of the banks with profitability. Whereas the beta coefficients are negatively significant for long-term debt to total assets, total debt to total assets and debt to equity ratio with profitability

Research Gap

Based on the review of previous research and studies, it has been observed that the increasing non-performing loans pose a significant challenge for existing financial institutions in the current context. Some researchers have focused on examining the implementation of directives issued by the regulatory body (such as NRB) by banks and financial institutions, while others have investigated non-performing loans and loan loss provisioning in the microfinance sector. However, no research has specifically addressed theimpactofloanssuchasloan-to-totaldepositratio,debt-equityratio,debtratio,interest coverage ratioand firmsize of microfinanceinstitutions onprofitability.Furthermore, the analysisofloansandadvancesinpreviousstudieshasbeenlimitedtosimplecomparisons of ten-year data. There has been a lack of explanation regarding the impact of debt management on the profitability of microfinance companies in Nepal. Therefore, this research aimstobridgethisgapintheexistingliterature by referencingtheexperiencesof Chimek, Swablamban, Deprosc, Nerude and Nirdhan Uthhan Laghubitta Bittiya Sanstha Limited.

CHAPTER III
RESEARCHMETHODOLOGY

ResearchMethodologyisasystematicwayofsolvingtheresearchproblem.Itreferstothe various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. In other words, research Methodology describes the methods and processesappliedtotheentiresubjectofthestudy.Itisawaytosolvetheresearchproblem systematically. It may be understood as a science of studying how research is done significantly.Theresearchermustknownotonlytheresearchmethods/techniquesbutalso themethodology. Researchersnot only need to knowhowto develop certain indicators or tests, and how to calculate the mean, the mode, and the research techniques but they also need to know which of these methods or techniques are relevant and which are not and what would they mean and indicate and why.

Research has two important aspects. First, it is sufficiently broad to include all types of investigations requiring solutions to a problem. Second, it explicitly recognizes the systematic nature of the research process in which data are gathered, recorded, analyzed, and interpreted in an orderly manner. The following methodology has been followed to conduct the present study (Pant, 2021).

ResearchDesign

Researchdesignisanoverallframeworkorplanforthecollectionandanalysisofdatathat focusesonthedata-collectionmethods,theresearchinstrumentsutilized,andthesampling plan to be followed. Research design is the plan, structure and strategy of investigation conceived to obtain answers to research questions and to control variance. The problem, themethodology,datagathering,dataanalysisandreportwritingarethebasicelementsof a research design.

Thisresearchstudyattemptstoanalyzetheloanmanagementofmicrofinancesectors.The research design follows its loan proceeds methods, current scenario of management and futureplanning forthis section. Mostly theanalysis is based upon secondary data,i.e., ten years'financialstatementsofthesamplefirms,collecteddirectlyfromthosefirmsandtheir websites. The descriptive and causal research design is adopted in this study.

PopulationandSample

The population for this study comprises all the microfinance institutions of Nepal. According to NRB, 61 MFIs are operating in Nepal. The study deals with the loan management policy of microfinance and its impact on the long run of business activities. Thesamplesizeofthestudyis fiveamongthem:Chimek, Deprosc,Swablamban,Nerude and Nirdhan Uthhan Laghubitta Bittiya Sanstha Limited.

NatureandSources ofData

The study is based on secondary data only. The required data for analysis are directly collected from the balance sheet, and profit and loss account of concerned MFIs from the annual report provided. It has also taken the NRB research report for comparison to see whetherthestudiedmicrofinancegoingaspertherulesandregulationsofthecentralbank or not. The main sources of data assessed under the study include Chimek, Deprosc, Swablamban, Nerude and Nirdhan Uthhan Laghubitta Bittiya Sanstha Limited.

MethodofDataAnalysis

Data analysis is done according to the pattern of data available. Specific financial and statisticaltoolsareusedinthisresearchtoshowtherelationshipbetweendifferentvariables related to the study. Regarding presentation, the calculated results are tabulated under different headings for ease of reading and then they are compared with each other to interpret the results. Mean and correlation analysis are done to study the relationship betweenthevariables.PresentationandAnalysis ofthecollecteddataarethecorepartsof theresearchwork.Thecollectedrawdataarefirstpresentedsystematicallyintabularform and are then analyzed by applying different financial and statistical tools to achieve the research objective. Besides that, some graph charts and tables have been presented to analyze and interpret the study. Various Financial and statistical tools are used for data analysis.

DataAnalysisTools

Financialaswellasstatisticaltoolsareusedtomaketheanalysismoreconvenient,reliable and authentic. Their ratio, percentage, mean, standard deviation and coefficients of variationsarethencalculatedandpresentedinthetables.Tostudytherelationshipbetween twoormorevariables,correlationcoefficientsarealsocalculated.Likewise,trendanalysis

is also used to know the trend of various ratios. Following is a brief introduction to the financial and statistical tools used in this study.

FinancialTools

To evaluate the financial condition and performance of a company, the financial analyst needs a certain yardstick. The yardstick frequently used is a ratio of index relating two pieces of financial data to each other. Analysis and interpretation of various ratios should give experienced, skilled analysts a better understanding of the financial condition and performances ofthefirm thantheywould obtain fromanalysis ofthefinancial dataalone. The type of analysis varies according to the specific interest of the party involved. The claims of bondholders, on the other hand, are long-term. Accordingly, they are more interestedinthecashflowabilityofthecompanytoprovideservicedebtoverthelongrun. Thebondholdermayevaluatethisabilitybyanalyzingthecapitalstructureofthefirm,the major sources and uses of funds, its profitability over time, and projections of future profitability.

- **Loantototaldepositratio (LDR)**

Theloan-to-totaldepositratio,oftenabbreviatedastheLTDratio,isafinancialmetricused by banks and financial institutions to assess their lending practices and overall financial health. It is calculated by dividing thetotal amount ofloansextended by theinstitution by the total deposits it holds. This ratio provides insight into the bank's liquidity and risk exposure,asahigherratioindicatesthatalargerportionofcustomerdepositsisbeingused to fund loans, potentially increasing the institution's vulnerability to economic downturns orunexpectedwithdrawaldemands.Conversely,alowerratiosuggestsamoreconservative lending approach with a higher proportion of deposits held in reserve, which may offer greater stability but could also limit profitability. The loan-to-deposit ratio is a key metric that indicates the proportion of loans and advances extended to customers. It serves as a crucial variable illustrating the delicate balance between liquidity and profitability for banks (Kajola et al., 2019). It is calculated as

$$LoantoTotalDepositRatio(LDR) = \frac{TotalLoanandAdvances}{TotalDeposits}$$

- **Debttoequityratio(DER)**

The debt-equity ratio measures the long-term financial solvency of a firm. The debt-to-equity ratio is a financial ratio that measures the relative proportion of a company's debt, typically represented by long-term loans and liabilities, to its equity, which comprises shareholders' ownership of the company. This ratio provides insights into a company's financial leverage and risk exposure, as a higher ratio suggests a greater reliance on borrowedfunds,potentiallyamplifyingfinancialrisksandinterestobligations.Conversely, a lower ratio implies a more conservative financial structure with a higher portion of financing coming from shareholders' equity. The debt-to-equity ratio is calculated by dividing total debt by total equity, and it plays a crucial role in assessing a company's solvency and financial stability. Describe the connection between the proportion of a company's total assets funded by external creditors through debt and the portion financed by the company's owners through equity. This ratio signifies the competing interests of creditors and shareholders about the company's assets (Zelalem, 2020). It is calculated as follows:

$$DebttoEquityRatio(DER) = \frac{TotalDebt}{TotalEquity}$$

- **Debtratio(DR)**

The debt ratio is a financial ratio that measures the extent of a company’s leverage. It is defined as the ratio of total debt to total assets, expressed as a decimal or percentage. The debt ratio can be interpreted as the proportion of a company’s assets that are financed by debt. A ratio greater than 1 indicates that a considerable amount of a company’s assets is fundedbydebt,whichmeansthecompanyhasmoreliabilitiesthanassets.however,aratio below1meansthatagreaterportionofacompany’sassetsisfundedbyequity.Thelower the debt ratio, the higher the protection afforded to creditors in the event of liquidation (Sharma et al., 2018). It is calculated as

$$DebtRatio(DR) = \frac{TotalDebt}{TotalAssets}$$

- **Interestcoverageratio(ICR)**

Theinterestcoverageratio(ICR)isafinancialratiothatmeasuresacompany’scapacityto payinterestonitsoutstandingdebt. Itiscalculatedbydividingacompany’searningsbefore

interest and taxes (EBIT) by its interest expense during a given period. The ICR is also referredtoasthetimesinterestearned(TIE)ratio.AhigherICRindicatesthatthecompany has more earnings to cover its interest payments, which is a positive sign for investors, creditors, and lenders. Conversely, a lower ICR indicates that the company has less earnings to cover its interest payments, which could be a warning sign for investors, creditors,andlenders.TheidealICRmayvarybyindustry,butgenerally,ahighercoverage ratioisbetter.Itmeasurestheabilityofafirmtopayitsinterestcharges.Thisratioindicates how many times interest charges can be covered by the available earnings before interest and tax (EBIT) (Zelalem, 2020). It is calculated as;

$$InterestCoverageRatio(ICR) = \frac{EBIT}{Interest\ Expenses}$$

Where,

EBIT=EarningsbeforetaxesorOperatingProfit

- **Returnonassets(ROA)**

The term return on assets (ROA) refers to a financial ratio that indicates how profitable a company is about its total assets. Corporate management, analysts, and investors can use ROAtodeterminehowefficientlyacompanyusesitsassetstogenerateaprofit.Themetric is commonly expressed as a percentage by using a company's net income and its average assets. A higher ROA means a company is more efficient and productive at managing its balance sheet to generate profits while a lower ROA indicates there is room for improvement.ROAisanindicatorwhichshowstheabilityofacompanytogenerateprofits against its total assets. It reflects the efficiency of management in utilizing its assets to generate earnings (Habib et al., 2016).

$$Return\ onAssets(ROA) = \frac{NetIncome}{TotalAssets}$$

- **Returnonequity(ROE)**

Return on equity (ROE) is a measure of financial performance calculated by dividing net incomebyshareholders'equity.Becauseshareholders'equityisequaltoacompany’sassets minusitsdebt,ROEisconsideredthereturnonnetassets.ROEisconsideredagaugeofa corporation'sprofitabilityandhowefficientitisingeneratingprofits.ThehighertheROE, the more efficient a company's management is at generating income and growth from its equityfinancing.Returnonequityistheamountofnetincomereturnedas apercentageof

shareholder's equity. Return on equity measures a corporation's profitability by revealing howmuchprofitacompanygenerateswiththemoneyshareholdershaveinvested.Return on equity is measured by dividing net income after tax by to book value of owner equity (Pradhan, 2017). The formula of return on equity is given below

$$ReturnonEquity(ROE) = \frac{NetIncome}{TotalEquity}$$

Statistical Tools

Various statistical tools mentioned below here are used to analyze and interpret the loan management policy of concerned banks. Similarly, statistical tools help to find out the trends of the financial position of microfinance and to analyze the relationship between variables that help the bank to make appropriate loan management policy regarding profit maximizationanddepositcollection,fundutilizationthroughprovidingloansandadvances orinvestmentsonothercompanies.Inthisstudy,statisticaltoolssuchasthecoefficientof correlationbetweendifferentvariables,andtrendanalysisofimportantvariableshavebeen used for analyzing and interpreting the financial data. This basis of statistical analysis related to this study is discussed below: -

- **Arithmetic Mean**

The mean or average value is a single value within the range of the data that is used to representallthevaluesintheseries.Sinceanaveragevalueissomewherewithintherange of the data, it is also called a measure of central value. The average value is obtained by addingtogetherallthetermsandbydividingthistotalbythenumberofitems.Thisformula is given below: -

$$X = \frac{\sum X}{n}$$

Where, $\sum X = X_1 + X_2 + X_3 + \ldots\ldots\ldots\ldots + X_n$ =Sumofgivensetof observation

n=Numberofitemsobserved. X=

Variables

- **StandardDeviations**

KarlPearsonfirstsuggestedstandarddeviation(SD)in1893asameasureofdispersion.It isusuallydenotedbysigma(σ).Themeasurementofthescatteringsofthemassoffigures

in a series about an average is known as dispersion and standard deviation measures the absolute dispersion. The greater the amount of dispersion greater the standard deviation and vice versa. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series. A large standard deviation refers to low uniformity and homogeneity of the series.

Symbolically,

$$SD(\sigma)= \sqrt{\frac{\sum(X-\bar{X})^2}{N}}$$

- **Coefficientofvariation**

The relative measure of dispersion based on the standard deviation is known as the coefficientofstandarddeviation.Thecoefficientofdispersionbasedonstandarddeviation multiplied by 100 is known as the coefficient of variation (CV)

$$CV=\frac{SD}{Mean}\times 100\%$$

Thecoefficientofvariationreflectstherelationshipbetweenstandarddeviationandmean. Since C.V. is independent of the unit, two distributions can bitterly be compared with the help of it for their variability. Higher CV denotes higher variability, i.e., lesser uniformity and consistency and vice versa.

- **CorrelationCoefficient**

Correlationisdefinedasthe"relationship"(ofassociation)between(Among)theone dependentvariable(orfactor)andone(ormorethanone)independentvariable(s)orfactor (s).Inotherwords,correlationistherelationshipbetween(oramong)twoormorevariables (i.e.,onlyonevariable dependentandoneor more variable(s) independent).

$$\text{Correlationofcoefficient,r} = \frac{n.\sum XY-\left(\sum X\right).\left(\sum Y\right)}{\sqrt{n.\sum X^2-\left(\sum X\right)^2.n.\sum Y^2-\left(\sum Y\right)^2}}$$

Where,

n=Numberofpairsofobservation. X= Variable

Y= Variable

r=correlationofcoefficient

- **RegressionAnalysis**

Regressionanalysisisastatisticalmethodemployedtoassesstheextentoftherelationship betweenadependentvariableandoneormoreindependentvariables.Itinvolvesexamining the nature and magnitude of the connection between these variables. Consequently, regressionentailseitherestimatingunknownvaluesorpredictingonevariablebasedonthe known values of others. It serves as a valuable tool for quantifying the strength of the relationship between two variables (Simple Regression) or more (Multiple Regression). Theregressionlineof thedependentvariable(Y)ontheindependentvariable(X)isgiven by:

$$Y=a+bX \quad \text{.....(I)}$$

Where,

a=Constant

b=regression coefficient

MultipleRegression Analysis

Multipleregressionanalysisisanextensionofsimplelinearregression,whereinsteadofa single independent variable, multiple independent variables are employed to predict the unknown values of a dependent variable. Nonetheless, the core concept in this analysis remains consistent. Multiple regression can be defined as a statistical method utilized to estimateorpredictthemostlikelyvalueofadependentvariablebyconsideringtheknown values of two or more independent variables. The following multiple regression equation is analyzed.

MultipleRegressionModel

$$\hat{Y}=a_1+b_1X_1+b_2X_2+b_3X_3+\ldots\ldots+ei.$$

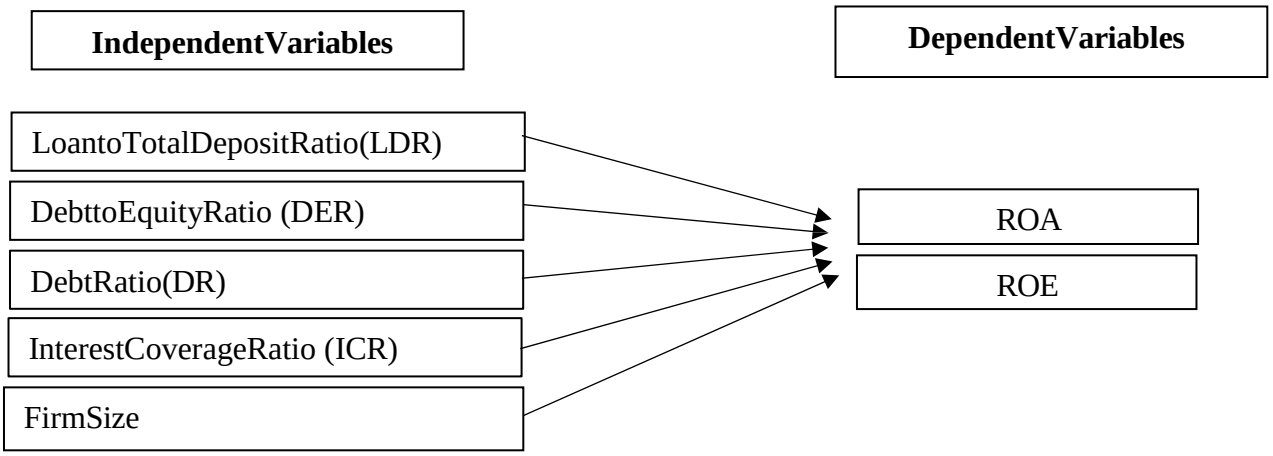
Where,

$\hat{Y}$	=	Dependentvariable
X_1, X_2, X_3	=	Independentvariable
a_1	=	Constant
b_1,b_2,b_3	=	RegressionCoefficient
ei	=	Errorterm

ResearchFrameworkandVariableDefinitions

The conceptual framework is the foundation on which the entire thesis is based. This research is comprised of the independent variable (liquidity) and the dependent variable (profitability).

Figure1Variables Definitions



Sources:Ogunmakinju, 2022;Zelalem,2020;Pradhan, 2017)

Profitabilityisadependentvariableaffectedbyvariousfactorssuchasloan-to-totaldeposit ratio, debt-to-equity ratio, debt ratio, interest coverage ratio and firm size. The debt and profitability ratios were used to examine the relationship between those variables and profitability in microfinance companies in Nepal. debt management ratios are taken as independentvariablesandprofitabilityratiosasdependentvariableswereusedinthestudy.

- **LoantoTotalDepositRatio (LDR)**

Banks primarily function as intermediaries, transferring funds from entities with surplus funds to those with deficits. This financial intermediation process is at the core of their operations. The loan-to-deposit ratio is a key metric that indicates the proportion of loans andadvancesextendedtocustomers.Itservesasacrucialvariableillustratingthedelicate balance between liquidity and profitability for banks. Banks seeking higher profits often achieve this goal by providing more loan facilities to customers. however, banks prioritizingliquiditytendtolimittheirlending,resultinginalowerloan-to-depositratioin such cases (Kajola et al., 2019).

- **Debttoequityratio**

Thedebt-to-equityratio evaluates acompany's financialstructureand risk.Itis calculated by dividing the total amount of a company's debt (which includes long-term loans and liabilities)bythetotalequity(representingshareholders'ownershipinthe company).This ratio provides insights into thelevel of financial leverage a company employs, as ahigher ratioindicatesagreaterrelianceonborrowedfunds,potentiallyleadingtohigherfinancial risk and interest obligations. Conversely, a lower debt-to-equity ratio signifies a more conservative financial structure, with a higher proportion of financing coming from shareholders' equity. This ratio is essential for assessing a company's solvency, financial stability, and risk profile. It is a measure of the proportion of debt to shareholder's funds (i.e., net worth) in the total financing of a business. The ratio indicates how much money was raised as debt (Pradhan, 2017).

- **Debt Ratio**

Aratiogreaterthan oneshowsthataconsiderableamountofacompany'sassetsisfunded by debt, which means the company has more liabilities than assets. A high ratio indicates that acompanymaybeat risk ofdefault on its loans ifinterest ratessuddenly rise. Aratio below1meansthatagreaterportionofacompany'sassetsisfundedbyequity.Adebtratio measures the amount of leverage used by a company in terms of total debt to total assets. This ratio varies widelyacross industries; such that capital-intensive businesses tend tohavemuchhigherdebtratiosthanothers.Acompany'sdebtratiocanbecalculatedby dividingtotaldebtbytotalassets.Adebtratioofgreaterthan1.0or100%meansacompany hasmoredebtthanassetswhileadebtratiooflessthan100%indicatesthatacompanyhas moreassetsthandebt.Somesourcesconsiderthedebtratiotobetotalliabilitiesdividedby total assets. (Zelelam, 2020).

- **InterestCoverage Ratio**

Theinterestcoverageratio(ICR)isafinancialmetricthatmeasuresacompany's abilityto payinterestonitsoutstandingdebt.Itiscalculatedbydividingacompany's earningsbefore interest and taxes (EBIT) by its interest expense during a given period. The ICR is also known as the times interest earned (TIE) ratio. A higher ICR indicates that the company has more earnings to cover its interest payments, which is a positive sign for investors, creditors, and lenders. Conversely, a lower ICR indicates that the company has less earningstocoveritsinterestpayments,whichcouldbeawarningsignforinvestors,

creditors,andlenders.TheidealICRmayvarybyindustry,butgenerally,ahighercoverage ratioisbetter.Theinterestcoverageratio(ICR)isameasureofacompany'sabilitytomeet its interest payments. The interest coverage ratio is equal to earnings before interest and taxes(EBIT)foraperiod,oftenoneyear,dividedbyinterestexpensesforthesameperiod (Pradhan, 2017).

- **Firm Size**

Thesizeofafirmisprimarilydeterminedbythevalueofitsassets.Largercompaniestend tohaveaneasiertimefinancingtheirinvestmentsbecausetheytypicallyexperiencehigher salesgrowthratesandencounterfewerissuesrelatedtoinformationasymmetry.Thisaligns withtheTrade-OffTheory,whichsuggeststhatlargerfirmscanemploymoredebtintheir capitalstructurebecausetheirlowerriskofbankruptcymakesthecostofusingsubstantial corporate debt lower compared to smaller companies. As a result, larger companies are incentivized to increase their reliance on debt. In essence, a company's size plays a significant role in shaping its capital structure, (Marfuah and Nurlela, 2019).

- **Returnonassets(ROA)**

It is used as a Dependent variable. ROA is an indicator which shows the ability of a companytogenerateprofitsagainstitstotalassets.Itreflectstheefficiencyofmanagement inutilizingitsassetstogenerateearnings(Habibetal.,2016).Returnonassets(ROA)isa measure that assesses a company's profitability about its overall asset base. ROA is determined by dividing a company's yearly earnings by its total assets, and it is typically expressed as a percentage. According to Ekwe and Daru (2012), ROA was selected as the dependent variable in their study because it serves as an indicator of managerial effectiveness.

- **ReturnonEquity(ROE)**

Returnonequity(ROE)isafinancialmetricthatrepresentsthepercentageofacompany's net income about its shareholders' equity. ROE is a valuable measure of a corporation's profitability, as it indicates the level of profit generated from the funds invested by shareholders. To calculate ROE, you divide the after-tax net income by the book value of owner equity (Pradhan, 2017).

CHAPTER IV
RESULTANDDISCUSSION

Results

Thischaptercomprisescompileddataanditscorrespondingpresentations,focusingonthe examination of how loan management influences the profitability of retail microfinance firms in Nepal. Utilizing various tools and reviewing journals, articles, reports, and thesis in the second chapter, we endeavour to assess the effects of loan management on microfinancecompanies. Allinformationisderivedfromsecondarysources,facilitating a comprehensive analysis and presentation through the use of tables and figures.

DescriptiveAnalysis

This study shows the analysis of descriptive statistics for the sample's retail microfinance companies in Nepal, encompassing variables such as minimum, maximum, mean and standarddeviation.Descriptivestatisticsservetoofferasuccinctoverviewofkeyfeatures withinadataset, encompassingmeasuresofcentraltendency, variability,anddistribution. The mean, representing the arithmetic average of the observed variable, encapsulates its essence and provides a representative value. The minimum and maximum values signify thelowestandhighestpointsthatavariablecanattain.Standarddeviation,highlightingthe spread within each variable's dataset, is small when data points are close to the mean and largerwhenthereisabroaderdistributionacrossawiderrange.Theprovidedtableoutlines profitability indicators for retail microfinance companies like return on assets and returns on equity and theindependent variables such as loan-to-deposit ratio, debt-to-equity ratio, debt ratio, interest coverage ratio and size of the firm.

The given table reveals the descriptive statistics of dependent variables such as return on assets, return on equity and independent variables i.e. loan to deposit ratio, debt-equity ratio, debt ratio, interest coverage ratio and firm size.

Table2Descriptivestatistics analysis

	Minimum	***Maximum***	***Mean***	***Standard Deviation***
LoantoTotalDepositRatio	0.2248	3.3771	2.0983	0.7188
DebttoEquity Ratio	3.01160	12.6630	7.5475	1.9583
Debt Ratio	0.4481	0.9268	0.8727	0.0659
InterestCoverageRatio	-0.6388	1.6394	0.7658	0.4576
Size	1.3422	38.2559	12.4216	9.1261
Returnon Assets	0.0078	0.0448	0.0297	0.0092
Returnon Equity	0.0559	0.3913	0.2602	0.0913
Count (N)=49				

(Sources:DataoutputfromExcelanalysis)

Table 2, shows the descriptive statistics of the past ten years' data of selected retail microfinance. The minimum values of the variables such as loan-to-deposit ratio, debt-to-equity ratio, debt ratio, interest coverage ratio, size, return on assets and return on equity are 0.2248, 3.01160, 0.4481, -0.6388, 0.0078 and 0.0559 respectively. The highest minimumvalueis3.01160ofdebtequityratiobuttheinterestcoverageratiohasthelowest minimum value i.e. -0.6388. The maximum value of the variables such as loan to deposit ratio,debttoequityratio,debtratio,interestcoverageratio,size,returnonassetsandreturn on equity are 3.3771, 12.6630, 00.9268,1.6394,38.2559, 0.0448 and 0.3913 respectively. Thehighestmaximumvalueaccountedtosizeis38.2559butreturnonassetshasthelowest maximum value i.e. 0.0448.

Theaverageloan-to-total depositratiois2.0983,thedebt-to-equityratiois 7.5475andthe debt ratio, interest coverage ratio, size, return on assets and return on equity have the following average values 0.8727, 0.7658, 12.4216, 0.0297 and 0.2602 respectively. The mean values offer a representative value within the data. The debt-to-equity ratio has a 1.9583 standard deviation and the loan-to-total deposit ratio, debt ratio, interest coverage ratio, size, return on assets and return on equity have 0.0.7188, 0.0659, 0.4576, 9.1261, 0.0092 and 0.0913 respectively. The standard deviation displays the range of values for eachvariableinthedataset.Asmallerstandarddeviationmeansthatthedatapointiscloser

to the average value; on the other hand, a larger standard deviation suggests a distribution that spans a larger range.

Correlationanalysis

Thecorrelation coefficient defines the relationship between adependent variable and one or more independent variables. The following table shows the relationship between dependent variables i.e. ROA, ROE and independent variables i.e. loan to total deposit ratio, debt-equity ratio, debt ratio, interest coverage ratio and size.

Table3Correlationanalysis

	Loan to Deposit Ratio	*Debt Equity Ratio*	*Debt Ratio*	*Interest Coverage Ratio*	*Size*	*Return on Assets*	*Return on Equity*
LoantoDepositRatio	1						
DebtEquityRatio	0.0563	1					
Debt Ratio	0.1308	0.5169	1				
InterestCoverage Ratio	0.2596	0.1867	0.2206	1			
Size	-0.6698	-0.3814	-0.3213	-0.3086	1		
Returnon Assets	0.1366	0.0380	0.2787	0.7342	-0.0634	1	
Returnon Equity	0.0818	0.4659	0.4351	0.7249	-0.2681	0.8193	1

a. Dependentvariable:ROA,ROE

b. Independentvariable:LoantoDepositRatio,DebtEquityRatio,DebtRatio,InterestCoverage Ratio, Size

(Sources:outputfromExcelanalysis)

Table3,indicatesthecorrelationamongthedependentvariablesandindependentvariables. The loan-to-deposit ratio has positive correlation values with return on assets i.e. 0.1366. There is a positive relationship between the debt-to-equity ratio and return on assets i.e. 0.0380, it is positively correlated with each other which means there is a favourable relationship between the debt-equity ratio and return on assets (ROA). There is a positive relationship between debt ratio and return on assets i.e. 0.2787 which means if debt increases the value of return on assets also increases. The Interest coverage ratio shows a positive signtowardsreturnonassetsbasedoncorrelationi.e.0.7342.however,thereisa

negativerelationshipbetweensizeandreturnonassetsi.e.-0.0634,whichmeansifthesize of the firm increases the value of return on assets will decrease.

The return on equity is positively affected by the loan-to-deposit ratio which has a 0.0818 correlation value. There is a positive relationship between the debt-to-equity ratio to the returnonequityi.e.0.4659,itispositivelycorrelatedwitheachotherwhichmeansthereis apositiverelationshipbetweenbothvariables.Thefavorableimpactofdebtratioonreturn on equity the correlation value is 0.4351 which means if the debt ratio increases the value ofreturnonequityalsoincreases.Theinterestcoverageratiohasalsoapositivesigntoward the return on equity as per the correlation analysis i.e. 0.7249 but there is a negative relationship between firm size and the return on equity i.e. -0.2681, which leads to the opposite relationship between size and return on equity.

Regressionanalysis

Regressionanalysisisasetofstatisticaltoolsusedtopredicttherelationshipbetweentwo variablessuchasdependentandindependentvariables.Thegoalistoidentifythelinethat bestfitsthedataoftheindependentvariabletoforecastthevalueofthedependentvariable. Regression facilitates inference and prediction by assisting in the understanding of correlation and quantifying the direction and degree of the link between variables.

Model Summary

Table4Model

Summary	***Regression Statistics***	
	ROA	*ROE*
MultipleR	0.7876	0.8197
R Square	0.6203	0.6719
AdjustedR Square	0.5761	0.6338
Standard Error	0.0060	0.0552
Observations	49	49

(Sources:outputfromExcelanalysis)

Table4,showstheMultipleRisthecorrelationcoefficientwhichdisplays howstrongthe linear relationship is between the dependent and independent variables. The multiple R of return on assets (ROA) is 0.7876 and the return onequity (ROE) is 0.81977. The value of theRsquareofROAis0.6203whichindicatesthat62.03%ofthesystematicvariationin

return on assets can be explained by loan-to-deposit ratio, debt-equity ratio, debt ratio, interest coverage ratio and size. The remaining is due to the effect of other factors. The value of the R square of return on equity is 0.6719 which indicates that 67.19% of systematic variation in ROE is explained by the above-mentioned independent variables andtheremainingisduetotheeffectofotherfactors.Thestandarderrorofreturnonassets (ROA)is0.0060andreturnonequity(ROE)is0.0552,whichshowsthedeviationbetween the actual value and the estimated value of dependent variables which is return on assets and return on equity. The total number of observations in this study is 49.

ANOVAanalysis

ANOVA (Analysis of Variance) in regression provides insights into the overall significanceofthemodelandindividualvariablescontributions.Thefollowingtableshows the ANOVA analysis.

Table5 ANOVA analysis

ANOVA

		ROA				***ROE***			
					Significance				*Significance*
	df	*SS*	*MS*	*F*	*F*	*SS*	*MS*	*F*	*F*
Regression	5	0.0025	0.00051	14.0493	3.7696	0.2688	0.0538	17.6147	1.8189
Residual	43	0.0016	3.6047			0.1312	0.0031		
Total	48	0.0041				0.4000			

a. Dependentvariable:ROA,ROE

b. Independentvariable:LoantoDepositRatio,DebtEquityRatio,DebtRatio,InterestCoverageRatio, Size

(Sources:outputfromExcelanalysis)

Table 5, illustrates the ANOVA analysis which indicates the significance F of return on assets (ROA) is 3.7696 and returns on equity (ROE) is 1.8189, significance F value of return on assets and return on equity is higher than the level of significance i.e. 0.05 it is concludedthat thereis an insignificant relationship between dependent variablei.e. return on assets, returnon equity and independent variables.ThevalueofFofreturnon assets is 14.0493andreturnonequityis17.6147,whichisameasureusedintheanalysisofvariance (ANOVA) and regression analysis to assess the significance of the difference between group means or the significance of the overall regression model.

Regressionanalysis

By establishing an estimated functional relationship between the variables, regression is a statistical tool for analyzing the relationship between the variables. When assessing the degree of correlation between two (simple regression) or more (multiple regression) variables, it is thought to be a helpful tool. The regression of profitability and loan managementvariablesi.e.loandepositratio,debt-equityratio,debtratio,interestcoverage ratio and size, the impact has been analyzed by defining return on assets and return on equity changes in terms of the loan management position of selected retail microfinance. The equation for this regression module is given below;

$ROA=\beta_0+\beta_1 LDR+\beta_2 DER+\ \beta_3 DR+\beta_4 ICR+\beta_5 S$.....(i)

$ROE=\beta_0+\ \beta_1 LDR+\beta_2 DER+\beta_3 DR+\ \beta_4 ICR+\beta_5 S$.....(ii)

Where;

ROA:ReturnonAssets

ROE:Returnon Equity

β_0:Constant

LDR:LoantoDepositRatio

DER: Debt Equity Ratio

DR: Debt Ratio

ICR:InterestCoverageRatio S:

Size

β_1,β_2.....β_4:coefficientsthatrepresenttheeffectofeachindependent variables

Table6Regressionanalysis

	ROA			***ROE***		
	Coefficients	***Standard Error***	***P-value***	***Coefficients***	***Standard Error***	***P-value***
Constant	-0.0137	0.0139	0.3313	-0.1112	0.1285	0.3915
LoantoDepositRatio	0.0011	0.0017	0.5264	-0.0153	0.0157	0.3356
DebtEquityRatio	-0.0007	0.0006	0.2309	0.0123	0.0051	0.0204
Debt Ratio	0.0358	0.0156	0.0269	0.2357	0.1440	0.1090
InterestCoverageRatio	0.0153	0.0020	1.7843	0.1344	0.0186	5.9563
Size	0.0003	0.0001	0.0836	0.0001	0.0013	0.9126

a. Dependentvariable:ROA,ROE

b. Independentvariable:LoantoDepositRatio,DebtEquityRatio,DebtRatio,InterestCoverage Ratio, Size

(Sources:outputfromExcelanalysis)

Table 6, shows the regression analysis of ROA on loan management illustrates that some of them have positive and some of them have negative coefficients. The constant value of the regression line with return assets is -0.0137 and the return on equity is -01112. The loan-to-depositratiohasapositivecoefficientwithreturnonassetsi.e.0.0011with0.5264 p-valuesbutthereisanegativecoefficientwithreturnonequityi.e.-0.0153andthep-value is 0.3356, which means loan to deposit ratio has a positive and insignificant relationship withreturnonassetsbutnegativeandinsignificantrelationshipwithreturnonequity.The debt-to-equityratiohasanegativecoefficienti.e.-0.0007andthep-valueis0.2309,which means there is a negative and insignificant relationship between the debt-equity ratio and return on assets. The debt-to-equity ratio has a positive coefficient i.e. 0.0123 and the p- value is 0.0204<0.05, which indicates there is a positive and significant relationship between debt-equity ratio and return on equity. The Debt ratio has a positive coefficient with return on assets i.e. 0.0358 and the p-value is 0.0269< 0.05, which means the debt ratio is positive and significantly impacts on return on assets. Even the debt ratio has a positivecoefficientwith areturnonequityi.e.0.2357andp valueis0.1090,whichmeans return on equity is positively and insignificantly affected by the debt ratio.

The interest coverage ratio has a positive coefficient with a return on assets of 0.0153 and thep-valueismorethanthelevelofsignificancei.e.0.05<1.7843,Interest coverageratio

hasapositivecoefficientwithareturnonequityi.e.0.1344andthep-valueis5.9563which is higher than the level of significance, which means interest coverage ratio has a positive andinsignificantimpactonreturnonassetsandreturnonequity.Thesizecoefficientwith returnonassetsispositivei.e.0.0003andthep-valueishigherthanthelevelofsignificance 0.0836 > 0.05 and the size regression coefficient with return on equity is also positive i.e. 0.0001andp-valueis0.9126>0.05,whichmeansthereturnonassetsandreturnonequity are positive and insignificantly affected by the firm size.

The standard error displays the variation between the dependent variables estimated and actual values. The dependent variable's value will increase if the independent variables' values rise, as indicated by the positive regression coefficient, which indicates a positive linkbetweenthetwosetsofdata.However,thenegativeregressioncoefficientinverselink between dependent variables and independent factors.

Discussion

Inthisstudy,theloanmanagementoftheprofitabilityofretailmicrofinancecompaniesin Nepal was examined.

Theresultdisclosedthattheloan-to-depositratiohasapositiveandinsignificantimpacton return on assets but a negative and insignificant impact on return on equity. Anggari and Dana,(2020)supportedtheresultsofthisstudytheloan-to-depositratiohasapositiveand insignificant effect on profitability in banking companies. The impact of liquidity risk (loan/deposit) showed a negative relation but was not statistically significant on banks' profitability,ÇollakuandAliu,(2021).TheresultfoundbyWuaveetal.,(2020)contradicts this result, loanto deposit ratio has anegative and insignificant impact on returnon assets and return on equity. Ogunmakinju, (2022) found loan to the deposit ratio has a positive but statistically significant impact on the profitability of deposit money banks in Nigeria. Kajola et al., (2019) support this finding, the Loan deposit ratio (LDR) exhibits a positive relationship with profitability (ROA) but is statistically insignificant. This finding is consistent with theworks ofBassey and Moses, (2015)and Salim and Bilal, (2016) and it suggests that when LDR is used as a proxy for liquidity, liquidity management does not influence the profitability of Nigerian banks

The result revealed that the debt-equity ratio has a negative and insignificant impact on returnonassetsandapositiveandsignificantimpactonreturnonequity.Theresult

supported by Pradhan and Khadka, (2016), the debt-to-equity ratio has a negative significant impact on the profitability of the banks. This result argued with Nazir et al., (2021), that short and long-term debt have negative and significant impacts on firm performanceinprofitability.Zelalem,(2020)partiallysupportsthisresult,thatequityRatio (DER)hasapositiveandsignificanteffectonabank'sperformancemeasuredbyreturnon assets (ROA) and return on equity (ROE).

Return on assets and return on equity have negatively but not statistically significantly influenced by the debt-equity ratio. Basit and Hassan, (2017) argued the results that the findings show earnings per share, return on equity and return on assets are significantly correlatedto thedebt-to-equity ratio. Whiledebt to equity ratio foundasignificant impact onsizeandreturnonassets.Habibetal.,(2016)disagreedwiththeabovefindings,results indicateasignificantbutnegativerelationshipbetweenlong-termdebtandreturnonassets.

The debt ratio has a positive and significant impact on return on assets and a positive but insignificant impact on return on equity.Habib et al., (2016) argued to this result, there was a significant but negative relationship between debt and profitability, thus, the higher thedebt,thelowertheprofitability.ItconcurswiththePeckingordertheory.Debtappears to be more costly due to certain reasons, therefore increasing the proportion of debt in capitalstructurewillresultinlowprofitability.TheresultfoundbyNdubusietal.,(2017), loan management has a positive and statistically significant relationship with the ROA of quoteddepositmoneybanks.TheresultfoundMilosev,(2021),thatthehigherratiooftotal debt to total assets is negatively related to firm profitability in Serbia. Statistical significance and negative relationship between total debt and profitability are consistent with the results from Andersson and Minnema, (2018) in the analysis of the relationship betweenleverageandprofitabilityofconsultingfirmsinSwedenandwiththeresultsofthe analyzed firms in Czech by Stryckova, (2017). The result of the study showed that Debt Ratio(DR)hasanegativeinsignificanteffectonBanks'performancemeasuredbyReturn on Assets (ROA) and Return on Equity (ROE) Zelalem, (2020).

The return on assets and return on equity are positive and insignificantly affected by the debt ratio. Zhang et al., (2020) found that corporate profitability is negatively correlated with debt ratio. Aziz and Abbas, (2019) found that debt financing has a negative but also significant impact on firm performance in Pakistan of quoted deposit money banks in Nigeria.Habibetal.,(2016)supporttheabovefindings,resultindicateasignificantbut

negative relationship between short-term debt, long-term debt, total debt and return on assets.Prempehetal.,(2016)alsosupporttheresults,thatdebt(short-termdebt,long-term debt and total debt) hurts firms' performance.

The interest coverage ratio has a positive and insignificant impact on the return on assets andreturnonequity.Theresult foundbyPradhanandKhadka.,(2016)isinfavourofthis result,theinterestcoverageratiocontributesasignificantpositiveimpactonalltheproxies of profitability of Nepalese commercial banks.Zelalem, (2020) partially agreed with this result, Interest Coverage Ratio (ICR) has a positive and significant effect on a bank's performance measured by return on assets (ROA) and return on equity (ROE). The result shows that financial leverage significantly affects the profitability of Banks Measured by bothReturnonAssets(ROA)andReturnonEquity(ROE).Debtisthecheapestsourceof financeinthecapitalstructureofacorporationbusinessbecauseoftaxbenefitsthanequity funds. The main source of profit for banks is the rate of interest charged which is greater than the rate of interest paid on deposits so financial leverage has no negative effect on banks that is why a positive significant effect is revealed in this study and consistent with a study conducted by Vintilla and Duce, (2012), Nwanna and Ivie, (2017), Njeri et al., (2013), Abdul et al., (2015) and Abubakar, (2015).

For the control variable, the result indicated that the company size has a positive and insignificantimpactonthereturnonassetsandreturnonequity.AnggariandDana,(2020) argued that bank size has a positive and significant effect on the profitability of banking companies in IDX. The result found by Pradhan and Khadka, (2016) is in favour of this result, the bank size contributes a significant positive impact on all the proxies of profitability of Nepalese commercial banks. It can be observed that profitability is positively correlated with the control variables i.e. size. The results of this study concur with Mohammad and Jaafer, (2012), and Kebewar, (2013). Çollaku and Aliu, (2021) partially support these findings, the relationship between bank size and bank profitability (ROA) shows positive relations and statistically is significant. Bank size has an important role for banks to achieve better financial results and can serve as an amortization if banks face loandefault. Forthe control variables and consistent with the priorstudy ofAnarfi et al., (2016), firm size (FSZ) showed a positive but insignificant relationship with profitability Kolapo et al., (2012), Samad, (2015), and Kajola et al., (2018).

Returnonassetsandreturnonequityhaveapositiveandinsignificanteffectonthesizeof microfinance companies. The result argued these findings, a negative and statistically significant relationship between size and profitability is identified in this study, and it's consistent with the results of Margaretha and Supartika, (2016), This study has found that productivity and firm size are the strongest determinants of profitability. There is a significantrelationshipbetweensizeandreturnonassetsfoundedbyMilosev,(2021).Size has a positive and significant impact on return on assets and return on equity the result foundbyAlvarezetal.,(2020).Tauseefetal.,(2016)constantinthisfinding,thefirmsize has no significant impact on return on equity.

CHAPTER V
SUMMARYANDCONCLUSION

This chapter is divided into these three sections, The first is to provide all the information about the study in short. The second section is about the conclusion of the study and the last section is about the implication.

Summary

All businesses must prioritise profit production because it is the foundation of an organisation's sustained survival in the marketplace. As such, financial managers need to be able to identify the critical elements that enhance an organization's profitability. Managersmayfaceawiderangeoforganizationaldifficultiesiftheyfailtoevaluatethese crucial components. Because of this, attaining and maintaining profitability has become a top priority for all commercial establishments.

To deal with these financial issues and solve these problems, this study aimed to examine the relationship between loan management and the profitability of retail microfinance companies and also find out the impact of loan management and the profitability of microfinancecompanies.Thisstudyfocusedontheloan-to-depositratio,debt-equityratio, debt ratio, interest coverage ratio and size impact on the return on assets and return on equity of retail microfinance companies. While analyzing the impact of debt management onprofitabilitysomebriefarticles,journalsandthesisreviewswereperformed.Tofindout therelationshipbetweenloanmanagementandprofitabilitydescriptiveandcausalresearch design was used. 61 microfinance companies are operating in Nepal out of them 5 companies are taken as a sample for this study. The secondary data are used which is available from microfinance companies' websites and their annual reports. This study covers only ten years of data from 2012/2013 to 2021/2022. in this study to find out the relationship between loan management and profitability of retail microfinance companies anditsimpactonprofitability.Therearethreekindsofvariableswereusedinthisstudy i.e. independent variables loan to deposit ratio, debt-equity ratio, debt ratio and interest coverageratioanddependentvariablesreturnonassetsandreturnonequity.Firmsizehas been taken as a control variable.The collected information and the numerical data have beenanalyzedbyusingExcelsoftwareandhistoricaltrends,descriptivestatistics,

correlation,ANOVAandregressiontoolsareusedandtablesareusedtoshowthedataand results clearly.

Thefindingsofthestudy fromcorrelationanalysis showthattheloan-to-depositratioand debt-equity ratio have a positive relationship with return on assets. Interest coverage ratio has a positive impact on return on assets and return on equity. However, firm size, as a controlvariable,hasanegativerelationshipwithbothindependentsuchasloan-to-deposit ratio,debt-equityratio,debtratio,andinterestcoveragerationanddependentvariablessuch as returns on assets, and return on equity. A positive relationship shows a favourable relationship between independent and dependent variables but microfinance companies' size has a negative relationship with both independent variable and dependent variables. the positive relationship shows that there is a favourable condition between both of them which means that the loan-to-deposit ratio, debt-equity ratio, debt ratio, and interest coverage ratio increase the return on assets and return on equity also.

Fromtheregressionanalysis,theloan-to-depositratiohasapositiverelationshipbutisnot statistically significant with return on assets but the return on equity is negatively and insignificantlyinfluencedbytheloan-to-depositratio.Thedebt-equityratiohasanegative andinsignificantimpactonthereturnonassetsbuttherelationshipbetweenthedebt-equity ratio and the return on equity shows a positive relation and statistically is significant. The return on assets is positively and significantly influenced by the debt ratio whereas, the relationship between return on equity and debt ratio shows a positive relation but is not statistically significant.The Interest coverage ratio has a positive and insignificant effect on profitability i.e. return on assets and return on equity. performance of microfinance is positively and insignificantly affected by the size of the retail microfinance companies.

Conclusion

This research examined loan management and its relation and impact on the profitability of five retail microfinance companies for the period of ten years i.e. 2012/2013 to 2021/2022. The researchers analysed the relationship between the loan-to-deposit ratio, debt-equityratio,debtratio,interestcoveragerationandthecompanysizevariablesagainst profitability variables such as return on assets and return on equity.

This study result reveals that the loan-to-total deposit ratio (LDTR) has a positive and insignificantimpactonreturnonassetsbutreturnonequityisnegativelyandinsignificantly influenced by the loan-to-total deposit ratio. The Loan to deposit ratio is the ratio used to measurethelevelofmicrofinancelending.Thehigherthecreditextendedbymicrofinance, the higher the chances of obtaining a profit. Payment of interest earned from customer creditpaymentswillincreasebankprofits.Theincreaseintheamountofprofitcanincrease the profitability of the microfinance. The higher the LDR, the higher the microfinance's profitability.Managementofsourcesoffundsthatarefromthecommunitycanbedoneby redistributingthefundscollectedintheformofcredittothepublic,distributionintheform of credit will certainly generate income in the form of credit interest, and increased credit interestincomecontributestoprofitsandmicrofinancemanagementcaninvesttheirfunds in profitable assets, so that this This has an impact on increasing profitability which will also improve its financial performance. Microfinances are expected to increase lending to increasecompanyprofitsbypayingattentiontothequantityoflendingandmaintainingthe offered loan interest rate. Because the higher the LDR of retail microfinance companies, themicrofinance'sprofitabilitywillalsoincrease,anditsfinancialperformancewillremain good.

Returnsonassetsarenegativelyandinsignificantlyinfluencedbythedebt-equityratiobut the impact of the debt-equity ratio on return on equity is positive and significant.A moderate amount of debt can improve a company's return on equity and possibly boost profitability.Thedebt-equityratiohasamajoranddelicatebalanceimpactonprofitability. This is so that the company can leverage its investments and increase shareholder returns bytakingondebt.Nevertheless,agreaterdebt-to-equityratiocanraisefinancialrisksince it makes interest payments more onerous and puts pressure on the company's cash flow. Therefore, to optimize their capital structure and ensure a mix that promotes growth and financial health without compromising profitability, microfinance organizations must strike the correct balance in the debt-to-equity ratio.

The debt ratio has a positive and significant effect on return on assets and is positive but not statistically significant on return on equity.According to this research, a larger debt load is linked to lower profitability, which means that microfinance firms with more debt will be less profitable. Financial leverage increases default risk even while it offers tax benefitstothebusinesses.Overspendingcanresultinfinancialhardship,whichcanimpair

a business's capacity to pay its debts and reduce profitability. Finding the appropriate balance is essential because while using debt wisely can increase profitability, using too muchleveragecancausefinancialinstabilityandhaveadetrimentaleffectonacompany's results.

The Interest coverage ratio has a positive and insignificant impact on the return on assets andreturnonequity.whichmeansagreaterinterestcoverageratiogreatertheprofitability of the company. A strong interest coverage ratio gives creditors and investors confidence becauseitistypicallylinkedtostabilityandsoundfinancialconditions.Acompany'sability tomanageitsdebtcommitmentsiscalledintoquestionbyareducedinterestcoverageratio, which could result in higher financing costs and a detrimental effect on profitability. Therefore, since it indicates a company's ability to efficiently manage its financial commitments,arobustinterestcoverageratioisessentialforbothsustainingandincreasing profitability.

Return on assets and return on equity are positively and insignificantly influenced by the size of the retail microfinance companies. Bigger businesses might have greater access to resourcesformarketing,R&D,andinnovation,whichwouldimprovetheircapacitytotake market share and turn a profit. The particular industry, market circumstances, and management techniques all have a substantial impact on a company's overall financial performance, even though firm size can have an impact. Large microfinance institutions are supposed to have excellent asset management.

Implication

Theresearchershaveviewedtheimplicationsofthisstudyfromthe viewpointoffinancial managers and future researchers. Therefore, the implications of this study from the perspective of financial managers and further researchers are given below;

- This study suggests that there is a positive and insignificant relation of loan to total depositratio(LDTR)withreturnonassetsbutanegativeandinsignificantrelationwith return on equity. An insignificant and negative relationship between the debt-equity ratio with ROA but a positive and significant relation with ROE. The debt ratio has a positive and significant relationship with return on assets and a positive but not significantrelationwithreturnonequity.withtheknowledgeofthisrelationship,

managersshouldgoforincreasingreturnonassetsandreturnonequitybyreducingthe amount of debt making debt-equity ratio and debt ratio.

- TheLoantodepositratioistheratiousedtoassessthemicrofinancecompany'slending level. A greater extension of credit by these microfinance companies has a higher chance of obtaining profit. If the interest spread increases, the company's profit will increase. The increase in the amount of profit can increase the profitability of the companies. The higher the LTDR, the higher the company's profitability.
- Interest coverage ratio has a positive but not significant relationship with return on assets and return on equity. It implies that the business has a sufficient safety net to cover its interest costs even in challenging circumstances. However, there may occasionally be a greater chance of defaulting on its loan.
- Thisstudyhasshownthatthereturnonassetsis62.03%affectedbythoseindependent variables and the return on equity is 67.19% influenced by those factors. So, the financial manager should take the best action to increase the profitability of the company.
- This study was conducted in only 5 microfinance companies listed in NEPSE. now further researchers can conduct on the same topic by adding more or another sample size.
- Ten years of data have been used in this research; further researchers can go for more periods of data.
- This study used the loan-to-total deposit ratio, debt-equity ratio, debt ratio, interest coverage ratio and size to find out the impact on return on assets and return on equity of selected retail microfinance companies. Further researchers can use these variables as a reference for the studies or can go for more variables.

REFERENCES

Abdul, A., & Adelabu, I. T. (2015). Impact of financial leverage on firm performance: Evaluation of total Nigerian Plc. *International Journal of Science Commerce and Humanities, III*(6).

Abeyrathna, S. G., & Priyadarshana, A. M. (2019). Impact of firm size on profitability (Special reference to listed manufacturing companies in Sri Lanka). *International Journal of Scientific and Research Publications, IX*(6), 561-564. doi:10.29322/IJSRP.9.06.2019.p9081

Abubakar,A.(2015).relationshipbetweenfinancialleverageandfinancialperformanceof deposit money banks in Nigeria. *International Journal of Economics, Commerce and Management, III*(10).

Alim, W., Ali, A., & Melta, M. R. (2021). The effect of liquidity risk management on the financial performance of commercial banks in Pakistan. *Munich Personal RePEc Archive (MPRA)*. Retrieved from http://mpra,ub.uni-muenchen.de/112482

Alvarez, T., Sensini, L., & Vazquez, M. (2015). Working capital management and profitability: evidence from an emergent economy. *International Journal of Advances in Management and Economics*, 32-39.

Anarfi, D., Abakah, E. J., & Botang, E. (2016). Determinants of bank profitability in Ghana: New evidence. *Asian Journal of Finance and Accounting, VIII*, 194-204.

Andersson,A.,&Minnema,J.(2018).*Therelationshipbetweenleverageandprofitability: A quantitative study of consulting firms in Sweden.* Umea School of Business, Economics and Statistics.

Anggari,N.S.,&Dana,M.(2020).Theeffectofcapitaladequacyratio,thirdpartyfunds, loan to deposit ratio, and bank size on profitability in banking companies on IDX. *AmericanJournalofHumanitiesandSocialScienceResearch(AJHSSSR),IV*(12), 334-338. Retrieved from http://www.ajhssr.com

Aziz, S., & Abbas, U. (2019). Effect of debt financing on firm performance: A study on Non-financialsectorinPakistan.*OpenJournalofEconomicsandCommerce,II*(1), 8-15.

Basit, A., & Hassan, Z. (2017). Impact of capital structure on firms performance: A study on Karachi Stock Exchange (KSE) listed firms in Pakistan. *International Journal of Management, Accounting and Economics, IV*(2), 118-135.

Bassey,G.E.,&Moses,C.E.(2015).Bankprofitabilityandliquiditymanagement:Acase study of selected Nigerian deposit money banks. *International Journal of Economics, Commerce and Management, III*(4), 1-24.

Besanko, D., & Kanatas, G. (1993). Credit market equilibrium with bank monitoring and moral hazard. *Journal of Financial Studies, VI*(1), 213-232.

Brealey, R. A., Myres, S. C., & Allen, F. (2017). *Principles of Corporate Finance* (12th ed.). McGraw-Hill Education.

Collaku, B., & Aliu, M. (2021). Impact of non-performing loans on bank's profitability: Empirical evidence from commercial banks in Kosovo. *Journal of Accounting, Financing and Auditing Studies, VII*(3), 226-242. doi:1.32602/jafas.2021.027

Dahal, B., & Dahal, S. (2002). *A Handbook to Banking.* Kathmandu: Asmita Books and Stationary.

Dzapasi,F.D.(2020).Theimpactofliquiditymanagementonbankfinancialperformance inasubduedeconomicenvironment:AcaseoftheZimbabweanBankingIndustry. *PM World Journal, IX*(1), 1-20. Retrieved from http://www.pmworldjournal.com

Ekwe, M. C., & Daru, A. N. (2012). Liquidity management and corporate profitability in Nigeria. *Journal of Accountancy, III*(1), 22-28.

Erasmus,F.,&Josephine,J.(2014).Capitalstructureandfirmperformance:Evidencefrom commercial banks in Tanzania. *Journal of Finance and Accounting, V*(3), 14-19.

Georgeta, V., & Duce, F. (n.d.). The impact of financial leverage on profitability study of companies listed in Bucharest Stock Exchange. *Ovidius' University Annals, Economics and Sciences Series, XII*(1), 1741-44.

Habib, H. J., Khan, F., & Wazir, D. I. (2016). Impact of debt on the profitability of firms: evidence from the non-financial sector of Pakistan. *City University Research Journal, VI*(01), 70-80.

Hanafi,M.(2016).*FinancialManagementSecondEdition.*Yogyakarta: BPFE.

Johanson, & Jonhson. (1940). *Commercial Bank Management.* New York: The Dryden Press.

Jonsson, B. (2008). Does the size matter? The relationship between size and profitability of Icelandic firms. *Journal of Social Science, I*(2), 12-24.

Kajola, S. O., Adedeji, S. B., Olabisi, J., & Babatolu, A. T. (2019). Effect of credit risk management on financial performance in Nigerian listed banks. *International Journal of Business Policy and Governance, V*(6), 53-62.

Kebewar, M. (2013, January). Does debt affect profitability? An empirical study of the French trader sector. *Munich Personal RePEc*.

Keen, P., & Willcocks, L. P. (2017). *Handbook of outsourcing and offshoring.* SAGE Publications.

Kolapo, T. F., Ayeni, R. K., & Oke, M. O. (2018). Credit risk and commercial banks' performance in Nigeria: A Panel model approach. *Australian Journal of Business and Management Research, II*(2), 31-38.

Magaretha, F., & Supartika, N. (2016). Factors affecting the profitability of SMEs firm listed in the Indonesia Stock Exchange. *Journal of Economics, Business and Management, IV*(2), 132-137.

Milosev,I.(2021).Impactofdebtmanagementonprofitabilityoflargenon-financialfirms in Siberia. *Economic Themes, LVIX*(4), 461-477. doi:10.2478/ethemes-2021.0026

Mohammad,&Jaafer.(2012).Therelationshipbetweencapitalstructureandprofitability. *International Journal of Business and Social Science, III*(16). Retrieved August 2012

Myres, S. C., & Majluf,N.S. (1984).Corporatefinancing and investment decisions when firmshaveinformationthatinvestorsdonothave.*JournalofFinancialEconomics, XIII*(2), 187-221.

Ndubuisi,A.N.,Chinyere,O.,&Mary-Fidelis,A.(201).Loanmanagementandfinancial performance of quoted deposit money banks in Nigeria. *International Conference on African Entrepreneurship and Innovation for Sustainable Development (AEISD).*

Njeri, M. K., & Kagiri, A. W. (2013). Effect of capital structure on financial performance ofbankinginstitutionslistedinNairobiSecuritiesExchange.*InternationalJournal of Science and Research*.

Nwanna, I. O., & Ivie, G. (2017). Effect of financial leverage on firm's performance: A study of Nigerian banks. *International Journal of Recent Scientific Research, VII*(8).

Ogunmakinju,B.S.(2022).Creditmanagementeffectsandperformanceofdepositmoney banks in Nigeria. *International Journal of Management and Commerce Innovations*, *IX*(2), 223-230.

Pant, P. R. (2021). *Social Science Research and Thesis Writing.* Kathmandu, Bagmati Province, Nepal: Buddha Publications Pvt. Ltd. Retrieved from www.buddhapublication.com

Paudel,R.B.,Baral,K.J.,Gautam,R.R.,&Rana,S.B.(2021).*InvestmentManagement.* Kathmandu,Nepal:AsmitaBooksPublisher&Distributors(P)Ltd..

Prempeh,K.B.,Sekyere,A.M.,&Asare,E.N.(2016).Theeffectofdebtpolicyonfirms' performance: empirical evidence from listed manufacturing companies on the Ghana Stock Exchange. *Munich Personal RePEc Archive (MPRA)*, 1-12.

Pradhan, R., & Khadka, N. (2017). The effect of debt financing on the profitability of Nepalese commercial banks. *Electronic Journal, IV*(1), 1-15. doi:10.2139/ssrn.3044107

Reschiwati,R.,Syahdina,A.,&Handayani,S.(2020).Effectofliquidity,profitabilityand sizeofcompaniesonfirmvalue.*UtopiaYPraxisLatinoamericana,XXV*(6),325-331. doi:http://doi.org/10.5281/zenodo.3987632

Salim, B. F., & Bilal, Z. O. (2016). The impact of liquidity management on financial performance in the Omani banking sector. *International Journal of Accounting, Business and Economics Research, XIV*(1), 545-565.

Sharma,P.R.,Thapa,K.,Risal,N.,&Pathak,D.D.(2018).*FinancialManagement.*New Baneshwor, Kathmandu, Nepal: Khanal Publication Pvt. Ltd.

Siraj, K., & Pillai, S. P. (2012). Comparative study on the performance of Islamic banks and conventional banks in the GCC region. *Journal of Applied Finance and Banking, III*(2), 124.

Stiglitz,J.(1985).Creditmarketsandthecontrolofcapital. *JournalofMoney,Creditand Banking, XVII*(2), 133-152.

Sufian,F.,&Habibullah,M.S.(2009).Bankspecificandmacroeconomicdeterminantsof bank profitability: Empirical evidence from the China banking sector. *Journal of Economics in China, IV*(2), 274-291.

Tamang,B.(2022).*Impactofcreditperformanceontheprofitabilityofcommercialbanks in Nepal.* Unpublished Master Degree Thesis, R College, Department of Management, Nepaltar, Kathmandu.

Tauseef, S., Lohano, H. D., & Khan, S. A. (2015). Effect of debt financing on corporate financial performance: Evidence from textile firms in Pakistan. *Journal of Economics, XVI*(4), 903-916.

Wuave, T., Yua, H., & Yua, P. (2020). Effect of liquidity management on the financial performance of banks in Nigeria. *European Journal of Business and Innovation Research, VIII*(4), 30-44.

Zeelam, D. (2020). The impact of financial leverage on the performance of commercial banks:evidencefromselectedcommercialbanksinEthiopia.*InternationalJournal of Accounting, Financing and Risk Management, V*(1), 62-68. doi:10.11648/j.ijafrm202000501.16

Zhang, J., Hu, J., & Luo, Q. (2020). Debt effects on profitability. *Advance in Economics, Business and Management Research, CLV*, 397- 402.

Zwiebel, j. (1996). Dynamic capital structure under managerial entrenchment. *American Economic Journal*, *VIII*(65), 1197-1215.

APPENDICES

APPENDIXI

RAW DATA

(AmountinBillion)

Year	Sample	Loanto Deposit Ratio	Debt Equity Ratio	Debt Ratio	Interest Coverage Ratio	Size	Return on Assets	Return on Equity
2012/2013	Chimek	1.3172	12.1444	0.9239	0.4698	4.5541	0.0238	0.3122
2013/2014	Chimek	1.3583	12.6630	0.9268	0.4813	6.2114	0.0208	0.2839
2014/2015	Chimek	1.5205	3.0116	0.9143	0.7916	9.1453	0.0311	0.3633
2015/2016	Chimek	1.3831	9.2547	0.9025	1.0332	12.5243	0.0376	0.3861
2016/2017	Chimek	1.3654	9.2366	0.9023	0.8732	15.5095	0.0371	0.3800
2017/2018	Chimek	1.3754	9.2980	0.9029	0.7416	19.5496	0.0341	0.3511
2018/2019	Chimek	1.2686	5.6574	0.8498	0.6928	24.0603	0.0310	0.2066
2019/2020	Chimek	1.0102	5.8509	0.8540	0.4176	27.2668	0.0243	0.1664
2020/2021	Chimek	1.1092	5.7612	0.8521	0.9201	34.2868	0.0383	0.2591
2021/2022	Chimek	1.2241	5.5804	0.8480	0.5975	38.2559	0.0248	0.1629
2013/2014	Deprosc	3.2557	7.9486	0.8883	0.9634	2.4394	0.0298	0.2671
2014/2015	Deprosc	3.3643	6.9909	0.8749	1.6394	3.1691	0.0424	0.3387
2015/2016	Deprosc	3.3771	7.1268	0.8769	1.5000	4.4510	0.0426	0.3464
2016/2017	Deprosc	3.2546	5.1392	0.8371	1.2106	6.0561	0.0422	0.2594
2017/2018	Deprosc	3.2170	6.5452	0.8675	0.5403	8.5710	0.0264	0.1994
2018/2019	Deprosc	3.0948	6.9661	0.8745	0.4113	12.4867	0.0339	0.2704
2019/2020	Deprosc	2.3411	6.6253	0.8689	(0.6389)	13.5664	0.0212	0.1619
2020/2021	Deprosc	2.3289	6.1480	0.8601	0.9400	17.3780	0.0409	0.2923
2021/2022	Deprosc	0.2248	6.0044	0.8572	0.3822	19.2642	0.0261	0.1826
2012/2013	Swabalamban	2.0982	8.9908	0.8999	0.5420	3.3368	0.0190	0.1898
2013/2014	Swabalamban	2.4181	9.4930	0.9047	1.2798	4.8302	0.0373	0.3913
2014/2015	Swabalamban	2.2893	8.2369	0.8917	1.4518	6.1530	0.0383	0.3535
2015/2016	Swabalamban	2.0706	7.5750	0.8834	1.5395	7.6290	0.0424	0.3633
2016/2017	Swabalamban	1.9059	8.2562	0.8920	0.8102	10.0184	0.0264	0.2440
2017/2018	Swabalamban	1.7618	7.7967	0.8863	0.6819	11.7116	0.0293	0.2577
2018/2019	Swabalamban	1.9222	7.7778	0.8861	0.6496	15.9314	0.0266	0.2337
2019/2020	Swabalamban	1.6371	7.0490	0.8758	0.3681	16.9793	0.0188	0.1513
2020/2021	Swabalamban	1.6373	6.0207	0.8576	1.1289	18.9636	0.0362	0.2541
2021/2022	Swabalamban	1.5561	6.5234	0.8671	0.3867	21.8897	0.0133	0.0998
2012/2013	Nerude	2.3738	8.8894	0.8989	0.9449	1.3422	0.0345	0.3413
2013/2014	Nerude	2.4460	7.8925	0.8875	1.3062	1.5917	0.0406	0.3608
2014/2015	Nerude	2.4809	6.6137	0.8687	1.4256	1.9324	0.0402	0.3062

2015/2016	Nerude	2.5787	6.7031	0.8702	1.0272	2.4258	0.0334	0.2572
2016/2017	Nerude	2.6843	6.2940	0.8629	0.6315	3.7213	0.0254	0.1854
2017/2018	Nerude	2.4985	7.2085	0.8782	0.2690	4.4458	0.0125	0.1022
2018/2019	Nerude	2.5547	5.9239	0.8556	0.4172	5.5224	0.0220	0.1525
2019/2020	Nerude	2.4500	6.1547	0.8602	0.1046	6.0126	0.0078	0.0559
2020/2021	Nerude	2.9536	7.1801	0.8778	0.3816	8.3863	0.0228	0.1864
2021/2022	Nerude	3.0693	7.8034	0.8864	0.2157	10.6654	0.0183	0.1608
2012/2013	Nirdhan	2.7088	11.5890	0.9206	0.5638	4.6352	0.0198	0.2487
2013/2014	Nirdhan	2.5833	10.2525	0.9111	1.1415	6.1538	0.0337	0.3792
2014/2015	Nirdhan	2.4694	9.7441	0.9069	1.4035	8.3360	0.0335	0.3594
2015/2016	Nirdhan	2.3653	9.7799	0.9072	1.3732	11.8378	0.0341	0.3671
2016/2017	Nirdhan	1.9550	9.3783	0.9036	1.1267	15.3401	0.0373	0.3867
2017/2018	Nirdhan	1.7763	9.4238	0.9041	0.6618	17.9679	0.0302	0.3151
2018/2019	Nirdhan	1.7450	8.0123	0.8890	0.7702	22.1434	0.0322	0.2904
2019/2020	Nirdhan	1.4427	4.0222	0.4481	0.2548	23.8461	0.0107	0.0965
2020/2021	Nirdhan	1.5005	5.8904	0.8549	0.1182	26.5405	0.0448	0.3086
2021/2022	Nirdhan	1.4942	5.4009	0.8438	0.5824	29.6210	0.0253	0.1621

APPENDIX II

DESCRIPTIVEANALYSIS

	Minimum	***Maximum***	***Mean***	***Standard Deviation***
LoantoTotalDepositRatio	0.2248	3.3771	2.0983	0.7188
DebttoEquity Ratio	3.01160	12.6630	7.5475	1.9583
Debt Ratio	0.4481	0.9268	0.8727	0.0659
InterestCoverageRatio	-0.6388	1.6394	0.7658	0.4576
Size	1.3422	38.2559	12.4216	9.1261
Returnon Assets	0.0078	0.0448	0.0297	0.0092
Returnon Equity	0.0559	0.3913	0.2602	0.0913
Count (N)=49				

APPENDIX III

CORRELATIONANALYSIS

	Loanto Deposit Ratio	*Debt Equity Ratio*	*Debt Ratio*	*Interest Coverage Ratio*	*Size*	*Return on Assets*	*Return on Equity*
LoantoDepositRatio	1						
DebtEquityRatio	0.0563	1					
Debt Ratio	0.1308	0.5169	1				
InterestCoverage Ratio	0.2596	0.1867	0.2206	1			
Size	-0.6698	-0.3814	-0.3213	-0.3086	1		
Returnon Assets	0.1366	0.0380	0.2787	0.7342	-0.0634	1	
Returnon Equity	0.0818	0.4659	0.4351	0.7249	-0.2681	0.8193	1

c. Dependentvariable:ROA,ROE
d. Independent variable: Loan to Deposit Ratio, Debt Equity Ratio, Debt Ratio, Interest Coverage Ratio, Size

APPENDIX IV

MODELSUMMARY

Regression Statistics		
	ROA	*ROE*
MultipleR	0.7876	0.8197
R Square	0.6203	0.6719
AdjustedR Square	0.5761	0.6338
Standard Error	0.0060	0.0552
Observations	49	49

APPENDIX V

ANOVAANALYSIS

ANOVA

	ROA					***ROE***			
	df	*SS*	*MS*	*F*	*Significance F*	*SS*	*MS*	*F*	*Significance F*
Regression	5	0.0025	0.00051	14.0493	3.7696	0.2688	0.0538	17.6147	1.8189
Residual	43	0.0016	3.6047			0.1312	0.0031		
Total	48	0.0041				0.4000			

c. Dependentvariable:ROA,ROE
d. Independentvariable:LoantoDepositRatio,DebtEquityRatio,DebtRatio,InterestCoverageRatio, Size

APPENDIX VI

REGRESSIONANALYSIS

	ROA			***ROE***		
	Coefficients	***Standard Error***	***P-value***	***Coefficients***	***Standard Error***	***P-value***
Intercept	-0.0137	0.0139	0.3313	-0.1112	0.1285	0.3915
LoantoDeposit Ratio	0.0011	0.0017	0.5264	-0.0153	0.0157	0.3356
DebtEquityRatio	-0.0007	0.0006	0.2309	0.0123	0.0051	0.0204
Debt Ratio	0.0358	0.0156	0.0269	0.2357	0.1440	0.1090
InterestCoverage Ratio	0.0153	0.0020	1.7843	0.1344	0.0186	5.9563
Size	0.0003	0.0001	0.0836	0.0001	0.0013	0.9126

c. Dependentvariable:ROA,ROE
d. Independentvariable:LoantoDepositRatio,DebtEquityRatio,DebtRatio,InterestCoverage Ratio,Size

LOANMANAGEMENTANDPROFITABILITYOFRETAIL MICROFIN...

By: Kriti Thapa

As of: May 5, 2024 10:45:00 AM
11,626 words - 120 matches - 19 sources

Similarity Index

19%

Mode: Summary Report

sources:

212 words / 2% - Internet from 30-Aug-2022 12:00AM
www.researchgate.net

199 words / 2% - Internet from 05-Oct-2022 12:00AM
www.researchpublish.com

169 words / 1% - from 27-Feb-2024 12:00AM
elibrary.tucl.edu.np

166 words / 1% - from 16-Feb-2024 12:00AM
elibrary.tucl.edu.np

112 words / 1% - from 16-Feb-2024 12:00AM
elibrary.tucl.edu.np

66 words / 1% - from 17-Feb-2024 12:00AM
elibrary.tucl.edu.np

122 words / 1% - Internet from 15-Sep-2022 12:00AM
www.researchgate.net

162 words / 1% - from 18-Oct-2023 12:00AM
www.jonuns.com

161 words / 1% - Internet from 24-Sep-2022 12:00AM
article.sciencepublishinggroup.com

152 words / 1% - from 30-May-2023 12:00AM
uniglobe.edu.np

146 words / 1% - Internet from 18-Apr-2021 12:00AM
www.ajhssr.com