

CHAPTER -I

INTRODUCTION

1.1 Background of the Study

Nepal lies in south-east Asia which is a landlocked and developing country. It is divided in to three regions: Mountain, Hill and Terai, accommodating 7.3%, 44.3% and 48.4% of the population respectively. It has population more than 20 million with castes, religions and ethnic groups. 70.6 percent of the population depends upon agriculture. Agriculture is the backbone of Nepalese economy. Its contribution to the total GDPG (Gross Domestic Product) is 35 percent which is the highest of all other sectors (Joshi, 2009).

Nepalese economy is characterized by very low per capital income, high population growth rate and lack of adequate infrastructure for development and low economic growth rate. The absence of employment opportunities in the non-agricultural sector and high under-employment in agricultural sector are the major factors responsible for poverty. The resource base of the agricultural sector has been relatively weak to the population pressure, increasing fragmentation of holdings and primitive technology. Nepalese economy is facing serious problem due to imbalance between resource mobilization and expenditures and between export and import and lack of control over population growth. Various financial institution have been established to assist the process of economic development (Gurung, 2005).

Financial institution play an important role in development of the nation. It is the dynamic part of economy that collects unused funds and mobilized it in needed area that is very important to long run success of today's business. Financial insinuations are the major part of capital market. Capital market helps

economic development by mobilizing long term capital to long time growth and prosperity of country as it provides the channel through which needed funds can be raised. So, expansion and development of financial market is essential for rapid economic growth of country. The development of the financial market helps in the growth of financial institutions which are also regarded as the indicator of economic development of a country.

In the context of under developing countries like Nepal, finance companies are regarded as the new types of institution which are serving the people of the country. Nepalese financial system can be looked in to two broad categories, banking and non banking institutions. All the commercial banks are considered as banking sector while financial institution other than banks are non-banking financial institutions (Shrestha, 2006). In the recent time there are 28 commercial banks, 78 development banks, 79 finance companies and 18 co-operatives in Nepal financial market (Report NRB, 2010).

The groundwork for establishing finance companies was initiated in 2042 B.S. with enactment of Finance Company Act 2042 B.S. Private sectors were completely silent till 7 years i.e. 2049 B.S. After the 2049 B.S. some of the financial institutions were established under the finance company act 2042. They collected deposits, extended loans and advanced to various sectors. The principal sources of fund of these companies beside equity were time deposit collections and issuance of debentures. Those collected resources are invested in hire purchasing, housing finance, leasing finance, investment in government securities bonds issuing guarantee which are approved by NRB for the finance companies. Therefore, finance companies can be considered as complementary to commercial banks to some extent. The growth of business activities necessitated the financial institution because they are the institution that supply capital required for business and fund for other purposed (Shrestha and Bhandari, 2004). Finance companies are the non-banking financial institutions which borrowed funds so as to profit on the difference between the rates paid

on borrowed funds and those charged on loans. However, the act as the borrowing and lending financial institutions with additional financial risk taking management. They came into existence under the finance company act, 2042 and now operating under bank and financial institution, act 2063. They are registered as limited companies at the office of the company registrar. A finance company can accept time deposits of the maturity of three months to maximum six years (NRB, 2007).

Financial sustainability comprises two words, "Finance Company" and "Sustainability". Finance can be defined as the procurement of funds for the business and its efficient utilization in the productive field. Sustainability refers to the ability of a society ecosystem or any such ongoing system to continue function in to the indefinite future. Therefore, financial sustainability is the activity concerned with the continue functional of business in the indefinite future.

Sustainability means repeatable. Sustainability has two facts, the sustainability of a transaction and the sustainability of an organization. Sustainable transactions are repeatable. Sustainable organizations have the structure and incentive to repeat transaction. Sustainability requires that financial institutions must cover all transaction costs (loan losses, financial cost and administrative cost etc.) with return on equity (net of any subsidy received) and consequently function without subsidies. It is the ability of an organization to maintain or increase its flows of benefits or service through internally generated income or funds (Sharma, 2008, p. 24-34). Financial institution sustainability means an institution is sustainable and keeps its mission for industry, trade and commerce. So, sustainable financial institutions are the main property of the nation which aids for the development of the country as well as the whole economy.

Pokhara Finance Company Limited is a second, independent and autonomous finance company was established in Pokhara city which is situated at Gahirapatan near Pokhara Chamber of Commerce and Industry. It was registered on Poush 2, 2052 B.S. under the finance company act, 2042 and commenced operation on Chaitra 3, 2053 B.S. At the lunched period, Pokhara Finance Company Limited had Rs. 20 million authorized capital, issued capital Rs. 6 million and paid up capital was Rs. 6 million. but now it has changed its capital structure. It has made its authorized capital Rs. 20 million to Rs. 940 million and issued capital Rs. 6 million to Rs. 312 million. In the beginning they started their business by only promoters. They issued 80,000 share to public in 2055 Chaitra 21 to 2055 Chaitra 29. Right now there are seven members in the board of directors. Four members come from promoters group and three come from ordinary shareholders group through election. It started with only four employees in the lunch period but now 32 employees working in the company. It has three branches up to now. One is situated at Sundhara, Kathmandu and other two are at Sirjanchowck and Bhimkalipatan, bagar Pokhara.

The main objective of the Pokhara Finance Company Limited is to accumulate scattered saving and mobilized it to various planned sectors of economy to support the economic prosperity of the country. It can provide its service in many ways like providing term loan to business industry and trade. Serve in the capacity of financial intermediary and also provide guarantee on loan, undertake transaction in government securities, providing installment or hire purchase loan etc. Therefore, it has vital role to play mobilizing financial resources. Especially in Gandaki zone, it has been performing a leading role to the best of its capacity in the promotion of industry, trade and commerce.

1.2 Focus of the Study

The assumption underlying financial sustainability has inherent desires to continually improve the quality of their performance and to sustain the long term. To fulfill the aspirant the institution need to adopt positive practices, to identify the development needs and to bridge the passable gab on continuous basis. To obtain the better performance and meet the expectation of the aspirants the organization should be able to involve in a sound financial position. Only a rational financial analysis is one of the vital components to enhance the institutional capacity in a better way. Therefore financial analysis must be viewed as dynamic process in financial institution. The healthy financial position is the most important factor in every institution. The successful financial institution can provide quality service and better performance to the stakeholders. Therefore financial institution should continually monitor and evaluate their financial performance to sustain their activities. Thus the study has focused on the financial sustainability of Pokhara Finance Company Limited. The study covers the period of past five years starting from F.Y. 2062/063 to 2066/067.

1.3 Statement of the Problem

Financial institutions at present are playing vital role for resource mobilization and income generation. In the financial institution, the company used fund for the transaction to get return i.e. profit. All business including financial institution run for profit and their goals are motivated by profit. It is 21st century. Usually profit doest not achieved easily. The organization can earn profit when it and its transactions are sustainable. For that the company should be faced the high level of competition and overcome the competition. Now a days a large number of financial institution are establishing in Nepal. There is hard national as well as international level of competition. The growing competition affect in the company's financial sustainability and creates

different types of challenges to the transactions. So the basic focus of this study is to investigate in to the sources of fund by using the POFIL and financial performance of the POFIL. This study is also investigate the challenges of the POFIL. Thus the major problems are stated in the following way.

1. What are the sources of the finance of the POFIL?
2. What are the funds inflows and funds outflows patterns of the POFIL?
3. What is the financial performance of POFIL?
4. What are the challenges and what kind of strategies should be followed by POFIL in order to sustain?

1.4 Objectives of the Study

The broad objective of the study is to evaluate the financial sustainability of the POFIL. The study also highlights the concept, history and current issues of finance companies in Nepal. The study has the following specific objectives listed below according to the statement of the problem.

-) To find out the sources of finance of POFIL.
-) To assess the income and expenditure of the POFIL.
-) To analyze the financial performance of the POFIL.
-) To identify the current challenges of the POFIL.

1.5 Importance of the Study

Financial analysis has become important role to know the financial performance of the organization. Better and satisfactory programmes performance of the organization represents the effectiveness of the institution. Therefore, this study will focus on financial sustainability of the POFIL. Data will be collected and analyzed to know the financial performance of the company. So that this study will provide multidimensional significance for the management of the POFIL to evaluate the financial performance of the

company and to maintain their activities effectively in the future. Further, this study will be important for stakeholders to know the financial condition of the Pokhara Finance Company Limited. Besides this, it will be a great value for investor, bankers, financial institutions researchers and students.

1.6 Limitation of the Study

-) The study only taken POFIL from the large number of finance companies.
-) This study examines only financial sustainability aspects of the POFIL.
-) The study covers the period of five years i.e. from 2062/063 to 2066/067 only.
-) This study is based on both primary secondary data.
-) Limited tools and techniques are used in this study.

1.7 Organization of the Study

This study is organized in to five chapters: Introduction, Review of Literature, Research Methodology, Data Presentation and Analysis, Summary, Conclusion and Recommendation.

Introduction Chapter is presented in first chapter is sub-divided in to the seven heads. They are background of the study, focus of the study, statement of the problem, objectives of the study, importance of the study, limitation of the study and organization of the study.

Review of literature is presented in the second chapter which is subdivided in to two heads. They are theoretical review and research review. Theoretical review is further divided in to nine heads. they are concept of finance company, history of financial institution in Nepal, financial product and services, current issues and challenges of finance company, concept of sustainability, finance function, role of finance and financial manager, financial analysis and financial

statement. Research review is related on related books, journals report and literature from previous thesis.

Research methodology is presented in the third chapter which is sub-divided in to introduction, research design, nature and sources of data, population and sample, data collection procedure, data processing and data analysis tools and limitation of the methodology.

Data presentation and analysis is presented in the forth chapter. It is presents the collected data information, interpretation, analysis and major findings of the study. Finally summary, conclusion and recommendation is presented in the five chapters.

CHAPTER II

REVIEW OF LITERATURE

In this chapter the attempts have been made to review the useful topics of literature relevant to the study area as they provide ideas and data which are very useful to the study. Every possible effort has been made to grasp the knowledge and information that is available from libraries, internet, the concerned finance company and other data collection centers. Conceptual foundation is the very essential thing for the better result of any kind of the study. So this chapter is very helpful to complete the whole study. This chapter is divided to two parts which are:

-) Conceptual Review
-) Review of the related studies

2.1 Conceptual Review

Conceptual review is a most important for every study that provides clear concept on subject of matter for the study. This section of the study consists of the terms and condition related to the study and which are very helpful for the further study also. It includes the concept of finance company history of financial institution in Nepal, financial product and services, current issues and challenges of finance companies, concept of sustainability, finance function, role of finance and financial manager and financial statements.

2.1.1 Concept of Finance Companies

Finance companies are the financial institutions that engage in satisfying individual credit needs and perform merchant banking functions. In other words, finance companies are the non bank financial institutions that tend to meet the various kinds of consumer credit needs. They involve in leasing, project financing housing and other kind of real-estate financing (Poudel,

Baral, Gautam and Rana, 2006). Finance companies are the non-banking financial institutions which came in to existence under the finance company act, 2042 and now operating under bank and financial institution act 2063. They are registered as limited companies at the office of the company registrar.

The primary functions of finance companies are to make loan to both individuals and business. These companies are popular among low income and medium class people for financing hire purchase, vehicles, machinery, tools, equipments, durable household goods etc. They offer attractive rates on time deposits than the commercial banks. They make installment loans. They can also perform merchant banking activities with prior approval of NRB. They can accept time deposits of the maturity of three months to maximum six year. They can also collect fund by issuing debentures. There is no any restriction for the finance companies to invest in government securities and NRB bonds. But they have to perform their activities as prescribed by the NRB directive.

Upadhya (2004) writes that finance companies are those intermediaries which link the savers and users of capital. They collect small and scattered saving of the individuals and mobilize it in the productive sectors in the form of investment or loan. Sharma (2005) explains finance company being a financial intermediaries accept time deposits and advance loans to the individuals, firms, companies or institution for agriculture as well as non-agriculture purpose in order to increase economic activities. Finance companies are the market, investigator and use of money market and capital market. Shrestha (2006) explains that finance companies are the mediators which helps to collect small savings and mobilize savings in various tasks like hire purchase, purchase of land, housing loan etc. between the person who has got saving and investor and big finance company and also the persons or organization which need the loan of small amounts. Neupane (1995) stresses that the finance companies in Nepal are established with the slow growth and traditional attitude of commercial banks in mobilizing financial resources, lack of financial innovations and

growing interest of the public on Upahar and Dhukuti programmes. Ligal (2005) explains that finance companies are regarded as the catalyst of economic development of a country because they help in the mobilization of domestic resources, produce loan and financial innovation to facilitate the trade and transaction.

2.1.2 History of Financial Institution in Nepal

The economic development of the nation depends on agriculture, industries and commercial activities. Government has to formulate the policies and have to implement them effectively. The ninth development plan has been completed since 1985 A.D. and the tenth plan is running for the development of the nation (NRB, 1996, p. 27).

In our country Nepal, the history of finance company is not so old. Gold Smith, merchants and money lenders were the ancient bankers of Nepal. In the 14th century, king Jaysthiti Malla classified the people different castes according to their occupation. Tankadhar was one of the categories of people who worked as a money lender. They used to invest money to the needy persons by charging some percentage as interest.

"Tejarath Adda" was the first step towards the institutional development towards financial institution in Nepal. It was established at B.S. 1933 during the period of Prime Minister Ranodip Singh. It granted loans to the people at 5% interest rate against gold and ornaments. During the prime ministership of Chandra Shamsar Tejarath Adda extended its services by providing its branches outside Kathmandu valley. The history of modern financial system began by the replacement of Tejarath Adda by Nepal Bank Limited which was established in 1937 A.D., (B.S. 1994) as the first commercial bank in Nepal. Nepal Banks Limited had a responsibility of attracting people towards banking sector from predominant money holders and expanding banking services. It

paid more attention to profit generating business and preferred to open branches in urban areas as it is commercial banks.

Nepal Rastra Bank was established in 1956 A.D. (B.S. 2013) as a central bank under the NRB Act., 2012. Since then, it has been functioning as the government bank and has contributed to the growth of the financial sector. Rastriya Banijya Bank was established in 1966 AD. (B.S. 2023), as the second commercial bank under the RBB Act, 2022. In the developing stage of financial institution in Nepal, Nepal Industrial Development Corporation was established in 1959 A.D. (B.S. 2016). Similarly, Agriculture Development Bank was established in 1968 A.D. (B.S. 2025) under the ADBN act 1967 A.D. to provide finance for agriculture sector.

For more than two decades no more banks have been established in the country. After decreasing free economy and privatization policy HMG encouraged the foreign banks for joint ventures in Nepal. Nepal Arab Bank Limited was established in 1984 A.D. (B.S. 2041) which was the first joint venture commercial bank in the country Nepal. Nepal Indosuez Bank Ltd. and Nepal Grindlays Bank Ltd. were established as joint-venture banks in the same year.

There were few insurance companies and Karmachari Sanchaya Kosh working as non banking financial institution before enactment of Finance Company Act 2042 B.S. Need of Finance Company Act was felt because unorganized sector was collecting savings from the common public in the name of Uphar and Dhukuti programmes but they were cheated by most of the organizers of these programmes. Considering people interest in such programmes, benefit of mobilizing such saving in productive sector, banking sectors inability to carry out capital market activities and to meet the consumer need for finance companies, Finance Company act was introduced in 2042 B.S. However no finance company was established till 2049 B.S. as the act came into existence

only in 2049 B.S. with same amendment. In 2048 B.S. Nepal Rastra Bank authorized co-operative institutions to set up under co-operative act to accept deposit and provide credit.

Nepal Housing Development Finance Company Limited was established under the finance company Act, 2042. It was established in 2049 B.S. which was the first finance company in our country. In the same year Nepal Finance and Saving Company Limited was established from the private sector. Finance company is registered under the Finance Company Act and license issued for operation is granted by NRB. The number of finance company or institution has drastically grown up in a short time span. The number of insurance companies, co-operatives and non-government organization for (NGOs) authorized limited banking activities are also growing up. Now large number of finance companies have been established in Nepal which is listed below.

List of Finance Company in Nepal

S.N.	Names	Operation Date	Head Office
1	Nepal Housing Development	1992/03/08	Kathmandu
2	Nepal Finance Co. Ltd	1993/01/06	Kathmandu
3	NIDC Capital Market Ltd.	1993/03/11	Kathmandu
4	National Finance Co. Ltd	1993/05/07	Kathmandu
5	Annapurna Finance Co. Ltd	1993/09/30	Pokhara
6	Nepal Share Market and Finance Co. Ltd.	1993/10/19	Kathmandu
7	Peoples Finance Co. Ltd	1994/04/15	Kathmandu
8	Mercantile Finance Co. Ltd	1994/11/10	Birgunj
9	Kathmandu Finance Ltd.	1994/11/10	Kathmandu
10	Himalaya Finance and Saving Co. Ltd	1993/11/11	Kathmandu
11	Union Finance Co. Ltd	1995/12/12	Kathmandu
12	Narayani Finance Ltd.	1995/03/08	Narayanghat
13	Gorkha Finance Ltd.	1995/03/12	Kathmandu

14	Paschimanchal Finance Co. Ltd.	1995/04/09	Butwal
15	Nepal Housing and Marchan Finance Co. Ltd	1995/04/11	Kathmandu
16	Universal Finance Co. Ltd.	1995/04/27	Kathmandu
17	Samjhana Finance Co. Ltd	1995/05/03	Banepa
18	Good will Finance Ltd.	1995/05/25	Sidarthanagar
19	Shree Investment and Finance Co. Ltd.	1995/06/01	Kathmandu
20	Lumbini Finance and Leasing Co. Ltd.	1995/06/26	Kathmandu
21	Invests Finance Ltd.	1995/07/17	Birgunj
22	Yeti Finance Co. Ltd.	1995/07/23	Hetauda
23	International Leasing and Finance Co. Ltd	1995/10/31	Kathamadnu
24	Mahalaxmi Co. Ltd	1995/11/26	Birgunj
25	Lalitpur Finance Co. Ltd.	1995/12/12	Lalitpur
26	Standard Finance Ltd.	1995/07/23	Kathmandu
27	Bhajuratna Finance and Saving Co. Ltd.	1996/01/09	Kathmandu
28	United Finance Ltd.	1996/01/25	Kathmandu
29	General Finance Ltd.	1996/02/02	Kathmandu
30	Nepal Sreelanka Merchant Bank Ltd.	1996/02/04	Kathmandu
31	Merchant Finance Co. Ltd.	1996/01/02	Kathamandu
32	Alpic Everest Finance Ltd.	1996/07/10	Kathmandu
33	Navadurga Finance Ltd.	1997/02/09	Bhaktapur
34	Janaki Finance Ltd.	1997/03/07	Janakpurdham
35	Pokhara Finance Ltd.	1997/03/16	Pokhara
36	Central Finance Ltd.	1997/01/14	Lalitpur
37	Premier Finance Ltd.	1997/05/08	Lalitpur
38	Arun Finance and Saving Company Ltd.	1997/08/17	Dharan
39	Multipurpose Finance Ltd.	1998/03/25	Rajbiraj
40	Butwal Finance Ltd.	1998/06/21	Butwal
41	Srijana Finance Ltd.	1998/12/24	Rajbiraj
42	Om Finance Ltd.	2000/09/17	Pokhara
43	Nepal Bangladesh Finance and Leasing Co. Ltd.	1999/04/18	Biratnagar
44	Cosmic Merchant Banking and Finance Ltd.	2002/02/01	Kathmandu

45	Old Merchant Banking and Finance Ltd.	2001/08/10	Hetauda
46	Capital Merchant Banking and Finance Ltd.	2002/02/01	Kathmandu
47	Crystal Finance Ltd.	2002/02/14	Kathmandu
48	Royal Merchant Banking and Finance Ltd.	2002/02/14	Kathmandu
49	Guheshowri Merchant Banking and Finance Ltd.	2002/06/13	Lalitpur
50	Patan Finance Ltd.	2002/06/23	Lalitpur
51	Kist Merchant Banking and Finance Ltd.	2003/02/21	Kathmandu
52	Fewa Finance Ltd.	2003/04/30	Pokhara
53	Everest Finance Ltd.	2003/07/02	Bhairahwa
54	Birgunj Finance Ltd.	2003/09/08	Birgung
55	Prudential Bittiya Sanstha Ltd.	2003/05/15	Kathmandu
56	Investment Credit and Finance Ltd.	2003/06/15	Kathmandu
57	IME Financial Institution Ltd.	2005/08/29	Kathmandu
58	Sagarmatha Merchant Banking and Finance Ltd.	2005/08/29	Lalitpur
59	Shilkhar Bittiya Sanstha Ltd.	2005/06/15	Kathmandu
60	Civil Merchant Bittiya Sanstha Ltd.	2005/09/18	Kathmandu
61	Prabhut Finance Ltd.	2006/03/08	Kathmandu
62	Imperial Financial Institution Ltd.	2006/03/08	Kathmandu
63	Nepal Express Finance Ltd.	2006/05/04	Butawal
64	Kubar Merchant Bittiya Sanstha Ltd.	2006/03/24	Kathmandu
65	Valley Finance Ltd.	2006/05/11	Kathmandu
66	Seti Bittiya Sanstha Ltd.	2006/06/07	Kailali
67	Hama Financial Institution Ltd.	2006/06/16	Kathmandu
68	Reliable Investment Bittiya Sanstha Ltd.	2006/09/06	Kathmandu
69	Lord Buddha Financial Institution Ltd.	2006/11/19	Kathmandu
70	Api Finance Ltd.	2007/04/25	Pokhara
71	Namaste Bittiya Sanstha Limited	2007/07/07	Dang
72	Kaski Finance Ltd	2007/07/30	Kathmandu
73	Suryadarshan Financial Institution Ltd.	2007/07/30	Kathmandu
74	Zenieth Merchant Financial Institution Ltd.	2007/10/18	Kathmandu

75	Unique Financial Institutions Ltd.	2007/10/12	Kathmandu
76	Sowstik Merchant Finance Company	2007/10/16	Kathmandu
77.	Manjushree Financial Institution	2007/10/15	Kathmandu
78.	Subbalaxmi Finance Ltd.	2007/11/11	Kathmandu

Source: www.nrb.org.com

2.1.3 Financial Product and Services

Finance companies can accept time deposit of the maturity of minimum three months to maximum six years. Generally, the following types of financial products are provided by finance companies.

-) **Saving Deposit:** Finance companies accept-saving deposit from individual and organizations. The main purpose of saving deposit is to encourage the habit of saving among the common people and institutions. Depositors can deposit any amount in their accounts in any time. But they can withdraw their money up to limited amount in certain period. Prior information is required incase of withdrawal beyond the restricted limit. Finance companies are allowed to accept saving deposits not exceeding 2.5 times of their core capital. They provide interest on daily balance basis in saving deposit.
-) **Fixes Deposit:** Fixed deposits are also known as time deposits or term deposits. They carry a fixed maturity, a penalty is charged for early withdrawal. Savers that do not need money for a stipulated period from 3 months to longer periods ranging up to 6 years are encouraged to keep it in fixed deposits. This types of deposit offers higher interest rate than saving account. Longer the maturity period, higher will be the rate interest. However, the depositors can take 90% loan from the finance companies against the security of fixed deposit receipt.

) **Recurring Deposit:** Various types of recurring deposit schemes are introduced by finance companies. This scheme was developed to encourage the economical among the people of fixed regular earnings. In this scheme the depositor is required to deposit the fixed amount in each installment and repaid the total amount with interest at maturity.

Finance companies advance loans to individual firms, companies and institutions. They provide different types of loan which are as follows.

) **Hire Purchase Loan:** Under this type of loan, finance companies provide loan for the purchase of vehicle, machines, equipments and tools, durable household goods and other movable property. The loan will be provided in installment basis and the interest rate will be depending on the situation. They repayment of this loan will be installment with interest.

) **Housing Loan:** Under this type of loan, finance companies provide loan for the purchase of land, construction of house for individual and warehouse. The interest rate will be up and down according to economic situation. It will issued is installment basis and repayment will also be in installment.

) **Term Loan:** Under this type of loan, finance companies provide loan for the expansion of trade industry, further education, health, tourism, agriculture, water resources, irrigation etc.

) **Loan against Fixed Deposit:** Under this types of loan, only the person or organizations that have certain amount on fixed deposit in the company will get loan. Only the fixed depositors can get loan upto 90 percent of fixed deposit amount. The company charges plus 2 percent interest in this types of loan.

2.1.4 Current Issues and Challenges of Finance Companies

Economic liberalization policy of the government has encourages the establishment and growth of finance companies is Nepal in a short span of time. So, establishment of finance companies are the major outcome of the

economic liberalization. They came into existence under the finance company Act, 2042 and now operating under Bank and Financial Institution Act, 2063. They are playing the vital role for resource mobilization and income generation. The mushrooming of finance companies in Nepal is the result of financial liberalization programme of the government. Liberalizes and globalizes world has made the financial sector more complex and potentially riskier. So, management committees of financial institution should identify the challenges of the financial sectors and provide recommendations to overcome the challenges to the organization. Government should also help them to identify the challenges and recommend them. Finance companies are facing so many problems in Nepal. The current issues are as follows.

-) **Lack of Financial Education:** Nepalese people are unknown to financial education without the knowledge of good financial education, it is very hard to operate finance company. If the people unknown about the financial education they cannot collect optimum fund, utilize resource to the productive sector and increase fund and the company goes in to the liquidation. So, it is necessary to provide financial education for managers, member and staffs.
-) **Lack of Co-ordination:** Inter co-ordination is most important for the finance companies without inter co-ordination, organization will not be sustained. This is the main problem faced by Nepalese financial organization have not been found to develop inter co-ordination. As a result, it is hard to earn profit and to sustain for the long time.
-) **Competition with Commercial Bank:** Finance companies are facing problem of competition with commercial banks. It is also competition with national as well as international level of finance companies. In Nepal, there is small financial market but there are many finance companies and their departments. There is hard competition in every field. People compare it with the bank. Thus the organization should be faced any competition and

try to overcome. Further an effective finance company act has to be managed.

) **Government Organization is not Aware of their Role:** The role of government organization is very important for the finance companies. Nepal Rastra Bank is playing vital role to Develop Finance Company activities. Finance Company performs their activities as prescribed by NRB directives. But the changing rules and regulation of NRB to the finance company affect the company transaction. Sometime these rules or policies can be negative for the finance company. As a result, finance company movement can be down.

) **Traditional Attitudes of Finance Companies in a Mobilizing Financial Resources:** In our country, the history of finance company is no old. It is the new type of institution. They have no new experience, education, training and vision to operate their activities. In this way, they have to use traditional, attitudes to mobilize their financial resources. So in lack of adequate technology and education or knowledge finance companies have been facing many challenges.

2.5.1 Concept of Sustainability

Sustainability means different things to different people. The word sustainable according to the Encarta World English Dictionary, means "able to maintain". This definition can be applied in various subjects such as "Sustainable Business" is a non traditional strategy that strives to maximize effectiveness. Sustainable business practice restores environmental quality and social equity while increasing long term profitability (www.sustainability.org).

Different people perceive sustainability in different ways and it is difficult to arrive at a consensus on this issue. Organizations that are committed to earning profit only consider financial sustainability without taking about institutional, social and environmental issues. On the other hand, organizations that are

involved with the development attach a higher value to sustainability. In general view, sustainability is considered as development, which is about bringing certain types of positive changes in a dynamic system (Sharma, 2008, P. 24-24).

The concept of sustainability can be overwhelming because of the comprehensive nature of the word, but root meaning is actually a simple concept that is nearly intuitive to most people some concept within sustainability come directly from the nature world. Nature uses sunlight as an energy sources for all species. All waste is food for other species. And waste provides food for the micro-organism that enhances soil productivity. Natural system also respect diversity. If a natural disaster eliminates a particular food source. The ants simply shifts to another food source. Sustainability can also be applied to human society. A sustainability society will be able to continue indefinitely in to the future (Mainali, 2008).

2.1.5.1 Sustainable Business

Sustainable business is a not traditional strategy that strives to maximize efficiency and effectiveness, while restoring environmental quality, building social equity and increasing long term profitability. Since the down of the industrial revolution, industry has intensified environmental degradation by efficiently exploiting nature and releasing unfathomable quantities of hazardous pollutions in to the biosphere. On the other hand, business has spent billions of dollars comply with governmental regulations aimed at minimizing contamination by prescribing that amount of toxic substances that can enter the air, water and landfills. An adversarial relationship has developed between business people and environmentalists each viewing others as a main sources of the world's problem.

As of yet, not truly sustainable companies exist. Sustainability is and will continue to be a very difficult goal to achieve as well as exist and operate with

in the foundation of unconscious commerce. However, many companies are working toward sustainability today.

Thus sustainability is a philosophy with a new vision of the proper landscape. It is a concept of alternative world view in search of social structure, economic activities, accounting procedures, production and consumption patterns, technologies that empower and improve the lives of all the present people and guarantee quality lives future generation. For this to happen in the present context, policies and action which began to shape relatively recently, must recasts extent activities or fashion new ones, then fit them in to existing landscapes by building human and social capital needed to ensure that they become or remain culturally acceptable, economically viable, environmental benign, politically double and socially justifiable.

2.1.6 Finance Function

The financial manager plays a dynamic and instrumental role to a company's success. If finance is to play a general management role in the organization, the financial manager must be a team player who is constructively involved in operation, marketing and company's overall strategy. When once financial manager was charged only with such routine tasks, as keeping records, preparing financial reports, managing company's cash position playing bill and on occasion obtaining funds. the broad and modern concept of financial management includes:

-) Investments in assets and new productions and
-) Determining the best mix of financing and divided in relation to the company's overall valuation.

In this way the concept of finance can be categories in to two approaches. Traditional approach and modern approach. The traditional concept defines that the finance as the provision of money at the time it is wanted. It involves all

those business activities relating to the acquisition and conversion of capital funds in the meeting the financial needs and overall objectives of business organization.

Long considered as a part of the economics, till the beginning of the 20th century, finance emerged as separate field of study. At first, it dealt with only the instruments, institution and procedural aspects of capital market. As the century moved it to the 1920s, technological innovation and new industries created a need for more funds, promoting the more finance function to emphasize liquidity and financing of the firm. Attention turned to external financing rather than internal management. The depression of 1930s necessarily focuses the study of finance on defensive aspect of survival, preservation of liquidity, bankruptcy, liquidation and organization. During the 1940s and 1950s finance took the traditional approach that involved during 1920s and 1930s. It analyzed the firm from the view point of outsider such as lender and investor, although finance was considered for the achievement of the firm's objectives like maximization of the profit and stock prices, it did not emphasizes decision making and remained quite silent about planning and control of the flows of cash with in the firm. During the date 1950s the significance of the use of fund i.e. assets analysis apart from raising funds was recognized. In the middle of the 1950s capital budgeting and allied consideration moved to the fore front being supported by present value concept. The financial manager now, dealt with the total funds committed to assets and the allocation of capital to individual assets on the basis of an appropriate objectives acceptance criterion. Then come on the computer from 1950's on complex in formation system begin to provide the financial manager with data from which to make sound decision. Powerful analysis tool could be applied to the finance problem (Van Horne, 2002).

These development brought the financial management to new and broad concept. Now it is considered as an integral part of overall management and

decision of each and every functional areas are made only after analyzing its financial objectives of the firm.

2.1.7 Role of Finance and Financial Manager

In earlier time, the financial manager's job was simply to raise the money needed to purchase the required plant, equipment and inventory. This mode of operation is no longer prevalent decisions are now, made in a much more coordinated manner and the financial manager has direct responsibility for the control process. Thus, it is becoming increasingly important for people in marketing, accounting, production, personnel and other areas understand finance in order to do a good job in their own field. Marketing people for instance must understand how marketing decision effect and affected by funds availability by inventory levels by a excess plant capacity and so on. Similarly, account must understand how accounting data are used in corporate planning and are viewed by investors. The function of accounting is to provide quantitative financial information for use in making economic decision where as the main function of financial management are to plan for acquire and utilize funds in order to maximize the efficiency and value of the enterprise.

Financial manager's primary task, is to plan for the acquisition and used of funds, So as to maximize the value of the firm. There are some specific activities described as the responsibility of financial manager:

-) Investment and financing decision
-) Forecasting and planning
-) Co-ordination and control
-) Dealing with financial environment (Gautam and Bihari, 2004).

2.1.8 Financial Analysis

Financial analysis is the process of selection, relation and evaluation of strengths and weakness of financial performance. The firm itself and outside suppliers of capital creditors (debt holders) and investors all undertake financial analysis, which varies according to the specific interest of the party involved. Financial performance is the next necessary and most important factor of the performance analysis of an organization. It plays vital role in the organization working activities. It has been taken as a backbone of the organization. If the finance is weak, the organization can't be successful in operating its day to day activities. As a result, it becomes like paralyzed. The financial condition must be strong and rational for utilization of the resource.

Financial statement contain a wealth of information, which if properly analyzed and interpreted, can provide valuable insights into firm's performance position (Chandra, 2006). Analysis of financial statements is of interest to lenders, investors, security analysts, managers and others. It generally begins with the calculations of set of financial ratios designed to reveal the relative strength and weaknesses of a company as compared to other companies in the same industry and to show whether the firm's position has been improving or deteriorating over time (Western and Copeland, 1992). Financial analysis is a process of identifying the financial strengths and weakness of the firm by properly establishing relationship between the items of balance sheet and the profit and loss account (Pandey, 1999).

Actually, financial analysis deals with the financial activities in the organization. Organization be it a profit motive business organization or non profit motive social organization, all directly or indirectly involve in the acquisition and use of funds. It plays vital role in every entity. Generally, the finance functions involved in the organization are financing or capital mix decision investment or long-term assets mix dividend or profit allocation

decision and liquidity or short-term asset mix decision. The finance functions all for skillful planning, control and execution of a firm's activities. When these skillful finance functions are operated and implemented as successfully and effectively with simultaneously and continuously in the normal course of the business, the business can easily survive and accomplish its targeted goals. The financial management leads the vital role in the every organization. It shows clear x-ray figure of the organization's body with taking their performance in financial aspects. Therefore the financial analysis of every organization or not, is equally an important factor for measurement of the organization's performance.

) **Overall Income:** Income is the first and most essential factor in every organization. Therefore, every organization is trying to generate own internal and external income. In the case of Pokhara Finance Company Limited the overall income is generated from interest commission and discount, foreign exchange transaction, write off, investment on other's shares and debenture, etc.

) **Overall Expenditure:** The expenditure which is allocated by POFIL based on its funds, is made to achieve the organizations goal. The overall expenditure amount or items includes interest expenses, employee expenses and other operating expenses. Interest cost includes interest on fixed deposit, interest on saving deposit, interest on recurring deposit, interest on providend fund deposit, etc. Similarly, employee expenses includes salary, allowance, providend fund, training expenses, dress expenses, medicine expenses, insurance expenses. pension expenses, dashain expenses, salary for holiday, subsidy etc. finally other operating expenses includes house rent, electricity and water, repair and maintenance (building, vehicle, office tools etc.), insurance, postage, telephone, fact, miscellaneous and printings, legal expenses, donation, expenses of board of director meeting allowance, commission, share issued expenses, entertainment expenses, technical service expenses, security expenses, office expenses, service free, traveling

expenses, fuel expenses, business counseling expenses, bank charge, auditing expenses (annual audit fee, internal audit fee, tax audit fee), depreciation on fixed assets, membership fee, guest welcome expenses, computer stationary expenses etc.

2.1.9 Financial Statement

Financial statements are summarized information of the enterprises financial affairs organized systematically and maintained by the firm to know the real financial position within the organization and externally to report them to owners, investors, creditors and government agencies. The balance sheet, income statement cash flow statement are the main statements used to report financial position and performance of any business firm. These statements are prepared according to Generally Accepted Accounting Principle (GAAP). The preparation of these statement is basically a subject matter of accounting. Here, focus is given on understanding financial statements rather than the preparation of these statements.

) **The balance Sheet:** The balance sheet is a summarized information of a firm's resources and obligation and difference between the two (the firm's equity) over a period of time. This statement shows a firm's accounting value on a particular date. Complete understanding of balance sheet requires understanding different contents comprised by a balance sheet, which are:

) **Assets (Resource):** Assets of an organization are categorized in two types, current assets and fixed assets. Current assets and fixed assets. Current assets are those which is converted in to cash within a fiscal year from operating activities. Current assets might include cash and marketable securities, sundry debtors, accounts receivables. inventory stock etc. A fixed assets is one that has relatively long life beyond a year. Fixed assets can be either tangible such as land, building plant, equipment, which help

manufacturing the product or intangible such as a trademark, patent, goodwill, copy right.

) **Liabilities (Obligations) and Equity:** Liabilities of an organization can also be grouped in current liabilities and long-term liabilities. Current liabilities are those obligations which are to be paid off within the same fiscal year (one year). Example of such obligation come from working capital as accounts payable (trade credit) accruals and outstanding expenses, sundry creditors, proposed dividend, provision of taxation, notes payable etc. These obligations are listed or paid before long term purpose financing such as bond, debenture note, term loan, mortgage bank loan etc.

Finally, the difference between the value of assets (current plus fixed) and total value of liabilities is the owner's (shareholder's) equity which is often called proprietorship fund as well.

Assets = Liabilities + Shareholder's Equity

) **The Income Statement:** the income statement is summarized information of a firm's revenues and expenses or performance over a period of time. The income statement equation is:

$$\text{Income} = \text{Revenue} - \text{Expenses}$$

The income statement is prepared in different formats. The figure shown as the income statement may not be at all representative of the actual cash inflow and outflows that occurred during a particular period. Some expenses charged against revenues do not directly affect cash flow such as depreciation, which is called "non-cash expenses". Such income statements are also generally prepared according to the rules set forth by GAAP. (Generally Accepted Accounting Principle)

J) **The Cash Flow Statement:** By cash flow statement we simply mean the difference between the amounts of rupees that come in and amount that out. For example, if you were the owner of a business, you might be very interested in how much cash you actually took out of your business in a given year. How do determine this amount differs from that of standard financial statement calculations, which is called 'Statement of Cash Flows'. From the balance sheet identity, we know value of its liabilities plus value of its equity. Similarly, the cash flow the firm's assets must equal the sum of cash flows to creditors and cash flows to owners. Thus, an equation can be set as follows:

Cash flow from assets= Cash flow to creditors + Cash flow to stockholders

2.2. Review of Related Studies

Various researchers have carried out study on financial analysis of different organization and made their conclusions and recommendation in different way. But, the researcher could not be able to find the study exactly carried out on financial sustainability sector of financial institution or finance company. However, previous study reports on other organization and other related books and publication were reviewed in Western Regional Library Prithvi Narayan Campus, Pokhara to make clear the concept of the study. Following dissertations journals were reviewed to gain knowledge about previous researches on the given topic.

Sharma (2005) carried out the research study entitled "Finance Companies in Nepal" with the main objective of presenting the up to date study on the growth of finance companies in Nepal and analyzing the assets and liabilities structure of finance companies in Nepal. The study was based on data from mid July 1997 to mid- Jan 2004. The study as per its nature was largely based on secondary data. He has employed simple statistical tools and financial ratios to analyze the data and presenting the position of finance companies. The study

conclude that the growth of finance companies is very speedy. Total liabilities of finance companies was Rs. 5177.4 million in mid July 1997 which reached to Rs. 24681.1 million in mid- Jan 2004. the deposits constituted as the major source and the capital fund remained in second. It is seemed that public deposit remained the major source of fund of finance companies. The liquidity position of finance companies remained higher than the legal limit of seven percent.

Shrestha (2002) conducted a research work on municipal finance in Nepal. A case study of Dipayal Silgadhi Municipality. The study is based on primary and secondary data. The main objective of primary and secondary data. the main objective of the study was to analyze the trend of revenue and expenditure patter and to explore the possibility of raising sufficient revenue from internal sources. He has concluded that the overall financial position of the Dipayal Silgadhi Municipality was not so promising. The expenses on social program were very poor. The big amount of resources was spent for construction of building, purchasing land etc. Waster supply, drainage, sanitation, public health and medical relief were given less priority. He has given few important financial performance of the municipality.

Bohora (2004) carried out the research study on financial analysis of Tansen Municipality. The overall purpose of the study was to height the financial condition of Tansen Municipalities assessing the income and expenditure patter and exploring the possibilities of raising internal resources. He has concluded that Tansen municipality is not able to utilize its financial resources effectively. He has recommended identifying the potential sources of revenue to boost up the income level of the municipality to utilize the grants received from central government more effectively and efficiently minimizing the regular expenditure as for as possible.

Mainali (2008) carried out the research study on financial sustainability of Pokhara Tourism Training Center. The study was based on primary and

secondary data. The main objectives were to analyze the major outputs of Pokhara Tourism Training centre find out the sources of finance of Pokhara Tourism Training Center. He has concluded that the short term training looks quite attractive in the beginning periods of the study in the subject of both male and female, but then after it became less attractive from the view point of clients. He has recommended identifying the client's needs and specific needs to conduct need assessment survey to base on nature of the clients.

Gurung (2006) has conducted a research work on financial sustainability of rural water and sanitation programme-Phase III the Gurkha welfare scheme. The study was based on primary and secondary data. The main objective of the study was to evaluate the financial position of the GWS/RWSP III. the specific objectives of the study were to assess the major outputs of GWS/RWSP phase III and to find out sources of finance of the GWS/RWSP phase III. He has recommended to give more emphasis on human resource development programmes by allocating more and sufficient budget in training and visit concept professionalism in the organization. He has also recommended to closely monitor the periodic trend of foreign exchange rates, market inflation rate as well as policy changes made by government policy and political movement of the country.

Pradhan (1980) conducted a study on investment policy of Nepal Bank Limited. The objective to that study was to evaluate the lending policy and to find out the ways to encourage the bank lending. Thus study has covered only five fiscal years B.S. 2028/029 through B.S. 2033/034. He used Karl Pearson's Coefficient of correlation, ratio analysis and percentage analysis. He concluded with the positive relationship between deposits and loans and advances. But the same was not in a proportion manner, greater increase in deposited to little increase in the loans and advances. Increase in the interest rate was the main factor for the decrease in loan demand. The bank had investment only 3 percent

of its total investment in the priority sector, which was lower than the percentage (7 percentage) imposed by NRB.

Bohora (1992) has done a study on financial performance of Nepal Arab Bank Limited and Nepal Indosuez Bank Limited. The basic objectives of this study were to highlight on the functions and policies of joint venture s banks and to evaluate the comparative financial performance of NABIL. The study has covered the five fiscal years 1986/87 to 1990/91. In this study financial tools along with statistical tools have been used. Different ratios-liquidity activity, coverage, leverage, profitability and other indicators like earning per share, dividend per share, market value to book value ratios have been used to evaluate the performance of NABIL and NIBL. In statistical tool the least square method has been employed. The researcher has on the basic of different financial indicators and concluded that performance of NABIL is better than that of NIBL. The researcher further concluded that bank performances could not be judge solely in term of profit as it may have earned profit by opening up increasing equality base.

Baral (2005) has conducted a research and published in the journal of Nepalese Business Studies (Vol II, Dec. 2005) on heath check -up of commercial banks in the framework of CAMEL; a case study of joint venture banks, in Nepal. The paper examined the financial health of joint venture banks in the CAMEL framework for a period ranging from F.Y. 2001 to F.Y. 2004. Three joint venture commercial banks of Nepal were randomly selected for the study. The study was based on historical data disclosed by annual reports of commercial banks. It has covered four fiscal year's data for the purpose of the study. The study was based entirely in the CAMEL framework. Through the analysis of data, the researcher has analysis of data, the researcher has analysis of data, the research her has diagnosed the health of sample joint venture banks. Banks under study were well capitalized and they were complying with the directives of NRB on capital. But, their capital base relative to the risk weighted assets is

not so strong. It uncovered further, non-performing assets of joint venture banks on the average is at satisfactory level, but they are for below the aggregate percentage of non-performing assets of commercial banks. The researcher has also found that the management of NSBI is least efficient among sampled banks and SCBN has most efficient management. The profitability of joint venture bank is not so weak during the study period. Profitability of Nabil and SCB was better than the NSBI. Further more, the liquidity of joint venture banks was higher the industry average ratio. Thus, with a viewpoint of liquidity position, the health of joint venture banks is looked like a bit unhealthy.

Joshi (1993) has conducted a research study on financial performance of commercial banks of Nepal with reference to financial analysis to financial analysis of Rastriya Banizya Bank. The basic objective of this study was to provide conceptual framework of commercial banks. The study has covered the time span of 2042 B.S. to 2046 B.S. The researcher has applied various financial ratios like current, liquidity, funded debt to total capitalization and funded debt to equity. The researcher has concluded that the performance of RBB was not satisfactory during the study period. Further, the researcher concluded that the bank had not been managed in true professional approach but had managed is bureaucratic approach to sustain with political environment rather than commercial environment.

Upadhyay (2004) has conducted a study on financial analysis of Pokhara Finance Company Limited and Annapurna Finance Company Limited comparatively. He has attempted to analyze the financial performance of Pokhara Finance Company Limited and Annapurna Finance Company Limited in his study paper. By using different financial tools for data analysis and he has concluded that the Pokhara Finance Company Limited is not able to meet the demand of depositors, the credit creation capacity is good in both companies in aggregate, the earning power in Pokhara Finance Limited is should and has retained its earning in productive sector than Annapurna

Finance Company Limited. He suggested the both to raise additional share capital and utilize in purchasing the fixed assets to utilize their idle capital in more productive sectors, to do further effort for creation based on deposits and the management, to adopt appropriate plan and policies based on the investors expectation and other realities.

Shrestha (2006) in her study conducted on the investment portfolio of Pokhara Finance Company Limited has tried to analyze the investment portfolio of Pokhara Finance. The other objectives of the study were to analyze the deposit mobilization and investment trend of the company to measure the liquidity position, profitability position and to analyze the risk and return of the company. By using simple financial and statistical tools, she has analyzed the data and concluded that Pokhara Finance Company has been able to maintain a balance ratio among the deposit and investment. It is employing safe lending procedure for investment, there is strong positive relation between deposits, loan and advance and investment during the study. She recommended for the continuous effort to explore competition and highly yielding investment opportunities to optimize its investment portfolio. She further fund to launch or initial new packages, programmes and strategies for collecting more deposits.

Poudel (2009) has conducted a research on financial analysis of Pokhara Finance Company Limited in the framework of the camels. The objectives of the study were to analyze the capital adequacy ratio of PFL, to analyze the efficiency of the PFL, to evaluate the efficiency of the PFL's management and to assess sensitivity of PFL's earning to interest ratio risk. The study was based on primary and secondary data. He has applied various financial ratio like capital adequacy ratio, current ratio, liquidity ratio, profit ability ratio and activity ratio. The researcher has concluded that the Pokhara Finance Company Limited is using adequate amount of internal sources or core capital in past five year, so it has strong position of finance but, it has not able to match the risk sensitivity.

Devkota (2008) carried out the research study entitled, "Financial Performance Analysis of Fewa Finance Company Limited in the Framework of CAMEL" with the main objective to analyze the financial performance in the framework of camel. The study covered the period of four years from F.Y. 2060/061 to 2063/064. The researcher used secondary data descriptive research design. Different statistical and mathematical tools have been used in this study. He found that the capital adequacy ratio of the Fewa Finance Company was above the Nepal Rastra Bank standard. The non-performing loan to total loans and advance ratio for the study period was in decreasing trend. NRB balance to total deposit ratio of Fewa Finance Company Limited was below the industry average ratio vault to total deposit ratio of FFCL during the study period was below the industry average. The researcher has recommended that the company was maintaining stable capital adequacy ratio strictly following the NRB directive. The researcher also recommended to give more attention to decrease the level of non-performing loan to meet the international standards. The researcher has further recommended that the company should look upon new area of lending and investment that helps to minimize the idle funds otherwise this may give negative impact in the profitability of the company.

Adhikari (2009) carried out the research study entitled, "Financial soundness and sustainability of Nepalese Co-operative Organization: a case study of Jana Sewa Saving and Credit Co-operative Society Limited" with objective to identify the current attractions to establishment of saving and credit co-operative organization. Another objective of this study was to identify the present status of financial soundness and sustainability of JSSC and to identify current challenges of co-operative organizations. This study was based on five years data i.e. from fiscal year 2060/061 to 2064/065. The study was based on both primary and secondary data. He has used financial and statistical tools like ratio analysis and Karl Pearson's Coefficient of correlation etc. In this study the researcher has been taken descriptive and analytical research has been taken descriptive and analytical research design. He has concluded that attraction

form membership of co-operative was increasing in the study period. He has also concluded that members are untrained and unknown about the co-operative lows and sustainability of the co-operative are highly depend on the qualitative and quantitative aspect of the training.

Sharma (2006) has conducted a study on microfinance practice and their sustainability in Nepal. The objectives of the study were to identify and evaluate the effectiveness sustainability of the activities of Micro Finance Institutions, there contribution in socio economic change and women empowerment comparison of Micro Finance Institutions performance of Nepal and Bagladesh and to evaluate financial and institutional viability and overall sustainability of selected Micro Finance Institutions. He found that the microfinance leads to social and economics changes in the borrowers after the participation is the programme. Women empowerment showed the positive changes with high level confidence in decision making, participation in social activities, gender equality and control of income. He also concluded that MFIs (Micro Finance Institutions) program increase income and saving which meet their emergency needs. Furthermore, microfinance is creating an environment for poverty alleviation and rural development but the overhead and office expenses of the MFIs of Nepal at higher than Bagladesh. Hence the productivity of Bangladesh MFIs is better than Nepal. In his study he further concluded that now ever micro finance is not a solution in itself, other issues of development policy and implementation, which effect women empowerment, poverty reduction and utility of microfinance need to be addressed at proper and appropriate levels.

Research Gap:

Various studies have been carried out regarding financial performance analysis of banks and other financial institutions. The research paper done in context of Nepal mainly emphasized on liquidity, leverage and profitability of the commercial banks and other financial institutions. These studies lack micro level analysis and found applying traditional analysis of financial performance. In the context of Nepalese banking environment, the researchers are conducted their research on banks and financial institution on financial performance analysis in the framework of CAMELS. There are a few research reports of financial institutions on topic of financial sustainability. No one has conducted research on financial sustainability of Pokhara Finance Company Limited. There is necessary to conduct or research about the financial sustainability. So this research is conducted to know actual financial sustainability of Pokhara Finance Company Limited. Therefore, the study of financial sustainability of finance company will add new dimension toward finance function of finance companies.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives and views. In order to find out a true result, an appropriate research methodology is necessary for an investigation. The research methodology is followed to achieve the basic objective and goals of this research work. Research methodology is the way systematically solve about the research problem (Kothari, 1999). Research methodology is the procedure by which researches go about their work of describing, explaining and predicting phenomena. In other words, research methodology describes methods and process applied in the entire aspect of the study. This chapter provides the overall framework or plan for the collection, analysis and presentation of data required to fulfill the objective of the study. The main objective of the study is to analyze and evaluated the financial sustainability of POFIL. To meet the objective, following methodology is applied in the study, which is described as below.

3.2 Research Design

Research design is the plan, structure and strategy of investigation conceived as to obtain answers to research questions and to control variance (Kerlinger, 1994). The research design is an integrated frame the guides the research works (Wolff and Pant, 2005). Research design is the conceptual framework with in which the research is conducted. The evaluation of the performance is designed to reflect an assessment of the financial sustainability of POFIL. The descriptive as well as analytical research design has been followed to achieve the desired objectives. In order to evaluate the financial sustainability of POFIL, some financial and statistical tools are applied.

3.3 Population and Sample

For the purpose of this study finance companies are taken as population. Till November, 2010 there are all together 79 finance companies established in Nepal. But being a case study of a single unit, Pokhara Finance Company Limited is selected as a sample for this study.

3.4 Nature and Source of Data

Collecting data is the connecting link to the world of reality for the researcher. The data collection activity consists of taking ordered information from reality and transferring it into some recording system. So that it can later be examined and analyzed for pattern. It is from this pattern that social behavior can understand and predicted. Research as a media can be interpreted as having a content of data and a process of methodology. Without the data methodology cannot be utilized to bring as to the conclusion which hypothesis suggest (Wolff and Pant. 2005).

As per nature of the study, this study is based on secondary data. Besides that, some primary data have been also used in this study. For the purpose of the study the annual reports of POFIL are used as the major sources of data. Besides the annual reports of POFIL, required data and information is collected from the following sources.

-) NRB reports and website
-) Various articles published in journals
-) Various publications dealing in the subject matters of the study.
-) Various research report and Dissertations.
-) Questionnaires and discussions with the management.

3.5 Data Collection Procedures

This study is mainly based on secondary data; however this is also based on primary data. Most of the relevant data and information have been collected through secondary sources. The annual reports and other information of POFIL have been obtained from POFIL. Where the annual reports brochure, newspaper, finance company's websites and website of NRB are the secondary sources of data. Some supplementary data and information and literature review are collected from the Western Regional library, Pokhara. Similarly, the primary data and information are gathered through questionnaires and discussion with concerned management.

3.6 Data Processing

Presentation of the collected data is the basic organization and classification of the data for the analysis. The analysis of data is done according to the pattern of the data available. The collected raw data and information from various sources are first presented in systematic manner in tabular form and processed manual as all as with help of computer software like Microsoft word, Excel etc to make clear picture about the position and situation of the POFIL.

3.7 Data Analysis Tools

The collected data and information has been categorized and tabulated according to the objective of the study. Then it has been analyzed and interpreted through various financial and statistical tools and techniques to get the meaningful result and to meet the research objectives. Financial ratios are the major tools for the analysis of the study. The basic financial tools and statistical tools have been summaries as follows:

3.7.1 Financial Ratio Analysis Tools

Financial ratio analysis tools basically help to analyze the financial strength and weakness of a firm. Ratio analysis is one of the important financial tools that have been used in the study. Ratio is simply one number expressed in term of another and it expresses the quantitative relationship between any two numbers. There are different ratios to analysis and interpret the financial statement of POFIL, however financial ratios related to subject matter of the research is used in the study which are as follows

A) Liquidity Ratio

- i) **Cash and Bank Balance to Total Deposit Ratio:** The cash and bank balance to total deposit ratio indicates the relationship between cash and bank balance and total deposit. It is derived by dividing the cash and bank balance by total deposits.

$$CBTDR = \frac{\text{Cash and Bank Balance}}{\text{Total Deposits}} \times 100$$

Where,

CBTDR = Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance = Cash + Current Balance

Total Deposit = Short term and Long term Deposits

- ii) **NRB Balance to Total Deposit Ratio:** NRB balance to total deposits ratio is the expression of numerical relationship between NRB balance and total deposits of a finance company. It is derived by dividing NRB balance by total deposits.

$$\text{NRB Balance to Total Deposit Ratio} = \frac{\text{NRB Balance}}{\text{Total Deposits}} \times 100$$

Where,

Total Deposit = Short term and Long term Deposit

B) Efficiency Ratio

- i) Loan and Advances to Total Deposit Ratio:** Loan and advance to total deposit ratio is the numerical relationship between loans and advance to total deposit of a finance company. It is calculated by dividing loans and advances by total deposits.

$$LTDR = \frac{\text{Loans and Advances}}{\text{Total Deposits}} | 100$$

Where,

LTDR = Loans and Advances to Total Deposit Ratio

Loans and Advances = All the short term and Long term loans

Total Deposit = Short term and Long term Deposit

C) Profitability Ratio

- i) Return on Total Assets:** Return on total assets is the numerical relationship between net income after taxes to total assets of a organization. It is calculated by dividing net profit after tax by total assets.

$$ROA = \frac{NPAT}{\text{Total Assets}} | 100$$

Where,

ROA = Return on Assets

NPAT = Net Profit after Tax

Total Assets = All the items of right hand side of balance sheet

- ii) **Return on Equity:** Return on equity is the numerical relationship between net income after taxes to total equity of a organization. It is calculated by dividing net profit after tax by total equity.

$$ROE = \frac{NPAT}{Equity} | 100$$

Where,

ROE = Return on Equity

NPAT = Net Profit after Tax

Equity = Reserve + Paid -up Capital + Undistributed Profit

- iii) **Return on Total Deposits:** Return on total deposits ratio indicates the relationship between net profit after taxes and total deposits. It is calculated by dividing net profit after tax by total deposits.

$$ROTD = \frac{NPAT}{Total Deposit} | 100$$

Where,

ROTD = Return on Total Deposit

NPAT = Net Profit after Tax

Total Deposit = Short Term and Long term Deposit

- iv) **Interest Earned to Total Assets:** Interest earned to total assets ratio is the numerical relationship between interest earned to total assets. It is derived by dividing interest earned by total assets.

$$IETA = \frac{Interest Earned}{Total Assets} | 100$$

Where,

IETA = Interest Earned to Total Assets

Interest Earned = Interest on Loan + Additional Charges on Loan
+ Additional Charge on Regular Deposit Interest on Investment

Total Assets = All the items of right hand side of balance sheet

- v) **Return on Investment:** Return on investment ratio is the numerical relationship between the net profit after taxes to total investment. It is derived by dividing net profit after tax by total investment.

$$ROI = \frac{NPAT}{Total\ Investment} \times 100$$

Where,

ROI = Return on Investment

NPAT = Net Profit after Tax

Total Investment = Loans and Advances + Corporate Security investment
(Gov+bond, individual sector, other company shares and debenture and other investment)

D) Capital Structure Ratio

- i) **Total Debts to Total Assets Ratio:** Total debts to total assets ratio is the numerical relationship between the total debts to total asset of a organization. It is calculated by dividing total debts by total assets.

$$TDTAR = \frac{Total\ Debt}{Total\ Assets} \times 100$$

Where,

TDTAR = Total Debts to Total Assets Ratio

Total Debt = Short-term loan + Long -term Loan + All Deposits

Total Assets = All the items of right hand side of balance sheet

- ii) **Total Debt to Equity Ratio:** Total debts to equity ratio is the numerical relationship between the total debts to total equity of a organization. It is derived by dividing total debts by total equity.

$$TDTER = \frac{Total\ Debts}{Total\ Equity} \text{ (times)}$$

Where,

TDTER = Total Debts to Total Equity Ratio

Total Debts = Current Liabilities + Long term loan + All Deposit

Total Equity = Paid-up Capital+Reserve and Surplus+Undistributed Profit

E) Growth Ratio

Growth ratio has been calculated by using the following formula.

$$\text{Growth Ratio} = \frac{D_1 - D_0}{D_0} \times 100$$

Where,

D_1 = Total Deposit in Current year

D_0 = Total Deposit in Previous Year

3.7.1 Statistical Tools

In order to analyze the study of financial sustainability of POFIL, various Statistical tools can be applied. The following statistical tools are used in this study

) **Mean:** A simple arithmetic mean is used to summarize the data as a representative mass data. A mean is the average value or the sum of all observations divided by the number of observations. Mean is expressed in the following way.

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{\text{Sum of the Values}}{\text{No. of Observation / Value}} \\ &= \frac{X_1 + X_2 + \dots + X_n}{n} \end{aligned}$$

Where,

X = Individual Value

n = no. of Observation

) **Standard Deviation (S.D.):** Standard Deviation is the absolute measure of dispersion of the value and shows the deviation or dispersion is absolute term (Kothari, 1999). It is said that higher the value of standard deviation the higher variability and vice versa. Karl Pearson introduced the concept of standard deviation in 1983. Here, the standard deviation is used findout the deviation in absolute term. Standard deviation is determined in following way.

$$\text{S.D. } (\Xi) = \sqrt{\frac{x^2}{n} - Z \frac{x}{n}}$$

Where,

n = No. of Observation

x = Individual Value

) **Coefficient of Variation (C.V) :** Coefficient of variation is the relative measure of dispersion based on the standard deviation (Kothari, 1999). It is most commonly used to measure the variation of data and more useful for the comparative study of variability in two or more series or graph or distribution. Symbolically the coefficient of variation is calculated as:

$$\text{C.V.} = \frac{\dagger}{\bar{X}}$$

† = Standard Deviation

\bar{X} = Mean

C.V. = Coefficient of Variation

) **Coefficient of Correlation (r):** Karl Pearson's correlation coefficient denoted by r measures the intensity or magnitude or degree of relationship between the two variables (Sthapit, 2007). The study measures relationship between two variables. The correlation between the different variables of

finance company is compared to measure the relationship between the individual variable. Correlation refers to the degree of relationship between two variables. It between two variables increase or decrease in one causes increase or decrease in another, then such variables are correlated variables. The reliability of the value of coefficient between two variables describes the degree of relationship between those two variables. It interprets whether two or more variables are correlated positively or negatively. This tools analyze the relationship between those variables of the finance company which are helpful to make appropriate policy and strategy regarding deposit collection, fund mobilization and profit maximization which helps the organization for sustain in the market good policy and strategy of the company are basic necessity feature of a sustainable institution. The Karl Pearson's correlation coefficient (r) is given as below.

$$r = \frac{N \sum xy - \sum x \sum y}{\sqrt{N \sum x^2 - (\sum x)^2} \sqrt{N \sum y^2 - (\sum y)^2}}$$

The Karl Pearson coefficient of correlation (r) always falls between -1 to +1, the value of negative correlation signifies negative relation between the two variables and positive correlation signifies positive relation between the two variables. As the value of correlation coefficient reaches near to zero, it is said that, there is no significant relationship between the variables.

) **Probable Error of r (P.Er) :** The probable error is used to measure the reliability and test of significance of correlation coefficient (Stahpit, 2007). The probable error (P.Er) is given as below.

$$P.Er = 0.6745 \frac{\sum r^2}{\sqrt{N}}$$

Where,

r = The value of Correlation Coefficient

N = Number of Pairs of Observation

The coefficient of correlation has been interpreted based on probable error. If the value of correlation coefficient is greater than the value of probable error, the correlation coefficient is deemed as significant and reliable. If the value of correlation coefficient is less than the value of correlation coefficient is less than the value of probable error, the correlation coefficient is said to be insignificant and there is no evidence of correlation.

In this study, Karl Pearson's correlation coefficient has been used to find out the relationship between the following variables.

) Correlation between deposit and loan and advances.

) Correlation between deposit and investment.

3.8 Indicators of Financial Sustainability

Financial analysis gives the organizations financial x-ray and body figure. It helps the organization to improve the financial position. Most of the financial institutions have been experiencing different difficulties on attaining sustainability over the long run due to the poor financial management, So, the developmental organizations should take the financial analysis as an integral part of the overall performance analysis because it helps to evaluate the sustainability of the organization. As Pokhara Finance Company Limited is a financial organization working in financial sector, performance analysis of the POFIL is most important factor. In this study, financial sustainability of POFIL has been assessed using some of the financial sustainability indicators, such as performance analysis, financial analysis and financial performance analysis. Performance analysis indicator includes source of finance. Similarly, financial analysis indicator includes income analysis and expenditure analysis. Finally

financial performance analysis indicator includes liquidity ratio, efficiency ratio, profitability ratio, capital structure ratio and growth ratio of the POFIL.

3.9 Limitation of the Methodology

This study covered the fiscal years 2062/063 through 2066/067. Due to the constraints of time and resources, secondary data have been more used as for as possible. Analytical and descriptive research design have been used in this study. Tables and figures have been used to presentation and analysis of the data. The findings based on analysis and presentation of data represented only Pokhara Financial Company Limited not the other finance company of Pokhara.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Data Presentation and Analysis

Any business organization has to formulate and implement its own objective for long run and to strength in competitive markets. The overall business activities should be centralized to achievement of the objective. At that time, there should be consider market environment, internal and external variable, government's rules and regulation, business strategies, social responsibility and other relevant activities.

Pokhara Finance Company Limited has its own objective for long run and to its strength. Its main objective is accumulated the scattered saving and mobilize into the various planned sectors of economy to support the economic prosperity of the country. It can provide its services in many ways like collection and mobilization of deposits within the limits specified by NRB, providing term loan, providing installment, granting loans to construct residential house, construction of office, education, tourism etc.

This chapter presents the analysis of the collected data. The analysis attempts five years income and expenditure statement, balance sheet, cash flow statement, profit and loss account etc. The whole analysis has been divided in to three parts: performance analysis, financial analysis and ratio analysis or financial performance analysis. Performance analysis presents sources of finance of the POFIL. Similarly, financial analysis presents the analysis of income and expenditure and ratio analysis presents the analysis of liquidity efficiency, profitability, capital structure and growth. It also presents the analysis of current challenges of the POFIL for the sustainability as performance analysis. Finally, it presents the findings of the study.

4.1.1 Performance Analysis

4.1.1.1 Sources of Finance of POFIL

Finance companies collect fund from three types of sources. One is short term source, two is intermediate term source and third is long term source on the basis of time period. Generally, the sources of finance of fund of finance company beside equity, are time deposit collections and issuance of bond and debentures. Any company needs fund for transaction which can collect from various sources. Different company could have different sources of finance. Pokhara Finance Company can collect fund from different sources. POFIL has following sources of finance. Here, sources are not categorized on the basis of time period and it is item wise.

- a) Net worth
 - b) Deposits
 - c) Borrowing
 - d) Issue of bond and debenture
- a) **Net worth:** Net worth is the basic source of the finance for the POFIL. Capital, general reserve, other reserve and undistributed profit are included in the net worth of the company which is presented clearly in the following table 4.1.

Table 4.1 shows the net worth of POFIL during the period of fiscal years 2062/063 to 2066/067. The study shows that the amount of capital is in increasing trend but its ratio to the net worth of the company is decreasing first three fiscal years and that after it is increasing trend. At the beginning of the study period it was Rs. 52 million which was 62.94% of the total net worth. It reached to Rs. 60 million in F.Y. 2064/065 and at the end of the study period it was RS. 312 million which was 78.83% of the total net worth of the POFIL. The study also shows that the amount of general reserve is increasing trend but it ratio to the net worth of the company is in the decreasing trend. General reserve was 23.84% of the net worth in the beginning period i.e. F.Y. 2062/063 but it was 12.58% in the last year i.e. F.Y. 2066/067. Another component of net worth is other reserve. There was no any other reserve included in the net worth of the company till F.Y. 2064/065. The amount of undistributed profit is in increasing trend all over the period. But its ratio to the net worth of the company is in fluctuating trend over the five fiscal years. The ratio to the net worth of undistributed profit was maximum in F.Y. 2064/065 with 24.47% and amount was Rs. 3.4 million. It ratio to the net worth was minimum in F.Y. 2066/067 with 7.5% and amount was Rs. 2.9 million. Table 4.1 has been shown in the figure no. 4.2

Figure : 4.1

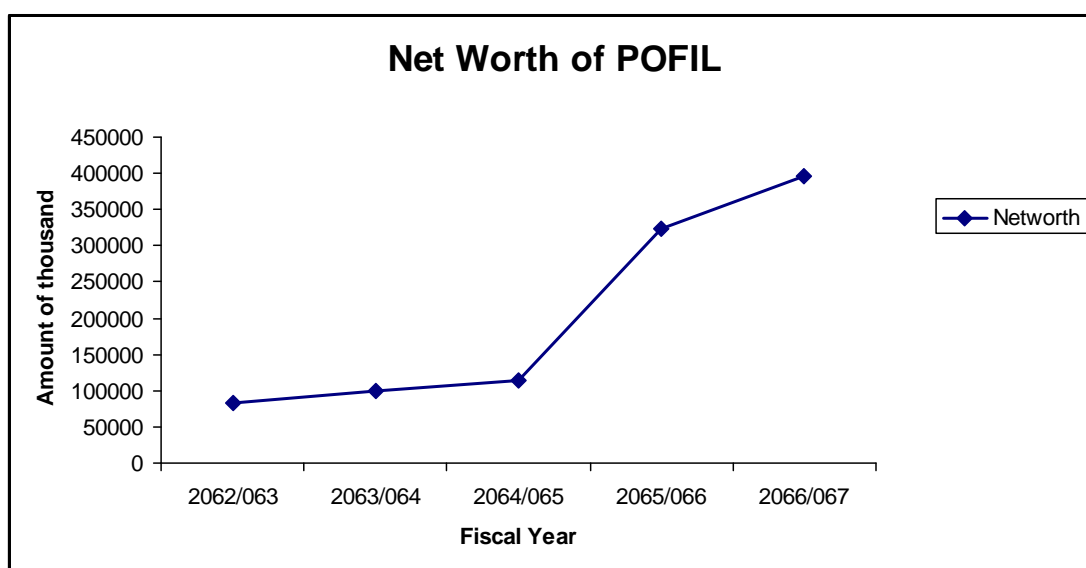


Figure 4.1 clearly shows the net worth of the POFIL during the study period. The amount of net worth is increasing trend over the period. The volume of deposits depends on net worth of the company. The relation of higher volume of net worth leads higher volume of deposits and lower volume of net worth leads lower volume of deposits. So the increasing trend of net worth indicates that the company has successes to increase value of deposits.

b) Deposit:

Deposits are the main sources of the finance company for lending and investment operations. According to Dynes, "loans are two children of deposits and deposits are two children of children of loans. Higher volume of deposits will be higher volume of lending and investment, which again generate higher volume of income. Higher volume of income or profit is the sign of sustainability.

The main source of finance for any finance company is to take deposit from its customers. One of the major function of finance company is to accept the deposit from depositors and invest in various sector. The POFIL is also so on. POFIL needs to mobilize fund in term of deposits as required to increase the volume of financial transaction for maximizing the profit. However the deposit taking limit for finance company has been fixed by NRB. They can take deposit on the basis of their capital net worth. The relation of higher volume of net worth leads higher volume of deposit and lower volume of net worth lead lower volume of deposits. So for accept more deposit, the company should increase in the net worth.

Finance company can accept different types of deposit from the three months to six year period. POFIL has following types of deposit.

- i) Fixed Deposit
- ii) Saving Deposit

- iii) Recurring Deposit
- iv) Provident Fund Deposit
- v) Other Deposit

i) Fixed Deposit

The main source of finance companies to advance loans and to invest in various sectors of the economy is fixed deposit. The finance company can utilize the money of fixed deposit in various sectors. Because the depositors fixed the period of time for 3 months to 6 years. The depositors can not get refund of the money before the due period. If depositors want to withdraw his/her money from fixed deposit before due date, the finance company make charge certain percentage. The interest rate will be fluctuated according to the situation. But fix on fixed deposits till mature date. The minimum amount of Rs. 5000 is required to operate this kind of deposit. Pokhara Finance Company Limited provides 9% to 13% interest for this fixed deposit.

ii) Saving Deposit

Finance company accepts saving accounts from individual and organizations. Purpose of saving deposit to encourage the habit of saving among the common people and institution. Saving deposits attract interest which is normally less than that of long term but more than that of short term deposit. They can raise saving deposit up to 25% of their total financial resources (Deposit and debt). The minimum amount required to this type of deposit is Rs. 1000.

iii) Recurring Deposit

In Nepal, finance companies introduce various type of recurring deposit schemes. These types of recurring deposits should not give the deposits option of liquidation before maturity. The concept of recurring deposit was developed to encourage the economical among the people of fixed regular earnings. In

recurring deposit scheme, the depositor is required to deposit the fixed amount in each installment and is repaid a fixed amount at maturity.

iv) Provident Fund Deposit

The employee of any organization, who's certain percentage of the salary deposit by monthly bimonthly or trimonthly in continuously and get back the total amount with interest only after the retirement is known as employee provident fund deposit. It is similar to recurring deposit but different between them is get back the amount. After certain fixed period, the total amount with interest will get back recurring deposit whereas only after retirement of job the total amount with interest will get back in employee provident fund deposit.

v) Other Deposit

There are other deposit as well children fund deposit is on of them. The finance companies even introduce various types of deposit schemes as there own names such as Pokhara Finance Company Limited introduce the schemes of Gorkha Bachat, Nari Bachat, PMO Bachat and Pokhara Finance membership deposit.

Pokhara Finance Company is operating under 5 kinds of deposit i.e. fixed deposit, saving deposit, recurring deposit, provident fund deposit and other deposit, during the study period. To analyze the deposit pattern of the POFIL, here deposit is categorized only two kinds i.e. fixed deposit and saving deposits. Provident fund deposit, recurring deposit and other deposit are also included in fixed deposit and saving deposit. The deposit pattern of the POFIL on these two categorizes is shown clearly in table 4.2

Table 4.2
Deposit Pattern of POFIL
F.Y. 2062/063 to F.Y. 2066/067

(Rs. in '000)

F.Y.	Fixed Deposit	%	Saving Deposit	%	Total Deposit	%
2062/063	535657	70.20	227399	29.80	763056	100
2063/064	533772	60.43	349450	39.57	883222	100
2064/065	570495	53.82	489418	46.18	1059913	100
2065/066	476749	44.48	595125	55.52	1071874	100
2066/067	450820	41.09	647690	58.96	1098510	100
Average		53.99		46.01		

Source: Annual, Report of POFIL

As Shown in table 4.2, the total deposit has been increasing all over the study period. The total deposit is maximum Rs. 1098510 thousand in the F.Y. 2066/067 and minimum with Rs. 763056 thousand in the F.Y. 2062/063. In the above table, the fixed deposit is 70.20% of the total deposit in F.Y. 2062/063 but in F.Y. 2066/067 it is 41.04% of the total deposit of the company. It shows that it is in the decreasing trend. In average fixed deposit during the study period is 53.99%. The saving deposit is 29.80% of the total deposit in F.Y. 2062/063 which is minimum percentage of saving deposit. But at the end of the study period i.e. 2066/067, the saving deposit percentage is 58.96, which is maximum percentage. The saving deposit to total deposit percentage is in increasing trend. It has average 46.01 percentage during the study period. The table 4.2 is shown in the figure 4.2

Figure 4.2

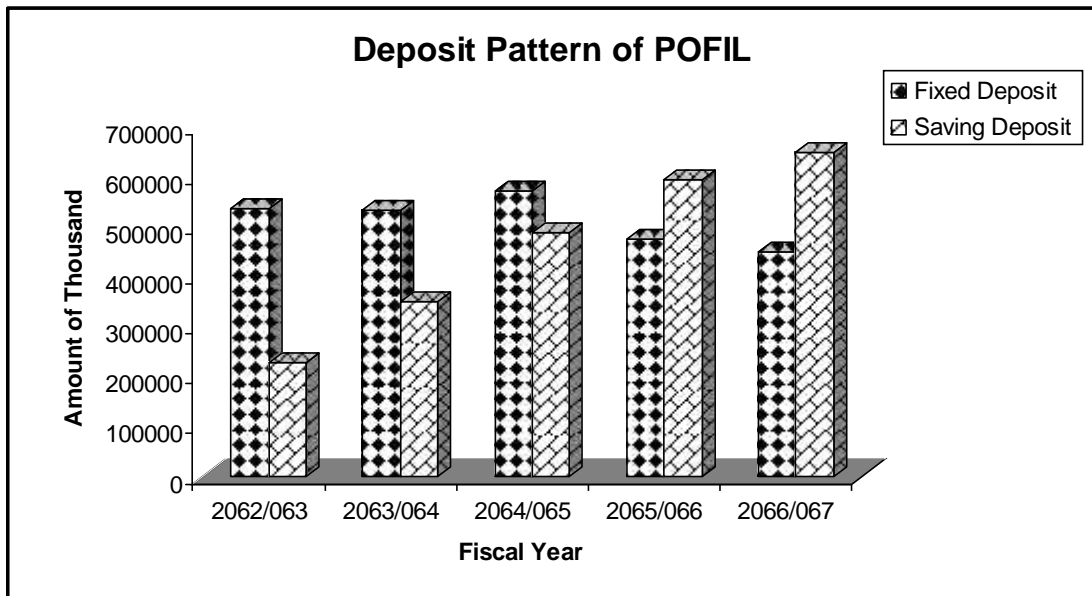


Figure 4.2 shows the deposit pattern of POFCL during the five years period from the F.Y. 2062/063 to F.Y. 2066/067. In the chart, there are two types of deposit where the fixed deposit amount is fluctuating but percentage is decreasing, the saving deposit amount is increasing trend. During the first three years of the study period fixed deposit is in first position but after that the saving deposit is in the first position. The position of the deposit is better in the saving deposit as comparison to the fixed deposit.

c) Borrowing

Borrowing from other banks or financial institution is also a source of finance. Borrowing is depend on fund needed and interest rate. If the interest rate of borrowing is less than deposit at that time company can borrow but if interest rate of borrowing is higher than deposit the borrowing is no favorable. If there is opportunity in investment and the fund is not sufficient, at that time borrowing is very necessary and suitable instrument of the company. POFIL has been borrowed Rs. 40 million from banks and financial institution in F.Y. 2063/064. There is no any borrowing other four years.

d) Issue of Bond and Debenture

Finance company can collect their fund from issue of bond and debenture. But there is no more practice in our capital market our capital market is in stage of developing. There is no enough knowledge about bond and debenture and trusty and worthiness of it. So this kind of instrument can be not use in our capital market. However, issue of bond and debenture are also source of finance for the finance company. This type of source can be use when; our financial or capital market becomes developed. So, POFIL has never used this type of source till date.

4.1.2 Financial Analysis

The financial sustainability is one of the major aspects of an organization. It can be evaluated on the basis of financial analysis. Financial analysis is the process of selection, relation and evaluation of strengths and weakness of financial activities of the organization. Actually financial analysis deals with the financial activities in the organization. The financial analysis is the most important part of POFIL. It is the indicator of financial sustainability of the POFIL. The financial analysis indicator includes income analysis and expenditure analysis. To some extain, income and expenditure of the POFIL is performing its financial sustainability. So the financial sustainability plays crucial role to sustain an organization.

4.1.2.1 Income Analysis

Income reflects the productivity of the finance company in mobilizing the available resource. It measures whether the annual income of POFIL in increasing or not. If other conditions are stratified the increasing trend of income indicates the sustainability of the transaction or activities. In other words, it measures how the POFIL is financial able to generate incomes to sustain its activities. Interest income, commission and discount income, foreign

exchange transaction income, write off are included in total income. The annual income ratio is calculated by following formula.

$$\text{Annual Income Rate (\%)} = \frac{\text{Income in a year}}{\text{Total Income}} \times 100$$

Table 4.3
Income of POFIL by Year

(Rs. in '000)

F.Y.	2062/063	2063/064	2064/065	2065/066	2066/067	Total
Income	98083	110292	131783	169690	191848	701696
Yearly Income (%)	13.98	15.72	18.78	24.18	27.34	100

Source: Annual Report of POFIL

Table 4.3 shows the yearly income of the POFIL. In aggregate, POFIL has Rs. 701696 thousand. In F.Y. 2062/063 POFIL has Rs. 98083 thousand with 13.88% of the total income amount. Similarly, it has 15.72%, 18.78%, 24.18% and 27.34% of the total income amount in F.Y. 2063/064, 2064/065, 2065/066 and 2066/067 respectively. From this it is seen that, yearly income of the POFIL is in increasing trend. The yearly income of the POFIL is maximum in F.Y. 2066/067 with amount Rs. 191848 and minimum in F.Y. 2062/063 with amount Rs. 98083 during the study period. Table 4.3 has been shown in figure 4.3.

Figure 4.3

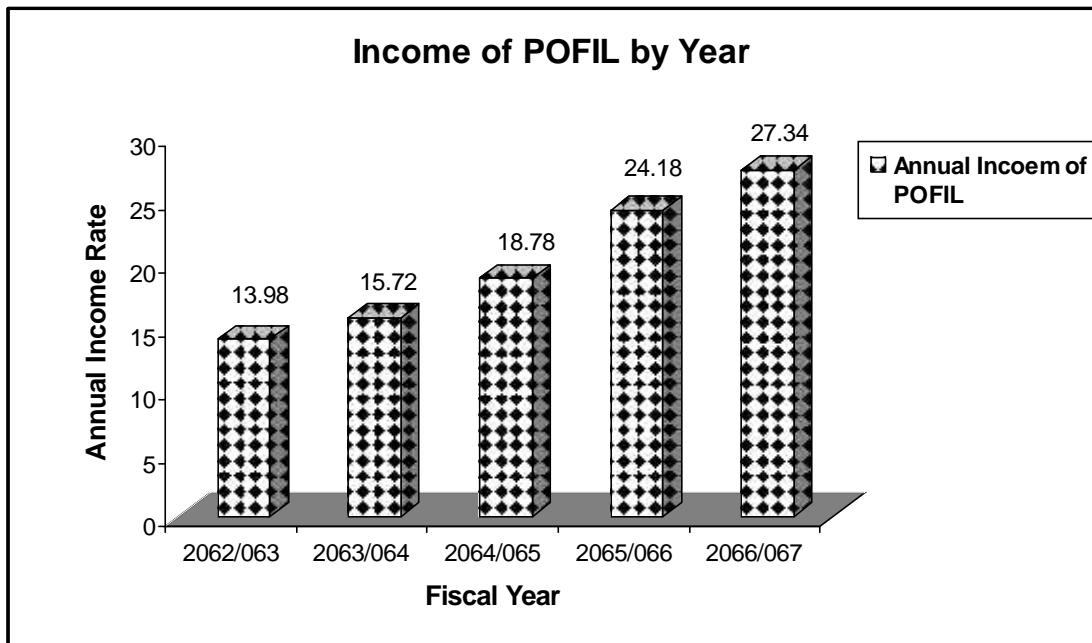


Figure 4.3 shows the annual income rate of the POFIL. The annual income rate is increasing trend all over the study period. The figure shows that the highest annual income rate is 24.34 percent in the F.Y. 2066/067 and the lowest annual income rate 13.98 percent in the F.Y. 2062/063. Higher ratio indicates the high level of income and lower ratio indicates the low level of income.

4.1.2.2 Expenditure Analysis

The expenditure which is allocated by POFIL based on its funds is made to achieve the organization objective. The expenditure measure the capability of the POFIL in accomplishing the target goals in a given period of time. The overall expenditure amount includes the interest expenses, employee expenses and other operating expenses. The annual expenditure ratio is calculated by following formula.

$$\text{Annual Expenditure Raito (\%)} = \frac{\text{Expenditure in a year}}{\text{Total Expenditure}} | 100$$

The annual expenditure rate is computed by dividing expenditure in a year by total expenditure. The higher rate of the annual expenses indicates the high level of expenses and lower rate indicates the low level of expenditure. In general, decreasing cost is suitable for the company. The annual expenditure ratio is shown in the following table 4.4.

Table 4.4.

Expenditure of POFIL by Year

(Rs. in '000)

F.Y.	2062/063	2063/064	2064/065	2065/066	2066/067	Total
Expenditure	59549	66851	82947	80336	100442	390125
Yearly Expenditure (%)	15.26	17.14	21.26	20.59	25.75	100

Source: Annual Report of POFIL

Table 4.4. shows that summary of yearly expenditure of the POFIL during the study period. In F.Y. 2062/063 the expenditure amount is Rs. 59549 thousand which is 15.26% of the total expenditure amount of the POFIL. Similarly, expenditure rate is 17.14%, 21.26%, 20.59% and 25.75% of the total expenditure with amount Rs. 66851 thousand, Rs. 82947 thousand, Rs. 80336 thousand and Rs. 100442 thousand in the F.Y. 2063/064, 2064/065, 2065/066 and 2066/067 respectively. The trend of yearly expenses also seems gradually increasing over the study period. But in year 2065/066 the rate has been decrease as comparison to the other year i.e. 2064/065. The 4.4 table has been shown is the following figure 4.4.

Figure 4.4

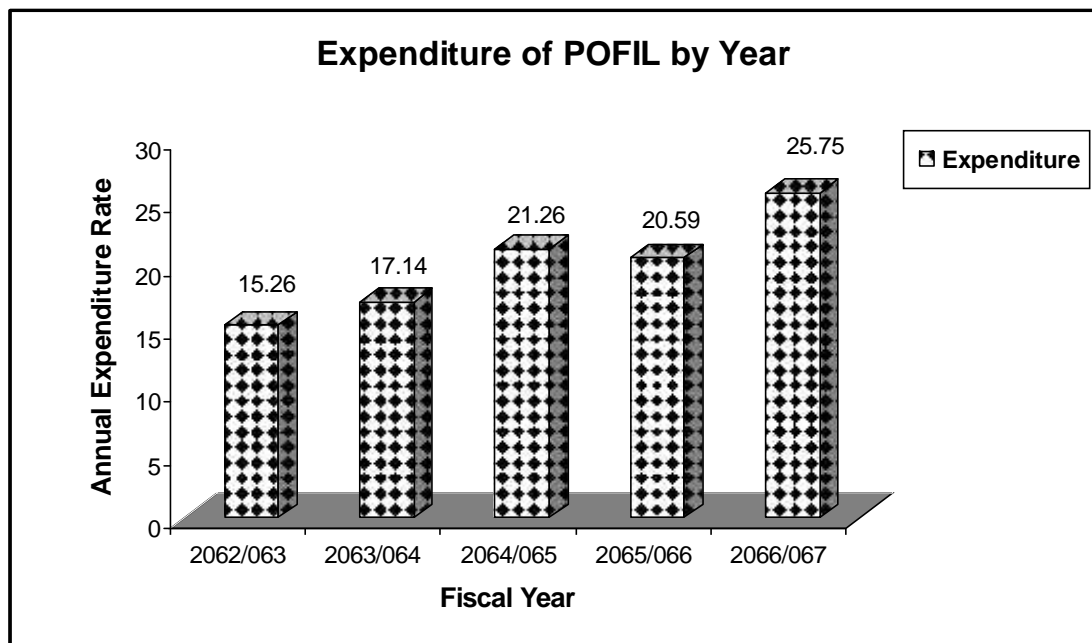


Figure 4.4 clearly shows the annual expenditure rate of the POFIL. In this figure, the expenditure rate is increasing first three fiscal years that after it is decreased one year and then it has been increased in fiscal year 2066/067. The expenditure rate is maximum in the F.Y. 2066/067 with 25.75% and minimum in the F.Y. 2062/063 with 15.26%.

4.1.3 Financial Performance Analysis

Ratio analysis is one of the major tools of assessing financial performance of the organization. Ratio analysis is a widely used tool of financial analysis. A ratio is defined as the relationship between two or more variables. So, it needs two items to calculate the ratio. Single items have no meaning in the sense of ratio analysis. Therefore, ratio analysis is a comparison between two items. Ratio can be expressed in the terms of percentage, fraction and proportion.

Financial performance is the another indicator of financial sustainability of the POFIL. In this section to analyze the financial performance some ratio has been analyzed. The analysis is based on financial statement of the POFIL. The major

tools of analysis have been presented below which helps to know the sustainability position of the company.

4.1.3.1 Liquidity Ratio

According to Gullinger and Healy, the concept of 'liquidity' refers to an organization's ability to meet demands for cash as they arise. In the banking environment, the demand for funds stems mainly from two sources namely customers withdrawing money from their deposits and credit requests from customers. Liquidity is also demanded for paying off borrowings made by the banks and financial institutions and for paying income tax, dividends and other regular expenditure from time to time (Report, NRB, 2005).

Liquidity is defined as the capacity to pay cash in exchange of deposits. Liquidity analysis is the first concern of any financial institutions because it addresses the speed at which the assets can be converted in to cash. There should be adequate liquidity position in the company in order to meet the demand liabilities of the general public or the creditors of the community. But, inadequate liquidity does damage credit standing of the organization as well as it leads the company to lose the trust of the public if they fail to repay deposits on demand which may probably lead the company to bankruptcy. Generally, current ratio and quick ratio are calculated to find out the liquidity position of the firm. But these two ratio are considered inappropriate for measuring the liquidity position of the financial institutions and rather applicable in other types of business organization. As liquidity's the life line of financial institutions, they should maintain liquidity in the form of cash and bank balance, investment in govt. securities and other securities and readily convertible in to cash. However, a financial institutions liquidity and solvency are directly affected by portfolio quality. So the following measures of liquidity analysis has been calculated.

a) Cash and Bank Balance to Deposit Ratio

Cash and bank balance are the form of highly liquid assets which is the life line for the company. Cash and bank balance to deposit ratio measures the percentage of most liquid fund with the financial institutions to meet the short-term obligations. It measures overall liquidity position. With regard to this ratio, balance ratio should be maintained. Because, if there is high cash ratio, it has to pay more interest on deposits and may have to suffer loss while if there is low cash ratio then the company cannot meet its obligations or demands of the public immediately. So, they should maintain sufficient and appropriate cash reserve in order to meet their short-term obligations. This ratio is computed by dividing cash and bank balance by total deposits. This ratio of POFIL has been tabulated below. (Detail in appendix no.1)

Table 4.5

Cash and Bank Balance to Total Deposit Ratio

Cash and Bank Balance to Total Deposit Ratio(%)	Fiscal Year					Mean	S.D.	C.V. (%)
	2062/063	2063/064	2064/065	2065/066	2066/067			
	3.42	2.08	2.21	2.40	2.42	2.51	0.45	17.93

Source: Annual, Report of POFIL

Table 4.5 shows that cash and bank balance to total deposit ratio of POFIL during the period of fiscal year 2062/063 to 2066/067. This ratio is decreased with slightly increasing trend. The ratio has ranged from 2.08% to 3.42%. The mean ratio of the study is 2.51%, standard deviation is 0.45% and the coefficient of variation is 17.93%. On the basis of coefficient of variation it can be concluded that the ratios are variable and less consistent. The table 4.5 has been shown in figure 4.5 as follows.

Figure 4.5

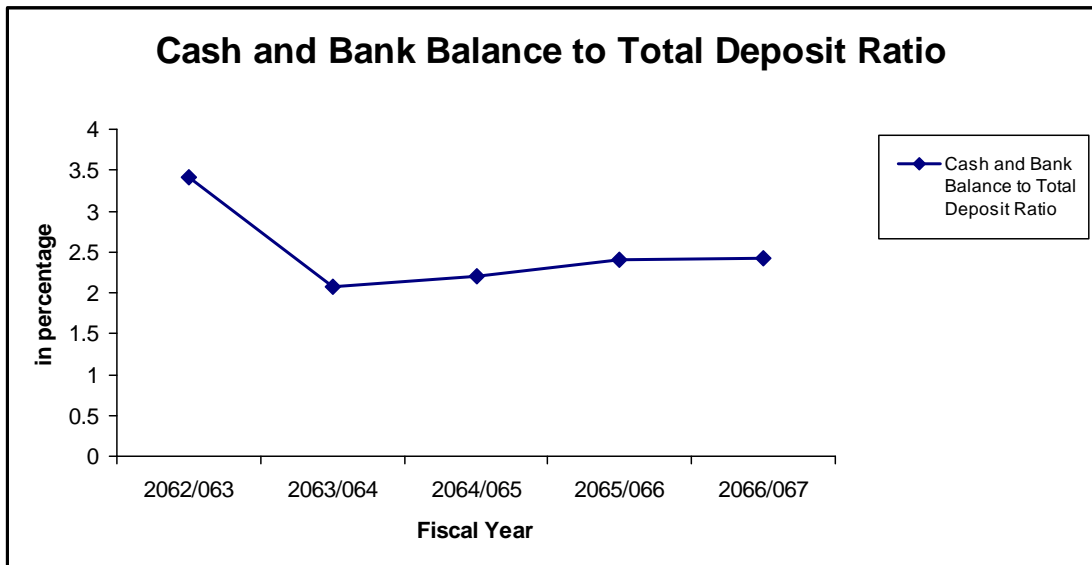


Figure 4.5 shows cash and bank balance to total deposit ratio of the POFIL with in the study period of last five years. The cash and bank balance to total deposit ratio is maximum in F.Y. 2062/063 with 3.12 percentage and minimum in F.Y. 2063/064 with 2.08 percentage. This ratio is decreasing trend as comparison to the first years. But after one year it is slightly increasing in last three years.

b. NRB Balance to Total Deposit Ratio

The NRB balance to total deposit ratio shows whether the financial institution is holding the balance as required to NRB. To ensure adequate liquidity in the financial institution to meet the depositors demand for cash at any time, to inject the confidence in depositors regarding the safety of their deposit funds. NRB has put the directive to maintain certain percent of total deposit in NRB by the FIs. Total deposits means current, saving and fixed deposit account as well as call account deposit and certificates of deposits. This ratio is computed by dividing NRB balance by total computed by dividing NRB balance by total deposit. NRB balance to total deposit ratio of the POFIL has been tabulated through out the concerned fiscal years as below. (Details in appendix no.2)

Table 4.6
NRB Balance to Total Deposit Ratio

NRB Balance to Total Deposit Ratio(%)	Fiscal Year					Mean	S.D.	C.V. (%)
	2062/063	2063/064	2064/065	2065/066	2066/067			
	3.39	2.05	2.08	2.23	1.86			

Source: Annual Report of POFIL

Table 4.6 clearly shows the NRB balance to total deposit ratio of the POFIL over the study period. POFIL has been able to maintain the appropriate liquidity by maintaining balance as per the directives of NRB. But in the last year it has not been able to maintain the adequate liquidity position because the company must not manage such kind of enough liquidity position. Finance companies have to manage 2% of deposit liability in NRB according to NRB directives. However, in overall POFIL has been able to maintain the liquidity position. The ratio has ranged from 3.39% to 1.86%. The mean ratio is 2.32% and the coefficient of variation (C.V.) is 23.71% which indicates that there is variable and less consistency due to the coefficient of variation. The table is shown in figure 4.6 as follows.

Figure 4.6

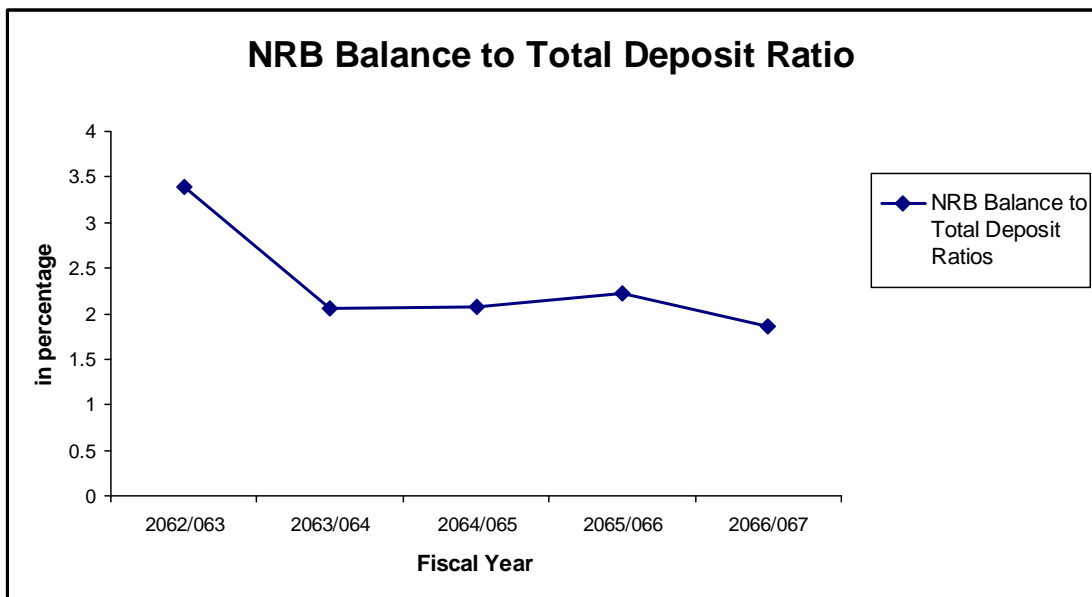


Figure 4.6 shows the NRB balance to total deposit ratio of POFIL. The ratio is decreasing trend as comparison to the first year. The ratio is 3.39% in F.Y. 2062/063 which is the maximum ratio of the company. Similarly the minimum ratio is 1.86% in F.Y. 2066/067. However they were able to maintain the adequate liquidity so that they can meet the current obligation of the customers at the time of withdrawal and maturity.

4.1.3.2 Efficiency Ratio

Efficiency ratio is also known as turnover ratio or activity ratio or asset management ratio. They provide the measure for how effectively the firm's assets are being managed (Poudel, Baral and Gautam, 2007). Every financial institution must be able to manage its assets properly, to earn high profit maintaining appropriate level of liquidity. To measure the efficiency of the POFIL, the following measure of efficiency ratio has been calculated and its analysis has been done below.

a) Loans and Advances to Total Deposit Ratio

The loans and advances to total deposit ratio measures the extent to which company are successful in utilizing outsiders fund (i.e. total deposit) in the form of extending loans and advances. A high ratio represents the greater efficiency to utilize the funds provided by the outsiders (i.e. total deposit) and lower the ratio represents the lower efficiency to utilize the funds provided by the outsiders. But, it should be noted that too high ratio might not be better from the view point of liquidity. Loans and advances to total deposit ratio of the POFIL has been tabulated below. (Details in appendix no. 3)

Table 4.7

Loans and Advances to Total Deposit Ratio

Loan and Advance to Total Deposit Ratio(%)	Fiscal Year					Mean	S.D.	C.V. (%)
	2062/063	2063/064	2064/065	2065/066	2066/067			
	93.13	93.47	81.26	109.10	124.42	100.26	14.96	14.92

Source: Annual Report of POFIL

The 4.7 clearly shows the loans and advances to total deposit ratio of the POFIL during the five fiscal years. The loans and advances to total deposit ratio is maximum in year 2066/067 with 124.42% and minimum in year 2064/065 with 81.16%. The mean ratio is 100.26%, standard deviation is 14.96% and coefficient of variation is 14.92%. On the basis of C.V. it can be concluded that the ratios are consistent with less variable over the study period. The table 4.7 has been shown in figure 4.7 as follows.

Figure 4.7

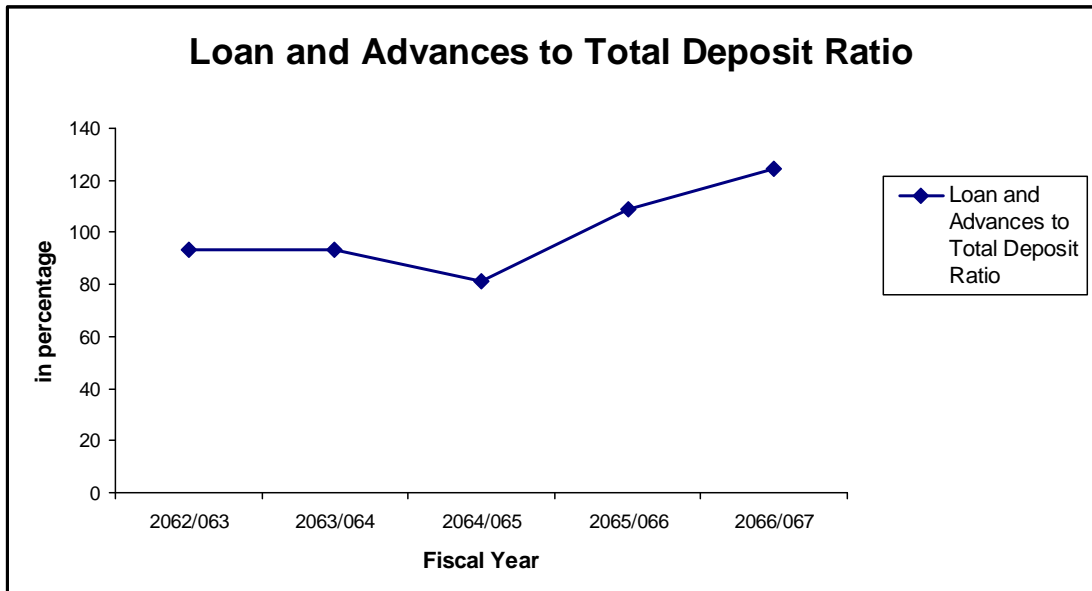


Figure 4.7 shows the observed loan and advances to total deposit ratio of the POFIL. The trend shows that F.Y. 2063/064, there is slightly increased but in

F.Y. 2064/065, the ratio has been decreased and finally in F.Y. 2065/066 to F.Y. 2066/067, there is increasing trend in loans and advances to total deposit ratio. However the loans and advances to total deposit ratio is increasing trend. This shows that the POFIL has been able to utilize the outsider's funds in extending credit to further profit generation.

4.1.3.3 Profitability Ratio

Profitability is the result of a number of policies and decision. Profit is a circulating blood of any financial organization. The ratio examine thus for provide some information about the way of firm is operating but the profitability ratio shows the combined of the liquidity assets management and debt management on operating result. Finance companies have no future if they failed to make sufficient profit. They can not survive without surplus. Therefore, they have to generate necessary amount of profit for sustain.

Profitability ratios show the combined effects of liquidity, asset management and debt management on operating results. It measures the earning of the company for a certain period (Thapa and Koirala, 2007). Profitability ratio measures the overall efficiency of the organization and these ratio are compared with the past ratios of the firm or a given a standard to whether the company is improving or deteriorating. Hence, profitability ratio is regarded as a control measure of the earning power and operating efficiency of a firm. The profitability ratio related on profit of an organization following ratio are given below.

a) Return on Assets

This ratio is also called profit to assets ratio. This ratio is the relationship between net income and total assets of the organization. It measures the profitability of the different sources of funds, which finance the total assets. It indicates the power of finance company and shows how the assets are utilized.

A higher ratio indicates total assets are used effectively and lower ratio indicates poor utilization of the total assets. This ratio is computed by dividing net income after tax by total assets. The return on total assets of the POFIL has been presented in table 4.8. (Details in appendix no. 4)

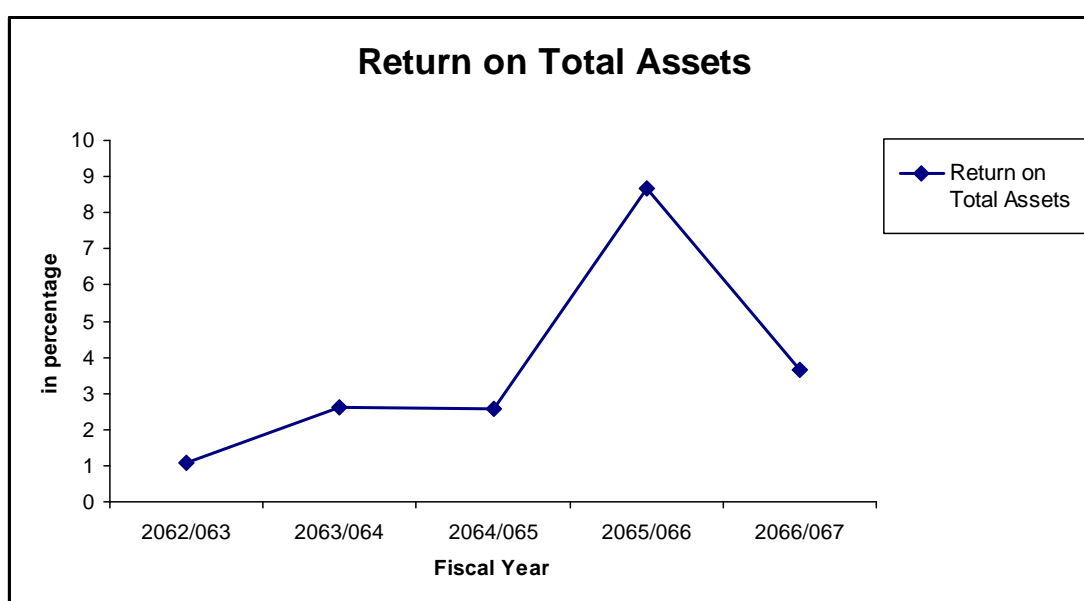
Table 4.8
Return on Total Assets

Return on Total Assets Ratio (%)	Fiscal Year					Mean	S.D.	C.V. (%)
	2062/063	2063/064	2064/065	2065/066	2066/067			
	1.08	2.61	2.59	8.66	3.67	3.73	2.57	69.09

Source: Annual Report of POFIL

Table 4.8 shows that return on total assets ratio of POFIL during the five fiscal years. The ratio of return on assets is increasing trend as comparison to the first year. But it has been decreased in the last year as comparison to the fourth year. However, the ratio of POFCL has fluctuating trend. The maximum ratio is 8.66% in F.Y. 2065/066 and the minimum 1.08% in the F.Y. 2062/063. The mean ratio is 3.72% and the coefficient of variation is 69.09% which indicates that there is more variable and lack of consistency due to the higher coefficient of variation. The table 4.8 has been shown in figure 4.8 as follows.

Figure 4.8



The figure 4.8 exhibits that return on total assets of the POFCL. The ratio is high in F.Y. 2065/066 with 8.66% and low in F.Y. 2062/063 with 1.08%. This indicates that there is high efficiency in utilizing overall resources in the fiscal year 2065/066 but in last year i.e. F.Y. 2066/067 profit has gone down as comparison to the fourth year.

b) Return on Equity

The return on equity ratio helps to show the return earned on the owners investment. This ratio states how well the firm has used the resources of the owners to earn the profit. The ratio is computed by dividing net profit after tax by total equity. Higher the return on equity is more favorable for the shareholders, which represents the sound management and efficient mobilization of the owners equity. The return on equity ratio is tabulated below. (Details in appendix no 5)

Table 4.9
Return on Equity

Return on Equity Ratio(%)	Fiscal Year					Mean	S.D.	C.V. (%)
	2062/063	2063/064	2064/065	2065/066	2066/067			
	11.69	28.52	28.29	43.65	14.46	25.32	11.48	45.34

Source: Annual Report of POFIL

Table 4.9 depicts the return on equity of POFIL. In the F.Y. 2062/063, return on equity is 11.69% and it has been increased in F.Y. 2063/064 with 28.52%. Then after the ratio has been decreased in F.Y. 2064/065 with 28.29% and it has been highly increased in F.Y. 2065/066 with 43.65% which is the maximum ratio during the study period. But, in F.Y. 2066/067, the ratio decreased and reached to 14.46%. In overall the return on equity ratio is fluctuating trend over the study period. The mean ratio is 25.32% with 45.34% of coefficient of variation between them. On the basis of C.V. it can be

concluded that there is more variable and less consistent. The table 4.9 is shown in the figure 4.9 below.

Figure 4.9

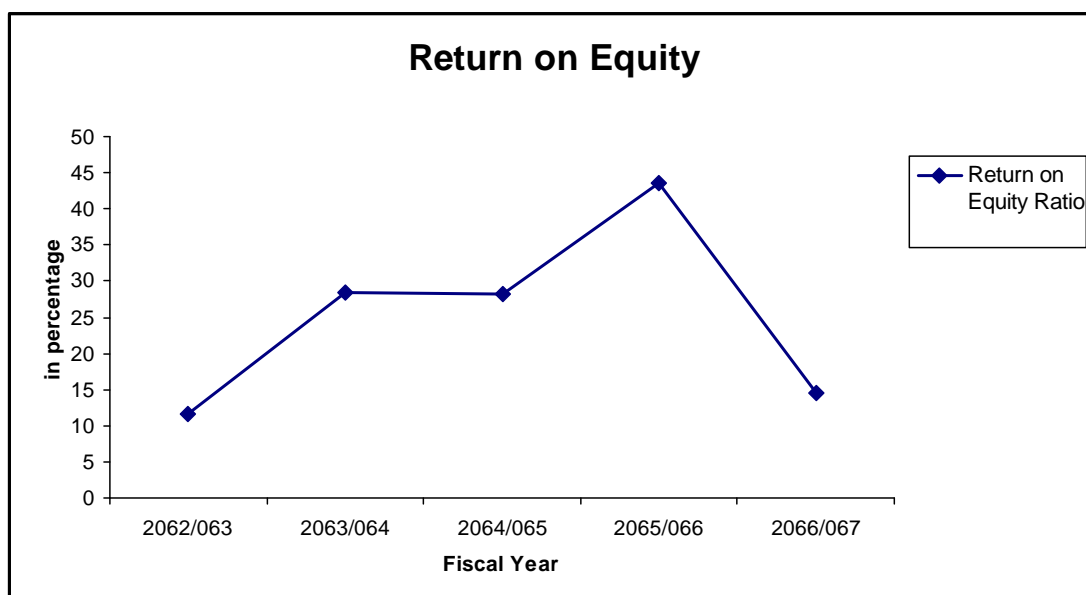


Figure 4.9 exhibits the observed return on equity of the POFIL. It shows that return on equity of POFIL has increasing and decreasing trend in the period of five years. That mean the ratio is fluctuating trend all over the year. The ratio is maximum in year 2065/066 with 43.65% and minimum in year 2062/063 with 11.69%.

C) Return on Total Deposit Ratio

This ratio examines the condition of mobilization and utilization of deposits. It also indicates overall performance of POFIL. This ratio is most important to identify whether the organization is well efficient enough to mobilize its total deposits. This ratio is computed by dividing net profit after tax by total deposits. The higher ratio indicates better utilization of deposit and lower ratio indicates lower utilization of deposits. The return on deposit ratio of POFIL has been tabulated below. (Details in appendix no. 6)

Table 4.10

Return on Total Deposit Ratio

Return on Total deposit Ratio(%)	Fiscal Year					Mean	S.D.	C.V. (%)
	2062/063	2063/064	2064/065	2065/066	2066/067			
	1.27	3.18	3.02	13.14	5.21	5.16	4.18	81

Source: Annual Report of POFIL

Table 4.10 shows the return on total deposit ratio of POFIL over the period which are ranged from 1.27% to 13.14%. The return on total deposit ratio is fluctuating all over the study period. The mean ratio is 5.16%, standard deviation is 4.18% and coefficient of variation is 81% which indicates that, there is more variable and lack of consistency due to the higher coefficient of variation. The table 4.10 has been shown as follows.

Figure 4.10

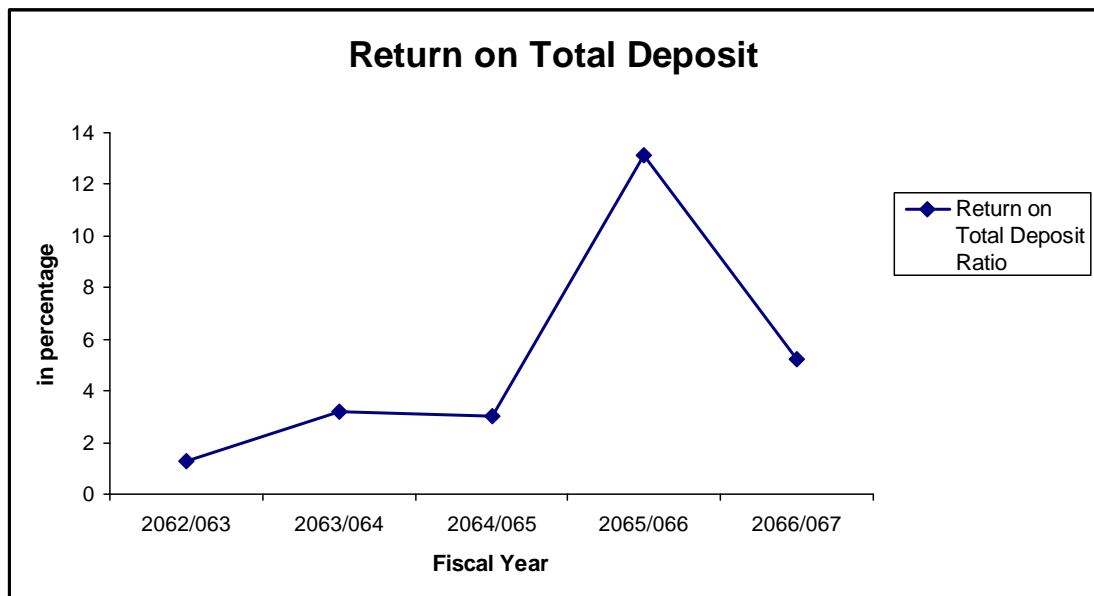


Figure 4.10 exhibits the observed return on total deposit ratio of the POFIL during the five fiscal years. In this figure, the ratio curve indicates fluctuation of ratio in alternative years. The ratio in 2062/063 stood at 1.27% which later

increasing the year of 2063/064. After the year 2063/064 the ratio slightly decreasing in 2064/065. In year 2065/066 the ratio is too high then after the ratio has been decreased in F.Y. 2066/067. The F.Y. 2065/066 shows that there is better utilization of deposit of the organization.

d) Interest Earned to Total Assets Ratio

This ratio measures the percentage of interest earned in relation to total assets of the finance companies. This ratio is dependent upon interest income and total assets. This ratio helps to find out how total assets are mobilized to generate interest of the organization. Finance companies invest their deposits to generate certain rate of interest. Generating interest is the main sources of income for finance companies. The interest earned to total assets ratio is computed by dividing interest earned by total assets. The higher ratio of interest earned to total assets reflects the better efficiency in utilizing the resources in income generating sectors and low ratio indicates the lower efficiency in utilizing total assets or poor mobilization of assets. The interest earned to total assets ratios of POFIL has been tabulated below. (Details in appendix 7)

Table 4.11

Interest Earned to Total Assets Ratio

Interest Earned to Total Assets Ratio(%)	Fiscal Year					Mean	S.D.	C.V. (%)
	2062/063	2063/064	2064/065	2065/066	2066/067			
	9.79	9.97	10.05	9.64	11.48	10.19	0.60	5.89

Source: Annual Report of POFIL

The above table 4.11 shows that the interest earned to total assets ratio over the study period. The interest earned to total assets ratio is ranged from 9.64% to 11.48%. The mean ratio is 10.19%, standard deviation is 0.60% and the coefficient of variation is 5.89% which indicates that, the POFIL is able to

generate interest on its total assets. The interest earned to total assets ratio of F.Y. 2066/067 is higher than that of other fiscal years which indicates that the POFIL has been succeed to earn better income from total assets. But the interest earned to total assets ratio of 2065/066 is minimum with 9.64% which indicate that lower utilization of resources than the other years. The coefficient of variation is low which shows that the ratios are consistent with less variable. The 4.11 table has been shown in figure 4.11 as follows.

Figure 4.11

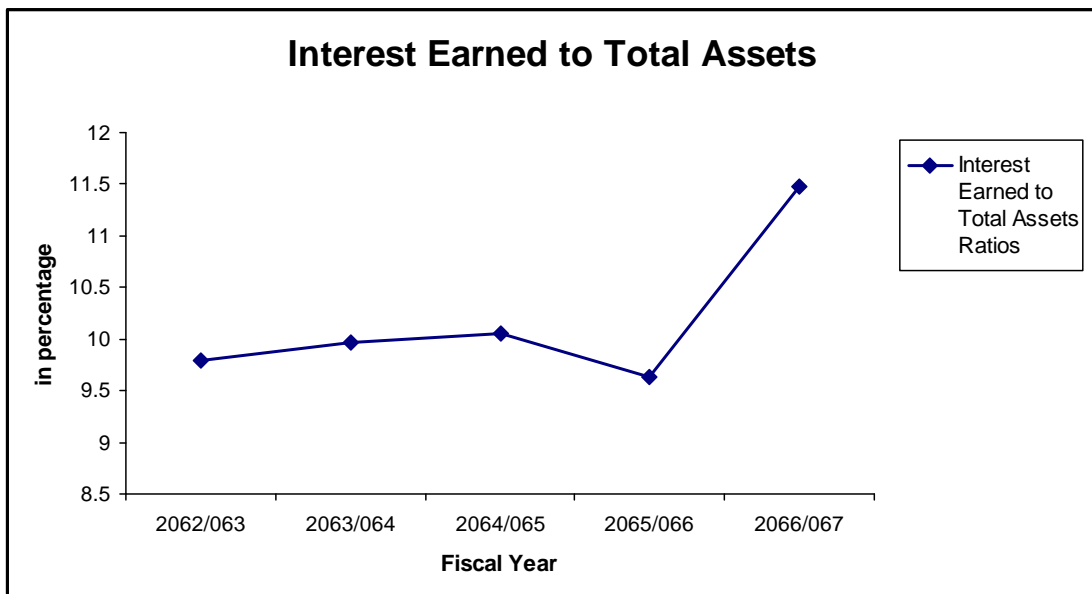


Figure 4.11 shows the interest earned to total assets ratio over the period. From the F.Y. 2062/063 to 2064/065 ratio has increased but in F.Y. 2065/066 the ratio has been decreased. In F.Y. 2066/067 it has been increased. The interest earned to total assets ratio is minimum in F.Y. 2065/066 with 9.64% and maximum in F.Y. 2066/067 with 11.48%.

e) Return on Investment

Return on investment measures the overall effectiveness of management in generating profit with its available sources. The return on investment ratio is computed by dividing net profit after tax by total investment. The higher return

on investment ratio indicates the better operation of the organization and lower indicates poor operation of the organization. The return on investment ratio has been tabulated below. (Details in appendix no. 8)

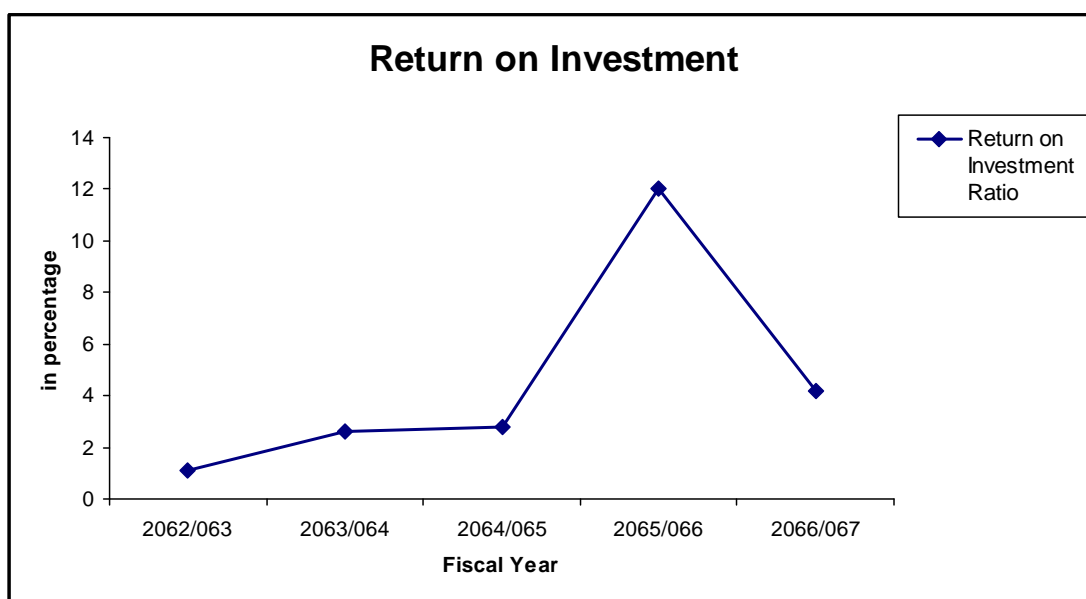
Table 4.12
Return on Investment Ratio

Return on Investment Ratio(%)	Fiscal Year					Mean	S.D.	C.V. (%)
	2062/063	2063/064	2064/065	2065/066	2066/067			
	1.13	2.62	2.79	12.02	4.18	4.55	3.86	84.84

Source: Annual Report of POFIL

Table 4.12 clearly shows that the return on investment of the POFIL. The return on investment ratio has been increased from 2062/063 to 2065/066 and then after it has been decreased in F.Y. 2066/067. In overall this ratio is increased with fluctuation which indicates that the POFIL has been able to manage in generating profit with its resources to some extent. The mean ratio is 4.55% and standard deviation 3.86% and coefficient of variation is 84.84%. On the basis of C.V. it can be concluded that the ratio are more variable and less consistent. Table 4.12 is shown in figure 4.12 as follows.

Figure 4.12



The figure 4.12 exhibits the return on investment ratio of the POFIL over the periods which is increasing and decreasing trend. The maximum ratio is 12.02% in F.Y. 2065/066 and minimum 1.13% in F.Y. 2062/063. The figure shows that the ratio curve is increasing trend in first four years and then after it has been decreased in last year. It is due to the less management of its available resources.

4.1.3.4 Capital Structure Ratio

The capital structure ratio is known as debt management ratio, leverage ratio. It is measure of long-term solvency of a firm (Poudel and Baral, 2007). Finance Companies can collect debt from two sources. One of them is short-term sources and another is long term sources. Short term loan is collected from deposits from customers, short term bank loan, other short-term borrowers and creditors. Short-term creditors would examine the current financial soundness. The long term debt or loan can be collected from debenture and loans from financial institutions. Long term creditors examine the current as well as long term sounders of the organizations.

Debt is a risky thing. Finance Company has to pay interest to creditors whether it is making profit or committing losses. When the company failed to pay interest to the creditors they can take legal action against the company for liquidation. Therefore the management should good manage of debt. Capital structure ratio can measure the long-term financial soundness of the company. The following measures of capital structure ratio has been calculated.

a) Total Debts to Total Assets Ratio

The total debt to total assets, simply known as debt ratio. It indicates the extent of debt financing on the total assets and measures the financial security to the outsiders. It is computed by dividing the total debt by total assets. Low debt assets ratio, from the creditor's point of view, is significant because they

receive a cushion of protection against the losses at the time of liquidation. But, the firm's management or owner's point of view, the low debt to assets ratio is not better to the organization. They are interested in high debt ratio because it saves tax which helps to increase in earning on the one hand and enables them to maintain their control over the corporation on the other. This ratio of the POFIL has been tabulated below. (Details in appendix no. 9)

Table 4.13
Total Debt to Total Assets Ratio

Total Debt to Total Assets Ratio(%)	Fiscal Year					Mean	S.D.	C.V. (%)
	2062/063	2063/064	2064/065	2065/066	2066/067			
	85.64	85.54	85.88	65.90	70.37	78.67	6.68	11.03

Source: Annual Report of POFIL

Table 4.13 shows that the total debt to total assets ratio of POFIL during the study period. The debt ratio is fluctuating over the study period. The ratio is minimum in F.Y. 2065/066 with 65.90% and maximum in F.Y. 2064/065 with 85.88%. The mean ratio is 78.67%, standard deviation is 6.68% and coefficient of variation is 11.03%. On the basis of C.V. it can be concluded that the ratio are consistent and less variable. Table 4.13 has been shown in figure 4.13 as follows.

Figure 4.13

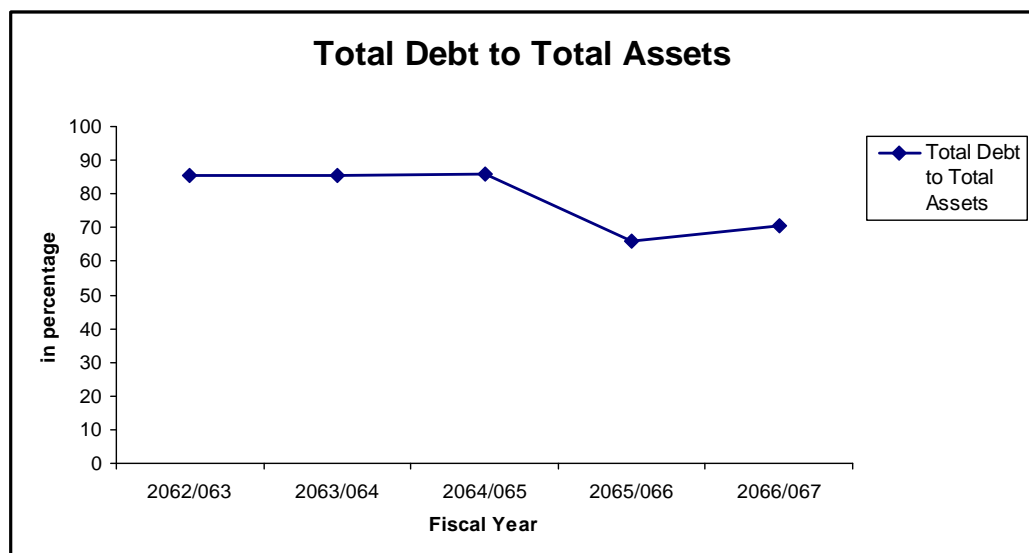


Figure 4.13 shows the debt ratio of the POFIL over the study period. In this figure, the curve indicates fluctuation of the debt ratio in the alternative years. The debt ratio has ranged from 65.90% to 85.88%.

b) Total Debts to Equity Ratio

Debt equity ratio is the most widely used leverage ratio to evaluate the long term solvency of the organization. This ratio expresses the relationship between debt capital and equity capital and reflects the relative claim of them on the assets of the organization. Debt equity ratio measures financial risk both by creditors as well as by the organization. The total debt to equity ratio is computed dividing by total debt by equity. A high debt equity ratio indicates greater contribution at a firm's financing by creditors than those of shareholders. From the creditor's point of view, they are interested in low debt equity ratio because it provides a cushion of protection against losses at the time of liquidation. From the owner's point of view, they are also interested in low debt equity ratio because it reduces creditor's unnecessary pressure and intervention in to the firm's management. But it is noted that, a very low debt equity ratio is unfavorable from the company's point of view. If the ratio is lower then it is difficult to take leverage advantage. Similarly a very high debt equity ratio is also unfavorable from the company's point of view. High ratio is risky. In this condition, company can not earn enough surplus even to pay interest to the creditors. When the company's earning is in high rate, it is better to leverage in capital structure. Thus, appropriate debt to equity ratio should be maintained by the organization. The debt to equity ratio of POFIL has been tabulated below.

Table 4.14

Total Debts to Equity Ratio

Total Debts to Equity Ratio(Times)	Fiscal Year					Mean	S.D.	C.V. (%)
	2062/063	2063/064	2064/065	2065/066	2066/067			
	8.71	8.44	8.65	3.44	2.87	6.42	2.68	41.79

Source: Annual Report of POFIL

Table 4.14 clearly shows the total debts to equity ratio of the POFIL during the five fiscal years. The ratio is ranged from 2.87 times to 8.71 times during the study period. The ratio of debts to equity ratio is decreasing trend during the study period. The decreasing trend indicates that the POFIL has low leverage ratio. The mean ratio is 6.42 times standard deviation is 2.68 times and coefficient of variation is 41.74%. It indicates that the ratio are less consistent. The table 4.14 is shown in figure 4.14 as follows.

Figure 4.14

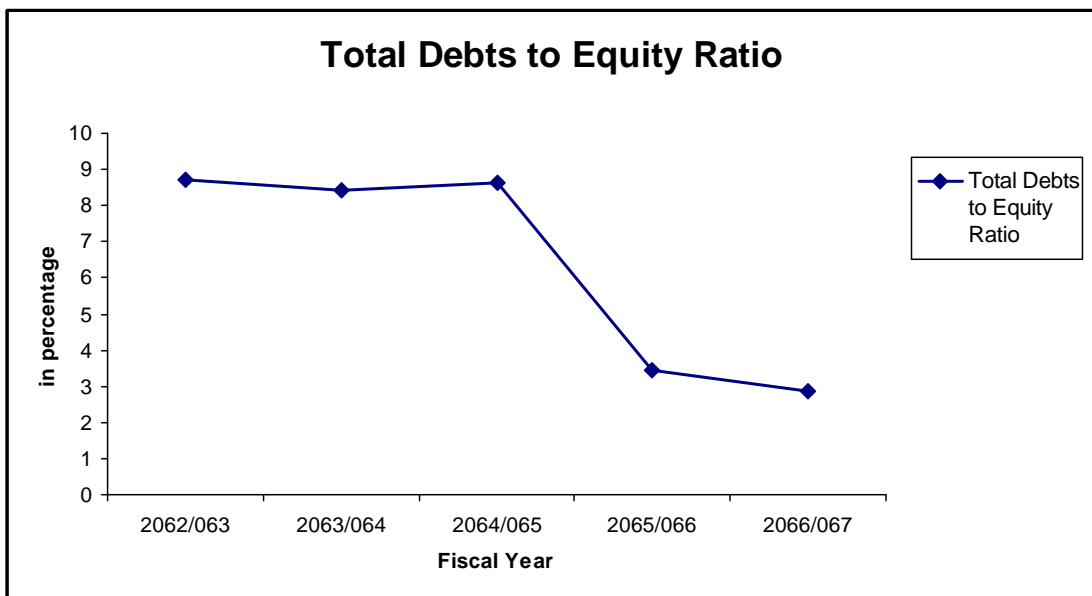


Figure 4.14 clearly shows that the ratio of total debts to equity during the F.Y. 2062/063 to F.Y. 2066/067 of the POFIL. In the figure, the total debt to equity curve is decreasing over the study period. Debt equity ratio has important

implication from the view point of creditors, owners and the firm itself. Further more, high ratio of debts to equity is bad news for the outsiders because of the higher risk in their investment and lower margin of safety.

4.1.3.5 Growth Ratio

Growth ratio is the major tool for analyzing financial performance of the organization. Growth ration measure the capability of the organization. With regard to this part of the study growth ratio are calculated. It plays significant role as they are directly related to the mobilization of fund and the investment decision of the company. So, higher the growth ratio, better the performance of the organization. Basically, in this study, growth ratio related to the total deposit, loans and advances, total investment, total assets and share capital of POFIL have been analyzed.

Table 4.15

Growth Ratio of Total Deposit

(Rs. in '000)

Fiscal Year	2062/063	2063/064	2064/065	2065/066	2066/067
Total Deposit of Current Year	763056	883222	1059913	1071874	1098510
Total Deposit of Previous Year	629070	763056	883222	1059913	1071874
Growth Ratio (%)	21.30	15.75	20.01	1.13	2.48

Figure 4.15

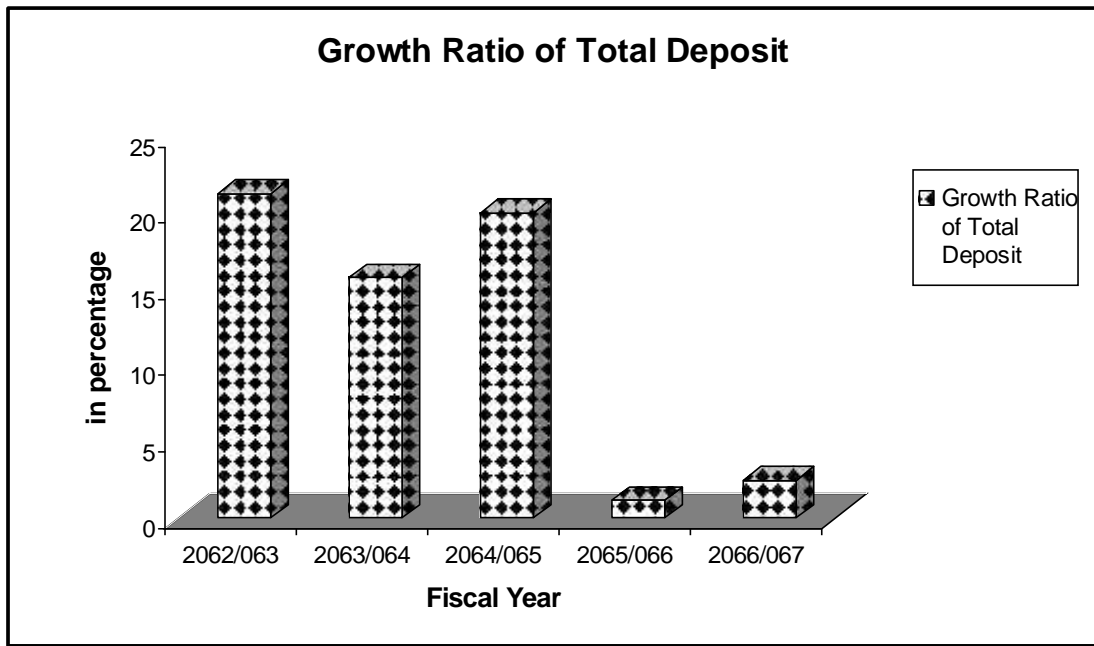


Table 4.16

Growth Ratio of Loans and Advances

(Rs. in '000)

Fiscal Year	2062/063	2063/064	2064/065	2065/066	2066/067
Total Loan and Advances of Current Year	710661	825556	860214	1169415	1366770
Total Loans and Advances of Previous year	660416	710661	825556	860214	1169415
Growth Ratio (%)	7.61	16.17	4.15	35.94	16.88

Figure 4.16

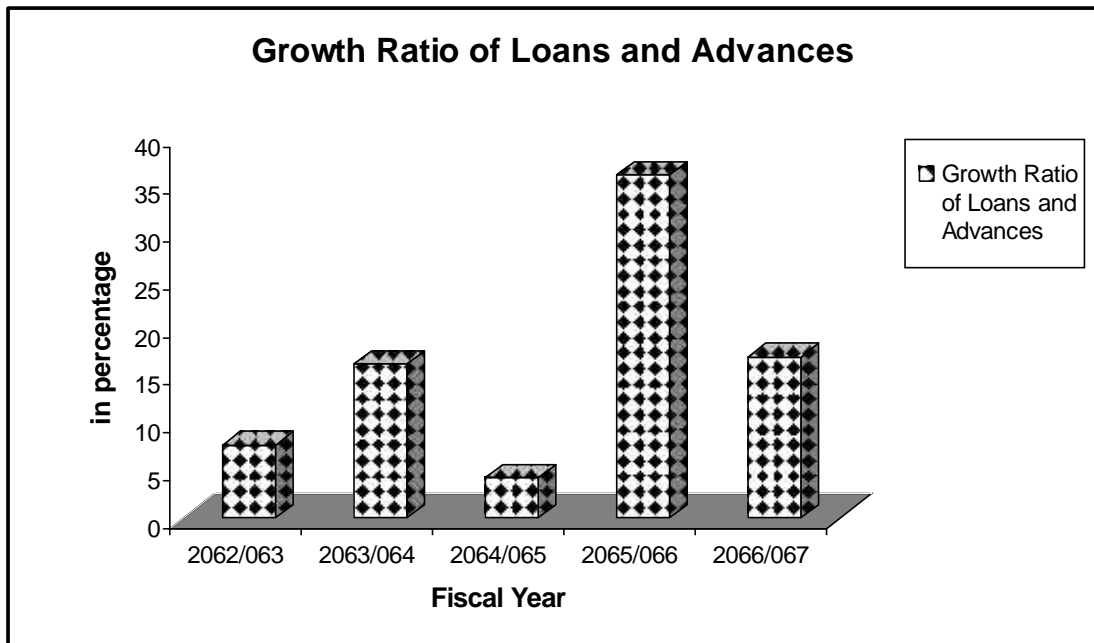


Table 4.17

Growth Ratio of Total Investment

(Rs. in '000)

Fiscal Year	2062/063	2063/064	2064/065	2065/066	2066/067
Total Investment of Current Year	852947	1072843	114500	1171701	1369056
Total Investment of Previous Year	733319	852947	1072843	1147500	1171701
Growth Ratio (%)	16.31	25.78	6.96	2.11	16.84

Figure 4.17

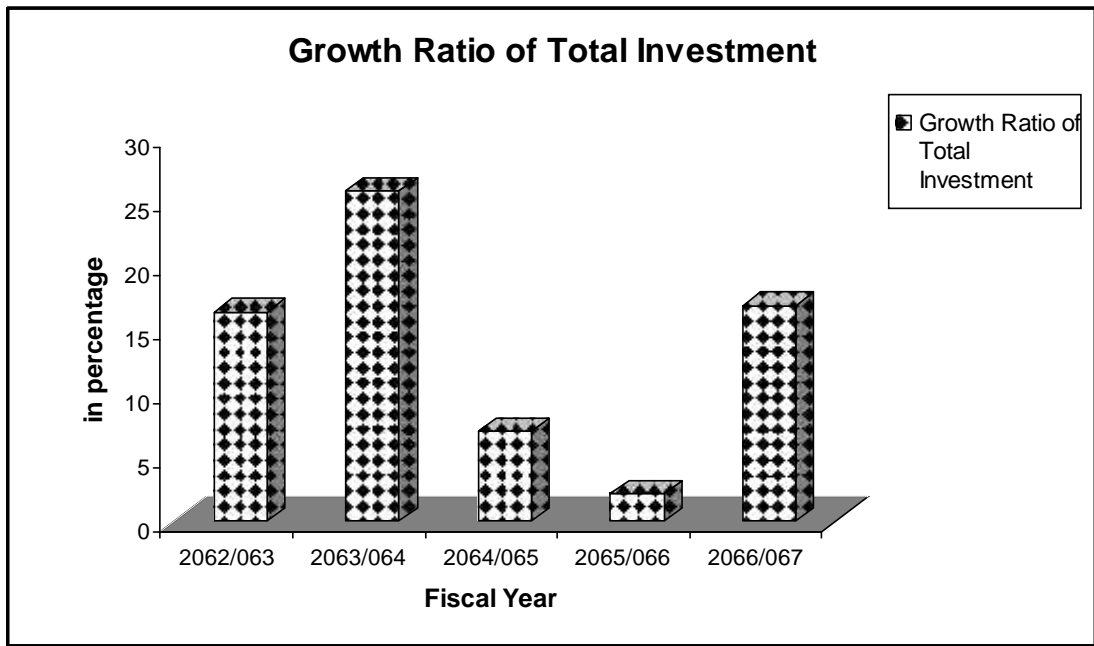


Table 4.18

Growth Ratio of Total Assets

(Rs. in '000)

Fiscal Year	2062/063	2063/064	2064/065	2065/066	2066/067
Total Assets of Current Year	890984	1079290	1234155	1626480	156116
Total Assets of Previous Year	732191	890984	1079290	1234155	1626480
Growth Ratio (%)	21.69	21.13	14.35	31.79	-

Figure 4.18

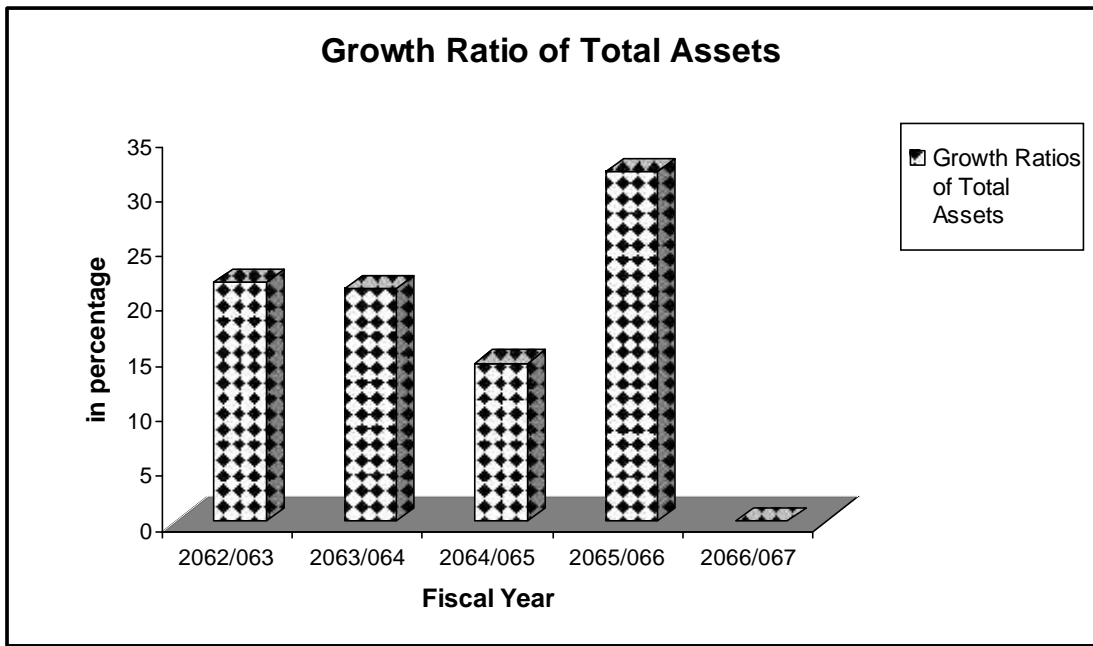


Table 4.19

Growth Ratio of Share Capital

(Rs. in '000)

Fiscal Year	2062/063	2063/064	2064/065	2065/066	2066/067
Share Capital of Current Year	52000	60000	60000	240000	321000
Share Capital of Previous year	20000	52000	60000	6000	240000
Growth Ratio (%)	160	15.38	0	300	30

Figure 4.19

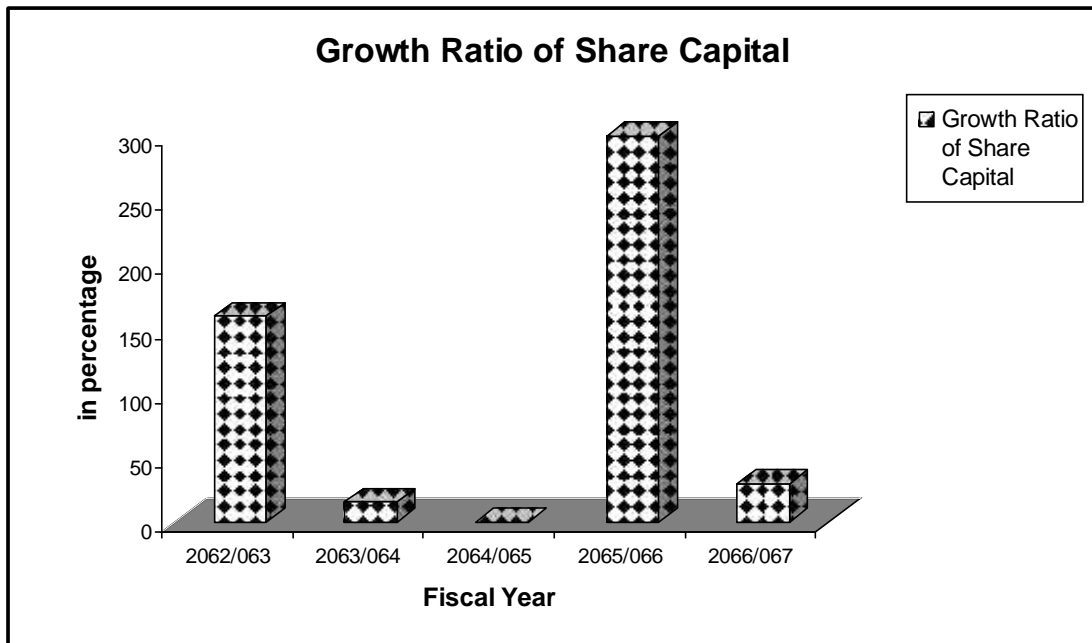


Table 4.15 exhibits the growth ratio of total deposit of the POFIL during the study period. The growth ratio of total deposit is fluctuating trend which is ranged from 1.13 percent to 21.30 percent. The ratio is maximum in F.Y. 2062/063 where POFIL has been succeed to collect maximum deposit as comparison to other years. But, from 2065/066 to 2066/067 the growth ratio has been decreasing.

Table 4.16 shows that the growth ratio of loans and advances of the POFCL over the study period. The growth ratio of total loans and advances also fluctuating trend over the study period. The growth ratios of loans and advances are 7.61 percent, 16.17 percent, 4.15 percent, 35.94 percent and 16.88 percent respectively.

The growth ratio of total investment is increasing first two years and then after from F.Y. 2064/065 to 2065/066 it has been highly decreasing. In the last year the ratio has been increased. The ratio is ranged from 2.11 percent to 25.78 percent.

The growth ratio of total assets is decreasing from 2063/064 to 2064/065 and it has been increased in F.Y. 2065/066. In the last year there is no any growth ratio of the total assets. The growth ratio of total assets are 21.69 percent, 21.13 percent, 14.35 percent and 31.79 percent respectively.

There is fluctuating growth trend in share capital of the POFIL during the study period. The maximum growth ratio of share capital is 300 percent in F.Y. 2065/066 which indicates that the company success to maximize shareholder's wealth. But in F.Y. 2064/065 there is no growth which indicates that there is needed appropriate policy about the capital structure.

4.1.3.6 Measuring Correlation between Different Variables

a) Correlation between Deposit and Loans and Advances

The correlation between the total deposit and loans and advances describes the degree of relationship between two items. Here, deposit is an independent variable and the loans and advances is the dependent variable. This measures how a unit increases or decrease in deposit effects in the volume of loans and advances respectively. (Details in appendix no. 11)

Table 4.20

Correlation between Deposit and Loan and Advance

Correlation Coefficient (r)	P.Er	6*P.Er	Remarks
0.8057	0.1058	0.6348	$r > 6 * P.Er.$

Table 4.20 clearly shows the correlation coefficient between deposit and loans and advances of the POFIL. The correlation coefficient is 0.8057, probably error is 0.1058 and probable error multiplied by six is 0.6348. The coefficient of correlation between deposits and loans and advances of POFIL is positive. It

is more than 0.75 and also more than 6 times of P.Er. If the correlation coefficient (r) is 0.75 to 1, there is very high positive correlation coefficient between the variables. So the correlation coefficient (r) of the POFIL is near by 1 and also 6*P.Er. So, it can be interpreted that there is significant or very high positive correlation between deposit and loans and advances during the study period.

b) Correlation between Deposit and Investment

The correlation between total deposit and investment shows the degree of relationship between these two items. Here, deposit is also independent variable and investment is the dependent variable. This correlation measure a unit increase or decrease in deposit impact in the volume of investment. (Detail in appendix no. 12)

Table 4.21

Correlation between Deposit and Investment

Correlation Coefficient (r)	P.Er	6*P.Er	Remarks
0.9155	0.1488	0.2928	r>6*P.Er.

The table 4.21 shows the correlation coefficient between independent variable deposit and dependent variable investment of the POFIL. The correlation coefficient between two variable i.e. deposit and investment is 0.9155, probable error is 0.0488 and probable error multiplied by six is 0.2928. The correlation coefficient (r) of the company is more than 0.75 and also more than 6 times of probable error. It indicates that there is strong positive correlation between deposit and investment during the study period.

4.1.4 Challenges of POFCL in the Current Time

This section mainly consists the analysis of the challenges of the POFIL for the sustainability. This presentation is based on questionnaire, interview and discussion with management of the POFIL. Specially the study presents the result of the empirical data obtain from the questionnaire which was sent to 10 members of management team of the POFIL. Finance companies have been facing many problems and challenges such as human resources development, continuity of foreign aid, lack of adequate capital of the bank, unhealthy competition, high non performing loan, poor and inadequate supervisory system, low income level of people, high rate of interest, lack of investment etc.

Pokhara Finance Company Limited has been facing many problem and challenges in current time such as unhealthy competition, high non-performing loan, poor & inadequate supervisory system high rate of interest and lack of investment. To know the main challenges in priority basis, respondents were asked to tick on given alternative challenges on the priority basis. The response received from respondents has been tabulated below. To calculate weighted value priorities assigned to each alternatives are multiply by 1 to 5. The number response with the first priority is multiplied by 1 and like wise the response with the second priority is multiplied by 2. Similarly the number response with the third priority is multiplied by 3 and the response with the forth priority is multiplied by 4. Finally the response with the fifth priority is multiplied by 5. Responses are ranked according to total weighted value. The response with lowers total weight value is given the first priority and the first rank. Similarly, the second ranked response has received the second priority and third, fourth and fifth rank responses have been given third, fourth and fifth priorities respectively. The lower total weight values the higher the priority and vice versa.

The below table (422) clearly presents that the challenges of the POFIL in priority basis from 10 respondents. It shows that the total weight value of unhealthy competition is 17. It is the least total weight value than other four challenges. So, it has received the first rank. Out of 10 respondent 5 (i.e. 50%) respondents have given first priority unhealthy competition. Similarly out of 10 respondents total 3 respondents have given second priority to this challenge. No one has given fourth and fifth priority it. The table also indicates that among the five challenges, high interest rate has received the second priority. Its total weight value is 21 which is the second least value. So it has received the second rank. No one has given it least priority. Likewise the high non performing loan, lack of investment and poor and inadequate supervisory system have received third, fourth and fifth priorities and ranks respectively with the total weighted value 32, 33 and 47 respectively. However, out of 10 respondents, no one has given first priority to the lack of investment and poor and inadequate supervisory system.

From the below table analysis it can be concluded that unhealthy competition and high interest rate are the vital or most important challenges for the POFIL. Likewise high non performing loan and lack of investment are general important and poor and inadequate supervisory system is least important challenges for the POFIL. From the analysis of perceived challenges it can be concluded that POFIL has been facing competition, high interest rate, high non-performing loan and lack of investment in the current time.

4.2 Major Findings

The major findings of the study on financial sustainability of POFIL are as follows.

- 4.2.1 It is found that the major sources of fund or finance of the POFIL net worth deposit, borrowing and issue of bond and debentures. Net worth consists of capital, general reserve, other reserve and undistributed profit. The net worth is in increasing trend over the study period, there is no any other reserve included in net worth of the company as the source of fund, till 2064/065. The capital to net worth ratio is decreasing in first three years and than after it is increasing gradually in two years. But the amount of capital is increasing all over the study period. The ratio of general and undistributed profit is in decreasing trend.
- 4.2.2 POFIL is operating under five kind of deposits i.e. fixed deposit, saving deposit recurring deposit, provident fund deposit and there deposit. But it is found that these kind of deposit are included in fixed deposit and saving deposit. The total deposit of POFIL in 2062/063 was Rs. 763056 thousands which has increased to 0.44 times in F.Y. 2066/067 as compared to its deposit in F.Y. 2062/063 and reached to Rs. 1098510 thousands. The average is 53.99 percent is fixed deposit and 46.01 percent is saving deposit.
- 4.2.3 The sources of finance of the POFIL are also borrowing and issue of bond and debenture. It is found that the borrowed fund is Rs. 40000 thousand only one year i.e. 2063/064 and POFIL has never issued bond and debentures till date 2066/067.
- 4.2.4 POFIL has received its income, from interest, commission and discount, foreign exchange transaction, write off and others during the study period. It is found that the income including all given income is

increasing trend all over the years. The yearly income ratio of the POFIL is 13.98 percent in F.Y. 2062/063, 15.72 percent in F.Y. 2063/064, 18.78 percent in 2064/065, 24.18 percent in F.Y. 2065/066 and 27.34 percent in F.Y. 2066/067 respectively.

4.2.5 The annual expenditure ratio of POFIL has increasing trend with fluctuation over the study period. The ratio is highest in the F.Y. 2066/067 with 25.75 percent lowest in F.Y. 2062/063 with 15.26%. The annual expenditure ratio has been increasing first three years and it has been decreased in the fourth year. Finally it has been increased in F.Y. 2066/067.

4.2.6 The cash and bank balance to total deposit ratio of the POFIL has decreasing with slightly increased trend over the study period. The cash and bank balance to total deposit ratio is highest in F.Y. 2062/063 with 3.42 percent and lowest at F.Y. 2063/064 with 2.08 percent .The mean ratio of the cash and ban balance to total deposit for the study period is 2.51 percent and coefficient of covariance between them in 17.93 percent. On the basis of C.V. the ratios are variable and less consistent.

4.2.7 The NRB balance to total deposit ratio of POFIL has fluctuating trend over the study period. The balance to total deposit ratio has ranged from 1.86 percent to 3.39 percent. It indicates that the POFIL has been able to maintain balance with NRB (i.e. 2%). But in the last year there is slightly less percentage i.e. 1.86 percent which not covered NRB balance. The mean ratio is 2.32 percent with 23.71 percent coefficient of variation which indicates that the ratios are variable and less consistent.

4.2.8 Loans and advances to total deposit ratio f the POFIL is increasing trend over the study period which indicates that the POFIL has been able to utilize the outsider's funds (i.e. deposits) in existing credit to further profit generating. The loans and advances to total deposit ratio has

ranged from 81.16 percent to 124 percent. The mean ratio for the study period is 100.26 percent, standard deviation is 14.96 percent and coefficient of variation is 14.92 percent which shows the ratios are consistent with less variability over the study period.

4.2.9 The return on total assets ratio of the POFIL has fluctuating over the study period. The ratio has ranged from 1.08 percent to 8.6 percent. The mean ratio is 3.72 percent, standard deviation is 2.57 percent and coefficient of variation is 69.09 percents which indicates that there is more variable and less consistency due to the higher coefficient of variation.

4.2.10 The return on equity ratio of the POFIL has fluctuating over the study period where, the ratio has been increasing in first fourth years and that after it has been decreased in the last year. The return on equity ratio has ranged from 11.69 percent to 43.65 percent. The mean ratio is 25.32 percents, standard deviation is 11.48 percent and the coefficient of variation is 45.34 percent during the study period. On the basis of C.V. the ratios are variable and less consistent.

4.2.11 The return on total deposit ratio of the POFIL has fluctuating over the study period. But there is increasing trend as comparison to the first fiscal year. The ratios is maximum in F.Y. 2065/066 with 13.14 percent and minimum in F.Y. 2062/063 with 1.27 percent. The mean ratio for the study period is 5.16 percent, standard deviation is 4.18 percent and coefficient of variation is 81 percent. On the basis of C.V., the ratios are more variable and less consistent.

4.2.12 The interest earn to total assets ratio of the company has increasing from 2062/063 to F.Y. 2064/065 but it has decreased in F.Y. 2065/066. In the last year it has increased. However in overall the ratio is increasing trend. It indicates that the company has better utilization of the resource

to general interest and lowest 9.64 percent in F.Y. 2066/067 and F.Y. 2065/066 respectively. The mean ratio is 10.19 percent with 5.89 percent coefficient of variation. On the basis of coefficient of variation the ratios are less variable and consistent.

4.2.13 The return on investment ratio of the POFIL has increasing trend as comparison to the first year but the ratio of POFIL has increasing as well as slightly decreasing trend over the study period. The ratio ranges from 1.13 percent to 12.04 percent. The mean ratio is 4.55 percent, standard deviation is 3.86 percent and coefficient of variation is 84.84 percent. The higher coefficient of variation presents that there is more variable and less consistent between the ratios.

4.2.14 The total debt to total assets ratio of the POFIL has fluctuating trend over the study period. The minimum debt to total assets ratios is 65.90 percent in F.Y. 2065/066 and maximum 85.88 percent. The mean ratio is found to be 78.67 percent, standard deviation 6.68 percent and coefficient of various is 11.03 percent. On the basis of coefficient of variation, it is found that the ratios are less variable and consistent during the period. It indicates better efficiency of the management in utilizing its capital structure.

4.2.15 The debt to equity ratio of the company has decreasing trend over the study period. The ratio has ranged from 2.87 times to 8.71 times. The mean ratio for the study period is 6.42, standard deviation 2.68 and coefficient of variation is 41.79 percent, which indicates that the ratios are variable and not consistent during the study period.

4.2.16 From the analysis of growth ratios of total deposit, total loans and advances, total investment, total assets and share capital of POFIL during the study period shows that the growth ratio of total deposit fluctuating over the years. The growth ratios ranges from 1.13 percent to

21.30 percent .There is good position of deposit as per total deposit amount in yearly basis but there is not good growth of deposit in last two years as comparison to other fiscal years. Similarly, the growth ratio of loans and advances of the company is also fluctuating over the years. The ratio has ranged from 4.15 percent to 35.94 percent. The growth ratio of total investment of POFIL has fluctuating trend over the study period with ranged from 2.11 percent to 25.78 percent. The growth ratio of total assets is increasing as well as decreasing trend over the period. The highest growth ratio is 31.79 percent in F.Y. 2065/066 and lowest is 14.35 percent in F.Y. 2064/065. There is no growth in F.Y. 2066/067. Likewise, the growth ratio of share capital of the company has also fluctuating trend over the years. The growth ratio has ranged from 0 percent to 300 percent.

4.2.17 The correlation analysis shows that the correlation coefficient (r) between deposit and loans and advances of the POFIL is 0.8057 and the probable error multiplied by six is found to be 0.6348. There is correlation coefficient (r) is greater than probable error multiplied by six and r is positive. The correlation coefficient is near by 1. So it can be stated that there is a very high positive correlation between deposits and loans and advances during the study period.

4.2.18 The correlation analysis shows that the correlation coefficient (r) between deposit and investment of the POFIL is 0.9155 and the probable error is 0.0488 and the probable error multiplied by six is 0.2928. The probable error multiplied by six is less than the correlation of coefficient during the study period. State that there is very high positive relationship between deposit and investment during the study period.

4.2.19 From the analysis of current challenges of the company, it is found that the management team of the POFIL has given the first priority to the unhealthy competition. Similarly respondents or the management team of the company has given the second, third, fourth and fifth priority to the high rate of interest high non-performing loan, lack of investment and poor and inadequate supervisory system respectively.

4.2.20 Ultimately it is found that the POFIL is operating satisfactory condition with generating certain amount of profit each year. POFIL is able to utilize its resources in productive sectors to some extent and provide different types of services to the customer or society. The company is able to increase level of income its as well as development of economy. So, the financial sustainability position of the POFIL have been remaining satisfactory condition and will be sustained in the future course of action.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATION

This chapter basically includes three aspect of the study. Firstly it summarize the whole study, secondly its concludes with remarks and then finally, the study focuses on making some useful suggestions and recommendation based on findings of the study.

5.1 Summary

The study is carried out as an academic requirement of master's degree of business studies, on topic of financial sustainability. The study is concentrated on the analysis of sources of fund or financing, financial sustainability and current challenges of the POFIL. In order to build up the theoretical foundation and to get the clear destination of the research work, various materials were reviewed. Concept of finance companies, history of financial institution in Nepal, financial product and services, concept of sustainability, sustainable business, finance function were reviewed as conceptual review. Beside this reviews of dissertation were also included in research review section of the reports.

The study has covered five years period from F.Y. 2062/063 to F.Y. 2066/067 and was designed within the framework of descriptive and analytical research design so the analysis has been made accordingly. The study has resoted mainly to secondary data that have been first processed and analyzed respectively. In addition to this, primary data were also used which were collected by questionnaire interview and discussion with management of the POFIL. Financial ratios, simple mathematical and statistical tools have been implemented to get the meaningful result of the collected data in this research work.

The study is focused on financial sustainability of the POFIL. This study helps to improve the financial performance of the organization and to seek the sustainable income and sources of finance. Net worth, deposit, borrowing and issue of bond and debentures are the main sources of fund for the POFIL. POFIL collects deposit under various deposit schemes like fixed deposit, saving deposit, recurring deposit, provident fund deposit and other deposit. The net worth and deposit are increasing trend over the years. In the case of borrowing, it is found that the POFIL has been borrowed only one year i.e. 2063/064 till date and issue of bond and debentures source has not been used by the company till date 2066/067.

Similarly to measure the income and expenditure condition of the POFIL income ratio and expenditure ratio were calculated. The income ratio is increasing trend during the study period which is supporting sustainable transaction to the company. The expenditure ratio is increasing with fluctuating during the period.

Likewise to measure the liquidity position of the company cash and balance to total deposit ratio and NRB balance to total deposit ratio has been calculated. From this, it is seen that the cash and bank balance to total deposit ratio is decreasing as well as slightly increasing trend which seems to be satisfactory as well as they have meet the requirement made by NRB. To measure the efficiency ratio, basically loans and advances to total deposit ratio has been calculated. This ratio is increasing trend which shows that the company has been able to mobilize its total deposit. Likewise to measure the profitability ratio of the POFIL return on total assets, return on equity, return on total deposit, interest earn to total assets and return on investment ratio were calculated. Beside interest earn to total assets ratio, all these given ratios of the profitability are fluctuating all over the years. The return on total assets ratio shows that the POFIL is not utilizing its overall resources efficiently. The return on equity ratio shows that the owner's equity is also not mobilized efficiently. The return

on total deposit ratio is also not satisfactory. But the interest earned to total assets of POFIL has been increasing trend over the study period. From this, it seems to be satisfactory over the study period which shows the company has been succeed to earn more or satisfactory interest from its total assets. Similarly, to measure the capital structure ratio, the debts to total assets ratio and debts to equity ratio has been calculated. The debts to asses ratio is fluctuating trend over the study period. This ratio shows that the company has satisfactory condition of capital structure. The debt to equity ratio is decreasing trend over the year. Thus, it can be said that POFIL has tried to maintain a sound profitability position even though there is a slight decrease in profitability. While calculating the growth ratio of total deposit, loans and advances, investment, assets and share capital it is found that all growth ratios are fluctuating trend over the study period.

Further there is high positive correlation between total deposit and loans and advances and also total deposit and investment. Finally, POFIL has been facing unhealthy competition and high interest rate as most important challenges, high performing loan and lack of investment as general important challenges and poor and inadequate supervisory system as least important challenges respectively.

5.2 Conclusions

The study is concentrated on the analysis of sources of financing, income expenditure, identify the financial sustainability and identify the current challenges of POFIL based on analysis & finding of the study, following conclusions have been drawn on financial sustainability of Pokhara Finance Company Limited.

5.2.1 As a sources of fund of finance, net worth reflects that POFIL is increasing its fund for financing. The ratio of capital is decreasing as

well as increasing nature which indicates that POFIL has quite capital fund for financing to some extent.

- 5.2.2 Deposit is the main source of fund for finance and is in increasing trend over the study period. It indicates that the POFIL has high volume of deposits. Furthermore company is able to attract the customer towards fixed & saving deposit schemes.
- 5.2.3 The yearly income amount during the study period is increasing every year and income ratio is also increasing over the study period . It indicates that the financial sustainability can be achieved though increased income. The yearly expenditure ratio of POFIL is increasing trend with slightly fluctuation. This trend is indicates that POFIL has been able to adopt appropriate policies about these types of expenditure to some extent. From this, it is concluded that there is a financial sustainability of the transaction regarding income and expenditure.
- 5.2.4 The cash and bank balance to total deposit ration of the POFIL is of decreasing as well as increasing trend. This shows that there is very high proportion of cash and bank balance than the proportion of investment and also the less consistent signifies that there is lack of specific policy in order to invest the other additional fund to high income generating assets in the form of investment.
- 5.2.5 The study on NRB balance to total deposit ratio shows that POFIL has maintained the balance in NRB over the four years but in the last year it has not maintained the balance with NRB as the directives.
- 5.2.6 The increasing trend of loan and advances to total deposit ratio during the study period shows that the POFIL is adopting the appropriate policies to manage utilize the outsiders fund in income generating activities.

- 5.2.7 The profitability ratio of POFIL shows that it has tried to maintain a positive return even though there is a fluctuation. Among the various profitability ratios, like return on total assets, return on equity, return on total deposit and return on investment etc., the performance of POFIL is fluctuating in terms of all profitability. It can be due to tough competition, stock economy in tourism, hotel business, lack of dynamism and institutional development of the company etc., which affect the whole business chain. However, the interest earned to total assets ratio shows that it has satisfactory relationship of interest in terms of total income and total assets.
- 5.2.8 The fluctuating trend of debts to total assets ratio of the POFIL during the study period indicates that better efficiency of the management in utilizing its capital structure. From this, we can conclude that, POFIL is utilizing its assets by raising appropriate sources of debt capital. The decreasing trend of debts to equity ratio of POFIL during the study period indicates that there is low proportion of debt to equity and also the less consistent indicates that the company has high leverage ratio.
- 5.2.9 The growth ratio of total deposit, loans and advances, total investment total assets and share capital are fluctuating trend over the study period. It shows positive and satisfactory growth in deposit, loans and advances total investment, total assets and share capital to some extent.
- 5.2.10 While analyzing the correlation coefficient between deposit and loans and advance and deposit and investment it is found that, there is significant positive relationship between deposits and loan and advances and deposit and investment during the study period.
- 5.2.11 While analyzing the analysis of current challenges of POFIL, it is concluded that the unhealthy competition and high interest rate are the vital important challenges, high non performing loan and lack of

investment are general challenges and poor and inadequate supervisory system is least important challenges for the POFIL. It may effect to sustainability position.

5.2.12 The above mentioned financial indicators like, performance analysis, financial analysis and financial performance analysis shows the financial sustainability of POFIL. In general, all worked out indicators have shown that the POFIL has satisfactory condition of financial sustainability.

5.3 Recommendations

Based on the analysis, major findings and conclusions following recommendations are made for better financial management of the POFIL towards sustainability.

5.3.1 There is necessary to more increase the capital fund. Capitals are non cost bearing source of the company. Deposit collecting and investment capacity depends on its capital funds. If there is higher capital fund base, there is higher capacity of deposit collection. If there is higher deposit volume, there is a sufficient fund for lending opportunity. More lending, more income, more profit which helps the organization to sustain. Therefore, the company should try to increase the capital fund for its long run.

5.3.2 The total expenditure ratio of POFIL seems less attractive than total income ratio during the study period. Hence, the POFIL Management is recommended to control unnecessary expenditure and try to increase continuous income of the company which may gives successful to the organization.

5.3.3 The liquidity position of POFIL is found to be high so it is recommended to look upon a new area of lending and investment.

Despite this, the rural economy has always been realizing the credit needs. So, in order to compromise between the liquidity and credit need of rural economy, it is highly suggested to expand its credit in those areas that in turn helps to minimize the idle fund and also helps contribute in the upliftment of national economy.

5.3.4 Due to the rapid emergence of cooperatives societies, finance companies and banks in Pokhara, POFIL is facing though competition. So, the growth ratio of total deposit, loans and advances and total investment are fluctuating during the study period. However, the deposits are the main inputs of the finance companies, hence to sustain the financial condition of POFIL in long run it is recommended to the POFIL management to initiate new package, marketing programmes and strategies for collecting more deposit. Beside this service provided like saving and deposit should be based on customer oriented rather than supply oriented. The POFIL management is again recommended to focus from traditional financing business to dynamic and innovative areas such as merchant banking venture capital project financing etc and also offered innovative schemes instruments in resources utilization which may back the return as soon as possible.

5.3.5 During the study period it is found that POFIL has facing many challenges such as unhealthy competition, high rate of interest, high non performing loan, lack of investment and poor and inadequate supervisory system. Therefore, it is recommended to give more emphasis on human resource management, expansion of services, disbursement of loan in productive sector, training for employees and provision of monitoring and supervision in order to face these types of challenges as well as reform the company and sustain in long run.

6.3.6 The another most important and challenging task is to build up the public confidence and enhancing their image in the mind of public at large. So, each step should be taken cautiously and with full understanding of the implantations and the long term effect rather than merely going by short term benefits.

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Appendix 1

Cash and Bank Balance to Total Deposit Ratio

(Rs. in '000)

Fiscal Year	Cash & Bank Balance	Total Deposit	Ratio (%) (x)	x ²
2062/063	26071	763055	3.42	11.69
2063/064	18343	88222	2.08	4.33
2064/065	23474	1059913	2.21	4.88
2065/066	25730	1071874	2.40	5.76
2066/067	26535	1098510	2.42	5.58
Total			12.53	32.52
Mean			2.51	
S.D.			0.45	
C.V.			17.93	

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{\sum x}{n} \\ &= \frac{12.53}{5} \quad \text{X}2.51\% \end{aligned}$$

$$\begin{aligned} \text{S.D. } (\sigma) &= \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2} \\ &= \sqrt{\frac{32.52}{5} - \left(\frac{12.53}{5}\right)^2} \\ &= 0.45\% \end{aligned}$$

$$\begin{aligned} \text{C.V.} &= \frac{\sigma}{\bar{x}} \\ &= \frac{0.45\%}{2.51\%} \\ &= 17.93\% \end{aligned}$$

Appendix 2
NRB Balance to Total Deposit Ratio

(Rs. in '000)

Fiscal Year	NRB Balance	Total Deposit	Ratio (%) (x)	x²
2062/063	25902	763056	3.39	11.49
2063/064	18083	883222	2.05	4.20
2064/065	22062	1059913	2.08	4.33
2065/066	23936	1071874	2.23	4.97
2066/067	20415	1098510	1.86	3.46
Total			11.61	28.45
Mean			2.32	
S.D.			0.55	
C.V.			23.71	

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{x}{n} \\ &= \frac{11.61}{5} \quad \times 2.32\% \end{aligned}$$

$$\begin{aligned} \text{S.D. } (\Xi) &= \sqrt{\frac{x^2}{n} - \frac{x^2}{n^2}} \\ &= \sqrt{\frac{28.45}{5} - \frac{11.61^2}{5}} \\ &= \sqrt{0.3076} \\ &= 0.55\% \end{aligned}$$

$$\begin{aligned} \text{C.V.} &= \frac{\Xi}{\bar{x}} \\ &= \frac{0.55}{2.32} \\ &= 23.71\% \end{aligned}$$

Appendix 3

Loans and Advances to Total Deposit Ratio

(Rs. in '000)

Fiscal Year	Loans and Advances	Total Deposit	Ratio (%) (x)	x^2
2062/063	710661	763056	93.13	8673.19
2063/064	825556	883222	93.47	8736.64
2064/065	860215	1059913	81.16	6586.95
2065/066	1169415	1071874	109.10	1192.81
2066/067	1366770	1098510	924.42	15480.34
Total			501.28	51379.93
Mean			100.26	
S.D.			14.96	
C.V.			14.92	

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{x}{n} \\ &= \frac{501.28}{5} \times 100.26\% \end{aligned}$$

$$\begin{aligned} \text{S.D. } (\Xi) &= \sqrt{\frac{x^2}{n} - Z \frac{x}{n}} \\ &= \sqrt{\frac{51379.93}{5} - Z(100.26)^2} \\ &= \sqrt{223.918} \\ &= 14.96\% \end{aligned}$$

$$\begin{aligned} \text{C.V.} &= \frac{\Xi}{x} \\ &= \frac{14.96}{100.26} \\ &= 14.92\% \end{aligned}$$

Appendix 4
Return on Assets

(Rs. in '000)

Fiscal Year	NPAT	Total Assets	Ratio (%) (x)	x²
2062/063	9659	890984	1.08	1.17
2063/064	28124	1079290	2.61	6.81
2064/065	31977	1234155	2.59	6.71
2065/066	140806	1626480	8.66	74.10
2066/067	57237	1561116	3.67	13.47
Total			18.61	102.26
Mean			3.72	
S.D.			2.57	
C.V.			69.09	

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{x}{n} \\ &= \frac{18.61}{5} \text{ X}3.72\% \end{aligned}$$

$$\begin{aligned} \text{S.D. } (\Xi) &= \sqrt{\frac{x^2}{n} - \frac{x^2}{n^2}} \\ &= \sqrt{\frac{102.26}{5} - \frac{18.61^2}{5}} \\ &= \sqrt{20.452 - 13.85} \\ &= 2.57\% \end{aligned}$$

$$\begin{aligned} \text{C.V.} &= \frac{\Xi}{\bar{x}} \\ &= \frac{2.57}{3.72} \\ &= 69.09\% \end{aligned}$$

Appendix 5
Return on Equity

(Rs.in '000)

Fiscal Year	NPAT	Equity	Ratio (%) (x)	x²
2062/063	9659	82613	11.69	136.66
2063/064	28124	98616	28.52	813.39
2064/065	31977	113043	28.29	800.32
2065/066	14086	322560	43.65	1905.32
2066/067	57237	395805	14.46	209.09
Total			126.61	3864.78
Mean			25.32	
S.D.			11.48	
C.V.			45.34	

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{x}{n} \\ &= \frac{126.61}{5} \quad \text{X}25.32\% \end{aligned}$$

$$\begin{aligned} \text{S.D. } (\Xi) &= \sqrt{\frac{x^2}{n} - \frac{x^2}{n}} \\ &= \sqrt{\frac{3864.78}{5} - \frac{126.61^2}{5}} \\ &= \sqrt{772.956 - 641.203} \\ &= \sqrt{131.753} \\ &= 11.48\% \end{aligned}$$

$$\begin{aligned} \text{C.V.} &= \frac{\Xi}{\bar{x}} \\ &= \frac{11.48}{25.32} \\ &= 45.34\% \end{aligned}$$

Appendix 6
Return of Total Deposit

(Rs.in '000)

Fiscal Year	NPAT	Total Deposit	Ratio (%) (x)	x²
2062/063	9659	763056	12.7	1.61
2063/064	28124	883222	3.18	10.11
2064/065	31977	1059913	3.02	9..12
2065/066	140806	1071874	13.14	172.66
2066/067	57237	1098510	5.21	27.14
Total			25.82	220.64
Mean			5.16	
S.D.			4.18	
C.V.			81	

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{x}{n} \\ &= \frac{25.82}{5} \quad \text{X}5.16\% \end{aligned}$$

$$\begin{aligned} \text{S.D. } (\Xi) &= \sqrt{\frac{x^2}{n} - \frac{x^2}{n^2}} \\ &= \sqrt{\frac{220.64}{5} - \frac{25.82^2}{5}} \\ &= \sqrt{44.128 - 26.67} \\ &= \sqrt{17.458} \\ &= 4.18\% \end{aligned}$$

$$\begin{aligned} \text{C.V.} &= \frac{\Xi}{\bar{x}} \\ &= \frac{4.18}{5.16} \\ &= 81\% \end{aligned}$$

Appendix 7

Interest Earned to Total Assets Ratio

(Rs.in '000)

Fiscal Year	Interest Earned	Total Assets	Ratio (%) (x)	x ²
2062/063	87218	890984	9.79	95.84
2063/064	107599	1079290	9.97	99.40
2064/065	123989	1234164	10.05	101.00
2065/066	156789	1626480	9.64	92.93
2066/067	179166	156116	11.48	131.79
Total			50.93	520.96
Mean			10.19	
S.D.			0.60	
C.V.			5.89	

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{x}{n} \\ &= \frac{550.93}{5} \times 10.19\% \end{aligned}$$

$$\begin{aligned} \text{S.D. } (\sigma) &= \sqrt{\frac{x^2}{n} - \frac{x^2}{n^2}} \\ &= \sqrt{\frac{520.96}{5} - \frac{50.93^2}{5^2}} \\ &= \sqrt{0.3559} \\ &= 0.60\% \end{aligned}$$

$$\begin{aligned} \text{C.V.} &= \frac{\sigma}{x} \\ &= \frac{0.60}{10.19} \\ &= 5.89\% \end{aligned}$$

Appendix 8
Return of Investment

(Rs.in '000)

Fiscal Year	NPAT	Total Investment	Ratio (%) (x)	x²
2062/063	9659	852947	1.13	1.28
2063/064	28124	1072843	2.62	6.86
2064/065	319770	1147500	2.79	7.78
2065/066	140806	1171701	12.02	144.48
2066/067	57237	1369056	4.18	17.47
Total			22.74	177.87
Mean			4.55	
S.D.			3.86	
C.V.			84.89	

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{x}{n} \\ &= \frac{22.74}{5} \quad \text{X}4.55\% \end{aligned}$$

$$\begin{aligned} \text{S.D. } (\Xi) &= \sqrt{\frac{x^2}{n} - \frac{x^2}{n^2}} \\ &= \sqrt{\frac{1777.87}{5} - \frac{22.74^2}{5}} \\ &= \sqrt{14.8715} \\ &= 3.86\% \end{aligned}$$

$$\begin{aligned} \text{C.V.} &= \frac{\Xi}{\bar{x}} \\ &= \frac{3.86}{4.55} \\ &= 84.84\% \end{aligned}$$

Appendix 9

Total Debts to total Assets Ratio

(Rs. in '000)

Fiscal Year	Total Debt	Total Assets	Ratio (%) (x)	x ²
2062/063	763056	890984	85.64	7334.21
2063/064	923222	1079290	85.54	7317.09
2064/065	1059913	1234155	85.88	7375.37
2065/066	1071874	1626480	65.90	4342.81
2066/067	1098510	1561116	70.37	4951.94
Total			393.33	31321.42
Mean			78.67	
S.D.			8.68	
C.V.			11.03	

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{x}{n} \\ &= \frac{393.33}{5} \quad \times 78.67\% \end{aligned}$$

$$\begin{aligned} \text{S.D.}(\sigma) &= \sqrt{\frac{x^2}{n} - \left(\frac{x}{n}\right)^2} \\ &= \sqrt{\frac{31321.42}{5} - \left(\frac{393.33}{5}\right)^2} \\ &= \sqrt{75.3151} \\ &= 8.68\% \end{aligned}$$

$$\begin{aligned} \text{C.V.} &= \frac{\sigma}{x} \\ &= \frac{8.68}{78.67} \\ &= 11.03\% \end{aligned}$$

Appendix 10
Total Debts to Equity Ratio

(Rs. in '000)

Fiscal Year	Total Debt	Equity	Ratio (%) (x)	x²
2062/063	764572	82613	8.71	75.86
2063/064	926930	98616	8.44	71.23
2064/065	1074809	113043	8.65	74.82
2065/066	1110458	322560	3.44	11.83
2066/067	1137231	395805	2.87	8.24
Total			32.11	241.98
Mean			6.42	
S.D.			2.68	
C.V.			41.74	

$$\begin{aligned} \text{Mean } (\bar{X}) &= \frac{x}{n} \\ &= \frac{32.11}{5} \quad \text{X}6.42\% \end{aligned}$$

$$\begin{aligned} \text{S.D. } (\Xi) &= \sqrt{\frac{x^2}{n} - \left(\frac{x}{n}\right)^2} \\ &= \sqrt{\frac{241.98}{5} - \left(\frac{32.11}{5}\right)^2} \\ &= \sqrt{7.1796} \\ &= 2.68\% \end{aligned}$$

$$\begin{aligned} \text{C.V.} &= \frac{\Xi}{\bar{x}} \\ &= \frac{2.68}{6.42} \\ &= 41.74\% \end{aligned}$$

Appendix 11

Correlation Coefficient of Deposit and Loans and Advances

(Rs. in '00000)

Fiscal Year	X	X ²	Y	Y ²	XY
2062/063	7.63056	58.22545	7.10661	50.50391	54.22741
2063/064	8.83222	78.00811	8.25556	68.15427	72.91492
2064/065	10.59913	112.24156	8.60214	73.99681	91.175200
2065/066	10.71874	114.89139	11.69415	136.75314	125.34655
2066/067	10.98510	120.67242	13.56770	186.801602	150.14105
Total	<i>x</i> X 48.76575	<i>x</i> ² X 484.03893	<i>y</i> = 49.32616	<i>y</i> ² = 516.21415	<i>xy</i> = 493.80513

$$\begin{aligned}
 r &= \frac{N \sum XY - \sum X \cdot \sum Y}{\sqrt{N \sum X^2 - (\sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}} \\
 &= \frac{5 \mid 493.80513 - 48.76575 \mid 49.32616}{\sqrt{5 \mid 484.03893 - (48.76575)^2} \sqrt{5 \mid 516.21415 - (49.32616)^2}} \\
 &= \frac{63.5985}{\sqrt{42.09628} \sqrt{148.00069}} \\
 &= \frac{63.5985}{6.48816 \mid 12.16555} \\
 &= 0.8057
 \end{aligned}$$

Probable Error of Correlation Coefficient (P.Er)

$$\begin{aligned}
 \text{P.Er.} &= 0.6745 \times \frac{1 \mid Z r^2}{\sqrt{N}} \\
 &= 0.6745 \times \frac{1 \mid Z (0.8057)^2}{\sqrt{5}} \\
 &= 0.1058
 \end{aligned}$$

6* P.Er

$$= 6 \times 0.1058$$

$$= 0.6348$$

Appendix 12

Correlation Coefficient of Deposit and Investment

(Rs. in '00000)

Fiscal Year	X	X ²	Y	Y ²	XY
2062/063	7.63056	58.22545	8.52947	72.75185	65.08463
2063/064	8.83222	78.00811	10.72843	115.09921	94.75585
2064/065	10.59913	112.24156	11.47500	131.67562	121.62501
2065/066	10.71874	114.89139	11.41701	137.28832	125.59158
2066/067	10.98510	120.67242	13.69056	187.43143	150.39217
Total	ΣX	ΣX^2	ΣY	ΣY^2	ΣXY
	48.76575	484.03893	56.14047	644.24643	557.44924

$$\begin{aligned}
 r &= \frac{N \Sigma xy - \Sigma x \Sigma y}{\sqrt{N \Sigma x^2 - (\Sigma x)^2} \sqrt{N \Sigma y^2 - (\Sigma y)^2}} \\
 &= \frac{5 | 557.44924 - 48.76575 | 56.14047}{\sqrt{5 | 484.03893 - (48.76575)^2} \sqrt{5 | 644.24643 - (56.14047)^2}} \\
 &= \frac{49.51408}{\sqrt{42.09628} \sqrt{69.47978}} \\
 &= \frac{49.51408}{54.08179} \\
 &= 0.9155
 \end{aligned}$$

Probable Error of Correlation Coefficient (P.Er)

$$\begin{aligned}
 \text{P.Er.} &= 0.6745 \times \frac{1 - r^2}{\sqrt{N}} \\
 &= 0.6745 \times \frac{1 - (0.9155)^2}{\sqrt{5}} \\
 &= 0.0488
 \end{aligned}$$

6* P.Er

$$= 6 \times 0.0488$$

$$= 0.2928$$