IMPACT OF LIQUIDITY ON PROFITABILITY ON NEPALESE FINANCE COMPANY

A Dissertation submitted to the Office of the Dean, Faculty of Management, in partial fulfilment of the requirements for the Degree of Masters of Business Studies

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May, 2024

CERTIFICATE OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**IMPACT OF LIQUIDITY ON PROFITABILITY ON NEPALESE FINANCE COMPANY**" The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes.

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

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REPORT OF RESEARCH COMMITTEE

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ACKNOWLEDGEMENTS

The dissertation entitled "**IMPACT OF LIQUIDITY ON PROFITABILITY ON NEPALESE FINANCE COMPANY"** has been prepared in partial fulfilment for the degree of Master of Business Studies (MBS) under the Faculty of Management, Tribhuvan University, in based on research models involving the quantitative aspect of bank profitability analysis.

I have great satisfaction and pleasure to express my appreciation and sincerity to my dissertation supervisors Rabindra Bhattarai, Lecturer of Shanker Dev Campus TU for his excellent and effective guidance and supervision. I will remain thankful for his valuable direction useful suggestion and comments during the course of preparing this dissertation without his help this work would not have come in this form.

Furthermore, I am thankful to all the administrative and library team of Shanker Dev Campus. I would also like to express my thankfulness to my friends, my family members as well as all known people who supported as well as inspired me directly or indirectly to complete this dissertation.

Nagendra Sah Kanu

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TABLE OF CONTENTS

Page No.

Title Page ..... *i*

Certification of Authorship ..... *ii*

Report of Research Committee ..... *iii*

Approval Sheet ..... *iv*

Acknowledgement ..... *v*

Table of Contents ..... *vi*

List of Tables ..... *viii*

List of Figure ..... *ix*

Abbreviations ..... *x*

Abstract ..... *xi*

CHAPTER-I

INTRODUCTION 1

1.1 Background of the Study 1

1.2 Problem Statement 5

1.3 Objectives of the Study 6

1.4 Rationale of the Study 7

1.5 Limitations of the Study 7

CHAPTER II

LITERATURE REVIEW 8

2.1 Theoretical Review 8

2.1.1 Anticipated Income Theory 8

2.1.2 Theories of Liquidity Management 9

2.1.3 Agency Theory 9

2.1.4 Trade-off Theory 9

2.1.6 Order Theory 9

2.1.7 Theory of Information Asymmetry and Signaling 9

2.1.8 Bankruptcy Theory 10

2.2 Liquidity Theory 10

2.2.1 Shift Possibility Theory 10

2.2.2 Stock Market Liquidity Theory 10

2.2.3 Commercial credit Theory 10

2.2.4 Expected Income Theory.....11
2.3 Empirical Review.....13
2.3.1 Review of Nepalese Context.....25
2.4 Research Gap.....29
CHAPTER III
RESEARCH METHODOLOGY.....30
3.1 Research Design.....30
3.2 Population and Sample.....30
3.3 Source of Data Collection.....31
3.4 Data Collection Procedure.....31
3.5 Method of Data Analysis Technique.....32
3.6 Research Framework and Definition of Variables.....34
CHAPTER–IV
RESULTS AND DISCUSSION.....37
4.1 Results.....37
4.1.1 Return on Assets.....37
4.1.2 Return on Equity.....39
4.1.3 Current Ratio.....40
4.1.4 Debt to Assets Ratio.....42
4.1.5 Debt to Equity Ratio.....43
4.1.6 Capital Adequacy Ratio.....44
4.1.7 Loan to Deposit Ratio.....46
4.2 Correlation Analysis.....49
4.3 Multiple Regression Analysis.....51
4.4 Discussion.....56
CHAPTER V
SUMMARY AND CONCLUSION.....60
5.1 Summary.....60
5.2 Conclusion.....61
5.3 Implications.....62
References

LIST OF TABLES

	Page No.
Table 1 Summary of Literature Review	18
Table 2 Sample Finance Companies	31
Table 3 Return on Assets (ROA)	38
Table 4 Return on Equity (ROE)	39
Table 5 Current Ratio (CR)	41
Table 6 Debt to Assets Ratio (DAR)	42
Table 7 Debt to Equity Ratio (DER)	43
Table 8 Capital Adequacy Ratio (CAR)	45
Table 9 Loan to Deposit Ratio (LDR)	47
Table 10 Descriptive Statistics	48
Table 11 Correlations Analysis	50
Table 12 Model Summary of ROA	52
Table 13 ANOVA of ROA	52
Table 14 Coefficient of ROA	53
Table 15 Model Summary of ROE	54
Table 16 ANOVA of ROE	54
Table 17 Coefficients of ROE	55

LIST OF FIGURE

Page No.

Figure 1 Research Framework 34

ABBREVIATIONS

C.V.	:	Co-efficient of Variation
CA	:	Current Assets
CL	:	Current Liabilities
CR	:	Current Ratio
e	:	Error Term
F/Y	:	Fiscal Year
GFC	:	Goodwill Finance Company Limited
IP	:	Insurance Premium
LV	:	Leverage Ratio
NFC	:	Nepal Finance Company Limited
PFC	:	Progressive Finance Company Limited
QR	:	Quick Ratio
r	:	Correlation Co-efficient
ROA	:	Return on Assets
ROE	:	Return on Equity
Rs.	:	Rupees
S.D	:	Standard Deviation
SR	;	Solvency Ratio
TA	:	Total Assets

ABSTRACT

The purpose of this study is to evaluate the impact of liquidity on the financial performance of Nepalese finance firms. This study is being done to determine the connection between the finance industry's liquidity and profitability in Nepal. The findings highlight several key points. Firstly, liquidity management, as indicated by the Current Ratio (CR) and Loan to Deposit Ratio (LDR), plays a critical role in determining the financial health and stability of finance companies. Companies with higher liquidity ratios are better positioned to meet short-term obligations and withstand financial shocks. The comprehensive analysis conducted on the financial metrics and performance indicators of finance companies in Nepal provides valuable insights into the dynamics of the sector. Through descriptive statistics and regression analysis, we have gained a deeper understanding of the relationships between key financial metrics such as Return on Assets (ROA), Return on Equity (ROE), liquidity ratios, leverage ratios, capital adequacy ratios, and loan to deposit ratios. Secondly, leverage ratios, including Debt to Assets Ratio (DAR) and Debt to Equity Ratio (DER), demonstrate the extent to which finance companies rely on debt financing. While moderate leverage can enhance returns, excessive leverage increases financial risk and can erode profitability. Our analysis reveals a positive relationship between leverage ratios and performance indicators, suggesting that judicious use of leverage can contribute to higher returns on assets and equity. The regression analysis further reinforces these findings, revealing significant positive relationships between performance indicators (ROA and ROE) and liquidity ratios, leverage ratios, and capital adequacy ratios. These results underscore the importance of a balanced approach to financial management, where companies optimize liquidity, leverage, and capital structure to maximize returns while mitigating risks. In practical terms, the insights generated from this analysis have implications for strategic decision-making and risk management within finance companies in Nepal.

Keywords: Current Ratio, Quick Ratio and Leverage Ratio, Insurance Premium, solvency Ratio, Liquidity, Profitability, ROA, ROE

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

Finance companies comprise a heterogeneous group of financial institutions. Their activities are specialized and they account for a very small proportion of total lending by financial institutions. Their main business is the provision of installment credit. They also provide a significant amount of finance to companies in terms of installment loans as well as through leasing and factoring. Thus, the finance companies act as financial intermediaries by obtaining funds mainly from banks, and therefore ultimately individuals and companies, and lending to individuals and companies. They undertake a transformation of the funds, which reflect relatively high interest charges on their installment loans (Buckle, 1995). Finance companies, which although now designated as banks which interact between the retail and wholesale markets, providing loans to both the personal and commercial sectors. Now they are not confined within installment lending only, but also provide personal loans and offer leasing, factoring, stocking loans and block discounting to the commercial and industrial sector (Piesse, 1995).

Liquidity refers availability of cash when required. Finance company has to maintain satisfactory level of liquid assets that are easy to sale at market price with less transaction cost. A finance company holds liquid assets balance in the form of currency, bank balance, marketable securities and other assets immediately converted into cash. But these can be invested for some period to earn interest than to keep idle cash balance. In order to determine the optional investment in liquid assets, a finance company must weigh the benefits and costs of holding these various liquidity assets balance; the determination of an optional liquid assets balance reflects the classic risk return trade off facing the finance company. Effective cash management calls for a careful balancing of the risk and return aspects of cash management (Sinkey, 1983).

Liquidity refers to the balance of assets in the form of cash or readily convertible into cash (current assets) and current liabilities (Dahiyat, 2016) whereas; solvency is the ability of firms to have enough assets to cover its liabilities (Murray, 2016). Liquidity can also be defined as the ability to provide cash to meet day-to-day needs as they arise (Walsh, 2008). Meanwhile Kesimli and Gunay (2011) argued that liquidity is an

investment in current assets and current liabilities which are liquidated within one year or less and is therefore crucial for firm's day to day operations. This component is essential in all firms to meet expected and contingent liquidity demands (Dahiyat, 2016).

As per the study made by Malik and Rafique (2013), when the finance company is not adequately manage its liquidity, it may lead to insolvency (in case of low liquidity) or low profitability (in case of high liquidity) and ultimately destroy the wealth of shareholder and breakdown of entire financial institution. Hence, maintaining the optimum level of liquidity is very important in order to make the finance company successfully functioning and profitable. In this regard, the study made by Greuning and Bratonovic (2004) suggested that, in order to manage liquidity of finance companies, they must have a well-defined liquidity management policy that is communicated in the whole organization and there must be a liquidity control strategy that specifies certain rules regarding management of assets and liabilities.

Liquidity management therefore involves the strategic supply or withdrawal from the market or circulation the amount of liquidity consistent with a desired level of shortterm reserve money without distorting the profit making ability and operations of the bank. It relies on the daily assessment of the liquidity conditions in the banking system, so as to determine its liquidity needs and thus the volume of liquidity to allot or withdraw from the market. The liquidity needs of the banking system are usually defined by the sum of reserve requirements imposed on banks by a monetary authority (Idowu et al, 2017).

Liquidity management is an important tool for the management of organizations; it reflects the organization's ability to repay short-term liabilities, which include operating expenses and financial expenses resulting within the organization in the short term. As well as part of long-term debt during the financial year or the operating cycle, whichever is longer? There are many liquidity ratios used by organizations to manage their liquidity such as (current ratio, quick ratio, cash ratio, defensive interval ratio) which can greatly affect the financial performance of companies, (Robinson et al, 2015).

For this reason the accurate functionality of financial institutions is needed to evade disorder of any financial service. Optimum level of liquidity is greatly linked with the efficient financing operations. If the liquidity not adequately managed it may lead to insolvency (in case of low liquidity) or low profitability (in case of high liquidity) and ultimately destroy the wealth of shareholder and breakdown of entire financial

institutional framework due to strong integration, dependencies and contagion effect. That's why this study analyzes the impact of liquidity on profitability of Nepalese finance companies.

Financial performance is one of the key indicators for investors to consider for making decisions about the company and is one way to see the condition of a company. The purpose of measuring the company's financial performance is to find out the level of profitability (profitability) of the company (Munawir, 2002). Good financial performance will also increase the value of the company. For this reason, the company's financial performance needs to be considered by company management to see whether the company managed is in good or bad condition. One way to assess whether the company is in good or bad condition is management can calculate various financial ratios, and the data can be taken from the company's financial statements. Financial reports form the basis for evaluating company performance (Ujiyantho and Pramuka, 2007). Financial ratios that are often used in measuring a company's financial performance are using profitability ratios. The profitability ratio shows the ability of a company to get a certain profit by maximizing the use of assets and capital owned. To increase profitability ratios over time, a company needs to increase profits. This condition is not easy, given that competition between companies is increasingly tight, and the company's resources are increasingly limited. Companies must continue to have a competitive advantage in any situation to keep attracting the interest of stakeholders in using products and services produced by the company to maintain profitability.

Introduction of Sample Organization

Nepal Finance Company

Nepal Finance Limited, the first Finance Company of Nepal, has been operating since 2049 by obtaining operating license from Nepal Rastra Bank as "C" class Financial Institution. The Financial Institution, promoted by the professionals involved in the education sector and business community, has been catering its services from the rural areas too so as to providing the financial access in the unbanked areas and contributing to the economic development of the country. The Financial Institution, a national level finance company, has always been in the forefront in bringing out customer centric and innovative products and services and some of its products have been trendsetter in the Nepalese banking industry. It acquired Lalitpur Finance Limited, a national level finance

company and commenced joint commercial operations on 27th Ashad 2078. *(www. nepalfinancelimited.com.np).*

Goodwill Finance Company

Goodwill Finance Limited is the leading provider of financial solutions with a unique mix of dedication and perfect execution. With the vision of providing the best financial services for success, Goodwill Finance Limited started its operation as financial institution under the license from Nepal Rastra Bank in 1995. It is a public limited company established under the Financial Company Act 2042, on 2051 BS.

The Authorized Capital of the company is Rupees 1,000,000,000/- and the Issued Capital is Rs. 946,115,200.00/-. 51 % of the Paid-Up Capital is held by the promoter and the remaining 49 % is held by the general public. The shares of the company are listed at Nepal Stock Exchange Limited (NEPSE). Vision the goodwill finance company financial service provider in the basis of operational excellence, while establishing a successful relationship with our customers. Mission the goodwill company market leader in financial sector, known for its high profitability, customer centric quality products and outstanding services to its customers and high rate of significant and attractive returns to its stakeholders *(www.goodwillfinance.com.np).*

Progressive Finance Limited

Progressive Finance Limited is a Public Limited Company registered on 14th Ashwin, 2051 under the Company Act, 2021 BS. We are a C-class licensed financial institution under Nepal Rastra Bank 2062 31'1' Act. Located at the heart of Kathmandu – Pako, Newroad, we started our operations from 14th Falgun 2052 BS. Our name was changed to Progressive Finance Limited from Merchant Finance Limited in 2067 upon the approval of company's Annual General Meeting, Nepal Rastra Bank and Company Registrar's office.

We publically issued 120,000 shares in 28th Shrawan 2064. Later on, by issuing 59,01,000 entitled shares in the ratio of 1: 2.81. By the date of 15th Baishakh 2076 we have total capital of Rs. 80,01,00,000 has been collected.

Progressive Finance Limited succeeds in establishing itself as a reputed and reliable financial institution in Nepal by offering attractive interest rates and satisfying the customers at the same time. The company fulfills financial needs of the customers in an easy way with average interest rates and different schemes and facilities. It helps secure

the depositors life-time savings offering them an attractive return on their savings. Vision progressive Finance Ltd to be the best financial service provider in the country. Mission progressive Finance Ltd Constant innovation and sustained customer service that enhances shareholder wealth *(www.pfltd.com.np)*.

1.2 Problem Statement

Liquidity risk is said to be assassin of finance companies. This risk can adversely affect both finance company's earnings and the capital. Therefore, it becomes the top priority of a finance company's management to ensure the availability of sufficient funds to meet future demands of providers and borrowers, at reasonable costs. Episodes of failure of many conventional finance companies from the past and the present provide the testimony to this claim. Even with such extensive support, a number of finance companies failed, were forced into mergers or required resolution. A reduction in funding liquidity then caused significant distress. In response to the freezing up of the interbank market, the European Central Bank and U.S. Federal Reserve injected billions in overnight credit into the interbank market. Some finance companies needed extra liquidity supports (Longworth 2010; Bernanke 2008). It is evident that liquidity and liquidity risk is very up-to-date and important topic. Therefore, finance companies and more so their regulators are keen to keep a control on liquidity position of finance companies.

In Nepal beginning from the last two decades the financial companies has been playing important role in the economic development of the country. Nepal's financial sector is not largely finance-based as the secondary market is still not found in the country. Finance companies cannot dominate the financial sector in Nepal and as such the process of financial intermediation in the country depends heavily on finance companies. However, the finance company sector in Nepal is currently acts as the link that holds the country's economy together. Hence, keeping their optimal liquidity for finance companies in Nepal is very important to meet the demand by their present and potential customers. Therefore, empirical studies are important to identify determinants of finance companies liquidity and their impact on profitability in the context of Nepal. Thus, this study aimed to contribute to the current literature by providing some evidence on the factors that contributes to the liquidity of finance companies and the impact of liquidity on profitability through significant factors affecting liquidity in Nepal.

Finance Company supports the economic growth of the country. Finance can also be termed as “an intermediary,” which bridges the gap between the savers of the fund and the user of the funds. Finance Company are the custodians and distributors of liquid capital, which is lifeblood of activities. According to Kent, "A Finance Company is an organization whose principal operations are concerned with the accumulation of the temporarily idle money of the general public for the purpose of advancing to others for expenditure.” In response to the economic liberalization policy of the government, establishment of private and joint venture Finance Companying is continued. The tendency to concentrate this Finance Company only in urban areas has raised certain questions. This state of affairs cannot contribute much to the socio-economic development of the country where ninety percent of the population depends upon agriculture. These Financial Company are reluctant to extend their operation in rural areas. But this Finance Company are inclined to pay fines rather than directing their resources to such less profitable sector. This problem remains to be solved. This study will basically focus its attention to reveal the struggle and success achieved by the joint venture Finance Companying. Financial company' main motive is to make profit by providing services to the customers. In Nepal, the profitability rate, operating expenses, dividend distribution among the shareholders etc. have been found inconsistent. Against this backdrop, this study possesses the following research questions:

- What are the profitability and liquidity position of finance companies in Nepal?
- What are the relationship between liquidity and profitability position of Finance companies in Nepal?
- Does liquidity affect the profitability of Finance companies in Nepal?

1.3 Objectives of the Study

The general purpose of the study is to discuss, examine and evaluate the relationship between liquidity and profitability position of the concerned financial companying system in Nepal. Thus, this study has been conducted to achieve the following objectives:

- To examine the profitability and liquidity position of finance companies in Nepal?
- To analyze the relationship between liquidity and profitability position of Finance companies in Nepal?
- To analyze the effect of liquidity and profitability position of Finance companies in Nepal?

1.4 Rationale of the Study

This study intends to help the national economy through mobilization of idle capital of average Nepalese in productive sectors to accelerate the economic growth and to reduce dependency on foreign assistance and loan. This study will help regulatory authority to find out liquidity management of the finance companies. It will be a reference to the concerned personnel and researchers. This study will also show and suggest the available investment opportunities satisfying the objectives liquidity of finance companies. The study has various significant. The study is mainly beneficial to the investors, depositors and other creditors to identify the productivity of their funds in the finance companies. Then, policy makers at the macro level that is government and Nepal Rastra Finance Company will also benefit regarding the formulation of further policies in regard to economic development through financial institutions. The study also compels the management of respective finance companies for self-assessment of what they have done in the past and guides them in their future plans and programs. Moreover, every individual as well as further researcher will have a good source of literature for review about the findings done by this study.

1.5 Limitations of the Study

In the context of Nepal, problem of reliable data is the major problem for research study. There is considerable place for arguing about its accuracy and reliability. Every study has limitations due to different factors of institutions, time-period taken, reliability of statistical data, tools and variances. The study is important liquidity and profitability in Nepalese financial sectors. Study is limited to the following:

- The study is limited to only three finance companies of Nepal (www.nrb.org.np).
- This study concentrates only liquidity and their impact on profitability and ignores the other financial aspects.
- Only secondary data is used for analysis.
- The study is limited to the past ten years from 2013/14 to 2022/23.

CHAPTER II

LITERATURE REVIEW

This chapter focuses on the literature that is currently accessible on the subject. This chapter reviews a range of publications, including books, magazines, journals, essays, research papers, unpublished thesis reports, etc. Every study is built upon prior research. Hence, it is impossible to ignore the earlier investigations. This chapter assists in getting the right comments to expand the material based on inputs to my research. There are two parts to this chapter, which are arranged in the following sequence:

2.1 Theoretical Review

A theoretical review is an academic work that examines existing theoretical frameworks, models, and concepts related to a particular research topic. It involves analyzing and synthesizing relevant literature and critically evaluating the concepts and theories presented.

The purpose of a theoretical review is to identify the key concepts and theoretical perspectives related to a research problem, and to evaluate the strengths and weaknesses of the existing theories. The review can help to identify gaps in current knowledge and suggest areas for further research.

A theoretical review typically includes a comprehensive overview of relevant literature, an analysis of key concepts and theoretical perspectives, and a critical evaluation of the existing theories. The review may also provide suggestions for future research directions and propose new theoretical frameworks to explain the research problem.

2.1.1 Anticipated Income Theory

According to this theory, the liquidity of a financial institution can be managed through properly phasing and organizing the loan promises it makes to its clients. Here, the liquidity can be planned if a consumer's scheduled loan payments are based on the borrower's future. These concepts were represented in Herbert V. Prochnow's 1949 philosophy of expected income, which connected the intrinsic soundness of term loans which was becoming increasingly significant with proper repayment schedules tailored to the borrower's projected income or cash flow. Under this system of banking policy, the usage of loan commitments was encouraged and the credit needs of business were well met. However, shifting economic conditions increased the banking industry's workload.

2.1.2 Theories of Liquidity Management

Diamond & Rajan (2001) postulated that debt management theory focuses on banks issuing debt to meet their liquidity needs. Liquidity and liability management go hand in hand. It is one of the key decision-making tools aimed at maximizing stakeholder value. Asset Liability Management (ALM) is the management of overall balance sheet dynamics and conscious decisions about the structure of assets and liabilities in order to quantify risk and maximize interest income within perceived risk. must be done. The primary goal of ALM is not to eliminate.

2.1.3 Agency Theory

The agency theory is the relationship that arises between the shareholders who are the owners (principals) of the company and the managers who are agents. In this case, the shareholders hold management accountable for managing and directing the company so that the company's goals are achieved. In practice, conflicts arise within companies known as agency conflicts. This is because the related parties, namely the principal (granting the contract or shareholders) and the agent (accepting the contract and managing the capital) have conflicts of interest (Shrestha, 2018).

2.1.4 Trade-off Theory

Trade-off theory states that the higher the level of debt, the greater the value of the indebted firm. But at some point the value starts to decrease. At this point, the debt level is optimal. The trade-off theory is a combination of Modigliani and Miller's theory of capital structure, and includes bankruptcy costs and agency costs to show the existence of tax savings from debt with bankruptcy costs (Hailhgebral, 2016).

2.1.6 Order Theory

Order theory may explain why profitable firms have less debt. This low level of debt is not because the company has a low target debt, but because it does not require external funding. Due to the high level of profits, their internal funds are sufficient to cover their investment needs (Hailhgebral, 2016).

2.1.7 Theory of Information Asymmetry and Signaling

Signaling theory interprets the actions a company takes to let investors know how management views the company's prospects. According to signal theory, managers aren't the only ones with information about a company's profitability and prospects. Investors

also have the same information about the company's profitability and prospects (Rizal, 2019).

2.1.8 Bankruptcy Theory

The bankruptcy theory is that the company has failed to carry out its business in order to make a profit. Bankruptcy is also often referred to as company liquidation or company closure or bankruptcy (Onakoya & Orotsu, 2017).

2.2 Liquidity Theory

2.2.1 Shift Possibility Theory

Liquidity theory means that banks can easily sell their assets to avoid liquidity shortfalls and provides guidance to banks on possible approaches to meeting their liquidity needs. Focusing on this theory can improve liquidity capacity when managing the categories and proportions of assets held by financial managers. Instead of relying on central bank support in the event of unforeseen events, commercial banks can pre-manage their convertible assets to avoid emergency losses. Because the shiftability theory emphasizes the opportunity to improve liquidity by holding self-clearing assets, it is impractical for banks that do not have available assets. Some researchers note that the lack of liquidity can occur on both the asset and liability sides of the balance sheet, thus increasing attitudes towards liabilities. Secure bank liquidity to meet liquidity needs by borrowing from customers rather than holding marketable assets with a focus on bank liability management. To do this, commercial banks need to consider how they will collect money from their creditors and the appropriate standards for measuring how much the bank owes those (Talreja et al., 2021).

2.2.2 Stock Market Liquidity Theory

Biderman and Santschi (2005) postulate that liquidity theory can be applied to circumvent stock market theory and propose that investors invest in the stock market in the same way as corporate insiders and public companies. Stocks when they buy them. This liquidity theory should be referred to by both individual investors and institutional investors such as banks to avoid bad investments.

2.2.3 Commercial credit Theory

Commercial banking theory is another liquidity theory of dictating to meet the needs of creditors. Due to the timing mismatch between the sale of goods and the collection of

receivables, the depositor may face the problem of running out of cash for his next cycle of business. At this point, commercial banks are said to offer short-term commercial loans to creditors. They argue that the theory focuses only on the importance of short-term theories and ignores the impact of long-term theories on economic growth (Eljelly, 2004).

2.2.4 Expected Income Theory

This theory states that bank liquidity can be managed through appropriate grading and structuring of bank lending commitments to customers. If the customer's scheduled loan payments are based on the future of the borrower, liquidity can be planned here. The Expected Income Doctrine, formalized by Herbert V. Prochnow in 1949, embodies these ideas and defines the intrinsic soundness of the increasingly important term loan as the borrower's expected income or It equates to an appropriate repayment schedule aligned with cash flow. The economy's credit needs were well met in this banking system, and the use of credit commitments was freely pursued. However, changing economic conditions have created additional demands on the banking system, necessitating new approaches to balance sheet management and posing new financial challenges for businesses. Under these circumstances, bank loans Commitment policy plays a more important role in the credit process. This theory has led many commercial banks to adopt the ladder effect in their investment portfolios (Talreja et al., 2021).

Liquidity Risk

As mentioned earlier, liquidity plays an important role in the stability of the financial system. A lack of liquidity may prevent a bank from meeting its financial obligations under normal circumstances. Even more seriously, in the event of an unforeseen emergency such as a financial crisis or economic shock, liquidity problems can lead to bank failures and destabilization of the financial system as a whole.

The global financial crisis of 2008 proved the risk of liquidity shortages. For commercial banks, liquidity risk is the inability to use cash or cash equivalents to meet payment needs. Another definition of liquidity risk is from a market perspective, which means 'the inability to take or liquidate a position without affecting the price'. For banks, liquidity risk does not exist in isolation, but is related to several risk factors. Credit risk, reputational risk, market risk and concentrations all play a role in the appearance of liquidity risk. For example, reputational risk tends to increase funding costs, thus creating liquidity risk for banks.

Regarding sources of liquidity risk, note that all liquidity risk arises from three main sources. The first is systemic sources that do not generate much external liquidity risk, market turmoil being an example of this source. The other is called discrete sources that create liquidity risk due to bank-specific factors such as reputational damage and bank losses. The third source, called the technical (timing) source, creates liquidity risk due to the mismatch between the timing of liquidity inflows and outflows (Talreja et al., 2021).

Liquidity Measurement

Liquidity can be quantitatively measured using several metrics. Working capital is an important measure of liquidity, so we begin our discussion of liquidity by looking at working capital. Working capital may simply mean the money a company needs to support its business (Hailhgebrral, 2016).

Dynamic Theory of Profit

According to Clarke (1902), profits arise because society is dynamic in nature. Because social dynamics make the future uncertain, and the consequences of that are inherent in any action that must occur in the future. Profit is therefore risk-taking and the price of risk-taking. It can only occur in dynamic societies, i.e. societies where change does not occur, i.e. societies that are static in nature, where the element of risk disappears and therefore the element of profit. Society is said to be dynamic when population, people's movements, capital stock, supply of entrepreneurs, etc. change. When all these things are constant, the future is also certain and there is no element of risk in society.

Baumol’s Model

According to Clarke (1902), profits arise because society is dynamic in nature. Because social dynamics make the future uncertain, and the consequences of that are inherent in any action that must occur in the future. Profit is therefore risk-taking and the price of risk-taking. It can only occur in dynamic societies, i.e. societies where change does not occur, i.e. societies that are static in nature, where the element of risk disappears and therefore the element of profit. Society is said to be dynamic when population, people's movements, capital stock, supply of entrepreneurs, etc. change. When all these things are constant, the future is also certain and there is no element of risk in society.

Measurement of Profitability

A bank's performance can be measured in terms of stability and profitability, but stability is related to risk and profitability concerns about a bank's financial returns. (Chukwunweike, 2014) proposed a risk-reward theory that resulted in the use of balance sheet ratios to quantitatively measure profitability. A bank's profitability is usually measured by ROE, ROA, and net profit margin. ROA measures the efficiency of using total assets to generate profit. Calculated by dividing net income by total assets. The higher the ROA, the more profitable the bank.

$$\text{ROA} = \frac{\text{Net Income}}{\text{Total Assets}}$$

Another similar ratio used to measure profitability is ROE. Unlike ROA, ROE measures the efficiency of using capital to generate profit. This is the metric of greatest concern to shareholders. Banks with high ROE are usually viewed by shareholders as profitable and promising.

$$\text{ROE} = \frac{\text{Net Income}}{\text{Shareholders Equity}}$$

NPM (Net Profit Margin) measures the efficiency of converting revenue into profit. This demonstrates the bank's ability to control costs. A high NPM is believed to indicate a bank's ability to manage costs well.

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Revenue}}$$

Another ratio used to measure profitability is NIM. It measures how much net interest income is generated from a bank's operations. It is calculated by subtracting expenses from interest income and dividing by average interest earning assets. The higher the NIM, the more profitable the banking business. $\text{NIM} = \frac{\text{Interest Income} - \text{Expenses}}{\text{average interest-bearing assets}}$

Profitability is the most important consideration for financial managers, but the importance of profitability depends on the role of the stakeholder. Depositors see deposit stability as a priority, shareholders see profitability as the most important indicator, and creditors can first consider the timely repayment of their financial obligations.

2.3 Empirical Review

Imran and Sulehr (2023) examined the impact of financial risk on profitability in the manufacturing sector and services sector from 2013/14 to 2022/13. This study used

profitability as a dependent variable, the profitability of the manufacturing sector and services sector has been measured with the help of ROA and ROE. Whereas time interest earned, debt to equity ratio, liquidity, total assets, and age have been selected as independent variables. The result showed that time interest earned has a positive and significant impact on the profitability of the manufacturing sector and services when profitability has been measured with the help of ROA. But time interest earned has an insignificant impact on the profitability of the manufacturing sector and services when profitability has been measured with ROE. The results show debt to the equity ratio has a positive and significant.

Agnihotri and Shahi (2022) examined the impact of corporate liquidity, tangibility and size on the profitability of Indian finance companies. Examined the factors that affect the profitability of Indian finance companies.finance companyfinancial statements for 2021 were obtained from his 10 finance companies in India. SPSS was used to analyzed data and evaluate regression models. The analysis showed that the independent variables combined in the study had a significant impact on the profitability of Indian finance companies, as the regression model used in the study was significant at the 0.5 confidence level.

Shahi and Agnihotri (2022) investigated the elements that influence finance companies' profitability in India. Objective study capital structure and finance companies' profitability in India. SPSS was utilized in analyzed the data and evaluating the regression model. The find of the analysis indicated that the combined independent variables in the study had a significant effect on the finance companies' profitability in India.

Subramaniam (2021) examined the impact of liquidity management on bank profitability in Sri Lanka. Long-term investments were more profitable than liquid investments. Investing in assets that generate high returns is a must. Twenty-six banks in Sri Lanka were used for the study and his 20 years of annual data from licensed Sri Lanka commercial banks from 1998 to 2017 were used. Cash management is the independent variable and profitability is the dependent variable. Return on assets (ROA) is used to measure profitability, while capital adequacy ratio, liquidity ratio, bad debt ratio and interest margin are used to measure liquidity management. The impact of liquidity management on profitability was investigated using descriptive statistics, correlation analysis, and regression analysis. As a result of the correlation analysis, we found a positive correlation between the return on capital, the return on capital, and interest, and a

negative correlation between the capital adequacy ratio and the return on capital. Regression analysis results showed that liquidity has a significant impact on profitability. Previous research therefore recommended that bankers have a clear understanding of the balance between liquid and long-term assets in order to generate more profit each day.

Ajao and Small (2021) examined liquidity management has become a major concern for business leaders, especially after the global financial crisis. This is because tightening domestic and international financial markets and public reluctance to invest in corporate stocks have made bank loans too expensive to sustain. Consequences of the collapse of the capital markets. The studied used data from selected manufacturing companies listed on the floor of the Nigerian Stock Exchange to gauge the relationship between cash management and firm profitability. The results of this study were obtained using a descriptive analysis, demonstrating that a firm's credit policy, cash flow management, and liquidity management as measured by its cash conversion cycle have a significant impact on firm profitability. It showed giving, and managers increase profitability by employing superior credit policies, short redemption cycles, and effective cash flow management.

Maani et al. (2021) investigated the impact of liquidity and profitability indicators on the market value of shares of Jordanian finance companies was examined by examining a sample of five finance companies over the period 2015-2019 (2015-2019). . During the study of Current Trading Ratio, Net Working Capital (NOC), Profitability Ratio (PR), Return on Investment (ROA), Return on Equity (ROE), and Operating Profit Margin (OPM), annual report Data was collected from The study concluded that current trading rate (CTR), NOC, ROA, and OPM did not affect the market value of shares, but ROE did affect the market value of shares of Jordanian finance companies.

Neloson (2020) examined the impact of interactions between credit risks, liquidity risk and bank credit risk management on BGFI Bank Congo's profitability by identifying credit risk and profitability indicators for the period 2010-2019. The results show that profitability is somewhat affected by credit risk management, as measured by credit risk management indicators. Non-performing loan ratio (NPLR), capital asset ratio (CAR), and loan loss reserve ratio (LLPR) all have a negative impact on ROE. While these three metrics contribute negatively, CAR contributes positively to Return on Assets (ROA) and

Customer Loans to Term Financing (RCLSTF) and Return on Equity (ROE). Thus, credit risk management has a significant impact on profitability.

Akinleye and Olarewaju (2019) examined Liquidity and profitability of dividend payout ratio in Nigeria from 2007 to 2016. A panel data regression technique was used. Result: The study found that cash-to-cash cycle and payback period were positively associated with manufacturing company growth, and that payout period was negatively associated. In addition, manufacturing credit controls helped growth in Dangote Cement Plc, Guinness Nigeria while acquired credit controls hampered growth in Cadbury Plc and Leventis Plc.

Al-Qadi and Khanji (2018) examined the relationship between liquidity and profitability through multiple liquidity metrics. The main goal was to answer the following questions:Do different liquidity metrics have the same negative or positive impact on profitability? Liquidity metrics include current ratios and quick ratios. They measure a company's ability to meet its short-term obligations, and profitability is measured by ROA and ROE. Data were collected by ASE. Various tests have been applied to analyze the relationship between liquidity and profitability. The purpose of this study was to examine whether high-speed ratio liquidity has a significant impact on the profitability of Jordanian trade services firms through return on investment (ROA). The study used his 2008-2015 financial statements of 11 Jordanian trading companies listed on the Amman Stock Exchange (ASE). In this study, we found that the independent variable quick ratio has a significant impact on the dependent variable return on assets (ROA). This means that the return on investment (ROA) profitability is heavily influenced by the liquidity of the current ratio and the fast ratio.

Nabeel and Hussain (2017) conducted study on impact of liquidity management on the profitability of Pakistan's banking sector. Cash management is independent and profitability is the dependent variable. The secondary data used for this study comes from annual reports (2006-2015) issued by 10 banks. Data were analyzed using correlation, descriptive statistics, and regression techniques performed in E-Views. Short Term, Current, Cash, Interest Coverage, and Capital Adequacy Ratio are used as dimensions for Liquidity and Return on Equity, Return on Equity and Annual Earnings. Stocks as a dimension of profitability. Research results show that interest coverage, capital adequacy ratios, and quick ratios are positive, while liquidity and balance ratios are negatively related to bank profitability.

Patel and Sharma (2017) studied relationship between liquidity and profitability in pubic sectors enterprises. Current Ratio, Quick Ratio, Working Capital Ratio, Return on Capital Employed, Debt to Equity Ratio. The study found a weak positive relationship between liquidity and profitability. A quantitative study design is used as a research tool. Correlation and regression are used to improve relationships and strength of relationships. The study recommends that companies focus on liquidity management. It is positively correlated with firm profitability.

Ismail (2016) examined impact of liquidity management on the performance of the 64 Pakistani non-Financial campaniles THAT MAKE up the performance of the Karachi stock exchange. Descriptive statistical analysis, correlation analysis and multivariate regression analysis were used for analysis. Analysis results show that liquidity variables, liquidity ratios, and cash conversion cycles have a significant positive impact on profitability (ROA). Furthermore, the results show that higher power ratios and longer cash conversion cycles improve firm performance. The study recommends that businesses relax credit policies and smartly develop inventory and collection processing systems to make them more accessible to a large number of customers.

Yusuf and Muhammed (2015) investigated Liquidity Management and Business Profitability Selected manufacturing company case studies. Business Management Dynamics, 10-25 examined the determinants of dividend payments in the Nigerian banking sector from 2004 to 2013. For this study, he used a sample of five banks from the 14 banks listed on the floor of the Nigerian Stock Exchange in December 2012. Secondary data were used in the research work and data were obtained from the Nigerian Stock Exchange (NSE) Facebook 2011/2012. The variables used were dividend payouts, profitability, liquidity, size and financial leverage. Collected data were analyzed using multiple regression and Pearson correlation. The results prove that profitability, liquidity, size and leverage are the determinants of Nigerian bank dividend payouts, while liquidity and profitability are the most important factors for Nigerian bank dividend payouts.

Bhunia et al. (2011) investigated relationship between cash management efficiency and cash profitability in Indian private sector steel companies for the period 1997-2006. They analyzed data from a sample of companies' income statements, balance sheets, and cash flow statements obtained from the annual reports of the companies they accessed. You can check it on the Indian Stock Exchange and his CMIE database. They examined key liquidity indicators and analyzed that optimal working capital management can be

achieved by controlling the trade-off between a company's profitability and liquidity. They used multiple regression techniques to examine the combined effects on profitability of selected indicators that syndicate a company's cash position and performance. They concluded that liquidity and profitability were significantly positively correlated. However, because their research relied solely on publicly available financial data, they were subject to all the limitations inherent in summarized public financial statements.

Table 1

Summary of Literature Review

Date of Publication	Article	Writer	Objective	Methodology	Finding
2023	Impact of Financial risk on Profitability: a comparative study of manufacturing and services sectors of Pakistan	(Imran and Sulehr) .	The study examined the impact of financial risk on profitability in the manufacturing sector and services sector from 2010 to 2019	Panel regression analysis, panel unit root.	The results explain that liquidity has a positive and significant impact on profitability (ROA and ROE) of the manufacturing sector and services sector.
2022	Impact of Liquidity, Tangibility and Size of a	(Agnihotri and Shahi,)	The study aimed at investigating the elements	Descriptive statistic , Panel data regression	The findings of the analysis indicated

	firm on the Finance Companies Profitability in India		that influence finance companies' profitability in India	analysis used	that the combined independent variables in the study had a significant effect on the finance companies' profitability in India the regression model used in the study was significant at 0.5 confidence level
2022	Impact of Liquidity, Tangibility and Size of a firm on the Finance Companies Profitability in India	Shahi and Agnihotri	To study capital structure and finance companies' profitability in India. The impact of Liquidity, Tangibility and size of a firm on the	SPSS was utilized in analyzed the data and evaluating the regression model.	The find of the analysis indicated that the combined independent variables in the study had a significant effect on the finance companies'

			finance companies' profitability in India.		profitability in India.
2021	Impact of Liquidity, Tangibility and Size of a firm on the Finance Companies Profitability in Sri Lanka	ıramaniam)	To study capital and finance companies profitability In Srilanka	Studied using a quantitative design method. Panel regression analysis was also conducted to check whether there was interaction effects on variables used in this study.	Liquidity ,tangibility and the size offinance companyIm portance
2021	Liquidity Management and Corporate Profitability: Case Study of Selected Manufacturin g Companies Listed on the Nigerian Stock Exchange	(Ajao and Small)	The purpose of this study liquidity management is viewed from the aspect of company's credit policy, it cash flow management and cash conversion	Descriptive statistic, Panel data regression analysis used.	The result of the study was obtained using descriptive analysis and the finding shows that liquidity managemen t measured in terms of

			cycle.		the Companies Credit Policies, Cash Flow Managemen t and Cash Conversion Cycle has significant impact on corporate profitability
2021	Impact of Liquidity and Profitability Ratios on the Stock Market Value of Jordan finance companies	(Maani, Alawad and Karaki)	Impact of Liquidity and Profitability Ratios on the Market value of Stocks in Finance Companies.	The Annual Reports, While the study adopted Current Trading Ratios	The market value of the Stock, while there was an impact of the ROE on the market value of the stock in Finance Companies.
2020	The Interactional Relationships Between Credit Risk, Liquidity Risk and	(Abdelazi z, Rim, and Helmi)	An Analytical Study of Profitability and Liquidity Postions	Return on Assets and Temporary Investment ratio (liquidity	Profitability Decreases significantly the level of Credit and Liquidity

	Bank Profitability in MENA Region				Risks
2019	Liquidity and profitability on the Dividend Payout Ratio effect of in Nigeria	(Akinleye and Olarewaj)	Financial Performance, Especially activity ratios, Liquidity ratios, and Profitability Ratios	The type of this study is a quantitative approach with an associative method	Profitability ratio is a positive signal for investors in the capital market regarding the company's dividend policy.
2018	Examined the relationship between liquidity and profitability	(Al-Qadi and Khanji)	Do different indicators of liquidity have the same effect on profitability either negatively or positively	Descriptive statistic, correlation, panel multiple regression analysis are used	It Conclude profitability through return on assets (ROA) is significantly influenced by liquidity through current and quick ratio.

2017	The Relationship between Liquidity and Profitability in Public sector Enterprises in the State of Gujarat.	(Patel and Sharma)	To check the impact of Liquidity Management on the Performance of Gujarat.	Descriptive statistic, correlation, panel multiple regression analysis are used	Liquidity Variables Current Ratio and the Cash Conversion Cycle
2016	Impact of Liquidity Management on Profitability of Pakistani Firms: A Case of KSE-100 Index	(Ismail)	To check the impact of liquidity management on the performance of the Pakistani Companies.	To derive the results of the study; descriptive statistical analysis, correlation analysis and multivariate regression tools of analysis were applied.	It was founded that liquidity variables current ratio and the cash conversion cycle have significant positive impact on profitability (ROA)
2015	Examined the determinant of dividend payout in the Nigerian banking	(Yusuf and Muhammed)	This study examines the determinant of dividend payout in the Nigerian banking	Data collected was analyzed using multiple regression and Pearson correlation	Finding revealed that profitability, liquidity, size and leverage proved to be

	industry		industry		the determinant of dividend payout of banks in Nigeria, while liquidity and profitability are the most critical factors determining dividend payout of banks in Nigeria
2011	Liquidity management efficiency and liquidity -profitability relationship in steel companies of private sector in India	(Bhunia, Khan and Mukhuti)	To explore the liquidity profitability association.	Quantitative technique and correlation, regression analysis used	Liquidity management efficiency and liquidity - profitability relationship negative in steel companies of private sector in India

2011	Impacts of liquidity ratios on profitability	(Saleem andRehman)	The present study aims to reveal the relationship between liquidity and profitability so that every firm has to maintain this relationship while in conducting day to day operations.	Descriptive statistic, correlation and multiple regression analysis used	It is concluded that liquidity ratios affect the profitability ratios.

2.3.1 Review of Nepalese Context

Shrestha and Chaurasiya (2023) investigated the Impact of Liquidity Management and Profitability of Joint Venture Commercial Banks in Nepal. Data analysis was done using descriptive statistics, Pearson correlation, regression analysis, and t-test. The data used to analyze five samples size, out of 22 which has found to be covering period 2013/14-2022/23 of joint venture commercial Banks in Nepal. The Liquidity management represented the variables of the Credit Deposit Ratio (CDR), Capital adequacy ratio (CAR), Current Reserve ratio (CRR), Total deposit to total ratio (TDTAR), Total loan to total assets ratio (TLTAR) and the profitability including Return on Assets (ROA). The result showed that there is significant impact of TLTAR on ROA and there is insignificant impact of CDR, CAR, CRR and TDTAR on ROA of joint venture commercial banks in Nepal.

Dahal and Pradhan (2021) Studied financial performance of Nepalese finance companies. More specifically, it determines the ratio of power ratio, total premiums, firm size and solvency ratio to investment return and earnings per share of finance companies in Nepal.

Dependent variables are return on assets and earnings per share, and independent variables include premium, company size, liquidity ratio, and solvency ratio. Twenty-one finance companies were selected for this study, including eight finance companies and 13 non-finance companies with 105 observations for the period 2070/71 to 2074/75. Data were collected from finance and financial statistics and annual reports of selected Nepalese finance companies published by Beema Samiti. Correlation coefficients and regression models were estimated to test the significance and importance of liquidity management to the financial performance of finance companies in Nepal. The results show that premiums have a positive impact on investment return and earnings per share. This means that higher premiums translate into higher investment returns and higher earnings per share. Company size also has a positive impact on investment return and earnings per share. This shows that as the size of the company increases, the return on investment and earnings per share increase.

Sah (2021) examined the factored Profitability implications related to finance companies in Nepal. Return on Assets and return on Equity are selected as dependent variable. The independent variables chosen were liquidity, availability, premium growth, firm age, and firm size. The study is based on secondary data from 21 insurers with 168 observations from the period 2011/12 to 2018/19. Data are taken from reports published by Beema Samiti and annual reports of some finance companies. A regression model is estimated to test the factors that affect the profitability of finance companies in Nepal. The study showed that firm size has a positive impact on return on investment and return on equity. This shows that as the size of the company grows, the return on capital and the return on equity improve. As a result, it was concluded that equity relative to total assets, leverage, and tangible nature of assets influence the financial performance of finance companies in Nepal.

Bhattarai (2020) analyzed the effect of capital structure on financial performance of finance companies in Nepal. The purposed Impact of capital structure on the financial performance of finance companies in Nepal. The data was collected from each insurer's annual report posted on his website. Panel data from 14 Nepalese finance companies from 2007/08 to 2015/16 lead to a total of 126 observations. Data were analyzed using pooled OLS, random-effects, and fixed-effects models. We examined return on total assets as the dependent variable, and total debt ratio, equity to total assets, leverage, firm size and liquidity ratio, and tangible assets as independent variables. As a result, it was concluded

that total assets, leverage, and the ratio of capital to tangible assets influence financial performance for finance companies in Nepal.

Bhattarai (2020) purposed of the variables that affect the profitability of finance companies in Nepal. The surveyed data is based on panel data from 10 insurers over a 5-year period from 2013/14 to 2017/18, leading to 50 observations. The study used return on equity (ROE) as a measure of profitability and as the dependent variable. The study also used employee expense ratio (ER), financial leverage (FL), and company size (LnTA) factors as independent variables. Data were processed using SPSS 25 software. The results show that the cost ratio is positively related to the other independent variables. The results of this study concluded that financial leverage and size are key determinants of Nepal finance company profitability.

Khatri (2020) investigated the relationship between liquidity and profitability of commercial bank in Nepal. Ten of the 27 listed commercial banks participated in the study, covering the period 2013-2019. The study was based on secondary data extracted from Banking Regulatory Reports published by Nepal Rastra Bank and annual reports of selected commercial banks. Reported liquidity is the loan-to-debt ratio (CDR), cash-to-deposit ratio (CADR), and asset quality (AQ), while return on equity (ROE) and return on assets (ROA) are indicators of profitability. Cash to deposit ratio (CADR) has a positive and insignificant relationship with return on assets (ROA) and return on equity (ROE).

Sharma and Poudel (2012) investigated the impact of credit risk management on the financial performance of commercial banks in Nepal. The purpose of this study was to determine the impact of credit risk management on banks' financial performance. The parameters covered in this study are default rate, cost per loan asset, and capital adequacy ratio. Using financial statements from 31 banks, we analyzed an 11-year period (2001-2011), compared rates of return and defaults, cost per loan asset, capital adequacy ratios presented in narrative form, Data were analyzed using correlation and regression. Already used. The study found that all of these parameters adversely affect a bank's financial performance. However, default rates are the best indicator of a bank's financial performance.

Bhattarai (2016) examined the impact of credit risk on the performance of commercial banks in Nepal. A descriptive, causal, comparative study design was employed for this study. Data collected from 14 commercial banks from 2010 to 2015 were analyzed using

regression models. The regression results showed that 'NPL ratio' had a negative impact on bank performance, while 'Cost per loan asset' had a positive impact on bank performance.

Budhathoki et al. (2022) examined impact of a bank's liquidity, leverage and total asset size on profitability. The study used bank coverage data of all 28 commercial banks operating in Nepal during the period 2010/11 to 2016/17. In total, 168 observations were used in the study. Three ordinary least-squares models were applied to analyze the effects of liquidity, leverage and overall size on bank profitability. The first regression model shows that a high loan-to-deposit ratio (low liquidity) was observed to negatively impact a bank's ROA, ROE, and NIM. However, ROE and NIM were not statistically significant. The results of the second regression model show that a higher capital-to-assets ratio (lower leverage) had a positive impact on two profitability measures, ROA and NIM, which was statistically significant. However, it was negatively associated with ROE and not statistically significant. The final regression model results show that larger bank sizes favor Nepalese commercial banks and have a positive effect on all three of his indicators of profitability. ROA, ROE, NIM. The findings could help bankers and policy makers take effective action to improve bank profitability.

Pokharel and Pokharel (2019) examined impact of liquidity on profitability in Nepalese Commercial Bank Agriculture Development Bank, Everest Bank, Prime Commercial Bank, Sunrise Bank and Citizens Bank International are randomly selected among 28 commercial banks of Nepal as a sample and analyzed for the current study over the period 2010/11 to 2016/17 AD. Liquidity management can increase the bank’s profitability. The study examined liquidity management as well as profitability positions using various statistical and financial tools. The article indicated largely zigzag trend of average profitability of commercial banks, although the trend of liquidity ratios of the bank is unstable. The research concluded that bank’s liquidity ratios have below the prescribed standard. Similarly CRR is extremely heavy than prescribed by monetary policy 2016/17.

Mishra (2019) investigated the relationship between liquidity and profitability of Nepalese commercial banks. The objectives were to explored and examine the liquidity position, profitability status and relationship between liquidity and profitability in of Nepalese commercial banks. The study based on secondary data from the annual reports

of the Nepalese commercial banks. Correlation and regression analysis were employed to examine the relationship between liquidity and profitability. The result showed that ADBL and NABIL have good liquidity position and profitability position. Therefore, the results are valid for banking sector.

2.4 Research Gap

The studies reviewed show that liquidity plays an important role in improving corporate performance. This review highlights the impact of various elements of liquidity management on profitability. Most studies show that there is a significant relationship between liquidity and profitability. The above literature suggests that there is a trade-off between liquidity and profitability in the financial sector, with the two variables reinforcing each other. Different results were also observed depending on the industry surveyed. Although the study was conducted primarily in the finance sector, the study established relationship between liquidity and profitability in the Finance company in Nepal.

Previous studies have been limited to a few variables and have not described specific determinants of profitability. Previous research has been incomplete in determining the impact of maintaining profitability on liquidity. It is not exhaustive to explain the specific problems finance faces due to its impact on operational efficiency and the conflicting impact on profitability.

Imran and Sulehri (2023) Previous research was limited to financial and statistical tools only. This study was used for a descriptive study design only. The majority of investigations were performed using correlation analysis, simple regression analysis and panel regression analysis. A variety of financial and statistical analyzes were used in this study. (Pokharel & Pokharel, 2019) These include ratio analysis, correlation analysis, and multiple regression analysis. A descriptive and analytical study design was used in this study. This study covers the period from 2013/14 to 2022/23.

CHAPTER III

RESEARCH METHODOLOGY

A research methodology is a method of systematically solving a research problem. A study consisting of various sections describing the study plan and design, sample description, equipment, data collection procedures and timeframes, validity and reliability of the study and analysis plan. In the absence of a methodology, the conclusions drawn may be that the research methodology is a systematic way to solve the problem. It is an academic field that studies how research should be done. Essentially, the procedures researchers use to perform work to describe, explain, and predict phenomena are called research methodologies. Therefore, this chapter explains that the methodology used in doing so can be misunderstood.

A research methodology describes the methods and processes that apply to all aspects of research and helps to solve systematic problems. A research methodology is used to collect information or data and set an overall plan related to research.

3.1 Research Design

This study uses a descriptive research design. A descriptive research design is a research design that deals with finding out who, what, where and how occurs in a study. Describe the population in terms of important variables. Descriptive survey designs are used for several purposes, one of which is to determine relationships between variables. This study uses a descriptive research design to explain the relationship between liquidity and profitability. The design of descriptive research is used to determine financial position, as descriptive research consists of different types of research and research.

3.2 Population and Sample

A population includes any member, individual, or unit that satisfies the selection criteria for the group under investigation and represents a representative sample. A sample is taken for further examination. The study population consisted of 17 Finance Company in Nepal registered with the NRB. This study uses a simplified sampling method.

The population is the entire group of guesses. A sample is a specific group for which you collect data. The sample size is always smaller than the total population size. In research, populations do not always refer to humans. In this study, a total of 3 finance company in

Nepal were selected for 10 financial years from 2013/14 to the 2022/23. The major finance company companies are:

Table 2

Sample Finance Companies

Name of Insurance	Establishment Year	Sample Selection
Nepal Finance Company Limited (NFCL)	2049	2013/14- 2022/23
Goodwill Finance Company Limited (GFCL)	2052	2013/14- 2022/23
Progressive Finance Company Limited (PFCL)	2051	2013/14- 2022/23

Sources: NRB Website

3.3 Source of Data Collection

This study is based on secondary data. The data required for the analysis are taken directly from the balance sheets and income statements of the annual statements of the finance concerned. Complementary data and information are collected from various agencies and regulators such as NRB, SEBON, NEPSE, Beema Samiti, Ministry of Finance and budget speeches from various fiscal years and economic surveys. All secondary data are chronologically compiled, processed and aggregated according to the requirements and objectives of the study. Similarly, various data and information are gathered from business journals, journals, bulletins, magazines and other published and unpublished reports and documents from various sources. Formal and informal discussions with the bank's relevant authorities are also very helpful in obtaining additional information on relevant issues.

3.4 Data Collection Procedure

ROE and liquidity is measured by Capital Adequacy Ratio, Inflation Rate, Leverage Ratio and Company size. The impact of liquidity factors on profitability is represented by correlation analysis. Multiple linear regressions is used to determine the relationship

between liquidity (independent variable) and profitability (dependent variable). The collected data can be analyzed for descriptive statistics using tools such as percentages, means, and standard deviations to help researchers explain the data. Collected data were analyzed using descriptive statistics with SPSS.

3.5 Method of Data Analysis Technique

Various statistical tools may be used for the evaluation of financial performance of the banks such as Correlation Analysis, Measure of Central Tendency, Theory of Dispersion, and Estimation whatever is required. "Statistical analysis is one particular language which describes the data and makes possible to talk about the relations and the difference of the variables. Statistical tools are the mathematical techniques used to analyze and interpret performance. It is used to describe the relationship between variables and interpret the result. Statistics is also used to test the hypothesis that is set to know the information of population. In this study, the following statistical tools are used:

Standard Deviation

The measurement of the scatterings of the mass of figures in a series about an average is known as dispersion. S.D. is an absolute measurement of dispersion in which the drawbacks present in other measures of dispersion are removed. The high amount of dispersion reflects high standard deviation. The small standard deviation means the high degree of homogeneity of the observations. In simple term high SD means very less similarity in the values and low SD means high similarity among the values. SD gives the accurate result.

$$\sigma = \sqrt{\frac{\sum(X - \overline{X})^2}{n}}$$

Where,

X = number of observations in the sample

$\overline{X}$= mean of number of observations in the sample

n = number of years

$\sum(X - \overline{X})^2$ = Sum of Total number of observations deviation from mean in the sample.

Correlation Coefficient (r)

Correlation coefficient is defined as the association between the independent Variable and independent variable. Correlation coefficients are used to measure how strong a relationship is between two variables. Two variables are said to have correlation when the value of one variable is accompanied by the change in the value of the other. Therefore, it is measured by following formula using two variables. It is denoted by small ' r'

$$\text{Correlation Coefficient (r)} = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2}\sqrt{n\sum Y^2 - (\sum Y)^2}}$$

Multiple Regressions

A multiple regression analysis is performed to identify the relationship between liquidity and profitability. Liquidity is the independent variable here. Profitability is the dependent variable and can be expressed as:

P = f (L)

That shows profitability is a function of liquidity Where

P = Liquidity

L = Profitability

In this study, profitability is measured by two ratios, i.e. net return on assets and return on equity while liquidity is measured by payout ratio. Current ratio, quick ratio and leverage ratio, Finance Premium and Solvency Ratio. The following two models are built to measure the impact of liquidity and profitability.

Regression Equation for dependent variable ROA

$$ROA = \beta 0 + \beta 1CR + \beta 2DAR + \beta 3DER + \beta 4CAR + \beta 5LDR + e \quad \text{..... (1)}$$

Regression Equation for dependent variable ROE:

$$ROE = \beta 0 + \beta 1CR + \beta 2DAR + \beta 3DER + \beta 4CAR + \beta 5LDR + e \quad \text{..... (1)}$$

Where,

$\beta 0, \beta 1, \beta 2, \beta 3, \beta 4, \beta 5$ Are the Regression Coefficient

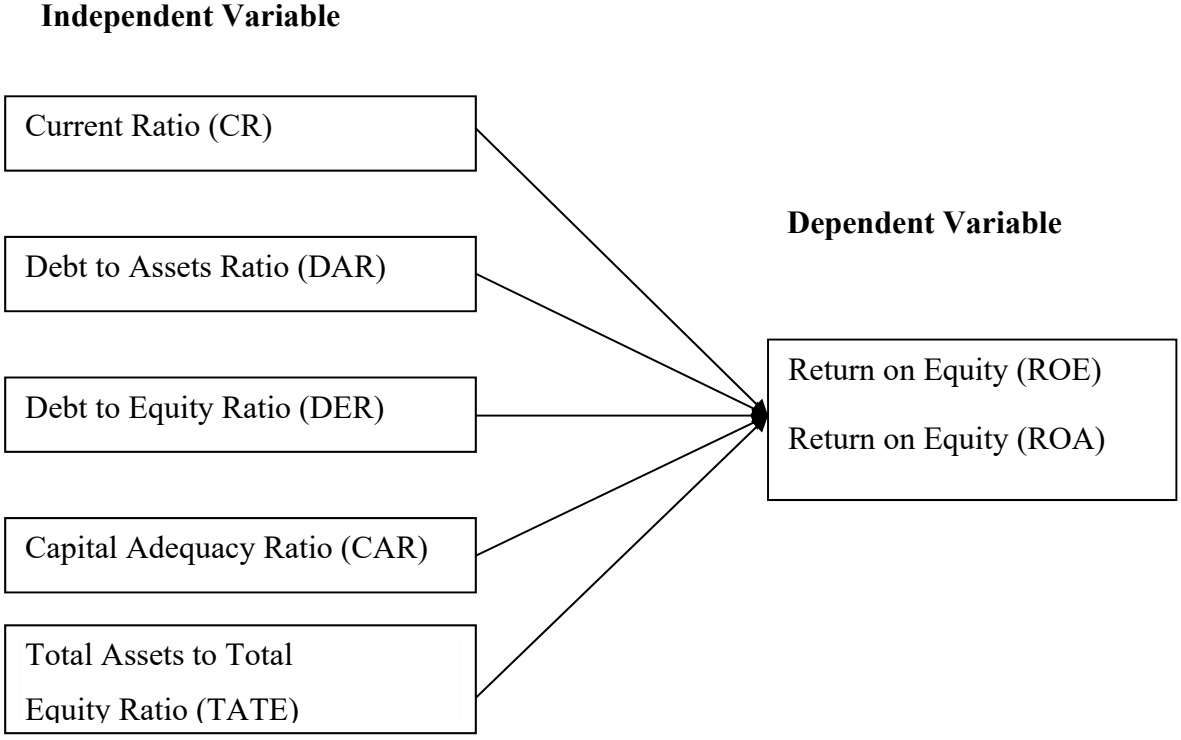
e Error term

ROE Return on Equity

ROA	Return on Assets
CR	Current Ratio
DAR	Debt to Assets Ratio
DER	Debt to Equity Ratio
CAR	Capital Adequacy Ratio
LDR	Loan to Deposit Ratio

3.6 Research Framework and Definition of Variables

The Research framework of the study describes systematic explanations of the relationship between dependent and independent variables with the aim of clarifying the relationship between liquidity variable and profitability of finance companies in Nepal. This section provides a conceptual framework for the study and describes the variables studied. In this study, the dependent variable is return on equity and return on assets. Where current ratio, quick ratio, leverage ratio, Finance premium and Solvency ratio are independent variables. Therefore, the following conceptual model is designed to summarize the main aim and scope of this study.



Source: Saleem and Rehman (2011)

Figure 1 Research Framework

Current Ratio

Current ratio examines' the liquidity position of the company. It examines the position of the company as to its holding of current assets against its current liabilities. It measures the extent to which the claims of short-term creditors are covered by short-term assets. Higher ratio indicates satisfactory position and vice-versa. The standard current ratio is 2:1.This ratio obtained by following formula:

$$\text{Current Ratio (CR)} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Debt to Assets Ratio

A leverage ratio is any one of several financial measurements that assesses the ability of a company to meet its financial obligations. A leverage ratio may also be used to measure a company's mix of operating expenses to get an idea of how changes in output will affect operating income.

$$\text{Debt to Assets Ratio (DAR)} = \frac{\text{Total Debt}}{\text{Total Asstest}} \times 100$$

Debt to Equity Ratio

A leverage ratio is any one of several financial measurements that assesses the ability of a company to meet its financial obligations. A leverage ratio may also be used to measure a company's mix of operating expenses to get an idea of how changes in output will affect operating income.

$$\text{Debt to Equity Ratio (DER)} = \frac{\text{Total Debt}}{\text{Total Equity}} \times 100$$

Capital Adequacy Ratio (CAR)

Bank capital serves as cushion to absorb the unexpected losses and a source of fund to deal with liquidity risks. Two hypotheses are used to explain the relationship between bank's capital and liquidity. The first one supposes that the capital level has a positive impact on bank liquidity. Khoury (2015) studied the determinants of liquidity in the Lebanese banking sector. She confirmed the risk absorption hypothesis and found that the capital level has a positive and statistically significant impact on both liquid assets to total assets ratio and liquid assets to deposits ratio. Many other scholars found the same positive association between liquid assets to total assets ratio and a banks' capital level. The second hypothesis indicates that a higher capital level may disrupt liquidity creation,

i.e., negative relationship (Bhatia et al., 2012). Consequently, the study expects a positive association between capital level and liquidity.

Capital Adequacy Ratio (CAR) =Total Liabilities/Net Income + Depreciation

Total Loan to Total Deposit Ratio

The Total Loan to Total Deposit Ratio is a financial metric used to evaluate a bank's liquidity and risk. It's calculated by dividing the total loans held by a bank by its total deposits. This ratio gives an indication of how much of the bank's funding comes from loans compared to deposits. A high ratio suggests that the bank relies heavily on loans for its funding, which could indicate higher risk since loans are typically riskier assets than deposits. Conversely, a low ratio indicates that the bank is more conservative and relies more on deposits for its funding, which could imply greater stability.

$$\text{Total Loan to Total Deposit Ratio (TATE)} = \frac{\text{Total Loan}}{\text{Total Deposit}}$$

Return on Assets

Return on assets is the relationship between profit and total assets of a firm on a given date. It measures the profitability of a firm’s assets or the amount of net income it earns in relation to the assets available for use. The return on total assets ratio indicates how well a company’s investments generate value, making it an important measure of productivity for the business. It is calculated by dividing the company’s earnings after taxes (EAT) by its total assets, and multiplying the result by 100%.

$$\text{Return on assets (ROA)} = \frac{\text{Net income}}{\text{Total assets}}$$

Return on Equity

The ratio of net income to Return on equity (Common Equity). It measures the rate of return on common stockholder’s investment. Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company’s assets minus its debt, ROE is considered the return on net assets.

$$\text{Return on Equity (ROE)} = \frac{\text{Net income}}{\text{Common equity}}$$

CHAPTER–IV

RESULTS AND DISCUSSION

4.1 Results

This chapter presents data analysis of collected information on the relation between liquidity and profitability of finance companies in Nepal. Collected data is systematically recorded and organized for analysis using various tools and techniques. Therefore, this chapter is the main body of the study regarding the presentation, analysis and interpretation of the collected data.

To analyze the effect of liquidity on the profitability of Nepalese finance companies, necessary information and data are collected through audited financial statements and annual reports. The key variables in this study are current ratio, quick ratio, leverage ratio, return on equity, return on assets, etc., which are very sensitive and relevant to the study. Just collecting and presenting data is not enough for research purposes. Therefore, various financial and statistical tools have been applied to examine the relationship between liquidity and profitability of Nepalese finance companies.

Data presentation and analysis refers to the process of organizing, summarizing, and interpreting data to derive meaningful insights and make informed decisions. It involves using various techniques and tools to explore patterns, relationships, and trends in the data.

4.1.1 Return on Assets

Return on assets is the relationship between profit and total assets of a firm on a given date. It measures the profitability of a firm’s assets or the amount of net income it earns in relation to the assets available for use. The return on total assets ratio indicates how well a company’s investments generate value, making it an important measure of productivity for the business. It is calculated by dividing the company’s earnings after taxes (EAT) by its total assets, and multiplying the result by 100%.

Table 3

Return on Assets (ROA)

Year	GFL	NFL	PFL
2013/14	0.92	(13.36)	(8.52)
2014/15	1.67	(15.77)	(1.12)
2015/16	1.13	(13.68)	(1.33)
2016/17	1.13	28.39	2.78
2017/18	2.85	21.70	1.68
2018/19	0.88	5.82	0.61
2019/20	1.69	3.00	1.43
2020/21	1.05	9.43	0.16
2021/22	1.46	3.49	0.66
2022/23	0.97	0.98	1.07
Mean	1.38	3.00	(0.26)
SD	0.60	14.71	3.15
CV	0.43	4.90	(12.22)

Source: Annual Reports of Finance Companies, 2013/14 to 2022/23

The table 3 presents the Return on Assets (ROA) of finance companies in Nepal over a span of ten years, from the fiscal year 2013/14 to 2022/23. ROA is a financial metric used to assess a company's profitability in relation to its total assets. It indicates how efficiently a company is utilizing its assets to generate profits. Here, three finance companies, namely GFL, NFL, and PFL, are analyzed.

In each row, the table lists the ROA values for the respective finance companies for each fiscal year. For instance, in the fiscal year 2013/14, GFL had an ROA of 0.92, while NFL and PFL had negative ROA values of (13.36) and (8.52) respectively. Negative values indicate that these companies incurred losses relative to their assets during that year.

The subsequent years show fluctuations in ROA for each company. For instance, GFL's ROA ranged from 0.88 to 2.85, NFL's from -15.77 to 28.39, and PFL's from -8.52 to 2.78. These fluctuations can be indicative of various factors such as changes in market conditions, management efficiency, or company strategies. GFL demonstrates a relatively stable performance with a mean ROA of 1.38 and a coefficient of variation of 0.43, suggesting moderate variability around the mean. NFL shows higher variability with a

mean ROA of 3.00 and a larger standard deviation, resulting in a coefficient of variation of 4.90. PFL, on the other hand, exhibits negative mean ROA (-0.26) and a high coefficient of variation (-12.22), indicating significant variability and inconsistency in profitability over the years.

4.1.2 Return on Equity

The ratio of net income to Return on equity (Common Equity). It measures the rate of return on common stockholder's investment. Return on equity (ROE) is a measure of financial performance calculated by dividing net income by shareholders' equity. Because shareholders' equity is equal to a company's assets minus its debt, ROE is considered the return on net assets.

Table 4

Return on Equity (ROE)

Year	GFL	NFL	PFL
2013/14	0.14	0.09	0.38
2014/15	0.15	0.11	0.29
2015/16	0.10	0.10	0.33
2016/17	0.12	0.11	0.31
2017/18	0.17	0.12	0.24
2018/19	0.14	0.07	0.22
2019/20	0.10	0.08	0.18
2020/21	0.16	0.02	0.13
2021/22	0.08	0.03	0.11
2022/23	0.11	0.03	0.10
Mean	0.13	0.08	0.23
SD	0.03	0.04	0.10
CV	0.22	0.49	0.43

Source: Annual Reports of Finance Companies, 2013/14 to 2022/23

Table 4 provides the Return on Equity (ROE) data for three finance companies in Nepal over the period spanning from 2013/14 to 2022/23. ROE is a financial metric that measures a company's profitability by calculating how much profit it generates relative to its shareholders' equity. It reflects the efficiency of a company in utilizing shareholder funds to generate earnings.

Each row in the table represents the ROE values for the respective finance companies (GFL, NFL, and PFL) for each fiscal year. For example, in the fiscal year 2013/14, GFL had an ROE of 0.14, NFL had an ROE of 0.09, and PFL had an ROE of 0.38.

Over the years, there are fluctuations in the ROE values for each company. GFL's ROE ranged from 0.08 to 0.17, NFL's from 0.02 to 0.12, and PFL's from 0.10 to 0.38. These fluctuations may be influenced by various factors such as changes in profitability, debt levels, or shareholder equity.

GFL demonstrates a relatively stable performance with a mean ROE of 0.13 and a coefficient of variation of 0.22, indicating moderate variability around the mean. NFL shows higher variability with a mean ROE of 0.08 and a larger standard deviation, resulting in a coefficient of variation of 0.49. PFL, on the other hand, exhibits a mean ROE of 0.23 and a coefficient of variation of 0.43, indicating significant variability in profitability over the years.

4.1.3 Current Ratio

Current ratio examines' the liquidity position of the company. It examines the position of the company as to its holding of current assets against its current liabilities. It measures the extent to which the claims of short-term creditors are covered by short-term assets. Higher ratio indicates satisfactory position and vice-versa. The standard current ratio is 2:1.This ratio obtained by following formula:

Table 5

Current Ratio (CR)

Year	GFL	NFL	PFL
2013/14	0.74	0.67	0.79
2014/15	0.68	0.59	0.69
2015/16	0.84	0.73	0.82
2016/17	0.67	0.84	0.70
2017/18	0.55	0.69	0.76
2018/19	0.74	0.78	0.74
2019/20	0.89	0.80	0.84
2020/21	0.81	0.76	0.75
2021/22	0.62	0.79	0.74
2022/23	0.73	0.82	0.80
Mean	0.73	0.75	0.76
SD	0.10	0.08	0.05
CV	0.14	0.10	0.06

Source: Annual Reports of Finance Companies, 2013/14 to 2022/23

Table 5 presents the Current Ratio (CR) data for three finance companies in Nepal across the fiscal years from 2013/14 to 2022/23. The current ratio is a liquidity ratio that measures a company's ability to meet its short-term obligations with its short-term assets. It is calculated by dividing a company's current assets by its current liabilities.

Each row in the table represents the current ratio values for the respective finance companies (GFL, NFL, and PFL) for each fiscal year. For instance, in the fiscal year 2013/14, GFL had a current ratio of 0.74, NFL had a current ratio of 0.67, and PFL had a current ratio of 0.79. The data shows fluctuations in the current ratio values for each company over the years. GFL's current ratio ranged from 0.62 to 0.89, NFL's from 0.59 to 0.84, and PFL's from 0.69 to 0.84. These fluctuations may indicate changes in the composition of current assets and liabilities, which could affect a company's short-term liquidity position.

GFL demonstrates a relatively stable liquidity position with a mean current ratio of 0.73 and a coefficient of variation of 0.14, indicating moderate variability around the mean. NFL shows slightly higher variability with a mean current ratio of 0.75 and a coefficient

of variation of 0.10. PFL exhibits the lowest variability with a mean current ratio of 0.76 and a coefficient of variation of 0.06, indicating a more consistent liquidity position over the years.

4.1.4 Debt to Assets Ratio

A leverage ratio is any one of several financial measurements that assesses the ability of a company to meet its financial obligations. A leverage ratio may also be used to measure a company's mix of operating expenses to get an idea of how changes in output will affect operating income.

Table 6

Debt to Assets Ratio (DAR)

Year	GFL	NFL	PFL
2013/14	0.88	0.77	0.79
2014/15	0.84	0.91	0.99
2015/16	0.71	0.92	0.87
2016/17	0.79	0.82	0.91
2017/18	0.75	0.88	0.83
2018/19	0.92	0.87	0.88
2019/20	0.69	0.84	0.71
2020/21	0.86	0.67	0.83
2021/22	0.81	0.89	0.76
2022/23	0.84	0.91	0.84
Mean	0.81	0.85	0.84
SD	0.07	0.08	0.08
CV	0.09	0.09	0.09

Source: Annual Reports of Finance Companies, 2013/14 to 2022/23

Table 6 displays the Debt to Assets Ratio (DAR) data for three finance companies in Nepal over the period from 2013/14 to 2022/23. The debt to assets ratio is a financial metric that measures the proportion of a company's assets that are financed by debt. It is calculated by dividing total debt by total assets. Each row in the table represents the debt to assets ratio values for the respective finance companies (GFL, NFL, and PFL) for each

fiscal year. For instance, in the fiscal year 2013/14, GFL had a debt to assets ratio of 0.88, NFL had a ratio of 0.77, and PFL had a ratio of 0.79.

The data reveals fluctuations in the debt to assets ratio values for each company over the years. GFL's ratio ranged from 0.69 to 0.92, NFL's from 0.67 to 0.92, and PFL's from 0.71 to 0.99. These fluctuations may indicate changes in the capital structure of the companies, reflecting variations in their debt levels relative to their asset base. Interpreting the data, GFL demonstrates a relatively stable capital structure with a mean debt to assets ratio of 0.81 and a coefficient of variation of 0.09, indicating moderate variability around the mean. NFL and PFL show similar levels of variability, with mean debt to assets ratios of 0.85 and 0.84 respectively, and coefficient of variations of 0.09 for both.

4.1.5 Debt to Equity Ratio

A leverage ratio may also be used to measure a company's mix of operating expenses to get an idea of how changes in output will affect operating income.

Table 7

Debt to Equity Ratio (DER)

Year	GFL	NFL	PFL
2013/14	5.22	6.47	4.22
2014/15	5.97	6.21	4.97
2015/16	5.85	6.77	4.61
2016/17	5.47	6.32	5.22
2017/18	5.21	4.57	3.41
2018/19	5.30	5.74	6.27
2019/20	5.71	6.22	5.29
2020/21	6.47	6.41	5.81
2021/22	5.31	5.91	5.74
2022/23	5.97	4.29	4.98
Mean	5.65	5.89	5.05
SD	0.42	0.82	0.83
CV	0.07	0.14	0.16

Source: Annual Reports of Finance Companies, 2013/14 to 2022/23

Table 7 illustrates the Debt to Equity Ratio (DER) data for three finance companies in Nepal from the fiscal years 2013/14 to 2022/23. The debt to equity ratio is a financial metric that assesses the extent to which a company is financed by debt relative to its equity. It is calculated by dividing total debt by total equity. Each row in the table represents the debt to equity ratio values for the respective finance companies (GFL, NFL, and PFL) for each fiscal year. For example, in the fiscal year 2013/14, GFL had a debt to equity ratio of 5.22, NFL had a ratio of 6.47, and PFL had a ratio of 4.22.

The data shows fluctuations in the debt to equity ratio values for each company over the years. GFL's ratio ranged from 5.21 to 6.47, NFL's from 4.29 to 6.77, and PFL's from 3.41 to 6.27. These fluctuations suggest changes in the financing structure of the companies, reflecting variations in their debt levels relative to their equity. At the bottom of the table, the mean (average) and standard deviation (SD) for each company's debt to equity ratio are provided. The mean debt to equity ratio gives an overall indication of the level of debt financing relative to equity over the period, while the standard deviation measures the dispersion of debt to equity ratio values around the mean. A higher standard deviation indicates greater variability in debt to equity ratio values, suggesting potential fluctuations in the financing structure.

GFL demonstrates a relatively stable financing structure with a mean debt to equity ratio of 5.65 and a coefficient of variation of 0.07, indicating low variability around the mean. NFL exhibits higher variability with a mean debt to equity ratio of 5.89 and a larger standard deviation, resulting in a coefficient of variation of 0.14. PFL shows the highest variability with a mean debt to equity ratio of 5.05 and a coefficient of variation of 0.16, suggesting significant variability in the financing structure over the years.

4.1.6 Capital Adequacy Ratio

Bank capital serves as cushion to absorb the unexpected losses and a source of fund to deal with liquidity risks. Two hypotheses are used to explain the relationship between bank’s capital and liquidity. The first one supposes that the capital level has a positive impact on bank liquidity. Khoury (2015) studied the determinants of liquidity in the Lebanese banking sector. She confirmed the risk absorption hypothesis and found that the capital level has a positive and statistically significant impact on both liquid assets to total assets ratio and liquid assets to deposits ratio. Many other scholars found the same positive association between liquid assets to total assets ratio and a banks’ capital level.

The second hypothesis indicates that a higher capital level may disrupt liquidity creation, i.e., negative relationship (Bhatia et al., 2012). Consequently, the study expects a positive association between capital level and liquidity.

Table 8

Capital Adequacy Ratio (CAR)

Year	GFL	NFL	PFL
2013/14	14.90	19.34	33.34
2014/15	16.39	51.42	49.28
2015/16	16.39	23.54	39.64
2016/17	16.72	55.66	81.67
2017/18	19.35	82.41	93.74
2018/19	30.03	111.00	173.02
2019/20	37.88	35.74	66.51
2020/21	34.34	64.35	45.32
2021/22	24.66	44.69	29.63
2022/23	25.46	43.65	22.46
Mean	23.61	53.18	63.46
SD	8.23	27.53	44.83
CV	0.35	0.52	0.71

Source: Annual Reports of Finance Companies, 2013/14 to 2022/23

Table 8 presents the Capital Adequacy Ratio (CAR) data for three finance companies in Nepal over the period from 2013/14 to 2022/23. The capital adequacy ratio is a financial metric that measures a bank's ability to absorb losses and meet its financial obligations. It is calculated by dividing a bank's capital by its risk-weighted assets. Each row in the table represents the capital adequacy ratio values for the respective finance companies (GFL, NFL, and PFL) for each fiscal year. For example, in the fiscal year 2013/14, GFL had a capital adequacy ratio of 14.90%, NFL had a ratio of 19.34%, and PFL had a ratio of 33.34%.

The data illustrates fluctuations in the capital adequacy ratio values for each company over the years. GFL's ratio ranged from 16.39% to 37.88%, NFL's from 19.34% to 111.00%, and PFL's from 22.46% to 173.02%. These fluctuations suggest changes in the companies' capitalization levels, which may be influenced by factors such as regulatory requirements, profitability, and risk management practices. At the bottom of the table, the mean (average) and standard deviation (SD) for each company's capital adequacy ratio are provided. The mean capital adequacy ratio gives an overall indication of the companies' capitalization levels over the period, while the standard deviation measures the dispersion of capital adequacy ratio values around the mean. A higher standard deviation indicates greater variability in capital adequacy ratio values, suggesting potential volatility in the companies' capital positions.

The coefficient of variation (CV), calculated by dividing the standard deviation by the mean, is also included. CV provides a relative measure of variability that standardizes the dispersion of capital adequacy ratio values across different companies, allowing for comparison of variability taking into account their mean capital adequacy ratio levels. Interpreting the data, GFL demonstrates a relatively stable capital adequacy position with a mean capital adequacy ratio of 23.61% and a coefficient of variation of 0.35, indicating moderate variability around the mean. NFL exhibits higher variability with a mean capital adequacy ratio of 53.18% and a larger standard deviation, resulting in a coefficient of variation of 0.52. PFL shows the highest variability with a mean capital adequacy ratio of 63.46% and a coefficient of variation of 0.71, suggesting significant variability in capitalization levels over the years.

4.1.7 Loan to Deposit Ratio

The Total Loan to Total Deposit Ratio is a financial metric used to evaluate a bank's liquidity and risk. It's calculated by dividing the total loans held by a bank by its total deposits. This ratio gives an indication of how much of the bank's funding comes from loans compared to deposits. A high ratio suggests that the bank relies heavily on loans for its funding, which could indicate higher risk since loans are typically riskier assets than deposits. Conversely, a low ratio indicates that the bank is more conservative and relies more on deposits for its funding, which could imply greater stability.

Table 9

Loan to Deposit Ratio (LDR)

Year	GFL	NFL	PFL
2013/14	74.19	98.54	93.20
2014/15	79.00	109.52	102.73
2015/16	69.65	90.70	87.06
2016/17	74.18	122.56	83.82
2017/18	71.08	160.64	110.69
2018/19	83.51	154.21	65.35
2019/20	86.28	102.45	93.21
2020/21	86.93	17.19	64.93
2021/22	73.73	48.17	93.09
2022/23	79.37	81.37	79.24
Mean	77.79	98.54	87.33
SD	6.20	43.69	14.71
CV	0.08	0.44	0.17

Source: Annual Reports of Finance Companies, 2013/14 to 2022/23

Table 9 presents the Loan to Deposit Ratio (LDR) data for three finance companies in Nepal across the fiscal years from 2013/14 to 2022/23. The loan to deposit ratio is a financial metric that measures the proportion of a bank's loans to its deposits. It reflects the bank's liquidity position and its ability to cover its loans with available deposits.Each row in the table represents the loan to deposit ratio values for the respective finance companies (GFL, NFL, and PFL) for each fiscal year. For example, in the fiscal year 2013/14, GFL had a loan to deposit ratio of 74.19%, NFL had a ratio of 98.54%, and PFL had a ratio of 93.20%.

The data illustrates fluctuations in the loan to deposit ratio values for each company over the years. GFL's ratio ranged from 69.65% to 86.93%, NFL's from 17.19% to 160.64%,

and PFL's from 64.93% to 110.69%. These fluctuations suggest changes in the companies' lending and deposit-taking activities, which may be influenced by factors such as market conditions, regulatory requirements, and business strategies. Interpreting the data, GFL demonstrates a relatively stable lending and deposit-taking pattern with a mean loan to deposit ratio of 77.79% and a coefficient of variation of 0.08, indicating low variability around the mean. NFL exhibits higher variability with a mean loan to deposit ratio of 98.54% and a larger standard deviation, resulting in a coefficient of variation of 0.44. PFL shows moderate variability with a mean loan to deposit ratio of 87.33% and a coefficient of variation of 0.17.

4.1.8 Descriptive Analysis

Descriptive statistics are brief descriptive coefficients that summarize a given data set, which can be either a representation of the entire or a sample of a population. Descriptive statistics are broken down into measures of central tendency and measures of variability (spread). Measures of central tendency include the mean, median, and mode, while measures of variability include the standard deviation, variance, and the minimum and maximum variables.

Table 10

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	30	-15.77	28.39	1.3723	8.49330
ROE	30	.02	.38	.1440	.08869
CR	30	.55	.89	.7457	.07815
DAR	30	.67	.99	.8327	.07634
DER	30	3.41	6.77	5.5303	.77929
CAR	30	14.90	173.02	46.7510	34.28261
LDR	30	17.19	160.64	88.0197	27.27618

Sources: SPSS output

Table 10 provides descriptive statistics for various financial metrics for a dataset comprising 30 observations. These metrics include Return on Assets (ROA), Return on Equity (ROE), Current Ratio (CR), Debt to Assets Ratio (DAR), Debt to Equity Ratio (DER), Capital Adequacy Ratio (CAR), and Loan to Deposit Ratio (LDR). Return on Assets (ROA) measures the efficiency of a company in generating profits relative to its total assets. The data indicates that ROA ranges from -15.77% to 28.39%, with a mean of 1.3723% and a standard deviation of 8.49330%.

Return on Equity (ROE) evaluates a company's profitability in relation to its shareholder equity. The data shows ROE ranging from 0.02 to 0.38, with a mean of 0.1440 and a standard deviation of 0.08869. The Current Ratio (CR) assesses a company's ability to meet its short-term obligations with its short-term assets. CR varies from 0.55 to 0.89, with a mean of 0.7457 and a standard deviation of 0.07815.

Debt to Assets Ratio (DAR) measures the proportion of a company's assets financed by debt. DAR ranges from 0.67 to 0.99, with a mean of 0.8327 and a standard deviation of 0.07634. Debt to Equity Ratio (DER) quantifies the extent to which a company's operations are funded by debt relative to equity. DER varies from 3.41 to 6.77, with a mean of 5.5303 and a standard deviation of 0.77929.

Capital Adequacy Ratio (CAR) evaluates a bank's financial health by comparing its capital to its risk-weighted assets. CAR ranges from 14.90 to 173.02, with a mean of 46.7510 and a standard deviation of 34.28261. Loan to Deposit Ratio (LDR) measures the ratio of a bank's loans to its deposits, reflecting its liquidity position. LDR varies from 17.19 to 160.64, with a mean of 88.0197 and a standard deviation of 27.27618.

4.2 Correlation Analysis

In Nepalese finance firms, the relationship between current ratio, quick ratio, leverage ratio, return on equity, and return on assets is examined using Pearson's correlation. A linear link between dependent and independent variables is measured by correlation in terms of both its strength and its direction. In order to demonstrate the relationship between the dependent variables Return on Equity (ROE) and Return on Assets (ROA) and the independent variables Current ratio (CR), Quick ratio (QR), leverage ratio (LV), Finance premium (IP) and Solvency ratio (SR), correlation analysis was utilized in the study.

The association between two variables that are measured on the same interval or ratio scale is depicted by the Pearson coefficient, a particular form of correlation coefficient. The correlation between two continuous variables is quantified by the Pearson.

Table 11

Correlations Analysis

	ROA	ROE	CR	DAR	DER	CAR	LDR
ROA	1						
ROE	0.572	1					
CR	0.449**	0.280**	1				
DAR	0.454**	0.371**	0.836**	1			
DER	0.532**	0.854**	0.191	0.281**	1		
CAR	0.148*	0.303**	.423*	0.240	-0.108	1	
LDR	-0.14	0.167*	0.131	0.231*	0.311	0.127	1

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source: SPSS Output

Table 11 presents Pearson's correlation coefficient matrix, which illustrates the relationships between different financial metrics including Return on Assets (ROA), Return on Equity (ROE), Current Ratio (CR), Debt to Assets Ratio (DAR), Debt to Equity Ratio (DER), Capital Adequacy Ratio (CAR), and Loan to Deposit Ratio (LDR). Pearson's correlation coefficient is a measure of the linear relationship between two variables, ranging from -1 to 1, where 1 indicates a perfect positive linear relationship, -1 indicates a perfect negative linear relationship, and 0 indicates no linear relationship.

Moving on to the off-diagonal elements, the correlations between ROA and ROE, the dependent variables, are 0.572, indicating a moderate positive correlation between the

two. This suggests that there is some level of association between a company's profitability as measured by ROA and its profitability as measured by ROE.

Next, the correlation between ROA and CR is 0.449, and between ROE and CR is 0.280, both statistically significant at the 0.01 level. These correlations suggest a positive relationship between profitability (ROA and ROE) and liquidity (CR). Companies with higher profitability tend to have higher current ratios, indicating stronger liquidity positions.

The correlations between ROA and DAR, and between ROE and DAR are 0.454 and 0.371 respectively, both statistically significant at the 0.01 level. This indicates a positive relationship between profitability and leverage, with higher profitability associated with higher levels of debt relative to assets.

The correlations between ROA and DER, and between ROE and DER are 0.532 and 0.854 respectively, both statistically significant at the 0.01 level. These correlations suggest a positive relationship between profitability and leverage, with higher profitability associated with higher levels of debt relative to equity.

The correlation between ROA and CAR is 0.148, and between ROE and CAR is 0.303, both statistically significant at the 0.05 level. These correlations suggest a weak positive relationship between profitability and capital adequacy, indicating that companies with higher profitability tend to have higher capital adequacy ratios.

Finally, the correlation between ROA and LDR is -0.14, and between ROE and LDR is 0.167, with only the correlation between ROE and LDR being statistically significant at the 0.05 level. These correlations suggest a weak relationship between profitability and the loan to deposit ratio, with no consistent direction of association.

4.3 Multiple Regression Analysis

To investigate the connection between liquidity and profitability of Nepalese finance businesses, a multiple regression analysis is carried out. Finding the influence of predictors (independent variables) on the dependent variables is the goal of regression analysis. The linear equation with one or more independent variables and the coefficients that best predicted the value of the dependent variable can be estimated using regression. The amount that changes in the dependent variable can be described by changes in the independent variables, or the proportion of variance in the dependent variable

(profitability as represented by ROA and ROE) that is explained by independent factors, is known as the coefficient of determination CR, QR, LR IP and SR.

Table 12

Model Summary of ROA

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	0.761[a]	0.64	0.623	0.133058429

a. Predictors: (Constant), LDR, CR, DER, CAR, DAR

Sources: SPSS output

Table 4 show the model summary of data. The multiple Correlation Coefficients is 0.761 and the coefficient of coefficient of determination is 0.64 which Show that only 64% variation in ROA is explained by independent Variable and LDR, CR, DER, CAR, DAR.

Analysis of Variance (ANOVA)

Table 13

ANOVA of ROA

Model		Sum of Squares	Df	Mean Square		Sig.
	Regression	9.687	5	1.937	49.967	0.001[b]
	Residual	0.931	24	0.039		
	Total	10.617	29			

a. Dependent Variable: Return on Assets

b. Predictors: (Constant), LDR, CR, DER, CAR, DAR

Sources: SPSS output

Table 5 show the ANOVA. The ANOVA test shows that the significant value is 0.001 lesser than level of significance 0.05 showing that the overall regression model is significant.

Table 14

Coefficient of ROA

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.238	0.894		2.502	0.006
	CR	0.2319	0.066	.295	3.514	0.001
	DAR	0.15	0.05	0.08	3.137	0.002
	DER	1.025	0.303	0.453	3.383	0.004
	CAR	0.001	0.000	0.281	1.550	0.134
	LDR	0.011	0.018	0.118	0.609	0.548

a. Dependent Variable: ROA

Sources: SPSS output

Table 14 presents the coefficients for a regression model predicting Return on Assets (ROA) based on several independent variables. The coefficients indicate the strength and direction of the relationships between each independent variable and ROA. Starting with the constant term, which represents the intercept of the regression equation, it has a coefficient of 2.238 with a standard error of 0.894. This indicates that when all independent variables are zero, the expected value of ROA is 2.238. The t-value associated with the constant term is 2.502, and the corresponding p-value is 0.006, indicating that the intercept is statistically significant.

Moving on to the independent variables, the coefficient for Current Ratio (CR) is 0.2319 with a standard error of 0.066 and a beta (standardized coefficient) of 0.295. This suggests that for every one-unit increase in CR, ROA is expected to increase by 0.2319 units. The t-value associated with CR is 3.514, and the p-value is 0.001, indicating that CR is statistically significant in predicting ROA.

Similarly, the coefficients for Debt to Assets Ratio (DAR), Debt to Equity Ratio (DER), and Capital Adequacy Ratio (CAR) are 0.15, 0.453, and 1.025 respectively. These coefficients indicate the expected change in ROA for a one-unit increase in DAR, DER, and CAR, holding other variables constant. All three variables have statistically significant coefficients based on their t-values and associated p-values. The coefficient for Loan to Deposit Ratio (LDR) is 0.001, with a standard error of 0.000 and a beta of 0.281. However, the t-value associated with LDR is 1.550, and the p-value is 0.134, indicating that LDR is not statistically significant in predicting ROA at the conventional significance level of 0.05.

Table 15

Model Summary of ROE

Model	R	R Square	Adjusted R square	Std. Error of the Estimate
1	0.865[a]	0.749	0.623	0.129202995

a. Predictors: (Constant), LDR, CR, DER, CAR, DAR

Sources: SPSS output

Table 7 shows the model summary of data. The multiple Correlation Coefficients is 0.865 and the coefficient of coefficient of determination is 0.749 which Show that only 74.9% variation in ROE is explained by independent Variable LDR, CR, DER, CAR, DAR.

Analysis of Variance (ANOVA)

Table 16

ANOVA of ROE

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	0.298	5	0.099	5.959	0.000[b]
Residual	0.1	24	0.017		
Total	0.399	29			

a. Dependent Variable: Return on Equity

b. Predictors: (Constant), LDR, CR, DER, CAR, DAR

Sources: SPSS output

Table 8 shows the ANOVA result. The ANOVA test shows that the significant value is 0.000 lesser than level of significance 0.05 showing that the overall regression model is significant.

Table 17

Coefficients of ROE

Model		Unstandardized Coefficients		Standardize Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.2	1.74		5.27	0.617
	CR	0.559	0.13	0.016	4.3	0.003
	DAR	0.338	0.1	0.129	3.38	0.01
	DER	0.225	0.59	0.815	3.809	0.002
	CAR	0.061	0.005	1.045	12.525	0.000
	LDR	0.018	0.007	0.199	2.759	0.011

a. Dependent Variable: ROE

Sources: SPSS output

Table 17 presents the coefficients for a regression model predicting Return on Equity (ROE) based on several independent variables. These coefficients provide insights into the strength and direction of the relationships between each independent variable and ROE. The constant term, it has a coefficient of 9.2 with a standard error of 1.74. This indicates that when all independent variables are zero, the expected value of ROE is 9.2. The t-value associated with the constant term is 5.27, and the corresponding p-value is 0.617, suggesting that the intercept is not statistically significant.

The coefficient for Current Ratio (CR) is 0.559 with a standard error of 0.13 and a beta (standardized coefficient) of 0.016. This suggests that for every one-unit increase in CR, ROE is expected to increase by 0.559 units. The t-value associated with CR is 4.3, and the

p-value is 0.003, indicating that CR is statistically significant in predicting ROE. Similarly, the coefficients for Debt to Assets Ratio (DAR), Debt to Equity Ratio (DER), Capital Adequacy Ratio (CAR), and Loan to Deposit Ratio (LDR) are 0.338, 0.225, 0.061, and 0.018 respectively. These coefficients indicate the expected change in ROE for a one-unit increase in DAR, DER, CAR, and LDR, holding other variables constant. All these variables have statistically significant coefficients based on their t-values and associated p-values.

Interpreting further, the beta coefficient provides a standardized measure of the strength and direction of the relationship between each independent variable and ROE. A beta greater than zero indicates a positive relationship, while a beta less than zero indicates a negative relationship. The magnitude of the beta coefficient indicates the strength of the relationship, with larger values suggesting a stronger influence on ROE.

4.4 Discussion

The management of the organization always takes liquidity and profitability into consideration when assessing the company's financial standing. This study aimed to look into the relationship between finance companies' profitability and liquidity in Nepal. Using both a descriptive and research approach, the study was conducted. In order to provide an answer to a research issue, study data was methodically gathered over a ten-year period. This study used a sample of three Nepali finance firms. Secondary sources, such the annual reports of the finance firms, were used to collect the data. The following precise objectives have been developed to support the proposal: In order to assess the financial health and liquidity of Nepalese finance company, to investigate the link between liquidity.

The ratio analysis is used to measure the position of liquidity and profitability. The measure ratio analysis consists of current ratio, quick ratio, leverage ratio, Return on equity ratio and return on assets ratio. A correlation analysis is used to examine the how effect of liquidity on companies profitability. A multiple regression analysis undertaken to study the relationship between independent variables and dependent variables. The significance of the results was tested at 5% significance level in a 2- tailed test. A statistical package like (statistical package for social sciences) SPSS 25 version was used in order to examine the data.

Measurements of profitability and liquidity are made using the ratio analysis. The quick ratio, leverage ratio, return on equity ratio, and return on assets ratio make up the measure ratio analysis. Examining the impact of liquidity on a company's profitability involves doing a correlation analysis. An investigation into the relationship between independent and dependent variables using multiple regressions. The results were assessed for significance using a two-tailed test with a 5% level of significance. Data analysis was conducted using SPSS 25 version, statistical software for social sciences.

According to the report, there has been greater year-to-year variability in the liquidity and profitability positions of Nepali finance businesses. It implies that finance firms' financial strength is not demonstrated by their liquidity and profitability. The current ratio, quick ratio, and leverage ratio all had an impact on the companies' profitability, according to the study's examination of correlations. Leverage ratio, quick ratio, and current ratio all had a favorable impact on return on equity. Furthermore influencing positive return on equity were the current ratio, quick ratio, and leverage ratio.

This is consistent with the findings of (Nabeel & Hussain, 2017), who conducted research on the relationship between liquidity and profitability in Pakistani banks and discovered that there was only a very weakly positive relationship between the two. Additionally, this outcome is in line with the findings of the study by Saleema and Rehman (2011), who investigated the factors influencing the profitability of Pakistani companies and discovered that leverage ratio had a negative but significant relationship with profitability. Likewise, this result differs from the findings of the study.

Premium is the amount of money that an individual or a business must pay for an finance policy (Chaudhari & Kiran, 2011). Likewise, Burca and Batrinca (2014) found that there is positive influence of premium on the return on assets. According to Kaya (2015), profitability of finance companies is statistically and positively related to the premium collected. found that there is positive relationship between premium and profitability. Same as, Suheyli (2015) found that premium has a positive and statistically significant relationship with profitability. Likewise, Lire (2016) revealed a positive relationship between premium and profitability.

Solvency ratio is the ability of a company to meet its long term fixed expenses and to accomplish long term expansion growth. A solvency ratio greater than 20% is considered financially healthy. The higher ratio better equipped a company is to pay off its debts and

survive in the long term (Bawa, 2013). According to Gulati and Jain (2011), there is positive and significant relationship of solvency ratio and financial performance. Similarly, Chaudhary and Kiran (2011) observed a positive relationship of solvency with financial performance of finance companies. Likewise, Khidmat and Rehman (2014) showed that the solvency ratio has positive and highly significant impact on the financial performance of firms. Same as, Obudho (2014) established that solvency risk was positively affect the financial performance of finance companies in Kenya.

Coefficient analysis of ROA and independent Variable. The P value of current ratio 0.001 lesser than Significance level 0.05. It is shows the relation between CR and ROA is significant. The beta coefficient of CR is 0.2319 which shows that for increment in the value CR, the value of dependent variable ROA increases by 0.2319 units. The P value of QR 0.002 lesser than significance level 0.05. It shows the relation between QR & ROA is significant. The beta coefficient of QR is 0.15. This shows that for unit increment in the value QR the value of dependent variable ROA increase by 0.15 units. The P value of LR 0.004 lesser than significant level 0.05. It shows the relation between LR & ROA is significant. The beta coefficient of QR is 1.025, which shows that for unit increment in the value LR the value of dependent variable ROA increase by 1.025 units. The P value of Finance Premium 0.134 higher than Significance level 0.05. It is shows the relation between IP and ROA is not significant. The P value of solvency Ratio 0.548 higher than Significance level 0.05. It is shows the relation between SR and ROA is not significant.

the coefficient analysis of ROE and independent Variable. The P value of current ratio 0.003 lesser than Significance level 0.05. It shows the relation between CR and ROE is significant. The beta coefficient of CR is 0.5591 which shows that for unit increment in the value CR, the value of dependent variable ROE increase by 0.5591 units.

The P value of Quick ratio is 0.01 lesser than significant level 0.05. It shows the relation between QR and ROE is significant. The beta coefficient of QR is 0.338 which shows that for unit increment in the value QR, the value of dependent variable ROE increase by 0.338 units. The P value of Leverage ratio 0.002 lesser than significant level 0.05. It shows the relation between LR and ROE is significant. The beta coefficient of LR is 0.225 which shows that for unit increment in the value LR, the value of dependent variable ROE increase by 0.225 units. The P value of Finance Premium 0.000 lesser than Significance level 0.05. It is shows the relation between IP and ROE is significant. The beta coefficient of IP is 0.061 which shows that for unit increment in the value IP, the

value of dependent variable ROE increase by 0.061 units. The P value of solvency Ratio 0.011 lesser than Significance level 0.05. It is shows the relation between SR and ROA is significant. The beta coefficient of IP is 0.018 which shows that for unit increment in the value SR, the value of dependent variable ROE increase by 0.018 units.

CHAPTER V

SUMMARY AND CONCLUSION

The summary, findings, and research work implications are covered in this last chapter. In this chapter, the information and conclusions from the examination of secondary data are provided. The purpose of this study is to evaluate the impact of liquidity on the financial performance of Nepalese finance firms. This study is being done to determine the connection between the finance industry's liquidity and profitability in Nepal. An overview of the findings from Chapter Four is provided in this chapter.

5.1 Summary

The goal is to evaluate the Nepali finance company's profitability and financial status. The research design used for the study was both descriptive and analytical. In order to provide a response to a research topic, the study data was methodically accumulated over this study was conducted with a sample of three Nepalese finance firms. The financial accounts of the finance companies were used as secondary sources to collect data. Measurements of profitability and liquidity are made using the ratio analysis.

In this analysis, we have examined various financial metrics and their relationships with performance indicators such as Return on Assets (ROA) and Return on Equity (ROE) for finance companies in Nepal. The descriptive statistics provided insights into the central tendency and variability of each metric over the specified period. Return on Assets (ROA) measures the efficiency of a company in generating profits relative to its total assets. The data revealed fluctuations in ROA over the years, with a mean of 1.3723%. Return on Equity (ROE), which evaluates a company's profitability in relation to its shareholder equity, showed a mean of 0.1440%. Both ROA and ROE exhibited moderate variability around their means.

The Current Ratio (CR) assesses a company's ability to meet its short-term obligations with its short-term assets. The mean CR was 0.7457, indicating a stable liquidity position for the finance companies. Debt to Assets Ratio (DAR) and Debt to Equity Ratio (DER) measure the proportion of a company's assets and equity financed by debt respectively. The mean DAR was 0.8327, while the mean DER was 5.5303, suggesting considerable leverage among the companies. The Capital Adequacy Ratio (CAR) evaluates a bank's financial health by comparing its capital to its risk-weighted assets. The mean CAR was

46.7510, indicating strong capital adequacy overall. Loan to Deposit Ratio (LDR) measures the ratio of a bank's loans to its deposits, reflecting its liquidity position. The mean LDR was 88.0197, suggesting a healthy balance between loans and deposits.

Further analysis was conducted through regression models to explore the relationships between these financial metrics and performance indicators. For ROA, the regression coefficients indicated significant positive relationships with CR, DAR, DER, and CAR. This suggests that higher liquidity (CR), leverage (DAR and DER), and capital adequacy (CAR) are associated with higher ROA. However, LDR did not show a statistically significant relationship with ROA. Similarly, for ROE, the regression coefficients indicated significant positive relationships with CR, DAR, DER, CAR, and LDR. This suggests that higher liquidity, leverage, capital adequacy, and loan to deposit ratios are associated with higher ROE. The results underscore the importance of managing liquidity, leverage, and capital adequacy effectively to enhance profitability and shareholder returns.

The analysis provides valuable insights into the financial performance and risk management practices of finance companies in Nepal. The findings highlight the significance of liquidity management, leverage, and capital adequacy in driving profitability and shareholder value. Companies with stronger liquidity positions, optimal leverage levels, and robust capital adequacy ratios are better positioned to generate higher returns on assets and equity. These insights are crucial for finance companies in Nepal to make informed strategic decisions, allocate resources efficiently, and mitigate financial risks effectively. By understanding the relationships between financial metrics and performance indicators, companies can optimize their operations, improve financial health, and enhance competitiveness in the dynamic financial landscape.

5.2 Conclusion

The findings highlight several key points. Firstly, liquidity management, as indicated by the Current Ratio (CR) and Loan to Deposit Ratio (LDR), plays a critical role in determining the financial health and stability of finance companies. Companies with higher liquidity ratios are better positioned to meet short-term obligations and withstand financial shocks. The comprehensive analysis conducted on the financial metrics and performance indicators of finance companies in Nepal provides valuable insights into the dynamics of the sector. Through descriptive statistics and regression analysis, we have

gained a deeper understanding of the relationships between key financial metrics such as Return on Assets (ROA), Return on Equity (ROE), liquidity ratios, leverage ratios, capital adequacy ratios, and loan to deposit ratios.

Secondly, leverage ratios, including Debt to Assets Ratio (DAR) and Debt to Equity Ratio (DER), demonstrate the extent to which finance companies rely on debt financing. While moderate leverage can enhance returns, excessive leverage increases financial risk and can erode profitability. Our analysis reveals a positive relationship between leverage ratios and performance indicators, suggesting that judicious use of leverage can contribute to higher returns on assets and equity.

Thirdly, capital adequacy, as measured by the Capital Adequacy Ratio (CAR), emerges as a critical determinant of financial stability and resilience. Companies with higher capital adequacy ratios are better equipped to absorb losses and maintain operations during periods of economic uncertainty. Our analysis indicates a positive association between capital adequacy and performance indicators, emphasizing the importance of maintaining robust capital buffers.

The regression analysis further reinforces these findings, revealing significant positive relationships between performance indicators (ROA and ROE) and liquidity ratios, leverage ratios, and capital adequacy ratios. These results underscore the importance of a balanced approach to financial management, where companies optimize liquidity, leverage, and capital structure to maximize returns while mitigating risks. In practical terms, the insights generated from this analysis have implications for strategic decision-making and risk management within finance companies in Nepal. By understanding the drivers of profitability and shareholder value, companies can align their operational strategies and capital allocation decisions to enhance financial performance and competitiveness. Furthermore, regulatory authorities can use these insights to formulate policies and guidelines that promote financial stability and sustainability within the sector. By encouraging prudent risk management practices and capital adequacy standards, regulators can enhance the resilience of finance companies and safeguard the interests of depositors and investors.

5.3 Implications

Based on the analysis, finding and conclusions the following implication is put forward

General Implications

- Finance companies should focus on maintaining adequate liquidity levels to meet short-term obligations and manage cash flow effectively.
- Companies should carefully manage their leverage ratios to balance the benefits of debt financing with the associated risks, ensuring sustainable profitability and financial stability.
- Prioritize capital adequacy to bolster financial resilience and mitigate risks, thereby safeguarding against adverse market conditions and regulatory changes.
- Use insights from the analysis to inform strategic decisions regarding resource allocation, business expansion, and risk management practices.
- Ensure compliance with regulatory requirements and guidelines related to liquidity, leverage, and capital adequacy to maintain regulatory compliance and public trust.

Implications for Future Studies

- Only 3 finance providers in Nepal were examined for the current study. Only 10 fiscal years' worth of data was also reviewed. Consequently, to ensure the validity of their conclusions, future research should also employ more scientific procedures and analysis, as well as include as many additional businesses and years as feasible.
- Compare the financial performance and risk management practices of finance companies in Nepal with those in other regions or countries to identify best practices and opportunities for improvement.
- Explore the impact of emerging trends such as digitalization, fintech innovations, and regulatory changes on the financial metrics and performance of finance companies in Nepal.
- Investigate the influence of macroeconomic factors such as interest rates, inflation, and economic growth on the financial metrics and performance indicators of finance companies, providing valuable insights into the broader economic context.

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IMPACT OF LIQUIDITY ON PROFITABILITY ON NEPALES...

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ABSTRACT The purpose of this study is to evaluate the impact of liquidity on the financial performance of Nepalese finance firms. This study is being done to determine the connection between the finance industry's liquidity and profitability in Nepal. The findings highlight several key points. Firstly, liquidity management, as indicated by the Current Ratio (CR) and Loan to Deposit Ratio (LDR), plays a critical role in determining the financial health and stability of finance companies. Companies with higher liquidity ratios are better positioned to meet short-term obligations and withstand financial shocks. The comprehensive analysis conducted on the financial metrics and performance indicators of finance companies in Nepal provides valuable insights into the dynamics of the sector. Through descriptive statistics and regression analysis, we have gained a deeper understanding of the relationships between key financial metrics such as Return on Assets (ROA), Return on Equity (ROE), liquidity ratios, leverage ratios, capital adequacy ratios, and loan to deposit ratios. Secondly, leverage ratios, including Debt to Assets Ratio (DAR) and Debt to Equity Ratio (DER), demonstrate the extent to which finance companies rely on debt financing. While moderate leverage can enhance returns, excessive leverage increases financial risk and can erode profitability. Our analysis reveals a positive relationship between leverage ratios and performance indicators, suggesting that judicious use of leverage can contribute to higher returns on assets and equity. The regression analysis further reinforces these findings, revealing significant positive relationships between performance indicators (ROA and ROE) and liquidity ratios, leverage ratios, and capital adequacy ratios. These results underscore the importance of a balanced approach to financial management, where companies optimize liquidity, leverage, and capital structure to maximize returns while mitigating risks. In practical terms, the insights generated from this analysis have implications for strategic decision-making and risk management within finance companies in Nepal. Keywords: Current Ratio, Quick Ratio and Leverage Ratio, Insurance Premium, solvency Ratio, Liquidity, Profitability, ROA, ROE CHAPTER-I INTRODUCTION 1.1 Background of the Study

Finance companies comprise a heterogeneous group of financial institutions. Their activities are specialized and they account for a very small proportion of total lending by financial institutions. Their main business is the provision of installment credit. They also provide a significant amount of finance to companies in terms of installment loans as well as through leasing and factoring. Thus, the finance companies act as financial intermediaries by obtaining funds mainly from banks, and therefore ultimately individuals and companies, and lending to individuals and companies. They undertake a transformation of the funds, which reflect relatively high interest charges on their installment loans (Buckle, 1995). Finance companies, which although now designated as banks which interact between the retail and wholesale markets, providing loans to both the personal and commercial sectors. Now they are not confined within installment lending only, but also provide personal loans and offer leasing, factoring, stocking loans and block discounting to the commercial and industrial sector (Piesse 5

, 2007). Liquidity refers availability of cash when required. Finance company has to maintain satisfactory level of liquid assets that are easy to sale at market price with less transaction cost. A finance company