FACTORS AFFECTING ON PROFITABILITY OF MANUFACTURING COMPANIES IN NEPAL

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

by

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **"Factors Affecting on Profitability of Manufacturing Companies in Nepal"**. The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has 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

Mr. Pema Tashi Sherpa has defended research proposal entitled **"Factors Affecting on Profitability of Manufacturing Companies in Nepal"** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Cheta Bahadur Bharati and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the dissertation entitled **"Factors Affecting on Profitability of Manufacturing Companies in Nepal"** presented by Pema Tashi Sherpa a candidate for the degree of master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the dissertation is worthy of acceptance.

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This study entitled **"Factors Affecting on Profitability of Manufacturing Companies in Nepal"** has been prepared in partial fulfillment for the Degree of Master of Business Studies (MBS) under the Faculty of Management, Tribhuvan University is based on research models involving the use of quantitative aspect of factors affecting profitability of manufacturing companies in Nepal.

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Pema Tashi Sherpa
Date: ……

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ABBREVIATIONS

CV	:	Coefficient of Variation
DNL	:	Dabur Nepal Limited
GDP	:	Gross Domestic Products
HDL	:	Himalayan Distillery Limited
LEV	:	Leverage
LIQ	:	Liquidity
LSIZE	:	Natural Logarithm of Size or Total Assets
Ltd.	:	Limited
ROA	:	Return on Total Assets
ROE	:	Return on Equity
SCP	:	Structure Conduct Performance
SD	:	Standard Deviation
SG	:	Sales Growth
TANG	:	Tangibility
TU	:	Tribhuvan University
UNL	:	Unilever Nepal Limited

ABSTRACT

This study investigates factors affecting on profitability of manufacturing companies in Nepal. Secondary data was gathered from manufacturing companies of Nepal for ten year periods (2013/14-2022/23). This study used correlation and multiple regression to analyze the data. The result shows that liquidity, size of companies, leverage, sales growth and tangibility are important factors affecting the profitability of manufacturing companies in Nepal. UNL has the strong profitability position. UNL could manage their overall operations and this company is able to make highest return to its assets by optimum utilization of the asset. The correlation analysis shows that liquidity and sales growth have insignificant positive relationship with profitability (ROA and ROE) of manufacturing companies. Then, size of companies has insignificant negative association with ROA and significant positive relationship with ROE. At the meantime, leverage has significant negative relationship with ROA and ROE. Moreover, tangibility (TANG) has significant negative relationship with profitability ROA and insignificant negative relationship with ROE of the manufacturing companies. The multiple regression also reveals that liquidity, size of companies, leverage and tangibility have significant negative effect on profitability (ROA and ROE) of the sample manufacturing companies in Nepal whereas sales growth has positive and significant impact on profitability (ROA and ROE) of manufacturing companies. Hence, this study concluded that all the independent variables have significant impact on profitability of the companies.

Keywords: Return on assets, return on equity, liquidity ratio, sales growth and leverage ratio.

CHAPTER-I
INTRODUCTION

1.1 Background of the Study

Financial and nonfinancial measurements are the two main methods used to evaluate performance. The primary focus of financial metrics is on numbers, which could not fully convey the company's story. However, financial metrics are frequently employed to assess success. Profitability metrics are the most often used financial metric for assessing performance. This is due to the fact that the majority of businesses operate in order to generate a sufficient profit to sustain themselves. One of the most often used methods for assessing a company's profitability is financial ratio analysis, which includes profitability ratios (Tulsian, 2014).

Ifeoma et al. (2012) stated that profitability ratios demonstrate a company's total effectiveness and quantify the profit margin it may provide in addition to the return it offers on the capital and physical assets it uses. Any business that wants to stay in operation needs to be able to produce enough money to pay its operational expenses and give back to the capital sources. Profitability is the first priority for every business. Profitability is a measure of how well an organization's management uses its available resources to produce profits. In other words, profitability which is made up of the terms "profit" and "ability" is the capacity to generate profit. The term "profit" refers to the absolute amount of profit, but an absolute amount by itself cannot accurately convey whether or not there has been an increase or change in performance as indicated in the company's financial statement. The term "ability" refers to an organization's capacity to generate money; it is also known as earning performance.

According to Handriani and Robiyanto (2018), one of the most important goals of financial management is profitability, in addition to boosting the owner's wealth. Profitability is one important determinant of performance. A business that is not profitable cannot be sustained. Conversely, very successful businesses may provide their owners with a substantial return on their investment. Therefore, the ultimate goal of a business is to make a profit so that it may continue to operate in the present market.

Using profitability analysis, a part of enterprise resource planning, administrators may forecast a proposal's profitability or optimize the profitability of a current project. Profitability analysis may forecast sales and profit potential based on a variety of market factors, including product types, geographic areas, and customer age groups. The examination of an organization's output profitability in cost accounting is known as profitability analysis. The output of an organization may be divided into consumers, items, places, transactions, and channels (Fremgen, 1976).

Borio et al. (2017) defined profitability is a business capacity that interprets profit over a certain time period. To comprehend how businesses fund their operations, it is critical to look at the profitability factors. When the amount of money made from business operations surpasses the expenses and taxes required to keep the company operating, financial advantages are gained. Profitability can be used to characterize how well a firm is performing in terms of the profits it makes from shareholder investments, the quantity of capital invested in the company, or the relationship between sales activities and profitability. Given that the primary goal of investing is to make money, the success of an investment is determined by the profits generated by a firm.

The final test of an investment's operational efficiency is usually its profitability. Making a profit is crucial to the company's existence and expansion. Profits are necessary for a firm to remain in operation as well as to grow and diversify. Without earnings, a firm struggles to stay steady and thrive in a crowded market. The efficiency of the business increases with the amount of profits made. Even while workers demand greater pay and creditors want to safeguard their loans and interest, all investors require a higher rate of return on their investments. Profit is the foundation of every sector in today's corporate climate, serving as a guide for operations (Garrinson & Norren, 2005).

Since a variety of variables influence an organization's profitability, it is vital to study the drivers of profitability in order to comprehend how businesses fund their operations. Both the short- and long-term effects of their influence vary. It would be highly beneficial to manage a corporate entity if these variables are recognized. According to Wright (1970), a company's sales volume (or the quantity of work

completed), the profit margin on completed work, and the capital expenditure required to maintain the sales are the factors that determine its profitability. Dietrich and Wanzenreid (2011) state that profitability is often stated as a function of both internal and external factors and is typically gauged by the return on average assets. Similar to this, the construction business has both internal and external factors that affect profitability. While the external factors (variables) are macro-economic factors that are anticipated to impact the profitability of construction enterprises, the internal factors (variables) are firm-specific. The researchers employed macro-economic parameters as control variables even though they focused on firm-specific characteristics.

The purpose of this study is to explore the most significant profitability determinants of the manufacturing companies in Nepal. Several independent variables examined for their influence on profitability were liquidity, firm size, sales growth, leverage ratio, and age etc.

1.2 Problem Statement

Any business must be profitable from the perspective of both shareholders and the economy because, as it expands or performs well, it will strengthen dividend payments to owners, enhance capital structure, ensure the safety and soundness of the financial operation, create more job opportunities, pay taxes, and have other beneficial effects on shareholders and other stakeholders.

Since profitability is a leading indication, it gauges an industry's overall performance and is a crucial topic for regulatory agencies to examine. In addition to assessments conducted by creditors, investors, and other stakeholders to guarantee its sustainability, it aids industries in comprehending the size and scope of their operations, allowing them to position themselves and take the necessary steps to maintain market competitiveness. The elements that directly affect a company's profitability are known as profitability determinants, and as such, they are helpful tools for relevant organizations to understand what has to be done and where they should focus in order to increase their business's profitability.

As far as the researcher is aware, there aren't many studies that look at the factors that affect profitability in the product and manufacturing industries. Alarussi and Alhaderi

(2017) demonstrated a robust positive correlation between profitability, WC, business size (total sales), and company efficiency (assets turnover ratio). The findings also indicate a negative correlation between profitability and the debt-to-equity and leverage ratios. There is no discernible correlation between profitability and liquidity (current ratio). Diaz and Hindro (2017) came to the conclusion that both large and small Indonesian real estate companies' profitability was positively correlated with their size and sales growth. Larger firms showed a positive link with the current ratio, but small enterprises showed a negative relationship.

Bui and Nguyen (2020) showed that ROA is influenced by four factors: leverage, government ownership, dividends, and currency rates. Government ownership and dividend payments had a favorable impact on ROA, whereas leverage and exchange rates had a negative one. According to Susilo et al. (2020), profitability was positively correlated with working capital, business size, and firm growth. Profitability was unaffected by capital structure or non-debt tax shield. According to Syahbandar and Lestari (2022), working capital and business efficiency have an impact on profitability, while firm size, leverage, liquidity, and sales growth have no influence. Despite the aforementioned empirical evidence in other nations, Nepal does not have any similar evidence based on more current data. Thus, in the context of Nepal, this research will attempt to examine the factors influencing the profitability of manufacturing enterprises in Nepal. The following topics are covered in this study:

- What is the profitability position of manufacturing companies in Nepal?
- Is there any relationship between specific factors (liquidity, firm size, leverage, sales growth and tangible assets) and profitability (ROA and ROE) of manufacturing companies in Nepal?
- Do the specific factors (liquidity, firm size, leverage, sales growth and tangible assets) impact on profitability (ROA and ROE) of manufacturing companies in Nepal?

1.3 Objectives of the Study

The major objective of the study is to examine the factor that affect the profitability of manufacturing companies in Nepal. The specific objectives of this study are as follows:

- To assess the profitability position of manufacturing companies in Nepal.
- To examine the relationship between specific factors (liquidity, firm size, leverage, sales growth and tangible assets) and profitability (ROA and ROE) of manufacturing companies in Nepal.
- To analyze the impact of specific factors (liquidity, firm size, leverage, sales growth and tangible assets) on profitability (ROA and ROE) of manufacturing companies in Nepal.

1.4 Rationale of the Study

The primary motivation for this study is that the majority of scholars have not yet focused on certain regions in Nepal that are associated with the problem of profitability determinants. Previously, the majority of research has concentrated on manufacturing industries as a whole. As a result, this study provides some motivation for future research in Ethiopia. It also has the potential to demonstrate the extent to which internal (firm-specific) factors related to food and beverage affect the profitability of particular sectors by identifying and displaying the primary determinants of profitability and by offering policy recommendations following a critical analysis of the study conducted on the subject of these sectors in Nepal. Accordingly, the study is thought to be significant in the following ways:

- It makes it possible for policymakers and management bodies of manufacturing enterprises to modify their management systems and methods and take use of other factors that enhance performance, such as strong cost and demand complementarities.
- Following the study's evaluation, the government would be able to learn more about the state-owned food and beverage industries' performance and status, gauge how profitable they are compared to privately held and share-owned businesses, and assist them in passing policy implications.
- In addition to giving managers and shareholders a roadmap for assessing their industry's profitability in relation to the aforementioned factors, it would help investors assess the performance of their portfolios and make necessary readjustments.
- Furthermore, research novices and scholars interested in this field can use the research findings as a starting point for their own studies.

1.5 Limitations of the Study

The study only looks at the variables that have an impact on Neal manufacturing businesses' profitability. Thus, the following are the study's limitations:

- Only profitability analysis aspect of manufacturing companies namely; Unilever Nepal Limited, Himalayan Distillery Limited and Dabur Nepal Limited is analyzed in this study.
- The study covers on only the past ten year’s data from F/Y 2013/14 to F/Y 2022/23.
- The study is based on secondary data from annual reports of respective companies and websites etc.
- Descriptive analysis, correlation analysis and multiple regression analysis are used for data analysis.

CHAPTER-II
REVIEW of LITERATURE

The literature that is accessible on these subjects is highlighted in this chapter. It contains literature on the topic's conceptual aspects as well as a review of the actual data from earlier research. Numerous books, periodicals, journals, research articles, unpublished thesis reports, and other materials are discussed in this chapter.

This chapter's first section explains the conceptual review, while its second section is limited to reviewing earlier research.

2.1 Conceptual Review

2.1.1 Theories of Profitability

The theories that are reviewed in this study are: efficiency structure theory, the balanced portfolio theory, agency theory, the cost theory, market power theory and efficiency theory.

Efficiency Structure Theory

However, according to the efficient structure hypothesis, businesses can make significant profits because of their greater efficiency. The Efficient Structure (ES) also includes two more novel concepts: the X-efficiency and Scale-efficiency assumptions. According to the X-efficiency theory, businesses with smaller overhead earn more money. Although there is no evidence between concentration with profitability, these companies are more likely to grow their market shares, which might result in a more concentrated market (Athanasoglouetal et al., 2008). The scale method gives economies of scale precedence over differences in management or production technologies. Larger companies can increase earnings and reduce unit costs by utilizing economies of scale. As a result, big businesses can gain market shares, which could eventually result in increased concentration and profitability. On the other hand, the efficiency structure and the Portfolio theory both make the important premise that internal efficiencies and managerial decisions affect a company's success (Athanasoglouetal et al., 2008).

The Balanced Portfolio Theory

The portfolio theory approach is the most relevant and important in studies on business performance, claim Olweny and Shipo (2011). The Portfolio Balance Model of Asset Diversification states that the best way to hold each asset in a wealth holder's portfolio depends on policy choices based on a variety of factors, such as the size of the portfolio, the vector of risks associated with owning each financial asset, and the vector of rates of return on all assets held in the portfolio. It implies that the desired portfolio composition of commercial companies and portfolio diversification are the results of business management's efforts. The ability to make the most money is also impacted by the management's choice of a feasible combination of assets and liabilities as well as the unit costs the company incurs in producing each asset component (Olweny & Shipo, 2011).

Agency Theory

In terms of the formation of the division of ownership and control of the company, Jensen and Meckling (1976) explained that agency theory is a theory that explains an agency bond that arises because of an agreement between the principal who uses the agent to carry out services that are in the principal's interest. The disparity in information access between management and shareholders can be explained by information asymmetry. Managers are aware of some facts, but shareholders are not. Information on the company's internal and industry potential is easier for managers to comprehend. Thus, unequal information exists.

The Cost Theory

The positive relationship between profitability and capital adequacy is explained by the cost theory. To lower the expected value of expenses and prevent financial distress, businesses will need to retain more equity and raise their capital ratio if their costs are unexpectedly high as a result of environmental changes (Coase, 1937).

Market Power Theory

According to the market power theory, an industry's market structure has an impact on a firm's performance. The Structure-Conduct Performance (SCP) and Relative Market Power (RMP) hypotheses are two different schools of thought within the market power theory. The SCP method holds that the degree of market concentration creates

potential market power for businesses, which might increase their profitability. Regardless of their efficiency, companies in more concentrated markets are more likely than those in less concentrated markets to make abnormal profits by lowering deposit rates and charging higher loan rates due to monopolistic or collusive (explicit or tacit) motivations (Bekhet et al., 2021).

Efficiency Theory

The efficiency hypothesis, on the other hand, asserts that businesses that are more efficient than others generate large profits. Additionally, there are two different methods within efficiency: the Scale-efficiency hypothesis and the X-efficiency hypothesis. The X-efficiency concept states that because more efficient businesses have fewer expenses, they are more lucrative. Although there is no direct link between concentration and profitability, these companies typically increase their market shares, which may show up as higher levels of market concentration (Athanasoglou et al., 2008).

2.2 Conceptual Review

2.1.1 Concept of Profitability

Finding out if a company has used its resources efficiently to meet its profitability goals is the aim of profitability measurement. The profitability targets relate to the least amount of profit that the company must make, not the greatest amount that it may make. The profit at a minimum rate necessary for the preferred kind of investment in a business is known as the minimum profit. Nonetheless, there must be insufficient profit to both supply the extra capital required to meet operating expenses and yield the capital in the market rate of return on money that has already been invested in the firm (Garrinson & Norren, 2005).

A business's capacity to turn a profit is implied by its profitability. The terms "profit" and "ability" are combined to form the phrase "profitability." From an accounting perspective, profit is calculated by subtracting total costs from total revenues for a specific time period. "Capability" refers to the company's "earning power" or "operating performance" in relation to its investment. Therefore, the capacity of a particular investment to provide a return on its usage may be characterized as profitability. As an absolute phrase, "profit" above does not provide a precise

indication of the sufficiency or shift in efficiency as demonstrated by the enterprise's financial evaluation (Dongol, 1999).

The way businesses are managed in light of their operating environment is reflected in their profitability. More precisely, a company's profitability ought to be a reflection of its management caliber, shareholder conduct, competitive tactics, efficiency, and risk management skills (Maheswari, 2001).

Like the temperature and humidity of a day, the profitability condition is subject to change. An accountant or analyst's calculation of profitability is quite similar to a meteorologist's measurement of temperature and analysis of humidity. Just as a meteorologist records the weather on a daily basis in order to anticipate its future prospects, an analyst records a company's annual earnings in order to predict its future possibilities.

The terms "Profit" and "Ability" combine to form the phrase "Profitability." When it comes to the term profit, there are two primary ideas: accounting and economic. Adam Smith, the father of economics, once said, "Profit is the amount left over after all wages have been paid. In economics, this includes payments to farmers, business officers, owners, partners, and what we now call labor and rent on the unimproved value of land as the return to capital." The ultimate "accounting" profit of these firms has two components, according to the mathematics of capital of accountancy: a return on capital and a return representing economic rent on the value of the land. But there isn't even a vague notion of what each of these two economic components represents in terms of "accounting" profit. The perplexing fact that "accounting" or a businessman's profit is not "economic" profit results from this (Gupta, 1992).

Notably, profitability is the business's capacity to turn a profit, whereas profit is the remainder of revenue. It should be noted that the potential to turn a profit might indicate a stable, better, or worse situation over a specific time frame. Because profit and profitability are two distinct ideas, profit has an absolute meaning whereas profitability is a relative one, even though they are closely connected and mutually reliant. It's interesting to notice that two distinct company concerns may have the same

profit, but when compared to the magnitude of the investment, their profitability may vary.

One crucial factor in assessing a company's efficiency is its profitability. The development of a number of well-chosen factors must be taken into account. One of the key ways a business may aggressively grow its operations over the long run is by increasing profitability. Every commercial organization exists for the sole purpose of making money. As a result, the rate of profitability is appropriately regarded as a measure of how well businesses employ their resources (Khan & Jain, 1993).

2.1.2 Levels of Profitability

Gross Profit

Gross profit is the first degree of profitability. Sales less the cost of items sold is the gross profit. The cost of goods sold, or CGS, is often shown immediately below sales, which are the first line item on the income statement. The profit a business generates after subtracting the expenses related to producing and marketing its goods or rendering its services is known as gross profit. A company's income statement will show its gross profit, which may be computed using this formula (Lynch & Williamson, 1989):

Gross profit = Revenue - Cost of Goods Sold

Gross profit is also called sales profit and gross income.

Gross profit evaluates how well a business uses its resources, including labor and materials. The measure solely takes into account variable costs, or expenses that change according on output levels, like:

- Materials;
- Direct labor, assuming it is hourly or otherwise dependent on output levels;
- Commissions for sales staff;
- Credit card fees on customer purchases;
- Equipment, perhaps including usage-based depreciation;
- Utilities for the production site;
- Shipping; etc.

Generally speaking, fixed costs—expenses that must be covered regardless of output level—are not included in gross profit. Rent, advertising, insurance, salary for workers not directly involved in manufacturing, and office supplies are examples of fixed expenses. It should be mentioned, therefore, that under absorption costing, which is necessary for external reporting in accordance with generally accepted accounting principles (GAAP), a portion of the fixed cost is allocated to each unit of output. Operating profit, often referred to as earnings before interest and tax (EBIT), is a company's profit before interest and taxes are deducted. It should not be confused with gross profit. Operating expenditures are deducted from gross profit to determine operating profit (Lynch & Williamson, 1989).

The gross profit margin may be computed using gross profit. This measure, which is expressed as a percentage of revenue, is helpful for analyzing the production efficiency of a business over time. It can be deceptive to compare gross earnings from quarter to quarter or year to year since gross profits might increase while gross margins decline, which is a concerning pattern that could put a business in hot water. There may be some misunderstandings due to the wording used here: "gross margin" might refer to either gross profit or gross profit margin. Gross profit margin is represented as a percentage, and gross profit is given as a monetary value. The gross profit margin formula is:

Gross profit margin = gross profit / revenue = (revenue - cost of goods sold) / revenue
Gross profit margins vary greatly by industry. For instance, the gross profit margins of construction companies and food and beverage businesses are quite low, but those of the healthcare and other sectors are far higher.

Operating Profit

Operating profit is the second degree of profitability. Operating expenditures are subtracted from gross profit to determine operating profit. operational profit examines profitability following operational expenditures, whereas gross profit examines profitability following direct expenses. The profit derived by a company's regular core business activities is known as operating profit. This figure excludes any profit from the company's investments, including profits from businesses in which it owns a

portion, as well as any amount before relevant interest and taxes are deducted (Lynch & Williamson, 1989).

Operating profit, often known as earnings before interest and tax (EBIT), is a measure of a company's earning capacity in relation to the money it makes from continuing activities. When all irrelevant variables are eliminated from the equation, operating profit acts as a gauge of the company's prospective profitability.

Net Profit

Net profit is the third degree of profitability. The money that remains after all costs, including taxes and interest, have been covered is known as net profit. Net income divided by revenue or net profits divided by sales is how the profitability ratio known as profit margin is computed. By deducting all of a business's expenses from its total revenue, such as operational costs, material costs (including raw materials), and tax costs, net income or net profit may be calculated. Profit margins, which are stated as a percentage, essentially show how much of each dollar of sales a business maintains for its own profits.

2.1.3 Objectives of Profitability Analysis

All parties involved in an organization must be able to interpret its financial statements and other financial data. Thus, profitability ratio analysis becomes an essential instrument for financial management and analysis. Let's examine a few goals that ratio analysis achieves (Glautier & Underdown, 2001).

Measure of Profitability

Every organization's ultimate goal is to make money. So, how would you assess if the 5 lakhs that ABC business made last year was a good or terrible amount? Ratio analysis provides the context needed to assess profitability. A company's profitability is gauged by its gross profit ratio, net profit ratio, expense ratio, and other metrics. These ratios can be used by management to identify issues and make improvements.

Evaluation of Operational Efficiency

A company's level of asset and resource management efficiency is shown by certain ratios. In order to prevent needless expenditures, it is critical that assets and financial resources be distributed and utilized effectively. Efficiency and turnover ratios will highlight any asset mismanagement.

Ensure Suitable Liquidity

Every business must make sure that part of its assets are liquid in case it needs money right away. Thus, ratios like the current ratio and quick ratio are used to gauge a company's liquidity. These assist a company in preserving the necessary degree of short-term solvency.

Overall Financial Strength

The firm's long-term solvency is determined in part by a number of ratios. They assist in determining if a company's assets are being stressed or whether it is too indebted. To prevent future liquidation, the management must act swiftly to correct the issue. These ratios include the debt-to-equity ratio, leverage ratios, and others.

Comparison

To have a better picture of the organization's financial health and position, its ratios must be compared to industry norms. If the firm fails to meet market criteria, the management has the authority to take remedial action. To show the company's success, the ratios may also be compared to those from prior years. We call this trend analysis.

2.1.4 Benefits of Profitability Analysis

A company's primary goal is to generate a healthy return on its investment. Since profit is an absolute number, it cannot reflect changes in efficiency brought about by the business's operational and financial performance or the sufficiency of income. Analyzing the profitability position entails analyzing the business's entire efficiency. The company's profitability ratios can be used to gauge its level of profitability (Gupta, 1992).

The two types of profitability ratios are returns and margins. The ratio that displays margins indicates the firm's capacity to convert sales into profits at different phases of

assessment. Additionally, returns show how well a company can generate returns for its stockholders overall. The goal of financial statement analysis is to have a deeper comprehension of the performance and position of the company. The company's management or entities outside the company may do financial analysis. Small business owners may always assess the performance of their activities with the help of financial statements. These statements are succinct summaries of financial activity for particular time periods.

Financial statement analysis is a useful tool for owners and managers to assess the present state of their company's finances, identify any issues that may be present, and predict future developments in the company's financial status. Key statistics in the financial accounts and the important connections between them are the main focus of the financial analysis. We selected ONGC Limited to examine how the various components of financial statements relate to the recent increase in gasoline prices and to assess how well the business is performing in light of the present circumstances (Maheswari, 2001).

When the amount of money made from a commercial activity surpasses the costs, expenses, and taxes required to keep the firm operating, a profit is earned. The owners of the company receive all profits, and they may or may not choose to use them for business expenses. Profit is the amount of money a company has left over after all costs have been paid. The objective of every business, be it a publicly listed global corporation or a pair of young people operating a lemonade stand, is to continuously turn a profit. As a result, profitability in all of its manifestations represents a large portion of corporate performance. While some analysts are more interested in profitability before taxes and interest, others are more interested in profitability after all expenditures have been paid, while still others are more interested in top-line profitability.

Analysts look at three main forms of profit: net profit, operational profit, and gross profit. The analyst may learn more about the company's performance from each sort of profit, particularly when contrasting it with competitors in the industry and different historical periods. You may find all three degrees of profitability on the income statement (Glautier & Underdown, 2001).

2.1.5 Profitability Indicators

The ultimate objective of businesses is profit. Every strategy that is created and every action taken is intended to achieve this lofty goal. This does not imply, however, that businesses have no other objectives. Businesses may also have other economic and social objectives. Nonetheless, the study's goal is connected to the first goal, which is profitability. There are several ratios used to assess a company's profitability, but the most important ones are return on equity, return on assets, and net interest income (Garrinson & Norren, 2005).

A financial ratio called return on equity (ROE) measures how much profit a business made in relation to the total amount of shareholder equity that was invested or shown on the balance sheet. The return on equity (ROE) is what investors seek for. An organization that can generate funds internally is more likely to have a high return on equity. Therefore, the better a corporation is at generating profits, the greater its ROE (Glautier & Underdown, 2001).

The ratio of net income after taxes to total equity capital is known as ROE. It stands for the rate of return that investors receive on their investments in the business. ROE shows how well a business uses the money of its shareholders. Therefore, the aforementioned statement suggests that the more efficiently management uses the capital of shareholders, the higher the ROE (Garrinson & Norren, 2005).

Another important number that shows a company's profitability is ROA. It is a ratio of total assets to income. It gauges how well the management of the organization can use the resources available to them to create revenue. Stated differently, it demonstrates how effectively the company's resources are employed to produce revenue. It also shows how well a company's management generates net income using all of the institution's resources. A higher ROA indicates that the business uses its resources more effectively.

Furthermore, net interest revenue over loans and advances is used to calculate net interest margin. It demonstrates management effectiveness. It demonstrates the management's ability to use the deposits that are available. An increase in net profit is essential to the business. Stated differently, it suggests that a high amount of interest

revenue is a sign of successful lending operations and vice versa (Glautier & Underdown, 2001).

2.3 Empirical Review

Al-Jafari and Samman (2015) examined determinants of profitability: Evidence from industrial companies listed on Muscat securities market. The main objective of the research was to look at the factors that affect industrial enterprises' profitability in Oman. Thus, a sample of 17 industrial businesses that were listed between 2006 and 2013 on the Muscat Securities Market is used. Data analysis was done using the panel ordinary least squares model. This study revealed a statistically significant and positive correlation between working capital, fixed assets, growth, business size, and profitability. However, there was a negative correlation between profitability and the financial leverage indicators and the average tax rate. However, only the financial leverage variable showed this link to be meaningful. The study comes to the conclusion that big, expanding companies with well-managed assets increase revenue, which in turn increases profitability.

Skuflic et al. (2016) examined determinants of firm profitability in Croatia's manufacturing sector. The main objective of the research was to assess the factors that influence industrial enterprises' profitability in Croatia utilizing data from big, medium, and small businesses between 2003 and 2014. In addition to explaining the most commonly used variables, including firm size, revenues, growth rate of revenues, sales, profit in prior years, ownership, productivity level, financial leverage, input costs, and indebtedness, this study offers a comprehensive theoretical review of the determinants of profitability examined in economic literature, with particular attention to firm level determinants. To analyze the data, a multiple regression model was employed. This study found a positive and statistically significant association between concentration, total factor productivity, and profitability based on the Herfindahl-Hirschman index. Nonetheless, both debt and liquidity were negatively correlated with the manufacturing sector's company profitability in Croatia.

Margaretha and Supartika (2016) investigated factors affecting profitability of small medium enterprises (SMEs) firm listed in Indonesia stock exchange. The purpose of

this study was to examine factors including industry affiliation, productivity, growth, lagged profitability, company size, firm age, and growth of SMEs listed on the Indonesia Stock Exchange. The study's data source was secondary data derived from the PEFINDO 25 index. A multiple regression model was used to examine the data. The results showed that business size, growth, lagged profitability, productivity, and industry affiliation had a significant impact on profitability, while company age had no discernible effect. The regression coefficient's findings showed that while productivity and industry affiliation had a favorable influence on profitability, firm size, growth, and delayed profitability had a negative effect. Therefore, the management should establish a plan to boost profitability with an emphasis on productivity and industry affiliation in order to further improve the performance of the organization.

Alarussi and Alhaderi (2017) investigated factors affecting profitability in Malaysia. The main objective of this research was to investigate the variables influencing the profitability of firms that are listed in Malaysia. Five independent factors that were experimentally investigated for their link to profitability served as the foundation for this study. These factors include working capital (WC), business size (as determined by total sales), leverage (debt equity ratio and leverage ratio), liquidity (current ratio), and corporate efficiency (assets turnover ratio). Data was taken from the annual reports of 120 firms that were listed on Bursa Malaysia between 2012 and 2014. The data was analyzed using fixed-effects analysis and pooled ordinary least squares regression. The study found a substantial positive correlation between firm size (total sales), WC, business efficiency (assets turnover ratio), and profitability. The results also showed that the debt-to-equity and leverage ratios were negatively correlated with profitability. Liquidity (current ratio) and profitability do not appear to be related.

Diaz and Hindro (2017) analyzed factors affecting the profitability of Indonesian real estate publicly-listed companies. The main objective of the research was to investigate the impact of eight firm-specific characteristics on the profitability of Indonesian real estate firms operating at large, medium, and small scales. 47 real estate firms that were listed between 2010 and 2014 on the Indonesian Stock Exchange are used in the statistics. Multiple linear panel regression models, including ordinary least squares (OLS), fixed effects (FE), and random effects (RE), were used in the study to examine

the impact of firm-specific factors on return on asset. These factors include the number of days inventory, accounts payable, and receivable, as well as the company's size, current ratio, debt ratio, sales growth, and tangibility. The number of days that accounts receivable were correlated negatively with profitability, according to empirical data, however medium-sized Indonesian real estate firms were unaffected. Because big real estate firms have more liquid assets that cover maintenance expenses associated to real estate inventories, the factor number of days inventories had a negative association with small businesses, while the opposite was true for large businesses. For both big and small Indonesian real estate companies, size and sales growth had a favorable impact on profitability. Due to the smaller current asset base that smaller real estate firms often suffer, the current ratio exhibited a negative correlation with small businesses but a positive correlation with large organizations. Last but not least, tangibility and profitability were negatively correlated for large businesses, but positively correlated for medium-sized real estate enterprises.

Bui and Nguyen (2020) examined determinants affecting profitability of firms: A study of oil and gas industry in Vietnam. The main objective of the research was to determine how various factors influencing the profitability of Vietnamese oil and gas companies relate to one another. Over the course of six years, from 2012 to 2018, 203 samples were gathered from 29 firms that were listed on the Vietnam Stock Market. Based on previous studies, this study uses government ownership (GOV), dividend payment (DIV), fixed assets to total assets (FA), financial leverage (FL), and exchange rate (EXR) as independent variables. Return on assets (ROA) is used to characterize profit. Multiple regression analysis was performed in this study to examine the data. The study found that the exchange rate, dividends, government ownership, and leverage all had an impact on ROA. ROA is positively impacted by government ownership and dividend payments, while it is negatively impacted by leverage and currency rates. The study's findings indicate that an organization's profitability may suffer from a capital structure that has a high debt ratio and an exchange rate that reduces business efficiency. The tenable amount of government ownership and dividend payments may also be considered in order to optimize corporate performance.

Susilo et al. (2020) analyzed profitability determinants of manufacturing firms in Indonesia. This study aims to investigate the key factors that influence Indonesian manufacturing businesses' profitability. The impact of working capital, business size, firm growth, capital structure, and non-debt tax shielding on profitability was investigated. Manufacturing companies that were listed on the Indonesia Stock Exchange made up the study's sample. Multiple regression analysis was performed in this study to examine the data. The study discovered a positive correlation between profitability and working capital, business size, and firm expansion. Profitability was unaffected by capital structure or non-debt tax shield. The study's conclusions aligned with both the financial agency theory and the pecking order hypothesis.

Aryantinia and Jumonoa (2021) analyzed profitability and value of firm: an evidence from manufacturing industry in Indonesia. The main objective of this study was to comprehend profitability performance, its influencing factors based on DuPont Analysis, and its effect on the firm's worth. The sample data for the causality research consisted of twenty non-banking and financial companies that were listed on the Indonesian Stock Exchange's (IDX) LQ-45 between 2014 and 2018. These businesses fall into one of two industry categories: manufacturing or non-manufacturing. The study's quantitative design is a systematic way to look at how the variables relate to one another, with an emphasis on testing hypotheses using data analysis techniques that use the GLS Regression test of panel data. This study found that ROE (return on equity) was considerably and favorably influenced by the financial leverage multiplier, net profit margin, and total assets turnover, but negatively by the growth sales ratio. It was demonstrated that the relationship with firm value was significantly positively impacted by ROE and industry categories.

Lemma-Lalisho (2022) examined determinants of firm’s profitability: in the case of selected Ethiopian tannery companies. The main objective of this research was to look at the factors that affect profitability in the context of certain Ethiopian tanning companies. The study evaluated the link between profitability and its determining factors using a quantitative technique and an explanatory research design. There were 29 Tannery Companies in Ethiopia at the time of the survey. Multiple linear regression analysis, correlation, and descriptive statistics were used to evaluate balanced panel data. The study found that only tangibility, inventory turnover, and firm growth rate

had a statistically significant impact on the profitability of Ethiopian Tannery Companies (ROA), whereas liquidity, leverage, and company size had a statistically negligible effect.

Syahbandar and Lestari (2022) examined factors affecting profitability in manufacturing sector companies listed on BEI. The main objective of the research was to identify the variables influencing the business's profitability. The financial statements of manufacturing businesses registered on the Indonesia Stock Exchange for the years 2015–2019 served as the population for this study, which employed quantitative methodologies. Purposive sampling is the non-probability sampling method used in this investigation. In order to gather secondary data in the form of financial statements extracted from the company's financial statements, data collecting procedures are archived in the database. Descriptive statistical analysis, capital estimate determination (Chow and Hausman tests), classical assumption testing (Multicollinearity, Heteroscedasticity, and panel data regression), and hypothetical testing (partial test and coefficient of determination test) are the methods of data analysis that are employed. The study's findings showed that while working capital and business efficiency had an impact on profitability, firm size (FS), leverage (DER), liquidity (CR), and sales growth (SG) had no influence at all.

Hadi and Layyinaturrobaniyah (2022) investigated factors influencing profitability: a study of mining companies listed on the Indonesian stock exchange. The purpose of this study was to identify the variables that affect the profitability of mining companies listed between 2015 and 2019 on the Indonesian Stock Exchange. Using return on assets (ROA) as a proxy for profitability, this study looked at asset structure, leverage, business size, and liquidity as determinants of profitability. This study employs a fixed effect model for panel data regression using STATA software. The study's findings demonstrated that profitability was positively influenced by both company size and liquidity. However, leverage has a negative impact on profitability. Moreover, asset structure had no discernible effect on profitability.

Wijaya et al. (2022) analyzed determinants of profitability for manufacturing companies in Indonesia 2018-2020. The primary goal of the research was to investigate how internal and external factors affected the profitability of manufacturing

companies listed on the Indonesia Stock Exchange (BEI) between 2018 and 2020. This study employed secondary data and a quantitative approach called multiple linear regression. The study's dependent variable is profitability, whereas the independent variables include macroeconomic indicators, company size, firm age, liquidity, capital structure, firm growth, and capital intensity. 789 observations in all were used in the study. 263 businesses were observed during a three-year period. According to this study, profitability was significantly and favorably impacted by business size, firm age, liquidity, firm growth, capital intensity, and macroeconomic indicators. Profitability was found to be significantly impacted negatively by capital structure.

Dao et al. (2022) examined factors affecting the profitability of cement manufacturing enterprises in Tuyen Quang Province. The primary goal of the research was to examine the factors affecting the production and operational efficiency of cement manufacturing firms in Tuyen Quang province. Using data from two cement manufacturing companies from 2019 to 2021 to build a linear regression model as part of a quantitative research methodology. This study found that fixed turnover and cost ratio had a significant negative impact on profitability (ROA and ROE), whereas firm size had a small positive impact. Additionally, the debt ratio, inventory turnover, and average collection period all considerably increased the profitability of cement manufacturing enterprises in Tuyen Quang Province.

Talib et al. (2023) examined determinants of company profitability in Malaysian agriculture sector. The primary goal of the research was to look at the variables that affect Malaysia's agriculture sectors' profitability from 2017 to 2021. The firms' level of profitability is evaluated using four different factors: asset turnover, total debt, account receivable turnover, and liquidity. For this study, information on agricultural businesses listed on Bursa Malaysia was gathered. Correlation analysis was used to examine the data in this investigation. This study found that liquidity, total debt, asset turnover, and account receivable turnover all had favorable correlations with profitability. The study also discovered that, in contrast to total debt, account receivable turnover, and asset turnover, which do not have a statistically significant link with profitability, liquidity did. This research gives the agriculture sector a better grasp of how to enhance their financial performance and better plan how to spend their

liquidity and assets. As a result, it can support the farm industry and aid in recovery planning to avoid future problems with loan default payment.

Tiffany and Sufiyati (2023) analyzed the factors affecting profitability. This study sought to ascertain how firm size, quick ratio, leverage, asset turnover, and asset structure affected profitability. All firms listed on the Indonesian Stock Exchange between 2017 and 2020 are included in the research. The Eviews version 12 program was used for the testing in this study, and samples were collected using a purposive sampling strategy that had certain requirements. Multiple regression analysis was employed in this work to evaluate hypotheses using secondary data. The study found that the parameters of debt to equity ratio and firm size had no negative effects on profitability. Both the fast ratio and the asset structure have a detrimental effect on profitability. Asset turnover had no beneficial effect on profitability.

Atmaja and Usman (2023) investigated the factors affecting profitability of manufacturing company listed on the Indonesian stock exchange. The primary goal of the research was to investigate the effects of working capital, leverage, liquidity, intangible assets, company size, and efficiency on the profitability of manufacturing companies listed on the Indonesian Stock Exchange (IDX). A purposive sampling approach was used to collect 74 manufacturing businesses listed between 2017 and 2021 based on the predefined criteria. The statistical analysis method used was panel data regression with a random effect, which was the best econometric model selected. This study found that working capital, leverage, liquidity, efficiency, and business size all had a beneficial effect on profitability. The predictor of intangible assets has no effect on profitability. Meanwhile, it was expected that this research would offer management recommendations to increase profitability by considering business size, efficiency, working capital, liquidity, and leverage.

Haddad (2024) examined factors affecting the profitability of industrial companies listed in Amman stock exchange. The main objective of the research was to look into the variables influencing Jordanian industrial enterprises' profitability. The public financial statements and annual reports for the industrial enterprises listed in ASE throughout a five-year period have been used as secondary data. Indeed, a number of criteria have been taken into account that have an impact on profitability and are used

as independent variables in this study. These factors include earnings per share, operational cash flow, the age of the firm, and the size of the organization in relation to return on assets. Statistical tests like multicollinearity regression have been employed to test the hypotheses. The findings showed that operational cash flows and earnings per share significantly increased profitability, whereas company age had a little detrimental impact. Furthermore, Jordanian industrial enterprises' profitability was significantly positively impacted by their size.

Table 1

Summary of Empirical Review

S. N.	Author (s)	Variables	Methodology	Major Findings
1	Al-Jafari and Samman (2015)	Independent = Average tax rate Size, Growth, Financial leverage and Working capital Dependent = Return on assets and Profit margin	Data analysis was done using the panel ordinary least squares model	This study revealed a statistically significant and positive correlation between working capital, fixed assets, growth, business size, and profitability. However, there was a negative correlation between profitability and the financial leverage indicators and the average tax rate. However, only the financial leverage variable showed this link to be meaningful.
2	Skuflic, Mlinaric and Druzic (2016)	Independent =Liquidity, productivity level, Herfindahl-Hirschman index and indebtedness Dependent = Net profit before tax	To analyze the data, a multiple regression model was employed.	This study found a positive and statistically significant association between concentration, total factor productivity, and profitability based on the Herfindahl-Hirschman index. Nonetheless, both debt and liquidity were negatively correlated with the manufacturing sector's company profitability in

				Croatia.
3	Margaretha and Supartika (2016)	Independent = Firm size, firm age, sales growth rate, lagged profitability, productivity and industry affiliation. Dependent = Return on assets	A multiple regression model was used to examine the data.	The regression coefficient's findings showed that while productivity and industry affiliation had a favorable influence on profitability, firm size, growth, and delayed profitability had a negative effect
4	Alarussi and Alhaderi (2017)	Independent = Firm size, working capital, company efficiency, liquidity and leverage Dependent = Return on equity and earnings per share	The data was analyzed using fixed-effects analysis and pooled ordinary least squares regression	The study found a substantial positive correlation between firm size (total sales), WC, business efficiency (assets turnover ratio), and profitability. The results also showed that the debt-to-equity and leverage ratios were negatively correlated with profitability. Liquidity (current ratio) and profitability do not appear to be related.
5	Diaz and Hindro (2017)	Independent = Account receivable, inventory, account payable, size, current ratio, debt ratio, sales growth and tangibility	Multiple linear panel regression models, including ordinary least squares (OLS), fixed effects (FE), and random effects (RE), were used	This study shown that for both large and small Indonesian real estate companies, size and sales growth had a favorable association with profitability. Larger firms showed a positive link with the current ratio, but small enterprises showed a negative relationship. Last but not least, tangibility and

		Dependent = Return on assets	in the study.	profitability were negatively correlated for large businesses, but positively correlated for medium-sized real estate enterprises.
6	Bui and Nguyen (2020)	Independent = Financial leverage, fixed assets, government ownership, dividend payment, exchange rate and oil price. Dependent = Return on assets	Multiple regression analysis was performed in this study to examine the data	The study found that the exchange rate, dividends, government ownership, and leverage all had an impact on ROA. ROA is positively impacted by government ownership and dividend payments, while it is negatively impacted by leverage and currency rates.
7	Susilo, Wahyudi and Pangestuti (2020)	Independent = Capital structure, firm size, non-debt tax shield, working capital and firm growth Dependent = Profitability (Return on assets)	Multiple regression analysis was performed in this study to examine the data	The study discovered a positive correlation between profitability and working capital, business size, and firm expansion. Profitability was unaffected by capital structure or non-debt tax shield. The study's conclusions aligned with both the financial agency theory and the pecking order hypothesis.
8	Aryantinia and Jumonoa (2021)	Independent = Net profit margin, total assets turn over, financial leverage	With an emphasis on testing hypotheses using data analysis	This study found that ROE (return on equity) was considerably and favorably influenced by the financial leverage multiplier, net profit margin, and total assets

		multiplier and growth sales ratio Dependent = Return on equity.	techniques that use the GLS Regression test of panel data	turnover, but negatively by the growth sales ratio. It was demonstrated that the relationship with firm value was significantly positively impacted by ROE and industry categories.
9	Lemma-Lalisho (2022)	Independent = Liquidity, tangibility, firm size, growth rate, inventory turnover and leverage Dependent = Return on assets	Multiple linear regression analysis, correlation, and descriptive statistics were used to evaluate balanced panel data	The study found that only tangibility, inventory turnover, and firm growth rate had a statistically significant impact on the profitability of Ethiopian Tannery Companies (ROA), whereas liquidity, leverage, and company size had a statistically negligible effect.
10	Syahbandar and Lestari (2022)	Independent = Firm size, current ratio, debt to equity ratio, sales growth, working capital and assets turn over. Dependent = Return on equity	Descriptive statistical analysis, and panel data regression), and hypothetical testing (partial test and coefficient of determination test) are the methods of data.	The study's findings showed that while working capital and business efficiency had an impact on profitability, firm size (FS), leverage (DER), liquidity (CR), and sales growth (SG) had no influence at all.
11	Hadi and Layyinaturrobaniyah (2022)	Independent = Liquidity, firm size, leverage and assets structure. Dependent = Return on	This study employs a fixed effect model for panel data regression using STATA software	The study's findings demonstrated that profitability was positively influenced by both company size and liquidity. However, leverage has a negative impact on profitability. Moreover, asset

		assets		structure had no discernible effect on profitability.
12	Wijaya, Harjono and Mahadwartha (2022)	Independent = Firm size, firm age, liquidity, capital structure, capital intensity and macroeconomic indicator. Dependent = Return on assets	This study employed secondary data and a quantitative approach called multiple linear regression	According to this study, profitability was significantly and favorably impacted by business size, firm age, liquidity, firm growth, capital intensity, and macroeconomic indicators. Profitability was found to be significantly impacted negatively by capital structure..
13	Dao, Tra and Nguyen (2022)	Independent = Fixed assets turnover, debt ratio, size of enterprise, inventory turnover ratio and average collection period and cost ratio Dependent = ROA, ROE and return on sales.	Using data from two cement manufacturing companies from 2019 to 2021 to build a linear regression model as part of a quantitative research methodology	This study found that fixed turnover and cost ratio had a significant negative impact on profitability (ROA and ROE), whereas firm size had a small positive impact. Additionally, the debt ratio, inventory turnover, and average collection period all considerably increased the profitability of cement manufacturing enterprises in Tuyen Quang Province.
14	Talib, Rahman and Yusof (2023)	Independent = liquidity (current ratio), total debt, account receivable turnover and asset turnover	Correlation analysis was used to examine the data in this investigation	This study found that liquidity, total debt, asset turnover, and account receivable turnover all had favorable correlations with profitability. The study also discovered that, in contrast to total debt, account receivable turnover, and asset turnover,

		Dependent = Return on assets		which do not have a statistically significant link with profitability, liquidity did.
15	Tiffany and Sufiyati (2023)	Independent = Size, quick ratio, debt to equity ratio, total assets turnover and assets structure Dependent = Return on assets	Multiple regression analysis was employed in this work to evaluate hypotheses using secondary data	The study found that the parameters of debt to equity ratio and firm size had no negative effects on profitability. Both the fast ratio and the asset structure have a detrimental effect on profitability. Asset turnover had no beneficial effect on profitability.
16	Atmaja and Usman (2023)	Independent = liquidity, working capital, leverage, intangible assets, company size, and company efficiency Dependent = ROA	The statistical analysis method used was panel data regression with a random effect, which was the best econometric model selected	This study found that working capital, leverage, liquidity, efficiency, and business size all had a beneficial effect on profitability. The predictor of intangible assets has no effect on profitability.
17	Haddad (2024)	Independent = Earning per share, operating cash flows, age of companies, size of companies Dependent = Return on assets	Statistical tests like multicollinearity regression have been employed to test the hypotheses	The findings showed that operational cash flows and earnings per share significantly increased profitability, whereas company age had a little detrimental impact. Furthermore, Jordanian industrial enterprises' profitability was significantly positively impacted by their size.

2.4 Research Gap

This study aims to fill the gap in current research by addressing limitations found in previous studies. Earlier research primarily focused on analyzing the profitability of various institutions by students, experts, and researchers. However, the findings of these studies were limited due to restricted data, insufficient testing, and the need for adjustments to key variables. As a result, there is a need for new research to explore and validate these gaps. The goals of this research differ notably from those of prior studies. Previous research on institutional profitability analysis primarily focused on earlier time periods, mainly examining banks from past decades. However, there is a need for updated studies that cover more recent years, up to 2022/23, especially within the manufacturing sector. Additionally, prior studies did not include profitability analysis of three specific manufacturing companies. To fill this gap, a new study was needed to assess the profitability of these companies. This research also utilized descriptive, correlation, and multiple regression analyses methods that were not employed in previous studies. As a result, this study presents a unique approach compared to earlier work.

CHAPTER–III
RESEARCH METHODOLOGY

Research methodology is the methodical approach to issue solving, which includes the methodical gathering, documenting, analyzing, interpreting, and reporting of data on different aspects of a phenomena being studied. Research methodology in this study explains the procedures and techniques used in every facet of the investigation. study design, population and sample, sampling design, data sources and nature, study framework, variable definitions, and analytic methodology are all covered in this chapter.

3.1 Research Design

This study uses both descriptive research design and causal-comparative research design to examine the factors affecting the profitability of manufacturing companies in Nepal. The descriptive research design helps analyze the profitability status of the sample companies by calculating average values, standard deviation, and maximum and minimum values, which describe the characteristics of the data. On the other hand, the causal-comparative research design is employed to assess the impact of specific factors on the profitability of these manufacturing companies.

3.2 Population and Sample, and Sampling Design

Nowadays a number of manufacturing companies have been emerging rapidly. Some have already been established and others are in the process of establishment. There are all together 118 manufacturing companies operating in Nepal. In this study, all the manufacturing companies are population of the study. Among them Unilever Nepal Limited, Dabur Nepal Private Limited and Himalayan Distillery Limited are selected as sample on the basis of purposive sampling method because these three companies are top three in profitability in the present context and availability of data. Therefore, this study has chosen these three manufacturing companies.

3.3 Nature and Sources of Data, and the Instruments of Data Collection

Data is a very dependable and useful research tool. The secondary data is used by the research to achieve its goals. Secondary data are those that have previously been gathered or utilized by another party and are made accessible to others through

published statistics found in journals, newspapers, magazines, annual reports, and other publications. When primary data is utilized, it becomes secondary and loses its uniqueness. The primary source of secondary data used in this study is the annual reports of the relevant manufacturing businesses. Newspapers, magazines, economic journals, and other sources of information have also been used for the study plan materials in addition to the yearly reports.

3.4 Method of Analysis

The researcher employs the following categories of analytic methods to increase the study's specificity and dependability:

3.4.1 Descriptive Analysis

Arithmetic Mean or Average

The arithmetic mean of a given set of observations is calculated by dividing the sum of the observations by the total number of observations. In this case, all the items are considered equally important. The simple arithmetic mean is used in this study as required for the analysis.

$$\text{Mean } (\bar{X}) = \frac{X_1 + X_2 + X_3 + \ldots\ldots\ldots X_n}{n} = \frac{\Sigma X}{n}$$

Where,

$\sum X$ = sum of all values of the variable 'x'

n = number of observations

X = variables involved

Standard Deviation

The average deviation of a collection of data from its arithmetic mean, calculated as the positive square root of the variance, is a measure of the unpredictability of a random variable. Traditionally denoted by the lowercase Greek letter sigma (s), it is regarded as the most significant and practical measure of dispersion, possessing all the fundamental characteristics of variance and the benefit of being calculated in the same units as the original data.

$$\text{Standard Deviation (S.D.)} = \sqrt{\frac{\Sigma(X - \bar{X})^2}{n}}$$

Where,

X = variables involved

$\overline{X}$ = mean

n = number of observations

3.4.2 Correlation Analysis

One statistical method for examining the relationship between two variables is correlation. The intensity and direction of a linear relationship between two variables are measured by the number r, often known as the linear correlation coefficient. In recognition of its creator, Karl Pearson, the linear correlation coefficient is sometimes known as the Pearson product moment correlation coefficient. If a change in one variable's value seems connected to or associated with a change in the other variables, then two or more variables are said to be correlated. When the relationship is quantifiable, correlation analysis is the best statistical method for identifying the link and condensing it into a concise formula.

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

The value of ‘r’ lies between -1 and +1. The positive and negative signs indicate positive and negative linear correlations, respectively.

- **Positive correlation**: If ‘x’ and ‘y’ have a perfect positive linear correlation, ‘r’ equals +1.
- **Negative correlation**: If ‘x’ and ‘y’ have a perfect negative linear correlation, ‘r’ equals -1.
- **No correlation**: If there is no linear correlation or a weak linear correlation, ‘r’ is close to 0.

A perfect correlation of ±1 occurs only when the data points align exactly along a straight line. Generally, a correlation greater than 0.8 is considered a high degree of positive correlation, while a correlation less than 0.5 is typically seen as a weak positive correlation.

t- Statistics

In 1908, W.S. Grosset (pen name Student) created it. Fisher then explains this distribution (1925). The t-test is used to evaluate the study's assumptions for small samples. The t-values are computed first and compared with the crucial values at a

particular level of significance for a specific degree of freedom in order to apply the t distribution. The difference is considered significant at the five percent significance level if the calculated value of t‟ exceeds the table value (let's say t 0.05). However, if t-values are less than the corresponding critical of the 't' distribution, the difference is not considered significant. The t statistic under H0 is:

$$t = \frac{r}{\sqrt{1 - r^2}} \times \sqrt{n - 2}$$

Where,

t=calculated value of t

r= correlation of coefficient between the variables.

n= number of sample.

Decision: The null hypothesis is accepted if the calculated "t" is less than or equal to the tabulated value of "t," and it is rejected if the computed "t" is larger than the tabulated "t."

3.4.3 Regression Analysis

Regression analysis is a collection of statistical procedures used in statistical modeling to estimate the connections between variables. When examining the link between a dependent variable (ROA and ROE) and an independent variable (i.e., liquidity, firm size, leverage, sales growth, and tangible assets), it encompasses a variety of modeling and analysis methodologies. More precisely, when one of the independent variables is changed while the other independent variables remain constant, regression analysis explains how the dependent variable's (also known as the "criterion variable") typical value varies.

Model 1 $ROA = \alpha + \beta_1 LIQ + \beta_2 SIZE + \beta_3 LEV + \beta_4 SG + \beta_5 TANG + e$ (1)

Model 2 $ROE = \alpha + \beta_1 LIQ + \beta_2 SIZE + \beta_3 LEV + \beta_4 SG + \beta_5 TANG + e$ (2)

Where,

ROA = Return on Assets

ROE = Return on Equity

LIQ = Liquidity Ratio

SIZE = Firm Size or Total Assets

LEV = Leverage (Debt to total) Ratio

SG = Sales Growth

TANG = Tangible Assets

α = Constant

β_1, β_2, β_3, β_4, and β_5 = The slope which represents the degree with which company profitability changes as the independent variable changes by one unit variable.

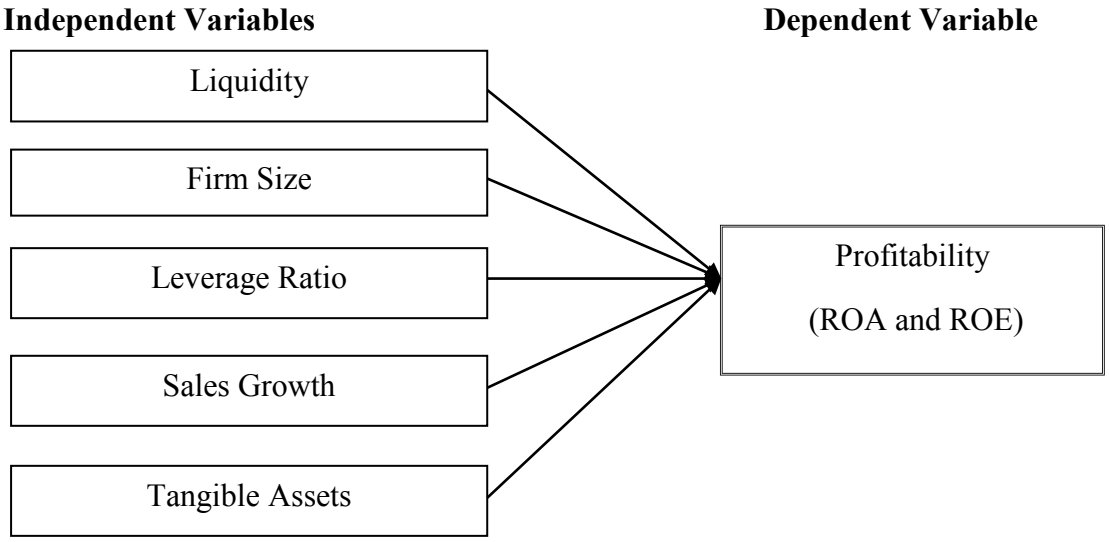
e = error component

3.5 Research Framework and Definition of the Variables

The researcher constructed the following conceptual framework for the study based on reviews of the theoretical and empirical literature.

Figure 1

Research Framework of the Study



(Source: Alarussi and Alhaderi, 2017; Diaz and Hindro, 2017; Bui and Nguyen 2020; Susilo et al., 2020; Syahbandar and Lestari, 2022)

Independent Variables

Liquidity

Liquidity is the key factor that would influence profitability. Two essential aspects of business operations that form the foundation of its assessment are liquidity and profitability (Diaz & Hindro, 2017). While financial liquidity represents an organization's actual current financing possibilities and is thus the determinant of its continued existence on the market, profit is a specific form of economic source that finances an enterprise's future expansion (Alarussi & Alhaderi, 2017). The finance manager must constantly contend with the conflict between profitability and liquidity

in all facets of financial management. Between the two, he or she must find equilibrium (Syahbandar & Lestari, 2022). In order to be considered liquid, a business must always have enough cash on hand to cover unanticipated expenses and emergencies as well as to pay payments as they become due.

Firm Size

Diaz and Hindro (2017) stated a company's size has a significant impact on the relationships it has both inside and outside of its working environment. A company's impact on its stakeholders increases with its size. Research on the factors influencing the profitability performance of businesses in Bangladesh's non-banking financial sector was discovered by Susilo et al. (2020). The author used financial variables including total assets (firm size) in his research, and the results showed a strong positive correlation with business profitability and performance.

Leverage

One element of a company's capital structure is leverage. This is due to the fact that choosing between debt and equity implies a trade-off between financial and business risk. Corporate ownership is unaffected when businesses decide to take out extra loans to meet their demands (Diaz & Hindro, 2017). According to Alarussi and Alhaderi (2017), leverage significantly and negatively affects profitability. Retained earnings are a more advantageous way to finance investments than borrowing money, according to Bui and Nguyen (2020).

Sales Growth

The main driver of increased profitability is either sales or company expansion. Since growing enterprises may turn a return on their investments, companies with great sales growth prospects should have a high performance ratio. In essence, both internal and external influences impact a company's growth. Studies on the link between business expansion and profitability have been conducted in industrialized nations and have shown a favorable correlation (Diaz & Hindro, 2017). Similarly, Susilo et al. (2020) found that an increase in sales had a favorable impact on the firms' return on assets (ROA).

Tangibility

The term "tangibility" describes a real estate company's current and fixed assets as of a specific accounting year. Property, plant, and equipment are examples of fixed assets, whereas inventory of real estate is an example of current assets. Because they have fewer sales innovations, less research and development, and less long-term investment prospects, companies with large amounts of tangible assets typically have poorer profitability (Diaz and Hindro, 2017). According to Bui and Nguyen's (2020) research, tangibility and profitability are negatively correlated.

Dependent Variables

Return on Total Assets (ROA)

A financial ratio called return on assets (ROA) indicates the proportion of return (profit) that a business is generating in comparison to its total resources. The net income for the year divided by the total assets—typically the average value over the course of the year—is the return on assets, or ROA. The capacity of a bank's management to turn a profit on the assets used for the company is reflected in the ROA. This ratio, which shows the returns on the assets that banks possess, is arguably the most significant one when analyzing the effectiveness and operational performance of banks. It demonstrates how well assets are managed to produce profits. According to Bui and Nguyen (2020), the return on total assets (ROA) after taxes and interest is calculated as the ratio of net income to total assets.

Return on Equity (ROE)

The most often used internal performance metric for determining shareholder value is the ratio of return on equity, or ROE. The return to shareholders on their equity is known as return on equity. Syahbandar and Lestari (2022) explained that return on equity, which shows how much profit a firm makes with the money shareholders have invested, is a measure of a corporation's profitability. The percentage of shareholders' equity that is repaid as net income. Net income is calculated for the whole fiscal year, after preferred stock distributions but before dividends paid to common stockholders. Net profit after taxes is divided by the average total shareholder equity fund to arrive at this percentage.

CHAPTER - IV
RESULTS AND DISCUSSION

As discussed in the previous chapters, the primary objective of this study is to examine the factors affecting the profitability of manufacturing companies in Nepal. This chapter presents and analyzes the data and is divided into three sections. The first section discusses the structure and pattern of the variables, as well as the correlation analysis of the study's variables. The second section addresses the fulfillment of the assumptions for the linear regression model. The third section highlights the major findings of the study. The data analysis procedures utilized a ratio scale measurement, and the ratios of the specified dependent and independent variables were calculated for further statistical analysis. The collected data was analyzed using the statistical software SPSS version 26.

4.1 Results

4.1.1 Position and Structure of Variables

The position and organization of various variables or profitability determinants are examined in this section. Three Nepalese manufacturing businesses are included in the sample, and information was gathered from each company's 2013/14–2022/23 annual report. The average value of many variables is called the mean. The coefficient of variation indicates how uniform or consistent the variables are, whereas the standard deviation shows how the variables vary as a percentage.

4.1.1.1 Liquidity

The ability to pay off debt that is due within the next 12 months with cash or assets that can be converted into cash is known as liquidity. The current ratio, which compares current assets to current liabilities, is typically used to measure it. It demonstrates the speed at which an asset may be turned into cash and illustrates the firm's capacity to manage working capital when it is maintained at typical levels. When outside funding is either unavailable or too expensive, a company may utilize liquid assets to fund its operations and investments. Higher liquidity, on the other hand, would enable a business to handle unforeseen circumstances and meet its responsibilities during times of poor profitability.

Table 2

Liquidity of the Companies

(In Times)

Year	HDL	UNL	DNL
2013/14	0.72	1.65	1.19
2014/15	0.77	1.41	1.07
2015/16	1.80	2.59	1.15
2016/17	2.03	2.22	1.37
2017/18	1.51	2.01	1.36
2018/19	2.00	1.90	1.61
2019/20	1.96	1.45	1.84
2020/21	6.32	1.83	1.89
2021/22	8.36	2.15	2.12
2022/22	10.82	2.50	2.21
Mean	3.63	1.97	1.58
SD	3.56	0.40	0.41
CV (%)	98.01	20.53	26.19

Source: Appendix – I

Table 2 shows that the liquidity of manufacturing companies in Nepal. There is a pattern of fluctuation in the sample firms' liquidity or current ratio. HDL's average liquidity ratio is 3.63 times, whereas DNL's average ratio is 1.58 times. Thus, it can be said that HDL has consistently maintained a solid liquidity position and has operated with minimal operating risk. Among the sample firms, UNL has the lowest risk since its standard deviation is the lowest. UNL has demonstrated the most consistency in the ratios, with the lowest coefficient of variation (20.53 percent) among the ratios.

4.1.1.2 Size of the Companies

The decimal logarithm of manufacturing enterprises' total assets is used to calculate their size. Since bigger companies have more resources, greater risk diversification, sophisticated information systems, and better expenditure management, a positive correlation between business size and profitability is anticipated.

Table 3

Size of the Companies

(Rs. in Lakhs)

Year	HDL	UNL	DNL
2013/14	9497	23577	37583
2014/15	11310	28135	44959
2015/16	9593	30464	45592
2016/17	10179	32031	49707
2017/18	12007	33218	92862
2018/19	14036	38302	92549
2019/20	19956	38572	93963
2020/21	23097	47376	109629
2021/22	31924	58047	124058
2022/22	36693	64951	140606
Mean	17829.20	39467.30	83150.80
SD	9850.84	13398.45	36574.61
CV (%)	55.25	33.95	43.99

Source: Appendix – I

Table 3 shows that the size of manufacturing companies in Nepal. There is a pattern of fluctuation in the size of industrial enterprises. DNL's average total assets are the largest at 83150.80 lakhs, while HDL's enterprises are the smallest at 17829.20 lakhs. It reveals that DNL is the biggest corporation with the most resources, the best risk diversification, sophisticated information systems, and the best cost control. HDL has the lowest risk among the study firms, as indicated by its lowest standard deviation. According to the ratios' coefficient of variation, UNL has demonstrated the highest consistency, with the lowest CV of 33.95 percent.

4.1.1.3 Leverage

This financial ratio shows what proportion of a company's assets are financed by debt. Businesses prefer internal financing over external financing due to the asymmetric information cost, and when external funding is required, they choose debt over stock due to the lower information costs. According to the pecking order hypothesis, there is no ideal capital structure since the debt ratio results from the accumulation of external

funding needs. Reserves to surplus or debt to equity are two ways to describe a company's leverage.

Table 4

Leverage Ratio

(In times)

Year	HDL	UNL	DNL
2013/14	0.89	0.57	1.48
2014/15	1.34	0.61	1.43
2015/16	0.57	0.49	1.30
2016/17	0.76	0.60	1.00
2017/18	0.51	0.66	1.00
2018/19	0.42	0.66	0.81
2019/20	0.59	0.89	0.60
2020/21	0.13	0.82	0.68
2021/22	0.12	0.59	0.59
2022/22	0.09	0.49	0.53
Mean	0.54	0.64	0.94
SD	0.39	0.13	0.36
CV (%)	71.92	20.42	38.21

Source: Appendix – I

Table 4 shows that the leverage ratio of manufacturing companies in Nepal. The sample firms' ratios show a fluctuating tendency. DNL has the greatest average leverage ratio at 0.94 percent, while HDL has the lowest average ratio at 0.54%. It suggests that, in comparison to the owners, DNL displays a significant portion of financing from creditors. Since DNL has the greatest leverage ratio of any creditor, it would be problematic for them. UNL has the lowest risk among the sample firms, as indicated by its lowest standard deviation. According to the ratios' coefficient of variation, UNL has demonstrated the highest consistency, with the lowest CV of 20.42 percent.

4.1.1.4 Sales Growth

The main driver of increased profitability is either sales or company expansion. Since growing enterprises may turn a return on their investments, companies with great sales growth prospects should have a high performance ratio. In essence, both internal and external influences impact a company's growth. Studies on the link between business expansion and profitability have been conducted in industrialized nations and have shown a favorable correlation.

Table 5

Sales Growth

(In percent)

Year	HDL	UNL	DNL
2013/14	28.52	-2.78	-26.61
2014/15	-0.45	12.08	8.56
2015/16	8.62	-19.27	-16.78
2016/17	-17.03	12.57	31.79
2017/18	78.59	9.59	51.72
2018/19	29.65	18.20	4.52
2019/20	-24.37	-3.60	-6.91
2020/21	53.86	3.31	-6.04
2021/22	9.71	27.97	35.23
2022/22	-26.82	15.64	16.34
Mean	14.03	7.37	9.18
SD	34.28	13.39	24.76
CV (%)	244.33	181.69	269.68

Source: Appendix – I

Table 5 shows that the sales growth of manufacturing companies in Nepal. The pattern of manufacturing enterprises' revenue growth is erratic. HDL's average sales growth is the greatest at 14.03 percent, while DNL's average ratio is the lowest at 7.37 percent. High sales growth rates translate into more company revenue and profitability. Given that HDL can turn a return on investment, it suggests that it has excellent prospects for sales growth and a good performance ratio. To put it another way, HDL has made more money than the other firms in the study. UNL has the lowest risk among the

sample firms, as indicated by its lowest standard deviation. According to the ratios' coefficient of variation, UNL has demonstrated the highest consistency, with the lowest CV of 181.69 percent.

4.1.1.5 Tangibility

The term "tangibility" describes a real estate company's current and fixed assets as of a specific accounting year. Property, plant, and equipment are examples of fixed assets, whereas inventory of real estate is an example of current assets. Businesses with a lot of physical assets are often less successful.

Table 6

Tangibility

(In percent)

Year	HDL	UNL	DNL
2013/14	50.87	11.37	27.61
2014/15	47.00	10.97	34.57
2015/16	56.23	15.75	34.46
2016/17	59.80	16.96	30.36
2017/18	50.73	20.13	30.95
2018/19	43.10	22.82	31.80
2019/20	27.93	29.09	31.83
2020/21	22.25	20.91	24.28
2021/22	15.58	23.16	22.30
2022/22	12.50	22.18	19.90
Mean	38.60	19.33	28.81
SD	17.45	5.63	5.10
CV (%)	45.21	29.10	17.70

Source: Appendix – I

Table 6 shows that the assets tangibility of manufacturing companies in Nepal. The sample firms' ratio is showing a tendency of fluctuation. The lowest average tangible ratio of UNL is 19.33%, while the highest average ratio of HDL is 38.60%. Businesses with a lot of physical assets are often less successful. Therefore, from a tangible perspective, UNL is the most lucrative corporation. DNL has the lowest risk

among the sample firms, as indicated by its lowest standard deviation. With the lowest CV of 17.70 percent among the ratios, DNL has been the most constant, according to the CV of the ratios.

4.1.1.6 Return on Assets

One important profitability statistic that quantifies a company's profit per rupee of its assets is return on assets. It demonstrates the business's capacity to turn a profit without the use of leverage. Thus, return on assets provides insight into how well management uses corporate assets to produce a profit, but compared to other financial measures like return on equity, it is typically less interesting to shareholders. The contribution of assets to net profit is explained by return on total assets.

Table 7

Return on Assets

(In percent)

Year	HDL	UNL	DNL
2013/14	13.76	38.58	7.86
2014/15	7.18	36.65	9.98
2015/16	25.95	36.82	2.92
2016/17	4.80	29.06	10.18
2017/18	24.49	31.60	8.29
2018/19	38.26	27.62	7.40
2019/20	23.40	9.88	5.79
2020/21	45.08	18.11	6.11
2021/22	33.11	26.56	10.35
2022/22	18.00	28.24	9.77
Mean	23.40	28.31	7.87
SD	13.01	8.86	2.40
CV (%)	55.60	31.28	30.52

Source: Appendix – I

Table 7 shows that the return on assets of manufacturing companies in Nepal. The sample firms' ratio is showing a tendency of fluctuation. The lowest average ratio of DNL is 7.87 percent, while the greatest average return on assets is 28.31 percent for

UNL. Given their greatest percentage, it suggests that UNL was able to oversee all aspects of their business. To put it another way, UNL may maximize its return on assets by making the best use of the asset that adds the most to the overall mean of ROA. DNL has the lowest risk among the sample firms, as indicated by its lowest standard deviation. It may be inferred from the ratios' coefficient of variation that DNL has been the most constant, with the lowest CV of 30.52 percent.

4.1.1.7 Return on Equity

The profitability of the owner's investment is determined by calculating the return on shareholder equity. A corporation's profitability is gauged by its return on equity (ROE), which shows how much money the company makes off of the investment made by shareholders. Net profit after taxes divided by shareholder equity is the return on equity.

Table 8

Return on Equity

(In percent)

Year	HDL	UNL	DNL
2013/14	26.03	60.38	19.52
2014/15	16.77	59.07	24.28
2015/16	40.62	54.74	6.71
2016/17	8.43	46.53	20.38
2017/18	36.92	52.50	16.61
2018/19	54.32	45.84	13.38
2019/20	37.28	18.65	9.28
2020/21	50.93	33.05	10.25
2021/22	37.15	42.22	16.43
2022/22	19.69	42.06	14.96
Mean	32.81	45.50	15.18
SD	14.82	12.65	5.44
CV (%)	45.17	27.79	35.84

Source: Appendix – I

Table 8 shows that the return on equity of manufacturing companies in Nepal. The sample firms' ratio is showing a tendency of fluctuation. The lowest average ratio of DNL is 15.18 percent, while the greatest average return on equity of UNL is 45.50 percent. Among these, the UNL's return on equity is thought to be the finest or most efficient management for making money. Furthermore, it may be claimed that UNL is performing in a progressive manner.

DNL has the lowest risk among the sample firms, as indicated by its lowest standard deviation. According to the ratios' coefficient of variation, UNL has demonstrated the highest consistency, with the lowest CV of 27.79 percent.

4.1.2 Descriptive Statistics of Variables

Table 9 displays the descriptive statistics for the variables utilized in the study. The outcome demonstrates the lowest and greatest performance metrics for Nepali manufacturing enterprises in terms of profitability indicators ROA and ROE as well as other independent factors (liquidity, company size, leverage, sales growth, and tangibility).

Table 9

Descriptive Statistics of Variable of Manufacturing Companies

Variables	N	Minimum	Maximum	Mean	Std. Deviation
LIQ	30	.72	10.82	2.3937	2.20085
LSIZE	30	3.98	5.15	4.5502	.33837
LEV	30	.09	1.48	.7073	.35029
SG	30	-26.82	78.59	10.1937	24.87406
TANG	30	10.97	59.80	28.9130	13.28189
ROA	30	2.92	45.08	19.8600	12.54042
ROE	30	6.71	60.38	31.1660	16.94008

Source: Appendix –II

Table 9 shows the descriptive statistics of dependent and independent variables used in the study. The liquidity ranges from 0.72 to 10.82 percent, with an average of 2.3937 percent and a standard deviation of 2.20085. The company's variable size (LSIZE) ranges from 3.98 to 5.15, with an average of 4.5502 and a standard deviation of 0.33837. The smallest and greatest leverage ratios are 0.09 percent and 1.48 percent, respectively, and the average leverage ratio is probably 0.7073 with a standard deviation of 0.35029. At the same period, the sales growth runs from -26.82 percent to 78.59 percent, with a mean of 10.1937 percent and a standard deviation of 24.87406. This suggests that the value of sales increase may differ by 24.87406 on either side. Lastly, the value of tangibility can vary by 13.28189, with a mean of 28.9130 and a standard deviation of 13.28189, ranging from 10.97 to 59.80.

The average return on assets (ROA) is 19.8600 percent, with a standard deviation of 12.54042, a minimum of 2.92 percent, and a maximum of 45.08 percent, according to the data. The range of return on equity (ROE) is 6.71 percent to 60.38 percent, with an average of 31.1660 percent and a standard deviation of 16.94008. Nepalese manufacturing enterprises appear to have profited from leverage effects, as seen by their average ROE being significantly greater than their ROA. Out of all the response variables, the sales growth standard deviation shows the most volatility.

4.1.3 Correlation Analysis

A table that displays the correlation coefficients between variables is called a correlation matrix. The correlation between two relevant variables is displayed in each table cell. Data may be summarized using a correlation matrix. This gives us a quick overview of which factors are correlated and to what extent. A correlation value of zero means that there is no linear relationship between two variables. The range of correlation coefficients between two variables is +1 (perfect positive link) to -1 (perfect negative relationship). In Table 10, the correlation matrix is displayed as follows.

Table 10

Pearson Correlation Coefficients of Study Variables

	LIQ	LSIZE	LEV	SG	TANG	ROA	ROE
LIQ	1						
LSIZE	.011	1					
	(.953)						
LEV	-.675**	.036	1				
	(.000)	(.851)					
SG	-.100	-.022	-.199	1			
	(.599)	(.910)	(.291)				
TANG	-.395*	-.554**	.348	.174	1		
	(.031)	(.002)	(.059)	(.358)			
ROA	.318	-.353	-.645**	.252	-.382*	1	
	(.087)	(.056)	(.000)	(.179)	(.037)		
ROE	.096	-.373*	-.465**	.223	-.354	.959**	1
	(.612)	(.043)	(.010)	(.236)	(.055)	(.000)	

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Source: Appendix-III

Table 10 reveals the correlation test between both dependent and independent variables using correlation coefficient matrix. The correlation test shows that liquidity (LIQ) has insignificant positive relation with ROA in 5 percent level of significance. At the same time, liquidity has also insignificant positive relation with ROE of manufacturing companies. Then, there is insignificant negative correlation between size of companies (LSIZE) and ROA and also significant negative relationship between size of companies and ROE. At the meantime, leverage (LEV) has significant negative relationship with ROA and significant negative relationship with ROE. The correlation matrix also shows that sales growth (PG) has insignificant positive correlation with ROA and ROE. Moreover, tangibility (TANG) has significant negative relationship with profitability ROA and insignificant negative relationship with ROE of the manufacturing companies.

4.1.4 Results of Regression Analysis

When the link between dependent variables (ROA and ROE) and independent factors (liquidity, company size, leverage, sales growth, and tangibility) is the main emphasis, it encompasses a variety of modeling and analysis methodologies. One of the main tools for panel data analysis is ordinary least square regression (OLS).

4.1.4.1 ROA Regression

In order to examine the factors influencing the profitability of manufacturing organizations, ROA is the dependent variable and liquidity, company size, leverage, sales growth, and tangibility are the independent variables.

Table 11

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.926[a]	.858	.829	5.18844

a. Predictors: (Constant), TANG, SG, LIQ, LSIZE, LEV

Source: Appendix-IV

A summary metric used in multiple regression that indicates how well the sample regression line fits the data is the coefficient of determination (R2). Stated differently, the R2 statistic indicates the percentage of the dependent variable's variance that can be explained by the independent variables. The study's R square score of 0.858 shows that independent factors account for 85.80% of the variation in the dependent variable, ROA. The R statistic value of 0.926, which indicates a strong degree of association between the research variables, provides the basis for the strength of the variables' relationship (multiple correlation coefficients). This suggests that the independent factors had a significant impact on the ROA. Regression analysis is perfectly correlated with standard error of estimate.

Table 12

Analysis of Variance (ANOVA)

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3914.526	5	782.905	29.083	.000[b]
	Residual	646.077	24	26.920		
	Total	4560.602	29			

a. Dependent Variable: ROA
b. Predictors: (Constant), TANG, SG, LIQ, LSIZE, LEV

Source: Appendix-IV

The most likely combination of predictor factors that might influence the impact of dependent variables is explained by an analysis using ANOVA (F-value). Results show overall model is significant. The dependent variable (ROA) and the independent factors are clearly related, as seen by the F-values of 29.083 ($p = 0.000 < 0.05$) for TANG, SG, LIQ, LSIZE, and LEV as ROA proxy.

Table 13

Regression Coefficient of ROA with Independent Variables

Variables	Coefficients	t-statistics	p-value	VIF
(Constant)	185.904	10.044	.000	
LIQ	-1.671	-2.624	.015	2.116
LSIZE	-28.401	-7.779	.000	1.644
LEV	-17.517	-4.198	.000	2.301
SG	.125	2.876	.008	1.249
TANG	-.750	-7.209	.000	2.058

Source: Appendix-IV

Table 13 presents the regression coefficient of independent variables age of companies, liquidity, leverage, premium growth and size of the companies and the intercept value of dependent variable ROA. It shows that variance inflation factors (VIF) values are below 10 of all independent variables. That's why, there is no multicollinearity in the model.

The results of regression model indicated that the relationship between liquidity (LIQ) has a negative and significant impact on ROA by a coefficient estimate of -1.671. This indicates that, when all other independent variables are held constant, a one percent increase in liquidity (LIQ) lowers the ROA of manufacturing companies by -1.671 percent. The p value of LIQ, which is 0.015, reveals that, at the five percent level of significance, there is a statistically significant negative impact of liquidity on ROA.

In accordance with the regression result of size of the companies (SIZE) has a significant negative impact on ROA by a coefficient estimate of -28.401. This indicates that, when all other independent variables are held constant, a one percent increase in SIZE results in a -28.401 percent fall in the ROA of the insurance businesses, with a 0.000 p value for company size. The null hypothesis is rejected and the p-value is greater at the 5 percent significance level, indicating that the size of the company has a statistically significant negative impact on the manufacturing businesses' return on assets (ROA).

According to the regression result of leverage (LEV) has a negative and significant effect on ROA by a coefficient estimate of -17.517. The p value of leverage (LEV) is 0.000, indicating that it is statistically significant at the 5 percent level of significance. This indicates that, when other independent variables are held constant, a one percent increase in leverage (LEV) subsequently reduces the ROA of the insurance companies by -17.517 percent. The working hypothesis that leverage (LEV) has a negative and statistically significant impact on manufacturing enterprises' return on assets (ROA) is therefore supported by the results.

The results of regression model indicated that the relationship between sales growth (SG) has a positive and significant impact on ROA by a coefficient estimate of 0.125. This indicates that, when all other independent variables are held constant, a one-unit increase in sales growth raises the ROA of the sample businesses by 0.125 percent. The sales growth p value of 0.008 indicates that the increase is statistically significant at the five percent significance level. This indicates that the ROA of sample production firms is significantly improved by sales growth.

The regression result of tangibility (TANG) has a negative and significant effect on ROA by a coefficient estimate of -0.750. This indicates that, when other independent variables are held constant, a one percent increase in tangibility (TANG) results in a -0.750 percent decrease in the ROA of manufacturing companies. The p value of tangibility, which is 0.000, indicates that this is statistically significant at the five percent level of significance. Tangibility (TANG) so significantly reduces manufacturing enterprises' return on assets (ROA).

4.1.4.2 ROE Regression

In order to examine the factors influencing the profitability of manufacturing organizations, ROE is the dependent variable and liquidity, company size, leverage, sales growth, and tangibility are the independent variables.

Table 14

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	.920[a]	.846	.814	7.30642

a. Predictors: (Constant), TANG, SG, LIQ, LSIZE, LEV

Source: Appendix-V

A summary metric used in multiple regression that indicates how well the sample regression line fits the data is the coefficient of determination (R2). The study's R square score of 0.846 shows that independent factors account for 84.60 percent of the variation in the dependent variable, ROE. The value of the R statistic determines the strength of the association between the variables (multiple correlation coefficients). The study's R value of 0.920 suggests that the variables under investigation have a strong link with one another. This suggests that the independent factors had a significant impact on the ROE. Regression analysis is perfectly correlated with standard error of estimate.

Table 15

Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
2	Regression	7040.807	5	1408.161	26.378	.000[b]
	Residual	1281.212	24	53.384		
	Total	8322.019	29			

a. Dependent Variable: ROE

b. Predictors: (Constant), TANG, SG, LIQ, LSIZE, LEV

Source: Appendix-V

The most likely combination of predictor factors that might influence the impact of dependent variables is explained by an analysis using ANOVA (F-value). Results show overall model is significant. It is evident from the F-values of 26.378 ($p = 0.000 < 0.05$) for the ROE proxy variables TANG, SG, LIQ, LSIZE, and LEV that there is a substantial correlation between the independent variables and the dependent variable (ROE).

Table 16

Regression Coefficient of ROE with Independent Variables

Variables	Coefficients	t-statistics	p-value	VIF
(Constant)	284.475	10.915	.000	
LIQ	-3.980	-4.438	.000	2.116
LSIZE	-43.272	-8.416	.000	1.644
LEV	-19.867	-3.382	.002	2.301
SG	.159	2.607	.015	1.249
TANG	-1.192	-8.132	.000	2.058

Source: Appendix-V

Table 16 presents the regression coefficient of independent variables liquidity, size of companies, leverage, sales growth and tangibility and the intercept value of dependent variable ROE. It shows that variance inflation factors (VIF) values are below 10 of all independent variables. That's why, there is no multicollinearity in the model.

The results of regression model indicated that the liquidity (LIQ) has a negative and significant effect on ROE by a coefficient estimate of -3.980. This indicates that when

other independent variables are held constant, a one percent increase in liquidity (LIQ) lowers the ROE of manufacturing companies by -3.980 percent. The fact that the p value of LIQ is 0.000 indicates that the impact on ROE is statistically significant at the five percent significance level.

In accordance with the regression result of size of the companies (SIZE) has a negative and significant effect on ROE by a coefficient estimate of -43.272. This indicates that, when all other independent variables are held constant, a one percent increase in SIZE results in a -43.272 percent fall in the manufacturing enterprises' ROE, with a p value of 0.000. The size of the firms has a statistically significant negative impact on the ROE of the manufacturing companies, according to the testing at the 5 percent significance level, where the p-value is lower and the null hypothesis is rejected.

According to the regression result of leverage (LEV) has a negative and significant effect on ROE by a coefficient estimate of -19.867. The p value of leverage (LEV) is 0.002, which indicates that it is statistically significant at the five percent level of significance. This indicates that, when other independent variables are held constant, a one percent increase in leverage (LEV) subsequently reduces the ROE of the insurance companies by -19.867 percent. The working hypothesis that leverage (LEV) significantly reduces manufacturing enterprises' return on equity (ROE) is therefore supported by the results.

The results of regression model indicated that the sales growth (SG) has a positive and significant impact on ROE by a coefficient estimate of 0.159. This indicates that, when all other independent variables are held constant, a one-unit increase in sales growth raises the ROE of the sample businesses by 0.159 percent. The sales growth p value of 0.015 indicates that, at the five percent significance level, the increase is statistically insignificant. This indicates that the ROE of sample production firms is significantly improved by sales increase.

The regression result of tangibility (TANG) has a negative and significant impact on ROE by a coefficient estimate of -1.192. The p value of tangibility is 0.000, indicating that it is statistically significant at the 5 percent level of significance. This indicates that, when other independent variables are held constant, a one percent increase in

tangibility (TANG) subsequently reduces the ROE of manufacturing companies by -1.192 percent. Tangibility (TANG) so significantly reduces manufacturing enterprises' return on equity (ROE).

4.2 Discussion

The primary purpose of this study is to examine the factors that affect the profitability of manufacturing companies in Nepal. The study also focuses on exploring the relationship between various factors and profitability. Previous research and literature have established that factors such as liquidity, company size, leverage, sales growth, and tangibility directly impact return on assets (ROA) and return on equity (ROE), which are the key parameters used to measure the profitability of manufacturing companies. The correlation analysis reveals that liquidity (LIQ) has an insignificant positive relationship with ROA at the 5 percent level of significance, and it also shows an insignificant positive relationship with ROE of manufacturing companies. This finding aligns with the results of Alarussi and Alhaderi (2017), but contradicts the findings of Al-Jafari and Samman (2015). Additionally, there is an insignificant negative correlation between company size (LSIZE) and ROA, while a significant negative relationship is found between company size and ROE. This result is consistent with the findings of Al-Jafari and Samman (2015), but contradicts those of Alarussi and Alhaderi (2017) and Haddad (2024).

Meanwhile, leverage (LEV) shows a significant negative relationship with both ROA and ROE, which is consistent with the findings of Alarussi and Alhaderi (2017), who found that the leverage ratio had a negative relationship with profitability. The correlation matrix also indicates that sales growth (PG) has an insignificant positive correlation with both ROA and ROE, aligning with the findings of Al-Jafari and Samman (2015), who found a positive association between growth and profitability in manufacturing companies. Additionally, tangibility (TANG) exhibits a significant negative relationship with profitability (ROA and ROE) in manufacturing companies, which contrasts with the previous study by Al-Jafari and Samman (2015).

The multiple regression analysis found that liquidity had a statistically significant negative effect on ROA at the 5 percent level of significance. This is consistent with the findings of Diaz and Hindro (2017), who concluded that liquidity (or the current

ratio) had a significant negative effect on ROA. However, this result contradicts the findings of Hadi and Layyinaturrobaniyah (2022), Lemma-Lalisho (2022), Wijaya et al. (2022), and Atmaja and Usman (2023). Regarding the size of the companies (SIZE), the regression results show a statistically significant negative influence on ROA for manufacturing companies. This finding aligns with Tiffany and Sufiyati (2023), who concluded that the size of companies had a negative effect on ROA, and also with Lemma-Lalisho (2022). However, it contradicts the findings of Diaz and Hindro (2017), Dao et al. (2022), Wijaya et al. (2022), Atmaja and Usman (2023), Hadi and Layyinaturrobaniyah (2022), and Haddad (2024), who found that the size of companies had an insignificant positive effect on ROA.

Similarly, leverage (LEV) has a negative and statistically significant effect on ROA for the manufacturing companies. This finding is consistent with Tiffany and Sufiyati (2023), who concluded that leverage had a negative effect on ROA. However, it contradicts the findings of Susilo et al. (2020), Dao et al. (2022), Hadi and Layyinaturrobaniyah (2022), Lemma-Lalisho (2022), and Atmaja and Usman (2023). At the same time, sales growth shows a significant positive impact on ROA for the sample manufacturing companies. This aligns with the findings of Diaz and Hindro (2017), who concluded that sales growth positively affected ROA. It is also consistent with the findings of Susilo et al. (2020). Finally, tangibility (TANG) has a significant negative impact on ROA for manufacturing companies. This result is in line with the conclusion of Tiffany and Sufiyati (2023), who found that tangibility had a significant negative effect on ROA. However, it contradicts the findings of Al-Jafari and Samman (2015), Diaz and Hindro (2017), Lemma-Lalisho (2022), and Atmaja and Usman (2023), who found that tangibility had a positive effect on ROA.

In the regression analysis of ROE, liquidity (LIQ) has a statistically significant negative impact on ROE at the 5 percent level of significance. This finding contradicts the results of Syahbandar and Lestari (2022) and Alarussi and Alhaderi (2017), who found that liquidity had a positive effect on ROE. Similarly, the size of the companies has a statistically significant negative influence on ROE for the manufacturing companies. This aligns with the findings of Syahbandar and Lestari (2022), who concluded that sales growth positively affected ROE. However, this result contradicts

the findings of Dao et al. (2022) and Alarussi and Alhaderi (2017), who found a different relationship between company size and ROE.

Furthermore, leverage (LEV) has a significant negative effect on ROE for the manufacturing companies, which is consistent with the findings of Alarussi and Alhaderi (2017). However, it contradicts the findings of Syahbandar and Lestari (2022) and Dao et al. (2022), who found that leverage had a positive effect on ROE. Sales growth, on the other hand, has a significant positive impact on ROE for the sample manufacturing companies. This result is consistent with the findings of Syahbandar and Lestari (2022), who found that sales growth positively affected ROE, but it contradicts the findings of Aryantinia and Jumonoa (2021), who observed a different relationship. Lastly, tangibility (TANG) has a significant negative impact on ROE for manufacturing companies. This aligns with the prior study of Tiffany and Sufiyati (2023), who found that tangibility had a significant negative effect on the profitability of manufacturing companies.

CHAPTER - V
SUMMARY AND CONCLUSION

5.1 Summary

The manufacturing company's profitability is defined as the difference between the quantities of profit from assets and the expenses of liabilities. Profitability is determined by a company's ability to generate enough revenue or lower operating costs, which indicates more efficiency. It is evaluated using metrics that distill large volumes of financial data and offer a qualitative assessment of the company's profitability, such as net interest margin, return on equity, and firm returns on assets. It is said that both micro and macro factors influence a company's profitability. Accounts in the income statement and balance sheet that are under managerial control are examples of micro variables. As a result, another name for them is firm-specific variables. However, macro factors have a big impact on profitability even if they have little to do with internal processes and are out of a company's control. This research considers liquidity, company size, leverage, sales growth, and tangibility as affecting factors.

The main objective of this study is to examine the factors that influence the profitability of manufacturing companies in Nepal. The specific objectives are to analyze the profitability position of these companies, to explore the relationship between certain factors (liquidity, firm size, leverage, sales growth, and tangible assets) and profitability (measured by ROA and ROE), and to assess the impact of these factors on profitability. This study utilizes both descriptive research design and causal-comparative research design to investigate the factors affecting the profitability of manufacturing companies in Nepal. The descriptive research design helps analyze the profitability position of the sample companies, while the causal-comparative research design is used to evaluate the impact of specific factors on their profitability. There are a total of 118 manufacturing companies operating in Nepal, which constitute the population of this study. From this population, Unilever Nepal Limited, Dabur Nepal Private Limited, and Himalayan Distillery Limited were selected as the sample using a purposive sampling method. These three companies were chosen because they are the top performers in profitability in the current context and have available data. The study relies on secondary data, primarily gathered from the annual reports and

other publications of the selected manufacturing companies. The data covers a ten-year period, from the fiscal year 2013/14 to 2022/23. The study employs descriptive analysis, correlation analysis, and multiple regression analysis, using SPSS version 26 for data analysis.

The results indicate that liquidity, company size, leverage, sales growth, and tangibility are key factors influencing the profitability of manufacturing companies in Nepal. Unilever Nepal Limited (UNL) holds a strong profitability position, effectively managing its operations and achieving the highest return on assets through optimal asset utilization. The correlation analysis reveals that liquidity and sales growth have an insignificant positive relationship with profitability (measured by ROA and ROE) of the manufacturing companies. Company size shows an insignificant negative relationship with ROA but a significant positive relationship with ROE. Meanwhile, leverage has a significant negative relationship with both ROA and ROE. Additionally, tangibility (TANG) exhibits a significant negative relationship with ROA and an insignificant negative relationship with ROE in these companies. The multiple regression analysis further shows that liquidity, company size, leverage, and tangibility have a significant negative effect on the profitability (measured by ROA and ROE) of the sample manufacturing companies in Nepal. On the other hand, sales growth has a positive and significant impact on profitability. Therefore, the study concludes that all the independent variables significantly influence the profitability of these companies.

5.2 Conclusion

Based on the analysis, it can be concluded that UNL effectively manages its overall operations, as it demonstrates the highest ratios among the companies studied. In other words, UNL achieves the highest return on assets through optimal asset utilization, which significantly contributes to the overall mean of ROA. The same conclusion applies to ROE. Therefore, UNL is showing progressive performance.

The correlation analysis concluded that liquidity and sales growth have an insignificant positive relationship with the profitability (ROA and ROE) of manufacturing companies. The size of companies shows an insignificant negative relationship with ROA but a significant positive relationship with ROE. Leverage,

on the other hand, has a significant negative relationship with both ROA and ROE. Lastly, tangibility (TANG) has a significant negative relationship with ROA and an insignificant negative relationship with ROE in the manufacturing companies.

The multiple regression analysis concluded that liquidity, company size, leverage, and tangibility have a significant negative effect on the profitability (ROA and ROE) of the sample manufacturing companies in Nepal. In contrast, sales growth has a positive and significant impact on profitability (ROA and ROE). Therefore, the study concludes that all the independent variables significantly influence the profitability of the companies.

5.3 Implications

The following implications are drawn from the summary and conclusion above:

- This study found that liquidity, size of companies, leverage, sales growth and tangibility have significant impact on profitability (ROA and ROE) of the manufacturing companies in Nepal. The Department of Industry and Investment Board Nepal can utilize the data from these findings and results to evaluate the physical assets, leverage status, and business size before making an investment decision. Because these factors have a substantial, positive or negative impact on the profitability of private manufacturing businesses in Nepal.
- This research can also give managers of manufacturing firms a broad understanding of the factors that influence profitability in the growing Nepalese market.
- Additionally, this study offers new insights for developing effective ways to manage variables that optimize profitability. It also gave the researcher an opportunity to get a lot of knowledge about the area and may be used as a source for further study.
- Among the sample manufacturing businesses in this study, UNL's profitability ratio is the best in terms of return. Therefore, it is anticipated that this outcome will help the management of DNL and HDL make effective use of the company's resources, which would boost the firm's profitability.

- The findings indicated that the profitability of businesses is negatively impacted by debt. According to this study, the manufacturing sector appears to lack a suitable mix of funding sources, thus it is reasonable to anticipate that they will mix their financing operations appropriately to increase sector profitability.
- This study suggests that additional research on this subject should be conducted over a period of more than 10 years and with a sample size of more than three manufacturing businesses. Furthermore, only five independent variables—liquidity, company size, leverage, sales growth, and tangibility—were examined in this study. Therefore, more study is required, taking into account macroeconomic variables and other industry-specific aspects in the Nepalese environment.

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ABSTRACT This study investigates factors affecting

on profitability of manufacturing companies in Nepal. Secondary data was gathered from manufacturing companies of Nepal for ten year periods

(2013/14-2022/23).