

DETERMINANTS OF PROFITABILITY OF MICROFINANCE COMPANIES  
IN NEPAL

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

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## **CERTIFICATION OF AUTHORSHIP**

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled “**Determinants of Profitability of Microfinance Companies of 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

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## ABBREVIATIONS

BOD	:	Board of Directors
C.V.	:	Coefficient of Variation
PER	:	Price earnings Ratio
CRR	:	Cash Reserve ratio
DPR	:	Dividend payout ratio
FIRST	:	First Microfinance Laghubitta Bittiya Sanstha Limited
FS	:	Firm Size
GDP	:	Gross Domestic Product
GLBSL	:	Gurans Laghubitta Bittiya Sanstha Limited
LC	:	Letter Of Credit
NRB	:	Nepal Rastra Bank
ROA	:	Return on Assets
ROC	:	Registrar of Companies
ROE	:	Return on Equity
RSDC	:	RSDC Laghubitta Bittiya Sanstha Limited
S.D	:	Standard Deviation
SKBL	:	Sana Kishan Bikas Lagubitta Bitiya Limited

## ABSTRACT

This study aims to explore the relationship between financial metrics and the performance of microfinance companies in Nepal. In addition to suitable funding strategies, exposure limits, and procedures for allocating liquidities in an emergency, the financial institution's liquidity management must adhere to a framework for deciding how to reduce liquidity risk. Both the public interest and the daily activities of businesses are components of liquidity. Insufficient cash or inadequate liquidity sends a bad message to individuals and business organizations about the severity of the financial crisis and other issues within the financial institution.

The structure of the terms return on equity (ROE), cash reserve ratio (CRR), price-earnings ratio (PER), dividend payout ratio (DPR), firm size (FS), and return on assets (ROA) of microfinance firms. The dependent variables in this study are ROA and ROE, whereas the independent factors are the dividend payout ratio (DPR), firm size (FS), cash reserve ratio (CRR), and price earnings ratio (PER). The approved companies' annual reports covering a ten-year period, from 2071–2072 to 2080–2081 were the source of the secondary data. SPSS version 24 is utilized for the analysis and evaluation of the data, and a descriptive, exploratory, and explanatory research methodology is applied. Using the convenience sampling technique, a sample of four microfinance organizations was chosen from a population of 55. Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, Gurans Laghubitta Bittiya Sanstha Limited, RSDC Laghubitta Bittiya Sanstha Limited, and First Microfinance Laghubitta Bittiya Sanstha Limited are the companies in question. Secondary data have been used for this investigation. One of the most important analytical techniques in panel data analysis (OLS) is ordinary least square regression. While there is a strong positive association between firm size and ROE, there is also a strong positive correlation between CRR and ROA. There is little correlation between return on equity (ROE) and the cash reserve ratio or dividend payout ratio. The study's findings may facilitate the implementation of sensible laws that will increase the financial sector's profitability.

*Key Words: Microfinance Companies, ROE, ROA, Dividend Payout Ratio, Firm Size, CRR, PER*

# **CHAPTER – I**

## **INTRODUCTION**

### **1.1 Background of the Study**

A key determinant of an organization's financial health, financial performance offers a glimpse of its profitability. It draws attention to the company's advantages and disadvantages. An organization's financial success is shown by key financial statements such as the profit and loss statement and balance sheet. Examining these statements is essential to determining the organization's overall financial health. Together with other operational data, this analysis reveals the strategic relationship between the balance sheet and income statement items and highlights their importance. Consequently, in order to make well-informed managerial and financial decisions, financial performance analysis is crucial (Bist, 2004).

Financial statements, which list assets, liabilities, income, and expenses, give an overview of a company's financial situation at a particular moment in time as well as its operations over the previous several years. They place a strong emphasis on important financial elements such market capitalization, liquidity, profitability, activity, and capital structure. The primary source for financial analysis, discussion, and interpretation is the annual report, which is given to shareholders at the annual general meeting. Issues pertaining to anomalies, operational inefficiencies, and internal management shortcomings that could result in subpar business performance are frequently brought up by shareholders. The Nepal Stock Exchange Limited gathers and examines financial accounts, which provide important information about a company's performance. Financial statements are essentially made up of (Bhatta, 2004).

Performance analysis is a method for evaluating how well money is being spent in the economy. It entails analyzing or comparing the results of a certain situation to the predetermined goals. Performance analysis is essential for improving decision-making and performance in banking and financial institutions. Systematic observation is a part of this process (Greuning & Bratonovic, 2004).

How well a business uses its resources from core operations to produce income is referred to as financial performance. It is a comprehensive indicator of a business's financial

health over a given time frame and can be used to compare businesses in the same industry or across industries or sectors. In order to evaluate an organization's cash flow, revenue generation, and profitability, financial statements are systematically observed and evaluated. The balance sheet and the profit and loss account, sometimes known as the income statement, are important financial documents. While the balance sheet displays the financial situation in terms of assets, liabilities, and capital, the profit and loss account displays operational outcomes for a given time period. Internal control, financial position, and organizational performance all depend on financial performance analysis (Malik & Rafique, 2013).

The capacity of a business to turn a profit is known as profitability, and it is a crucial indicator of its success. It is the primary measure of a business's performance. The term "profit," which is defined as the difference between sales income and expenses, is controversial and can mean different things to different people (Horngren, 1992).

One of the most important measures of a company's performance is its profitability, or its ability to make a profit. It is the main indicator of how well a company is performing. According to Horngren (1992), "profit," which is the difference between sales income and expenses, is a contentious phrase that can signify different things to different people.

## **1.2 Problem Statement**

Profitability there is a positive impact of bank-specific, industry-specific, and macroeconomic variables before and after the financial crisis of 2008. Bank size, capital ratio, loan, deposits, liquidity, and interest rate have positive impact on ROA and ROE while GDP and inflation rate have negative impact (Saeed, 2024). Financial indicators are essential for evaluating the profitability and soundness of a company's finances. They show how well a company controls its manufacturing expenses. Since it shows the company's profitability per share, earnings per share (EPS), which calculates the profit allocated to each share of common stock, is important to investors (Adhikari et al. 2024). The percentage of debt and equity used to finance the company's assets is displayed by the debt-to-equity ratio. According to Akanbi and Adewoye (2018), a company's performance is influenced by the market structure of its industry. While low debt levels

may suggest limited leverage for expansion, high debt levels might have a negative influence on profitability because of interest payments (Abebe, 2022).

The variable Net interest margin, money and quasi money have significant impact on the profitability of the company. Results found that both factors country (external) specific and firm (internal) specific variables make changes in the commercial company profits (Khan et al., 2016). The company size, operating expense, gearing ratio and capital were found to be important variables that affect the company profitability of Bangladesh. Capital shows positive relation to company profitability but other three statistically significant variables showed negative relation to performance (Mahmud et al., 2016).

Performance and efficiency of the financial sector and profitability has been analyzed employing different measures to study various company specific variables, industry specific variables such as; ROA, ROE, company size, capital adequacy, assets quality, liquidity, management quality, operating efficiency and leverage (Javaid & Alalawi, 2017). The company's liquidity is measured by using the ratio between cash and company balance and total deposit of the company, which aids in mitigating the risk of companies failure in short-term. If the institution lacks sufficient liquidity, then it may fail in paying its depositors and financing its routine payments. Since, regular operation of the company is affected by liquidity, the performance of the company also significantly associated with the liquidity of the company (Kosumi & Kosumi, 2021).

Mishra and Pradhan (2019) found that there is a significant negative effect of CDR and IDR on ROA and found that there is no significant relationship between company's profitability and liquidity. Shrestha (2012) stated that NRB to deposit ratio, cash-vault to deposit ratio have a positive, significant impact on profitability in Nepal. It also has reported no significant impact of liquid fund to deposit ratio, cash and bank balance to deposit ratio and liquid fund to current liability ratio on profitability. Numerous microfinance institutions, financial companies, cooperative societies, and rural microfinance groups have been established in Nepal as a result of the government's liberal economic policies (Bahadur & Bhandari, 2021). The competition amongst financial institutions has increased as a result of this quick expansion. Nevertheless, local microfinance companies have been rapidly surpassed by financial institutions. Even while

microfinance companies are more effective than other government or private microfinance institutions, they nevertheless have to contend with new technology like computerization and heightened market rivalry. Aiming for financial efficiency and keeping an eye on developments are the goals (Ahlin et al., 2021).

Microfinance companies' profitability is influenced by both internal and external variables. A particular facet of microfinance profitability is represented by internal variables that are connected to financial indicators from microfinance accounts, such as balance sheets and income statements (Wahdan & Leithy, 2017). The economic and regulatory settings that have an indirect effect on the functioning and sustainability of microfinance institutions are referred to as external factors, which are unconnected to microfinance management (Aremu et al., 2023).

The durability of micro-banking systems depends on a healthy microfinance industry. Poor financial performance affects MFIs' financial health by decreasing their ability to withstand unfavorable shocks (Bochaberi, & Job, 2021). Better financial performance enables lenders to make money or recoup their investments, creating organizations that can survive for a long time without constant assistance from donors or the government. The extent to which service consumers pay for services has a big impact on MFIs' bottom lines (Dhungana & Ranabhat, 2022). Consequently, the size, capitalization, operational effectiveness, credit risk management, and liquidity risk management of microfinance institutions are important variables influencing their financial performance.

Operational efficiency is a crucial statistic used by microfinance institutions (MFIs) to assess how well they streamline their operations while taking input and output prices into account (Ganyam & Ivungu, 2019). A more productive use of MFIs' loanable resources is ensured by efficient cost management, which could increase their profitability. One of the greatest threats to sustainable microfinance is inefficiency, as many institutions still struggle to pay costs due to a lack of size or efficiency. Operating efficiency ratios (OERs), which show whether operating expenses are more or lower than operating revenues, are commonly used to evaluate operational efficiency (Gautam, 2020). Since lower OERs indicate more efficiency, they are typically desired.

Greater capital to asset ratios guarantee that the business can absorb possible losses or continue to operate steadily in the event of unfavorable circumstances (Adhikary et al., 2024). As a result, a firm with adequate capital tells the market that it can function effectively even in the face of incomplete information (Jha, & Hui, 2022). In microfinance institutions (MFIs), price earnings are typically calculated by dividing equity by total assets.

The ability of an organization to pay its debts on time is referred to as liquidity. When a microfinance organization finds it difficult to meet its payment obligations on schedule, liquidity risk arises (Lehenchuk et al., 2023). Uncertain future results, delays in obtaining timely financing, difficulties reaching expansion goals, and increased portfolio risks are just a few of the difficulties that might arise from a microfinance institution's lack of liquidity (Brom, 2009). Each branch of a microfinance organization should create a daily fund plan that outlines how to balance loan repayments with cash withdrawals and daily cash inflows from savings accounts in order to reduce liquidity risk (Lehenchuk et al., 2023). MFIs' liquidity position is frequently assessed using the loan to total assets ratio (LAR), which shows the proportion of total assets devoted to loans (Kunwar, 2022).

Muliani et al. (2023) points out that lower insolvency rates and higher profitability are the results of efficient credit risk management. A microfinance company's various assets and operations, in addition to its loan portfolio, can bear different degrees of credit risk. This risk poses a serious threat to the existence of financial institutions by having a large impact on their overall performance and profitability, especially for microfinance companies. As a result, as Memon et al. (2022) points out, reducing credit risk requires significant operational work and is essential to the Microfinance Company's capacity to continue operating.

In contrast, smaller microfinance institutions (MFIs) find it difficult to compete with their larger counterparts due to difficulties in covering high operating costs and diversifying their product offerings. During successful times, larger enterprises tend to have more organizational flexibility, market power, and diversification prospects than smaller ones (Ndungu & Bosire, 2020). The natural logarithm of total assets is frequently used to calculate institutional size in the context of MFIs in order to assess economies or diseconomies of scale.

- What are the structure of Dividend payout ratio, Firm size, CRR, PER, ROA and ROE of microfinance companies?
- Is there any relationship between Dividend payout ratio, Firm size, CRR, PER, ROA and ROE of micro finance companies in Nepal?
- Do the Dividend payout ratio, Firm size, CRR and PER impact on ROA and ROE of MFIs?

### **1.3 Objectives of the Study**

The objectives of the study are as follows:

- To analyze the structure of Dividend payout ratio, Firm size, CRR, PER, ROA and ROE of microfinance companies.
- To examine the relationship between Dividend payout ratio, Firm size, CRR, PER, ROA and ROE of microfinance companies.
- To analyze the impact of Dividend payout ratio, Firm size, CRR and PER on ROA and ROE of microfinance companies.

### **1.4 Rationale of the Study**

Investors, scholars, business owners, and other interested parties are drawn to this study. Financial managers can learn a lot from it about how different factors affect stock prices, how prices are formed, and how they relate to the company's financial situation. It is also helpful for prospective investors who want to know how signaling elements affect the NEPSE index and how price trends and stock trading volume are affected. Without a doubt, this study will be significant to many groups of people, but it is specifically targeted at the following groups:

If stockholders believe the offered price is insufficient, they can successfully thwart takeover attempts. Therefore, shareholders have a big impact on a company's overall success and profitability since they have control over many aspects of its operations. Your customers continue to be the foundation of your firm, regardless of the sector or the goods and services you provide. They play a crucial role in determining your marketing strategy and approach since sales are solely dependent on their presence. Although financial markets may seem complicated, at their core, they are a hub where people congregate and help shift capital to where it is most needed. These markets give businesses the ability to

obtain capital for expansion, investment, and hiring. Additionally, they are in favor of government spending on infrastructure projects like hospitals, schools, and roads. Government policies handle the different causes of public concerns with customized solutions, outlining the justification and steps for particular actions. Governments enact a variety of laws to control enterprises (Robin et al., 2018).

Research fulfills a number of vital purposes, including increasing knowledge in a particular field of study, supporting hypotheses, and guiding action. It is essential for improving understanding and judgment. Unpacking the complexities of problems, dispelling myths, confirming facts, and building a foundation of trustworthy and genuine information all depend on research. Research increases the capacity to make well-informed judgments and promotes deeper understanding (Scott, 2022).

## **1.6 Limitations of the Study**

The limitations of the study are as follows:

- The study only taken financial indicator i.e. DPR, firm size, CRR and PER on profitability i.e. ROA and ROE of microfinance companies of Nepal
- The micro finance companies of Nepal, namely; First Microfinance Laghubitta Bittiya Sanstha Limited, Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, Gurans Laghubitta Bittiya Sanstha Limited (GLBSL) and RSDC Laghubitta Bittiya Sanstha Limited are taken for the study.
- The study used secondary data for analysis which are taken from annual report of respective companies, journals and articles, NRB directives etc.
- The study is cover the past ten year's data From 2071/72 to 2080/81 period.

## **CHAPTER – II**

### **LITERATURE REVIEW**

The review of previous research on the subject of "Financial indicator analysis of microfinance enterprises" is the main objective of this chapter. Gaining knowledge in the topic, spotting fresh contributions, and obtaining inspiration for creating a study strategy are the goals of this literature analysis. Because they serve as the foundation for the current study, earlier research is essential. This chapter provides an overview of the topic by synthesizing pertinent literature, such as research, journal articles, and earlier thesis work.

- Theoretical Review
- Empirical Review

#### **2.1 Theoretical Review**

In order to establish investing strategies and monetary value estimates, finance theory encompasses a wide range of quantitative measures and speculation. Plans for capital development and fundraising, as well as risk management, are also developed using theories of finance.

##### **2.1.1 The efficiency theory**

The efficiency theory, on the other hand, contends that microfinance's higher efficiency is what drives its profits. Two distinct methods that are included in the efficiency category are the X-efficiency and Scale-efficiency hypotheses. According to the X-efficiency concept, more profitable companies have lower overhead because they are more efficient. Although there is no link between concentration and profitability, these businesses usually grow their market shares, which might lead to higher levels of market concentration (Serhii et al. 2023).

##### **2.1.2 The market power theories**

According to Simkhada (2017), the market power hypothesis asserts that a company's performance is influenced by the market structure of its industry. The market power hypothesis is composed of two distinct theories: the Structure Conduct Performance (SCP) hypothesis and the Relative Market Power (RMP) theory. According to the SCP

technique, the level of market concentration in the banking sector gives companies the opportunity to acquire market dominance, which could boost their profitability. Because they can charge higher loan rates and lower deposit rates for monopolistic or collusive reasons, companies operating in highly concentrated markets are more likely to achieve anomalous profits than businesses in less concentrated markets, regardless of their efficiency (Simkhada, 2017).

### **2.1.3 The balanced portfolio theory**

The portfolio theory technique is the most relevant and important in firm performance research, 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 microfinance organizations and portfolio diversification are the result of management decisions. The capacity to attain maximum revenues is also impacted by the management's choice of a feasible set of assets and liabilities, as well as the unit costs incurred by the business in producing each asset component (Olweny & Shipo, 2011).

### **2.1.4 Bankruptcy Cost Theory**

According to (Aremu, Ekpo & Mustapha, 2013), the bankruptcy cost theory explains the positive correlation between capital sufficiency and profitability. If the costs of bankruptcy are unexpectedly large due to environmental changes, banks will need to increase their capital ratio and hold more equity in order to reduce the predicted value of bankruptcy charges and avoid financial difficulties.

### **2.1.5 Risk return Hypothesis**

According to (Olweny & Shipho, 2011), the negative link between capital adequacy and profitability was explained by the risk-return hypothesis. A company will increase leverage or debt in order to increase profitability when it chooses to take on greater risk in order to obtain higher expected returns. This implies that a company would have to lower its equity-to-asset ratio (capital) in order to raise leverage. This hypothesis therefore illustrated how a company's preference for using leverage over equity can have a detrimental impact on capital sufficiency and company profitability.

### **2.1.6 Financial Indicators**

Several aspects of a company's financial performance, profitability, and general health are assessed using financial indicators, which are numerical measurements. These indicators can help investors, analysts, and managers make wise choices. The list of common financial indicators is as follows:

**Present Ratio:** This liquidity ratio evaluates a company's ability to pay down short-term debt or contracts that have a one-year maturity date. Analysts and investors can use this information to determine how a company might maximize its present assets on the balance sheet to settle its outstanding debt and other payables (Hamal, 2020).

**Quick Ratio:** Compared to the current ratio, the quick ratio is a more stringent test of liquidity. Since current liabilities are the denominator and current assets are the numerator, both are similar. However, only a limited amount of current assets are taken into account by the quick ratio. It takes into consideration accounts receivable as well as more liquid assets like cash and marketable securities.

**Turnover Ratios:** These financial measurements assess a company's ability to turn a profit over time in relation to its revenue, operating expenses, balance sheet assets, or shareholders' equity by using data from a particular moment in time. In the realm of financial analysis, these indicators are among the most often utilized ones. Profitability ratios can shed light on an organization's state and financial results. Ratios are most effective when used as comparison tools; they are not helpful as measurements in and of themselves.

**Gross Profit Margin:** The gross profit margin is the amount of money left over after subtracting the cost of goods sold (COGS). In short, a company's gross profit margin is the amount of money that remains after operational expenses are subtracted. Usually presented as a percentage of sales, this figure is also known as the gross margin ratio.

The amount of income that remains after all expenses are deducted is known as the net profit margin. Net profit is calculated by deducting all of the company's expenses from its total income. The result of the profit margin calculation is a percentage. A helpful metric for evaluating a business's profitability and examining a range of situations, including

unnecessarily rising costs, is the net profit margin ratio. It is frequently used in financial modeling and business appraisal.

**Return on Equity (ROE):** A measure of financial performance, ROE is calculated by dividing shareholders' equity by ROE. Since debt is subtracted from assets to determine shareholders' equity, ROE is known as the return on net assets.

**Efficiency Ratios:** The efficiency ratio is typically used to assess how a company uses its assets and liabilities internally. An efficiency ratio can be used to calculate the amount and usage of equity, the rotation of receivables, the payback of obligations, and the overall utilization of equipment and inventory. The asset turnover ratio determines how well a company uses its assets to produce sales.

**Inventory Turnover:** Shows how frequently inventory is sold and replaced over a specified period of time.

The debt-to-equity ratio shows how much of a company's equity is owned by its shareholders as opposed to its creditors, or the people it has borrowed money from. It is one of three calculations used to assess debt capacity, along with the debt-to-total-assets ratio and the debt servicing ratio.

**P/E, or price to earnings Ratio: Earnings Ratio** The multiple of a stock is calculated by dividing its share price by its earnings per share (EPS). The PE ratio is one of the most popular metrics for valuing companies. It shows if a stock is expensive or inexpensive at the current market price.

**Cash Flow Ratios:** The cash ratio gives the liquidity test much more information. Only a company's cash and marketable securities—its most liquid assets—are taken into account by this ratio. These resources can be used by a business to settle its short-term debts as quickly as possible. We can classify the current ratio, quick ratio, and cash ratio as easy, medium, or hard, depending on the severity of the liquidity requirements.

**Book-to-market ratio:** This ratio is used to calculate the value of a firm by comparing its book value to its market value. A company's book value is based on its historical cost,

often known as its accounting value. The market value of a business is determined by its market capitalization, or the total number of outstanding shares, and share price on the stock exchange.

**Operating Cash Flow Ratio:** Also known as the operating expense ratio, or OER, this ratio determines how much it costs to operate a piece of property in relation to the revenue it generates. By dividing total operating expenses (less depreciation) by operating income, one can determine the operating expenditure ratio (OER).

**Market value per share:** To ascertain a share's market value, use its market value per share. By dividing a company's estimated market value by the total number of shares owned by investors, the MVPS is determined. The price at which a company's stock is traded on the stock exchange is its market value. In many cases, it is crucial to understand a company's MVPS and total market value. This covers circumstances where shares are transferred as a result of divorce or inheritance.

These measurements provide valuable insights into an organization's financial health. The company's particular situation, the status of the economy, and industry standards must all be considered for a comprehensive analysis. Different indicators may have varying weights depending on the industry or stage of the company's growth.

## **2.2 Empirical Review**

Hakuduwal and Nayabhari (2025) examined on determinants of financial sustainability in microfinance institutions: a panel data study. The study aimed to examine the variables influencing Nepali microfinance organizations' productivity. Productivity was the dependent variable, while the institutional features (e.g., age, number of branches, and number of staff) and outreach (e.g., number of active borrowers and average loan size) are the independent factors. The number of borrowers per employee serves as a proxy for productivity. The convenience sampling approach is used to choose a sample of Nepal's microfinance institutions that were founded before to 2016 AD. The Fixed Effect regression model is used to 168 observations of panel data from 21 microfinance organizations between 2016/17 AD and 2023/24 AD. The study discovered that while the number of branches, active borrowers, and operating years had a substantial positive

impact on the number of borrowers per staff, the number of employees, average loan size, and cost per loan had a significant negative impact on the productivity of Nepalese microfinance companies. The study has significant ramifications for Nepalese microfinance institutions' policymakers, who should use their resources wisely and create sensible policies for both employees and borrowers in order to increase production.

Adhikari et al. (2024) researched on determinants of financial sustainability in microfinance institutions: a panel data study. The study aimed to analyze the factors influencing the financial sustainability of microfinance institutions in Nepal. Using cross-sectional data from their comprehensive financial statements from 2016 to 2023, the study used the two-step General Method of Moments estimator to examine the financial sustainability of 25 sampled microfinance institutions out of 57 D-class financial institutions classified as microfinance institutions and governed by Nepal Rastra Bank. The results of this study indicated that the number of borrowers and savings had a significant and favorable impact on microfinance's financial stability. On the other hand, non-performing loans and member-per-staff have a detrimental and substantial impact on financial sustainability. Nonetheless, the financial viability of microfinance in Nepal is not much impacted by loan portfolios. By adding variables including geographic location, developmental stages, ownership structures, age, microfinance institution size, product delivery tactics, and government policies and laws, future researchers can expand the study's reach.

Nuri et al. (2024) examined the effect of financial performance, capital structure and managerial ownership on company value in non-cyclical consumer sector companies listed on the IDX. The goal of the study is to look into the relationships between capital structure, liquidity, profitability, earnings management, and the firm value of building materials. The data was analyzed using multiple linear regression using Eviews 12. As the results partially showed, company value was positively and significantly impacted by profitability and capital structure, but not significantly by earnings management or liquidity.

Lehenchuk et al. (2023) Researched on the impact of financial performance on the profitability of advertising agencies in the Slovak Republic. This study's goal was to evaluate the relationship between financial performance and the profitability of Slovakian

advertising companies. Multiple regression analysis was used to examine the data. The findings showed that while the debt to equity ratio has a negative impact on profitability, both company size and total assets turnover had a beneficial effect. The study came to the conclusion that using debt resources (bonds or loans) to finance advertising firms has a negative impact on return on assets (ROA), which supports the suggestion that finding other financing options will increase profitability. These findings were further supported by the study's finding that there was no significant correlation between ROA and current ratio (CR).

Ilham et al. (2023) Examined the influence of profit management and financial performance on company value in building materials construction sub-sector companies. The purpose of the study was to look into how company value in the building materials industry is affected by capital structure, liquidity, profitability, and earnings management. To analyze the data, multiple linear regression was used. The results showed that while profitability and capital structure had a positive and considerable impact on firm value, earnings management and liquidity had no discernible effect. The study found that among Indonesian listed companies in the building materials construction subsector, these factors had a major impact on company value.

Yasmin (2022) Conducted a research on financial sustainability of microfinance institutions and macroeconomic factors: A case of South Asia. The study aimed to examine how macroeconomic decisions impact microfinance decisions in South Asia. With the exception of GDP growth, economic indicators such foreign investment, human development, inflation, interest rates, private lending, and labor force participation generally have a negative impact on financial sustainability, according to the study's data analysis using a fixed-effect regression model. In order to guarantee the financial viability of microfinance institutions, the report advises policymakers in South Asian nations to take proactive steps that explicitly address financial inclusion, women's empowerment, poverty reduction, and more general socioeconomic development objectives.

Agaba and Eton (2022) Studied on credit risk management practices and loan performance of commercial banks in Uganda. The purpose of the study was to look into the relationship between loan performance and credit risk management techniques. It analyzed data using multiple regression and found important relationships: loan

performance is impacted by credit risk identification, evaluation, monitoring, and control. According to the study's findings, putting these strategies into practice effectively improves credit risk management, which in turn boosts loan performance.

Bochaberi and Job (2021) Researched on mobile banking and financial performance of selected commercial banks in Kenya. The study looked into the effects of mobile banking on commercial banks' operational efficiency. For data analysis, it used multiple regression and descriptive statistics (such means, percentages, and standard deviation). The findings showed that Kenya's four commercial banks' financial performance is considerably impacted by mobile banking. According to the study's findings, mobile banking increases transaction volumes in commercial banks, guarantees safety and affordability, increases outreach to underbanked communities, and is dependable for consumers.

Kori et al. (2020) Studied on financial and non-financial measures in evaluating performance: The role of strategic intelligence in the context of commercial banks in Kenya. By using a variety of financial and non-financial metrics, the study sought to evaluate the performance of commercial banks. Multiple linear regression and descriptive statistics were used to analyze the data. The results showed that strategic information has a major impact on Kenyan commercial banks' performance. Additionally, the banking industry and Kenya's general economic development were judged to benefit from both financial and non-financial performance measures.

Ndungu and Bosire (2020) Researched entitled on determinants of financial performance of commercial banks listed at NSE in Kenya. The purpose of the study was to determine the variables affecting the financial performance of Kenyan commercial banks that are listed on the NSE. Measures like means and standard deviations were used in data analysis. The findings showed that 31.42% of the variance in these banks' financial performance may be attributed to credit risk, liquidity risk, market risk, and operational risk taken together. In particular, the study found that whereas market and operational risk have a major negative impact on financial performance, credit risk has a favorable impact.

Nalianya and Miroga (2020) Examined on determinants of financial performance of commercial banks in Kenya: Case of listed banks on the Nairobi Securities Exchange

(NSE). The purpose of the study is to evaluate Kenyan commercial banks' financial performance. It analyzed data using multiple regression, correlation coefficients, and descriptive statistics. The results showed that the financial performance of Kenyan listed commercial banks is greatly impacted by liquidity, price earnings, operating costs, and leverage. Leverage in particular was found to have the biggest beneficial impact on these institutions' financial performance.

Ganyam and Iyungu (2019) Researched on effect of accounting information system on financial performance of firms: A review of literature. Examining the actual evidence and theoretical foundations of accounting information systems and corporate financial performance is the goal of the study. Effective accounting information systems increase managerial decision-making, strengthen internal controls, improve the quality of financial reporting, improve performance measures, and expedite financial transactions, according to the study's data analysis using multiple linear regression. The study comes to the conclusion that information technology has the biggest influence on accounting because it makes it possible for businesses to create and use computerized systems for monitoring and documenting financial transactions. This helps with management decision-making, strengthens internal controls, and guarantees the accuracy of financial reports.

Mwangi (2018) Researched on the effect of size on financial performance of commercial banks in Kenya. The purpose of the study was to ascertain how Kenyan commercial banks' profitability is impacted by their size. The association between size (as determined by the logarithm of total assets) and financial performance metrics (Return on Equity and Return on Assets) was investigated using regression analysis. The findings showed that among Kenyan commercial banks, size and financial performance were positively correlated. Furthermore, this effect was stronger for larger institutions. The study came to the conclusion that size had a beneficial impact on Kenyan commercial banks' financial performance. Size has no discernible impact on Kenyan commercial banks' financial performance, according to the null hypothesis, which was disproved.

Akanbi and Adewoye (2018) Studied on effects of accounting information system adoption on the financial performance of commercial bank in Nigeria. The study looked at Nigerian commercial banks' use of Accounting Information Systems (AIS) and evaluated how it affected their bottom line. To examine the data, it used multiple

regression analysis and Cronbach's alpha testing. The results showed that AIS has been widely used by Nigerian commercial banks to provide services to their clients. According to the study's findings, AIS adoption greatly improves a number of performance metrics, including ROCE, ROTA, GPM, and NOP.

Yusuf and Surjaatmadja (2018) Studied on analysis of financial performance on profitability with non-performance financing as variable moderation. With non-performing financing (NPF) acting as a moderating variable, the purpose of this study is to examine the effects of the price earnings ratio (PER) and financing to deposit ratio (FDPR) on profitability as determined by return on assets (ROA). Multiple regression analysis was used in the study to analyze the data. According to the results, BOPO significantly reduces profitability, while PER and FDPR independently significantly increase it. Furthermore, the analysis indicates that neither the link between FDPR and profitability nor the relationship between PER and profitability is much changed by NPF. NPF, however, has a detrimental effect on the correlation between profitability and BOPO.

Robin, Salim and Bloch (2018) Examined on financial performance of commercial banks in the post-reform era: Further evidence from Bangladesh. The purpose of the study is to examine the financial performance of Bangladesh's commercial banks. The Hausman test and multiple regression were used for data analysis. The results showed that the financial reform had no discernible effect on the banks' return on equity (ROE) or return on assets (ROA). Nonetheless, a rise in the net interest margin (NIM) was seen. The study came to the conclusion that, other from the increase in NIM, the financial reform had no positive impact on the tested banks' profitability.

International article so far reviewed are presented in Meta table 1.

**Table 1**

*Analysis of International Articles*

Date	Writer	Title	Methodology	Objectives	Findings
2024	Adhikari et al.	•Determinants of financial sustainability	• using cross-sectional data with	• To analyze the factors influencing	• The results of this study demonstrate that the number of borrowers

		in microfinance institutions: a panel data study	regression analysis	the financial sustainability of microfinance institutions	and savings have a significant and favorable impact on microfinance's financial stability.
2024	Nuri et al	•The effect of financial performance, capital structure and managerial ownership on company value	• Multiple linear regression using Eviews 12	• To investigate how earnings management, profitability, capital structure, liquidity, and the firm value	• As the results partially showed, company value was positively and significantly impacted by profitability and capital structure, but not significantly by earnings management or liquidity.
•2023	•Lehen chuk, et. al	• The impact of financial performance on the profitability of advertising agencies in the Slovak Republic	• Multiple regression analysis	• To analyze the impact of financial performance on the profitability of advertising agencies in Slovakia	• According to research, Total Assets Turnover and Firm Size have a major positive impact on Return on Assets when it is selected as the dependent variable to evaluate the financial performance of advertising agencies, whereas the Debt to Equity Ratio has a negative impact.
•2023	•Ilham , Akhya r and Maim	•The influence of profit management and financial	• multiple linear regression	• To examine the effect of earnings management, profitability,	• According to certain research, changing liquidity and profitability has no effect on business value.

	unah, et. al	performance on company value in building materials construction sub-sector companies		capital structure, and liquidity on the firm value in building materials	On the other hand, it was discovered that firm value was positively and considerably impacted by profitability and capital structure.
•2022	•Yeasi n	• Impact of Credit management on financial performance	• Multiple regression analysis	• To analyze the impact of credit risk management on financial performance	• Non-performing Loans (NPLs) and Price Earnings Ratio (PER) had unfavorable and statistically significant effects on commercial banks' financial performance. On the other hand, their financial performance was positively and statistically significantly impacted by the Loan to Deposit Ratio (LDPR).
•2022	•Agab a and Eton	• Credit risk management practices and loan performance of commercial banks in Uganda	• Correlation and regression analysis	• To examine the relationship between Credit Risk Management Practices and Loan Performance	• Identification of credit risk and loan performance, assessment of credit risk and loan performance, monitoring of credit risk and loan performance, and control of credit risk and loan performance were found to be

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					significantly correlated by the study.
•2021	•Boch aberi and Job	•Mobile banking and financial performance of selected commercial banks in Kenya	•Descriptive statistics	• To examine the role of mobile banking on performance of commercial banks	• Four Kenyan commercial banks' financial performance is impacted by mobile banking because it increases consumer trust, opens up access to the unbanked, ensures affordability and safety, improves efficiency, and increases transaction volumes.
•2020	•Kori, Muath e, and Maina,	• Financial and Non-Financial Measures in Evaluating Performance: The Role of Strategic Intelligence in the Context of Commercial Banks in Kenya	• Descriptive statistics and linear multiple regression analysis	• To provides comprehensive discussion on role of strategic intelligence in commercial banks, in Kenyan context	• Kenyan commercial banks should use a balanced scorecard approach to match investor interests with their training priorities and strategy implementation.
•2020	•Ndun gu and Bosire	•Determinants of financial performance of commercial banks listed at	• Descriptive statistics and multiple regression analysis	• To establish the determinants of financial performance	• The study discovered a strong positive correlation (r=0.926) between commercial banks' financial

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	nse in Kenya.			of NSE listed commercial banks in Kenya	performance and their fund allocation. In addition to advocating research into other factors like inflation, exchange rates, and interest rate variations, it proposed that the allocation of capital to various assets might account for 85.7% of the variation in financial performance.
•2020	•Nalia nya, and Mirog a,	•Determinants of financial performance of commercial banks in Kenya: Case of listed banks on the Nairobi Securities Exchange (NSE)	• Descriptive analysis, correlation analysis and regression analysis	• To examine the determinants affecting financial performance of listed commercial banks in Kenya with specific objectives on the effect of liquidity, price earnings, operational expense and leverage on performance	• Leverage, pricing earnings, liquidity, and operational costs are only a few of the independent factors that have a big impact on the financial performance of Kenya's listed commercial banks. It is recommended that managers of these banks use a proactive credit policy in order to fully utilize debt in capital expenditures, which would improve the financial performance of the company.

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				of banks in Kenya	
•2018	•Mirie and Mwangi	• The Effect of Financial Performance of Commercial Banks in Kenya	• Regression analysis	• To establish the effect size has on the profitability of commercial banks in Kenya.	• In addition to shareholders or managers using expansion tactics like internal generation, fundraising, or mergers and acquisitions, policy efforts aimed at increasing the size of commercial banks should be considered.
•2018	•Akanbi and Adewoye	• Effects of Accounting Information System Adoption on the Financial Performance of Commercial Bank in Nigeria	• Cronbach's alpha test	• To examine various innovations to which their services are effectively with financial improvement.	• Nigerian commercial banks have adopted and made extensive use of AIS to provide services to their clientele. At $\alpha$ values, there is a substantial positive association between the adoption of AIS and all performance indicators, including ROCE, ROTA, GPM, and NOP.
•2018	•Yusuf and Surjaatmadja	• Analysis of Financial Performance on Profitability with Non Performance	• Multiple linear regression analysis	•To determine the effect of price earnings ratio (PER) and financing to deposit ratio (FDPR)	• Profitability is positively impacted by the Price Earnings Ratio (PER) and the Financial Depth Ratio (FDPR), while it is negatively impacted by the Bank

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<p>Financing as Variable Moderation (Study at Sharia Commercial Bank in Indonesia Period 2012–2016)</p>	<p>on profitability (proxies with return on assets [ROA]) with non performing financing (NPF) as a moderation variable</p>	<p>Operating Profitability Ratio (BOPO). Non-performing loans (NPF) have a negative effect on the association between BOPO and profitability but have no discernible effect on the relationship between PER and profitability or FDPR and profitability.</p>
<p>•2018 •Robin , Salim and Bloch • Financial performance of commercial banks in the post-reform era: Further evidence from Bangladesh</p>	<p>• Regression analysis</p>	<p>• To Examine the financial performance of the commercial banks in Bangladesh in terms of profitability measures before, during and after a period of financial liberalization</p> <p>• While the increase in net interest margin (NIM) has strengthened capital and improved asset quality—two key elements impacting profitability—financial reforms have not significantly affected banks' return on equity (ROE) or return on assets (ROA). Therefore, to guarantee a healthy banking industry in Bangladesh, an efficient banking policy aimed at improving capital reserves and asset quality is essential.</p>

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### **2.3 Research Gap**

This study uses a variety of ratios, trend analysis, and statistical tools to look at the financial performance of a chosen sample of microfinance firms. Financial tools are used in survey data analysis. To ensure current and accurate statistics, the researcher examined data from five fiscal years (Abebe et al., 2022). This tackles problems in Nepalese microfinance that were not taken into account in earlier research. The goal of the study is to define financial terms. Examining pertinent literature has increased comprehension, which is crucial for the significance and goal of the study. According to Akanbi and Adewoye (2018), prior studies have examined lending methods, credit policies, financial performance, credit management, and liquidity mobilization in microfinance. To perform these evaluations, researchers have used a variety of ratio analyses. Prior research on financial performance focused on a small number of ratios that did not sufficiently address the problems. This study methodically analyzes and classifies different ratios. The impact of money mobilization and investment characteristics on profitability was not analyzed by previous researchers (Gofwan, 2022). The ratios were not categorized according to their attributes. On the other hand, all ratios are categorized in this study based on their unique domains and attributes.

Prior researchers limited their investigation to a five-year fiscal timeframe by using data from only one year. These limitations point to a knowledge gap on the current state of Nepalese microfinance, even though the data is still true and up to date (Bahadur & Bhandari, 2021). By providing a thorough definition of financial performance, this study seeks to overcome these constraints. It uses a variety of financial techniques, including credit risk evaluations, activity ratios, profitability indicators, liquidity ratios, asset management metrics, and other pertinent ratios (Bochaberi & Job, 2021). To give a comprehensive examination, statistical methods such as trend analyses and correlation coefficients will be used. According to Dhungana and Ranabhat (2022), this study is anticipated to provide a substantial contribution to our knowledge of financial performance in financial institutions.

## **CHAPTER - III**

### **RESEARCH METHODOLOGY**

The study's methodology was described in this chapter. The structured approach to problem-solving known as research methodology includes the methodical collection, documentation, analysis, interpretation, and reporting of data pertaining to different facets of the phenomenon being studied. The research technique in this study described the tactics and processes used during the investigation. It specifically addressed the target demographic and sample selection, data sources, analytical techniques, and research design.

#### **3.1 Research Design**

The techniques and steps taken to gather the required data were described in the research design. In order to evaluate, compare, and classify the features of independent variables impacting microfinance profitability (dependent variables), this study used a descriptive research design. In order to examine the connections between independent and dependent variables after an action or occurrence, it also employed a causal-comparative research design.

#### **3.2 Population and Sample, and Sampling Design**

All 55 microfinance organizations that were active in Nepal as of May 2024 and listed on the Nepal Rastra Bank website ([www.nrb.org.np](http://www.nrb.org.np)) were included in the study. Purposive sampling was used to choose the First Microfinance Laghubitta Bittiya Sanstha Limited, Gurans Laghubitta Bittiya Sanstha Limited (GLBSL), Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, and RSDC Laghubitta Bittiya Sanstha Limited from among these. The study's ten fiscal years, from 2071–2072 to 2080–2081 were covered.

#### **3.3 Nature and Sources of Data**

The research study required adequate data, which was acquired from a variety of sources. To accomplish the goals of the study, the researcher's main duty was to collect data and information from various sources. Depending on where it comes from, data may be classified as primary or secondary. The majority of the secondary data included in this

study came from pertinent articles published by different publishers. Selected microfinance organizations' financial data from the previous ten years was obtained from [www.nepalstock.com](http://www.nepalstock.com). Books, magazines, newspapers, journals, and company reports were also consulted when necessary. Due to the study's emphasis on quick phenomena, all computations were done using just secondary data.

### **3.4 Data Procedures**

The original form of data collected from different sources could not be used directly for analysis. In order to prepare it for analysis, it was checked, reassessed, revised, and arranged in tables. By obtaining the data from approved sources, its dependability was guaranteed.

A key component of the course was gathering data, and there were several tools available for this. These instruments necessitated great thought and preparation. When the problem was well understood, they could be used to their maximum potential. However, a number of variables, including the kind of respondents, the type of information required, the length of the study, and the availability of personnel, influenced the data collection methods. Information was gathered from microfinance sources, such as annual reports, newspapers, and bulletins, in order to meet the study's goals. NRB publications, unpublished magazines, dissertations, periodicals, and information from NRB websites were also used. The majority of the information used in this study came from secondary sources.

### **3.5 Method of Data Analysis**

The performance of First Microfinance Laghubitta Bittiya Sanstha Limited, Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, Gurans Laghubitta Bittiya Sanstha Limited (GLBSL), and RSDC Laghubitta Bittiya Sanstha Limited was evaluated and analyzed using a variety of financial and statistical tools and techniques. The following statistical and financial instruments were employed in the study:

#### **3.5.1 Descriptive Statistics**

Several statistical techniques were used in this investigation to compare the data and arrive at a significant conclusion. Here were brief explanations of various tools.

### Mean

The most popular and extensively used technique for condensing a dataset into a single result was the arithmetic mean. It was calculated by dividing the total number of things by the sum of all the items. The average value for the study period was shown by the mean values of the various variables.

$$\text{Mean } (\bar{X}) = \frac{\sum X}{n}$$

Where,

$\bar{X}$  = Sum of the variables 'x'

N = No. of Observation

### Standard deviation

The degree of variation among separate items around a central value was referred to as dispersion. Absolute dispersion was measured by the standard deviation, which increased with increasing dispersion. High levels of homogeneity within a series and uniformity among the observations were indicated by smaller standard deviations, and vice versa. The standard deviation for earnings per share, dividends per share, market value per share, retained earnings, dividend payout ratio, dividend yield ratio, and price earnings ratio was computed in this study.

$$\text{Standard Deviation (SD)} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

### Correlation analysis

One statistical method for determining how closely one variable was related to another was correlation analysis. Simple correlation was used in this investigation. For thorough explanation, the correlation coefficient between the chosen financial variables was computed and presented in matrix form. The following formula was used to determine the correlation coefficient between two variables, X and Y.

$$\text{Correlation Coefficient (r)} = \frac{n\sum xy - \sum x \sum y}{\sqrt{n\sum x^2 - (\sum x)^2} \sqrt{n\sum y^2 - (\sum y)^2}}$$

The variables are correlated if  $r = 0$ , which falls between  $-1$  and  $+1$ . A perfect negative correlation between the variables is indicated by  $r = -1$ . A perfect positive correlation between the variables is indicated by  $r = +1$ .

### Coefficient of determination ( $r^2$ )

The degree of a linear relationship between two variables—one independent and the other dependent—was measured by the coefficient of determination. In essence, it showed the percentage of the dependent variable's overall fluctuation that the independent variable could account for. The range of this coefficient was zero to one. All of the data points in the scatter plot were exactly on the regression line when the value was 1, which indicated that there was no unexplained fluctuation.

### Regression analysis

The direction of movement was given by regression analysis, but the relative movement of the variables under investigation was not. Nonetheless, it made the relative movement of variables easier to explain. The following variable's regression analysis was computed and analyzed. Multiple regression analysis was used to quantify and estimate the factors influencing the ROA and ROE estimates. The equation for multiple regression was:

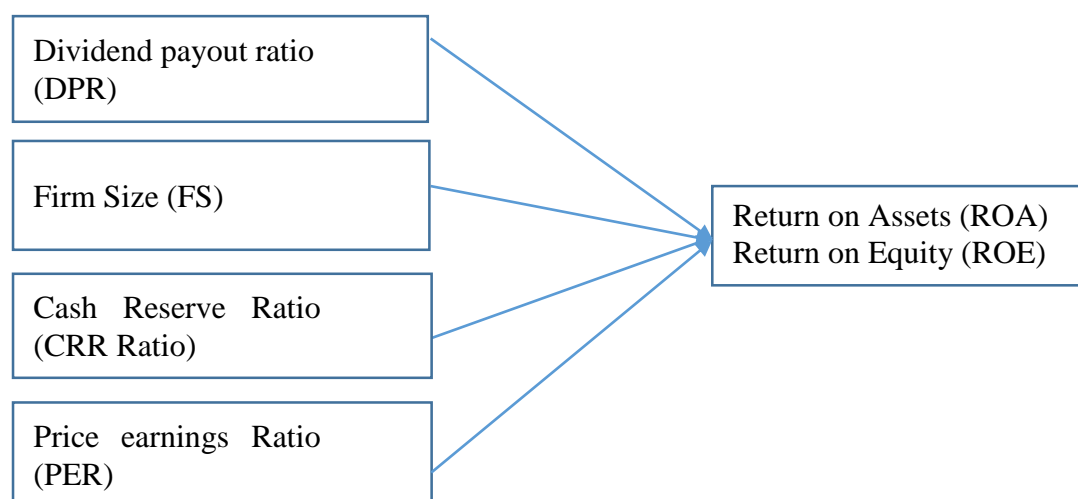
Model 1:  $ROA = a + b_1DPR + b_2FS + b_3CRR + b_4PER$

Model 2:  $ROE = a + b_1DPR + b_2FS + b_3CRR + b_4PER$

## 3.6 Research Framework and Definition of Variables

### Independent Variables

### Dependent Variables



**Figure 1**

*Research Framework*

Source: (Narwal & Yadav, 2016)

### **3.6.1 Definition of Variables**

#### **Dividend payout ratio**

A financial ratio called the dividend payout ratio calculates the proportion of a business's net income that is paid out as dividends to shareholders. It shows the percentage of profits distributed to investors as opposed to the amount kept for expansion or reinvestment (Bahadur & Bhandari, 2021).

#### **Firm Size (FS)**

The term "firm size" refers to all of the valuable assets that a small business possessed. Cash, accounts receivable (money owed), inventory, tools, equipment, etc. were all included in the firm size. Liabilities and equity were combined to establish the firm size. The simplest way to determine business size using this technique was to deduct the value of liabilities from the value of equity or assets because liabilities indicated a negative value. The final number matched the size of the company (Connell, 2023).

#### **Cash Reserve Ratio (CRR)**

All of the companies were regulated by the central bank, Nepal Rastra Bank (NRB). The NRB required the companies to keep a specific percentage of their total deposits as a reserve in order to facilitate their smooth operation. This was done specifically to keep financial institutions strong in terms of their liquidity position (Hamal, 2020).

#### **Price earnings Ratio**

A bank's available capital was indicated by the price-earnings ratio (PER), which was expressed as a percentage of the bank's risk-weighted credit exposures. The ratio of a financial institution's capital to its risk-weighted assets and current liabilities was known as the price-earnings ratio (PER). Central banks and corporate authorities made the decision to stop companies from taking on too much debt and going bankrupt in the process (Akanbi & Adewoye, 2018).

#### **Return on Assets**

Given that it showed the returns from a company's assets, it was arguably the most significant ratio to compare the effectiveness and operational success of businesses (Getahun, 2015).

**Return on Equity**

The financial performance metric known as return on equity (ROE) was determined by dividing net income by shareholders' equity. ROE was regarded as the return on net assets since shareholders' equity was calculated as the sum of a company's assets less its debt (Macharia, 2016).

## CHAPTER – IV

### RESULTS AND DISCUSSIONS

The facts are given and examined in detail in this chapter. Annual reports were the only place to find these particulars. In accordance with the study technique described in the third chapter, the chapter analyzes, assesses, and interprets the data collected. In addition to making comparisons, it provides relevant information and insights on the dividend policies of microfinance firms.

#### 4.1 Descriptive Statistics of Variables

The statistical summaries for the variables utilized in the study are shown in Table 2. The findings indicate that, in addition to other independent variables like dividend payout ratio, firm size, CD ratio, cash reserve ratio, and price-earnings ratio, microfinance institutions in Nepal exhibit differing degrees of performance across profitability metrics like ROE and ROA.

**Table 2**

*Descriptive Statistics of Variable of Microfinance companies*

Variables	N	Minimum	Maximum	Mean	Std. Deviation	C.V
<b>Dependent Variables</b>						
Return on Assets	40	.021	4.3	1.549	1.00358	0.65
Return on Equity	40	.004	29.02	12.4671	8.31278	0.67
<b>Independent Variables</b>						
Dividend payout ratio	40	0	1.58	0.6208	0.37792	0.61
Firm Size	40	5.76	10.33	8.6147	1.0873	0.13
Cash Reserve	40	0	0.79	0.4044	0.26323	0.65
Price earnings	40	0	198.38	38.8251	34.6203	0.89

*Source* Appendix II & Annual Report of Sample Companies

The dependent and independent variables are described in Table 2. ROA, ROE, DPR, firm size, CRR, and PER are the six factors listed. Three important statistical measures are included for each variable: "Mean" denotes the average value, "Maximum" denotes the greatest value among the microfinance organizations under study, and "Minimum" denotes the lowest value. With numbers for every variable, "Std. Dev." also calculates the

data's dispersion around the mean. Each variable's coefficient of variation (CV), which shows the standard deviation to mean ratio, emphasizes how regular and consistent their distributions are. For example, the CV values of 0.65 and 0.67 for ROA and ROE, respectively, indicate a comparable degree of consistency in their assessments.

## 4.2 Correlation Analysis

A tabular representation of the correlation coefficients between variables is called a correlation matrix. There is no linear relationship between the variables when the correlation coefficient is zero. A perfect positive correlation is represented by a coefficient of +1, whereas a perfect negative correlation is represented by a coefficient of -1. The correlation matrix is shown in Table 3.

**Table 3**

*Correlation Coefficients of Study Variables*

Variables	DPR	FS	CRR	PER	ROA	ROE
Dividend payout ratio (DPR)	1					
Firm size (FS)	-0.234 0.169	1				
Cash Reserve Ratio (CRR)	0.082 0.634	-0.004 0.983	1			
Price earnings Ratio (PER)	.384* 0.023	-0.145 0.407	.350* 0.039	1		
Return on Assets (ROA)	-0.112 0.515	0.131 0.447	.802** 0	0.225 0.193	1	
Return on Equity (ROE)	-0.305 0.071	.641** 0	-0.11 0.522	-0.167 0.339	-0.045 0.795	1

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

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

Source SPSS Output

Using a correlation coefficient matrix for both dependent and independent variables, Table 3 displays the results of the correlation test. ROE (-0.305) and ROA (-0.112) have a weakly negative link with the dividend payout ratio (DPR). DPR shows a non-significant negative association with firm size (FS) (-0.234) but a significant positive correlation with PER (0.384) at the 0.05 significance level.

Likewise, there is a positive correlation between ROE and company size (0.641) and between firm size and ROA (0.131). Furthermore, there is a strong correlation between company size and ROE (0.641) at the 1% significance level. With a coefficient of 0.641, the association between company size and ROE is noticeably favorable at the 0.01 significance level. Furthermore, with a coefficient of 0.802, CRR and ROA show a substantial positive association at the 0.05 significance level. On the other hand, at the same significance levels, PER exhibits a high negative association with ROE (-0.167) and a minor degree of positive correlation with ROA (0.225).

### 4.3 Regression Analysis

As independent variables, the study looks into the relationships between a number of financial indicators, including price-earnings ratio, firm size, dividend payout ratio, ROA, and ROE. It uses data from four microfinance organizations registered on the NEPSE to assess the regression results of ROA. 55 NRB-regulated microfinance companies that were observed between fiscal years 2071–2072 and 2080–2081 make up the sample.

ROA is the dependent variable in this research, and the independent variables are company size, price earnings ratio (PER), dividend payout ratio (DPR), and cash reserve ratio (CRR). Both the t-values and the risk indicators, which are included in parenthesis, show that the results are statistically significant. Furthermore, further information about the model's explanatory capacity is provided by the F-statistic and Adjusted R square (abbreviated as F and Adj. R2, respectively).

#### Regression Analysis of firm size, Dividend payout ratio, PER and CRR on ROA

**Table 4**

*Model Summary of ROA*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.817a	.667	.624	.61537

a. Predictors: (Constant), firm size, FS, DPR, PER and CRR

b. Dependent Variable: ROA

The ROA models are shown in Table 4, where R2 shows how much of the variation in profitability—more especially, ROA—can be ascribed to independent factors. It shows

that the independent variables TA, DPR, PER, and CRR account for 66.70% of the variation in ROA. A more trustworthy metric is adjusted R2, which takes sample size into consideration. The degree to which the independent variables affect the dependent variable is shown by their coefficients. Dispersion is measured by the standard error, which is the average deviation of the coefficients from the regression line.

**Table 5***ANOVA Table*

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23.512	4	5.878	15.522	.000b
	Residual	11.739	34	.379		
	Total	35.251	39			

a. Dependent Variable: ROA

b. Predictors: (Constant), FS, DPR, PER and CRR

The ANOVA table's independent and dependent variables are shown in detail in Table 5, along with their relative relevance. At a significance level of 0.05, the findings show a statistically significant association ( $P\text{-value} = 0.000 < 0.05$ ) between the dependent variable (ROA) and the independent variables (TA, DPR, PER, and CRR). This implies that there is a statistically significant link between these variables, supporting the idea that significance is established when the computed p-value is less than 5%.

**Table 6***Regression Coefficients*

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.	Remarks
	B	Std. Error	Beta	t		
1 (Constant)	-.615	.915		-.672	.007	Significant
Dividend Payout Ratio	.014	.313	.005	.046	.046	Significant
Firm Size	.113	.098	.122	1.149	.025	Significant
Cash Reserve	3.169	.421	.831	7.522	.000	Significant
Price earnings	-.003	.003	-.086	-.726	.073	Insignificant

a. Dependent Variable: ROA

**Regression analysis output: coefficient**

The linear equation of this model is,

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4$$

$$\text{ROA} = -0.615 + 0.014 \text{ DPR} + 0.113 \text{ FS} + 3.169 \text{ CRR} - 0.003 \text{ PER}$$

The regression coefficients are shown in Table 6, where the constant's p-value is higher than 0.05, indicating that its value is not significant. On the other hand, CRR has a considerable effect on ROA, as evidenced by its p-value of 0.000. According to the related beta coefficient of 3.169, ROA increases by an average of 3.169 units for every unit increase in CRR. Nonetheless, p-values above 0.05 for the constant term, DPR, FS, and CRR indicate that their effects on ROA are statistically significant.

### **Regression Analysis of firm size, Dividend payout ratio, PER and CRR on ROE**

From a total licensed population of 55 microfinance firms regulated by the NRB, this table displays regression results of Return on Equity (ROE) utilizing five explanatory variables across a sample of four microfinance companies listed on the NEPSE. Observations from the fiscal years 2071–2072 and 2080–2081 comprise the data. The dependent variable is ROE, and the independent variables are Cash Reserve Ratio (CRR), Firm Size (FS), Dividend Payout Ratio (DPR), and Price Earnings Ratio (PER). T-values are shown by parenthetical figures, while asterisks indicate significance. The F-statistic and Adjusted R-squared are shown by the letters F and Adj. R<sup>2</sup>, respectively.

**Table 7**

*Model Summary of ROE*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.667a	.445	.373	6.58230

a. Predictors: (Constant), FS, DPR, PER and CRR

b. Dependent Variable: ROE

The ROE model summary is shown in Table 7, where R<sup>2</sup> is the percentage of profitability variability that ROE can account for. When sample size is taken into consideration, adjusted R<sup>2</sup> is seen as a more trustworthy metric. Independent variables' effects on dependent variables are depicted by their coefficient sizes, where the sign denotes whether the influence is positive or negative. The standard error measures dispersion by indicating the average deviation of the coefficients from the regression line.

**Table 8***ANOVA Table*

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1075.454	4	268.863	6.205	.001b
	Residual	1343.129	34	43.327		
	Total	2418.582	39			

a. Dependent Variable: ROE

b. Predictors: (Constant), FS, DPR, PER and CRR

An extensive summary of the significance of the independent and dependent variables as seen in the ANOVA table is provided in Table 8. It shows that there is a statistically significant link between the dependent variable, ROE, and the independent variables, FS, DPR, PER, and CRR, at significance levels of 0.05 or 0.001. The calculated p-value must be less than the 5% threshold in order to be considered significant.

**Table 9***Regression Coefficients*

Model	Unstandardized Coefficients		Standardized Coefficients		Sig.	Remarks
	B	Std. Error	Beta	t		
1 (Constant)	-24.377	9.786		-2.491	.018	Significant
Dividend Payout Ratio	-3.630	3.350	-.159	-1.083	.287	Insignificant
Firm Size	4.670	1.049	.611	4.453	.000	Significant
Cash Reserve Ratio	-2.929	4.507	-.093	-.650	.521	Insignificant
Price Earnings Ratio	.003	.037	.014	.090	.929	Insignificant

a. Dependent Variable: ROE

### Regression analysis output: coefficient

The linear equation of this model is,

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4$$

$$ROE = -24.377 - 3.630 \text{ DPR} + 4.670 \text{ FS} - 2.929 \text{ CRR} + 0.003 \text{ PER}$$

A significant constant value is suggested by Table 9's p-value, which is less than 0.05. A p-value of 0.000, which is less than 0.05, indicates that firm size (FS) has a significant impact on ROE. ROE rises by an average of 4.670 units for every unit increase in firm size, according to the beta coefficient of 4.670. Furthermore, the p-values for DPR, CRR, and PER are above 0.05, suggesting that they have no effect on ROE.

#### 4.4 Discussions

Both positive and negative correlations were found in the study's investigation of the relationships between several financial indicators (FS, DPR, PER, CRR, ROA, and ROE). In particular, FS, and CRR were found to have a positive relationship with ROA, indicating that these businesses managed their financial health well. Significant relationships between profitability measures were essential for effective profit management. Nevertheless, a more thorough investigation revealed that, on average, ROE was not significantly impacted by CRR, PER, and DPR, but ROA was significantly impacted by DPR and CRR. This study examined the effects of a number of firm-level financial variables on firm performance as determined by return on equity (ROE) and return on assets (ROA), including the dividend payout ratio (DPR), firm size (FS), cash reserve ratio (CRR), and price-earnings ratio (PER). Some noteworthy relationships are revealed by the correlation matrix.

In contrast to the findings of Muliani et al. (2023), CRR demonstrates a strong positive and significant association with ROA, indicating that companies with larger cash reserves typically use assets more efficiently. The study shows high positive relationship between firm size and ROE, suggesting that larger organizations are more effective at producing returns on equity which shows consistent with the findings of Tiwari (2022). There is a strong correlation between PER and DPR, indicating that dividend payments may be impacted by greater profit expectations. This result shows that firm size and PER had a slight positive effect on ROA while DPR shows negative and significant effect, which was in line with Dhungana and Ranabhat's (2022) findings but not Kori, Muathe, and Maina's (2020) findings.

The correlation results are consistent with the strong positive and statistically significant impact of CRR on ROA. This lends credence to the idea that asset utilization depends heavily on liquidity management. In line with the findings of Agaba and Eton (2022), firm size also has a positive and significant impact on ROA, indicating that economies of scale may improve operational efficiency. Although DPR has a very modest beta coefficient and is statistically significant, it has very little practical impact on ROA. Since PER is negligible, asset returns in this sample are not directly impacted by market value. DPR, CRR, and PER were not statistically significant with ROE while Firm size was

statistically significant, in contrast to the findings of Agaba and Eton (2022), Dhungana and Ranabhat (2022), Kunwar (2022), and Robin, Salim, and Bloch (2018).

Reiterating its crucial role in increasing shareholder value, firm size is the single major predictor of ROE. It appears that DPR, CRR, and PER do not have a direct impact on equity returns in the short term or within the parameters of this dataset, as they are all statistically insignificant predictors of ROE. These findings ran counter to those of Yeasin (2022) and Robin et al. (2018), but they were in line with Akanbi and Adewoye (2018) and Bochareri and Job (2021). The cash reserve ratio (CRR), which has a strong association and a notable positive influence in regression, is the most important variable for increasing return on assets. Both ROA and ROE are strongly and favorably impacted by firm size, underscoring the benefits of operational scale. The dividend payout ratio has no discernible influence on ROE and a statistically significant but economically irrelevant effect on ROA. When compared to ROE, firm size (FS) likewise showed statistical significance at the 0.01 level, which is in line with Mwangi's (2018) findings.

Both ROA and ROE are not much impacted by the price-earnings ratio, indicating that market-based valuation metrics might not accurately represent internal firm performance in this situation. Firm size seems to have a greater influence on return on equity (ROE) than liquidity, payout, or valuation ratios. As opposed to the results of Bochareri and Job (2021) and Yeasin (2022), which indicated that FS, CRR, and PER were marginally positive, confirming the findings of Akanbi and Adewoye (2018).

## **CHAPTER – V**

### **SUMMARY AND CONCLUSION**

This study looked at how GLBSL, SKBL, FIRST, and RSDC use outreach to ensure financial stability and how it affects microfinance institutions' performance. These studies were compiled in this chapter, which also included an overview, conclusions, and implications. The study's findings and conclusions were summed up in the first section, and the design's implications were described in the second.

#### **5.1 Summary**

Analyzing different financial measures of microfinance organizations, such as the dividend payout ratio, price-to-earnings ratio, company size, cash reserve ratio, return on equity (ROE), and return on assets (ROA), was the main goal of this study. The goal of the study was to investigate how these financial measures affected microfinance institutions' ROE and ROA. Both causal-comparative and descriptive research methodologies were used. While explanatory and causal research designs were used to quantify the effects of firm size, cash reserve ratio, price-to-earnings ratio, and dividend payout ratio on the financial performance, specifically ROA and ROE, of microfinance firms in Nepal, descriptive research was used to assess the current dividend practices. Secondary data from yearly reports spanning a ten-year period, from fiscal year 2071–2072 to fiscal year 2080–2081—formed the basis of the analysis.

The study looked at how financial parameters affected Nepali microfinance firms' profitability. The microfinance industry was described as having great profitability. The distribution of dividends from shareholdings and the mobilization of investments were among these entities' primary duties. The annual reports of a few chosen organizations covering a ten-year span, from fiscal year 2071–2072 to fiscal year 2080–2081 were the source of secondary data. To look into the relationships between financial indicators, analytical procedures such regression analysis, mean, standard deviation, coefficient of variation, and Pearson correlation coefficient were used. All 55 microfinance institutions that were listed and operating in Nepal at the time made up the study's population. These institutions received recognition for their successful performance in collecting deposits and issuing loans in the current financial environment. The study evaluated the effects of

financial variables such as the Cash Reserve Ratio (CRR), Price Earnings Ratio (PER), Dividend Payout Ratio (DPR), and Total Shares (TS) on profitability in the microfinance industry over time.

According to the study, DPR and ROA and ROE had a negative and negligible association. Likewise, there was an insignificant correlation between total assets and ROA and a positive and substantial correlation with ROE. While there was a negative and negligible correlation between CRR and ROE, there was a strong positive and significant correlation with ROA. While PER had a negative and negligible association with ROE, it had a positive and negligible link with ROA.

In a similar vein, ROA was positively and significantly impacted by constant term, dividend payout ratio, firm size, and cash reserve ratio, but negatively and negligibly by price-earnings ratio. Similarly, ROE was significantly impacted by constant term and firm size, but it was not significantly impacted by dividend payout ratio, cash reserve ratio, or price-earnings ratio.

## **5.2 Conclusion**

Firm size greatly increased ROE, which is in good agreement with Zelalem's findings (2022). In contrast, DPR with ROE produced favorable outcomes but was not statistically significant, which is in line with the findings of Abebe's (2022) study. Prior research in the field showed little progress in this area. Due to poor loan portfolio management and other challenges, certain financial institutions had trouble fulfilling their responsibilities to customers and shareholders, which might have resulted in insolvency or liquidity troubles.

In line with Shah's (2019) research, the reserve ratio and earnings ratio increased financial enterprises' liquidity, encouraged credit expansion, and boosted economic growth in general, all of which had a direct impact on financial institutions' profitability. With a p-value of 0.000, firm size demonstrated statistical significance as an independent variable when combined with ROE. However, because their p-values were greater, DPR, CRR, and PER failed to reach statistical significance at the 0.05 threshold.

In relation to the total number of loans, the percentage of financial stability stayed high and is predicted to continue rising. Similar to this, the company's financial stability provision throughout the research period was noticeably high, suggesting that unrecoverable loans may have an influence on the company's profitability in the future.

### 5.3 Implications

Some of the inferences drawn from the analysis above are as follows:

- It will be necessary for private sector financial firms to put the pursuit of profit first. Care will be taken to pursue profits in a genuine manner in order to preserve the trust of clients, depositors, and shareholders. RSDC and SKBL will be more profitable than GLBSL and FIRST. In order to increase profit margins, it will be strongly advised that GLBSL and FIRST use shareholder capital and riskier assets. Costs will be cut, and ways to raise more money that are economical will be looked for. In order to successfully draw in and keep consumers, marketing initiatives will be bolstered and actively employed.
- • Because lower price-earnings ratios have an adverse effect on bottom lines, financial businesses will see decreased profitability. There will be more money available for investments in the productive sector as a result of this decline in earnings per share (EPS). As a result, the RSDC's dividend per share (DPS) will increase in the future, necessitating cautious trend monitoring. Every business will create a formal strategic dividend policy, have it authorized by the Supervisory Board or the General Meeting, and make it publicly available as necessary for publicly traded businesses.
- The chosen company's DPR, PER, and ROE will show a great deal of variation. These measures will be consistent and fluctuations will be controlled. Stakeholders in both companies will be satisfied if a key financial indicator shows positive market sentiment; on the other hand, negative signs will have detrimental long-term effects on both.
- When compared to other sample companies, RSDC will have a lower dividend payment ratio. Therefore, in terms of performance and dividend sustainability, RSDC will outperform FIRST, GLBSL, and SKBL, indicating that SKBL, FIRST, and GLBSL will have lower credit risk.

- As a result, it will be advised that other businesses of a similar nature be more cautious and unbiased when making advances and loans. To ensure that the money is being used appropriately, ongoing monitoring and follow-up will be necessary once loans are issued.

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## APPENDICES

### Appendix I

Essential Information from Respective Microfinance Annual Report

Name	DPR	TA	CRR	PER	ROA	ROE
RSDC	0	5.76	0	0	0.27	0.004
	0	6.3	0	0	1.55	0.02
	0.63	6.64	0.79	0	1.17	0.02
	0.92	6.83	0.76	198.38	1.85	0.02
	1.01	7.47	0.71	53.31	2.13	0.03
	1.58	7.87	0.51	33.97	2.43	0.03
	1.07	8.15	0.54	45.52	2.29	0.03
	0.85	8.29	0.59	69.66	2.29	0.1
	0.84	8.64	0.56	42.3	1.86	0.11
	0.92	7.45	0.48	48.77	1.74	0.10
First	0.61	7.36	0.61	31.57	1.65	22.03
	1.01	7.76	0.49	41.27	1.54	14.17
	0.77	8.03	0.48	97.04	1.77	17.65
	0.78	8.24	0.59	50.32	2.12	15.53
	0.85	8.47	0.56	68.81	2.13	12.92
	0.91	8.72	0.59	19.37	2.17	14.52
	0.78	8.75	0.55	31.81	2.21	13.79
	0.57	9.19	0.51	35.41	1.76	15.71
	0.71	9.3	0.54	37.88	2.4	19.13
	0.88	10.04	0.55	42.21	1.8	20.32
GLBSL	0.00	0.00	0	25.66	0.00	0.00
	0.75	8.67	0	18.75	0.036	11.87
	0.73	8.81	0	50.49	0.028	25
	0.66	8.88	0	25.39	0.03	29.02
	0.56	8.97	0	16.76	0.034	12.33
	0.61	9.12	0	16.05	0.039	14.22
	0.63	9.19	0	22.04	0.03	11.19
	1.13	9.41	0	63.1	0.021	8.35
	0	9.41	0.58	24.32	4.3	16.58
	0	10.07	0.47	23.33	4.7	20.17
SKBBL	0.32	8.8	0.51	27.58	1.73	13.46
	0.39	9.09	0.52	23.09	1.74	15.6
	0.6	9.39	0.51	56.74	1.86	17.14
	0.5	9.6	0.52	28.56	2.25	20.58
	0.53	9.86	0.5	23.2	2.04	23.53
	0	10	0.5	24.17	1.11	20.23
	0.03	10.1	0.51	21.32	2.28	18.9
	0.03	10.17	0.51	22.31	2.27	17.13
	0.03	10.33	0.52	37.05	2.34	16.98
	0.02	9.74	0.54	38.27	2.88	18.14

*Source:* Annual Report of FMBL, SKBL, GLBSL and RSDC

Descriptive Statistics					
Variables	N	Minimum	Maximum	Mean	Std. Deviation
DPR	40	.00	1.58	.6208	.37792
TA	40	5.76	10.33	8.6147	1.08730
CRR	40	.00	.79	.4044	.26323
PER	40	.00	198.38	38.8251	34.62028
ROA	40	.021	4.300	1.54897	1.003585
ROE	40	.004	29.020	12.46706	8.312783
Valid N (listwise)	40				

## Appendix II

Correlation Coefficients of Dependent and Independent Variables						
Variables	DPR	TA	CRR	PER	ROA	ROE
DPR	1					
TA	-0.234 0.169	1				
CRR	0.082 0.634	-0.004 0.983	1			
PER	.384* 0.023	-0.145 0.407	.350* 0.039	1		
ROA	-0.112 0.515	0.131 0.447	.802** 0	0.225 0.193	1	
ROE	-0.305 0.071	.641** 0	-0.11 0.522	-0.167 0.339	-0.045 0.795	1

Source: SPSS Output

### Appendix III

#### Regression Analysis of TA, DPR, PER and CRR on ROA

##### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.817a	.667	.624	.61537

a. Predictors: (Constant), PER, TA, CRR, DPR

##### ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23.512	4	5.878	15.522	.000b
	Residual	11.739	36	.379		
	Total	35.251	39			

a. Dependent Variable: ROA

b. Predictors: (Constant), PER, TA, CRR, DPR

##### Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.615	.915		-.672	.007
	DPR	.014	.313	.005	.046	.046
	TA	.113	.098	.122	1.149	.025
	CRR	3.169	.421	.831	7.522	.000
	PER	-.003	.003	-.086	-.726	.073

a. Dependent Variable: ROA

Source: SPSS Output

### Regression Analysis of TA, DPR, PER and CRR on ROE

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.667a	.445	.373	6.58230

a. Predictors: (Constant), PER, TA, CRR, DPR

#### ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1075.454	4	268.863	6.205	.001b
	Residual	1343.129	36	43.327		
	Total	2418.582	39			

a. Dependent Variable: ROE

b. Predictors: (Constant), PER, TA, CRR, DPR

#### Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-24.377	9.786		-2.491	.018
	DPR	-3.630	3.350	-.159	-1.083	.287
	TA	4.670	1.049	.611	4.453	.000
	CRR	-2.929	4.507	-.093	-.650	.521
	PER	.003	.037	.014	.090	.929

a. Dependent Variable: ROE

Source: SPSS Output

PAPER NAME

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MICROFINANCE COMPANIES IN NEPAL**

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