THE RELATIONSHIP BETWEEN LIQUIDITY AND PROFITABILITY ANALYSIS OF "C CLASS" BANKS 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

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Kathmandu, Nepal

July, 2024

Certification of Authorship

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **"The Relationship Between Liquidity and Profitability Analysis of C Class Banks in Nepal**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purposes. The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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Report of Research Committee

Mr. Ashish Neupane has defended research proposal entitled **"The Relationship Between Liquidity and Profitability Analysis of C Class Banks 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 Asst. Prof. Rita Maskey and submit the thesis for evaluation and viva voce examination.

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Acknowledgements

I would like to express my deepest gratitude to my supervisor Asso. Prof. Rita Maskey for her valuable supervision guidance, encouragement, and unwavering support throughout the entire process of this dissertation work. I am highly indebted and very thankful for her continuous support and constructive suggestions that have enabled this research project to achieve its present form. Moreover, I am also indebted and thankful to them for their motivation, support and instruction in completing my overall MBS degree.

I am also thankful to the faculty members of Shanker Dev Campus for their academic mentorship and for providing a conducive learning environment that fostered intellectual growth and curiosity.

Special thanks are due to my family for their unwavering support, understanding, and encouragement throughout this academic journey. Their love, patience, and belief in my abilities have been a constant source of strength and motivation.

I am grateful to my friends and colleagues for their encouragement, constructive feedback, and camaraderie, which have made this journey both rewarding and enjoyable.

Last but not least, I would like to express my deepest appreciation to all the individuals who directly or indirectly contributed to this thesis. Your support and encouragement have been invaluable, and I am truly grateful for your generosity and kindness.

Thank You.

Ashish Neupane

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ABBREVIATIONS

C.V.	:	Co-efficient of Variation
CA	:	Current Assets
CL	:	Current Liabilities
CR	:	Current Ratio
e	:	Error Term
F/Y	:	Fiscal Year
GFCL	:	Goodwill Finance Ltd
ICFC	:	ICFC Finance Ltd
MFIL	:	Manjushree Finance Ltd
LV	:	Leverage Ratio
PFL	:	Pokhara Finance Ltd
PROFL	:	Progressive Finance Ltd
r	:	Correlation Co-efficient
ROA	:	Return on Assets
ROE	:	Return on Equity
Rs.	:	Rupees
S.D	:	Standard Deviation
TA	:	Total Assets
WCTA	:	Working Capital To Total Assets

ABSTRACT

This study analyses the relationship between liquidity and profitability of C Class Banks in Nepal for the period from 2014 to 2023. The study covers 5 C Class Banks out of the 17 C Class Banks operated in Nepal. The study used secondary data. The study aims to provide a comprehensive understanding of how liquidity management impacts profitability and to offer strategic recommendations for improving financial performance in the banking sector. Key metrics such as the Current Ratio (CR), Working Capital to Total Assets Ratio (WCTA), Return on Equity (ROE), and Return on Assets (ROA) were analyzed to evaluate the financial health and operational efficiency of the banks. The results reveal that ICFC consistently demonstrates stable and efficient liquidity management, coupled with strong profitability and operational efficiency. In contrast, PROFL exhibits significant financial distress, characterized by poor liquidity and profitability metrics. The analysis has done using statistical package for social science SPSS software version 25.

Correlation analysis indicates that while there is a strong positive correlation between CR and WCTA, the relationships between liquidity measures (CR and WCTA) and profitability measures (ROE and ROA) are generally weak and not statistically significant. This underscores the inherent trade-off between maintaining liquidity and maximizing profitability, a persistent challenge for bank managers. The findings align with existing literature, reinforcing the liquidity-profitability trade-off theory. This study contributes to the body of knowledge by highlighting the specific dynamics within the Nepali banking context, providing valuable insights for policymakers, financial managers, and researchers. The recommendations emphasize the need for balanced liquidity management strategies to ensure financial stability and profitability in C Class Banks. In conclusion, while effective liquidity management is crucial for ensuring the operational continuity and financial health of banks, it must be carefully balanced with profitability goals to avoid financial insolvency and promote sustainable growth. The implications of this research suggest targeted strategies for enhancing liquidity and profitability, thereby strengthening the overall financial performance of C class bank in Nepal.

Key words *: Return on equity, Return on assets, working capital to total assets, Current ratio.*

CHAPTER 1

INTRODUCTION

1.1.Background of the study

In Nepal, banks are categorized into different classes based on their size, capital, and scope of operations. The central regulatory authority responsible for overseeing the banking sector in Nepal is the Nepal Rastra Bank (NRB).

Banks are categorized into various groups according to the amount of their paid-up capital. In Nepal, C class banks are generally referred to as "Financial Institutions". The medium- and long-term financing of development projects and sectors, such as infrastructure, tourism, agriculture, and SMEs (small and medium-sized enterprises), is the primary emphasis of financial institutions.

Evrey company that wants to meet its present financial obligations, which include short-term operating and financial expenses as well as maturing long term debt, must manage its liquidity. Every firm uses liquidity ratios, such as current ratio, quick ratio and working capital to total assets ratio, to manage its liquidity, which has a significant impact on the profitability of the business. By comparing cash and near cash with the payment obligations, the business can determine if it has adequate liquid assets (cash, Bank) to meet the payment schedule. Liquidity ratios examine a company’s cash and near cash obligations, or current liabilities, on the other side. The near-cash assets primarily consist of money owed by customers and supplies of finished goods and materials. The payment responsibilities consist of payments to suppliers, operational and financial costs that need to be settled soon, and upcoming payments on long-term debts.

Liquidity refers to the capacity to fulfill anticipated and unforeseen cash needs. In particular, the company's capacity to fulfill the cash needs of its policy and contract holders without experiencing any significant loss. A company's liquidity position depends on the combination of its assets and liabilities. It is important to recognize, assess, monitor, and control liquidity risk which is always present in the financial services sector. Liquidity management varies across different levels. Day-to-day cash management is typically handled by the treasury department within a company.

One of the main objectives of any business is to achieve profitability. A business cannot survive without making a profit, and it will struggle to grow. In order to make a profit, a business requires immediate funds to meet its daily operational needs and other obligations. Businesses will see greater profit when they generate the necessary short-term funds through their operations rather than taking on external debt.

Management can earn profit by making use of all the available resources in the market. Hayward and Upton say, “Profitability is the ability of a given investment to earn a return from its use.” However, the term ‘profitability’ is not synonymous to the term ‘Efficiency’. Profitability is an index of efficiency and is regarded as a measure of efficiency and management guide to greater efficiency. Though, profitability is an important indicator for measuring the efficiency, the extent of profitability cannot be taken as a final proof of efficiency. Profitability and liquidity are the most prominent issues that management of each organization should take studying and thinking about them into account as their most important duties.

Two crucial variables that reveal information about a company entity's success are profitability and liquidity. For sustained existence and sound expansion, profitability and liquidity ought to follow one another's path. The ability of a company to fulfill its short-term obligations is referred to as liquidity. A commercial firm's ability to operate successfully depends heavily on its liquidity. Due to its intimate connection to a company's daily operations, a study of liquidity is crucial for both internal and external experts (Bhunia, 2010). A firm is hazardous and unsound when it has a weak liquidity situation, which also threatens its profitability. A company's profitability is determined by how much its revenue surpasses its relevant expenses. Prospective investors focus more on the profitability statistics because they are interested in dividends and stock price appreciation. On the other side, managers are curious to know how to quantify operating performance in terms of profitability. As a result, a low profit margin would raise suspicions about incompetent management and discourage potential investors from funding the business.

In the majority of the decisions the finance manager makes, the objectives of profitability and liquidity are in conflict with one another. For instance, if the company adheres to its credit strategy, it might be able to boost sales, but its liquidity might deteriorate. Furthermore, there is a direct correlation between risk and return,

according to the risk-return theory. As a result, companies with significant liquidity may have low risk and hence low profit. On the other hand, a company with little liquidity may take on more risk, which would increase return. As a result, a company's daily activities must maintain a balance between liquidity and profitability.

According to Ross, Westerfield and Jordan (2007) there is a negative relationship between liquidity and profitability. It therefore becomes a dilemma for managers to balance the two hence the need for a tradeoff between high amounts of net working capital and maximizing profitability. This is referred to as the liquidity-profitability trade-off. This dilemma would be a consequence of the fact that high values used in current assets tend to generate costs for maintenance, not directly adding value to the company and thereby generating profitability. According to Panigrahi (2012) current assets are liquid so holding more current assets refer to high liquidity but on the other hand current assets include such items such as cash which diminish firm's profitability.

The banking industry in Nepal is becoming more and more competitive, and as customers' expectations for digital banking services rise, so too does their behavior. Achieving these goals necessitates making investments that may impact liquidity. In a similar vein, banks have to keep enough cash on hand to satisfy legal obligations and guarantee the seamless running of their banking operations. But too much liquidity can lead to unused money that doesn't improve profits. In order to maintain long-term viability and expansion, banks must optimize their profitability. On the other hand, methods to boost profitability, such buying assets with greater yields, could decrease liquidity and raise risk. Fintech investments in particular can increase operational profitability and efficiency. However, the substantial capital needed for these investments may have an impact on liquidity.

Therefore, this study contributes to our understanding of how important it is for banks to strike a balance between profitability and liquidity. This thesis examines the effects of liquidity management on the financial performance of C Class Banks in Nepal. It seeks to provide insights that assist banks maximize stability and profitability by evaluating data and prior research.

1.2. Statement of the problems

The problem this study attempts to solve is the incomplete knowledge of how liquidity and profitability relate to C Class Bank operations in Nepal. There is little empirical data on the effects of liquidity management measures on these banks' profitability, despite the fact that they are essential components of financial stability and expansion. The absence of sufficient knowledge impedes the capacity of decision-makers, bank executives, and other relevant parties to sustain the stability and expansion of C Class Banks within the Nepalese financial system.

When money are contained in liquid assets, they can't be used for operating expenses or invested for better returns. This is known as maintaining proper liquidity. Therefore, maintaining those liquid assets comes with an opportunity cost, which could have an impact on the company's overall profitability. Stated differently, a firm's liquidity would typically decrease as its profitability increased, and the opposite would also likely occur if liquidity received undue attention (Smith, 1980). Consequently, businesses should constantly try to maintain a balance between their competing goals of profitability and liquidity. The liquidity of the company shouldn't be excessively high or low. An excessive reliance on liquidity is a sign of idle money building up that doesn't bring in any money for the company (Smith, 1980). Conversely, a lack of liquidity could harm the company's reputation, worsen its credit standings, and result in an asset sale that is required. In order to determine the relationship between liquidity and profitability of listed financial institutions in Nepal, the current study has been launched.

Profitability and liquidity are mutually exclusive; increasing one typically requires sacrificing part of the other. Moving from cash to fixed assets, for instance, reduces liquidity if a company's balance sheet has five items—cash, marketable securities, accounts receivable, inventory, and fixed assets—listed in order of liquidity. Profitability does, however, rise when you transition from fixed assets to cash.

Shrestha (2018) found out that there was a positive relationship between profitability and liquidity however, the coefficients from the study were not significant. Lartey, Antwi and Boadi (2013) found that there was a very weak positive relationship betweenthe liquidity and the profitability of the listed banks in Ghana. Erasmus (2010) found liquidity affects profitability negatively. Eljelly (2004), empirically examined

the relationship between profitability and liquidity showed that there exists a significant and negative relationship between them. The theoretical review on the relationship between liquidity and profitability is very clear that a negative relationship is expected between the two variables. However empirical evidence shows mixed results with some showing negative relationship and others showing positive or no relationship.

Hence, the present study is initiated to identify the relationship between liquidity and profitability of C Class Banks in Nepal. So following are the major problems that have been identified for the purpose of this study.

- Why is there a trade-off between liquidity and profitability in C Class Banks in Nepal?
- What is the relationship between liquidity and profitability of C Class Banks in Nepal?
- How does liquidity management impact the profitability of C Class Banks in Nepal?

1.3. Objectives of the study

Investigating the connection between liquidity and profitability in Nepali C class banks is the objective of this study. The goal of the study is to gain important insights into the consequences of this relationship for the financial stability and the larger banking industry by examining the relationship between liquidity management techniques and the financial performance of C class banks.

Every research study conducted with a view of achieving some objectives and this is of no exception. The main objectives of this study are as follows;

- To assess the trade-off between maintaining high liquidity and maximizing profitability in C Class Banks.
- To examine the relationship between liquidity and profitability in C class banks in Nepal.
- To analyze the impact of liquidity management on the profitability of C Class Banks in Nepal.

1.4. Rationale of the study

Although the specifics of the relationship between liquidity and performance may differ from industry to industry, it is undeniable that one exists. A manager's viewpoint is crucial for improved profitability and effective liquidity management. According to Manyo and Ogakwu (2013), positive liquidity and performance growth are useful indicators that influence stakeholders' behavior. A declining trend in profitability points to a subpar liquidity management plan. The goal of this study is to determine how variables related to profitability and liquidity relate to one another. The thorough formulation of trade policies will be aided by this identification. Furthermore, by understanding the most crucial elements to pay close attention to while making judgments, managers will be able to better handle concerns of profitability and liquidity.

The study would be useful to the management of companies listed at Insurance board as it would provide information on alternative ways of managing liquidity to improve profitability. Many companies have collapsed due to inefficient management of liquidity. To the various sectors of companies listed at the Insurance board the study would also help re-emphasize the need for effective and efficient management of liquidity to improve profitability.

1.5. Limitations of the study

The limitations of the study are as follows:

- Only limited financial and statistical tool (i.e ratio analysis, mean, CV, correlations, as well as multiple regression).
- In this study including profitability ratio (i.e. ROA, ROE,) and other liquidity ratio (i.e. current ratio, and working capital to total assets).
- In the context of Nepal, there is 17 C class banks are available however, in this study only 5 Financial institutions are selected as a sample.
- Its span of study period as only for 10 fiscal years i.e from 2013/14 to 2022/23
- Normality test and Multi co linearity test are not conducted to run multiple regressions.

CHAPTER 2

LITERATURE REVIEW

This section deals with the brief review of existing and prior empirical studies, related to the subject of this study. The study of relationship between liquidity and profitability of Nepalese C Class Banks has been a matter of interest for researchers for long time. Many studies have been carried out in developed as well as developing economies relating to this topic. Generally, the portion of literature review has divided into following parts:-

2.1. Conceptual Review

The identification of essential concepts and their relationships are covered in this section of the research. This topic discusses how listed financial organizations, or C class banks, determine their profitability. Additionally, the connection between profitability and liquidity will be covered.

2.1.1. Determinants of profitability of Finance companies.

According to Neriesh (2012), a company's profitability is determined by how much its revenue surpasses its relevant expenses. Profits have the primary function of compensating owners for the risks they take when investing in a firm, as it is the possibility of gaining money that drives entrepreneurs to take on ventures. According to Owolabi et al. (2011), a company's profitability is determined by how much its revenues surpass its corresponding expenses. A low profit margin would raise suspicions about incompetent management, making potential investors wary of funding the business. (Niresh, 2012).

The ability of a bank to make more money than it spends, relative to its capital basis, is known as bank profitability. A stable and successful banking industry can better endure unfavorable shocks and support the stability of the financial system. (Brissimis, Delis, and Athanasoglou, 2005). Most research on bank profitability, including those by Goddard et al. (2004), Molyneux and Thornton (1992), Demirguc-

Kunt and Huizinga (2000), Short (1979), Bourke (1989), and Demirguc-Kunt and Thornton (1992), employed linear models to assess the influence of numerous factors that might be significant in explaining profits. The typical way to express bank profitability is as a function of both internal and external factors. Micro or bank-specific determinants are another word for the internal factors that affect a bank's profitability. These can be broadly divided into two categories: variables found in financial statements and variables found in non-financial statements. The factors listed in the financial statements that impact bank profitability are: changes in capital and liquidity management, composition of deposits and loans, market interest rates, bank earnings and operational efficiency, and expense management. The number of bank branches, bank size, and bank location are among the non-financial statement factors that impact bank profitability. According to Athanasoglou, Brissimis, and Delis (2005), the external determinants are factors unrelated to bank management that represent the legal and economic contexts that influence the functioning and outcomes of financial institutions. These variables include ownership, market share, growth, concentration, competitiveness, and financial regulation.

Liquidity is one of the factors that determine bank profitability, according to nearly all of the studies that have been done on the subject. Borke (1989), Bashir (2000), Karasulu (2001), Guru, Staunton, and Balashanmugam (2002), Staikouras and Wood (2003), and Naceur (2003) are a few examples. Diverse reports have been made in the meantime regarding the connection between bank profitability and liquidity. According to their research findings, some argue that banks with higher levels of liquid assets enjoy a better perception in the funding markets, which lowers their financing costs and boosts profitability.

Liquidity ratio

Quick ratio is a metric used by Stolowy and Lebas (2006) to assess the ease with which assets can be turned into cash. One ratio used to measure liquidity is the quick ratio. The total of marketable securities, cash and cash equivalents, and account receivables divided by current liabilities yields this ratio. Ahmed (2016) observed that the correlation between ROA and liquidity was statistically insignificant. Liquidity has been identified by Cheng and Wong (2004) as one of the key factors influencing the financial stability of insurance businesses. Businesses that have more liquid assets have a lower failure rate because they can generate cash even in trying circumstances.

Low liquidity ratio indicates that an insurer is facing difficulties in meeting its short term obligations on other hand, an extremely high ratio of liquidity could also mean that the insurer is keeping idle cash that could have generated income by investing in profitable areas.

2.1.2. Impact of liquidity on profitability

According to the Liquidity versus Profitability Principle, profitability and liquidity are distinct concepts, and achieving greater profitability typically entails sacrificing some profitability. Research on bank profitability (Bourke, 1989; Molyneux and Thornton, 1992; Williams et al., 1994) defined liquidity as a management controllable internal determinant, which is similar to the liquidity taken into consideration in that research. The goal of this study is to determine if Nepalese C class banks' profitability through return on asset (ROA) is significantly impacted by liquidity as measured by the quick ratio.

The relationship between liquidity and profitability may take a varied form. The majority of study results allow for the conclusion that liquidity may have a detrimental effect on a company's profitability. For example, Deloof (2003) employed the cash conversion period to examine how liquidity affects profitability, and his findings supported this claim. Liquidity has a significant impact on a company's performance and may even affect its profitability. According to Eljelly (2004), in practice, profitability and liquidity are good measures of a company's health and performance, and good liquidity management ensures that the company will be able to pay its debts with cash flow. It should be emphasized that some scholars contend that there could be a positive or negative association between profitability and liquidity. In the event that the company is unable to pay its suppliers of products and services, it may forfeit its incentives due to a lack of cash or liquid assets. Lack of incentives from suppliers causes the company's expenses for goods and services to rise, which in turn has an impact on the business's profitability.

Niresh (2012).When money are contained in liquid assets, they can't be used for operating expenses or invested for better returns. This is known as maintaining proper liquidity. Therefore, maintaining those liquid assets comes with an opportunity cost, which could have an impact on the company's overall profitability. The liquidity of the company shouldn't be excessively high or low. Over-reliance on liquidity is a sign of idle money building up that doesn't generate revenue for the company. Conversely, a

lack of liquidity could harm the company's reputation, worsen its credit standings, and result in an asset sale that is required.

The operating cash flows that assets provide will impact the firm's ongoing liquidity. It's not just because liquidation has value (Soenen, 1993). Businesses with insufficient current assets will find it difficult to continue operating, and excessive current assets indicate that the return on investment is not at its best. (Wachowicz and Horne, 2000). The corporation needs to consider a wide range of criteria and make thoughtful operational decisions to maximize profit opportunities in the cash flow process, as issues beyond the purview of preventative treasury affect optimal cash levels.

2.1.3. Relationship between liquidity and profitability

Liquidity and profitability have a negative relationship, according to Ross, Westerfield, and Jordan (2007). Managers are therefore forced to choose between optimizing profitability and maintaining high levels of net working capital, which presents a challenge. We call this the trade-off between profitability and liquidity. This conundrum would result from the high prices applied to current assets, which tend to create maintenance expenses rather than directly adding value to the business and producing profitability. Holding more current assets is a sign of high liquidity, according to Panigrahi (2012), although current assets also include things like cash, which lower a company's profitability.

Gijare, Raul, and Panigrahi (2018) assert that liquidity is essential to any company's ability to operate profitably. Maintaining liquidity on a daily basis is crucial to working capital management since it helps the company meet its obligations and run smoothly. As a result, it is critical to closely monitor the company's liquidity position because without it, it cannot survive. However, initiatives to boost profitability have a tendency to decrease a company's liquidity, and an excessive focus on liquidity has a tendency to negatively impact profitability. Without a question, every business seeks to retain liquidity in order to optimize profits. Nevertheless, boosting earnings at the expense of liquidity could put the company in danger of major issues, such as financial insolvency. It is crucial that the firm's liquidity is properly balanced because too much liquidity, on the one hand, suggests that idle funds are building up and aren't producing any profits for the company, and too little liquidity could harm the company's reputation and credit standing, which could result in the forced liquidation of the company's assets.

2.2. Theoretical review

2.2.1. Systemic Risk Theory

Liquidity risk is seen from a systemic angle by systemic risk theory, which takes into account its propensity to propagate and lead to wider financial instability. Gary B. Gorton's 2010 study, Systemic Risk and the Financial Crisis: A Primer, is a major work in this field. Gorton talks about how the 2007–2008 global financial crisis was caused by the financial system's interconnection and the amplification of liquidity risk. From a systemic standpoint, liquidity risk can also be perceived as a possible source of contagion that could propagate across the financial system. Systemic liquidity risk develops when several institutions have funding issues at the same time, which might result in a more widespread liquidity crisis. This theory highlights the interconnectedness of financial institutions and the potential for liquidity problems to amplify and transmit across the financial system.

2.2.2. Pecking order theory of liquidity

The highly influential pecking order theory was developed by Myers and Majluf (1984), who stated that managers prefer to issue secure securities to cover capital deficits. According to the hypothesis, the manager will only issue additional shares and issue debt if retained earnings and other internal sources of financing are insufficient to fund investments. There is also a chance that the manager could issue junk debt, which could put the company in financial crisis. The asymmetric information present in the financial markets—that is, the fact that corporate managers frequently know more about the state of their organizations than do outside investors—gives rise to the notion. Companies must bear the information costs associated with asymmetric information in addition to the transaction costs of issuing new securities. Informational asymmetries can therefore lead to the infra-valuation of newly issued securities on the financial market; this is particularly true for newly issued equity. Pecking order and tradeoff theories emphasize how important it is to consider liquid assets. Tradeoffs emphasize the costs and benefits of each decision by arguing that liquidity and profitability have an inverse connection. Pecking order, on the other hand, supports the idea that performance and liquid assets go hand in hand.

2.2.3. Dynamic theory of profit

Profit accrues because society is dynamic by nature, according to Clark (1902). Because society is dynamic and the future is unpredictable, there is risk involved in any action that will have an impact on the future. Therefore, taking and enduring risk comes at a cost: profit. It only appears in dynamic societies, which are those where there are constant changes; in static societies, the risk element vanishes and, as a result, the profit element does not exist. When there is a shift in a society's population, demographics, capital stock, or supply of entrepreneurs, among other factors, it is considered dynamic. When all thesefactors become constant, the future also becomes certain and the risk element disappears from the society.

Clark (1902) asserts that an adjustment brought about by the entrepreneurs themselves results in profit. By creating new machinery, they can discover new production methods. Their utilization lowers manufacturing costs, shortens turnaround times, and increases profitability for the business owner. However, the supply of commodities increases and costs decrease when the use of machinery and production becomes widespread and utilized by other entrepreneurs functioning in the economy. Therefore, the profit margin decreases as well. In this scenario, the enterprise's supply and demand at a moment of equilibrium determine the profit. The windfall hypothesis of profits is another name for this theory. This theory treats profits as a residue in priceafter deducting costs; hence it is a residual theory of profits.

2.2.4. Baumol's model

A model for inventory management created by Baumol (1952) could be used to calculate how much cash businesses should keep on hand. He explained how the ordering and keeping expenses of cash are comparable to the costs related to inventory.According to his conclusion, a rational person would seek cash in proportion to the square root of the value of these transactions, given the current price level. According to the Baumol model, the cash manager will invest excess funds in interest-bearing securities and sell them to satisfy the company's cash needs. The opportunity cost of retaining cash rises with investment return, therefore the cash manager reduces the amount of cash on hand. Higher transaction costs, or the expense of liquidating short-term investments, cause cash managers to liquidate securities less frequently, which raises cash balances.

Nevertheless, Boumol's model has limitations when relying on the assumptions of constant and predictable demand as well as rapid supplies when requesting replacement funds, just like the economics order quantity model does.

2.2.5. Liquidity preference theory

In order to explain how the supply and demand for money determine the interest rate, Keynes (1936) was the first to propose the notion of liquidity in his book The General Theory of Employment, Interest, and Money. The desire for money, which is regarded as liquidity, is referred to as liquidity preference. the notion that because they would rather store cash, which carries less risk, investors demand a premium for securities with longer maturities, which carry greater risk. An investment is easier to sell quickly for its full value the more liquid it is. The premium for short-term against medium-term assets will be higher than the premium for medium-term versus long-term securities due to the short-term volatility of interest rates.

For example , A three-year Treasury note, for instance, might provide 1% interest, a ten-year Treasury note, 3% interest, and a thirty- year Treasury bond, 4% interest.

2.2.6. Theories of liquidity management

According to Diamond and Rajan's (2001) theory, banks issue liabilities in order to meet their liquidity needs. Liability management and liquidity are interdependent. It is one of the most important instruments for making decisions with the goal of maximizing stakeholder value. The management of the dynamics of the entire balance sheet is known as asset liability management, or ALM. It entails quantifying risks and making deliberate decisions about the asset liability structure in order to maximize interest earnings while keeping in mind perceived hazards. ALM's main goal is to manage risk rather than completely eradicate it in order to safeguard the organization's economic worth over time and reduce short-term volatility in net interest income.

2.3. Empirical review

2.3.1. Review of International Articles

Financial performance was examined in relation to profitability and liquidity by Eldi et al. (2023). Financial reports serve as documentation for data collection procedures. Using the SPSS software, multiple linear regression analysis, a traditional assumption test, and a fundamental statistical test were used to analyze the data. According to the findings, profitability has a partially positive and substantial impact on financial

performance with a value of 0.001, while liquidity has a partially negative and not significant impact (value of 0.249 > 0.05).

In a few Asian emerging economies, Abbas et al. (2023) investigated how economic expansion affects the interplay between capital, liquidity, and profitability of commercial banks. An empirical model was built to investigate the impact of economic growth on the interplay between banks' capital, liquidity, and profitability in order to fulfill the research goal. Two-stage lease square (2SLS) regression analysis was used to assess the empirical model utilizing annual data from Asian commercial banks spanning the years 2011 to 2019. The results show that bank liquidity and capital are decided concurrently and are dependent on each other. The result shows that when economic growth is included in the research, the strength of the relationship between banks' capital, liquidity, and profitability improves. The findings indicate that the liquidity, profitability, and capital of commercial banks in Asian emerging nations are significantly influenced by market funding, loan ratios, credit risk, bank size, and bank efficiency. The results vary widely amongst big, medium, and small banks in Asia's developing economies.

Horsfall (2022) looked at the listed non-financial companies in Nigeria's liquidity and financial performance. The data analysis using multiple 19 regression analysis and obtained secondary data from NGX. According to the study, non-financial companies listed on the NGX have better financial performance when there is liquidity.

Teixeira et al.'s (2021) analysis looked at how government bonds affected bank profitability and liquidity risk in Cape Verde. The ordinary least squares estimation approach is used to estimate the lagged regression models used in the study. The findings indicate that while government debt securities have an impact on bank profitability, they have no effect on bank liquidity risks. Over time, government debt securities also have a favorable effect on asset profitability.

In order to compare the financial liquidity and profitability of several groupings of food industry enterprises, Kayzer et al. (2021) looked at the use of canonical variate analysis. In the data analysis, multiple regression analysis was employed and secondary data was gathered from the annual reports of food industry companies. The study's findings demonstrated that there are bidirectional linkages between profitability and liquidity. According to the report, they rely on metrics that characterize their operating industries and financial dependence.

Jihadi et al. (2021) examined empirical data from Indonesia to investigate the impact of profitability, leverage, and liquidity on company value. The Multiple Linear Regression Analysis with the SPSS 18 Program was the data analysis approach employed in this investigation. Consistent with the study's original hypothesis, the results demonstrate the significance of the ratios of liquidity, activity, leverage, and profitability to company value.

Paul et al.'s (2021) study examined the impact of banks' liquidity on their profitability over a medium-term (10 years) period as well as during regular business operations. Forty (40) commercial banks in Bangladesh are included in the statistical sample for a quantitative analysis. With 206 bank years of data collected to take into account all Bangladeshi commercial banks, secondary data is utilized to assess the performance of the annual report of the commercial banks in Bangladesh during the last ten years (2009-2018). The liquidity representation of the proposed variables is represented by LDR, DAR, CDR, LAR, and CR; the profitability representation is represented by ROE. There are now five established theories to evaluate how liquidity affects profitability. After doing a correlation and regression analysis, it was shown that while LAR and CR were not significant, LDR, DAR, and CDR had a significant impact on the profitability as evaluated by ROE. Thus, it can be said that, generally speaking, Bangladesh's commercial banking industry's profitability is greatly impacted by liquidity. Bangladeshi banks will be in the greatest position to maintain parity between their liquidity and profitability if they rely on this report.

The impact of liquidity and solvency management on financial performance was examined by Dahiyat et al. (2021) using empirical data from Jordan. The data in this study have been analyzed using multi regression and correlation analysis. While the detailed results of the hypotheses reveal that liquidity has a minor reverse impact on financial performance, the overall results demonstrate a statistically significant impact of independent and control variables on financial performance.

Maina (2017) carried out research on the connection between Kenyan commercial banks' profitability and liquidity. The study's population consisted of all 42 commercial banks that were registered as of December 31, 2016. For the five years between 2012 and 2016, a census that included all 42 commercial banks was conducted. Secondary data were employed in the research. Descriptive statistics, the Karl Pearson Correlation, the Granger causality test, and multiple linear regressions

using STATA were used to evaluate the gathered data. The data was summarized using the mean, minimum, maximum, and standard deviation in descriptive statistics. The degree of relationship between the research variables was ascertained using the Karl Pearson correlation.

Rizwan and Ismail (2016).In this study, the performance of the 64 Pakistani non-financial companies that make up the Karachi Stock Exchange (KSE) 100 Index for the years 2006–2011 was investigated in relation to liquidity management. Descriptive statistical analysis, correlation analysis, and multivariate regression tools of analysis were utilized to obtain the study's results. The analysis's findings indicate that the cash conversion cycle and the current ratio of liquidity factors have a major beneficial impact on profitability (ROA). Results also show that longer cash conversion cycles and high current ratios improve business success. According to this study, businesses should be more approachable to a wider range of clients by easing their credit sales rules and carefully planning their inventory and collection turnover systems.

A study on the impact of liquidity on the profitability of microfinance banks in Kenya was carried out by Buseretse (2014). The nine microfinance banks that operated in Kenya from 2011 to 2014 made up the study's population. A microfinance bank had to have been open for business throughout the whole research period in order to be eligible; as a result, those that weren't were disqualified. In order to conduct the study, secondary data were used. The study entailed gathering secondary data on the ratio of loans to deposits to gauge liquidity for a given year and the return on assets to gauge profitability. The study made use of secondary data from annual publications published by the Association of Microfinance Institutions and the Central Bank of Kenya's oversight reports. Regression analysis and descriptive statistics were employed in the study to determine the relationship between the variables under investigation. Six of the nine approved microfinance institutions in Kenya that met the requirements for data collection had a response rate of 67%. The study discovered a marginally negative correlation between Kenyan microfinance institutions' profitability and liquidity. One factor that was discovered to affect the profitability of microfinance banks in Kenya was liquidity. According to the report, in order for microfinance banks to continue making money, their finance managers should keep optimal levels of liquidity.

A study on the connection between listed banks' profitability and liquidity on the Ghana Stock Exchange for the years 2005–2010 was carried out by Lartey, Antwi, and Boadi (2013). Seven of the nine items on the list are natural. It used the panel approach, which is the longitudinal time dimension. The primary research method used to gather secondary data for the study was document analysis. Study participants included pertinent banks and the financial reports of the seven specified institutions. Liquidity and profitability ratios were computed in a descriptive research. Time series analysis was used to identify the trend in profitability and liquidity. On the profitability ratio, the primary liquidity ratio was regressed. It was discovered that the listed banks' profitability and liquidity were both dropping. Once more, it was discovered that the profitability of Ghana's listed banks and their liquidity had a very slender positive association.

Ajanthan (2013) looked into the connection between trading companies' profitability and liquidity in Sri Lanka. Examining the nature and degree of the relationship between liquidity and profitability in profit-driven quoted trading organizations was the primary goal, along with figuring out whether the two performance metrics are related in any way. Data taken from the companies' annual reports and accounts for the relevant period served as the basis for the analysis. To investigate the type and degree of the association between the variables and ascertain whether there is a cause-and-effect relationship between them, correlation and regression analysis were used, respectively. The research examined eight listed trading businesses in Sri Lanka during the course of the previous five years, from 2008 to 2012. The study employed correlation and regression analysis along with descriptive statistics, and the results indicate a noteworthy association between liquidity and profitability in Sri Lanka's listed trading enterprises. Nonetheless, the research done on the chosen companies forms the basis of this paper's conclusions.

Using a sample of 32 randomly chosen companies from three manufacturing sectors—chemical, automotive, and construction and material—the study by Majeed et al. (2013) examined the relationship between the cash conversion cycle and profitability of Pakistani firms over a five-year period from 2006 to 2010. Correlation and regression studies were employed to investigate the association between CCC and the following firm performance metrics: Return on Equity (ROE), Operating Profit (EBIT), and Return on Assets (ROA). The study found that the various cash conversion cycle variables had a negative link with the performance of the enterprises.

According to the findings, managers can generate value for their investors by shortening the duration of accounts receivable. Furthermore, the inverse relationship implies that less successful companies will try to close the cash gap in the CCC by reducing their accounts receivable. Managers can increase profitability by shortening the time that clients are given credit.

Boadi and Lartey (2013) carried out research to identify the factors that influence the insurance companies' profitability in Ghana. Sixteen insurance companies in Ghana provided secondary data on their financial reports between 2005 and 2010.The nature of the investigation was quantitative. It used the panel technique with ordinary least square regression, specifically the longitudinal time dimension. The study found that the profitability of insurance companies in Ghana had a positive association with leverage, liquidity, and other factors, with the exception of tangibility, which had a negative link. Additionally, it was determined that the accepted profitability model described all of the independent variables and had an error rate of less than 20%. Ultimately, it was proposed that in order to determine the degree of association between the explanatory factors and profitability in that study, they should be regressed on Return on Equity.

Shafana (2013) investigated the extent and pattern of liquidity factors on the profitability of Sri Lankan financial institutions between 2009 and 2013. 16 banks and finance companies that are listed on the Colombo Stock Exchange are included in the study. For these purposes, the study measured the liquidity level and examined the factors that influence the Return on Assets (ROA) of financial institutions in Sri Lanka using the Cash Position Indicator (CPI), Capacity Ratio (CR), and Total Deposit Ratio (TDR) as independent variables. In order to reach final conclusions, statistical tools for evaluating hypotheses included the regression model and correlation. The results showed that while CR has little bearing on the ROA of banks and finance companies in Sri Lanka, TDR and CPI are important factors with positive and negative signs, respectively. Overall, the regression model's conclusion is that variations in the liquidity of Sri Lanka's banks and finance companies account for 30% of variations in profitability (ROA). Additionally, the profitability of financial institutions in Sri Lanka is significantly and negatively impacted by liquidity. The findings are more helpful to financial institution finance decision-makers in helping them make wise choices about how to appropriately trade off profitability and liquidity.

A study on the effect of liquid asset holdings on the profitability of commercial banks in Liberia was carried out by Botoe (2011). This study examines the profitability of commercial banks utilizing balanced data from 2006 to 2011 and regression analysis. The liquid asset and profitability link was estimated by the study using the liquidity asset and liquidity assets. The approximate correlation between bank and liquid assets The level of profitability was anticipated. Positive and statistically significant coefficients were found for the liquid assets ratio, its square, the business cycle, and the product of the business cycle and regulation. Despite this, the regulatory coefficient was negative. As anticipated, we discover evidence of a nonlinear link between ownership of liquid assets and profitability. This study's key conclusion is that a commercial bank's profit is highly influenced by its business cycle. Significantly negative is the coefficient of regulation. Hence, banks make money if authorities loosen the restrictions placed on them. The deposit ratio has a positive and statistically significant coefficient. A bank can become more profitable if it has more deposits. It is implied that banks with a high percentage of loan asset ratio have higher profitability by the positive and substantial coefficient of loan asset ratio. Furthermore, a noteworthy discovery of this research is that bank profits are notably impacted by the business cycle. Bank profitability is predicted to be positively and statistically significantly impacted by the business cycle. Because the coefficient of regulation is negative and large, it may be inferred that banks will make money if regulators loosen the restrictions placed on them. The empirical findings indicate that concentration has a detrimental, albeit negligible, impact on bank profitability. The financing of these current assets as well as the management of current liabilities and assets make up the management of liquidity position. The profitability of these businesses will eventually rise if they handle their cash, accounts receivable, and inventory correctly.

The relationship between liquidity and profitability for companies listed on the NSE is examined by Akhwale (2011). A diagnostic research design was used to carry out this investigation. Since the diagnostic research method looks for connections between the subject matter and other things, it was deemed appropriate. Secondary data were employed in this investigation. Over a five-year period (2009–2013), the annual financial reports of the sampled listed enterprises in Kenya provided the secondary data. Based on the knowledge of the variables, the data was gathered. While content analysis was used to study qualitative data, descriptive analysis was used to analyze quantitative data.

From the results, the study concluded that while the quick ratio did not significantly affect the profitability of the firms listed in the NSE over the five-year period, the cash conversion period and the current ratio did as liquidity measures and negatively affected the profitability of the firms listed in the NSE. According to the study's findings, listed companies in Kenya have a substantial correlation between their profitability and liquidity. The study suggests that in order to shorten the cash conversion period, the management of the companies listed on the NSE should implement effective cash management strategies. The report also suggests that the management of the NSE-listed companies work toward achieving and preserving an optimal liquidity position, which entails holding enough cash and liquid resources to cover operating requirements and investing any excess in projects that are already profitable.

Bhunia, Khan, and Mukhuti (2011) examined the profitability-liquidity relationship and the effectiveness of liquidity management in Indian private sector steel businesses from 1997 to 2006. They examined information from sampled companies' income statements, balance sheets, and cash flow statements that they obtained from the Companies Annual Reports that were available through the CMIE database and the India Stock Exchange. They examined significant indicators of liquidity and concluded that managing the trade-off between a company's profitability and liquidity can lead to optimal working capital management. They investigated the combined impact of the chosen ratios on the profitability of the syndicating company's liquidity situation and performance using multiple regression approaches. They came to the conclusion that there is a strong positive correlation between profitability and liquidity. However, because their analysis only used publicly available financial data, it was susceptible to all the restrictions that come with using condensed publicly available financial statements.

Erasmus (2010) studied the association between business profitability and working capital management for a sample of South African industrial firms that were both listed and delisted. The complete sample's results showed statistically significant negative correlations between a company's net trade cycle, debt ratio, and liquidity ratio and its profitability (measured by the narrower definition of return on assets). Comparable outcomes were found when the listed companies were examined independently. Nonetheless, it seems that the debt and liquidity ratios were more significant than the net trade cycle in the case of the companies that delisted during the

analysis period. The study's findings suggest that management might try to increase company profitability by lowering the total amount of net working capital invested.

2.3.2. Review of National Articles

The impact of liquidity management on the profitability of joint venture commercial banks in Nepal was examined by Shrestha and Chaurasiya (2023). Descriptive statistics, Pearson correlation, regression analysis, and t-test were used in the data analysis process. The information utilized for the analysis of five (5) samples' sizes out of 27 was discovered to span the joint venture commercial banks' time frame in Nepal from 2012 to 2021. The variables of the credit deposit ratio (CDR), the 20 capital adequacy ratio (CAR), the current reserve ratio (CRR), the total loan to total assets ratio (TLTAR), the total deposit to total ratio (TDTAR), and the profitability, including return on assets (ROA), are represented by the liquidity management. The study's conclusions demonstrated a strong positive correlation between the dependent variable and the set of independent variables, with a R square value of 0.615, indicating that 61.5% of the variation in the dependent variable is explained by the independent variables and 38.5% is explained by variables outside the model. The findings indicated that, for joint venture commercial banks in Nepal, TLTAR had a considerable impact on ROA and that CDR, CAR, CRR, and TDTAR had no effect.

Pandey (2020) examined how liquidity affected Nepal's commercial banks' profitability. To determine how bank liquidity affects Nepalese commercial banks' performance, regression models are estimated. The study's findings show a negative relationship between investment and liquidity ratios and return on assets, meaning that larger ratios would correspond to lower returns on assets and vice versa.

Khati (2020) looked into the connection between Nepal's commercial banks' profitability and liquidity. The study, which covered the years 2013 to 2019, involved ten of the twenty-seven listed commercial banks. The secondary data used in this study were taken from the annual reports of the chosen commercial banks and the Bank Supervision Reports issued by Nepal Rastra Bank. Return on equity (ROE) and return on assets (ROA) are the stand-ins for profitability, while the credit-deposit ratio (CDR), cash-deposit ratio (CADR), and assets quality (AQ) are the measures of liquidity. Asset quality (AQ) has a negative and significant association with return on assets (ROA), but a positive and substantial link with return on equity (ROE),

according to the results of the Hausman test and the fixed effects method. The return on equity (ROE) and return on assets (ROA) have a positive but negligible connection with the cash deposit ratio (CADR). Nonetheless, the research indicates that there is a negative and negligible correlation between credit-deposit (CDR) and return on equity (ROE), and a positive but small correlation between CDR and ROA.

In the case of Nepal, Khanal (2019) examined the effects of macroeconomic and bank-specific variables on banks' liquidity and financial performance. The study used the 2005–06 sampling period to the 2015–16 study period. By choosing Nepali macroeconomic and bank-specific data, this study has measured the liquidity of Nepal using liquid asset/total asset, liquid asset/deposit, and borrowing. A multiple regression model has been employed. The study found that whereas ROE, size, and inflation had negative and significant effects on liquidity, ROA had a positive and substantial influence. Similarly, the loan to deposit ratio is negatively impacted by GDP and CAR, but positively impacted by NPL. According to the study's findings, the main factors influencing banks' liquidity are inflation, bank size, ROA, and ROE.

In the instance of Nepal, Bista (2018) looked at the impact of macroeconomic and bank-specific factors on banks' liquidity. The study was conducted between 2005 and 2016. By choosing Nepali macroeconomic and bank-specific data, this study has measured the liquidity of Nepal using liquid asset/total asset, liquid asset/deposit, and borrowing. The model of multiple regressions has been embraced. According to the study's findings, real GDP, deposits, and CAR all significantly affect financial performance as measured by liquid assets/total assets, although inflation and bank size have a negligible effect. While CAR has a negative coefficient, bank size, real GDP, deposits, and inflation have positive coefficients. On the other hand, real GDP, deposits, and CAR have a major influence on determining liquidity as measured by liquidity /deposit + borrowing; inflation and bank size, on the other hand, have a little impact. There is a positive association between bank size, real GDP, deposits, and inflation, but a negative correlation between CAR.

Regression analysis results in a negative and statistically significant impact on banks' liquidity for capital adequacy, bank size, the percentage of non-performing loans in the total volume of loans, and the liquidity premium paid by borrowers (Sushil and Bivab, 2013). The study examined the determinants of liquidity and their impact on financial performance in Nepalese commercial banks. The short-term interest rate,

inflation rate, and GDP growth rate on the basis of price level all had a negative and statistically negligible effect on bank liquidity. Additionally, the loan growth rate improved bank liquidity in a statistically negligible way. Bank size and the growth rate of the gross domestic product on a price-level basis were two statistically significant factors affecting banks' liquidity capital adequacy. These factors had a negative influence on the financial performance of the banks, whereas the liquidity premium paid by borrowers had a favorable impact.

Summary table on the basis of literature

Author (year)	Title	Major objective	Variable used	Methodology used
Eldi et al. (2023)	Analysis of the Effect of Liquidity and Profitability on Financial Performance at PT	To analyze the effect of liquidity and profitability on financial performance	current ratio, quick ratio, cash ratio, and working capital ratio, assets (ROA), return on equity (ROE), gross profit margin, and net profit margin	Multiple linear regression analysis, classical assumption test, and basic statistical tests using the SPSS program
Abbas et al. (2023)	Does economic growth affect the relationship between banks' capital, liquidity and profitability: empirical evidence from emerging economies.	To explore the role of economic growth in influencing the interrelationship between capital, liquidity, and profitability of commercial banks in selected Asian emerging economies	Economic growth, Banks' capital,Liquidity, Profitability, Market funding, Loan ratio, Credit risk, Bank size, Bank efficiency	Two-stage least squares (2SLS) regression analysis
Horsfall (2022)	Liquidity and Financial Performance of Listed NonFinancial Companies in Nigeria.	To Examining the relationship between liquidity and financial performance of listed non-financial companies in Nigeria	Liquidity measures, Financial performance indicators	Multiple regression analysis
Thinh et al. (2022)	The impact of liquidity on profitability– evidence of Vietnamese listed commercial banks	To examining the relationship between liquidity and profitability of Vietnamese listed banks	Liquidity ratios (e.g., loans to deposit plus short-term borrowings, short-term bills payable), Return on assets, return on equity, net interest margin	Time series method with ordinary least squares regression
Tei xeira et al. (2021)	The Effects of Government Bonds on Liquidity Risk and Bank Profitability in Cape Verde.	To analyze the effects of government bonds on liquidity risk and bank profitability in Cape Verde.	Government Bonds: Represents the level of investment or exposure of banks to government debt securities	Models with lagged regressions, estimated using ordinary least squares (OLS) estimation method
Kayzer, Florek, Staniszews	Application of Canonical Variate Analysis to	Application of canonical variate analysis to compare different groups of food industry	current ratio, quick ratio, cash ratio, and working capital ratio, assets	Canonical Variate Analysis

ki and Kayzer (2021)	Compare Different Groups of Food Industry Companies in Terms of Financial Liquidity and Profitability.	companies based on financial liquidity and profitability.	(ROA), return on equity (ROE), gross profit margin, and net profit margin	and Multiple Regression Analysis.
Jihadi, Vilantika, Hashemi, Arifin, Bachtiar and Sholichah (2021).	The Effect of Liquidity, Leverage, and Profitability on Firm Value: Empirical Evidence from Indonesia	To Analyzing the effect of liquidity, leverage, and profitability on firm value in Indonesia.	current ratio, quick ratio, and cash ratio, Ratios such as return on assets (ROA), return on equity (ROE), and net profit margin,	Multiple Linear Regression Analysis using the SPSS 18 Program
Paul et al. (2021)	The Effect of Banks' Liquidity on Profitability: A Study of the Commercial Banking Sector in Bangladesh.	To investigating the effect of banks' liquidity on profitability in the commercial banking sector of Bangladesh.	Loan-Deposit Ratio (LDR), Deposit-Asset Ratio (DAR), Credit-Deposit Ratio (CDR), Loan-Asset Ratio (LAR), Cash Ratio (CR), Return on Equity (ROE)	Quantitative analysis, Correlation and regression analysis
Dahiyat, Weshah, Aldahiyat (2021)	Liquidity and Solvency Management and Its Impact on Financial Performance: Empirical Evidence from Jordan	To determine Liquidity and solvency management and its impact on financial performance in Jordan	Return on Assets, Return on Equity, Net Income, Current Ratio, Quick Ratio	Correlation and multiple regression analyses
Samuel Njuguna Maina in (2017)	The Effect of Financial Literacy on Personal Financial Management in Kenya	To check the impact of financial management practices on firm performance.	Working capital, debt ratio, liquidity ratio	Quantitative analysis, regression models, correlation analysis
Rizwan andIsmail (2016)	Impact of liquidity management on profitability of Pakistani firms : A case of KSE-100	To check the impact of liquidity management on the performance of Pakistani companies.	Current ratio, quick ratio, cash ratio, return on assets	Descriptive statistic ,correlation and multiple regression analysis used
Buser etse (2014)	The Effect of Liquidity on the Profitability of Microfinance Banks in Kenya	To find out The effect of liquidity on the profitability of microfinance banks in Kenya.	Profitability: Return on Assets (ROA) Liquidity: Ratio of loans to deposits	Descriptive statistics and regression analysis
Lartey, Antwi, and Boadi (2013)	The relationship between liquidity and profitability of listed bank in Ghana	To find out the relationship between liquidity and profitability	Return on assets and temporary investment ratio (liquidity)	Quantitative technique and correlation, regression analysis used
Ajanthan (2013)	A Nexus between liquidity and profitability: A study trading company in Sri Lanka	To determine the nature and extent of the relationship between liquidity and profitability	Current ratio , liquid ratio, quick ratio, return on asset , return on equity	Descriptive statistic , correlation , multiple regression are used

Boadi, Antwi and Lartey (2013)	Determinants of profitability of insurance firms in Ghana	Find out the determinants of the profitability.	Return on assets, leverage ratio, liquidity ratio, tangibility.	Descriptive and inferential statistic , ordinary list square regression used
Shafanaa (2013)	Liquidity and profitability of financial institutions in Srilanka	Investigate the impact of liquidity on profitability ,	Cash position indicator, total deposit ratio, capacity ratio, ROA	Correlation and panel regression are used.
Botoe (2011)	The Impact of Liquid Asset Holdings on the Profitability of Commercial Banks in Liberia.	To find the impact of liquid asset holdings on the profitability of commercial banks in Liberia.	Liquid assets ratio, Square of the liquid assets ratio, Business cycle, Product of interactive business cycle and regulation, Regulation coefficient,- Deposit ratio, Loan asset ratio	Regression analysis using balanced data over the study period
Akhwale (2011)	Relationship between liquidity and profitability of companies listed at the Nairobi securities exchange	To find out the relationship between liquidity and profitability	Current ratio, quick ratio, cash conversation period and profitability	Descriptive statistic, correlation, panel multiple regression analysis are used
Bhuni, Khan,and Mukhuti (2011)	A study of managing liquidity	To explore the liquidity profitability association.	CR, Liquid ratio, D/E ratio, Return on investment ratio	Descriptive statistic , multiple regression model used
Erasmus (2010)	The relationship between working capital management and firm profitability for a sample of both listed and delisted South African industrial firms.	Investigating the relationship between working capital management and firm profitability.	Net Trade Cycle, Debt Ratio, Liquidity Ratio.	Quantitative research methodology used

2.4. Research gap

It is clear from the studies that have been studied that improved business entity performance is significantly influenced by liquidity. The review focuses on how different liquidity management components affect profitability. The majority of research shows that profitability and liquidity are significantly correlated. The literature mentioned above showed that liquidity and profitability were traded off in the financial industry, with the two variables supporting one another. Diverse outcomes were also noted based on the sector in which the study was carried out. This study established the association between profitability and liquidity in C Class Banks in Nepal, but previous research has mostly focused on C class banks.

The prior research was limited to a small number of variables and did not explain the particular factors that determine profitability. Previous studies on the influence of

profitability over maintaining liquidity have been insufficient. Due to the competing effects of profitability, it is now insufficient to explain the influence on the operational efficiency and particular issues faced by the financial company.

Previous studies have solely looked at financial and statistical instruments. There has simply been a descriptive research design applied in this study. Much of the research has been applied. panel regression analysis, simple regression, and correlation. This study has employed many statistical and financial analyses. Among these are multiple regression analysis, correlation analysis, and ratio analysis. Both descriptive and analytical research designs were used in this study.

CHAPTER 3

RESEARCH METHODOLOGY

The methodical approach to solving the research challenge is known as research technique. research concept and design, sample description, instruments, data collecting process and timeline, study validity and reliability, and analysis plan are all included in this comprehensive study. Without a process, it's possible that the findings made A problem can be solved systematically using research technique. It is a science that studies the best ways to do research. Research technique essentially refers to the processes that scientists use to describe, explain, and anticipate occurrences. As a result, the approach used in this chapter clarifies any potential misunderstandings.

Research methodology aids in the solution of systematic problems by describing the approach and procedure used in all study-related areas. Research methodology lays forth the general plan for a study and is used to gather information and data.

3.1. Research design

A descriptive and informal comparative research design is used in the study. The goal of a descriptive research design is to identify the who, what, where, and how of the study. It provides a population's description in relation to significant variables. Finding correlations between variables is one of the many uses for descriptive research design. The study uses a descriptive research design to elucidate the connection between profitability and liquidity. Because descriptive research involves many forms of fact-finding inquiries and surveys, it is a useful tool for determining financial position. Impact measurement research design is a subset of analytical research design. The study used an analytical model to examine how liquidity affected the profitability of C Class Banks in Nepal, hence analyzing the study's findings. en using analytical research designs, data or information that is already available is analyzed to provide a critical assessment of the topic.

3.2. Population and sample

This study employed a purposive sampling method. Population involves all element, individuals, or units that meet the selection criteria for a group to be studied and firm which a representative sample. Sample is taken for detailed examination. The population of the study comprised of the 17 C Class Banks registered in Nepal. This study adopts convenience sampling method. In this research total 5 C Class Banks are selection for 10 year 2014 -2023. The list of sample C Class Banks are as follows:

- Manjushree Finance Ltd
- Pokhara Finance Ltd
- Goodwill Finance Ltd
- ICFC Finance Ltd
- Progressive Finance Co. Ltd

3.3. Sources of data

Secondary data and published literature will serve as the paper's foundation. The annual reports of financial institutions, Mero Lagani, and NEPSE are the sources of data. The revenue statement and statement of financial condition from the websites of financial institutions' annual reports covering the ten financial periods are the sources of the data. The investopaper's website provides information on all C Class Banks currently in existence. For the purpose of the literature review, NRB Act, Regulation, Directives, Guidelines, and Circulars are also studied. The majority of the data could be found on the official websites of Mero Lagani, NEPSE, and associated banks.

3.4. Data collection and processing procedure

The study used secondary data, and the variables were inferred from the five registered financial institutions' audited financial statements covering nine fiscal years, from 2013–2022–2023. The availability of the audited financial reports has an impact on this. The necessary data was gathered from NEPSE websites as well as yearly reports, journal, articles and research reports.

3.5. Conceptual framework

The study's conceptual framework explains the methodical justifications of the correlations between the independent and dependent variables in order to make sense

of the relationship between the profitability and liquidity factors of Nepal's C Class Banks. This section explains the factors that have been studied and offers the conceptual foundation for the investigation. The return on equity and return on assets are the dependent variables in this research. where the independent variables are the leverage ratio, quick ratio, and current ratio. In order to condense the primary goal and parameters of this investigation, the conceptual model that follows is presented.

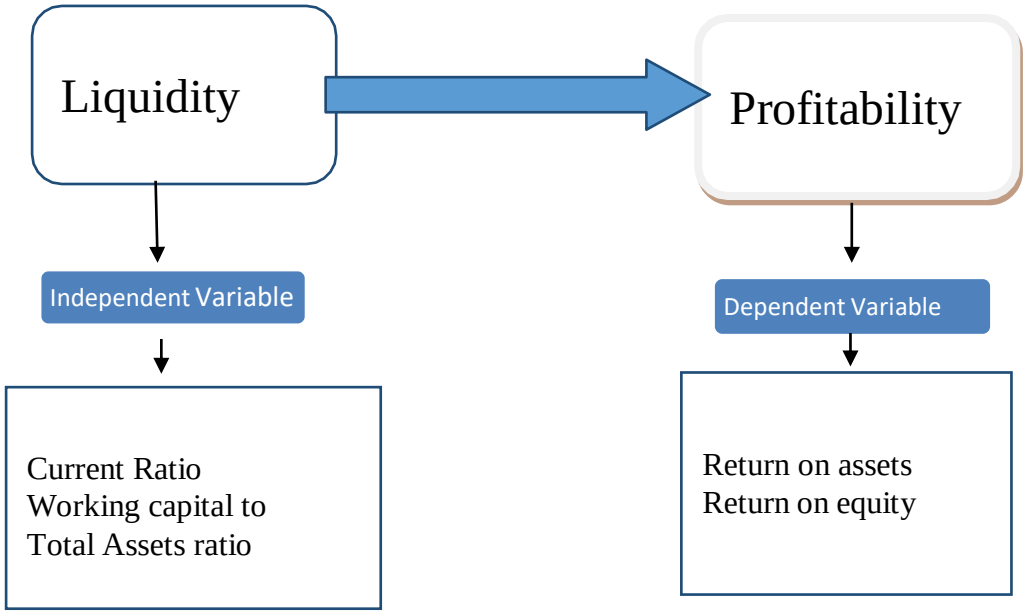

Figure : 3.5 Research Framework

3.6. Data analysis tools and techniques

Based on the income statement and balance sheet, ratio analysis will determine how profitable and liquid the C Class Banks are. ROA and ROE will be used to measure profitability, and the current ratio, quick ratio, and leverage ratio will be used to measure liquidity. Through correlational analysis, the factor liquidity's influence on profitability metrics will be expressed. The relationship between liquidity, the independent variable, and profitability, the dependent variable, will be ascertained by multiple linear regression. In order to help the researcher describe the data, the acquired data will be analyzed using descriptive statistics, which makes use of tools like percentages, means, and standard deviations. With SPSS, descriptive statistics were used to analyze the data that had been gathered. On the other hand, judgments on a certain sample of data are drawn using analytical statistics.

3.6.1. Financial analysis

Ratio analysis is a frequently used tool in financial analysis. One method for analyzing and interpreting financial statements is ratio analysis. A popular tool for financial analysis is ratio analysis, which determines the quantitative or numerical relationship between two objects. The following ratios can be examined using ratio analysis to ascertain a company's financial standing.

3.6.2. Profitability ratio

The primary goal of any company enterprise is to generate the highest possible profit. This ratio is used to analyze the profitability situation of the business. The profitability ratio is employed to evaluate the companies' operational efficacy. Return on equity (ROE) and return on assets (ROA) are used to gauge a company's profitability.

Return on assets

Return on assets manifest the efficiency of the companies in transforming the money utilized to purchase assets in to net income. Therefore the higher return on assets shows the firms are more profitable. It is an important indicator of the overall productivity of the company, and shows the percentage of profit, company earns in relative to its total resources. It is determine by the following was.

$$\text{Return on Assets} = \frac{\text{Net profit after tax}}{\text{Total Assets}} \text{ X } 100\ \%$$

Return on equity

Return on assets manifest gauge the capacity of the companies to yield profit from it is owners' investment. This ratio is considered from the investors perspectives. Higher is the ROE higher efficiency of management in optimize the equity revealed. It is determine by the following was.

$$\text{Return on Equity} = \frac{\text{Net Profit After Tax}}{\text{Total Equity}} \text{X}100\%$$

3.6.3. Liquidity ratio

Liquidity ratios assess the company's capacity to pay its present debts. This speaks to an insurer's capacity to pay short-term debts as they become due. It also demonstrates an insurer's capacity to swiftly turn its assets into cash. In the language of finance, a high liquidity ratio indicates that a company is financially sound.

Current ratio

The current ratio is calculated by dividing current assets by current liabilities. This shows the solvency and financial strength of the firm. It is basic yardstick of measuring the solvency and liquidity position of the firm. The higher ratio indicates the position of the company is in liquid and able to pay its bills. Generally, the current ratio of 2:1 is considered to be satisfactory. Higher ratio indicates the greater amount of working capital and less ratio vice-versa. It is determined by the following was

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Working Capital to Total Assets Ratio (WCTA)

The Working Capital to Total Assets ratio is a financial metric that measures the proportion of a company's total assets that are financed by its working capital. This ratio provides insight into a company's ability to cover its short-term obligations with its current assets, and it can be an indicator of liquidity and operational efficiency. It determined as follow.

$$\text{WCAT} = \frac{\text{Working Capital}}{\text{Total Assets}}$$

A high Working Capital to Total Assets ratio indicates that a large proportion of the company's assets are liquid and can be used to meet short-term liabilities. This typically signifies good liquidity and financial health. However, excessively high ratios may also suggest that the company is not using its assets efficiently to generate revenue. A low ratio suggests that a smaller portion of the company's total assets are liquid, which might indicate potential liquidity problems. The company might struggle to meet its short-term liabilities. This could also indicate that a large portion of the company's assets are tied up in long-term investments or fixed assets, which could be a strategic choice for long-term growth but might present short-term liquidity challenges.

3.6.4. Statistical analysis

Compared to utilizing raw data alone, descriptive statistics are used to examine and characterize a data set's features in a more comprehensive and organized manner. The percentage, mean, median, standard deviation, maximum, and minimum results—that is, each variable—have been clearly defined for a detailed study of their importance under the main and secondary data analysis. To assess the relationship between two or more variables, statistical methods are a must. The following statistical instruments are applied in this work.

I) Standard deviation (SD)

The standard deviation is the square root of the average of the square distances of the observation from the mean. The standard deviation enables us to determine, with a great deal of accuracy, where the values of a frequency distribution are located in relation to the mean. Different formulae are used to calculate standard deviation; among them following formulae has been use here:

$$S.D\ (\sigma) = \sqrt{\frac{\sum(x - \bar{x})^2}{N}}$$

II) Co-efficient of variation (CV)

The relative measure of dispersion based on the standard deviation is known as the coefficient of standard deviation. The percentage of measure of co-efficient of standard deviation is called co-efficient of variation.

It is used for comparing the homogeneity and the uniformity of two or more distributions.

$$C.V = \frac{S.D}{Mean}\ X\ 100\ \%$$

III) Correlation analysis

The study uses Pearson correlation analysis to define the association between liquidity on company's profitability. There is a majority of previous researches have chosen to employ correlation analysis to first see the correlation between variables before conducting regression analysis. However, one of the shortcomings of correlation analysis is that it cannot identify a cause-and-effect relationship.

Correlation co-efficient is defined as the association between the dependent variable and independent variable. It is a method of determining the relationship between these two variables. To calculate the Pearson correlation analysis SPSS version 25.0

database is used for tabulation and data analysis. Simple statistical tools like mean, standard deviation were analyzed.

IV) Multiple regression analysis

Multiple regression analysis was carried out to identify the relationship between liquidity and profitability. Here liquidity is the independent variable, profitability is the dependent variable it can be represented as follows:

$P = f(L)$

Which show profitability is the function of liquidity

Where:

P = liquidity

L = profitability

In the present study, profitability is measured by using two ratios namely net return on assets and return on equity whereas liquidity is measured by using current ratio, quick ratio and leverage Ratio. The following two models are formulated to measure the impact of Liquidity and Profitability.

$ROE = \beta 0 + \beta 1CR + \beta 2WCTA + e$ ----------(1)

$ROA = \beta 0 + \beta 1CR + \beta 2WCTA + e$ ---------- (2)

Where,

$\beta 0$, $\beta 1$, $\beta 2$, $\beta 3$ are the regression co-efficient

e → Error term

ROE → Return on equity

ROA → Return on assets

CA → current ratio

WCTA → Working Capital to Total Assets

CHAPTER 4

RESULTS AND DISCUSSION

4.1. Data presentation and analysis

The data analysis of information gathered regarding the correlation between the profitability and liquidity of Nepal's C Class Banks is presented in this chapter. The gathered data are methodically documented and arranged for analysis utilizing various instruments and approaches. Thus, this chapter serves as the study's major body and deals with the presentation, analysis, and interpretation of the data that was gathered.

Annual reports and audited financial statements are used to gather the information and data needed to examine how liquidity affects the profitability of Nepalese C Class Banks. The study's primary variables, which are highly relevant and sensitive, include the current ratio, quick ratio, leverage ratio, return on equity, return on assets, etc. For the goal of the study, gathering and presenting the data is insufficient. Consequently, a range of statistical and financial instruments have been used to investigate the connection between Nepalese C Class Banks' profitability and liquidity.

4.2. Liquidity position

The most crucial component for a company's functioning is its liquidity situation, which is regarded as the essential component required to keep a business operating day-to-day. A high liquidity ratio is more than one indicator of a company's sound financial standing. Thus, an examination of the liquidity situation of C Class Banks and a measurement of that position show the bank's capacity to meet its immediate obligations. The liquidity position shows the number of times current assets can be used to cover current liabilities on a one-time basis.

4.2.1. Current ratio

Current Ratio serves a similar purpose and it is frequently used. It is also called Liquidity ratio. It is considered as an index of solvency of company. It indicates the ability of the company to meet its current obligations. Change in current ratio can however be misleading. If a company raises money through commercial paper and invests the amount in marketable securities, net working capital is unattached but the current ratio changes. A current ratio of 2:1 in generally considered satisfactory for

Finance Company. It constitutes a rule of thumb for measuring liquidity. The ratios of selected companies for the period of study are calculated below.

Table 4.1 Current Ratio(CR)

Year	MFIL	PFL	GFCL	ICFC	PROFL
2013/14	1.15050	1.17765	0.09888	1.14775	1.29216
2014/15	1.14867	1.14537	1.01992	1.07738	1.26664
2015/16	1.18369	1.14214	1.24240	1.38195	1.32227
2016/17	1.09993	1.14023	1.05706	1.16542	1.36441
2017/18	0.87612	1.20142	1.11775	1.09739	1.33910
2018/19	0.97806	1.12297	1.00134	1.00098	1.64997
2019/20	1.06684	1.06566	0.91281	1.02230	1.23818
2020/21	0.75229	0.96554	0.85129	0.87990	1.08338
2021/22	1.02677	1.02337	0.85007	0.76392	0.97838
2022/23	0.99059	0.98226	0.85427	0.86461	0.92230
Mean	1.027	1.097	0.901	1.04	1.246
SD	0.1348	0.0824	0.3096	0.1775	0.2101
CV	0.13118	0.07518	0.34382	0.1706	0.16864

Source: Annual reports of C Class Banks

The Table 4.1 shown indicates the position of current ratio over the 10 years period of five C Class Banks and mean, standard deviation, and coefficient of variation have also calculated. The highest current ratio of PROFL is 1.29216 times in the years 2014 which is highest than other companies and lowest value is GFCL 0.09888 times in the year 2014. The mean value of current ratio of MFIL, PFL, GFCL, ICFC and PROFL are 1.027,1.097,0.901,1.04 and 1.245 respectively which are in current ratio standard. The average current ratio is highest for PROFL for a time of study period but lowest for GFCL. This shows that the C Class Banks has maintain a Standard level of the current ratio over the 10 year period. The standard deviation of GFCL is 0.3096 which is higher than other. The CV of current ratio of MFIL, PFL, GFCL, ICFC and PROFL are 0.13118, 0.07518, 0.34382, 0.1706, and 0.16864 respectively, the coefficient of variation of GFCL is 0.34382 which is higher than other companies. Which indicate that GFCL is more risky. In this study shows that the liquidity varies widely with in different C Class Banks.

4.2.2. Working Capital to Total Assets Ratio (WCTA)

The Working Capital to Total Assets ratio is a financial metric that measures the proportion of a company's total assets that are financed by its working capital. This ratio provides insight into a company's ability to cover its short-term obligations with its current assets, and it can be an indicator of liquidity and operational efficiency.

Table 4.2 WCTA

Year	MFIL	PFL	GFCL	ICFC	PROFL
2013/14	0.78579	2.22322	1.67164	1.39033	-1.122
2014/15	0.803	4.601	1.126	1.177	-1.329
2015/16	1.092	2.313	2.845	1.681	2.85
2016/17	1.09	1.922	1.673	2.236	1.681
2017/18	1.2909	1.5743	0.942	0.9098	0.5562
2018/19	0.7424	1.3196	1.6946	1.0397	1.4311
2019/20	2.846	0.823	1.047	0.663	0.156
2020/21	3.626	1.081	1.455	1.447	0.656
2021/22	0.6865	0.6775	0.9676	0.8115	0.1932
2022/23	1.4648	0.1718	-0.624	0.7183	-3.639
Mean	1.443	1.671	1.28	1.207	0.143
Sd	0.995	1.2383	0.874	0.4924	1.8214
Cv	0.68959	0.74118	0.68287	0.40782	12.7093

Source: Annual reports of C Class Banks

The Table 4.2 shown indicates the position of WCTA over the5 years period of five C Class Banks and mean, standard deviation, and coefficient of variation have also calculated. A higher WCTA ratio suggests that a larger proportion of a company's total assets are financed by its working capital, which indicates better liquidity and operational efficiency. Conversely, a lower ratio may indicate potential liquidity issues.

Here is the breakdown of the given data for different companies from 2014 to 2023, including the mean, standard deviation (sd), and coefficient of variation (cv). MFIL (Mean: 1.443, SD: 0.995, CV: 0.68959), PFL (Mean: 1.671, SD: 1.2383, CV: 0.74118), GFCL (Mean: 1.28, SD: 0.874, CV: 0.68287), ICFC (Mean: 1.207, SD: 0.4924, CV: 0.40782), and PROFL (Mean: 0.143, SD: 1.8214, CV: 12.7093) . MFIL,

PFL, and GFCL exhibit higher mean WCTA ratios, suggesting generally better liquidity positions but also significant variability. ICFC has a moderate mean WCTA ratio with less variability, indicating more stable operational efficiency. PROFL shows extreme variability and low mean WCTA, indicating potential financial instability and issues with maintaining liquidity.

4.3. Profitability position

The profitability ratio is employed to evaluate the companies' operational efficacy. In general, a company's profitability can be used to measure its performance. It is the efficiency measures. The profitability situation of the banking industry has been impacted by liquidity. The goals of maximizing wealth and profits are satisfied by the company's strong profitability position, which encourages investors to make investments.

4.3.1. Return on equity

Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested. ROE is a matric of how well the company utilizes its equity to generate profits. High return on equity is usually more capable of generating cash internally and therefore less dependent in debt financing. The findings on the return on equity ratio, mean value and coefficient of variation are as presented in the table 4.3

Table4.3

Return on Equity(ROE)

Year	MFIL	PFL	GFCL	ICFC	PROFL
2013/14	5.67039	19.63124	17.05245	19.48818	-3.49053
2014/15	7.95042	31.83324	11.63889	11.62019	-4.43303
2015/16	11.52515	15.79083	30.08410	18.31315	10.46651
2016/17	6.66666	14.27836	14.77322	21.84615	6.20799
2017/18	11.36017	10.60578	8.12613	11.14755	2.17648
2018/19	9.09294	11.94137	18.48007	16.27812	3.53566
2019/20	32.17624	8.02487	14.20780	11.26321	0.55271
2020/21	51.50552	12.19831	22.30743	24.54675	3.35177
2021/22	8.09040	8.72750	15.49835	17.70626	1.42442
2022/23	18.27521	2.20389	-9.75867	13.06171	-24.86247
Mean	16.23	13.52	14.24	16.53	0.507
Sd	14.672	7.975	10.349	4.6993	9.5818
Cv	0.90393	0.58971	0.72672	0.28434	-18.8971

Sources: Annual reports of C Class Banks

The Table 4.3 presents the ROE for five companies over a ten-year period, along with the mean, standard deviation (sd), and coefficient of variation (CV). MFIL (mean ROE : 16.23, Sd: 14.672, Cv: 0.90393) significant variability in ROE, with a low of 5.67039 in 2014 and a high of 51.51 in 2021. The high CV indicates high volatility in profitability., PFL (mean ROE: 13.52, Sd: 7.975, Cv: 0.58971) relatively stable ROE with peaks in 2015 (31.83) and a decline to 2.2039 in 2023. The moderate CV suggests some variability, but overall stability compared to MFIL. GFCL (mean ROE: 14.24, Sd: 10.349, Cv: 0.72672) fluctuating ROE with a peak in 2016 (30.08) and a significant drop to -9.759 in 2023. The relatively high CV indicates notable variability in profitability. ICFC (mean ROE: 16.53, Sd: 4.6993, Cv:0.28434), consistent ROE with lower variability compared to others. The low CV indicates stable profitability with the highest ROE in 2021 (24.55) and lowest in 2014 (11.62), and PROFL (mean ROE: 0.507, Sd: 9.5818, Cv: 18.8971) generally poor performance with negative ROE in several years, indicating inefficiency and potential financial distress. The extremely high CV suggests significant instability.

MFIL has the highest average ROE but also the highest variability, indicating periods of strong profitability interspersed with less profitable years. PFL shows moderate variability and a consistent downward trend in ROE, suggesting declining efficiency over time. GFCL has considerable fluctuations, including a significant drop into negative ROE territory, indicating instability in profitability. ICFC demonstrates the most stable performance with a relatively high average ROE and low variability, suggesting efficient and consistent use of equity. PROFL consistently underperforms with negative average ROE and high variability, indicating potential financial and operational challenges.

4.3.2. Return on assets

This ratio measure for the operating efficiency for the company based on the firm’s generated profits from its total assets. It shows the efficient management at using assets to generate earnings. ROA is often called the firm's return on total assets, measure the overall effectiveness of management in generating profit with its available assets. The higher the firm's return on assets the better it is doing in operation and firms are more profitable

Table4.4

Return on Assets (ROA)

Year	MFIL	PFL	GFCL	ICFC	PROFL
2013/14	0.78579	2.22322	1.67164	1.39033	-1.12196
2014/15	0.80334	4.60083	1.12643	1.17664	-1.32860
2015/16	1.09219	2.31332	2.84527	1.68095	2.85030
2016/17	1.09046	1.92198	1.67293	2.23557	1.68088
2017/18	1.29093	1.57433	0.94201	0.90979	0.55618
2018/19	0.74237	1.31957	1.69464	1.03968	1.43106
2019/20	2.84556	0.82256	1.04723	0.66334	0.15552
2020/21	3.62640	1.08134	1.45512	1.44707	0.65560
2021/22	0.68651	0.67750	0.96756	0.81153	0.19318
2022/23	1.46478	0.17180	-0.62392	0.71834	-3.63900
Mean	1.443	1.671	1.28	1.207	0.143
Sd	0.995	1.2383	0.874	0.4924	1.8214
Cv	0.68959	0.74118	0.68287	0.40782	12.7093

Sources: Annual reports of C Class Banks

The Table 4.4 presents the ROA for five companies over a ten-year period, along with the mean, standard deviation (sd), and coefficient of variation (cv). MFIL (mean: 1.443, Sd: 0.995 and Cv : 0.68959), significant variability in ROA, with a low of 0.6865 in 2022 and a high of 3.626 in 2021. The high CV indicates notable volatility in operational efficiency. PFL (mean: 1.671, Sd: 1.2383 and Cv: 0.74118), the highest value is 4.601 in 2015, with a significant drop to 0.1718 in 2023. The high CV suggests considerable variability in asset utilization efficiency. GFCL (mean: 1.28, Sd: 0.874 and Cv: 0.68287), fluctuating ROA with a peak in 2016 (2.845) and a notable decline to -0.624 in 2023. The relatively high CV indicates notable variability in operational performance. ICFC (mean: 1.207, Sd: 0.4924 and Cv: 0.40782), consistent ROA with lower variability compared to others, suggesting stable operational efficiency. The highest ROA is 2.236 in 2017 and the lowest is 0.663 in 2020. The low CV indicates stability. PROFL (mean: 0.143, Sd: 1.8214 and Cv: 12.7093), generally poor performance with negative ROA in several years, indicating inefficiency in asset utilization and potential financial distress. The extremely high CV suggests significant instability.

ROA provides valuable insights into how efficiently companies use their assets to generate profits. Companies with higher and more stable ROA are generally better positioned operationally. In this analysis, ICFC stands out for its consistent and

efficient performance, while PROFL shows significant operational instability and inefficiency. Understanding these trends can help investors make informed decisions regarding the operational efficiency and financial health of these companies.

Descriptive analysis

The descriptive statistical used in this study consists of mean, median, standard deviation, coefficient of variation, minimum and maximum values associated with variables under consideration. Table summarizes the descriptive statistics for the Nepalese C Class Banks used in this study during the period 2013/14 through 2022/23 for 5 sample C Class Banks of Nepal.

Table4.5

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CR	41	0.10	1.38	1.0229	0.20314
WCTA	41	-768.90	26.10	-15.5325	121.10279
ROA	41	-1.12	4.60	1.3387	0.99043
ROE	41	-9.76	51.51	14.6766	10.09474
Valid N (listwise)	41				

Source:SPSS output

The Table 4.5 presents descriptive statistics for various financial ratios of Nepalese C Class Banks over the period from 2013/14 to 2022/23. Here is the breakdown: current ratio (N: 41, minimum :0.10, maximum : 1.38, mean 1.0229, Sd: 0.20314), the current ratio indicates the liquidity position of the finances. The mean value of 1.0229 suggests that, on average, the banks have slightly more current assets than current liabilities. The low standard deviation indicates relatively low variability in liquidity among the finances. WCTA (N: 41, minimum : -768.9, maximum : 26.10, mean : -15.5325, Sd: 121.10279), the highly negative mean indicates that, on average, these banks have significantly more current liabilities than current assets, leading to negative working capital. The very high standard deviation suggests substantial variability in the working capital positions among the banks, with some banks potentially facing severe liquidity issues. ROA (N: 41, minimum : -1.12, maximum : 4.60, mean: 1.3387, Sd: 0.99043), the mean ROA of 1.3387 indicates that the banks, on average, generate 1.34% of profit from their total assets. The standard deviation of 0.99043 shows moderate variability in the efficiency of asset utilization among the banks. ROE (N: 41, minimum : -9.76, maximum : 51.51, mean : 14.6766, Sd: 10.09474), the mean ROE of 14.6766 indicates that the banks, on average, generate a 14.68% return on shareholders' equity. The standard deviation of 10.09474 shows

high variability in profitability among the banks, with some banks achieving very high returns and others experiencing negative returns.

The descriptive analysis provides a comprehensive overview of the financial health and performance of the sample C Class Banks in Nepal over the specified period. It highlights areas of strength, such as ROE, and areas of concern, such as the negative WCTA, indicating potential liquidity issues for some banks. This analysis helps in understanding the general trends and identifying specific financial challenges and opportunities within the banking sector.

Correlation analysis

Pearson's correlation is used to analyze the relationship between current ratio, quick ratio, leverage ratio with return on equity and return on assets in Nepalese C Class Banks. Correlation measure the strength and the direction of a linear relationship between dependent and independent variables. The study has used correlations analysis to show the correlation between the dependent variables Return on equity (ROE) and Return on assets (ROA) and the independent variables Current ratio (CR), working capital to total assets (WCTA) .

Table4.6

Pearson's correlations coefficient matrix

Correlations					
		CR	WCTA	ROA	ROE
CR	Pearson Correlation	1	.787**	0.032	-0.129
	Sig. (2-tailed)		0.000	0.844	0.423
	N	41	41	41	41
WCTA	Pearson Correlation	.787**	1	-0.044	-0.052
	Sig. (2-tailed)	0.000		0.786	0.748
	N	41	41	41	41
ROA	Pearson Correlation	0.032	-0.044	1	.868**
	Sig. (2-tailed)	0.844	0.786		0.000
	N	41	41	41	41
ROE	Pearson Correlation	-0.129	-0.052	.868**	1
	Sig. (2-tailed)	0.423	0.748	0.000	
	N	41	41	41	41

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

Sources:SPSS data

The Table 4.6 presents the Pearson correlation coefficients between Current Ratio (CR), Working Capital to Total Assets (WCTA), Return on Assets (ROA), and Return on Equity (ROE) for Nepalese C Class Banks. **C**orrelation between CR and WCTA**:** Pearson Correlation: 0.787**, there is a strong positive correlation between CR and WCTA, significant at the 0.01 level. This implies that as the current ratio increases, the working capital to total assets ratio also tends to increase. Correlation between CR and ROA**:** Pearson Correlation: 0.032, Sig. (2-tailed)**:** 0.844, there is a very weak positive correlation between CR and ROA, which is not statistically significant. This indicates that there is no meaningful linear relationship between the current ratio and return on assets. Correlation between CR and ROE: Pearson Correlation: -0.129, Sig. (2-tailed): 0.423, there is a weak negative correlation between CR and ROE, which is not statistically significant. This suggests a negligible inverse relationship between the current ratio and return on equity. Correlation between WCTA and ROA: Pearson Correlation: -0.044, Sig. (2-tailed): 0.786, there is a very weak negative correlation between WCTA and ROA, which is not statistically significant. This indicates that there is no meaningful linear relationship between working capital to total assets and return on assets. Correlation between WCTA and ROE: Pearson Correlation: -0.052, Sig. (2-tailed)**:** 0.748, there is a very weak negative correlation between WCTA and ROE, which is not statistically significant. This suggests a negligible inverse relationship between working capital to total assets and return on equity.

Correlation between ROA and ROE**:** Pearson Correlation: 0.868**, Sig. (2-tailed): 0.000, there is a very strong positive correlation between ROA and ROE, significant at the 0.01 level. This indicates that higher returns on assets are strongly associated with higher returns on equity, reflecting that profitability in asset utilization is closely linked to overall profitability for shareholders.

The correlation analysis reveals that while there is a significant and strong positive relationship between the current ratio and working capital to total assets, as well as between return on assets and return on equity, other relationships between the variables are weak and not statistically significant. This suggests that for Nepalese C Class Banks, operational efficiency in terms of asset utilization (ROA) is closely tied to overall profitability (ROE), but liquidity measures (CR, WCTA) do not strongly influence profitability metrics (ROA, ROE).

Multiple regression analysis

Multiple Regression Analysis is a statistical technique used to predict the value of a dependent variable based on the values of two or more independent variables. It estimates the coefficients of the linear equation, which best predicts the dependent variable. This analysis helps to understand the relationship between variables and the extent to which independent variables (predictors) explain the variation in the dependent variable (outcome). Coefficient of determination explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (profitability indicated by ROA, ROE) that is explained by independent variables (WCTA, CR).

Table4.7 Model summary 1

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.152[a]	0.023	-0.028	10.23708	0.023	0.448	2	38	0.642

a. Predictors: (Constant), WCTA, CR

Sources: SPSS data

This Table presents the summary of a regression model where the dependent variables are profitability indicators (ROA, ROE) and the independent variables are liquidity indicators (WCTA, CR).

R Square (0.023)**:** The model explains only 2.3% of the variation in profitability, indicating very weak explanatory power. Adjusted R Square (-0.028): After adjusting for the number of predictors, the explanatory power decreases further, suggesting potential over fittings. Standard Error (10.23708)**:** The predictions made by the model have a high degree of error. F Change (0.448, p = 0.642)**:** The model does not significantly improve with the inclusion of WCTA and CR, indicating that these predictors do not have a meaningful impact on profitability.

The multiple regression analysis suggests that the liquidity indicators (WCTA, CR) have little to no significant impact on the profitability indicators (ROA, ROE) of Nepalese C Class Banks. The model's very low R Square and non-significant F Change value imply that other factors not included in this analysis likely play a more

significant role in determining the banks' profitability.

Table 4.8 ANOVA result-1

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	93.836	2	46.918	0.448	.642[b]
	Residual	3982.314	38	104.798		
	Total	4076.150	40			

a. Dependent Variable: ROE
b. Predictors: (Constant), WCTA, CR

Sources: SPSS data

This Table 4.8 provides the ANOVA results for a regression model where the dependent variable is Return on Equity (ROE), and the independent variables are Working Capital to Total Assets (WCTA) and Current Ratio (CR). Model Fit**:** The regression model explains a very small portion of the total variability in ROE (sum of squares for regression is much smaller than the sum of squares for residuals). F-statistic**:** The low F-statistic (0.448) indicates that the model does not significantly improve the fit compared to a model with no predictors. Significance**:** The high p-value (0.642) suggests that the independent variables (WCTA and CR) do not significantly explain the variation in ROE.

The ANOVA results indicate that the regression model, with WCTA and CR as predictors, does not significantly explain the variation in ROE for Nepalese C Class Banks. The independent variables do not have a meaningful impact on the dependent variable, and the model does not provide a better fit than a model with no predictors.

Table4.9 Coefficient analysis of ROE and variable

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	26.606	13.584		1.959	0.058
	CR	-11.498	12.927	-0.231	-0.889	0.379
	WCTA	0.011	0.022	0.130	0.501	0.619

a. Dependent Variable: ROE

Sources: SPSS data

This Table 4.9 presents the coefficients of the regression model with Return on Equity (ROE) as the dependent variable and Current Ratio (CR) and Working Capital to Total Assets (WCTA) as the independent variables. Intercept (26.606): Indicates the baseline level of ROE when CR and WCTA are zero. It is not significant at the 0.05 level, suggesting moderate evidence that ROE could be around this value without considering the predictors. CR (-11.498): Suggests a negative relationship with ROE, but the high p-value (0.379) indicates that this relationship is not statistically significant. WCTA (0.011): Suggests a positive relationship with ROE, but the high p-value (0.619) indicates that this relationship is also not statistically significant. The p-values for CR (0.379) and WCTA (0.619) are significantly higher than the common alpha levels (e.g., 0.05 or 0.01). High p-values indicate a low probability that the observed relationships are different from zero, reinforcing the insignificance of the results.

The coefficient analysis indicates that neither the Current Ratio (CR) nor the Working Capital to Total Assets (WCTA) significantly explains the variability in Return on Equity (ROE) for Nepalese C Class Banks. The high p-values suggest that the relationships between these liquidity indicators and profitability (ROE) are weak and not statistically significant. This implies that other factors not included in this model might better explain the variations in profitability.

Regression result of model 2

Table 4.10 Model summary 2

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.116[a]	0.013	-0.038	1.00930	0.013	0.259	2	38	0.773

a. Predictors: (Constant), WCTA, CR

Sources: SPSS data

This Table 4.10 presents the model summary for a regression analysis where Return on Assets (ROA) is the dependent variable, and Current Ratio (CR) and Working Capital to Total Assets (WCTA) are the independent variables. R (0.116)**:** Very weak linear relationship between the observed and predicted ROA values. R Square (0.013)**:** Only 1.3% of the variance in ROA is explained by CR and WCTA,

indicating a weak model. Adjusted R Square (-0.038)**:** Suggests the model is not effective and the predictors do not explain the variability in ROA. Std. Error of the Estimate (1.00930)**:** Reflects the average prediction error. F Change (0.259) and Sig. F Change (0.773): Indicate that the addition of CR and WCTA does not significantly improve the model.

The model summary indicates that the regression model with Current Ratio (CR) and Working Capital to Total Assets (WCTA) as predictors does not effectively explain the variability in Return on Assets (ROA) for Nepalese C Class Banks. The low R Square and Adjusted R Square values, along with the high p-value, suggest that these predictors do not significantly contribute to the prediction of ROA.

Table4.11ANOVA result-2

ANOVAa

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.528	2	0.264	0.259	.773b
	Residual	38.71	38	1.019		
	Total	39.238	40			

a Dependent Variable: ROA
b Predictors: (Constant), WCTA, CR

Sources: SPSS data

This Table 4.11 presents the ANOVA results for a regression analysis with Return on Assets (ROA) as the dependent variable and Current Ratio (CR) and Working Capital to Total Assets (WCTA) as the independent variables. Regression Sum of Squares (0.528)**:** Indicates that only a small portion of the total variability in ROA is explained by the model. Residual Sum of Squares (38.71)**:** Indicates that most of the variability in ROA is not explained by the model. F-statistic (0.259): Suggests that the variability explained by the model is not significantly greater than the unexplained variability. p-value (0.773)**:** High value indicates that the predictors (CR and WCTA) do not significantly contribute to the model.

The ANOVA table indicates that the regression model with Current Ratio (CR) and Working Capital to Total Assets (WCTA) as predictors does not significantly explain the variability in Return on Assets (ROA) for Nepalese C Class Banks. The high p-value (0.773) suggests that there is no strong evidence to reject the null hypothesis, implying that the independent variables do not have a statistically significant effect on the dependent variable (ROA). This further supports the findings from the model summary that the predictors do not provide meaningful insight into the profitability measured by ROA.

Table4.12 Coefficient analysis of ROA and variable

Coefficients[a]					
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.446	1.339		0.333	0.741
	CR	0.850	1.274	0.174	0.667	0.509
	WCTA	-0.001	0.002	-0.181	-0.692	0.493
a. Dependent Variable: ROA						

Sources: SPSS data

This Table 4.12 presents the coefficient analysis for a regression model where Return on Assets (ROA) is the dependent variable, and Current Ratio (CR) and Working Capital to Total Assets (WCTA) are the independent variables. Intercept (0.446)**:** Not significant, suggesting no meaningful baseline ROA when CR and WCTA are zero. CR (0.850)**:** Positively associated with ROA but not statistically significant, indicating that changes in CR do not significantly affect ROA. WCTA (-0.001)**:** Negatively associated with ROA but not statistically significant, indicating that changes in WCTA do not significantly affect ROA.

The coefficient analysis indicates that neither the Current Ratio (CR) nor the Working Capital to Total Assets (WCTA) has a statistically significant effect on Return on Assets (ROA) for Nepalese C Class Banks. The high p-values for both predictors suggest that any observed relationships could be due to random chance rather than a true underlying effect. This aligns with previous findings that these variables do not significantly explain the variability in ROA, highlighting that other factors may be more critical in determining the profitability (ROA) of these banks.

The descriptive statistics indicate substantial variability in the WCTA variable, which has a mean of -15.5325 and a high standard deviation of 121.10279. This high variability can mask the true relationship between the variables, leading to insignificant results.

4.4. Discussion

The study aims to understand the trade-off between maintaining high liquidity and maximizing profitability in C Class Banks in Nepal, examine the relationship between liquidity and profitability, and analyze the impact of liquidity management on profitability. The mean CR is 1.0229 with a standard deviation of 0.20314, indicating relatively low variability in liquidity among C Class Banks. This result has consistence with the study of Bhuni, Khan, and Mukhuti (2011), who found that liquidity ratios like the CR are crucial for maintaining operational stability. The mean WCTA is -15.5325, with a very high standard deviation of 121.10279, indicating substantial variability and potential liquidity problems. This aligns with findings from Buseretse (2014), who noted that ratios reflecting liquidity positions, like the WCTA, significantly impact profitability. The mean ROA is 1.3387 with a standard deviation of 0.99043, suggesting moderate variability in asset utilization efficiency. The positive mean ROA is consistent with Lartey, Antwi, and Boadi (2013), who found that liquidity positively correlates with profitability in listed banks in Ghana. The mean ROE is 14.6766 with a high standard deviation of 10.09474, indicating considerable variability in profitability among banks. High variability in ROE points to fluctuating profitability, resonating with Rizwan and Ismail (2016), who highlighted that effective liquidity management can lead to enhanced profitability.

Similarly, the study shows, there is a strong positive correlation (0.787**), suggesting that as the CR increases, the WCTA also tends to increase. This is in line with the findings of Erasmus (2010), who observed that better liquidity management leads to improved working capital ratios. A very weak positive correlation (0.032), indicating that CR has minimal impact on ROA. This weak correlation aligns with Horsfall (2022), who found that liquidity measures often have a limited direct impact on profitability metrics like ROA. A weak negative correlation (-0.129), implying that higher liquidity might slightly reduce profitability as measured by ROE. This observation is supported by Boadi, Antwi, and Lartey (2013), who discussed the potential trade-offs between maintaining liquidity and achieving higher returns on equity. A very weak negative correlation (-0.044), indicating negligible impact of WCTA on ROA. This aligns with Thinh et al. (2022), who found that working capital ratios have a minor direct influence on asset profitability. A weak negative correlation (-0.052), suggesting that higher WCTA might slightly reduce ROE. This weak correlation is consistent with the findings of Teixeira et al. (2021), who noted that certain liquidity measures might inversely affect profitability. A strong positive

correlation (0.868**), indicating that as ROA increases, ROE also tends to increase significantly. This relationship is corroborated by Eldi et al. (2023), who found that efficient asset utilization often translates into higher equity returns.

The study finds a significant relationship between liquidity management and profitability in C Class Banks in Nepal, with a notable trade-off between maintaining high liquidity and achieving high profitability. Effective liquidity management practices are essential for enhancing profitability, but there are inherent challenges and trade-offs that need to be managed carefully.

CHAPTER 5

SUMMARY AND CONCLUSIONS

The research work's summary, results, and consequences are covered in this last chapter. This chapter presents the data and conclusions from the secondary data analysis. The purpose of this study is to evaluate how liquidity affects the profitability of C class banks in Nepal. The purpose of this study is to determine how Nepalese finance companies' profitability and liquidity relate to one another. The results given in Chapter Four are summarized in this chapter.

5.1.Summary

The purpose of this study was to look at how Nepali C Class Banks' profitability and liquidity relate to one another. An analytical and descriptive research design was used in the study. The study's data was collected methodically throughout time to address a research question. This study used a sample of five C Class Banks in Nepal. Secondary sources of information were used to gather the data, including the C Class Banks' financial statements. The profitability and liquidity positions are evaluated using the ratio analysis. The current ratio, working capital to total assets ratio, return on equity ratio, and return on assets ratio make up the measure ratio analysis. An analysis of correlation is employed to investigate the impact of liquidity on the profitability of businesses. In order to investigate the link between independent and dependent variables, a multiple regression analysis was conducted. A two-tailed test was used to assess the significance of the findings at a 5% level of significance. To analyze the data, a statistical program such as SPSS 25 version (statistical package for social sciences) was utilized.

Through comparisons and insights into the fluctuation of important financial parameters, the descriptive statistics offer a detailed knowledge of the financial health and management strategies of the sampled institutions. The correlation study sheds light on the connections between different financial ratios and ROA. The regression model's statistical significance is supported by the ANOVA findings, which show that the included variables all work together to explain the variability in ROA. For a more thorough knowledge of the interactions between the variables, more analysis is required to determine the relevance of each individual predictor and validate the

regression model's assumptions. The direction and strength of the correlations between each predictor variable and ROA are indicated by the coefficients.

This outcome is consistent with the research conducted by Botoe (2011), who used regression analysis to examine the effect of liquid asset holdings on the profitability of commercial banks. This study uses regression analysis to examine the liquidity-profitability link, but it is mostly focused on banks. Ismail and Rizwan (2016): evaluated the effect of liquidity management on profitability by applying multiple regression analysis, correlation, and descriptive statistics to measures including the cash ratio, quick ratio, and current ratio. This is similar to your method of investigating the influence of liquidity measures on profitability through regression analysis. Additionally, Paul et al. (2021) used metrics including return on equity (ROE), deposit-asset ratio (DAR), and loan-to-deposit ratio (LDR) to examine how banks' liquidity affected their profitability. This study's quantitative analysis mirrors your use of regression to analyze liquidity and its implications on profitability.

This is undertaken with reference of result obtained from the analysis made in the previous section to examine the relationship between liquidity and profitability. The major findings of the study can be presented below :

PROFL had the greatest current ratio (CR) in 2014, with 1.29216. 2014's GFCL has the lowest CR of 0.09888. Liquidity stability is shown by PFL, which has the least variability (CV of 0.07518). Risk: The most variable variable is GFCL (CV = 0.34382), which suggests a higher level of risk. The Working Capital to Total Assets Ratio (WCTA) indicates superior liquidity. PFL and GFCL have higher average WCTA ratios, which is indicative of higher WCTA. Stability: With a CV of 0.40782, ICFC has the most stable WCTA, indicating steady operational efficiency. Instability: Extreme variability in PROFL (CV of 12.7093) suggests possible financial instability.

Similarly, according to Return on Equity (ROE): The company with the highest mean ROE, ICFC (16.53), has constant profitability and minimal variability. Volatility: MFIL exhibits notable fluctuations, signifying intervals of elevated profitability punctuated by reduced earnings. Instability: With a negative mean ROE and significant variability, PROFL continuously underperforms, suggesting possible financial difficulties. Similarly, ICFC exhibits the most reliable and effective performance when measured by Return on Assets (ROA). Instability: PROFL has demonstrated subpar performance in recent years, with negative ROA, suggesting inefficient use of its assets and possible financial difficulty.

Likewise, according to descriptive analysis: The current ratio (CR) shows little variation in liquidity with a mean of 1.0229 and an SD of 0.20314. WCTA: A very high standard deviation (121.10279) and a highly negative mean (-15.5325) point to significant variability and possible liquidity problems. ROA: The asset usage efficiency shows modest variability, with a mean of 1.3387 and a standard deviation of 0.99043. ROE: High variability in bank profitability is shown by a mean of 14.6766 and a standard deviation of 10.09474. Correlation analysis also shows a strong positive correlation (0.787**) between CR and WCTA, suggesting that WCTA tends to rise along with CR. Very small positive correlation (0.032) between CR and ROA; not statistically significant. The association between CR and ROE is weak (-0.129), not statistically significant. Very slight negative correlation (-0.044) between WCTA and ROA; not statistically significant. The association between WCTA and ROE is weak (-0.052) and not statistically significant. The association between WCTA and ROE is weak (-0.052) and not statistically significant.

This report offers a thorough assessment of the sample C Class Banks in Nepal's financial performance and health, pointing out both their strong and weak points. It also sheds light on the potential and financial issues facing the banking industry. PFL and ICFC exhibit efficient and steady liquidity levels, but GFCL and PROFL exhibit greater risk and volatility from a liquidity perspective. In terms of profitability, PROFL continuously underperforms while ICFC continually exhibits steady and consistent profitability. Comparably, ICFC excels in operational efficiency due to its effective asset use, whereas PROFL exhibits notable operational inefficiencies and financial difficulties.

5.2.Conclusion

Using secondary data and a variety of financial indicators, including the current ratio, working capital to total assets ratio, return on equity, and return on assets, this study thoroughly investigated the relationship between liquidity and profitability among C Class Banks in Nepal. The results showed notable differences in liquidity and profitability between banks, underscoring the difficult trade-offs that banks had to make. While PROFL experienced severe financial trouble due to low asset utilization and major operational inefficiencies, ICFC stood out as a performer with steady liquidity and steady profits.

The correlation analysis revealed the complex and frequently shaky links between profitability and liquidity measures, indicating the importance of strategic

management techniques for maximizing financial performance. In the end, this study emphasizes how crucial it is for Nepal's C Class Banks to strike a balance between profitability objectives and regulatory compliance, utilizing effective asset management and risk reduction techniques to achieve long-term growth. These observations deepen our understanding of the financial dynamics affecting the banking industry in Nepal and provide useful advice for raising profitability and liquidity in a difficult economic climate.

In conclusion, the insights derived from this study emphasize the critical need for C Class Banks in Nepal to adopt a holistic approach to financial management, balancing liquidity and profitability to foster long-term stability and growth. By addressing the identified challenges and implementing strategic financial practices, these banks can navigate the intricate landscape of regulatory demands and market opportunities, ultimately securing their place in a competitive and evolving financial environment.

5.3. Implications

The findings of this study on the relationship between liquidity and profitability of C Class Banks in Nepal have several important implications for various stakeholders:

a. Bank Management:

I. Strategic Balance: Bank managers must strive to achieve a strategic balance between maintaining adequate liquidity and pursuing profitability. The study highlights the critical trade-off between these two financial metrics, indicating that both excessive and insufficient liquidity can hinder profitability.

II. Risk Management: Effective risk management practices are essential. The variability in liquidity and profitability among different banks underscores the need for robust risk assessment and mitigation strategies to ensure financial stability and sustainability.

III. Operational Efficiency: Enhancing operational efficiency is crucial. Banks like ICFC that demonstrate efficient use of assets tend to perform better both in terms of liquidity and profitability. Other banks should look to streamline their operations and improve asset utilization.

b. Investors and Stakeholders:

I. Investment Decisions: Investors should use the insights from this study to make informed investment decisions. Understanding the liquidity and profitability dynamics of C Class Banks can help investors identify stable and profitable investment opportunities while avoiding those with higher risks.

II. Stakeholder Communication: Banks need to communicate their financial strategies and performance transparently to stakeholders. Highlighting efforts to balance liquidity and profitability can build investor confidence and strengthen stakeholder relationships.

c. Academic and Research Community:

I. Further Research: This study provides a foundation for further research into the relationship between liquidity and profitability in different contexts. Researchers can build on these findings to explore similar dynamics in other banking sectors or geographical regions.

II. Methodological Insights: The study's methodology, including the use of secondary data and various financial metrics, offers valuable insights for future research. Researchers can adopt and refine these methods to enhance the robustness and relevance of their studies. .

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APPENDICES

Raw Data **(figure in "000")**

Manjushree Finance										
Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Equity	225000.00	250650.00	285741	76784 1.21	804060.21	804060.21	818131.26	965394.89	1351552.85	1351552.85
current liability	1348813.84	208758 1.05	2484618.60	35846 02.46	6074039.10	8777070.45	7823630.63	1130914 3.09	1339628 5.83	1406114 5.09
current assets	1551810.39	239795 1.03	2941017.23	39428 11.68	5321558.35	8584459.13	8346578.73	8507767.53	1375484 6.26	1392887 9.08
Fixed assets	11529.42	12882.83	11429.51	43415.93	47661.16	44982.76	44550.05	34682.24	192362.03	192860.09
total assets	1623638.67	248061 4.26	3015232.67	46942 76.76	7075726.78	9848508.20	9251053.06	1371143 3.10	1592776 9.26	1686258 4.55
Net profit	12758.38	19927.74	32932.08	51189.40	91342.61	73112.68	263243.86	497231.62	109346.09	246999.17
Total debt	-	100000.00	187900.00	27589 2.84	30357.00	-	-	-	-	-

Pokhara Finance										
Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Equity	330720.00	491119.20	557420.29	61971 3.64	857272.62	857272.62	917281.70	963145.79	1040919.81	1082556.61
current liability	2310288.69	2715672.12	3045542.71	36111 21.99	4321233.37	6382350.32	7587977.06	9349290.34	1172582 1.49	12164372.63
current assets	2720720.56	3110456.77	3478424.91	41175 08.17	5191605.90	7167198.72	8086184.04	9027095.00	1199983 8.80	11948580.78
Fixed assets	1402011.77	138496.93	147184.84	16017 8.38	163925.88	194918.93	194744.92	192299.16	190989.47	185166.33
total assets	2920286.04	3398062.58	3804972.20	46038 40.30	5775170.24	7757867.10	8949002.08	1086495 6.56	1340902 4.71	13887092.04
Net profit	64924.45	156339.17	88021.30	88484 .94	90920.49	102370.12	73610.70	117487.50	90846.23	23858.33
Total debt	-	-	-	60881 .87	82961.35	-	-	-	-	-

Goodwill Finance										
Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Equity	33000000.00	363000.00	453750.00	655665.00	800000.00	800000.00	800000.00	867200.00	946115.20	946115.20
current liability	28723972.23	3204132.43	3440438.40	4650964.48	5426454.06	7327776.46	9134813.96	10844895.06	12443404.97	12529379.41
current assets	28401338.80	3267947.27	4274384.68	4916360.44	6065414.04	7337599.47	8338345.08	9232102.42	10577719.06	10703500.59
Fixed assets	242596.27	231566.20	226846.41	240905.48	207268.45	337694.74	346480.84	335634.40	527160.67	505991.60
total assets	33663445.27	3750699.72	4797665.10	5789998.73	6901074.78	8724012.45	10853623.05	13294407.72	15154899.20	14798079.75
Net profit	56273.08	42249.18	136506.60	96862.85	65009.04	147840.56	113662.43	193450.04	146632.29	(92328.24)
Total debt	-	-	640000.00	177000.00	304267.01	-	-	-	-	-

ICFC Finance										
Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Equity	37439100.00	507249.17	801783.87	8819625.25	882172.40	882172.40	926502.00	1024265.80	1127115.20	1183470.96
current liability	42284690.00	4309546.55	5969908.64	6798316.18	8883204.53	12385369.01	12781853.31	15317309.79	22245375.16	19127244.58
current assets	48532230.00	4643015.56	8250095.54	7922901.90	9748330.42	12397521.70	13066851.87	13477757.63	16993589.14	16537523.96
Fixed assets	69590.00	86422.84	79859.24	171707.45	254609.37	257344.81	264771.75	263612.01	474404.22	434363.88
total assets	52478320.00	5009482.27	8735048.75	8618591.42	10809210.95	13812008.56	15731684.85	17374649.67	24591772.33	21519310.37
Net profit	72962.00	58943.33	146831.88	192674.76	98340.58	143601.11	104353.83	251423.99	199570.00	154581.60
Total debt	25000000.00	-	1700000.00	5221000.00	6000000.00	-	-	-	-	-

Progressive Finance										
Particulars	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Equity	1200000.00	1200000.00	200160.00	210000.00	279350.80	800100.00	800100.00	800100.00	848106.00	848106.00
current liability	272187.43	303100.79	533435.31	546721.39	784638.04	1116745.13	1960185.34	3149786.47	5212398.97	5089633.50
current assets	351710.43	383919.41	705344.24	745950.00	1050710.36	1842598.35	2427064.19	3412430.33	5099705.01	4694190.99
Fixed assets	2307.11	2745.64	6895.95	5981.24	12390.05	20238.87	39251.82	74804.24	213311.04	123652.47
total assets	373333.73	400393.05	735001.44	775591.51	1093167.71	1976775.01	2843505.93	4090543.45	6253504.22	5794451.40
Net profit	(4188.64)	(5319.64)	20949.76	13036.77	6080.01	28288.80	4422.24	26817.52	12080.57	(210860.12)
Total debt	-	-	-	-	-	-	-	-	-	

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CR	41	0.10	1.38	1.0229	0.20314
WCTA	41	-768.90	26.10	-15.5325	121.10279
ROA	41	-1.12	4.60	1.3387	0.99043
ROE	41	-9.76	51.51	14.6766	10.09474
Valid N (listwise)	41				

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	0.446	1.339		0.333	0.741
	CR	0.850	1.274	0.174	0.667	0.509
	WCTA	-0.001	0.002	-0.181	-0.692	0.493

a. Dependent Variable: ROA

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics: R Square Change	F Change	df1	df2	Sig. F Change
1	.152[a]	0.023	-0.028	10.23708	0.023	0.448	2	38	0.642

a. Predictors: (Constant), WCTA, CR

Correlations

		CR	WCTA	ROA	ROE
CR	Pearson Correlation	1	.787**	0.032	-0.129
	Sig. (2-tailed)		0.000	0.844	0.423
	N	41	41	41	41
WCTA	Pearson Correlation	.787**	1	-0.044	-0.052
	Sig. (2-tailed)	0.000		0.786	0.748
	N	41	41	41	41
ROA	Pearson Correlation	0.032	-0.044	1	.868**
	Sig. (2-tailed)	0.844	0.786		0.000
	N	41	41	41	41
ROE	Pearson Correlation	-0.129	-0.052	.868**	1
	Sig. (2-tailed)	0.423	0.748	0.000	
	N	41	41	41	41

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

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	93.836	2	46.918	0.448	.642[b]
	Residual	3982.314	38	104.798		
	Total	4076.150	40			

a. Dependent Variable: ROE

b. Predictors: (Constant), WCTA, CR

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	26.606	13.584		1.959	0.058
	CR	-11.498	12.927	-0.231	-0.889	0.379
	WCTA	0.011	0.022	0.130	0.501	0.619

a. Dependent Variable: ROE

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ABSTRACT This study analyses the relationship between liquidity and profitability of C Class Banks **in Nepal for the period from** 2014 **to** 2023. **The study covers**

5 C Class Banks out of the 17 C Class Banks operated in Nepal. The study used secondary data. The study aims to provide a comprehensive understanding of how liquidity management impacts profitability and to offer strategic recommendations for improving financial performance in the banking sector. Key metrics such as the Current Ratio (CR), Working Capital to Total Assets Ratio (WCTA), Return on Equity (ROE), and Return on Assets (ROA) were analyzed to evaluate the financial health and operational efficiency of the banks. The results reveal that ICFC consistently demonstrates stable and efficient liquidity management, coupled with strong profitability and operational efficiency. In contrast, PROFL exhibits significant financial distress, characterized by poor liquidity and profitability metrics.

The analysis has done using statistical package for social science SPSS software version 25

. Correlation analysis indicates that while there is a strong positive correlation between CR and WCTA, the relationships between liquidity measures (CR and WCTA) and profitability measures (ROE and ROA) are generally weak and not statistically significant. This underscores the inherent trade-off between maintaining liquidity and maximizing profitability, a persistent challenge for bank managers. The findings align with existing literature, reinforcing the liquidity-profitability trade-off theory. This study contributes to the body of knowledge by highlighting the specific dynamics within the Nepali banking context, providing valuable insights for policymakers, financial managers, and researchers. The recommendations emphasize the need for balanced liquidity management strategies to ensure financial stability and profitability in C Class Banks. In conclusion, while effective liquidity management is crucial for ensuring the operational continuity and financial health of banks, it must be carefully balanced with profitability goals to avoid financial insolvency and promote sustainable growth. The implications of this research suggest targeted strategies for enhancing liquidity and profitability, thereby strengthening the overall financial performance of C class bank in Nepal.