

PROFITABILITY ANALYSIS
OF
NEPALESE COMMERCIAL BANKS
(A Case Study of NABIL, EBL, SCBNL and NIBL)

A Thesis Submitted By

Tej Prasad Timsina

MBS Final Year

Roll No: 7/060

T.U. Reg. No: 2335-88

A Thesis Submitted to:

Office of the Dean

Faculty of Management

Tribhuvan University

in the partial fulfillment of the requirement for the
Master's Degree in Business Studies (M.B.S)

Kathmandu, Nepal

May, 2009

RECOMMENDATION

This is to certify that the final thesis

Submitted by:

Tej Prasad Timsina

Entitled

Profitability Analysis of Nepalese Commercial Banks

(A Case Study of NABIL, EBL, SCBNL and NIBL)

has been prepared as approved by this department in the format prescribed by the Faculty of Management. This thesis is forwarded for examination.

:

Debendra Pal Shrestha

Associate Professor

Thesis Supervisor

VIVA VOCE SHEET

We have conducted the Viva-Voce examination of the thesis presented

by:

Tej Prasad Timsina

Entitled

Profitability Analysis of Commercial Banks

(A Case Study of NABIL, EBL, SCBNL and NBIL)

And found the thesis to be the original work of the student and written according to the prescribed format. We recommended the thesis to be accepted as partial fulfillment of the requirement for Master's Degree in Business Studies (M.B.S.)

Viva-Voce Committee

Head, Research Department:

Thesis Supervisor

External Expert

Member (Thesis Supervisor):

Member (External expert):

Acknowledgements

This thesis entitled “Profitability Analysis of Nepalese Commercial Banks in Nepal (A Case Study on NABIL Bank Ltd, Everest Bank Ltd., Standard Chartered Bank Nepal Ltd. and Nepal Investment Bank Ltd.) is prepared for the partial fulfillment of the requirement for the Master’s Degree in Business Studies (MBS).

This thesis is completed with the help of many individuals. In the event of preparing this thesis, it would be unfair if I don’t extend my appreciating and indebtedness to all those individuals who made me their substantial contribution. I extend my heartiest appreciation to my thesis supervisor Mr. Debendra Pal Shrestha (Associate Professor) of Saraswoti Multiple Campus and Keshav Raj Pantha (Associate Professor) of Saraswoti Multiple Campus, Mr. Bhairab Pokhrel (Administrative Department) of Saraswoti Multiple Campus for their valuable support and guidance on every aspect and making my writing more fruitful.

I owe great intellectual debt for their support and immense contribution to Administrative staffs of Everest Bank Ltd., Lazimpat; HRM Department of NABIL Bank Ltd., Head office, HRM Department’s Staff of Standard Chartered Bank Nepal Ltd., Head Office and HRM Department of Nepal Investment Bank Ltd., Head office. I would like to express my sincere thanks to all my friends for their inspiration to complete this thesis.

Finally, I would like to express my gratitude to Mr. Ram Kumar Shrestha, Lecturer of Manohar Multiple Campus, Gongabu for his unforgettable support while preparing this thesis and I extend my profound gratitude to Shirisha Service Center, Golko-pakha, Ktm. for computer setting and designing of this thesis.

Tej Prasad Timsina

Roll No. 7/060

Saraswoti Multiple Campus

May, 2009

TRIBHUVAN UNIVERSITY

Faculty of Management

Saraswoti Multiple Campus

DECLARATION

I hereby declare that the work reported in this thesis entitled “Profitability Analysis of Nepalese Commercial Banks (A Case Study on NABIL Bank Ltd., Everest Bank Ltd., Standard Chartered Bank Nepal Ltd. and Nepal Investment Bank Ltd.)” submitted to office of the Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of Master’s Degree in Business Studies (MBS) under the Supervision and guidance of Mr. Debendra Pal Shrestha and Keshav Raj Pantha, Saraswoti Multiple Campus, Kathmandu.

Tej Prasad Timsina

Researcher

T.U. Regd. No. 2335-88

Date: ____ / ____ / _____

TABLE OF CONTENTS

	Page No.
Recommendation	ii
Viva-Voce Sheet	iii
Acknowledgements	iv
Declaration	v
List of Tables	ix
List of Figures	xi
Abbreviations	xiii
Chapter – I; Introduction	1-26
1.1 Background of the Study	1
1.1.1 Bank and Economic Development	2
1.1.2 Origin of Bank in Nepal	3
1.2. Brief Introduction of Selected Banks	6
1.2.1 An Introduction of Nabil Bank	6
1.2.2 An Introduction of Everest Bank Limited (EBL)	11
1.2.3 An Introduction of Standard Chartered Bank Nepal Limited	13
1.2.4 Introduction of Nepal Investment Bank Limited (NIBL)	14
1.3 Statement of the Problem	23
1.4 Objectives of the Study	24
1.5 Significance of the Study	24
1.6 Limitations of the Study	25
1.7 Organization of the Study	26
Chapter – II; Review of Literature	27-45
2.1 Conceptual Review	27
2.1.1 Financial Statement	27
2.1.2 Concept of Profitability	29
2.2 Scenario of Commercial Bank	30
2.2.1 Concept of Commercial Bank	30
2.1.2 Role of Commercial Banks in the Development of the Economy	31

2.3	Review of Related Studies	32
2.3.1	Review of Articles	32
2.3.2	Review of Books	34
2.3.3	Review of Research Paper and Previous Thesis	35
Chapter – III; Research Methodology		46-58
3.1	Introduction	46
3.2	Research Design	47
3.3	Population and Sample	47
3.4	Nature and Source of Data	48
3.5	Method of Data collection	48
3.6	Method of Data Analysis	49
3.6.1	Financial Tools	49
3.6.1.1	Profitability Ratios	50
3.6.1.2	Liquidity Ratios	52
3.6.1.3	Capital Structure Ratios	53
3.6.2	Statistical Tools	55
3.6.2.1	Arithmetic Mean	55
3.6.2.2	Standard Deviation	56
3.6.2.3	Coefficient of Variance	56
3.6.2.4	Coefficient of Correlation	56
3.6.2.5	Probable Error (P.E)	57
3.6.2.5	Hypothesis (t-statistics)	58
Chapter – IV; Data Presentation and Analysis		59-111
4.1	Collection and Utilization of Fund	59
4.2	Ratio Analysis	67
4.2.1	Liquidity Ratio	67
4.2.1.1	Current Ratio	68
4.2.1.2	Cash Reserve Ratio	70
4.2.1.3	Cash and Bank Balance to Total Assets Ratio	71
4.2.1.4	Investment to Current Assets Ratio	73
4.2.2	Capital Structure Ratios	75

4.2.2.1	Debt to Total Asset Ratio	75
4.2.2.2	Debt to Equity Ratio	77
4.2.2.3	Total Debt to Capital Employed Ratio	79
4.2.2.5	Loan and Advances to Current Asset Ratio	80
4.2.3.6	Loan and Advances to Total Deposit Ratio	82
4.2.3.7	Investment to Total Deposit Ratio	84
4.2.3.8	Loan and Advances to Total Assets	86
4.2.4	Profitability Ratios	87
4.2.4.1	Return on Loans & Advances	88
4.2.4.3	Return on Total Deposit	89
4.2.4.4	Return on Total Assets	91
4.2.4.5	Return on Shareholder's Equity	93
4.2.4.6	Return on Investment	95
4.2.4.7	Return on Capital Employed	97
4.2.4.8	Earning Per Share	98
4.3	Distribution of Assets for 2064/65	100
4.3.1	Distribution of Assets of NABIL for 2064/65	100
4.3.2	Distribution of Assets of EBL for 2064/65	102
4.3.3	Distribution of Assets of SCBNL for 2064/65	103
4.3.4	Distribution of Assets of NIBL for 2064/65	104
4.4	Co-efficient of Correlation	105
4.4.1	Coefficient of Correlation bet ⁿ Total Deposit and Net Profit	106
4.4.2	Coefficient of Correlation bet ⁿ Total Deposit and Investment	108
4.4.3	Coefficient of Correlation bet ⁿ Total Deposit and Loans & Advances	110
Chapter – V; Summary, Conclusion and Recommendations		112-117
5.1	Summary	112
5.2	Conclusions	114
5.3	Recommendations	116
Bibliography		118-120
Appendixes		

List of Tables

	Page No.
Table 4.1 Collection of fund of NABIL	59
Table 4.2 Collection of fund of EBL	60
Table 4.3 Collection of fund of SCBNL	60
Table 4.4 Collection of fund of NIBL	60
Table 4.5 Utilization of Fund of NABIL	61
Table 4.6 Utilization of Fund of EBL	62
Table 4.7 Utilization of Fund of SCBNL	62
Table 4.8 Utilization of fund of NIBL	62
Table 4.9 Utilization Percentage of NABIL	65
Table 4.10 Utilization Percentage of EBL	65
Table 4.11 Utilization Percentage of SCBNL	65
Table 4.12 Utilization Percentage of NIBL	66
Table 4.13 Current Ratio	68
Table 4.14 Cash Reserve Ratio	70
Table 4.15 Cash and Bank Balance to Total Assets Ratio	72
Table 4.16 Investment to Current Assets Ratio	74
Table 4.17 Debt to Total Assets Ratio	76
Table 4.18 Debt to Equity Ratio	77
Table 4.19 Total Debt to Capital Employed Ratio	79
Table 4.20 Loan and Advances to Current Assets Ratio	81
Table 4.21 Loan and Advances to Total Deposit Ratio	83
Table 4.22 Investment to Total Deposit Ratio	84
Table 4.23 Loan and Advances to Total Assets Ratio	86
Table 4.24 Return on Loans & Advances	88
Table 4.25 Return on Total Deposit	90

Table 4.26	Return on Total Assets	92
Table 4.27	Return on Shareholder's Equity	94
Table 4.28	Return on Investment	95
Table 4.29	Return on Capital Employed	97
Table 4.30	Earning Per Share	99
Table 4.31	Distribution of Assets of NABIL for 2063/64	101
Table 4.32	Distribution of Assets of EBL for 2063/64	102
Table 4.33	Distribution of Assets of SCBNL for 2063/64	103
Table 4.34	Distribution of Assets of NIBL for 2063/64	104
Table 4.35	Coefficient of Correlation bet ⁿ Total Deposit and Net Profit	107
Table 4.36	Coefficient of Correlation bet ⁿ Total Deposit and Investment	108
Table 4.37	Coefficient of Correlation bet ⁿ Total Deposit and Loans & Advances	110

List of Figures

	Page No.
Figure 4.1 Collection and Utilization of fund of NABIL	63
Figure 4.2 Collection and Utilization of fund of EBL	64
Figure 4.3 Collection and Utilization of fund of SCBNL	64
Figure 4.4 Collection and Utilization of fund of NIBL	64
Figure 4.5 Percentage of Utilization of collected Fund of selected Banks	66
Figure 4.6 Current Ratio of selected Banks	69
Figure 4.7 Cash Reserve Ratio of selected Banks	71
Figure 4.8 Cash and Bank Balance to Total Assets Ratio of selected Banks	73
Figure 4.9 Investment to Current Assets Ratio of selected Banks	75
Figure 4.10 Debt to Total Assets Ratio of selected Banks	77
Figure 4.11 Debt to Equity Ratio of selected Banks	78
Figure 4.12 Total Debt to Capital Employed Ratio of selected Banks	80
Figure 4.13 Loan and Advances to Current Assets Ratio of selected Banks	82
Figure 4.14 Loan and Advances to Total Deposit Ratio of selected Banks	84
Figure 4.15 Investment to Total Deposit Ratio of selected Banks	85
Figure 4.16 Loan and Advances to Total Assets Ratio of selected Banks	87
Figure 4.17 Return on Loans & Advances of selected Banks	89
Figure 4.18 Return on Total Deposit of selected Banks	91
Figure 4.19 Return on Total Assets of selected Banks	93
Figure 4.20 Return on Shareholder's Equity of selected Banks	95
Figure 4.21 Return on Investment of selected Banks	96
Figure 4.22 Return on Capital Employed of selected Banks	98
Figure 4.23 Earning Per Share of selected Banks	100
Figure 4.24 Distribution of Assets of NABIL for 2063/64	101
Figure 4.25 Distribution of Assets of EBL for 2063/64	102
Figure 4.26 Distribution of Assets of SCBNL for 2063/64	103
Figure 4.27 Distribution of Assets of NIBL for 2063/64	104

List of Abbreviations

A.D.:	Anno Domina
ABBS:	Any Branch Banking System
ADB:	Agriculture Development Bank
AICPA:	American Institute of Certified Public Account
AM:	Arithmetic Mean
ATM:	Automatic Teller Machine
ATS:	Automatic Transfer Service
B.S.:	Bikram Sambat
BOK:	Bank of Kathmandu
BVPS:	Book Value Per Share
C.V:	Coefficient of Variance
CRR:	Cash Reserve Ratio
DPR:	Dividend Payout Ratio
DPS:	Dividend Per Share
EBL:	Everest Bank Limited
EPS:	Earning Per Share
F.Y:	Fiscal Year
GDP:	Gross Domestic Products
HBL:	Himalayan Bank Limited
JVB:	Joint Venture Banks
Ktm.:	Kathmandu
LC:	Letter of Credit
Ltd.:	Limited
MPS:	Market Per Share
NBBL:	Nepal Bangladesh Bank Limited
NBL:	Nepal Bank Limited
NCC:	Nepal Credit & Commercial
NIBL:	Nepal Investment Bank Limited
NICB:	Nepal Industrial & Commercial Bank
NIDC:	Nepal Industrial Development Corporation
NPAT:	Net Profit After Taxes
NRB:	Nepal Rastra Bank
NSBIBL:	Nepal State Bank of India Bank Limited
Pvt.:	Private
RBB:	Rastriya Banijya Bank
S.D:	Standard Deviation
SBI:	State Bank of India
SCBNL:	Standard Chartered Bank Nepal Limited
TT:	Telegraphy Transfer