CHAPTER 1

INTRODUCTION

1.1 Background of the study

The development of any country can't be imagined without economic activities. The development of financial institutions in Nepal is the consequence of different reasons. In fact, behind the development of such institutions there are many argumentative reasons among which the growth of people's consciousness can be taken as a main reason. Another important reason that can be considered important is the influence of internationalization and liberalization in the financial sector. Financial institutions play a vital role in economic development. "The financial intermediaries collect savings from individual and companies in various accounts and invest in different projects for or business, where they expect maximum possible returns with a minimum risk. The small savers who don't have exposure or access to capital markets get benefit from the services of such intermediaries in efficiently putting their saving into productive use". (Pradhan, 1992; 20) Financial intermediary are generally classified into three broad groups as follows:

1. Banking System
2. Non bank financial institution and
3. Other institutions in financial activities.

The Nepalese financial sector is composed of banking sector and non-banking sector. Banking sector comprises Nepal Rastra Bank (NRB) and commercial banks. A phenomenal growth has been observed in non-bank financial intermediaries. The non-banking financial institutions operating in Nepal includes:

1. Insurance Companies
2. Finance Companies
3. Credit Guarantee Corporation
4. Micro-credit Development Banks
5. Development Banks
6. Employee Provident Fund

7. NGO's involved in lending activities
8. Nepal Stock Exchange
9. Co-operative Institutions
10. Mutual Saving Banks
11. Citizen Investment Trust
12. Employee Provident Fund
13. Postal saving offices

"The history of Nepalese financial institutes dates back to the commencement of the 'Tejarath Adda' in 1880 A.D. It was established on the tenure of Rana Prime Minister Ranodip Singh. At the beginning years, its services were confined within the Kathmandu valley. It provided loan by taking gold and silver ornaments, as collateral and interest rate was 5%. Similarly, this 'Adda' used to provide loan to civil servants by deducting installments from their salary". (Thapa, Timalsina, Dahal, 2054)

"The history of banking begins with the opening of Nepal Bank Limited in 1937 A.D. During the interval between 1980 and 1937, 'Tejarathe Adda' played an important role in financial sector." (Thapa, et al. 2054)

"The history of non banking financial institution is not very old. When banking sector carrying out current activities of finance companies, large number of finance companies were established and they expanded at a rapid pace in the developed countries, U. K., U.S.A. in 1960. Their growth was very rapid in comparison to commercial banks as they used to offer higher interest rate on deposits, lower interest on loan and swifter service than commercial banks." (Dahal, Bhuban, Sarita, 2056).

In the context of Nepal, there were few Insurance Companies and Employee's Provident Fund working as non-banking financial institutions before the enactment of Finance Company Act 2042 B.S. Need of finance company was felt because unorganized sector was collecting saving from common public in the name of "uphar" and "dhukuti" programme. People showed great interest and enthusiasm in these programmers, benefits of mobilizing such savings in productive sector, banking sector's inability to carry out capital market activities and to meet customers need for credit, government felt the need of finance companies and introduced finance company Act 2042 B.S. When the Finance Company Act 2042(1985) came, in 2042, it was a golden chance for the persons working in non-banking sector. But by the lack of sufficient knowledge, it was not utilized for 6/7 years after the Finance Company Act was introduced. "Where it is desirable to establish finance companies for performing non banking functions by bringing together making institutionalized investment of the

capital scattered over the country in order to bring about dynamism in the economic development of the country and maintain the economic interest of the common people". (Finance Co. Act, 1985)

Finance Company Act 1985 has permitted finance companies to discharge following functions:

1. Providing installment or hire purchase loan.
2. Granting loans to construct residential houses, construction of offices ware houses, commercial complexes etc.
3. Make avail of lease financing and leasing of such properties.
4. Providing short term loan to business industry and trade, serve in the capacity of financial intermediaries and also provide guarantee of loan if needed.
5. Undertake transaction in Government securities, underwrite shares, participate in loan syndication and conduct trading in securities in accordance with the rules of securities transaction act.
6. Collection and mobilization of deposits within the limits specified by NRB.
7. Do other needful works to accomplish the objectives stated.

A finance company is a kind of financial institution. A finance company is also called a loan company. According to the Finance Company Act 1985, the finance company, by becoming a mediator, in one hand between the saver and the investor and another hand, between the big financial institutions and the smaller debtor, functions as an instrument to supply the loan. The hire purchase business of Finance Company is very important. The annual interest rate in loan of finance company is very high. The finance companies, take the loan from the big financial institutions, mix own capital and take the deposit from the common people and it forms a fund. Generally, the finance companies, giving the high interest rate in the deposit, provide different types of presents, or gifts insurance and other attraction, collect a great quantity of deposit. The small savers are much attracted towards the finance companies.

The policy of liberalization, globalization and privatization pursued in the overall economic sector during 1990's has led to speedy financial liberalization as well. Financial sector liberalization and reform program adopted since Eight Plan (1992-1997) has been further extended in the Ninth

Plan (1997-2002). Nepal Rastra Bank Act, 2001 has been passed. The Debt Recovery Act has also been passed. However, there exist still some limitations. Credit flow has not been made sufficient as required by the rural and agricultural sector. The Tenth Plan has endeavored to accomplish the objective of the monetary policy through necessary adjustments in bank rate, compulsory cash ratio and open market transaction and also to reduce the cost of financial intermediation of the commercial banks. Financial intermediation increased through efficient execution of the fiscal and monetary policy has supported towards the overall economic stability.

Some of the Financial Policy adopted in the Tenth plan are: The system of monitoring, supervision and regulating of the financial sector will be further strengthened; Policy and program related to banking, credit and financial institutions will be motivated to concentrate towards rural areas; Bank and financial institutions under government ownership will be gradually privatized; Financial intermediaries will be increased to supply micro credit to socially and economically deprived people and women in rural sector; Operating area of the rural development banks will be expanded to provide banking services in the potential mountain districts.

Economic liberalization policy of government has encouraged the establishments and growth of finance company in the country. In eight plans (1992-1997) it has been clearly mentioned that the vacuum in the present national financial system needs to be filled by institutionally developed capital institutions like investment companies, leasing and housing finance in order to create healthy competitive financial sector. “In a situation when the existing financial institutions especially commercial banks are unable to carry capital market activities and also not in a position to meet consumer need for credit, it is timely to encourage the growth and opening of finance companies to meet the individual credit needs, undertake fee based merchant banking function and to gradually curtail the “uphar” and “dhukuti” programmers which were run officially” (Shrestha, 1992)

During the last two and half decades the number of financial institutions has grown significantly. At the beginning of the 1980s there were only two commercial bank and development banks in the country. After the induction of economic liberalization policy, particularly the financial sector liberalization, that impetus in the establishment of new banks and non-bank financial institutions. Consequently, by the end of mid-July 2007 altogether

208 bank and non bank financial institutions licensed by NRB are in operation. Out of them, 20 are “A” class commercial banks, 38 “B” class development banks, 74 “C” class finance companies, 12 “D” class micro-credit development banks, 17 saving and credit co-operatives, and 47 NGOs (NRB Banking and financial statistics 2007)

The participation of finance companies in Nepal Stock Exchange has been encouraging, though not all of established companies are listed in Nepal Stock Exchange. Those that are listed have been showing a good performance. Out of 53 listed finance companies, 10 have declared cash dividend, 13 have declared bonus shares, and 14 have declared cash dividend and bonus shares, one declared share capitalization. This shows that the listed finance companies have been performing well; however, the investment activities of these companies and their performance could be the area of study. Hence, an attempt will be made to explore the areas of investment and their performance. It will also be tried to find out the trend of finance companies in different sectors of their activities.

As it is already mentioned that financial intermediary collects the scattered fund and channel it to the productive sector which is known as investment activities. Thus, investment activity is the major function of financial intermediary. Finance company, being a financial intermediary has its concern towards investment activity. Efficiently managed investment activities enhance the performance of finance companies. Performance here in our study represents the financial performance. Financial performance is the combination of two words “finance” and “performance” and it gives an integrated meaning. The financial performance is the quantitative analysis of firm’s efficiency. The company’s financial plan and policy prepared and implemented by management should be judged on the basis of its financial performance. Conceptually, the vocabulary financial performance concerns with the measurement and analysis of financial operation of a firm through ratio analysis, correlation and regression analysis and trend analysis.

“The basic financial statements are the balance sheet and profit and loss account. The information contained in those statements is used by management, creditors, investors and other to judge about the operation performance and financial performance of the firm"(Pandey, 1987; 500). The analysis of performance is designed to make a careful study of recent financial records of finance companies. Through financial statements, the

performance of financial companies is analyzed. “Performance analysis should not be exclusively focused upon the criterion of short term profitability or any other single standard which may cause managers to act contrary to the ling range interest of the company as a whole” (Andrews, Kenneth R, 1972; 202). “The balance sheet reflecting the assets, liabilities and capital as of a certain date and the income statement showing the result of operation during certain period”. (Myer, 1974; 3) In this way, it is evident that financial statement refers to profit and loss account and balance sheet.

“The proper analysis and interpretation of financial statement is a felt necessity in our corporations, banks, private enterprises and other similar organization to find out what information are indicated from the balance sheet, income statement and other accounting information. On the basis of this information, it becomes easy to chalk out the problem faced by the corporations of Nepal. A capable financial manager if he wants to prove his competence must select the best analytical tools to determine the liquidity, profitability, turnover and capital structure of corporation and enterprises.” (Shrestha, 1980; 188)

In the conclusion, financial development is one of the important indicators of economic development of any country. A financial activity is an integral part of national plan to accelerate the rate of economic development.

The main objective of finance companies is mobilization of small and large resources from urban as well as rural areas and their channeling into prospective, structured and high priority areas to assist in the economic development of nation. The establishment, growth and development of finance companies as financial instruments will provide investment opportunities to attract the small and medium savers. Thus, financial institutions are the pillars of the national economy.

Nepalese financial companies lag far behind fulfilling the responsibilities to operating management performance and financial management performance in the crucial sectors of the economy for the economic development. Thus, the problem is very serious one in developing countries like Nepal, which can be solved through the total appropriate management performance. Appropriate management performance ensures maximum amount of return to all sectors with proper utilization. So that, “The total management performance is net profit divided by net worth.” (Kuchhal, 1974; 71)

1.2 Statement of Research Problem

Very low per capita income, high population growth rate, and lack of adequate infrastructure for development and low economic growth rate characterize Nepalese economy. Nepalese economy is based on agriculture; however, there prevails a great level of underemployment. The resource base of the agricultural sector has been relatively weak to the population pressure, increasing fragmentation of land and primitive technology.

The following are the critical problems confronting the Nepalese financial sectors:

- The government is an active player in Nepal's financial sector. The dominant role of government in the financial sector has resulted in : Strong political influence and interference in the activities of the sector; Poor management and performance of the sector; Strained capacity for lending; inadequate capitalization; Conflict of interest problem in regulatory and supervisory role for government sector institutions vis-a vis private sector institutions; Distortions in pricing deposits and lending decisions.
- The financial sector of Nepal suffers from inefficiency, excepting the large private sector banks. This is so despite excessive liquidity in the system.
- The financial sector in Nepal suffers from inadequate and ineffective supervision. The Nepal Rastra Bank lacks sufficient autonomy from the Ministry of Finance to effectively perform its roles. The rapid growths in the number of financial institutions and their technological advancement have overtaxed NRB's capacity for supervision. After all NRB is still one of the least computerized financial institutions in Nepal.
- Nepal's financial sector is highly compartmentalized. ADB/N focuses agriculture while NIDC focuses industry. Finance companies deal mainly with hire purchase, leasing and housing loans. Big private sector banks focus on foreign exchange transactions.
- A number of financial institutions in Nepal are indirectly controlled by big family houses. This has created considerable risk of insider lending to group of interconnected companies. The private sector banks, finance companies and insurance companies are especially vulnerable to such risk.

- Nepal has a plethora of financial laws and regulations. They are institution-specific rather than function-specific. They tend to overlap conflict with or create uncertainty among sector participants. The legal environment is fragmented. Court procedures are slow and time consuming.
- Nepal has no accounting standards. The country lacks capacity in professional accounting. There are about 160 professionally qualified accountants in the country. (Dr. Govind Ram Agrawal, 2002)

Capital is a prerequisite for the commencement of any business. Finance companies, among the financial institution, work as the intermediaries between the savers and users of the funds. Thus, they play a critical role in the mobilization of capital from less productive sectors to the more productive sector. Finance companies loan money to consumers and business with special loan arrangements. Loans are granted directly and usually meet the specific need of the borrower. In recent years, the investment behavior of financial institutions has been the major areas of research studies of which finance companies are not exceptions. It has attracted widespread attention mainly because finance companies are regarded as the mobilizes of funds to various productive sectors. The funds they gather is then distributed among different investment areas according to risk and return performance. Another reason of its getting such an attention is that the fund finance companies invest is not of their own rather represents variety of savers ranging from household to institutional.

There are mainly two sources of credit in Nepal viz. private credit agencies and institutional credit agencies. Village money lenders, professional money lenders, landlords, agricultural traders, friends and relatives come under the purview of private credit agencies and are important sources of credit. Similarly, finance companies, co-operatives, agricultural development bank, rural development bank and commercial banks, which are common in Nepal, come under the area of institutional credit agencies. The agriculture credit survey report, NRB 1980 reveals that the proportion of farm families borrowing from institutional credit agencies was only 24.03 percent whereas from private credit agencies it was 75.98 percent in 1976/77 in Nepal. Among the private credit agencies, the proportion of borrowings from village moneylender was highest at 33.87 percent. This clearly reveals that working and financing process of institutional credit agencies is very poor at

grass root level. Rural people are bound to take loans from private credit agencies especially moneylenders. After the enactment of finance company Act 1985 and democratic movement of 1989, finance companies are increasing quantitatively but qualitative development is essential for the sustainable development of the finance companies.

Generally, the focus of the studies in the developed economics is on the role played by finance companies in the overall economic take off. Another area of study is on the investment activities and performance of the finance companies. In the context of Nepal, the study conducted in this area is not adequate. One of the main reasons behind this may be the short history of finance company growth in the country. Another reason may be relatively limited scope of investing options. And, yet another may be the role played by finance companies in overall economic development and growth.

1.3 Research Questions

This study will be focused mainly on the investment activities and performance of the listed finance companies in Nepal. It will be tried to demonstrate the areas of investments and the overall profitability and growth trend of the finance companies. In course of the study, following issues will be raised:

- How the investment activities in terms of fund mobilization of the finance companies are going on?
- What is the relationship of investment and loan and advance with total deposits?
- Does the change in total assets results change in net profit?
- Whether the finance companies are successful to manage their investment activities by utilizing their available fund for the future?
- Is there any stability in various ratios of selected finance companies and do they explain the properly managed investment activities and performance?
- What are the implications of the study on investment activities and performance of concerned finance companies?

1.4 Objective of the Study

The main objective of the study is to have in depth analysis of investment activities and performance of listed finance companies of Nepal. The objectives written in the specific form below:

i) To examine the investment activities and financial performance of selected finance companies in terms of liquidity, activity, profitability, leverage, capital adequacy, and growth ratios.
ii) To find out the relationship between various important variables pertinent to investment activities and performance i.e. deposits, loans and advances, investments, net profit etc and make comparisons between the selected finance companies.
iii) To examine whether there is gradient effect on net profit by change in total assets.
iv) To analyze deposit and its utilization trend and its projection for next five years of the concerned finance companies.
v) To provide viable suggestions to the concerned parties regarding the enhancement of investment activities and performance of finance companies.

1.5 Research Methodology

The research design of this study is based on exploratory as well as analytical type. The study is more perspective than descriptive since the result of secondary data is dominant throughout the study. However, qualitative aspect regarding management that affects investment activities and performance has also been taken into consideration. The population of the study consists of 50 finance companies listed in Nepal Stock Exchange and 8 finance companies are taken as sample which constitutes 16% of the population. The sample is taken using non probability random sampling technique i.e. purposive sampling. The data pertinent to study are taken from the respective finance companies, Nepal Stock Exchange, Nepal Rastra Bank (NRB) , Securities Board of Nepal etc. In addition to that general observation method is used to collect information related to managerial and behavioral aspect. The data thus collected are analyzed through financial and statistical tools. The information regarding managerial and behavioral aspect are used to make the concluding remarks and recommendation.

1.6 Limitation of the Study

Like every research study this study also has some limitations. They are given below:

i) The data used in this study ranges from 2060 to 2064. It means the results thus obtained will explain about situation concerning investment activities and performance between 2060 to 2064 not before 2060 and not after 2064.
ii) The study in based on only 8 finance companies listed in Nepal Stock Exchange.
iii) The study is fully based on the student's limited financial resources within a limited time frame.
iv) Non probability sampling i.e. purposive sampling technique is used for sampling. Therefore the result of the sample might not be generalized to the population.
v) The study is not a final study on the subject.

1.7 Organization of the Study

This study has been divided into 5 chapters which are as follows:

Chapter 1: Introduction
It includes background of the study, statement of research problems, research questions, objectives of study, research methodology, limitation of the study and organization of the study.

Chapter 2: Review of Literature
This chapter consists of the review of books, articles, journals, reports and other relevant materials.

Chapter 3: Research Methodology
It covers on research design, population of sample, nature and sources of data, analytical tools and techniques, data gathering procedure etc.

Chapter 4: Data presentation and Analysis
This chapter attempts to analyze and evaluate data with the help of analytical tools and interpret the results obtained.

Chapter 5: Summary, Conclusion and Recommendation
It sums up the results obtained through analysis and recommends some suggestions.

CHAPTER 2

REVIEW OF LITERATURE

This chapter highlights on the literature that is relevant to the topic. Scarcity of literature regarding finance companies has been felt in the course of review however; this researcher has gone through various books, articles journals, papers, periodicals, related books, booklets etc. The relevant findings of the academicians, researches and professionals of related field are reviewed throughout this chapter. This chapter will be helpful to provide the foundation knowledge in order to undertake this research more precisely.

2.1 Conceptual Framework

The more developed financial system of the work characteristically falls into three parts: the central bank, the commercial banks and other financial institutions. They are also known as financial intermediaries. However, central Bank is main bank of any nation that directs and control to all the financial institutions exist within the country. Nepal Rastra Bank (NRB) is the Central bank of our country. All the financial institutions perform their function under the rules and regulation imposed by NRB. The financial institutions and separate finance companies are defined in many ways; however, the simplest and clearest definitions are given below.

An institution that uses its funds chiefly to purchase financial Assets (deposits, loans and bond) as opposed to tangible properly. Financial institutions can be classified according to the nature of principle claims. They issue on deposits, intermediaries include among other life and property insurance companies and pension funds, those claims are the polices they fail on the promise to provide income after retirement; depository intermediaries obtain funds mainly by accepting deposit from the public. Finance companies are financial institutions, which plays a significant role in the development of the country. It has been a subject of growing importance and facilitates to provide employment as well as consumer's funds and helps to increase in purchasing power, which develops standard of living. Finance company in our economy is not an old word. They came into existence after 1992 like the mushrooms of rainy season. Today the activities of the finance companies are mainly confined within the urban

areas of the kingdom. The role of financial institutions to develop the economy of the country is great and banking transaction is not sufficient to mobilize the capital. Finance companies have an important role in accelerating the pace of socio economic development the country.

After the political change of 2046; democratic government came into existence and adopted liberal economic policy. Nepal has adopted mixed economy to attract private sector investment. But, private parties were not interested to invest on large scale or process of banking transaction rather than immediate return from their investment. In such a situation, interested investors invested their capital on small scale operating finance companies, which are in same way more profitable and provide return immediately. With a view to boost financial development, finance company has emerged as an important sector in the national economy. However, it is the resource of economic development, which maintains the self confidence of various segments of society and extends credit to the people.

Besides providing the service of loan, and deposit to the people; they also have been providing services in an integrated way. They is a regular upward trend in saving mobilization of people by institutional credit facilities. Actually, finance companies of Nepal are catering their customer buy the services that might not come under purview of Banks.

2.1.1 Establishment, Growth and Development of Finance Company

There are different views about finance company that exist in different countries. Most of the countries have common viewpoint that finance company in terms of their function and area of coverage. By finance companies, they mean, the organization that receive time deposit of different maturity dates, providing loans for hire purchase, house, construction business and also taking merchant banking function such as share issue, management of portfolio, management of mutual fund, project counseling, manager and acquisition etc. The establishment growth and development of finance companies is organized into the following three subsections according to the context of different countries.

2.1.1.1 Development Countries

The first investment bank began in Philadelphia in 1794. The first investment company, the Massachusetts Hospital life Insurance Company was founded in 1818 in Boston. The postal saving systems are all the products of late 19^{th} and early 20^{th} century. The more interesting development in US credit market in the 20^{th} century. Then there has been rapid growth in consumer credit. Installment credit was used for only a few items such as pianos, encyclopedias, sewing machines and total house hold expenditure. But the activities increases towards consumer durable good such as automobile boats and household appliances (Ranlett: 1976:209).

Regarding the nature of business finance companies can be studied under sales finance companies, consumer finance companies and credit union. The finance company was developed largely to serve specialized loan markets. At the present time there are many types of specialized finance companies. The oldest and most familiar are the consumer finance companies the consumer finance companies that were formed to serve the demand for small personal loans (Smith:1974:107).

2.1.1.2 Asian Countries

The concept of finance companies in recent innovating in South Asia and its establishment, growth and development was initiated from mid 1950's. The first group of finance companies was established in Philippines and Singapore in the same year . The member of finance companies about over 250grew rapidly by 1962; the finance companies in Thailand are still in the beginning stages . Two major companies are listed in the Bangkok-stock exchange was established in 1961 and other in 1965 finance companies were established in HongKong at the end of 1967 . There are about eight finance companies all sponsored by commercial banks (Shrestha 1995:10)

The finance companies licensed under finance company act 1969 are the second largest group of deposit taking financial institutions in Malaysia. Historically, the finance companies were a creation of early 1960's established as limited companies engaged in many lending activities not unlike the larger licensed money lenders, that is providing loans mainly to support the purchase of consumer durables, particularly, motor vehicles on hire purchase terms and short to medium term business finance. At the end of the first year of enactment of finance companies act 1969,28 finance

companies with a total paid up capital of $ 40.2 million and 169 offices in Malaysia were authorized to carry on business under act (Negra Bank of Malaysia, 1959-1984:195).

The department for the supervision of non bank financial institutions which was established in 1988, took over its responsibilities from development of Bank supervision which earlier carried out the registration and supervision of finance companies in Shri Kanka. The monetary Board, while registering finance companies in terms of control of finance company act no 27 of 1979, also issued directions of such companies with regard to the terms of deposits. The need to maintain liquid assets limitations among other issues consequently to the failure of certain finance companies to adhere to these regulation and their near collapse, the government introduced new regulation under section 5 of the public security ordinance on 17th June 1988, vesting the monetary board of the central bank with special process to direct and control the affairs of finance companies Act no. 78 of 1988, vesting the monetary Board of central Bank with special powers to direct and control the affairs of finance companies of 1988, replaced all previous legislation relating to finance companies (Central Bank of Srilanka, 1950-1990:218)

The industrial finance corporation of India is the oldest of the financial institution established in July under a special act of legislative. However, the passing of the industrial Development Bank of India Act 1964 made it inevitable to the certain changes in the Industrial Finance Corporation Act ACSO. The Indian companies Act, 1956, which come into force on April 1956 marks an important stages in the Development of company law in India (Simha, 1986:102)

In India there had been mushroom growth of finance companies. So that, Reserve Bank has started regulating finance companies from the beginning of 1997. After issue native of central bank of India, that the July 8, 1997, about 37000 companies had applied their application for registration in Reserve Bank (Timilsina, 1998:108).

2.1.1.3Nepalese Context

Finance company is relatively a new concept in Nepalese economy. As soon as the country has adopted liberal and open economic policy, the opening of the non banking financial has an encouraging trend. This was done as per the objective of HMG to make the national economy more liberal dynamic and competitive through increased participation of private sector in economic development. The first legislative provision related with finance company. Act 1985 (with its amendments) governs the establishment and functioning of finance company. Despite this provision, private sector kept some silence till 1992, the first finance company came; Nepal housing development finance company limited was established in 1990, which is specialized in government sectors. The second came in 1992; Nepal finance and saving company limited which is related in private sector.

There are 53 listed finance companies in Nepal. Regarding the listing date Nepal Finance & Saving Co. Ltd. Listed at first i.e. in 02/02/1993 and Patan Finance Ltd. Listed at 11/05/2007. Among 53 finance companies 88.68% have conducted their AGM. It means number of finance companies holding AGM is 47. Regarding Dividend/Bonus Share Declaration and Share Capitalization, 38 finance companies out of 53 have done so 10 out of 38 finance companies have given Cash Dividend. Similarly, 13 out of 38 finance companies have given Bonus Share. 14 finance companies declared both cash dividend and bonus shares. 1 out of 38 finance companies have done share capitalization. (Securities Board of Nepal, 2006/07).

Poudyal (1997) opines finance companies are of recent origin Nepal, which virtually are subsidiaries of commercial banks and other financial institutions. As such they are assigned a limited commercial banking functions in terms of deposit mobilization, but finance companies are as a group are becoming largest immobilizers of public savings in Nepal. At present NRB has demanded detail feasibility studies to ensure qualitative growth of finance companies in the country.

2.2 Impact of Finance Companies in the Economic Development

The role of financial activities to the development of the country cannot be undermined. In fact, it is financial activities that rods the country to the pinnacle of economic development financial development is one of the key indicator of the economic development of the country. Financial activities are the integral part of national planning to accelerate the rate of economic development.

Shrestha (1995), opined that finance companies are the outcome of government's economic liberalization policy and also conclude that even though there is mushrooming growth of finance companies there is no significant contribution towards national economy has been felt because finance companies schemes regarding hire purchase has increased the buying of foreign goods resulting the outflow of scare foreign currency.

Following are the positive and the negative impact of the Nepalese finance companies:

2.2.1 Positive Impact

For the economic development of the nation, finance companies systematically collect the scattered capitals from different institutions, companies or persons. The positive impact for the economic development of the nation that is caused by finance companies is given below.

a) They argue with a sense of confidence that the growth of finance companies has made it possible for client to have easy assess to fulfill individual credit needs which can be difficult in commercial banks as a result to too many unwanted and complicated procedures.
b) The depositors have new alternatives to choose a finance company where they can put their funds with alternative return and incentive and favorable terms and conditions, which they don't enjoy earlier. The only thing is that finance companies are gaining experience and have to restore full confidence of depositors.
c) Finance companies are competing for funds in the market. This is healthy thing since only those finance companies who can manage

and utilize funds who tap them in efficient ones will be automatically driven out of the market.

d) Finance companies tend to balance their funding portfolio by linking deposit with investment and landing function deposit together, so as to encourage growth of capital market in one hand and meeting customer demand fro credit and industrial growth on the other hand.
e) Finance companies have come up with an idea to encourage consumer to strengthen their purchasing power through channel of consumer credit as a hedge against inflation to build their consumer asset portfolio today by paying from future income. Even in hire purchase for instance, it is not fully exhausted as many consumer durables can be brought under list of consumer asset building portfolio such as engineering equipment, medical appliances, kitchen tools etc.
f) Finance companies are in better position to match repayment schedules by linking the cash inflows to credit outflows by minimizing credit defaults through strong internal management and strict credit monitoring in addition to timely credit supervision and controls by NRB. Finance companies are trying to develop credit appraisal expertise within the organization.

2.2.2 Negative Impact

In practical term, the criticism on the growth of finance companies is and escapade reality. Within a short span of time, the mushroom growth of finance companies has raised reasonable denotes among the intelligential and professionals their arguments against finance companies are streamlined below:

a) The worldwide experience regarding the relationship between finance companies and economic development is found to be uncertain. Take for instance, the growth of finance companies in a member of countries such as U.K., Malaysia, U.S.A.. India etc. have face loan repayment problems arising from growing credit defaults. There are also cases where the depositors are neither paid interest nor the principle amount. The saving and loan association of U.S.A. has experience liquidity crunch and cash flow problems. As such the probability of failure even a single finance company would bring a wider chain effect of pushing number of finance companies into a critical situation of closures and collapses.

b) The injection of too many finance companies in the financial system of the country is dangerous for the simple reason that they are repaying on consumer goods that are mostly imported without any relationship between consumption pattern and domestic industrial production. This kind of credit financing cannot remain sustainable to the extent that the performance of finance companies will not have favorable impact on the overall national economy.

As it is evident that the mushrooming growth of finance companies in the absence of their contribution of industrial production and expansion would bring the financial sector to face higher exposure to risk of in solvency leading to total national bankruptcy.

A country cannot offer to encourage imports from consumer credit financing through finance companies at present have drained the scarce foreign exchange to finance imports and their expensive operations continue to bring massive capital outflows to other neighboring countries. That is what is called shadow growth resulting from activities of finance companies that failed to invest in productive industrial sector.

c) Moreover, finance companies tend to bring wider bandwagon effects in the economy, once cash inflows are not properly matched with repayment schedules. As loans are going only for consumption purpose without emphasis on productive sector loans, the risk of default is sure to come since how one can pay credit if there is no paper relationship between use of credit and its probable cash flow generation failure to pay interest and principle will come together at a time when finance companies face serious cash flow problems.
d) The flat rate of finance companies interest rate charge on the lump sum loan has came to the criticism from clients that they are being exploited for their ignorance and laxity of controlling authority. Instead of charging the interest on declining balance of loan, the flat rate has raised the actual cost of loan to the clients. But in this regard, finance companies have opened both options either to pay at lower flat rate in which the size of installments is adjusted automatically or at a reducing balance method requiring higher rate on interest to be paid on loan 12% flat rate versus 19% interest rate at reducing balance method.
e) In the growth of finance companies, public criticism is focused to the promoter’s strategy of getting quick risk by raising funds from the

public to serve their limited invested interest without actually have any long term sustainable strategy when they were promoted. But, this is more of a wishful thinking as some other remarked since NRB is there to regulate finance companies with strict regulatory guidelines requiring promoters to follow.

f) Finance companies are composed to a greater degree of risk since they are still weak and deficient in credit analysis and appraisal. Many of them have not given priority to the development of credit appraisal expertise since loans are given even now on the basis of personal influences and relationship. The credit standards necessary to regulate and control finance companies are still in infant stage.
g) Finance companies are not gaining adequate public confidence because of fear that there is risk of depositing money in the finance companies. Many of the finance companies have not been able to prove professional competency and also not making selective credit strategy to have proper linkage between credit and cash flow generation,
h) The gradual shift of lending from the hire purchase to housing loan is also not providing productive since the generation of income prove a long generation period on the one hand and there is no guarantee that the income will come after completion on the other hand. Again, housing loan is for own use and in such a case how the income will be generated to repay the loan.
i) Failure to recycle the funds in income generating sectors will have a serious rebounding effect to the extent that the future of finance companies in the depend upon their high pop with better success.

2.3 Finance Companies Differ from Banks and other Financial Institutions

Sthrestha (2054) argued that the line of demarcation between finance companies and commercial banks including other financial institutions exists. Given the functional delineation in various respect such as:

a) Asset Vs. Management Orientation

Commercial banks and other financial institutions are assets-oriented and their lending decisions are guided by detailed credit analysis, as they are

generally risk avoiders. But finance companies are generally management oriented and are willing to accept risk of business by placing greater emphasis on growth, management and cash flows from the perspective clients which they finance.

b) Financiers Vs Financial Architects or Engineers

Commercial banks and other financial institutions simply act as financiers but finance companies are more than that to act as financial engineers and architects. It is because every time commercial banks and other financial institutions strive on financial muscles while finance companies depend much on the strength of the ability to anticipate, innovate and discovery of new ideas.

c) Debt Vs. Equity Related Activities

Because of differences in approaches and attitudes, commercial banks and other financial institutions basically deal with debt and debt related finance as their activities are arrayed towards credit proposals, credit appraisals and loan sanctions. But in contrast, finance companies have sphere of activities dealing with equity and equity related finance since their power lies in raising funds from capital market but with backing of credit line from commercial banks.

d) Slow Vs. Quick Delivery of Financial Services

Moreover, the difference between finance companies and commercial banks including other financial institutions lie in the delivery of financial services in market because the activities of finance companies have decisive impact on the growth stability and liquidity of capital and money market both in secondary and primary capital market as they manage to underwrite and support public issues with willingness to take risk compared to commercial banks that consider risk compared to commercial banks that consider these functions secondary and undertake only there are no inherent risk involved.

e) Borrowing Vs. Deposit Collection

Commercial banks and other thrift institutions obtain most of their funds by issuing time savings and demand deposits while finance companies top

majority of their funds in large amount by borrowing directly from commercial banks and other financial institutions or by selling securities in capital and money market.

f) Risk Avoiding Vs. Risk Taking

Commercial banks and financial institutions do not venture to take risks unless adequately covered by security and return while finance companies venture to manage risk by mobilizing funds from non risk taking banks and financial institution. In fact, finance companies tend to enter such fields or potential areas while commercial banks and other financial institutions hesitate to enter.

g) Less Vs More Regulations

Finance companies are not very much strictly regulated like that of commercial banks and other financial institutions although they suffer from policy inconsistencies, procedural lapses and inadequacy of guidelines.

h) Size Vs. Potentiality

In terms of size and resource base, finance companies are very small compared to commercial banks and other financial institutions. But in terms of potentiality and financial services, finance companies are faster in the delivery of financial services.

i) Low Vs High Net Worth

Finance companies have low net worth base compared to commercial banks and other financial institutions

j) Consumption Vs Production Linkage

Finance companies are basically targeted to meet a wide variety of consumption loan by creating demand for industrial products although loan also goes for business and industry but commercial banks and other financial institutions provide loan to produce means of production to encourage capital formation in the country.

k) Dynamic Vs Traditional Lending

Lastly finance companies management have come under increased pressure from gradual changes in the regulatory and institutional structure to have a dynamic and considerable shift in their assets portfolio from consumer lending to business lending compared to commercial bank and other financial institutions. Moreover, finance companies because of rising costs may come under regulatory restrictions coupled with binding interest rate ceilings and thereby reduce their profitability.

In the context of Nepal, finance companies despite being different from commercial banks and other financial institutions are still undertaking more of commercial banking business of accepting deposit to support lending rather than exploring innovative areas of merchant banking services and developing wide variety of financial instruments to mobilize funds from capital market.

Thus, the review of above relevant literature has no doubt enhanced fundamental understanding and foundation of the knowledge base, which is prerequisite to make this study meaningful and purposive. The choice of research methodology and future analysis of the researcher's study would be under track and pertinent to suggest future workable suggestion for finance companies.

2.4 Literature about Finance Companies

The relevant literature regarding finance companies were found very few. However, this researcher has attempted to go through all possible materials that are relevant with this study. Relevant materials here mean books, articles, thesis, periodicals and the matter concerning finance companies.

2.4.1 Review of Books

There are some books that explain about establishment, growth, development and functions of finance companies and their impact on economic development. "The growth of finance companies can be directly tied to change in life styles, preference for private home ownership and the related demand for economic durable. Finance companies are provided in the form of short term and long term debentures/ or bonds. These bonds and

subordinate to the claims of other creditors and are therefore riskier. They command a higher rate of return (Edmister,1980; 144).

In the words of Donglas Vickers, “The balance sheet items of finance companies; their principle sources of funds are long term debt and short term commercial paper. Some of these companies enjoy high credit ratings, making a automobile loans and they are able to borrow in the unsecured commercial paper market. Their assets are mainly various from of consumer and business account receivables.” (Vikers, 1985;236).

He further states, an examination of the typical asset and liabilities structures of the various financial intermediaries highlighted the fact that different institutions are traditionally suppliers of money capital funds to different sections of the capital market. Finance companies are among the principle holders of the consumer installment debt. This relative specialization of the intermediaries investment activities an portfolio has important implications for the economy. When changes occur in the structure of the channels of the flow of investable funds, noticeable impact can be felt on the relative costs and availabilities of funds to different sectors of the economy.

In the words of Roland I. Robinson and D. Ware Wrightsman. “Finance companies are second stage intermediaries. Large amounts of funds loaned by finance companies are funds that are borrowed by finance companies from commercial banks. Indirectly, those commercial banks lend to ultimate borrowers of marginal credit worth. The risks are assumed and the profits are taken, however, by the finance companies layered between the banks and the borrowers. Finance companies also procure funds in very large amounts by issuing long term bonds and short term paper. Most of the buyers of these securities are banks, business and other organizations very little personal saving gets placed directly with finance companies (Robinson and Wrightman, 1980: 86).

Gustafson (1968) advocates that The world bank model capital structure for a development finance company, referred to provide a useful base for examining the problem. There was no experience by which to judge the proper relationship among companies. The initial ratios were determined not only by analytical findings as to what was reasonable in a particular economy for a particular company doing a particular kind of business, but rather by feeling that the “Model” capital structure was reasonable. The

management of these companies have not had to question the appropriateness of the initial debt equity relationship; for the younger companies the problem of the initial debt equity relationship; for the younger companies the problem of the relative amounts of outside capital to shareholders capital is not important, since it takes several years before a company's initial borrowings capacity is fully utilized. Experience to date with this capital structure has not been unfavorable. A number of companies have incurred no losses.

In the words of Kent (1972) "On the basis of classes of borrowers to which they direct most of their loans, finance companies have a threefold classification business finance companies. In all these three classes, the companies are variously proprietorships, partnerships and corporation, but with few exceptions, the larger ones are corporations, with these corporations having large proportions of total loan outstanding." He further says: "A distinguishing feature of finance companies generally is that they depend upon borrowing to obtain most of their loan funds, rather than by taking deposit or selling stocks or shares of some mind." (Ibid: 233). When possible, the typical finance company obtains a substantial share of its loan funds by long term borrowing in addition to the equity investment of its proprietors or stockholders and the remainder by short term borrowing that is especially depended upon to take care of fluctuations in the loan demands of its own customers for much of their short term borrowing finance companies rely upon the commercial banks as lenders. But the larger companies also borrow extensively in the open market by selling short term promissory notes to all individual and institutions that are willing to buy, and they shift substantial amounts of their borrowings back and forth between commercial banks and the often market in consideration of the availability of money and the terms on which they may borrow from the two sources.

Kenneth J. Thygerson writes finance companies are the largest and least regulated financial institutions in the United States. These firms got their start by providing financial lending services to two entirely different markets. The commercial finance companies developed largely as captives to large manufacturing firms. These business customers typically needed financing for equipment purchases forms that sold equipment developed their own companies to finance sales. Because many of these firms were subsidiaries of large highly capitalized firms with strong credit ratings, they

were able to obtain financing at highly favorable rates (Thygerson 1993:314).

He further writes another group of finance company began by financing how and moderate income consumers. The consumer finance companies had a business strategy for different from their commercial firms companies sisters. Many of these firms lend money to individuals through retail offices. The consumer finance company succeeds by segmenting the market and concentration on the lower income household that is unable to meet commercial bank underwriting credit standards (Ibid:315).

Prof. Dr. Manohar K. Shrestha expresses his view as "Finance companies have to be established, organized managed and operated with a professional team of mixing innovative ideas with money and experience. The financial performances of finance companies vary from each other of their profitability, dividend payment and market prices." (Shrestha 1995:56).

The need to strengthen the institutionalization of finance companies is important to have meaningful relationship between finance companies and national development through shift of credit to the productive industrial sectors. At the same time the series of reforms such as consolidation of finance companies and commercial banks, direction attention to venture capital financing, appropriate risk return trade off by liking credit to timely repayment schedules, deposit insurance schemes, achieving exceptional impacts of depositors and clients, avoiding imperfections, allowing flexibility in lending, one window service from NRB, need of strong supervision and monitoring from NRB, diversity scope of activities to fee based activities, allow funds transfer, refinancing facilities for finance companies professional culture within finance companies etc. All these are necessary to ensure better future performance of finance companies that have already been established and growing in Nepal. He further adds, the analysis of their lending and investing activities show only every few finance companies have aggressive investing strategy compared to most of them following conservative strategy. Major part of their lending is in consumer durable through higher purchase and then to housing loan. But rather there has been loans that consists of business and individual loan. But rather there has been loans that consists of business and individual loan (Ibid:57).

Finance company helps to boost the economy by mobilize the funds from unproductive sector to productive sector. By means of higher purchase it has increased the market for consumer durables. It also plays the role of mere hand banking to industrialize the nation. In mobilization and inadequacy of capital are the major hindrances for industrialization of our country, in this regard finance company has great prospective. However, in order to perform well it should reduce its dependence upon fund based activities to fee based activities.

2.4.2 Review of Articles

In this section an effort has been made to examine and review of some related articles in different economic journals, NRB discussion papers, magazines, newspapers and other related materials.

Neupane (1993) in his article has concluded that finance companies with new financial instruments and innovation are highly needed in the economy. Regarding the establishment of these companies, there is still ample room for developing varieties of companies and financial instruments to attract the small savings. This will provide investment opportunities to small and medium savers. Nepalese people have the better experience of being cheated by as called uphar, installment and other prize awarding schemes. Therefore, efforts could be made to create a sound institutional base so that people will not be cheated by breaks.

Karki (1995), in her article has presented with the future of opening finance companies might not be always strong. When the company is not successful in mobilizing deposit, then the saving condition of deposit holders, is at too much risky. Thus, the justification of deposit insurance is a must finance companies are opening and running to flow loan following the same foot step of commercial banks area is not favorable. They should direct themselves in different identification to motivate the flow loan in new area instead of new commercial bank's ideas and knowledge. They are not successful to take opportunity is and expand the adequate service in the existing and economic activities of the country. So, before providing authorities, concerned should be careful thinking that the finance companies can manage long time or not.

Similarly, Nepal (1996), in his article has concluded that the certain competition among the finance companies, their numbers, last savings of

people and consecutive dealing with finance companies have pointed to the crisis in the future. Nepal Rastra Bank is expected to assess and observe the finance companies established by natives and foreigners. It should hear discussion from concerned experts on the matter without any delay.

In the same way, Poudya (1997), in his article has presented with comparison to the commercial banks the interest rate is relatively longer that is provided and accepted by finance companies. The activities of the finance companies should not be confined within the valley. They should extend their services to the rural sectors of will hill and terai to reduce regional imbalance. To sustain themselves in the environment of competition they should introduce new methods to collect deposits and investments. They should learn from the draw back, failure and success of commercial banks to effectively maintain as alternative status.

In the words Palikhe (199), in order to trigger timely change in the economy of country and living standard of Nealese people, the role of finance companies is important. But the quality of the finance companies does not count. Presently the trend of servicing in the urban areas should be discouraged and the rural region should be made the main target area. In the political environment where commitment is lacking and open boarder with India, the finance companies have a difficult task to struggle against minimum prerequisites.

Besides these, Pradhan (1992) has made a conclusion that the finance companies are centered in the city as like commercial banks. If this trend remains, the central bank is to consider novel strategy. However, financial and banking transactions don't take place in vacuum. The emergence of closure of finance companies in market economy is common phenomenon. But keeping mind is our economy we should not undermine the regional imbalance that prevails in our economy. The government and central banks are expected to create/play a positive role in expanding finance companies throughout the country. The capital structure should be changed immediately. The opening up finance companies like furniture shops is a good trend. They should aim at novelty and wide possibilities, which is not felt sufficient as yet. The most of loan transaction shares have occupied like wire purchase but not forget the other transaction like housing; term loan leasing etc. should be given important alternative.

Timilsina (1998), in his article, advocates that especially the finance companies are gathering in urban areas. Under company act they are registered in registrar office and licensed from NRB only can transact after having required terms and condition are fulfilled. Learning from the experience of Indian finance companies and becoming conscious of crime risk, failure and cheating in the bank and other financial institutions. The central bank and other officiated offices should give proper attention timely to evaluate and monitor their presentation and activities.

Sapkota (1998), has concluded that the finance companies have contributed much to the use of financial equipment in the system of Nepalese finance. The habit of saving and depositing is on rise among Nepalese customers as the finance companies are serving door to door. They are interested in promoting capital. The debtors are also facilitated by quick service in loan. As the finance companies are focusing on consumer commodities. They have not been able to contribute in the productive sectors like agriculture industry and other.

2.4.3 Review of Thesis

Before this, nominal thesis works have been conducted by some students regarding the aspects of finance companies such as interest rate structure and financial performance which are the most important to the researcher for the purpose of study are presented below.
Ranabhat (1997), in his thesis concluded that the uses of fund toward the hire purchase and housing loan has been gradually decreased, but the term loan and leasing gradually increasing. He further emphasizes that the analysis of their lending and investment activities show only few finance companies have aggressive investment strategy compared to most of them following conservative strategy.

Wagle (1997) in his thesis concluded that the major portion of lending is in the areas of consumer durables through hire purchase and housing loan but not to forget the term loan that consists of business and industrial loan. The need to strengthen the institutionalization of finance companies is important to have meaningful relationship with the national development through shift of credit to the productive industrial sectors. It is also fund that finance companies tend to balance their funding portfolio by linking deposits with investment and lending function.

He has further stated that the information regarding the different financial institutions is not found to each due to lack of proper co-ordination of their activities in credit business and investment pattern. This had and unfortunate tendency hampers the whole economic activities and financial business of the country. The co-ordination should be tendency in operation of finance company is and it may be suggested that to make “Bank Board” system for blank listed lender.

Here in this section the researches have made an attempt to go through other relevant literature regarding finance companies.

CHAPTER 3

RESEARCH MERHODOLOGY

To accomplish the objective stated in chapter 1, this study follows research methodology, described in this chapter. This study includes the various financial as well as statistical tools to analyze the data in order to come to a certain conclusion. This chapters highlights the research design, population and sample, nature and sample of data, financial statement analysis etc.

3.1 Research Design

kerlinger 1994, opined research design is the plan, structure and strategy of investigation conceived so as to obtain answers to the research questions and to control variance. As this opinion suggests any research project would be unthinkable without the research design clearly conceived by the researcher. Research design is highlighted for ascertaining the basic objectives of the study. Research design includes definite procedures and techniques which gives adequate insights to analyze and evaluate the study.

The research design of this study is based an exploratory as well as analytical type. The study is more perspective than descriptive since the employment of secondary data to analyze the investing activities and performance of listed finance companies of Nepal However, qualitative information regarding management aspect of the finance companies related with investment activities and performance has also been considered.

3.2 Population and Sample

The population of this study constitutes all the finance companies in Nepal listed in Nepal Stock Exchange. There are 53 finance companies listed in Nepal Stock Exchange. So, population of the study is 53 companies (Annex A). Among them 8 finance companies are taken using non probability sampling technique i.e. purposive sampling as samples. The sample covers 15.10% of the population. The selected finance companies are mentioned below.

1) Annapurna Finance Co. Ltd
2) Goodwill Finance Co. Ltd
3) Lalitpur Finance Co. Ltd.
4) NIDC Capital Markets Co. Ltd.
5) Nepal Share Markets Co. Ltd.
6) National Finance Co. Ltd.
7) Peoples Finance Co. Ltd.
8) Universal Finance Co. Ltd.

3.3 Nature and Sources of Data

This research is basically based on secondary data. The data are based on the AGM reports of the finance companies are collected though from finance companies, security board and Nepal Stock Exchange. The study covers and period of five years commenced from 2003 and ends in 2007. In addition to that general observation method is used to collect information related to managerial and behavioral aspect.

3.4 Analytical Tools and Techniques

In order to analyze the data the researcher will employee financial as well as statistical tools. Financial tools includes ratio analysis the researcher will employ various ratios under activity operating, profitability and growth ratios. Similarly, under statistical tools the researcher will employ mean, standard deviation, coefficient of variances, correlation analysis, regression analysis and time series analysis according to the demand of objectives set previously.

3.4.1 Financial Statement Analysis

Financial statements reflect the financial condition of the organization. This study aims to find out the investment activities and performance of listed finance companies. The pertinent data regarding investment activity and performance is found on the financial statements. However, they are required to be analyzed to get the result that could able to answer the question raised and objectives set previously for this financial statement analysis is highly desired.

Pandey (1979) explains, financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by the single set of statement and a study of these factors as shown in a series of statements. It is the process of identifying the financial strengths and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and profit loss account. Thus, the analysis of financial statement is an important and aid to financial analysis. It is helpful in accessing the financial position and profitability of business concern.

Financial statement analysis is a process of evaluating the relationship between components/parts of a financial statement to obtain a better understanding of a firm's position and performance. Financial analysis is designed to determine the relative strength and weaknesses of a company whether the firm is financially sound and profitable relative to other firms in its industry and whether the firm is improving or deteriorating overtime. Thus, it helps to managers, investors and creditors to make a good decision about the recent and current financial situation together with investment activities and performance. The purpose of evaluation of financial statements differs among various groups such as creditors, shareholders, potential investors etc. interested in the results and relationship reported in financial statements.

"To begin with the work of analysis, the analyst or the financial manager must have at his proposal, certain analytical tools in order to make rational decisions keeping in mind the overall goals of corporation. Or private enterprises where he is working for" (Shrestha, 1980: 220). There are many tools to analyze investing activities and performance of an organization broadly; they can be categorized into financial and statistical tools. Both the tools are briefly described here.

3.4.2 Financial Tools

The data available will be summarized at first. The hidden facts put forth by financial statements will be analyzed using financial tools such as ratio analysis, which is given below:

3.4.2.1 Ratio Analysis

Ratio Analysis is technique of analysis and interpretation of financial statement. To evaluate the performance of an organization by creating the

ratio from the figures of different accounts consisting in balance sheet and income statement is known as ratio analysis. It provided guides especially in spotting trends toward better or poor performance and in financing out significant deviation from any average or relatively applicable standard (Dongol, 1997). "A ratio is defined as a indicated quotient of two mathematical expression and is the relationship between two or more things". (Van Horne, 1997:759). It helps to researcher to make qualitative judgment about the firm's financial position, performance and investment activities. Ratios are broadly classified into four types viz. liquidity ratio, activity ratio, profitability ratio and leverage ratio. Under these classifications there are many sub classification too. Here in this research, the researcher has made an attempt to select the ratios that are pertinent with the explanation of investment activities and performance of listed finance companies.

3.4.2.1.1 Liquidity Ratio

The ability of a firm to meet its obligation in the short form is known as liquidity. It reflects the short term financial strength of the business. This ratio flashes out picture of the capacity of an enterprise to meet its short term obligation out of its short-term obligation out of its short term resources (Pradhan: 1986). The liquidity ratio measures the ability of a firm to meet its short term obligation. In order to ensure short term solvency the company must maintain adequate liquidity. Liquidity ratio neither be too low nor too high. If the liquidity ratio of the company is too low it will result bad credit rating, less creditor's confidence eventually lead to bankruptcy. If the company has high degree of liquid fund, it will unnecessarily tie up in current assets. Thus the company should endeavor to maintain proper balance between inadequate liquidity and unnecessary liquidity for the survival and avoiding the risk of insolvency. Liquidity ratios can be classified as under.

i) Current Ratio

The current ratio indicates company's liquidity and short term debt paying ability. It shows the relationship between current-assets and current liabilities. Thus,

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

Current assets are those assets, which can be converted into cash within short period of time. (Khan and Jain, 1993: 83). The assets that can be converted within a year are considered as current assets. Cash and bank balance, money at call or short notice, loans and advances, investment in government securities and other interest receivable, debtors, bills purchased and discounted and miscellaneous current assets are the examples of current assets. Similarly, current liabilities are those obligation which are payable within a short period, generally one year. Sometimes it is called working capital ratio. Deposit and other short term loan, bills payable, tax provision, staff bonus, dividend payables and miscellaneous are the examples of current liabilities.

Generally, the current assets of the company should be twice than current obligation to be technically solvent for many types of business 2:1 is considered to be an adequate ratio. "If the current ratio of the firm is less than 2:1, the solvency position of the firm cannot be considered as good." (Dongol, 1995:373). A relatively high value of current ratio is liquid and has the ability to pay its bill and vice versa. Lastly, the widely accepted standard of current ratio is 2:1 but accurate standard depends on circumstances in case of seasonal business ratio and the nature of business.

ii) Cash and Bank to Total Deposit Ratio

In the case of financial institutions current ratio itself could not be taken as prime consideration for analysis investment activities and performance. Hence many ratios regarding liquid assets are sought. It is known that cash and bank balances are most liquid current assets. This ratio measures the percentage of most liquid fund with the finance companies to make immediate payment to the depositors. This ratio is computed by dividing cash and bank balance by total deposit. This can be presented as,

$$\frac{\text{Cash and Bank Balance}}{\text{Total deposit}}$$

Here, cash and bank balance includes: cash on hand, foreign currency on hand, cheques and other cash items, balance with domestic banks and balance held in foreign banks. The total deposit encompasses current deposits, fixed deposit money at call and short deposit and other deposit. A high ratio indicates the greater ability to meet their deposits and vice versa.

Moreover, too high ratio is unfit as capital will be tied up and opportunity cost will be higher.

iii) Cash and Bank Balance to Current Assets Ratio

This ratio examines the finance companies liquidity capacity on the basis of its most liquid asset i.e. cash and bank balance. This ratio reveals the ability of the finance company to make the quick payment of its customer deposit. This ratio is computed by dividing cash and bank balance by current assets. This can be stated as:

$$\frac{\text{Cash and bank balance}}{\text{Current assets}}$$

A high ratio indicates the sound ability to meet their daily cash requirements of their customer deposits and vice versa. Both higher and lower ratios are not desirable since if a finance company maintains higher ratio of cash, it has to pay interest on deposits and some earnings may be cost. In contrast, if a finance company maintains low ratio of cash, it may fail to make the payment for presented cheques by its customers. So, sufficient and appropriate cash reserve should be maintained properly.

iv) Investment on Government Securities to Current Assets Ratio

This ratio examines that portion of a finance company's current assets which is invested in government securities. More or less each finance company is interested to invest their collected fund on different securities issued by government in different time to utilize their excess funds and other purpose. Though government securities are not as liquid as cash and bank balance of finance company, they can easily be sold in the market or they can be converted into cash in other ways. This ratio is computed by dividing government securities by current assets. It can be stated as:

$$\frac{\text{Investment on government securities}}{\text{Total current assets}}$$

Here, investment on government security includes treasury bills and development bonds etc. This ratio shows that out of total current assets, how much percentage of it has been occupied by the investment on government securities.

vi) Loan and Advances to Current Assets Ratio

Loan and advances are included in the current assets of finance companies because generally they provide short term loan, advance overdraft and cash credit. Loan and advances to current assets ratio shows the percentage of loan and advances in the total current assets. This ratio can be computed dividing loan and advances by current assets. This can be stated as,

$$\frac{\text{Loan and advances}}{\text{Current assets}}$$

The numerator consists of loans, advances, cash credit, overdraft, local and foreign bills purchased and discounted. In order to make high profit by mobilizing its fund in the best way, a finance company should not keeps its all collected funds as cash and bank balance but they should be invested as loan and advances to the customers. But, high funds flow towards loan and advances may also be harmful to keep the finance company in most liquid position because they can only be collected at the time of maturity only. Thus, a finance company must maintain its loan and advances in appropriate level and to find out position of current assets, which is granted as loan advances.

3.4.2.1.2 Activity Ratio

Activity ratios can be used to know the efficiency of the different assets with the help of these ratios, the analyst can know whether the assets are utilized properly or not. Activity ratios serve as one of the powerful tools to analyze investment activities and performance of finance companies. These ratios are also called turnover ratio. It measures how effectively the company employees the resources at its command. Funds are collected by collection of shares and debts owners, creditors and outside parties. The funds are invested in processing various kinds of assets to generate profits. The better management of asset turnover is the better indication of its financial performances and large amount of profit. Activity ratios are the indicators of a concern with regard to its efficiency in assets management; hence they are often referred as efficiency ratios are computed to assess finance companies efficiency in utilizing available resources. The types of activity ratios, taken into consideration, for the research purpose are explained below.

i) Loan and Advances to Total Deposit Ratio

This ratio measures the extent to which the finance companies are successful in mobilizing deposits for the purpose of profit generation. It is the proportion of efficiency i.e. loan and advance among the total deposit of the finance company. This ratio is computed by dividing loans and advances by total deposits. This can be stated as,

$$\frac{\text{Loan and advances}}{\text{Total deposits}}$$

Higher ratio shows the finance companies ability to provide the loan and advances to the people. A high ratio of loan and advances is considered to be the high of efficient finance companies management and better mobilization of collected deposits and vice versa.

ii) Loan and Advances to Fixed Deposit Ratio

This ratio indicates how much of loan and fixed deposit is the main account of finance companies fixed deposit is the highest interest rate payable deposit. Hence finance companies must utilize fixed deposit properly. This ratio is obtained by dividing loan and advances by fixed deposits. This is expressed as

$$\frac{\text{Loan and advances}}{\text{Fixed deposits}}$$

Loan and advances to fixed deposit ratio indicate how properly the fixed deposit is utilized.

iii) Loan and Advances to Total Working Fund Ratio

Loan and advances is the major component in the total working fund (Total Assets), which indicates the ability of finance companies on working fund ratio for the purpose of income generation. This ratio is computed by dividing loan and advance by total working fund. This is stated as,

$$\frac{\text{Loan and advances}}{\text{Total working fund}}$$

Here the denominator includes all assets of balance sheet items. In other words, this includes current assets, net fixed assets, loans of development bonds and other investment in share, debenture etc. A high ratio indicates a better mobilization of fund as loan and advances and vice versa.

iv) Investment on Government Securities to Total Working Fund Ratio

This ratio shows that finance companies investment on government securities in comparison to the total working fund. It is very significant to know the capacity of finance companies to mobilize their working fund of different types of government securities to maximize the income. All the deposits of the finance company should not invest in loan and advances and other credit from security and liquidity point of view. Therefore to some extent, finance companies should invest to the government securities. This ratio is calculated by dividing investment on government securities by total working fund. This is presented as,

$$\frac{\text{Investment on government securities}}{\text{Total working fund}}$$

This ratio shows that out of total working fund how much percentage of it has been occupied by the investment on government securities.

v) Total Investment to Total Deposit Ratio

Investment is one of the major forms of credit created to earn income. This implies the utilization of firm's deposit on investment in government securities and share, debenture of other companies and banks. This ratio measures the extent to which the finance companies are successful in mobilizing total investment on total deposit. The amount of deposit should be soundly as the finance company has to put only interest on its deposit but also has to declare handsome dividend to its owners i.e. shareholders. This ratio can be calculated by dividing total investment by total deposit. This ratio can be mentioned as,

$$\frac{\text{Total Investment}}{\text{Total deposits}}$$

The numerator consists of investment of government securities, investment on debenture and bonds, share in subsidiary companies, shares in other companies and other investment. A high ratio indicates that the finance company's efficiency is more on investing its deposits and low ratio indicates in ability to put its deposit for the lending activities.

3.4.2.1.3 Profitability Ratios

Profitability ratios show the overall efficiency of business concerns. The relation of the return of the firm to either its sales or its equity of asset is known as profitability ratio. Profit is necessary to survive in any business field for its successful operation and further expansion. It measures management's overall effectiveness as shown by the return generate on sales and investment.

The difference between total revenues and total expenses over a period is known as profit. Efficient operation of a firm and its ability to pay and adequate return to different parties depend upon firm's profit. It is regarded as the most essential element for companies' growth, survival and to compete with competitors. In fact, sufficient profit must be earned to maintain the operation of the company to be able to acquire funds from investors for expansion and to contribute towards the goals of nation. This implies that the measuring rod of companies for the investing activities and financial performance. Higher the profitability ratio, better the investing activities and financial performance of the finance companies and vice versa. Profitability of the finance companies can be evaluated through the following different ways.

i) Net Profit to Total Assets Ratio

Net profit refers profit after interest and taxes. Minimizing taxes within the legal options available will also improve the return. It is also known as return on assets (ROA). Return on total assets evaluates the efficiency of a company in utilization and mobilization of assets and its survival. This ratio is calculated by net profit (loss) by total assets. This can be mentioned as

$$\frac{\text{Net profit (Loss)}}{\text{Total assets}}$$

The numerator indicates the position of income left to the interval equities after all costs charges expenses have been deducted. Total assets comprise those assets, which appear asset side of the balance sheet. The high return on total assets ratio usually indicates that high profit margin and high turnover of total assets and vice-versa.

ii) Net Profit to Total Deposit Ratio

Net profit to total deposit ratio examines whether management has been capable to mobilize and utilize the deposits. It also helps to know the overall performance and generation of profit of finance companies. This ratio is most important to identity whether the organization is well efficient or not in mobilizing its total deposits, so that corrective action could be taken. The return on total deposit ratio can be computed by dividing net profit by total deposits. This can be expressed as:

$$\frac{\text{Net Profit}}{\text{Total Deposit}}$$

iii) Net Profit to Net Worth Ratio

The net profit to net worth ratio is used to measure to see the profitability of the owner's investment or company's earning power against owner's equity the excess amount of total assets over total liabilities is known as net worth. Net worth refers to the owner's claim of a finance company. This ratio is calculated by dividing net profit by net worth (Total equity capital). This can be stated as:

$$\frac{\text{Net Profit}}{\text{Net Worth}}$$

Here, net worth focuses not only the paid up capital but also include general reserve, capital reserve, ordinary share, preference share, premium on share and other reserve which may distribute to shareholders as dividend.

iv) Total Interest Earned to Total Working Fund Ratio

To depict the earning capacity of a finance company on its total assets/or working fund, total interest earned to total working fund ratio is very helpful

and significant. In other word this ratio reflects the extent on which the finance companies are capable to mobilize their total assets to generate high income as interest. This ratio is calculated to find out the percentage of interest earned to total assets (working fund). This is stated as:

$$\frac{\text{Total interest earned}}{\text{Total working fund}}$$

The numerator comprises total interest income from loans, advances cash credit and overdrafts government securities, inter finance companies and other investment. A high ratio is an indicator of high earning power, and better performance of the finance companies on its total working fund and vice-versa.

v) Total Interest Paid to Total Working Fund Ratio

This ratio measures the percentage of total interest paid on liabilities with respect to total working fund. This ratio can be calculated by dividing total interest paid by total working fund, which can be presented as:

$$\frac{\text{Total interest paid}}{\text{Total working fund}}$$

Here, the numerator consists of total interest expenses on total deposits, loan and advances, borrowing and other deposits. A high ratio indicates high interest expenses on total working fund and vice-versa.

3.4.2.1.4 Leverage Ratio

A firm should have a strong short-term as well as long-term financial position. “To judge the long term financial position of the firm these ratios help to measure the financial contribution of owners and creditors comparatively. These ratios indicate the situation of the capital structure, which is calculated to measure the companies ability of using debt for benefit of shareholders.” (Cannedy, 1986: 213). Long-term creditors like debenture holders, financial institutions etc. are more interested to the firm’s long term financial strength. The capital structure ratio mainly highlight on long term financial health, debt servicing capacity and strengths and weaknesses of the concerns. This ratio may be calculated from the balance

sheet items to determine the proportion of the debt in total financing. In summary, debt ratios tell us the relative proportions of capital contribution by creditors and by owners. These ratios are powerful financial tools to asses the performance of the organizations.

i) Debt-Assets Ratio

Total debt to asses ratio shows that what portion of the capital assets are financed by out-side funds and measures the financial safety/security to the outsiders. It is calculated by dividing total debt by total assets. This can be stated as:

$$\frac{\text{Total debt}}{\text{Total assets}}$$

The numerator consists of short-term and long-term debt. Debt is that sum of money that must be payable. Creditors, bills payables, are the examples of debt. A high debt to total asset ratio represented a greater risk to creditors and shareholders and vice-versa. This ratio implies a finance company's success in exploiting debt to be more profitable.

ii) Debt-Equity Ratio

Debt-equity ratio examines the relative claim of creditors and owners against the firm's assets. Alternatively, the debt to equity ratio indicates the contribution of debt capital and equity capital fund to total investment. This ratio is computed using the following formula:

$$\frac{\text{Total Debt}}{\text{Total equity (Net Worth)}}$$

Here, equity comprises shareholders capital, general reserve, general loan loss provision inappropriate profit and loss balance etc. This ratio helps to ascertain to measure stake in finance company between lenders and owners. If debt portion is too high, there is danger tempting irresponsibility in the parts of the owners.

3.4.2.1.5 Capital Adequacy Ratio

Capital adequacy ratio is one of the powerful tool to analyze the investing activities and performance of the organization since it measures the strength of the capital. A high or low capital adequacy ratio is undesirable items of lower return or lower solvency respective. Therefore, appropriate capital adequacy is needed but is a controversial matter. There capital adequacy ratio is measured by analyzing following ratio.

i) Shareholder's Fund to Total Deposit Ratio

Shareholders fund to total deposit ratio shows how well finance companies are maintaining sufficient amount as shareholder's fund in comparison to the amount of total deposit. This ratio is calculated by shareholder's fund divided by total deposit, which is presented as:

$$\frac{\text{Shareholder's fund}}{\text{Total deposit}}$$

Here, Shareholder's fund is equal to the total equity/or net worth.

ii) Shareholder's Fund to Total Assets Ratio

This ratio is concerned with the sufficiency of shareholder's fund against the total assets. It is very essential for every financial institution to have a balance of required percentage of total assets at shareholder's fund i.e. capital fund. This ratio is derived by dividing shareholder's fund by total assets. This can be stated as:

$$\frac{\text{Shareholders fund}}{\text{Total assets}}$$

Generally this ratio measures the relative's claims of owners of the finance companies over the company's assets. A high ratio indicates that out of total assets shareholder's have more controlled, owner command and vice-versa

3.4.2.1.6 Growth Ratio

The growth ratio represents how well the finance companies are maintaining their economic and financed position. This ratio can explain regarding the performance of finance companies. The ratio can be calculated dividing the last period figure by the first period figure then by referring to the compound interest labels. Alternatively, it is calculated by using following equation,

$D_n = D_0 (1+g)^n$

Where,

D_0 = Dividend per share of base year
n = No. of periods
g = Growth rate

A high ratio generally indicates better performance of a finance company and vice-versa. To examine and analyze the expansion and growth of the finance company business, following growth the ratios are calculated in this study.

i) Net Profit

Net profit measure the profitability performance of any business concern including finance companies. It is essential for its survival and growth and to maintain capital adequacy through profit retention. This indicator is computed by subtracting total expending and interest and taxes form the operation income. It is also called net profit after interest and taxes. It is calculated by using following formula.

NPAI & T = OI-(TE+I+T)

Where,

NPAI & T = Net profit after interest and taxes
OI = Operating income
TE = Total expenditure
I = Interest paid
T = Taxes

In fact, sufficient profit explains better financial performance and properly managed investing activities of the finance companies.

ii) Earning Per Share

Earning per share (EPS) explain that the owners are theoretically entitled to get from the company. EPS is use to measure the profitableness of the shareholder's investment. It simply shows that the profitability of finance companies on a per share basis. This ratio can be computed by dividing net profit after interest and taxes, preference dividend by the total number of equity shares outstanding of the finance companies. It is calculated by using the following formula.

$$EPS = \frac{NPAI \& T - PD}{n}$$

Where,
EPS = Earning per share
NPAI & T = Net profit after interest and taxes
PD = Preference dividend
n = Number of equity shares

The higher EPS indicates that the better achievement of profitability of the finance companies by mobilizing their fund and vice-versa.

iii) Dividend Per Share

The firms pay certain amount per share policy. The term dividend refers to distributable earning to the shareholders of the firm in return to their investment. Generally, dividend implies that portion of net profit, which is allocated to shareholders as their return in terms of cash. The difference between EPS and DPS if caused because of the retained earnings. Retained earning is the earning after term and preference dividend that is kept in the organization for its betterment.

This indicator is used by dividing net profit (i.e. distributable profit) by no. of common share outstanding of finance companies. It is calculated by using following formula:

$$DPS = \frac{TDD}{n}$$

Where,
DPS = Dividend per share
TDD = Total distributed dividend
n = No. of common stock outstanding

Higher DPS explains the better performance of finance companies. In order to earn high DPS properly managed investment activities for a financial institution is highly desired.

3.4.3 Statistical Tools

The relationship between different variables related to study will be drawn out using statistical tools. The tools to be used are discussed as under.

3.4.3.1 Mean or Average

The average value is a single value with in the range of the data that is used to represent all of the values in the series. Since an average is somewhere with in the range of the data, it is also called measure of central value. Since an average represents the entire data, its value lies somewhere in between the two extremes i.e. the largest and the smallest items. There are various types of averages. Among them, we take arithmetic mean; it is so popular that the work "mean/or average" alone without qualification is implied to denote this particular type of average. Its value is obtained by adding together all the items and by dividing the total by the number of items. The formula is given below:

$$\bar{X} = \frac{\sum X}{n}$$

Where,

$\bar{X}$ = Arithmetic average
$\sum X$ = Summation for total values of the variable
n = Number of items

3.4.3.2 Standard Deviation

The standard deviation is the most important and widely used measure of studying dispersion. It is known as root mean square deviation for the reason that the square root of the mean of squared deviations from the arithmetic means. It is also denoted by the small Greek letter σ (read as sigma). The standard deviation measures the absolute dispersion /or variability of a distribution. A small standard deviation means a high degree of uniformity of the observation as well as the homogeneity of a series; a large standard deviation means just the opposite. Hence, standard deviation is extremely useful in judging the representative ness of the mean.

Symbolically,

$$\sigma = \sqrt{\frac{\sum d^2}{n}}$$

Where,
σ = Standard deviation
$\sum d^2$ = Sum of the squares of the deviations measured from the arithmetic average.
n = Number of items

3.4.3.3 Coefficient of Variation

The coefficient of variation is the corresponding relative measure for dispersion, comparable across distribution, which is defined as the ratio of standard deviation to the mean expressed in resulting percentage. It is used in such cases where we want to compare the variability of two or more than two series. That series for which the coefficient of variation is greater is said to be more variable or conversely less consistent, less uniform, less stable or less homogenous. On the other hand, the series too which coefficient of variation is less is said to be less variable or more consistent, more uniform, more stable or more homogenous.
Symbolically,

$$CV = \frac{\sigma}{\bar{X}} * 100$$

Where,
CV = Coefficient of variation

σ = Standard deviation

$\bar{X}$ = Mean of average

3.4.3.4 Coefficient of Correlation

The term correlation indicates the relationship between two such variables in which changes in the values in one variable, the values of the other variable also change. Karl Pearson's coefficient of correlation is calculated to study the extent or degree of correlation between two variables. It can either be positive or negative. If the both series more in the same directions and the variations are proportionate there would be perfect positive correlation between them. On the other hand, the two series move in a reverse directions, and the variations in their values are proportionate, it is an example of prefect negative correlation. It is also likely that there may be no relationship between the variation of the two series in such a case there is a no correlation between them.

The coefficient of correlation always varies between there two limits of +1 and -1. When there is perfect positive correlation its value is +1 and when there is perfect negative correlation its value is -1. It's mid point is 0, which indicates absence of correlation. Lastly, the value of this coefficient of correlation is always between +1 and -1.

The formula for the calculation of coefficient of correlation is given below:

$$r = \frac{N\sum xy - \sum x \sum y}{\sqrt{[N\sum x^2 - (\sum x)^2][N\sum y^2 - (\sum y)^2]}}$$

Where,

r = Coefficient of correlation
$\sum$ xy = The total of the product of items in two series
$\sum$ x & $\sum$y = The total of x and y series respectively
$\sum x^2$ & $\sum y^2$ =The total of square items in x & y series respectively

N = The number of items in x & y series
Karl Pearson's coefficient of correlation has been employed to find out the relationship between the following variables.

1. Coefficient of correlation between total deposit and total investment.
2. Coefficient of correlation between debt and return.

3.4.3.5 Probable Error of the Coefficient of Correlation

After the calculation of coefficient of correlation the next thing is to find out the extent to which it is dependable. For this purpose the probable error of the coefficient of correlation is calculated. If the probable error is added to and subtracted from the coefficient of correlation it would give two such limits in which we can reasonably expect the value of coefficient of correlation to vary. The formula for finding out the probable error of the Karl Person's coefficient of correlation is;

$$P.\,Er = .6745\,\frac{1-r^2}{\sqrt{n}}$$

Where,

P.Er = Probable error of coefficient of correlation
r = Coefficient of correlation
n = Number of pairs of observation

In order to ascertain whether the coefficient of correlation is significant or not, the following points should be kept in mind.

i) If the coefficient of correlation is less than six times its probable error it is not at all significant.
ii) If the coefficient of correlation is more than six times its probable error it is definitely significant.
iii) If the probable error is not much and if the coefficient of correlation is 0.5 or more it is generally considered to be significant.

It should be taken into consideration that the coefficient of correlation expresses the relationship between two series, and not between individual items of the series.

3.4.3.6 Coefficient of Determination

The coefficient of determination is a measure of the degree of linear association or correlation between two variables, one of which happens to be independent and other being dependent variable. In other coefficient of determination measures the percentage of total variation in dependent variable explained by independent variables. The coefficient of determination can have value ranging from zero to one. If R^2 is equal to 0.65 that indicates that the independent variables used in regression model, explain 65% of total variation in the dependent variable. A value of one can appear only if the unexplained variation is completely nil i.e. zero which simple means that all the data points in the scatter diagram fall exactly on the regression line. Coefficient of determination is the square of the coefficient of correlation determination is the square of the coefficient of correlation.

Symbolically,

$$R^2 = r^2$$

Where,

R^2 = Coefficient of determination

r^2 = Coefficient of correlation

3.4.3.7 Regression Analysis

Regression analysis is a statistical device with the help of estimate or prediction of the unknown value of one variable from the known value of other variable. It is one of the scientific techniques and is considered as a useful tool for determining the strength of relationship between two or more variable. Prediction or estimation has an important role in the financing

sector; this tool has been employed for the study purpose. The regression line describes the average relationship between the two series. In fact there is no difference between the lines of best fit and best fit is generally used when x series related to time and y series to the value of a variable. If both x and y series are variable, the line of best fit is known as line of regression. The equation describing the regression lined is called regression equation.

Here, regression analysis is divided into two parts: simple and multiple. The analysis used to describe the average relationship between only two variables at a time is known as simple regression analysis. It is used to study how independent variable influenced dependent variable. The extension of simple regression techniques i.e. the uses of two or more independent variables are used to estimate the values of a dependent variable is known as multiple regression analysis. Regression analysis has to be included three tools explained below.

3.4.3.7.1 Regression Constant

The value of constant which is the intercept of the model indicates the average level of dependent variable when independent variable is zero. In other words, it is better to understand that constant indicates the mean or average effect on dependent variable if all the variables omitted from the model.

Symbolically,

$$a = \frac{\sum y}{N}$$

Where,
a = Regression constant

$\sum y$ = The total value of dependent variable

N = Number of observation

3.4.3.7.2 Regression Coefficient

The regression coefficient of each independent variable indicates the marginal relationship between that variable, holding constant the effect of all other independent variables in the regression model. In other words, the coefficient describes how changes in independent variables affect the value of dependent variable estimate.

Symbolically;

$$b = \frac{\sum xy}{\sum x^2}$$

Where,

b = Regression constant
$\sum xy$ = The total value of the product of items in two series
$\sum x^2$ = The total of the squares of items in x series

3.4.3.7.3 Standard Error of Estimate

With the help of regression equations perfect prediction is practically impossible. A measure of precision of the estimates so obtained from the regression equation is provided by the standard error (S.E.) of the estimate Standard error is a word analogous to standard deviation (which is a measure of dispersion of the observations about the mean of the distribution) and gives us a measure of the rather of observation about the line of regression the formula for calculating the standard error of estimate is;

$$S_{yx} = \sqrt{\frac{1}{N} \sum (y-y_c)^2}$$

Where,
S_{yx} = The S.E. of regression of y values from y_c

y_c = the estimated value of u for given value of x obtained from the line of regression of y and x.
N = Number of observation

The smaller the value of S.E. of estimate, the closer will be the dots to the regression line and better the estimates based on the equation for this line. If standard error of estimate is zero, then there is no variation about the line and the correlation will be perfect. Thus, with the help of S. E. of estimate, it is possible for us to ascertain how good and representative the regression line is as a description of average relationship between two series. For the study purpose, both simple regression analysis is applied to find out the effect between the following variables.

i) Net profit (NP) as dependent variable and independent. Variable is total assets (TA) regression equation

NP = a + bTa

3.4.3.8 Trend Analysis

Trend analysis describes the average relationship between two series where the one series relates to time and other series to the value of a variable. It generally show that the line of best fit/ or straight line is obtained or nor. The line of best fit describes the changes in a given series accompanying a unit change in time. In other word, it gives the best possible mean values of dependent variable for a given value of independent variable.

For calculation of the “lien of the best fit”, following equation is employed.

$Y_c = a + bx$

Where,

Y_c = The estimated value of Y for given value of x, obtained from the line of regression of y on x
a = “y-intercept”/ or mean value
B = “Slope” of line/ or rate of change
X = The variable in time series analysis represents time.

The term best fit is interpreted in accordance with the principle of least squares which consists in minimizing the sum of the squares of the residual or the errors of estimates i.e. The deviations between the given observed value of the variable and their corresponding estimated values as given by the line of best fit.

This equation is used to compare the overall performance of different selected finance companies during the study period plus projection of next five year. Under this topic following sub topics been presented.

i) Trend analysis of loan and advances.
ii) Trend analysis of total investment
iii) Trend analysis of net profit
iv) Trend analysis of deposit

The researcher had made an attempt to use the financial and statistical tools discussed above to analyze and interpret the date of the finance companies taken under sample. The study period covers five years i.e.2003 to 2007.

CHAPTER 4

DATA PRESENTATION AND ANALYSIS

In order to achieve the objectives that are set in introduction chapter the data that are relevant to the objective are presented and analyzed in this chapter by the aid of both financial tools and statistical tools. This chapter is also called the central nervous system of the report since it helps to provide conclusion after detail analysis with the aid of this chapter the pertinent and relevant conclusion can be made.

This chapter encompasses various ratios that explain the investment activities and performance of listed finance companies. The ratios entertained here are basically terms under five heads viz. liquidity, activity, profitability, leverage and capital adequacy and growth ratios. These ratios are the sub-indicators of financial position of a company. However the ratios are absolute measure in order to analyze them in a relative term various statistical tools such as mean, standard deviation and coefficient of variation have been employed.
In addition to the correlation and regression, analysis and time series analysis has been done by the aid of which investment activities and performance can be explained.

4.1 Investment Activities

Finance company could earn a good amount of profit by properly managing its investment activities. We generally mean investment activity as the activity of flowing the fund to that sector that yields return. By going through the reports of finance companies that are selected for study, the researcher has found that the investment activities of most of the finance companies are broadly confined within loans, government securities, shares and debenture. From loan they get interest as their return, government securities give interest mentioned on the bond, share provides dividend and debenture yields interest. Finance companies are basically relying upon deposit as there source of fund to invest. The return they get from their investment activities are the basic source of their survival. As Nepalese finance companies are basically relying upon fund based activities as opined by Dr. Manohar Krishna Shrestha, managing investment activities for good performance is the key issue to them. Below is a demonstration of data

concerning investment activities of various finance companies selected for study.

Table 4.1 Investment in Loans, Government Securities, Shares and Debenture

Rs. in million

Finance Companies	Investment areas	2060	2061	2062	2063	2064
Annapurna	Loan & Advances	477.39	654.37	868.23	1025.49	1456.96
	Government securities	24.00	18.29	18.49	182.75	18.29
	Share	8.23	8.26	5.45	5.02	11.23
	Debentures	-	-	-	-	-
Goodwill	Loan & Advances	248.12	247.57	297.90	321.26	427.93
	Government securities	46.5	25.95	35.48	25.45	50.45
	Shares	21.99	11.84	7.08	7.08	7.71
	Debentures	-	-	-	-	-
Lalitpur	Loan & Advances	368.34	385.53	540.78	738.38	760.04
	Government securities	3.73	0.24	0.70	0.003	0.80
	Shares	19.92	16.40	50.85	45.31	45.31
	Debentures	-	-	-	-	-
Nepal Share Market	**Loans & Advances**	**476.49**	**784.41**	**951.99**	**1202.10**	**1303.32**
	Government securities	**8.01**	**10.51**	**3.90**	**2.08**	**11.68**
	Shares	**13.95**	**27.42**	**11.64**	**11.64**	**12.16**

	Debentures	**-**	**-**	**-**	**-**	**-**
NIDC Capital Markets	**Loans & Advances**	**288.22**	**373.40**	**416.38**	**526.68**	**565.47**
	Government securities	**24.07**	**12.50**	**12.50**	**-**	**0.60**
	Shares	**18.70**	**19.11**	**17.86**	**15.18**	**11.29**
	Debentures	**-**	**-**	**-**	**-**	**-**
Peoples	**Loans & Advances**	**98.58**	**181.44**	**342.59**	**517.05**	**544.27**
	Government securities	**5.00**	**-**	**-**	**-**	**-**
	Shares	**11.12**	**11.14**	**3.09**	**3.09**	**3.09**
	Debentures	**-**	**-**	**-**	**-**	**-**
Universal	**Loan & Advances**	**343.95**	**309.45**	**413.06**	**413.54**	**569.82**
	Government securities	**10.56**	**0.50**	**0.50**	**-**	**-**
	Shares	**1.71**	**4.82**	**4.82**	**4.25**	**4.25**
	Debentures	**-**	**-**	**-**	**-**	**-**

From the above table it is clear that significant amount has been invested as loan and advances by the finance companies. Nepal Share Market stands at first position in mobilizing its fund as loans and advances. Under our study Goodwill Finance Company comes at last in loan and advances. Similarly, investment in Government security ranges from 50.45 million to 0.60 million in 2064. Former belongs to the Goodwill and later belongs to NIDC Capital Market. In case of investment in shares, Lalitpur Finance Company stands at first since it has invested 45.31 million by 2064. Having the observation of the above table, it is found that the most coveted area to mobilize their fund by finance companies is loan and advances and their second preference is government securities probably thanks to its riskless nature and their last preference is shares. Shares has been given little preference probably because of immature capital market.

However investment in shares and other security, to a larger extent, making efficient portfolio, is highly desirable by the finance companies to shift its pawn broker's like activities to real activities of financial institutions. Besides, not even a single finance company selected for our study has made an investment in debenture. The researcher thinks because of immature and almost non existent debt market in Nepal investment in debenture has not been made by the finance companies.

4.2 Liquidity Ratio

With the help of following liquidity ratios the ability of short term obligation has been measured and comparison selected finance companies have been made.

i)Current Ratio

Current ratio is one of the major ratios among the ratios that measures liquidity. The following table exhibits the current assets to current liabilities of the finance companies that are selected for the sample.

Table 4.2: Current Ratio (Times)

Finance Companies	2060	2061	2062	2063	2064	Mean	S. d.	CV
Annapurna	1.08	1.12	1.13	1.30	1.23	1.172	0.081	6.91
Goodwill	0.89	0.91	0.99	1.03	1.05	0.974	0.064	6.57
Lalitpur	0.87	0.74	0.91	0.99	1.02	0.906	0.099	10.93
National	0.83	0.89	0.96	1.02	0.97	0.934	0.066	7.07
Nepal Share Market	0.83	0.92	0.98	1.03	1.00	0.952	0.071	7.46
NIDC Capital Market	0.84	0.90	0.93	1.18	1.09	0.988	0.127	12.85

Peoples	0.61	0.89	1.09	1.07	1.13	0.958	0.192	20.04
Universal	0.87	0.91	0.99	0.98	1.01	0.952	0.053	5.57

From the above table, the average current ratio of Annapurna Finance Company is the higest where as the mean current ratio of Lalitpur Finance Company is the lowest. The standard of the current ratio is 2:1. All the companies fall below the standard. Regarding C.V. The average current ratio of Annapurna Finance Company is the highest and its S.D and C.V are 0.081 and 6.91 respectively. Universal Finance Company is more consistent in maintaining its current ratio which is 5.57 whereas Peoples Finance Company is less consistent in maintaining its current ratio. The mean current ratio of the finance companies are below standard this shows that there companies may face difficulty in satisfying short term need of funds. Average current ratio of all the finance companies is less than 1 except the Annapurna Finance Company. The coefficient of variations ranges from 20.04 to 5.57 it mean overall situation of current ratio is not much alarming however, all the finance companies should strive to make their current ratio as per with standard and try to be consistent in term of possessing working capital.

ii) Cash and Bank Balance to Total Deposit Ratio

The following table exhibits cash and bank balance to total deposit ratio of selected finance companies.

Table 4.3: Cash and Bank Balance to Total Deposit Ratio in %

Finance Companies	2060	2061	2062	2063	2064	Mean	S.d	CV
Annapurna	4.29	9.55	7.86	3.37	4.15	5.844	2.417	41.36
Goodwill	5.18	22.25	12.73	15.92	8.99	13.014	5.855	44.99
Lalilltpur	5.44	8.16	5.03	7.16	15.01	8.16	3.609	44.23
National	19.67	22.52	18.74	28.55	14.99	20.894	4.522	21.64

Nepal Share Market	23.86	18.13	2.64	6.16	3.63	10.884	8.530	78.37
NIDC Capital Market	16.64	37.02	13.30	22.28	11.44	20.136	9.211	45.74
Peoples	12.36	17.27	11.50	11.38	11.86	12.874	2.224	17.28
Universal	6.61	15.94	9.46	10.52	7.87	10.08	3.220	31.94

Table 4.3 demonstrates us the ratios regarding cash bank balance to total deposit in percentage from the mean column it is apparent that National Finance Company has the highest cash and bank balance and of its deposit. The average cash and bank balance to total deposit ratio is 20.894 of National Finance Company where as Annapurna Finance Company has the lowest cash and bank balance to total deposit ratio which is 5.844 it means that National Finance Company has relatively large cash balance as deposit. Higher cash and bank balance to total deposit ratio indicates that the company is not able to utilize its funds by mobilizing it. Holding much idle cash balance increases cost and decreases profitability. Annapurna Finance Company has sound investment activities since it has mobilized the deposit soundly. While considering the coefficient of variation the cash and bank balance to total deposit is more consistent in the case of Peoples Finance Company since its C.V. is 17.28 percent which is the least among the finance companies. Having large cash and bank balance to total deposit ration means the finance company has large idle cash balance however lesser C.V. means this ratio is consistent. Same things happen to Peoples Finance Company. Through C.V., ratio is consistent this is a good sign but keeping consistency with the cash and bank balance to total deposit ratio yet, the company has to mobilizing its idle fund to the more efficient in investing activities and performance.

iii) Cash and Bank Balance to Current Assets Ratio

The following table exhibits cash and bank balance to current assets ratio of selected finance companies.

Table 4.4 Cash and Bank Balance to Current Asset Ratio in %

Finance Companies	2060	2061	2062	2063	2064	Mean	S.d	C.V
Annapurna	3.72	8.18	6.73	2.52	3.26	4.882	2.184	44.74
Goodwill	4.80	21.03	10.76	13.39	7.85	11.566	5.534	47.85
Lalitpur	5.63	10.35	5.34	6.96	14.28	8.512	3.389	39.81
National	21.69	23.05	18.69	27.35	14.95	21.146	4.167	19.71
Nepal Share Market	26.08	18.69	2.59	5.71	3.52	11.318	9.388	82.95
NIDC Capital Market	16.23	27.48	12.27	17.25	7.01	16.048	6.755	42.09
Peoples	14.50	15.14	10.18	10.23	10.34	12.078	2.249	18.62
Universal	7.04	16.49	8.99	10.41	7.56	10.098	3.405	33.72

From the above table, we can say that Annapurna Finance Company is more efficient in mobilizing its cash and bank balance since its average cash and bank balance to current asset ratio is 4.882% which is the lowest among all the finance companies. However having less cash balance sometime affect to meet the short term financial obligation. Whereas National Finance Company has the largest cash and bank balance to current asset ratio. This shows that large chunk of current asset is made up of cash and near cash items. It explains that the company is unable to utilize abundant cash balance to productive and juicy areas in order to earn high amount of profit. The cash and bank balance to current asset ratio of National Finance Company is 21.146 which is highest among the finance companies taken as sample. If we talk of variation in relative term then we shall consider the column of coefficient of variation (C.V.). Considering the table concerning coefficient of variation it has been found that the C.V. of the ratio of Peoples Finance Company is the lowest however the (C.V.) of the ratios of the Nepal Share Market and Finance is the highest. It shows that Peoples Finance Company is consistent in the cash and bank balance to current asset ratio for making the investment activities more rewarding and fruit-giving finance companies are required to make the cash and bank balance to current asset lower by

utilizing the fund to more innovative and profitable sector and try to make the ratio consistent.

iv) Investment on Government Securities to Current Assets Ratio

The Government securities are considered as risk less security. Having less risk it yields comparatively less return. However, finance companies should invest to the government securities in order to lessen the burden of idle cash balance. However, there should be a good combination, diverting to the larger chunk of fund to the government securities means that the finance company is unable to seek the reward giving sector in order to invest. But that does not mean that not a penny should be invested to the government securities. Off course the short term remedy to manage excess liquidity is doubtlessly the government security, unless the more profitable areas emerge.

The following table exhibits the ratio of selected finance companies

Table 4.5: Investment on Government Securities to Current Asset Ratio (%)

Finance Companies	2060	2061	2062	2063	2064	Mean	S.d	CV
Annapurna	4.61	2.50	1.94	13.92	1.15	4.824	4.690	97.22
Goodwill	15.03	7.49	9.50	6.36	9.72	9.62	2.982	30.99
Lalitpur	0.95	0.06	0.12	0.0004	0.09	0.2441	0.3552	145.51
National	6.22	3.29	2.97	2.63	2.69	3.56	1.350	37.92
Nepal Share Market	1.22	1.07	0.33	0.13	0.72	0.694	0.417	60.09
NIDC Capital Market	6.46	2.35	2.56	-	0.06	2.8575	2.2995	80.47
Peoples	4.13	-	-	-	-	-	-	-
Universal	0.135	0.135	0.104	-	-	0.125	0.014	11.2

While considering the mean column of the table, it can be found that the large share of current assets (CA) of Goodwill Finance Company consists of government securities. Peoples Finance Company has invested in government securities only in year 2060 since then not invested up to study period of year 2064 and The pie of current assets of Universal Finance Company consist the least amount of government securities. The average percentage of investment to government securities to current asset ratio ranges from 9.62 of Goodwill Finance Company to 0.125 of Universal Finance Company. Now, this table answers the question raised by previous ratios from the previous tables (4.3 and 4.4) it has been found that Universal Finance Company has more idle cash balance than other finance company. It is so because it has less in investment in government in government securities than other finance companies. While considering standard deviation Universal Finance Company is the lowest (0.014) and Annapurna Finance Company has highest which is 4.690. Similarly, while considering coefficient of variation Universal Finance Company is more consistent since its C.V. is 11.2 whereas Lalitpur Finance Company is more dispersed since C.V. is the highest i.e.145.51. In order to the competitive have worthwhile operation, the reliance towards government securities should be decreased and other profitable sectors should be sought and invested making the relevant ratios consistent.

v) Loan and Advance to Current Assets Ratio

The following table exhibits the loan and advances to current assets ratios of selected finance companies.

Table 4.6: Loan and Advance to Current Assets Ratio in %

Finance Companies	2060	2061	2062	2063	2064	Mean	S.d	CV
Annapurna	91.68	89.32	91.33	78.12	91.56	88.402	5.213	5.89
Goodwill	80.17	71.48	79.74	80.25	82.43	78.814	3.785	4.80
Lalitpur	93.43	89.60	94.54	93.04	85.62	91.246	3.262	3.57
National	72.09	73.66	78.34	84.04	82.35	78.096	4.674	5.98
Nepal Share Market	72.70	80.23	79.93	84.96	80.71	79.706	3.950	4.96
NIDC Capital Markets	77.32	70.17	85.18	82.75	55.60	74.204	10.636	14.33
Peoples	81.38	84.86	89.82	89.77	89.66	87.098	3.430	3.94
Universal	92.82	83.37	86.01	84.71	83.75	86.132	3.466	4.02

Loan and advance to current assets ratio is one of the major financial tool to measure the investment activities of finance companies since by examining this ratio it can be deducted that how much amount of current asset has been invested to loan and advances considering the mean column of the table it is found that Lalitpur Finance Company is more efficient in mobilizing its current assets as loan and advances since 91.246 percentage of current assets has been invested as loan and advances having the standard deviation and coefficient of variation (C.V) of 3.262 and 3.57 respectively. Comparing to other finance companies the C.V. and standard deviation is not much higher whereas NIDC Capital Markets has invested the least amount of its current assets as loan and advances. Similarly, standard deviation and C.V. is also highest among the finance companies. This shows that the mean percentage of loan and advances to current assets is more erratic. Consistency among the ratio is highly required to manage the investment activities smoothly. Similarly large amount of current assets should be invested as loan and advances to the profitable sector to achieve greater performance. While considering consistency, Lalitpur Finance Company is more consistent as its mean loan and advances to the total deposit ratio is 91.246 and corresponding standard deviation and coefficient of variation are 3.262 and 3.57 respectively. While considering investment activities and performance of the finance companies large share of its funds to be invested in a profitable areas, making good portfolio in order to have sound investment activity and good performance.

4.3 Activity Ratios

Activity ratio of finance companies can be measured through following ratio. By the aid of which clear picture regarding investment activities and performance will come to the concerned stakeholders.

i) Loan and Advances to Total Deposit Ratio

The following table exhibits the ratio of loan and advances to total deposits of finance companies during the study period.

Table 4.7: Loan and Advances to Total Deposit ratio %

Finance Companies	2060	2061	2062	2063	2064	Mean	S.d	CV
Annapurna	105.84	104.31	106.61	104.63	116.41	107.56	4.502	4.19

Goodwill	86.45	75.64	94.38	95.39	94.44	89.26	7.537	8.44
Lalitpur	90.37	70.70	89.09	95.60	89.98	87.148	8.534	9.79
National	65.39	71.98	78.57	87.73	82.63	77.26	7.861	10.17
Nepal Share Markets	66.52	77.83	81.58	91.70	83.34	80.194	8.207	10.23
NIDC Capital Markets	79.27	94.53	92.33	106.89	90.83	92.77	8.817	9.50
Peoples	69.36	96.85	101.49	99.83	102.85	94.076	12.519	13.31
Universal	87.06	80.56	90.39	85.64	87.16	86.162	3.204	3.72

The above table shows that the mean loan and advances to total deposit ratio of Annapurna Finance Company is the highest i.e. 107.56. Its corresponding coefficient of variation and standard deviations are 4.19 and 4.502 respectively. This shows that Annapurna Finance Company's investment activity is good in terms of deposit mobilization. And to the greater extent it investment activity in terms of mobilizing deposit is more consistent considering its C.V. and standard deviation. Yet, in terms of consistency Universal Finance Company is also doing well since the touchstone of consistency standard deviation and coefficient of variation are 3.204 and 3.72, which is the least amount amongst other finance companies. From the above discussion a conclusion of success of Annapurna Finance Company can be made in mobilization of loan and advances to total deposits in comparisons to other finance companies. It should be noted that there are so many factors that affect investment activity of the finance company viz. risk diversification social responsibility, finance company's credit policy, compensation policy, limits of lending power etc.

ii) Loan and Advances to Fixed Deposit Ratio

The following table displays the ratio of loan and advances to fixed deposit of selected finance companies.

Table 4.8: Loan and Advances to Fixed Deposit Ratio %

Finance Companies	2060	2061	2062	2063	2064	Mean	S.d	CV
Annapurna	145.02	148.09	162.70	165.53	181.71	160.61	13.218	8.23
Goodwill	94.34	84.98	106.15	106.22	139.16	106.17	18.316	17.25

Lalitpur	101.83	84.64	121.08	147.11	145.77	120.086	24.413	20.33
National	75.68	87.59	97.58	112.08	110.68	96.722	13.839	14.31
Nepal Share Marker	97.70	109.68	111.68	179.21	155.53	130.76	31.184	23.85
NIDC Capital Marker	88.51	100.75	99.11	127.56	133.47	109.88	17.465	15.89
Peoples	77.68	107.18	115.04	122.44	130.82	110.632	18.244	16.49
Universal	119.82	106.55	117.24	124.75	135.33	120.738	9.417	7.80

The table above shows a glimpse of loan and advance to fixed deposit ratio. While considering mean of loan and advances to fixed deposit ratio, Annapurna Finance Company's performance is good interms of mobilizing fixed deposit to loan and advances. It's mean loan and advances to fixed deposit ratio is 160.61 and corresponding coefficient of variation and standard deviation are 8.23and 13.218 respectively. Though in terms of consistency Universal Finance company is more consistent since it has the lowest standard deviation and coefficient of variation which are 9.417 and 7.80. By the yardstick of loan and advances to total deposit ratio, Annapurna Finance Company taken into sample is doing good in the mobilization of deposit. However all finance company should increase the investment to loan and advances by making good portfolio of them to do better performance in the market.

iii) Loan and Advances to Total Working Fund Ratio

The following table exhibits the ratio of loan and advances to total working fund of finance companies during the study period.

Table 4.9: Loan and Advances to total working fund ratio %

Finance Company	2060	2061	2062	2063	2064	Mean	S.d	CV
Annapurna	87.42	85.34	88.92	87.19	89.92	87.758	1.569	1.79
Goodwill	65.60	59.23	71.74	71.14	71.04	67.75	4.805	7.09
Lalitpur	71.61	59.85	76.49	80.07	75.93	72.79	7.005	9.62

National	51.79	56.89	62.58	66.51	60.59	59.672	5.018	8.41
Nepal Share Market	52.42	65.80	70.85	77.40	68.34	66.962	8.231	12.29
NIDC Capital Markets	56.96	53.87	59.45	68.06	50.87	57.842	5.868	10.14
Peoples	43.66	64.94	84.99	87.02	87.02	73.526	17.096	23.25
Universal	73.64	67.13	77.37	73.10	75.27	73.302	3.425	4.67

Working fund is synonymous to the total assets of the finance companies. With the assistance of loan and advances to total working fund ratio, an insight concerning the mobilization of assets to loan and advances will be obtained. The figures of the mean column of the table suggest that the average of 5 years investment activities of finance companies to loan and advances out of its total assets. Comparing the mean ratios, Annapurna Finance Company stood at first in mobilizing its total assets to loan and advances. Since out of its total assets or working fund it has invested 87.758%. In order to measure consistency, its standard deviation and C.V. are required to be observed and they are 1.569 and 1.79 which are more satisfactory compared to others. Peoples Finance Company's data are highly erratic due to its high S.D. and C.V. that are 17.096 and 23.25 respectively. From the above analysis it is found that Annapurna Finance Company is at forth in mobilizing working fund to loan and advances whereas NIDC Capita Markets is unable to utilize its working fund as compared to its competitors and its pattern of loan and advances are inconsistent too.

iv)Investment on Government Securities to Total Working Fund Ratio

Considering the table below, the mean of investment on government securities to total working fund ratio Goodwill Finance Company has maintained a very good ratio. It implies that out of its working fund it is able to make very good amount of investment to the government securities. The mean ratio is 8.212 and its corresponding standard deviation (S.D) and coefficient of variations are 2.340 and 28.49 respectively. Amongst the selected finance companies Universal Finance Company is found to be less interested in government security as per its mean ratio which is 0.103.

Regarding consistency, Universal Finance is more consistent since its S.D. and C.V. are 0.01 and 9.71 respectively. People Finance Company has not invested on government securities from the year 2061 to study period 2064. Similarly, Universal Finance has not invested on government securities in year 2063 and 2064 and NIDC Capital Markets has not invested in year 2063. By making investment in government security the liquid fund is managed for a short run if not in long run. Actually, investment activity should not be considered much in government security though it is risk less rather an efficient portfolio should be made in order to chanelize the investment activity to the productive and prosperous sector in the long run.

The following table exhibits the ratios of selected finance companies during the study period.

Table 4.10: Investment on Government Securities to Total Working Fund Ratio %

Finance Companies	2060	2061	2062	2063	2064	Mean	S.d	CV
Annapurna	4.40	2.39	1.89	15.54	1.13	5.07	5.346	105.44
Goodwill	12.29	6.21	8.54	5.64	8.38	8.212	2.340	28.49
Lalitpur	0.73	0.04	0.09	0.0003	0.08	0.1881	0.2728	145.03
National	4.47	2.54	2.38	2.08	1.99	2.692	0.911	33.84
Nepal Share Markets	0.88	0.88	0.29	0.13	0.61	0.558	0.305	54.66
NIDC Capital Markets	4.76	1.80	1.78	-	0.05	2.0975	1.6934	80.73
Peoples	2.21	-	-	-	-	-	-	-
Universal	0.11	0.11	0.09	-	-	0.1.3	0.01	9.71

v)Total Investment to total Deposit Ratio

Deposits are taken from the customer on a condition to give them interest. Thus deposit involves costs. Finance companies take deposits from the customers to invest them in a more productive sector to yield more interest. By the difference between the interest earned and interest paid return is generated. So, idly holding deposit increases costs and erodes profitability so they should be invested making a sound portfolio management making the investment activity of the company more fruit giving resulting a sound performance.

Considering the table below, the mean total investment to total deposit ratio of the selected finance companies, National Finance Company is the best since its total investment to total deposit ratio is 22.21 and corresponding S.D. and C.V. are 3.737 and 16.83 respectively.

However in mobilizing deposit Nepal Share Markets seems weak since its mean total investment to total deposit ratio is 2.626. Considering consistency, National Finance Company is more consistent among the selected finance companies. Its S.D. and C.V. are 3.737 and 16.83 respectively.

The following table explains the total investment to total deposit of selected finance companies.

Table 4.11 Total Investment to Total Deposit Ratio %

Finance Companies	2060	2061	2062	2063	2064	Mean	S.d	CV
Annapurna	6.58	3.81	2.32	1.90	1.99	3.32	1.769	53.28
Goodwill	24.01	10.22	12.53	14.25	22.68	16.738	5.560	33.22
Lalitpur	20.85	32.99	20.88	15.24	10.51	20.094	7.522	37.43
National	21.72	16.67	20.75	23.87	28.04	22.21	3.737	16.83
Nepal Share Markets	4.42	2.71	1.10	0.96	3.94	2.626	1.418	53.99
NIDC	18.46	15.37	15.25	9.93	8.21	13.444	3.791	28.19

Capital Markets								
Peoples	28.23	0.97	2.08	1.36	1.33	6.794	10.724	157.85
Universal	14.64	16.35	8.87	14.20	10.41	12.894	2.795	21.68

4.4 Profitability Ratio

The following ratios are computed to analyze the profitability selected finance companies. Since profitability is generated by efficient investment activity and good performance.

i) Net Profit to Total Assets Ratio

The following table depicts the profitability position of finance companies with respect to total assets. The data of the table are also graphically presented.

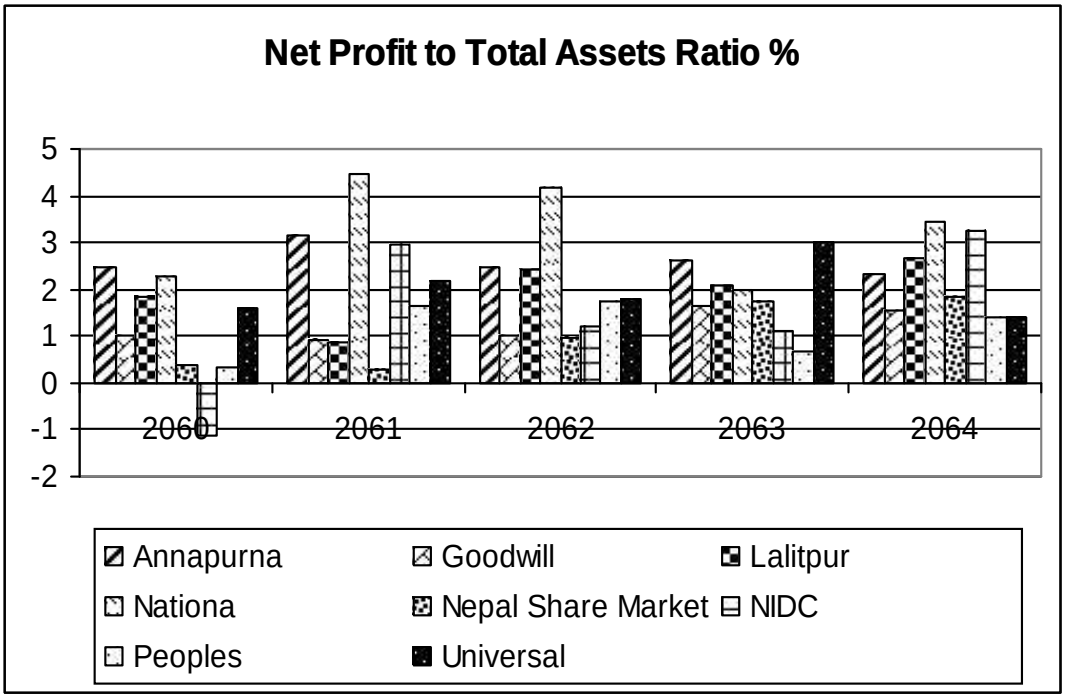
Table 4.12: Net Profit to Total Assets Ratio %

Finance Companies	2060	2061	2062	2063	2064	Mean	S.d	CV
Annapurna	2.46	3.13	2.46	2.63	2.31	2.598	0.285	10.97
Goodwill	1.03	0.94	1.01	1.66	1.53	1.234	0.299	24.23
Lalitpur	1.86	0.87	2.40	2.06	2.67	1.972	0.617	31.29
National	2.26	4.45	4.16	2.01	3.44	3.264	0.982	30.09
Nepal Share Markets	0.38	0.29	0.98	1.74	1.86	1.05	0.658	62.67
NIDC Capital Markets	-1.14	2.94	1.20	1.13	3.27	1.48	1.575	106.42
Peoples	0.34	1.67	1.75	0.65	1.40	1.162	0.565	48.62
Universal	1.59	2.17	1.81	3.03	1.40	2.00	0.575	28.75

Profit is one of the key elements to measure performance and investment activity of the finance companies. Properly managed investment activities generate profit and profitability explains the performance of the finance company. Profit is the main goal of any business besides covering it with many sugar coatings. All the concerned party of the organization thrives for profit. Employees get salary from the earnings, debtors gets interest, owners get dividend and government gets tax. But net profit cannot be analyzed in vacuum. In fact profit should be explained in relation to other variables. This net profit to total asset ratio explains profit relating with total assets or working fund. This ratio explains about how well the working funds are managed to earn profit.

Considering the table 4.12, the mean ratio of National Finance Company is the highest i.e. 3.264 and its corresponding S.D. and C.V. are 0.982 and 30.09. While talking about the consistency of the ratio, Annapurna Finance Company is more consistent whose S.D. and C.V. are 0.285 and 10.97 respectively. Nepal Shares Markets mean ratio is the least amongst the finance companies i.e. 1.05. NIDC Capital Markets is least consistent whose S.D and C.V. are 1.575 and 106.42 respectively.

Figure 4.1



ii) Net profit to Total Deposit Ratio

The following table reveals the percentage of net profit of the total deposit on finance companies, selected study.

Table 4.13: Net Profit to Total Deposit Ratio %

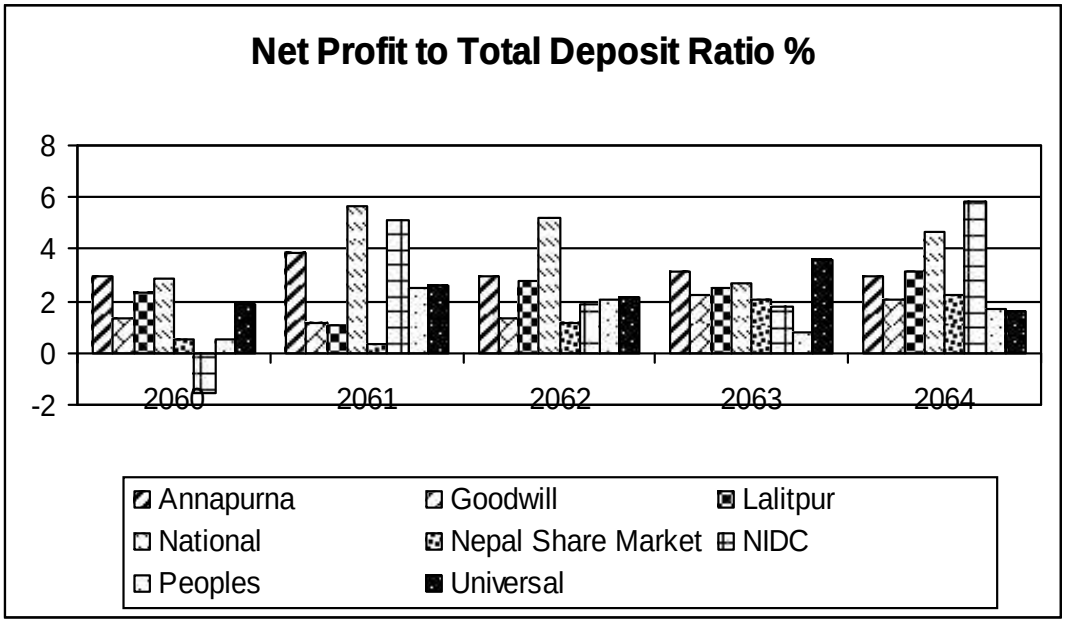
Finance Companies	2060	2061	2062	2063	2064	Mean	S.d	CV
Annapurna	2.98	3.83	2.95	3.15	2.99	3.18	0.33	10.38
Goodwill	1.36	1.19	1.32	2.22	2.03	1.624	1.374	84.61
Lalitpur	2.34	1.03	2.80	2.46	3.15	2.358	0.723	30.66
National	2.85	5.63	5.22	2.66	4.69	4.21	1.226	29.12
Nepal Share Markets	0.49	0.35	1.13	2.06	2.26	1.258	0.785	62.40
NIDC Capital Markets	-1.58	5.16	1.86	1.78	5.84	2.612	2.674	102.37
Peoples	0.54	2.49	2.09	0.75	1.65	1.504	0.753	50.07
Universal	1.88	2.61	2.12	3.56	1.62	2.358	0.684	29.01

Customers deposit their money to the finance company for security and interest. Finance institutions accept the money to invest in profitable sector to generate return. In this way both parties get benefited. The fund taken as deposit should be invested by more rational and prudent ways by the finance company in order to generate ample return. The ratio of net profit to total deposit explains how far the finance companies are able to manage the fund collected as deposit. More the return on deposit better the investment activity and performance of finance companies and vice versa.

From the table 4.13 National Finance Company stand first in utilizing its deposits whose net profit to total deposit ratio is 4.21. Nepal Share Markets, having the lowest net profit to total deposit ratio, is not able to manage its investment activities properly by utilizing the amount of deposit collected whose mean ratio is 1.258. Considering consistency Annapurna Finance Company is the most consistent whose S.D. and C.V. are 0.33 and 10.38 and NIDC Capital Markets is the least consistent whose C.V. and S.D. are

102.37 and 2.674 respectively. Graphic representation between time and ratio is shown below.

Figure 4.2



iii) Net Profit and Net Worth Ratio

The net profits to net worth of the finance companies selected for the study are shown in the table below.

Table 4.14: Net Profit to Net Worth Ratio %

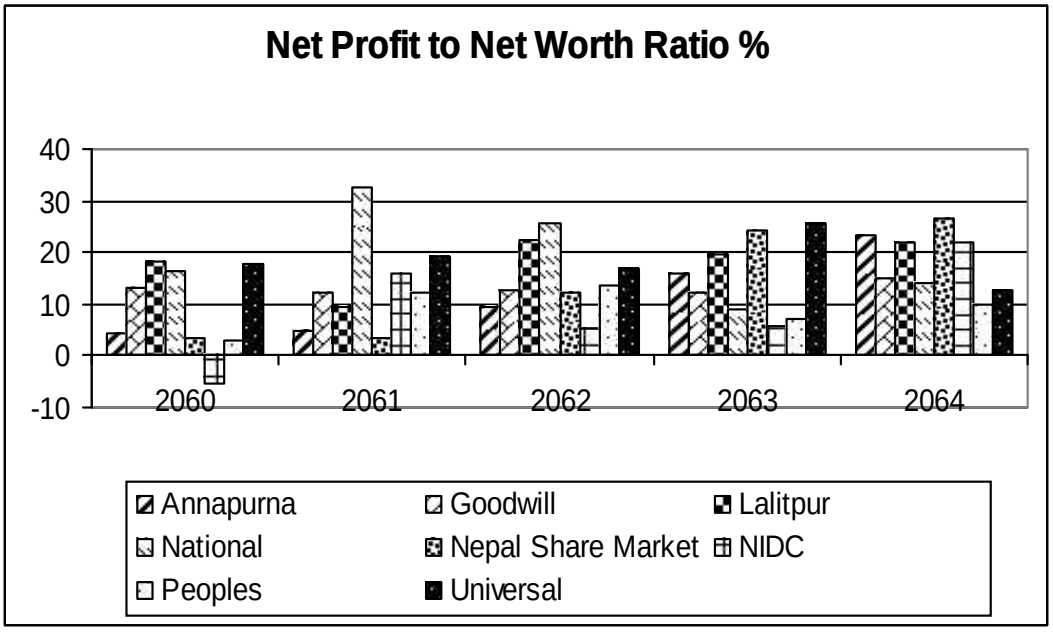
Finance Companies	2060	2061	2062	2063	2064	Mean	S.d	CV
Annapurna	4.29	5.04	9.54	15.78	23.11	11.552	7.080	61.29
Goodwill	13.34	12.38	12.62	12.45	14.90	13.138	0.945	7.19
Lalitpur	18.39	9.24	22.18	19.67	21.82	18.26	4.720	25.85
National	16.44	32.81	25.42	8.92	14.12	19.542	8.514	43.57
Nepal Share Market	3.38	3.28	12.28	24.27	26.47	13.936	9.916	71.15
NIDC	-5.33	15.93	5.43	5.66	21.90	8.718	9.416	108.01

Capital Markets								
Peopoles	2.86	12.01	13.68	7.05	10.11	9.142	3.837	41.97
Universal	17.56	19.19	16.89	25.55	12.62	18.362	4.198	22.86

Net worth includes share capital and shareholder's reserve. Ordinary share, bonus share and preference share amount come under the purview of share capital whereas general reserve, capital reserve, exchange fluctuation reserve, other reserve, inappropriate profit, bills for collection (Contra), acceptances (contra), comes under the purview of shareholder's reserve. Net worth is shareholder's fund. They invest their money to the business in a condition of participating both gain and loss. In order to know whether their funds are managed properly or not and what is the amount generated from their fund, net profit to net worth ratio is used.

Regarding the ratios presented in table 4.14, National Finance Company has generated more profit through its net worth. Its net profit to net worth ratio is 19.542 which is the highest average ratio among the finance companies selected for studying. However, NIDC Capital Markets has lowest average ratio which is 8.718. Goodwill Finance Company is more consistent since its C.V. and S.D. are 7.19 and 0.945 respectively. Graphic representation of the net profit to net worth ratio has been shown below:

Figure 4.3



iv) Total Interest Earned to Total Working Fund Ratio

The following table exhibits the total interest earned to total working fund ratio of the finance companies that are selected for the analysis.

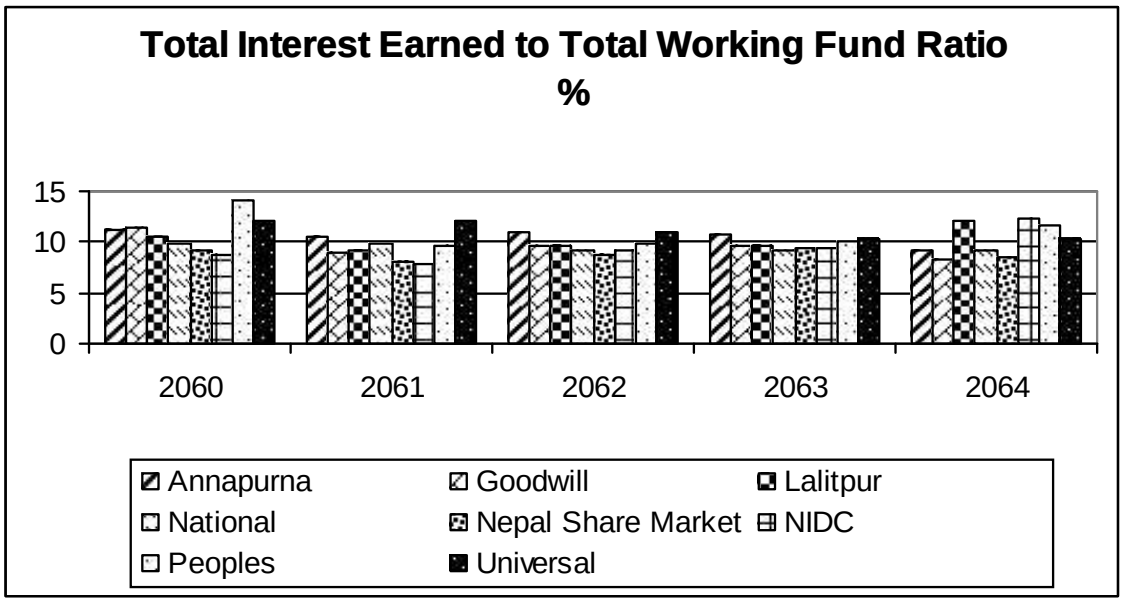
Table 4.15: Total Interest Earned to Total Working Fund Ratio%

Finance Companies	2060	2061	2062	2063	2064	Mean	S.d	CV
Annapurna	11.19	10.51	10.88	10.74	9.16	10.496	0.704	6.71
Goodwill	11.41	9.04	9.55	9.54	8.29	9.566	1.030	10.77
Lalitpur	10.46	9.21	9.59	9.61	12.18	10.21	1.067	10.45
National	9.96	9.83	9.18	9.15	9.12	9.448	0.368	3.90
Nepal Share Markets	9.23	7.99	8.81	9.31	8.42	8.752	0.497	5.68
NIDC Capital Markets	8.65	7.84	9.11	9.51	12.33	9.488	1.526	16.08
Peoples	14.05	9.65	9.87	10.17	11.57	11.062	1.637	14.80
Universal	12.03	12.08	10.87	10.24	10.35	11.114	0.797	7.17

The finance companies of our country are relying upon fund based activities than fee based activities but this does not mean that they are not performing fee base activities. Of course they are doing so. Yet, their major concern is fund based activities. By fund based activity we mean investment in loan and advances. Undoubtly, the return of loan and advances is interest. In order to assess the relationship between interest earned and working fund. Interest earned to working fund is required to be analyzed.

Table 4.15 exhibits that total interest earned to total working fund of the selected finance companies for study. The ratio of Universal Finance Company is the highest whereas the ratio of Nepal Share Markets Company is the lowest. They range from 11.114 to 8.752. Regarding consistency National Finance Companies is most consistent amongst the selected finance companies whose S.D. and C.V. are 0.368 and 3.90. The high ratio indicates that interest recovery is good by the result of sound investment activity. It can also explain that the company is relying mainly upon fund based activity than fee based activity. Graphic representation is shown below.

Figure 4.4

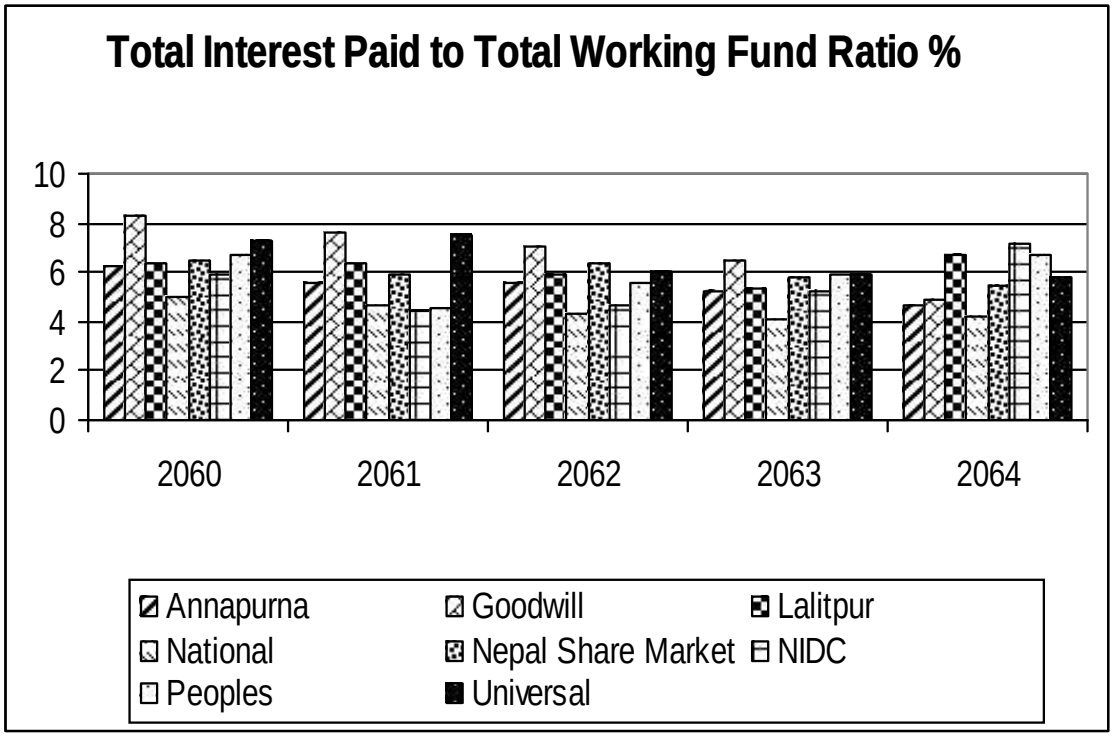


v) Total Interest Paid to Total Working Fund Ratio (%)

Finance Companies	2060	2061	2062	2063	2064	Mean	Sd	CV
Annapurna	6.25	5.60	5.52	5.28	4.69	5.468	0.504	9.22
Goodwill	8.33	7.64	6.99	6.44	4.92	6.864	1.159	16.89
Lalitpur	6.32	6.39	5.86	5.38	6.73	6.136	0.469	7.64
National	4.97	4.68	4.37	4.14	4.18	4.468	0.315	7.05
Nepal Share Markets	6.45	5.93	6.38	5.81	5.49	6.012	0.359	5.97
NIDC Capital Markets	5.92	4.38	4.67	5.22	7.15	5.468	0.992	18.14
Peoples	6.71	4.58	5.52	5.88	6.65	5.868	0.787	13.41
Universal	7.26	7.49	6.05	5.91	5.78	6.498	0.725	11.16

The above table no. 4.16 exhibits that mean ratios of National Finance Company seem slightly lower i.e. 4.468. It means that National Finance Company has not paid high interest in comparison to other finance companies during the study period. The standard deviation and coefficient of variation is higher i.e. 0.992 and 18.14 respectively of NIDC Capital Markets i.e. in terms of payment of interest NIDC Capital Markets is the least consistent. Similarly, regarding consistency Nepal Share Markets is the best since its S.D. and C.V. are 0.359 and 5.97 and its C.V. is the least than that of other finance companies. From the above description conclusion can be made that National Finance Company is in the better position from interest expenses point of view. It seems to be more successful to collect its working fund from less expensive sources in comparison to other finance companies. Graphic description is shown below.

Figure 4.5



4.5 Leverage Ratio

The significant leverage utilized in the study period are presented below:

i) Debt-Asset Ratio

The table exhibits the debt asset ratios of the finance company selected for the study.

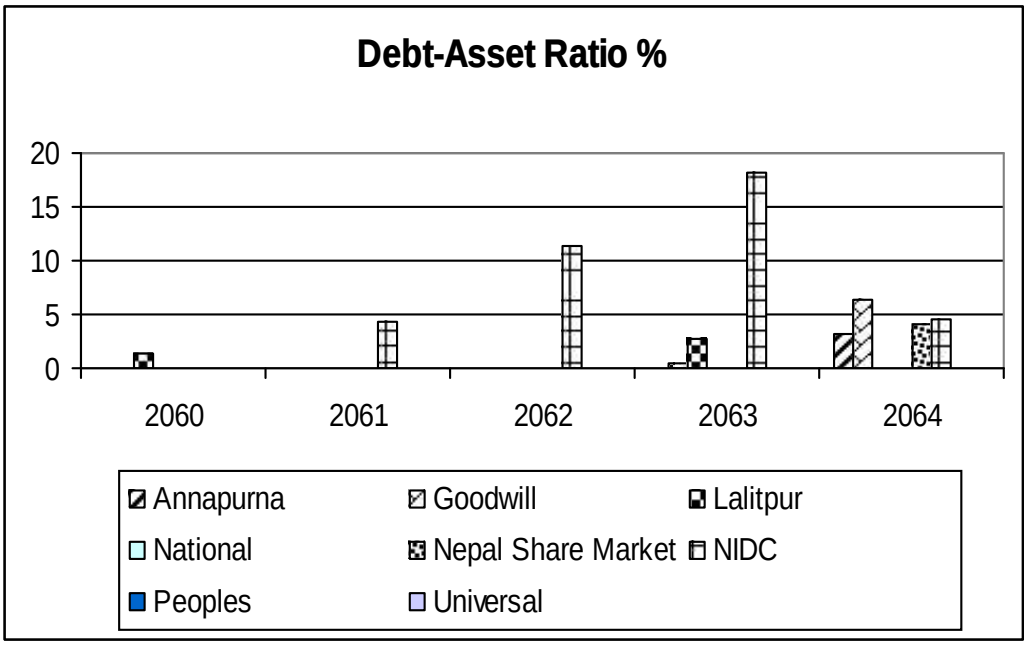
Table 4.17 Debt-asset Ratio (%)

Finance Companies	2060	2061	2062	2063	2064	Mean	S.d	CV
Annapurna	-	-	-	-	3.09	0		
Goodwill	-	-	-	0.36	6.29	3.325	2.965	89.17
Lalitpur	1.26	-	-	2.82	-	2.04	0.78	38.24
National	-	-	-	-	-	0		
Nepal Share Markets	-	-	-	-	4.19	0		
NIDC Capital Markets	-	4.33	11.42	18.09	4.50	90585	5.683	59.29
Peoples	-	-	-	-	-	0		
Universal	-	-	-	-	-	0		

From the table 4.17 listed above, shows average ratio concerned with debt-assets ratio of finance companies under the review period. 5 out of 8 finance companies selected for study have zero average ratios. The names of such finance companies selected for the study are Annapurna, National, Nepal Share Markets, Peoples and Universal Finance Companies. The higher ratio among finance companies which have debt belongs to NIDC Capital

Markets whereas lower ratio belongs to Lalitpur Finance Company. Regarding consistency in this ratio Lalitpur Finance Company is more consistent and Goodwill Finance Company is less consistent. Their corresponding coefficients of variances are 38.24 and 89.17 respectively. As finance companies are relying mainly upon fund based activities. In order to get fund for loaning and advancing they have to rely upon debts that include a hefty sum of deposits. Being highly levered their risk has been significantly increased. So they are required to reduce the debt portion by making a shift from fund based activities to fee based activities. Graphical representation of debt to asset ratio has been shown below.

Figure 4.6



ii)Debt Equity Ratio

The following table shows the debt equity ratio of selected finance companies

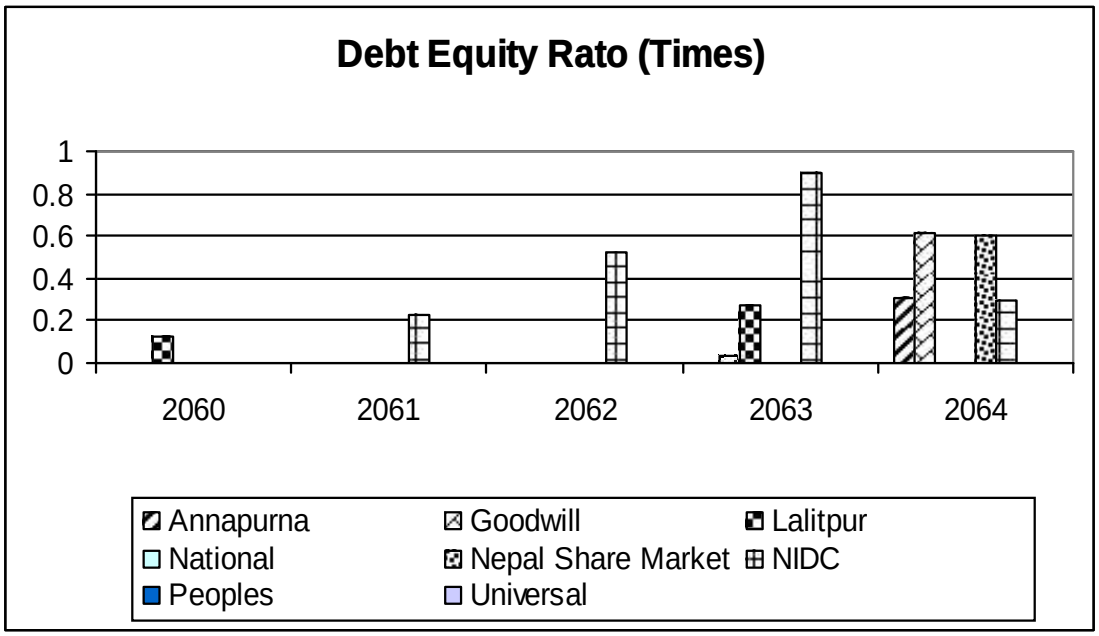
Table 4.18: Debt Equity Ratio (Times)

Finance Companies	2060	2061	2062	2063	2064	Mean	S.d	CV
Annapurna	-	-	-	-	0.31	0		
Goodwill	-	-	0.03	0.03	0.61	0.32	0.29	90.63

Lalitpur	0.13	-	0.27	0.27	-	0.2	0.07	35.00
National	-	-	-	-	-	0		
Nepal Share Markets	-	-	-	-	0.60	0		
NIDC Capital Markets	-	0.23	0.90	0.90	0.30	0.4875	0.2612	53.58
Peoples	-	-	-	-	-	0		
Universal	-	-	-	-	-	0		

From the table 4.18 listed above, shows average ratio concerned with debt equity ratio of finance companies under the review period. 5 out of 8 finance companies selected for study have zero average ratios. The names of such finance companies selected for the study are Annapurna, National, Nepal Share Markets, Peoples and Universal Finance Company. The mean debt equity ratio of Lalitpur Finance Company is lower than that of other finance companies i.e. 0.2. The coefficient of variation of Lalitpur Finance Company is lowest i.e. 35.00. This shows that there lies consistency in maintaining debt and equity. From the above analysis Lalitpur Finance Company is less leveraged in comparison to other finance companies. The above calculated ratios of debt equity of concerned finance companies during the study period are graphically presented as under.

Figure 4.7



4.6 Capital Adequacy Ratio

The capital adequacy of the finance companies can be measured by analyzing following ratios

i) Shareholder's Fund to Total Deposit Ratio

The shareholder's fund to total deposit ratio of finance companies for the year 2060 to 2064 has been tabulated below:

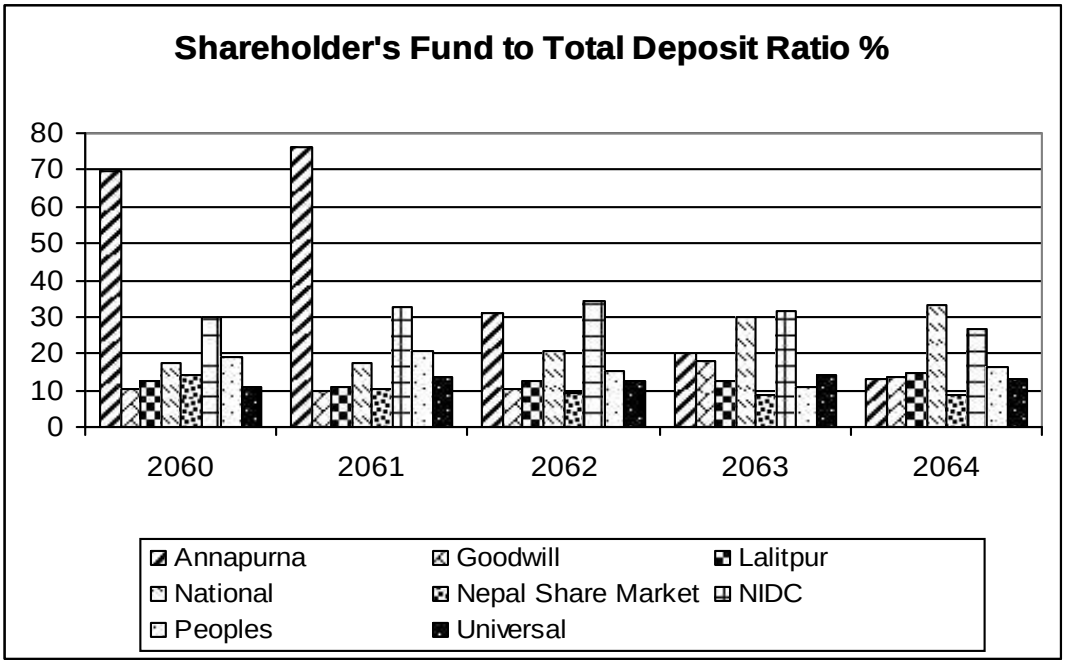
Table 4.19: Shareholder's Fund to Total Deposit Ratio %

Finance Companies	2060	2061	2062	2063	2064	Mean	S.d	S.d
Annapurna	69.45	75.94	30.87	19.97	12.92	41.83	25.923	61.97
Goodwill	10.22	9.65	10.50	17.86	13.66	12.378	3.076	24.85
Lalitpur	12.74	11.09	12.62	12.51	14.48	12.688	1.077	8.49
National	17.35	17.17	20.55	29.75	33.20	23.604	6.629	28.08
Nepal	14.39	10.51	9.16	8.51	8.55	10.224	2.205	21.57

Share Market								
NIDC Capital Markets	29.70	32.40	34.37	31.46	26.66	30.918	2.6085	8.44
Peoples	18.96	20.71	15.26	10.66	16.31	16.38	3.446	21.04
Universal	10.68	13.59	12.53	13.92	12.85	12.714	1.132	8.90

On the basis of table listed above, the mean ratios of selected finance companies during the review period 2060 to 2064 Annapurna Finance Company has maintained highest ratio i.e. 41.83 and lowest ratio i.e. 10.224 by Nepal Share Markets. The coefficient of variance of Annapurna Finance Company is the highest i.e. 61.97 and that of NIDC Capital Markets is the lowest i.e. 8.44 it proves that though the ratio is higher there exist high variability in the ratios of Annapurna Finance Company. Graphic representation of the ratio is shown as under.

Figure 4.8



ii) Shareholders Fund to Total Assets Ratio

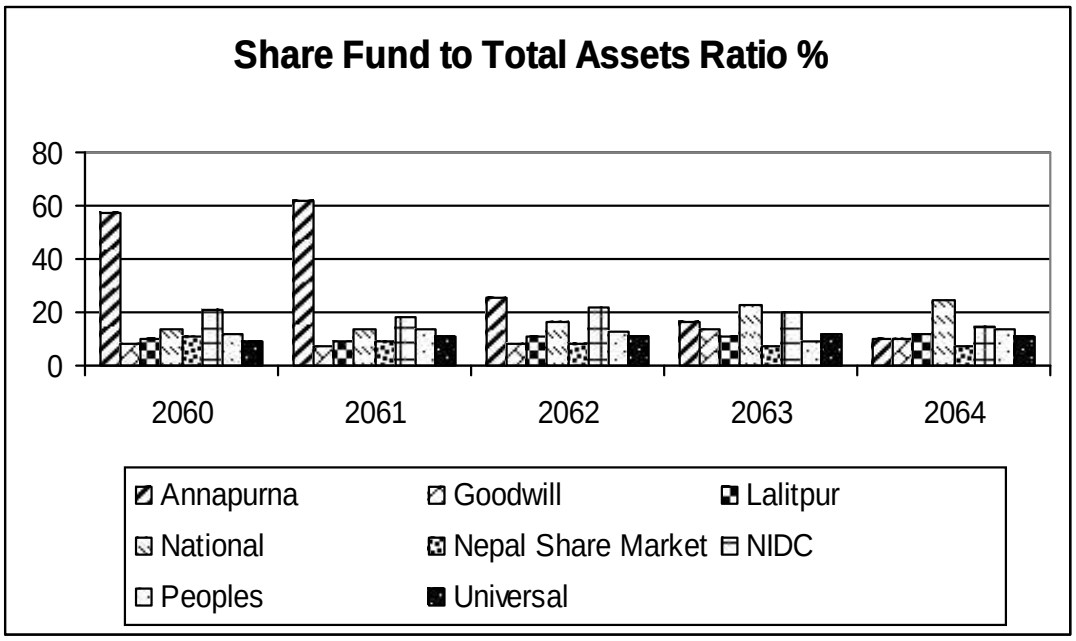
The shareholders fund to total assets ratio of finance companies from the year 2060 and 2064 are presented below:

Table 4.20: Shareholder's Fund to Total Assets Ratio %

Finance Companies	2060	2061	2062	2063	2064	Mean	S.d	C.V
Annapurna	57.36	62.13	25.75	16.64	9.98	34.372	21.367	62.16
Goodwill	7.75	7.56	7.98	13.32	10.27	9.376	2.202	23.49
Lalitpur	10.10	9.39	10.84	10.47	12.22	10.604	0.939	8.86
National	13.74	13.58	16.37	22.55	24.35	18.118	4.501	24.84
Nepal Share Markets	11.34	8.89	7.95	7.18	7.01	8.474	1.579	18.63
NIDC Capital Markets	21.34	18.47	22.13	20.03	14.94	19.382	2.544	13.13
Peoples	11.93	13.89	12.78	9.29	13.80	12.382	1.685	13.66
Universal	9.04	11.33	10.72	11.88	11.09	10.812	0.963	8.91

Regarding the mean column of table 4.20, it has been found that the mean shareholder's fund to total assets of Annapurna Finance Company is the highest i.e. 34.372 whereas that of Nepal Share Markets is the lowest i.e. 8.474. Regarding variability between the ratios Annapurna Finance Company ratio is more variable i.e. its C.V. is 62.16. Similarly, that of Lalitpur Finance Company is less variable 8.86. From this evaluation a conclusion can be drawn that in terms of performance Annapurna Finance Company is good, for it can possibly grab the future investment opportunity due to its existing performance by employing debt fund, and capital adequacy position is better than that of other finance companies. Graphic representation of Shareholder's fund to total asset ratio is mentioned as under.

Figure 4.9



4.7 Growth Ratio

Under this topic, growth ratios are described on the basis of following indicator.

i)Net profit

The following table exhibits the net profit of selected finance companies during the study period of 2060 to 2064

Table 4.21: Net Profit (NP): Rs

Rs. in Million

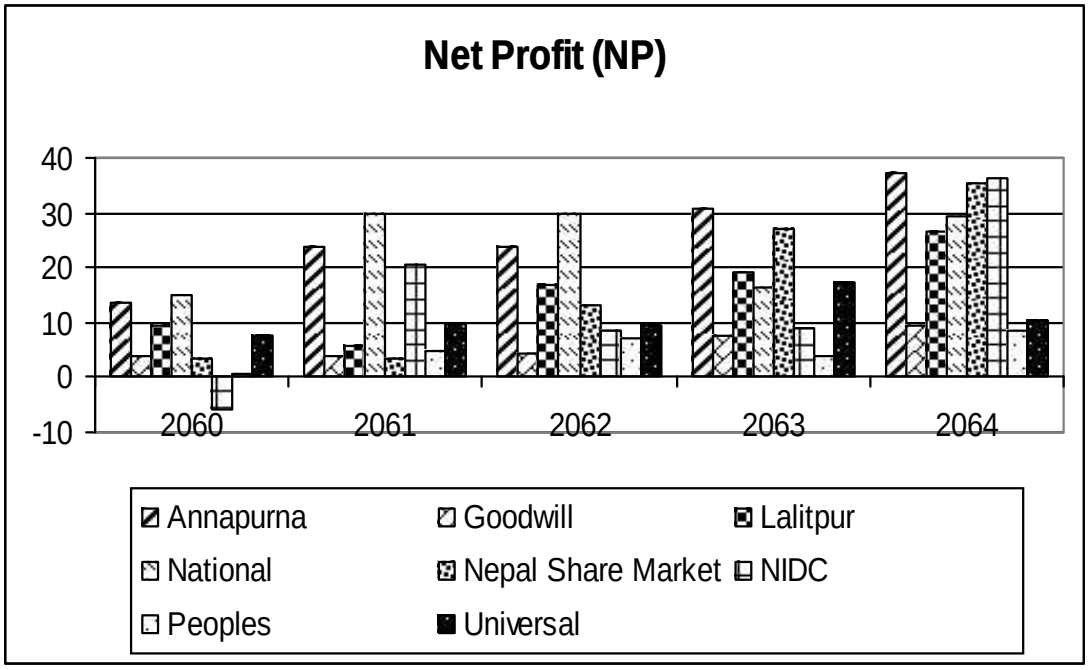
Finance Companies	2060	2061	2062	2063	2064	G.R%	A.G.R
Annapurna	13.43	24.00	23.99	30.88	37.38	29.13	36.61
Goodwill	3.91	3.91	4.18	7.49	9.22	23.92	36.61
Lalitpur	9.55	5.59	16.99	19.00	26.68	29.28	36.61
National	15.17	29.86	29.86	16.51	29.52	18.11	36.61

Nepal Share Markets	3.48	3.48	13.13	27.07	35.38	78.56	36.61
NIDC Capital Markets	-5.76	20.39	8.41	8.78	36.36	21.03	36.61
Peoples	0.77	4.66	7.05	3.89	8.73	83.49	36.61
Universal	7.41	10.02	9.67	17.17	10.60	9.36	36.61

G.R.=Growth Ratio, A.G.R.=Average Growth Ratio

From the above table, Peoples Finance Ltd. growth ratio is the highest i.e.83.49% whereas Universal Finance Company has lowest growth ratio i.e. 9.36. Actually, profit is the major yardstick to measure investment activity and performance of the companies. Profit is the most coveted interest of all the stakeholders of a company. Creditors want interest in time, employees want good salary and bonus, owners want more dividends, government's interest is in tax and they are fulfilled only if the company is earning profit. Greater growth ratio of the finance company indicates that they are performing well and their investment activities are properly managed by adopting appropriate investment portfolio. The finance companies having lesser growth ratio should pay more attention to their investment activities. In order to increase profitability, excluding the management of investment activity, proper attention is required to be given to planning, organizing, staffing, motivating and controlling dimension of human resource and be sincere to search new market area and retain the foot hold in existing marketing area by adopting strategic marketing policy. Graphic represent of the profit earned by selected finance companies are shown below.

Figure 4.10



ii) Earning Per Share (EPS)

The earning per share of finance companies, selected for the study is given below:

Table 4.22: Earning Per Share Rs

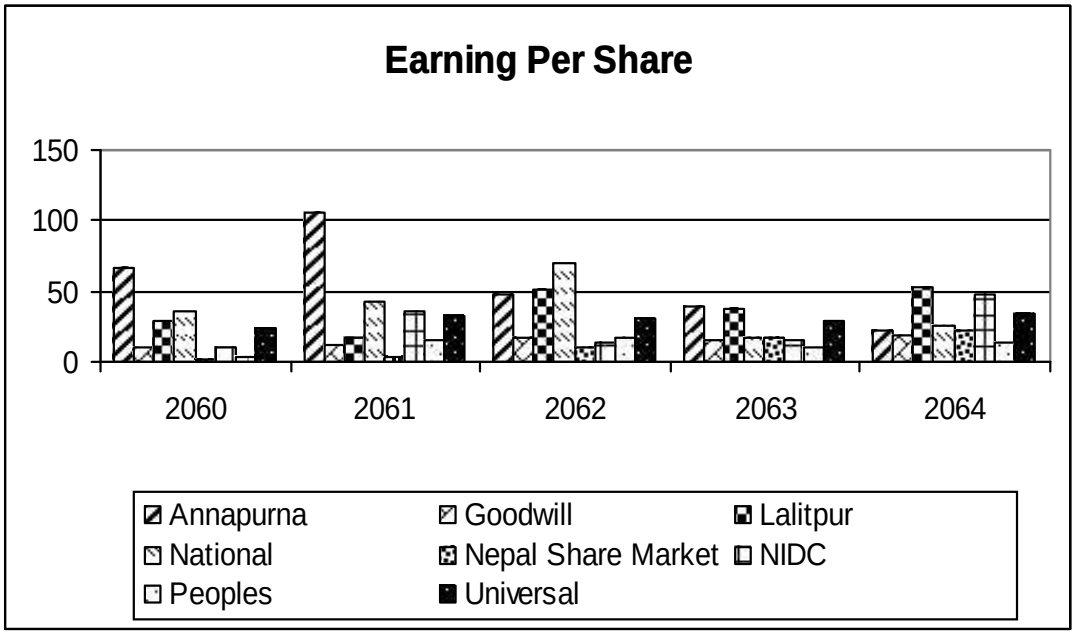
Finance Companies	2060	2061	2062	2063	2064	G.R%	A.G.R
Annapurna	67.16	105.57	47.97	38.6	22.25	-24.13	21.53
Goodwill	9.55	12.58	16.72	14.98	18.45	17.89	21.53
Lalitpur	28.30	16.48	50.36	37.53	52.69	16.81	21.53
National	35.75	42.15	69.12	17.37	25.36	-8.23	21.53
Nepal Share Markets	2.32	2.90	10.94	16.92	22.11	75.70	21.53
NIDC Capital Markets	9.93	35.15	14.02	14.63	48.51	48.67	21.53

Peoples	3.87	14.9	17.62	9.72	13.14	35.74	21.53
Universal	23.54	31.82	30.70	28.28	34.24	9.82	21.53

G.R=Growth Ratio, A.G.R.=Average Growth Ratio

According to the table listed above Nepal Share Markets has high growth rate i.e. 75.70 whereas Annapurna and National Finance Companies have negative growth rate. Their corresponding growth rates are -24.13 and –8.23.The average growth rate is 21.53. Earning per share also measure the investment activities and performance of the finance company. Since, EPS is in some way by product of Net profit. Higher EPS represents higher profit, higher profit represents good performance and good performance represents properly managed investment activity by adopting properly managed investment portfolio. Graphic representation of EPS of selected finance companies is shown below.

Figure 4.11



iii) Dividend per share (DPS)

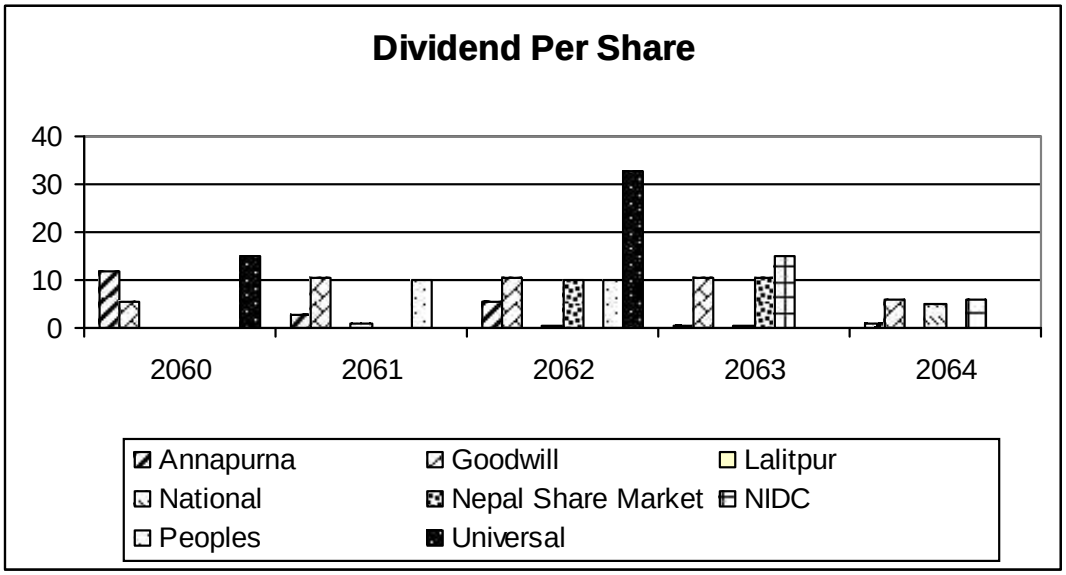
The following table exhibits the indicator of selected finance companies during the study period 2060 to 2064.

Table 4.23: Dividend Per Share (Rs)

Finance Companies	2060	2061	2062	2063	2064	GR%	AGR
Annapurna	12.00	2.63	5.26	0.53	1.05	-45.61	3.005
Goodwill	5.29	10.53	10.53	10.53	5.79	2.28	3.005
Lalitpur	-	-	-	-	-	0	3.005
National	-	1.05	0.53	0.53	5.00	67.37	3.005
Nepal Share Markets	-	-	10.00	1053	-	0	3.005
NIDC Capital Markets	-	-	-	15.00	6.00	0	3.005
Peoples	-	10.00	10.00	-	-	0	3.005
Universal	15.00	-	32.58	-	-	0	3.005

According to table 4.23 listed above, shows that the growth rated concerned with DPS of finance companies under the review period. 5 out of 8 finance companies selected for study have zero growth rates since they did not declare dividend. The names of such finance companies selected for the study are Lalitpur, Nepal Share Markets, NIDC Capital Markets, Peoples and Universal Finance Companies. National Finance Company has highest growth rates among the finance companies i.e. 67.37 whereas Annapurna Finance Company has negative growth rates i.e. -45.61. The growth rate of Goodwill Finance Company is 2.28 which is below the average growth rate i.e.3.005. DPS also measured the investment activities and performance as it has direct relationship with profit. During the study period National Finance Company can be said as good in terms of dividend per share. The positive growth rate of dividend is very useful to attract the attention of the shareholder's towards the companies which lead to boost the market value per share, resulting better performance of the company. Graphic representation of dividend per share is shown below.

Figure 4.12



4.8 Coefficient of Correlation Analysis

Under this topic, Karl Person's coefficient of correlation has been employed to find out the relationship between total deposit and total investment; and total debt and return.

4.8.1 Coefficient of Correlation between Total Deposit and Total Investment

The coefficient of correlation between total deposit and total investment is employed to measure the degree of relationship between the variables. Under this analysis, total deposit is independent variable (X) and total investment is dependent variable (Y). The aim behind computing correlation coefficient is to trace whether there is significant relationship between the variables mentioned above.

To find out the correlation, a sample calculation of Goodwill Finance Company (detailed in Annex E). The following table shows the coefficient of correlation (r), probable error of the coefficient (Per), six times probable error (6 Per) and coefficient of determination (r^2) between total deposit and total investment of finance companies during the study period.

Table 4.24: Correlation between Total Deposit and Total Investment

Finance Companies	r	r^2	PEr	6PEr
Annapurna	-0.429	0.1840	0.2461	1.4766
Goodwill	0.734	0.5388	0.1391	0.8346
Lalitpur	-0.166	0.0276	0.2933	1.7598
National	0.924*	0.8538	0.0441	0.2646
Nepal Share Markets	0.379	0.1438	0.2583	1.5498
NIDC Capital Markets	-0.711	0.5055	0.1492	0.8952
Peoples	-0.520	0.2704	0.2201	1.3206
Universal	0.357	0.1274	0.2632	1.5792

Note: * denoted significant correlation between deposit and total investment

From the table it is apparent that the coefficient of correlation between total deposit (independent variable) and total investment (dependent variable) are positive and negative also because the value of 'r' is positive and negative for finance companies. However, the coefficient of determination 'r^2'explains more clearly regarding the relationship between dependent and independent variables. r^2 here are 0.1840, 0.5388, 0.0276, 0.8538, 0.1436, 0.5055, 0.2704, 0.1274 for Annapurna, Goodwill, Lalitpur, National, Nepal Share Markets, NIDC Capital Markets, Peoples and Universal Finance Companies respectively which indicates that 18.40%, 53.88%, 2.76%, 85.38%, 14.36%, 50.55%, 27.04%, 12.74% of the variation in the dependent variable (total investment) has been explained by the independent variable (total deposit) with respect to Annapurna, Goodwill, Lalitpur, National, Nepal Share Markets, NIDC Capital Markets, Peoples and Universal Finance Companies. Moreover, by considering the probable error, since the value of 'r' is less than six times of the PEr except 0.2646 of National Finance Company. On the other hand when we observe coefficient of correlation between total deposit and total investment, incase of Goodwill and National Finance Companies it has been found that the value of 'r' are

0.734 and 0.924 which shows high degree of positive correlation between total deposit and total investment. Similarly, incase of Nepal Share Markets and Universal Finance Companies, the value of 'r' are 0.379 and 0.357 which shows low degree of positive correlation between total deposit and total investment and incase of Annapurna, Lalitpur, NIDC Capital Markets and Peoples Finance Companies, the value of 'r' are -0.429, -0.166, -0.711 and -0.520 respectively which shows the negative correlation between total deposit and total investment.

In conclusion, it can be said that incase of National Finance Companies, the value of coefficient of correlation is significant i.e. 0.924>0.2646. But in the case of other finance companies, the values of 'r' are insignificant because 'r' is lesser than 6 times of PEr i.e.-0.429<1.4766 etc.

4.8.2 Coefficient of Correlation between Total Debt and Return

Karl Pearson's coefficient of correlation is widely used in practice to measure the degree of relationship between two variables. In correlation analysis debt is regarded as independent variable and return is dependent variable. Debt here means both long term and short term debt. In another word the sum of current liabilities and long term debt is regarded as total debt and return here means the operating income of the finance companies. This analysis tries to make and attempt to find out the significance between the relationship of debt and return. The researcher thinks that with aid of this relationship performance of the finance companies can be measured in terms of debt utilization.

Table 4.25: Correlation between Total Debt and Return Evaluation Criteria

Finance Companies	r	r^2	PEr	6 PEr
Annapurna				
Goodwill	0.398	0.1584	0.2539	1.5234
Lalitpur	0.637	0.4058	0.1792	1.0752
National				
Nepal Share Market				
NIDC Capital Markets	0.304	0.0924	0.2738	1.6428
Peoples				
Universal				

In Karl Pearson's coefficient of correlation the values between zero and one indicate the goodness of fit. The higher value of 'r' denoted better fit, the value of r = +1, r = -1 and r = 0 indicate perfect positive correlation, prefect negative correlation and no correlation between the variables respectively. The above table shows the coefficient of correlation between debt and return; PER, 6PEr and coefficient of determination (r^2) of finance companies during the study period.

From the above table, it is apparent that total debt and return of Goodwill, Lalitpur and NIDC Capital market are positively correlated since the values of 'r' is positive and lies between 0 and 1. And total debt and return of Annapurna, National, Nepal Share Markets, Peoples and Universal Finance Companies is 0 because most of them have total debt is 0. Regarding the extent of correlation the debt and return of Lalitpur Finance Company is moderate degree of correlation as it 'r' is 0.637. However, the correlation between debt and return of Goodwill and NIDC Capital Markets are low degree since 'r' is 0.398 and 0.304 respectively. However, in order to have profound analysis coefficient of multiple determinations is taken as powerful tool of analysis and it is denoted by r^2. It is more powerful in a sense that it explains the correlation, taking dependent and independent variables as its consideration. The r^2 of the finance companies which have 'r' are 0.1584, 0.4058 and 0.0924 of Goodwill, Lalitpur and NIDC Capital Markets respectively determines that 15.84%, 40.58% and 9.24% of the variation in the dependent variable (total debt) has been explain by the independent variable (return). Further more, by considering probable error, since the value of 'r' are lesser than 6 times of PEr in case of selected finance companies. From the above discussion and the analysis we can conclude that there is a insignificant relationship between the variables debt and return for Goodwill, Lalitpur and NIDC Capital Markets.

Regarding performance, by the evaluation criteria shown above, it can be said that Goodwill, Lalitpur and NIDC Catiopal Markets are performing not well in terms of their debt and return since the correlation coefficient is low for Goodwill, Lalitpur and NIDC Capital Markets.

This analysis further reveals that Goodwill, Lalitpur and NIDC Capital Markets have been failed to generate return through proper mobilization of debt fund.

4.9 Regression Analysis:

Regression analyses are divided into two parts i.e. Simple and Multiple. Here, the researcher employs simple regression analysis between net profit and total assets, making NP as dependent variable and TA independent variable.

4.9.1 Simple Regression Analysis

One of the most powerful statistical tools, to explain the relationship between two or more variables, is no doubt regression analysis. This tool is employed here to determine whether the variable of total asset is related with net profit. Here, two variables total assets (X) and net profit (Y) are assumed as independent and dependent variables respectively. The analysis between these variables is performed through the aid of computer. These values are tabulated and interpreted below.

Table 4.26: Regression of Net Profit on Total Assets

Regression Equation NP=a + bTA

Finance Companies	No. of Observation	Constant 'a'	Regression Coefficient 'b'	R^2	S.E. of Estimate	F value	Sig
Annapurna	5	4.635	0.021	0.928	2.776	38.426	0.008
Goodwill	5	-5.78	0.025	0.814	1.226	13.166	0.036
Lalitpur	5	-11.718	0.036	0.764	4.635	9.707	0.053
National	5	16.848	0.010	0.012	8.761	0.036	0.862
Nepal Share Market	5	-33.441	0.036	0.905	5.088	28.612	0.013
NIDC Capital Markets	5	-35.376	0.065	0.832	7.447	14.833	0.031
Peoples	5	0.42	0.011	0.407	2.717	2.06	0.247
Universal	5	6.959	0.007	0.057	4.105	0.18	0.7

The above table depicts the major output of simple regression between (NP) and total assets of the finance companies selected as sample. The regression coefficient of beta is positive for all finance companies, which indicates that one rupees increase in total assets leads to an average increase of 0.021,

0.025, 0.036, 0.010, 0.036, 0.065, 0.011 and 0.007 in net profit of Annapurna, Goodwill, Lalitpur, National, Nepal Share Markets, NIDC Capital Markets, Peoples and Universal Finance Companies respectively.

Similarly, the value of standard error of estimate (SEE) of concerned finance companies have not found zero. Therefore variations exist in regression line. The value of constant (a) indicates that the mean or average effect on dependent variable net profit. The list of F-statistics helps to conclude that the result of Annapurna, Goodwill, Lalitpur, Nepal Share Markets, and NIDC Capital Markets are significant at 1% level of significance.

4.10 Trend Analysis and Forecasting for Next Five Years

Under this topic trend of total deposit, loan and advances, total investment and net profit has been presented below during the study period and forecasted for next five years.

4.10.1 Trend Analysis of Loan and Advances

Under this topic, the trend values of loan and advances of concerned finance companies, selected for study, has been calculated for 5 year from 2060 to 2064. The forecast for next 5 years till 2069 has also been done. The following table no. 4.27 shows that trend values of 10 years.

Table 4.27: Trend Values of Loan and Advances (2060-2069)

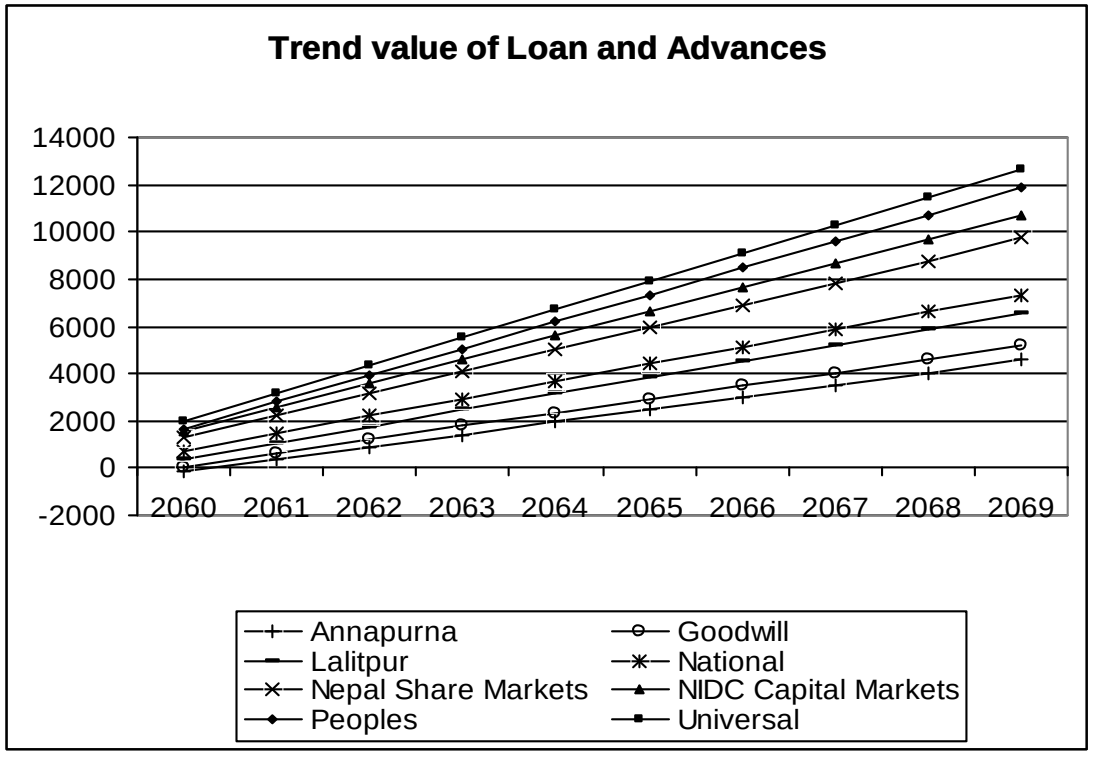
Year	Annapurna	Goodwill	Lalitpur	National	Nepal Share Markets	NIDC Capital Markets	Peoples	Universal
2060	-152.348	221.894	331.364	347.028	529.392	292.474	91.388	298.798
2061	372.07	265.225	444.989	397.924	736.527	363.252	214.087	354.381
2062	896.488	308.556	558.614	448.82	943.662	434.03	336.786	409.964
2063	1420.906	351.887	672.239	499.716	1150.797	504.808	459.485	465.547
2064	1945.324	395.218	785.864	550.612	1357.932	575.586	582.184	521.13
2065	2469.742	438.549	899.489	601.508	1565.067	646.364	704.883	576.713
2066	2994.16	481.88	1013.114	652.404	1772.202	717.142	827.582	632.296
2067	3518.578	525.211	1126.739	703.3	1979.337	787.92	950.281	687.879
2068	4042.996	568.542	1240.364	754.196	2186.472	858.698	1072.98	743.462
2069	4567.414	611.873	1353.989	805.092	2393.607	929.476	1195.679	799.045

The above comparative table makes clear that the loan and advances of selected finance companies are increasing annually. If other things remains the same the loan and advances of Annapurna Finance Companies in 2069 will be 4567.414 million which is the highest amount shown by the study. Similarly, the same of Goodwill, Lalitpur, National, Nepal Share Markets, NIDC Capital Markets, Peoples and Universal Finance Companies will be 611.873, 1353.989, 805.092, 2393.607, 929.476, 1195.679 and 799.045 respectively.

From above trend analysis, it is clear that Annapurna Finance Company's utilization of deposits in terms of loan and advances is comparatively better

than that of other finance companies and the lowest trend values of loan and advances are fitted in the trend lines given in the figure below.

Figure 4.13



4.10.2 Trend Analysis of Total Deposit

Here a attempt has been made to analyze total deposit of selected finance companies for five years from 2060 to 2064 and forecast for the same till five years till 2069. The following table no. 4.28 shows that the trend values of total investment of finance companies for 10 years i.e. 2060 to 2069.

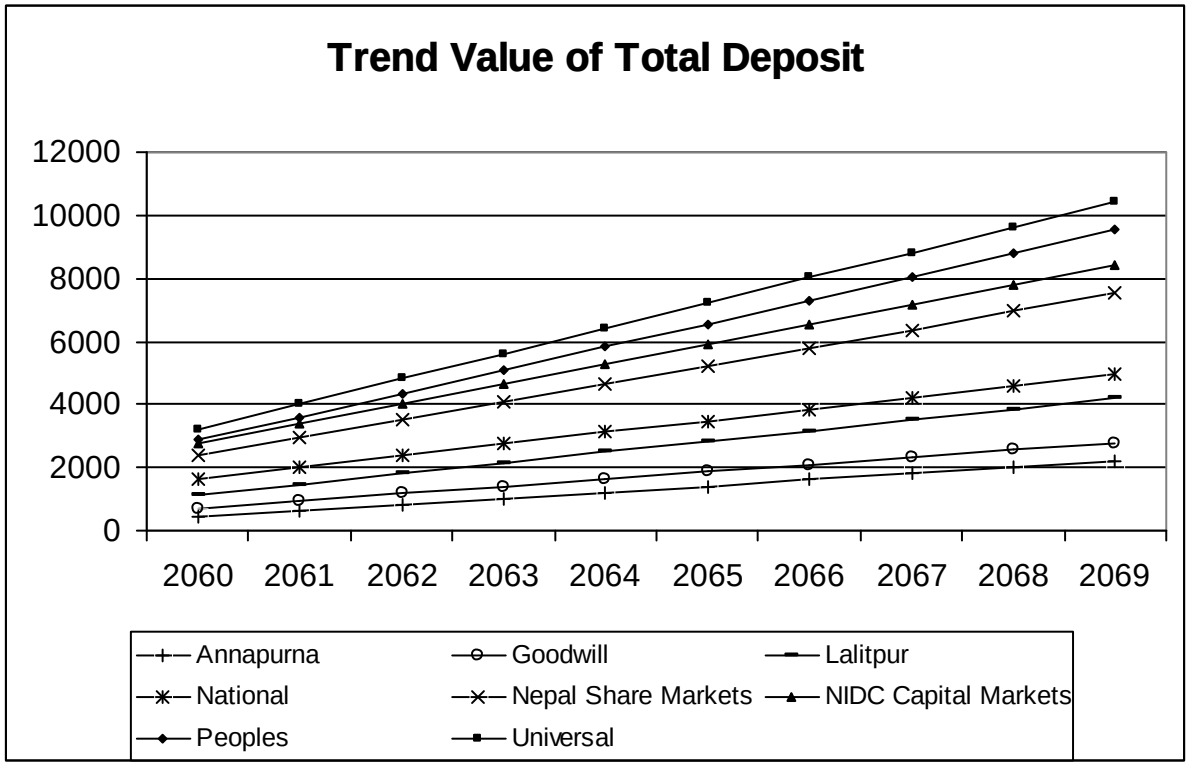
Table 4.28: Trend values of total deposit (2060-2069)

Year	Annapurna	Goodwill	Lalitpur	National	Nepal Share Markets	NIDC Capital Markets	Peoples	Universal
2060	434.118	275.646	415.164	519.516	753.57	341.834	121.891	351.326
2061	629.511	309.809	525.274	548.247	953.38	403.408	232.36	412.946
2062	824.904	343.972	635.384	576.978	1153.19	464.982	342.829	474.566
2063	1020.297	378.135	745.494	605.709	1353.00	526.556	453.298	536.186
2064	1215.69	412.298	855.604	634.44	1552.81	588.13	563.767	597.806
2065	1411.083	446.461	965.714	663.171	1752.62	649.704	674.236	659.426
2066	1606.476	480.624	1075.824	691.902	1952.43	711.278	784.705	721.046
2067	1801.869	514.787	1185.934	720.633	2152.24	772.852	895.174	782.666
2068	1997.262	548.95	1296.044	749.364	2352.05	834.426	1005.643	844.286
2069	2192.655	583.113	1406.154	778.095	2551.86	896.00	1116.112	905.906

From the above comparative table of selected finance companies trend values of total deposit, it has been found that the expected amount is in increasing trend. Other things remaining the same, the total deposit of Nepal Share Markets in 2069 will be 2551.86 million which is the highest amount under the study period. Similarly, total deposit in case of Annapurna, Goodwill, Lalitpur, National, NIDC Capital Markets, Peoples and Universal Finance Companies will be 2192.655, 583.113, 1406.154, 778.095, 896.00, 1116.112 and 905.906 million respectively.

In conclusion, we can say that all finance companies deposit is in increasing trend. Increase in deposit demands proper utilization of it by mobilizing it to the profitable sector in order to have properly managed investment activities and performance. Graphic representation of trend in deposit has been shown below.

Figure 4.14



4.10.3 Trend Analysis of Total Investment

Here an attempt has been made to analyze total investment of selected finance companies for 5 years from 2060 to 2064 and forecast of the same for nest five years i.e. 2069. The following table no. 4.29 shows that trend values of total investment of finance companies for 10 years i.e.2060 to 2069.

Table 4.29: Trend values of total investment

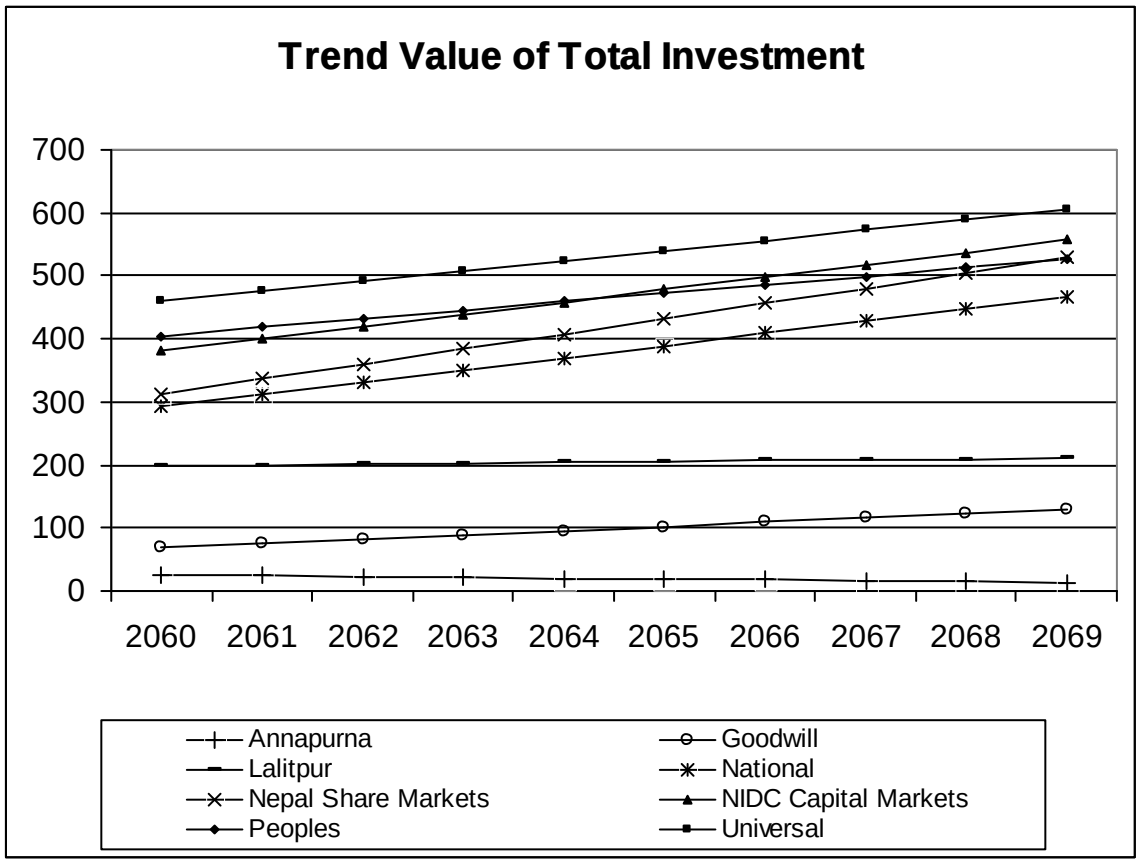
Rs. in million

Year	Annapurna	Goodwill	Lalitpur	National	Nepal Share Markets	NIDC Capital Markets	Peoples	Universal
2060	26.132	42.082	130.55	93.08	20.158	68.084	24.796	54.32
2061	24.672	50.309	125.084	111.291	24.674	63.704	18.70	56.945
2062	23.212	58.536	119.618	129.502	29.19	59.324	12.604	59.57
2063	21.752	66.763	114.152	147.713	33.706	54.944	6.508	62.195
2064	20.292	74.99	108.686	165.924	38.222	50.564	0.412	64.82
2065	18.832	83.217	103.22	184.135	42.738	46.184	-5.684	67.445
2066	17.372	91.444	97.754	202.346	47.254	41.804	-11.78	70.07
2067	15.912	99.671	92.288	220.557	51.77	37.424	-17.876	72.695
2068	14.452	107.898	86.822	238.768	56.286	33.044	-23.972	75.32
2069	12.992	116.125	81.356	256.979	60.802	28.664	-30.068	77.945

From the above table of total investment, it is clear that the total investment of Annapurna, Lalitpur, NIDC Capital Markets and Peoples Finance Companies are in decreasing trend whereas other finance companies has shown increasing trend in total investment. Other things remaining the same total investment of Annapurna, Lalitpur, NIDC Capital Markets and Peoples Finance Companies will be 12.992, 81.356, 28.664, -30.068 respectively. Other things remaining the same, the total investment in case of Goodwill, National, Nepal Share Markets, Peoples and Universal Finance Companies will be 116.125, 256.979, 60.802, and 77.945 respectively.

Hence, we can draw a conclusion that National Finance Company is in the top list of study period. Whereas Peoples Finance Company performance regarding total investment is in eroding trend. The above trend values of table no. 4.29 have been fitted in the trend lines given below.

Figure 4.15



4.10.4 Trend Analysis of Net Profit

Under this study, effort has been made to analyze the net profit of selected finance companies for 5 years from 2060 to 2064 and forecast for the same for next 5 years till 2069. The following table 4.30 shows that trend values of net profit of finance companies for 10 years i.e. 2060 to 2069.

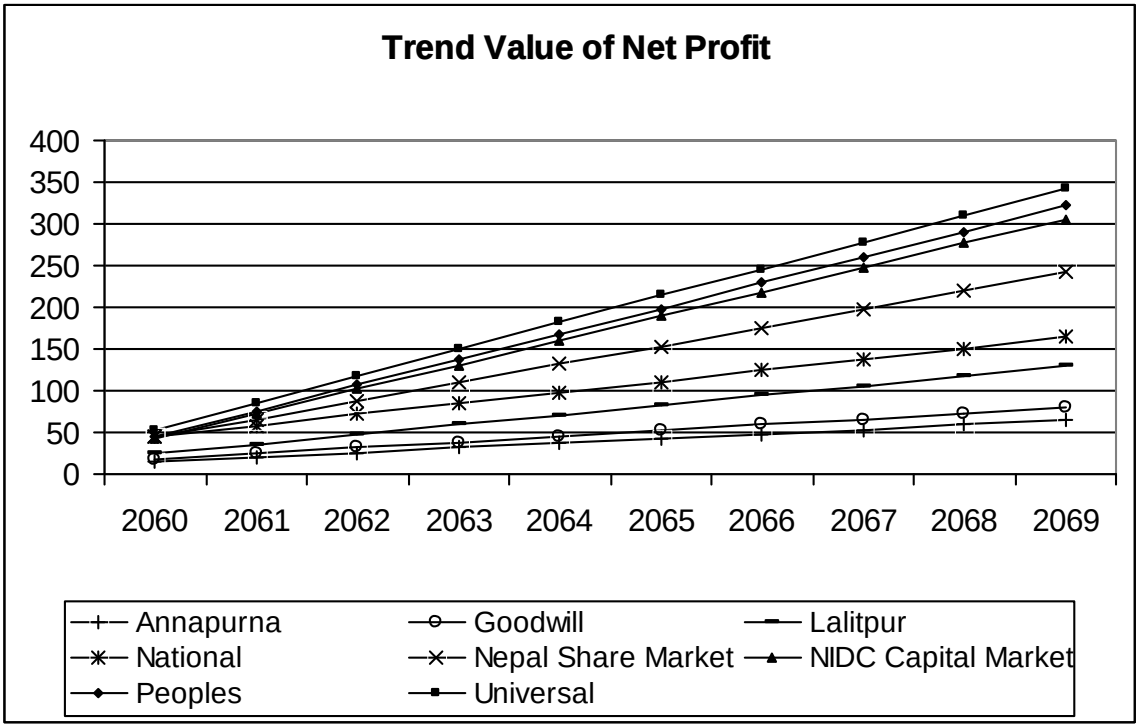
Table 4.30: Trend values of net profit (2060 to 2069)

Year	Annapurna	Goodwill	Lalitpur	National	Nepal Share Market	NIDC Capital Market	Peoples	Universal
2060	14.98	2.902	6.028	21.114	-0.97	-0.89	1.99	8.268
2061	20.458	4.322	10.795	22.649	7.769	6.373	3.505	9.621
2062	25.936	5.742	15.532	24.184	16.508	13.636	5.02	10.974
2063	31.414	7.162	20.329	25.719	25.247	20.899	6.535	12.327
2064	36.892	8.582	25.096	27.254	33.986	28.162	8.05	13.68
2065	42.37	10.002	29.863	28.789	42.725	35.425	9.565	15.033
2066	47.848	11.422	34.863	30.324	51.464	42.688	11.08	16.386
2067	53.326	12.842	39.397	31.859	60.203	49.951	12.595	17.739
2068	58.804	14.262	44.164	33.394	68.942	57.214	14.11	19.092
2069	64.282	15.682	48.931	34.929	77.681	64.477	15.625	20.445

From the above comparative table of selected finance companies trend values of net profit, it has been found that the expected amount is in increasing trend. Other things remaining the same, the net profit of Nepal Share Markets in 2069 will be 77.681 million which is the highest amount under the study period. Similarly, net profit in case of Annapurna, Goodwill, Lalitpur, National , NIDC Capital Markets, Peoples and Universal Finance Companies will be 64.282, 15.682, 48.931, 34.929, 64.477, 15.625 and 20.445 respectively.

Hence we can draw a conclusion that Nepal Share Markets is in the top list of the study period. All finance companies net profit is in increasing trend. The above trend values of table no. 4.30 have been fitted in the trend lines given below.

Figure 4.16


Trend Value of Net Profit
400
350
300
250
200
150
100
50
0
2060
2061
2062
2063
2064
2065
2066
2067
2068
2069
Annapurna
Goodwill
Lalitpur
National
Nepal Share Market
NIDC Capital Market
Peoples
Universal

CHAPTER 5

CONCLUSION, FINDINGS AND RECOMMENDATIONS

Having completed the basic analysis required for the study, the final and most important task of the researcher is to enlist findings, issues and challenges of the study and give suggestions for the further improvement. This would be meaningful to the top management of the finance companies to initiate action and achieve the desired result. The objectives of the researcher are not only to point out errors and mistakes but also to correct them and give directions for further improvement.

5.1 Summary

The development of any country largely depends upon its economic development. The financial institutions play dominant role in economic development. The commencement and development of financial institution has greater role in economic development. The commencement and development of financial institutions depends upon the economic activities and monetary transaction of the country. In Nepalese context the history of modern financial institution beings with the establishment of Nepal Bank Limited (NBL) in 1937 A.D. Since then several financial institutions i.e. Joint Venture Banks, domestic commercial banks, finance companies have come into existence, catering the financial needs of the country.

Through the finance company act was passed in 1985, it became operational only in 1992, after liberal economic policy sought by the government in order to boost the economy. Within the short span of time this sector has assumed growing importance. In a situation when commercial banks were not able to meet individual credit, needs it is timely that finance companies have grown to replace and has brought legal institution within the regulation and controls of Nepal Rastra Bank(NRB). The trend of commencement of the finance companies at the beginning were tremendous. During the period of 1992 to 2008, there had been mushroom growth of finance companies and official figure shows there are 53 finance companies that are listed in Nepal Stock Exchange.

Finance companies are financial institutions which stimulates saving by mobilizing idle resource in one hand and lend them who have immense need of it to start, retain and grow the business. Thus, finance company plays a dominant role to channalize the resources to the productive sector from unproductive sector. By doing so they have served as an institution to develop, enhance and promote industrial and agricultural activity of the country.

Through, sufficient return cannot have been earned and strong, stable and appropriate investment policy has not been followed by the finance companies. They have not been to utilize their funds most efficiently and productively. Whatever may be the outcome, the deposit mobilization capability of finance companies is going favorable and lending capability has also gone up to a considerable extent.

In order to carryout this study, data have been basically obtained from secondary sources such as annual reports and financial statement, official records, periodicals, journals and bulletins of finance companies, various published reports and relevant unpublished masters thesis. Besides this, personal contacts with the finance company personnel have also been made in order to asses, managerial and behavioral dimension concerning with investment activities and performance.

The procedure of data presentation and analysis and interpretation has been made through comparative analysis. Under this analysis, various financial ratios related to the performance functions of selected finance companies i.e. liquidity ratio, activity ratio, profitability ratio, leverage ratio capital adequacy ratio and growth ratio have been analyzed and interpreted comparatively.

Moreover, some relevant statistical tools i.e. coefficient of correlation; regression, trend analysis have been used. This analysis gives clear picture of the investment activities and performance of listed finance companies that has been selected for the study. Since the selected sample contributes 15.10% of the total listed financial companies, hence the inference made by them might be used to all listed finance companies. However, sole relying on this report may be fallacious since the results are not justified with test of hypotheses and sampling has been done using non probability purposive sampling

5.2 Conclusion

Nepal is a developing country. It needs to strengthen its economic structure to achieve over all development. Finance companies play catalytic role in the economic development. Nepalese finance companies face several problems related to fund mobilization and investment. They work with traditional approach. Investment activities and performance of the finance company have found average as most of them are running in profit. Profit does not only measures performance of finance companies but it also reflects good investment activities. In order to have better results regarding investment activities and performance, finance companies have to revitalize their role requires encouraging environment to be innovative and diversify their business to other projected areas. They have to resort to find new methods of financing instead of depending only on time bound fixed deposit that can not always cope with the long-term lending maturity structure. Finance companies continue to have a gradual diversification of their by shifting considerable portion of their assets.

Moreover, finance company management has come under increased pressure for changes in operational method and scope of coverage to ensure its improvements in profitability to provide better return on the share investment so as to win public confidence in attracting resources further. In course of time, however finance companies have to function both with complementary and competitive approach. But regulation needs to be more clear and specific so as to avoid all kinds of bottle necks to encourage finance companies to define themselves the best regarding what they can do which is to make loans to consumers and business firms in addition to mobilization of deposits and back credit with cost effectiveness of funding and maturity structure. In this regard the role of Nepalese companies association lies in having a common code of conduct to have healthy competition among themselves within the guidelines set but finance companies can undertake their own plans, policies and strategies to deliver the package of financial services that are more innovative and attractive to the potential clients. These suggestions will be helpful to the finance companies to develop new system in the concerned business.

Below is presented a comprehensive summary to the main findings of the study.

5.3 Main Finding of the Study

The main findings of the study, that are pertinent to the investment activities and performance of the selected finance companies, for our study, are listed below:

5.3.1 Liquidity Ratio

The liquidity ratio position of the finance companies reveals that

- The mean current ratio of Annapurna Finance Company is higher than that of other finance companies. However difference between the mean current ratio of selected finance companies is not great. Similarly, regarding consistence amongst the ratio, Universal Finance Company is more consistent.

- The mean ratio of cash and bank balance to total deposit of National Finance Company is higher than that of finance companies. Regarding consistency People Finance Company is more consistent in maintaining cash and bank balance to total deposit ratio.

- The mean ratio of cash and bank balance to current assets of National Finance Company is greater amongst the selected finance companies for study. However, cash and bank balance to current assets ratios of People Finance Company is more consistent than that of other finance companies.\

- Goodwill Finance Company is found to have greater investment on government securities to current ratio amongst the finance companies selected for study regarding its mean ratio. Similarly, Universal Finance Company is more uniform in maintaining this ratio.

- Lalitpur Finance Company is found to have invested much of its current assets to loan and advances regarding its loan and advances to current asset ratio. In terms of uniformity, again Lalitpur is more consistent in maintaining the loan and advances to current assets.

The above result shows that liquidity position of Peoples and Universal Finance Companies are comparatively better than that of other finance companies because of its consistency among the ratios of the study time

period. Highly fluctuating liquidity position shows that the finance company's investment activities are not sound because of unstable working capital policy.

5.3.2 Activity Ratios

The activity ratios of selected finance company reveal that

- The mean ratio of loan and advances to total deposit of Annapurna Finance Company is higher amongst the selected finance companies. Similarly, Universal Finance Company is more consistent in this regard.

- The mean ratio of loan and advances to fixed deposit of Annapurna Finance Company is higher than that of other finance companies. Similarly, Universal Finance Company is more consistent in maintaining such ratio.

- The mean ratio of loan and advances to total working fund of Annapurna Finance Company is greater than that of other finance companies. Similarly, the ratio of it is more consistent in comparison to other finance companies.

- The mean ratio of government security to total working fund of Goodwill Finance Company is higher than that of other finance companies. On the other hand Universal Finance Company's ratios are more homogeneous than that of other finance companies.

- When we observe the total investment to total deposit ratio it is found that the mean ratio of National Finance Company is the largest amongst the selected finance companies. Regarding homogeneousness it is more homogeneous in its ratios than that of other finance companies.

Activity ratios precisely explain the investment activities of the finance companies. Finance company mainly invests their fund to loan ad advances, investment to government securities and investment to the securities of listed companies. Good portfolio of investment yields good results. Regarding activity ratio, Annapurna Finance Company is found to be efficient in

utilizing its funds. Goodwill Finance Company's funds are concentrated mostly on government securities, which cannot be taken favorable. Similarly, National Finance Company can also be termed having good investment activity since it is capable of utilizing greater extent of its deposit to investment.

5.3.3 Profitability Ratio

The profitability ratios of concerned finance companies reveal that:

- The mean ratio of net profit to total assets of Nepal Share Markets is considerably lower than that of other finance companies. Similarly, its ratios are not very consistent. However, NIDC Capital Markets is the least consistent amongst the finance companies selected for study.

- The mean ratio of net profit to total deposit of Nepal Share Markets Company is the least among the finance companies selected for study. Similarly, regarding variability NIDC Capital Markets ratios are more variable than that of other finance companies.

- The mean ratio of net profit to net worth ratio of NIDC Capital Markets is the least among the finance companies selected for study. Similarly, it is least consistent amongst the finance companies selected for study.

- The mean ratios of total interest earned to total working fund of Nepal Share Markets is found lower than that of other finance companies. Similarly, the ratio of NIDC Capital Markets is less homogeneous than that of other concerned finance companies.

- The average ratios of total interest paid to total working fund of Goodwill Finance Company is slightly higher than that of other finance companies. Likewise, the ratios of Lalitpur, Nepal Share Markets and Universal Finance Companies are more stable than that of other finance companies.

Profitability ratios show about the performance of the finance companies to the large extent. The company having larger profitability ratio is said to be performed well. Big amount of profit is the prerequisite to have large

profitability ratio. Large amount of profit can be earned through properly managed investment activities by adopting appropriate investment portfolio. Thus, it can be concluded that good profitability ratios are the good indicator of sound investment activities and performance. Regarding the profitability ratios Nepal Share Markets and NIDC Capital Markets do not posses sound investment activities and due to this they have weak and unstable profitability ratios.

5.3.4 Leverage Ratio

The leverage ratios of concerned finance companies reveal that

- Most of the finance companies have no debt. The mean debt-asset ratios of Lalitpur Finance Company is least among the given. Similarly, Goodwill Finance Company is least consistent among the finance company selected for the study.

- The average debt equity ratio of Lalitpur Finance Company is lower among the finance companies selected for the study which has given debt. In this ratio, Goodwill Finance Company is less stable.

In order to have sound investment activity and performance, finance companies have to be financed appropriately i.e. appropriate amount of debt and equity capital is required to be employed. In order to have better performance stability in leverage ratio is immensely required in short run if not in long run.

5.3.5 Capital Adequacy Ratio

The capital adequacy ratios of selected finance companies reveal that

- The mean ratio of shareholder's fund to total deposit of Nepal Share Markets is least of all. Regarding stability Annapurna Finance Company is the least stable among the finance companies selected for the study.

- When we observe the shareholders fund to total assets ratio, the mean ratio of Nepal Share Markets is lowest of all. Annapurna Finance

Company is least homogeneous amongst the finance companies selected for the study.

From above findings, it can be concluded that Nepal Share Markets and Annapurna Finance Companies seem to have unable to keep adequate capital fund. Inadequate capital fund results poor performance of finance companies.

5.3.6 Growth Ratios

From the analysis of growth ratios of concerned finance companies, it is clear that:

- People Finance Company has the highest positive growth rate i.e. 83.49 and similarly National Finance Company has the lowest positive growth rate i.e. 18.11.

- Growth ratio of EPS of Annapurna and National Finance Companies are negative. The growth ratio of EPS is the highest of Nepal Share Markets.

- Similarly, the growth ratio of DPS of Lalitpur, Nepal Share Markets, NIDC Capital Markets, Peoples and Universal Finance Companies is zero and growth ratio of DPS of Annapurna Finance Company is negative (-45.61) and National Finance Company has maintained highest DPS i.e. 67.37% amongst all finance companies.

Annapurna Finance Company should pay more concern towards making stable profit to make investment activities and performance better in order to win the confidence of shareholders, depositors and all their customers.

5.3.7 Coefficient of Correlation Analysis

Coefficient of correlation analysis between different variables of concerned finance companies reveals that:

- Coefficient of correlations between deposit and investment of all the finance companies except National Finance Company has been found insignificant. However, there is an insignificant positive relationship

between deposit and investment for Goodwill, Nepal Share Markets and Universal Finance Companies and negative relationship between deposit and investment for Annapurna, Lalitpur, NIDC Capital Markets and Peoples Finance Companies due to highly fluctuating data.

- Likewise, there is insignificant positive relationship between debt and return for all finance companies which has debt. The reason behind insignificance is again highly fluctuating data.

From above analysis it can be concluded that most of the finance companies are weaker in total investment by mobilizing total deposit and has been failed to achieve proper amount of return by mobilizing debt funds.

5.3.8 Regression Analysis

Simple regression analysis between net profit and total asset of concerned finance companies reveals that.

- All finance companies have positive beta-coefficient which obviously shows that if total assets of all finance companies are increased by 1 its net profit will be increased by the amount shown in the column of beta.

- Co-efficient of determination in case of National Finance Company is 1.2% which is lower than that of all finance companies, selected for the study which means that some percent of variation of dependent variable (net profit) has been explained by the independent variable (total assets).

- Likewise, there is lower standard error of estimate in case of Goodwill Finance Company i.e. 1.226 than that of other finance companies whereas, standard error of estimate is the highest of National Finance Company which shows that greater scattered ness of variables taken for study.

5.3.9 Trend Analysis

Trend analysis of loan and advances, investment, deposit and net profit and projection for next five years of concerned finance companies reveals that:

- Trend values of loan and advances of finance companies have been found increasing. In case of Annapurna Finance Company, the highest trend value in 2069 is Rs. 4567.414 million whereas Goodwill has lowest trend value Rs. 611.873 million for the same year.

- Trend values of total deposit of concerned finance companies have been found increasing. The lower value is of Goodwill Finance and higher is of Nepal Share Markets whose corresponding values of total deposit in 2069 are 583.113 million and 2551.86 million respectively.

- Trend values of total investment of Annapurna, Lalitpur, NIDC Capital Markets and Peoples Finance Companies is in decreasing trend, whereas same of other is in increasing trend in the year 2069, the negative value of Peoples Finance Company is -30.068 million while the same of National Finance Company is 256.979.

- Trend values of net profit of concerned finance companies have been found increasing. The lower value is of Peoples Finance Company is 15.625 million in 2069, whereas as higher value is of Nepal Share Markets is Rs. 77.681million for the same year.

Thus, it can be said that Nepal Share Markets has greater trend values in total deposit and net profit. Trend values of 4 finance companies out of 8 are increasing trend in the sector of loan and advance, total investment, total deposit and net profit but 4 finance companies i.e. Annapurna, Lalitpur, NIDC Capital Markets and Peoples Finance Companies are in decreasing trend value in total investment.

5.4 Recommendation

For the achievement of better investment activities and performance of the finance companies they have to channel their funds by gradually shifting their priorities from hire purchase to trading for industry to help in the sector of capital formation in the country. Finance companies are suggested for improvement in the present status by applying following recommendations.

5.4.1 Legal and Procedural Improvements

1. The first and foremost improvement required is that the finance companies should be allowed unrestricted entry into the capital market.
2. NRB should play as facilitator to finance companies; take the steps in clearing obstructions in the way of free movement of financial resources into the market. There is no need o retaining Great Wall between the needy industrial and commercial sector of the economy and the institutions and sectors with vast inventible funds.
3. Finance companies should be allowed entry into short-term development markets, the benefits arising out of this change should out-weigh the regulatory risk perceptions NRB had in mind in connection with short term lending while issuing directives.
4. Commercial banks can always use finance companies for development of funds to smaller clients where their direct approach would not be cost effective. Instead of this there are many areas where commercial banks and finance companies could work together.
5. The need for insurance of deposits with finance companies need not be over emphasized. Reportedly, the government is working towards this direction but suitable action is yet to be expected.
6. Finance companies should be allowed accesses to refinance funds of NRB subject to the establishment criteria.
7. Rules for merger and acquisitions to be formulated with specific process so that the closure of one finance company will not affect the whole financial system.
8. NRB along with HMG should set up a committee in participation with members of the finance companies for the purpose of formulating and recommending necessary rules and regulation for merchant banking investment banking and leasing and other activities that have direct impact on the performance and trust of finance companies.

9. Finance companies should be treated equally in regulatory eyes of the government unlike treating it as second class citizen.
10. On-site and off-site supervision by NRB is not as satisfactory as per given rules. On-site supervision should be effective.

5.4.2 Further Statement of Improvement

1. Joint promotion of finance companies: It is suggested that finance companies promotion committee should be constituted as a body for joint promotion of finance companies, in line with the banking promotion committee. For this, finance companies need to tie up with the NRB, financially as well as organizationally.
2. Tight grip on cost of capital: It has been widely felt that finance companies have been resorting to interest rate driven strategy in resource mobilization, without taking care of the cost involved. Keeping the cost of capital firmly under control and checking it from upward swings is one of the major ingredients in a resource mobilization strategy.
3. Maintaining a balanced capital structure: Capital structure plays an important role in profitability as well as the long term solvency of a firm. It is by ensuring a proper balance between the various components of ownership and debt capital that a finance company can stay healthy besides ensuring adequate return to its stakeholders.
4. Matching of assets and liabilities: The problems with the present level of mix of sources of funds and their deployments and the inherent risk of mismatches have also been highlighted. Finance companies should consider this very seriously, so that they can arrive at timely to this problem.
5. Encouraging inter finance company borrowing: Instead of offering very high rates of interest to depositors to solve the problem of cash mismatch, a company with liquidity problems can borrow for short-term from another finance company having surplus liquidity.
6. Issue of post dated interest cheques or warrants to depositors: Post dated bankers cheques are issued for repayment of deposit and interest; it would act as a bank guarantee for the depositors and prove more successful.
7. Continuous improvement in quality of services: Finance companies should also explore way and means for continuous improvement in

the quality of service provided to its customers, both suppliers as well as borrower of funds.

8. Regional expansion: Most of the finance companies have concentrated in Kathmandu for resources mobilization. Such concentration in few pocketed areas of Kathmandu requires a new shift of focus and strategy to expand regionally to rural areas where scattered public savings can be collected and channeled to formal productive sectors.
9. Conducting training and seminars: That is very important to have frequent sharing of experience by conducting a seminar at least once or twice a year. NRB should encourage training to new entrants to provide orientations on the conceptual dimensions and practical aspects of operating finance companies through the development of capital market training institute.
10. Strong supervision and control of finance companies: Finance companies are playing with public money that consist both deposit and shares. In such a situation NRB has to keep strict watch over their activities to protect the interest of public. For this, regular follow up regarding pertinent information must be made mandatory to NRB to have correct evaluation and monitoring of their performance and minimizing any irregularities directed in the course of investigation.
11. Appropriate management: A recent study in US found that fraud and mismanagement were involved in 90 percent of finance companies failure. So the quality of loan portfolio, the adequacy of capital and the soundness of management should always and strictly supervised regarding finance companies.
12. Chances to small depositors: Finance companies should be allowed to operate saving deposit account; this will provide an incentive for the small depositors who have been left in cold by the refusal of banking system to cater their needs.
13. Investment in productive area: Credit should be diverted to the productive i.e. industrial and agricultural sector. This creates long life of finance company and support to the national economy.
14. Positive impact to public confidence: Despite having the largest numbers among the financial institutions, the finance companies do not seem to have won the public confidence. There needs to be appropriate measures adopted at the earliest with best of efforts from all concern.
15. Equivalent to the customers: The loans are forwarded mostly toward the higher-class businessman and industrialist. A few percentage of

total credit is directed towards the weaker section of the society. This type of financial system increases social financial disparity which indicates that poor becomes poorer and rich becomes richer.

To sum up, finance company should play efficient role in channeling recourses from unproductive sector to productive sector for the economic well being of the nation. Efficient channeling can only be possible if the investment activities and performance is good. Better performance of the finance company results from well managed investment activities. The investment activities are well managed by adopting appropriate investment portfolio and by venturing into new sectors that are virgin and yield more returns.

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Website:

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www.sebonp.com

www.nrb.org.np

Annex A

Name of the Listed Finance Companies selected for the study and their Addresses

S.N.	Name of Finance Company	Listing Date	Address
1	NIDC Capital Markets Ltd.	28/06/1993	POB 7423, Kamal Pokhari, Kathmandu E-mail: ncml@wlink.com.np
2	National Finance Co. Ltd.	06/07/1993	POB 6942,Pako, New Road, Kathmandu E-mail nfc@nfcl.wlink.com.np
3	Nepal Share Markets Co.Ltd.	28/09/1993	POB 7958, Ram Shah Path, Kathmandu
4	Annapurna Finance Co. Ltd	22/09/1994	POB 288, Chipledhunga, Pokhara-4 E-mail:anapurna@afc.mos.com.np
5	Peoples Finance Ltd.	07/08/1995	POB 9416, K.K.M.Building, Tripureswor, Kathmandu E-mail:finance@people.Wlink.com.np
6	Universal Finance Ltd.	10/04/1997	POB 12396, Siddhi Bhavan, Kantipath, Kathmandu
7	Lalitpur Finance Ltd.	08/10/1998	GPO 8975, EPC585, Lagankhel, Lalitpur E-mail:lalitpur@fclWlink.com.np
8	Goodwill Finance Co. Ltd.	22/12/1998	POB 8867Dillibazar, Kathmandu E-mail: goodwill@FinanceWlink.com.np

Source: Securities Board, Nepal 2006/2007

Data Relating to Selected Finance Companies

Annex B

Annapurna Finance Company Ltd.

(Rs. in million)

Year	2060	2061	2062	2063	2064
Current Assets	520.74	732.59	950.69	1312.68	1591.25
Current Liability	483.43	661.46	838.72	1007.28	1291.42
Cash & Bank Balance	19.35	59.92	63.98	33.05	51.88
Inv. On Govt. Security	24.00	18.29	18.48	182.75	18.28
Loan & Advances	477.39	654.37	868.23	1025.49	1456.96
Fixed Deposit	329.19	441.88	533.64	619.53	801.82
Total Deposit	451.03	627.34	814.43	980.11	1251.61
Total Working Fund	546.07	766.74	976.39	1176.18	1620.37
Total Investment	29.66	23.90	18.87	18.64	24.99
Net Profit	13.43	24.00	23.99	30.88	37.38
Interest Earned	61.10	80.58	106.25	126.31	148.37
Interest Paid	34.12	42.97	53.93	62.13	76.05
EPS	67.16	105.57	47.97	38.60	22.25
DPS	12.00	2.63	5.26	0.53	1.05

Goodwill Finance Company Ltd.

(Rs. in million)

Year	2060	2061	2062	2063	2064
Current Assets	309.48	346.34	373.57	400.32	519.16
Current Liability	347.15	380.31	373.75	387.10	495.03
Cash & Bank Balance	14.86	72.82	40.19	53.61	40.77
Inv. On Govt. Security	46.5	25.95	35.48	25.45	50.45
Loan & Advances	248.12	247.57	297.90	321.26	427.93
Fixed Deposit	263.02	291.32	280.63	302.46	307.50
Total Deposit	287.02	327.32	315.64	336.77	453.11
Total Working Fund	378.21	417.97	415.26	451.59	602.34
Total Investment	68.90	33.46	39.56	47.99	102.77
Net Profit	3.91	3.91	4.18	7.49	9.22
Interest Earned	43.14	37.77	39.65	43.07	49.91
Interest Paid	31.49	31.95	29.06	29.10	29.65
EPS	9.55	12.59	19.72	14.98	18.45
DPS	5.29	10.53	10.53	10.53	5.79

Lalitpur Finance Company Ltd.

(Rs. in million)

Year	2060	2061	2062	2063	2064
Current Assets	394.25	430.29	572.00	793.65	887.65
Current Liability	451.97	583.62	630.34	798.30	871.23
Cash & Bank Balance	22.18	44.52	30.52	55.27	126.79
Inv. On Govt. Security	3.73	0.24	0.70	0.003	0.80
Loan & Advances	368.34	385.53	540.78	738.38	760.04
Fixed Deposit	361.71	455.47	446.63	501.91	521.41
Total Deposit	407.58	545.34	607.03	772.34	844.63
Total Working Fund	514.39	644.11	706.95	922.13	1001.03
Total Investment	84.97	179.91	126.75	117.73	88.73
Net Profit	9.55	5.59	16.99	19.00	26.68
Interest Earned	53.83	59.31	67.81	88.64	121.91
Interest Paid	32.50	41.20	41.40	49.57	67.41
EPS	28.30	16.48	50.36	37.53	52.69
DPS	-	-	-	-	-

National Finance Company Ltd.

(Rs. in million)

Year	2060	2061	2062	2063	2064
Current Assets	482.35	517.86	573.36	649.12	631.67
Current Liability	579.25	579.46	600.29	635.28	649.56
Cash & Bank Balance	104.60	119.35	107.15	177.53	94.43
Inv. On Govt. Security	30.00	17.05	17.05	17.05	17.05
Loan & Advances	347.75	381.46	449.16	545.54	520.19
Fixed Deposit	531.84	529.98	571.67	621.83	629.57
Total Deposit	459.49	435.51	460.31	489.76	470.01
Total Working Fund	671.50	670.48	717.78	820.28	858.59
Total Investment	115.54	88.34	118.64	148.45	176.54
Net Profit	15.17	29.86	29.86	16.51	29.52
Interest Earned	66.85	65.91	65.91	75.07	78.30
Interest Paid	33.37	31.39	31.39	33.98	35.85
EPS	35.75	42.15	69.12	17.37	25.36
DPS	-	1.05	0.53	0.53	5.00

Nepal Share Markets Company Ltd.

(Rs. in million)

Year	2060	2061	2062	2063	2064
Current Assets	655.44	977.68	1191.07	1414.87	1614.80
Current Liability	785.28	1064.90	1210.70	1371.39	1611.04
Cash & Bank Balance	170.94	182.76	30.79	80.74	56.81
Inv. On Govt. Security	8.01	10.51	3.90	2.08	11.68
Loan & Advances	476.49	784.41	951.99	1202.10	1303.32
Fixed Deposit	487.72	715.15	852.39	670.78	838.01
Total Deposit	716.36	1007.83	116.98	1310.91	1563.87
Total Working Fund	908.93	1192.03	1343.60	1553.04	1907.07
Total Investment	31.65	27.31	12.82	12.57	61.60
Net Profit	3.48	3.48	13.13	27.07	35.38
Interest Earned	83.85	95.26	118.34	144.54	160.61
Interest Paid	58.66	70.67	85.66	90.23	104.64
EPS	2.32	2.90	10.94	16.92	22.22
DPS	-		10.00	10.53	-

NIDC Capital Markets Ltd.

(Rs. in million)

Year	2060	2061	2062	2063	2064
Current Assets	372.78	532.14	488.85	636.45	1016.96
Current Liability	443.19	588.56	527.46	541.15	933.17
Cash & Bank Balance	60.49	146.24	59.97	109.77	71.25
Inv. On Govt. Security	24.07	12.5	12.5	-	0.60
Loan & Advances	288.22	373.40	416.38	526.68	565.47
Fixed Deposit	325.63	370.63	420.11	412.90	423.67
Total Deposit	363.58	395.01	450.99	492.75	622.58
Total Working Fund	505.98	693.07	700.39	773.85	1111.46
Total Investment	67.11	60.70	68.78	48.94	51.09
Net Profit	-5.76	20.39	8.41	8.78	36.36
Interest Earned	43.75	54.36	63.80	73.58	136.99
Interest Paid	29.97	30.38	32.70	40.43	79.48
EPS	9.93	35.15	14.02	14.63	48.51
DPS	-	-	-	15.00	6.00

Peoples Finance Ltd.

(Rs. in million)

Years	2060	2061	2062	2063	2064
Current Assets	121.13	213.80	381.40	575.98	607.05
Current Liability	198.86	239.59	350.05	538.69	539.11
Cash & Bank Balance	17.56	32.36	38.81	58.93	62.78
Inv. On Govt. Security	5.00	-	-	-	-
Loan & Advances	98.58	181.44	342.59	517.05	544.27
Fixed Deposit	126.91	169.29	297.81	422.29	416.03
Total Deposit	142.12	187.35	337.57	517.92	529.18
Total Working Fund	225.81	279.39	403.05	594.20	625.43
Total Investment	40.12	1.81	7.03	7.03	7.03
Net Profit	0.77	4.66	7.05	3.89	8.73
Interest Earned	31.72	26.95	39.77	60.44	72.38
Interest Paid	15.16	12.80	22.26	34.93	41.61
EPS	3.87	14.90	17.62	9.72	13.14
DPS	-	10.00	10.00	-	-

Universal Finance Ltd.

(Rs. in million)

Years	2060	2061	2062	2063	2064
Current Assets	370.54	371.17	480.23	488.18	680.38
Current Liability	424.98	408.74	482.65	498.53	670.87
Cash & Bank Balance	26.10	61.22	43.21	50.80	51.43
Inv. On Govt. Security	0.50	0.50	0.50	-	-
Loan & Advances	343.95	309.45	413.06	413.54	569.82
Fixed Deposit	287.06	290.43	352.32	331.50	421.06
Total Deposit	395.07	384.10	456.99	482.90	653.77
Total Working Fund	467.07	460.96	533.91	565.74	757.02
Total Investment	57.85	62.79	40.55	68.58	68.08
Net Profit	7.41	10.02	9.67	17.17	10.60
Interest Earned	56.19	55.67	58.06	57.93	78.36
Interest Paid	33.90	34.52	32.30	33.42	43.76
EPS	23.54	31.82	30.70	28.28	34.24
DPS	15.00	-	32.58	-	-

Annex C

A Sample Calculation of Mean, Standard Deviation and Coefficient of Variation of the Current Ratio of Annapurna Finance Company Ltd.

Computation of Mean, SD & CV

Year	X	$d = X-\overline{X}$	d^2
2060	1.08	-0.092	0.0085
2061	1.12	-0.052	0.0027
2062	1.13	-0.042	0.0018
2063	1.30	0.128	0.0164
2064	1.23	0.058	0.0034
	$\sum X=5.86$		$\sum d^2 = 0.0328$

$$\overline{X} = \frac{\sum X}{n}$$

$$= \frac{5.86}{5}$$

$$= 1.172$$

$$\sigma = \sqrt{\frac{\sum d^2}{n}}$$

$$= \sqrt{\frac{0.0328}{5}}$$

$$= 0.081$$

$$C.V. = \frac{\sigma}{\overline{X}} * 100$$

$$= \frac{0.081}{1.172} * 100$$

$$= 6.91$$

where,

$\overline{X}$ = Arithmetic Mean

σ = Standard Deviation

C.V. = Coefficient of Variation

Annex D

A Sample Calculation of Growth Rate Analysis of EPS for Goodwill Finance Company.

Year	2060	2061	2062	2063	2064
EPS	9.55	12.58	16.72	14.98	18.45

Here,

EPS in base year (2060) (D_0) = Rs 9.55
EPS in current year (2064) (D_n) = Rs 18.45
No. of year (n) = 4
Growth (g) =?

We have

$D_n = D_0 (1+g)^n$
Or $18.45=9.55 (1+g)^4$
Or $\frac{18.45}{9.5} = (1+g)^4$

Now

Taking 4^{th} root on both sides

Or $1+g = (1.932)^{0.25}$
Or g = 1.1789- 1
Or g = 0.1789
Or g = 17.89%

Annex E

A Sample Calculation of Karl Person's Coefficient of Correlation (r) between total deposit and total investment of Goodwill Finance Company.

Computation of coefficient of correlation for Goodwill Finance Company.

Let total deposit = X, total investment = y

(Rs in Million)

Year	X	Y	X^2	Y^2	XY
2060	287.02	68.90	82380.48	4747.21	19775.68
2061	327.32	33.46	107138.38	1119.57	10952.13
2062	315.64	39.56	99628.61	1564.99	12486.72
2063	336.77	47.99	113414.03	2303.04	16161.59
2064	453.11	102.77	205308.67	10561.67	46566.11
Total	1719.86	292.68	607870.17	20296.48	105942.23

We have formula

$$r = \frac{N\sum XY - \sum X \sum Y}{\sqrt{\{N \sum X^2 - (\sum X)^2\}}\ \sqrt{\{N \sum Y^2 - (\sum Y)^2\}}}$$

$$= \frac{5*105942.23 - 1719.86*292.68}{\sqrt{5*607870.17 - (1719.86)^2}\ \sqrt{5*20296.48 - (292.68)^2}}$$

$$= \frac{529711.15 - 503368.6248}{\sqrt{3039350.85 - 2957918.42}\ \sqrt{101482.4 - 85661.5824}}$$

$$= \frac{26342.5252}{285.3637 * 125.7808}$$

= 0.734 app.

Again,

Calculation of Probable Error (PEr)

$$PEr = 0.6745 * \frac{1-r^2}{\sqrt{n}}$$

$$= 0.6745 * \frac{1-(0.734)^2}{\sqrt{5}}$$

$$= 0.1391$$

Annex F

Calculation of Regression model by computer

Model: Regression of Net Profit (NP) on Total Asset (TA)

Model Summary

Finance Company	R	R^2	Adjusted R^2	Std. Error of the Estimate
Annapurna	0.936[a]	0.928	0.903	2.776
Goodwill	0.902[a]	0.814	0.753	1.226
Lalitpur	0.874[a]	0.764	0.685	4.635
National	0.109[a]	0.012	-0.318	8.701
Nepal Share Market	0.951[a]	0.905	0.873	5.0887
NIDC Capital Market	0.912[a]	0.832	0.776	7.4475
Peoples	0.638[a]	0.407	0.209	2.717
Universal	0.238[a]	0.057	-0.258	4.105

Annex F contd….

ANOVA [b]

Finance Companies	Model	Sum of Squares	Df	Mean Square	F	Sig.
Annapurna	Regression Residual Total	296.217 23.126 319.343	1 3 4	296.217 7.709	38.426	0.008[a]
Goodwill	Regression Residual Total	19.794 4.51 23.304	1 3 4	19.794 1.503	13.166	0.036[a]
Lalitpur	Regression Residual Total	208.587 64.467 273.054	1 3 4	208.587 21.489	9.707	0.053[a]
National	Regression Residual Total	2.762 230.287 233.049	1 3 4	2.762 76.762	0.036	0.862[a]
Nepal Share Market	Regression Residual Total	740.892 77.685 818.577	1 3 4	740.892 25.895	28.612	0.013[a]
NIDC Capital	Regression Residual Total	822.697 166.397 989.094	1 3 4	822.697 55.466	14.833	0.031[a]
Peoples	Regression Residual Total	15.205 22.149 37.354	1 3 4	15.205 7.383	2.060	0.247[a]
Universal	Regression Residual Total	3.038 50.577 53.615	1 3 4	3.038 16.859	0.180	0.7[a]

a) Predictors (Constant), TA
b) Dependent Variable NP

Annex F contd…

Coefficient [a]

Finance Company	Model	Unstandarised Coefficients		Standardized Coefficients Beta	T	Sig.
		B	Std. Error			
Annapurna	Constant Total Assets	4.635 0.021	3.654 0.003	0.963	1.269 6.199	0.294 0.008
Goodwill	Constant Total Assets	-5.78 0.025	3.222 0.007	0.902	-1.794 3.628	0.171 0.036
Lalitpur	Constant Total Assets	-11.718 0.036	8.998 0.012	0.874	-1.302 3.116	0.284 0.053
National	Constant Total Assets	16.848 0.010	38.875 0.051	0.109	0.433 0.190	0.694 0.862
Nepal Share Market	Constant Total Assets	-33.441 0.036	9.611 0.007	0.951	-3.479 5.349	0.04 0.013
NIDC Capital Markets	Constant Total Assets	-35.376 0.065	13.155 0.017	0.912	-2.689 3.851	0.074 0.031
Peoples	Constant Total Assets	0.42 0.011	3.428 0.008	0.638	0.125 1.435	0.910 0.247
Universal	Constant Total Assets	6.959 0.007	9.677 0.017	0.238	0.719 0.425	0.524 0.7

Annex G

A Sample Calculation of Trend Value of Loan and Advances for Lalitpur Finance Company Ltd.(2060-2069)

Year t	Loan & Advances(Y)	X (t-2062)	X2	XY	Yc=a+bX Yc=558.614+113.625 X
2060	368.34	-2	4	-736.68	331.364
2061	385.53	-1	1	-385.53	444.989
2062	540.78	0	0	0	558.614
2063	738.38	1	1	738.38	672.239
2064	760.04	2	4	1520.08	785.864
	∑Y=2793.07	∑X=0		∑XY=1136.25	

Now

$$a = \frac{\sum Y}{N}$$

$$= \frac{2793.07}{5}$$

$$= 558.614$$

$$b = \frac{\sum XY}{\sum X^2}$$

$$= \frac{1136.25}{10}$$

$$= 113.625$$

Year T	X (t-2062)	Trend Value Yc=558.614+113.625X
2065	3	899.489
2066	4	1013.114
2067	5	1126.739
2068	6	1240.364
2069	7	1353.989