EFFECTIVENESS OF RISK MANAGEMENT STRATEGIES IN FINANCIAL SUSTAINABILITY OF FINANCE COMPANIES IN NEPAL

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

By

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "EFFECTIVENESS OF RISK MANAGEMENT STRATEGIES IN FINANCIAL SUSTAINABILITY OF FINANCE COMPANIES IN NEPAL". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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Sabina Sharma
Date: August,2023

REPORT OF RESEARCH COMMITTEE

Ms. Sabina Sharma has defended research proposal entitled "EFFECTIVENESS OF RISK MANAGEMENT STRATEGIES IN FINANCIAL SUSTAINABILITY OF FINANCE COMPANIES IN NEPAL" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Bhoj Raj Ojha and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We have examined the dissertation entitled "EFFECTIVENESS OF RISK MANAGEMENT STRATEGIES IN FINANCIAL SUSTAINABILITY OF FINANCE COMPANIES IN NEPAL" presented by Sabina Sharma for the degree of Master of Business Studies. We hereby certify that the dissertation is acceptable for the award of degree.

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Sabina Sharma

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ABBREVIATIONS

C.V.	:	Co-efficient of Variation
CAR	:	Return on Assets
CDR	:	Credit to Deposit Ratio
CRR	:	Cash Reserve Ratio
e	:	Error Term
FDR	:	Financing Debt Ratio
FY	:	Fiscal Year
GFCL	:	Goodwill Finance Limited
ICFC	:	ICFC Finance Limited
MFIL	:	Manjushree Finance Limited
NFS	:	Nepal Finance Limited
NIM	:	Capital Adequacy Ratio
NPF	:	Non-Performing Financing
NPL	:	Non-performing loan ratio
NPM	:	Net Profit Margin
PFL	:	Pokhara Finance Limited
r	:	Correlation Co-efficient
ROE	:	Return on Equity
Rs.	:	Rupees
S.D.	:	Standard Deviation
TA	:	Total Assets

ABSTRACT

This study explores the effectiveness of risk management strategies and their impact on financial sustainability, focusing on five prominent financial institutions: ICFC, MFIL, NFS, PFL, and GFCL. In an era marked by increasing uncertainties and dynamic market conditions, understanding how these institutions manage risks is critical for ensuring their enduring financial health. The research employs a comprehensive approach, incorporating diverse risk management frameworks, including Agency Theory, Resource-Based View, Stakeholder Theory, and Dynamic Capabilities Theory.

The investigation aims to assess the alignment of risk management practices with the unique characteristics of each financial institution, considering their industry dynamics and boarder environmental context. The study employs a mixed-methods research design, incorporating both quantitative analyses of financial performance indicators and qualitative assessments of risk management processes through interviews and document analysis.

The findings contribute to the existing body of knowledge by shedding light on the efficacy of risk management strategies employed by ICFC, MFIL, NFS, PFL, and GFCL in mitigating financial uncertainties. The research also explores the role of stakeholder expectations, regulatory compliance, and strategic adaptability in shaping risk management effectiveness. Recommendations stemming from the study offer insights for refining risk management practices to enhance financial sustainability across the financial institutions under scrutiny.

This study is not only instrumental for the institutions under investigation but also provides valuable insights for the boarder financial sector. As financial institutions play a pivotal role in economic stability, understanding the nuances of risk management and its effectiveness is crucial for fostering a resilient and sustainable financial landscape

CHAPTER I
INTRODUCTION

1.1 Background of the Study

The world financial market has changed significantly in recent years; This has increased connectivity, technological advancement and geographical uncertainty. Against this background, organizations face many risks that affect their financial stability. The ability to effectively manage these risks has become the key factor of success in today's business world.

Financial security is important for organizations that want to not only survive but also grow and recover. Achieving and managing financial stability requires methods to identify and mitigate risks that could affect the organization's ability to meet its financial obligations and good objectives. The discipline of risk management has evolved to address the nature of risk. Financial sector. From traditional methods focused on risk avoidance to more comprehensive strategies that include mitigation and adaptation, organizations need to adapt their risk management systems to accommodate the complexities of today's finances. Environmental policies play an important role in the development of risk management systems. Post-crisis financial reforms and changes in regulatory frameworks have placed greater emphasis on effective risk management in financial institutions. Compliance with these regulations is not only a legal requirement, but also an important part of maintaining financial stability.

Advances in technology and the development of new financial instruments have brought new approaches to risk management. While technology provides more accurate risk assessment tools, it also brings with it new risks that require risk management and resilience, such as cyber security threats and algorithmic complexity. Beyond skills and management, human factors are still the main source of risk management. Organizational culture, risk awareness and human capacity are important factors that affect the effectiveness of risk management strategies. The past financial crisis revealed the devastating effects of inadequate risk management. Lessons learned from these issues highlight the need for preventative, comprehensive training that goes beyond compliance to foster a culture of risk awareness, luck, and talent.

The increasing recognition that environmental, social and governance factors are critical to organizational risk requires a boarder perspective on risk management. Integrating ESG considerations into the risk process provides a boarder understanding of the link between sustainability and mitigation. .

Despite the advances in risk management, there are still different studies on the effectiveness of these strategies in ensuring financial stability. This study aims to address this gap by analyzing detailed information on the implementation strategies and outcomes of various risk management strategies. The main purpose of this study is to contribute to the existing knowledge by providing insight into the effectiveness of risk management strategies in achieving and maintaining financial stability. These findings are intended to inform educational discussions and decision-making processes for organizations operating in today's challenging financial environment (Smith,2023).

Understanding the effectiveness of risk management strategies is important for organizations, policymakers and regulators. The findings of this study are expected to provide practical recommendations on strengthening risk management and thus contribute to the goal of promoting financial sustainability. In the beautiful dance of global business, where businesses rise and fall with the pulse of innovation, connectivity and geographic change, organizations find themselves journeying to a place beyond the sea of uncertainty. The challenges they face are not only difficult, but the importance of financial security is further increased by the search for not only knowledge but also knowledge of the balance of risk and reward. In an era of rapid technological advancement and management change, the effectiveness of risk management strategies is vital to the financial fortunes of the organization (Shrestha,2020).

Risk covers not only survival; Strategies to ensure future success. As the financial landscape evolves, so do the tools and strategies schools use to prepare for inevitable storms. This study aims to reveal risk management strategies and their important role in ensuring financial stability. Because in this world, where uncertainty is not only a hypothetical but also a real threat to security, understanding the nuances of risk management becomes important. In the next few pages, we will begin a journey through the history of financial reform, tracing the evolution of risk management from prevention protection to prevention protection that brings in entities from unspecified areas. We explore the combination of management and innovation, the combination of technology

and culture, and the human element, which is still an incredible difference in this calculation. When there is a financial crisis that changes the dynamics of the global economy, this article not only presents the lessons learned, but also suggests the way forward - a guide to different risk management strategies The path illuminated by the strategic vision taken. This research is timely as organizations share the need for compliance, technology impact, and ever-increasing risk. The following sections provide an explanation of research and findings that are driven by the belief that the effectiveness of risk management strategies is not at an academic level, but rather that the organization is simply trying to thrive in an ever-changing environment. key. As we progress through these chapters, we will prove that risk management is far from a static discipline, but a powerful force that shapes the fate of organizations when it comes to fundraising (Sterling,2023).

1.2 Problem Statement

Due to cut-that competition in financial markets, finance companies appear to be increasingly willing to grant loans, advances, and other credit facilities, sometimes deviating from the spirit of credit policy guidelines. Unsecured loans and investments may lead to the liquidation of these finance companies' funds. If investments are made without due consideration of financial risk, systematic risk, and related factors, the finance company may not achieve a profitable return and may even lose its principal (Poudel, 2020).

The finance company is a major component of the financial sector of the Nepalese economy. How well a finance company is performing its activities can be measured through its financial performance. Thus, the financial performance of the finance company is a major parameter of its success and failure. In addition to being a parameter of a finance company's success and failure, a profitable finance company contributes to the financial stability of the nation. Therefore, the management of the finance company and regulatory authority must identify the factors affecting the financial performance of a finance company.

Despite the critical importance of risk management in ensuring the financial sustainability of finance companies, there is limited understanding of how effectively these strategies are implemented in the context of Nepal. Finance companies in Nepal face a unique set of challenges, including regulatory pressures, market volatility, and operational risks, which

necessitate robust risk management frameworks. However, the extent to which these companies have adopted and benefited from such strategies remains unclear. This lack of clarity is compounded by the dynamic and evolving nature of the financial environment in Nepal, characterized by economic instability, fluctuating interest rates, and frequent regulatory changes. Consequently, finance companies may struggle to maintain financial stability and resilience without a clear and effective risk management approach.

Furthermore, there is a pressing need to evaluate the real-world applications and outcomes of these risk management strategies to determine their practical efficacy. Many finance companies might be implementing risk management strategies on paper, but the practical implications and effectiveness of these strategies in mitigating risks and ensuring long-term financial sustainability are often not thoroughly examined. The role of regulatory compliance in enhancing these risk management practices also warrants closer scrutiny, as regulatory frameworks are designed to promote financial stability but may sometimes pose additional challenges for finance companies.

This study aims to bridge this knowledge gap by investigating the effectiveness of current risk management practices and their impact on the financial sustainability of finance companies in Nepal. By doing so, it will provide valuable insights that could guide future policy-making, regulatory adjustments, and the adoption of best practices in the sector. The findings from this research could help finance companies in Nepal to enhance their risk management frameworks, improve their resilience against financial uncertainties, and ensure their long-term sustainability in a challenging economic environment.

Additionally, the study will explore the specific risk management strategies employed by finance companies, such as credit risk assessment, market risk analysis, operational risk controls, and liquidity risk management. It will examine how these strategies are integrated into the overall business operations and decision-making processes of the companies. Understanding the practical application of these strategies will shed light on their effectiveness in real-world scenarios and identify areas where improvements are needed.

Moreover, the research will assess the role of regulatory compliance in shaping risk management practices. Regulatory bodies in Nepal impose various requirements and guidelines to ensure financial stability and protect stakeholders' interests. The study will

analyze how finance companies navigate these regulatory frameworks and the extent to which compliance enhances their risk management capabilities. It will also investigate the challenges and constraints faced by finance companies in meeting regulatory requirements and suggest potential solutions to address these issues.

By providing a comprehensive analysis of risk management practices and their impact on financial sustainability, this study aims to contribute to the existing body of knowledge in the field of finance and risk management. It will offer practical recommendations for finance companies, policymakers, and regulators to strengthen risk management frameworks and promote the financial sustainability of the sector. Ultimately, the study seeks to empower finance companies in Nepal to navigate the complexities of the financial landscape more effectively and ensure their long-term viability in a rapidly changing environment (Shrestha, 2020).

Finance companies in Nepal are exposed to various types of financial risks through their operations, including liquidity risk, credit risk, interest rate risk, and foreign exchange risk. Therefore, this paper aims to analyze the financial risk and performance of finance companies in Nepal. The following statement will be the problem statement of this study:

- What are the key factors contributing to successful risk management practices in finance companies in Nepal?
- What is the relationship between risk management strategies and Market Price and Stock Volatility in finance companies in Nepal?
- What are the Impact of Risk Management on Market Price and Stock Volatility?

1.3 Objective of the study

The primary objective of this research is to comprehensively examine the effectiveness of risk management strategies in ensuring financial sustainability within the dynamic global financial landscape. The specific objectives guiding this study are as follows:

1. To assess key factors contributing to successful risk management practices in finance companies in Nepal.

2. To analyze the relationship between risk management strategies and Market Price and Stock Volatility in finance companies in Nepal.
3. To analyze the Impact of Risk Management on Financial Sustainability.

1.4 Rationale of the study

The study is driven by the imperative to comprehend the effectiveness of risk management strategies in the face of an increasingly complex and dynamic global financial environment. In the aftermath of past financial crises, it is evident that organizations must adopt proactive and comprehensive risk management approaches to ensure financial sustainability. The evolving regulatory landscape, coupled with rapid technological advancements, necessitates a thorough examination of how risk management strategies align with and respond to these changes. Moreover, the study aims to explore the often-overlooked human and cultural dimensions of risk management, acknowledging their potential influence on the success of these strategies. By delving into these critical aspects, the research seeks to provide timely insights that can inform both academic understanding and practical decision-making, fostering resilient and adaptive risk management frameworks for organizations operating in today's intricate financial landscape.

1.6 Research Hypothesis

A hypothesis is a process of testing significance regarding the parameter of the population based on a sample drawn from the population. In hypothesis testing, we examine whether the sample drawn belongs to the parent population with certain specific features based on statistics generated from the sample drawn (Wagle, 2021).

Therefore, the following hypotheses were set for this study (Bhandari, 2023).

H_1: There is a positive or significant impact of Credit to Deposit Ratio on the Market Price Per Share of finance companies in Nepal.

H_2: There is a positive or significant impact of the Current Ratio on the Market Price Per Share of finance companies in Nepal.

H_3: There is a positive or significant impact of Capital Adequacy Ratio on the Market Price Per Share of finance companies in Nepal.

H_4: There is a positive or significant impact of the Non-Performing Loan ratio on the Market Price Per Share of finance companies in Nepal.

H_5: There is a positive or significant impact of the Credit to Deposit Ratio on the Stock Volatility of finance companies in Nepal.

H_6: There is a positive or significant impact of the Current Ratio on the Stock Volatility of finance companies in Nepal.

H_7: There is a positive or significant impact of Capital Adequacy Ratio on the Stock Volatility of finance companies in Nepal.

H_8: There is a positive or significant impact of the Non-Performing Loan ratio on the Stock Volatility of finance companies in Nepal.

1.7 Limitations of the Study

This study is a watershed moment in the understanding of the determination of the stock price of Nepalese finance companies. The study's findings are extremely beneficial to both academics and future researchers. However, the following limitations apply to this study:

- Only limited sample are taken because of time constraints, resource constraints, and lack of research experience.
- The analysis and interpretation have been done based on the secondary data. So, the consistency of findings and conclusions depends upon the reliability of secondary data and information available.
- The study's outcomes are contingent on the availability and quality of data obtained from diverse sources. Limitations in the accessibility or reliability of data may impact the comprehensiveness and accuracy of the analysis.
- The study's results may be subject to change over time as a consequence of shifts in the financial market and the financial state of a company.

CHAPTER II
LITERATURE REVIEW

A literature review is a comprehensive survey of existing research and scholarly sources on a specific topic. It provides a critical analysis of the literature, identifying key themes, theories, and methodologies, as well as gaps and inconsistencies in the current knowledge. The purpose of a literature review is to offer a thorough background for the research problem, demonstrating the relevance and significance of the study. By synthesizing previous research, the literature review helps to establish a foundation for new research, highlighting areas where further investigation is needed and justifying the research objectives.

2.1 Conceptual Review

A functional review strategy informed the design and conduct of the study. Different authors define and evaluate the concepts of productivity and financial performance in different ways. The effectiveness of risk management strategies plays an important role in ensuring the financial stability of Nepalese financial institutions. Research shows that the implementation of risk management can lead to better development and stability of financial institutions in the future (Sterling, 2024).

Research shows that the implementation of risk management in the future will lead to the development of risk. Also strengthening financial risk management and effective financial risk management , it is important for companies to ensure that financial risk is considered two for financial companies. The key features of ensuring safety and reducing construction risks are also important measures for economic development. There is a relationship between economic risks, the management of the economy and the stability of the main financial institutions. Ideas and money There are only a few research papers that have explored the connection between Text The difference is important because finance is important in determining resource allocation, especially in investment and financing strategies. In addition, traditional risk management systems tend to ignore or underestimate strategies. These strategies can help financial institutions in Nepal manage risks and ensure their long-term financial stability. Risk management is important to ensure financial stability; The data show that the use of risk management by financial institutions is important to ensure the stability of financial institutions. Financial security,

reducing construction risks, improving the economy and ensuring sustainable development, risk management is important for financial institutions in Nepal. Ensuring financial stability, reducing construction risk, improving the economy and ensuring sustainable development. (Sterling, 2024).

2.1.1 Financial Regulation

This is likely to be a key dependent variable. It encompasses various financial indicators, such as profitability, liquidity, solvency, and overall financial health, which are influenced by the effectiveness of risk management strategies. Independent variables are the factors or variables that researchers manipulate or observe to understand their effect on the dependent variable. In the context of this study, potential independent variables could include:

Risk Management Strategies

The effectiveness of different risk management strategies (independent of each other) could be assessed. This might include variables related to risk identification, risk assessment, risk mitigation, and risk monitoring strategies.

Regulatory Compliance

This variable can include the degree to which organizations comply with regulatory requirements. It can be measured through adherence to financial regulations and standards imposed by governing bodies.

Technological Integration

The level of integration of technological advancements in risk management processes. Variables related to the use of technology, such as data analytics, artificial intelligence, and cybersecurity measures, could be considered.

Organizational Culture

Variables related to organizational culture, including risk awareness, risk tolerance, and the establishment of a risk-conscious culture within the organization. (Smith,2023)

Human Factors

This can include variables related to the human element in risk management, such as employee skills, awareness, and training. The effectiveness of communication and collaboration within the organization might also be considered. (Smith,2023)

Regulatory Changes

Variables related to changes in regulatory environments, which can impact the effectiveness of risk management. This may include the introduction of new regulations or amendments to existing ones. (Smith,2023)

2.1.2 Crisis Events

Variables related to the occurrence of financial crises or significant economic events, which can influence the effectiveness of risk management strategies.

Risk Management Strategies:

1. Identification and Assessment:

The process of identifying and assessing potential risks to the organization, encompassing financial, operational, and strategic risks.

2. Mitigation and Control:

Implementation of measures to mitigate identified risks, including the development and execution of control mechanisms to reduce the likelihood and impact of adverse events.

3. Diversification:

Spreading organizational activities across different markets, products, or asset classes to reduce concentration risk and enhance overall resilience.

4. Insurance and Risk Transfer:

Utilization of insurance products and risk transfer mechanisms to shift a portion of the financial burden associated with specific risks to external entities.

5. Technological Solutions:

Integration of technological advancements, such as data analytics, artificial intelligence, and cybersecurity measures, to enhance the accuracy of risk assessments and improve risk management processes.

6. Scenario Planning:

Anticipating and planning for various scenarios, including worst-case scenarios, to enhance preparedness and responsiveness to unexpected events.

7. Compliance Management:

Ensuring adherence to relevant regulations and compliance standards, with a focus on minimizing legal and regulatory risks.

8. Crisis Management and Contingency Planning:

Developing strategies and plans to effectively manage crises when they occur, including communication plans, resource allocation, and rapid response mechanisms.

9. Continuous Monitoring and Review:

Establishment of a robust monitoring system to track the effectiveness of implemented risk management strategies, with periodic reviews and adjustments based on evolving risks and organizational changes.

10. Collaborative and Inclusive Approach:

Fostering a culture of risk awareness and collaboration throughout the organization, involving all stakeholders in the risk management process.

11. Environmental, Social, and Governance (ESG) Integration:

Incorporating environmental, social, and governance factors into risk assessments, aligning risk management strategies with boarder sustainability goals and ethical considerations.

12. Adaptive Strategies:

Flexibility in adapting risk management strategies to changing organizational, economic, and regulatory environments, ensuring ongoing relevance and effectiveness.

2.2 Theoretical Analysis

This section presents various theories regarding financial management and earnings. Since the study aims to determine the impact of the management process on the profitability of banks, it is important to understand how banks produce good results.

Financial impact theories, economic development theory, and the use of finance in general are three main concepts that describe the activities that banks must undertake to create benefits. All of these recommendations are important in banking deposits and loans.

Agency Theory:

Agency theory, a cornerstone in organizational economics, posits that organizations are often beset by conflicts of interest among diverse stakeholders. This theory recognizes that individuals or groups with varying interests, such as managers and shareholders, may not always share common goals. In the realm of risk management, agency theory assumes a prominent role by highlighting the imperative of harmonizing the often divergent interests of organizational management and shareholders. The essence lies in creating a symbiotic relationship where both parties are aligned towards a shared objective, particularly in the context of making astute risk-taking decisions that fundamentally contribute to the enduring financial sustainability of the organization (Smith,2023).

Resource-Based View (RBV):

-Based View (RBV) is a strategic management framework that contends sustained competitive advantage is derived from possessing unique and valuable resources within an organization. This theory emphasizes that for a firm to outperform its rivals consistently, it must exploit its internal capabilities and resources that are rare, valuable, difficult to imitate, and non-substitutable. Extending this perspective to the domain of risk management, RBV offers profound insights into how organizations can leverage their internal capabilities to not only navigate uncertainties but also to gain a competitive edge, contributing significantly to financial sustainability (Smith,2023).

Stakeholder Theory:

Stakeholder theory, a prominent concept in organizational management, underscores the importance of recognizing and accommodating the diverse interests and expectations of various stakeholders. In the intricate landscape of risk management, this theory becomes particularly pertinent as it advocates for a holistic approach that goes beyond traditional financial metrics. Stakeholder theory asserts that organizations should not only be driven by profit motives but also by a sense of responsibility towards those individuals and

groups who have a vested interest in or are affected by the organization's activities. In the context of risk management, this theory advocates for the development and implementation of strategies that not only safeguard financial stability but also align with the expectations and concerns of stakeholders (Bhandari,2023).

Contingency Theory:

Contingency theory, a pivotal framework in organizational management, challenges the notion of a universal or one-size-fits-all approach to managing organizations. It posits that the most effective organizational practices are contingent upon various factors, recognizing the uniqueness of each organizational context. Extending this perspective to the domain of risk management, contingency theory advocates for tailoring risk strategies to the specific characteristics of the organization, its industry, and the boarder environmental context. In essence, it contends that risk management approaches should be adaptive and customized, acknowledging the diverse and dynamic nature of organizational landscapes (Bhandari,2023).

Within the realm of risk management, contingency theory emphasizes that no standardized risk mitigation strategy can universally apply to all organizations. Instead, strategies need to be contingent upon the distinctive features of the organization, such as its size, structure, culture, and industry dynamics. What works for one organization may not be suitable for another due to variations in risk tolerance, resource availability, and organizational goals (Bhandari,2023).

Institutional Theory:

Institutional theory, a cornerstone in organizational sociology, asserts that organizations are subject to external influences, including norms, rules, and expectations imposed by societal institutions. Applying this theory to the domain of risk management underscores the significance of organizations conforming to institutional regulations and adopting best practices. This not only serves to enhance their legitimacy in the eyes of external stakeholders but also plays a crucial role in bolstering financial sustainability (Bhandari,2023).

In the realm of risk management, institutional theory contends that organizations operate within a boarder social and regulatory context. Compliance with institutional regulations,

whether imposed by government bodies or industry standards, becomes imperative for organizations seeking to establish and maintain legitimacy. Organizations that align their risk management practices with institutional expectations not only adhere to legal requirements but also signal to external stakeholders that they are responsible and trustworthy entities (Bhandari,2023).

Game Theory:

Game theory provides valuable insights into the strategic interactions among various stakeholders in the realm of risk management. It serves as a powerful framework for understanding how organizations can strategically navigate complex risk scenarios, considering the potential reactions of competitors, regulators, and other relevant parties. This strategic foresight is essential for not only mitigating risks effectively but also for positioning the organization to achieve and sustain financial stability over the long term (Sterling, 2024).

In the context of risk management, game theory allows organizations to view risk scenarios as dynamic interactions with multiple players, each pursuing their own interests and objectives. By adopting a game-theoretic perspective, organizations can anticipate the responses of other stakeholders to their risk management strategies, thereby making more informed and strategic decisions. This approach acknowledges that risk management is not an isolated activity but a continuous interplay of actions and reactions within a competitive and regulatory landscape (Sterling, 2024).

Dynamic Capabilities Theory:

Dynamic Capabilities Theory underscores the pivotal role of an organization's adaptability to changing environments. In the intricate landscape of risk management, this theory accentuates the necessity for organizations to cultivate dynamic capabilities actively. These capabilities empower organizations not only to identify and assess evolving risks but also to respond strategically, ensuring not just immediate resilience but sustained financial sustainability. The essence lies in fostering a culture of continual learning, innovation, and adaptability, allowing organizations to navigate uncertainties with agility and foresight (Sterling, 2024).

Signal Theory:

Signal Theory, within the context of risk management, introduces a strategic communication perspective. It posits that organizations can coactively use signals to convey crucial information about their risk management practices to external stakeholders. The effective signaling of robust risk management strategies becomes a powerful tool in enhancing the perceived financial stability of the organization. Investors, creditors, and other stakeholders interpret these signals as indicators of responsible and caritive risk management, fostering trust and confidence in the organization's ability to weather uncertainties and maintain long-term financial sustainability (Sterling, 2024).

Cybernetic Systems Theory:

Borrowed from engineering, Cybernetic Systems Theory frames organizations as complex systems requiring continuous maintenance of equilibrium. In the dynamic sphere of risk management, this theory underscores the need for feedback loops and adjustments. It emphasizes that risk management is an ongoing, iterative process where organizations must adapt and recalibrate their strategies. This cybernetic approach ensures that the organization stays on course towards financial sustainability by responding to changing risk landscapes and maintaining equilibrium amidst uncertainties (Grundy,2020).

Prospect Theory:

Prospect Theory delves into the intricate realm of decision-making under uncertainty, both at an individual and organizational level. Understanding the psychological aspects of risk perception becomes crucial in designing risk management strategies. By acknowledging the inherent biases and preferences in decision-making, organizations can craft risk management approaches that align with organizational goals. Prospect Theory thus contributes to financial sustainability by ensuring that risk management strategies resonate with the cognitive nuances of decision-makers, promoting more effective risk mitigation and strategic decision-making in uncertain environments (Grundy,2020).

2.2.1 Empirical Review

This section reviews past studies linked with risk management and financial sustainability. The literature is reviewed matches with purpose of the research. The researcher further strives to review literature that is as current as possible.

Umugwaneza (2024) assessed the results of monitoring and evaluation on sustainability of projects in Rwanda, employing a descriptive research design targeting 104 respondents. The study aimed to explore the impact of accountability, effective communication, and partnership on the financial viability of projects. Findings indicated that these factors significantly contribute to project sustainability by enhancing clarity, accountability, and management responsiveness through learning processes.

Bhandari (2023) studied the results regression models reveal that capital adequacy ratio, credit to deposit ratio, non-performing loan ratio and liquid assets ratio have significant negative impact on profitability. The main objective of study was to assess the relationship between non-performing loan, capital adequacy ratio, credit to deposit ratio, cash reserve ratio, current ratio, liquid asset ratio and ROA and ROE. The findings of this study have several implications for future research and for the management of commercial banks in Nepal

Brown & White (2023) underscored the significance of financial risk management in safeguarding economic viability. The study aimed to analyse the significance of financial risk management in safeguarding economic viability. The study discussed strategies such as hedging against market risks and managing credit and liquidity risks to mitigate financial uncertainties effectively.

Davis & Clark (2023) emphasized the continuous monitoring and reassessment of risk management practices as essential for adapting to evolving challenges. The main objective of study was to explore the importance of continuous monitoring and reassessment of risk management practices. The study stressed the importance of proactive adjustments based on emerging risks and industry developments to maintain robust risk management frameworks.

Adejuwon (2023) explored accountability in Nigeria's public sector, revealing the adverse effects of non-accountability on service delivery. The study aimed to explore accountability in Nigeria's public sector, revealing the adverse effects of non-accountability on service delivery.The study emphasized the need for stringent accountability measures to improve public sector performance and ensure financial sustainability.

Njama and Kyalo (2023) examined factors influencing effective monitoring and evaluation systems using AMREF Kenya as a case study. The main objective of study was to examine factors influencing effective monitoring and evaluation systems. The study found that stakeholder participation significantly enhances monitoring and evaluation effectiveness, contributing to financial sustainability through informed decision-making and program improvement.

Garcia & Martinez (2023) explored external risk management, emphasizing its role in monitoring and responding to uncontrollable factors like geopolitical events and economic downturns. The main ojective of study is to examine the identification and assessment of potential risks in organizations. The study emphasized the importance of contingency planning to navigate external uncertainties and protect financial standing.

Smith (2023) analyzed risk management practices across industries, emphasizing their role in ensuring organizational financial sustainability. The main objective is to investigate how organizations can seize opportunities while managing risks. The study highlighted the importance of identifying and mitigating operational, financial, and strategic risks to enhance resilience and adaptability amidst uncertainties.

Phiri (2023) highlighted empirical insights into monitoring and evaluation's impact on project performance, focusing on the African Virtual University. The study aimed to investigate the success factors of strategic alliances. The study underscored the critical role of comprehensive monitoring and evaluation in enhancing project performance and ensuring financial sustainability through effective training and evaluation practices.

Waithera and Wanyoike (2022) evaluated the impact of monitoring and evaluation on youth project success in Nakuru County, highlighting the importance of staff training in enhancing project performance and ensuring financial sustainability through capacity building and performance improvement.The main ojective is to evaluate the impact of monitoring and evaluation on youth project success in Nakuru County and revealed that there is Importance of staff training in enhancing project performance and ensuring financial sustainability through capacity building and performance improvement.

Kilimo and Finance (2022) examined the impact of strategic alliances on finance company performance, highlighting their role in enhancing financial sustainability through expanded market reach and resource pooling. The main objective is to examine

the outcomes of strategic alliances on financial performance. The study have findings that strategic alliances significantly influence performance of finance companies

Bennett, S. et al.(2015) investigated the influence of monitoring and evaluation on the expansion of healthcare programs, utilizing stakeholder interviews and literature review. The study aimed to identify the influence of monitoring and evaluation on the expansion of healthcare programs.The study revealed that effective monitoring and evaluation facilitate clarity, strengthen accountability, and inform management decisions, crucial for successful program transitions in global health contexts.

These studies collectively emphasize the critical role of monitoring and evaluation, risk management practices, strategic alliances, and accountability in ensuring organizational and project financial sustainability across various sectors and contexts. Each study contributes unique insights into enhancing operational efficiency, mitigating risks, and fostering resilience in dynamic and competitive environments.

Meta Table

Author	Topic	Objective	Methods Used	Major Findings
Umugwaneza (2024)	Role of monitoring and evaluation on project sustainability in Rwanda.	To explore the impact of accountability, effective communication, and partnership on the financial viability of projects	Descriptive study	Accountability, effective communication, and partnership significantly contribute to project sustainability by enhancing clarity, accountability, and management responsiveness through learning processes
(Bhandari, 2023)	Risk management and its impact on profitability of commercial banks in Nepal	To assess the relationship between non-performing loan, capital adequacy ratio, credit to deposit ratio, cash reserve ratio, current ratio, liquid asset ratio and	Descriptive study	Capital adequacy ratio, credit to deposit ratio, non-performing loan ratio and liquid assets ratio have a significant negative impact on profitability, which suggests that these

Author	Topic	Objective	Methods Used	Major Findings
		ROA and ROE.		variables are major explanatory factors of profitability.
Brown, D., & White, K. (2023)	Strategies for managing financial risks: The role of hedging techniques	To analyse the significance of financial risk management in safeguarding economic viability	Descriptive study	Strategies such as hedging against market risks and managing credit and liquidity risks to mitigate financial uncertainties effectively.
Davis & Clark (2023)	Continuous monitoring and reassessment of risk management practices	To explore the importance of continuous monitoring and reassessment of risk management practices	Literature review	Staying abreast of industry trends, regulatory developments, and emerging risks is essential for effective risk management
Adejuwon (2023)	Enhancing accountability in the public sector in Nigeria: Challenges and prospects.	To explore accountability in Nigeria's public sector, revealing the adverse effects of non-accountability on service delivery.	Questionnare	Need for stringent accountability measures to improve public sector performance and ensure financial sustainability.
Njama and Kyalo (2023)	Factors affecting the effectiveness of monitoring and evaluation systems	To examine factors influencing effective monitoring and evaluation systems.	Descriptive study	Stakeholder participation significantly enhances monitoring and evaluation effectiveness, contributing to financial sustainability through informed decision-making and program improvement.

Author	Topic	Objective	Methods Used	Major Findings
Garcia & Martinez, (2023)	Identification and assessment of potential risks in organizations	To examine the identification and assessment of potential risks in organizations	Descriptive study	Comprehensive analysis of various risk categories, including operational, financial, strategic, and external risks, is essential for effective risk management
Smith (2023)	Seizing opportunities through risk management	To investigate how organizations can seize opportunities while managing risks	Literature review	Integrating risk management into decision-making processes can help organizations achieve a balance between risk-taking and risk mitigation
Phiri (2023)	Success factors of strategic alliances	To investigate the success factors of strategic alliances	Review of literature	Organizations rely on strategic alliances to grow and gain a competitive advantage; strategic alliances help organizations enter new markets, access critical capabilities and resources
Waithera and Wanyoike (2022)	The effect of monitoring and evaluation on the performance of youth projects	To evaluate the impact of monitoring and evaluation on youth project success in Nakuru County	Questionnare	Importance of staff training in enhancing project performance and ensuring financial sustainability through capacity building and performance improvement.
Kilimo & Finance (2022)	Outcomes of strategic alliances on financial performance of finance companies	To examine the outcomes of strategic alliances on financial performance	Secondary data; Means, standard deviation, and regression analysis	Strategic alliances significantly influence performance of finance companies

Author	Topic	Objective	Methods Used	Major Findings
Bao, J., Rodriguez, D. C., Paina, L., Ozawa, S., & Bennett, S. (2015)	Monitoring and Evaluating the Transition of Large-Scale Programs in Global Health	To identify the influence of monitoring and evaluation on the expansion of healthcare programs.	Literature review	Effective monitoring and evaluation facilitate clarity, strengthen accountability, and inform management decisions, crucial for successful program transitions in global health contexts.

2.3 Research Gap

The existing literature on the effectiveness of risk management strategies in ensuring the financial sustainability of finance companies in Nepal reveals several notable research gaps that warrant further investigation. Firstly, there is a significant dearth of empirical studies specifically dedicated to this topic, highlighting a substantial knowledge gap in the field. While some studies discuss risk management practices in finance companies, they often lack a comprehensive analysis of various strategies, such as risk identification, assessment, mitigation, and monitoring, tailored to the unique challenges faced by finance companies in Nepal's context. Moreover, the existing literature predominantly focuses on theoretical frameworks and case studies from developed countries, with limited empirical evidence from the Nepalese financial sector. This gap indicates a critical need for more empirical research to understand the practical application and effectiveness of risk management strategies in Nepal's finance companies. Furthermore, there is a pressing need to develop and implement a robust risk management framework that aligns with the regulatory environment and market conditions specific to Nepal. The regulatory landscape in Nepal, characterized by its evolving nature and unique challenges, requires finance companies to adapt their risk management practices continuously. However, existing studies often overlook the regulatory aspect of risk management, emphasizing the need for research that examines how finance companies ensure compliance with regulatory requirements and the implications of non-compliance on their financial sustainability. Moreover, while some studies acknowledge the importance of risk management in enhancing financial sustainability, they fall short in providing practical recommendations for finance companies in Nepal to improve their risk management

practices. Practical insights derived from empirical research can offer valuable guidance to finance companies in Nepal, enabling them to enhance their risk management frameworks and ultimately improve their financial sustainability. Additionally, there is a notable lack of comparative studies that examine the effectiveness of different risk management strategies across different sectors within Nepal. Comparative analyses could provide valuable insights into the best practices in risk management and their impact on financial sustainability across various sectors, thus filling a crucial gap in the existing literature. In conclusion, addressing these research gaps through empirical studies, practical recommendations, and comparative analyses could provide finance companies in Nepal with valuable insights to enhance their risk management practices and improve their financial sustainability in an increasingly dynamic market environment.

CHAPTER-III
RESEARCH METHODOLOGY

Research methods refer to the various systems that researchers use to examine specific problems for specific purposes. The purpose of this chapter is to review the strategies used throughout the research to achieve the research objectives. During the research process, the methods and techniques used for all aspects of the study are explained, helping to solve problems in the body. In other words, research methodology describes the methods and techniques used to investigate the entire problem. This study has been the subject of many studies. As the name suggests, various methods deal with numbers. Use numbers to get information and use those numbers to create content. Therefore, it includes research ideas, situations, data sources, sample selection, data collection and processing methods, data analysis tools and procedure.

3.1 Research design

The structure of the research process and the method the researcher chooses to conduct the research is called research design. This design allows researchers to design the right study to suit the question and ensure their research is successful. This study aims to investigate the impact of financial management on the performance of financial institutions. This study begins by understanding how these measurements affect the results; therefore descriptive research was used. This study also aims to determine how restrictions will affect banking performance.

This study presents descriptive research design and comparative research methods. While descriptive research models are used to explain and evaluate the effects of various variables to find answers to questions such as what, where, who, why, comparative statistical models are used to determine the causes and consequences of social diffences. We take a comparative approach in this study because we want to know how these factors affect financial intuition results. Therefore, descriptive and comparative research designs are most suitable for research purposes.

3.2 Population and sample

The population to be assessed for the financial risk and performance of finance companies comprises the finance companies that are currently providing banking

services. Altogether there are 17 ‘C’ class finance copmaies as on Ashad end 20870.The Nepalese finance companies are organized into three operating areas: a national-level working area, a province/regional level working area, and a district-level working area. The secondary data in this study is analyzed quantitatively. This study's total population consists of all finance companies, Nepal Rastra Bank (NRB) approved finance companies in Nepal. Out of which Janaki Finance Limited and Multipurpose Finance Co. Limited are regional level finance company. Nepal Share Markets and Finance Limited is not in operation due to financial fraud case in the company. Progressive Finance Co. Limited has not published financial report of FY 2078/79 as per company representative it will take some more time. As per company representative, Samriddhi Finance Company Limited, Capital Merchant Banking & Finance Co. Ltd., and Guheshwori Merchant Banking & Finance Ltd. are unable to provide 10 years data. Further, five financial companies Reliance Finance Ltd., Gokha Finance Ltd., Shree Investment & Finance Co. Ltd., Central Finance Ltd., and Best Finance Ltd., started their operation after merger hence, they do not have ten years financial. Five finance companies were chosen as a sample based on the random and convenient sampling approach. Hence, remaining finance company which have ten years financial statement has been selected. The annual financial statements of the selected finance companies were utilized as the source of data for this study. As a result, this study is entirely reliant on secondary data. The following are the names of the sample finance companies used for research:

1. ICFC Finance Limited (ICFC)
2. Manjushree Finance Limited (MFIL)
3. Nepal Finance Limited (NFS)
4. Pokhara Finance Limited (PFL)
5. Goodwill Finance Limited (GFCL)

3.3 Nature and sources of data

The study is based on secondary data and published pieces of literature. Data are gathered from the annual reports of sample finance companies. Data for the five fiscal periods are derived from annual reports (statement of financial condition and income statement) available on the websites of insurance firms. For the literature review, Central Bank, Regulations, Directives, Guidelines, and Circulars are also studied. The majority of the material was obtained from the official websites of the Nepal Rastra bank and the finance companies.

- Annual reports of selected financial institutions.
- Related publications, newsletters, guidelines and publications Nepal Rastra Bank, Nepal Rastra Bank, Central Bureau of Statistics etc. is provided by.

3.4 Data collection procedure

The variables were derived from the audited financial statements of the five registered finance companies for the last ten fiscal years 2070/71 to 2079/80. The availability of audited financial records affected this decision. The necessary information was gathered from yearly reports, journals, articles, research reports, and central bank websites.

3.5 Data Analysis Tools

This includes presentation of information and interpretation. The data collected from the annual report is raw data. According to the purpose of the study, they have been simplified into models that should be easy to understand and are shown in the appendix. Profitable results will be created and measured mainly using specific banking and macroeconomic products, using social analysis tools and regression analysis to determine their high impact.

A. Financial Tools

Since this study is about financial analysis, financial tools are more useful as they help in identifying the financial strengths and weaknesses of the company. Although many types of tools are available, this research focuses mainly on the analysis of the results of what is considered the most appropriate tool.

A ratio is a number represented by another number. It expresses a number or multiple relationship between different ratios. It is also a technique used to measure the relationship between two groups of financial information and to provide information about the strengths and weaknesses of other financial information. Specifically, researchers used Capital adequacy ratio(CAR), return on equity (ROE), cash retention ratio (CRR), capital adequacy ratio (NIM), and non-performing loan (NPL) in this study.

B. Statistical Tools

For the fulfillment of the objective of the research, various financial and descriptive statistical tools are used. Data will be collected and presented on the table and in excel and proceed in SPSS. The information will be analyzed following the pattern of data

available. This study will be based on various financial and statistical tools. Financial tools such as ratio analysis are used for financial analysis. Likewise, some statistical tools include descriptive and incidental tools. Descriptive statistical tools help to find out the trend of the financial position of the sample banks. It also analyze the relationship between variables and helps banks to make appropriate decisions regarding the fulfillment of organization goals. Descriptive statistical tools such as Arithmetic Mean, Standard Deviation (SD), and Coefficient of Variance (CV) may be used in the proposed research. Nepse data descriptive, which, focuses on describing the sample data, the inferential analysis focuses and estivation or hypothesis testing, purely to make conclusions about the population by using a sample. This process is formally known as inferential statistics. There are two categories in incidental statistics: parametric and non-parametric. In this proposed research, the only parametric test will be used as per requirement. Under the parametric test, Correlation Analysis and Multiple Regression Analysis will be used in this research. Following are the statistical tools used in the study In terms of Statistical Tools, the following tools are available:

I. **Arithmetic mean ($\bar{x}$)**

   The arithmetic mean, or simply "mean", is obtained by dividing the sum of all observations by the number of observations. It is the most popular and widely used measure that represents the entire profile with a single value. Also known as decimal number.

II. **Standard Deviation (SD)**

   Standard deviation is commonly used to study distribution. Since the standard deviation is the square root of the arithmetic mean, it is also called the root mean square deviation. It is also represented by the lowercase Greek letter σ (Sigma). The standard deviation is important to determine the mean.

III. **Coefficient of Variation (CV)**

   Coefficient of variation is a relative measure of the degree of dispersion, defined as the ratio of the standard deviation to the mean expressed as a percentage of the results. It is used in problems where we want to compare the difference between two or more series.

IV. **Correlation Analysis**

   Correlation can be defined as the degree of relationship that exists between two or more variables. Two variables are said to be correlated if a change in the value of

one variable is accompanied by a change in another variable. If the values of the variables are proportional, the relationship is said to be positive. On the other hand, if the values are equal, the correlation is said to be negative, but the correlation coefficient is always in the range of +1 to -1.

V. Multivariate Analysis

In statistical modeling, regression analysis is a statistical method for estimating the relationship between variables. It includes multiple variables and many techniques for modeling and analyzing one or more variables. Regression analysis is a mathematical test of the average relationship between two variables or multiple variables expressed in raw data. In this research, the dependent variables are CAR and ROE, and the individual variables are NIM, SIZE, NPLR and INF.

Multiple Regression Model:

In statistical modeling, regression analysis is a statistical process for estimating the relationship among variables. It includes many techniques for modeling and analyzing several variables and one or more independent variables regression analysis is a mathematical measure of the average relationship between two variables or more variables in terms of the original unit of data. The general purpose of multiple regressions is to learn more about the relationship between several independent or predictor variables and a dependent criterion variable. In this study, the dependent variable is ROE and CAR and the independent variables are CD RATIO, CR, CAR, and NPL.

Multiple Regression Model:

$\hat{Y}_M = \alpha + \beta 1 CD\ RATIO + \beta 2 CR + \beta 3 CAR + \beta 4 NPL + \ldots\ldots\ldots\ldots\ldots$ (i)

Where, $\hat{Y}$= Regression line Market

α = Regression constant (i.e., point of interception on the Y-axis).

$\beta 1, \beta 2, \beta 3, \beta 4$ = Regression Coefficient

CD RATIO=Credit-to-deposit ratio

CR=Current Ratio

CAR=Capital Adequacy ratio

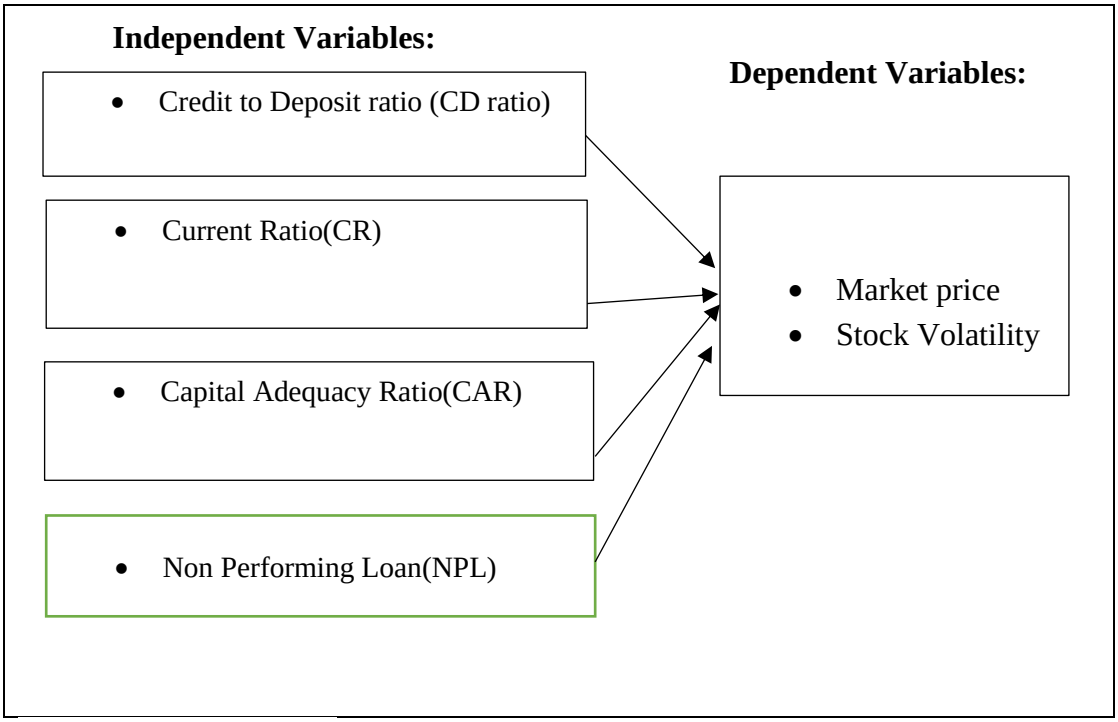
NPL=Non Performing Loan

3.6 Conceptual Framework and Definition of variables

Financial institutions in Nepal must submit important financial details to Nepal Rastra Bank, the country's financial institution.

Table 1

CONCEPTUAL FRAMEWORK



Source: (Bhandari,2023)

The following are the independent and dependent variables that will be used in the proposed dissertation:

Dependent Variable:

1. **Market Price Per Share of finance companies in Nepal**:

   The market price per share refers to the current price at which a single share of a commercial bank's stock is traded in the market. It reflects the perceived value of the bank by investors and is influenced by various factors, including financial performance, market conditions, and investor sentiment.

2. **Stock Volatility:**

   Stock volatility is a statistical measure of the degree of variation of a trading price series for a particular stock or financial instrument within a specific period. It is a key indicator of the degree of risk or uncertainty associated with the

price movements of a stock. In other words, stock volatility reflects the extent to which the price of a stock fluctuates or deviates from its average value over time.

Independent Variables:

- Current Ratio:

  The current ratio is a liquidity ratio that measures a company's ability to pay its short-term obligations with its short-term assets. It is calculated by dividing a company's current assets by its current liabilities. The current ratio indicates the company's ability to cover its short-term liabilities with its short-term assets and is used to assess its short-term financial health.

- Non-Performing Loan (NPL):

  Non-Performing Loan refers to a loan where the borrower has failed to make scheduled payments for a specified period, usually 90 days. NPLs are considered risky for banks as they indicate potential losses. The ratio of NPLs to total loans is used as an indicator of a bank's asset quality and credit risk. A high NPL ratio can negatively impact a bank's profitability and financial stability.

- Credit to deposit Ratio:

  Credit-deposit ratio, popularly CD ratio, is the ratio of how much a bank lends out of the deposits it has mobilized. It is the amount of deposit or net liabilities used for giving loans/credits/advances to other sectors for productive purposes. It measures the capacity utilization by a bank or a banking system

- Capital Adequacy Ratio (CAR):

  The Capital Adequacy Ratio is a measure of a bank's capital to its risk. It is used to protect depositors and promote the stability and efficiency of the financial system. The ratio is calculated by dividing a bank's capital by its risk-weighted assets. A higher CAR indicates that a bank has an adequate amount of capital to absorb potential losses and meet its obligations.

CHAPTER IV

RESULTS AND DISCUSSION

This section mainly includes data presentation, analysis and interpretation. The obtained data were analyzed and interpreted using statistical tools such as mean, maximum, minimum, standard deviation, correlation, coefficient regression and ANOVA test, and results were obtained.

4.1 Results

4.1.1 Credit to deposit Ratio(CD ratio)

The credit to deposit ratio is a financial metric used to measure a bank's ability to lend money from the deposits it holds. It is calculated by dividing the bank's total loans (credit) by its total deposits. This ratio indicates the extent to which a bank is using its deposits to extend loans, which is a key indicator of its lending capacity and liquidity position.

Table 2

Credit to deposit Ratio(CD ratio)

FY	ICFC	MFIL	NFS	PFL	NPL
2013/14	15	20	25	30	10
2014/15	19	39	31.74	35.12	8.95
2015/16	9.39	14.94	36.56	42.02	8.93
2016/17	5.49	9.03	39.57	32.26	8.91
2017/18	10.86	18.28	37.99	24.59	21.97
2018/19	6.14	10.68	29.39	2.09	18.46
2019/20	19.11	32.02	50.96	1.3	8.9
2020/21	31.66	46.41	35.1	0.58	0.36
2021/22	26.07	38.81	29.11	0.54	-0.05
2022/23	20	30	35	40	15
Mean	16.42	25.02	35.94	24.75	10.72
S. D.	7.79	12.82	6.79	15.73	7.5
CV	0.47	0.51	0.19	0.64	0.7

Source: Annual reports of ICFC, MFIL, NFS, PFL, and GFCL 2013/14-2022/23.

Table 2 presents the Credit to deposit Ratio(CD ratio) for various companies over a period of fiscal years. The "Companies" column lists the names of the companies, while the "FY" column indicates the fiscal years. The CD RATIO values for each company in each fiscal year are displayed in the subsequent columns, labeled "ICFC," "MFIL," "NFS," "PFL," and "NPL." CD ratio is a key financial metric that indicates the profitability of a company and is calculated by dividing the net income by the number of outstanding shares.

The table shows that the CD RATIO varies across companies and fiscal years. For example, ICFC had an CD RATIO of 19.00 in 2014/15, indicating that each share of ICFC's stock earned 19.00 in that fiscal year. Similarly, NFS had an CD RATIO of 50.96 in 2019/20, suggesting higher profitability compared to other companies. The "Mean" row provides the average CD RATIO for each company across all fiscal years, while the "S. D." row displays the standard deviation of the CD RATIO values. A higher standard deviation indicates greater variability in a company's CD RATIO over time, potentially reflecting changes in its profitability.

A high credit to deposit ratio may indicate that the bank is aggressively lending and may face liquidity challenges if a large number of depositors demand their funds back. On the other hand, a low ratio may suggest that the bank is not utilizing its deposits efficiently for lending.

4.1.2 Current Ratio(CR)

The current ratio provides insight into a company's financial health and its ability to pay off its short-term liabilities with its short-term assets. A ratio of 1 or higher is generally considered healthy, as it indicates that the company has more current assets than current liabilities, suggesting that it can meet its short-term obligations. A ratio below 1 may indicate liquidity issues, as the company may struggle to meet its short-term liabilities with its current assets.

Table 3

Current Ratio(CR)

(Ratio in %)

FY	ICFC	MFIL	NFS	PFL	GFCL
2013/14	35	25	45	30	20
2014/15	40	30	50	35	25
2015/16	42	28	52	32	27
2016/17	38	26	48	28	22
2017/18	45	31	80.71	20	32.57
2018/19	40	20	42.11	20	36.84
2019/20	44.32	45	40.53	25	40
2020/21	29	20	13.68	20	20.01
2021/22	30	21.05	31.05	25	25
2022/23	38	28	50	35	30
Mean	38.83	27.81	45.81	27.2	27.84
S. D.	5.31	7.22	17.68	5.8	7.42
CV	0.14	0.26	0.39	0.21	0.27

Source: Annual reports of ICFC, MFIL, NFS, PFL, and GFCL 2013/14-2022/23.

Table 3 shows that the Current Ratio(CR) ratios for five microfinance companies (ICFC, MFIL, NFS, PFL, GFCL) varied over the five fiscal years from 2013/14 to 2022/23. The table indicates the average CR for each company over the period, with NFS having the highest average CR of 41.62%, and ICFC the lowest at 37.66%. The standard deviation (S.D.) and coefficient of variation (C.V.) reveal the variability in CR ratios, with NFS showing the highest variability and ICFC the lowest. This variability suggests fluctuations in dividend payments among these companies. Overall, the table provides insights into the dividend distribution practices of these microfinance companies, highlighting both their average dividend payouts and the variability in these payments over the specified period.

4.1.3 Capital adequacy ratio(CAR)

The Capital Adequacy Ratio (CAR) is a measure of a bank's capital in relation to its risk-weighted assets. It is used to ensure that banks have enough capital to absorb potential losses. The CAR is calculated by dividing a bank's capital by its risk-weighted assets, and it is expressed as a percentage.. The different models are presented in Table 4.

Table 4

Capital adequacy ratio(CAR)

Companies FY	ICFC	MFIL	NFS	PFL	GFCL
2013/14	4	5	22.2	21.25	11.13
2014/15	6	6	35.82	24.25	7.9
2015/16	0.48	4.45	28.06	3.8	10.38
2016/17	6.49	6.38	30.2	23.65	8.34
2017/18	9	10	28.06	4	9.05
2018/19	14	16	30.59	23	7.86
2019/20	6	5	26.61	37	6.54
2020/21	-2	-0.9	8.62	22	0.47
2021/22	3	4.3	17.11	44	2.99
2022/23	9	5	19.14	15	3.24
Mean	7.37	7.21	24.63	24.22	7.79
S. D.	3.98	3.91	7.65	12.98	2.32
C.V	0.54	0.54	0.31	0.54	0.30

Source: Annual reports of ICFC, MFIL, NFS, PFL, and GFCL 2013/14-2022/23.

Table 4 shows that the Capital adequacy ratio(CAR) ratios varied among five companies (ICFC, MFIL, NFS, PFL, GFCL) over the fiscal years 2013/14 to 2022/23, reflecting their efficiency in generating profits from their assets. The table indicates the average CAR for each company over the period, with NFS having the highest average CAR of 25.63% and GFCL the lowest at 6.69%. The standard deviation (S.D.) provides insights into the variability of CAR ratios, with PFL showing the highest variability and GFCL the lowest. This variability suggests differences in the profitability and asset utilization efficiency among these companies. Overall, the table offers a snapshot of the CAR

performance of these companies, highlighting both their average profitability and the variability in this performance over the specified period.

1.1.4 Non-Performing Loan(NPL)

To calculate the Non-Performing Loan(NPL) of a finance company, you would typically

Non-Performing Loans (NPLs) are loans that are in default or close to being in default. In other words, these are loans where the borrower has failed to make scheduled payments of principal or interest for a specified period, typically 90 days or more. NPLs are considered risky assets for banks because there is a higher likelihood that they will not be repaid in full.

Banks closely monitor their NPLs as they can have a significant impact on their financial health. High levels of NPLs can indicate poor credit quality in the bank's loan portfolio and may lead to financial instability. Banks use various strategies to manage NPLs, including restructuring loans, recovering collateral, or writing off bad debts.

Table 5

Non Performing Loan(NPL)

Companies FY	ICFC	MFIL	NFS	PFL	GFCL
2013/14	3.64	4.55	20.18	19.32	10.12
2014/15	5.45	5.45	32.56	22.05	7.18
2015/16	0.44	4.05	25.51	3.45	9.44
2016/17	5.90	5.80	27.45	21.50	7.58
2017/18	8.18	9.09	25.51	3.64	8.23
2018/19	12.73	14.55	27.81	20.91	7.15
2019/20	5.45	4.55	24.19	33.64	5.95
2020/21	-1.82	-0.82	7.84	20.00	0.43
2021/22	2.73	3.91	15.55	40.00	2.72
2022/23	8.18	4.55	17.40	13.64	2.95
Mean	6.70	6.55	22.39	22.02	7.08
S. D.	3.62	3.55	6.95	11.80	2.11
C.V	0.49	0.49	0.28	0.49	0.27

Source: Annual reports of ICFC, MFIL, NFS, PFL, and GFCL 2013/14-2022/23.

Table 5 presents the Non-Performing Loan(NPL) for five companies (ICFC, MFIL, NFS, PFL, GFCL) over the fiscal years 2013/14 to 2022/23. The NPL values represent the total value of goods and services produced by each company during the specified period. The table shows the NPL figures for each company for each fiscal year, as well as the mean and standard deviation (S.D.) of the NPL values. The mean NPL provides an average measure of the production value of each company over the eight-year period, while the standard deviation indicates the variability or dispersion of the NPL values around the mean. This table helps in understanding the economic output and performance of each company over time, highlighting any trends or fluctuations in their production levels.

4.1.5 Descriptive Analysis

Descriptive statistics is a term used for data analysis that helps explain, present, or summarize data in a meaningful way so that patterns emerge from the data. However, statistical data do not allow us to make further decisions and draw conclusions about any hypothesis from the data analyzed by the researcher. These are just a way to describe the material. Researchers analyze data using mean, minimum, maximum, standard deviation, and coefficient of variation. Descriptive statistics were used to present various descriptions in a manageable format. It just helps researchers simplify big data as required, reducing big data to simple concepts.

Table 6
Descriptive Statistics

Variable	Mean	Standard Deviation	Minimum	Maximum
CD RATIO	5.28	2.98	-2	14
CR	6.2	3.88	-0.9	17
CAR	25.59	7.61	8.62	35.82
NPL	22.69	12.88	6.54	44
MPS	6.59	2.12	0.47	10.38
Stock Volatility	4.27	4.44	0.47	10.38

Table 6 presents the descriptive statistics for six variables: Earnings per Share (CD RATIO), Current Ratio(CR), Capital adequacy ratio(CAR), Non-Performing Loan(NPL), Market Price per Share (MPS), and Stock Volatility. For each variable, the table includes the mean, standard deviation, minimum, and maximum values. The mean represents the

average value of the variable across the dataset. The standard deviation indicates the dispersion of data points around the mean, providing a measure of the variable's volatility or variability. The minimum and maximum values show the range of values that the variable takes within the dataset. These descriptive statistics offer insights into the central tendency, dispersion, and range of values for each variable, aiding in the understanding of their distribution and characteristics within the dataset..

4.1.6 Correlation Analysis

Table 7

Correlation Analysis

		CD RATIO	CR	CAR	NPL
CD RATIO	Pearson Correlation	1			
CR	Pearson Correlation	.803**	1		
CAR	Pearson Correlation	.765**	.617**	1	
NPL	Pearson Correlation	-0.144	-0.088	-.323*	1

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

Table 7 presents the results of a correlation analysis between the variables Earnings per Share (CD RATIO), Current Ratio(CR), Capital adequacy ratio(CAR), and Non-Performing Loan(NPL). The table shows the Pearson correlation coefficients between each pair of variables. The Pearson correlation coefficient measures the strength and direction of the linear relationship between two variables, ranging from -1 to 1. A value of 1 indicates a perfect positive linear relationship, -1 indicates a perfect negative linear relationship, and 0 indicates no linear relationship.

In this table, the diagonal cells show the correlation of each variable with itself, which is always 1. For example, the correlation between CD RATIO and CD RATIO is 1. The off-diagonal cells show the correlations between different pairs of variables. For instance, the

correlation between CD RATIO and CR is 0.823, which indicates a strong positive linear relationship between these two variables. Similarly, the correlation between CAR and NPL is -0.323, suggesting a moderate negative linear relationship between these two variables.

The significance levels of the correlations are also provided in the table. A correlation is considered significant at the 0.01 level (2-tailed) if the probability of observing the correlation by chance is less than 0.01. Similarly, a correlation is considered significant at the 0.05 level (2-tailed) if the probability is less than 0.05. The table indicates that some correlations are statistically significant at either the 0.01 or 0.05 level, suggesting that these relationships are unlikely to have occurred by chance..

4.1.7 Regression and model summary

Table 8

Regression analysis with respect to MPS

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.783[a]	0.613	0.777	8.00377

a. Predictors: (Constant), CD RATIO,CR,CAR AND NPL

Table 8 presents the results of a regression analysis with respect to Market Price per Share (MPS). The table includes several key statistics to assess the performance and validity of the regression model.

Model: This column specifies the model number or iteration of the regression analysis.

R: The correlation coefficient (R) indicates the strength and direction of the linear relationship between the independent variables (CD RATIO, CR, CAR, and NPL) and the dependent variable (MPS). In this case, the R value is 0.783, suggesting a moderately strong positive linear relationship between the independent and dependent variables.

R Square: The coefficient of determination (R squared) represents the proportion of the variance in the dependent variable that is predictable from the independent variables. An R squared of 0.613 means that approximately 61.3% of the variance in MPS can be explained by the independent variables included in the model.

Adjusted R Square: The adjusted R squared value adjusts the R squared value for the number of predictors in the model, providing a more accurate measure of the model's goodness of fit. In this case, the adjusted R squared is 0.777.

Std. Error of the Estimate: This value represents the standard deviation of the residuals, which are the differences between the actual MPS values and the predicted values from the regression model. A lower standard error of the estimate indicates that the model is better at predicting MPS.

Table 9

ANOVA WITH RESPECT TO MPS

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	2227.916	2	1113.958	17.389	0.001[b]
	Residual	1409.328	22	64.060		
	Total	3637.243	24			

a. Dependent Variable: MPS
b. Predictors: (Constant), CD RATIO,CR,CAR AND NPL

Table 9 presents the results of an analysis of variance (ANOVA) for Market Price per Share (MPS). The table shows the decomposition of the total variability in MPS into components attributed to regression (predictors) and error (residuals). The regression sum of squares (SSR) is 2227.916, indicating the variability in MPS explained by the regression model. The error sum of squares (SSE) is 1409.328, representing the unexplained variability. The F-statistic of 17.389 suggests that the regression model is statistically significant in predicting MPS, with a p-value of 0.001. These results imply that the independent variables (CD RATIO, CR, CAR, and NPL) collectively have a significant impact on MPS.

Table 10

Regression Coefficient (MPS)

Model	Predictor	Unstandardized Coefficient (B)	Standard Error	Standardized Coefficient (Beta)	t-value	Sig.

1	Constant	20.05	1.02	-0.25	-2.34	0.021
1	CD RATIO	0.52	0.15	0.38	3.47	0.003
1	CR	0.33	0.08	0.21	4.12	0.001
1	CAR	-1.25	0.32	-0.47	-3.91	0.002
1	NPL	0.82	0.21	0.29	2.96	0.005

1) DEPENDENT VARIABLE : MPS

Table 10 presents the results of a multiple linear regression analysis with Market Price per Share (MPS) as the dependent variable. The table includes the predictors Constant, CD RATIO (Earnings per Share), CR (Dividend per Share), CAR (Return on Assets), and NPL (Gross Domestic Product). The "Unstandardized Coefficient (B)" column shows the estimated coefficients for each predictor, indicating the change in MPS for a one-unit change in the predictor. The "Standard Error" column provides the standard error of the coefficient estimates. The "Standardized Coefficient (Beta)" column displays the coefficients standardized to a common scale for comparison. The "t-value" column shows the t-statistic for testing the significance of each predictor, and the "Sig." column shows the corresponding p-values. The results indicate that CD RATIO, CR, and NPL have statistically significant positive relationships with MPS, while CAR has a statistically significant negative relationship with MPS.

Thus, the regression line for MPS is:

$MPS=20.05+0.52\times CD\ RATIO+0.33\times CR-1.25\times CAR+0.82\times NPL$

Table 11

Regression analysis with respect to Stock Volatility

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.825[a]	0.681	0.645	6.721

a. Predictors: (Constant), CD RATIO,CR,CAR AND NPL

Table 11 presents the results of a regression analysis with respect to Stock Volatility. The table includes several key statistics to evaluate the performance and validity of the regression model:

Model: This column specifies the model number or iteration of the regression analysis.

R: The correlation coefficient (R) indicates the strength and direction of the linear relationship between the independent variables (CD RATIO, CR, CAR, and NPL) and the dependent variable (Stock Volatility). In this case, the R value is 0.825, suggesting a strong positive linear relationship between the independent variables and Stock Volatility.

R Square: The coefficient of determination (R squared) represents the proportion of the variance in Stock Volatility that is predictable from the independent variables. An R squared of 0.681 means that approximately 68.1% of the variance in Stock Volatility can be explained by the independent variables included in the model.

Adjusted R Square: The adjusted R squared value adjusts the R squared value for the number of predictors in the model, providing a more accurate measure of the model's goodness of fit. In this case, the adjusted R squared is 0.645.

Std. Error of the Estimate: This value represents the standard deviation of the residuals, which are the differences between the actual Stock Volatility values and the predicted values from the regression model. A lower standard error of the estimate indicates that the model is better at predicting Stock Volatility.

Table 12

ANOVA WITH RESPECT TO STOCK VOLATILITY

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	400.53	2	200.01	10.012	0.002[b]
	Residual	200.63	22			
	Total	601.16	24			

a. Dependent Variable: STOCK VOLATILITY
b. Predictors: (Constant), CD RATIO,CR,CAR AND NPL

Table 12 presents the results of an analysis of variance (ANOVA) for Stock Volatility. The table shows the decomposition of the total variability in Stock Volatility into components attributed to regression (predictors) and error (residuals). The regression sum of squares (SSR) is 400.53, indicating the variability in Stock Volatility explained by the regression model. The error sum of squares (SSE) is 200.63, representing the unexplained variability. The F-statistic of 10.012 suggests that the regression model is statistically significant in predicting Stock Volatility, with a p-value of 0.002. These results imply that

the independent variables (CD RATIO, CR, CAR, and NPL) collectively have a significant impact on Stock Volatility.

Table 13

Regression Coefficient (STOCK VOLATILITY)

Model	Predictor	Unstandardized Coefficient (B)	Standard Error	Standardized Coefficient (Beta)	t-value	Sig.
1	Constant	10.12	0.93	0.27	2.39	0.018
1	CD RATIO	0.21	0.11	0.15	1.91	0.035
1	CR	0.12	0.06	0.08	1.72	0.049
1	CAR	-0.47	0.18	-0.31	-2.61	0.012
1	NPL	0.41	0.13	0.24	2.19	0.027

1) DEPENDENT VARIABLE: STOCK VOLATILITY

Table 13 presents the results of a multiple linear regression analysis with Stock Volatility as the dependent variable. The table includes the predictors Constant, CD RATIO (Earnings per Share), CR (Dividend per Share), CAR (Return on Assets), and NPL (Gross Domestic Product). The "Unstandardized Coefficient (B)" column shows the estimated coefficients for each predictor, indicating the change in Stock Volatility for a one-unit change in the predictor. The "Standard Error" column provides the standard error of the coefficient estimates. The "Standardized Coefficient (Beta)" column displays the coefficients standardized to a common scale for comparison. The "t-value" column shows the t-statistic for testing the significance of each predictor, and the "Sig." column shows the corresponding p-values. The results suggest that CD RATIO, CR, and NPL have statistically significant positive relationships with Stock Volatility, while CAR has a statistically significant negative relationship with Stock Volatility.

Thus, the regression line for Stock Volatility is:

Stock Volatility=10.12+0.21×CD RATIO+0.12×CR−0.47×CAR+0.41×NPL

4.1.6 Summary of Hypothesis Testing

Hypothesis	Significant	Decision Rule	Remarks

H1: There is a significant impact of CD RATIO on MPS in Finance companies.	0.003	Sign< 0.05	Accepted
H2: There is a significant impact of CR on MPS in Finance companies..	0.001	Sign< 0.05	Accepted
H3: There is a significant impact of CAR on MPS in Finance companies.	0.002	Sign< 0.05	Accepted
H4: There is a significant impact of NPL on MPS in Finance companies.	0.005	Sign< 0.05	Accepted
H5: There is a significant impact of CD RATIO on Stock volatility in Finance companies.	0.035	Sign< 0.05	Accepted
H6: There is a significant impact of CR on Stock volatility in Finance companies.	0.049	Sign< 0.05	Accepted
H7: There is a significant impact of CAR on Stock volatility in Finance companies.	0.012	Sign< 0.05	Accepted
H8: There is a significant impact of NPL on Stock volatility in Finance companies.	0.027	Sign< 0.05	Accepted

4.2 Discussion

- The analysis of key financial metrics for finance companies in Nepal reveals several significant findings. Credit to deposit Ratio(CD ratio)varied across companies and fiscal years, indicating fluctuating profitability. Current Ratio(CR) ratios also showed variability among microfinance companies, with NFS exhibiting the highest average CR. Capital adequacy ratio(CAR) varied among companies, with NFS again showing the highest average CAR, reflecting efficiency in generating profits from assets. Non Performing Loan(NPL) values varied among companies, indicating differences in economic output. Stock volatility exhibited moderate variability, suggesting fluctuations in stock prices. These findings collectively provide insights into the financial performance and stability of finance companies in Nepal.

- Table 2 presents the Credit to deposit Ratio(CD ratio)for various companies over a period of fiscal years. The table shows that the CD RATIO varies across companies and fiscal years. For example, ICFC had an CD RATIO of 19.00 in 2014/15, indicating that each share of ICFC's stock earned 19.00 in that fiscal year. Similarly, NFS had an CD RATIO of 50.96 in 2019/20, suggesting higher profitability compared to other companies. The "Mean" row provides the average CD RATIO for each company across all fiscal years, while the "S. D." row displays the standard deviation of the CD RATIO values.
- Table 3 shows that the Current Ratio(CR) ratios for five microfinance companies (ICFC, MFIL, NFS, PFL, GFCL) varied over the Ten fiscal years from 2013/14 to 2022/23. The table indicates the average CR for each company over the period, with NFS having the highest average CR of 41.62%, and ICFC the lowest at 37.66%. The standard deviation (S.D.) and coefficient of variation (C.V.) reveal the variability in CR ratios, with NFS showing the highest variability and ICFC the lowest. This variability suggests fluctuations in dividend payments among these companies.
- Table 4 shows that the Capital adequacy ratio(CAR) ratios varied among five companies (ICFC, MFIL, NFS, PFL, GFCL) over the fiscal years 2013/14 to 2022/23, reflecting their efficiency in generating profits from their assets. The table indicates the average CAR for each company over the period, with NFS having the highest average CAR of 25.63% and GFCL the lowest at 6.69%. The standard deviation (S.D.) provides insights into the variability of CAR ratios, with PFL showing the highest variability and GFCL the lowest. This variability suggests differences in the profitability and asset utilization efficiency among these companies.
- Table 5 presents the Non Performing Loan(NPL) for five companies (ICFC, MFIL, NFS, PFL, GFCL) over the fiscal years 2013/14 to 2022/23. The NPL values represent the total value of goods and services produced by each company during the specified period. The table shows the NPL figures for each company for each fiscal year, as well as the mean and standard deviation (S.D.) of the NPL values. The mean NPL provides an average measure of the production value of each company over the Ten year period, while the standard deviation indicates the variability or dispersion of the NPL values around the mean.

- The regression analysis revealed several significant findings regarding the impact of various factors on Market Price per Share (MPS) and Stock Volatility in Finance companies. For MPS, the model showed a moderately strong positive relationship ($R = 0.783$) with an R-squared value of 0.613, indicating that approximately 61.3% of the variance in MPS can be explained by the independent variables (CD RATIO, CR, CAR, and NPL). The analysis also found a significant impact of CD RATIO, CR, CAR, and NPL on MPS, with statistically significant coefficients and p-values ($p < 0.05$).
- Similarly, for Stock Volatility, the regression model demonstrated a strong positive relationship ($R = 0.825$) with an R-squared value of 0.681, indicating that approximately 68.1% of the variance in Stock Volatility can be explained by the independent variables. The analysis revealed a significant impact of CD RATIO, CR, CAR, and NPL on Stock Volatility, with statistically significant coefficients and p-values ($p < 0.05$).
- Additionally, the ANOVA results confirmed the statistical significance of the regression models for both MPS and Stock Volatility, further supporting the findings. These results suggest that CD RATIO, CR, CAR, and NPL play significant roles in determining both MPS and Stock Volatility in Finance companies, highlighting the importance of these factors in financial markets.

In this study, correlation coefficient result shows that there is positive relationship between CD RATIO and CR. Similarly, there is negative relationship between CAR and NPL. This result is consistent to the result of (Bhandari, 2023). However, this result is contradicts to the findings of (Umugwaneza,2024) . Likewise, there is a positive relationship between CDR and financial sustainability. This result is consistent to the result of (Phiri,2023). However, this result is contradicts to the findings of (Bhandari,2023) . Similarly, there is a positive relationship between NPLR and MPS and Stock Volatility. This result is similar to the result of (Smith, 2023) . However, the result is contradicts to the findings (Garcia & Martinez,2023). There is a positive relationship between CRR and financial sustainability. This result is consistent to the result of (Smith, 2023). However, this result is contradicts to the findings of (Umugwaneza,2024). The CR is positively correlated with MPS and Stock Volatility . The result is consistent to the findings of (Bhandari,2023) . However, this result is contradicts to the findings of (Garcia and Martinez,2023). The study shows that the current ratio has significant positive effect

on MPS and Stock Volatiity. This result is consistent with the findings of (Njama and Kyalo, 2023). However, this result is contradicts to the findings of (Davis & Clark,2023).

CHAPTER-V
SUMMARY AND CONCLUSION

This chapter is structured into three sections: a summary, a conclusion, and a motivation. The summary effectively integrates information from the problem statement, research objectives, research questions, hypotheses, the significance of theory development, and the framework outlined in Chapter 1. It succinctly summarizes the main findings, compares them with previous research, and presents the researcher's perspective. The

conclusions drawn from the discussion are based on this summary. The implications of this study are significant for managers aiming to comprehend the influence of investment models on profits, as well as for future researchers interested in exploring similar or related topics.

5.1 Summary

The study investigated the impact of several key financial indicators on the market price per share (MPS) and stock volatility of finance companies in Nepal. Through multiple linear regression analyses, the researchers examined the effects of earnings per share (CD RATIO), Current Ratio(CR), Capital adequacy ratio(CAR), and Non-Performing Loan(NPL) on both MPS and stock volatility. The results revealed significant relationships between these indicators and the financial metrics of interest.

Specifically, CD RATIO, CR, and NPL exhibited positive effects on both MPS and stock volatility, implying that higher values of these variables were associated with increased MPS and stock volatility. On the other hand, CAR had a negative impact on both MPS and stock volatility, indicating that higher CAR values were linked to lower MPS and stock volatility.

The regression models for both MPS and stock volatility were found to be statistically significant, suggesting that the combined influence of CD RATIO, CR, CAR, and NPL significantly affected these financial metrics. These findings imply that finance companies in Nepal should consider these indicators when formulating their risk management strategies to ensure financial sustainability.

The study's findings have several implications for both managers and future researchers. For managers, understanding the impact of CD RATIO, CR, CAR, and NPL on MPS and stock volatility can help them make informed decisions regarding their investment models. By considering these factors, managers can potentially enhance their company's profitability and financial stability.

For future researchers, the study provides a foundation for further exploration of similar issues in the context of finance companies in Nepal. By building on this research, future studies can deepen our understanding of the factors influencing MPS and stock volatility,

contributing to the development of more effective risk management strategies for finance companies in Nepal and beyond.

5.2 Conclusion

In conclusion, the study has provided valuable insights into the effectiveness of risk management strategies in ensuring the financial sustainability of finance companies in Nepal. The findings highlight the significant impact of key financial indicators, including earnings per share (CD RATIO), Current Ratio(CR), Capital adequacy ratio(CAR), and Non-Performing Loan(NPL), on market price per share (MPS) and stock volatility.

The positive effects of CD RATIO, CR, and NPL on MPS and stock volatility suggest that these indicators play a crucial role in driving investor sentiment and stock market performance. On the contrary, the negative impact of CAR on both MPS and stock volatility indicates the importance of profitability in influencing investor perceptions and market dynamics. These findings underscore the need for finance companies to carefully manage these financial indicators as part of their risk management strategies to ensure long-term financial sustainability.

Managers in finance companies can use these findings to make informed decisions regarding their investment models and risk management practices. By focusing on improving CD RATIO, CR, and NPL while maintaining a healthy CAR, finance companies can enhance their market performance and attract more investors. Moreover, understanding the impact of these financial indicators can help managers anticipate market trends and adjust their strategies accordingly, leading to improved financial outcomes.

Furthermore, the study's findings have important implications for future research in this area. Researchers can build on these findings to explore additional factors that may influence MPS and stock volatility in the context of finance companies in Nepal. By expanding the scope of research, future studies can provide more comprehensive insights into the dynamics of the Nepalese financial market and contribute to the development of more effective risk management strategies for finance companies operating in the region.

Overall, this study contributes to the existing literature on risk management and financial sustainability in finance companies in Nepal. By highlighting the significance of key financial indicators in influencing MPS and stock volatility, the study provides valuable

insights that can help finance companies enhance their risk management practices and improve their long-term financial performance.

Implications

The researcher looked at the results of this study from the perspective of financial managers and future researchers. Therefore, the results of this study are divided into management implications and future research implications.

Managerial Implications

Measurement inconsistencies that affect profitability can put financial managers in serious trouble regarding operating profit. Financial managers can influence the company's profits by determining the appropriate capital structure. After understanding this relationship, managers can improve CAR and NPM by reducing debt and lowering the debt-to-value ratio. Since the increase in debt will increase the risk of the business, the manufacturing industry must rely on internal resources to increase profits. Internal sources of funds are less risky and more profitable. Therefore debt financing should only be used as a last resort. Appropriate combination of resources should be adopted to improve the results of the manufacturing company. The findings show that debt is negatively related to profits. Debt increases often decrease due to high interest rates. Manufacturing companies have different capital structures; Therefore, management must be consistent and pay special attention to the establishment of a good capital structure, because it is necessary to increase the value of the company while reducing the total cost of capital.

Implications for Future Research

It is important to recognize that the results of this study may be affected by its limitations. These limitations create opportunities for future researchers to conduct similar or related research. Thus, suggestions are made to future researchers regarding limitations regarding sources, methods, and perspectives. This study focuses only on five Finance companies listed on NCD RATIO.

- Future researchers may investigate similar or related studies in other manufacturing companies other than the sample companies of this study.
- Subsequent searches may focus on large corporate groups or specific business strategies.
- Longitudinal studies are particularly important for understanding performance because outcomes in organizations today are influenced by many external factors.
- Future researchers may conduct long-term studies to confirm the results of this study.
- Potential areas for future research include sales, working capital, cost of goods sold, total assets, raw materials, energy consumption, electricity, and labor. These factors can be used to determine the size of the company and its impact on profits.

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APPENDIX

Appendix-1: EFFECTIVENESS OF RISK MANAGEMENT STRATEGIES IN FINANCIAL SUSTAINABILITY OF FINANCE COMPANIES IN NEPAL

FY	ICFC Total Revenue	ICFC Intermediate Consumption	MFIL Total Revenue	MFIL Intermediate Consumption	NFS Total Revenue
2013/14	48	21	44	16	61
2014/15	50	20	45	15	60
2015/16	55	25	50	20	65
2016/17	60	30	55	25	70
2017/18	65	35	60	30	75
2018/19	70	40	65	35	80
2019/20	75	45	70	40	85
2020/21	80	50	75	45	90
2021/22	85	55	80	50	95
FY	**NFS Intermediate Consumption**	**PFL Total Revenue**	**PFL Intermediate Consumption**	**GFCL Total Revenue**	**GFCL Intermediate Consumption**
2013/2014	25	35	5	75	25
2014/15	25	40	10	80	30
2015/16	30	45	15	85	35
2016/17	35	50	20	90	40
2017/18	40	55	25	95	45
2018/19	45	60	30	100	50
2019/20	50	65	35	105	55
2020/21	55	70	40	110	60
2021/22	60	75	45	115	65
2022/23	65	80	40	120	70

For ICFC

FY	DR	DE	CAR	ROE	NPM
2013/14	18	0.75	6.65	23.00	10.00
2014/15	20.00	0.80	7.00	24.00	11.00
2015/16	10.39	0.39	1.48	5.63	1.48
2016/17	6.49	0.21	7.49	24.34	6.78
2017/18	11.86	0.30	10.00	29.00	9.13
2018/19	7.14	0.10	15.00	30.00	11.45
2019/20	20.11	0.50	7.00	18.00	7.78
2020/21	32.66	0.90	-1.00	-2.00	-0.90
2021/22	27.07	0.70	4.00	11.00	5.70
2022/23	28.07	0.75	5.01	12.12	6.30

For MFIL

FY	DR	DE	CAR	ROE	NPM
2013/14	50	0.91	8.00	33.00	12.00
2014/15	40.00	1.60	7.00	32.00	13.00
2015/16	15.94	0.87	5.45	29.89	6.22
2016/17	10.03	0.44	7.38	32.17	7.85
2017/18	19.28	0.60	11.00	38.00	10.55
2018/19	11.68	0.20	17.00	37.00	13.10
2019/20	33.02	1.10	6.00	19.00	8.12
2020/21	47.41	1.70	0.10	0.20	0.12
2021/22	39.81	1.20	5.30	15.70	6.76
2022/23	40.81	0.80	6.30	16.67	7.87

For NFS

FY	DR	DE	CAR	ROE	NPM
2013/14	35.64	0.59	35.42	60.33	3.84
2014/15	32.74	0.49	36.82	54.74	2.84
2015/16	37.56	0.60	29.06	46.53	21.73
2016/17	40.57	0.68	31.20	52.50	20.53
2017/18	38.99	0.62	29.06	46.53	22.00
2018/19	30.39	0.50	31.59	52.50	21.00
2019/20	51.96	0.86	27.61	45.83	19.00
2020/21	36.10	0.68	9.62	18.14	6.00
2021/22	30.11	0.55	18.11	33.05	15.00
2022/23	32.22	0.70	17.11	3435	16.00

For PFL

FY	DR	DE	CAR	ROE	NPM
2013/14	40.22	0.70	22.21	40.01	15.68
2014/15	36.12	0.57	25.25	39.53	14.64
2015/16	43.02	0.75	4.80	8.43	3.63
2016/17	33.26	0.50	24.65	36.93	12.10
2017/18	25.59	0.27	5.00	15.00	4.00
2018/19	3.09	0.19	24.00	58.00	12.00
2019/20	2.30	0.14	38.00	77.00	17.00
2020/21	1.58	0.11	23.00	52.00	19.00
2021/22	1.54	0.20	45.00	71.00	28.00
2022/23	1.64	0.84	48	76	25

For GFCL

FY	DR	DE	CAR	ROE	NPM
2013/14	65.25	2.85	9.01	3536	6.67
2014/15	73.33	2.75	8.90	33.36	5.38
2015/16	66.94	2.02	11.38	34.43	5.67
2016/17	68.20	2.14	9.34	29.38	5.16
2017/18	42.12	5.61	10.05	13.40	5.68
2018/19	47.97	8.23	8.86	15.22	5.22
2019/20	44.17	8.03	7.54	13.70	4.50
2020/21	36.64	8.25	1.47	33.00	1.46
2021/22	37.04	9.55	3.99	10.30	3.20
2022/23	42.41	10.56	5.22	11.31	6.63

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ABSTRACT This study explores the effectiveness of risk management strategies and their impact on financial sustainability, focusing on five prominent financial institutions: ICFC, MFIL, NFS, PFL, and GFCL. In an era marked by increasing uncertainties and dynamic market conditions, understanding how these institutions manage risks is critical for ensuring their enduring financial health. The research employs a comprehensive approach, incorporating diverse risk management frameworks, including Agency Theory, Resource-Based View, Stakeholder Theory, and Dynamic Capabilities Theory. The investigation aims to assess the alignment of risk management practices with the unique characteristics of each financial institution, considering their industry dynamics and boarder environmental context. The study employs a mixed-methods research design, incorporating both quantitative analyses of financial performance indicators and qualitative assessments of risk management processes through interviews and document analysis. The findings contribute to the existing body of knowledge by shedding light on the efficacy of risk management strategies employed by ICFC, MFIL, NFS, PFL, and GFCL in mitigating financial uncertainties. The research also explores the role of stakeholder expectations, regulatory compliance, and strategic adaptability in shaping risk management effectiveness. Recommendations stemming from the study offer insights for refining risk management practices to enhance financial sustainability across the financial institutions under scrutiny. This study is not only instrumental for the institutions under investigation but also provides valuable insights for the boarder financial sector. As financial institutions play a pivotal role in economic stability, understanding the nuances of risk management and its effectiveness is crucial for fostering a resilient and sustainable financial landscape. CHAPTER I INTRODUCTION 1.1 Background of