

**FINANCIAL PERFORMANCE ANALYSIS OF FINANCE
COMPANIES (PRE AND POST PUBLIC OFFERING)**

By:

PARMILA RAI

Nepal Commerce Campus

T.U. Regd. No. 7-3-25-872-2005

Campus Roll No: 212/062

A thesis submitted to:
Office of the Dean
Faculty of Management
Tribhuvan University

In partial fulfillment of the requirements for the Degree of
Master of Business Studies (M.B.S)

Kathmandu, Nepal
March, 2012

RECOMMENDATION

This is to certify that the thesis

Submitted By:
Parmila Rai

Entitled:

FINANCIAL PERFORMANCE ANALYSIS OF FINANCE COMPANIES (PRE AND POST PUBLIC OFFERING)

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

Dr. Sushil Bhakta Mathema
(Head of Research Department
& Thesis Supervisor)

Rajeshwor Neupane
(For Campus Chief)

VIVA VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

PARMILA RAI

Entitled:

FINANCIAL PERFORMANCE ANALYSIS OF FINANCE COMPANIES (PRE AND POST PUBLIC OFFERING)

And found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

Master's Degree in Business Studies (M.B.S)

Viva – Voce Committee

Head of Research Department:

Member (Thesis Supervisor):

Member (External Expert):

DECLARATION

I hereby declare that the work reported in this thesis entitled “A study on Financial Performance Analysis of Finance Companies (Pre and Post Public Offering)”, submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement for the Master’s Degree in Business Studies (M.B.S) under supervision of Dr. Sushil Bhakta Mathema of Nepal Commerce Campus.

.....
Parmila Rai
Researcher
Nepal Commerce Campus
T.U. Regd. No: 7-3-25-872-2005
Campus Roll No: 212/062

ACKNOWLEDGEMENTS

Even though many researchers have been made on the subject performance analysis, it is still a challenging subject. Moreover, only the post-issue performance analysis is just a half job done. Without making pre-issue performance analysis of any company and without making its comparison with post-issue performance, we can not say anything about the improvement or failure of any company. In the country like Nepal where there is mixed economy, it is more complex. Since large number of financial companies are being opened and run in the mixed economy, it has always been a matter of confusion to know the real status of these companies.

In this regard the study on “financial performance analysis of finance companies (Pre and Post Public Offering” occupies a great importance. It helps to identify the challenges, weakness, strength and opportunities of these finance companies. It also helps to identify the remedies for these challenges and weakness.

Performance itself is a vague term since it is not clear unless it is said in related term. So to make it simple and clear, the pre-issue and post-issue performance of finance companies, have been analyzed in terms of their financial achievement. For making these study clear different financial ratios and test of hypothesis have been used. I hope the attempts made here in the study would be helpful to the respective finance companies to identify their problems, to the investors to identify the better investment companies and to the researchers to make other performance analysis in relation to other terms.

My special thanks to my research supervisor, Asst. Prof. Dr. Sushil Bhakta Mathema of Nepal Commerce Campus for his immense guidance and support, without which this work would not have been completed successfully.

Finally I would like to thanks to all my friends and family who directly and indirectly help me for preparing the report.

Researcher
Parmila Rai

TABLE OF CONTENTS

Cover page	
Recommendation	
Viva – voce Sheet	
Acknowledgements	
Declaration	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	
	Page No.
CHAPTER - I	1
INTRODUCTION	1
1.1. Background of the Study	1
1.2 Introduction of Sample Finance Companies	7
12.1United Finance Limited	7
12.2 Siddhartha Finance Limited	8
1.2.3 Standard Finance Limited	10
12.4 Gorkha Finance Limited	11
1.2.5 Butwal Finance Limited	15
1.3 Statement of the Problem	13
1.3 Objective of the Study	14
1.4 Limitation of the Study	14
1.5 Organization of the Study	15
CHAPTER-II	16
REVIEW OF LITERATURE	16
2.1 Conceptual Framework	18
2.1.1. Capital market.	19
2.1.2. Meaning of IPO / Primary Market	19

2.1.2.1. Importance of IPO.	20
2.1.2.2. IPO in Nepalese Context.	22
2.1.2.3. Regulation of Primary Market.	22
2.1.2.4. Major Regulating Agencies.	23
2.1.2.5. Major Participants.	25
2.1.2.6. Preparation of Prospectus.	27
2.2. Issue Activities	31
2.2.1. Pre Issue Activities	31
2.2.2. Issue Activities	31
2.2.3. Post Issue Activities.	32
2.3. Nepal Stock Exchange	32
2.4. Review of Related Studies	38
2.4.1. Review for Studies in International Context	38
2.4.2. Review of Master Degree Dissertation	42
2.5. Research Gap	48
Chapter III.....	50
RESEARCH METHODOLOGY	50
3.1 Introduction.....	50
3.2 Research Design	51
3.3 Nature and Sources of Data	51
3.4 Population and Sample.....	51
3.5 Method of Data Analysis	52
3.5.1 Financial Tools	52
3.5.1.1. Liquidity Measures	53
3.5.1.2. Activity / Turnover Measures	54
3.5.1.3. Leverage / Capital Structure Measures	55
3.5.1.4. Profitability Measures	57
3.5.1.5. Valuation Measures	59
3.5.2. Statistical Tools	60

CHAPTER-IV	62
DATA PRESENTATION AND ANALYSIS	62
4.1. IPO Date of Sample Company	62
4.2.Liquidity Ratio	62
4.3. Activity/Turnover Ratios.....	67
4.4. Leverage/ Capital Structure Ratios.....	71
4.5. Profitability Ratios.....	74
4.6. Valuation Ratio	82
4.7. Hypothesis Testing	88
4.8. Major Findings.....	93
CHAPTER-V.....	96
SUMMARY, CONCLUSION AND RECOMMENDATIONS	96
5.1 Summary.....	96
5.2 Conclusion	98
5.3 Recommendations	99

Bibliography

Appendix

LIST OF TABLES

Table No.	Title of the Table	Page No.
Table 2.1.	Size of Capital and Issue Percentage	30
Table 2.2	Listing and Annual fees in case of Shares	37
Table 2.3.	Listing and Annual fees in case of Debenture, Mutual funds , Units and Group saving shemes.....	37
Table 4.1.	IPO Date of Sample Company	62
Table 4.2.	Current Ratio (in times)	63
Table 4.3.	Cash and Bank balance to Total Deposits.....	64
Table 4.4.	Cash and Bank balance to Current Assets	66
Table 4.5.	Loan and Advances to Total Deposits	67
Table 4.6.	Total Investment to Total Deposits.....	69
Table 4.7.	Total Assets Turnover Ratio	70
Table 4.8.	Debt Equity Ratio.....	72
Table 4.9.	Capital Adequacy Ratio.....	73
Table 4.10.	Return on Total Assets.....	75
Table 4.11.	Net Profit to Total Deposit Ratio	76
Table 4.12.	Return on Net Worth	78
Table 4.13.	Return on Investment	79
Table 4.14.	Total Interest Earned to Working fund	81
Table 4.15.	Earning per Share	82
Table 4.16.	Dividend per Share	83
Table 4.17.	Dividend payout Ratio	85
Table 4.18.	Analysis of Networth per Share	86
Table 4.19.	Hypothesis testing of UFL	88
Table 4.20.	Hypothesis testing of SFL.....	89
Table 4.21.	Hypothesis testing of GFL	90
Table 4.22.	Hypothesis testing of STDFL	91
Table 4.23.	Hypothesis testing of BFL	92

LIST OF FIGURES

Figure No.	Title of the Figure	Page No.
Figure 4.1	Average Current Ratio.....	64
Figure 4.2	Average Cash and Bank Balances to Total Deposit Ratio	65
Figure 4.3	Average Cash and Bank Balances to Current Assets.....	66
Figure 4.4	Loan and Advances to Total Deposit Ratio.....	68
Figure 4.5	Total Investment to Total Deposit.....	69
Figure 4.6	Total Assets Turnover Ratio.....	71
Figure 4.7	Debt Equity ratio	73
Figure 4.8	Capital Adequacy Ratio	74
Figure 4.9	Return on Total Assets	76
Figure 4.10	Net Profit to Total Deposit Ratio.....	77
Figure 4.11	Return on Net Worth	79
Figure 4.12	Return on Investment.....	80
Figure 4.13	Total Interest Earned to Working Fund	81
Figure 4.14	Earnings per Share	88
Figure 4.15	Dividend per Share	84
Figure 4.16	Dividend Payout Ratio	86
Figure 4.17	Analysis of Net Worth per Share	87

ABBREVIATIONS

%	Percentage
BFL	Butwal Finance Limited
CDS	Central depository of securities
CIF	Citizen Investment Fund
CIT	Citizen Investment Trust
Co	Company
etc	Etcetera
FY	Fiscal Year
FC's	Finance Companies
GDP	Gross Domestic Product
GFL	Gorkha Finance Limited
IPO	Initial Public Offering
Ltd.	Limited
M	Million
MBS	Masters of Business Studies
MIS	Management Information System
NEPSE	Nepal Stock Exchange
NG	Government of Nepal
NMB	Nepal Merchant Banking & Finance Limited
NRB	Nepal Rastra Bank
NSTC	Nepal Security Trading Center
p.a.	Per Annum
Pvt.	Private
ROC	Registrar of Companies
Rs.	Rupees
S.D	Standard Deviation
SEBO/N	Securities Board Nepal
SFL	Siddhartha Finance Limited
STDFL	Standard Finance Limited
T.U.	Tribhuvan University
T-bill	Treasury Bills
UFL	United Finance Limited