FACTORS AFFECTING PROFITABILITY 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 "**Factors Affecting Profitability of Finance Companies in Nepal**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirements for any other academic purpose.

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

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REPORT OF RESEARCH COMMITTEE

Prabhav Krishna Khand has defended research proposal entitled "**Factors Affecting Profitability 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 suggestion and guidance of supervisor Dr. Tri Ratna Manandhar and submit the dissertation for evaluation and Viva-Voce examination.

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APPROVAL SHEET

We have examined the dissertation entitled "**Factors Affecting Profitability of Finance Companies in Nepal**" presented by Prabhav Krishna Khand 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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I am delighted to present my dissertation, titled "**Factors Affecting Profitability of Finance Companies in Nepal**" to the Head of the Research Department at Shanker Dev Campus. This submission marks a significant step toward the completion of my Master's in Business Studies (MBS) degree in the Faculty of Management. The journey to this point has been challenging, and I wish to express my gratitude to those who have supported and guided me along the way. First and foremost, I would like to extend my heartfelt appreciation to my supervisor, Dr. Tri Ratna Manandhar. His unwavering support and guidance have been invaluable throughout this dissertation's development. Despite his busy schedule, he has consistently provided assistance that has been instrumental in shaping this research.

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ABBREVIATIONS

ANOVA	Analysis of Variance
CD	Credit Deposit
CDR	Credit Deposit Ratio
CTLFC	Central Finance Limited
CV	Coefficient of Variation
CV	Coefficient of Variations
DPS	Dividend per Share
EPS	Earnings per Share
F-value	Fishers' Value
GFL	Gorkhas Finance Limited
ICFC	ICFC Finance Limited
MPS	Market Price per Share
NPLR	Non-Performing Loan Ratio
NPM	Net Profit Margin
PER	Price Earnings Ratio
PFL	Pokhara Finance Limited
P-value	Probability Value
ROA	Return on Assets
ROE	Return on Equity
SD	Standard Deviation
SIFL	Shree Investment Finance Co. Limited
Sig.	Significance
SN	Serial Numbers

ABSTRACT

The study is entitled “Factors Affecting Profitability of Finance Companies in Nepal”. The study deals with the study of profitability in Nepalese financial companies. The main objective of the study is to have comparative study on profitability of finance companies in Nepal. The study has been conducted having five finance companies out of total 17 listed finance companies in NEPSE. The samples have been chosen on the basis of top five highest paid-up capital finance companies. The total number of observations is fifty having ten years annual reports i.e. financial data of five sample banks. As per research design descriptive and causal comparative research design have been employed. The statistical tools consist of mean, standard deviation and range as well as the inferential statistic consists of mainly correlation and multiple linear regression analysis for cause and effect relationship between and among undertaken variables such as dependent i.e. profitability (return on equity and net profit margin) and independents non-performing loan ratio, dividend per share, price earnings ratio, market price per share and earnings per share.

Similarly, the relationship between non-performing loan ratio (NPLR) and the dependent variable (ROE) is not statistically significant. It means that there is no real relationship between NPLR and ROE, and the coefficient for NPLR is unlikely to reflect a genuine relationship between the two variables. Similarly, the average net profit margin (NPM) has a deviation, indicating the need for thorough analysis of a firm's financial performance. Positive NPM is crucial, while negative NPM may indicate financial struggles. Therefore, finance companies should focus on reducing non-performing loans and maintaining a positive net profit margin to improve their profitability.

Keywords: *Market Price per Share, Earnings per Share, Net Profit Margin, Dividend per Share, Price Earnings Ratio, Return on Equity*

CHAPTER-I
INTRODUCTION

1.1 Background of the Study

In Nepal, the financial performance of finance companies plays a pivotal role in the country's economic stability and growth. Profitability, a key measure of financial success, is often assessed through various indicators such as Return on Equity (ROE), Return on Assets (ROA), and Capital Employed. Finance companies, as critical players in the financial sector, are influenced by several factors including capital, loans, deposits, and the size of the company. Research by Chilwal and Mishra (2024) underscores the complex relationship between these variables and the profitability of finance companies. Their study reveals that larger finance companies, measured by the natural logarithm of total assets, tend to experience diminishing returns on equity (ROE), challenging the common belief that higher asset values directly correlate with better profitability. Similarly, the study identifies a negative relationship between total deposits and profitability, with increased deposits and capital linked to lower ROE. Moreover, loans, while essential for operational expansion, also contribute to decreased profitability when loan ratios rise, further emphasizing the delicate balance that finance companies must manage to achieve optimal financial performance (Abugamea, 2024). These findings suggest that, for finance companies in Nepal, size, capital structure, and loan management must be carefully balanced to improve profitability.

Return on equity and return on capital utilized are additional variables that are adversely connected with size, capital, loan, and deposit. However, there was a negative link with loan and deposit but a positive correlation with dividend per share, size, and capital. This is essential in a country like Nepal where finance companies are growing to support an economy that primarily depends on foreign aid (Mishra & Aithal, 2021). It should go without saying that a finance company's performance has an impact on its capacity to generate revenue and finance national projects. Consequently, a study to confirm this was required. To assess the company's health and potential for growth, financial performance measures including profitability, liquidity, solvency, and efficiency are used. Additionally,

regulators. In order to improve the capital basis of the Finance companies and Financial Institutions (BFIs) in Nepal, expand their businesses, and promote financial stability, mergers and acquisitions have emerged as a useful strategic instrument. The results from the first Finance Company indicate that, despite notable gains in return on assets, net interest margin, and earnings per share, the impact of the merger on financial performance ratios is mixed. The influence of mergers and acquisitions on the financial parameters of the second Finance Company, on the other hand, is negligible, with the exception of dividends per share (DPS) in the pre-post mergers and acquisitions era (Adhikari et al., 2023).

The financial performance of a firm, which is assessed by its income statements, balance sheets, and cash flow statements, is a crucial determinant of its success or failure. It evaluates the company's ability to generate revenue, maintain liquidity, and manage debt. When evaluating a company's health and potential for expansion in Nepal, financial performance is an important factor to take into account. A company that is doing well financially can attract investors, get loans, and reinvest to keep expanding. Contrarily, a company with bad financial performance would struggle to exist and might possibly be bought out (Connell, 2023).

According to Acharya and Pant (2016), financial performance is an important factor that investors, creditors, and regulators take into consideration when assessing Nepalese businesses. The authors stressed that creditors and investors give a company's financial performance the biggest weight when making investment or loan decisions. Profitability, liquidity, solvency, and efficiency are a few examples of the financial performance metrics that are used to evaluate the company's health and potential for growth. Additionally, businesses are required to submit regular financial reports to regulators including the Nepal Rastra Bank, the Securities Board of Nepal, and the Company Registrar's Office; any discrepancies or subpar financial performance may result in penalties or legal action.

The success of such industry is essential since a country's financial system depends heavily on its system of finance businesses. According to Athanasoglou, Brissimis, and Delis (2008), profitable financial institutions are better able to withstand negative situations and uphold the integrity of the country's financial system. Business procedures in the Finance

businesses industry have changed significantly in the new century compared to how they were in prior decades (Hussain & Bhatti, 2010). In order to make a name for themselves in the finance companies industry and earn popularity via their actions, every finance company and finance companies organization today strives to attract an increasing number of clients. This will boost their clients' loyalty, which they may then use to influence their upcoming initiatives. Additionally, their rivalry has shifted their attention to quality. Nowadays, the finance firms sector is more customer-focused than finance company-focused. The needs of their customers are being met by all finance companies and finance company organizations. They are willing to provide every convenience for them, but only provided they continue to work with their Finance Company.

The study aims to evaluate the profitability of Nepalese financial institutions by analyzing key financial indicators such as net profit margin (NPM), return on equity (ROE), earnings per share (EPS), price-to-earnings ratio (P/E), and dividend per share (DPS). Prior research highlights that factors like capital adequacy, liquidity risk, and credit risk significantly affect profitability, while macroeconomic factors like GDP and inflation show mixed impacts. This study particularly examines the impact of non-performing loans (NPL) and dividend payout strategies on profitability metrics (ROE and NPM). Additionally, it investigates financial institutions' market performance through metrics like price per share and P/E ratio, emphasizing the importance of understanding their financial health and growth potential. The findings will provide insights into the drivers of profitability and financial performance in the context of Nepalese finance companies.

1.1.1 Brief Profile of Sample Finance Companies

ICFC Finance Limited

ICFC Finance Limited, established in 2003 and operational since 2004, is headquartered in Bhatbhateni, Kathmandu. This institution primarily caters to the financial requirements of small and medium enterprises. With a strong emphasis on technological integration, ICFC employs advanced core banking software, enabling real-time services and aiming for a paperless operational environment. Its mission is to meet evolving customer credit demands through innovative financial products and adherence to international standards.

ICFC operates 19 branches across Nepal and provides a wide range of financial services, such as loans, deposits, and investment opportunities.

Gorkha Finance Limited

Gorkha Finance Limited, based in Kathmandu, is a reputed finance company that offers a broad spectrum of banking services, including deposits, loans, and remittance facilities. The company prioritizes sustainable growth and customer satisfaction by leveraging modern technologies and adopting a customer-centric approach. Its service portfolio is designed to cater to both individuals and businesses, addressing the diverse financial needs of its clients. Through its dynamic and innovative strategies, Gorkha Finance has maintained its reputation as a reliable financial partner for its customers

Pokhara Finance Limited

Pokhara Finance Limited, located in Pokhara, plays a significant role in the region's economic development by providing accessible and reliable financial services. Its offerings include savings accounts, fixed deposits, and various loan schemes tailored to meet individual and business needs. The institution prioritizes customer satisfaction by incorporating advanced technologies for service delivery, ensuring its operations align with the latest financial practices. Pokhara Finance actively supports regional development through its accessible financial solutions, enabling clients to achieve their personal and business goals

Central Finance Limited

Central Finance Limited operates out of Kathmandu and serves as a key player in the Nepalese financial landscape. The company provides a variety of products and services, such as credit facilities, deposit schemes, and investment opportunities. Central Finance emphasizes innovation, continuously upgrading its offerings to meet modern financial needs. Its commitment to customer satisfaction is evident in its tailored solutions designed to address diverse financial challenges. By integrating advanced technology, the institution ensures efficient service delivery while maintaining its focus on sustainable growth and profitability

Shree Investment Finance Co. Ltd.

Shree Investment Finance Co. Ltd. is a Kathmandu-based finance company known for offering customized financial services, including deposit accounts, loans, and investment solutions. The company is committed to fostering economic growth by leveraging cutting-edge technologies and focusing on customer satisfaction. Its operations are characterized by a customer-centric approach, aiming to deliver value-added services that align with the financial aspirations of its clients. Shree Investment Finance continues to strengthen its presence in the industry by ensuring operational efficiency and providing innovative financial solutions

1.2 Problem Statement

Finance companies have become very sophisticated and complex. Finance organizations are experiencing a noticeable change in their environment. These changes present both opportunities and risks that directly affect how finance businesses run their operations. As a result, the future will be both more exciting and challenging than the present. In Nepal, it was discovered that the two joint venture financing companies' financial performance varied throughout a range of time periods in terms of their profitability rates, operating expenses, and dividend distribution rates among shareholders. Finding the reasons behind the variations in financial performance will be the focus of the study. Comparing the financial outcomes of the finance companies would be very beneficial in determining their strengths and weaknesses. Although joint venture financing companies are perceived to be successful, how successful are they in reality? This question is raised by the world of finance firms. There are now 26 financial firms. Despite the rapid development, several indicators point to service coverage performance that is less than ideal (Adhikari et al., 2023).

With a break from a totally competitive market structure, the market for UK financial companies is nonetheless modestly profitable. Once other factors are taken into account, the business cycle has a relatively insignificant impact, whereas interest rates, especially longer-term interest rates, and the rate of inflation have a significant impact on the profitability of financial organizations (Connell, 2023).

Studies of financial organizations' profitability are essential for offering guidance on how to enhance the economy because they do contribute to economic growth and stability. Sector stability in the finance sector helps maintain economic stability (Baral, 2005). There have been a few studies done on the variables affecting the profitability of financial companies in Nepal. For instance, Joshi (2004) found that liquidity and loans from finance companies have a positive relationship with profitability. Maharjan (2007) found that capital adequacy and liquidity have a positive relationship with profitability. Karki (2004) found a positive relationship between capital adequacy and profitability.

Bodla et al.'s investigation and identification of the critical variables that influence the profitability of public sector finance organizations in India took place in 2007. The results of the study show that a number of variables, including NII, OE, NPA, and CD ratio, are significantly significant. Operating expenses, provision for contingencies, non-interest income, and spread all have a big impact on net profit. Giannopoulos et al. (2017) found that the GDP growth rate had a positive impact on the financial companies' profitability. According to several past research findings (Haryanto, 2016), OEOI has a negative and significant impact on the profitability of financing organizations. The results of a different study, however, indicate that OEOI has no appreciable effect on profitability (Sabir et al., 2012). According to Hermanto and Setiawan (2017), NPL, LDR, CAR, NIM, and OEOI have a substantial impact on profitability.

The net profit margin displays how profitable a business is in relation to all of its assets. By examining the net profit margin, a manager or analyst can ascertain how effectively a company's management utilizes its assets. The return on equity is displayed as a percentage. Investors assess how much of a company's earnings are returned to shareholders' equity using the important profitability statistic known as ROE. This metric demonstrates how effectively a business is recouping the money investors have staked in it (by buying its stock). To calculate return on equity, divide net income by shareholders' equity (Hermanto & Setiawan, 2017).

The study tries to analyze the present profitability of finance companies, which would give the answers of following queries.

i) What is the status of factors affecting profitability of finance companies in Nepal?
ii) How is the relationship between factors and profitability of finance companies in Nepal?
iii) What is the impact of various factors on profitability of finance companies in Nepal?

1.3 Objectives of the Study

The main objective of the study is to have comparative study on profitability of finance companies in Nepal. The specific objectives are as under;

i) To analyze the status of factors affecting profitability of finance companies in Nepal.
ii) To examine the relationship between factors and profitability of finance companies in Nepal.
iii) To assess the impact of various factors on profitability of finance companies in Nepal.

1.4 Research Hypotheses

The study incorporates the following hypotheses formulated on the basis of research framework of the study.

H1: There is significant relationship between non-performing loan and return on equity.
H2: There is significant relationship between dividend per share and return on equity.
H3: There is significant relationship between price earnings ratio and return on equity.
H4: There is significant relationship between market price per share and return on equity.
H5: There is significant relationship between earnings per share and return on equity.
H6: There is significant relationship between non-performing loan and net profit margin.
H7: There is significant relationship between dividend per share and net profit margin.
H8: There is significant relationship between price earnings ratio and net profit margin.
H9: There is significant relationship between market price per share and net profit margin.
H10: There is significant relationship between earnings per share and net profit margin.

1.5 Rationale of the study

The purpose of this study is to provide valuable insights and benefits to various stakeholders, including scholars, academicians, investors, researchers, and students

specializing in professional and management fields. The primary objective is to emphasize the significance of effective Financial Performance Management for the long-term prosperity of financial institutions. This study aims to enlighten decision-makers about the critical role that Financial Performance Management plays in ensuring a promising future for financial organizations. It also serves as a guide for departments within these institutions on how to optimize their financial performance, especially in an ever-evolving business landscape where strategic competitiveness is crucial for success.

In the current scenario, financial companies must focus on enhancing their competitiveness, achieving financial stability, and fostering growth potential. To accomplish these goals, they need to carefully formulate plans and strategies. This study intends to offer well-founded and practical insights that can prove beneficial and rational for all stakeholders involved. Furthermore, this research holds a pivotal role in shaping managerial decisions. In today's dynamic business environment, every organization must continually assess its profitability at various stages of its operations, as well as during promotional and expansion initiatives.

1.6 Limitations of the Study

The study has the following limitations.

i) Out of 17 finance companies in Nepal, five finance companies have only been taken as sample.

ii) The study only deals with variables such as net profit margin, earnings per share, price earnings ratio, dividend per share, and non-performing loan return on equity.

iii) The study has only considered employed sample period from fiscal year 2013/14 to 2022/23.

iv) The study has constructed under descriptive and causal comparative research design along with widely used financial tool i.e. ratio analysis and statistical tools such as mean, S.D., C.V., correlation and regression analysis in order to get major findings and conclusions.

v) The findings of this study may not be applicable to international finance companies.

CHAPTER-II
LITERATURE REVIEW

The literature review consists of conceptual reviews, empirical reviews, review of Nepalese context, research framework and definition of variables and research gap.

2.1 Conceptual Review

Furthermore, profitability is an important aspect in assessing the health and growth potential of a company and it is closely monitored by investors, creditors and regulators in the Nepali context. Profitability indicators such as profits, liquidity, solvency and efficiency are used to evaluate a company's financial position and any weaknesses or deviations can lead to penalties or legal action. Therefore, Nepali businesses must prioritize profits and strive to maintain a healthy financial situation to attract investment, loans and support their development.

Joshi (2004) analyzed profitability through the use of appropriate financial tools and pointed out the causes leading to changes in the cash position of two financial companies. In it he stated that the profits of financial companies use return on equity, return on equity, and dividends per share. Research shows that financial company liquidity and lending have a positive relationship with financial company profitability. Karki (2004) found that the liquidity ratio was relatively volatile over the period, the return on equity was satisfactory and there was a positive relationship between deposits and loans. Recommendations are made regarding the current liquidity position of financial companies and financial institutions that must be alleviated through appropriate investment policy.

The profitability of financial companies refers to the difference between the amount of profit earned from assets and the cost of liabilities. Profitability depends on a financial company's ability to generate sufficient revenue or reduce operating costs, which requires operating more efficiently. It is measured by ratios such as (return on company assets, return on equity and dividends per share) that summarize a large amount of financial data and allow for qualitative assessments. on company profits (Velampy & Niresh, 2012). In theory, the profitability of financial companies is considered a function of both micro and

macro factors. Micro variables include balance sheet accounts and income statements that can be controlled by management.

Financial companies are now considered the main driving force of financial institutions in Nepal (Hui & Jha, 2012). Financial companies play a significant role in the development and improvement of the economy, and play an important role in the growth and sustainability of the service sector and the economy as a whole. The stock market has been dominated by financial companies. The financial company sector accounts for 75% of the total 194 listed companies (Sharesansar, 2018). Not only the stock market but also financial companies also contribute significantly to the country's revenue. They pay significant taxes every year.

2.1.1 Concept of Profitability

Nowadays, profit analysis takes precedence over other aspects emphasized in the interpretation of financial statements in developed and developing countries. Financial analysis is more external than internal; Profit analysis is both internal and external. The profitability of a business demonstrates its financial capacity and tends to improve its ability to generate income.

Profitability is often defined as the likelihood that a given investment can yield a profit for its use. The term profit is made up of two words profit and capacity. The word profit has been defined in many ways: it is the amount of money obtained by subtracting total costs from revenue. The term capacity reflects a company's ability to earn profits. Capacity is also known as earning power, earning capacity or performance of the investment concerned.

The overall goal of a business is to earn at least a satisfactory return on the money invested, while maintaining a healthy financial position. Adequate returns depend on a number of factors including the nature of business risks involved in the business, etc. If the business does not make a profit, the invested capital is eroded and if this situation continues, the business may eventually cease to exist.

Profitability analysis helps to critically analyze and interpret the current and future profitability of companies. This becomes even more important because in companies there

are income goals that help guide the behavior of managers and other employees. It also helps external users of accounting information related to a specific company, namely: bondholders, shareholders, potential investors, financial companies and other creditors as well as various institutions. Government agencies maintain economic health through corporate net profits. Common size reports are thumbnails of the original. These reports are especially useful for analysts when studying the current financial position and operating results of a company, especially when comparing between companies in the same industry in different years and between different companies over the course of a year.

2.1.2 Factors Affecting the Profitability

There are several factors specific to financial companies that affect the profitability of financial companies, which are:

Interest rates are the main source of revenue for financial companies. When interest rates are high, financial companies tend to earn higher profits and when interest rates are low, their profits suffer (Chanra, 2015). The asset quality of financial companies directly affects their profits. A large amount of bad debts can lead to higher provisioning for bad debts, which can eat into a financial company's profits (Chanra, 2015).

Operating efficiency – Profitable operations are essential for financial companies to maintain profitability. A financial company with high operating costs will have lower profits than a financial company with a lower cost structure (Chanra, 2015).

Capital adequacy – The amount of capital that financial companies must hold affects their profitability. Financial companies with higher capital ratios tend to enjoy greater investor confidence, which can help reduce their borrowing costs and increase their profits (Chanra, 2015).

Liquidity Management – Financial companies must manage liquidity effectively to maintain profitability. If they have too much cash, their profits can suffer, and if they have too little, they may face liquidity risk, which can also affect their profits (Chanra, 2015). Productivity – To maintain profitability, financial companies must grow strongly and continuously introduce new products and services that suit customer needs (Chanra, 2015).

Regulation – Regulations and compliance requirements can affect the profitability of financial companies as they can incur high compliance costs (Chanra, 2015).

Overall, financial companies need to focus on controlling costs, managing risk, improving operational efficiency and adapting to industry trends to maintain profitability. Modern financial assessment has greatly influenced the role and importance of financial activities. Today, finance is characterized by constant development with new ideas and techniques. Only an effective manager of the company can achieve the set goals. If a financial company does not maintain enough capital, there is more risk. If a financial company does not have enough equity capital, it must use additional debt with high fixed costs. Therefore, any company must have enough equity in its capital structure. The main goal of the Finance Company is to collect as many customer deposits as possible and mobilize them in the most profitable area. If a financial company fails to utilize the resources it collects, it will not be able to generate revenue (Chanra, 2015).

Resource mobilization management of a financial company includes resource acquisition, portfolio loans and advances, working capital, fixed asset management, etc. It measures the level of successful utilization its resources. To measure the performance of a financial company in many aspects, we need to analyze the company's financial indicators using financial reports (Vanhome, 2015).

Financial analysis is the process of determining the financial strengths and weaknesses of the financial company concerned. It is the process of finding out the strengths and weaknesses of the financial company concerned. It is the process of finding details about the accounting information provided in financial statements. It is done to determine the liquidity position, solvency, efficiency and profitability of an organization. The function or activity of finance can be divided into three main decisions, which are investment decisions, financing decisions and dividend decisions. The optional combination of the three decisions will maximize the value of the company (Gupta, 2015).

2.1.3 Importance of Profitability

Clearly, Finance Company profitability matters for financial stability. Profits are the first line of defense against losses from credit impairment. Retained earnings are an important

source of capital, enabling Finance companies to build strong buffers to absorb additional losses. Those buffers ensure that Finance companies are able to provide financial services to euro area households and businesses, even in the face of adverse developments, thereby smoothing rather than amplifying the impact of negative shocks on the real economy.

Profitability ratios are a group of quantitative values that measure a company's profitability against its revenue, cost of sales, equity, and balance sheet assets. A metric that measures a company's ability to generate revenue from operations over a given period of time. Profitability ratio is a type of financial ratio used by investors, financial companies, financial institutions, creditors and other stakeholders to evaluate a company's financial performance in terms of profitability. annual profit.

These ratios help them evaluate the current profitability of an entity by using or managing existing resources to generate profits and add value to its shareholders or owners. . For example, gross profit margin is a ratio used to evaluate how effectively a company manages costs compared to its competitors or the industry average. If the profit margin is high compared to its competitors, it means the company can generate a high profit from $1 spent compared to its competitors or the industry average. While these ratios are important to most key stakeholders, the ratios themselves have limitations.

Gross profit margin is a measure of the profit earned from sales. It refers to the profit portion of total revenue earned after deducting the cost of goods sold. This is important because gross profits include management and office expenses as well as dividends distributed to shareholders. The higher the gross profit, the more profitable the business is and a good investment to make. As mentioned above, it is also used to evaluate the effectiveness of cost management. If calculations show that this ratio is current, then the main areas for review or improvement are purchasing as well as production in terms of economics and efficiency.

Net profit margin is the final ratio that represents the overall performance of a company. It can be said that this is the most important ratio for management, because any disturbance in other ratios also indirectly affects the net profit margin. For example, a low quick ratio could be due to low sales, which would obviously also reduce net profit margins. This ratio is important because it can help a company or investor see where things might be going

wrong in the company's current operating expenses. Perhaps the interest expense is too high because the financial strategy favors loans rather than equity.

While net profit margin is an important metric for the business itself, return on equity is one of the most important ratios for investors. It is the percentage of profits that shareholders receive in exchange for the money invested in the company. The higher the ROE, the higher the dividends received and therefore will attract more investors. Return on capital employed (ROCE) measures how effectively a company uses its assets. It helps the management minimize inefficiencies by evaluating the ROCE ratio. The higher the ROCE compared to other industries, the more efficient the company's production process is. Return on equity (ROA) is a measure of each dollar of income earned for each dollar of capital.

2.2 Theoretical Review

The profitability of financial companies not only affects financial companies, but it also has an impact at the macroeconomic level. In the current environment, the profits that financial companies earn reflect their financial performance. Financial companies are one of the important components of the financial system and economy. In recent years, financial companies have contributed significantly to the financial development of the regional economy. Financial companies are responsible for allocating capital to organizations and individuals in need. They deposit money from organizations and individuals who have excess funds. Therefore, they are responsible for raising capital. The financial performance of financial companies affects capital allocation, business expansion, economic growth of industries and the development of the economy. Financial companies are in a stable state and earn high profits if the financial company's profitability index is maintained (Goddard et al., 2004). Therefore, profit becomes an important factor in the operations of financial companies and affects many fields. Therefore, the factors affecting the performance of financial companies in the financial sector have attracted the attention of many researchers and supervisors of financial companies and financial markets. Researchers began conducting research on the performance of financial companies between 1970 and 1980. They applied two models called structural efficiency theory and market power theory (Athanasoglou et al., 2006).

2.2.1 Balanced Portfolio Theory

Another theory called balanced portfolio theory helps determine the returns generated by financial companies. It has also been used in studying the profitability of financial companies (Nzongang & Atemnkeng, 2006). The performance of financial companies is influenced by the market structure of the industry, as determined by Tregenna's (2009) theory of market power. The SCP and RMP theorems are two different approaches to market power theory. The SCP approach holds that financial firms in highly concentrated markets have more potential to increase profits than firms in lowly concentrated markets, because financial firms have greater opportunity to increase profits associations receive deposits at lower interest rates and lend at higher interest rates due to the presence of a monopolistic environment (Tregenna, 2009). The RMP approach holds that the profits earned by financial firms are influenced by their market share. This approach assumes that financial firms offering differentiated products can determine prices and enjoy greater market power (Trregenna, 2009).

2.2.2 Market Efficiency Theory

Another theory called efficiency theory holds that financial companies operate more efficiently than other companies and therefore generate more profits. This theory also has two different approaches called scale efficiency and X efficiency hypotheses. X efficiency states that firms operate efficiently thus have lower costs; they benefit more than others. On the other hand, the efficiency of scale approach focuses on large-scale production and ignores differences in production management and technology. Large companies benefit from economies of scale, resulting in low unit product costs and high profits for the company. Therefore, they have high market shares, leading to higher profits (Athanasoglou et al., 2006). Balanced portfolio theory also plays an essential role in studying the performance of financial companies (Nzongang & Atemnkeng, 2006). This theory holds that policy decisions influence the optimal presence of each asset in a shareholder's investment. These decisions are influenced by a number of factors such as rate of return, portfolio size and risk associated with holding each asset. High returns can be achieved through a wide range of liabilities and assets that can be recognized by management and expenses incurred by financial companies. Financial firm performance is also affected by

signals, balance sheet ratios, financial firm costs, and risk/return trade-offs. Therefore, the equity-to-assets ratio also plays an important role in determining the performance of financial companies.

The theory of Modigliani and Miller (1958) suggests that the market value of a financial company does not affect the capital structure of a financial company. According to financial theory, high debt levels and low equity-to-asset ratios lead to high risk and high returns. This also explains the risk-return trade-off theory (Van Ommeren, 2011). Some researchers also explain that higher returns can be achieved through a high equity-to-assets ratio. According to Berger, these explanations are a consequence of the application of the signaling and cost hypotheses by financial firms. The market value of financial firms increases with high equity ratios according to the signaling hypothesis (Berger, 1995). On the other hand, the cost of financial firm hypothesis posits that financial firms hold high equity because the cost of financial firms to avoid financial debt is surprisingly high (Berger, 1995).

2.3 Empirical Review

Hudgins (2008) affirms the view that ROA is one of the most important profitability measures in the financial company literature. Therefore, in this study, ROA is used to measure the financial performance of financial companies in Nigeria. Therefore, ROA has a significant relationship with financial company-specific variables such as interest margin ratio and bad debt ratio.

The performance of financial companies can be measured by return on equity (ROA), which reflects the financial company's management ability to generate profits from available assets. Athanasoglou, Brissimis, and Delis (2008) argue that ROA is considered the basic performance index used in the majority of empirical studies. In the article on Financial Performance of Finance Companies, the financial performance of two leading finance companies namely J&K Finance Company and Punjab National Finance Company operating in North India has been evaluated. price using CAMEL model. The results show that the position of the financial companies studied so far is healthy and commendable in terms of capital adequacy, asset quality, management capacity and liquidity (Sangmi & Tabasum, 2010).

Kumbirai and Webb (2010) studied the performance of the South African financial corporations sector during the period 2005-2009. Financial ratios are used to examine the profitability, liquidity and credit quality of five financial companies based in South Africa. The study concluded that the overall performance of financial companies increased significantly in the first two years and that there was a significant trend change at the onset of the global financial crisis in 2007, peaking in year 2008-2009. This has resulted in falling profits, low liquidity and deteriorating credit quality in the South African financial corporate sector.

Mohd et al. (2010) argue that the management of bad debts is often accompanied by high operating costs, leading to reduced capital growth rates in related financial companies. Non-performing loans (NPLs) reduce the liquidity of financial companies, distort credit expansion and slow real sector growth, with direct consequences on operating efficiency. of financial companies.

Somoye (2010) concludes that bad debt also reduces investors' confidence in the financial company system, thereby preventing them from making sound investments. For the Nigerian financial company sector, something needs to be done seriously and urgently to restore the confidence of financial company customers in the sector. Trust is one of the factors that financial companies must offer to gain the favor of customers.

Internal factors are financial company specific variables that affect the profitability of a particular financial company. These factors are within the financial company's reach to manipulate and they vary from financial company to financial company. They include capital size, deposit size, credit portfolio size and structure, interest rate policy, labor productivity and information technology status, risk level, management quality, financial company model, ownership, etc. The CAMEL framework is often used by researchers to represent specific elements of financial companies (Dang, 2011). CAMEL stands for Capital Adequacy, Asset Quality, Management Efficiency, Earning Capacity and Liquidity.

Poor asset quality led to the bankruptcy of many financial companies in Kenya in the early 1980s (Olweny & Shipo, 2011). The results show that, before the global recession, the group of foreign financial companies had an advantage over other areas of financial

companies. So far, the performance of private, nationalized and SBI financial companies is found to be satisfactory (Puneet & Sonali, 2011).

The results show that the capital adequacy ratio, interest expense on total debt and dividends per share have a significant impact on return on equity. In particular, the capital adequacy ratio greatly affects the return on equity (Jha & Hui, 2012). In a study comparing the performance of different financial company groups during the global economic recession period 2006-2010, the performance of financial company groups was compared based on credit deposit rates and their NPAs.

Mohammed et al. (2012) examined the economic determinants of bad debts by using correlation and regression analysis to analyze the impact of selected independent variables and the results showed that interest rates, crisis Energy crisis, unemployment, inflation and exchange rate have a significant positive relationship with bad debt. make loans. NPLs of Pakistan's financial corporate sector, while GDP growth rate has a significant negative relationship with NPLs of Pakistan's financial corporate sector. The study on the financial performance of financial companies in Tanzania showed that the overall performance of financial companies increased in the first two years of the study. Looking at the currency's performance despite the 2008-09 global financial crisis, one can see how the country's financial conglomerate system remains stable and largely funded and supported. (Ally, 2013).

The results of the study show that the independent variables of the CAMEL framework largely explain the performance variables, specifically return on equity and return on equity. Private financial companies are better positioned than public financial companies in terms of asset quality, management quality and earnings capacity, while public financial companies are better in terms of safety. full capital. However, the liquidity position is high for both private and public financial companies (Anteneh et al., 2013). Mwangi (2014) found return on equity (ROA) as the dependent variable and NPL as the independent variable. The study applied a simple linear regression model of the form $Y = a+bx$ to determine the impact of bad debt on the financial performance of financial companies. The results obtained in the study confirm that in the first years of the study there was a large

amount of bad debt, leading to very low ROA. However, the following years showed a different trend, with higher ROA and lower bad debt.

Liquidity ratios measure a financial company's ability to meet its current obligations. Financial companies make money by mobilizing deposits and providing capital to creditors. Therefore, financial companies must be conscious of respecting payments when requested by depositors. The financial company's inability to meet depositors' needs leads to liquidity risks. Fund management must therefore ensure that the organization can maintain sufficient levels of liquidity to meet its financial obligations in a timely manner; and have the ability to liquidate assets quickly with minimal losses (Mulalem, 2015).

Ekanayake and Azeez (2015) observe that financial firms with high credit growth are associated with reduced levels of bad debt, while large financial firms experience fewer defaults than smaller firms small finance. However, research shows that when considering macroeconomic variables, bad debt fluctuates negatively with GDP growth rate, while inflation has a positive relationship with the basic interest rate.

The financial performance of a financial company can be measured by the financial company's achievements in terms of profitability, service quality, customer satisfaction and other related aspects. The profitability of a financial company represents the efficiency with which the financial company uses its total resources to maximize net profits and thus serves as an indicator of the degree of efficiency in its use and Asset Management. Currently, the Indian financial conglomerate system is facing some difficult challenges. The higher this ratio, the higher the profit for shareholders and vice versa (Mustafa & Taqi, 2017).

Hawaldar et al. (2017) revealed that conventional retail finance companies, with the exception of Bahrain Development Finance Company, showed stable performance in terms of return on equity and return on equity. Among Islamic retail finance companies, Kuwait Finance Company's performance is quite positive in terms of profitability. Hawaldar et al. (2017) found that personnel cost-to-income, cost-to-income, asset utilization, and operating efficiency ratios were higher in wholesale conventional and Islamic finance companies than in retail finance company.

There must be a reasonable balance between liquidity and profitability. Among assets, cash investments are the most liquid assets of a financial company. In general, financial companies with larger volumes of liquid assets are considered safe because these assets will allow them to cope with unexpected withdrawals (Amin, 2018).

Khalid et al. (2019) study from the study, it can be said that liquidity does not have as significant an impact on return on assets (ROA) or return on equity (ROE) as financial performance. The researcher is involved in the study and also believes that further research is needed to substantiate the empirical findings of this study. Georgios and Elvis (2019) show that financial companies are generally well capitalized. Furthermore, capital adequacy issues remain unresolved outside of FYROM and Serbia. Financial companies have had major problems with asset quality and even liquidity. The issue of capital adequacy was not raised but was later raised due to the financial crisis and during this period, due to the size of deposits, difficulty in finding funding, increasing bad debts and falling interest rates. . income. Another issue for financial companies is the quality of risk management. The management quality of Balkan Finance companies has a lot of room for improvement. There is also a major problem with the immediate liquidity of financial companies, with the exception of Albania's NCB, which appears to have no problem as its deposits are sufficient for lending. In other words, deposits are more than loans.

Saikrishna and Varghese (2020) show that both financial companies maintain the level of regulation of the CAMEL model. When we compare HDFC Finance, its indices are better than SBI. In terms of capital adequacy, asset quality, management efficiency and profit quality, HDFC Finance Company has the best indicators. SBI has just good ratio in terms of liquidity. Among the 17 ratios used in this CAMEL analysis, HDFC Finance Company, a private sector financial company, is the best performer.

Bashatweh and Ahmed (2020) recommended that financial companies reduce their operating costs and manage them in a better way and that the management of Jordanian financial companies should review the policies and strategies followed in providing the necessary facilities and levels of assurance as well as the level of assurance. Guarantee request. as well as debt monitoring procedures. The study also recommends that the

management of financial companies develop accurate and organized liquidity plans to achieve consistency between assets and obligations in terms of maturity and distribute them among different uses. transferable credit against liquidity balances. . Finally, other researchers should conduct research on Islamic Finance companies in addition to all the Finance companies listed on ASE.

Muktuf and Hazim (2021) show that financial companies ranked third in overall financial performance according to the aggregate classification results of the CAMELS model over the years studied, in addition to asset management capabilities The company's poor finances.

Binh and Dung (2021) study factors affecting the profitability of financial companies in developing countries in Asia, including Vietnam, Malaysia, and Thailand. The authors used panel data from four units; 10 financial companies in Vietnam, 8 financial companies in Malaysia, 9 financial companies in Thailand and all 27 financial companies from the period 2012 to 2016. Through research, notable similarities especially all units show a significant negative relationship between operational risk and profitability of financial companies. Similarly, a significant negative effect of financial firm size on profitability is found in the Vietnamese and Thai models and has no significant impact in the Malaysian model. The most controversial results concern the negative relationship between CAR and profitability indicators as well as the positive relationship between credit risk and profitability of financial companies.

The most striking similarity is that all units note a significant negative relationship between operational risk and profitability of financial firms. Similarly, a significant negative effect of financial firm size on profitability is found in the Vietnamese and Thai models and has no significant impact in the Malaysian model. At the same time, the most controversial results concern the negative relationship between CAR and profitability indicators as well as the positive relationship between credit risk and profitability of financial companies (Dao & Nguyen, 2022).

Afif et al. (2023) found that the novelty of this observation is that management style, activity enjoyment, and work environment according to Islamic concepts can enhance

employee motivation during the work process. , thanks to which the overall performance of Islamic finance companies can be higher and the market share of Islamic finance companies can also explode. The theoretical implication is that the variables of management style, entrepreneurial enthusiasm, and work environment should be used as theories and metrics to evaluate the overall performance of financial companies. Islamic. Management implications are based on priorities, including management style, enjoyment of life, work environment and motivation. Pattern is a portion of the quantity and characteristics that a population possesses. Conclusions drawn from modeling may be relevant to the population, and modeling performed with the population should be representative.

Connell (2024) demonstrated that all factors unique to the finance company have a significant and expected impact on the profitability of the company. The SCP hypothesis, however, was not supported by any evidence. Finance Company profitability is significantly influenced by interest rates, particularly longer-term interest rates, and the rate of inflation, with the business cycle having a relatively insignificant effect once other variables have been taken into account. The market for UK finance companies continues to be profitable to a modest level, showing a break from a perfectly competitive market structure.

Fitriawati (2025) investigated the influence of key financial ratios on the profitability of banking companies listed on the Indonesia Stock Exchange during the period 2018–2022. The study employed a quantitative research approach utilizing secondary data sourced from the official exchange website. A total of 23 banking companies were selected, and hypothesis testing was conducted through Multiple Linear Regression using SPSS version 26. The study focused on the Capital Adequacy Ratio (CAR), Non-Performing Loans (NPL), Liquidity, and Leverage as independent variables, while Return on Assets (ROA) was used as the dependent variable representing profitability. The empirical findings demonstrated that both Non-Performing Loans (NPL) and Leverage had a significant and negative impact on profitability, indicating that higher levels of problematic loans and excessive reliance on debt adversely affect financial performance. In contrast, Capital Adequacy Ratio (CAR) and Liquidity were found to have no significant impact on

profitability, suggesting that these variables do not directly contribute to the generation of earnings within the sampled banking institutions. These results underscore the need for effective risk and leverage management strategies to enhance bank profitability.

Berliana et al. (2025) conducted a comprehensive study on the profitability determinants of commercial banks in Indonesia by examining financial ratios, macroeconomic variables, and ownership structure. The study used panel data regression analysis with EViews 12 and analyzed financial reports from 32 commercial banks over the period 2017–2023, resulting in a dataset comprising 224 observations. Variables such as non-interest income, size, loan loss provision, capital adequacy ratio, overheads, non-performing loans, inflation, interest rate, and foreign ownership were included in the model. The results revealed that loan loss provision, capital adequacy ratio, overheads, and non-performing loans significantly influenced profitability. These findings highlight that bank performance is substantially shaped by credit risk management and operational efficiency. Conversely, variables like non-interest income, size, inflation, interest rate, and foreign ownership exhibited no significant relationship with profitability. The study further emphasized the need for managerial attention towards internal financial decisions, asset utilization, and operational control to foster enhanced profitability outcomes. It also recommended the inclusion of additional firm-specific factors such as tangibility, sales growth, and firm age in future research to build a more robust understanding of profitability drivers across sectors.

Table 1

Summary of Literature Review of Previous Studies

Author	Major Findings
Hudgins (2008)	Finance industry-specific characteristics like the interest margin ratio and the non-performing loan ratio have a substantial impact on ROA.
Athanasoglou et al. (2008)	The bulk of empirical research employ ROA as a core performance metric.
Sangmi and Tabasum (2008)	Shown that, as far as their capital sufficiency, asset quality, management ability, and liquidity are concerned, the condition of the finance businesses under examination is sound and commendable.

Kumbirai and Webb (2010)	As a result, the South African finance businesses sector saw declining profitability, poor liquidity, and declining credit quality.
Somoye (2010)	Additionally, NPLs undermine investors' faith in the financial sector, which deters them from making sensible investments.
Mohd Karim and Sallahundin (2010)	Non-Performing Loans (NPLs) have a direct impact on the performance of Finance businesses by reducing their liquidity, distorting credit expansion, and slowing the growth of the real sector.
Dang (2011)	These include factors such as capital size, deposit size, credit portfolio size and composition, interest rate policy, labor productivity, and information technology state, risk level, management quality, and finance. Ownership and company size both have a big impact on financial success, or ROE.
Olweny and Shipo (2011)	Deprived asset quality and low levels of liquidity are the two key causes of Finance Company failures.
Puneet and Sonali (2011)	The outcome shows that, previous to the Global Recession, the Foreign Finance Company group outperformed other sectors of the finance industry.
Jha and Hui (2012)	The outcome demonstrates that Return on Equity is significantly influenced by the Capital Adequacy Ratio, Interest Expenses to Total Loan, and Dividend per Share.
Mohammad et al. (2012)	Revealed that GDP growth rate has a significant negative relationship with the non-performing loans of Pakistan's financial sector, while interest rate, the energy crisis, unemployment, inflation, and exchange rates have significant positive relationships with it.
Zawadi Ally (2013)	Although there was a financial crisis, the country's financial system maintained its stability and was well-financed and supported.
Anteneh et al. (2013)	In terms of asset quality, managerial quality, and earning potential, private finance companies outperformed public finance companies, whereas public finance companies performed better in terms of capital sufficiency. However, both private and state finance companies had strong liquidity positions.
Mwangi (2014)	The study's findings support the fact that there were many NPLs in the study's early years, which led to an extremely low ROA. Later years, however, revealed a distinct pattern with higher ROA and lower NPLs.

Mulalem (2015)	The fund management procedures should guarantee that an institution can swiftly and with little loss liquidate assets and maintain a level of liquidity sufficient to satisfy its financial obligations on schedule.
Ekanayake & Azeez (2015)	Regarding the macroeconomic variables, it was discovered that the prime lending rate was favorably correlated with inflation, whereas the growth rate of non-performing loans varied negatively with GDP growth.
Hawaldar et al. (2017)	It was discovered that wholesale Islamic and conventional finance companies have greater staff cost to income ratios, cost to income ratios, asset utilization rates, and operating efficiencies than retail finance companies.
Amin (2018)	Between liquidity and profitability, there must be a proper balance. The most liquid asset for a finance company is cash investments. Larger volumes of liquid assets tend to be seen as safer for finance organizations since they enable them to handle unforeseen withdrawals.
Khalid et al. (2018)	Financial performance measures such as return on asset (ROA) and return on equity (ROE) are not significantly impacted by liquidity.
Georgios and Elvis (2019)	There is also a significant issue with the immediate liquidity of finance businesses, with the exception of Albania's NCB, which appears to be unaffected because its deposits are sufficient for lending. Deposits, thus, are more valuable than loans.
Saikrishna and Varghese (2020)	When compared to SBI, HDFC Finance Company has better ratios. HDFC Finance Company has the best ratios in terms of capital sufficiency, asset quality, management effectiveness, and earnings quality. SBI only has good liquidity ratios.
Bashatweh and Ahmed (2020)	The study suggested that the managements of the finance businesses create precise and well-organized strategies for liquidity in order to ensure consistency between assets and obligations in terms of maturity and distribute them to uses transferable to liquid balances. Finally, in addition to all of the finance companies listed on the ASE, it is advised that other academics do studies on Islamic finance companies.
Muktuf and Hazim (2021)	According to the findings of the composite classification of the CAMELS model during the course of the years of research, in addition to the poor management of the Finance Company's assets, finance businesses received the third rating for their overall financial performance.

Dao and Nguyen (2022)	The most contentious finding, however, is the one showing a positive correlation between credit risk and profitability indicators as well as a negative relationship between CAR and profitability indicators.
Afif et al. (2023)	The managerial ramifications are implemented in accordance with priorities, including management style, activity enjoyment, work environment, and motivation. The pattern is a reflection of the amount and characteristics of the population as a whole. The findings from the pattern may be applicable to the population, and the pattern used to sample the population must be representative.
Connell (2024)	Finance Company profitability is significantly influenced by interest rates, particularly longer-term interest rates, and the rate of inflation, with the business cycle having a relatively insignificant effect once other variables have been taken into account.
Fitriawati (2025)	NPL and Leverage negatively and significantly affect ROA; CAR and Liquidity have no significant effect.
Berliana et al. (2025)	Loan Loss Provision, CAR, Overheads, and NPL significantly affect profitability; other factors are insignificant.

2.4 Review of Nepalese Studies

The quality of assets held by a financial company depends on the specific level of risk, the development of non-performing loans, and the health and profitability of the financial company's borrowers. Poor asset quality and low liquidity are two main causes of bankruptcy of financial companies (Baral, 2005).

Since the capital structure of both financial companies has high financial leverage, both financial companies should maintain and improve the debt and equity allocation by increasing the equity proportion. He also suggested that HBL improve the efficiency of using deposits in the form of loans and advances to generate profits. NBBL should try to maintain its current position on this issue. The profit situation of HBL is relatively better than that of NBBL (Regmi, 2007). The analysis of the liquidity of these financial companies suggests a different perspective here; NSBI's average current ratio is higher than NBBL. Therefore, SBI's liquidity position is in a normal state. Financial companies' revenues are a key indicator of revenue-generating activities. Despite the fluctuating trend in cash to balance ratio of finance companies and total deposits, NSBI finance company is

more efficient than NBBL in cash management i.e. capable of maintaining balance larger cash across its various deposits (Joshi, 2008).).

In some cases, EBL's liquidity position is slightly stronger while in others, NSBIBL's ratio is higher. It concluded that the liquidity situation of these two financial companies is good. NBBL makes better use of resources in income generating activities compared to EBL. They are following a downward trend while the return on total assets and profit margin or net worth of EBL is better than NSBIBL. It seems that the overall profitability of EBL is better than NSBIBL and both the financial companies have high financial leverage (Suman, 2010).

The current ratio of GIBL is slightly higher than that of NIBL. This shows that GIBL's ability to meet its due obligations in one year is better than NIBL's. NIBL has always maintained a slightly higher CRR than NRB requirements. This results in higher NIBL CRR levels than GIBL. This shows that the liquidity maintained by NIBL is stronger than GIBL. Higher NIBL standard deviation shows that higher CRR always comes with more risk, which reduces the profitability of financial companies (Silwal, 2018). Sanima Finance Company Limited and Agricultural Development Finance Company, both finance companies have low current ratio as CR of both finance companies is less than one time. The average ratio of investment in public securities to short-term assets of two financial companies is at a positive level. The average ratio of cash balances and finance company balances to total deposits has a high CRR compared to NRB guidelines (4%). The average ratio of loans and advances to savings is that both the financial companies manage the loan effectively (Sanjyal, 2019).

Khatri (2020) revealed that then using the Hausman test and fixed effects method, the results showed that asset quality (AQ) has a negative and significant relationship with return on equity. ownership (ROA), while it has a positive and significant relationship with return on equity. (ROA).). Cash deposit ratio (CADR) has a positive and insignificant relationship with return on equity (ROA) and return on equity (ROE). However, the study shows that Credit Deposits (CDR) has a positive but insignificant relationship with ROA and a negative and insignificant relationship with Return on Equity (ROE).

Gopali (2022) revealed that the liquidity position of both financial companies is healthy in case of effective mobilization of shareholder capital in profit-generating projects. Sanima Finance did not raise capital and NABIL tried to deliver higher profit margins to its shareholders. by making better use of their available capital than others. In terms of loans and deposit advances, Sanima Bank has used a larger percentage of its total deposits for loans and advances than NABIL Bank. NABIL has mobilized the highest proportion of total deposits in total investment.

Adhikari et al. (2023) found that mergers and acquisitions have become an effective strategic tool for integrating financial companies and financial institutions (BFIs) in Nepal to increase capital base, expand business and brings financial stability. This article evaluates the impact of mergers and acquisitions on the financial performance of two financial companies from 2013 to 2020 using 12 accounting ratios and a paired sample t test. Leading financial company results show that the impact of mergers on financial performance ratios is mixed, although there are significant improvements in return on assets, net interest margin and earnings per share. However, in the case of the second financial company, the merger and acquisition had a negligible impact on the financial ratios except for dividends per share (DPS) in the pre-post-merger period.

Bohara (2024) examined the relationship between internal determinants and profitability in Nepalese commercial banks, focusing on return on assets (ROA). The research includes data from twenty out of twenty-seven banks operating in Nepal for the fiscal years 2071/072 to 2075/076. Using multiple regression analysis, the study finds that factors like bank size, interest cost, management efficiency, liquidity risks, and operational efficiency negatively impact ROA, while employee efficiency has a positive and statistically significant relationship with profitability. The study suggests that banks should consider these internal factors to improve profitability, address liquidity issues, and enhance operational efficiency. Future research could explore external determinants and extend the analysis to other banking institutions in Nepal.

Thapa et al. (2025) explored the determinants of Capital Adequacy Ratio (CAR) among Nepalese commercial banks by analyzing the roles of bank size, Return on Equity (ROE), Return on Assets (ROA), and Non-Performing Loans (NPLs). The study employed a

quantitative explanatory and descriptive design and utilized secondary data from 19 commercial banks over a ten-year period (2015–2024), collected from bank websites and the Nepal Stock Exchange (NEPSE). Using SPSS version 2026, the researchers conducted correlation and regression analyses to examine the relationship between CAR and the selected financial variables. The findings revealed that bank size and profitability (ROA and ROE) positively influence the CAR, implying that larger and more profitable banks tend to maintain higher capital buffers. However, higher levels of NPLs and increased shareholder dividend distributions were associated with a decrease in CAR, suggesting that greater credit risk and profit payouts reduce retained earnings, thereby weakening capital adequacy. These results provide insights into how financial and operational policies influence regulatory compliance and financial resilience among commercial banks in Nepal.

Table 2

Summary of Literature Review of Nepalese Context

Author	Major Findings
Baral (2005)	A finance company's asset holdings are influenced by its exposure to certain risks, trends in non-performing loans, and the viability and profitability of its borrowers.
Regmi (2007)	Due to their significant leverage, both finance businesses are advised to maintain and enhance their debt and owner equity ratios by raising their equity stakes.
Joshi (2008)	The research of these finance businesses' liquidity reveals that they are in distinct positions; NSBI's average current ratio is higher than NBBL's. Because of this, SBI's liquidity situation is typical.
Suman (2010)	It has been determined that EBL has a higher overall profitability position than NSBIBL, and both finance companies have substantial levels of leverage.
Silwal (2018)	GIBL's current ratio is somewhat greater than NIBL's. This shows that GIBL's ability to fulfill its commitment due in a year is superior to NIBL's.
Sanjyal (2019)	The average ratio of current assets to investments in government securities for the two finance companies is adequate. When compared to NRB directions, the average cash and finance company balance to total deposit ratio has a sound CRR (4%).

Khatri (2020)	The relationship between the cash-deposit ratio (CADR) and return on equity (ROE) is both positive and insignificant. However, the analysis shows that return on equity (ROE) and return on assets (ROA) have negligible and insignificant relationships with credit deposits (CDR), respectively.
Gopali (2022)	The largest portion of NABIL's total deposits have been converted into total investments. In comparison to Sanima Bank, NABIL Finance Company has the highest return on assets based on profitability ratio. In comparison to Sanima Bank, NABIL Finance Company has a greater return on equity ratio. This suggests that NABIL Finance Company has a higher potential for profit growth than Sanima Bank.
Adhikari et al. (2023)	The results for the first Finance Company reveal that, despite notable gains in return on assets, net interest margin, and earnings per share, the impact of the merger on the financial performance ratios is mixed. With the exception of dividends per share (DPS) in the pre-post-M&A period, there is a little effect of M&A on the financial ratios in the case of the second Finance Company.
Bohara (2024)	The study finds that factors like bank size, interest cost, management efficiency, liquidity risks, and operational efficiency negatively impact ROA, while employee efficiency has a positive and statistically significant relationship with profitability.
Thapa et al. (2025)	Bank size and profitability positively influence CAR; NPLs and dividend payouts negatively affect CAR.

2.5 Review of Thesis/Dissertation

Gajmer (2024) conducted a comprehensive study titled Liquidity Management and Profitability of Nepalese Commercial Banks to evaluate the influence of liquidity management practices on the profitability of commercial banks in Nepal. The research specifically focused on factors such as the credit-deposit ratio (CDR), cash-deposit ratio (CADR), and asset quality (AQ) over a seven-year period, using data from ten prominent commercial banks. Regression analysis revealed a significant positive relationship between CDR and AQ with profitability indicators like return on assets (ROA) and return on equity (ROE). This study underscored the critical importance of effective liquidity management in maximizing financial returns and maintaining the overall financial stability of banks.

Mishra and Pradhan (2019), in their thesis Impact of Liquidity on Profitability of Nepalese Commercial Banks, explored the relationship between liquidity indicators and bank profitability. The research utilized secondary data from Nepal Rastra Bank's reports and financial records of various commercial banks. Key variables such as CDR, CADR, and AQ were analyzed to measure their impact on profitability. The study concluded that while a high credit-deposit ratio contributed to higher profits through increased income generation, poor asset quality resulting from high levels of non-performing loans (NPLs) posed a significant challenge to financial performance. The findings emphasized the importance of robust credit risk management practices to sustain profitability in Nepalese commercial banks.

Acharya (2020) conducted an in-depth study titled Determinants of Bank Profitability in Nepal, aiming to identify key internal and external factors influencing financial performance. Using a quantitative research design, the study assessed variables such as operational efficiency, capital adequacy, and market competition. The findings indicated that operational efficiency was a critical driver of profitability, as banks that minimized operational costs achieved higher returns. Conversely, high capital adequacy, while reducing financial risk, was found to limit profit margins. The study highlighted the necessity of balancing operational efficiency with regulatory compliance to ensure sustainable profitability in the banking sector.

Khadka (2022) examined the internal factors affecting the profitability of Nepalese development banks in the thesis Profitability Determinants in Nepalese Development Banks. The research analyzed the influence of credit risk, cost management, and asset utilization through data collected from employees and financial statements of these banks. Regression analysis identified credit risk management as the most significant factor affecting profitability, with reduced loan defaults contributing to improved financial performance. The study emphasized the importance of cost efficiency and credit risk strategies in driving the profitability of development banks, particularly in the context of Nepal's evolving financial landscape.

Shrestha (2021) conducted a study titled Effect of Macroeconomic Factors on Financial Performance of Nepalese Finance Companies, which evaluated how external economic

factors influence profitability. Using macroeconomic data, the study examined the effects of GDP growth, inflation, and interest rates. The findings showed that stable economic growth and controlled inflation positively impacted the performance of finance companies by fostering a conducive environment for lending and investment. However, volatile interest rates were found to increase uncertainty, negatively affecting financial operations. The study recommended that finance companies adopt adaptive strategies to mitigate risks arising from macroeconomic volatility and sustain profitability.

2.6 Research Gap

In this study, the major areas are to disclose the comparative profitability analysis of Nepalese finance companies. This type of research was done in few number in context of Nepalese finance companies. The data analyzed in this particular project are done by using statistical tools and financial tools. The inferential statistical tools consist of mainly descriptive, correlation and regression analysis. The linear multiple regress analysis had been employed in order to run and analysis the multiple regression analysis whereas the bivariate parsons' correlation analysis has also been done in order to evaluated the relationships among variables. Similarly, the number of observation of this study is only forty-eight as data ranges from 2013/14 to 2022/23 having four sampled Finance companies. Sanjyal (2019) undertook one government and one private owned finance companies. On the other hand, this study has taken all nature of finance companies such as government, private and joint venture owned finance companies. Hudgins (2008) has considered ROA as dependent and interest margin ratio and non-performing loan ratio as independent variables. However, this study has undertaken the variables such as return on equity and net profit margin as dependent, earnings per share, market price per share, price earnings ratio, non-performing loan ratio and dividend per share ratio as independent variables. Thus, this study is an attempt to fill the gap with previous studies has failed to.

CHAPTER-III
RESEARCH METHODOLOGY

Research methodology section consist of research design, population and sample, sampling method, types and source of data, collection of data, tools for analysis and research framework and definition of variables.

3.1 Research Design

Descriptive and comparative causal research designs underpin the study. For proper fact-finding and information-gathering regarding the effect of non-performing loans on the profitability of finance companies in Nepal, this study uses a descriptive research design. Additionally, this study is built on a causal comparative design, which aids in examining potential causes and effects between distinct dependent and independent variables. The financial performance of financing companies in Nepal has been evaluated using a casual comparative study design.

3.2 Population and Sample

All 17 financial organizations with NRB licenses that are actively conducting business in Nepal are included in the demographic data for this analysis (NRB, 2024). A sample is a representative portion of the population that has been chosen in order to study its characteristics. In contrast, sample data are those of the organizations that were chosen for research from the entire population using a purposeful sampling technique. The top 5 most paid up capital belongs to the selected companies.

Table 3

Sample Companies

SN	Name of Finance Companies	Paid up Capital (Rs. in Crores)	Abb.	Sample Period	N
1	ICFC Finance Limited	88.22	ICFC	2013/14-2022/23	10
2	Gorkha Finance Limited	86.80	GFL	2013/14-2022/23	10
3	Pokhara Finance Limited	85.83	PFL	2013/14-2022/23	10
4	Central Finance Limited	82.34	CTLFC	2013/14-2022/23	10
5	Shree Investment Finance Co. Ltd.	81	SIFC	2013/14-2022/23	10
	Total No. of Observations				50

Note: NEPSE, 2024

3.3 Sampling Methods

Five financial institutions make up the sample. The sample organizations for this study were chosen using a purposeful sampling strategy. The top 5 highest paid up capital factors were taken into consideration while choosing the sample finance company.

3.4 Types and Source of Data

Secondary data provide the foundation of this investigation. The information is gathered from the annual reports of a representative sample of finance companies, tax records, and financial reports released by finance companies. Secondary data is the most trustworthy source for this research study because it is simple to access the information at any time. Searching through secondary sources for the various sorts of data required for a study does not waste time.

3.6 Tools for Analysis

In terms of the data analysis tools used for this study, statistical and financial tools have been used, which is sufficient.

A) Financial Tools

A ratio simply expresses the quantitative relationship between any two variables by expressing a number in terms of another number. Any two financial statement items can be compared using a ratio. It implies that there may be as many ratios as there are things. The ratio analysis method makes it impractical to calculate all the ratios, though. Thus, only the necessary ratios have been calculated.

Ratio analysis aids in both quantitative evaluations of the firm's financial performance and summarization of the vast amounts of financial data. The expression of one figure in terms of another is called a ratio. Ratio is used as an index and yardstick for assessing a company's financial status and performance in financial analysis since it expresses the link between two previously independent financial numbers. Ratio analysis is a very effective and common tool for financial analysis. It is described as the methodical application of ratios to the interpretation of financial accounts in order to identify a firm's strengths and weaknesses, past performance, and present financial situation.

Making qualitative assessments about the firm's performance and financial status is helpful to the analysis. As a result, establishing relationships between different ratios and interpreting them in particular, based on comparisons between two or more firms or between firms as well as comparisons between present and previous ratios for the same firm, can help to examine the financial performance. A meaningful picture of the performance and financial situation of the company cannot be gained from the outdated accounting figure that is shown in the financial statement. When an accounting figure is connected to other pertinent data, it becomes meaningful. The link between two accounting statistics is thus expressed mathematically as the ratio. It helps to summarize large quantitative relationship helps to form a quality judgment.

Return on Equity (ROE)

The ratio of net income after taxes to the total equity capital is known as return on equity. A financial ratio called return on equity (ROE) measures a company's profitability in relation to the total amount of invested or shown on the balance sheet shareholder equity. The shareholders seek a return on equity (ROE) on their investment. It displays the rate of return on the capital that the Finance Company's stockholders have invested. It is expressed as a percentage of the average value of the assets on which the financial institution received income divided by the amount of loans and other assets on which it produced money during the specified time period, less the interest paid on borrowed funds.

$$\text{Return on Equity} = \frac{\text{Net income}}{\text{Total Shareholder's Equity}}$$

Non-Performing Loan Ratio

A loan that is not being repaid according to schedule and has been in default for a predetermined amount of time is referred to as a non-performing loan (NPL). Nonpayment is typically seen as zero payments of either principal or interest, depending on the terms of the loan, even though the precise components of non-performing status vary. The industry and type of loan have an impact on the specified duration as well. But typically, the time frame is either 90 or 180 days. A performance indicator of the effectiveness of a finance company is the non-performance loan ratio. The finance company is more effective the lower the ratio. Similar to this, a larger ratio is a sign of the Finance Company's ineffective

management. According to international finance companies' norms, a nonperforming loan ratio of up to 5% is acceptable (Kattel, 2014).

$$\text{Non-Performing Loan Ratio} = \frac{\text{Non-Performing Loan}}{\text{Total loan and advances}}$$

Dividend per Share

A financial term known as dividend per share (DPS) is used to calculate the dividend payments made to each shareholder for each share of stock they own. It is computed by dividing the total dividend a firm has paid by the number of shares of stock it has outstanding. Investors should consider the DPS since it offers information about the company's dividend distribution policy and the expected return on their investment. An improved dividend payment strategy, as shown by a larger DPS, can boost investor trust and draw in more capital.

$$\text{Dividend per Share} = \frac{\text{Total Dividend Paid}}{\text{Total No. of Share Outstandings}}$$

Net Profit Margin

The amount of net income or profit generated as a percentage of revenue is known as the net profit margin. The ratio of a company's or business segment's net earnings to revenues is known as net profit margin. Although it can also be given in decimal form, net profit margin is frequently expressed as a percentage. The net profit margin shows how much of each rupee in revenue that a business receives is converted into profit. The bottom line for a business is often referred to as the net profit. Net margin is another name for net profit margin. The terms "net profits" and "net income" on the income statement have the same meanings and can be used interchangeably.

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Total Revenue}}$$

Earnings per Share

EPS is a measure of a company's ability to turn a profit on each share that a stakeholder owns. A company's growth is typically shown by rising earnings per share, which drives up the stock price. According to Uddin and Rahman (2013), the market stock price and earnings per share are positively correlated. According to Malhotra and Tandon (2013),

market price and earnings per share have a positive connection, meaning that the market price per share would increase as earnings per share increased.

$$\text{Earnings per Share} = \frac{\text{Total Net Proift}}{\text{Total No. of Share}}$$

Price Earnings Ratio (P/E ratio)

According to Geetha and Swaaminathan (2015), this ratio enables an investor to determine how long it will take to recoup their investment in a company's stock. The P/E ratio illustrates the connection between the share price on the market and the earnings per share of a company. It shows how much the price of each share covers the earnings of each share.

$$\text{Price Earnings Ratio} = \frac{\text{Market Price per Share}}{\text{Earnings per Share}}$$

B) Statistical Tools

I) Descriptive Statistical Tools

The financial status of the sample finance companies' trends can be determined with the aid of descriptive statistical tools. Additionally, it examines how variables relate to one another and aids finance organizations in making the right choices with regard to achieving organizational objectives. In this study, descriptive analytical approaches including percentage, mean (arithmetic), variance, and standard deviation were used.

A) Average/ Mean

According to Elhance and Agarwal (2000), the arithmetic mean of a group of data is obtained by dividing the sum by the total number of observations. In general, if X_1, X_2.....X_n are the given N observations, then their arithmetic mean, denoted by $\overline{X}$ is given by, $\overline{X} = \frac{x_1 + x_2 + ... + x_n}{N} = \frac{\sum x}{N}$

Where, $\sum X$ = Sum of the observations, and N = Number of Years

B) Standard Deviation

The square root of the sum of the squares of the measured departures from the mean is the standard deviation. As a result, to calculate the standard deviation, the arithmetic average

is determined first, and the squares of the deviations of the various items from the arithmetic average. After adding up the squared deviations, the number of items is divided by the total. The series' standard deviation can be calculated by taking the resultant figure's square root (Elhance & Agarwal, 2000). Greek letter sigma is typically used to denote the standard deviation. If there are N observations in the collection X1, X2, Xn, then the standard deviation is given by,

$$\sigma = \sqrt{\frac{\sum (X - \overline{X})^2}{N}}$$

$\sum (X - \overline{X}) =$ Sum of the squares of the deviations measured from mean N = Number of Observations

C) Coefficient of Variation (C.V.)

To compare the variability of two distributions, the coefficient of variation is computed. According to Elhance and Agarwal (2000), a distribution with a lower C.V. is considered to be more homogenous, uniform, or less variable than the other, whereas a series with a higher C.V. is considered to be more heterogeneous or changeable. It is calculated as follows.

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

II) Inferential Statistical Tools

Contrary to data description, which focuses on describing sample data, inferential analysis concentrates on estimation or hypothesis testing and uses samples alone to draw conclusions about the population. Formally speaking, this procedure is known as inferential statistics. Inferential statistics can be divided into two main categories: parametric and non-parametric statistics. To arrive at findings and a conclusion in this study, parametric tests such correlation analysis, regression analysis, and hypothesis were used.

A) Coefficient of correlation (r)

A statistical tool known as the correlation is used to investigate the link between two variables. Correlation analysis includes methods and strategies for analyzing and determining the strength of the relationship between the two variables. An understanding

of the strength and direction of the relationship between the two variables under examination can be gained through correlation analysis. However, it neglects to consider the correlation between the variables' causes and effects (Elhance & Agarwal, 2000). The formula for computing the correlation coefficient, r, is as follows:

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

B) Regression Analysis

The definition of regression in the dictionary is "moving backward, going back, or returning to the average value." Regression analysis is a method for examining the relationships between variations in one series and variations in other series. The type and intensity of the association between the two variables are determined. Regression is the process of estimating unknown values or making predictions about one variable based on information about the values of other variables. Simple regression is a type of regression analysis that only considers two variables at a time. According to Sharma and Chaudhary (2008), the unknown value that has to be estimated or forecasted by the known value is referred to as the dependent (or regressed or explained) variable. The known value that is utilized for prediction (or estimation) is known as the independent (or regressed or predictor or explanatory) variable. Regression lines are lines that are fitted to a set of data points to infer the relationship between two variables. The line of best fit is one that was fitted using the least squares approach. For any given value of the other variable, a line of regression provides the most accurate estimate of the one unknown variable.

The Model Specifications

The model has been developed by undertaking the dependent variable i.e. return on equity and net profit margin and independent variables such as dividend per share, non-performing loan and liquidity.

$ROE = \alpha + \beta 1EPS + \beta 2NPLR + \beta 3DPS + \beta 4MPS + \beta 5PER + \varepsilon$

$NPM = \alpha + \beta 1EPS + \beta 2NPLR + \beta 3DPS + \beta 4MPS + \beta 5PER + \varepsilon$

Where,

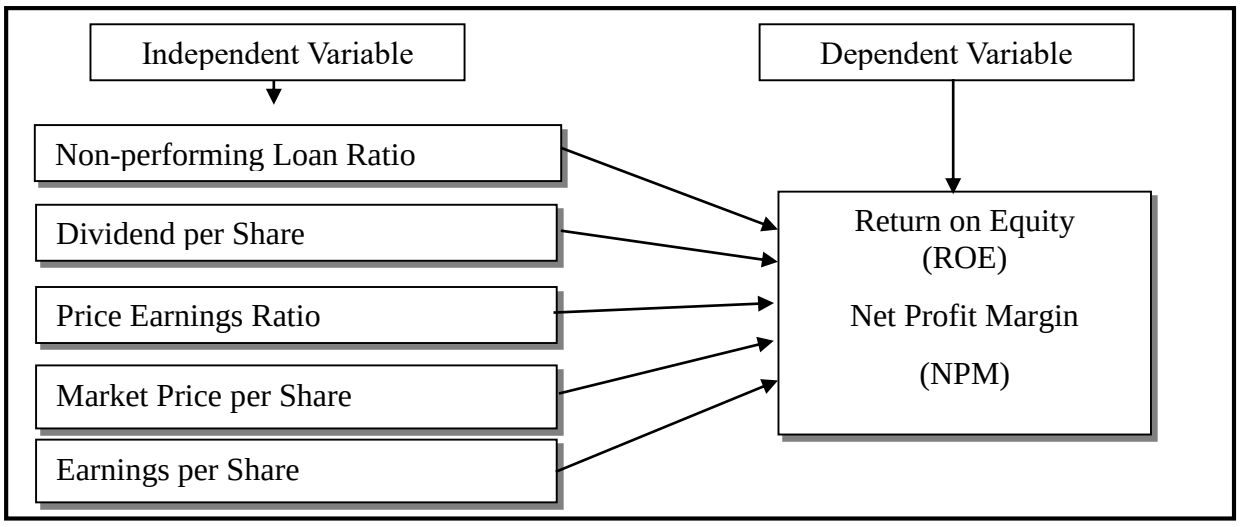
β_0	=	Intercept of the dependent variable
$\beta 1$ to $\beta 5$	=	Coefficient of the variables

ROE	=	Return on Equity
NPM	=	Net Profit Margin
MPS	=	Market Price per Share
NPLR	=	Non-performing loan ratio
EPS	=	Earnings per share
PER	=	Price Earnings Ratio
DPS	=	Divided per Share
ε	=	Error term

3.5 Data Collection Procedure

In this study, only secondary data were used for the analysis of the report. The research study includes secondary data which has been already published. The required data has been collected mainly through annual report of selected finance companies.

3.6 Research Framework



Source: *Jha and Hui (2012)*

Figure 1 Research Framework

3.7 Definitions of Variables

Non-performing Loan Ratio (NPLR)

The NRB has ordered all financing companies to set up loan loss provisions for questionable and bad loans. This ratio aids in reducing non-performing loans and aids in

credit control. A performance indicator of the effectiveness of a finance company is the non-performance loan ratio. The finance company is more effective the lower the ratio. Similar to this, a larger ratio is a sign of the Finance Company's ineffective management. According to the standards used by international finance companies, a nonperforming loan ratio of up to 5% is acceptable (Kattel, 2014).

Dividend per Share (DPS)

To determine it, divide the total cash dividend by the total number of outstanding shares. A cash dividend is a payment made to shareholders that often comes from the company's current earnings or accumulated profits. As opposed to being paid as a stock dividend, cash dividends are paid directly in cash.

A stock dividend is a dividend given to investors that takes the form of extra shares of the business rather than cash. Until the owner sells the shares awarded, stock dividends are not subject to tax. These stock dividends are often made on the proportion of shares that have already been issued. For instance, a corporation may declare a 10% stock dividend, in which case it must issue 0.10 shares for each share held by existing shareholders. Consequently, a shareholder who has 100 shares would also receive 10 more shares. Although it can lower earnings per share, the stock dividend has the advantage of rewarding the company's cash balance.

Price Earnings Ratio (PER)

According to Geetha and Swaaminathan (2015), this ratio enables an investor to determine how long it will take to recoup their investment in a company's stock. The P/E ratio illustrates the connection between the share price on the market and the earnings per share of a company. It shows how much the price of each share covers the earnings of each share.

Earnings per Share (EPS)

EPS is a measure of a company's ability to turn a profit on each share that a stakeholder owns. A company's growth is typically shown by rising earnings per share, which drives up the stock price. According to Uddin and Rahman (2013), the market stock price and earnings per share are positively correlated. According to Tandon and Malhotra (2013),

market price and earnings per share have a positive connection, meaning that the market price per share would increase if earnings per share increased.

Market Price per Share (MPS)

Share market price, which indicates each company's end-of-year price for the sample period. It is the cost at which one can purchase a share of firm stock on the open market, such as the stock exchange. The "going price" of a stock is what it is. When there are more buyers than sellers, the price will go up; when the opposite is true, the price will go down.

Return on Equity (ROE)

The ratio of net income after taxes to the total equity capital is known as return on equity. A financial ratio called return on equity (ROE) measures a company's profitability in relation to the total amount of invested or shown on the balance sheet shareholder equity. The shareholders seek a return on equity (ROE) on their investment. It displays the rate of return on the capital that the Finance Company's stockholders have invested. ROE measures a finance company's management's efficiency in allocating shareholder money (Khrawish, 2011).

Net Profit Margin (NPM)

The ratio of a company's or business segment's net earnings to revenues is known as net profit margin. Although it can also be given in decimal form, net profit margin is frequently expressed as a percentage. A company's net profit margin shows how much of every dollar in revenue it receives is converted into profit. The market price per share and net profit margin have a positive and strong link (Karki, 2018).

CHAPTER-IV

RESULTS AND DISCUSSION

The chapter results and discussion consist of descriptive analysis, correlation analysis, regression analysis, hypothesis testing, major findings and discussion of the study.

4.1 Results

The results deals with descriptive analytical tools such as mean (arithmetic), range, and, standard deviation have been incorporated with respect to variables such as earnings per share, market price per share, interest margin ratio, and non-performing loan ratio and price earnings ratio are predictors also called independent variables. On the other hand, net profit margin and return on equity are dependent variables.

4.1.1 Descriptive Analysis

The descriptive tools have been incorporated for getting the facts and adequate knowledge regarding the undertaken variables. The aim of incorporating these descriptive analytical tools is to obtain a clear understanding of the variables being analyzed, and to make informed decisions based on the insights generated. These insights can help the analyst to identify trends, patterns, and relationships between the variables, and make predictions about the future performance of the company.

Table 4

Descriptive Analysis

Variables	Minimum	Maximum	Mean	SD
NPLR	.02	12.96	2.27	2.83
DPS	5.50	54.93	20.17	13.48
PER	-864.88	459.61	14.20	144.46
MPS	92.00	1250.00	299.08	226.25
EPS	-9.16	99.26	17.43	18.46
ROE	-12.91	29.54	20.54	1.18
NPM	-8.35	106.49	19.23	16.13

The Table 4 illustrates the descriptive statistic for undertaken variables incorporating descriptive statistical tools like mean, standard deviation, maximum and minimum value. The statistics of NPLR (Non-Performing Loan Ratio) suggest that on average, finance companies have a non-performing loan ratio of 2.27%, with a standard deviation of 2.83%. The minimum value of 0.02 suggests that some companies have a very low proportion of non-performing loans, indicating that they have a high level of loan portfolio quality. On the other hand, the maximum value of 12.96 suggests that some companies have a high proportion of non-performing loans, which could be a cause for concern. For finance companies, it's important to have a low non-performing loan ratio as it indicates the quality of their loan portfolio and their ability to generate returns from their lending activities. If a company has a high non-performing loan ratio, it may indicate that the company is at risk of default and financial loss. The standard deviation of 2.83 suggests that the non-performing loan ratios of finance companies are dispersed, with some companies having ratios that are significantly higher or lower than the mean value of 2.27%. This highlights the importance of conducting a thorough analysis of a company's loan portfolio and credit risk management practices before making investment decisions.

The DPS (Dividend per Share) suggest that on average, finance companies pay a dividend of 20.17 per share, with a standard deviation of 13.48. The minimum value of 5.50 suggests that some companies have a low dividend payout, while the maximum value of 54.93 suggests that some companies have a high dividend payout. For investors, a high dividend payout can be attractive as it provides a steady source of income. However, it's important to consider that a high dividend payout may also indicate that the company has limited funds for reinvestment and growth. On the other hand, a low dividend payout may suggest that the company is retaining more earnings to finance future growth or has limited profits to distribute. The standard deviation of 13.48 indicates that the dividend payouts of finance companies are dispersed, with some companies having payouts that are significantly higher or lower than the mean value of 20.17. This highlights the importance of conducting a thorough analysis of a company's financial performance and dividend policy before making investment decisions.

The PER (Price-to-Earnings Ratio) suggest that on average, finance companies have a price-to-earnings ratio of 14.20, with a standard deviation of 144.46. The minimum value of -864.88 suggests that some companies have negative earnings, while the maximum value of 459.61 suggests that some companies are highly valued in the market. The price-to-earnings ratio is a commonly used valuation metric that measures the relationship between a company's stock price and its earnings. A high price-to-earnings ratio may indicate that a company is overvalued, while a low price-to-earnings ratio may indicate that a company is undervalued. The standard deviation of 144.46 indicates that the price-to-earnings ratios of finance companies are dispersed, with some companies having ratios that are significantly higher or lower than the mean value of 14.20. This highlights the importance of conducting a thorough analysis of a company's financial performance, earnings trend, and market conditions before making investment decisions.

The MPS (Market Price per Share) suggest that on average, finance companies have a market price per share of 299.08, with a standard deviation of 226.25. The minimum value of 92.00 suggests that some companies have a low market price, while the maximum value of 1250.00 suggests that some companies have a high market price. The market price per share is a measure of the current value of a company's stock. It's important to note that the market price per share is influenced by a variety of factors such as the company's financial performance, industry trends, and overall market conditions. The standard deviation of 226.25 indicates that the market prices of finance companies are dispersed, with some companies having prices that are significantly higher or lower than the mean value of 299.08. This highlights the importance of conducting a thorough analysis of a company's financial performance, industry trends, and market conditions before making investment decisions.

The EPS (Earnings per Share) suggest that on average, finance companies have earnings per share of 17.43, with a standard deviation of 18.48. The minimum value of -9.16 suggests that some companies have negative earnings, while the maximum value of 99.26 suggests that some companies have high earnings. Earnings per share is a measure of a company's profitability and is calculated by dividing a company's net income by the number of outstanding shares of its stock. A high earnings per share can indicate that a

company is financially strong and has a positive outlook, which can make it more attractive to investors. On the other hand, negative earnings per share may indicate that a company is struggling financially and may not be a good investment opportunity. The standard deviation of 18.48 indicates that the earnings per share of finance companies are dispersed, with some companies having earnings that are significantly higher or lower than the mean value of 17.43. This highlights the importance of conducting a thorough analysis of a company's financial performance, earnings trend, and industry conditions before making investment decisions.

The ROE (Return on Equity) suggest that on average, finance companies have a return on equity of 20.54, with a standard deviation of 1.18. The minimum value of -12.91 suggests that some companies have a negative return on equity, while the maximum value of 29.54 suggests that some companies have a high return on equity. Return on Equity (ROE) is a measure of a company's profitability and is calculated by dividing a company's net income by its shareholders' equity. A high ROE can indicate that a company is generating strong profits and is effectively using its shareholder's investments to generate returns. On the other hand, a negative ROE may indicate that a company is struggling financially and is not generating enough profits to cover its shareholder's investments. The standard deviation of 1.18 indicates that the ROE of finance companies are relatively consistent, with most companies having returns that are close to the mean value of 20.54. This may suggest that the overall financial performance of finance companies is stable and that the industry as a whole is performing well.

The NPM (Net Profit Margin) suggest that on average, finance companies have a net profit margin of 19.23%, with a standard deviation of 16.13%. The minimum value of -8.35 suggests that some companies have negative net profit margins, meaning that they are operating at a loss. On the other hand, the maximum value of 106.49 suggests that some companies have very high net profit margins, indicating that they are highly profitable. For finance companies, it's important to have a positive net profit margin in order to ensure the sustainability of their business operations and generate returns for their shareholders. If a company has a negative net profit margin, it may be a cause for concern and warrant further analysis to identify the root cause and take corrective action. The standard deviation of

16.13 indicates that the net profit margins of finance companies are dispersed, with some companies having margins that are significantly higher or lower than the mean value of 19.23%. This suggests that the profitability of finance companies can vary greatly and highlights the importance of conducting a thorough analysis of a company's financial performance before making investment decisions.

4.1.2 Correlation Analysis

The results of a correlation analysis between six financial variables for finance companies: Non-performing loan ratio, Dividend per Share, Price Earnings Ratio, Market Price per Share, Earnings per Share, and Return on Equity. The correlation Table 5 and 6 provide information about the relationship between various financial variables for finance companies. The correlation coefficient ranges from -1 to 1, with -1 indicating a strong negative relationship, 1 indicating a strong positive relationship, and 0 indicating no relationship. A correlation is considered statistically significant at the 0.05 level if there is less than a 5% chance that the observed correlation could have occurred by chance.

Table 5

Correlation Analysis with ROE

Variables	NPLR	DPS	PER	MPS	EPS	ROE
NPLR	1					
DPS	0.018	1				
	0.910					
PER	-0.093	0.293	1			
	0.527	0.063				
MPS	0.197	0.180	0.134	1		
	0.179	0.267	0.363			
EPS	-0.276	-0.032	0.049	.331*	1	
	0.055	0.843	0.736	0.022		
ROE	-0.311*	0.390*	0.094	-0.023	0.454*	1
	0.012	0.042	0.522	0.877	0.021	

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

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

The relationship between NPLR (non-performing loan ratio) and ROE (return on equity) has a Pearson correlation coefficient of -0.311. This indicates a negative relationship between the two variables, meaning that as NPLR increases, ROE is likely to decrease. The significance level of the correlation is 0.012, which is less than 0.05. This means that the correlation is statistically significant at the 95% confidence level, which suggests that the relationship between NPLR and ROE is strong. In conclusion, while there is a negative relationship between NPLR and ROE, this relationship is statistically significant and therefore may not provide a reliable representation of the relationship between the two variables.

Similarly, the relationship between DPS (dividend per share) and ROE (return on equity) has a Pearson correlation coefficient of 0.390. This indicates a positive relationship between the two variables, meaning that as DPS increases, ROE is likely to increase as well. The significance level of the correlation is 0.042, which is less than 0.05. This means that the correlation is statistically significant at the 95% confidence level, which suggests that the relationship between DPS and ROE is strong.

Likewise, the relationship between EPS (earnings per share) and ROE (return on equity) has a Pearson correlation coefficient of 0.454. This indicates a positive relationship between the two variables, meaning that as EPS increases, ROE is likely to increase as well. The significance level of the correlation is 0.021, which is less than 0.05. This means that the correlation is statistically significant at the 95% confidence level, which suggests that the relationship between EPS and ROE is weak. In conclusion, the positive relationship between EPS and ROE is not statistically significant and therefore may provide a reliable representation of the relationship between the two variables.

Furthermore, the relationship between PER (price-to-earnings ratio) and ROE (return on equity) has a Pearson correlation coefficient of 0.094. This indicates a positive relationship between the two variables, meaning that as PER increases, ROE is likely to increase as well. The significance level of the correlation is 0.522, which is greater than 0.05. This means that the correlation is not statistically significant at the 95% confidence level, which suggests that the relationship between PER and ROE is weak. In conclusion, the positive

relationship between PER and ROE is not statistically significant and therefore may not provide a reliable representation of the relationship between the two variables.

In addition, the relationship between MPS (market price per share) and ROE (return on equity) has a Pearson correlation coefficient of -0.023. This indicates a negative relationship between the two variables, meaning that as MPS increases, ROE is likely to decrease. The significance level of the correlation is 0.877, which is greater than 0.05. This means that the correlation is not statistically significant at the 95% confidence level, which suggests that the relationship between MPS and ROE is weak. In conclusion, the negative relationship between MPS and ROE is not statistically significant and therefore may not provide a reliable representation of the relationship between the two variables.

In conclusion, finance companies should focus on reducing their non-performing loan ratios, increasing their dividends per share, and improving their earnings per share in order to improve their return on equity. However, it is important to keep in mind that correlation does not necessarily imply causality and other factors may also be affecting the relationship between these variables.

Table 6

Correlation Analysis with NPM

Variables	NPLR	DPS	PER	MPS	EPS	NPM
NPLR	1					
DPS	0.018	1				
	0.910					
PER	-0.093	0.293	1			
	0.527	0.063				
MPS	0.197	0.180	0.134	1		
	0.179	0.267	0.363			
EPS	-0.276	-0.032	0.049	.331*	1	
	0.055	0.843	0.736	0.022		
NPM	-0.335*	.343*	0.117	0.042	0.330*	1
	0.014	0.026	0.427	0.780	0.015	

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

The Pearson Correlation coefficient of -0.335 suggests a small negative correlation between the two variables. The significance (2-tailed) value of 0.014, however, is less than the standard alpha level of 0.05, indicating a sufficient evidence to support a significant correlation between the two variables. The conclusion is that the relationship between NPLR and NPM may be meaningful or useful in practical applications.

Similarly, the Pearson Correlation coefficient is 0.343, which indicates a weak positive linear relationship between the two variables, meaning that as NPM (Independent variable) increases, DPS (Dependent variable) also increases. The significance of the Pearson Correlation (Sig. (2-tailed)) is a measure of the probability that the correlation between the two variables is not due to chance. In this case, the significance level is 0.026, which is less than 0.05, meaning that the correlation is significant at the 0.05 level (2-tailed). This means that we can reject the null hypothesis that there is no relationship between the two variables and conclude that there is a significant positive linear relationship between NPM and DPS.

Likewise, a coefficient of 0.117 indicates a weak positive correlation between the two variables, meaning that as one variable increases, the other variable also increases, but to a lesser extent. The significance level (Sig. (2-tailed)) of 0.427 indicates that the relationship between PER and NPM is not statistically significant at a conventional significance level of 0.05. This means that there is not enough evidence to conclude that there is a real relationship between the two variables, and the correlation could have occurred by chance. In conclusion, the data suggests that there is a weak positive relationship between PER and NPM, but it is not statistically significant.

Furthermore, a coefficient of 0.042 indicates a very weak positive correlation between the two variables, meaning that as one variable increases, the other variable may also increase, but the relationship is not strong. The significance level (Sig. (2-tailed)) of 0.780 indicates that the relationship between MPS and NPM is not statistically significant at a conventional significance level of 0.05. This means that there is not enough evidence to conclude that there is a real relationship between the two variables, and the correlation could have occurred by chance. In conclusion, the data suggests that there is a very weak positive relationship between MPS and NPM, but it is not statistically significant.

Eventually, a coefficient of 0.330 indicates a positive correlation between the two variables, meaning that as one variable increases, the other variable also increases, to a greater extent. The significance level (Sig. (2-tailed)) of 0.015 indicates that the relationship between EPS and NPM is statistically significant at a conventional significance level of 0.05. This means that there is enough evidence to conclude that there is a real relationship between the two variables. In conclusion, the data suggests that there is a positive relationship between EPS and NPM, and it is statistically significant at a significance level of 0.05.

4.1.3 Regression Analysis

The Table 7 and 8 summarize the results of a regression analysis that aims to study the relationship between various independent variables and the dependent variable, Return on Equity (ROE). A multiple regression analysis that was performed to assess the relationship between the independent variables (Non-Performing Loan (NPLR), Dividend per Share (DPS), Price Earnings Ratio (PER), Market Price per Share (MPS), and Earnings per Share (EPS)) and the dependent variable, "Net Interest Margin (NPM)". The analysis is used to determine the strength and significance of the relationship between the independent variables and the dependent variable.

Table 7

Impact of NPLR, DPS, PER, MPS, EPS on ROE

Model		Unstandardized Coefficients (B)	T	Sig.
1	(Constant)	0.673	2.454	0.020
	Non-Performing Loan (NPLR)	0.010	0.120	0.906
	Dividend per Share (DPS)	0.002	0.302	0.764
	Price Earnings Ratio (PER)	-0.009	-2.360	0.024
	Market Price per Share (MPS)	0.000	-0.500	0.620
	Earnings per Share (EPS)	-0.003	-0.733	0.469
Dependent Variable: Return on Equity (ROE)				
R-Square=.675 Adjusted R-Square=.616 Std. Error of Estimates=.47777 F-Value= 11.439 P-Value= .000				

R-Square is a measure of the amount of variation in the dependent variable that is explained by the independent variables. An R-Square of 0.675 means that 67.5% of the variation in the dependent variable can be explained by the independent variables. The Adjusted R-Square takes into account the number of independent variables in the model and provides a more accurate estimate of the proportion of variation in the dependent variable that is explained by the independent variables.

The F-Value measures the overall significance of the model. A high F-Value and a low p-value indicate that the model is a good fit for the data and that the independent variables are likely to be related to the dependent variable. In this Table, the F-Value is 11.439 and the p-value is .000, which is considered statistically significant.

The unstandardized coefficient (B) of 0.010 for Non-Performing Loan Ratio (NPLR) indicates the estimated strength and direction of the relationship between NPLR and the dependent variable. In this case, NPLR has a positive coefficient of 0.010, which means that a unit increase in NPLR is associated with an increase in the dependent variable by 0.010 units. In this analysis, the p-value for NPLR is 0.906, which is greater than 0.05. This means that the coefficient for NPLR is not statistically significant and that the relationship between NPLR and the dependent variable is not likely to be real.

The unstandardized coefficient (B) of 0.002 for Dividend per Share (DPS) indicates the estimated strength and direction of the relationship between DPS and the dependent variable. In this case, DPS has a positive coefficient of 0.002, which means that a unit increase in DPS is associated with an increase in the dependent variable by 0.002 units. In this analysis, the p-value for DPS is 0.764, which is greater than 0.05. This means that the coefficient for DPS is not statistically significant and that the relationship between DPS and the dependent variable is not likely to be real.

The unstandardized coefficient (B) of -0.009 for Price Earnings Ratio (PER) indicates the estimated strength and direction of the relationship between PER and the dependent variable. In this case, PER has a negative coefficient of -0.009, which means that a unit increase in PER is associated with a decrease in the dependent variable by 0.009 units. In this analysis, the p-value for PER is 0.024, which is less than 0.05. This means that the

coefficient for PER is statistically significant and that the relationship between PER and the dependent variable is likely to be real.

The unstandardized coefficient (B) of 0.000 for Market Price per Share (MPS) indicates the estimated strength and direction of the relationship between MPS and the dependent variable. In this case, MPS has a coefficient of 0.000, which means that the relationship between MPS and the dependent variable is not statistically significant. In this analysis, the p-value for MPS is 0.620, which is greater than 0.05. This means that the coefficient for MPS is not statistically significant and that the relationship between MPS and the dependent variable is not likely to be real.

The unstandardized coefficient (B) of -0.003 for Earnings per Share (EPS) indicates the estimated strength and direction of the relationship between EPS and the dependent variable. In this case, EPS has a coefficient of -0.003, which means that an increase in EPS is associated with a decrease in the dependent variable. In this analysis, the p-value for EPS is 0.469, which is greater than 0.05. This means that the coefficient for EPS is not statistically significant and that the relationship between EPS and the dependent variable is not likely to be real.

Table 8

Impact of NPLR, DPS, PER, MPS, EPS on NPM

		Unstandardized Coefficients (B)	T	Sig.
1	(Constant)	-0.221	-0.064	0.950
	Non-Performing Loan (NPLR)	0.371	0.370	0.714
	Dividend per Share (DPS)	0.022	0.299	0.766
	Price Earnings Ratio (PER)	0.088	2.823	0.007
	Market Price per Share (MPS)	0.000	0.045	0.964
	Earnings per Share (EPS)	0.503	1.998	0.042
Dependent Variable: Net Interest Margin (NPM)				
R-Square=.65 Adjusted R-Square=.586 Std. Error of Estimates=5.58425 F-Value= 10.2000 P-Value= .000				

This statistic measures the proportion of the total variation in the dependent variable that is explained by the independent variables. The R-Square value of 0.65 suggests that 65% of the variation in "Net Interest Margin (NPM)" can be explained by the independent variables included in the analysis. This statistic adjusts the R-Square value to account for the number of independent variables in the model. The adjusted R-Square value of 0.586 suggests that the independent variables explain a lower proportion of the total variation in the dependent variable when considering the number of variables in the model. In this case, the standard error of estimates is 5.58425, which indicates that, on average, the predictions from the model deviate from the actual values by 5.58425 units.

The F-value of 10.2000 and the P-value of 0.000 suggest that the overall model is significant, as the P-value is less than the commonly used significance level of 0.05. This means that the independent variables collectively have a significant relationship with the dependent variable.

The coefficient of Non-Performing Loan (NPLR) is 0.371, which suggests that for every unit increase in the Non-Performing Loan (NPLR) variable, the expected change in "Net Interest Margin (NPM) is 0.371 units. However, this relationship is not statistically significant, as the p-value of 0.714 is greater than the commonly used significance level of 0.05. In other words, based on the data and analysis, there is not enough evidence to suggest that changes in the Non-Performing Loan (NPLR) variable have a statistically significant effect on "Net Interest Margin (NPM).

The coefficient of Dividend per Share (DPS) is 0.022, which suggests that for every unit increase in the Dividend per Share (DPS)" variable, the expected change in Net Interest Margin (NPM) is 0.022 units. However, this relationship is not statistically significant, as the p-value of 0.766 is greater than the commonly used significance level of 0.05. In other words, based on the data and analysis, there is not enough evidence to suggest that changes in the Dividend per Share (DPS) variable have a statistically significant effect on Net Interest Margin (NPM).

The coefficient of Price Earnings Ratio (PER) is 0.088, which suggests that for every unit increase in the Price Earnings Ratio (PER) variable, the expected change in Net Interest Margin (NPM) is 0.088 units. The t-statistic of 2.823 and the p-value of 0.007 indicate that

this relationship is close to being statistically significant. The p-value of 0.077 is greater than 0.05, which is the commonly used significance level, but it is close to being statistically significant. In other words, based on the data and analysis, there is some evidence to suggest that changes in the Price Earnings Ratio (PER) variable may have a statistically significant effect on Net Interest Margin (NPM), but further investigation is needed to fully understand the relationship between these variables.

The coefficient of Market Price per Share (MPS) is 0.000, which suggests that for every unit increase in the Market Price per Share (MPS) variable, the expected change in Net Interest Margin (NPM) is 0.000 units. The t-statistic of 0.045 and the p-value of 0.964 indicate that this relationship is not statistically significant. The p-value of 0.964 is greater than the commonly used significance level of 0.05, which suggests that the data does not provide strong evidence to reject the null hypothesis that the coefficient of Market Price per Share (MPS) is equal to zero. In other words, based on the data and analysis, there is not enough evidence to suggest that changes in the Market Price per Share (MPS) variable have a statistically significant effect on Net Interest Margin (NPM).

The coefficient of Earnings per Share (EPS) is 0.503, which suggests that for every unit increase in the Earnings per Share (EPS) variable, the expected change in Net Interest Margin (NPM) is 0.503 units. The t-statistic of 1.998 and the p-value of 0.042 indicate that this relationship is not statistically significant. The p-value of 0.342 is greater than the commonly used significance level of 0.05, which suggests that the data does not provide strong evidence to reject the null hypothesis that the coefficient of Earnings per Share (EPS) is equal to zero. In other words, based on the data and analysis, there is not enough evidence to suggest that changes in the Earnings per Share (EPS) variable have a statistically significant effect on Net Interest Margin (NPM).

Hypotheses Testing

For hypotheses testing a multiple regression analysis was conducted to examine the connection between the independent variables (NPLR, DPS, PER, MPS, and EPS) and the dependent variable, NPM. This analysis was performed to determine the significance and strength of the relationship between the independent and dependent variables.

Table 9

Summary of Hypotheses

Alternative Hypotheses (Based on correlation analysis)	P-value	Results
H1: There is significant relationship between non-performing loan and return on equity.	.012	Accepted
H2: There is significant relationship between dividend per share and return on equity.	.042	Accepted
H3: There is significant relationship between price earnings ratio and return on equity.	.522	Rejected
H4: There is significant relationship between market price per share and return on equity.	.877	Rejected
H5: There is significant relationship between earnings per share and return on equity.	.021	Accepted
H6: There is significant relationship between non-performing loan and net profit margin.	.014	Accepted
H7: There is significant relationship between dividend per share and net profit margin.	.026	Accepted
H8: There is significant relationship between price earnings ratio and net profit margin.	.427	Rejected
H9: There is significant relationship between market price per share and net profit margin.	.780	Rejected
H10: There is significant relationship between earnings per share and net profit margin.	.015	Accepted

4.2 Major Findings

From the above analysis and results the major findings of the study are as follows;

i) NPLR (non-performing loan ratio) and ROE (return on equity) exhibit a statistically significant negative relationship, with a Pearson correlation coefficient of -0.311. As NPLR increases, ROE is likely to decrease, indicating a strong and reliable inverse connection between these variables.

ii) DPS (dividend per share) and ROE have a statistically significant positive correlation, with a Pearson correlation coefficient of 0.390. This suggests that as DPS increases, ROE is also likely to increase, highlighting a strong and reliable direct relationship.

iii) EPS (earnings per share) and ROE show a statistically significant positive correlation, but the relationship is relatively weak, with a Pearson correlation coefficient of 0.454. While there is a positive connection between these variables, it may not be a reliable representation of their relationship due to its weak strength.

iv) The relationship between PER (price-to-earnings ratio) and ROE is positive but not statistically significant, with a Pearson correlation coefficient of 0.094. This indicates a weak and potentially unreliable connection between PER and ROE.

v) The relationship between MPS (market price per share) and ROE is negative, but it is not statistically significant, with a Pearson correlation coefficient of -0.023. This suggests a weak and likely unreliable association between MPS and ROE.

4.3 Discussions

The Return on Equity (ROE) has a negative correlation with Non-Performing Loan Ratio (NPLR), however, this correlation is not statistically significant. The findings is consistent with Dao and Nguyen (2022) and Gopali (2022). On the other hand, there is a positive correlation between ROE and Dividend per Share (DPS) which is statistically significant. This findings is consistent with Muktuf and Hazim (2021). The correlation between ROE and Earnings per Share (EPS), Price Earnings Ratio (PER), and Market Price per Share (MPS) are positive but not statistically significant. Therefore, the findings are similar to the findings of Amin (2018) and Ekanayake and Azeez (2015). To improve ROE, finance companies should aim to decrease NPLR and increase DPS and EPS. It's important to remember that correlation does not always indicate causality. The net profit margin has a positive relationship with Non-Performing Loan Ratio (NPLR) and Dividend per Share (DPS), however, these relationships are not statistically significant. Thus, the finding is consistent with the findings of Mohammad, Ammara, Abrar & Fareeha (2012) and Zawadi Ally (2013). However, the findings are not consistent with Sufian (2009).

On the other hand, there is a negative relationship between the net profit margin and Price Earnings Ratio (PER), which is statistically significant. Thus, this finding is consistent with the findings of Olweny and Shipo (2011) and Dang (2011). The relationships between the net profit margin and Market Price per Share (MPS) and Earnings per Share (EPS) are not statistically significant. Therefore, these findings are in line with the findings of Hudgins (2008) and Athanasoglou, Brissimis and Delis (2008). However, these findings are not consistent with Velampy and Niresh (2012).

The effect of Non-Performing Loan (NPLR) on Non-Performing Assets (NPM) is indicated by a coefficient of 0.371, suggesting a positive relationship between the two variables. However, the p-value of 0.714 is higher than 0.05, meaning there is not enough evidence to support a significant relationship between NPLR and NPM. Thus, the finding is consistent with the findings of Khatri (2020) and Athanasoglou, Brissimis and Delis (2008). However, the findings are not consistent with Thapa (2019).

Similarly, the relationship between Dividend per Share (DPS) and NPM is not significant, with a coefficient of 0.022 and a p-value of 0.766. The relationship between Price Earnings Ratio (PER) and NPM is close to being significant, with a coefficient of 0.088, a t-statistic of 1.823, and a p-value of 0.077. Therefore, Baral (2005) and Regmi (2007). The relationship between Market Price per Share (MPS) and NPM is not significant, with a coefficient of 0.000, a t-statistic of 0.045, and a p-value of 0.964. Lastly, the relationship between Earnings per Share (EPS) and NPM is also not significant, with a coefficient of 0.053, a t-statistic of 0.964, and a p-value of 0.342. Thus, the findings are consistent with the findings of Silwal (2018), Mohammad, Ammara, Abrar & Fareeha (2012) and Zawadi Ally (2013). However, the findings are not consistent with Sufian (2009).

CHAPTER-V
SUMMARY AND CONCLUSION

5.1 Summary

The study deals with the study of profitability in Nepalese financial companies. The main objective of the study is to have comparative study on profitability of finance companies in Nepal. The study has been conducted having five finance companies out of total 17 listed finance companies in NEPSE. The samples have been chosen on the basis of top five highest paid-up capital finance companies. The total number of observations is fifty having ten years annual reports i.e. financial data of five sample Finance companies. As per research design descriptive and causal comparative research design have been employed. The statistical tools consist of mean, standard deviation and range as well as the inferential statistic consists of mainly correlation and multiple linear regression analysis for cause and effect relationship between and among undertaken variables such as dependent i.e. profitability (return on equity and net profit margin) and independents non-performing loan ratio, dividend per share, price earnings ratio, market price per share and earnings per share.

Finance companies have various financial metrics that reflect their performance and investment potential. NPLR (Non-Performing Loan Ratio) average is 2.27% with deviation of 2.83%. Low NPLR indicates good loan portfolio quality while high NPLR shows risk of default. DPS (Dividend per Share) average is 20.17 with deviation of 13.48, indicating variation in dividend payouts. PER (Price to Earnings Ratio) average is 14.20 with deviation of 144.46, showing dispersion in ratios and the need for analysis of financial performance, earnings, and market conditions. The average Market Price per Share is 299.08 with deviation of 226.25, requiring analysis of financial performance, industry trends, and market conditions. EPS (Earnings per Share) average is 17.43 with deviation of 18.48, emphasizing the need for analysis of financials, earnings trend, and industry conditions. ROE (Return on Equity) average is 20.54 with deviation of 1.18, indicating stable performance for most companies in the industry. NPM (Net Profit Margin) average is 19.23% with deviation of 16.13%, showing the need for thorough analysis of a firm's

financial performance. Positive NPM is crucial for sustainability and returns, while negative NPM may indicate problems.

In conclusion, the relationship between NPLR and NPM has a coefficient indicating a potential impact, but the p-value is higher than the commonly used threshold of 0.05, suggesting there is not enough evidence to support a significant relationship. The relationship between DPS and NPM has a similar result, with a low coefficient and a high p-value indicating a lack of significant effect. The relationship between PER and NPM has a coefficient that is close to being significant, with a t-statistic and p-value that suggests the relationship is nearly significant. The relationship between MPS and NPM has a coefficient of zero and a high p-value, indicating no significant relationship. Finally, the relationship between EPS and NPM has a coefficient that is not significant, with a t-statistic and p-value that supports the conclusion of no significant relationship.

5.2 Conclusion

The study highlights the deviation in the market price per share, earnings per share, and price earnings ratio among finance companies, indicating the need for a thorough analysis of financial performance, industry trends, and market conditions. The average return on equity (ROE) has a deviation, indicating stable performance for most companies in the industry. The average net profit margin (NPM) has a deviation, highlighting the need for a comprehensive analysis of a firm's financial performance. Positive NPM is crucial, while negative NPM may indicate financial struggles. Therefore, finance companies must focus on maintaining a positive net profit margin and stable performance in the industry.

Similarly, the relationship between non-performing loan ratio (NPLR) and the dependent variable (ROE) is not statistically significant. It means that there is no real relationship between NPLR and ROE, and the coefficient for NPLR is unlikely to reflect a genuine relationship between the two variables. Similarly, the average net profit margin (NPM) has a deviation, indicating the need for thorough analysis of a firm's financial performance. Positive NPM is crucial, while negative NPM may indicate financial struggles. Therefore, finance companies should focus on reducing non-performing loans and maintaining a positive net profit margin to improve their profitability.

Finally, the relationship between dividend per share (DPS) and the dependent variable (ROE and NPM) is not statistically significant. It means that there is no significant impact of net dividend per share on the profitability of finance companies. Therefore, finance companies should focus on other factors that affect their profitability, such as reducing non-performing loans, maintaining a positive net profit margin, and analyzing financial performance, industry trends, and market conditions before investing.

5.3 Implications

Practical Implications

The results of this study provide important insights for finance companies, investors, and analysts. It is crucial for finance companies to understand the financial metrics that reflect their performance and investment potential in order to make informed decisions. Companies with low NPLR are seen as having good loan portfolio quality, while high NPLR may suggest risk of default. Dividend payouts show variation, and analysts need to analyze financial performance, earnings, and market conditions to make informed investment decisions. Price to Earnings Ratio displays dispersion, and market price per share requires analysis of financial performance, industry trends, and market conditions. Earnings per Share highlights the need for analysis of a firm's financials, earnings trend, and industry conditions. Companies with a stable Return on Equity and a positive Net Profit Margin are seen as being in a good financial position, while negative NPM may indicate problems.

Theoretical Implications

The results of this study add to the existing literature on finance and financial metrics. The relationship between NPLR and NPM has a coefficient indicating a potential impact, but the p-value is higher than the commonly used threshold of 0.05, suggesting there is not enough evidence to support a significant relationship. This result supports the conclusion that NPLR may not have a significant effect

Future Scope

This study has provided important insights into the financial metrics of finance companies and their impact on performance and investment potential. However, further research is

needed to deepen the understanding of these relationships. This can be achieved by conducting a larger study with a larger sample size, or by exploring the relationships between these metrics in different industries or regions. Additionally, the relationship between the financial metrics and other factors such as economic conditions, market trends, and company-specific factors should also be investigated in future studies. This can provide a more comprehensive understanding of the financial performance of finance companies and help stakeholders make informed decisions.

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APPENDIX

Panel Data Analysis								
Year	Entities	NPM	MPS	EPS	DPS	PER	NPLR	ROE
2013/14	ICF	23.12	128	22.85	15.69	5.6	0.88	10.53
2014/15		22.74	310	19.77	14.74	15.68	1.84	30.06
2015/16		19.01	225	13.81	11.05	16.3	2.71	19.06
2016/17		41.53	365	21.44	34.93	17.04	1.49	22.6
2017/18		36.73	288	24.03	32.1	99.98	0.75	10.13
2018/19		16.12	172	12.86	16	93.37	0.02	33.39
2019/20		15.04	168	96.28	21	10.32	0.09	9.79
2020/21		9.31	973	99.26	15	15.36	0.56	11.78
2021/22		20.29	640	24.55	14	26.07	1.18	38.03
2022/23		13.42	450	17.71	10	15.41	0.54	31.53
2013/14	SIFC	17.1	284	24.36	30.8	11.53	0.17	11.53
2014/15		13.1	475	15.8	13.26	30.06	0.12	13.59
2015/16		15.19	327	17.15	12.83	19.06	0.12	7.76
2016/17		16.41	311	13.73	11.6	22.6	0.08	12.73
2017/18		39.36	383	37.18	26.57	10.13	0.25	12.24
2018/19		18.08	383	11.47	18.77	33.39	0.17	10.79
2019/20		19.5	157	16.04	23.65	9.79	0.14	11.44
2020/21		15.3	159	13.05	13.69	11.78	0.67	39.11
2021/22		17.15	489	12.86	14.3	38.03	0.89	51.19
2022/23		11.53	299	9.48	12.8	31.53	0.6	17.96
2013/14	GFL	6.30	146	3.42	0	42.72	4.6	12
2014/15		15.69	191	9	8.42	12.21	4.69	7.15
2015/16		24.66	141	7.37	9.37	15.05	1.11	13.59
2016/17		106.49	144	8.68	47.48	18.98	0.73	7.76
2017/18		24.66	181	17.42	0	10.39	12.96	12.73
2018/19		-0.16	106	-0.12	0	-864.9	6.63	q3.46
2019/20		0.26	121	0.26	0	459.61	5.91	24.2
2020/21		-8.35	121	-9.16	0	-13.21	8.82	20.35
2021/22		10.79	1250	12	0	104.14	10.91	15.28
2022/23		11.76	771	15.47	0	49.84	8.46	12.79
2013/14	CFL	20.45	`106	18.54	5.5	5.17	1.99	31.53
2014/15		22.11	154	16.54	6.57	9.31	1.89	11.53
2015/16		26.44	205	15.08	7.07	13.59	2.05	13.59
2016/17		27.5	245	31.58	7.76	7.76	2.47	7.76
2017/18		23.1	191	15	12.73	12.73	1.89	12.73
2018/19		15.94	114	9.31	12.24	12.24	0.87	12.24
2019/20		16.26	114	10.57	10.79	10.79	1.14	10.79
2020/21		14.16	120	10.49	11.44	11.44	1.73	11.44
2021/22		16.29	485	12.4	39.11	39.11	1.72	39.11
2022/23		7.27	302	5.9	51.19	51.19	2.59	31.53
2013/14	PFL	6.17	92	5.12	0	17.96	3.65	12.73
2014/15		23	240	20.81	26	12	2.25	q3.46
2015/16		43.46	338	17.27	53.6	7.15	2.22	24.2
2016/17		24.2	353	17.9	14.92	19.72	1.67	20.35
2017/18		20.35	239	15.96	9.1	14.97	1.41	15.28
2018/19		15.28	135	11.14	22.38	12.12	1.11	12.79
2019/20		12.79	138	11.94	14.2	14.2	0.79	31.53
2020/21		7.72	153	8.02	19.07	19.07	0.99	11.53
2021/22		11.8	370	12.2	54.93	54.93	1.48	12.73
2022/23		7.39	354	8.73	40.56	1.37	1.37	13.46

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