

# **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

Thakur Khanal  
Shankar Dev Campus  
Campus Roll No.: 162/076  
Exam Roll No.: 24295/20  
TU Registration No.: 7-2-31-943-2006

Putalishadak, Kathmandu

May 2024

## **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.

Thakur Khanal

Signature:

Date of Submission:

## REPORT OF RESEARCH COMMITTEE

Thakur Khanal 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 Dhruba Subedi and submit the dissertation for evaluation and Viva-Voce examination.

Dhruba Subedi  
Dissertation Supervisor  
Signature: .....

Dissertation Proposal Defended Date: .....
---

Asso. Prof. Dr. Sajeeb Kumar Shrestha  
Head of Research Committee  
Signature: .....

Dissertation Submitted Date: .....
---------------------------------------

Dissertation Viva-Voce Date: .....
---------------------------------------

## APPROVAL SHEET

We have examined the dissertation entitled “Factors Affecting Profitability of Finance Companies in Nepal” presented by Thakur Khanal for the degree of Master of Business Studies. We hereby certify that the acceptable for the award of degree.

.....

Dhruba Subedi  
Dissertation Supervisor

.....

Internal Expert

.....

External Expert

.....  
Asso. Prof. Dr. Sajeeb Kumar Shrestha  
Chair Person, Research Committee

.....  
Asso Prof. Dr. Krishna Prasad Acharya  
Campus Chief

Date:

## **ACKNOWLEDGEMENTS**

I am delighted to present this dissertation entitled “Factors Affecting Profitability of Finance Companies in Nepal” to the head of the research department, Shankardev Campus, in partial fulfillment of the requirement for the degree of Masters in Business Studies (MBS), Faculty of Management. The completion of this dissertation would have been considerably difficult without the help, co-operation and suggestion of my supervisor Dhruba Subedi. I am indebted to him for his kind support in spite of his business. I am also indebted to the other teachers of Shankardev Campus including staffs for enabling me to carry out my study providing required information, reports as required in my study even in their busy schedule. Their cooperation and friendliness towards learner like me have always remained as a motivating factor.

Thakur Khanal

## TABLE OF CONTENTS

TITLE PAGE.....	i
CERTIFICATION OF AUTHORSHIP .....	ii
REPORT OF RESEARCH COMMITTEE .....	iii
APPROVAL SHEET .....	iv
ACKNOWLEDGEMENTS.....	v
TABLE OF CONTENTS.....	vi
LIST OF TABLES .....	viii
LIST OF FIGURE.....	ix
ABBREVIATIONS .....	x
ABSTRACT.....	xi
CHAPTER-I.....	1
INTRODUCTION .....	1
1.1 Background of the Study .....	1
1.2 Problem Statement.....	5
1.3 Objectives of the Study.....	8
1.4 Rationale of the study .....	9
1.5 Limitations of the Study.....	9
CHAPTER-II .....	10
LITERATURE REVIEW .....	10
2.1 Theoretical Review .....	10
2.1.1 Balanced Portfolio Theory.....	10
2.1.2 Market Efficiency Theory.....	11
2.2 Conceptual Review .....	12
2.2.1 Development of Banking System in Nepal.....	13
2.2.2 Concept of Profitability.....	14
2.2.3 Importance of Profitability.....	15
2.2.4 Factors Affecting the Profitability .....	17

2.3 Empirical Review.....	17
2.4 Review of Literature Nepalese Context.....	25
2.5 Research Gap .....	28
CHAPTER-III.....	30
RESEARCH METHODOLOGY.....	30
3.1 Research Design.....	30
3.2 Population and Sample .....	30
3.3 Sampling Method.....	31
3.4 Types and Source of Data.....	31
3.5 Collection of Data.....	31
3.6 Tools for Analysis.....	31
3.7 Research Framework and Definition of Variables.....	38
CHAPTER-IV.....	41
RESULTS AND DISCUSSION.....	41
4.1 Descriptive Analysis.....	41
4.2 Correlation Analysis .....	45
4.3 Regression Analysis.....	46
4.2 Discussion.....	51
CHAPTER-V .....	53
SUMMARY AND CONCLUSION .....	53
5.1 Summary.....	53
5.2 Conclusion .....	54
5.3 Implications.....	55
REFERENCES	
APPENDIX	

## LIST OF TABLES

Table 1: Summary of Empirical Review .....	21
Table 2: Summary of Literature in Nepalese Context .....	27
Table 3: Sample Companies .....	30
Table 4: Descriptive Analysis.....	41
Table 5: Correlation Analysis .....	45
Table 6: Model Summary with ROE .....	47
Table 7: ANOVA with ROE.....	47
Table 8: Regression Coefficient Analysis .....	48
Table 9: Model Summary with NPM.....	49
Table 10: ANOVA with NPM .....	49
Table 11: Regresson Coefficient Analysis .....	50

## LIST OF FIGURE

Figure 1: Research Framework.....	38
-----------------------------------	----

## 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.

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.

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

# **CHAPTER-I**

## **INTRODUCTION**

### **1.1 Background of the Study**

Financial performance is the measure of a company's success or failure based on its financial statements, such as income statements, balance sheets, and cash flow statements. It evaluates the company's ability to generate profits, maintain liquidity, and manage debt. In Nepalese context, financial performance is an essential aspect of evaluating a company's health and growth potential. A company with a strong financial performance can attract investors, secure loans, and reinvest in its operations to sustain its growth. On the other hand, a company with weak financial performance may struggle to survive and face bankruptcy or acquisition (Adhikari et al., 2023).

The profitability, liquidity, solvency, and efficiency financial performance indicators are used to assess the health and development potential of the organization. Additionally, regulators. Acquisitions and mergers have developed into a potent strategic instrument for the consolidation of Nepal's banks and financial institutions (BFIs), enabling them to grow their capital bases, diversify their operations, and provide financial stability. The first bank demonstrates that even while return on assets, net interest margin, and earnings per share have significantly improved, the merger has had a mixed effect on the financial performance ratios. With the exception of dividends per share (DPS) in the pre-post mergers and acquisitions era, mergers and acquisitions have little effect on the financial parameters in the case of the second bank (Adhikari et al., 2023).

Bank profitability is significantly impacted by interest rates, particularly longer-term interest rates, and the rate of inflation; after other factors are taken into consideration, the economic cycle has a symmetrically little impact. In the UK banking sector, profitability is maintained to a reasonable degree, suggesting that the market structure is not fully competitive (O'Connell, 2023).

Acharya and Pant (2016) state that financial performance is a crucial metric for assessing Nepalese businesses, and investors, creditors, and regulators keep a careful eye on it. The writers emphasized that while making judgments about investments or loans, creditors and investors primarily take into account a company's financial success. The profitability, liquidity, solvency, and efficiency financial performance indicators are used to assess the health and development potential of the organization. Furthermore, firms must present their financial accounts on a regular basis to authorities including Nepal Rastra Bank, the Securities Board of Nepal, and the Company Registrar's Office; any inconsistency or weakness in financial performance may lead to fines or legal action. Furthermore, financial performance is a critical component in assessing the health and development potential of a firm, and in the Nepalese context, investors, creditors, and regulators actively monitor it. The company's financial health is assessed using financial performance measures, such as profitability, liquidity, solvency, and efficiency; any flaw or disparity may lead to fines or legal action. Nepalese businesses must thus put a high priority on their financial performance and endeavor to keep themselves in a sound financial position in order to draw in investment, obtain loans, and continue growing.

Joshi (2004) used the necessary financial methods to examine the financial performance and demonstrate the reasons behind the two banks' changes in cash position. whereby he claimed that dividends per share, return on equity, and return on equity are used to determine a bank's profitability. According to the study, bank profitability is strongly correlated with liquidity and bank loans. Karki (2004) discovered that there is a positive correlation between deposits and loan advances, that the liquidity ratio fluctuated somewhat during the time, and that the return on equity is deemed good. The suggestions provided state that an adequate investment program must be implemented in order to lessen the current state of the liquidity of banking and financial institutions.

The difference between the amount of profit generated from assets and the expenditure incurred from liabilities is referred to as bank profitability. The capacity of a bank to make enough money or to reduce operating expenses, which suggests becoming more efficient, is what drives profitability. It is assessed using ratios that condense vast amounts of financial data and allow for qualitative assessment of the firm's profitability, such as the

firm's returns on equity, dividend per share, and returns on asset (Velampy & Niresh, 2012). Bank profitability is described as a function of both macro and micro variables in the literature. Accounts in the income statement and balance sheet that are under management's control are known as micro variables. According to Huang and Jha (2012), the finance corporations are presently thought to be a major force behind Nepal's financial institutions. Finance firms have contributed significantly to the growth and improvement of the economy and have been essential to the expansion and sustainability of the service sector as well as the economy as a whole. Finance corporations have been dominating the stock market. 75 percent of the 194 listed businesses are in the banking sector (Sharesansar, 2018). Along with the stock market, financial corporations have made significant contributions to the nation's income. Every year, they have been making large tax payments. Since banks form the foundation of most national financial systems, the profitability of the banking industry in any given nation is crucial.

According to Athanasoglou, Brissimis, and Delis (2008), financially successful enterprises have the ability to endure adverse events and maintain the stability of the nation's financial system. In comparison to previous years, the banking industry's practices have undergone significant change in the new century (Hussain & Bhatti, 2010). In the current era, every bank and banking group aims to draw in more and more clients in order to establish their reputation in the banking sector, gain recognition for their efforts, and strengthen client loyalty, which they can then use to inform future policy decisions. Their rivalry has also made them more focused on quality. The banking sector of today is focused on the needs of its clients rather than the banks. All banks and banking companies are complying with the demands made by their clientele. In order to keep them with their bank, they are prepared to offer them every convenience. The relationship between profitability and performance is a major area of research for all industries, including banking and construction. Return on Equity, Return on Equity (ROE), Return on Capital Employed, and Dividend Per Share are some ways to quantify it (Chilwal & Mishra, 2018).

The factors that independently affected profitability were bank size, capital, loans, and deposits. There is a connection between total assets and profitability of banks. Return on equity falls as bank size (natural logarithm of total assets) rises. Given that bank

profitability and return on equity were correlated, this suggests that bank profitability also declines. This made it very evident that the claim that only banks with large asset bases are profitable was untrue. Additionally, the negative link between total equity and total deposits and bank profitability was investigated. The return on equity falls as bank deposits rise. In a similar vein, return on equity falls as bank capital rises. It was evident that banks with the largest total deposits and equity did not always have the best profitability since there was a strong correlation between return on equity and bank profitability (Abugamea, 2018).

Loans have a detrimental impact on bank profitability as banks with the largest loans had the lowest Return on Equity when compared to banks with the lowest loans. This demonstrated unequivocally that as the loan ratio rises, return on equity falls, resulting in a drop in bank profitability. Similarly, there is a negative relationship between size, capital, loan, and deposit and return on equity and return on capital utilized. However, there was a negative correlation between dividend per share and loan and deposit and a positive correlation with size and capital. A nation like Nepal, whose economy is heavily dependent on foreign help, is in the process of expanding its banks to support it (Mishra & Aithal, 2021). It is evident that bank performance impacts profitability in order to fund the country's infrastructure. Thus, a research confirming the same is necessary. The purpose of the study is to compare the profitability of financing businesses operating in Nepal. The goal of the study is to statistically analyze the relationships between profitability (ROE), non-performing loans, price earnings ratio, dividends per share, net profit margin, and earnings per share. Simultaneously, this research also aims to investigate the impact of dividend per share and non-performing loans on financial businesses' profitability.

The study's main goal is to ascertain how profitable financial businesses are currently operating. To this end, it will examine the price per share, earnings per share, price-earnings ratio, and profitability metrics including return on equity (ROE) and net profit margin (NPM). Three key questions are the focus of this investigation. First and foremost, it aims to comprehend the present state of finance organizations with respect to these crucial financial performance indicators: market value (price per share), earnings (earnings per

share), and valuation (price earnings ratio). Second, the study looks at how profitability (ROE and NPM), two important measures of a company's capacity to control credit risk, relates to the non-performing loan ratio (NPLR). The study's final goal is to investigate how the company's dividend distribution policy—measured by ROE and NPM—affects net dividend per share profitability. The study is important because it will shed light on finance firms' profitability, which is important to comprehending their financial performance and future prospects. Investors, financial analysts, and legislators can utilize the study's conclusions to help them make well-informed choices on financing corporate investments, regulations, and policy-making. The study can serve as a foundation for additional research and add to the body of knowledge on finance firm profitability.

### **1.2 Problem Statement**

In the UK banking sector, profitability is maintained to a reasonable degree, suggesting that the market structure is not totally competitive. Bank profitability is significantly impacted by interest rates, particularly longer-term interest rates, and the rate of inflation; once other factors are taken into consideration, the economic cycle has a symmetrically little impact (O'Connell, 2023). Modern banking is extremely complicated and complex. There are some significant developments occurring in the financial sector. The operation of banking operations is directly impacted by the dangers and possibilities these developments offer. The future will thus be more intriguing and difficult than it is now. In Nepal, the financial performance of the two joint venture banks throughout varying time periods has been found to differ in terms of profitability rate, operational expenditures, and dividend distribution rate among shareholders. The study's main challenge is to identify the factors that contribute to variations in financial performance. It would be very helpful to compare the banks' financial performance in order to identify their strengths and weaknesses. While joint venture banks are thought to be efficient, just how efficient are they really? This query does come up in the financial industry. There are 26 financial firms in existence right now. Despite the quick expansion, several metrics indicate that the service coverage performance is not very encouraging (Adhikari et al., 2023).

Studies on the profitability of Nepalese banks are crucial because they provide direction for improving the country's economy, which depends on banks for stability and prosperity. According to Baral (2005), stability in the banking industry contributes to economic stability. Few research have been done on the factors that affect the financial success of Nepali finance companies. For instance, Karki (2004) also discovered a positive correlation between capital adequacy and profitability, Joshi (2004) discovered a positive relationship between bank loan and liquidity, and Maharjan (2007) discovered a positive correlation between bank loan and capital adequacy.

Using ROA, ROE, and NIM to calculate profitability, Ayanda et al. (2014) discovered that while bank size, GDP, and the rate of inflation have no effect on profitability, capital adequacy, liquidity risk, loan risk, and managerial efficiency do. Furthermore, Pradhan (2016) comes to the conclusion that liquidity and the credit to total deposit ratio are the main factors influencing the profitability of Nepalese finance organizations. Using a random-effect model, Adeyefa et al. (2014) examined the effects of macroeconomic, industry-specific, and bank-specific indicators on bank profitability in Nigeria. Bank profitability is measured by Return on Equity (ROA), ROE, and dividend per share (NIM). The authors found that capital adequacy, bank size, productivity growth, and deposits all had a positive and significant impact on profitability, while credit risk and liquidity ratio had a negative and significant impact. No evidence was found to support the effects of industry-specific variables, and of the three macroeconomic variables taken, GDP growth had no significant relationship with profitability.

According to Sufian (2009), increased credit risk reduces profitability, although higher percentages of revenue from non-interest sources and higher operating costs often indicate higher profitability. Furthermore, the profitability of banks is positively impacted by a high inflation rate and negatively impacted by economic growth. Key factors influencing the profitability of public sector banks in India were found by Bodla et al.'s 2007 study. The study's findings indicate that a number of variables, including NII, OE, NPA, and CD ratio, are quite important. There is a strong correlation between net profit and non-interest revenue, operational expenditures, provision for contingencies, and spread. Additionally, Giannopoulos et al. (2017) discovered that bank profitability is positively impacted by

GDP growth rate. Previous study findings indicate that OEOI significantly and negatively affects bank profitability (Haryanto, 2016). However, OEOI did not significantly affect profitability, according to the findings of another research (Sabir et al, 2012). Profitability is greatly impacted by NPL, LDR, CAR, NIM, and OEOI (Hermanto & Setiawan, 2017).

Today's banks under enormous pressure to satisfy the needs of its depositors, staff, stockholders, and borrowing clients while also managing to satisfy government authorities on the soundness of the bank's lending, policies, and investments. Finance firms must maintain a specific amount of profit in order to remain in the market. They have to turn a profit on the duties they are given. Thus, the management needs to use extreme caution while deciding how to handle the circumstances. Consumers anticipate enhanced, expedited, simplified, and customized banking services. Numerous private and joint venture banks were encouraged to operate in Nepal as a result of the country's open and liberal economic policies toward the banking industry, which sharply increases competition amongst them. This rivalry also affects the bank's profitability. The financial businesses' profitability situation is hampered by a number of problems. The government's monetary policies, fierce bank rivalry, labor strikes, and the nation's political climate all directly or indirectly affect bank profitability. Finance firms have modest loan volume and advances compared to deposits, notwithstanding their adequate profit margins. They are determined to have inadequate deposit mobilization; they are unable to make effective use of the money for purposes that generate revenue. Another scourge of the finance industry is their inadequate liquidity position.

The purpose of this study is to determine how the chosen banks differ from one another in terms of deposit collecting, resource mobilization, liquidity, and other areas. An investor's reward is profitability. In order to reap rewards in the future, investors invest their current savings. The capacity of a firm to turn a profit is known as profitability. A bank is said to be liquid if it has enough money on hand, especially to meet consumer withdrawal requests. If banks keep more cash than they need in a vault, it is plainly unproductive and might hurt their bottom line. A measure of a company's profitability in relation to its total assets is called return on equity, or ROA. A manager or analyst can determine how well a company's management uses its assets to create earnings by looking at its return on assets (ROA).

Percentage Return on Equity is shown. Investors utilize return on equity (ROE), a crucial profitability measurement, to determine how much of a company's profits is returned to shareholders. This indicator shows how well a company is making money off the capital that investors have invested in it through the purchase of its shares. Divide net income by shareholders' equity to get ROE.

In order to provide answers to the following questions, the research attempts to examine the profitability of financial firms as they currently stand.

- What is the position of non-performing loan, dividend per share, price earnings ratio, market price per share and earnings per share and profitability in Nepalese finance companies?
- Is there any relationship between non-performing loan, dividend per share, price earnings ratio, market price per share and earnings per share and profitability Nepalese finance companies?
- Does non-performing loan, dividend per share, price earnings ratio, market price per share and earnings per share have impact on profitability Nepalese finance companies?

### **1.3 Objectives of the Study**

The primary goal of the research is to compare the profitability of Nepali financing businesses. The following are the precise goals:

- To examine the position of non-performing loan, dividend per share, price earnings ratio, market price per share and earnings per share and profitability Nepalese finance companies.
- To analyze the relationship between non-performing loan, dividend per share, price earnings ratio, market price per share and earnings per share and profitability Nepalese finance companies.
- To analyze the impact of non-performing loan, dividend per share, price earnings ratio, market price per share and earnings per share on profitability Nepalese finance companies.

#### **1.4 Rationale of the study**

Scholars, academics, investors, researchers, professionals, and management students tend to gain from this as well. It aids in educating decision-makers about the significance of financial performance management for the financial institutions' promising future. Additionally, it helps the concerned department figure out how to cut costs in a changing environment by improving the bank's financial performance and acting strategically to outbid rivals. The loan businesses ought to be more competitive right now. They need to expand, become financially stable, and develop their objectives and strategies in order for the research to be more useful and make sense to the stakeholders in the current context. An important factor in managerial choices is the study. Every stage of an organization's development, promotion, and operation requires a profitability analysis.

#### **1.5 Limitations of the Study**

- Out of 17 finance companies in Nepal, five finance companies have only been taken as sample.
- The study only deals with variables such as net profit margin, earnings per share, price earnings ratio, dividend per share, non-performing loan return on equity.
- The study has only considered employed sample period from fiscal year 2013/14 to 2022/23.
- 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.
- The findings of this study may not be applicable to international finance companies.

## **CHAPTER-II**

### **LITERATURE REVIEW**

The conceptual reviews, empirical reviews, Nepalese context review, and research gap are all included in the chapter's literature review.

#### **2.1 Theoretical Review**

The finance businesses are an essential part of the financial systems and the economy. Finance corporations have played a significant role in the financial growth of the region's economy in recent years. The distribution of monies to persons and groups in need is the responsibility of banks. They place the money that people and organizations with extra finances own. They are in charge of raising money as a result. The allocation of money, business growth, industry development, and economic growth are all impacted by the financial performance of banks. Bank profitability has an effect on the macroeconomic level in addition to financing enterprises. The earnings that banks garner in the current climate are a reflection of their financial success. When the financial businesses' profitability index is maintained, banks are in a stable state and generate significant profits (Goddard et al., 2004). As a result, profitability becomes a crucial component of bank success, impacting several industries. As a result, several academics, bank supervisors, and financial markets have been interested in the variables affecting the performance of banks in the financial sector. Between 1970 and 1980, researchers started examining the banks' performance. They used the market power theory and efficient structure theory models (Athanasoglou et al., 2006).

##### **2.1.1 Balanced Portfolio Theory**

The balanced portfolio theory is another idea that aids in figuring out the profits that banks make. Additionally, it has been used to the analysis of bank profitability (Nzongang & Atemnkeng, 2006). According to Tregenna's market power hypothesis (2009), the industry's market structure has an impact on banks' performance. The two distinct applications of market power theory are the SCP and the RMP theorem. According to the SCP approach, banks in markets with high concentration have greater potential for profit-

making than businesses in markets with low concentration because they can obtain deposits at lower interest rates and offer loans at higher interest rates because of the monopolistic environment (Tregenna, 2009). According to the RMP model, the banks' market shares have an impact on the profits they make. This strategy makes the assumption that banks with unique products have the ability to set prices and command more market share (Tregenna, 2009).

### **2.1.2 Market Efficiency Theory**

Another view, referred to as the efficiency theory, contends that because banks are more profitable than others, they are more efficient. Additionally, this theory has two distinct methods called the X efficiency and the scale efficiency hypothesis. According to X efficiency, profitable businesses have lower costs than inefficient ones. The scale efficiency strategy, on the other hand, overlooks any variations in production technology and management in favor of large-scale manufacturing. Large businesses benefit from economies of scale, which lowers their product costs per unit and increases their profits. They thus have a large market share, which increases their earnings (Athanasoglou et al., 2006). The analysis of bank performance also heavily relies on balanced portfolio theory (Nzongang & Atemnkeng, 2006). According to this hypothesis, policy actions have an impact on each asset's ideal presence in a shareholder's investment. Numerous factors, including the size of the portfolio, the rate of return, and the risks involved in owning each asset, influence these selections. A probable combination of assets and liabilities that management recognizes as well as bank expenditures might result in high profits. Additionally, the balance sheet ratio, risk return trade-off, bankruptcy costs, and signaling have an impact on the banks' performance. As a result, the equity to asset ratio is crucial in assessing how well banks are performing. According to the Modigliani and Miller (1958) hypothesis, a bank's capital structure is unaffected by its market value. Financing theory states that high debt levels and low equity to asset ratios lead to high risk and high rates of return. The risk-return trade-off idea (Van Ommeren, 2011) is also explained by this. Some academics have also clarified that a high equity to asset ratio might result in better earnings. Berger claims that these explanations are the result of applying the idea of bankruptcy costs and signaling. The signaling theory states that a high equity ratio raises the bank's market

value (Berger, 1995). However, the bankruptcy cost theory contends that banks maintain large levels of equity in order to protect themselves from financial debt due to unexpectedly high bankruptcy expenses (Berger, 1995).

## **2.2 Conceptual Review**

The significance and function of financial success have been profoundly impacted by contemporary financial appraisal. These days, the best way to describe finance is as always evolving with new concepts and methods. Only an effective manager of the business can meet the established objectives. A bank becomes riskier if it does not keep a sufficient level of equity capital. A bank must employ additional debt with high fixed costs if its equity capital is insufficient. Therefore, a company's capital structure has to have a sufficient amount of equity capital. The bank's primary goals are to deploy into the most lucrative industry and to gather as many deposits from customers as possible. A bank cannot make money if it does not use the resources it has amassed (Chanra, 2015).

The administration of a bank's resource mobilization involves resource collection, working capital management, fixed asset management, loans and advances from investment portfolios, etc. The degree to which it successfully uses its resources is measured. We should examine the bank's financial indicator using financial statements in order to gauge its success in a variety of areas (Vanhome, 2015).

Finding a bank's financial strengths and weaknesses is done through financial analysis. It is the process of determining the bank in question's strengths and weaknesses. It involves locating specific accounting data that is included in the financial statement. It is carried out to ascertain an organization's situation with regard to liquidity, solvency, efficiency, and profitability. Three key decisions comprise the operation or performance of finance: the choice to invest, the choice to finance, and the choice to declare a dividend. The firm's worth will be maximized by an optional mix of the three options (Gupta, 2015).

### **2.2.1 Development of Banking System in Nepal**

The Nepal Bank Limited, one of the country's earliest financial institutions, was founded in 1997 B.S. Five percent of the bank's shares were held by the government, which also had extensive operational control. Nepal Bank Limited has branches around the nation in addition to its headquarters in Kathmandu. Additional government-owned banks exist. A state-owned financial institution, Rastriya Banijya Bank was founded in AD 1966. In 1966, the Land Reform Savings Cooperative was founded to handle the financial aspects of land reforms. Two other specialized financial institutions existed. With support from the US, the state-owned Nepal Industrial Development Corporation was founded in 1959 to provide financial and technical support to private business. Its main office is in Kathmandu. Despite government investment in the organization, the board of directors included individuals from the private business sector (Thapa, 2019).

For small farms and cooperatives, the Agricultural Development Bank (which changed its name from the Co-operative Bank in 1967) served as their primary funding source. The state owned about three-quarters of the bank. The Nepal Rastra Bank held 21% of the shares, while private and cooperative persons held the remaining 5%. The governments' implementing agency for small farmers' group development programs, funded by the United Nations Development Program and supported by the Asian Development Bank (see Glossary), was the Agricultural Development Bank. Only 9% of all farming families have received loans from the Agricultural Development Bank since 1965, according to a 1990 Ministry of Finance study. The bank is responsible for the majority of agricultural loan investments. Commercial and specialty banks have grown since the 1960s. Despite the fact that the credit market has not grown, more company owners and homeowners have greater access to it (Cryal, 2013).

Finding a bank's financial strengths and weaknesses is done through financial analysis. It is the process of determining the bank in question's strengths and weaknesses. It is the process of locating specific accounting data that is included in the financial report. It is carried out to ascertain an organization's situation with regard to liquidity, solvency, efficiency, and profitability. Three key decisions comprise the role or performance of

finance: (i) investment decisions; (ii) financing decisions; and (iii) dividend decisions. The firm's worth will be maximized by an operational combination of the three options (Pandey, 2009).

As the nation's central bank, Nepal Rastra Bank was established in 1956. Its duties included overseeing financial corporations and directing the country's fundamental monetary policy. Its main objectives were to control the issuance of paper money, ensure the national currency's circulation and stabilize exchange rates, grow the nation's banking sector, guaranteeing the availability of banking services, and uphold the general public's economic interests. In addition, Nepal Rastra Bank was tasked with managing foreign exchange reserves and rates (Bexeley, 2017).

### **2.2.2 Concept of Profitability**

The capacity of a particular investment to provide a return on its usage is the standard definition of profitability. The terms "profit" and "ability" combine to form the word profitability. Many definitions exist for the term "profit," but one common one is the amount obtained by subtracting all costs from sales revenue. The capacity of a business to turn a profit is reflected in the phrase. The ability is also known as the investment's earning power, earning capacity, or operational performance.

A company's major goal is to maintain a stable financial position while generating at least a respectable return on investment. A satisfactory return is dependent on a number of variables, such as the type of business risk involved. A business's invested capital gets depleted if it is not profitable, and if this state of affairs persists, the business may eventually shut.

A company's profitability tends to increase its ability to make income and demonstrates its financial stability. These days, in both developed and emerging nations, profitability analysis has eclipsed other factors that are emphasized in the interpretation of financial accounts. Profitability analysis is both internal and external, although financial analysis is more external than internal.

The critical study and interpretation of business enterprises' present and potential earning capacity is aided by profitability analysis. It becomes much more significant when managers' and other employees' conduct is influenced by an earning target within the company. Additionally, it supports the financial stability of a corporation by preserving its net earnings for external consumers of accounting information about that particular business concern, such as bondholders, shareholders, potential investors, bankers, and other creditors. Small versions of the originals are called common-size statements. An analyst will find these statements most useful when examining a company's present financial situation and operating outcomes, particularly when comparing firms in the same sector throughout time and between various industries within a single year.

### **2.2.3 Importance of Profitability**

Financial stability is obviously impacted by bank profits. The first line of protection against losses resulting from credit deterioration is profits. An essential source of capital for banks is retained profits, which they may use to create substantial buffers against future losses. By ensuring that banks can continue to offer financial services to companies and families in the euro area even in the face of unfavorable developments, these buffers lessen the impact of negative shocks on the actual economy.

A collection of numerical numbers known as profitability ratios is used to compare the profitability of an organization to its revenue, cost of sales, equity, and balance sheet assets. A metric assesses how much money a business can make from its activities over a given time frame. A subset of financial measurements known as profitability ratios is used by creditors, bankers, investors, and other stakeholders to assess the company's yearly profitability and other financial performance.

These ratios assist them in determining the present profitability of an entity's use or management of its resources in order to produce profits and increase value for its owners or shareholders. One ratio that is used to evaluate a company's cost management effectiveness in comparison to its rivals or industry averages is the gross profit margin.

When a company's margin exceeds that of its rivals or the industry average, it indicates that it can make a significant profit on every dollar spent. These ratios have limitations even if they are significant to the majority of important stakeholders.

The profit made on sales is expressed as the gross profit margin. It is the portion of total income that remains after subtracting the cost of products sold, which is the profit. It is very vital since the gross profit pays for the office and administrative expenses as well as the dividends that are paid to the shareholders. A corporation is more profitable and a wise investment to make if its gross profit is higher. As previously mentioned, it's also employed to evaluate how well cost control is working. In terms of economy and efficacy, purchasing and production are the main areas to look at or enhance if the computation indicates that the ratio is currently.

The last ratio that shows a company's overall success is the net profit margin. Given that any changes to other ratios also have an indirect impact on the net profit margin, one may argue that it is the most crucial measure for management. For instance, poor sales might be the reason of a low quick ratio, which would also presumably result in a reduced net profit margin. This ratio is significant because it can show the firm or investors where the existing operational expenditures of the business could be problematic. Perhaps an excessive amount of interest is being paid since the financing approach favors loans over equity. Returns on equity are among the most significant ratios for investors, even though net profit margin is a crucial indicator for the business itself. It is a portion of the profits that shareholders receive in exchange for their capital investment in the business. More investors are drawn in when the ROE is greater since it indicates that the shareholders will earn larger dividends.

ROCE, or returns on capital employed, is a metric used to assess how well a business uses its resources. By analyzing the ROCE ratio, management is assisted in minimizing inefficiencies. The efficiency of the company's manufacturing process increases with a larger ROCE as compared to other sectors. The ratio of each dollar of income received to each dollar of corporate assets is known as return on equity, or ROA. It assists management in controlling the use of assets and is comparable to ROCE.

### **2.2.4 Factors Affecting the Profitability**

The following are a few bank-specific elements that have an impact on commercial banks' profitability:

**Interest rates** - For commercial banks, interest rates are the main source of income. Banks generally make more money when interest rates are high, and their profitability is affected when interest rates are low.

**Asset quality** - Profitability of commercial banks is directly impacted by the quality of their assets. Increased provisions for bad debts may result from a high percentage of non-performing loans, which might reduce bank profitability.

**Operational efficiency** - Commercial banks must operate profitably at any costs in order to stay in business. A bank with a lower cost structure will make more money than one with higher operational expenditures.

**Capital adequacy** - Commercial banks' profitability is impacted by the quantity of capital they are required to retain. Investor trust is often stronger in banks with better capital adequacy ratios, which can lower borrowing costs and increase profitability.

**Liquidity management** - To continue to be profitable, commercial banks must successfully manage their liquidity. Their profits might be negatively impacted by having too much liquidity, and their earnings could be negatively impacted by liquidity risk if they have too little.

**Productivity** - Commercial banks must be prolific and continuously launch new goods and services that suit their clients' demands in order to be profitable.

**Regulations** - Bank profitability may be impacted by regulations and compliance requirements as they may result in significant compliance expenses.

In order to be profitable, commercial banks must prioritize managing risks, keeping expenses under control, enhancing operational effectiveness, and adjusting to market changes.

### **2.3 Empirical Review**

Except for credit risk, O'Connell (2023) demonstrated that all bank-specific factors had a substantial and expected impact on bank profitability. Nevertheless, the SCP theory was not supported by any evidence. Bank profitability is significantly impacted by interest rates, particularly longer-term interest rates, and the rate of inflation; after other factors are taken into consideration, the economic cycle has a symmetrically little impact. In the UK banking sector, profitability is maintained to a reasonable degree, suggesting that the market structure is not totally competitive.

According to Afif et al. (2023), a management style, an enjoyable work environment, and painting surroundings in line with Islamic concepts may be able to boost employee motivation during painting, which in turn may improve the overall performance of Islamic banks and increase the market share of Islamic banking. Theoretically, in order to evaluate the total performance of Islamic banks, theories and measurements pertaining to management style, activity satisfaction, and painting environments must be employed. The managerial ramifications are implemented in accordance with priorities, namely with regard to motivation, paintings environment, activity enjoyment, and management style. The pattern is a component of the amount and characteristics that the people possess. The pattern used to the population must be representative, and the conclusions drawn from it may be pertinent to the whole public.

According to Dao and Nguyen (2022), the most notable consistency across all the companies is the highly negative correlation that has been shown between operational risk and banking profitability. The models of Vietnam and Thailand show a notable negative correlation between bank size and profitability, while the model of Malaysia shows no such correlation. The most contentious finding, nevertheless, reveals a positive correlation between credit risk and banks profitability as well as a negative link between CAR and profitability indices.

The factors influencing the profitability of commercial banks in growing Asian nations, such as Vietnam, Malaysia, and Thailand, were examined by Binh and Dung (2021). The

authors employed panel data from four different organizations between 2012 and 2016: all 27 commercial banks, eight banks in Malaysia, nine banks in Thailand, and ten banks in Vietnam. The most notable consistency among all the businesses, as a result of the analysis, is that there is a statistically significant negative correlation between operational risk and banking profitability. The models of Vietnam and Thailand show a notable negative correlation between bank size and profitability, while the model of Malaysia shows no such correlation. The most contentious finding, nevertheless, reveals a positive correlation between credit risk and banks profitability as well as a negative link between CAR and profitability indices.

In addition to the poor asset management, Muktuf and Hazim (2021) demonstrated that the bank received the third classification for its overall financial performance based on the findings of the CAMELS model's composite classification during the course of the years of research.

According to Bashatweh and Ahmed (2020), the management of the Jordanian commercial banks should reevaluate its policies, strategies, level of required guarantees, and debt collection procedures. They should also cut operating expenses and manage them more effectively. In order to ensure consistency between assets and obligations in terms of maturity and distribute them to purposes transferable to liquid balances, the research also advised bank managers to prepare precise and well-organized strategies for liquidity. Lastly, it is advised that in addition to all the banks mentioned on the ASE, more academics undertake studies on Islamic banks.

According to Saikrishna and Varghese (2020), both banks are adhering to the CAMEL model at the specified level. When compared, HDFC Bank's ratios are superior to SBI's. HDFC Bank has the best ratios in terms of capital sufficiency, asset quality, management effectiveness, and earnings quality. SBI's lone strong ratio is liquidity. The HDFC Bank, a private sector bank, has the best operations out of all the 17 ratios that were employed in this CAMEL study.

According to Georgios and Elvis (2019), banks were generally sufficiently capitalized. neglected to address capital adequacy concerns outside of FYROM and Serbia as well. Banks had significant issues with liquidity as well as asset quality. There was no problem with capital sufficiency; nevertheless, during the financial crisis, it was brought up because of the significant deposit run, the difficulties in obtaining funding, the rise in non-performing loans, and the decline in interest revenue. One more issue facing banks is the standard of risk management. There is a lot of room for improvement in the Balkan banks' management standards. Another significant issue is the banks' immediate liquidity, with the possible exception of Albania's NCB, which appears to be in good standing due to its huge deposit base. In other words, deposits are not only loans.

According to Khalid, Rashed, and Hossain's (2019) investigation, liquidity has no discernible effect on financial performance in terms of return on equity (ROE) or return on asset (ROA). Researchers that are involved in the field likewise think that more research is necessary to support the empirical conclusions drawn from this study.

A suitable equilibrium between profitability and liquidity is necessary. The most liquid assets of a bank are cash investments. Since these assets would enable banks to satisfy unforeseen withdrawals, banks with higher volumes of liquid assets are often seen as safe (Amin, 2018).

According to Hawaldar et al. (2017), return on equity and traditional retail bank performance are consistently good, with the exception of Bahrain Development Bank. Kuwait Finance House has a respectable track record of profitability when it comes to Islamic retail banks. According to Hawaldar et al. (2017), wholesale Islamic and conventional banks have greater staff cost to income ratios, cost to income ratios, asset utilization, and operating efficiency than retail banks.

A bank's accomplishments in terms of profitability, customer happiness, service quality, and other pertinent factors can be used to gauge its financial performance. A bank's profitability indicates how well it uses all of its resources to maximize net profits, and as such, it may be used as a gauge for how well managers and assets are used. The Indian

financial system is now dealing with a lot of challenging issues. According to Mustafa and Taqi (2017), a greater ratio guarantees a higher return to equity stockholders and vice versa.

According to Ekanayake and Azeez (2015), larger banks see fewer loan defaults than smaller banks, and banks with rapid credit growth are linked to lower levels of non-performing loans. Regarding the macroeconomic factors, the study did discover a positive correlation between inflation and the prime lending rate, but a negative correlation between non-performing loans and the GDP growth rate.

According to Mulalem (2015), the liquidity ratio assesses the bank's capacity to pay its short-term debt. Banks generate revenue through the mobilization of deposits and the provision of funds for creditors; thus, the bank must be mindful of its obligation to honor depositor demands. Liquidity risk arises when a bank is unable to satisfy depositor demand. As a result, fund management procedures should guarantee that an organization may swiftly sell assets with little loss and maintain a level of liquidity high enough to satisfy its financial commitments on time.

**Table 1**

*Summary of Empirical Review*

SN	Author	Objective	Methodologies	Findings
1	O'Connell (2023)	To examine the factors affecting bank profitability in the UK market and assess market structure	Analysis of bank-specific determinants and macroeconomic variables	Longer-term interest rates and inflation significantly affect bank profitability. Business cycle insignificantly affects profitability.

---

				Profitability persists moderately, indicating departure from perfect competition.
2	Afif et al. (2023)	To investigate the impact of management style, job satisfaction, and work environment on Islamic bank performance	Survey and analysis of management practices and employee satisfaction	Management style, job satisfaction, and work environment significantly influence Islamic bank performance. Conclusions are relevant to the population and should be representative.
3	Dao and Nguyen (2022)	To explore the relationship between capital adequacy ratio (CAR), credit risk, and bank profitability	Statistical analysis of financial data and regression modeling	Controversial findings regarding the relationship between CAR and profitability, and between credit

---

					risk and profitability.
4	Muktuf and Hazim (2021)	To assess the financial performance of banks using the CAMELS model	the Application of the CAMELS model to evaluate bank performance	Banks obtained a third classification for overall financial performance, indicating weak asset management.	
5	Bashatweh and Ahmed (2020)	To provide recommendations for improving liquidity management in Jordanian commercial banks	Analysis of liquidity management strategies and recommendations	Recommended accurate and organized plans for liquidity management to achieve consistency between assets and obligations. Emphasized the need for research on Islamic banks and banks listed on the ASE.	
6	Saikrishna and	To compare the financial performance of	the Comparative analysis of financial ratios and	HDFC Bank outperforms SBI in various aspects	

	Varghese (2020)	HDFC Bank and SBI using the CAMEL model	performance indicators	such as capital adequacy, asset quality, and management efficiency.
7	Georgios and Elvis (2019)	To examine liquidity issues in Balkan banks	Analysis of liquidity ratios and deposit trends	Most banks face immediate liquidity problems, except for Albania's NCB, which has sufficient deposits for lending.
8	Khalid, Rashed and Hossain (2018)	To investigate the impact of liquidity on bank performance	Statistical analysis of liquidity ratios and financial performance indicators	Liquidity has no significant impact on return on assets (ROA) or return on equity (ROE).
9	Amin (2018)	To analyze the relationship between liquidity and profitability in banks	Review of liquidity management practices and their impact on profitability	Highlighted the importance of a balanced approach to liquidity management for ensuring bank

---

				stability and profitability.
10	Hawaladar et al. (2017)	To compare the operational efficiency of retail and wholesale banks	Analysis of cost-to-income ratios and operational efficiency	Wholesale banks, both Islamic and conventional, exhibit higher operational efficiency compared to retail banks.
11	Ekanayake & Azeez (2015)	To examine the relationship between non-performing loans and macroeconomic variables	Regression analysis of loan default rates and macroeconomic indicators	Non-performing loans vary negatively with GDP growth rate and positively with inflation.
12	Mulalem (2015)	To assess the importance of liquidity management in banks	Review of liquidity ratio analysis and fund management in practices	Effective liquidity management ensures timely payment of financial obligations and minimizes losses.

---

## 2.4 Review of Literature Nepalese Context

According to Adhikari et al. (2023), mergers and acquisitions (M&As) have emerged as a potent strategic instrument for the consolidation of Nepal's Banks and Financial Institutions (BFIs) in order to boost their capital bases, diversify their operations, and provide financial

stability. Using twelve accounting measures and a paired sample t-test, this study assesses the effect of M&A on the financial performance of two commercial banks between 2013 and 2020. Despite notable gains in return on assets, net interest margin, and earnings per share, the first bank's results indicate that the merger had a mixed effect on the financial performance parameters. With the exception of dividends per share (DPS) in the pre-post-M&A period, the second bank's financial statistics are mostly unaffected by M&A.

According to Gopali (2022), both banks had a strong liquidity position when it came to effectively allocating shareholder cash to profitable ventures. Additionally, Sanima Bank is not mobilized, and NABIL has been effective in giving its shareholders a higher rate of return by using their existing funds more wisely than other banks. Sanima Bank has utilized a larger percentage of its total deposits for loans and advances against deposits than NABIL Bank. The largest percentage of NABIL's total deposits have been mobilized for investment. In comparison to Sanima bank, NABIL bank has the greatest return on assets based on the profitability ratio. In comparison to Sanma Bank, NABIL Bank has a greater return on equity ratio. This indicates that NABIL Bank has a higher potential for profit-making than Sanima Bank.

Asset quality (AQ) has a negative and significant association with return on equity (ROA), but it has a positive and significant link with return on equity (ROE), according to Khatri (2020)'s findings utilizing the Hausman test and the fixed effects method. The return on equity (ROE) and return on assets (ROA) have a positive but negligible connection with the cash-deposit ratio (CADR). Nonetheless, the research indicates that there is a negative and negligible correlation between credit-deposit (CDR) and return on equity (ROE), and a positive but small correlation between CDR and ROA.

Due to their respective CRs being below one, Sanima Bank Limited and Agriculture Development Bank Limited both have low current ratios. Both banks' average government securities investment to current asset ratio is at a good level. When compared to NRB guidelines, the average cash and bank balance to total deposit ratio (4%), has a solid CRR. Both banks have good lending management based on the average loan and advances to savings deposit ratio (Sanjyal, 2019).

GIBL's current ratio is somewhat greater than NIBL's. This suggests that GIBL will be able to fulfill its commitment sooner than NIBL, which is within a year. NIBL has consistently kept its CRR marginally above NRB regulations. As a result, NIBL now has greater CRR values than GIBL. This suggests that NIBL maintains sounder liquidity than GIBL. The larger standard deviation of NIBL suggests that higher CRR is invariably associated with increased risk, hence reducing bank profitability (Silwal, 2018).

Table 2

*Summary of Literature in Nepalese Context*

SN	Author	Objective	Methodologies	Findings
1	Adhikari et al. (2023)	To evaluate the impact of mergers and acquisitions on the financial performance of two commercial banks in Nepal	Analysis of financial ratios and paired sample t-test	M&A had a mixed impact on the financial performance of the first bank, with improvements in return on assets, net interest margin, and earnings per share. The second bank saw an insignificant impact of M&A on financial ratios, except for dividends per share (DPS).
2	Gopali (2022)	To compare the financial performance of NABIL Bank and Sanima Bank	Comparative analysis of financial ratios	NABIL Bank mobilized the highest percentage of total deposits into total investment and demonstrated higher profitability ratios compared to Sanima Bank.

---

3	Khatri (2020)	To examine the relationship between cash-deposit (CADR), credit-deposit ratio (CDR), and financial performance indicators	Statistical analysis using Hausman test and fixed effects approach	CADR has a positive and insignificant relationship with ROA and ROE. CDR has a positive but insignificant relationship with ROA and a negative but insignificant relationship with ROE.
4	Sanjyal (2019)	To assess the liquidity and investment management of two banks in Nepal	Analysis of liquidity and investment ratios	Both banks maintain satisfactory levels of investment in government securities and sound cash and bank balances relative to total deposits, meeting regulatory requirements.
5	Silwal (2018)	To compare the current ratios of two banks in Nepal	Comparative analysis of current ratios	GIBL has a slightly higher current ratio than NIBL, indicating better short-term obligation meeting ability.

---

## 2.5 Research Gap

The primary goals of this study are to reveal the Nepalese commercial sector's comparative profitability analysis. A small number of studies of this kind were conducted in relation to financing businesses in Nepal. In this specific project, statistical and financial methods are used to assess the data. The primary inferential statistical methods are regression analysis, correlation analysis, and descriptive statistics. While the bivariate Pearson's correlation

analysis was also conducted to assess the correlations between the variables, the linear multiple regression analysis was utilized for the multiple regression study. In a similar vein, this study only had 48 observations total, with data spanning from 2013–14 to 2022–23 and four sampling banks. One government-owned and one privately held financial company were taken on by Sanjyal (2019). However, this study has included all types of financing firms, including those controlled by the government, the private sector, and joint ventures. According to Hudgins (2008), the non-performing loan ratio and interest margin ratio are independent factors, whereas ROA is the dependent variable. On the other hand, this study has included the following factors as independent: dividend per share ratio, market price per share, earnings per share, non-performing loan ratio, and return on equity and net profit margin as dependent variables. Therefore, this study is an attempt to close the gap left by earlier research that was unable to do so.

## CHAPTER-III

### RESEARCH METHODOLOGY

The section on research technique includes the following topics: study design; population and sample; sampling strategy; data kinds and sources; data collecting; analytical tools; research framework; and variable definitions.

#### 3.1 Research Design

In order to gather sufficient information regarding the effect of non-performing loans on the profitability of finance businesses in Nepal, this study uses a descriptive research approach. Additionally, the causal comparative design used in this study aids in examining potential reasons and the relationships that exist between different dependent and independent variables. The financial performance of Nepali finance organizations has been ascertained via the use of the casual comparative study design.

#### 3.2 Population and Sample

The 17 financial businesses that now operate in Nepal with NRB licenses make up the demographic data for this study (NRB, 2022). A sample is a portion of the population that has been chosen to be representative in order to study its characteristics. On the other hand, sample data are those of the organizations that were chosen for analysis using the purposive sampling approach, rather than data from the entire population. The top 5 most paid-up capital corporations are those that were chosen.

**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

Source: NEPSE, 2022

### **3.3 Sampling Method**

There are five financial businesses in the sample. The study employed the purposive sampling approach to pick the sample organizations. The top five finance companies in terms of paid-up capital were used to choose the example finance business.

### **3.4 Types and Source of Data**

The secondary data used in this investigation. The information is gathered from tax books, financial reports released by banks, and yearly reports of selected institutions. Because secondary data are readily available at all times, they are the most trustworthy source for this research project. Time is not wasted looking for various kind of data that are needed for a study in secondary sources.

### **3.5 Collection of Data**

In this investigation, the report's analysis was conducted solely using secondary data. The research study incorporates previously released secondary data. The necessary information was gathered in a number of methods, including

- i) Annual Report of selected banks.
- ii) Internet search in related link
- iii) Library Research study
- iv) Previous Research Studies and Articles on the subject

### **3.6 Tools for Analysis**

The statistical and financial techniques that have been used for data analysis in this study's tools section are adequate.

#### **A) Financial Tools**

To put it simply, a ratio is a number that indicates the quantitative relationship between any two variables in terms of another number. Any two financial statement items can be compared using a ratio calculation. It implies that the number of ratios might equal the

number of things. However, it is not feasible to calculate every ratio using the ratio analysis method. As a result, just the necessary ratios have been calculated.

Ratio analysis is useful for summarizing vast amounts of financial data and for calculating the firm's financial performance. A ratio is the representation of one number in relation to another. In financial analysis, a ratio is the statement of the connection between two mutually independent data. It is used as a yardstick index to assess a company's performance and financial status. A very effective and popular method for financial analysis is ratio analysis. It is described as the methodical application of ratios to the interpretation of financial accounts in order to ascertain a company's strengths and weaknesses, past performance, and present financial situation. It facilitates the analysis's ability to draw qualitative conclusions about the company's performance and financial situation. As a result, it is helpful to establish relationships between different ratios and to interpret them, particularly when doing so based on comparisons between two or more firms or between firms. Additionally, comparing the ratios for the same firm now and in the past can yield incredibly useful information when examining financial performance. The financial statement's out-of-date accounting number makes it impossible to discern the firm's performance or financial situation. When an accounting statistic is paired with additional pertinent data, it becomes more meaningful. As a result, the ratio is the mathematically defined connection between two accounting data. A comprehensive quantitative relationship summary aids in the formation of a high-quality assessment.

### **Return on Equity (ROE)**

The ratio of net income after taxes to total equity capital is known as return on equity. A financial ratio called return on equity (ROE) measures a company's profit margin in relation to the total amount of invested or balance sheet shareholder equity. The return on equity (ROE) is what investors seek for after making an investment. It shows the rate of return that shareholders of the bank have received on their investments. It is represented as a percentage of the average amount of assets on which the financial institution received revenue divided by the amount it earned on loans during a certain period of time and other assets less the interest paid on borrowed money.

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

### **Non-Performing Loan Ratio**

A loan amount for which the debtor has not paid the agreed-upon payments for a predetermined length of time is known as a non-performing loan (NPL). Depending on the conditions of the loan, nonpayment is typically described as zero principle or interest payments, however the precise components of non-performing status might differ. Additionally, the length of time varies based on the loan type and sector. But usually, the time frame is either 90 days or 180 days. One measure of bank efficiency is the non-performance loan ratio. The bank is more efficient the lower the ratio. A greater ratio, on the other hand, indicates that the bank is not being managed efficiently. International banking norms allow for a nonperforming loan percentage of up to 5% (Kattel, 2014).

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

### **Dividend per Share**

A financial indicator called dividend per share (DPS) is used to calculate how much is paid to each shareholder for each share of stock they own. It is computed by dividing the total dividends paid by the business by the total number of outstanding stock shares. Because it gives investors information about the company's dividend payment policy and the anticipated return on their investment, the DPS is a crucial indicator. A higher DPS often denotes a more advantageous dividend payout strategy, which may bolster investor confidence and draw in further 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 earned 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 its net profit margin. Although it is most commonly written as a percentage, net

profit margin can also be shown as a decimal. The net profit margin shows how much of each rupee that a business receives in revenue is turned into profit. Net income is sometimes referred to as net profit or the company's bottom line. Another name for net profit margin is net margin. On the income statement, the words "net profits" and "net income" can be used interchangeably.

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

### **Earnings per Share**

The capacity of a business to turn a profit for each stakeholder's share is shown by its earnings per share (EPS). Growing profits per share typically point to a company's expansion and high market value. Earnings per share and market stock price have a positive linear connection, according to Uddin and Rahman (2013). According to Malhotra and Tandon's (2013) research, market price and profits per share are positively correlated; that is, the greater the earnings per share, the higher the market price per share.

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

### **Price Earnings Ratio (P/E ratio)**

According to Geetha and Swaaminathan (2015), this ratio helps investors determine how long it will take to recoup their investment in a company's shares. The link between a company's market price and profits per share is expressed by the P/E ratio. It shows the degree to which each share's price covers its earnings.

$$\text{Price Earnings Ratio} = \frac{\text{Total Dividend Paid}}{\text{Earnings per Share}}$$

## **B) Statistical Tools**

### **I) Descriptive Statistical Tools**

Finding the trend in the sample banks' financial situation is made easier with the use of descriptive statistical methods. Additionally, it examines the connections between variables and supports banks in making wise decisions that advance the objectives of the

firm. In this study, descriptive analytical methods including percentage, variance, standard deviation, and mean (arithmetic) were employed.

### A) Average/ Mean

A collection of observations' arithmetic mean is calculated by dividing their sum by the total number of observations (Elhance & Agarwal, 2000). Generally speaking, if N observations are provided as X<sub>1</sub>, X<sub>2</sub>,... X<sub>n</sub>, then their arithmetic mean, shown by, is provided by,

$$\bar{X} = \frac{x_1 + x_2 + \dots + x_n}{N} = \frac{\sum x}{N}$$

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

### B) Standard Deviation

The square root of the total squares of the departures from the mean, measured in deviations, is the standard deviation. As a result, in order to compute the standard deviation, the arithmetic average must first be determined, and then the deviations of each item from the average must be squared. After adding up all of the squared deviations, divide the total by the total number of elements. The standard deviation of the series may be found by taking the square root of the resultant value (Elhance & Agarwal, 2000). The Greek symbol sigma is commonly used to denote the standard deviation. The standard deviation of a set of N observations, denoted by X<sub>1</sub>, X<sub>2</sub>,..., X<sub>n</sub>, may be found using

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

$\sum (X - \bar{X})^2$  = 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 calculated. According to Elhance and Agarwal (2000), a distribution with a lower C.V. is considered more homogenous, uniform, or less variable than the other, whereas a series with a higher C.V. is considered more heterogeneous or variable than the other. It is calculated as follows.

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

## **II) Inferential Statistical Tools**

Inferential analysis focuses on estimating or hypothesis testing by utilizing the sample alone to draw conclusions about the population, as contrast to data description, which focuses on characterizing the sample data. Formally speaking, this procedure is called inferential statistics. Inferential statistics may be divided into two main categories: parametric and non-parametric. To arrive at data and a conclusion, this study used parametric tests such regression analysis, correlation analysis, and hypothesis testing.

### **A) Coefficient of correlation (r)**

A statistical tool for examining the link between two variables is correlation analysis, which includes a number of methodologies and approaches for determining the strength of the association between the two variables. Understanding the strength and direction of the link between the two variables under investigation is made possible by correlation analysis. But it doesn't consider how the variables' causes and effects relate to one another (Elhance & Agarwal, 2000). The following formula is used to calculate the correlation coefficient, or r:

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

## B) Regression Analysis

Regression can be literally understood as traveling backward, returning to the average value, or going back in time. The method of examining the relationship between variations in one series and variations in another is called regression analysis. It ascertains the kind and intensity of the correlation between two variables. The estimation of unknown values or the prediction of one variable from the known values of other variables is, thus, known as regression. Simple regression is regression analysis that focuses on just 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 termed the independent (or regressed, predictor, explanatory) variable. Regression lines are lines that are fitted to a set of data points in order to determine the connection between two variables. The line of best fit is one that is fitted using the least squares approach. For each given value of the other variable, a line of regression provides the best estimate of one unknown variable.

### The Model Specifications

The model was created by combining independent factors like dividend per share, non-performing loans, and liquidity with dependent variables like return on equity and net profit margin.

$$ROE = \beta_0 + \beta_1 EPS + \beta_2 NPLR + \beta_3 DPS + \beta_4 MPS + \beta_5 PER + \varepsilon$$

$$NPM = \beta_0 + \beta_1 EPS + \beta_2 NPLR + \beta_3 DPS + \beta_4 MPS + \beta_5 PER + \varepsilon$$

Where,

$\beta_0$  = Intercept of the dependent variable

$\beta_1, \beta_2, \beta_3$  = Coefficient of the variables

ROE = Return on Equity

NPM = Net Profit Margin

MPS = Market Price per Share

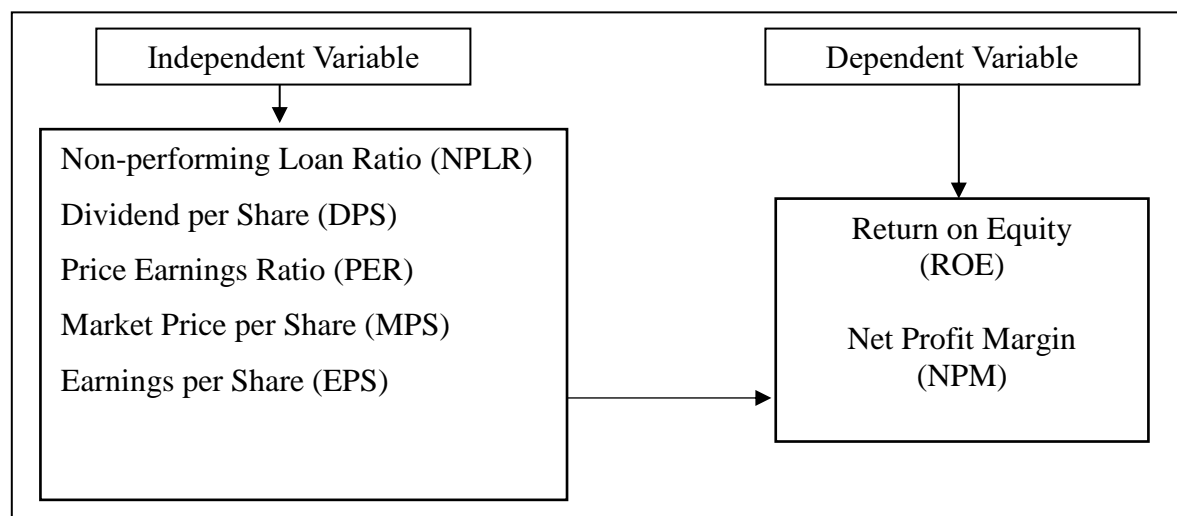
NPLR = Non-performing loan ratio

EPS	=	Earnings per share
PER	=	Price Earnings Ratio
DPS	=	Divided per Share
$\varepsilon$	=	Error term

### 3.7 Research Framework and Definition of Variables

**Figure 1**

*Research Framework*



Source: Jha and Hui (2012)

#### Definitions of Variables

##### Dependent Variable

##### Return on Equity (ROE)

The ratio of net income after taxes to total equity capital is known as return on equity. A financial ratio called return on equity (ROE) measures a company's profit margin in relation to the total amount of invested or balance sheet shareholder equity. The return on equity (ROE) is what investors seek for after making an investment. It shows the rate of return that shareholders of the bank have received on their investments. The return on equity (ROE) measures how well a bank's management uses shareholder cash (Khrawish, 2011).

**Net Profit Margin (NPM)**

The ratio of a company's or business segment's net earnings to revenues is known as its net profit margin. Although it is most commonly written as a percentage, net profit margin can also be shown as a decimal. The amount of profit that a business makes from every dollar of revenue it receives is shown by its net profit margin. The market price per share and the net profit margin have a strong and positive correlation (Karki, 2018).

**Independent Variables****Non-performing Loan Ratio (NPLR)**

The NRB has mandated that all financial businesses establish loan loss provisions to guard against questionable and non-performing debts. This ratio aids in credit control and reduces the amount of non-performing loans. One measure of bank efficiency is the non-performance loan ratio. The bank is more efficient the lower the ratio. A greater ratio, on the other hand, indicates that the bank is not being managed efficiently. International banking norms allow for a nonperforming loan percentage of up to 5% (Kattel, 2014).

**Dividend per Share**

The computation involves dividing the entire cash dividend by the total number of outstanding shares. A cash dividend is a sum of money that is distributed to shareholders, usually from the company's current earnings or cumulative profits. Unlike stock dividends, which are given in kind, cash dividends are paid out in cash. A stock dividend is a dividend given to shareholders that takes the form of more firm shares as opposed to cash. Dividends on stocks are not subject to taxation until the owner sells the given shares. Typically, these stock dividends are paid out as a fraction of the current share price. For instance, if a business decides to offer a 10% stock dividend, it will have to issue 0.10 shares for each share that already exists. holders, meaning that a shareholder with 100 shares would get 10 more shares. Despite the possibility of diluting earnings per share, the stock dividend offers the benefit of rewarding the company's cash position.

**Price Earnings Ratio (P/E ratio)**

According to Geetha and Swaaminathan (2015), this ratio helps investors determine how long it will take to recoup their investment in a company's shares. The link between a company's market price and profits per share is expressed by the P/E ratio. It shows the degree to which each share's price covers its earnings.

**Earnings per Share (EPS)**

The capacity of a business to turn a profit for each stakeholder's share is shown by its earnings per share (EPS). Growing profits per share typically point to a company's expansion and high market value. Earnings per share and market stock price have a positive linear connection, according to Uddin and Rahman (2013). According to Tandon and Malhotra's (2013) research, market price and profits per share are positively correlated; that is, the greater the earnings per share, the higher the market price per share.

**Market Price per Share (MPS)**

Market Price of Share, which stands for each company's annual price over the sample period. It's the cost at which, in the present market, a share of the company's stock may be purchased on a stock exchange. It is a stock's "going price". When there are more buyers than sellers, the price will increase; when the opposite is true, the price will decrease.

## CHAPTER-IV

### RESULTS AND DISCUSSION

Descriptive analysis, correlation analysis, regression analysis, hypothesis testing, key findings, and a discussion of the study are all included in the chapter results and discussion. In relation to variables like earnings per share, market price per share, interest margin ratio, non-performing loan ratio, and price earnings ratio—which are predictors also known as independent variables—the results deal with descriptive analytical tools like mean (arithmetic), range, and standard deviation. Conversely, return on equity and net profit margin are dependent factors.

#### 4.1 Descriptive Analysis

In order to obtain the necessary information and facts about the variables under investigation, descriptive tools have been included. By using these descriptive analytical methods, the goal is to gain a comprehensive knowledge of the variables under study and to make well-informed judgments based on the insights discovered. With the use of these insights, the analyst may forecast the company's future performance and spot trends, patterns, and connections between the variables.

**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 descriptive statistic for the variables under consideration is shown in Table 4, which also includes descriptive statistical tools such as mean, standard deviation, maximum, and lowest values.

Finance businesses had an average non-performing loan ratio of 2.27%, with a standard deviation of 2.83%, according to NPLR (Non-Performing Loan Ratio) figures. With a minimum value of 0.02 it may be inferred that some organizations have a very low percentage of non-performing loans, a sign of strong loan portfolio quality. However, the greatest number of 12.96 indicates that a significant percentage of loans at some organizations are non-performing, which may be reason for alarm. A low non-performing loan percentage is crucial for finance organizations since it shows the caliber of their loan portfolio and their capacity to make money off of lending. A high non-performing loan ratio might be a sign that a business is vulnerable to financial loss and default. The non-performing loan ratios of financial businesses appear to be distributed, with some having ratios that are noticeably higher or lower than the mean value of 2.27%, according to the 2.83 standard deviation. This emphasizes how crucial it is to thoroughly examine a company's credit risk management procedures and loan portfolio before making any investment decisions.

Finance businesses pay a dividend of 20.17 per share on average, according to the DPS (Dividend per Share) data, with a standard deviation of 13.48. A minimum value of 5.50 indicates that certain firms pay out little in dividends, while a maximum value of 54.93 indicates that certain companies pay out a lot of dividends. A large dividend distribution may appeal to investors as it offers a reliable stream of income. It's crucial to keep in mind, though, that a big dividend distribution might also mean that there aren't enough finances for the business to develop and reinvest. Conversely, a low dividend distribution might indicate that the business has little profit to share or is holding onto more cash to fund future expansion. The distribution of dividend payouts among financial businesses is indicated by the standard deviation of 13.48, wherein certain companies have payouts that deviate considerably from the mean value of 20.17. This emphasizes how crucial it is to

carefully consider a company's dividend policy and financial success before making any investing decisions.

According to the Price-to-Earnings Ratio, or PER, financial businesses have an average PER of 14.20 with a standard deviation of 144.46. While the greatest value of 459.61 indicates that certain firms are highly valued in the market, the minimum value of -864.88 indicates that some companies have negative profits. A popular valuation statistic that assesses the link between a company's stock price and earnings is the price-to-earnings ratio. A low price-to-earnings ratio might suggest that a firm is undervalued, whilst a high ratio could suggest that a company is overpriced. The price-to-earnings ratios of financial businesses widely spread, with some having ratios that are much higher or lower than the mean value of 14.20, according to the standard deviation of 144.46. This emphasizes how crucial it is to carefully consider a company's earnings trajectory, financial performance, and market environment before making any investments.

Finance businesses are estimated by the MPS (Market Price per Share) to have an average market price per share of 299.08, with a standard deviation of 226.25. Certain firms may have low market prices, as indicated by the minimum value of 92.00, and high market prices, as indicated by the highest value of 1250.00. A measure of the current worth of a company's stock is its market price per share. It's crucial to remember that a number of variables, including the company's financial performance, market conditions generally, and industry trends, affect the market price per share. The market prices of financial firms are distributed, as indicated by the standard deviation of 226.25; certain companies have values that deviate greatly from the mean value of 299.08. This emphasizes how crucial it is to thoroughly examine a company's financial performance, market circumstances, and industry trends before making any investments.

According to the EPS (Earnings per Share) data, financial businesses have an average earnings per share of 17.43, with an 18.48 standard deviation. While some corporations may have negative earnings, a minimum value of -9.16 indicates that they do, and a maximum value of 99.26 indicates that they do. A company's profitability is gauged by its earnings per share, which is determined by dividing net income by the total number of

outstanding shares of the company's stock. An organization may attract more investors if it has a high earnings per share as it may be a sign of sound financial standing and an optimistic future. Conversely, a firm experiencing negative profits per share might be experiencing financial difficulties and might not be a wise choice for investors. The banking industry's profits per share are spread, with some businesses having earnings that are noticeably greater or lower than the mean value of 17.43, according to the standard deviation of 18.48. This emphasizes how crucial it is to thoroughly examine a company's earnings history, financial performance, and market environment before making any big investment decisions.

The return on equity (ROE) of financial firms is estimated to be 20.54 on average, with a standard deviation of 1.18. Some firms may have a negative return on equity, as indicated by the minimum value of -12.91, while some may have a high return on equity, as indicated by the maximum value of 29.54. A company's profitability is gauged by its return on equity (ROE), which is determined by dividing net income by equity held by shareholders. A high return on equity (ROE) may be a sign that a business is doing well financially and is making good use of the capital invested by its shareholders. However, a negative return on equity (ROE) might be a sign that a business is having trouble making enough money to pay its shareholders' investments. With a standard deviation of 1.18, financial businesses' returns on equity (ROE) are very constant, with the majority of them having returns that are near to the mean of 20.54. This might imply that the sector is doing well generally and that the financial performance of finance businesses is stable overall.

Finance businesses have an average net profit margin of 19.23%, with a standard variation of 16.13%, according to the NPM (Net Profit Margin). A minimal number of -8.35 indicates that certain businesses are running at a loss due to negative net profit margins. However, the highest score of 106.49 indicates that certain businesses are exceptionally lucrative, based on their extremely high net profit margins. Maintaining a good net profit margin is crucial for finance organizations to continue their company operations and provide returns to their shareholders. A company's negative net profit margin may be reason for concern and should be investigated further in order to determine the underlying

cause and implement corrective measures. The banking industry's net profit margins are spread, with some businesses having margins that are noticeably greater or lower than the average of 19.23%, according to the standard deviation of 16.13. This implies that finance businesses' profitability might differ substantially, which emphasizes the significance of carefully examining a company's financial performance before making investment decisions.

#### 4.2 Correlation Analysis

The non-performing loan ratio, dividend per share, price-earnings ratio, market price per share, earnings per share, and return on equity are the six financial indicators for finance organizations that were correlated. Information on the relationships between several financial indicators for finance businesses may be found in Tables 4.2 and 4.3 of the correlation table. A strong negative association is denoted by a correlation value of -1, a strong positive relationship by a correlation coefficient of 1, and no link is shown by a correlation coefficient of 0. The degree of statistical significance of the link is indicated by the asterisks (\* and \*\*).

**Table 5**

*Correlation Analysis*

Variables	NPLR	DPS	PER	MPS	EPS	ROE	NPM
NPLR	1						
DPS	0.018	1					
PER	-0.093	0.293	1				
MPS	0.197	0.180	0.134	1			
EPS	-0.276	-0.032	0.049	.331*	1		
ROE	-0.211	0.290	0.094	-0.023	0.154	1	
NPM	-0.235	.343*	0.117	0.042	0.230	.916**	1

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

Comparing several financial indicators to two profitability proxies—return on equity (ROE) and net profit margin (NPM)—reveals varied results. The negative correlation between NPLR and ROE—which has a significance level of 0.142 and a Pearson correlation value of -0.211—indicates that shifts in the non-performing loan ratio could not be a good predictor of shifts in return on equity. Conversely, at the 95% confidence level (0.062), DPS and ROE are statistically significant and exhibit a positive correlation (0.290). EPS and PER, however, have small positive correlations with ROE (0.154 and 0.094, respectively), but do not show statistical significance at significance levels of 0.291 and 0.522, respectively. MPS has a negative correlation (-0.023) with ROE but is not statistically significant (significance level of 0.877).

Despite a little negative correlation (-0.235) between NPLR and NPM, the relationship between NPLR and NPM is not statistically significant, using a significance level of 0.104. DPS has a marginally positive association (0.343) with NPM and is statistically significant at the significance level of 0.026. With significance levels of 0.427 and 0.780, respectively, none of the connections between PER and MPS with NPM are statistically significant; nevertheless, they do show small positive correlations (0.117 and 0.042, respectively). The modest positive correlation (0.230) between EPS and NPM at a significance level of 0.115 suggests a potential relationship between higher earnings per share and higher net profit margins, but one that is not nearly statistically significant.

### **4.3 Regression Analysis**

The findings of a regression analysis, which looks at how different independent factors relate to Return on Equity (ROE), the dependent variable. The dependent variable, "Net Interest Margin (NPM)," and 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)," were examined using multiple regression analysis. The significance and degree of the link between the independent and dependent variables are ascertained through analysis.

**Table 6***Model Summary with ROE*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.822	.675	.616	.47777

Predictors: (Constant), EPS, DPS, NPLR, PER, MPS

A summary of a regression study with ROE as the dependent variable and a set of predictors (EPS, DPS, NPLR, PER, MPS) is shown in the Model Summary table. The correlation coefficient (R-value) of the model is 0.822, suggesting a robust positive association between the variables and return on equity. The model, which incorporates the predictor variables, is able to explain around 67.5% of the variance in ROE, according to the R-Square value of 0.675. The number of predictors in the model is taken into account by the Adjusted R-Square of 0.616, which offers a somewhat reduced but still significant explanation of variance (61.6%). The standard error of the estimate, which calculates the average difference between the actual and expected ROE values, is 0.47777.

**Table 7***ANOVA with ROE*

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	155.403	5	936.030	11.439	.000
Residual	2782.148	34	81.828		
Total	2937.551	39			

Dependent Variable: NPM

Predictors: (Constant), EPS, DPS, NPLR, PER, MPS

The regression model using ROE (Return on Equity) as the dependent variable and EPS, DPS, NPLR, PER, and MPS as predictors is statistically summarized in the ANOVA table. The analysis of variance is displayed in the table by contrasting the variance unexplained (residuals) with the variance explained by the model (regression). A mean square of 31.081 indicates that, based on 5 degrees of freedom (df), the model explains 155.403 of the total

variation in ROE. With 34 degrees of freedom and a residual variance of 2782.148, the mean square is 81.828. The statistically significant F-value (p-value of 0.000) is determined by dividing the regression mean square by the residual mean square. It comes out at 11.439. This shows that, in comparison to the variance not described by the model, the model significantly explains the variation in ROE.

**Table 8**

*Regression Coefficient Analysis*

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	2.302	0.004
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	-3.733	0.009

Dependent Variable: Return on Equity (ROE)

In a model where Non-Performing Loan (NPLR), Dividend per Share (DPS), Price Earnings Ratio (PER), Market Price per Share (MPS), and Earnings per Share (EPS) are the predictors and Return on Equity (ROE) is the dependent variable, the Coefficient Analysis table shows the regression coefficients (B values) for the various predictors. With a coefficient of 0.673, the constant (intercept) is statistically significant ( $p = 0.020$ ). NPLR is not statistically significant ( $p = 0.906$ ), while having a minor positive coefficient (0.010). DPS is statistically significant ( $p = 0.004$ ) and has a positive coefficient (0.002), indicating that there is a correlation between rising DPS and rising ROE. There is an inverse link between PER and ROE, as shown by the negative coefficient (-0.009) and statistical significance ( $p = 0.024$ ). MPS is not statistically significant ( $p = 0.620$ ) and has a coefficient that is almost nil (0.000). Given that EPS is statistically significant ( $p = 0.009$ )

and has a negative coefficient (-0.003), it may be inferred that rising EPS is correlated with falling ROE. Overall, by showing statistically significant connections, the table sheds light on the relative contributions of each predictor to ROE.

**Table 9**

*Model Summary with NPM*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.806	.65	.586	5.58425

Predictors: (Constant), EPS, DPS, NPLR, PER, MPS

The regression model with Net Profit Margin (NPM) as the dependent variable and a collection of predictors that includes EPS, DPS, NPLR, PER, and MPS is described in the Model Summary table. The model's R-value of 0.806 shows that the set of predictors and NPM have a very significant positive connection. The model's predictors account for almost 65% of the variation in NPM, according to the R-Square value of 0.65. When the number of independent variables is taken into consideration, the model's Adjusted R-Square value, which accounts for the number of predictors in the model, is 0.586, indicating that it explains around 58.6% of the variation in NPM. The average difference between the actual NPM values and the values the model projected is 5.58425, or the standard error of the estimate. Lower values of this standard error suggest a more accurate model in terms of its ability to forecast NPM.

**Table 10**

*ANOVA with NPM*

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	2.834	5	6.108	10.2000	.000
Residual	20.365	34	.599		
Total	23.199	39			

Dependent Variable: ROE

Predictors: (Constant), EPS, DPS, NPLR, PER, MPS

The ratio of the regression mean square to the residual mean square, or 10.2000, is used to get the F-value. When compared to the variation that the model is unable to explain, this F-value (p-value = 0.000) shows that the model explains a statistically significant portion of the variance in NPM. All things considered, the model indicates a significant correlation between the predictors and the dependent variable and shows a great ability to explain the variance in NPM.

**Table 11**

*Regression Coefficient Analysis*

		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)	0.753	4.964	0.000

Dependent Variable: Net Interest Margin (NPM)

The regression coefficients (B values) for a model with Net Interest Margin (NPM) as the dependent variable and the following financial metrics as predictors: Market Price per Share (MPS), Earnings per Share (EPS), Non-Performing Loan (NPLR), Dividend per Share (DPS), and Price Earnings Ratio (PER) are displayed in the coefficient analysis table. The constant, or intercept, is -0.221, but it is not statistically significant because of its extremely low t-value (-0.064) and p-value (0.950). With a p-value of 0.714, a t-value of 0.370, and a coefficient of 0.371, NPLR does not appear to have a significant effect on

NPM. With a coefficient of 0.022, t-value of 0.299, and p-value of 0.766, DPS did not appear to have a significant effect on NPM either.

With a t-value of 2.823, a statistically significant p-value of 0.007, and a positive correlation of 0.088 for PER, it can be concluded that rising PER is correlated with rising NPM. With a 0.000 coefficient, a 0.045 t-value, and a 0.964 p-value, MPS does not appear to have a significant effect on NPM. A high positive correlation between EPS and NPM is suggested by EPS's positive coefficient of 0.753, t-value of 4.964, and statistically significant p-value of 0.000. The table indicates that, overall, EPS and PER have statistically significant effects on NPM, but no significant effects are seen for the other variables.

## **4.2 Discussion**

Critical insights into the dynamics of financial management and organizational performance may be gained from the examination of financial measures and how they correlate with performance indicators (Smith et al., 2020). There is a fascinating link between the Non-Performing Loan Ratio (NPLR) and Return on Equity (ROE), a key indicator of profitability (Acs & Virgill, 2010). Despite the observation of a negative association, the absence of statistical significance suggests that this link may not be strong enough to support firm conclusions (Ali et al., 2019). Financial decision-makers should take into account a number of implications arising from this research (Al-Jubari & Mosbah, 2021). The lack of statistical significance indicates that other factors may also affect ROE, even if the negative association points to a possible trend where increasing NPLR may impede ROE (Parra & Knobloch, 2022). On the other hand, the significance of dividend policy in promoting shareholder value is shown by the positive and statistically significant connection found between ROE and Dividend per Share (DPS) (Gunawan et al., 2022). According to known financial theory, this conclusion is consistent with the idea that better profitability usually results in bigger dividends for shareholders (Fakoussa et al., 2020). As a result, financial firms may think about adjusting their dividend policy to better match their return on equity (ROE) performance, which would boost shareholder returns and investor confidence (Muhtar & Wahyuni, 2023). However, a sophisticated approach to

financial management is required because to the absence of statistical significance in the relationships between ROE and other measures like Earnings per Share (EPS), Price Earnings Ratio (PER), and Market Price per Share (MPS) (Djohan & Kurniawan, 2023). Although there could be a positive association between these indicators and ROE, the lack of statistical significance emphasizes the need for care in evaluating these relationships. Effective solutions for optimizing return on equity (ROE) need financial decision-makers to take into account a multitude of elements and do thorough evaluations.

Beyond return on equity (ROE), another important profitability statistic is net profit margin, which shows intriguing correlations with several financial variables (Putra, 2023). Although there are positive correlations between NPLR and DPS, it is possible that these correlations are not a reliable indicator of organizational effectiveness due to the lack of statistical significance (Salim & Pujiarti, 2023). This discovery emphasizes the necessity of having a thorough grasp of the variables affecting net profit margin, which has significant ramifications for financial decision-making (Prasetyo et al., 2021). Moreover, the statistically substantial negative correlation between the net profit margin and the Price Earnings Ratio (PER) highlights the intricate dynamics of profitability (Sitopu et al., 2021). More investigation is required to clarify the underlying mechanisms underlying this link, even if it may offer useful insights for financial decision-makers (Alansari & Javed, 2021). To summarize, Zafar et al. (2021) have found that the relationships between financial measurements and performance indicators provide important insights into the complexities of financial management. The intricacy of financial processes and the necessity for cautious interpretation, however, are highlighted by the absence of statistical significance in several connections (Syamsuddin et al., 2021). To create strategies that maximize organizational performance, financial decision-makers need to take into account a variety of aspects and execute thorough studies (Smith et al., 2020). Furthermore, more investigation is required to clarify the fundamental processes behind these correlations and their financial management consequences (Zafar et al., 2021).

## **CHAPTER-V**

### **SUMMARY AND CONCLUSION**

#### **5.1 Summary**

The research examines the profitability of financial firms in Nepal. The primary goal of the research is to compare the profitability of Nepali financing businesses. Out of the total 17 listed finance businesses in NEPSE, five finance companies were used in the study. The top five highest-paid-up capital financing businesses were used to select the samples. There are fifty observations in all, containing 10 years' worth of yearly reports, or the financial information of five representative banks. Descriptive and causal comparative study designs have been used in accordance with research methodology. The inferential statistics, which primarily consist of correlation and multiple linear regression analysis for cause and effect relationships between and among undertaken variables, such as dependent variables like profitability (return on equity and net profit margin) and independent variables like non-performing loan ratio, dividend per share, price earnings ratio, market price per share, and earnings per share, are also included in the statistical tools. Different financial measures are used by finance organizations to evaluate their performance and possibilities for investment. The average non-performing loan ratio, or NPLR, is 2.27%, with a 2.83% variation. Good loan portfolio quality is indicated by a low NPLR, whereas default risk is indicated by a high NPLR. The average dividend per share, or DPS, is 20.17, with a variance of 13.48, which shows that dividend payments vary. The average Price to Earnings Ratio (PER) is 14.20, with a deviation of 144.46. This indicates that there is variation in the ratios and that market circumstances, earnings, and financial performance need to be analyzed. With a variation of 226.25, the average market price per share is 299.08, necessitating examination of market dynamics, industry patterns, and financial performance. The average earnings per share (EPS) is 17.43, with a deviation of 18.48, highlighting the importance of examining financial data, earnings trends, and industry dynamics. The average return on equity (ROE) for the industry is 20.54, with a variation of 1.18, suggesting consistent performance for the majority of businesses. The average

NPM (Net Profit Margin) is 19.23%, with a 16.13% variation, indicating the necessity of carefully examining a company's financial performance. Negative NPM may be a sign of issues, whereas positive NPM is essential for sustainability and profits. In summary, there is a coefficient in the association between NPLR and NPM that suggests a possible influence, but the p-value is larger than the standard cutoff of 0.05, indicating insufficient data to indicate a meaningful link. Similar results are shown in the link between DPS and NPM, with a low coefficient and a high p-value suggesting no discernible influence. With a t-statistic and p-value indicating that the association is almost significant, the coefficient for the relationship between PER and NPM is almost significant. With a high p-value and a coefficient of zero, the association between MPS and NPM is not significant. In conclusion, there is no significant association between EPS and NPM, as indicated by the non-significant coefficient, t-statistic, and p-value.

## **5.2 Conclusion**

Indicating the necessity for a comprehensive examination of financial performance, industry developments, and market circumstances, the study draws attention to the variations in market price per share, earnings per share, and price earnings ratio across finance businesses. The industry's average return on equity (ROE) has a variance, suggesting consistent performance for the majority of firms. The variance of the average net profit margin (NPM) emphasizes the necessity of a thorough examination of a company's financial performance. Negative NPM might be a sign of financial difficulties, whilst positive NPM is essential. As a result, financial institutions need to concentrate on preserving a healthy net profit margin and consistent results within the sector.

Likewise, there is no statistically significant correlation between the dependent variable (ROE) and the non-performing loan ratio (NPLR). It indicates that there is no true correlation between NPLR and ROE and that it is doubtful that the NPLR coefficient would represent a true link between the two variables. Similar to this, there is a variance in the average net profit margin (NPM), which suggests that a careful examination of a company's financial performance is necessary. Negative NPM might be a sign of financial difficulties, whilst positive NPM is essential. In order to increase their profitability, financial

organizations should concentrate on lowering the percentage of non-performing loans and keeping a positive net profit margin.

Lastly, there is no statistically significant correlation between the dependent variables (NPM and ROE) and dividend per share (DPS). It indicates that the profitability of financial corporations is not significantly impacted by net dividend per share. Therefore, in addition to lowering non-performing loans, keeping a positive net profit margin, and evaluating financial performance, industry trends, and market circumstances before making investments, finance organizations should concentrate on additional aspects that impact their profitability.

### **5.3 Implications**

#### **Practical Implications**

The study's findings offer crucial information to analysts, investors, and finance businesses. To make wise judgments, finance organizations must comprehend the financial measures that represent their performance and investment possibilities. Businesses with low net profit ratio (NPLR) are thought to have high-quality loan portfolios, whereas high NPLR can indicate default risk. Analysts must evaluate financial performance, profits, and market circumstances in order to make well-informed investment selections, as dividend distributions exhibit variability. The market price per share necessitates examination of financial performance, industry developments, and market circumstances, while the price to earnings ratio shows dispersion. The importance of analyzing a company's financials, earnings trajectory, and industry circumstances is highlighted by earnings per share. Businesses are considered to be in sound financial standing when they have a positive Net Profit Margin and a consistent Return on Equity; a negative NPM may be a sign of issues.

#### **Theoretical Implications**

The study's findings complement the body of knowledge already available on finance and financial measures. The coefficient for the association between NPLR and NPM suggests that there may be an influence, but the p-value is larger than the usual cutoff of 0.05,

indicating that there is insufficient data to indicate a significant relationship. The notion that NPLR might not have a large impact is supported by this outcome.

### **Future Scope**

Significant new information on the financial indicators used by finance businesses and how they affect investment potential and performance has come from this study. To increase our understanding of these linkages, more study is necessary. This can be accomplished by investigating the correlations between these indicators in other industries or geographical areas, or by carrying out a bigger study with a larger sample size. Furthermore, future research should examine the link between the financial indicators and other variables including market trends, economic situations, and company-specific variables. This can assist stakeholders make wise decisions by giving a more thorough insight of the financial performance of finance firms.

## REFERENCES

- Abugamea, G. (2018). Determinants of banking sector profitability: Empirical evidence from Palestine. *International Journal of Computing and Business Research*, 7(2), 107-118.
- Acharya, D. P., & Pant, P. (2016). Financial performance evaluation of Nepalese commercial banks. *International Journal of Applied Business and Economic Research*, 14(4), 2239-2254.
- Adhikari, B., Kavanagh, M., & Hampson, B. (2023). Analysis of the pre-post-merger and acquisition financial performance of selected banks in Nepal. *Asia Pacific Management Review*, 7(3), 131-147.
- Afif, M., Mariyanti, T., Septiani, N., & Dolan, E. (2023). Factor affecting employee motivation to increase performance of Sharia bank in Indonesia on Islamic perspective. *APTISI Transactions on Management (ATM)*, 7(2), 131-142.
- Ally, F. (2013). Explanatory power of bank specific variables as determinants of NPLs: Evidence form Pakistan banking sector. *World Applied Sciences Journal*, 22(9), 1220–1231.
- Amin, S. (2018). Relationship between intellectual capital and financial performance: The moderating role of knowledge assets. *Pakistan Journal of Commerce and Social Sciences (PJCSS)*, 12(2), 521-547.
- Anteneh, M., Beduk, A. & Yusufazari, H. (2013). Performance Analysis of Financial sector in Turkey Using Camel Approach. 14th International Academic Conference, Malta.
- Athanasoglou, P. P., Brissimis, S. N. & Delis, M. D. (2008). Bank-specific, industry-specific and macroeconomic determinants of bank profitability. *Journal of international financial Markets, Institutions and Money*, 18(2), 121-136.

- Ayanda, A. M., Lawal, O. R., & Ben-Bernard, P. (2014). Effects of human resource management practices on financial performance of banks. *Transnational journal of Science and Technology*, 4(2), 1-16.
- Bailey, R. A. (2017). Evaluating firms' financial performance measures in Illinois. *Academy of Strategic Management Journal*, 15, 1-14.
- Baral, J. K. (2005). Health check-up of finance companies in the framework of CAMEL: A case study of joint venture banks in Nepal. *Nepalese Journal of Business Studies*, 2(1), 41-55.
- Belexley, G. M. (2017). *Examining the Financial Performance of the Largest United States Banks Before and after Dodd-Frank* (Doctoral dissertation). Capella University.
- Berger, F. (1995). Determinants of profitability of domestic UK finance companies: panel evidence from the period 1995-2002. *Money Macro and Finance (MMF) Research Group Conference*, 45, 1-27.
- Bodla, M. S., Tandon, D., & Bodla, B. S. (2007). Profitability performance of life Insurance companies—A study in Indian context. *International Journal of Computing and Business Research*, 7(3), 1-15.
- Brissimis, S. N., & Delis, M. D. (2008). Bank-specific, industry-specific and macroeconomic determinants of bank profitability. *Journal of international financial Markets, Institutions and Money*, 18(2), 121-136.
- Chanra, L. (2015). Model financial performance banking in Indonesia before and after implementation of PBI no. 13/1/PBI/2011: Risk Profile Bank Regional Development.
- Chilwal, S. T., & Mishra, K. P. (2018). Profitability in finance companies: A case from Nepal. *International Journal of Case Studies in Business, IT, and Education (IJCSBE)*, 5(1), 61-77.

- Cryal, V. (2013). Firm size and profitability: A study of listed manufacturing firms in Sri Lanka. *International Journal of Business and Management*, 9(4), 567-611.
- Dang, D. (2011). Revisiting bank profitability, performance and stability in Asia Pacific (2012-2018) using the EAGLES framework. *International Journal of Electronic Finance*, 10(1-2), 116-130.
- Dao, T. T., & Nguyen, R. S. (2022). Determinants of household food security in Nepal: A binary logistic regression analysis. *Journal of Mountain Science*, 8(3), 403-413.
- Ekanayake, E. M. N. N. & Azeez, A. A. (2015). Determinants of non-performing loans in licensed finance companies: Evidence from Sri Lanka. *Asian Economic and Financial Review*, 5(6), 868.
- Elhance, D. N. & Agarwal, R. D. (1975). Delegation of authority: A comparative study of private and public sector units in India. *International Journal of Business and Management*, 56(9), 174-199.
- Goddard, J., Molyneux, P., & Wilson, J. O. (2004). The profitability of European banks: a cross-sectional and dynamic panel analysis. *The Manchester School*, 72(3), 363-381.
- Gupta, P. P. (2015). Board diversity and its long-term effect on firm financial and non-financial performance. *International Journal of Case Studies in Business, IT, and Education*, 6(5), 668-699.
- Haryanto, S. (2016). Profitability identification of national banking through credit, capital, capital structure, efficiency, and risk level. *JDM (Jurnal Dinamika Manajemen)*, 7(1), 11-21.
- Hawaldar, I. T., Lokesh, L., Kumar, A., Pinto, P. & Sison, S. M. (2017). Performance analysis of Finance companies in the Kingdom of Bahrain (2001-

- 2015). *International Journal of Economics and Financial Issues* (July, 2017) Vol, 7, 729-737.
- Hudgins, B. F. (2008). Growth strategy and bank profitability: Case of housing bank for trade & finance. *European Scientific Journal*, 8(22).
- Hui, X., & Jha, S. (2012). A comparison of financial performance of finance companies: A case study of Nepal. *African Journal of Business Management*, 6(25), 7601-7611.
- Hussain, H., & Bhatti, G. A. (2010). Evidence on structure conduct performance hypothesis in Pakistani finance companies. *International Journal of Business and Management*, 5(9), 174.
- Jha, S. & Hukin, X. (2012). A comparative financial performance of finance companies: A case study of Nepal. *African Journal of Business Management*, 6(25), 701-711.
- Joshi, M. (2014). Intellectual capital and financial performance: an evaluation of the Australian financial sector. *Journal of intellectual capital*, 6(25), 701-711.
- Joshi, V. (2008). Mergers in banking industry of India: some emerging issues. *Asian Journal of Business and Management Sciences*, 1(2), 157-165.
- Karki, M. S. (2004). Performance analysis of hybrid forecasting model in stock market forecasting. *Asian Journal of Business and Management Sciences*, 5(12), 321-344.
- Kumbirai, M., & Webb, R. (2010). A financial ratio analysis of finance companies performance in South Africa. *African Review of Economics and Finance*, 2(1), 30-53.
- Maharjan, K. L. (2007). Determinants of household food security in Nepal: A binary logistic regression analysis. *Journal of Mountain Science*, 8(3), 403-413.

- Mishra, T. T., & Aithal, Z. (2021). Comparative analysis of financial performance of finance companies in Tanzania. *Research Journal of Finance and Accounting*, 4(19), 133-143.
- Modigliani, T. K., & Miller, Y. T. (1958). Testing the Modigliani and Miller theory in practice: Evidence from the Macedonian banking system. *Eastern European Economics*, 55(3), 277-289.
- Mohd, I. E., Karim, I. O., & Sallahundin, O. (2019). Effect of non-performing loans on the financial performance of finance companies in Nigeria. *American International Journal of Business and Management Studies*, 1(2), 1-9.
- Muhammad, F., Ammara, S., Abrar, H. C., & Fareeha, K. (2012). Economic determinants of non- performing loans: Perception of Pakistan bankers. *European Journal of Business and Management*, 4(19) 87-99.
- Mulualem, G. (2015). *Analyzing Financial Performance of Finance Companies in Ethiopia: CAMEL Approach* (Doctoral dissertation). Addis Ababa University.
- Mustafa, M. S. M. & Taqi, M. (2017). A study on the financial performance evaluation of Punjab National Bank. *International Journal of Business and Management Invention*, 6(1), 5-15.
- Mwangi, H. (2013). Bank efficiency and non-performing loans: Evidence from Malaysia and Singapore, *Prague Economic Papers*, 2(2), 18-132.
- Nzongang, T., & Atemnkeng, J. (2006). Market Structure and Profitability Performance in the Banking Industry of CFA countries: the Case of Finance companies in Cameroon. *International Journal of Academic Research in Business and Social Sciences*, 8(9), 685-704.

- O'Connell, M. (2023). Bank-specific, industry-specific and macroeconomic determinants of bank profitability: evidence from the UK. *Studies in Economics and Finance*, 40(1), 155-174.
- Olweny, W. X., & Shipo, T. R. (2011). Determinants of Growth and Profitability by Bank Specific Variable and Market Structure in Islamic Banking in Indonesia. *Academy of Strategic Management Journal*, 15, 1-14.
- Ommeren, S. V. (2011). *Banks' Profitability: An Examination of the Determinants of Banks' Profitability in the European Banking Sector* (Unpublished master's thesis). Erasmus University Rotterdam, Netherlands.
- Pandey, S. L. D. (2009). Comparison of performance of microfinance institutions with finance companies in India. *Australian Journal of Business and Management Research*, 1(6), 110-120.
- Pradhan, P. (2016). Impact of liquidity on bank profitability in Nepalese finance companies. (Master's thesis). Tribhuvan University, Kathmandu, Nepal.
- Puneet, R., & Sonali, T. P. (2011). Comparison of financial performance of finance companies: A case study in the context of India (2009-2013). *Journal of Finance and Bank Management*, 2(2), 1-14.
- Regmi, U. R. (2007). Stock market development and economic growth: Empirical evidence from Nepal. *Administration and Management Review*, 24(1), 1-28.
- Sabir, M., Ali, M., & Habbe, A. H. (2012). Pengaruh Rasio Kesehatan Bank Terhadap Kinerja Keuangan Bank Umum Syariah dan Bank Konvensional di Indonesia. *Jurnal Analisis*, 1(1), 79– 86.
- Sangmi, M. U. D., & Tabasum, T. (2010). Analyzing financial performance of finance companies in India: Application of CAMEL model. *Pakistan Journal of Commerce and Social Sciences (PJCSS)*, 4(1), 40-55.

- Sanjyal, S. K. (2019). Profitability Ratio Analysis of Nabil Bank Limited (Doctoral dissertation). Tribhuvan University, Kathmandu, Nepal.
- Setiawan, A., & Hermanto, B. (2017). Comparative study: determinant on banking profitability between buku 4 and buku 3 bank in indonesia. *Benefit: Jurnal Manajemen dan Bisnis*, 2(1), 92-101.
- Silwal, N. (2018). Role of capital structure in defining financial performance: A study with respect to cement industry in India. *International Journal of Applied Financial Management Perspectives*, 2(3), 537.
- Somoye, I. O. (2010). Effect of non-performing loans on the financial performance of finance companies in Nigeria. *American International Journal of Business and Management Studies*, 1(2), 1-9.
- Sufian, F. (2009). Determinants of bank profitability in a developing economy: empirical evidence from the China banking sector. *Journal of Asia-Pacific Business*, 10(4), 281-307.
- Suman, N. P. (2010). Financial system and economic development: Nepal Rastra Bank in 50 years. Kathmandu: Nepal Rastra Bank.
- Thapa, A. (2019). Financing Strategies for SMEs in India. A way out. *International Journal of Research in Commerce & Management*, 3(11).
- Tregenna, F. (2009). *An empirical investigation of the effects of concentration on profitability among US banks*. University Library of Munich, Germany.
- Vanhome, T. Z. (2015). An empirical analysis of leverage and financial performance of listed non-financial firms in Ghana. *International Journal of Economics and finance*, 7(9), 120.
- Velampy, V. M., & Niresh, S. (2012). Effect of cash reserves on performance of finance companies in Kenya: A comparative study between national bank and equity bank

Kenya limited. *International Journal of Academic Research in Business and Social Sciences*, 8(9), 685-704.

## APPENDIX

Panel Data Analysis								
Year	Entities	NPM	MPS	EPS	DPS	PER	NPLR	ROA
2013/14	ICF	23.12	128	22.85	15.69	5.6	0.88	2.5
2014/15		22.74	310	19.77	14.74	15.68	1.84	2.27
2015/16		19.01	225	13.81	11.05	16.3	2.71	1.91
2016/17		41.53	365	21.44	34.93	17.04	1.49	1.76
2017/18		36.73	288	24.03	32.1	99.98	0.75	2.24
2018/19		16.12	172	12.86	16	93.37	0.02	1.04
2019/20		15.04	168	96.28	21	10.32	0.09	1.04
2020/21		9.31	973	99.26	15	15.36	0.56	0.66
2021/22		20.29	640	24.55	14	26.07	1.18	1.45
2022/23		13.42	450	17.71	10	15.41	0.54	0.81
2013/14	SIFC	17.1	284	24.36	30.8	11.53	0.17	2.17
2014/15		13.1	475	15.8	13.26	30.06	0.12	1.43
2015/16		15.19	327	17.15	12.83	19.06	0.12	1.54
2016/17		16.41	311	13.73	11.6	22.6	0.08	1.38
2017/18		39.36	383	37.18	26.57	10.13	0.25	3.14
2018/19		18.08	383	11.47	18.77	33.39	0.17	1.85
2019/20		19.5	157	16.04	23.65	9.79	0.14	2.17
2020/21		15.3	159	13.05	13.69	11.78	0.67	1.72
2021/22		17.15	489	12.86	14.3	38.03	0.89	1.45
2022/23		11.53	299	9.48	12.8	31.53	0.6	1
2013/14	GFL	6.30	146	3.42	0	42.72	4.6	0.85
2014/15		15.69	191	9	8.42	12.21	4.69	1.88
2015/16		24.66	141	7.37	9.37	15.05	1.11	1.11
2016/17		106.49	144	8.68	47.48	18.98	0.73	7.08
2017/18		24.66	181	17.42	0	10.39	12.96	2.51
2018/19		-0.16	106	-0.12	0	-864.9	6.63	-0.01
2019/20		0.26	121	0.26	0	459.61	5.91	0.03
2020/21		-8.35	121	-9.16	0	-13.21	8.82	-0.91
2021/22		10.79	1250	12	0	104.14	10.91	1.03
2022/23		11.76	771	15.47	0	49.84	8.46	1.5
2013/14	CFL	20.45	106	18.54	5.5	5.17	1.99	1.19
2014/15		22.11	154	16.54	6.57	9.31	1.89	1.46
2015/16		26.44	205	15.08	7.07	13.59	2.05	1.89
2016/17		27.5	245	31.58	7.76	7.76	2.47	2.31
2017/18		23.1	191	15	12.73	12.73	1.89	2.25
2018/19		15.94	114	9.31	12.24	12.24	0.87	1.77
2019/20		16.26	114	10.57	10.79	10.79	1.14	1.84
2020/21		14.16	120	10.49	11.44	11.44	1.73	1.53
2021/22		16.29	485	12.4	39.11	39.11	1.72	1.6
2022/23		7.27	302	5.9	51.19	51.19	2.59	0.71

2013/14	PFL	6.17	92	5.12	0	17.96	3.65	0.64
2014/15		23	240	20.81	26	12	2.25	2.22
2015/16		43.46	338	17.27	53.6	7.15	2.22	4.6
2016/17		24.2	353	17.9	14.92	19.72	1.67	2.31
2017/18		20.35	239	15.96	9.1	14.97	1.41	1.92
2018/19		15.28	135	11.14	22.38	12.12	1.11	1.57
2019/20		12.79	138	11.94	14.2	14.2	0.79	1.32
2020/21		7.72	153	8.02	19.07	19.07	0.99	0.82
2021/22		11.8	370	12.2	54.93	54.93	1.48	0.108
2022/23		7.39	354	8.73	40.56	1.37	1.37	0.68

**FACTORS AFFECTING PROFITABILITY OF FINANCE COMP..****By: Thakur Khanal**As of: May 17, 2024 1:31:44 PM  
16,380 words - 47 matches - 4 sources

Similarity Index

**4%**Mode: **sources:**

316 words / 2% - from 17-Feb-2024 12:00AM

[elibrary.tucl.edu.np](http://elibrary.tucl.edu.np)

137 words / 1% - from 16-Feb-2024 12:00AM

[elibrary.tucl.edu.np](http://elibrary.tucl.edu.np)

135 words / 1% - Internet from 26-Dec-2022 12:00AM

[ebin.pub](http://ebin.pub)

87 words / 1% - from 10-Jan-2024 12:00AM

[cirdjournal.com](http://cirdjournal.com)**paper text:**

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**

. 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