# FINANCIAL ANALYSIS OF NEPALESE MANUFACTURING COMPANIES

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

by

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May, 2024

# CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "FINANCIAL ANALYSIS OF NEPALESE MANUFACTURING COMPANIES". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor. It has been proposed and presented as part of requirements for any other academic purposes.

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

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Gauri Mishra

## REPORT OF RESEARCH COMMITTEE

Miss Gauri Mishra has defended research proposal entitled "FINANCIAL ANALYSIS OF NEPALESE MANUFACTURING COMPANIES**"**, successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Asso. Prof. Dr. Kapil Khanal and submit the thesis for evaluation and viva voce examination.

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## APPROVAL SHEET

We, the undersigned, have examined the thesis entitled "FINANCIAL ANALYSIS OF NEPALESE MANUFACTURING COMPANIES" presented by Gauri Mishra a candidate for the degree of master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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This study entitled **"**FINANCIAL ANALYSIS OF NEPALESE MANUFACTURING COMPANIES" has been prepared in partial fulfillment for the Degree of Master of Business Studies (MBS) under the Faculty of Management, Tribhuvan University is based on research models involving the use of quantitative aspect of profitability of microfinance companies in Nepal.

I have great satisfaction and pleasure to express my appreciation and sincerity to my thesis supervisor Asso. Prof. Dr. Kapil Khanal of Shanker Dev Campus, TU for his excellent and effective guidance and supervision. I will remain thankful for his valuable direction useful suggestion and comments during the course of preparing this thesis without his help this work would not have come in this form. I also would like to extend my debt of gratitude Asso. Prof. Dr. Sajeeb Kumar Shrestha, Head of Research Department and I owe a deep debt of gratitude to Asso. Prof. Dr. Krishna Prasad Acharya, Campus Chief of Shanker Dev Campus who provided me an opportunity to undertake this research work. Similarly, I would like to express my sincere to my friends for their support, encouragement and help for this study work.

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Gauri Mishra

May, 2024

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# ABBREVIATIONS

| | | |
|---|---|---|
| AD | : | Anno Domini |
| BS | : | Bikram Sambat |
| C&BB | : | Cash & Bank Balance |
| CA | : | Current Assets |
| CV | : | Coefficient of Variation |
| D/E ratio | : | Debt Equity ratio |
| e.g. | : | Example |
| EPS | : | Earnings per Share |
| F/Y | : | Fiscal Year |
| GDP | : | Gross Domestic Products |
| GPM | : | Gross Profit Margin |
| i.e. | : | That is |
| L & A | : | Loan and Advance |
| Ltd. | : | Limited |
| NOP | : | Net Operating Profit |
| ROA | : | Return on Assets |
| ROE | : | Return on Equity |
| SD | : | Standard Deviation |
| T.A | : | Total Assets |
| TC | : | Total Cost |
| TD | : | Total Deposit |
| TR | : | Total Revenue |
| TU | : | Tribhuvan University |

# ABSTRACT

This study aimed to examine the financial performance of manufacturing companies in Nepal. It employed both descriptive and causal-comparative research methods to achieve its objectives. The analysis was based on panel data from three manufacturing firms in Nepal spanning from the fiscal years 2012/13 to 2021/22. Profitability metrics like Return on Assets (ROA) and Earnings per Share (EPS) were considered as dependent variables, while independent variables included total assets, total revenue, total cost, and debt ratio. Secondary data was utilized for this analysis. The primary analytical tool used was Ordinary Least Squares (OLS) regression applied to panel data. Findings indicated that ROA was negatively influenced by total assets, total revenue, and debt ratio. Notably, while total revenue and debt ratio were not statistically significant, total assets exhibited a negative significance at the 5% level.

The R-square value stands at 49.31%, indicating a substantial portion of variance in ROA can be explained by total assets, total revenue, total cost, and debt ratio, as evidenced by the statistically significant regression P-value of 0.0036 at a 0.05 significance level. Similarly, for earnings per share, the R-square value is 74.86%, with a regression P-value of 0.000, indicating a significant relationship, particularly with total assets, while total revenue, total cost, and debt ratio show insignificant impacts. These findings offer insights for both companies and policymakers, suggesting potential strategies to enhance the performance and profitability of manufacturing firms.

*Keywords: Profitability, ROA, EPS, Loan and advance, Total Cost, Total Revenue, Debt Ratio.*

# CHAPTER- I

# INTRODUCTION

## 1.1 Background the Study

The financial sector plays a crucial role in a country's economic advancement. Financial institutions serve as key entities for gathering resources by accepting deposits from various sources and channeling these funds into productive sectors such as agriculture, trade, commerce, entertainment, tourism, and industry (Acharya, 2018).

Manufacturing involves the transformation of raw materials or components into finished goods utilizing tools, human labor, machinery, and chemical processes. This process enables businesses to sell their products at a higher value than the initial raw materials' worth. With large-scale manufacturing, products can be mass-produced through assembly line methods and advanced technologies, which are fundamental assets. By employing efficient manufacturing techniques, companies can benefit from economies of scale, enabling them to produce more units at a reduced cost (Gupta, 2014).

Manufacturing involves transforming raw materials or components into finished products using various tools, human effort, machinery, and chemical processes. Before the Industrial Revolution, most items were crafted by hand with basic tools and manual labor. However, the Industrial Revolution introduced mass production, assembly lines, and mechanization, enabling the production of larger quantities of goods at reduced costs. The ISM Manufacturing Report is closely monitored by financial analysts as it can provide insights into the economy's health and potential market trends (Brooks, 2019).

In Nepal, the manufacturing sector has been experiencing steady growth, making significant contributions to the national economy. Key industries in this sector encompass textiles, cement, steel, food processing, and handicrafts. Increased investments, both domestic and foreign, have fueled this growth, leading to a proliferation of manufacturing enterprises. Consequently, there has been a notable rise in employment opportunities and overall economic expansion (Davydenko, 2010).

The Nepalese manufacturing landscape is characterized by a dominance of a select few entities, comprising both large multinational corporations and small to medium-sized enterprises (SMEs), who have emerged as frontrunners within the sector (Khan, 2019). These entities wield considerable influence, driving the growth trajectory of manufacturing in Nepal.

Manufacturing constitutes a substantial segment of the economy, encompassing the transformation and enhancement of raw materials like ores, timber, and agricultural products into finished goods such as metal items, furniture, and processed foods. This process of conversion imbues these products with added value, consequently bolstering their market worth. The significance of manufacturing lies in its profitability within the broader business framework, as it hinges upon the specialization of individuals in manufacturing skills and the provision of financial resources necessary for acquiring tools and materials. As highlighted earlier, operational efficiency in manufacturing engenders heightened productivity and cost efficiencies (www.investopedia.com).

To achieve these outcomes, manufacturers must:

- Reduce redundancies
- Improve the quality of work
- Update equipment and procedures
- Set realistic goals
- Streamline intake, supply chain, and distribution channels

**Types of Manufacturing**

Over time, there has been a transformation in manufacturing methods. Historically, people crafted goods using raw materials, a practice that persists in certain contexts. Hand manufacturing, employing rudimentary tools and traditional techniques, is commonly linked with various crafts such as decorative art, textile, leatherwork, carpentry, and some metalwork (Kosumi & Kosumi, 2021).

Handmade products are characterized by their labor-intensive nature and time-consuming production process. Depending on the supplier and the nature of the goods, they can often

fetch high prices. For example, unique handmade fashion items may command premium prices compared to mass-produced alternatives. However, instances of exploitation exist, particularly in regions with lax labor regulations and high job demand (Kosumi & Kosumi, 2021).

Conversely, larger enterprises employ mechanization to achieve mass production on a vast scale, reducing the need for manual labor. This mechanized process relies heavily on machinery, requiring minimal human intervention. Nonetheless, skilled personnel are essential for the operation and maintenance of these machines (Kouser & Saba, 2012).

**Additive Manufacturing**

Additive manufacturing, often termed as 3D printing, utilizes layering techniques to construct three-dimensional objects using specialized equipment like a 3D printer (Smith, 2018).

**Advanced Manufacturing**

Advanced manufacturing employs innovative technologies to enhance production, enabling companies to enhance the value of their raw materials and cater to specific market needs more effectively. These technologies also facilitate faster product development and increased production capacity (Jones et al., 2020).

**Contract Manufacturing**

Contract manufacturing is a prevalent practice in the industry where companies collaborate with external partners to outsource specific manufacturing tasks. For instance, an automotive manufacturer might engage third-party firms to produce components for their assembly lines (Brown & Black, 2019).

## 1.2 Problem Statement

A study examining financial performance is a fundamental process that yields insights into various aspects of a company's operations. These include its profitability, liquidity, earning potential, operational efficiency, creditworthiness, capital sources and utilization, financial accomplishments, and overall standing. Such insights serve to gauge how effectively a company utilizes its financial resources for profitability.

In the context of manufacturing companies, those operating within the Nepalese financial landscape have shown satisfactory performance in the short term, particularly those that have secured significant shares of the market. The implementation of government policies promoting economic liberalization has created favorable conditions for foreign investors, leading to a rapid influx of joint venture banks and financial institutions. However, the burgeoning manufacturing sector has intensified competition among companies.

In Nepal, there exists inconsistency in terms of profitability, operating expenditures, and shareholder dividend distribution among manufacturing companies. Hence, the research problem outlined in the study aims to discern the underlying reasons behind these variations (Mishra, 2018).

The performance of a bank's finances hinges on both internal and external factors. Internally, it's influenced by factors specific to the bank, such as its activities as reflected in its financial statements. Externally, it's affected by the broader economic performance (Shrestha, 2020).

Financial institutions (FIs) aim to maximize returns for their stakeholders while also supporting economic development, a significant goal in countries like Nepal. One common challenge in underdeveloped nations, including Nepal, is insufficient capital formation and its effective utilization. To tackle this issue and contribute to the national economy, manufacturing companies have played a crucial role by mobilizing deposits and offering various loan products.

The banking sector in Nepal has faced several crises, notably in the 1990s through the early 2000s. These crises were fueled by factors like high levels of non-performing loans and inadequate provisioning, resulting in profit erosion, liquidity problems, and deteriorating asset quality. To address these challenges, consolidation measures have been introduced to confront the issues directly (Budathoki, 2013).

Manufacturing firms are observed to extend loans solely on a short-term basis, using movable assets as collateral, while exhibiting reluctance towards long-term investments due to perceived safety concerns over profit potential (Athanasoglou & Matthaios, 2005). Criticism has been levied against commercial banks for predominantly serving affluent

communities at the expense of neglecting the economically disadvantaged, thereby adversely affecting the nation's economic growth (Athanasoglou & Matthaios, 2005).

Furthermore, the study delves into assessing the financial performance and capital utilization of manufacturing firms in Nepal, aiming to identify the factors influencing variations in capital, profits, liquidity, and investment. Additionally, it examines the extent to which banks comply with regulations set forth by the Nepal Rastra Bank (NRB) and compares the financial and managerial aspects of selected banks. Specifically, the study addresses the following issues: proceed with the outlined issues.

- What is the profitability position of the selected manufacturing companies?
- Is there any relationship between Total Assets (TA), Total Revenue (TR), Total Cost (TC) on Return on assets (ROA) and Earning Per Share EPS of the company?
- What is the impact of Total Assets (TA), Total Revenue (TR) and Total cost (TC) on profitability position of sample company?

## 1.3 Objectives of the Study

The main objective of this study is to analyze the financial performance of the sampled manufacturing companies. Beside this, following are the specific objectives:

- To evaluate the profitability position of the selected manufacturing companies.
- To examine the relationship of Total Assets, Total Revenue, Total cost, Return on Assets and Earning per share of sample manufacturing companies.
- To analyse the effect of Total Assets (TA), Total Revenue (TR), Total Cost (TC) on Return on Assets (ROA) and Earning Per Share (EPS) of sample manufacturing companies.

## 1.4 Rationale of the Study

The manufacturing sector in Nepal is experiencing steady growth, albeit amid numerous challenges. Concurrently, companies are gradually encountering difficulties. This study aims to offer valuable insights for these companies to assess their financial management practices and devise future strategies for enhanced performance. Effective financial

analysis is pivotal in overseeing overall financial health and, consequently, boosting shareholders' earnings per share (EPS).

In the Nepalese context, financial analysis decisions often take a backseat, leading some enterprises to fall short of profit targets or even collapse. This research endeavors to assess firms' financial performance, aiding in the formulation of strategic plans to attain predefined objectives. Furthermore, it underscores the significance of financial performance for policymakers and stakeholders. Moreover, it offers guidance for future researchers in this domain. While this study holds relevance for various stakeholders, its primary audience comprises.

**Importance to shareholders**

For example, if shareholders feel that the offered price is too low, they can effectively thwart takeover attempts. As a result, shareholders have a big say in how well a firm performs generally and makes money because they control most of its operations.

**Importance to management team of the bank**

A corporation can track and manage all of its bank relationships with the use of procedures and technology offered by bank relationship management. These include: Providing a single view of all accounts and bank-related activities worldwide. This covers foreign exchange, credit lines, bank accounts, and insurance.

**Importance to customers**

Your client is the most vital component of your business, regardless of the sector you operate in or the kinds of goods and services you offer. There are no sales if there is no customer. They are therefore essential to consider when creating your marketing strategy and messaging (Paudel, 2012).

**Importance to financial institution and stock exchange**

Although they may appear complicated, financial markets serve as a means of facilitating trade and ensuring that capital goes where it is most needed. Markets give businesses the money they need to expand, recruit staff, and make investments. They give the government money to help pay for hospitals, schools, and new net profits.

**Importance to government bodies and policy makers**

The justifications for doing things a specific way and in that direction are found in government policy. There are countless ways that public problems might arise, and each calls for a unique set of policy solutions. Many business-guiding policies are established by governments (Misra & Aspal, 2013).

**Importance to the institutes**

In addition to ensuring that resources are distributed fairly and that the impoverished or those with less financial resources are safeguarded, institutions also play a significant redistributive function in the economy. Additionally, they promote trust by offering judicial and policing systems that follow the same set of laws (Nguyen, 2011).

**Importance to the researchers**

The primary goals of research are to advance knowledge in a field of study, support hypotheses with evidence, and provide guidance for action. Research increases comprehension and judgment. It is the most useful instrument for comprehending the complexities of an issue, rejecting falsehoods, defending the truth, and expanding on information to produce trustworthy and authentic knowledge. Research improves comprehension and strengthens one's capacity for making decisions (Pandey, 2010).

## 1.5 Limitations of the Study

The study consists of certain limitations due to various reasons which are as follows

- The authenticity of the report depends on the authenticity of the data provided and collected.
- The study analyses the ten-year data from 2012/13 to 2021/22.
- The study is limited of the financial performance and profitability norms for manufacturing companies.
- The focus is given to the quantitative aspects of the sampled manufacturing companies, qualitative factors are not studied.
- Due to availability of limited information this study will not cover every part of the performance aspects. So this study may not be sufficient.
- Only selected statistical and financial tools have been employed in this study.

- This research is based on secondary data. Tile secondary data are collected from concerned organizations annual report and from journals.
- This sampling method is based on casual, judgmental method and convenience sampling method.
- This study is conducted partial fulfilment of the requirements for the Master's Degree.

# CHAPTER- II

## LITERATURE REVIEW

The review of pertinent literature on the subject of "Impact of Loan and Advance on Financial Performance of Manufacturing Companies" is the focus of this chapter. Examining existing literature can help one become more knowledgeable in their field, identify any new contributions, and generate ideas for new study designs. Since earlier research served as the basis for this one, it is therefore impossible to disregard them. This chapter summarizes the material that is currently available on the subject, based on my knowledge, research, and pertinent studies on this subject. It also includes reviews of journals, publications, and previously completed theses. The following topics are examined under this heading.

- Theoretical Review
- Empirical Review

## 2.1 Theoretical Review

### 2.1.1 Efficient Markets Hypothesis Theory

Debate surrounds the efficient markets hypothesis (EMH). According to the EMH, all available information about a stock is factored into the market price of that stock. This implies that the stock's valuation is accurate up until a future event modifies it. An EMH believer would be significantly better off purchasing a broad range of equities and benefiting from the market's overall gain because the future is unpredictable. Either you accept it and stick to passive, broad market investment strategies, or you reject it and concentrate on selecting stocks that meet certain criteria, such as growth potential, inexpensive assets, etc. Warren Buffett and other investors who have routinely outperformed the market by identifying irrational prices inside the general market are cited by EMH critics (Sharma, 2017).

### 2.1.2 Fifty-Percent Principle Theory

The fifty-percent principle suggests that following a trend, there's typically a correction ranging from one-half to two-thirds of the price change. For instance, if a stock rises by 20%, it's expected to decline by around 10% before resuming its upward trajectory (Murphy, 1999).This principle is often applied to short-term trends traded by technical

analysts and traders, where corrections are viewed as a natural aspect of the trend. Corrections exceeding 50% of the price change are seen as indicators of premature trend reversals (Thagunna, 2021).

### 2.1.3 Greater Fool Theory

According to the larger fool theory, you can make money on investments as long as someone more foolish than you is purchasing them at a higher price. This implies that if someone else is prepared to pay extra to purchase an overvalued stock from you, you could profit from it.

Any investment eventually runs out of idiots because the market gets too hot. Investing based on the larger fool theory entails disregarding earnings reports, valuations, and other relevant information. People who subscribe to the greater fool idea may come up on the short end of the stick following a market correction since ignoring facts can be just as dangerous as giving it too much weight.

### 2.1.4 Odd Lot Theory

The odd lot theory, rooted in the analysis of small blocks of stocks held by individual investors, suggests that observing the sale of these odd lots can provide insights into optimal times for stock purchases. According to this theory, investors adopting a contrarian approach enter the market when small investors are divesting. It presupposes that these small investors typically make incorrect decisions. This notion is supported by academic research (e.g., Haugen & Jorion, 1996).

This strategy is simplistic, relying on basic technical analysis and monitoring odd lot transactions. However, its effectiveness hinges on the extent to which practitioners delve into the fundamental aspects of the targeted companies as indicated by the theory. It's crucial to discern between odd lot sales driven by cautious risk management and those stemming from more profound issues. While small investors may not consistently err, their agility in reacting to significant news can sometimes precede broader selloffs in struggling stocks rather than mere misjudgments (Weston, Besley & Brigham, 2016).

### 2.1.5 Prospect Theory

The concept known as prospect theory, sometimes referred to as the loss-aversion theory, posits that individuals perceive gains and losses asymmetrically. In essence, people tend to fear losses more than they value equivalent gains. When faced with a choice between two prospects, individuals are inclined to select the option perceived as having a lower likelihood of resulting in a loss, even if the alternative offers greater potential gains (Kahneman & Tversky, 1979).

For instance, consider presenting someone with two investment options: one yielding a consistent 5% return annually, and another with fluctuating returns of 12%, -2.5%, and 6% over the same period. Despite both options yielding the same net total return after three years, individuals often irrationally favor the 5% investment due to an exaggerated aversion to the single loss, disregarding the overall greater gains available (Kahneman & Tversky, 1979).

Understanding prospect theory holds significance for both financial professionals and investors alike. While conventional risk-reward analysis provides a rational framework for assessing investment decisions, prospect theory suggests that emotional responses often diverge from logical assessments. For financial professionals, the task lies in aligning investment strategies with clients' risk tolerances rather than focusing solely on potential rewards. Investors, meanwhile, must overcome the cognitive biases outlined by prospect theory to pursue desired returns (Kahneman & Tversky, 1979).

### 2.1.6 Rational Expectations Theory

The concept of rational expectations posits that individuals in an economy will base their economic decisions on logical predictions about the future. This theory suggests that actions such as investment and spending are guided by what people believe will occur in the future. Consequently, individuals' behaviors can contribute to creating outcomes that align with their expectations, essentially forming a self-fulfilling prophecy (Phelps, 1967).

Despite its prominence in economic discourse, the practicality of the rational expectations theory is subject to skepticism. For instance, consider an investor who

anticipates a rise in a stock's value and purchases it, consequently driving up its price. Alternatively, this scenario could be interpreted through a different lens, wherein the investor identifies an undervalued stock, leading to increased demand from other investors and a subsequent correction in its price (Sargent, 1976). This dilemma underscores a fundamental issue with rational expectations theory: its flexibility to accommodate various outcomes renders it explanatory but ultimately devoid of substantive insights.

### 2.1.7 Short Interest Theory

Short interest theory posits that a high level of short interest in a stock may signal an impending increase in its price, despite initial skepticism. While it may seem intuitive that a stock heavily shorted by investors is poised for a downturn, the collective wisdom of market participants suggests otherwise. The rationale behind this is that the multitude of traders, including both professionals and individuals, diligently analyzing market data cannot all be mistaken. However, contrary to expectations, a heavily shorted stock may actually experience a surge in price. This occurs as short sellers are eventually compelled to buy back the shares they initially sold short, leading to increased buying pressure and driving the stock price upwards (Nath, 2021).

Financial performance analysis involves scrutinizing a company's financial activities aimed at maximizing its value. Making effective and efficient decisions is crucial for achieving superior financial activities, which in turn contribute to outstanding financial performance and organizational growth. At the core of financial decision-making lies financial performance analysis, which profoundly impacts the growth and development of an enterprise. The accuracy of an enterprise's financial performance hinges on the thorough examination of true facts and figures. Profit generation serves as a pivotal indicator of sound financial performance for business organizations.

Profit earned by the firm is the main financial performance indicators of business enterprises. Analyzing financial performance helps one gain a better knowledge of a company's strengths and weaknesses. It therefore makes use of a variety of financial statements. The income statement, which summarizes the company's profitability

throughout time, is presented after the balance sheet, which shows the company's current financial situation (Robinson, 1951).

Assessing the financial performance of a company is crucial within financial management, serving as a primary gauge of its success or failure (Author, Year). This process involves examining past performance and operational efficiency through accounting data and financial statements, with the aim of boosting profitability (Author, Year). While profit is vital for a firm's survival, long-term growth, and maintaining capital adequacy via retained earnings (Pandey, 2010), it alone cannot fully forecast a company's financial health (Author, Year). The overall financial soundness of a business, as perceived by shareholders, stakeholders, financial institutions, and the broader economy, is equally important (Robinson, 1999). Unfortunately, financial considerations are often overlooked in public enterprises in Nepal (Smith, 1796). However, joint venture banks have taken steps to analyze their financial performance to facilitate timely corrective actions, albeit largely limited to internal assessments (Siddiqui & Shoiav, 2011).

In the Nepalese context, manufacturing companies like Dabur Nepal, Unilever, and Bottlers Nepal play a crucial role in driving the country's economic growth. These companies stand out for their significant market share and profitability, attributed to their consistent and reliable services. Therefore, it's imperative to conduct a transparent analysis of their financial performance using various tools to understand their earnings and how they contribute to the country's economic expansion (Sufian & Chong, 2008).

Financial performance analysis is the cornerstone of financial decision-making. The growth and progress of any business are directly impacted by its financial strategies. While public enterprises in Nepal are heavily involved in tasks like record-keeping, fundraising, and maintaining financial relationships, the financial aspect often gets overlooked. However, joint venture banks do conduct analyses of financial performance for corrective measures, albeit primarily focused on their own interests. Financial performance, as a component of financial management, involves various institutions that influence or are impacted by the firm's decisions (Yadav et al., 2010).

The firm's management prioritizes comprehensive financial analysis to implement a robust financial management system for internal control. Likewise, trade creditors focus on the firm's liquidity, while long-term creditors assess its cash flow capacity to meet debt obligations over time. All stakeholders, whether directly or indirectly involved, are concerned with the firm's financial performance. However, mere accounting figures in statements like the balance sheet and profit and loss account lack depth in portraying the firm's performance and financial status. Therefore, financial analysis serves as the primary qualitative assessment method, elucidating the firm's strengths and weaknesses by establishing correlations between balance sheet items and profit and loss statements.

## 2.2 Conceptual Review

### 2.2.1 Concept of Financial Analysis

Financial analysis involves evaluating the financial health of a company by scrutinizing its accounting data provided in financial statements. This examination aims to comprehend the firm's financial status and performance, highlighting its strengths and weaknesses. It encompasses assessing liquidity, solvency, efficiency, and profitability to cater to the informational needs of various stakeholders such as investors, shareholders, government, creditors, and management. Ratio analysis, a pivotal component of financial analysis, enables a comprehensive assessment of a company's economic and financial standing, akin to an x-ray of its operations (Kothari, 1991).

Another definition suggests that Financial Analysis is the process of discerning a firm's financial strengths and weaknesses by establishing correlations between balance sheet items and profit and loss accounts (Pandey, 2010).

Financial analysis of a firm involves assessing various indicators, including financial statement analysis, ratio analysis, and sources and uses of funds, to evaluate the firm's strengths and weaknesses. This study primarily focuses on ratio analysis and other financial indicators to evaluate a bank's financial position and performance. Ratio analysis involves quantitatively assessing a firm's financial performance and position

in relation to its investments. Ratios represent the relationship between different financial figures.

Financial analysis entails examining the interplay among different financial factors within a business, as revealed by a set of financial statements, and analyzing the trends over time. By establishing connections between items in balance sheets, income statements, and operational data, financial analysis elucidates the significance of these items. It is essential because while financial statements serve their purpose, they may not address the diverse interests involved; thus, analysis is necessary to derive meaningful insights tailored to specific needs.

Ratio analysis is a prevalent method, systematically employing ratios to interpret financial statements, thereby assessing a firm's strengths, weaknesses, historical performance, and current financial condition. Financial analysis aids in three major decisions: investment, financing, and dividend. Optimally combining these decisions maximizes the firm's value.

Ratio analysis, a prevalent and potent financial analysis tool, involves examining the mathematical relationship between two accounting figures. This relationship can be represented as a percentage, fraction, or proportion, offering insights into the numerical connection between two items. Through ratios, vast amounts of financial information can be condensed, aiding in the qualitative assessment of performance.

### 2.2.2 Objectives of Financial Analysis

Basically there are three major objective of financial analysis.

- Identify relevant financial information for a specific issue.
- Integrate this information to create a comprehensive understanding of the problem in relation to the company's objectives and financial capabilities.
- Propose alternative solutions to address the problem.
- Assess both current and future profitability of the company.
- Evaluate the overall operational efficiency of the company and its various departments.
- Determine short-term and long-term financial stability.

- Conduct comparative analysis between firms.
- Forecast future developments, prepare budgets, and assess future possibilities.
- Analyze the financial stability of the business by interpreting the significance of financial data.
- Assess the long-term availability of funds.

As a matter of facts the objective of analysis depends upon the analyst as quality if the data available.

### 2.2.3 Importance of Financial Analysis

Analyzing financial performance reveals a company's financial well-being and solidity. It aids in assessing its present status and strategizing for future endeavors. Profitability stands out as a crucial indicator of a company's expansion and prospects. Hence, there exists a clear correlation between the efficient utilization of financial assets and profit generation. The significance of utilizing financial data differs depending on the stakeholders' interests, which are influenced by the firm's financial performance. Therefore, financial performance analysis holds significance for various stakeholders due to these reasons (Bhandari, 2003).

**Shareholders**

Shareholders, as the proprietors of the company, regularly face the choice of retaining or divesting their shares. Assessing financial statements is crucial as it furnishes shareholders with valuable insights for making these decisions. Their concerns encompass current and anticipated earnings, along with the reliability of these earnings, given their financial stake (K.C., 2013).

**Management**

The management team holds the responsibility of making decisions and crafting strategies for the future of the company. Consequently, they must consistently assess their performance and the efficacy of their actions in reaching the company's objectives. Thus, keeping abreast of the company's performance is essential for the management team. Their focus lies in areas such as internal control, improved financial health, and enhanced performance. This encompasses staying informed about the company's current financial

status, assessing opportunities in relation to its current position, and evaluating the returns on investment from different company assets (Bhandari, 2003).

**Creditors / Depositors / Capital Providers**

Since the bank's liquidity is provided by its debtors and depositors. They are looking for their deposits to be safe. Performance will improve with adequate liquidity management. Therefore, they consider the bank's performance while deciding whether to maintain or raise the deposit restrictions, among other things (Robinson, 1951).

**Investors**

In order to safeguard their wealth and get a respectable return, investors are constantly looking for potentially lucrative alternatives to invest their funds. Through the main sources and uses of finances, they search for the current and anticipated future earnings as well as the stability of these earnings (Smith, 1976).

### 2.2.4 Limitation of Financial Analysis

For investors, creditors, managers, economists, and other parties with an interest in company, financial analysis is extremely important. It aids management in making decisions about the future and assessing how well it performed in the past. But it is not without its problems. Below is a list of its drawbacks (Bhandari, 2003).

**Historical Nature**

Financial analysis is fundamentally historical. The past will never be an exact and reliable predictor of the future, nor will it ever be entirely beneficial for planning and forecasting the future (Bhandari, 2003).

**No Substitute for Judgment**

Expert analysis uses financial analysis tools to assess a company's financial performance. This is why using it in an inexperienced analysis could result in a mistaken conclusion. (Bhandari, 2003).

**Reliability of Figures**

The validity of the financial statements under examination's numbers determines the validity of the analysis. The manipulation of the income statement, window dressing on the balance sheet, dubious methods used by the accountant to value fixed assets, and other such facts will contaminate the study as a whole (Bhandari, 2003).

**Change in Accounting Methods**

The analysis's validity is based on the statistics from the financial statements that are being examined. The analysis will be tainted by information such as income statement manipulation, window dressing on the balance sheet, questionable methodologies employed by the accountant to value fixed assets, and other similar facts (Bhandari, 2003).

**Selection of Appropriate Tool**

Various analysis tools are available for the analysis. The analyst's aptitude, experience, knowledge, and skill will determine which tools are best in a given scenario. Using the incorrect instruments could provide false results and lead to the wrong conclusion, which could be detrimental to a company's interests (Bhandari, 2003).

### 2.2.5 Uses of Financial Analysis

Financial statements are condensed versions of an organization's financial information. The balance sheet, income statement, statement of changes in financial position, and statement of retained earnings are the four most often used financial statements. Management, employees, creditors, investors, and government regulatory bodies are the main users of these statements. Financial statements can be prepared for manufacturers, service providers, merchants, wholesalers, non-profit organizations, and private people. The type of information available in the financial statements is significantly influenced by the nature of the associated firm. The primary users of financial statements and their areas of interest are listed in the following table (Smith, 1976).

**Owners**

Financial analysts at a company will probably review the company's previous and present financial accounts if the company is interested in investing in any business. Finding

potential flaws and any trouble spots that need to be discussed with business owners would be the goal.

**Investors**

Profitability and investment are used because these factors are more important to them than business success in terms of profitability, investment safety and security, and investment development potential.

**Authorities**

Consider profitability since the government may base taxes, grants, and subsidies on it.

**Workers**

Employees will be worried about their job security, bonuses, the continuation of the business, and pay negotiations, use profitability, liquidity, and activity.

**Debtors**

Before you extend and keep extending loans to a trading partner, use financial statements to determine their creditworthiness. By contrasting the company's current assets and current liabilities, they can determine how liquid it is.

### 2.2.6 Financial Analysis in Banking Industry

The modern commercial banking industry in Nepal traces its roots back to 1937 with the establishment of Nepal Bank Limited. However, it wasn't until 1984 that the government initiated banking sector liberalization. Private enterprises began to enter the finance sector more prominently following the restoration of democracy in 1990. Over the past three decades, the Nepali banking industry has undergone significant transformations due to key policy shifts by the Nepal Rastra Bank (NRB). These include interest rate deregulation, adoption of indirect monetary control methods, utilization of open market operations, elimination of liquidity ratio requirements, implementation of a market-based foreign exchange system, adoption of a flexible licensing policy, and establishment of a prudential legal framework. These changes facilitated the entry of foreign joint-venture banks and domestic private banks into the market, thereby expanding the scale and scope of banking activities in Nepal (Adhikari & Shrestha, 2006).

The impact of these changes on the bank's operational efficiency is becoming a significant concern in the industry. However, an examination of existing literature reveals a lack of thorough analysis on this matter. Utilizing non-parametric frontier approaches in performance evaluation could enhance our comprehension of the banking system by offering more nuanced insights into bank operations and effectiveness. This approach allows for a comprehensive examination that takes into account various factors, facilitating a more precise comparison among banks.

Over the past decade or so, the growth of the Nepalese banking sector has been marked by an increase in the number of participants and a corresponding expansion in the industry's asset base. Nevertheless, apart from slight growth in market reach, the sector has largely remained concentrated in urban areas, reflecting the country's limited economic and political decentralization. The substantial increase in the number of industry participants without a proportional rise in market reach and customer base has intensified competition among players for a limited share of the market. As the banking sector experienced rapid expansion in participant numbers, the Nepal Rastra Bank ceased issuing new licenses for financial institutions from fiscal year 2012 onwards, instead encouraging mergers among them through regulatory relaxations and tax incentives. This strategic move set the stage for future mergers among financial institutions in the coming years.

In contrast to the manufacturing sector, banks operate by trading on capital or funds, making certain ratios designed for manufacturing irrelevant to banks. While some ratios are inapplicable, others necessitate adjustments. For instance, interest expenses are minor for manufacturing but significant for banks. Additionally, some metrics are challenging to gauge. Take liquidity, for instance, typically assessed using the current ratio, which relies on current assets and liabilities. However, this data isn't readily available in financial statements and requires internal sourcing. For example, understanding the term structure of term deposits and loans helps classify their current status. Recognizing the unique characteristics of banking, this study employs specific financial ratios to evaluate credit, liquidity, profitability, and growth in a Nepalese commercial bank (Thapa, 2019).

## 2.3 Empirical Review

Huang and colleagues (2023) investigated how voluntary disclosure impacts the financial performance of manufacturing firms in Indonesia. Their study focused on companies included in the LQ45 Index and aimed to understand the influence of Corporate Social Responsibility (CSR) on financial metrics such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM). The researchers employed purposive sampling to select manufacturing companies from the LQ45 Index and utilized secondary data from the CSRI and annual reports spanning from 2018 to 2020. Through quantitative analysis techniques including descriptive statistics, assumption tests, and simple linear regression, they found that CSR significantly affects ROA but not ROE or NPM for LQ45 manufacturing companies. The study suggests that as consumer loyalty increases, sales and profitability also rise, indicating a potential avenue for future research exploring the relationship between CSR and financial performance in Indonesian Manufacturing Public Companies.

Weston and Nnadi (2023) conducted a study examining how corporate sustainability and ESG policies affect corporate finance performance. Their research involves various analyses aimed at establishing a connection between Corporate Social Responsibility (CSR) and Corporate Financial Performance (CFP). The study introduces a strategic management perspective by presenting different frameworks that companies can integrate into their decision-making processes, emphasizing the incorporation of CSR and Environmental, Social, and Governance (ESG) principles in investment decisions. The study's sample includes the I Shares MSCI KLD 400 Social exchange-traded fund (ETF), I Shares Core S&P 500 ETF, and companies adhering to the Principles for Responsible Investing (PRI). While the study finds no evidence supporting the outperformance of ethical ETFs compared to conventional ones, it does show that firms following PRI guidelines tend to outperform those that do not.

Sandberg, Alnoor, and Tiberius (2023) conducted research exploring the relationship between Environmental, Social, and Governance (ESG) ratings and financial performance within the European food industry. Their study utilized ordinary least squares regression to examine this connection over a span of four years (2017-2020). Financial performance was assessed using Return on Assets (ROA) and Return on Equity (ROE), while ESG

ratings were sourced from the CSR Hub database. The findings indicate that higher ESG ratings correlate with improved financial performance, although the impact is relatively modest. This aligns with prior research suggesting a positive association between ESG ratings and financial outcomes. However, the study also underscores a tendency for ESG ratings to gravitate towards the average, prompting a reevaluation of their effectiveness in gauging genuine ESG practices.

Shrestha (2023) conducted research exploring how certain company characteristics, including liquidity, size, age, tangible assets, leverage, capital, and growth, influence profitability indicators like return on assets (ROA) and net profit margin (NPM). The study analyzed data from eleven insurance firms spanning from 2015 to 2020 in Kosovo. The findings from regression analysis revealed that factors such as company size, leverage, and age significantly impact ROA. Additionally, the size of the company and its growth significantly affect the NPM of insurance companies in Kosovo.

Yeasin (2022) conducted a study exploring the correlation between credit risk management and financial performance within the manufacturing sector of Bangladesh. Given the significant influence of credit risk on the country's banking industry, the research aimed to assess how credit risk management practices impact the financial performance of manufacturing firms. Employing a deductive research approach, the study focused on six manufacturing companies in Bangladesh, utilizing ten years of data from 2010 to 2019 through secondary sources and employing a panel regression analysis model. The research examined four key factors influencing the financial performance of manufacturing companies: Return on Asset (Net Profit) as a measure of bank performance, and Non-Performing Loan (NPL), Capital Adequacy Ratio (CAR), and Loan to Deposit Ratio (LDR) as indicators of credit risk. The findings revealed that Non-Performing Loan (NPL) and Capital Adequacy Ratio (CAR) exhibited a negative and statistically significant impact on the financial performance of manufacturing companies. Conversely, Loan to Deposit Ratio (LDR) demonstrated a positive and statistically significant impact on financial performance. Thus, indicating that credit risk management practices have a detrimental effect on the financial performance of manufacturing companies in Bangladesh.

Kosumi and Kosumi (2021) investigated the factors influencing the profitability of commercial banks in the Republic of North Macedonia. They aimed to identify the main determinants of commercial bank profitability through a case study focusing on North Macedonia. The study assessed the performance of 26 commercial banks from 2012 to 2018, with the return on assets (net profit) as the dependent variable. The independent variables considered were capital adequacy (CAP), bank size (SIZE), credit risk (CR), revenue diversification (DIV), liquidity (L), and leverage (LEV). The findings revealed that the profitability of manufacturing companies was primarily influenced by bank liquidity and size, as both factors showed a significant positive impact on profitability. Conversely, there was an inverse relationship between capital adequacy, credit risk, leverage, and net profit of the banks.

Pradhan and Dahal (2021) conducted a study examining the financial performance of insurance companies in Nepal. They focused on key metrics such as return on assets and earnings per share, analyzing their relationship with factors like insurance premium, company size, current ratio, and solvency ratio. They selected 21 insurance companies, comprising 8 life insurance and 13 non-life insurance companies, totaling 105 observations spanning from the fiscal years 2070/71 to 2074/75. Data were gathered from Beema Samiti's insurance and financial statistics along with annual reports from the chosen Nepalese insurance firms. Through correlation coefficient and regression analysis, they assessed the impact of liquidity management on these companies' financial performance. Their findings revealed a positive correlation between insurance premium and both return on assets and earnings per share, indicating that higher premiums resulted in increased returns and earnings. Additionally, they found that larger companies tended to have higher returns and earnings. However, they observed a negative relationship between current ratio and return on assets, suggesting that an increase in this ratio led to decreased returns. Similarly, a higher solvency ratio was associated with lower returns. On the other hand, a higher current ratio positively influenced earnings per share, while a higher solvency ratio also led to increased earnings per share.

Saha and Bishwas (2021) conducted a study investigating the factors influencing the financial performance of manufacturing firms in Bangladesh, specifically focusing on private companies. They utilized a panel data regression model due to its benefits in analyzing both temporal and spatial variations in individual company behavior. Given the

prominence of the banking sector in Bangladesh's economy, regulatory efforts have increasingly targeted financial stability and robustness. The study sampled 20 private manufacturing firms using convenience and judgmental sampling techniques, analyzing time-series data from 2008 to 2017. Results indicated that bank-specific factors significantly impacted the financial performance of private manufacturing firms, while macroeconomic factors played a negligible role. The study underscored the pivotal role of banks in driving economic growth within a country's financial sector.

Panthi, Dahal, and Thapa (2021) conducted an analysis on the performance of Rastriya Banijya Bank Limited in Nepal. Their study aimed to assess the capacity and performance of the bank, as well as discuss its contribution to the banking sector in Nepal. Grounded in the PBM theory, the study highlighted the significant roles played by RBBL in various aspects such as service delivery, social and economic development, tax collection, social welfare, employment generation, market control, crisis management, and handling emergency situations.

Gauttam (2021) researched on relationship between non-performing assets (NPAs) and the profitability of Rastriya Banijya Bank Ltd. The study aimed to assess the NPAs across various banks, which have posed challenges for manufacturing companies in Nepal's banking sector, and to analyze the relationship between profitability and NPAs in these companies. Additionally, the research sought to identify the internal and external factors influencing the transition of performing assets into non-performing ones. The empirical analysis revealed a decrease in the NPA-to-total lending ratio, while the ratios of total lending to total deposits and net profit to total assets exhibited fluctuations. Rastriya Banijya Bank Ltd. demonstrated an increasing trend in total assets, total deposits, total lending, and net profit, alongside a decreasing trend in NPAs. Correlation analysis indicated an insignificant relationship between the level of NPAs and net profit, with a negative correlation observed between them. Moreover, Rastriya Banijya Bank Ltd. proved to be more adept at managing credit to maximize interest income.

Azmi, Irawana and Sasongko (2020) conducted a research on determinants of profitability of general insurance companies in Indonesia. This research delves into the factors influencing the profitability of General Insurance in Indonesia, examining both firm-specific elements and macroeconomic conditions. General insurance plays a vital role in

the country's economy, safeguarding against loss risks for both organizations and individuals. With this context in mind, the paper aims to enhance understanding and enhance the profitability of general insurance by analyzing 40 companies from 2013 to 2017 using random effect analysis. The dataset comprises both time series and cross-sectional data, necessitating the use of Panel Data Regression Analysis for analysis. The findings indicate that factors such as firm size, liquidity ratio, equity growth, underwriting outcomes, return on investment, input costs, claim ratio, technical ratio, economic growth rates, and Bank Indonesia interest rates significantly influence the profitability of general insurance companies. By strategically planning, monitoring, and formulating financial strategies based on the relationship—whether positive or negative—between these factors and profitability, companies can enhance their financial performance.

Thapa (2020) conducted a study examining the financial performance of banks and their returns to investors. The study aimed to assess the liquidity position of these banks, analyze their financial performance in comparison to each other, examine their relative standings, and propose suggestions to enhance financial performance. The findings indicated that maintaining a consistent DP Ratio is crucial for gaining the confidence of shareholders. During the study period, SCBNL achieved the highest net income, while BOK recorded the lowest. SCBNL also boasted the highest EPS, contrasting with BOK's lowest. EBL and NABIL consistently paid dividends while maintaining a higher DP Ratio. Among the companies analyzed, EBL delivered the highest return on equity in the manufacturing sector.

Shrestha (2020) conducted research on the factors influencing the financial performance of manufacturing companies in Nepal using panel data analysis. The study aimed to investigate how certain factors specific to banks affect the financial performance of these companies, with financial performance assessed through return on assets (net profit). Bank-specific factors such as managerial efficiency (ME), liquidity (LIQ), credit risk (CR), asset quality (AQ), and operational efficiency (OE) were utilized as indicators. Employing the Fixed Effect model, the research concluded that bank-specific factors indeed have a significant impact on the financial performance of Nepalese manufacturing firms. Specifically, it was found that ME, AQ, and OE positively influence financial performance, whereas CR has a negative effect.

Wisdom (2018) conducted a study on risk management and financial performance of deposit money banks in Nigeria. The research aimed to investigate how risk management, specifically credit and liquidity risk, influences the financial performance of money deposit banks in Nigeria. It utilized panel methodology and various econometric techniques, including regression analysis and descriptive statistics. The findings revealed a positive correlation between effective risk management and the financial performance of these banks, particularly in terms of return on assets. Essentially, enhancing risk management practices could lead to increased returns and overall performance of deposit money banks. The study underscored the significance of these risk factors in assessing the performance of Nigerian deposit money banks, emphasizing that poor risk control could result in erratic performance. Additionally, it noted that credit and liquidity risks were responsive to policy interventions targeted at Nigerian banks. In conclusion, the study recommended that Nigerian banks should strengthen their capabilities in liquidity risk analysis, credit analysis, and loan administration. Regulatory bodies were also urged to ensure banks' compliance with prudential guidelines and other financial regulations.

Acharya (2018) administered a study on improving corporate governance in Nepalese financial institutions to promote growth and performance. Improving corporate governance in Nepal is a key focus of this research, driven by its potential benefits. The report emphasizes how important the banking industry is to the economy's effective capital allocation. Nepal has a lot of untapped potential, and its strong capital market can draw in both foreign and indigenous investors. Due to national institutional variations, corporate governance has different effects on a firm's performance. The study shows that corporate governance does have an impact on Nepalese manufacturing companies' financial performance. In particular, the number of external directors has a negative effect on bank performance, whereas variables like board size, the presence of a CFO, and the percentage of minority and female directors positively correlate with performance.

Nataraja, Nagaraja and Ganesh (2018) analyzed on financial performance of private manufacturing companies in India: Multiple regression analysis. The objective of the study was to investigate the financial performance in three main categories: performance based on the company's income, performance based on the market, and performance based on internal factors. The performance of the three main private corporations that are listed on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE)

was the subject of the study. The findings showed that the financial performance of private manufacturing enterprises is impacted by each of the chosen ratios. According to the study, asset management, operational effectiveness, and credit risk all significantly affect net profit. Net profit had a negative link with debt ratio, operational efficiency, and credit risk, but a positive correlation with asset management. Evidence suggests that improved asset management has increased net profit or improved performance.

Sharma (2017) compared financial performance of NIBL, NABIL, SCBNL and EBL. The study tried to analyze financial performance of manufacturing companies. The primary aims were to examine the current status of four joint venture banks and conduct a comparative analysis of their financial performance in terms of profitability, liquidity, efficiency, and capital structure. The research discovered that factors such as good intentions, robust monitoring, and effective management play a pivotal role in achieving favorable performance outcomes. Among the sampled banks, NABIL exhibited the lowest ratio, indicating potential areas for improvement, while EBL failed to leverage its assets for profit-generating ventures. SCBNL emerged as successful in generating higher net profits through prudent asset utilization. EBL, boasting the highest ratio, effectively generated more interest from its assets, while both EBL and NABIL appeared to hold more cash and bank balances compared to other manufacturing entities.

Pandian and Narendran (2017) studied on impact of financial indicators on profitability. This paper explored how financial performance indicators influence the profitability of the textile industry. The study utilized statistical methods such as linear multiple regression analysis and hypothesis testing (specifically, t-tests). Financial analysts commonly evaluate various aspects of a firm's performance including production, productivity, profitability, liquidity, working capital, fixed assets, fund flow, and social impact. By examining the relationships between balance sheet items and profit and loss accounts, financial analysis reveals the strengths and weaknesses of a firm. Many organizations rely on financial data to distribute resources among different departments. Therefore, evaluating financial data and performance indicators is essential for understanding the financial well-being of an organization.

Hawaldar, Lokesha, Kumar, Pinto and Sison (2017) studied on performance analysis of manufacturing companies in the kingdom of Bahrain. This study analyzed the operational

effectiveness of commercial retail banks, both conventional and Islamic, operating in Bahrain over a span of 15 years from 2001 to 2015. It utilized financial indicators such as profitability, liquidity, operational efficiency, capital adequacy, and leverage. The findings indicated that, apart from Bahrain Development Bank, conventional retail banks demonstrated consistent performance in terms of return on assets and return on equity. Among Islamic retail banks, Kuwait Finance House exhibited satisfactory profitability. Additionally, all banks maintained a satisfactory risk assets ratio. The study also revealed statistically significant correlations between the profitability and capital adequacy of manufacturing companies, as well as their profitability and efficiency. While a significant difference in capital adequacy was observed among the listed commercial retail banks, no significant variations were found in terms of profitability and liquidity.

Ibrahim (2015) conducted a study on the financial performance of Islamic Banks. This research assessed the financial performance of two Islamic banks in the United Arab Emirates spanning from 2007 to 2014. Various sets of financial ratios were utilized to evaluate and contrast the performance of these banks. While both banks demonstrated satisfactory performance overall, it became evident that each bank had its emphasis on particular areas such as liquidity, profitability, capital structure, and stability. The analysis revealed that both banks maintained reasonably good performance throughout the studied period. The Bank of Sharjah notably excelled in areas such as liquidity, profitability, managerial proficiency, and capital structure, whereas Dubai Islamic Bank exhibited stronger performance in terms of share indicators and overall stability.

## 2.4 Research Gap

In the past, specialists and researchers have conducted a number of studies on the financial performance analysis of various companies. However, the results of earlier research are constrained by the narrow conclusions, thorough testing, and essential variable adjustments. A new, validating research study was necessary because the previous studies' research was limited. The goal of this study project differs greatly from that of other investigations. First off, studies on the financial analysis of businesses were conducted during various time periods. It became imperative to conduct fresh research on contemporary performance. Likewise, prior research did not have access to a comparable financial analysis or a performance evaluation of two manufacturing companies. In order

to address this shortcoming, a fresh investigation was needed to assess the operational efficiency of three manufacturing firms. Extensive testing and adjustments were made to necessary factors in earlier studies to make the findings more conclusive. Previous studies lacked a precise method for calculating ratios, making it impossible to incorporate general financial standards and financial practices from the viewpoint of Nepal. Through regression analysis, this study will give a clear conceptual understanding of the relationship between the bank's return on equity and return on assets and the ratios of credit deposits, cash reserves, non-performing loans, loan loss provision, and total assets. For this reason, our study attempts to close several research gaps.

# CHAPTER- III

## RESEARCH METHODOLOGY

Research methodology delineates the approach, protocols, and strategies employed in carrying out research. It is a roadmap for reaching the objective. More correct conclusions and discoveries are produced by appropriate and sufficient methods, which eventually aids in suggesting workable solutions to their search issues.

### 3.1 Research Design

The research is planned in accordance with the study's goals. Descriptive research design and informal comparative research design have been used to accomplish the study's unique goal. For the examination of data pertaining to Dabur Nepal, Unilever Nepal, and Bottlers Nepal, a descriptive research design is used. While the financial performance level of businesses has been examined using a casual comparative study design, Dabur Nepal, Unilever Nepal, and Bottlers Nepal have had their return on assets and earnings per share examined in relation to total assets, total revenue, total cost, and debt equity ratio.

### 3.2 Population and Sample

As of the fiscal year 2078/79, there are 19 manufacturing companies listed on the Nepal Stock Exchange whose shares are actively traded. Due to constraints in both time and resources, it's impractical to study all of them comprehensively. The study's population comprises the total manufacturing companies operating in Nepal up to the fiscal year 2078/79. The sampling method employed involves a combination of casual, judgmental, and convenience sampling techniques to select sample organizations for analysis.

For this research, three manufacturing companies—Dabur Nepal, Unilever Nepal, and Bottlers Nepal—have been chosen for comparative financial analysis. These companies were selected as representatives for the research purposes.

### 3.3 Sources of Data

The primary sources of secondary data used in this study were Dabur Nepal, Unilever Nepal, and Bottlers Nepal. Information about the investment and profit was taken straight

from the profit and loss account and balance sheet. The primary data sources evaluated for the study are the manufacturing businesses that are of concern, such as Dabur Nepal, Unilever, and Bottlers. Information and additional statistics from 2012–13 to 2021–22 are gathered from several organizations and regulatory bodies, including the Department Library, Central Library, and Ministry of Finance. Numerous sources of data and information are gathered, including the company's annual report and journals, periodicals, magazines, and publications.

## 3.4 Data collection Procedures

It is not possible to use various data in their original form for analysis when they are collected from diverse sources. Thus, they have undergone a thorough review, evaluation, editing, and tabulation process to ensure they are in the proper format for the study. By obtaining them from approved sources, the researcher enhanced the credibility of the data that was gathered.

Additionally, various graph charts are displayed based on the need for visual interpretation. The information is tallied by topic and presented in a table in a sequential fashion. In a similar vein, the financial ratios are also employed in the evaluation and interpretation of the monetary results of particular manufacturing sample companies.

## 3.5 Method of Data Analysis

The pattern of data that is now available will guide the data analysis. A variety of financial, accounting, and statistical techniques have been employed to meet the study's purpose. To achieve the study's goals, a few statistical and financial approaches are examined.

### 3.5.1 Financial Tools

The mathematical relationship between two accounting items or figures can be demonstrated with the use of financial tools. The sole method available for gathering a company's financial performance and standing in relation to other companies is ratio analysis. Ratio analysis is a step in the overall process of analyzing the financial statements of any industry or corporation that is involved, particularly in order to determine credit and output. This study has only addressed ratio, which is connected to

manufacturing companies' investment policies. This research includes the following ratios:

**Ratio Analysis**

The mathematical relationship between two accounting figures is called a ratio analysis. It is calculated by splitting a relationship object into its component parts. These parameters are available for use by management to raise the organization's performance. Understanding one's strengths and limitations is essential for making the most of advantages and strengthening areas of weakness in order to overcome obstacles. The following financial ratios are computed and examined in this study:

**Earnings per share (EPS)**

Numerous other metrics can be used to assess the profitability of the investment made by common shareholders. Earnings per Share provides information about the income per common share. The earnings power per share (EPS) computations over time show whether or not the banks' earnings power has evolved. The net profit after taxes is divided by the total number of outstanding common shares to get the earnings per share (EPS).

**Profitability ratios**

The difference between revenues and expenses over a given time period is called profit. A business needs profit in order to endure and expand over time; without enough profit, it will not be able to continue operating. As a result, the financial management needs to constantly assess how profitable the company is operating. The profitability ratios are computed to assess a business's operational effectiveness. It serves as a gauge for any institution's financial performance. This suggests that a higher profitability ratio corresponds to a better bank financial performance and vice versa. This heading takes into consideration the following ratios.

**Return on Assets**

This ratio is connected to total assets and net profit after tax (NPAT). By dividing NPAT by Total Assets, one can determine the ratio that represents how effectively a company's assets can produce greater profit. Although the lower ratio demonstrates the opposite, the

higher ratio demonstrates the bank's ability to manage its overall operations. This ratio gives a business the starting point it needs to produce a strong return on equity.

$$\text{Return on Assets} = \frac{\text{Net Profit}}{\text{Total Assets}} \text{ x100\%}$$

**Debt equity ratio**

A corporation's financial leverage is assessed using the debt-to-equity (D/E) ratio, which is computed by dividing the total liabilities of the company by the equity held by its shareholders. In corporate finance, the D/E ratio is a crucial indicator. It is a gauge of how much a business relies on debt rather than its own resources to fund its operations. One kind of gearing ratio is the debt-to-equity ratio.

$$\text{Debt equity ratio} = \frac{Long\ term\ Debt}{Shareholder's equity} \text{ x100\%}$$

### 3.5.2 Statistical Tools

Some important statistical tools are used to achieve the objective of this study. The basic analysis tools are follows;

**Arithmetic Mean**

The simple mean, or arithmetic mean, of a set of data is calculated by dividing the total number of observations by the sum of all the observations. The arithmetic average of a variable is the best value that represents the group as a whole. A series' arithmetic mean can be found using:

$$\text{Mean } (\bar{X}) = \frac{\Sigma x}{n}$$

Where,

$\Sigma x$ = Sum of the variables 'x'

N = No. of Observation

**Standard Deviation**

Since the standard deviation met the majority of the requirements for a good measure of dispersion, it is the absolute measure of dispersion in which the flaw found in other measures of dispersion is present. The positive square root of the mean, or the square of the variation taken from the arithmetic mean, is the definition of the standard deviation. It

displays the ranges and magnitudes of deviations from the mean or center. It gauges the dispersion in absolute terms. Greater standard deviation The variability will be higher and vice versa. Dispersion quantifies how much the data deviate from the central value. Put differently, it is beneficial to examine the data's quality in terms of its variability. It is computed as follows:

$$\text{Standard Deviation (SD)} = \sqrt{\frac{\sum(X - \bar{X})^2}{n}}$$

**Correlation Coefficient**

The relationship between the independent and dependent variables is known as the correlation coefficient. It is a technique for ascertaining how these two variables are related to one another. A correlation coefficient is present when there is a strong relationship between the two variables, meaning that changes in the independent variable's value also affect the dependent variable's value.

Correlation Coefficient (r) =

Where,

r = coefficient of correlation

$\Sigma XY$ = Sum of product of two series.

$\Sigma X^2$ = Sum of squared in X series

$\Sigma Y^2$ = Sum of squared in Y series

n = number of years

**Coefficient of Variation**

The standard deviation represents the dispersion in absolute terms. The measurement of the coefficient of standard deviation is the relative measure of dispersing depending on the standard deviation. Coefficient of variation (CV) is the percentage measure of the coefficient of so. More homogeneity and consistency with fewer CVs, and vice versa. Not only is the standard deviation inappropriate for comparing two sets of variables, but the CV can also compare two sets of variables separately according on how variable they are. It is computed as follows:

$$\text{Coefficient of Variation (CV)} = \frac{\text{S.D.}}{\text{Mean}} \times 100$$

**Regression Analysis**

The process of quantitatively determining which of those factors actually has an effect is called regression analysis. It is a collection of statistical techniques used to estimate correlations between one or more independent variables and a dependent variable. It can be used to simulate the future relationship between variables and evaluate how strongly the variables are related to one another.

It can be expressed using the equation below:

$Y = a+b_1X_1+b_2X_2+b_3X_3+\ldots\ldots+e$

Where,

Y = Dependent Variables

a = Intercept or Average

$b_1$, $b_2$, $b_3$,…. = Slope of

$X_1$, $X_2$, $X_3$… = Independent Variables

e = Error

**Multiple Regressions**

To ascertain the relative significance of each independent variable influencing profitability, a multiple regression model is employed. Regression analysis was used in this study to examine the link between the profitability of manufacturing enterprises and other independent factors.

**Baseline Model**

The two major profitability ratios (EPS and ROA) are dependent variables. The independent variables are.

**Model 1**

This model examines the impact of elements on EPS of manufacturing companies.

$ROA = \beta_0 + \beta_1 LNTA_{it} + \beta_2 LNTR_{it} + \beta_3 LNTC_{it_t} \ldots\ldots + e_{it}$

**Model 2**

This model examines the impact of elements on ROA of manufacturing companies.

$EPS = \beta_0 + \beta_1 LNTA_{it} + \beta_2 LNTR_{it} + \beta_3 LNTC_{it} \ldots\ldots + e_{it}$

Where,

**Dependent Variables**

ROA = Return on Assets

EPS = Earnings per Share

**Independent Variables**

Total Assets

Total Revenue

Total Cost

$e_{it}$ = others /Errors

## 3.6 Research Framework

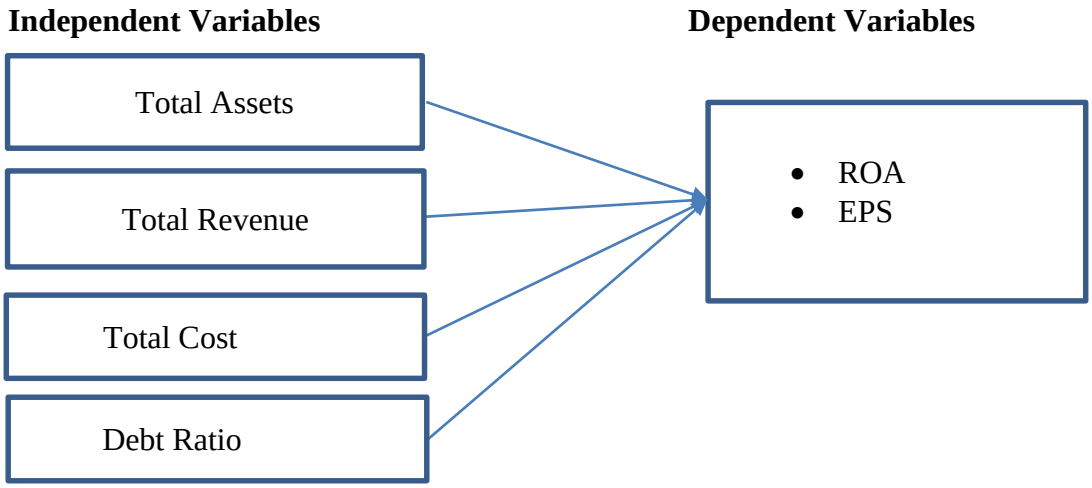


Fig: 3.1 Research Framework

**Description of Variables**

The dependent variables in this study, EPS and ROA, are used to assess the financial performance of Nepali manufacturing enterprises (Rauf, 2016; Getahun, 2015). They are listed in the following order:

**Dependent Variables**

**Return on Assets**

Since it shows the returns from the company's owned assets, this ratio is perhaps the most significant one for comparing the effectiveness and operational performance of manufacturing companies (Getahun, 2015).

**Earnings per Share (EPS)**

The ratio known as earnings per share, or EPS, assesses a company's profitability by comparing its profits to the total number of outstanding shares. Giving investors a sense of a company's earning potential in terms of return on investment is the goal of EPS

calculation. EPS is a means to estimate a firm's overall profitability since it clearly displays the amount of money the company is making per share that is outstanding. It is a crucial factor in figuring out the P/E ratio, or price-to-earnings (Athanasoglou, Sophocles, & Matthaios, 2005).

**Total Assets**

The size of the corporation is determined by total assets. Resources that a firm has are called assets. Cash balances, bank balances, investments, stocks, and other investments, bills paid, fixed assets, and other assets are all considered assets. Therefore, a company's total assets are the total of all of its current and long-term assets. An asset is considered current if it can be liquidated in less than a year, and long-term if it takes longer than a year to dispose. For the value of all assets, log has been taken as LNTA (Brooks, 2019).

**Total Revenue**

Revenue, though singular in its representation, offers multifaceted perspectives. Let's explore the correlation between total revenue and marginal revenue. Total revenue signifies the entirety of funds garnered by a company through its goods and services. Essentially, it serves as a yardstick for a company's proficiency in generating income from its primary revenue-generating activities. Marginal revenue is intricately tied to total revenue, indicating the change in revenue resulting from the sale of an additional unit of a product or service. As long as marginal revenue surpasses the cost of producing an extra unit, total revenue will escalate. Conversely, if costs exceed marginal revenue, halting production becomes sensible. Notably, natural logarithm transformation has been applied to the total revenue value, denoted as LNTR (Davydenko, 2010).

**Total Cost**

In economics, total cost refers to the cumulative expenses a company faces in manufacturing a specific amount of goods or services. It typically encompasses both fixed costs, such as building leases and machinery expenses, which remain constant regardless of output, and variable costs like labor and raw materials, which fluctuate based on production levels. If fixed costs remain unchanged, the rate at which variable costs increase with higher output levels will eventually accelerate in the long term due to diminishing returns. This phenomenon is often represented by the natural logarithm of total cost, denoted as LNTC (Kosumi & Kosumi, 2021).

**Debt Equity Ratio**

The debt-to-equity ratio illustrates the proportion of a company's ownership attributed to creditors, who are entities from which it has borrowed money, relative to the shareholder equity held by the company. This metric, along with the debt servicing ratio and the debt-to-total assets ratio, forms a trio used to gauge debt capacity. Debt capacity indicates a company's capability to fulfill its current debt obligations and its potential to generate funds via new debt if required, such as during market downturns or to seize emerging opportunities. The debt-to-equity ratio primarily assesses a company's capacity to raise funds through fresh debt, benchmarked against other firms in the same sector. A higher ratio signifies greater leverage, implying heightened risk for companies in meeting debt obligations during revenue downturns and reduced capacity to secure additional debt (Kuchhal, 2018).

# CHAPTER-IV

## RESULTS AND DISCUSSION

In this chapter, we present and analyze data gathered from diverse sources to assess the different facets of the study's issues. Additionally, this chapter includes the key discoveries of the research.

### 4.1 Descriptive statistics

The descriptive statistics encompass the average, variability (standard deviation), and range (minimum and maximum values) of both dependent and independent variables. It illustrates the spread, diversity, and fluctuation of a variable. The specifics of these descriptive statistics are outlined in the table provided.

Table 1

*Descriptive analysis*

| Variables | Mean | Standard Deviation | Minimum | Maximum |
|---|---|---|---|---|
| Total assets | 6840.704 | 3111.089 | 2757 | 12406 |
| Total revenue | 5870.333 | 1653.670 | 3946 | 9562 |
| Total cost | 2757.259 | 1465.648 | 710 | 7104 |
| Debt equity ratio | 0.522 | 0.170 | 0.28 | 0.85 |
| ROA | 0.148 | 0.153 | 0.04 | 0.27 |
| EPS | 563.370 | 383.982 | 106 | 1312 |

Table 1 displays the descriptive statistics for the period spanning from 2012/13 to 2021/21. It outlines the mean, standard deviation, minimum, and maximum values for various parameters. The average total cost over this period stands at Rs.6840.704 million, ranging from a minimum of Rs.2757 million to a maximum of Rs.12406 million. With a standard deviation of Rs.3111.089 million, the total cost exhibits significant volatility. Similarly, the total revenue averages Rs.5870.333 million, with a minimum of Rs.3946 million and a maximum of Rs.9562 million. The standard deviation for total revenue is Rs.1653.33 million. Throughout this period, the average total cost ranges from Rs.2727.259 million to Rs.7104 million.

The debt equity ratio stands at 52.2%, with a range spanning from 28% to 85%. Its standard deviation, at 17%, falls below the mean. Return on assets (ROA) averages at 14.8%, ranging from 4% to 27%, with a standard deviation of 15.3%, surpassing the mean. Earnings per share (EPS) average Rs.563.370 over the period, with a range from Rs.106 to Rs.1312, and a standard deviation of Rs.383.982. In summary, most variables exhibit considerable fluctuation and variability between 2012/13 and 2020/21.

## 4.2 Coefficient of Correlation

Correlation serves as a statistical tool used to assess the connection between two or more variables within a population or a sample. Essentially, it gauges the extent to which one variable shows a linear relationship with another. The correlation coefficient quantifies this relationship's strength between two sets of data. Karl Pearson's method is commonly employed for determining this coefficient in studies. The correlation coefficient's value always falls between +1 and -1: a value of +1 indicates a perfect positive relationship between variables, while a value of -1 signifies a perfect negative relationship. Conversely, a correlation coefficient of 0 indicates no relationship between the variables in question.

### 4.2.1 Relationship between TC, TR, TA and Debt equity ratio, ROA and EPS

The table presents correlation coefficients among Total Assets, Total Revenue, Total Costs, ROA, and EPS. A tabulated t-statistic value at a 5 percent significance level with 3 degrees of freedom is considered significant. The ensuing findings merit attention.

Table 2

*Relationship between TA, TR, TC, D/E ratio ROA and EPS*

| Variables | LNTA | LNTR | LNTC | D/E Ratio | EPS | ROA |
|---|---|---|---|---|---|---|
| LNTA | 1 | | | | | |
| LNTR | 0.68118 | 1 | | | | |
| LNTC | 0.17219 | 0.10451 | 1 | | | |
| D/E Ratio | -0.04073 | -0.09758 | 0.078930 | 1 | | |
| EPS | -0.83291 | -0.70075 | 0.0043** | 0.09924 | 1 | |
| ROA | -0.66167 | -0.54433 | 0.081400 | 0.034** | 0.66726 | 1 |

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

Table 2 illustrates the associations among various financial metrics such as total assets, total revenue, total cost, debt equity ratio, return on assets, and earnings per share (EPS). The relationships between total assets, total revenue, total cost, and the debt equity ratio with EPS are -0.8329, -0.7007, 0.0043, and -0.0922 respectively. While total assets (LNTA) and total revenue (LNTR) exhibit negative correlations with EPS, these correlations are not statistically significant. However, there is a statistically significant positive correlation between total assets and the debt equity ratio. Likewise, the correlations between total assets, total revenue, total cost, and return on assets (ROA) are -0.66167, -0.54433, 0.0814, and 0.034 respectively.

Total assets (LNTA) and total revenue (LNTR) have shown a negative correlation with return on assets (ROA), but this correlation lacks statistical significance. Conversely, total cost (LNTC) and debt equity ratio have displayed a positive correlation that is statistically significant at the 1 percent level within the population. This significant coefficient suggests a notable relationship between total cost, debt equity ratio, and the return on assets of Dabur, Unilever, and Bottlers, as well as the earnings per share of the population.

## 4.3 Regression Analysis

Regression analysis comprises statistical techniques employed to estimate the connections between a dependent variable and one or more independent variables. It aids in evaluating the correlation strength between variables and predicting their future relationship. In this research, ROA and EPS are treated as dependent variables, while Total Assets, Total Revenue, Total Cost, and debt equity ratio are regarded as independent variables.

It can be express in following Equation:

$Y = a + bx$

Where,

Y = Dependent Variables i.e. ROA and EPS

A = Intercept or Average

B…. = Slope of

X… = Independent Variables i.e. total assets, Total Revenue, Total Cost and Debt equity ratio.

### 4.3.1 Impact of TC, TR, TA and Debt equity ratio on Return on Assets

Table 3

*Model Summary of ROA*

| *Regression Statistics* | |
|---|---|
| Multiple R | 0.7021 |
| R Square | 0.4931 |
| Adjusted R Square | 0.4009 |
| Standard Error | 0.1181 |
| Observations | 27 |

Table 3 demonstrates the multiple correlation coefficient, assessing the extent and direction of the linear connection between independent variables (predictors) and the dependent variable (response). Here, the multiple R stands at 0.7021, indicating a reasonably robust positive correlation. R squared reflects the portion of the dependent variable's variability explained by the independent variables. With an R squared of 0.4931, roughly 49.31% of the dependent variable's variability is explained by the independent variables in regression model 1.

Table 4

*ANOVA Table*

| | Df | SS | MS | F | Significance F |
|---|---|---|---|---|---|
| Regression | 4 | 0.2987 | 0.0746 | 5.3497 | 0.0036 |
| Residual | 22 | 0.3070 | 0.0139 | | |
| Total | 26 | 0.6058 | | | |

The ANOVA table you provided summarizes the different sources of variation within the regression model. The F-statistic, derived from the ratio of the mean square of the Regression component to that of the Residual component, assesses the overall significance of the regression model. Here, the F-value is 5.349713, indicating a significant relationship between the independent variables and the dependent variable. The significance F-value corresponds to the associated p-value, denoting the likelihood of obtaining the observed F-value or a more extreme one if there's no significant relationship between the variables. In this instance, the p-value is 0.003649, falling below the commonly used significance threshold of 0.05. Hence, we can deduce that the regression model holds statistical significance.

### 4.3.2 Impact of TC, TR, TA and Debt equity ratio on Return on Assets

Table 5

*Regression Coefficients*

| | Coefficients | Standard Error | t Stat | P-value |
|---|---|---|---|---|
| Intercept | 2.1260 | 0.8095 | 2.6262 | 0.0154 |
| LNTA | -0.1740 | 0.0628 | -2.7672 | 0.0112 |
| LNTR | -0.0980 | 0.1182 | -0.8292 | 0.4158 |
| LNTC | 0.0510 | 0.0393 | 1.2992 | 0.2073 |
| D/E Ratio | -0.0197 | 0.1374 | -0.1438 | 0.8869 |

Table 5 presents the coefficients, standard errors, t-statistics, and p-values for each predictor in the regression model. These values reflect the estimated coefficients indicating the average change in the dependent variable with a one-unit increase in the corresponding predictor, assuming other predictors remain constant. For instance, the Intercept coefficient of 2.126069 suggests that when all predictors are zero, the predicted dependent variable value is 2.126069. Notably, the LNTA variable exhibits statistical significance with a p-value of 0.011241, indicating a substantial impact on the dependent variable. Conversely, the LNTR, LNTC, and D/E Ratio variables do not appear statistically significant, as their p-values (0.415858, 0.207322, and 0.886905, respectively) surpass the common significance threshold of 0.05.

### 4.3.3 Impact of TC, TR, TA and Debt equity ratio on Earnings per Share

Table 6

*Model summary of EPS*

| Regression Statistics | |
|---|---|
| Multiple R | 0.8652 |
| R Square | 0.7486 |
| Adjusted R Square | 0.7029 |
| Standard Error | 0.3776 |
| Observations | 27 |

Table 6 illustrates the multiple correlation coefficient (R), which gauges the magnitude and direction of the linear relationship between the predictors (independent variables) and the response (dependent variable). In this instance, the multiple R stands at 0.8652,

denoting a robust positive correlation. The coefficient of determination (R square) denotes the portion of the variance in the dependent variable explained by the independent variables. With an R square of 0.7486, roughly 74.86% of the variability in the dependent variable is elucidated by the independent variables within the regression model. Taken together, these regression metrics offer insights into the performance and goodness-of-fit of the model. A higher R square value and lower standard error suggest a more precise model with superior predictive capabilities.

Table 7

*ANOVA Table*

| | Df | SS | MS | F | Significance F |
|---|---|---|---|---|---|
| Regression | 4 | 9.3467 | 2.3366 | 16.3808 | 0.0000 |
| Residual | 22 | 3.1382 | 0.1426 | | |
| Total | 26 | 12.4849 | | | |

Table 7 outlines the factors contributing to variation in the regression model. The F-statistic, which compares the mean squares of the Regression and Residual components, assesses the overall significance of the model. Here, the F-value is 16.3808, indicating a notable association between the independent and dependent variables. The significance F-value, representing the associated p-value, gauges the likelihood of obtaining such an F-value under no significant relationship between variables. In this instance, the p-value is 2.34E-06 (or approximately 0.00000234), considerably smaller than the typical significance threshold of 0.05. Hence, we can infer that the regression model holds statistical significance.

The variance analysis offers insights into the distribution of total variability within the data, delineating between what is accounted for by the regression model (Regression SS) and what remains unexplained (Residual SS). It also determines the overall proportion of variability attributed to the model (Total SS). Here, the Regression portion notably dominates the Residual portion, signifying a significant influence of the independent variables on the dependent variable.

### 4.3.4 Impact of TC, TR, TA and Debt equity ratio on Earnings per Share

Table 8

*Regression Coefficients*

| | Coefficients | Standard Error | t Stat | P-value |
|---|---|---|---|---|
| Intercept | 18.34231 | 2.587888 | 7.087752 | 4.14E-07 |
| LNTA | -0.94312 | 0.201017 | -4.69172 | 0.000111 |
| LNTR | -0.62058 | 0.378114 | -1.64125 | 0.114966 |
| LNTC | 0.163609 | 0.125634 | 1.302266 | 0.206295 |
| D/E Ratio | 0.148161 | 0.439363 | 0.337217 | 0.739149 |

Table 8 displays the coefficients, standard errors, t-statistics, and p-values for each predictor variable in the regression model. Each column is explained as follows: Coefficients: These figures signify the estimated regression coefficients for every predictor variable. They denote the average alteration in the dependent variable linked with a one-unit rise in the respective predictor, under the assumption that all other predictors remain unchanged. For instance, the coefficient for the Intercept is 18.3423, suggesting that when all predictor variables are zero, the anticipated value of the dependent variable is 18.3423.

The p-value reflects the likelihood of observing a t-statistic as extreme as the observed one, assuming the null hypothesis holds true (i.e., the actual coefficient is zero). It serves to evaluate the statistical importance of the estimated coefficient. A p-value lower than the chosen significance threshold (often 0.05) indicates statistical significance of the coefficient. In this case, the Intercept and LNTA seem statistically significant, given their p-value (4.14E-07), which is below the typical significance level. This implies these variables notably influence the dependent variable. However, LNTR, LNTC, and D/E Ratio variables don't show statistical significance since their p-values (0.114966, 0.206295, and 0.739149, respectively) exceed the significance level.

## 4.4 Discussion

The main goal of this study is to examine and analyze financial performance of Dabur Nepal, Unilever Nepal and Bottlers Nepal.

The initial purpose of the table above is to assess the profitability position of manufacturing companies. It is evident from this table that all samples of manufacturing companies have the same values for the minimum, maximum, average, and standard deviation of each variable. The range (minimum and maximum), central tendency (mean), and variability (standard deviation) of the variables are all explained by descriptive statistics. Understanding the distribution and properties of the data is made easier with the use of these statistics.

Likewise, the second aim of the study is to investigate the connection between Total Assets, Total Revenue, Total Cost, Return on Assets, and Earnings per Share. The correlation between total cost and debt equity ratio has shown a positive and statistically significant association with return on assets (ROA). However, the correlation between total assets and total revenue with return on assets is negative, although not statistically significant. Similarly, the correlation between total cost and debt equity ratio is positively correlated with earnings per share (EPS) and is statistically significant. Conversely, the correlation between total assets and total revenue with EPS is negative, yet statistically insignificant at the 1 percent level in the population.

Finally, the third objective examines the impact of various factors such as total assets, total revenue, total cost, and debt-equity ratio on Return on Assets (ROA). The relationship between ROA and total assets, as well as total revenue, is not linear. However, there is a consistent direction in the relationship between ROA and total cost, as well as debt-equity ratio. ROA is positively influenced by total cost and debt-equity ratio, which is statistically significant at a 5% significance level. On the other hand, total assets and total revenue negatively impact ROA, but this impact is statistically insignificant even at a 10% level of significance. The negative coefficients of total assets and total revenue indicate that they tend to both increase and decrease the dependent variable. However, variables such as LNTR (natural logarithm of total revenue), LNTC (natural logarithm of total cost), and debt-equity ratio do not show statistically significant relationships. Moreover, total assets, total revenue, and total cost exhibit an insignificant relationship with net profit. This finding aligns with Yeasin's (2022) study regarding total assets, revenue, and manufacturing investment, but differs from the findings of Panthi, Dahal, and Thapa (2021). These values represent the estimated regression coefficients for each predictor variable.

The LNTA variables show statistical significance, indicating they have a notable influence on the dependent variable. Conversely, the LNTR, LNTC, and D/E Ratio variables demonstrate statistical insignificance, implying no linear relationship between ROA and total assets or total revenue, aligning with Mubeen's (2019) findings.

# CHAPTER- V

## SUMMARY AND CONCLUSION

### 5.1 Summary

This study aims to assess the financial performance of manufacturing companies in Nepal, with a focus on analyzing profitability and operational efficiency. It seeks to understand how factors like total assets, total revenue, and manufacturing investment influence earnings per share (EPS) and net profit. To achieve these goals, the research employs both descriptive and causal comparative methods. Descriptive analysis is utilized to examine financial patterns and statuses, while causal research methods such as regression and correlation are employed to measure the impact of various financial factors on EPS and return on assets (ROA) for manufacturing companies, particularly in the case of Unilever. The study evaluates the financial performance of three selected manufacturing companies, emphasizing profitability and stability. Secondary data sources, including documents from company websites and insights from industry experts, are utilized as primary sources, supplemented by relevant literature from books, journals, and blogs. Various financial tools such as liquidity ratios, activity turnover ratios, leverage ratios, and profitability ratios are applied, alongside statistical measures like mean, standard deviation, and coefficient of variation, to analyze the collected data.

Financial performance analysis involves examining the financial operations of a company with the aim of maximizing its value. Effective and efficient decision-making is crucial for improving financial activities, which, in turn, enhances overall financial performance and contributes to organizational growth. Considered the cornerstone of financial decision-making, the accurate assessment of financial performance significantly influences the growth and prosperity of a business. Profit generation serves as a key metric indicating the strength of a firm's financial performance, motivating business entities to strive for profitability.

According to Panthi, Dahal, and Thapa (2021), their study suggests that Dabur possesses a robust liquidity position. However, having a very high ratio might not be advantageous for the bank, as it fails to generate sufficient profit to cover the high interest. The analysis highlights that these three manufacturing companies face challenges in maintaining the cash reserve ratio as per NRB directives. Kori, Muathe, and Maina (2020) corroborate

these findings, noting that Dabur maintains a higher ratio compared to Unilever and Bottlers.

## 5.2 Conclusion

From scrutinizing and understanding the data, the following inference has been made: Positive correlations signify that variables generally move in tandem, whereas negative correlations imply they move inversely. The magnitude of correlation can range from feeble to robust, with values near 1 or -1 denoting a more pronounced relationship. These figures denote the approximated regression coefficients for each predictor variable, indicating the typical alteration in ROA and EPS linked to a one-unit rise in the respective predictor, assuming other predictors remain steady.

The correlation between total cost and debt equity ratio with earnings per share and return on assets has shown a positive relationship, which is statistically significant. This indicates that changes in total cost and debt equity ratio affect the direction of earnings per share and return on assets. This finding aligns with theoretical expectations.

On the other hand, total assets and total revenue exhibit a negative correlation with earnings per share and return on assets, but this relationship is not statistically significant. This implies that changes in total assets and total revenue do not consistently influence the direction of earnings per share and return on assets.

Pradhan and Dahal (2021) found that the strength of manufacturing companies tends to correlate with their earnings, with higher earnings indicating greater strength and lower earnings indicating weaker strength. Their analysis revealed fluctuations in Dabur's earnings per share (EPS) over the study period. Moreover, Dabur's earnings-price ratio surpasses that of Bottlers and Unilever, suggesting that investors may receive higher returns from investing in Dabur. This implies that Unilever carries more risk in terms of EPS compared to Dabur and Bottlers, aligning with the findings of Kori, Muathe, and Maina (2020). The combined average performance of Dabur, Bottlers, and Unilever indicates positive company development and confidence in future prospects. However, a rise in dividends could signal that a company is exhausting its growth opportunities.

Bottlers exhibit a more consistent coefficient of variation compared to the other samples, echoing the findings of Ichsan (2020).

## 5.3 Implications

- A manufacturing company ought to ensure financial stability for individuals, promoting long-term savings and allocating funds for developmental initiatives.
- Manufacturing firms should procure funds through investment methods aligned with their nature and corporate objectives.
- It's imperative for manufacturing companies to uphold a satisfactory liquidity position to fulfil the credit requirements of customers, notwithstanding the influence of internal and external factors.
- Dabur suggests prioritizing investment in shares and debentures of other finance companies over government securities in the future, while Unilever should lean towards investing in private sector shares and debentures offering higher interest rates.
- Pursuing high returns on investment entails accepting risks. Dabur takes on higher credit risk compared to Unilever, although its liquidity and capital risks are lower. Despite this, Dabur's return ratios surpass those of Unilever and Bottlers, indicating Unilever should cautiously assess risks to attain higher returns.
- Effective utilization of investments is crucial for success in a competitive financing landscape. Investments represent the largest asset category for companies; neglecting them could lead to liquidity crises.

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# APPENDIX

Variables Information's regarding Dabur Nepal Pvt. Ltd.

| Fiscal Year | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 7466 | 7265 | 8462 | 8574 | 9745 | 9856 | 10026 | 10963 | 12406 |
| Net Profit | 294 | 252 | 161 | 119 | 175 | 298 | 380 | 416 | 502 |
| ROA | 0.04 | 0.03 | 0.02 | 0.01 | 0.02 | 0.03 | 0.04 | 0.04 | 0.04 |
| Current Assets | 6652 | 6823 | 6924 | 7254 | 7763 | 7925 | 8088 | 8221 | 9550 |
| Current Liabilities | 3409 | 3521 | 3668 | 3706 | 3872 | 4106 | 1268 | 4347 | 4507 |
| Current Ratio | 1.95 | 1.94 | 1.89 | 1.96 | 2.00 | 1.93 | 6.38 | 1.45 | 1.83 |
| EPS | 344 | 225 | 106 | 210 | 338 | 301 | 282 | 250 | 161 |
| Revenue | 6169 | 7094 | 7827 | 7869 | 7701 | 7748 | 8533 | 8704 | 9562 |
| Total Cost | 789 | 897 | 960 | 3326 | 3680 | 2014 | 2652 | 2859 | 4120 |
| D/E Ratio | 1.28 | 0.71 | 0.58 | 0.52 | 0.47 | 0.44 | 0.64 | 0.38 | 0.41 |

(Source: Annual Report form Fiscal Year 2012/13 to 2020/21)

Variables Information's regarding Unilever Nepal Pvt. Ltd.

| Fiscal Year | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 2757 | 2808 | 2794 | 3028 | 3322 | 3203 | 3857 | 3724 | 4753 |
| Net Profit | 875 | 910 | 1037 | 1122 | 965 | 999 | 1065 | 358 | 861 |
| ROA | 0.32 | 0.32 | 0.37 | 0.37 | 0.29 | 0.31 | 0.28 | 0.10 | 0.18 |
| Current Assets | 853 | 1779 | 1816 | 2616 | 2740 | 2506 | 2871 | 2513 | 3672 |
| Current Liabilities | 908 | 917 | 1497 | 1279 | 1234 | 1249 | 1512 | 1737 | 2005 |
| Current Ratio | 0.94 | 1.94 | 1.21 | 2.05 | 2.22 | 2.01 | 1.40 | 1.30 | 1.30 |
| EPS | 1312 | 1028 | 1126 | 1218 | 1048 | 1085 | 1157 | 389 | 935 |
| Revenue | 4268 | 4362 | 4728 | 3946 | 4442 | 4868 | 5754 | 5547 | 5731 |
| Total Cost | 1419 | 1754 | 1982 | 2265 | 2392 | 2559 | 3175 | 3001 | 3147 |
| D/E Ratio | 0.30 | 0.34 | 0.85 | 0.81 | 0.79 | 1.40 | 1.30 | 1.40 | 0.40 |

(Source: Annual Report form Fiscal Year 2012/13 to 2020/21)

Variables Information's regarding Bottlers Nepal Pvt. Ltd.

| Fiscal Year | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|---|---|---|---|---|
| Total Assets | 5140 | 6106 | 6448 | 6685 | 6835 | 6960 | 10516 | 11152 | 10877 |
| Net Profit | 142 | 167 | 192 | 122 | 703 | 1040 | 739 | -62 | 479 |
| ROA | 0.03 | 0.03 | 0.03 | 0.02 | 0.10 | 0.15 | 0.07 | -0.01 | 0.04 |
| Current Assets | 613 | 653 | 766 | 1138 | 2714 | 2593 | 2807 | 3280 | 3517 |
| Current Liabilities | 342 | 422 | 558 | 1041 | 1345 | 1713 | 1850 | 1948 | 2025 |
| Current Ratio | 1.79 | 1.55 | 1.37 | 1.09 | 2.02 | 1.51 | 1.52 | 1.68 | 1.74 |
| EPS | 316 | 362 | 408 | 658 | 361 | 534 | 379 | -32 | 246 |
| Revenue | 1176 | 15505 | 2048 | 2648 | 7697 | 9083 | 9507 | 6865 | 8409 |
| Total Cost | 866 | 5679 | 7104 | 710 | 3235 | 3299 | 3430 | 3566 | 3566 |
| D/E Ratio | 4.1 | 3.9 | 2.1 | 1.6 | 0.3 | 0.1 | 0.5 | 0.9 | 0.7 |

(Source: Annual Report form Fiscal Year 2012/13 to 2020/21

Correlations Between Total Assets, Total Revenue, Total cost, D/E ratio ROA and EPS

| Variables | | Firm Size | Premium | Current Ratio | Return on Assets | EPS |
|---|---|---|---|---|---|---|
| Firm Size | Pearson Correlation | 1 | .306 | -.038 | -.101 | -.246 |
| | Sig. (2-tailed) | | .100 | .844 | .596 | .190 |
| | N | 30 | 30 | 30 | 30 | 30 |
| Premium | Pearson Correlation | .306 | 1 | .120 | -.189 | -.270 |
| | Sig. (2-tailed) | .100 | | .527 | .316 | .149 |
| | N | 30 | 30 | 30 | 30 | 30 |
| Current Ratio | Pearson Correlation | -.038 | .120 | 1 | -.070 | -.122 |
| | Sig. (2-tailed) | .844 | .527 | | .712 | .521 |
| | N | 30 | 30 | 30 | 30 | 30 |
| Return on Assets | Pearson Correlation | -.101 | -.189 | -.070 | 1 | .543** |
| | Sig. (2-tailed) | .596 | .316 | .712 | | .002 |
| | N | 30 | 30 | 30 | 30 | 30 |
| EPS | Pearson Correlation | -.246 | -.270 | -.122 | .543** | 1 |
| | Sig. (2-tailed) | .190 | .149 | .521 | .002 | |
| | N | 30 | 30 | 30 | 30 | 30 |

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

Impact of Total Assets, Total Revenue and Total Cost and Debt equity ratio on Return on Assets

Dependent Variable: ROA
Method: Least Squares
Date: 06/20/22 Time: 16:17
Sample: 1 27
Included observations: 27

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| CURRENT_RATIO | -0.002485 | 0.004951 | -0.501851 | 0.6205 |
| FIRM_SIZE | -4.14E-09 | 5.51E-08 | -0.075248 | 0.9407 |
| PREMIUM | -2.63E-07 | 2.49E-07 | -1.056297 | 0.3018 |
| C | 0.012878 | 0.003733 | 3.449431 | 0.0022 |

| | | | |
|---|---|---|---|
| R-squared | 0.091482 | Mean dependent var | 0.008390 |
| Adjusted R-squared | -0.027020 | S.D. dependent var | 0.007770 |
| S.E. of regression | 0.007875 | Akaike info criterion | -6.714374 |
| Sum squared resid | 0.001426 | Schwarz criterion | -6.522398 |
| Log likelihood | 94.64405 | Hannan-Quinn criter. | -6.657290 |
| F-statistic | 0.771988 | Durbin-Watson stat | 1.741694 |
| Prob(F-statistic) | 0.521511 | | |

Impact of Total assets, Total Revenue and Total Cost and Debt equity ratio on Earnings per Share

Dependent Variable: EPS
Method: Least Squares
Date: 06/21/22 Time: 12:48
Sample: 1 27
Included observations: 27

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| CURRENT_RATIO | -31.93623 | 14.73792 | -2.166943 | 0.0408 |
| FIRM_SIZE | -0.000178 | 0.000164 | -1.084000 | 0.2896 |
| PREMIUM | -0.000939 | 0.000740 | -1.268487 | 0.2173 |
| C | 71.17754 | 11.11326 | 6.404737 | 0.0000 |

| | | | |
|---|---|---|---|
| R-squared | 0.319754 | Mean dependent var | 38.37815 |
| Adjusted R-squared | 0.231027 | S.D. dependent var | 26.73025 |
| S.E. of regression | 23.44005 | Akaike info criterion | 9.282723 |
| Sum squared resid | 12637.03 | Schwarz criterion | 9.474699 |
| Log likelihood | -121.3168 | Hannan-Quinn criter. | 9.339808 |
| F-statistic | 3.603771 | Durbin-Watson stat | 2.037371 |
| Prob(F-statistic) | 0.028699 | | |

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ABSTRACT This study aimed to examine the financial performance of manufacturing companies in Nepal. It employed both descriptive and causal-comparative research methods to achieve its objectives. The analysis was based on panel data from three manufacturing firms in Nepal spanning from the fiscal years 2012/13 to 2021/22. Profitability metrics like Return on Assets (ROA) and Earnings per Share (EPS) were considered as dependent variables, while independent variables included total assets, total revenue, total cost, and debt ratio. Secondary data was utilized for this analysis. The primary analytical tool used was Ordinary Least Squares (OLS) regression applied to panel data. Findings indicated that ROA was negatively influenced by total assets, total revenue, and debt ratio. Notably, while total revenue and debt ratio were not statistically significant, total assets exhibited a negative significance at the 5% level. The R-square value stands at 49.31%, indicating a substantial portion of variance in ROA can be explained by total assets, total revenue, total cost, and debt ratio, as evidenced by the statistically significant regression P-value of 0.0036 at a 0.05 significance level. Similarly,