IMPACT OF FINANCIAL INDICATOR ON PROFITABILITY OF MICROFINANCE COMPANIES OF NEPAL

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

by:

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Impact of Financial Indicator on Profitability of Microfinance Companies of Nepal**". The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor. It has been proposed and presented as part of requirements for any other academic purposes.

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

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REPORT OF RESEARCH COMMITTEE

Mr. Bhuwan Khatri has defended research proposal entitled "**Impact of Financial Indicator on Profitability of Microfinance Companies of Nepal**", successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Dr. Binita Manandhar and submit the thesis for evaluation and viva voce examination.

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APPROVAL SHEET

We, the undersigned, have examined the thesis entitled "**Impact of Financial Indicator on Profitability of Microfinance Companies of Nepal**" presented by Bhuwan Khatri 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 "**Impact of Financial Indicator on Profitability of Microfinance Companies of Nepal**" 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 management accounting of commercial banks in Nepal.

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Bhuwan Khatri

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ABBREBIATIONS

BOD	:	Board of Directors
C.V.	:	Coefficient of Variation
D/Y	:	Dividend Yield
DPR	:	Dividend Payout Ratio
DPS	:	Dividend per Share
EPS	:	Earnings per Share
FIRST	:	First Microfinance Laghubitta Bittiya Sanstha Limited
FNCCI	:	Federation of Nepalese Chamber Of Commerce and Industries
GDP	:	Gross Domestic Product
IPO	:	Initial Public Offering
LC	:	Letter Of Credit
MVPS	:	Market Value per Share
NEPSE	:	Nepal Stock Exchange
NRB	:	Nepal Rastra Bank
NWPS	:	Net Worth per Share
P/E	:	Price Earnings
RMDC	:	Rural Microfinance Development Limited
ROC	:	Registrar of Companies
RSDC	:	RSDC Laghubitta Bittiya Sanstha Limited
S.D	:	Standard Deviation
SEB	:	Securities Exchange Board
SEC	:	Securities Exchange Centre
SKBL	:	Sana Kishan Bikas Lagubitta Bitiya Limited

ABSTRACT

The aim of this study is to examine the impact of financial indicators on the profitability of microfinance companies in Nepal. Effective management of liquidity by financial institutions involves adopting frameworks to manage liquidity risk, devising suitable funding strategies, setting exposure limits, and establishing protocols for allocating liquidity during emergencies. Liquidity considerations encompass both public perception and the daily operations of firms. Insufficient cash or inadequate liquidity can convey a negative impression to individuals and businesses about the severity of financial crises and other issues within financial institutions.

The study includes various financial metrics such as price-earnings ratio (PER), cash reserve ratio (CRR), total assets (TA), return on assets (ROA), and dividend payout ratio (DPR) for microfinance firms. Secondary data spanning nine years (2070/71 to 2078/79) from annual reports of selected companies was analyzed using SPSS version 24. The research employed a descriptive, exploratory, and explanatory approach. Four microfinance companies were conveniently sampled from a population of sixty-three: First Microfinance Laghubitta Bittiya Sanstha Limited, Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, Rural Microfinance Development Center Limited, and RSDC Laghubitta Bittiya Sanstha Limited. In this study, secondary data was employed. Ordinary least squares regression (OLS) was utilized as a pivotal analytical tool in panel data analysis. The findings reveal a strong positive correlation between total assets and return on equity (ROE), as well as a significant relationship between capital adequacy ratio (CRR) and return on assets (ROA). However, the cash reserve ratio, dividend payout ratio, and price-earnings ratio show only marginal associations with return on equity (ROE). These conclusions could aid policymakers and financial institutions in formulating effective strategies to enhance profitability within the financial sector.

Key Words: Profitability, Microfinance Companies, ROE, ROA Liquidity, Creditability

CHAPTER – I

INTRODUCTION

1.1 Background of the Study

Financial performance provides a snapshot of an organization's profitability, serving as a fundamental indicator of its financial health. It highlights the strengths and weaknesses of the firm. Key financial statements like the balance sheet and profit and loss statement illustrate an organization's financial performance. Analyzing these statements is crucial for assessing the overall financial health of the organization. This analysis establishes a strategic relationship between the items on the balance sheet and income statement, along with other operational data, revealing their significance. Therefore, financial performance analysis is essential for making informed managerial and financial decisions (Bist, 2004).

Financial statements provide a snapshot of a firm's financial position at a specific point in time and its operations over the past few years, detailing assets, liabilities, income, and expenses. They emphasize key financial aspects such as liquidity, profitability, activity, capital structure, and market capitalization. The annual report, presented to shareholders at the annual general meeting, serves as the fundamental resource for financial analysis, commentary, and interpretation. Shareholders often address issues related to irregularities, operational inefficiencies, and internal management deficiencies that may lead to poor company performance. Financial statements, collected and analyzed by the Nepal Stock Exchange Limited, offer valuable insights into a company’s performance. In essence, financial statements consist of (Bhatta, 2004).

Performance analysis is a technique used to assess the effectiveness of funds deployed within the economy. It involves studying or evaluating the outcomes of a specific scenario against the set objectives. In banking and financial institutions, performance analysis is crucial for enhancing performance and improving decision-making. This process includes systematic observation (Greuning & Bratonovic, 2004).

Financial performance refers to how well a company can utilize its assets from core business operations to generate revenues. It serves as an overall measure of a company's financial health over a specific period and can be used to compare similar firms within the same industry or different industries or sectors in aggregate. This analysis involves

systematic observation and evaluation of financial statements to assess an organization's profitability, revenue generation, and cash flow. Key financial statements include the profit and loss account (or income statement) and the balance sheet. The profit and loss account shows operational results for a specific period, while the balance sheet reflects the financial position in terms of assets, liabilities, and capital. Analyzing financial performance is vital for internal control, improving financial standing, and enhancing organizational performance (Malik & Rafique, 2013).

Profitability refers to a company's ability to generate profit, serving as a key measure of business success. It is the fundamental indicator of a company's performance. Profit, defined as the excess of sales revenue over expenses, is a contentious term with various interpretations (Horngren, 1992).

Financial performance analysis involves examining a company's financial activities to achieve its value-maximizing goals. It is central to financial decision-making, significantly influencing the growth and development of enterprises. Business organizations aim to generate profit, and the amount of profit earned is a major indicator of a firm's financial performance (Neupane, 2019).

RMDC Laghubitta Bittiya Sanstha Limited (RMDC)

RMDC Laghubitta Bittiya Sanstha Ltd., formerly known as Rural Microfinance Development Centre Ltd., is a wholesale lending organization in Nepal. It was established on October 30, 1998, as a public limited company under the then ‘Company Act, 1996’, with the purpose of operating as a wholesale lending institution within the ‘Development Bank Act, 1995’. RMDC was later re-registered under the ‘Bank and Financial Institution Act (BFIA), 2006’ as a class ‘D’ financial institution. It began its lending operations in January 2000. RMDC primarily focuses on wholesale lending to microfinance institutions (MFIs) and provides institutional capacity-building support. Today, RMDC is a leading wholesale lender for MFIs in Nepal, with its partners representing nearly 70% of the country's microfinance industry’s business, and 30% for the general public. Emerge as a financially viable, operationally sustainable and professionally efficient institution for wholesale lending to microfinance institutions in Nepal.

Vision: Become a financially viable, operationally sustainable, and professionally efficient institution for wholesale lending to microfinance institutions in Nepal.

Mission: Reach out to the maximum number of poor and disadvantaged households with suitable microfinance services, enabling them to realize their untapped development potentials through partner MFIs.

Goal: By mid-July 2019, serve over 2 million poor families nationwide with quality microfinance services through more than 335 partner organizations (POs).

Capital Structure: The authorized paid-up capital is Rs. 1,563,743,572.

Objectives: The primary objective of RMDC is to improve the socio-economic conditions of the poor, landless, and asset-less by increasing their access to institutional microfinance services for productive activities and self-employment. Specific objectives include: Providing wholesale funds to microfinance development banks, cooperatives, and financial intermediary NGOs, with or without collateral, for on-lending to poor families and the deprived sector in Nepal. Offering financial and technical support to strengthen institutional and human resource development of MFIs, and to develop, expand, promote, and enhance the microfinance market. Monitoring and evaluating the operational activities of partner MFIs. Providing financial resources, technical and management consultancy services, training, and systems for the establishment, operation, development, enhancement, and promotion of productive and employment-oriented businesses in rural and urban areas through MFIs (www.rmdc.com.np).

Sana Kisan Bikas Laghubitta Bittiya Sanstha Ltd. (SKBBL)

Sana Kisan Bikas Laghubitta Bittiya Sanstha Ltd. (SKBBL) was founded on July 6, 2001, under the then Company Act and received a "D" class national-level wholesale lending microfinance institution license from Nepal's Central Bank as per the Bank and Financial Institution Act (BAFIA). SKBBL believes in reducing poverty by establishing and supporting sustainable, community-based cooperatives managed by local smallholder farmers themselves. It implements SFACL replication programs to extend its services to underserved and remote areas. Ownership of SKBBL includes 43.63% and 44% by small farmer development microfinance financial institution Ltd. (SFACLs), 26.25% and 26% by 'A' class licensed institutions, and 30.11% and 30% by the general public.

Vision: Aim to become a leading, financially sustainable wholesale microfinance institution predominantly owned by SFACLs, committed to enhancing rural communities by collaborating with partner cooperatives.

Mission: Deliver high-quality financial services and technical assistance to impoverished individuals, small-scale farmers, and small to medium-sized entrepreneurs through robust partnerships with dynamic and sustainable cooperatives.

Values: Emphasize Accountability, Transparency, Compliance with legal standards, Responsiveness, Equity and Inclusivity, Efficiency, Cost-effectiveness in service delivery, and Commitment to Sustainability.

Capital Structure: The authorized paid-up capital amounts to Rs.1,564,413,000.

Objectives: Provide wholesale financing to SFACLs and other cooperatives for lending to low-income households and agricultural businesses. Monitor and oversee the operations of partner cooperatives to ensure adherence to regulatory requirements. Offer Technical Assistance (TA) to enhance the institutional capacity and resilience of SFACLs and other partnering cooperatives (www.skbbl.com.np).

First Microfinance Laghubitta Bittiya Sanstha Limited

First Microfinance Laghu Bitta Bittiya Sanstha Ltd. commenced operations on January 8, 2010 (B.S. 2066 Poush 24) in Kathmandu as a national-level microfinance institution licensed by Nepal Rastra Bank under the Bank and Financial Institution Act, 2073. It provides microfinance services to economically and socially disadvantaged individuals through MFIs, focusing on enhancing livelihoods, particularly in agriculture and micro-enterprises. The institution is dedicated to fostering sustainable microfinance services in Nepal, offering wholesale micro-credit to MFIs. With an authorized, issued, and paid-up capital of Rs.964.5 million, it is structured with 51% held by promoters and 49% by the public. Major promoters include Global IME Bank, Prabhu Bank, Kumari Bank, Rastriya Banijya Bank, ICFC Finance, along with prominent bankers, chartered accountants, and respected professionals, leveraging their robust banking expertise and strong public relations as core strengths.

Vision: Enabling economic opportunities for individuals with limited income through resource provision.

Mission: Empowering individuals by facilitating access to financial services.

Values: Commitment to sustainability, fostering innovation, upholding integrity, and maintaining professionalism.

Shareholders: The primary promoters of First Microfinance are Global IME Bank, Prabhu Bank, Kumari Bank, Rastriya Banijya Bank, ICFC Finance, along with notable bankers,

chartered accountants, esteemed businessmen, and professionals. The strong banking expertise and excellent public relations of the promoters are considered key strengths of First Microfinance (www.firstmicrofinance.com.np).

RSDC Laghubitta Bittiya Sanstha Limited

The Rural Self-reliance Development Centre (RSDC), an NGO aimed at fostering a self-reliant society, initially envisioned creating an inclusive financial institution. RSDC had already established and promoted 171 cooperatives (known as Swawalamban Sahakari) across 12 districts, believing these local institutions could meet financial needs and boost economic activities. While initially successful, the cooperatives soon struggled to provide sufficient financial support to rural communities due to funding shortages. Recognizing this gap, RSDC began exploring the idea of a financial institution to support these cooperatives, leading to the inception of RSDC Microfinance Ltd. (RSDCMF). The Rural Self-reliance Development Centre (RSDC) has established and promoted 171 cooperatives, known as Swawalamban Sahakari, across 12 districts. RSDCMF's capital structure is primarily held by its promoters, with 60 percent ownership, while the remaining 40 percent is allocated to the public through ordinary shares. The main promoters include the Rural Self-reliance Development Centre, Kathmandu (RSDC-12.14%), and formerly Lumbini Bank (now Global IME Bank Ltd.-12%), along with individual investors (35.86%) from various districts across the nation. Currently, RSDC's authorized capital stands at NPR 1000 million, with an issued and paid-up capital of NPR 869.568 million.

Mission: To promote, empower, and develop local institutions in order to enhance the economic strength of rural communities facing disadvantage.
Vision: To build a self-reliant and self-sufficient society.
Goal: To foster an environment where economically deprived rural communities can meet their financial needs through their own institutions.
Values: Emphasis on teamwork, efficiency, customer service, compliance, and trustworthiness. (www.rsdc.com.np)

1.2 Problem Statement

When assessing a company's profitability and financial health, financial indicators are crucial. They reveal how effectively a business manages its production costs. Earnings per

share (EPS) measure the profit assigned to each share of common stock and are significant to investors as they indicate the firm's profitability per share. The debt-to-equity ratio shows the proportion of equity and debt used to finance the company's assets. High debt levels can negatively impact profitability due to interest payments, whereas low debt levels may indicate limited leverage for growth.

The government's liberal economic policies have resulted in the creation of numerous microfinance institutions, financial enterprises, cooperative societies, and rural microfinance organizations in Nepal. This rapid growth has intensified competition among financial institutions. Despite this, banking institutions have quickly outperformed local microfinance firms. While microfinance firms are more efficient than other commercial or government microfinance organizations, they face challenges due to increased market competition and new technologies like computerization. Efforts are made to monitor advancements and strive for financial efficiency.

The profitability of microfinance businesses depends on external and internal factors. Internal variables, linked to financial indicators from microfinance accounts such as income statements and balance sheets, represent a specific aspect of microfinance profitability (Wahdan & Leithy, 2017). External factors, which are unrelated to microfinance management, refer to economic and legal environments that indirectly impact the operation and sustainability of microfinance institutions (Tobias & Themba, 2011).

A robust microfinance sector is crucial for maintaining the stability of micro banking systems. Poor financial performance reduces the resilience of MFIs against adverse shocks, impacting their financial health (Yenesew, 2014). Improved financial performance allows lenders to generate profits or recover their investments, establishing institutions capable of long-term sustainability without continual government or donor support. The degree to which service users bear the costs of services significantly influences the financial success of MFIs (Adhikari, 2014). Therefore, key factors affecting the financial performance of microfinance organizations include their size, capitalization, operational efficiency, credit risk management, and liquidity risk management.

Operational efficiency in microfinance refers to the ability of a program to provide specific services at minimal costs (Adhikary, 2014). Microfinance institutions (MFIs) use operational efficiency as a key metric to gauge how effectively they streamline their operations, considering both input and output pricing (Ongore & Gemechu, 2013). Effective cost management ensures a more profitable utilization of MFIs' loanable resources, potentially enhancing their profitability. The lack of scale or efficiency remains a significant challenge for many institutions in covering costs, making inefficiency a primary threat to sustainable microfinance. Operational efficiency is typically assessed through operating efficiency ratios (OERs), which indicate whether operational expenses are lower or higher than operating revenues (Dufera, 2010). Lower OERs are generally preferred as they signify greater efficiency.

Capital refers to the internal funds that banks hold to support operations and act as a safeguard in unfavorable situations. Since deposits represent funds from customers that can be withdrawn at any time, capital provides liquidity for a financial institution (Dang, 2011). Higher levels of capital relative to assets ensure that the bank can cover potential losses or maintain stability in case of adverse events (Adhikary, 2014). Consequently, a well-capitalized bank signals to the market its ability to perform well even when information is uneven (Kahiga, 2014). Typical methods for assessing capital adequacy involve dividing equity by total assets in microfinance institutions (MFIs).

Liquidity refers to an institution's ability to meet its financial obligations promptly. Liquidity risk occurs when a microfinance bank struggles to fulfill its payment commitments on time (Idama, 2014). Insufficient liquidity in a microfinance institution can lead to challenges such as uncertain future outcomes, delays in securing timely financing, obstacles in achieving growth targets, and heightened portfolio risks (Brom, 2009). To mitigate liquidity risk, each branch of a microfinance bank should devise a daily fund plan outlining how to balance daily cash inflows from savings accounts and loan repayments with cash withdrawals (Idama, 2014). The loan to total assets ratio (LAR), which indicates the percentage of total assets allocated to loans, is commonly used to evaluate the liquidity status of MFIs (Adhikary, 2014).

Credit risk refers to the potential financial loss a lender faces if a borrower fails to repay a loan or defaults on credit obligations. Effective management of credit risk, as noted by Sule

(2012), leads to increased profitability and reduced insolvency rates. Besides its loan portfolio, a microfinance bank's other assets and activities also carry varying levels of credit risk. This risk significantly impacts the overall performance and profitability of financial institutions, particularly microfinance banks, posing a substantial challenge to their viability. Consequently, mitigating credit risk involves substantial operational efforts and is crucial for the operational sustainability of microfinance banks, as highlighted by Idama (2014).

The size of an organization significantly influences its internal and external relationships, as well as its profitability. According to modern intermediation theory (Kahiga, 2014), larger financial institutions are expected to benefit from efficiency advantages due to economies of scale. Conversely, smaller microfinance institutions (MFIs), facing challenges in diversifying products and covering high operational costs, struggle to compete with larger counterparts (Muriu, 2011). Larger companies typically possess greater market power, diversification opportunities, and organizational flexibility during prosperous periods compared to smaller firms (Addisalem, 2015). In the context of MFIs, institutional size is often measured using the natural logarithm of total assets to gauge economies or diseconomies of scale (Cull, 2007).

1.3 Research Questions

- What is the impact of financial indicators on profitability of microfinance companies?
- Is there any relationship between financial indicator and profitability of micro finance companies inNepal?
- Do the DPR, CD Ratio, Total Assets, LATD, CRR and P/E ratio impact the ROA and ROE of MFIs?

1.4 Objectives of the Study

The objectives of the study are as follows:

- To assess the impact of financial indicator on profitability of microfinance institutions.
- To examine the relationship of financial indicator and profitability of microfinance companies.

- To evaluate the impact of dividend payout ratio, dividend yield ratio, boot to market ratio, cash reserve ratio and price earnings ratio determine the ROA.

1.5 Rationale of the Study

This study attracts the attention of investors, academics, entrepreneurs, and other interested parties. It provides valuable insights for financial managers to understand how various factors influence stock prices, the price formation process, and their correlation with the company's financial position. Additionally, it is beneficial for potential investors seeking to understand the impact on price trends, stock trading volume, and the influence of signaling factors on the NEPSE index. This study no doubt will have importance to various groups of people but in particular it is directed to certain group of people which are:

Importance to shareholders

Stockholders can prevent takeover attempts effectively by deeming the offered price inadequate. Therefore, wielding influence over various facets of a company's operations, shareholders significantly impact its overall performance and profitability.

Importance to customers

No matter the industry or the products and services offered, your customer remains the cornerstone of your business. Sales depend entirely on their presence, making them pivotal in shaping your marketing approach and strategy.

Importance to financial institution and stock exchange

Financial markets might appear complex, but fundamentally, they serve as a nexus where individuals come together, facilitating the movement of capital to where it is most required. These markets enable companies to secure funding for hiring, investment, and expansion. They also support government funding for infrastructure projects like roads, schools, and hospitals.

Importance to government bodies and policy makers

Government policies outline the rationale and procedures for specific actions, addressing various origins of public issues with tailored responses. Many policies are instituted by governments to regulate businesses.

Importance to the institutes

Institutions also play a crucial role in redistributing resources within the economy, ensuring proper allocation and safeguarding the economically disadvantaged. Additionally, they foster trust through policing and justice systems that uphold a unified legal framework.

Importance to the researchers

Research serves several essential functions: informing action, providing evidence for theories, and advancing knowledge within a particular field of study. It plays a crucial role in enhancing comprehension and decision-making. Research is invaluable for unraveling the intricacies of issues, debunking falsehoods, validating truths, and establishing a foundation of reliable and authentic knowledge. Conducting research fosters deeper insights and strengthens the ability to make informed decisions.

1.6 Limitations of the Study

The limitations of the study are as follows:

- The study concerned on impact of financial indicator on profitability of microfinance companies of Nepal
- The micro finance companies of Nepal, namely; First Microfinance Laghubitta Bittiya Sanstha Limited, Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, Rural Microfinance Development Centre Limited and RSDC Laghubitta Bittiya Sanstha Limited are taken for the study.
- The study used secondary data for analysis which are taken from annual report of respective banks, journals and articles, NRB directives etc.
- The study is cover the past ten year's data From 2070/71 to 2079/80 period.

CHAPTER – II
LITERATURE REVIEW

This chapter focuses on reviewing existing literature related to the topic of 'Financial indicator analysis of microfinance companies'. The purpose of this literature review is to gain expertise in the field, identify new contributions, and gather ideas for developing a research design. Previous studies are crucial as they form the basis of the current study. This chapter synthesizes relevant literature, including research, journal articles, and previous thesis work, to provide an overview of the subject matter.

- Theoretical Review
- Empirical Review

2.1 Theoretical Review

Finance theory is a broad field of both speculation and mathematical measurements used to determine investing strategies and monetary value estimates. Theories of finance are also used to create fundraising and capital creation plans and manage financial risk.

2.1.1 Sustainability of Microfinance

Different individuals perceive sustainability in various ways, making it challenging to reach a consensus on the matter. Profit-driven organizations often prioritize financial sustainability over institutional, social, and environmental concerns. Conversely, development-focused entities place greater importance on sustainability. According to Schrieder (2000), sustainability is defined as development that meets present needs without compromising future generations' abilities to meet their own needs. Generally, sustainability involves fostering positive changes within a dynamic system that integrates ecology, economy, and society. Gilman (1990) defines sustainability as the capacity of a society, ecosystem, or any ongoing system to maintain functionality indefinitely without exhausting critical resources and declining.

According to CGAP (2003), sustainability refers to the ability to be repeated. Sustainability encompasses two aspects: the sustainability of individual transactions and the sustainability of an entire organization. Sustainable transactions can be repeated over time. Sustainable organizations are structured with incentives that support the continuity of transactions. In

the context of micro-finance, sustainability means that a Micro-Finance Organization (MFO) can maintain its operations and mission aimed at serving the poor. Self-sustainability in micro-finance implies that an MFO can sustain itself without relying on external donor support. However, micro-finance self-sustainability indicates the ongoing societal value of an MFO, whereas micro-finance sustainability does not necessarily reflect its societal impact.

Mayoux (1999) suggests that performance involves achieving objectives. Sustainability entails meeting both immediate and long-term goals. An MFO encompasses six distinct stakeholder groups: society, impoverished individuals, needy clients, donors, employees, and investors, each imposing constraints on the others. Each group defines its own objectives and consequently its own metrics of performance. From society's perspective, a successful MFO generates more social benefits than costs. For impoverished individuals, effectiveness is determined by optimal use of allocated funds for poverty alleviation. Evaluating benefits often proves more costly than assessing costs, yet cost-effectiveness analysis can gauge whether unmeasured benefits might outweigh measured costs. For needy clients, a successful MFO encourages repeat utilization. Donors prioritize leveraging public funds to attract private capital. Employees view a successful MFO as providing meaningful employment, ensuring sustainability even if donor support diminishes. Investors perceive good performance as yielding market returns.

Hollis and Sweetmen (1998) noted that sustainability poses a significant challenge in microfinance. A notable finding is that microfinance institutions (MFIs) funded by deposits tend to have longer lifespans and serve a larger number of borrowers compared to those reliant on donations or government support. Establishing a strong institution can attract local depositors, thereby safeguarding the organization's stability. Hulme and Mosley (1996) elaborate on the interconnected dimensions of microfinance sustainability, highlighting three key aspects: the sustainability of MFI borrowers, the financial and economic viability of MFIs themselves, and the broader macroeconomic stability. Ahmed (2002) has proposed several indicators for assessing financial sustainability, including financial ratio analysis, operating efficiency metrics, and portfolio quality assessment.

2.1.2 Effective Risk Management

Paraphrased: Leonard (2016) emphasizes that each microfinance institution (MFI) should adopt effective strategies for identifying, measuring, monitoring, and managing risks. According to Kimando (2012), robust risk management is crucial for screening and selecting loan clients and for reducing loan default rates. Kombo et al. (2011) investigated the risk management practices of MFIs and their impact on financial sustainability. Their study aimed to determine MFIs' funding preferences, assess the frequency of risk exposure, and evaluate the effectiveness of risk management tactics in enhancing financial stability. The primary risks include strategic, credit, and liquidity risks, whereas subsidy dependency and reputational risks are infrequent. Microfinance institutions (MFIs) employ diverse risk management approaches like risk avoidance, risk transfer, and risk mitigation to mitigate these risks. Risk mitigation is generally regarded as the most effective risk management method. Specifically, reconciling loan accounts and loan data is considered the optimal strategy for evaluating the financial sustainability of MFIs.

2.1.3 Management System

The performance of any institution hinges on effective management, crucial for its sustainability. Both management and leadership are instrumental in achieving the goals of MFIs. According to Tapera (2016), management plays a vital role in establishing the organizational framework. Good management fosters innovation and expansion within MFIs by creating a conducive environment where employees can be highly dedicated, focused, and accountable (Ledgerwood, 2006).

2.1.4 Loan Lending System

Systems facilitating loan lending are essential for microfinance institutions to progress. These institutions offer collateral-free loans, enabling impoverished individuals to access credit. They operate primarily as group lending entities. Group lending systems serve as an additional method for ensuring loan repayment. Microfinance institutions support the country's underprivileged through specialized lending mechanisms, thereby fostering both financial support and the expansion of these institutions (Al Mamun, 2012; Irene, 2013; Hassan, 2002).

2.2 Empirical Review

Lehenchuk et al. (2023) researched on the impact of financial performance on the profitability of advertising agencies in the Slovak Republic. The objective of this study was to assess how financial performance affects the profitability of advertising firms in Slovakia. Multiple regression was employed for data analysis. Results indicated that both total assets turnover and firm size positively impact profitability, whereas the debt to equity ratio exerts a negative influence. The study concluded that financing advertising firms through debt resources (such as loans or bonds) negatively affects return on assets (ROA), supporting the recommendation to seek alternative financing methods to enhance profitability. Additionally, the study found no significant relationship between current ratio (CR) and ROA, further supporting these conclusions.

Ilham, Akhyar and Maimunah (2023) examined the influence of profit management and financial performance on company value in building materials construction sub-sector companies. The study aimed to investigate how earnings management, profitability, capital structure, and liquidity impact firm value within the building materials sector. Multiple linear regression was employed for data analysis. Findings indicated that earnings management and liquidity did not notably influence firm value, whereas profitability and capital structure positively and significantly affected firm value. The research concluded that these factors significantly impact company value among building materials construction sub-sector firms listed in Indonesia.

Yasmin (2022) conducted a research on financial sustainability of microfinance institutions and macroeconomic factors: A case of South Asia. The study aimed to examine how macroeconomic decisions impact microfinance decisions in South Asia. It employed a fixed-effect regression model to analyze data, revealing that economic factors such as foreign investment, human development, inflation, interest rates, private credit, and labor force participation generally adversely affect financial sustainability, with the exception of GDP growth. Consequently, the study recommends that policy makers in South Asian countries take proactive measures to ensure the financial stability of microfinance institutions, specifically addressing poverty alleviation, women's empowerment, financial inclusion, and broader socio-economic development goals.

Agaba and Eton (2022) studied on credit risk management practices and loan performance of microfinance institutions in Uganda. The study aimed to investigate how credit risk management practices relate to loan performance. It employed multiple regression to analyze data and discovered significant connections: credit risk identification, assessment, monitoring, and control all impact loan performance. The research concluded that effective implementation of these practices enhances credit risk management and subsequently improves loan performance.

Bochaberi and Job (2021) researched on mobile banking and financial performance of selected microfinance institutions in Kenya. The research investigated how mobile banking impacts the operational effectiveness of microfinance institutions. It employed descriptive statistics (such as means, percentages, and standard deviation) and multiple regression for data analysis. Results indicated that mobile banking significantly affects the financial performance of Kenya's four commercial banks. The study concluded that mobile banking is dependable for customers, enhances outreach to unbanked populations, ensures safety and affordability, improves efficiency, and boosts transaction volumes in commercial banks.

Kori, Muathe and Maina (2020) studied on financial and non-financial measures in evaluating performance: The role of strategic intelligence in the context of commercial banks in Kenya. The study aimed to assess how well commercial banks performed by employing various financial and non-financial metrics. It utilized descriptive statistics and multiple linear regression for data analysis. The findings indicated that strategic intelligence significantly influences the performance of commercial banks in Kenya. Furthermore, both financial and non-financial performance indicators were deemed important for the banking sector and the overall economic development of Kenya.

Ndungu and Bosire (2020) researched entitled on determinants of financial performance of commercial banks listed at NSE in Kenya. The study aimed to identify the factors influencing the financial performance of commercial banks listed on the NSE in Kenya. Data analysis employed measures such as means and standard deviations. Results indicated that credit risk, liquidity risk, market risk, and operational risk collectively account for 31.42% of the variation in financial performance among these banks. Specifically, the study

concluded that credit risk positively influences financial performance, whereas market risk and operational risk negatively affect it significantly.

Nalianya and Miroga (2020) examined on determinants of financial performance of commercial banks in Kenya: Case of listed banks on the Nairobi Securities Exchange (NSE). The study aims to assess the financial performance of commercial banks in Kenya. It utilized descriptive statistics, correlation coefficients, and multiple regression to analyze data. The findings indicated that liquidity, capital adequacy, operational expenses, and leverage all significantly impact the financial performance of listed commercial banks in Kenya. Specifically, leverage was identified as having the most substantial positive influence on the financial performance of these banks.

Ganyam and Iyungu (2019) researched on effect of accounting information system on financial performance of firms: A review of literature. The research aims to examine the theoretical underpinnings and empirical findings concerning accounting information systems and firm financial performance. Using multiple linear regression, the study analyzed data and found that effective accounting information systems improve managerial decision-making, enhance internal controls, elevate financial reporting quality, refine performance metrics, and streamline financial transactions. The study concludes that the most significant impact of information technology on accounting lies in enabling companies to develop and utilize computerized systems for tracking and recording financial transactions, thereby facilitating management decisions, bolstering internal controls, and ensuring the quality of financial reports.

Mwangi (2018) researched on the effect of size on financial performance of commercial banks in Kenya. The study aimed to determine how the size of commercial banks in Kenya affects their profitability. Regression analysis was employed to examine the relationship between size (measured by the logarithm of total assets) and financial performance indicators (Return on Assets and Return on Equity). The results indicated a positive correlation between size and financial performance among commercial banks in Kenya. Moreover, this effect was more pronounced among larger banks. Consequently, the study concluded that size positively influences the financial performance of commercial banks in Kenya. The null hypothesis, which stated that size has no significant effect on the financial performance of commercial banks in Kenya, was rejected.

Akanbi and Adewoye (2018) studied on effects of accounting information system adoption on the financial performance of commercial bank in Nigeria. The research examined how commercial banks in Nigeria implement Accounting Information Systems (AIS) and assessed its impact on their financial performance. It employed multiple regression analysis and tested Cronbach's alpha to analyze the data. The findings indicated that Nigerian commercial banks have embraced AIS for delivering services to customers, with a high level of utilization. The study concluded that AIS adoption significantly enhances various performance indicators such as ROCE, ROTA, GPM, and NOP.

Yusuf and Surjaatmadja (2018) studied on analysis of financial performance on profitability with non-performance financing as variable moderation. The aim of this research is to investigate how the capital adequacy ratio (CAR) and financing to deposit ratio (FDR) impact profitability, measured by return on assets (ROA), with non-performing financing (NPF) serving as a moderating variable. The study utilized multiple regression analysis to examine the data. The findings indicate that CAR and FDR individually exert a significant positive influence on profitability, whereas BOPO has a notable negative impact. Moreover, the study suggests that NPF does not significantly alter the relationship between CAR and profitability nor between FDR and profitability. However, NPF does negatively influence the relationship between BOPO and profitability.

Robin, Salim and Bloch (2018) examined on financial performance of commercial banks in the post-reform era: Further evidence from Bangladesh. The research intends to investigate how commercial banks in Bangladesh have performed financially. It employed multiple regression and the Hausman test to analyze data. Findings indicated that the financial reform did not notably impact return on assets (ROA) or return on equity (ROE) for the banks. However, there was an observed increase in net interest margin (NIM). The study concluded that, apart from the rise in NIM, the profitability of the banks sampled did not improve following the financial reform.

International article so far reviewed are presented in Meta table 1.

Table 1

Analysis of International Articles

Date	Writer	Title	Methodology	Objectives	Findings
·2023	·Lehenchuk, et. al	· The impact of financial performance on the profitability of advertising agencies in the Slovak Republic	· Multiple regression analysis	· To analyze the impact of financial performance on the profitability of advertising agencies in Slovakia	· Research indicates that when Return on Assets is chosen as the dependent variable to assess financial performance in advertising agencies, Total Assets Turnover and Firm Size positively impact it significantly, whereas Debt to Equity Ratio exerts a negative influence
·2023	·Ilham, Akhyar and Maimunah, et. al	·The influence of profit management and financial performance on company value in building materials construction sub-sector companies	· multiple linear regression	· To examine the effect of earnings management, profitability, capital structure, and liquidity on the firm value in building materials	· Some findings suggested that manipulating earnings and liquidity did not notably influence firm value. Conversely, profitability and capital structure were found to positively and significantly impact firm value.
·2022	·Yeasin	· Impact of Credit management	· Multiple regression analysis	· To analyze the impact of credit risk management	· The financial performance of commercial banks was adversely affected by

		on financial performance		on financial performance	Non-performing Loans (NPLs) and Capital Adequacy Ratio (CAR), which had negative and statistically significant impacts. Conversely, the Loan to Deposit Ratio (LDR) had a positive and statistically significant impact on their financial performance.
·2022	·Agaba and Eton	· Credit risk management practices and loan performance of commercial banks in Uganda	· Correlation and regression analysis	· To examine the relationship between Credit Risk Management Practices and Loan Performance	· The research discovered a notable correlation between identifying credit risk and loan performance, assessing credit risk and loan performance, monitoring credit risk and loan performance, as well as controlling credit risk and loan performance.
·2021	·Bochaberi and Job	·Mobile banking and financial performance of selected commercial banks in Kenya	·Descriptive statistics	· To examine the role of mobile banking on performance of commercial banks	· Mobile banking impacts the financial performance of four commercial banks in Kenya by providing reliability to customers, expanding access to the unbanked population, ensuring safety and

					affordability, enhancing efficiency, and boosting transaction volumes within these banks.
·2020	·Kori, Muathe, and Maina,	· Financial and Non-Financial Measures in Evaluating Performance: The Role of Strategic Intelligence in the Context of Commercial Banks in Kenya	· Descriptive statistics and linear multiple regression analysis	· To provides comprehensive discussion on role of strategic intelligence in commercial banks, in Kenyan context	· Kenyan commercial banks should align their training focus and strategy implementation with the interests of investors using a balanced scorecard approach.
·2020	·Ndungu and Bosire	·Determinants of financial performance of commercial banks listed at nse in Kenya.	· Descriptive statistics and multiple regression analysis	· To establish the determinants of financial performance of NSE listed commercial banks in Kenya	· The study found a robust positive relationship (r=0.926) between the allocation of funds and the financial performance of commercial banks. It suggested that 85.7% of the variation in financial performance could be explained by the allocation of funds to different assets, while also recommending investigation into other

					factors such as inflation, exchange rates, and fluctuations in interest rates.
·2020	·Nalianya, and Mirog a,	·Determinants of financial performance of commercial banks in Kenya: Case of listed banks on the Nairobi Securities Exchange (NSE)	· Descriptive analysis, correlation analysis and regression analysis	· To examine the determinants affecting financial performance of listed commercial banks in Kenya with specific objectives on the effect of liquidity, capital adequacy, operational expense and leverage on performance of banks in Kenya	· The financial performance of listed commercial banks in Kenya is significantly affected by various independent variables such as liquidity, capital adequacy, operational expenses, and leverage. Managers of these banks are advised to adopt a proactive credit policy to fully utilize debt in capital expenditures, thereby enhancing the firm's financial performance.
·2018	·Mirie and Mwan gi	· The Effect of Size on Financial Performance of Commercial	· Regression analysis	· To establish the effect size has on the profitability of commercial	· Policy initiatives aimed at expanding the scale of commercial banks should be taken into account, and shareholders or

		Banks in Kenya		banks in Kenya.	managers might also adopt growth strategies such as internal generation, fundraising, or mergers and acquisitions.
·2018	·Akanbi and Adewoye	· Effects of Accounting Information System Adoption on the Financial Performance of Commercial Bank in Nigeria	· Cronbach's alpha test	· To examine various innovations to which their services are been performance effectively with financial improvement.	· Commercial banks in Nigeria have embraced and utilize AIS to deliver services to their customers, and its usage is widespread. The adoption of AIS shows a significant positive correlation with all performance indicators (ROCE, ROTA, GPM, and NOP) at α levels.
·2018	·Yusuf and Surjaatmadja	· Analysis of Financial Performance on Profitability with Non Performance Financing as Variable Moderation (Study at Sharia Commercial Bank in	· Multiple linear regression analysis	·To determine the effect of capital adequacy ratio (CAR) and financing to deposit ratio (FDR) on profitability (proxies with return on assets [ROA]) with non performing	· Capital Adequacy Ratio (CAR) and Financial Depth Ratio (FDR) positively influence profitability, whereas Bank Operating Profitability Ratio (BOPO) negatively affects it. Non-Performing Loans (NPF) do not significantly influence the relationship between CAR and profitability or

		Indonesia Period 2012–2016)		financing (NPF) as a moderation variable	between FDR and profitability, but they do negatively impact the relationship between BOPO and profitability.
·2018	·Robin, Salim and Bloch	· Financial performance of commercial banks in the post-reform era: Further evidence from Bangladesh	· Regression analysis	· To Examine the financial performance of the commercial banks in Bangladesh in terms of profitability measures before, during and after a period of financial liberalization	· Financial reforms have not notably impacted banks' return on assets (ROA) or return on equity (ROE), whereas the increase in net interest margin (NIM) has strengthened capital and improved asset quality, which are primary factors influencing profitability. Hence, an effective banking policy focused on enhancing capital reserves and asset quality is crucial to ensuring a sustainable banking sector in Bangladesh.

2.2.1 Review of National Articles

Shrestha (2023) conducted a research on Impact of firm-specific factors on the financial performance of Nepalese microfinance institutions. This research aimed to assess how specific factors related to firms affect the financial performance of microfinance institutions (MFIs) in Nepal. Using multiple regression analysis, the study discovered that these factors significantly influence the financial performance of Nepalese MFIs. Specifically, it found that a higher deposit ratio, improved management efficiency, and a wider interest rate

spread have a positive impact, while poorer asset quality negatively affects financial performance. The study concludes that enhancing deposit ratios, management efficiency, and interest rate spreads could enhance the financial performance of Nepalese MFIs.

Dhungana and Ranabhat (2022) analyzed on impact of microcredit on micro-enterprise development: A case of Gandaki province of Nepal. The study aims to investigate how microcredit affects the development of micro-enterprises in Nepal's Gandaki Province. It employed multiple regression analysis and correlation coefficients as its analytical tools. Results indicated that microcredit has boosted investment, revenue, and profits for micro-businesses, facilitating their expansion and job creation. The study emphasizes that effective use of microcredit is crucial for the long-term success and sustainability of these enterprises.

Kunwar (2022) conducted a research on financial sustainability of microfinance institutions in Nepal. The main focus of microfinance sustainability is unquestionably the financial stability of microfinance institutions. The research employed descriptive statistics, correlation analysis, and regression analysis to analyze the data. It revealed that financial sustainability refers to the ability to pursue microfinance objectives without continual donor funding. The study concluded that self-sufficiency is central to these definitions, indicating that microfinance operations can potentially be profitable.

Jha and Hui (2022) examined on a comparison of financial performance of microfinance institutions: a case study of Nepal. The aim of this research was to examine how the financial performance of various ownership models of microfinance institutions in Nepal compared. The study employed multivariate regression analysis for its data analysis. Findings indicate that public sector banks exhibit significantly lower efficiency compared to their counterparts, whereas domestic private banks perform equally well as foreign-owned (joint-venture) banks. The study concludes that return on assets was notably affected by factors such as capital adequacy ratio, interest expenses relative to total loans, and net interest margin. Additionally, capital adequacy ratio was found to have a substantial impact on return on equity.

Shrestha (2020) examined on changing dimension of financial inclusion in Nepal: A comparative analysis. The research aimed to examine shifts in financial inclusion across

Nepal over time and to contrast these trends with other South Asian nations using secondary data. Descriptive statistics and regression analysis were employed to analyze the data, revealing insufficient and unequal access, particularly in credit usage, highlighting the considerable effort needed to enhance inclusivity within the financial system. The study suggests that leveraging modern technology and implementing inclusive policies are crucial steps toward improving comprehensive access to finance. It concluded that raising awareness and enhancing the benefits associated with formal financial services are essential for promoting meaningful financial inclusion.

Oli (2018) researched on impact of microfinance institutions on economic growth of Nepal. This research investigated how microfinance institutions influence Nepal's economic growth. Using multiple regression analysis, the study found that an increase in both total assets and total loans correlates with economic growth. Similarly, higher total deposits were associated with increased economic growth. Furthermore, the study concluded that a greater money supply generally leads to higher economic growth, while also highlighting a negative correlation between inflation and economic growth in Nepal. This suggests that higher inflation tends to result in lower economic growth.

Simkhada (2017) conducted a research on Indicator for measuring performance of financial cooperatives in Nepal. The aim of this paper is to propose various metrics for evaluating the performance of financial cooperatives in Nepal. The study employed PEARLS and CAMEL analyses to scrutinize the data. Results indicated that assessing the performance of financial cooperatives requires 32 financial ratios across eight performance dimensions and 25 self-governance indicators. The research concluded that profitability, growth, market share, governance, sustainability, efficiency, productivity, and liquidity are crucial dimensions of organizational performance. These dimensions were substantiated through interviews and pilot testing, with the exception of market value of the equity.

2.3 Research Gap

This study examines the financial performance of a selected sample of microfinance institutions using various ratios, trend analysis, and statistical tools. Survey data analysis employs financial tools. The researcher analyzed data from five fiscal years, ensuring current and factual data. This addresses issues in Nepalese microfinance that previous

studies overlooked. The study aims to define financial concepts. Reviewing relevant literature has deepened understanding, essential for the study's significance and purpose. Previous research covers lending practices, credit policies, financial performance, credit management, and liquidity mobilization in microfinance. Researchers have employed diverse ratio analyses to conduct these assessments. Previous studies on financial performance concentrated on limited ratios that failed to address the issues adequately. This research systematically examines and categorizes various ratios. Earlier researchers overlooked analyzing the investment aspects and fund mobilization and their impact on profitability. The ratios were not classified based on their characteristics. In contrast, this study categorizes all ratios according to their specific domains and characteristics.

Previous researchers utilized data from only one year, limiting their study to a five-year fiscal period. While the data remains current and factual, these constraints highlight a gap in understanding present-day realities in Nepalese microfinance. This study aims to address these limitations by comprehensively defining financial performance. It employs a range of financial tools such as liquidity ratios, asset management metrics, activity ratios, profitability indicators, credit risk assessments, and other relevant ratios. Statistical techniques including correlation coefficients and trend analyses will be applied to provide a thorough analysis. This research is expected to contribute significantly to the understanding of financial performance within financial institutions.

CHAPTER - III
RESEARCH METHODOLOGY

This chapter outlines the methodology utilized in the current study. Research methodology refers to the structured approach used to address a problem, involving the systematic gathering, recording, analysis, interpretation, and reporting of data related to various aspects of the phenomenon under investigation. In this study, the research methodology details the strategies and procedures employed throughout the research. Specifically, it covers the research design, the target population and sample selection, data sources, and the analytical methods used.

3.1 Research Design

Research design involves outlining the methods and procedures used to obtain necessary information. This study employs descriptive research design to assess, contrast, and categorize the characteristics of independent variables influencing bank profitability (dependent variables). Additionally, it utilizes causal-comparative research design to investigate relationships between independent and dependent variables following an action or event.

3.2 Population and Sample

The study includes all 63 microfinance institutions operating in Nepal as of May 2023, listed on the website of Nepal Rastra Bank (www.nrb.org.np). From these, the First Microfinance Laghubitta Bittiya Sanstha Limited, Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, Rural Microfinance Development Centre Limited, and RSDC Laghubitta Bittiya Sanstha Limited were selected using purposive sampling. The research covers a period of nine fiscal years, from 2070/71 to 2078/79.

3.3 Nature and Sources of Data

Sufficient information is essential for the research study, gathered from various sources. The primary responsibility of the researcher is to gather information and data from these sources to achieve the study's objectives. Data can be categorized as primary or secondary based on its source. This research primarily utilizes secondary data obtained from relevant

publications by various publishers. Financial data from the past decade of selected microfinance companies were sourced from www.nepalstock.com. Additionally, books, periodicals, newspapers, company reports, and magazines will be consulted as needed. Given the study's focus on rapid phenomena, only secondary data will be used for all calculations.

3.4 Data Procedures

Data gathered from various sources cannot be used directly for analysis in its original form. Therefore, it has been verified, re-evaluated, edited, and organized into tables to make it suitable for analysis. The researcher ensured the reliability of the data by sourcing it from authorized entities.

Data collection is a crucial aspect of the course, and there are various tools for this purpose. These tools require careful consideration and proper planning. They can be most effectively utilized when the researcher has a thorough understanding of the problem. However, data collection techniques depend on several factors, such as the type of respondents, the nature of the information needed, the duration of the research, and the availability of manpower. To achieve the objectives of this study, information was collected from microfinance sources, including annual reports, newspapers, and bulletins. Additionally, publications from NRB, unpublished periodicals, magazines, dissertations, and information from NRB websites were used. Most of the data in this study were sourced from secondary data.

3.5 Method of Data Analysis

Various financial and statistical tools and techniques are employed to assess and analyze the strengths and weaknesses of the performance of First Microfinance Laghubitta Bittiya Sanstha Limited, Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, Rural Microfinance Development Center Limited, and RSDC Laghubitta Bittiya Sanstha Limited. The financial and statistical tools used in this study include:

3.5.1 Descriptive Statistics

In this study, various statistical tools were employed to compare the figures and derive a meaningful conclusion. Brief descriptions of these tools are provided here.

Mean

The arithmetic mean is the most common and widely used method for summarizing a dataset with a single value. It is determined by dividing the sum of all the items by the total number of items. The mean values of different variables indicate the average value over the study period.

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

Where,

$\bar{X}$= Sum of the variables 'x'

N = No. of Observation

Standard deviation

Dispersion refers to the extent of variation of individual items around a central value. The standard deviation quantifies absolute dispersion; a higher dispersion corresponds to a higher standard deviation. Smaller standard deviations indicate a high level of uniformity among the observations and homogeneity within a series, and the opposite is true as well. In this study, the standard deviation was calculated for earnings per share, dividends per share, the dividend payout ratio, retained earnings, market value per share, dividend yield ratio, and the price-earnings ratio.

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

Correlation analysis

Correlation analysis is a statistical tool used to measure the extent to which one variable is related to another. In this study, simple correlation has been applied. The correlation coefficient between the selected financial variables has been calculated and displayed in matrix form for comprehensive interpretation. The correlation coefficient between two variables, X and Y, can be measured using the following formula.

$$\text{Correlation Coefficient (r)} = \frac{n\Sigma xy - \Sigma x\Sigma y}{\sqrt{n\Sigma x^2 - (\Sigma x)^2}\sqrt{n\Sigma y^2 - (\Sigma y)^2}}$$

r = 0 means that the variables are correlated lies between -1 and +1 r = -1 implies that there is a perfect negative correlation between the variables r = +1 implies that there is a perfect positive correlation between the variables

Coefficient of determination (r^2)

The coefficient of determination quantifies the strength of the linear relationship between two variables, where one is independent and the other is dependent. Essentially, it indicates the proportion of the total variation in the dependent variable that can be explained by the independent variable. This coefficient ranges from zero to one. A value of one signifies that there is no unexplained variation, meaning all data points in the scatter plot lie precisely on the regression line.

Regression analysis

Regression analysis provides the direction of movement but does not indicate the relative movement of the variables under study. However, it does help us understand the relative movement of variables. The regression analysis of the following variable has been calculated and interpreted.

The factors influencing estimates of the MPS can be quantified and estimated using multiple regression analysis. This statistical tool facilitates the estimation or prediction of the dependent variable's value from the independent variable's value. In this study, CD, CRR, TA, PER, and DPR are dependent variables, while DPS, P/E ratio, ROA, and ROE are considered independent variables. Generally, in multiple regression analysis, methods such as least squares, standard error of estimate, and multiple coefficients of determination are computed for this purpose. The multiple regression equation is:

Model 1: $ROA = a + b_1DPR + b_2CD + b3\ CRR + b4 + b5\ TA + b6\ P/E$

Model 2: $ROE = a + b_1DPR + b_2CD + b3\ CRR + b4 + b5\ TA + b6\ P/E$

Where a= Regression intercept, which indicates MPS does not go below this point even if other variables have zero value.

b’s = Multiple regression coefficient.

DPR=dividend payout ratio

CDR = Credit deposit ratio

CRR = Cash reserve ratio

P/E = Price Earning ratio

TA = Total Assets

3.6 Research Framework

A research framework is a conceptual model that illustrates the relationships among various factors identified as crucial to the problem. It is developed after conducting a literature review, defining the problems, and interviewing relevant parties. This framework logically connects previous research findings and establishes a scientific basis by relating assumptions to theories. It outlines the relationships between independent and dependent variables and aids in hypothesis development. By organizing variables logically, the research framework facilitates the testing of theoretical problems.

Researchers should demonstrate the relationships between independent and dependent variables identified in the research problems. These relationships are derived from the literature. A research framework specifies the variables, states the relationships between two or more variables, and explains the rationale behind these expected relationships. This framework is essential for conducting research.

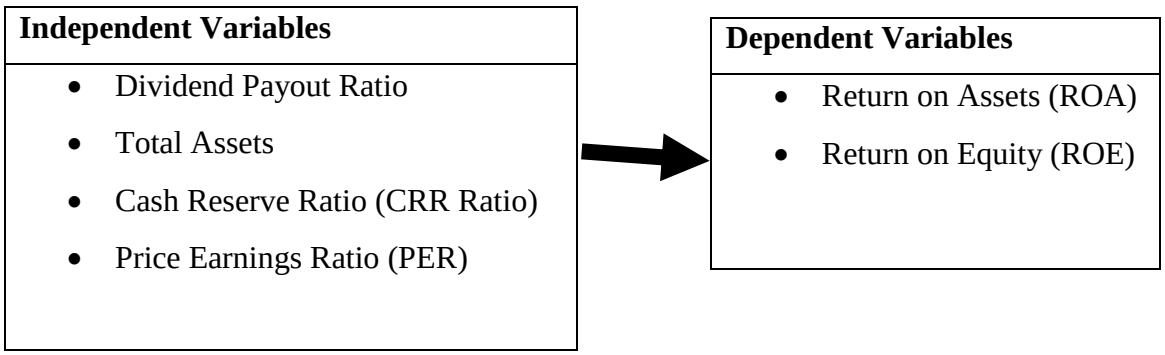

Figure 1

Research framework

Source:

3.7 Description of Variables

Dividend payout ratio (DPR Ratio)

The D/P ratio represents the proportion of profits allocated as dividends. This ratio indicates the percentage of profit distributed to shareholders and the portion retained as reserves and surplus for the company's growth. It is determined by dividing the Dividend Per Share (DPS) by the Earnings Per Share (EPS) (Gautam, 2020).

Total Assets

Total assets are crucial in determining the scale of a bank. Assets represent the resources owned by a bank, including cash balances, bank balances, money on call, investments, shares and other holdings, loans and advances, bills purchased, fixed assets, and other resources. Therefore, a bank's total assets encompass all its long-term and current assets. Current assets are those that can be converted into cash within a year, while long-term assets take longer to liquidate. It's important to highlight that customer deposits held by the bank form part of the bank's total liabilities (Idama et al., 2014).

Cash Reserve Ratio (CRR)

Nepal Rastra Bank (NRB), as the central regulatory body for all microfinance institutions, mandates that these institutions maintain a specified percentage of their total deposits as reserves to ensure their operational stability. This requirement aims to bolster the liquidity positions of microfinance institutions, as emphasized in the study by Kori, Muathe, and Maina (2020). The reserve ratio is determined using the formula:

Price earnings ratio (P/E Ratio)

This ratio indicates the market's current valuation of each rupee of reported earnings per share (EPS). It is particularly valuable for potential investors, derived by dividing the market value per share (MVPS) by earnings per share (Dhungana & Ranabhat, 2022).

Return on Assets

This is probably the most important single ratio in comparing the efficiency and operating performance of banks as it indicates the returns generated from the assets that bank owns (Getahun, 2015).

Return on Equity

Return on equity measures the profitability of equity funds invested in the bank it shows the profit earned per birr of capital invested. ROE is regarded as a very important measure because it reflects the productivity of the ownership (or risk) capital employed in the bank (Getahun, 2015).

CHAPTER – IV

RESULTS AND DISCUSSIONS

In this chapter, the data are meticulously presented and analyzed. These specific details were exclusively located within annual reports. The chapter examines, evaluates, and interprets the gathered data following the research methodology outlined in the third chapter. It offers pertinent data and insights into the dividend policies of microfinance companies, drawing comparisons as well.

4.1 Results of Financial Tools

Dividend payout ratio (DPR Ratio)

The D/P ratio, short for Dividend to Profit ratio, represents the percentage of profit set aside for dividends. This metric indicates how much profit is retained for future growth and how much is distributed to shareholders as dividends. To calculate it, DPR is divided by the total assets.

Table 2

Dividend Payout Ratio (DPR)

Fiscal Year	RSDC	First	RMDC	SKBBL
2013/14	0	0.61	0.96	0.32
2014/15	0	1.01	0.75	0.39
2015/16	0.63	0.77	0.73	0.60
2016/17	0.92	0.78	0.66	0.50
2017/18	1.01	0.85	0.56	0.53
2018/19	1.58	0.91	0.61	0.00
2019/20	1.07	0.78	0.63	0.03
2020/21	0.85	0.57	1.13	0.03
2021/22	0.84	0.71	0.00	0.03
Mean	0.77	0.78	0.67	0.27
S.D	0.51	0.14	0.31	0.25
C.V	0.66	0.18	0.46	0.92

Source Appendix I

Table 2 displays the mean values for each variable, indicated as "Mean". For instance, RSDC, First, RMDC, and SKBBL have average DPRs of 0.77, 0.78, 0.67, and 0.27, respectively.

The variability or spread of data around the mean is quantified by "Std. Dev." (Standard Deviation), providing insights into the data's dispersion. For instance, the standard deviations for SKBBL, RMDC, First, and RSDC are 0.25, 0.31, 0.14, and 0.51, respectively.

The ratio of the standard deviation to the mean is termed the coefficient of variation, or CV. In log-normally distributed measurements, CV remains constant, while SD varies with the expected value of the measurements. For example, RSDC, First, RMDC, and SKBBL have coefficients of variation of 0.66, 0.18, 0.46, and 0.92, respectively.

Total Assets

The size of a bank is determined by its total assets. These assets encompass cash balances, bank deposits, investments, shares, loans, fixed assets, and other holdings of microfinance institutions. In essence, a bank's total assets represent the accumulation of its current and long-term possessions. It's important to note that a bank's liabilities include the deposits held for customers.

Table 3

Total Assets (TA)

Fiscal Year	RSDC	First	RMDC	SKBBL
2013/14	316	1575	5194	6606
2014/15	546	2341	5845	8875
2015/16	765	3076	6686	11931
2016/17	924	3785	7174	14725
2017/18	1763	4769	7863	19225
2018/19	2630	6100	9160	21940
2019/20	3466	6325	9785	24381
2020/21	3983	9804	12250	26127
2021/22	5668	10956	12197	30779
Mean	2229.00	5414.56	8461.56	18287.67
S.D	1842.20	3240.44	2579.66	8268.88
C.V	0.83	0.60	0.30	0.45

Source Appendix I

Table 3 displays the mean values for each variable under the label "Mean". For instance, RSDC, First, RMDC, and SKBBL had average total assets of 2229, 5414.56, 8461.56, and 18287.67, respectively.

The variability or spread of data points around the mean is quantified by "Std. Dev." (Standard Deviation), providing insights into the data's dispersion. For example, RSDC, First, RMDC, and SKBBL had standard deviations of 1842.20, 3240.44, 2579.66, and 8268.88, respectively.

The coefficient of variation (CV), which is the ratio of standard deviation to the mean, measures relative variability. In log-normally distributed measurements, CV remains constant, whereas standard deviation varies with expected values. For instance, RSDC, First, RMDC, and SKBBL have coefficients of variation of 0.83, 0.60, 0.30, and 0.45, respectively.

Cash Reserve Ratio (CRR)

The Nepal Rastra Bank (NRB), Nepal's central bank, supervises all microfinance institutions. It requires these institutions to maintain a designated portion of their deposits as reserves to ensure their operational efficiency. This policy aims to bolster the liquidity of microfinance organizations and sustain their financial strength.

Table 4

Cash Reserve Ratio (CRR)

Fiscal Year	RSDC	First	RMDC	SKBBL
2013/14	0	0.61	0	0.51
2014/15	0	0.49	0	0.52
2015/16	0.79	0.48	0	0.51
2016/17	0.76	0.59	0	0.52
2017/18	0.71	0.56	0	0.5
2018/19	0.51	0.59	0	0.5
2019/20	0.54	0.55	0	0.51
2020/21	0.59	0.51	0	0.51
2021/22	0.56	0.54	0.58	0.52
Mean	0.50	0.55	0.06	0.51
S.D	0.30	0.05	0.19	0.01
C.V	0.60	0.08	3.00	0.02

Source Appendix I

Table 4 displays the mean values for each variable, represented by "Mean". For instance, RSDC, First, RMDC, and SKBBL have average CRRs of 0.50, 0.55, 0.06, and 0.51, respectively.

The variability or dispersion of data points around the mean is quantified by "Std. Dev." (Standard Deviation), providing insights into the data's spread. For example, the standard deviations for SKBBL, RMDC, First, and RSDC are 0.01, 0.05, 0.19, and 0.30, respectively.

The ratio of standard deviation to the mean is termed the coefficient of variation, or CV. The CV remains constant for log-normally distributed measurements, while the SD varies with the expected values of the measurements. For instance, RSDC, First, RMDC, and SKBBL have coefficients of variation of 0.60, 0.08, 3.00, and 0.02, respectively.

Price earnings ratio (P/E Ratio)

This ratio indicates the market's current valuation per rupee of reported Total Assets (TA), making it highly valuable to potential investors. It's derived by dividing the market value per share (MVPS) by total assets.

Table 5

Price earnings ratio (PER)

Fiscal Year	RSDC	First	RMDC	SKBBL
2013/14	0	31.57	0	27.58
2014/15	0	41.27	25.66	23.09
2015/16	0	97.04	18.75	56.74
2016/17	198.38	50.32	50.49	28.56
2017/18	53.31	68.81	25.39	23.2
2018/19	33.97	19.37	16.76	24.17
2019/20	45.52	31.81	16.05	21.32
2020/21	69.66	35.41	22.04	22.31
2021/22	42.3	37.88	63.1	37.05
Mean	49.24	45.94	26.47	29.34
S.D	61.49	23.62	19.05	11.35
C.V	1.25	0.51	0.72	0.39

Source Appendix I

Table 5 presents the mean values for each variable, indicated by "Mean". For example, RSDC, First, RMDC, and SKBBL have mean PERs of 49.24, 45.94, 26.47, and 29.34, respectively.

The variability or spread of data around the mean is measured by "Std. Dev." (Standard Deviation), providing insights into the data's dispersion. For instance, RSDC, First, RMDC, and SKBBL had standard deviations of 61.49, 23.62, 19.05, and 11.35, respectively.

The ratio of standard deviation to mean is known as the coefficient of variation (CV). In log-normally distributed measurements, CV remains constant, while SD varies with the expected value of the measurements. For instance, RSDC, First, RMDC, and SKBBL have coefficients of variation of 1.25, 0.51, 0.72, and 0.39, respectively.

Return on Assets

When assessing the effectiveness and operational performance of banks, this ratio which shows the returns produced by the assets the bank owns—is arguably the most significant one.

Table 6

Return on Assets (ROA)

Fiscal Year	RSDC	First	RMDC	SKBBL
2013/14	0.27	1.65	0.035	1.73
2014/15	1.55	1.54	0.036	1.74
2015/16	1.17	1.77	0.028	1.86
2016/17	1.85	2.12	0.03	2.25
2017/18	2.13	2.13	0.034	2.04
2018/19	2.43	2.17	0.039	1.11
2019/20	2.29	2.21	0.03	2.28
2020/21	2.29	1.76	0.021	2.27
2021/22	1.86	2.4	4.3	2.34
Mean	1.76	1.97	0.51	1.96
S.D	0.69	0.30	1.42	0.40
C.V	0.39	0.15	2.81	0.20

Source Appendix I

Table 6 displays the average values for each variable labeled as "Mean". For instance, RSDC, First, RMDC, and SKBBL have average Return on Assets (ROAs) of 1.76, 1.97, 0.51, and 1.96, respectively.

The variability or dispersion of data points around the mean is quantified by "Std. Dev." (Standard Deviation), providing insights into the data's spread. For example, the standard deviations for RMDC, First, SKBBL, and RSDC are 0.69, 0.30, 1.42, and 0.40, respectively.

The ratio of standard deviation to the mean is termed the coefficient of variation (CV). For log-normally distributed measurements, CV remains constant, while SD varies with the expected value of the measurements. For instance, RSDC, First, RMDC, and SKBBL have coefficients of variation of 0.39, 0.15, 2.81, and 0.20, respectively.

Return on Equity

Return on equity (ROE) is a financial measure that evaluates a business's performance relative to the equity invested by its shareholders. It is considered a crucial metric because it indicates the efficiency of the shareholder's capital in generating profits for the company.

Table 7

Return on Equity (ROE)

Fiscal Year	RSDC	First	RMDC	SKBBL
2013/14	0.004	22.034	10.893	13.459
2014/15	0.017	14.173	11.869	15.603
2015/16	0.022	17.647	25.000	17.141
2016/17	0.022	15.534	29.023	20.585
2017/18	0.031	12.916	12.332	23.533
2018/19	0.034	14.521	14.224	20.231
2019/20	0.030	13.793	11.194	18.899
2020/21	0.103	15.710	8.346	17.126
2021/22	0.107	19.130	16.580	16.980
Mean	0.04	16.16	15.50	18.17
S.D	0.04	2.93	6.98	2.99
C.V	0.91	0.18	0.45	0.16

Source Appendix I

Table 7 displays the mean values of each variable labeled as "Mean". For instance, the average return on equity (ROE) for RSDC, First, RMDC, and SKBBL are 0.04, 16.16, 15.50, and 18.17, respectively.

The variability or spread of data points around the mean is indicated by "Std. Dev." (Standard Deviation), providing insights into the data's dispersion. For instance, RSDC, First, RMDC, and SKBBL have standard deviations of 0.04, 2.93, 6.98, and 2.99, respectively.

The ratio of standard deviation to mean is termed the coefficient of variation (CV). For log-normally distributed measurements, CV remains constant, while standard deviation fluctuates based on expected value of measurements. For instance, RSDC, First, RMDC, and SKBBL have coefficients of variation of 0.91, 0.18, 0.45, and 0.16, respectively.

4.2 Descriptive Statistics of Variables

Table 8 presents the statistical summaries for the variables used in the study. The results show that microfinance institutions in Nepal demonstrate varying levels of performance across profitability metrics like ROE and ROA, alongside other independent variables such as dividend payout ratio, total assets, CD ratio, cash reserve ratio, and price earnings ratio.

Table 8

Descriptive Statistics of Variable of Microfinance companies

Variables	N	Minimum	Maximum	Mean	Std. Deviation	C.V
Dependent Variables						
ROA	36	0.02	4.3	1.549	1.00358	0.65
ROE	36	0	29.02	12.4671	8.31278	0.67
Independent Variables						
DPR	36	0	1.58	0.6208	0.37792	0.61
Total Assets	36	5.76	10.33	8.6147	1.0873	0.13
CRR	36	0	0.79	0.4044	0.26323	0.65
PER	36	0	198.38	38.8251	34.6203	0.89

Source Appendix II & Annual Report of Sample Companies

Table 8 presents descriptions of both dependent and independent variables. It lists six variables: ROA, ROE, DPR, Total Assets, CRR, and PER. Each variable includes three key statistical measures: "Mean" representing the average value, "Maximum" indicating the highest recorded value among the microfinance companies studied, and "Minimum" showing the lowest observed value. Additionally, "Std. Dev." measures the dispersion of data around the mean, with values provided for each variable. The coefficient of variation (CV) for each variable reflects the ratio of standard deviation to mean, highlighting the consistency and uniformity of their distributions. For instance, ROA and ROE exhibit CV values of 0.65 and 0.67, respectively, suggesting a similar level of consistency in their measurements.

4.3 Correlation Analysis

A correlation matrix is a tabular representation of correlation coefficients between variables. A correlation coefficient of 0 indicates no linear relationship between the variables. The coefficient ranges from +1, indicating a perfect positive correlation, to -1, indicating a perfect negative correlation. Table 9 presents the correlation matrix.

Table 9

Correlation Coefficients of Study Variables

Variables	DPR	TA	CRR	PER	ROA	ROE
Dividend Payout Ratio (DPR)	1					
Total Assets (TA)	-0.234	1				
	0.169					
Cash Reserve Ratio (CRR)	0.082	-0.004	1			
	0.634	0.983				
Price Earnings Ratio (PER)	.384*	-0.145	.350*	1		
	0.023	0.407	0.039			
Return on Assets (ROA)	-0.112	0.131	.802**	0.225	1	
	0.515	0.447	0	0.193		
Return on Equity (ROE)	-0.305	.641**	-0.11	-0.167	-0.045	1
	0.071	0	0.522	0.339	0.795	

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

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

Source SPSS Output

Table 9 presents the correlation test results using a correlation coefficient matrix for both dependent and independent variables. The dividend payout ratio (DPR) shows a weak negative correlation with ROA (-0.112) and ROE (-0.305). At the 0.05 significance level, DPR demonstrates a significant positive correlation with PER (0.384) but a non-significant negative correlation with total assets (TA) (-0.234).

Similarly, ROE has a positive correlation with TA (0.802), and both TA and ROE (0.641) and TA and ROA (0.802) show positive associations. Moreover, at the 1% significance level, TA correlates significantly with ROE (0.641) and ROA (0.802). At the 0.01 significance level, the relationship between total assets and ROE is notably positive with a coefficient of 0.641. Additionally, CRR exhibits significant positive correlation at the 0.05 significance level with a coefficient of 0.350. Conversely, PER shows a small positive correlation with ROA (0.225) and a strong negative correlation with ROE (-0.167) at the respective significance levels.

4.4 Regression Analysis

The study investigates the relationship between various financial indicators (ROA, ROE, Total Assets, Dividend Payout Ratio, and Price Earnings Ratio) as independent variables. It analyzes the regression results of ROA using data from four microfinance companies listed on the NEPSE. The sample comprises 63 microfinance firms regulated by the NRB, observed from fiscal year 2070/71 to 2079/80.

In this analysis, ROA serves as the dependent variable, while DPR (Dividend Payout Ratio), PER (Price Earnings Ratio), CRR (Cash Reserve Ratio), and total assets act as the independent variables. The statistical significance of the results is indicated by both the t-values and the signs of risk, enclosed in parentheses. Additionally, the F-statistic and Adjusted R square (denoted as F and Adj. R2, respectively) provide further insights into the model's explanatory power.

Regression Analysis of TA, DPR, PER and CRR on ROA

Table 10

Model Summary of ROA

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.817a	.667	.624	.61537

a. Predictors: (Constant), total assets, TA, DPR, PER and CRR

b. Dependent Variable: ROA

Table 10 presents the summary of ROA models, where R2 indicates the extent to which the variability in profitability, specifically ROA, can be attributed to independent factors. It reveals that 66.70% of the variation in ROA is explained by the independent variables TA, DPR, PER, and CRR. Adjusted R2, which accounts for sample size, is considered a more reliable metric. The coefficients of the independent variables indicate the magnitude of their impact on the dependent variable. The standard error reflects the average deviation of the coefficients from the regression line, thereby quantifying dispersion.

Table 11

ANOVA Table

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23.512	4	5.878	15.522	.000b
	Residual	11.739	31	.379		
	Total	35.251	35			

a. Dependent Variable: ROA
b. Predictors: (Constant), TA, DPR, PER and CRR

Table 11 presents a comprehensive overview and importance of both the independent and dependent variables as presented in the ANOVA table. The results indicate a statistically significant relationship (P-value = 0.000 < 0.05) between the independent variables (TA, DPR, PER, and CRR) and the dependent variable (ROA) at a significance level of 0.05. This suggests that the relationship between these variables is statistically significant, confirming that the calculated p-value must be below 5% to establish significance.

Table 12

Regression Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Remarks
1	(Constant)	-.615	.915		-.672	.007	Significant
	DPR	.014	.313	.005	.046	.046	Significant
	TA	.113	.098	.122	1.149	.025	Significant
	CRR	3.169	.421	.831	7.522	.000	Significant
	PER	-.003	.003	-.086	-.726	.073	Insignificant

a. Dependent Variable: ROA

Regression analysis output: coefficient

The linear equation of this model is,

$Y = a + b1x1+b2x2+b3x3+b4x4$

ROA = -0.615 + 0.014 DPR + 0.113 TA + 3.169 CRR - 0.003 PER

Table 12 illustrates the regression coefficients, where the p-value for the constant is greater than 0.05, suggesting insignificance of its value. Conversely, CRR exhibits a significant impact on ROA, with a p-value of 0.000, indicating a substantial effect. The corresponding beta coefficient of 3.169 implies that each unit increase in CRR results in an average increase of 3.169 units in ROA.

However, DPR, TA, and PER have p-values above 0.05, suggesting that their influences on ROA are not statistically significant.

Regression Analysis of TA, DPR, PER and CRR on ROE

This table presents regression findings of Return on Equity (ROE) using five explanatory variables across a sample of four microfinance companies listed on the NEPSE, drawn from a total licensed population of 63 microfinance firms regulated by the NRB. Data spans observations from the fiscal year 2070/71 to 2078/79. ROE serves as the dependent variable, while independent variables include Total Assets (TA), Dividend Payout Ratio (DPR), Price Earnings Ratio (PER), and Cash Reserve Ratio (CRR). Parenthetical figures denote t-values, with significance indicated by asterisks. F and Adj. R2 denote the F-statistic and Adjusted R-squared, respectively.

Table 13

Model Summary of ROE

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.667a	.445	.373	6.58230

a. Predictors: (Constant), TA, DPR, PER and CRR

b. Dependent Variable: ROE

Table 13 presents the ROE model summary, where R2 represents the proportion of variability in profitability explained by ROE. Adjusted R2, accounting for sample size, is considered a more reliable statistic. The coefficient sizes for independent variables illustrate their impact on dependent variables, with the sign indicating the direction of influence (positive or negative). The standard error denotes the average deviation of coefficients from the regression line, measuring dispersion.

Table 14

ANOVA Table

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1075.454	4	268.863	6.205	.001b
	Residual	1343.129	31	43.327		
	Total	2418.582	35			

a. Dependent Variable: ROE

b. Predictors: (Constant), TA, DPR, PER and CRR

Table 14 presents a comprehensive overview of the independent and dependent variables' importance as detailed in the ANOVA table. It indicates that, with significance levels of 0.05 or 0.001, the relationship between the independent variables TA, DPR, PER, and CRR and the dependent variable, ROE, is statistically meaningful. To ascertain significance, the computed p-value must be below the 5% threshold.

Table 15

Regression Coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Remarks
1	(Constant)	-24.377	9.786		-2.491	.018	Significant
	DPR	-3.630	3.350	-.159	-1.083	.287	Insignificant
	TA	4.670	1.049	.611	4.453	.000	Significant
	CRR	-2.929	4.507	-.093	-.650	.521	Insignificant
	PER	.003	.037	.014	.090	.929	Insignificant

a. Dependent Variable: ROE

Regression analysis output: coefficient

The linear equation of this model is,

$Y = a + b1x1+b2x2+b3x3+b4x4$

ROE = -24.377 – 3.630 DPR + 4.670 TA – 2.929 CRR + 0.003 PER

Table 15 shows that the p-value of the constant is below 0.05, suggesting a significant constant value. Total assets (TA) significantly influence ROE, with a p-value of 0.000, less than 0.05. The beta coefficient of 4.670 indicates that ROE increases by an average of 4.670 units for each unit increase in total assets. Additionally, DPR, CRR, and PER have p-values above 0.05, indicating minimal impact on ROE.

4.5 Discussions

The study aimed to explore the connections between various financial metrics (TA, DPR, PER, CRR, ROA, and ROE), revealing both positive and negative correlations. Specifically, there's a beneficial relationship noted between TA, DPR, and CRR, suggesting these companies handle their financial health effectively. Effective profit management hinges on favorable interrelations among profitability indicators. However, deeper analysis indicates that overall, factors like total assets, CRR, PER, and DPR have minimal impact on ROA and ROE.

Profitability is significantly enhanced by total assets, PE ratio, and CRR. However, total assets have a negligible adverse effect on ROE, contradicting Muliani et al.'s (2023) findings. ROA is positively influenced by CRR and total assets, whereas total assets alone are not crucial, aligning with Tiwari's (2022) research. DPR and PER show negative and insignificant impacts. These results are consistent with Dhungana and Ranabhat's (2022) findings but differ from Kori, Muathe, and Maina (2020), indicating that dividend payout ratio, price earnings ratio, and CRR have a small positive impact on profitability.

Serhii's (2023) study reveals variations in profitability factors, aligning closely with this analysis. The average profitability during the research period reflects how effectively businesses are using their earnings to generate profits. According to correlation tests, the dividend payout ratio (DPR) shows a significant positive relationship with PER at the 0.05 and 0.01 levels of significance, consistent with Agaba and Eton's (2022) findings. However, there is a negative significant relationship with total assets (TA), and relationships with return on assets (ROA) and return on equity (ROE) are found to be insignificant. These results are consistent with Akanbi and Adewoye (2018) and Bochaberi and Job (2021), but they contradict the findings of Robin, Salim, and Bloch (2018) and Yeasin (2022). Furthermore, there is a strong positive connection between total assets and both return on equity (ROE) and cash dividend ratio (CDR). Additionally, there is a slight positive correlation between dividend payout ratio (DPR) and return on assets (ROA) as well as ROE, and a minor negative relationship between DPR and cash retention ratio (CRR) and payout efficiency ratio (PER). Likewise, CRR shows a non-significant negative correlation with ROE but a significant positive correlation with PER and ROA. Conversely, PER has a weak correlation with both ROA and ROE but a strong positive association with DPR. Consistent with Mwangi's (2018) findings, total assets (TA) also demonstrate statistical significance at the 0.01 level when analyzed alongside ROE.

The negative coefficient of DPR leads to a corresponding decrease in ROA by the same amount that DPR increases by one rupee. This suggests that as DPR rises, the return on assets (ROA) for Nepalese microfinance companies decreases. Unlike the positive coefficients of TA, CRR, and PER, which indicate that higher values of these variables would enhance profitability for microfinance firms, the beta coefficient of DPR is negative. This indicates that higher DPR values are associated with reduced ROA. The significance of DPR as an independent variable is inversely related, even at the 0.10 significance level.

In contrast to the findings of Yeasin (2022) and Bochaberi and Job (2021), which suggest TA, CRR, and PER are insignificantly positive, supporting the conclusions of Akanbi and Adewoye (2018).

The negative coefficients for PER and DPR indicate that a one rupee increase in DPR and PER leads to a decrease in ROE. This suggests that lower DPR and PER could result in reduced ROE for microfinance firms in Nepal. Both PER and DPR have negative beta coefficients, implying that higher levels of these variables could enhance profitability for microfinance companies. Total assets stands out as a statistically significant independent variable, with a p-value of 0.000 at a significance level of 0.05. In contrast to the findings of Dhungana and Ranabhat (2022), Kunwar (2022), Agaba and Eton (2022), and Robin, Salim, and Bloch (2018), DPR, CRR, and PER are not statistically significant.

CHAPTER – V
SUMMARY AND CONCLUSION

The aim of this study is to examine the management of non-performing loans by RMDC, SKBL, FIRST, and RSDC, and their impact on the performance of microfinance institutions. This chapter summarizes these analyses, providing an overview, conclusions, and implications. The first section summarizes the study's findings and conclusions, while the second section outlines the implications of the study's design.

5.1 Summary

The main objective of this study is to analyze various financial metrics of microfinance companies, including their dividend payout ratio, price-earnings ratio, total assets, cash reserve ratio, return on equity, and return on assets. The study aims to assess how these ratios impact the return on equity and return on assets of microfinance companies. It employs both descriptive and causal comparison methods to achieve this goal. Descriptive research is used to understand current dividend practices, while explanatory and causal research designs are employed to quantify the effects of dividend payout ratio, price-earnings ratio, total assets, and cash reserve ratio on the financial performance of microfinance firms in Nepal. Secondary data from annual reports spanning nine years (2070/71 to 2078/79) are utilized for this investigation.

The study focuses on how financial indicators affect the profitability of microfinance firms in Nepal. The profitability of these firms is described as excellent. Their main responsibilities involve gathering investments and distributing dividends from shares. Data for the study are sourced from annual reports of selected organizations spanning nine years, from 2070/71 to 2078/79. Various statistical models such as average, standard deviation, coefficient of variation, Pearson correlation, and regression analysis are employed to explore the dynamic relationships among these financial indicators. All 63 microfinance firms presently listed and operational in Nepal constitute the demographic data utilized in this research. The sample comprises First Microfinance Laghubitta Bittiya Sanstha Limited, Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, Rural Microfinance Development Centre Limited, and RSDC Laghubitta Bittiya Sanstha Limited. These four microfinance institutions are noted for their superior performance in managing deposits and

issuing loans within the current context. The study evaluates how the microfinance sector's profitability is influenced over time by ratios such as DPR, PER, TA, and CRR.

5.2 Conclusion

ROE is boosted significantly by total assets, aligning closely with findings from Zelalem (2022). Conversely, DPR's ROE shows positive results but lacks statistical significance, consistent with Abebe's (2022) research. Previous studies in the industry indicate limited improvement in this domain. Some financial institutions face difficulties meeting their obligations to clients and shareholders due to inadequate loan portfolio management and other issues, potentially leading to insolvency or liquidity problems.

Similar to Shah's (2019) study, the earnings ratio and reserve ratio enhance the liquidity of financial firms, promote credit expansion, and stimulate overall economic growth, thereby directly influencing the profitability of financial institutions. Total assets exhibit statistical significance as an independent variable in conjunction with ROE, indicated by its p-value of 0.000. However, DPR, CRR, and PER do not achieve statistical significance at the 0.05 level, as their p-values are higher.

The proportion of nonperforming loans remains elevated compared to the total loan count, with expectations of further increase. Similarly, the bank's provision for nonperforming assets during the study period was notably high, indicating potential future impacts on bank profitability from unrecoverable loans.

5.3 Implications

Following are some of the implications based on the above analysis:

- Financial firms, operating in the private sector, must prioritize the profit motive. To maintain trust among shareholders, depositors, and clients, they should exercise caution in pursuing profits authentically. RMDC and FIRST are currently less profitable compared to RSDC and SKBL. Consequently, it is strongly recommended that RMDC and FIRST leverage shareholder funds and riskier assets to enhance profit margins. Similarly, they should reduce expenses and seek cost-effective methods to raise additional capital. Strengthening and actively utilizing their marketing efforts is crucial for attracting and retaining customers effectively.

- Financial corporations suffer from reduced profitability due to lower price-earnings ratios impacting their bottom lines. This decrease in earnings per share (EPS) is expected to increase funds available for investment in the productive sector. Consequently, the dividend per share (DPS) of the RSDC is anticipated to rise in the future, prompting the need for careful management of this trend. It is advisable for every company to establish a formal strategic dividend policy, which should be approved by either the General Meeting or the Supervisory Board and disclosed publicly as required for publicly traded companies.
- The DPR, PER, and ROE of the selected banks exhibit significant diversity. Regulating fluctuations and ensuring consistency in these metrics is crucial. Positive market sentiment indicated by a key financial indicator will satisfy stakeholders in both banks; conversely, unfavorable indicators could have severe long-term consequences for them.
- RSDC boasts a lower dividend payout ratio compared to other sample companies. As a result, RSDC is surpassing FIRST, RMDC, and SKBL in performance and dividend sustainability, suggesting that SKBL, FIRST, and RMDC carry minimal credit risk.
- As a consequence, it is recommended that other similar companies exercise increased caution and impartiality when extending advances and loans. After issuing loans, continuous monitoring and follow-up are essential to verify appropriate use of the funds.

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APPENDICES

Appendix I

Essential Information from Respective Microfinance Annual Report

Name	DPR	TA	CRR	PER	ROA	ROE
RSDC	0	5.76	0	0	0.27	0.004
	0	6.3	0	0	1.55	0.02
	0.63	6.64	0.79	0	1.17	0.02
	0.92	6.83	0.76	198.38	1.85	0.02
	1.01	7.47	0.71	53.31	2.13	0.03
	1.58	7.87	0.51	33.97	2.43	0.03
	1.07	8.15	0.54	45.52	2.29	0.03
	0.85	8.29	0.59	69.66	2.29	0.1
	0.84	8.64	0.56	42.3	1.86	0.11
First	0.61	7.36	0.61	31.57	1.65	22.03
	1.01	7.76	0.49	41.27	1.54	14.17
	0.77	8.03	0.48	97.04	1.77	17.65
	0.78	8.24	0.59	50.32	2.12	15.53
	0.85	8.47	0.56	68.81	2.13	12.92
	0.91	8.72	0.59	19.37	2.17	14.52
	0.78	8.75	0.55	31.81	2.21	13.79
	0.57	9.19	0.51	35.41	1.76	15.71
	0.71	9.3	0.54	37.88	2.4	19.13
RMDC	0.96	8.56	0	25.66	0.035	10.89
	0.75	8.67	0	18.75	0.036	11.87
	0.73	8.81	0	50.49	0.028	25
	0.66	8.88	0	25.39	0.03	29.02
	0.56	8.97	0	16.76	0.034	12.33
	0.61	9.12	0	16.05	0.039	14.22
	0.63	9.19	0	22.04	0.03	11.19
	1.13	9.41	0	63.1	0.021	8.35
	0	9.41	0.58	24.32	4.3	16.58
SKBBL	0.32	8.8	0.51	27.58	1.73	13.46
	0.39	9.09	0.52	23.09	1.74	15.6
	0.6	9.39	0.51	56.74	1.86	17.14
	0.5	9.6	0.52	28.56	2.25	20.58
	0.53	9.86	0.5	23.2	2.04	23.53
	0	10	0.5	24.17	1.11	20.23
	0.03	10.1	0.51	21.32	2.28	18.9
	0.03	10.17	0.51	22.31	2.27	17.13
	0.03	10.33	0.52	37.05	2.34	16.98

Source: Annual Report of FMBL, SKBL, RMDC and RSDC

Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
DPR	36	.00	1.58	.6208	.37792
TA	36	5.76	10.33	8.6147	1.08730
CRR	36	.00	.79	.4044	.26323
PER	35	.00	198.38	38.8251	34.62028
ROA	36	.021	4.300	1.54897	1.003585
ROE	36	.004	29.020	12.46706	8.312783
Valid N (listwise)	35				

Appendix II

Correlation Coefficients of Dependent and Independent Variables

Variables	DPR	TA	CRR	PER	ROA	ROE
DPR	1					
TA	-0.234	1				
	0.169					
CRR	0.082	-0.004	1			
	0.634	0.983				
PER	.384*	-0.145	.350*	1		
	0.023	0.407	0.039			
ROA	-0.112	0.131	.802**	0.225	1	
	0.515	0.447	0	0.193		
ROE	-0.305	.641**	-0.11	-0.167	-0.045	1
	0.071	0	0.522	0.339	0.795	

Source: SPSS Output

Appendix III

Regression Analysis of TA, DPR, PER and CRR on ROA

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.817a	.667	.624	.61537

a. Predictors: (Constant), PER, TA, CRR, DPR

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23.512	4	5.878	15.522	.000b
	Residual	11.739	31	.379		
	Total	35.251	35			

a. Dependent Variable: ROA

b. Predictors: (Constant), PER, TA, CRR, DPR

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-.615	.915		-.672	.007
	DPR	.014	.313	.005	.046	.046
	TA	.113	.098	.122	1.149	.025
	CRR	3.169	.421	.831	7.522	.000
	PER	-.003	.003	-.086	-.726	.073

a. Dependent Variable: ROA

Source: SPSS Output

Regression Analysis of TA, DPR, PER and CRR on ROE

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.667a	.445	.373	6.58230

a. Predictors: (Constant), PER, TA, CRR, DPR

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1075.454	4	268.863	6.205	.001b
	Residual	1343.129	31	43.327		
	Total	2418.582	35			

a. Dependent Variable: ROE

b. Predictors: (Constant), PER, TA, CRR, DPR

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-24.377	9.786		-2.491	.018
	DPR	-3.630	3.350	-.159	-1.083	.287
	TA	4.670	1.049	.611	4.453	.000
	CRR	-2.929	4.507	-.093	-.650	.521
	PER	.003	.037	.014	.090	.929

a. Dependent Variable: ROE

Source: SPSS Output

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ABSTRACT The aim of this study is to examine the impact of financial indicators on the profitability of microfinance companies in Nepal. Effective management of liquidity by financial institutions involves adopting frameworks to manage liquidity risk, devising suitable funding strategies, setting exposure limits, and establishing protocols for allocating liquidity during emergencies. Liquidity considerations encompass both public perception and the daily operations of firms. Insufficient cash or inadequate liquidity can convey a negative impression to individuals and businesses about the severity of financial crises and other issues within financial institutions. The study includes various financial metrics such as price-earnings ratio (PER), cash reserve ratio (CRR), total assets (TA), return on assets (ROA), and dividend payout ratio (DPR) for microfinance firms. Secondary data spanning nine years (2070/71 to 2078/79) from annual reports of selected companies was analyzed using SPSS version 24. The research employed a descriptive, exploratory, and explanatory approach. Four microfinance companies were conveniently sampled from a population of sixty-three: First Microfinance Laghubitta Bittiya Sanstha Limited, Sana Kisan Bikas Laghubitta Bittiya Sanstha Limited, Rural Microfinance