COMPARATIVE FINANCIAL PERFORMANCE ANALYSIS OF NEPAL INVESTMENT BANK LIMITED AND EVEREST BANK LIMITED

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2nd Year Exam Symbol No: 390706

A Thesis Submitted to:
Office of the Dean
Faculty of Management
Tribhuwan University

In partial fulfillment of the requirement for the degree of
Master of Business Studies (MBS)

Kathmandu, Nepal
February, 2013

Background of the Study

Bank is one of the financial institutional which provides to public borrowing and lending. Now days the banking sector reached to the most remote areas of the country and has gain a good experienced in the growth of the economy. Financial institution plays a vital role in the process of growth of the country. Financial infrastructures of an economy consist of financial intermediation, financial institution and financial markets. Financial institutions facilitate mainly development of Nepalese trade, industry and commerce. Nepal has adopted mixed economy system, which is known to be combination of good aspects of socialistic and capitalistic economic system, in this economic system both government and private sector are active for the industries since 1990, Nepal has adopted more liberal and open economic system with high emphasis an private sector led growth in the early years of development the government had taken the leadership for industrial development by establishing industries under its ownership.

Capital formation is based upon the saving of the country. Banks promote saving, mainly by commercial banks. Like this, there is great contribution of commercial banks to form the capital as well as its mobilization. By collecting saving from the different people and organizations, it creates fund, which is reinvested to various productive projects, providing capital to invest. After the restoration of democracy in Nepal, government took liberalization economic policy. As a result various joint venture banks are also established. At present all they are performing competitively. This study, relating commercial banks is done on topic "Comparative Financial Performance Analysis of NIBL and EBL."

Banking sector plays an important role in the economic development of the country. Commercial banks are one of the vital aspects of this sector which deals in the process of channeling the available resources in the needed sector. It plays the role of agent between the deficit and surplus of financial resources.

Financial institutions like banks are a necessity to collect scattered saving and put them into productive channels. In the absence of such institution it is possible that the saving will not be safely and profitable utilized within the economy. It will be diverted aboard into unproductive sectors.

Objectives of the Study

The main objective studies are evaluating the financial performance of the selected banks finical performance helps to examine the financial strength and weakness of the banks. The main objectives are specified as below:

- To analyze the liquidity, profitability, leverage, activity ratios and appropriate statistical tools and position of the related banks.
- To make comparative analysis of other indicators with reference to Earning per share, Dividend per share and Dividend payout ratio.
- To compare the growth trend of banks as regard to investment, loan and advances, total deposit, net profit and earnings per share.
- To provide appropriate suggestions.

Limitations of the Study

This study is done for the partial fulfillment of the requirement for the Master of Business Studies (MBS) Faculty of Management. It is natural that all types of study have been conducted within certain limitation. A research is a vast study investigatory the subject matter for solving perceived research problems. So, this study has certain limitations and constraints and they are as follows.

- This study has only focused on the comparative financial performance analysis of selected banks.
- This study is based on secondary data.
- Study is based on data of five years period fiscal year 2006/07 to 2010/11.
- Some of the statistical as well as financial tools of comparison & analysis shall be used in the study.

There are 32 commercial banks, out of them; the study is done only of two banks due to the lack of time and resources.

Research Methodology

This is related to research methodology in this study Research methodology is a way to systematically solve the research problem. In other words research methodology describes the methods processes applied in the entire aspect of the study. It may be understood as a science of studying how research is done scientifically. It is necessary for the researcher to know not only the research methods but also the methodology (Kothari, 1989:10-13). It is another important aspect of thesis writing. In other words, research methodology provides various tools and techniques as regard to the problem and also provides the various instructions as regard to the methods and process associated with the overall study. In this way research methodology is the process of arriving to the solution of the problem through planned and systematic dealing with the collection analysis and interpretation of fact and figure. Research methodology is very helpful in identifying the research problem. In fact, research is an art of scientific investigation. For the purpose of achieving the objectives the detailed research methodology used in this study are highlighted in this chapter. The scientific and systematic process of research involves activities of identifying problems, collecting facts and information tabulating and recording the data, setting hypothesis analysis the facts and reaching certain conclusion with a view to finding answer to the problem.

Research Design

Research design is the plan, structure and strategy of investigations conceived so as to obtain answers to research questions and to control variances. It included an outline of what the investigator will do from writing the hypotheses and their operational implications to the final analysis of data. The structure of the research is more specific, it is the outline, the scheme, and the standard of the operation of the variables. When we draw diagrams that outline the variables and their relation and juxtaposition, we build structural schemes for

accomplishing operational research purposes. Strategy, as used here, is also more specific than plan. In other words, strategy implies how the research objectives will be reached and how the problem encountered in the research will be tackled.

The method and definite technique, which guides to study and give ways to perform research wok is known as research design. It is most necessary to complete the research and fulfill the objective of the research.

First of all information and data are collected. The important information and data are selected. Then data is arranged in useful manner. After that, data are analyzed by using appropriate financial and statistical tools. In analysis part, interpretation and comments are also made wherever necessary. Result and conclusion are given after analysis of data, recommendation and suggestion is also given, the thesis has been adopted from previous research works. Previous thesis styles and formats have been followed.

The main objective of research work is to evaluate the performance of capita of NIBL and EBL. To complete this study, following design and format has been adopted.

Population and Sample

The term 'Population' or 'Universe' for research means all the members of any well-defined class of people events or objects. Because of its large size, It is fairly difficult to collect detailed information from each members a sub-group is chosen which is believed to be representative of the population. This sub-group is called a sample and the method of choosing this sub-group is done by sampling. Only two joint venture commercial banks are chosen as sample i.e. Nepal Investment Bank Limited and Everest Bank Limited.

Major Findings of the Study

Financial Analysis

Liquidity Ratio

To access the solvency position or short term financial strength of two banks, various ratios such as current ratio, cash and bank balance to current assets ratio, loan and advance to current assets ratio, cash and bank balance to total deposit ratio, fixed deposit to total deposit ratio are calculated.

- The average current ratio of NIBL and EBL are 1.28 and 1.22 respectively. The coefficient of variation of NIBL and EBL are 9.01 and 11.69 respectively.

- The mean cash and bank balance to current assets ratio of NIBL and EBL are 14.51% and 20.96% respectively, it indicates NIBL Similarly, the coefficient of variation of NIBL and EBL are 5.69 and 3.78 respectively.

- The average loan and advance to current assets ratio of NIBL and EBL are 84.14% and 80.77% respectively. The coefficient of variation of NIBL and EBL are 37.58 and 22.07 respectively

- The mean of cash and bank balance to total deposit ratio of NIBL and EBL are 13.54% and 19.38 respectively. The coefficient of variation NIBL and EBL are 4.37 and 3.87 respectively

- The average fixed deposit to total deposit ratio of NIBL and EBL is 29.79% and 28.46% respectively. The coefficient of variation of NIBL and EBL are 5.22 and 5.13 respectively

Activity Ratio

- The mean loan and advance to total deposit ratio of NIBL and EBL are 77.85% and 74.69% respectively. The coefficient of variation of NIBL and EBL are 17.72 and 41.11 respectively.

- The average proportion of loan and advance to fixed deposit ratio of NIBL and EBL are 268.91% and 269.90% respectively. The coefficient of variation of NIBL and EBL are 5.07 and 5.61 respectively.

⟩ The average proportion of total investment to total deposit of NIBL and EBL are 18.89% and 19.75% respectively and the coefficient of variation of this ratio for the study period is 4.01 and 3.89 respectively of NIBL and EBL.

Profitability Ratio

⟩ Mean return on equity ratio of NIBL and EBL are 25.22% and 27.44% respectively and the coefficient of variation of NIBL and EBL are 11.58 and 8.77 respectively.

⟩ Average return on total assets ratio of NIBL and EBL are 1.91% and 1.76% respectively. The coefficient of variation of NIBL and EBL are 9.31 and 6.66 respectively.

⟩ Average return on total deposit of NIBL and EBL are 2.18% and 1.20% respectively. The coefficient of variation of NIBL and EBL are 8.67 and 7.38 respectively.

⟩ The average interest earned to total assets ratio for the study period on NIBL and EBL are 7.12 and 6.77 % respectively. The coefficient variation of this ratio of NIBL and EBL are 3.81 and 4.05 respectively.

Other Ratio

⟩ Average earning per share of NIBL and EBL are 51.85 rupees and 90.71 rupees respectively. The coefficient of variation of NIBL and EBL are 5.40 and 9.25 respectively.

⟩ The average dividend per share of NIBL and EBL are 28.17% and 26.00% respectively. The coefficient of variation of NIBL and EBL are 3.56 and 2.91 respectively.

Correlation Analysis

⟩ Correlation between net profit and total assets of NIBL and EBL are 0.9525 and 0.936 respectively. There is positive and high degree of correlation between these variables of NIBL and EBL. The coefficient of determination between net profit and total assets of NIBL and EBL are 90.73% and 99.08 respectively.

） Correlation between total deposit and loan and advance of NIBL and EBL are 0.997 and 0.9967 respectively. Therefore, there is highly positive correlation between these variables of NIBL and EBL. The coefficient of determination between total deposit and loan and advance of NIBL and EBL are 99.4% and 99.34% respectively.

Recommendations

From the analysis of the collected data and conclusion made in the previous section the following recommendations have been made.

） The average cash and bank balance to total deposit ratio of EBL is higher so the company has to invest its excess cash in different alternatives.

） The NRB balance to fixed deposit ratio of NIBL is higher than the EBL and EBL has lower fixed deposit as compared to NIBL so that NIBL should collect fixed deposit form public.

） The fixed deposit to total deposit ratio of NIBL is more than EBL therefore NIBL has more fixed deposit and has utilized opportunity of investment in sufficient profit generating area like as long- term loans. Another EBL can invest in short-term loans and current assts so as to strength its liquidity position.

） Net worth to total assets ratio of EBL is higher than NIBL so EBL should improve its performance to enter the company in to profit.

） The average proportion of loan and advance to fixed deposit ratio of EBL and NIBL is higher so they should be decrease the ratio.

） The average proportion of total investment to total deposit of NIBL and EBL are very low it indicates that the bank are not able to invest impossible opportunity of invest as it could.

） NIBL is higher ROE than EBL it indicates that both satisfactory.

） The average is very low so they have to improve their ROE.

） The average return on total deposit is low so they have to increase in return on total deposit.

- The average interest earned to total assets ratio is satisfactory of both banks

- The averages EPS have satisfactory of both bank but NIBL have to increase its EPS.

- The average DPS of both banks are better at the time.

- Correlation between net profit and total assets of both banks are highly positive. So it is significant.

- Correlation between total deposit and loan and advance of both banks are highly positive correlated. It indicates that it is significant.