CHAPTER-I

INTRODUCTION

1.1 General Background of the Study

Nepal is a mountainous, land locked and developing country. Banking system of Nepal has undergone significant change since liberalization of the financial sector in the mid eighties. It has improved in quantitative as well as qualitative terms. Though banking system in Nepal is not so multifaceted when compared to that of developed countries, it has definitely grown to become more complex in recent years. Financial system of Nepal is still in its primary stage of development. Small and fast growing financial sector comprises of commercial banks and other financial institutions like development banks, finance companies, cooperatives etc. So far, development of financial services in the country is uneven. In some regions of the country, fast and advanced banking services are available while other regions are fully deprived of banking services. More than 80% Nepalese people are rely on agriculture sector. In Nepal, there has been a decrease in productivity of agriculture and on the other hand the population of the country is on rise. The emergence and expansion of productive industries are necessary for the all rounds 10% and limited portion of labour force is involved in industry, consequently more than 80% of the total population depends on agriculture for their livelihood. Agriculture is still not sufficient to feed the growing population in Nepal. Therefore, the manpower from agricultural sector must be transferred to other sectors for economic development. Industrial sector have contributed to the national economy less that 56.1% of total GDP. (Economic Survey 2068/69).

Capital accumulation and formulation play vital a role in accelerating the economic growth of a nation, which in turn is basically determined, among others, by saving and investment propensities. But the capacity to save in the developing countries is quite low with a relatively higher marginal propensity of consumption. Banking plays a significant role for the development of national economy. It provides an effective payment credit system, which facilitates the channeling of funds from the surplus spending units to the deficit spending units in the economy. The basic task of the financial institution is to mobilize the saving to high yielding investment projects to offer attractive and secured returns to the different sectors of the economy according to the plan priorities of the of the country.

This process of financial institutions give rise to money and other financial assets, which therefore have a central place in the development process of the economy. Banking intuitions are inevitable for the resources mobilization and all round development of the country. It is resource for economic development; it maintains economic confidence of various segments and extends credit to people. Mobilization of the savings of the general public in the form of deposits and its channelization to various productive sectors of economy is the primary function of any financial institution. In order to collect the scattered saving and put those into productive channels, financial institutions like; Banks, Finance are necessity. In the absence of such institutions, the saving will not be utilized properly within the economy and will either divert abroad or used for unproductive consumptions or susceptive activities.

The national savings is attracted by the financial institutions into deposits which are then mobilized into investments into the productive sectors of the economy. Investment in the productive sectors like agriculture, commerce, service, industry as well as the deprived sectors of the economy helps in the economic growth of the country. The higher the economic growth, higher will be the national savings of the country. Financial Institution occupies quite an important place in the framework of every economy because it provides capital for the development of trade, industry and business, investing the collected saving as deposits.

Besides these, financial institutions render a numerous of services to their customers, shareholders and society in view of facilitating their economic and social life. All the economic activities of each and every country are greatly influenced by the Financial Institution business of that country. Financial Institution are playing active role and have changed the economic structure of the world. Being a developing country, Nepal is directing its effort to uplift her economy rapidly. But still it has been an agricultural dominated economy, considering economic and social development as the primary objectives.

Nepal has adopted the “Mixed Economy Model” with the implicit assumption that the state and private sectors can complement each other in the development process of the country issuing shares and accepting deposits from them. Then the Financial Institution can mobilize and invest such accumulated resources into field of agriculture, trade, commerce, industry, tourism, and hydroelectricity project etc. A sound banking system is important because of the key role it plays in the economy intermediation, facilitating payment flows, credit allocation and maintaining financial discipline among the borrowers. Banks can encourage thrift and allocate savings and by enabling savings to be used outside the sector in which key originate. In any economy whether highly developed financial markets or less well developed financial markets, banks remains at the center of economic and financial activity and a stand apart from other institutions as primary providers of payment services and a fulcrum for the monetary policy implementation.

1.1.1 General Background of Finance Company

Today's world is full of competitive environment where each and every thing is of dynamic in nature. Integrated and speedy development of a country is possible only when competitive banking service reaches nooks and corners of the country. The extent of development of any country is demonstrated by development of the financial sector of the country. The financial sector of any country comprises of Banks, co-operative societies, Insurance companies, Finance companies, Stock markets, Foreign Exchange markets. Mutual funds and provident fund etc. Among them, financial companies occupy a prominent place in the framework of every company because it provides capital for the development of industry, trade and business investing the saving collected as deposits. Besides that, these companies render a numerous services to their customers with a view of facilitating them with their economics and social life. In general, finance companies are defined as firms that provide money as loan to people who promise to repay it with interest over a specified period of time.

Financial market is one of the most important sectors of the economy, contributing every part of the economy by mobilizing funds from saver to user. Over all development is possible. If the sound healthy financial market is available in the country. So easy availability of money at the low cost helps the rapid increment in economic activities and increase in economic growth as well financial institute undertake this stupendous task by mobilizing the scattered ideal public money to productive and effective sector in a systematic manner.

Banking in Nepal in true sense stated with the beginning of Nepal Bank Ltd. on 30th Kartik 1994 B.S. The rapid change in the financial system originates only after the government of Nepal initiated open the liberal economic policies to facilitate finance sectors and their activities. The economic liberalization policy of the government has encouraged the establishment and growth of finance companies in the country within short span of time. After 7 yrs from the enactment of this act, the government promoted the first finance company as Nepal Housing and development finance company limited soon after this, Nepal finance and saving company limited came into operation as the first finance company from private sector in 2049 B.S. There after wave of establishing finance companies increased, as a consequence the number of finance company increases to 78 till mid January 2013.

Finance company specialized financial institution that supplies credit for the purchase of consumer goods and services by purchasing the time-sales contracts of merchants by granting small loans directly to consumers. Finance company can operate after the approval of NRB. Basically, they have to work under finance company Act 2042 Company Act 2053 and other guideline issued by NRB to finance companies under the present regulatory regime, the NRB's non-banking operation unit supervises the finance company in respect of their activities as deposit taker and lender. The finance companies have to be registered with the security board and Nepal stock exchange within the 3 yrs of operation. They have to private the central bank with financial information like-weekly basis. So all these finance companies barely follow the directions and polices of central bank of Nepal.

Finance Company Act 2042

An act made to provide incorporation and management of finance companies, where as its is expedient to incorporate finance companies for non-banking business having brought-about dynamism in the economic development of the country in order to promote economic benefit of the people in general through institutionalized, investment consolidation the scattered capital in the country.

Now therefore, His Majesty king Birendra Bir Kikram Shah Dev on the advice and with the consent of the Rastriya Panchayat has made this Act. This Act has 7 chapters.

A company (limited company) with limited liability may be incorporated having raised capital through sale of shares for the objectives of shares for the objectives of carrying out the financial transaction.

Financial transactions are mentioned as follows [including revised rules]

- To make available installment or hire purchase credit or loan to any individual firm, company or institution or agricultural or non-machinery, tools, equipment, durable household goods or other similar movable property as required to them.
- To make available credits for medium term or long term duration of operating any industry, trading or business likely to promote economic development, or to act as an intermediary in respect there to or to provide guarantee thereof. To sell and purchase the bonds issues by HMG or securities issued by other companies or institution, to underwrite them and to form syndicates for such purpose to participate in such syndicates and to act as broker under the Security Exchange Act, 2040.

- Registration of a company: Where an application for incorporation of a company is field under section 4, the department shall, after making necessary inquiry, register in the company under the company act 2053.

- License to be taken from the Bank for performance of financial transaction the company shall having registered under section 6, be required to take a license from

The bank prior to performance of the financial transaction. An application shall be submitted documents mentioned as follows: Attested copies of the memorandum, Article of Association and the prospectus. The bank shall, if it deems appropriate, issue a license to such company for performance of financial transaction, after making necessary inquiries. Company too possesses legal personality: Composition of the Board of Directors consisting of at least 5 members. Director shall be elected from general meeting. The board of general meeting shall make direction of all activities of a company.

- Provisions concerning shares and capital rare the Register of shareholders. Share certificate title and liability of shareholders, transfer of shares, and issuance of share capital. Debenture may be issue, loan to be provided by the company only against the security.

- There shall be a separate fund of company; all amounts including shares capital, loan and financial assistance of a company shall be deposited in such fund. A company shall maintain a separate reserve fund. At least 25% amount from net profit of each year shall be provisioning in the reserve find. Balance Sheet and Profit and loss account be submitted within 6 months after the expiry of fiscal year.

- Inspection and control: The bank may from time to, inspect books of records and accounts of financial business and other activities of the central and branch offices of company. A company shall have to submit the statement of loan and investment to the bank within fifteen days of the end of every month.

- Company may suspend the license issued by tit to a company for undertaking finance business on any circumstances mentioned if it does not work under the terms and condition as stipulated in the license.

- Secrecy to be maintained: Not withstanding anything contained in the prevailing laws. The relationship between the company and its customers and the statement of any books of accounts and records and transaction of the company shall not be disclosed to any person except to the concerned person.

- Punishment, of any director, General manager or other dignitaries of a company do not abide by this Act and the rules under this act or if the company has any reasonable ground that they have worked contrary to the benefit of the company, the bank may take action.

Objective of Finance Company

According to the FC Act 2042, FCs is established with the following objectives.

- To provide installment in hire-purchase credit/loans for the purchase of vehicles, machinery, tools, equipment, durable household goods or other similar movable property.

- To provide credit for the purchase or construction of residential houses or "go downs" or the land for the constructions of the same.

- To provide lease financing for vehicles, machinery, tools, equipment or other enterprise, venture Capital, Bridge financing likely to promote economic development.

- To sell and purchase the bonds issued by Government of Nepal [G/N] or securities issued by other companies or institutes, underwrite them, from syndicates for such purpose, or participate in such syndicated and functions as a broker according to the Securities Exchange Act 2040.

- To collect deposits.

- To perform functions relating to merchant banking with prior approval of the bank such as corporate counseling, loan syndication, issue management and underwriting, design and development of software package for finance companies and other activities like merger and acquisitions, financial engineering capital structure, restructuring the debt/equity ratio etc.
- To perform other functions necessary and relevant to the implementation of the on objective of the FC Act 2042.

Rules and Regulation of Finance Company

A number of rules have been promulgated regarding the establishment and operation of finance companies in Nepal under FC Act 2042. Following are the rules and regulations defined by the FC rules 2049 and the directives issued by NRB to finance compnay-2058 [revised] regarding the establishment operations, management and share distribution, and monitoring and control measures.

- FCs can be established to mobilize financial activities by issuing share,
- The board should at least consist of five members, who are elected general meeting,
- The chairperson of the board has to call the general meeting with in one year of the company's establishment. After that the general meeting to be conducted once year, within six months of completion of the company's fiscal year.
- The company has to have at least Rs. 205 million as the initial capital to establish the FC. But NRB is given the right to fix this amount looking at the size of the company and the number of branches the finance company has.
- The company has to get prior approval from NRB to increase its authorized share capital. The finance companies are required to offer at least 40% of the authorized capital to general public. Whereas for the finance companies

established under the collaboration of foreign or international finance company, the percent of share to the public can be least 25%.

- If the fund is inadequate for various activities, then the company has the provision to finance through debentures with the prior approval of NRB.
- NRB has the authority to monitor and inspect on-site or off-site supervision the accounting process and other financial activities of the company at any time of the year.
- NRB is given the responsibilities to direct the finance companies from time to time on various financial activities such as on the approval for loans, the interest rate on loans, the interest rates on loan and deposits, discount rates, commission rates and other fees.
- Company cannot provide loan without collateral and total loan should be categorized into Good loan, Sub-standard Loan, Doubtful loan and bad loan for provisioning or regular basis. Company's Single borrower limit is not of core capital on non-found based.
- Company has to maintain a general fund equivalent to 2 times of the paid up capital. Till the required amount in the fund is reached, they have to transfer at least 25% of net profit to the reserve fund each year.

In present, 78 finance companies are operation under the "Finance Company Act 2042" till mid of January 2013.

1.1.2 Brief Introduction of Butwal Finance Limited (BFL)

Butwal finance limitd, located at Butwal Municipality-10, Milanchowk established under the financial company Act 2042, BFL got license by NRB in 2055/03/07 and started its operations in 2055/03/25. BEL has been performing its functions effectively under the guidance of NRB.

BFL performs activities like agricultural financing, trading, housing, capital market, hire purchase, consumer financing, village development materials, merchant banking activities etc. in the fast developing and industrializing region of the city.

BFL has branches in Amarpath Butwal, Rupandehi, Durbar Marg, Kathmandu, Pokhara, Kaski, Kawasoti Nawalparasi, Bardghat Nawalparasi, Nepalgunj Banke, Jeetpur(4.no) Kapilbastu.

The share of BFL is divided in two portions, which is 'A' catagory and 'B' category shares, shareholders holding 'A' shares are known as the promoters of the compnay and the 'B' shareholders are the public shareholders. In terms of representation in the board 3 members from promoter and 2 from public represents as board of director. It started its operation with the capital of Rs. 50000000.

1.1.3 Financial Services and Products

Butwal finance Limited is providing full independent banking services to the clients. It is established in Nepal with the objectives of providing following services to its customers**.**

- Accepting deposits from customer in various like: current, saving and fixed a/c.
- Granting loan and advances in terms of Overdraft, Demand loan, Housing Loan, Educational loan, Hire Purchase loan and Agriculture loan etc.
- Providing Bank Guarantee and Trade Finance
- Remittance services.
- ATM Services
- ABBS Services

1.2 Statement of the Problem

Non-Banking sector has recorded a rapid development in recent years in term of their numbers and operations and they are competing with the commercial banks by providing different kinds of service to their customer. But at the present context, finance companies are facing very bad condition; the biggest challenge is lack of investment opportunities, so that they are not operating effectively and their performance are being low, which might be due to present international and national economic depression and lack of peace and security in the nation. A major problem in the country has been that the economy isn't growing a lot and the biggest challenge facing the country is the political instability because of which no significant new investments are coming in. At his same time the financial market is getting much crowed with 32 banks 65 development banks, 78 finance companies and many other cooperatives. Good investment opportunities are very limited and the financial institutes' margins are cropping. Only few companies are operating smoothly, where as others are facing problem to sustain. Therefore, in order to improve the condition of finance companies, financial analysis of the company is most. The financial position analyzed will provide a true financial performance of the company, which helps to relate parties to seek solution and to make plans and strategies to improve the position of the company and to operate company smoothly. So, for this purpose, has been selected BFL for financial analysis to review its overall financial position. The main issues of this thesis are as follows:

- How far BFL has been able to convert the mobilized resources into investment, collected from public?
- To what extent BFL has been able to raise its profitability?
- How efficiency this bank is managing their liquidity, activity, profitability, and capital adequacy?

1.3 Objective of the Study

The main objectives of the study are to analyze the financial position and performance of the BFL. However following are the specific objectives of the study:-

- To analyze liquidity, leverage and profitability position of the company.
- To analyze the impact of deposit accepted on loans & advances and investments.
- To analyze the movement of net worth with the movement of total asset.
- To suggest reforms for the effective and efficient performance.

1.4 Significance of the Study

The importance of the Study are as follows:

- As financial analysis is the process of identifying the financial strength and weakness of a company by properly setting relationship between the actions of financial statement, so that this study would reflects clear picture of financial position of the BFL as per the data provided by the company.
- This study helps in providing various information regarding financial positions of company to those who are thinking and planning to investment in the BFL.
- The objective, function, rules and procedure used by the BFL can be known by studying the report.
- The study would communicate with the general public about how company is contributing for the economic development of the nation, which would be beneficial for BFL.
- With the help of this report, the management can have corrective measures for the improvement of the company's performance.

- ❖ Lastly, after the completion, this report will be kept in library of the college, which will play the role of reference to the students for making similar study in future.

1.5 Limitations of the Study

The limitations of the study are given below:

- ❖ The study is done on the basis of the data provided by BFL, so the output of the study is entirely dependent on the data provided by the company.
- ❖ The present study may not be complete study and may not represent real picture of BFL due to the non-availability of authentic and sufficient data since the study is done on the basis of data and information provided by the BFL, so that the study is fully depended on secondary data.
- ❖ The study is done for academic purpose, which is the partial fulfillment of the requirement for the MBS degree. Hence the report of the study bases on the format required for the purpose.
- ❖ The time period of five years has been taken for the study, so the conclusion drawn includes only for that period.
- ❖ This study is limited to Butwal Finance Limited the conclusion does not suggest anything about other finance companies in the country.

1.8 Organization of the Study

In order to achieve the stated objective, the whole study is divided into five different chapters. The chapters being introduction, Review of Literature, Research Methodology, Presentation and Analysis of data and Summary, Conclusion and Recommendation.

Chapter-I: Introduction

The first chapter beings with the background of the study and includes concept of finance companies, introduction of the BFL, objectives of the company, statement of problem, objectives of the study, limitation of the study and chapter plan.

Chapter-II: Review of Literature

The literature review aims at reviewing the related studies and findings as well as a review of various articles related to this study.

Chapter-III: Research Methodology

This chapter consists of fieldwork procedure, research design, population and sample, methods of data collection, data processing procedures and finally the basic tools and techniques used for the financial analysis.

Chapter-IV: Presentation and Analysis of Data

The presentation, analysis and interpretation of data relates with the segment where the data required for the study are presented, analyzed and interpreted by using the tools and technique of financial management such as ratio analysis and statistical tools i.e., correlation, probable error and the result there from.

Chapter-V: Summary, Conclusion and Recommendations

This is the final segment of the study, which includes summary of the study, findings, conclusions and various suggestions and recommendations for the betterment of the future performance.

At the beginning of the thesis viva voce sheet, recommendation, declaration, acknowledgement, table of content and abbreviation are also submitted. And finally, bibliography and appendix are presented at the end of the study.

CHAPTER-II

REVIEW OF LITERATURE

When researcher started to do research work, he/she should study different books, newspaper, magazine, journals, previous research work related to his/her topic, etc. to collect the necessary information. This process of studying different educational materials is known as review of literature. This chapter highlights the literature that is available in concerned subject as to my knowledge, research work, and relevant study on this topic, review of journals and articles and review of thesis work performed previously.

2.1 Conceptual Review

This sub- chapter presents the theoretical aspect of the study. It covers the historical development of financial system and evaluation of finance companies in Nepal, concepts of finance companies, finance products and services and finance performance approaches.

2.1.1 Historical Development of Financial System and Evaluation of Finance Companies in Nepal

Nepal's Formal finance system begun since 1987 A.D. with the establishment of Nepal Bank Ltd (NBL) which was the first commercial bank in the country. The Nepal Rastra Bank (NRB), the country central bank was established in 1956 A.D. under the NRB Act in 1955A.D. and the Rastriya Banijya Bank (RBB) was set up in 1966 A.D.as the second commercial bank under the RBB Act. With a view to expand activities in the banking sector and to expand activities in the banking sector and to provide better banking facilities to the people. In the development stage of financial institution in Nepal, the establishment of Agriculture Development Bank was another significant achievement. It was established in 1968 A.D under the ADBN Act 1967 A.D.to address the need of agriculture sector (Shrestha and Bhandari, 2004) The mid-July 2006 bullet in published by Nepal Rastra Bank Shows that there is a tremendous growth in the number of financial institution in Nepal in last two decades. At the beginning of the 1980s when financial sector was not liberalized, there were only two commercial banks and two development banks performing banking activities in Nepal. There were micro-credit, development banks, finance companies co-operative and non-government organization (NGOs) with limited banking transactions. After the liberalization of the financial sector, financial sector has made a hall mark progress both in terms of the number of financial institutions and beneficiaries of financial services. By mid-January 2013 NRB licensed Bank and non-bank financial institutions totaled 273. Out of them commercial banks 33, 87 development banks, 79 finance companies, 21 micro credit development banks 16 saving and credit co-operation and 38 NGOs.

Economic liberalization policy of the government has encouraged the establishment And growth of financial companies in Nepal within a short span of time. So, establishment of finance companies are the major outcomes of the economic liberalization. The ground work for establishing finance companies was initiated in 2042 B.S (Shrestha and Bhandari, 2004). Despite the provision of Act: private sectors were completed silent till 2049 B.S. On Shrawan, 2049 within the major shares of public sectors, named Nepal Housing Development Finance Company Ltd was established under the finance company act 2042. In the private sectors, Nepal Finance and Saving Company Ltd pioneered in this field and started its transaction since Chaitra 2049 B.S.

2.1.2 Concept of Finance Companies

Finance companies are the non-bank financial institution which borrows funds so as to Profit on the difference between the rates paid on borrowed funds and those charged on loans. However they act as the borrowing and lending financial institution with additional financial risk taking management. They came into existence under the Finance company Act 2042 and how operation under Bank and Finance Institution Act 2063.They are registered as limited companies at the office of the company Registrar finance company can accept time deposits of the maturity of the three months to maximum 6 years (Economic Report 2004). They can also collect fund by issuing debenture. These companies provided basically three types of loans such as hire purchase loan, housing loan, and term loan. Some of the finance companies deal with leasing finance also. Finance companies make installment loans. They offer attractive rates on time deposits than commercial banks. The primary function of finance companies is to make loan to both individuals and business. These companies are popular among low income and medium class people for financing hire purchases, vehicles machinery, tools, equipments, durable household goods, etc. They can also perform merchant banking activities with prior approval of NRB. They are willing to lend to riskier borrowers than commercial banks. They are free to fix interest rate on both deposit and loans. As per the NRB unified directives Banks and Non- banks FIs issue number E. Pra NiNo 8/060/61 (Ashar 2062 B.S) there is no any restriction for finance companies to invest government securities and Nepal Rastra Bank bonds. But, they have to perform their activities as prescribed by the NRB directives. Upadhyay (2004) writes that finance companies are those intermediaries, which link The savers and user s of capital. They collect small and scattered saving of the individuals and mobilize it in the productive sectors in the form of investment or loan. Neupane (1995) stresses that the finance companies in Nepal are established with the slow growth and traditional attitude of commercial banks in mobilizing financial resources, lack of financial innovations and growing interest of the public on uphaur and dhukuti programmes. In the same way Shrestha (1995) explains that the finance company is established with a view to provide easy access to fulfill individual credit needs, provided attractive return, incentives and favorable terms on deposits, encourage customers to strengthen their purchasing power. On the other hand, Sharma(2005) explains finance company being a financial intermediaries accept time deposits and advance loans to individuals, fir ms, companies or institutions for agriculture as well as non-agriculture purpose in order to increase economic activities. Finance companies are the market maker, investigator and use of money market and capital market (Parajuli 2002)

2.1.3 Financial Products and Services

Finance companies can accept time deposit of the maturity of minimum three months to maximum six years. Generally the following types of financial products are provided by finance company.

Saving Deposits:

Finance companies accept saving deposit from individuals and organizations. The Main purpose of saving deposit is to encourage the habit of saving among the common people and institutions. Depositors and deposit any amount in their accounts in anytime. But they can withdraw their money up to a limited amount in certain period. Prior information is required in case of withdrawal beyond the restricted limit. Finance companies are allowed to accept saving deposits not exceeding 2.5 times to their core capital. They provide interest on daily balance basis on saving deposit.

Fixed Deposit:

Fixed deposits are also known as time deposits or term deposits. They carry a fixed maturity, a penalty is charged for early withdrawal. Savers that do not need money for a stipulated period from 3 months to longer periods range up to 6 years are encouraged to keep it in fixed deposits. This type of deposits offers higher interest rate then saving account. Longer the maturity period, higher will be the rate of interest. However, the depositor can take 90% loan from the finance company against the security of fixed deposit receipt.

Recurring Deposits:

Various types of recurring deposit scheme are introduced by finance companies. This scheme was developed to encourage the economical among the people of fixed regular earning. In this scheme, the depositor is required to deposit the fixed amount with the interest at maturity. Finance companies advance loans to individuals, firms, companies and institutions. They provide different types of loans which are as follows:

Hire Purchase loan:

Under this type of loan, finance companies provide loan for the purchase of vehicles, machines, equipments and tools, durable households goods and other movable property. The loan will be provided in installment basis and the interest rate will be depending on the situation. The repayment of this type of loan will be installment with interest.

Term Loan:

Under this type of loan, finance companies provide loan for the expansion of trade And industry, further education, health, tourism, agriculture, water resource, irrigation.

Loan against Fixed Deposit:

Under this type of loan, only the person or organization that has certain amount on Fixed deposit in the company will get loan. Only the fixed depositors can get the loan up to 90% of fixed deposit amount. The company charges plus 2 % interest in this type of loan.

According to the NRB unified directives for banks and non- banks FIs issue number EPraNiNo 15/061/062 (Ashar 2062 B.S) finance are free to fix interest rate on both the deposits they take and the loan they provide. So, the rate of interest on both the deposits and loans will vary from one finance company to another. On the financial services provided by finance companies are issue of shares and underwriting, acts as financial guarantee, collect share applications purchase and sale of government boards.

2.1.4 Bank and Financial Institutions Acts 2063

Bank and Financial activities are governed by rules and regulations which are reviewed From time to time to reflect the changing economic environment. Previously finance company act, 2042 used to govern finance companies in Nepal. Due to absence of Parliament, Bank and Finance Institutions Ordinance

(BAFIO) came into existence in February 4,2004. The ordinance is renewed in every six months. BAFIO governs all types of financial institutions. It aims to ensure reliable and quality banking and financial intermediation services through healthy competition among banks and financial institutions safe guard and promote the interest of the depositors and people at large in the overall banking and financial system of the country. The ordinance repeals and replaces all existing acts relatively to Commercial Bank Nepal Industrial Development Bank, other Development Banks and Finance Companies and brings all such institutions under one single act which in known as Umbrella Act. As per the Umbrella Act banks and financial institutions are to be classified as A,B,C and d class on the basis of minimum paid up capital. Accordingly, commercial banks are in the "A" class and they are labeled as banks. Similarly, development banks are categorized into "B", "C" and "D" class respectively and they are called financial institutions(BAFIO2004). By first January 2011 there are 32 commercial banks of class "A", 87 development banks of class "B", 79 finance companies of class "C", 21 micro credit development banks of class "D". Beside this, there are undertaking limited banking functions after obtaining permission from the NRB For the proper and smooth operation of bank and financial institution, an Umbrella Act named as Bank and Financial Institution Act 2065 has recently been enacted, which is effective since 16 Shrawan2065. As per the act, well performing bank or financial institution may be upgraded if it has met capital requirement, has been in profit for the last 5 years in a row, total non-performing assets has remained within the NRB prescribed limit and all the prescribed conditions has been met. Similarly, NRB can downgrade any bank or financial institutions from "A" to "B" or "B" to "C" class if its status of performance is found to have turned totally other way around against as prescribed. Subject to this Act class "C" licensed institution may conduct the following types of financial transactions.

- ❖ Accept deposits with or without interest and refund such deposits subject to limit prescribed by NRB.
- ❖ Supply credits other than hypothetical credit as prescribed.

- Supply credits for businesses relating to hire-purchase, leasing and housing as well as for service enterprises.
- Engage in merchant banking business.
- Write off credit subject to the bye-rules framed by the Board.
- Supply credit on the basis of co-financing by joining hands with other licensed institutions according to the agreement concluded for the purpose so as to divide the collateral pare passels
- Supply credit against the guarantee provided by any bank or financial institutions
- Obtain credit by pledging its movable or immovable assets as collateral.
- Supply a fresh credit in a lamp sum or in installment against the security of the movable or immovable assets which have already been pledged with it or with any other licensed intuition into the extent covered by the total value of such security.
- Properly manage, sell or lease and its assets.
- Issue, accept, pay, discount or deal in bills of exchange, promissory notes, cheques, traveler's cheques, drafts or other financial instruments.
- Deal in Indian currency.
- Supply credits not exceeding the amount prescribed by the Rastra Bank to ensure the economic upliftment of the destitute class, low income families, victim of natural calamities and inhabitants of any area of the country with the provision of individual or collective guarantee.
- Exchange with the Rastra Bank or any other licensed institution particulars, information or notices regarding debtors or customers who have obtained credits or any other facility from it or any other licensed institution.
- Supply installment or hire-purchase credit to any individual, firm, company or institution for vehicles, machinery, tools, equipment, durable house hold Goods or similar other movable property.
- Supply credit to any individual, firm, company or institution for the purpose or construction of residential houses or go down or for the

purpose of lands for the construction of such residential houses or go down.

- Supply credit (leasing-finance) to any individual, firm, company or institution for taking up vehicles, machinery, tools, equipment, durable house hold goods or similar other movable property on lease or provide such movable property on lease.
- Prescribe conditions according to need in order to protect its interests while supplying credit to any individual or institution or carrying out any transaction with him/her lit.
- Operate projects such as those relating to purchase of land and construction of buildings for land development and residential purposes and sell or manage such lands and building or make arrangements for doing so.
- Perform such other functions as are prescribed by the Rastra Bank.

2.1.5 Approaches to Supervision

Effective supervision is prerequisite for growth and stability of financial system. The supervision facilitates the detection of frauds, mal practices abuses of power by management and undesirable trends and imprudent practices such as deterioration in the quality of loan portfolio and insider lending. Due to the fast growth of financial institutions, a separate department for supervision of financial institution was established in 1998, which was named as Financial Institution Supervision Department (FISD) so at present all the commercial banks are supervised by Bank Super vision Department and all other financial institutions are supervised by the FISD (NRB Annual Report 2001/02) . The FISD carry out on-site examination of financial institution by sending examination term to the institution. The most common supervisory tools used by the regulatory agencies in promoting safety and soundness are on-site supervision and off- site supervision. Both onsite and off-site supervision (inception reports) help to discourage the unnecessary delays.

On-Site Supervision:

The on-site supervision is a regular fall scope corporate level examination. Supervisors Relay principally on regular on site examinations to assess the condition of financial institutions. Onsite examination to assess the condition of financial institutions. On-site examination is the most efficient tools for constraining financial institution's risk. On-site inspection is performed on the basis of onsite inspection manuals. The manual covers the areas of capital adequacy, loan portfolio management treasury operation, management information system and interval control system and information technology. This manual provides guidelines to examiners for preparation of inspection report.

Off- Site Supervision:

An off-site supervisory approach undertakes an assessment of the soundness of Financial institutions based exclusively on an analysis of information obtained from statutory returns submitted by the institutions than actual on-site field examination. Then monitors the financial health of supervisee's institutions and analysed the reports and conditions. The off- site review and analysis deal with capital, liquidity, which can be quantified but is less well suited to qualitative issues such as management strength and operational risks. Beside off –site supervision is taken as early warning system to identify potential problems in financial institutions as well as for the compliance of applicable provisions. This support and strengthen quality of on-site examination.

2.1.6 Financial Performance Approaches:

Ever y business entity should be able to enhance their competitive strength through Achieving the financial goal. Financial institutions strength is usually thought of both in quantitative terms, namely a fir m's intrinsic financial condition as reflected in its capital, reserves, assets quality, earnings and liquidity and in qualitative terms, as evidenced in the under lying quality and effectiveness of management, internal controls and risk management policies and practices. The soundness of financial institution is found on a strong balance sheet and strong management. There are many approaches for measuring the performance of the financial institution focus on balance sheet. They are ROA, ROE, RAROC. (Koch and Macdonad 2004).

Return on Asset s (ROA) Approach:

The rate of return on assets is one of the most common performance measurement Approaches of financial institutions. It measures the ability of management to utilize the real and financial resources of the firm to generate returns. Further it examines the probability of a concern in terms of the relationship between profit earned and assets employed in the firm. It shows the effectiveness of the utilization of assets. It is primarily an indicator of managerial efficiency; it indicates how capably the management of the firm has been converting the institution's assets into net earnings (Rose, 2002). The return on assets provides information on how efficient a fir m is being run. The higher the firms return on assets better it is doing in operation and vice- versa.

Return on Equity (ROE) Approach:

The return on equity is also one of the popular performance measurement approaches of financial institutions. Equity holders of company are concerned about how much the company is earning on their equity investment. This information is provided by the return on equity. It measures the rate of return on shareholders, investment. It is the aggregate returns of stockholders before dividends. The higher the return the better, as company can add more to retained earnings and pay more in cash divided when profits are higher (koch and Machdonald, 2004). It measures the rate of return flowing to the firm's shareholders. It indicates how well the firm has utilized the resources of the owners.

Risk Adjusted Return on Capital (RAROC) Approach:

Risk adjusted return on capital is an effective tool for measuring risk-adjusted financial performance. In the 1990s Banker's Trust popularized a method of evaluating loans known as RARCC. Today, many banks and financial institutions employ RAROC to measure managerial performance. It is a risk-adjusted framework for profitability measurement and profitability management. It is defined as the ratio of risk-adjusted return to economic capital. Economic capital is attributed on the basis of three risk factors: market risk, credit risk and operational risk. The use of risk-based capital strengthens the risk management discipline within business lines as the methodologies employed quantify the level of risk within business line and attribute capital accordingly. Using this method, income is adjusted for risk. Typically, income is adjusted from expected losses. It provides a uniform view for profitability across business (Strategic Business Units/Divisions).

Return On Risk Adjusted Capital (RORAC) Approach:

Return on risk adjusted capital is also a popular method of measuring risk adjusted profit of any financial institution. Using this method, capital is adjusted for risk. Typically, capital is adjusted for a maximum potential loss based on the probability of future returns or volatility of earning. Today many large banks and financial institutions evaluate their line of business profitability and risk via RAROC or RORAC system (koch and Macdonald, 2004).

2.2 Review of Related Studies

Here, in this part, the reviews of related studies conducted for the preparation of the study are presented. Various review of journals, articles and master's degree theses have been presented below:-

Pandey (1996) in his book "Financial Management" has defined as "the financial statement provides a summarized view of the financial operation of the firm. Therefore, much can be learnt about a firm and careful examination of its financial statement as invaluable documents. The analysis of financial statement is thus important aid to financial analysis". To measure the bank's performance in many aspects, we should analyze its financial indicator with the help of financial statement.

In the word **Ahuja, (1994)** "Financial performance analysis is the study of relationship among the various financial factors in a business as disclosed by a single set of statement and a study of the trend of these facts as shown in a series of statement. By establishing a strategic relationship between the item of a balance sheet and income statement and others operative data, the financial analysis unveil the meaning and significance of such items.

According to **Metcalf and Titard (1993)** "Financial performance analysis is a process of evaluating the relationship between components parts of financial statement to be obtained a better understanding of a firm's position and performance."

In the words of **Van Horne (2001)** "Financial ratio can be derived from the balance sheet and the income statement. They must be analyzed on a comparative basis. A comparison of ratio of the same firm over time uncovers leading clues in evaluating changes and trend in the firm's financial condition and profitability. Ratio may also be judged in comparison with those of similar firms in the same line of business and when appropriate, with an industry average and we can look to further progress in regard".

Relevant related articles and journals relating to the different aspects of commercial bank will help to conduct this study smoothly. So some of the articles relating to banking sectors are given below;

Tamrakar, (2000) in the article, *"The government has called up on foreign investors to explore the unique business opportunities lying in the Himalayan Country"*. While addressing at business meeting at Hanover, Germany on September 9th 2000, he states that government is committed to encourage every type of investment, which can ultimately contribute for the industrial development of the country. Informing the gathering that various 37 investors of nations have invested 592 projects during last ten years industrial production, tourism and service sectors have been prime attraction of foreign investors.

Sharma, (2002) In the article, "*Banking the future on competition*" Mr. Sharma has found the same results that the all commercial banks are establishing and operating in urban areas which achievements are as follows:-

Commercial banks are establishing and providing their services in urban areas only. They do not have interest to establish in rural areas. Only the branch of Nepal Bank Ltd and Rastriya Banijya Bank Ltd are running in those areas.

- ❖ Commercial banks are charging higher interest rate on lending.
- ❖ They have maximum tax concession.
- ❖ They do not properly analyze the credit system.

According to him, "Due to the lack of investment avenues, banks are tempted to invest without proper credit appraisal and on personal guarantee, whose negative side effect would show colors only after four or five years." He has further included that private commercial banks have mushroomed only in urban areas where large volume of banking transaction and banking activities are possible.

Shrestha, (2004) has analyzed the financial performance of the commercial banks using descriptive and diagnostic approach. In her study she has concluded the points as below;

- ❖ Per capita deposits as well as per capita credit in commercial banks have increased tremendously. The contribution of deposits on GDP has also been seen increasing. The assets holding of commercial banks are growing with 42.12% rate that is supposed to be higher for a developing country. It can be concluded that the commercial banks in Nepal are performing their function of collecting the domestic property.

❖ The structural ratio of commercial banks shows that banks invest on the average 75% of their total deposits on government securities and the shares of other financial institutions.

❖ The analysis of reserve position of commercial banks showed quite high percentage of deposit as cash reserve.

❖ The debt equity ratio of commercial banks is more that 100% in most of the time period under study period. It leads to conclude that the commercial banks are highly leverage and highly risky. Joint venture banks had higher capital adequacy ratio but has been declining every year.

❖ Return ratios of all banks show that most of the time foreign banks have higher return as well as higher risk that the government owned banks.

❖ In case of the analysis of management achievement, foreign banks were found to have comparatively higher risk than local banks.

Thapa, (2005). In the article "*financial system of Nepal*" expressed his view that the commercial banks including foreign joint venture banks seen to be doing pretty well in mobilizing deposits. Like wise loans and advances of these banks are also increasing. But compared to the high credit needs particularly by the newly emerging industries the bank still seem to lack adequate funds. The banks are increasing their lending to non-traditional along with traditional sectors. He has also state that out of the commercial banks operating, NBL and RBB are operating with nominal profit, the later turning towards, negative from time to time, because of non recovery of accrued interest, the margin between interest income and interest expenses is declining. They have heavy burden of personal and administrative overhead. On the other hand, foreign joint venture banks are functioning in an extremely efficient way. They are making huge profit year after year. Because of their effective persuasion of loans recovery, overdue and defaulting loans have been limited resulting in high margins between interest income and interest expenses. At the end of this article, he concludes that by its very nature of public enterprise, domestic banks could not compete with the private banks, so only remedy to the problem is to handover the ownership as well as the management of these banks to the private hands.

According to the Banking Supervision report 2010 of NRB concludes that, the capital of the Nepalese banking industry has depicted a favorable trend during 2009/10. There are various reasons for this improvement. The banks, during the period, on an average have performed well and some of them have raised capital from the market, which improved the overall capital position of the industry. All banks, except for three private banks were able to post handsome profits. Some banks were able to distribute cash dividends and bonus shares to its shareholders. At the same time, some banks raised finance from the market through issue of right shares while Lumbini Bank raised equity capital through initial public offering during the year.

Banking Supervision Annual Report (2010) Nepal Rastra Bank concludes that, Banks are gradually starting to realize that, in today's competitive banking environment, exemplary customer service is one of the distinguishing characteristics that banks can exploit to establish a competitive edge. Since most banks offer comparable products and services, they should continually search for a competitive advantage that will attract new customers and help them retain existing ones. Banks are therefore, looking to develop innovative products and services to maintain superior customer service levels while at the same time remaining profitable. With the number of market players in the rise, the competition has been obviously growing in the banking industry. The most obvious effect of the rising competition can be seen in the interest rates offered by the banks. The banks, which some years ago, used to charge rates in the range of 15 to 20 percent, have dramatically reduced their interest rates to 8 to 12 percent, in order to remain competitive. Banks are now gradually shifting towards IT based solutions to enhance service delivery in order to address customer concerns. More and more banks are embracing E-banking and provision of ATMs to reduce long queues in banking hall. In addition, some of the banks have launched mobile phone banking services which facilitates several account enquiry tools, including account balances, thereby, minimizing the need for customers to visit banking halls. This drive towards IT based solutions will continue to gather momentum in the future as banks will find it be very difficult to survive in the ever growing competition without some form of competitive advantage. Another trend observed in banking industry in 2004/05 is the shift towards multiple banking relationships explored by large corporate houses. In order to remain competitive, Banks are seen to be increasingly encouraging business houses to transact with them. This has lead to a creation of large volume of unutilized limits with the bank and in order to get a large piece of the pie banks are increasingly accepting risks, which they otherwise would not have taken. The unyielding competition has also leaded the banks to accept collaterals that are more risky and unsecured. The volume of loans against the hypothecation of stocks, receivables and other assets are on the rise. In the absence of statute for registration of charges (hypothecation) in the current assets, the risk of over financing is eminent and banks are exposed to a higher degree of risk.

2.3 Review of Previous Theses

In addition to financial performance analysis, there are various studies on financial aspects, which deal with the context on Nepalese commercial joint ventures banks. Previous studies relating to Nepalese banking sector have been the most relevant sources and assistants for this study. The major findings of the approach used in these important studies are reviewed briefly.

Khatiwada (2007) had conducted a research on topic *"Financial Performance Analysis of Butwal Power House Company Limited"*. The main objective of his research were ;

- ❖ Comparative examining the overall performance like to analyze the liquidity, capital structure, leverage , soundness of profitability and ownership ratio of Butwal Power House Company Limited, through financial Analysis.
- ❖ To provide recommendation and suggestions to Butwal Power House Company Limited on the basis of findings. Necessary data and other

informations are collected from the secondary sources of data.

Various findings of the research were;

- ❖ Liquidity analysis indicates better liquidity position of Butwal Power House Company Limited or it is in strong credibility position.
- ❖ Leverage/Capital Structure analysis indicated that it is not enough to access a good profit, higher profitability in the company.
- ❖ Activity/Turnover ratio indicated increment in ration but not satisfactory.

The research had the following recommendations mentioned below:

The company is in strong credibility position. It should enjoy capital of less cost by borrowing fund. The company has kept very high liquidity ratio. The investment in current assets is excessive which should be controlled. Capital employed turnover ratio is not found good in the study period. To achieve higher profit, the utilization and good management of capital employed is necessary. The company does not use debt capital so leverage ratios are not calculated and decision regarding capital structure cannot be given.

Niraula, (2008) had conducted a research on topic *"An Evaluation of Financial Performance of Finance Companies in Nepal"*. The main objective of the research is;

- ❖ To examining the technique of financial analysis such as liquidity, activity, profitability ratios of Finance Companies in Nepal.

Various findings in this research are stated below:

- ❖ The liquidity position of Finance Companies is below the normal standard and also inconsistency in liquidity policy.
- ❖ The Finance Companies should utilize their risky assets and shareholders fund to gain profit margins. Similarly they should reduce their expenses and should try collect cheaper fund being more profitable.

- ❖ Asset Management Ratio indicates that Finance Companies are utilizing fund properly to get fair return.

The research had the following recommendations:

Financial Companies need to manage their investment portfolio efficiently. It should be managed under the dynamic implication of financial market. Finance Companies should carefully examine safety principle as well as sources for repayment, capital structure, requirement and credit worthwhile of a borrower for providing credits. In other words, credit manager should evaluate credit risk by considering well known form C's of credit i.e. character, capacity, capital and collateral.

There are various services provided by Finance Companies for the customer. Among them the use of funds towards higher purchase and housing finance must be shifted towards the business and industrial financing. These activities must be taken by finance companies to shift their investment and credit strategy to the productive sectors such as industrial and business sectors of the economy.

Koirala, (2008) conducted a thesis titled *"A Study on Financial Performance of Nepal Telecom (NT)"* concludes that NT is maintaining the good liquidity position. There is positive growth of operating profit maintained by NT. Capital Employed Ratio shows that the huge amount of long debt is not efficiently employed in generation of revenue. NT has to compete with many private sectors such as UTL, NCELL to speed up the communication in the country.

Recommendations of the research can be described as follows:

Due to political as well as the past turbulent political and security situation in the country, NT is deliberately going slowly. NT has to start restore its damage structure and show that it can act as a catalyst in the economic growth of the country. NT has huge amount of receivables, this shows that reliable policy is not adapted by receivables management boards for collection the receivables. So NT should make appropriate decision regarding credit terms, credit standard and credit policy. The company should be more autonomy and senior management should be more professional.

Singh (2009) had conducted a research on a topic, *"Financial Performance of Insurance Companies in Nepal. United Insurance Company Limited (UICL),"* NECO Insurance Company Limited, Nepal Insurance Company Limited and Himalayan General Insurance Company Limited (HGICL) are selected. It is found that the current ratio of selected insurance companies is highly fluctuated. Investment in total assets indicates that the creditors of all insurance companies are in safe side. There is fluctuating trend of net profit of all the companies.

The research had the following recommendations:

The current ratio of NICL, HGICL and NIL are maintained about the standard i.e.2:1. But UICL has above the standard. Therefore UICL is suggested to maintain the current ratio to 2:1 standard. All insurance companies have unsatisfactory level of cash to current liabilities ratio. Therefore, all companies are suggested to increase their cash or to decrease current liabilities to improve short-term solvency position. Insurance companies should emphasis on the promotional activities like advertising, price discount, personal selling and gifts and bonuses etc. This may enhance the sale of insurance policies.

K.C. (2010) had conducted a research on a topic "*Financial Performance of Joint Venture Banks (With special reference to Standard Chartered Bank Limited (SCBL) and Nabil Bank Limited*".

In the research, various findings had been pointed out;

- ❖ Return on total assets ratio of all the selected companies is decreasing year by year. Both the banks under study have been able to earn positive profit but not to the satisfactory level. Comparatively, loans and advances to total deposit ratio, loans and advances to saving deposit ratio, loans and advances to fixed ratio of Nabil Bank Limited is more efficiently utilizing the outside funds in extending credit for profit generation. Both banks are successful to comply the

NRB directives regarding the capital adequacy ratio of commercial banks for the study period.

Pandey (2011), in the thesis entitled "A comparative analysis of financial performance of Nabil Bank Ltd, Investment Bank Ltd and Standard Chartered Bank Ltd" has pointed out following objectives:

- To evaluate the liquidity position of selected banks.
- To evaluate the activity and operation with reference to mobilization of the collected funds.
- To analyze price earning, Market value to book value per share and dividend payout.
- To identify the relationship between total deposit and total investment.

Based on the analysis, interpretation & conclusions, some of the major recommendations are mentioned as below:

NIBL and SCBNL seem to have held more cash and bank balance rather than Nabil bank. The profitability ratio increase of NIBL has lowest with the result of lower profit before tax. So, this bank should reduce operating costs to achieve the operational efficiency. Based on activity ratio analysis it is found that all the selected joint venture banks except SCBNL have emphasized in issuing loan and advances. However, as we know that the increasing bottleneck competition and worsening economic condition has attributing this area to be very sensitive and risky. Therefore, it is suggested them to investments non-risky assets to increase the level of profit.

Sadula (2012), in the thesis entitled "*Financial performance of commercial banks and returns to investors: With special reference to BOK, EBL, SCBNL, NIBL, NABIL"* has pointed out following objectives;

- To evaluate Liquidity position of these Banks, to analyze comparative financial performance of these banks,

- ❖ To study comparative position of selected banks, to offer a package of suggestion to improve the financial performance.

Major Findings of this study are;

Commercial Bank except SCBNL and NABIL are not maintaining constant DP Ratio, It is recommended to maintain a constant DP Ratio so as to have the confidence of general shareholders. And Net income of SCBNL is the highest and that of BOK is lowest during the study period. SCBNL has highest EPS and that of BOK is the lowest. SCBNL and NABIL are continuously paying the dividend maintaining higher DP Ratio. SCBNL provides the highest return on equity as compared to other commercial banks under study.

The research had the following recommendations:

SCBL should be more serious to improve the efficiency in utilizing its deposit in loan and advance for generating the profit. Both banks should be stabilized after proper diagnosis to the root cause of unsatisfactory liquidity. Earnings per Share (EPS) and Dividend per Share (DPS) attract the investors. Nabil Bank Limited pays less EPS and DPS than SCBL. So it is suggested that Nabil Bank Limited should increase the market price of the share so that EPS should be increased.

2.3 Research Gap

The previous thesis reviewed for the preparation of the study has been based on previous years' data. At the time of preparation of this study, the time and scene has changed. New data has been used for analysis; and contemporary among BFL has been selected for analysis.

The scene in the finance company working ground has changed in many ways. There is growing competition; on the other hand, the country's risk has been increasing due to recent volatility in the present political and social situations. The study is also unique because it has tried to show the circumstances and effects of positive and negative profits of the BFL (selected finance company)..

CHAPTER-III

RESEARCH METHODOLOGY

This chapter includes the overall framework or plan for the collection analysis and presentation of data required to fulfill the objectives of the study. It also specifies the method and procedures for the acquiring the information needed to solve the research problems. The main objective of the study is to analyze and evaluate financial analysis of finance company namely Butwal Finance Ltd (BFL). To meet the objectives, the methodology applied in the study is described as below:

3.1 Research Design

The study is designed within the framework of descriptive and analytical research design. Descriptive research seeks to find out the fact by the help of sufficient data and information. Analysis is performed to fulfill the research objectives.

3.2 Population and Sample

For the purpose of this study, finance companies are taken as population. Till mid January 2013, there are altogether 79 finance companies established in Nepal. But being a case study of a single unit, Butwal Finance Limited (BFL) is selected as sample for this study. For the sampling purpose, convenience sampling method is used.

3.3 Nature and Source of Data

As per nature of the study, the study is solely base on secondary data. For the study purpose, annual reports of BFL are used as the major sources of data. In addition to this, necessary information are available from the NRB reports, bulletins, and its website, various articles published in journals and books written by the various authors.

3.4 Data Collection Procedure

Field visit to BFL was made to collect the annual reports covering different fiscal years of BFL. Similarly, NRB directives, banking and financial statistics and other publications are collected from the website of NRB. Other supplementary information, literature reviews are collected from the Central Library T.U Shankar Dev Campus.

3.5 Data Processing

At first, necessary data were extracted from above mentioned sources and recorded in the master sheet. The data were then entered into the spreadsheet to work out the financial ratios and prepare the necessary figures. Finally, different financial tools are worked out with the help of computer programme.

3.6 Data Analysis Tools

Various financial and statistical tools have been used in this study to get the meaningful result and to meet the research objective. Financial ratios are the major tools for the analysis. In addition to the financial tools, other simple statistical (descriptive) tools were also used. The major tools applied in this study are described in the following sections.

3.6.1 Financial Tools

To make rational interpretations, keeping with the objectives of the study, various analytical financial tools have been used in the study. Financial ratio analysis tools are used to determine the performance of the company. These ratios are categorized in accordance of the financial analysis components. Following category of key ratios are used to analyze the relevant components.

3.6.1.1 Liquidity Ratios

Liquidity ratios are used to judge the ability of banks to meet its short term liabilities those are likely to mature in the short period. With the help of liquidity ratios much insight can be obtained into present cash solvency of the banks and its ability to remain solvent in the event of adversities, it is the measurement of speed with which a bank's assets can be converted into cash to meet deposit withdrawal and other current obligations.

The following ratios are evaluated under liquidity ratios:

1) Current Ratio

This ratio indicates the ability of the bank to meet its current obligation. This is the main important tool to measures the liquidity position of the financial institution.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

2) Cash Reserve Ratio

Cash and bank balance are the most liquid current assets. This ratio measures the percentage of most liquid fund with the bank to take immediate payment to the depositor. It is computed as follows:

$$\text{Cash Reserve Ratio} = \frac{\text{Cash and Bank Balance}}{\text{Total deposit}}$$

3) NRB Balance to Current and Saving Deposit Ratio (NRBBCSDR)

NRB balances are the most liquid assets held by a bank. This ratio reflects the proportion of NRB balance out of saving and current deposit. It is calculated by dividing NRB balance by current and saving deposit.

$$\text{NRB Balance to Current \& Saving Deposit Ratio} = \frac{N \quad B}{C \quad \& S \quad D}$$

4) Cash and Bank Balance to Current and Saving Deposits Ratio (CBBCSDR)

This ratio shows that how much amount has been the part of the total current and saving deposit. This ratio is calculated by dividing the cash and bank balance by current and saving deposit which is shown as follows:

Cash & Bank Balance to Current & Saving Deposit Ratio = $\frac{C \quad h\&B \quad B}{C \quad \&S \quad D}$

5) Fixed Deposit to Total Deposit Ratio (FDTDR)

This ratio shows the relationship of fixed deposit to total deposit. Fixed deposit is high interest bearing deposit and it has a fixed maturity period. The greater the proportion of fixed deposits, the lesser will be the proportion of current or shot term deposits in the total deposits, which indicates higher short term liquidity position of a bank

The formula is

Fixed deposit to total deposit = $\frac{F \quad D}{T \quad D}$

3.6.1.2 Activity Ratios

For smooth operations, a firm needs to invest in both short-term and long-term assets. Activity ratios describe the relationship between the firm's level of operations and assets needed to sustain the activity. Activity ratios can also be used to forecast a firm's capital requirements. Activity ratios enable the analysis to forecast these requirements and to assess the firm's ability to acquire the assets needed to sustain the forecasted growth. The following ratios can be calculated as the activity ratios.

1) Investment to Total Deposit Ratio:

This implies the utilization of firm's deposit on investment in government securities and share debentures of other companies. Investment is one of the forms of credit created to earn income. It can be calculated as:

Total Investment to total deposit ratio = $\frac{\text{Total Investment}}{\text{Total Deposit}}$

2) Loan and Advances to Total Deposit Ratio

Loans and advances to total deposits ratio measures the extent to which the banks are successful in utilizing the outsiders' funds for the profit generating purpose. It can be calculated as:

$$\text{Loan and advances to total deposit ratio} = \frac{\text{Loan and advances}}{\text{Total deposits}}$$

3) Loan and Advances to Total Assets Ratio (LATAR)

Loan and advances to total asset ratio shows the percentage of loan and advances in the total assets. Where loan & advances include loans, advances, cash credit, local and foreign bill purchased and discounted etc.

This ratio can be calculated by dividing loans and advances by total assets. Mathematically it is expressed as,

$$\text{Loan and advances to total deposit ratio} = \frac{L \quad \& A}{T \quad A}$$

4) Total Income Generating Assets to Total Assets Ratio

The total assets turnover ratio reflects the efficiency of management for investments in each of the individual assets items. It shows the effective utilization of assets in the generation of income. It can be calculated as:

$$\text{Total Assets Turnover Ratios} = \frac{\text{Total Income}}{\text{Total Assets}}$$

4.6.1.3 Capital Adequacy Ratio

The ratio is important to every business firm. Similarly commercial banks must evaluate this ratio. Capital is important for an organization to maintain every facility. Holding excess capital that required may have higher holding cost and low return from investment, similarly holding too little capital may have inefficiency in paying liabilities of a firm.

1) Net Worth to Total Assets Ratio (NWTAR)

It shows the relationship of net worth to its total assets. It defines the proportion to its total assets employed on its net worth. The formula is

Net worth to total assets = $\frac{N \quad W \quad h}{T \quad A}$

2) Net Worth to Total Deposit Ratio (NWTDR)

Total deposit includes saving, fixed and current call to short deposit and other deposit. Net worth to total deposit ratio shows the relative portion of net worth in relation to total deposit. The formula is:

Total deposit to net worth = $\frac{N \quad W \quad h}{To \quad D}$

3.6.1.4 Profitability Ratios

A company should earn profit to survive and grow over a long period of time Profits are essential, but it would be wrong to assume that every action initiated by management to company should be aimed at maximizing profits.

Profitability ratios indicate the degree of success in achieving desired profit. Various profitability ratios are calculated to measure the operating efficiency of business enterprises. Through profitability ratio the lenders and investors want to decide whether to invest in a particular business or not.

1) Return on Total Assets

This ratio is measured the rate of return earned by the firm as a whole for all its investors. It is calculated by dividing net profit by total assets. A higher ratio indicates the efficiency of overall financial resources to invest. So that, the higher ratio, the better will be the performance. Return on total assets in computed by using the following formula.

$$\text{Return on Total Assets} = \frac{\text{Net profit after tax}}{\text{Total Assets}}$$

2) Interest Earned to Total Assets Ratio (IETAR)

This ratio is computed to find out percentage of interest earned to Total Assets (Working Fund). Higher ratio implies better performance of the bank in terms of interest earning on its total working funds. This fund is computed by dividing Total Interest Earned by Total Working Fund can be presented as

Interest Earned to Total Assets Ratio (IETAR) = $\frac{I \quad E}{T \quad l\,A}$

3) Total Interest Expenses to Total Interest Income Ratio (TIETIIR)

This ratio measures the volume of interest expenses in Total Income of the bank. This ratio can be computed by dividing Interest Expenses by Total Income presented as under,

Interest Expenses to Total Interest Income Ratio = $\frac{I \quad E}{T \quad I \quad In}$

4) Return on Total Deposit

The ratio of return on Total deposit measures the capacity of bank to generate profit from its investment on total deposit. In other words, return on total deposit is the contribution of total deposit to net profit after tax. So this ratio is the proportion of return from total deposit and it is calculated as follows.

Return on total deposit = $\frac{\text{Net profit after tax}}{\text{Total Deposit}}$

3.6.2 Statistical Tools

Some important statistical tools are used to achieve the objective of the study. In this study, statistical tools such as mean, standard deviation, and co-efficient of variance has been used.

3.6.2.1 Arithmetic Mean

Arithmetic mean is an average of a given set of data this is divided by the number of Observation/years. The arithmetic mean (AM) is denoted by €X.

Mean (€X) = $\frac{X}{n}$

n = Number of Year

X = Sum of X series

3.6.2.2 Standard Deviation

The coefficient of variation is the most commonly used measure of relative variation. It is used in such problems where the researcher wants to compare the variability of more than two years. Greater the C.V, the variable or conversely less consistent, less uniform, more consistent, more uniform, more stable and homogeneous.

Standard Deviation (∃) = $\sqrt{\frac{\phi d^2}{n}}$

Where, d = X - €X

3.6.2.3 Coefficient of Variance

The coefficient of variation is the most commonly used measure of relative variation. It is used in such problems where the researcher wants to compare the variability of more than two years. Greater the C.V, the variable or conversely less consistent, less uniform, more consistent, more uniform, more stable and homogeneous.

Coefficient of Variance (CV) = $\frac{\exists}{€X} \mid 100$

CHAPTER-IV

DATA ANALYSIS AND PRESENTATION

In this chapter, the data have been analyzed and interpreted using financial and statistical tools following the research methodology dealt in the third chapter. In the part of analysis, various tables have been used to present the data collected from various sources have been inserted in the required tables according to their homogenous nature. The outcomes of the analysis have been compared with conventional standard with respect to ratio analysis, directives of NRB and other factors. Furthermore, many suitable graphs, and diagrams have also been used to clarify the actual position and performance of the Finance.

4.1 Ratio Analysis

Ratio analysis involves the methods of calculating and interpreting financial ratios in order to assess the firm's performance and status. The basic input to ratio analysis is the firm's income and expenditure statement and balance sheet for the periods to be examined. The study consists of the following ratios to analyze the financial performance of Butwal Finance Ltd.

4.1.1 Liquidity Ratio

Liquidity Ratio measures the firm’s ability to fulfill its short-term commitments. These ratios focus on current assets and current liabilities and are used to ascertain the short-term solvency. The following ratio has been applied to find out liquidity position of the banks.

- Current ratio
- Cash and bank balance to total deposit ratio.
- NRB balance to current and saving deposit ratio
- Cash and bank balance to current and saving deposits ratio

- Fixed deposit to total deposit ratio

1. Current Ratio

The current ratio is the ratio of total current assets to total current liabilities and measures the short-term solvency of a firm. It is calculated by dividing current assets by current liabilities.

Table 4.1

Current Ratio of Butwal Finance Limited

(Rs in Thousand)

Year	Current Assets	Current Liabilities	Current Ratio (in terms of time)
2064/65	1038122	914249	1.14
2065/66	1495051	1279291	1.17
2066/67	1688794	1463762	1.15
2067/68	1924299	1651999	1.16
2068/69	1739802	1485417	1.17
Average			1.16
Standard Deviation (S.D)			0.01
Coefficient of Variance			1.26

Source: Annual Report of BFL 2064/65 to 2068/69

Analysis of table 4.1 shows that the current assets of Butwal Finance Limited have always exceeded the current liabilities for the study period of five Years from 064/65 to 068/69. The finance has the highest current ratio of 1.17 in two years i,e 2065/66 and 2068/69 and the lowest current of 1.14 in 064/65 with an average current ratio of 1.16 when S.D is 1% and C.V is 1.26 during the study period. In general terms, the bank has been able to meet its short-term obligations. The above analysis indicates that the bank is in sound liquidity position.

2. Cash and Bank Balance to Total Deposit Ratio (CBBTDR)

This ratio is calculated by dividing cash bank balance by total deposits.

Table 4.2

Cash and Bank Balance to Total Deposit Ratio (Rs in Thousand)

Year	Cash & Bank Balance	Total Deposit	Ratio
2064/65	187089	799929	23.39
2065/66	36758	1065056	3.45
2066/67	62514	1395165	4.48
2067/68	72722	1574910	4.61
2068/69	93628	1431002	6.54
Average			8.49
S.D			8.40
C.V			98.91

Source: Annual Report of BFL 2064/65 to 2068/69

The analysis of table 4.02 shows that cash reserve ratio of the BFL differs from maximum of 23.39% in the year 2064/65 to the minimum of 3.45% in the year 2065/66 with an average of 8.50% during the study period. The analysis specifies that the finance is volatile to maintain cash reserve ratio as per NRB directives.

3. NRB Balance to Current and Saving Deposit Ratio (NRBBCSDR)

NRB balances are the most liquid assets held by a bank. It is calculated by dividing NRB balance by current and saving deposit.

Table 4.3

NRB Balance to Current and Saving Deposit Ratio (Rs in Thousands)

Year	Nepal Rastra Bank Balance	Current & Saving Deposits	Ratio in Percentages
2064/65	2813	360107	0.78
2065/66	3129	537014	0.58
2066/67	8631	393823	2.19
2067/68	48073	588371	8.17
2068/69	46066	736314	6.25
Average			3.59
S.D			3.43
C.V			95.34

Source: Annual Report of BFL 2064/65 to 2068/69

Table 4.03 exposed that the ratios of Butwal Finance Ltd, were 0.78%, 0.58%, 2.19%, 8.17%, and 6.25%. Finance Company are required to hold certain proportion of current and saving deposits in NRB's account. It is to ensure the smooth functioning and sound liquidity position of the Finance.

4. Cash and Bank Balance to Current and Saving Deposits Ratio (CBBCSDR)

This ratio is calculated by dividing cash and bank balance by current and saving deposits.

Table 4.4

Cash and Bank Balance to Current and Saving Deposits Ratio

(Rs in Thousand)

Year	Cash & Bank Balance	Current & Saving Deposits	Ratio in Percentages
2064/65	187089	360107	51.95
2065/66	36758	537014	6.84
2066/67	62514	393823	15.87
2067/68	72722	588371	12.36
2068/69	93628	736314	12.71
Average			19.95
S.D			18.18
C.V			91.16

Source: Annual Report of BFL 2064/65 to 2068/69

The Above Calculated table shows that the Cash and Bank Balance to current & saving deposits of Butwal Finance Ltd. have always in good condition except in the fiscal year 065/66 with ratio of 6.84 percentage. The bank has the highest ratio of 51.95 in 2064/65 and the lowest ratio of 6.84 percentages in the fiscal year 065/66 with an average ratio of 19.95 during the study period.

In general terms, the bank has been able to meet its short-term obligations. The above analysis indicates that the bank is in sound liquidity position. High ratio normally indicates sound liquidity position of the bank but too high ratio is not good as it reveals the under utilization of fund.

5. Fixed Deposit to Total Deposit Ratio (FDTDR)

This ratio shows the relationship of fixed deposit to total deposit. Fixed deposit is high interest bearing deposit and it has a fixed maturity period. The greater the proportion of fixed deposits, the lesser will be the proportion of current or shot term deposits in the total deposits, which indicates higher short term liquidity position of a bank.

Table 4.5

Fixed Deposit to Total Deposit Ratio (Rs in Thousand)

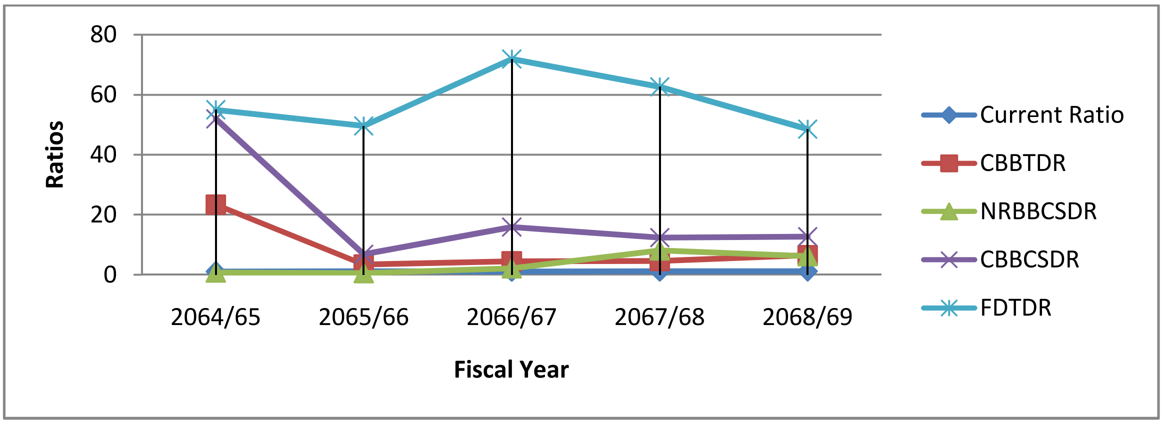
Year	Fixed Deposits	Total Deposits	Ratio in Percentages
2064/65	439821	799929	54.98
2065/66	528041	1065056	49.57
2066/67	1002708	1395165	71.87
2067/68	986537	1574910	62.64
2068/69	694686	1431002	48.54
Average			57.52
S.D			9.78
C.V			17

Source: Annual Report of BFL 2064/65 to 2068/69

Fixed deposit is the high interest bearing deposit which can be withdrawn only after its maturity. The above table shows that the fixed deposit to total deposit ratio of the Butwal Finance differ from maximum of 71.87 % in the year 2066/67 to the minimum of 48.54% in the year 2068/69. The analysis indicates that the portion of fixed deposit in the total deposit is fluctuating. All of the liquidity ratios are presentation as follows:

Figure 4.1

Liquidity Ratio of Butwal Finance Ltd.



4.1.2 Activity Ratios

Activity ratio has been used to evaluate managerial efficiency and proper utilization of assets. This includes investment to total deposit ratio, loans and advances to total deposit ratio, loans and advances to saving deposit ratio and total income generating assets to total deposit ratio.

1. Investment to Total Deposit Ratio (ITDR)

This ratio is computed by dividing investment by total deposits. This can be stated as:

Table 4.6

Investment to Total Deposit Ratio (Rs in Thousands)

Year	Investment	Total Deposit	Ratio(Percentage)
2064/65	105549	799929	13.19
2065/66	120699	1065056	11.33
2066/67	70750	1395165	5.07
2067/68	77750	1574910	4.93
2068/69	77550	1431002	5.41
Average			7.986
S.D			3.96
C.V			49.59

Source: Annual Report of BFL 2064/65 to 2068/69

Table 4.6 shows that investment to total deposit ratios of BFL remained 13.19, 11.33, 5.07, 4.93 and 5.41 in the respective years. The higher shows that BFL is successful in managerial efficiency regarding the utilization of deposits.

2. Loans and Advances to Total Deposits Ratios (LATDR)

This ratio is calculated by using following formula.

Table 4.7
Loans and Advances to Total Deposits Ratios (Rs in Thousands)

Year	Loans & Advances	Total Deposit	Ratio(Percentage)
2064/65	689527	799929	86.19
2065/66	940605	1065056	88.31
2066/67	1138931	1395165	81.63
2067/68	1336550	1574910	84.86
2068/69	1072799	1431002	74.96
Average			83.19
S.D			5.20
C.V			6.25

Source: Annual Report of BFL 2064/65 to 2068/69

The above calculated shows that loans and advances to total deposits of the BFL fluctuates from maximum of 88.31 percent in the fiscal year 2065/66 to the minimum of 74.96 percentage in the year 2068/69. The analysis shows that the Finance is mobilizing its total deposits in loan and advances adequately and it has efficiently utilized its total deposits for loan and advances. Higher ratio reveals that it is efficient to utilize the financial resources in productive sectors.

3. Loan & Advances to Total Assets Ratio (LATAR)

Loan and advances to total asset ratio shows the percentage of loan and advances in the total assets. Where loan & advances include loans, advances, cash credit, local and foreign bill purchased and discounted etc. This ratio can be calculated by dividing loans and advances by total assets. Mathematically it is expressed as,

Table 4.8

Loan & Advances to Total Assets Ratio (Rs. In Thousands)

Year	Loans & Advances	Total Assets	Ratio(Percentage)
2064/65	689527	1071576	64.34
2065/66	940605	1524129	61.71
2066/67	1138931	1729651	65.84
2067/68	1336550	1992924	67.06
2068/69	1072799	1809571	59.28
Average			63.65
S.D			3.15
C.V			4.95

Source: Annual Report of BFL 2064/65 to 2068/69

Table 4.8 shows that the ratios of BFL were 64.34%, 61.71%, 65.84%, 67.06%, and 59.28% with an average of 63.65% when S.D is 3.15 and C.V is 4.95 in the respective years of study period. The higher average ratio indicates that BFL is efficient in utilization of total assets in profitable sector. It can be determined that ratios of BFL fluctuate to a greater extent in the study period

4. Total Income Generating Assets to Total Assets Ratio (TIGATAR*)*

Table 4.9

Total Income Generating Assets to Total Assets Ratio (Rs. In Thousands)

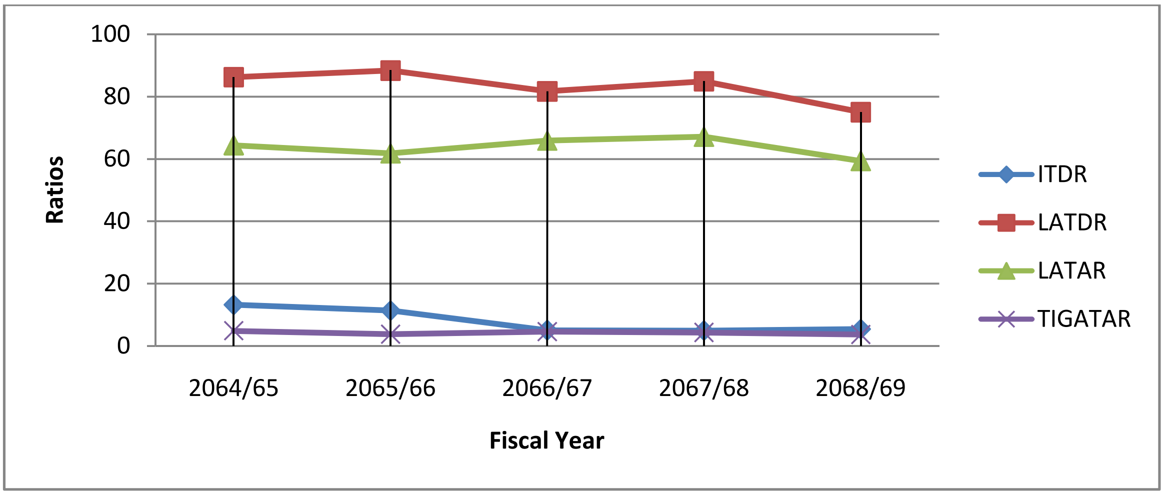
Year	Total Income	Total Assets	Ratio(Percentage)
2064/65	51778	1071576	4.83
2065/66	56452	1524129	3.70
2066/67	78965	1729651	4.56
2067/68	85636	1992924	4.29
2068/69	65950	1809571	3.64
Average			4.20
S.D			0.52
C.V			12.46

Source: Annual Report of BFL 2064/65 to 2068/69

Table 4.9 depicts that the ratios of BFL were 4.83%, 3.70%, 4.56%, 4.29% and 3.64%, in the respective years of study period with the mean of 4.20%. This higher ratio shows that BFL has sound profitability position and greater utilization of its assets.

Figure 4.2

Activity Ratio of BFL.



4.1.3 Capital Adequacy Ratio

The ratio is important to every business firm. Similarly commercial banks must evaluate this ratio. Capital is important for an organization to maintain every facility. Holding excess capital that required may have higher holding cost and low return from investment, similarly holding too little capital may have inefficiency in paying liabilities of a firm.

1. Net Worth to Total Assets Ratio (NWTAR)

It shows the relationship of net worth to its total assets. It defines the proportion to its total assets employed on its net worth.

Table 4.10

Net Worth to Total Assets Ratio

(Rs. In Thousands)

Year	Net Worth	Total Assets	Ratio(Percentage)
2064/65	97327	1071576	0.0908
2065/66	129838	1524129	0.0852
2066/67	170889	1729651	0.0988
2067/68	255925	1992924	0.1284
2068/69	260554	1809571	0.1440
Average			0.1094
S.D			0.0255
C.V			23.30

Source: Annual Report of BFL 2064/65 to 2068/69

The table 4.10 displays that the ratios of BFL remained 9.08%, 8.52%, 9.88%, 12.84%, and 14.40% in the respective years of study period with the average of 10.94%. The greater ratio indicates that BFL has greater contribution to investors fund and strong capital adequacy position. This ratio measures the percentage of shareholder fund in relation total assets owned by banks.

2. Net Worth to Total Deposit Ratio (NWTDR)

Total deposit includes saving, fixed and current call to short deposit and other deposit. Net worth to total deposit ratio shows the relative portion of net worth in relation to total deposit.

Table 4.11

Net Worth to Total Deposit Ratio (Rs. In Thousands)

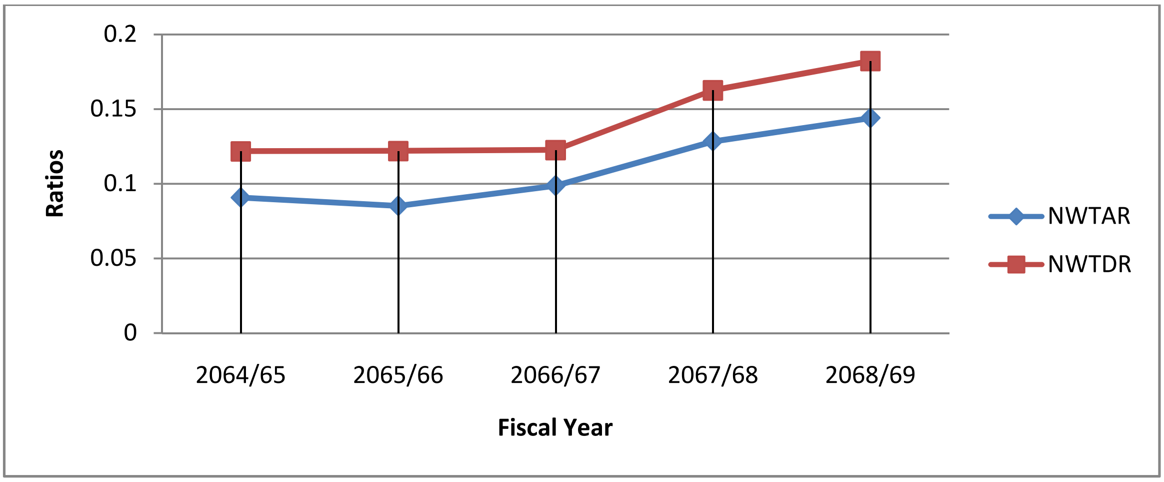
Year	Net Worth	Total Deposit	Ratio(Percentage)
2064/65	97327	799929	0.1217
2065/66	129838	1065056	0.1219
2066/67	170889	1395165	0.1225
2067/68	255925	1574910	0.1625
2068/69	260554	1431002	0.1821
Average			0.1421
S.D			0.0284
C.V			19.98

Source: Annual Report of BFL 2064/65 to 2068/69

The above calculated shows that Net Worth to Total Deposits ratio Butwal Finance increasing from minimum of 12.17 percentage in the fiscal year 2064/65 to the maximum of 18.21 percentage in the year 2068/69 with an average of 14.21 percentage when S.D is 2.84% and C.V is 19.98%.

Figure 4.3

Capital Adequacy Ratio



4.1.4 Profitability Ratios

Profitability ratio is one of the main indicators to analyzing the financial performance of a firm. It calculates to measure the earning performance and operational efficiency of the bank. A bank should be able to produce adequate profit on each rupee of investment, if investments do not generate sufficient profits, it would be very difficult for the bank to cover operating expenses and interest charges. The profitability of the bank should also be evaluated in term of its investment in assets and in term of capital contributed by creditors. If the bank is unable to earn satisfactory return of investment, its survival is threatened.

1. Return on Total Assets Ratio (ROTA)

This ratio is related to net profit after tax (NPAT) and total assets. How efficiently is the assets of a firm able to generate more profit are measured by this ratio is calculated by dividing NPAT by Total Assets. This ratio provides the foundation necessary for a company to deliver a good return on equity. Return on total assets ratio of Butwal Finance Ltd. for the period of 2064/65 to 2068/69 is presented in the Table-4.12 below.

Table 4.12

Return on Total Assets Ratio (Rs. In Thousands)

Year	Net Profit	Total Assets	Ratio(Percentage)
2064/65	14468	1071576	1.35
2065/66	19552	1524129	1.28
2066/67	23887	1729651	1.38
2067/68	16550	1992924	0.83
2068/69	9799	1809571	0.54
Average			1.076
S.D			0.3731
C.V			0.3731

Source: Annual Report of BFL 2064/65 to 2068/69

The above table shows that the Return on Total Assets of the Butwal Finance differ from maximum of 1.38% in the year 2066/67 to the minimum of 0.54% in the year 2068/69 with an average of 1.07% during the study period of five years from 2064/65 to 2068/69. This analysis indicates that the net profit earned in comparison to the total assets is in fluctuating trend which means the ratio is decreasing and increasing trend during the study period.

2 Interest Earned to Total Assets Ratio (IETAR)

This ratio is calculated by using following formula.

Table 4.13

Interest Earned to Total Assets Ratio

(Rs. In Thousands)

Year	Interest Earned	Total Assets	Ratio(Percentage)
2064/65	99825	1071576	9.31
2065/66	124822	1524129	8.18
2066/67	183249	1729651	10.59
2067/68	253454	1992924	12.71
2068/69	224074	1809571	12.38
Average			10.634
S.D			1.945
C.V			18.29

Source: Annual Report of BFL 2064/65 to 2068/69

The above table shows that interest earned to Total Assets of the bank varies from maximum of 12.71% in the year 2067/68 to the minimum of 8.18% in the year 2065/66 with an average of 10.63% during the study period of five years when S.D is 1.94% and C.V is 18.29%. The analysis indicates that the interest earned in comparison to total assets is fluctuating during the study period.

3. Total Interest Expenses to Total Interest Income Ratio (TIETIIR)

This ratio can be computed by using the following formula.

Table 4.14

Total Interest Expenses to Total Interest Income Ratio (Rs. In Thousands)

Year	Interest Expenses	Interest Income	Ratio(Percentage)
2064/65	58553	99825	58.65
2065/66	80500	124822	64.49
2066/67	121624	183249	66.37
2067/68	186515	253454	73.58
2068/69	170209	224074	75.96
Average			67.81
S.D			7.013
C.V			10.34

Source: Annual Report of BFL 2064/65 to 2068/69

The above table shows that interest expenses to interest income ratio of the Butwal Finance varies from maximum 75.96% in the fiscal year 2068/69 to the minimum of 58.65% in the year 2064/65 with an average of 67.81% during the study period. The analysis indicates that the interest expense in comparison to interest income is fluctuating during the study period. The higher ratio shows unfavorable profitability situation of the bank.

4. Return on Total Deposits Ratio (RTDR)

The ratio of return on Total deposit measures the capacity of bank to generate profit from its investment on total deposit. In other words, return on total deposit is the contribution of total deposit to net profit after tax. So this ratio is the proportion of return from total deposit and it is calculated as follows.

Table 4.15

Return on Total Deposits Ratio (Rs. In Thousands)

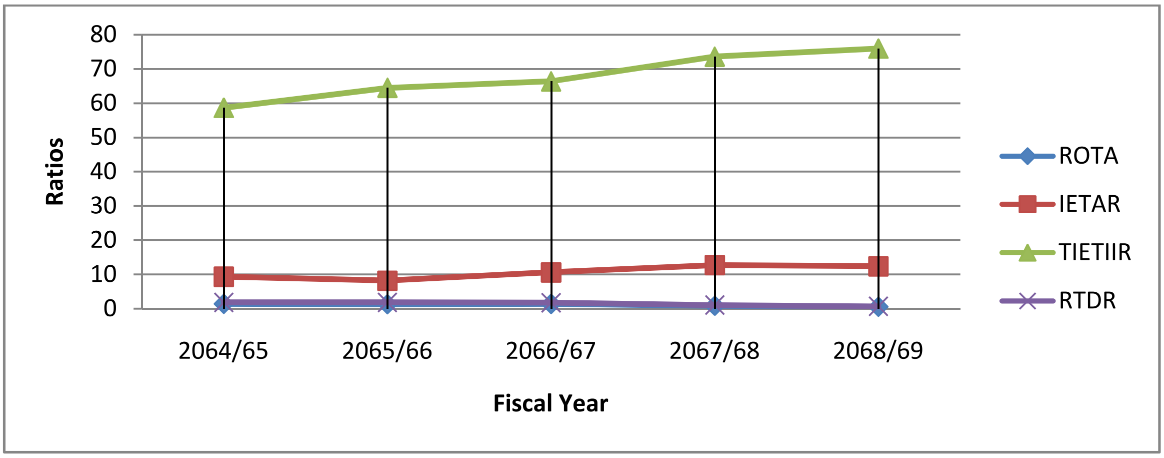
Year	NPAT	Total Deposit	Ratio(Percentage)
2064/65	14468	799929	1.80
2065/66	19552	1065056	1.83
2066/67	23887	1395165	1.71
2067/68	16550	1574910	1.05
2068/69	9799	1431002	0.68
Average			1.414
S.D			0.520
C.V			36.76

Source: Annual Report of BFL 2064/65 to 2068/69

The above table shows that the return on total deposits of the Butwal Finance varies from maximum of 1.83% in the year 2065/66 to the minimum of 0.68% in the fiscal year 2068/69 with an average of 1.414% when S.D is 52% and C.V is 36.76% during the study period. The analysis indicates that the net profit earned in comparison with the total deposits are in increasing trend during the fiscal year 2065/66 but are in decreasing trend after fiscal year 2066/67. In general, the average return ratio shows that BFL is successful to earn constant profit over the study period.

Figure 4.4

Profitability Ratio of Butwal Finance



4.2 Income and Expenditure Analysis

Income and expenses analysis shows the trend of income and expenditure. So this analysis has been evaluated investment and their return and different expenditure of sample bank. This analysis includes;

Income Analysis

Expenditure Analysis

4.2.1 Income Analysis

Especially, the main work of the commercial banks is the transaction of money. They provide interest and dividend to the debtors and depositors in term of their cash deposits and investment. Therefore, the banks generate income through investment in returnable sectors as well as loan and advances. Among various sources of income, the main heading have been divided as,

- Interest Income
- Commission & Discount
- Other Income

Different incomes of Butwal Finance for different years have been presented in the table 4.16.

Table 4.16

Income Analysis of Butwal Finance Ltd.(Rs. In Thousands)

Year	Interest Income	Commission & Exchange	Other Income	Total Income
2064/65	99825	3490	7016	110331
2065/66	124822	3036	9094	136952
2066/67	183249	3750	13590	200589
2067/68	253454	2986	15711	282151
2068/69	224974	1690	10395	237059

Source: Annual Report of BFL 2064/65 to 2068/69

Interest Income

Commercial bank generates income through their investment i.e. loans and advances, government securities, debenture etc. Interest is the main source of the income for the commercial banks by which the bank operates their operation regularly. Table 4.24 shows that the interest incomes in NABIL were 71.36%, 70.09%, 70.75%, 76.28% and 77.79% in the respective years of the review period with an average of 73.25%. As compared to the previous year's interest income values and percentage NABIL was succeeded in increasing its interest income throughout the study period of five years.

Commission & Discount

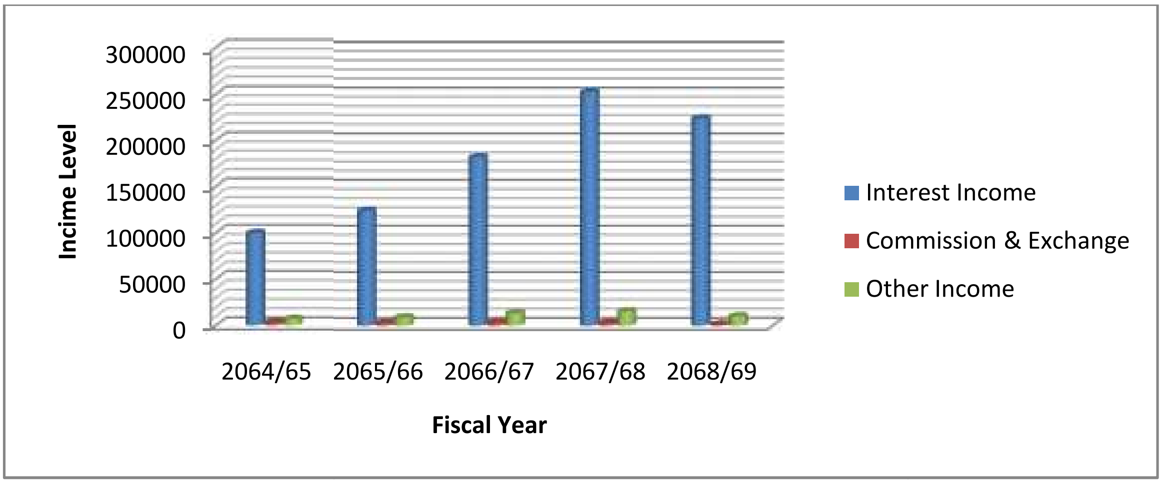
Commission and discount is also one of the major sources of income for the commercial banks. The above calculated table shows that the income from commission and discount of the Butwal Finance Ltd varies from maximum of 10.12% in the year 2059/60 to the minimum of 7.38% the year 2063/64 with an average of 8.71% during the study period. From above analysis, it is cleared that income from commission and discount NABIL is in decreasing trend throughout the study period.

Other Income

Besides above incomes, non–operating i.e. sale of investment and assets, subsidies from NRB etc. have been included in this heading. Commission and discount is also one of the major sources of income for the commercial banks. The above calculated table shows that the income from commission and discount of the Butwal Finance Ltd varies from maximum of 10.12% in the year 2059/60 to the minimum of 7.38% the year 2063/64 with an average of 8.71% during the study period. From above analysis, it is cleared that income from commission and discount NABIL is in decreasing trend throughout the study period.

Figure 4.5

Average Income Analysis of BFL



4.2.2 Expenditure Analysis

Basically, commercial banks extend money in daily office operation, salary and other facilities. They also pay interest and dividend to depositors and investors. Among these various sources of expenses, following headings have been analyzed for this study purposes;

- Interest Expenses
- Staff Expenses
- Office Operation Expenses
- Bonus Expenses

Expenditure analysis of Butwal Finance for different sampled years has been presented in table 4.17.

Table 4.17

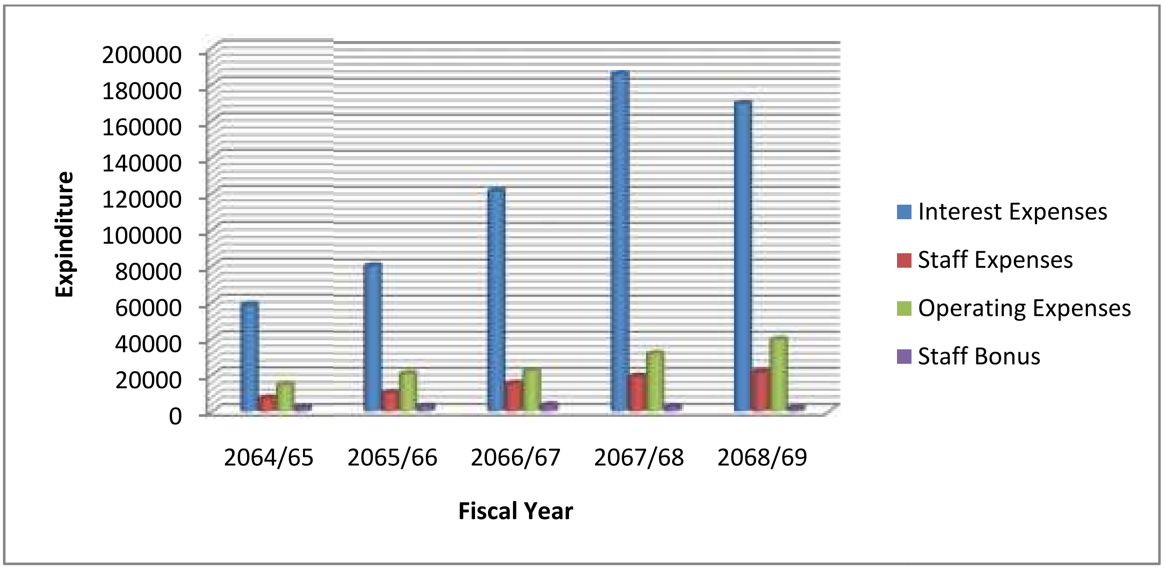
Expenditure Analysis of Butwal Finance Ltd. (Rs. In Thousands)

Year	Interest Expenses	Staff Expenses	Operating Expenses	Staff Bonus	Total Expenses
2064/65	58553	7416	14694	2112	82785
2065/66	80500	10155	20773	2793	114221
2066/67	121624	15380	22524	3412	277161
2067/68	186515	19388	31879	2518	240300
2068/69	170209	21694	39795	1647	233345

Source: Annual Report of BFL 2064/65 to 2068/69

Figure 4.6

Average Expenditure Analysis of Butwal Finance



Interest Expenses

An interest expense is one of the main expenses among various expenses made by the commercial banks. Especially, commercial bank pays interest in various deposits and loan advances. These all have been included in this expense. Table no. 4.25 reveals that the interest expense ratios of NABIL were 41.7, 41.1, 33.9, 42.0 and 51.3 percentage in the respective years of study period with the mean ratio of 42.0 percent.

Staff Expenses

Banks need sufficient personnel to continue office and other operation. They pay salaries and other different forms of allowance to their staff in terms of services. Moreover, the banks expend uniform, libraries and other various related field. These all have been included in staff expenses. Table 4.25 exposes that the staff expenses of Butwal Finance Ltd varies from maximum of 27.7% in the year 2059/60 to the minimum of 22.2% the year 2063/64 with an average of 26.0% during the study period. From above analysis, it is cleared that income from Foreign Exchange Income of Butwal Finance is in decreasing trend throughout the study period

Office Operating Expenses

These are various expenses made by commercial banks in terms of office operation. These expenses consist of rent, electricity and telephone charges, administrative expenses promotion expense etc. Table 4.25 exposes that the office operating expenses of Butwal Finance Ltd varies from maximum of 26.52% in the year 2061/62 to the minimum of 17.37% the year 2063/64 with an average of 21.9% during the study period.

Bonus Facility

When banks are capable to earn appropriate profit, they provide dividend to the shareholders and pay extra bonus to their staffs to motivate them. Those all expense have been included in under this heading. Table 4.25 exposes that the bonus facility expenses of Butwal Finance Ltd varies from maximum of 11.73% in the year 2061/62 to the minimum of 8.63% the year 2059/60 with an average of 10.1% during the study period.

4.3 Major Findings of the Study

The major findings of the study is as follows:

- ❖ When current assets are comparing with current liabilities, it revels those current assets are sufficient to cover the current liabilities. The practice of holding large size of current assets is an expensive affair. On the other hand, too little liquidity may lead to serve cash problems, which can result in inability to pay short term obligations in time. The highest and the lowest ratio were observed to be 1.17 and 1.14 times in the fiscal year 2068/69 and 2064/65 respectively. The average ratio was observed to be 1.16 times during the study period.

- Cash and bank balance to total deposit ratio has also fluctuating trend. At the beginning of the fiscal year 2064/65, the ratio is 23.39% where at the end of fiscal year 2068/69, the ratio is 6.54%, the ratio decrease with 16.85%. The highest ratio among five fiscal year is 23.39 percent in 2064/65. The average ratio of cash and bank balance to total deposit is 8.49 percent. Cash and bank balance has not been maintained according to total deposit.
- Fixed deposit to total deposit ratio is not favorable for the liquidity position of Butwal Finance. The lowest ratio is 48.54 percentage in 2068/69 and highest ratio 71.87 percentage in 2066/67 with an average of 57.52 percent within the study period.
- Investment to total deposit range from 4.93% to 13.19% percentages. The lowest ratio is in the fiscal year 2067/68 and highest ratio is in the fiscal year 2064/65. The average ratio has been observed 7.98% when their S.D is 3.96 and C.V is 49.59%, during the study period. Investment to total deposit ratio is in fluctuating trend.
- Loan and advances to total deposit ratio is in fluctuating trend. The average ratio of loan and advances to total deposit is 83.19 percent. The highest ratio of BFL is 88.31 in year 2065/66 and the lowest one is 74.96 in 2064/65, which means it can diversified all the funds in different sector as loan and advances.
- Loan and advance to total assets range from 59.83 to 67.06 percent. The lowest ratio ranges in the fiscal year 2068/69 and the highest ratio is in the fiscal year 2067/68. The average ratio was observed to be 63.25 percent.

Loan and advances to total assets is in fluctuating trend. More than 50 percent of a total asset has been lend to customers as loan and advances.

- The return on total assets of Butwal Finance shows good trend. The average ratio of ROTA is 1.07% percent. The highest ratio occurred in 2066/67 with 1.38 percent and lowest fall in 2068/69 with 0.54 percent.
- The RTDR ratio of Butwal Finance is satisfactory. It is in fluctuating trend with good percent every year. The low ratio is 68 percent in 2068/69 and high is 1.83% in 2065/66. Due to the high difference between the lowest and highest ratios of the period, the table shows an average of 1.414. So it can be concluded that on the basis of RTDR ratio the deposit of the bank has been in good condition.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary

In this chapter, summary of this thesis study is presented. The present study is a conclusion oriented study of financial analysis of Butwal Finance Ltd. The study had been undertaken to examine and evaluate the performance of Butwal Finance. The researcher had used the financial tools to make this study more effective and informative. This study has covered five years data from 2064/65 to 2068/69 of Butwal Finance Ltd. In this section, the researcher has tried to summarize the financial analysis of Butwal Finance Ltd. The Finance has been able to maintain its position in the country as one of the leading finance Company in the country. Moreover, competition in the financial sector is getting tougher day by day. Our own domestic unrest and threats have also suffered a setback due to these and many other reasons. However, in line with the current market trend, the Finance is making all possible efforts to consolidate its business portfolio and cut down the cost in all operating areas to the extent possible, to maintain the profitability. The principal activities of the Finance in the past five years continued to be consumer and corporate banking, trade and finance, Debit card services. The Finance has successfully installed Automated Teller Machines (ATM). The number of cards issued by the Finance and the finance now has the critical mass in its account base. The Finance continues to strive in order to maintain its position in the country as the market leader. There are ongoing efforts and commitments in enhancing its products and services both, the issuance and acquiring business. A very high debt to net worth ratio is unfavorable because debts are considered to be more risky than equity funds in the sense that the finance has a compulsory legal obligation to pay interest to the debt holders irrespective of the profit made or losses incurred. Therefore appropriate mix of debt and owners' fund is desired by the Finance.

5.2 Conclusion

The major conclusion of the study is as follows:

When current assets are comparing with current liabilities, it revels those current assets are sufficient to cover the current liabilities. The practice of holding large size of current assets is an expensive affair. On the other hand, too little liquidity may lead to serve cash problems, which can result in inability to pay short term obligations in time. The highest and the lowest ratio were observed to be 1.17 and 1.14 times in the fiscal year 2068/69 and 2064/65 respectively. The average ratio was observed to be 1.16 times during the study period. Similarly, cash and bank balance to total deposit ratio has also fluctuating trend. At the beginning of the fiscal year 2064/65, the ratio is 23.39% where at the end of fiscal year 2068/69, the ratio is 6.54%, the ratio decrease with 16.85%. The highest ratio among five fiscal year is 23.39 percent in 2064/65. The average ratio of cash and bank balance to total deposit is 8.49 percent. Cash and bank balance has not been maintained according to total deposit.

Fixed deposit to total deposit ratio is not favorable for the liquidity position of Butwal Finance. The lowest ratio is 48.54 percentage in 2068/69 and highest ratio 71.87 percentage in 2066/67 with an average of 57.52 percent within the study period. Investment to total deposit range from 4.93% to 13.19% percentages. The lowest ratio is in the fiscal year 2067/68 and highest ratio is in the fiscal year 2064/65. The average ratio has been observed 7.98% when their S.D is 3.96 and C.V is 49.59%, during the study period. Investment to total deposit ratio is in fluctuating trend. Loan and advances to total deposit ratio is in fluctuating trend. The average ratio of loan and advances to total deposit is 83.19 percent. The highest ratio of BFL is 88.31 in year 2065/66 and the lowest one is 74.96 in 2064/65, which means it can diversified all the funds in different sector as loan and advances. Loan and advance to total assets range from 59.83 to 67.06 percent. The lowest ratio ranges in the fiscal year 2068/69 and the highest ratio is in the fiscal year 2067/68. The average ratio was observed to be 63.25 percent. Loan and advances to total assets is in fluctuating trend. More than 50 percent of a total asset has been lend to customers as loan and advances.

The return on total assets of Butwal Finance shows good trend. The average ratio of ROTA is 1.07% percent. The highest ratio occurred in 2066/67 with 1.38 percent and lowest fall in 2068/69 with 0.54 percent. The RTDR ratio of Butwal Finance is satisfactory. It is in fluctuating trend with good percent every year. The low ratio is 68 percent in 2068/69 and high is 1.83% in 2065/66. Due to the high difference between the lowest and highest ratios of the period, the table shows an average of 1.414. So it can be concluded that on the basis of RTDR ratio the deposit of the bank has been in good condition.

In conclusion, financial condition of Butwal Finance is good enough which means it has good command in the market. Overall, the financial position of Butwal Finance is able to provide the general public and firm their amounts that have deposited their amount for security with full confidence of receiving back on demand.

5.3 Recommendations

In period of operation of 15 years, it has been successful to form a network of 8 branches up to fiscal year 2068/69 the finance is further planning to expand its network in the current fiscal year too. Effective and comparative banking activities have not been reached to different corners of country. In such a situation the finance network expansion plan is worth appreciation. This has already established itself as a leading private finance in the country and the financial indicators shows that finance performance in the past is more than satisfactory and the future of Butwal Finance is positive and financially secured. The following further recommendations are made from the study made about the finance in this chapter.

The fluctuation of ratio must be stabilized after proper diagnosis of the quality. Butwal Finance should focus in investing short-term marketable securities which yield more return than merely maintaining cash and bank balance. The decreasing ratio of investment to total deposit indicates that Butwal Finance has not been able to mobilize its available funds properly therefore, it is suggested to mobilize the funds properly in productive and profitable sectors. The finance should keep up the act of wealth maximization of the shareholders as they are true owners of the finance. The finance should always abide the directives given by NRB. The finance is advised to introduce new product lines and services to further attract the customers. It should keep in mind that it is competing with other finance companies and other competitors, so the management should be alert to either comprehend customer philosophy or to manipulate them through introduction of new, efficient and convenient services. The finance should never forget that customer is a king of the market so its objectives should be to conduct more training, seminars, workshops and managerial development schemes to help the local finance compete with the foreign bank. Being the part of the society, it has a great responsibility in the social development, therefore it is recommended to Butwal Finance to participate in social events such as in education, health program, environment protection etc, so that more customers are attracted towards it. All imperfect practices inherent from the past mistakes should be avoided to re-orient the finance to new discuss of change and other further improvement.

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