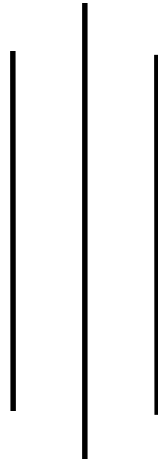


Performance Evaluation of Commercial Banks of Nepal



By:

Sujita Neupane

Shanker Dev Campus

T.U. Regd. No. : 7-1-242-406-97

Roll No.863/062

A Thesis Submitted to:

Office of Dean
Faculty of Management
Tribhuvan University

In partial fulfillment of the requirements for the degree of

Master of Business Studies (M.B.S.)

Kathmandu, Nepal

June, 2010

RECOMMENDATION

This is to certify that the thesis submitted by

Sujita Neupane

Entitled

Performance Evaluation of Commercial Banks
of
Nepal

has been approved by this Department in the prescribed format of Faculty of Management.

This thesis is forwarded for examination.

Ghanendra Fago

(Thesis Supervisor)

Prof. Bisheshwor Man Shrestha

(Head of Research Department)

Prof. Dr. Kamal Deep Dhakal

(Campus Chief)

Rishi Raj Gautam

(Thesis Supervisor)

VIVA – VOCE SHEET

We have conducted the viva voce examination of thesis presented by

Sujita Neupane

Entitled

Performance Evaluation of Commercial Banks
of
Nepal

and found the thesis to be original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for

Master of Business Studies (M.B.S.)

Viva-Voce Committee

Chairperson, Research Committee :.....

Member (Thesis Supervisor) :.....

Member (Thesis Supervisor) :.....

Member (External Expert) :.....

Date:.....

Tribhuvan University
Faculty of Management
Shanker Dev Campus

DECLARATION

I here by declare that this thesis entitled “Performance Evaluation of Commercial Banks of Nepal” is submitted to Office of Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of Master of Business Studies (MBS) under the guidance and supervision of Mr.Rishi Raj Gautam & Mr.Ghanendra Fago of Shanker Dev Campus.

Sujita Neupane
Shanker Dev Campus
Roll No.863/062

Acknowledgements

The present work is the outcome of my master degree, Master in Business Studies. This thesis has been prepared for the partial requirement of my master degree. I have tried my best to keep it as my original work.

At the moment, I would like to acknowledge my respective lectures, **Mr. Rishi Raj Gautam & Mr. Ghanendra Fago** for their valuable guidance & support in the course of preparation of this thesis.

I would also like to thank my friend, **Mr. Rashesh Vaidya** for his backup for providing me valuable data & information in the due course of preparing this report.

Finally, I would also like to express my hatful thanks to my family in supporting & boosting in preparing this report.

- Sujita Neupane

Table of Contents

Recommendation

Viva-Voce Sheet

Declaration

Acknowledgement

Table of Contents

List of Tables

List of Figures

Abbreviations

Chapter-1 Introduction 1-5

1.1. Background of the Study	1
1.2. Historical Development of the Commercial Banks in Nepal	2
1.3. Statement of the Problem	3
1.4. Objectives of the Study	4
1.5. Limitations of the Study	4
1.6. Organization of the Study	4

Chapeter-2 Review of Literature 6-47

2.1. Theoretical Framework	6
2.1.1. Financial Analysis	6
2.1.2. Users of Financial Analysis	7
2.1.3. Definition of Ratio Analysis	8
2.1.4. Types of Financial Ratio	9
2.1.4.1. Liquidity Ratio	10
2.1.4.1.1. Current Ratio	11
2.1.4.1.2. Quick Ratio	12

2.1.4.1.3. Cash Ratio	13
2.1.4.1.4. Cash Position Ratio	13
2.1.4.1.5. Interval Measure	13
2.1.4.1.6. Net Working Capital Ratio	14
2.1.4.1.7. Capacity Ratio	14
2.1.4.1.8. Liquid Securities Indicator	15
2.1.4.2. Leverage Ratio	15
2.1.4.2.1. Debt Ratio	16
2.1.4.2.2. Debt-Equity Ratio	18
2.1.4.2.3. Capital Employed to Net worth Ratio	18
2.1.4.3. Activity Ratio	18
2.1.4.3.1. Inventory Turnover	19
2.1.4.3.2. Debtors Turnover	19
2.1.4.4. Assets Management (Turnover) Ratio	20
2.1.4.4.1. Net Assets Turnover Ratio	20
2.1.4.4.2. Total Assets Turnover Ratio	21
2.1.4.4.3. Fixed and Current Assets Turnover Ratio	21
2.1.4.4.4. Working Capital Turnover Ratio	21
2.1.4.5. Profitability Ratio	22
2.1.4.5.1. Gross Profit Margin	23
2.1.4.5.2. Net Profit Margin	23
2.1.4.5.3. Return on Assets	23
2.1.4.5.3. Return on Equity	24
2.1.4.5.4. Net Interest Margin	25
2.1.4.5.5. Return on Investment	25
2.1.4.6. Coverage Ratio	26
2.1.4.6.1. Interest Coverage	26
2.1.4.7. Valuation/Market Value Ratio	29
2.1.4.7.1. Earning per Share (EPS)	29
2.1.4.7.2. DPS	30

2.1.4.7.3 Payout Ratio	30
2.1.4.7.4. Dividends and Earning Yields	31
2.1.4.7.5. Price-Earnings Ratio	31
2.1.4.7.6. Market Value-to-Book Value(MV-BV) Ratio	32
2.1.5. Utility of Ratio Analysis	32
2.1.6. Cautions in Using Ratio Analysis	35
2.1.7. Predictive Power of Financial Ratios	38
2.1.7.1. Predicting Financial Distress	39
2.1.8. Size, Location and Regulatory Bias in Analyzing Bank Performance	41
2.2. Review of the Past Studies	42
2.3. Research Gap	46

Chapeter-3 Research Methodology 48-54

3.1 Research Design	48
3.2 Population and Sample	48
3.3 Sources of Data	49
3.4 Research Variables	50
3.4.1. Liquidity Ratio	50
3.4.2. Leverage Ratio	50
3.4.3. Activity Ratio	50
3.4.3.1. Credit Deposit Ratio	51
3.4.4. Assets Management Ratio	51
3.4.5. Profitability Ratio	51
3.4.6. Coverage Ratio	52
3.4.7. Valuation/Market Value Ratio	52
3.5 Methods of Data Analysis	52
3.5.1. Mean	52
3.5.2. T-statistic	53
3.5.3. F-statistic	54

Chapeter-4 Data Presentation and

Analysis

55-84

4.1. Analysis of Liquidity	55
4.1.1. Current Ratio	55
4.1.2. Quick Ratio	56
4.1.3. Cash Ratio	56
4.1.4 . Cash Position Ratio	57
4.1.5. Net Working Capital Ratio	58
4.1.6. Capacity Ratio	59
4.1.7. Liquid Securities Indicator	60
4.2. Analysis of Leverage Ratio	61
4.2.1. Debt Ratio	61
4.2.2. Debt-Equity Ratio	62
4.2.3. Capital Employed to Net worth Ratio	63
4.3. Analysis of Activity Ratio	64
4.3.1. Credit-Deposit Ratio	64
4.3.2. Non-performing Credit to Total Credit Ratio	65
4.4. Analysis of Profitability Ratio	67
4.4.1. Net Profit Margin	67
4.4.2. Return on Assets	68
4.4.3. Return on Equity	69
4.4.4. Return on Investment	70
4.4.5. Net Interest Margin	71
4.5. Analysis of Coverage Ratio	72
4.5.1. Interest Coverage	72
4.6. Analysis of Valuation/Market Value Ratio	73
4.6.1. EPS	73

4.6.2. DPS	74
4.6.3. Payout Ratio	75
4.6.4. P/E Ratio	76
4.6.5. MV/BV Ratio	77
4.7. Test of Hypothesis	78
4.7.1 Test on Homogeneity on D/E Ratio of the Sample CBs	78
4.7.2. Test on Homogeneity on ROA of the Sample CBs	80
4.8. Major Findings of Study	82

Chapeter-5 Summary, Conclusion and Recommendations **85-86**

5.1. Summary	85
5.2. Conclusion	86
5.3. Recommendations	87

Bibliography

Annexes

List of Tables

Table No.4.1.	Current Ratio	55
Table No.4.2.	Quick Ratio	56
Table No.4.3.	Cash Ratio	56
Table No.4.4.	Cash Position Ratio	57
Table No.4.5.	Net Working Capital Ratio	58
Table No.4.6.	Capacity Ratio	59
Table No.4.7.	Liquid Securities Indicator	60
Table No.4.8.	Debt Ratio	62
Table No.4.9.	Debt-Equity Ratio	63
Table No.4.10.	Capital Employed to Net worth Ratio	64
Table No.4.11	Credit-Deposit Ratio	65
Table No.4.12	Non-performing Credit to Total Credit Ratio	66
Table No.4.13	Net Profit Margin	67
Table No.4.14	Return on Assets	68
Table No.4.15	Return on Equity	69
Table No.4.16	Return on Investment	70
Table No.4.17	Net Interest Margin	71
Table No.4.18	Interest Coverage	72
Table No.4.19	EPS	73
Table No.4.20	DPS	74
Table No.4.21	Payout Ratio	75
Table No.4.22	P/E Ratio	76
Table No.4.23	MV/BV Ratio	77
Table No.4.24	One-way ANOVA Table for D/E Ratio of CBs	79
Table No.4.25	One-way ANOVA Table for ROA of CBs	80

List of Figures

Figure No.4.1.	Cash Ratio	57
Figure No.4.2.	Cash Position Ratio	58
Figure No.4.3.	Net Working Capital Ratio	59
Figure No.4.4.	Capacity Ratio	60
Figure No.4.5.	Liquid Securities Indicator	61
Figure No.4.6.	Debt Ratio	62
Figure No.4.7.	Debt-Equity Ratio	63
Figure No.4.8.	Capital Employed to Net worth Ratio	64
Figure No.4.9	Credit-Deposit Ratio	65
Figure No.4.10	Non-performing Credit to Total Credit Ratio	66
Figure No.4.11	Net Profit Margin	67
Figure No.4.12	Return on Assets	68
Figure No.4.13	Return on Equity	69
Figure No.4.14	Return on Investment	70
Figure No.4.15	Net Interest Margin	71
Figure No.4.16	Interest Coverage	72
Figure No.4.17	EPS	74
Figure No.4.18	DPS	75
Figure No.4.19	Payout Ratio	76
Figure No.4.20	P/E Ratio	77
Figure No.4.21	MV/BV Ratio	78

Abbreviations

ANOVA	Analysis of Variance
CBs	Commercial Banks
CD Ratio	Credit-Deposit Ratio
D/E Ratio	Debt-Equity Ratio
DPS	Dividend per Share
EBL	Everest Bank Limited
EPS	Earning per Share
F/Y	Fiscal Year
HBL	Himalayan Bank Limited
M/B Ratio	Market Value to Book Value Ratio (MV/BV Ratio)
Nabil	Nabil Bank Limited
NIBL	Nepal Investment Bank Limited
NPC	Non-performing Credit
NPM	Net Profit Margin
NSBIBL	Nepal SBI Bank Limited
NWC	Net Working Capital
P/E Ratio	Price-Earning Ratio
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment

Bibliography

Bajracharya, Shilu Manandhar & Bhattarai, Rabindra, (2005 Second Edition) **Corporate Financial Management (Theory & Practice)**, Kathmandu, Nepal: Buddha Academic Publishers & Distributors Pvt. Ltd.

Gupta, S.C., (Sixth Edition Reprint 2005) **Fundamental of Statistics**, "Ramdoot", Dr. Bhalerao Marg, Girgaon, Mumbai-40004: Himalaya Publishing House.

Khadka, Shailendra (February, 2009) **A Study on Financial Analysis of Nabil Bank Ltd. & Himalayan Bank Ltd.** Kirtipur: Central Department of Management, T.U.

Mandal, Sujit (November 2007) Tools of Analysis-How to Deploy Them. Kathmandu: **New Business Age**. Vol.7 No.3, pp.18-19.

Pandey, I.M., (2008) **Financial Management**, Ansari Road, New Delhi 110002.: Vikas Publishing House Pvt. Ltd.

Pradhan, Surendra (1980Reprint) **Basics of Financial Management**, Bhotahity, Kathmandu: Educational Enterprise (P) Ltd.

Sherpa, Dhakapa Gela (2001) **Corporate Information Disclosure and Its Effect on Share Price-** An Unpublished Master Degree Thesis. Kirtipur: Central Department of Management, T.U.

Sharma, Basu. (2058 First Edition) **Corporate Financial Management**, Bhotahity, Kathmandu: Taleju Prakashan,

Sharma, Basu. (2001 First Edition) **Financial Management**, Bhotahity, Kathmandu: Taleju Prakashan,

Shrestha, Manohar Krishna (Ph. D) & Bhandari, Dipak Bahadur, (2nd Edition, March 2007) **Financial Markets & Institutions**, Putalisadak, Kathmandu: Asmita Publication.

Singh, Reshu (August, 2004) **A Study on Financial Performance of Banks of Kathmandu(BOK) & Nabil Bank Ltd.(Nabil).** - An Unpublished Master Degree Thesis. Dhobichour: Public Youth Campus, T.U.

Sthapit, Azaya Bikarm (Dr.), Gautam Hiranya, Joshi, Pushpa R. & Dongal, Prakash M.,(Fourth 2006) ***Statistical Methods***, Putalisadak-31(Shanker Dev Campus Building), Kathmandu, Nepal: Buddha Academic Enterprises Pvt. Ltd.

Timilsina, Yogendra (April, 2001). Capital Market Development and Stock Price Behavior in Nepal. ***Economic Review***, Kathmandu: Nepal Rastra Bank. No.13:pp.1-34.

Tuladhar, Urmila (June, 2005) ***A Study on Financial Performance of Nepal SBI Bank Ltd. & Himalayan Bank Ltd.*** - An Unpublished Master Degree Thesis. Kirtipur: Central Department of Management, T.U.

Van Horne, James. C. (Twelfth Edition, Fourth Indian Reprint, 2005), ***Financial Management And Policy***, New Delhi: Person Education, Inc.

Weston, J. Fred and Thomas E. Copeland. (2001), ***Managerial Finance***. New York: The Dryden Press.

Weston, J. Fred and Brigham, Eugene F. (Ninth Edition, 1990), ***Essentials of Managerial Finance***. Orlando: The Dryden Press.

Wolff, Howard K. & Pant, Prem R., (Fourth Edition, 2005) ***Social Science Research And Thesis Writing***, Putalisadak-31(Shanker Dev Campus Building), Kathmandu, Nepal: Buddha Academic Enterprises Pvt. Ltd.

Yadav, Jibachha Prasad (July, 2003) ***A Study on Comparative Financial Performance Analysis of Joint Venture Banks in Nepal.*** - An Unpublished Master Degree Thesis, Kirtipur: Central Department of Management, T.U.