PRE –ISSUE AND POST-ISSUE PERFORMANCE OF FINANCE COMPANIES IN NEPAL

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RECOMMENDATION

This is to certify that the Thesis

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has been prepared as approved by this Department in the prescribed format of Faculty of Management. This Thesis is forwarded for examination.

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DECLARATION

I hereby declare that the worked reported in this thesis entitled Pre-issue and post- issue performance of finance companies in Nepal submitted to Shanker Dev Campus, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment for the requirement of Master's Degree in Business Studies (MBS) under the supervision of Professor Dr. Mahendra Prasad Shrestha and Rabindra Bhattarai of Shanker Dev Campus.

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This study is focused on a comparative study of pre–issue and post-issue performance of finance companies in Nepal. I am hopeful that this research will be helpful to the investors, companies and the regulator for the making investment decision, performance evaluation and regulation. Likewise, this research can also be helpful for those who want to make further research on the related topic.

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CHAPTER- I
INTRODUCTION

1.1 Background

The dictionary meaning of issue is the act of supplying or making available things for people to buy or use. When we talk about the issue of companies, we focus on the equity share or any other type of financial instruments produced by them for sale to the public. This study focuses on equity issues of operating companies. Hence, issue of shares here refers to the act of offering shares to the public.

Company Act 2006, has made clear provision for the establishment of companies in Nepal. According to the Act, private and public companies can be established in Nepal. Private companies start out by raising equity capital from a small number (not more than 50) of investors, with no liquid market existing if the investors wish to sell their stock. As per this act, the private companies can not sell their securities to any party other than their own shareholders. Under this circumstance, if a company prospers and needs additional equity capital, at some point of time the firm generally will not have any other alternative than raising additional equity from the existing shareholders. According to the same Act, public companies can be established with at least 7 members.

A public company going into public must issue at least 30 percent of its paid up capital to the public. Banks and Financial institutions must start as public limited companies. According to Bank and Financial Institutions Act bank and financial institutions are classified into A, B, C and D-class and as national level banks and financial institutions these companies should have started with minimum paid up capital of Rs. 1000 Million, Rs. 640 Million, Rs. 300 Million and Rs. 300 Million respectively. In course of time if the company prospers and needs additional fund at some point the company generally goes public, offering its shares to large number of diversified investors, that we call as the primary issuance of equity shares.

When the securities are sold to the general public for the first time, with the expectation that a liquid market will develop, it is called an initial public offering (IPO). Investors use the relative performance information to buy the shares of the companies. The pre-issue performance of the issuer companies plays a very important role at the time of IPO. Generally the companies having good pre-issue performance become successful in IPO. They can raise the capital easily. But those with poor pre-issue performance will not be

able to raise adequate capital through IPO. This all happen because investors think that the companies having sound pre-issue performance are more likely have similar financial performance in the post-issue and are more likely to yield the same returns in the future.

But the investors may not be always right. Things do not always go as per their expectation. Some of the companies have failed in maintaining similar sound performance after going through IPO. The most probable reasons behind this can be, either they had poor pre-issue performance but managed to show the good statement at the time of IPO or the company was control with certain problem after the IPO.

What so ever, may be the reason information related to the performance of the issuer companies must be available. Investors must get to know the true information related to the pre-issue performance of the IPO going companies. They also must get to know the true and reliable information related to the post-issue performance of different issuer companies. The availability of all the true information enables investors to identify the companies having sound pre and post-issue performance, companies having better pre-issue performance but worse post-issue performance and also the companies having worse pre issue performance but better post issue performance. This facilitates healthy development of the capital market.

Development and expansion of capital market are essential for the rapid economic growth of the country. Capital market helps economic development by mobilizing long term capital needed for productive sector. It is vital to long term growth and prosperity of the economy since it provides the channel through which needed funds can be raised. The capital market can be decomposed into securities market and non-securities market. Securities market is the mechanism that allows suppliers and demanders of fund to make key role in the purchase and sales activities of investors. Non securities market refers to the mobilization of the financial resources by the financial institutions in the form of deposits and loans. Stock market is a major component of the securities market. Stock market is a mechanism through which corporate sector mobilizes funds to finance productive projects by issuing shares in the market. Similarly, stock market provides the best investment opportunity to the investors. It also imparts liquidity to the securities holders. One of the most valuable services performed by securities market is to maintain active trading of securities; so that investors can buy or sell securities immediately. A continuous market increases the liquidity of the securities traded. This offers an investment opportunity for investors to invest in the long liquid cash before the maturity.

Further more they can invest their current income against future income thereby achieve their time preference of consumption. The liquid stock market also promotes primary issuance of share because investors participate in the issuance of share market for they can get back the fund easily. The primary market is positively and highly elastic with stock prices and liquidity in the secondary market.

In the context of Nepal, a capital market was initiated in the country with the establishment of Security Exchange Centre (SEC) in 1976 in the public sector according to the industrial policy. The establishment of Security Exchange Centre was also considered as the first foundation stone for the institutional development of securities market in Nepal. Its objectives were, among other, to assist public limited companies to raise capital through the issue of shares and debentures and to create a market place where purchase and sale of securities take place through intermediaries operating on the floor of the exchange. Planned development at this sector initiated only after the Eight Plan. SEC was converted into Nepal Stock Exchange (NEPSE) in 1994 and started its organized open-out-cry system in its trading floor.

The main objective of the capital market is to create opportunity for the maximum number of people to get benefit from the return obtained by directing the economy towards the productive sector by mobilizing the long term capital. The objective can be fulfilled only by rational and accountable behaviour relating to the three sectors of capital market such as institutions, mediators and investors. (NPC;1998: 167).The effective role of institutions such as, government, central bank, and investors help to promote stock market. Nepal Stock Exchange Ltd. has been acting as secondary market in Nepal. The performance of companies listed in the NEPSE Ltd. plays an important role in the development and expansion of capital market in Nepal. It determines the participation of investors in the stock market. The better they perform, the better they can provide returns to the investors and, hence consequently, there is more attraction of people towards them. In addition to this, the awareness of the investors towards the mechanism of stock market, availability of the information about the performance of listed companies also determines the participation of investors in the stock market. But Nepalese stock market is characterized by a low trading volume, and limited information available to investors. Majority of the Nepalese people are not familiar towards the mechanism of stock market. Those who are familiar have limited information about the performance of companies. For getting optimal involvement of investors in the stock market, investors of large as well as small scale are

to be made familiar with the mechanism of stock market, the information regarding per-issue and post-issue performance of listed and non listed issuer companies should be made available. It is therefore very important to analyze the pre issue and post issue performance of issuer companies in Nepal.

In short what we can say is development of the national economy depends upon the development of financial and other non financial sectors. All round development of all the economic sectors is possible when the capital market of the country is well developed. For the healthy development of capital market of the country investors must be aware of the performance activities of the listed as well as non listed companies. So the study of the pre issue performance and post issue performance of issuer companies occupies very important place for the capital development of the country as it provides information regarding the overall performance of the issuer companies.

There is large number of issuer companies in Nepal. They can be categorized into financial and non financial sector. The financial sector comprises of commercial banks, development banks, finance companies, microfinance group, co-operatives etc where as non financial sector comprises of manufacturing, hotel, trading sectors etc. But among them, only the listed finance companies have been taken selected as the issuer companies for the study purpose. An attempt has been made here to make pre issue and post issue financial performance analysis of listed finance companies.

Finance Company is a financial institution and its principle business is to receive the deposits under any scheme or arrangement or in any other manner and lending in any manner. Most finance companies specialize in consumer financing, leasing and assets based lending with strong preference in short term debt. The liabilities of finance companies comprise of fixed deposit and equity capital. The interest rates charged by these institutions for financial assistance are higher than those charged by commercial banks and other organized financial institutions. On the other side, they also offer higher rates of interests on deposits accepted by them.

Finance companies play a crucial role as a broker of the loan able funds. They act as the intermediaries between the ultimate savers and investors. These institutions reap a number of economies of specialization and scale in mobilizing savings and making investments.

According to NRB's regulation "Unlike commercial banks which are engaged mainly in long term loans to customers for whom they can offer current account, overdraft facilities, these finance companies can operate only fixed and saving deposits"(Unified directives 2009) Since these finance companies are neither allowed to accept demand deposits nor operate current accounts including overdrafts, they have concentrated their funding activities in attracting fixed deposits from public on higher interest rates than commercial banks. It is mainly because of the higher interest rate they provide on fixed deposits they charge higher interest, in lending than commercial banks.

Historically, finance companies were created in the early 1960s and the real need for the creation of these finance companies were felt when commercial banks were unable to serve sectors of economy other than big business houses. The small savings were ignored so were their smaller credit requirements. Need of those institutions serving the deprived sectors were felt and it was that need that gave birth to institutions like finance companies. The history of non-banking financial institutions is not very old. When banking sector started carrying out current activities of finance company, a large number of finance companies were established and they expanded at a rapid pace in the developed countries like UK and USA in 1960s. Their growth was very rapid in comparison to commercial banks as they used to offer higher interest rate on deposits, lower interest rate on loans and swifter service than commercial banks.

Nepalese context there were few insurance companies and Karmachari Sanchaya Kosh working as non-banking financial institution before enactment of Finance Company Act 2042 BS. Need of Finance Company Act was felt because unorganized sector was collecting savings from the common public in the name of Upahar and Dhukuti programs. People showed great interest and enthusiasm in these programs but were cheated by most of the program organizers. Considering such interest, benefit of mobilizing such savings in productive sector, banking sector's inability to carry out capital market activities and to meet consumers need for credit, government felt the need of finance companies and introduced Finance Company Act 2042 BS. However, no finance company was set up till 2049 BS because the act came into effect in 2049 BS after some amendments.

Nepal Awash Bikash Bitta Company Ltd is the first finance company established in 2049 BS promoted by Rastriya Beema Sansthan, Nepal Bank Limited, Rastriya Banijya Bank,

Agricultural Development. In a short span of time, the non-banking financial institutions have grown up drastically. Now, the number of listed finance companies only is 51in numbers. The reason for their speedy growth is higher interest rate on deposits, low administration cost, swift services, swift decision, less liquidity and high demand for consumer's credit. Moreover, they have curtailed Dhukuti and Upahar programs and demerits there of.

Finance company has emerged with an aim to ease and facilitate people in financing business and other ventures. It was not very long ago when people had to spend a lot of time in arranging and getting the finance for their required needs. Finance companies provide loans in very short period of time and are also flexible in rules. Previously, many projects were even abandoned being delayed in providing loans from commercial and developments banks. These days some very big projects have been found financed by the finance companies.

Finance companies in Nepal have a very short history and in this short period, these companies have been able to contribute significantly towards the economy. Finance Company in general provides higher interest rate than the commercial banks, which has encouraged the people to save more and more. It is often seen that a considerable percentage of deposits being saved in the finance companies. The finance companies have been paying a considerable amount of money as in the form of tax as well. Finance companies being in higher tax brackets as commercial banks, the contribution made by them cannot be ignored.

The Finance companies are also playing an important role in providing employment directly in the companies itself and also employing in projects financed by them. The economy is well nourished with all the growing and developing prospects of finance companies.

1.2 Statement of the problem

The history of primary market in Nepal started with the issuance of securities by Biratnagar Jute Mills Ltd and Nepal Bank Ltd in 1937. Though, the market was organized only in 1976 with the establishment of Security Exchange Centre (SEC) Ltd. SEC converted into Nepal Stock Exchange (NEPSE) Ltd in 1994. The formal transaction of securities through brokers was started in Nepal since the conversion of SEC to NEPSE in

1994. Whereas the supreme regulatory body of capital market, Securities Board of Nepal (SEBON), was established on June 7, 1993. The objectives of SEBON are to regulate issue, securities trading, market intermediaries, promote market development and protect investors' right. Out of many functions of SEBON, one important function is to comment on the prospects of issuing companies according to the provision of Security Exchange Act and Companies Act. As per the securities registration and issuance regulation, a company must have completed at least one year to issue securities in the public.

The prospectus includes a short introduction, objectives, existing shareholders with number of share owned, and board of directors of the issuing company etc. It also includes past three years (if any) and projected three years income statement and balance sheet. These statements are the past track record of the company and this is a major factor that should be considered by investors while applying shares. These statements also help investors to predict the future prospects of the company. These statements are one of the bases to the board for approval to the companies to raise fund from the public.

Since its establishment, SEBON provided securities issuance approval to more than 167 companies. Out of these, companies like Siddhartha Bank, Bank of Kathmandu, Everest Bank received approval for two or more than two types of securities issue. Companies from other than financial sector are issued only one type of security like common stock.

In the fiscal year 1993/94 altogether 17 companies received approval for securities issue. Similarly, in 1994/95, 12 companies, in 1995/96, 12 companies, in 1996/97, 5 companies, in 1997/98, 12 companies, in 1998/99, 5 companies, in 1999/2000, 9 companies, in 2000/01, 9 companies, in 2001/02, 16 companies, in 2002/03, 17 companies, in 2003/04, 17 companies, in 2004/2005, 13 companies and in 2005/2006, 29 companies, 2006/2007, 34 companies, 2007/2008, 64 companies and 2008/2009, 64 companies received approval for the securities issue respectively (SEBON's Annual Report, 2008/09).

SEBON approves securities issue on the basis of their past performance and investors also make investment decision in the similar basis. Company issues securities to raise fund and to expand business in the broader level to achieve higher level profit growth. But, are the companies performing well after the issue? Jain and Kini (1994) investigated the change in operating performance of firms as they make the transition from private to public ownership. A significant decline in operating performance subsequent to the initial public offering (IPO) is found. Post-issue declines in the market-to-book ratio, price/earnings ratio, and earnings per share are also documented.

The literature shows that many researches have made comparative performance evaluation of the companies but there is no such study that evaluates financial performance before and after going public. So, it is felt necessary to analyse the impact of public issue in the financial performance of the companies. To sum up, this study deals with the following issues:

(1) How was the performance of issuer companies before going through IPO?

(2) How is the performance of issuer companies after going through IPO?

(3) Do the companies' performance improve after the IPO?

1.3 Objective of the study

The major objective of this study is to analyze the pre-issue and post-issue performance of issuer companies. Its specific objectives are as follows:

- To analyze the pre-issue financial performance of issuer companies
- To analyze the post- issue financial performance of issuer companies
- To compare the pre and post issue performance of the issuer companies

1.4 Limitation of the Study

The study covers only one sector out of 9 sectors divided in the Nepal Stock Exchange (NEPSE). Hence the result cannot be generalised for all the sectors.

1.5 Organization of the Study

The study has been divided into five chapters and which are organized in the following manner:

Chapter one deals with introduction of the study and which the statement of problems, objective of the study, limitation of the study and organization of the study.

Chapter two is the review of literatures. This chapter summarizes the different theoretical concepts and finding of researches done in related fields by researchers as well as students. Main themes of some articles published in different media such as journals, paper and web sites are also incorporated in the chapter.

Chapter three deals with the research methodology in which the method employed in the study has been described. Concept of research methodology, nature and sources of data, population and sampling, data collection tools and procedures are explained. Methods applied for processing of raw data and presentation as well as analysis techniques are also described in the chapter.

Chapter four deals with the presentation and analysis of data. In this chapter the data collected during the study after being processed are presented in appropriate manner and the results are interpreted with analytical and descriptive method. The findings and results are thus inferred in the chapter.

Chapter five explains the summary, conclusions and recommendations of the study.

In addition to these chapters, bibliography and annexes have also been listed at the end.

CHAPTER-II
REVIEW OF LITERATURE

Review of literature means reviewing research studies of other relevant propositions in the related area of the study. So that, all the past studies, their conclusions and deficiencies may be known and further research can be conducted. This part of the study highlights available literature related to this research which makes base of knowledge for the study. Review of literature is stock taking of available literature in one's field of research. It comprises conceptual review, review of related studies and concept of financial analysis.

Review of literature is a way to discover what other research in the area of our problem has uncovered. Scientific research must be based on the past knowledge. The previous studies cannot be ignored because they provide the foundation to the present study (Wolf and Pant, 1999:3).

Keeping in view the absence of the required research made comparing the pre-issue and post-issue performance of the issuer companies, basically the reviews have been extracted only from the post-issue performance of issuer companies.

2.1 Conceptual Review

Public limited companies, by taking permission from concern authority, can issue securities to the public to raise the needed fund. The period before going to the public is known as the pre-issue period and the period after going to the public is known as the post-issue period. The financial performance of the companies before and after the issue may change.

Finance is concerned with those activities related to money. Previously finance was limited for procurement of long term fund. Due to industrialization, technological innovations and intense competition, there has been a vast change in the philosophy of management. Likewise the discipline of financial management has undergone an unprecedented change.

"Financial management is that managerial activity which is concerned with planning and controlling of the firm's financial resources (Pandey, 2004:31).

Evaluation of financial performance is a study of overall financial position of any organization. It is closely related to the decision making. In the modern context, it gives vital support for the investment decisions, financing decisions and dividend decisions. Financial performance analysis is undergone with the help of periodically made financial statements of the firm.

2.1.1 Financial statements

The Financial Statements are the means of presentation of a firm's financial condition and basically consist of two types of statements - The Balance Sheet & Income Statement. These are prepared to report the overall business activities as well as financial status of the firm for a specified period to its stakeholders. These contain summary of information regarding financial affairs that is organized systematically. The top management is responsible for preparing these statements.

The basic objective of financial statements is to assist in decision making. The analysis and interpretation of financial statements depend on the nature and type of information available there in (Panday, 2004: 31).

Hence financial statement refers to any formal and original statement that discloses the financial information related to any business concern during a period. The income statements and balance sheet usually prepared at the end of each financial year show the firm’s position.

A) Balance Sheet

Balance sheet is one of the basic financial statements of an enterprise. It is also called the fundamental accounting report. As the name suggests, the balance sheet provide information about financial standing or a position of a firm at a particular point of time

usually end of the financial year. It can be visualized as a snapshot of the financial status of a company (Khan and Jain, 1993:13).

Balance sheet summarizes the assets, liabilities and owner's equity of a business at a moment of time, usually at the end of the financial year. Balance sheet is a financial statement, which contains information regarding different capital expenditures made on purchase of assets on particular date and information regarding various sources of funds acquired by the business concern to finance these assets and also the different sources of capital and liabilities at that particular point of time.

B) Income Statement

Income statement is designed to portray the performance of the business firm for specific period of time i.e. for a year or month or quarter. The business revenues and expenses resulting from the accomplishment of the firms operation are shown in the income statements. It is the "Scoreboard" of the firm's performance during particular period of time. It shows the summary of revenues, expenses and net income or loss of a firm for a particular period of time. Income statement also serves as a true measure of the firm's profitability**.** (Ibid: 99)

2.1.2 Financial Analysis

Financial analysis is the process of determining financial strengths and weaknesses of a company by establishing strategic relationship between the components of a balance sheet and profit and loss statement and other operative data (Pandey, 1999:96).

Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by a single set of statements and a study of the trends of these factors as shown in a series of statement (Myer, 1961:4).

Financial statement analysis involves the use of various financial statements. These statements perform several things. First, the balance sheet summarizes the assets, liabilities

and owner's equity of a business at a moment in time, usually the end of a year or a quarter. Next, the income statement summarizes the revenues and expenses of the firm over a particular period of time, again usually a year or quarter. While the balance sheet represents a snapshot of the firm's financial position at a moment in time, the income statement depicts a summary of the firm's profitability over time. From these two statements certain derivate statements can be produced, such as statement of retained earnings, a sources and uses of funds statements and a statement of cash flows etc (Van Horne, 1996:56).

Financial analysis is the process of identifying the financial strengths and weaknesses of the firm by properly establishing relationship between the items of the balance sheet and profit and loss account (Pandey, 2004-560). Analyzing financial statements is a process of evaluating relationship between component parts of financial statements to obtain a better understanding of a firm's position and performance (Metcalf, 1976:157).

Financial statement analysis allows managers, investors and creditors as well as potential investors and creditors to teach conclusion about the recent and current status of a corporation" The checking of financial performance in a business deserves much attention in carrying out the financial position. It also requires to retrospective analysis for the purpose of evaluating the wisdom and efficiency of financial planning. Analyzing of what has happened should be of great value in improving the standards, techniques and procedures of financial control involved in carrying out finance function (Kuchhal, 1982;37).

The four basic statements contained in the annual report are the balance sheet, the income statement the statement of the retained earnings and the statement of cash flows. Investors use the information contained in these statements to form expectations about the future levels of earnings and dividends and about the risks of these expected values. Financial

statement analysis generally begins with the calculation of a set of a financial ratios designed to reveal the relative strength and weakness of a company as compared to other companies in the same industry, and to show whether the firm's position bas been improving or deteriorating over time (Weston, 1996:306). Financial analysis is that sort of calculation which is done with the help of annual report. And the annual report would contain the essentials for such analysis. So the data retrieved from the annual report is indispensable for the financial analysis.

It is both an analytical and judgmental process that helps answer questions that have been properly posed. Therefore, it is means to end. Apart from the specific analytical answer, the solutions to financial problems and issues depend significantly on the views of the parties involved, the related importance of the issue and on the nature and reliability of the information available (Helfert, 1992:2).

Financial appraisal is a scientific evaluation of profitability and financial strength of any business concern. Financial appraisal is the process of scientifically making a proper, critical and comparative evaluation of the profitability and financial health of a given concern through the application of the techniques of financial statement analysis. A complete financial analysis and interpretation of financial statement involves the assessment of past business performance, an evaluation of the present condition of the business and the predictions about the future potential for achieving expected or desired results (Jain,1996:36- 37).

The analysis and interpretation of financial statement depicts the actual position of a firm regarding the objectives of that firm within a specified period of time. "Financial appraisal is a process of synthesis and summarization of financial and operative data with a view to get an insight into the operative activities of a business enterprise. It is a technique of X-raying the financial position as well as progress of a concern" as observed by Robert H.

Wessel.

The main function of financial analysis is the pinpointing of the strengths and weakness of a business undertaking by regrouping and analysis of figures contained in financial statements by making comparison of various components and by examining their contents. This can be used by financial managers as the basis to plan future financial requirement by means of forecasting and budgeting procedures (Man Mohan, 1997:356).

Financial statement analysis involves a comparison of firm’s performance with that of other firms in the same line of business which often is identified by the firm's industry classification. Generally speaking, the analysis is used to determine the firm's financial position in order to identify its current strengths and weakness and to suggest actions that might enable the firm to take advantage of the strengths and correct its weaknesses (Weston, 1996:78).

Financial analysis is used primarily to gain insight into operating and financial problems confronting the firms with respect to these problems. We must be careful to distinguish between the cause of problem and symptom of it. It is thus an attempt to direct the financial statements into their components on the basis of purpose in the one hand and establish relationships between these components and between individual components and totals of these items on the other. Along with this, a study of various important factors over the past several years is also undertaken to have clear understanding of changing profitability and financial condition of the business organization (Hampton, 1998:99).

uch can be learnt about business performance and financial position through appraisal of financial statements, the appraisal or analysis of financial statements spotlights the significant facts and relationship concerning managerial performance, corporate efficiency, financial strength and weakness and credit worthiness that would have otherwise been

buried in a maze of details (Jain, 1996:37).

2.1.3 Objectives of Financial Analysis

Financial analysis enables us to explore various facts related to the past performance of business and predicts about the future potentials for achieving expected results. Major objectives of analysis of financial statement are to assess various factors in relation to the business firm as presented below.

- The present and future earning capacity or profitability of the concern
- The operational efficiency of the concern as a whole, and of its various parts or departments.
- The short-term and long-term solvency of the concern.
- The comparative study regarding to one firm with another firm.
- The possibility of developments in the future making future forecasts and preparing budgets.
- The financial stability of business concern,
- The rea1meaning and significance of financial data,
- The long term liquidity of its fund.

2.1.4 Need of Financial Analysis/ Financial Statement Analysis

The need for the analysis of financial statement arises in order to address the following questions (Pradhan, 2000: 47-48).

- How was the firm doing in the past? Was there any problem? If so, in what Area?
- How it is doing at present? Is it doing better compared to the past performance, competitors and industry average? Is there any problem at present? If so, in what areas?
- What about the future? Is there any likely problem on the way in the future? What will its position be in the future?

- What corrective actions can be taken now to solve the problems and improve the performance? How will the recommendation of any course of actions or changes in the policy or practice help solve problems and improve the company's position?
- What are the expected results of recommendations? Are there any improvements?

2.1.5 Significance of Financial Analysis

Significance of analysis lies on the objectives of financial analysis of any firm. The facts discovered by the analysis are perceived differently by different groups associated with the concern. The facts and the relationships concerning managerial performance, corporate efficiency, financial strengths and weaknesses and credit worthiness are interpreted on the basis of objectives in the hand.

Such analysis leads management of an enterprise to take crucial decisions regarding operative policies, investment value of the firm, internal financial control system and bargaining strategy for funds from external sources (Agrawal, 1993:582).

The parties that are benefited by the results or conclusion drawn from the analysis of financial performance can be numerated as (Srivastava, 1993:58-59)

- Top Management
- Creditors
- Shareholders
- Economists
- Labor Unions

A) Top Management

The responsibility of the top management is to evaluate:

- Are the resources of the firm has been used effectively and efficiently?
- Is the financial condition of the firm sound enough?

On the basis of past facts, firms can anticipate their future. Hence, top management

can measure the success or failure of a company’s operations, determine the relative efficiency of various departments, process and products appraise the individual’s performance and evaluate the system of internal audit.

B) Creditors

The creditors can find out the financial strength and capacity of the borrower to meet their claims. Trade creditors are interested in the firm’s ability to meet their claims over a short span of time. The suppliers of long term debt focus upon the firm’s long term solvency and survival. A lending bank through and analysis of these statements can decide whether the borrower retains the capacity of refunding the principal and paying interest in time or not.

C) Shareholders

The shareholders, who have invested their money in the firm' s shares are most concerned about the firm's earning. They evaluate the efficiency of the management and determine about the necessity for the change. In large company the shareholder's interest is to decide whether to buy, sell or hold the shares. They wish to buy the shares in case of sound performance of the firm where as they simply intend to hold the shares in the condition of satisfactory performance. But they are hurried to sell the shares in case of poor performance.

D) Economists

To diagnose the prevailing status of business and economy, economists analyze the financial statements (of any firm). The government agencies analyze them for the purpose of price regulation; rate setting and similar other purposes.

E) Labor Unions

Productivity is the synonym of well-motivated labors. Labor unions are interested in rights and benefits of labor to enhance the moral of labors. For further

motivation they expect increase in wages, fringe benefits and so on. These benefits are affected by the company's profitability condition. Therefore the union assesses the financial condition of the firm to determine whether the firm is in the situation or not to make such facilities available.

2.1.6 Process of Financial Analysis

Financial analysis basically financial statement analysis, is a technique of answering various questions regarding the performance of a firm in the past, present and the future on the basis of past performance. The analysis recommends the steps to be taken by financial managers while undergoing the assessment of financial position.

The questions, that as elucidated above create the need to follow certain steps such as first identification and analysis of problem in order to come up with appropriate recommendations, and then to project the expected results and examine them if there are improvements before implementing such recommendations. The following chart presents the process to be followed in the analysis of financial statements.

2.1.7 Types of Financial Analysis

The nature of financial analysis differs according to the purpose of the analyst. " a distinction may be drawn between various types of financial analysis either on the basis of material used for the same or according to the modus operandi of the analysis (Man Mohan, 1997-356).

A) According to material used

1. External Analysis

It is made by those who do not have access to the detailed records of the company. This group, which has to depend almost entirely on published financial statements, includes investors, credit agencies and governmental agencies regulating a business in a nominal

way.

2. Internal Analysis

The internal analysis is accomplished by those who have access to the books of accounts and all other information related to the business. While conducting this analysis, the analyst is a part of the enterprise he is analyzing. Analysis for managerial purpose is the internal type of analysis and is conducted by executives and employee of the enterprise as well as governmental and court agencies which may have major regulatory and other jurisdiction over the business.

B) According to Modus Operandi Analysis

1. Horizontal Analysis

When financial statements for a number of years are reviewed and analyzed, the analysis is called horizontal analysis. As it is based on data from year to year, rather than on one date or period of times as a whole, this is also known as dynamic analysis.

2. Vertical Analysis

It is frequently used for referring to ratios developed for one date or for one accounting period. It is also called static analysis.

Besides, the types of financial analysis on the basis of material used and modus operandi, S.P Jain and K.L. Narang have categorized on the basis of objective of the study.

C) According to Objective

1. Long Term Analysis

This is made in order to study the long term financial stability, solvency and liquidity as well as profitability and earning capacity of a business concern. For the long run success of a business concern, this analysis helps in the long term financial planning.

2. Short Term-Analysis

This is made to determine the short-term solvency, stability and liquidity as well as earning

capacity of the business. This analysis is helpful for short term financial planning.

2.1. 8 Techniques of Financial (Statement) Analysis

The fundament of the analytical technique is to simplify or reduce the data under review to the understandable terms. There are various tools and techniques of financial statement analysis, each of which is used according to the purpose for which the analysis is carried out. The widely used techniques are as follows:

a. Ratio Analysis
b. Du Pont System of Financial Statement Analysis
c. Common Size Analysis
d. Funds Flow Analysis
e. Cash Flow Analysis

a. Ratio Analysis:

Ratio analysis has been used as a major tool in the interpretation and evaluation of financial analysis. The term ratio refers to the numerical quantitative relationship between the two items/variables. A ratio is calculated by dividing one item of the relationship with the other base. In financial analysis, a ratio is used as a yardstick for the evaluation of financial performance of the firm. "The analysis of financial ratio involves two types of comparison. First, the present ratio may be compared with the past and expected future ratios for the same company and second, the method of comparison involves comparing the ratios of one firm with those of similar firm or with industry averages at the same point, in time. Such comparison gives insight into the financial performance of the firm." Ratio analysis is widely in use. It may not give the entire picture of an enterprise. Ratios themselves are not conclusion. They are only the means. The Ratios are calculated from data available in the financial statement of an enterprise. The Ratio completed from the available data are numerical, there should not be the tendency to regard them as a precise

portrayals of a firm true financial status. For some firms, accounting data may closely approximate economic reality, for others, it is necessary to go beyond the figures in order to obtain their financial condition of performance.

Types of Ratios

Different Ratios can be calculated from the available data in the financial statement. Broadly Ratios are classified in four groups. They are:

i) Liquidity ratios

ii) Capital structure/leverage ratios

iii) Activity (assets management) ratios

iv) Profitability ratios

i) Liquidity ratio

Liquidity refers to the ability of enterprises to pay its current liabilities. Liquidity implies the utilization of such funds of the firm which are idle or in very little amount. A proper balance between the two contradictory requirements i.e. liquidity and profitability are required for the efficient financial management. The more current assets associated with high liquidity and low profitability and vice versa. The less current Ratio and quick Ratio are the most widely used ratios for the general purpose to measure the liquidity position of an enterprise.

ii) Capital structure/leverage ratios

The Capital Structure/Leverage Ratio is associated with the long -term solvency of an enterprise. The long -term creditors would judge the soundness of a firm on the basis of long term financial strength measured in terms its ability to pay the interest regularly as well as repay the instalment of principal due to dates or in one lump sum at the time of maturity. Leverage Ratios show how much of an enterprise's fund are financed by debt & equity. These Ratios also show the prospects for future financing.

The Capital Structure Ratio indicates the soundness of capital structure of an enterprise. It can be calculated on two ways. The first approach is to examine what proportion of borrowed capital occupies the capital structure i.e. calculated the Debt to Total Capital Ratio. The second approach is to examine the number of times the interest earned covered by earnings and to calculate the fixed charges covered by earnings.

iii) Activity ratio

An Activity Ratio may be defined as the test of relationship between sales and various types of Activity Ratios. Activity Ratios are employed to evaluate the efficiencies with which the firm manages and utilizes its assets. These Ratios are also called Turnover Ratios because they indicate the speed with which the assets are being covered or turned over into sales. So Activity Ratios presume that there exists an appropriate relationship between sales and various assets. The more important Activity Ratios for general -purpose analysis are Inventory Turnover Ratio, Total Assets Turnover Ratio, Fixed Assets Turnover Ratio, Capital Employed Turnover Ratio etc.

iv) Profitability ratio

Profitability is very important aspect of management of any enterprise. It shows the overall performance of an enterprise. The Profitability Ratios are calculated to measure the operative effectiveness of an enterprise. Besides management of the company, creditors and owners are interested in the Profitability Ratios of the firm. Profitability Ratios can be calculated on the basis of either sales or investment. The important Profitability Ratios, calculated in relation to sales are Net Profit Margin, Gross Profit Margin, and Operating Expenses Ratio etc. Similarly, the important Profitability Ratios, calculated in relation to investment are Return on Shareholders' Equity, Return on Capital Employed, and Return on Fixed Assets etc. Together these Ratios indicate the firm's efficiency of operation (Panday, 1998: 133).

c. Common Size Analysis

The common size analysis is another technique of analyzing the items of financial statement on relative terms. Under this method, the percentage of every item in the income statements and balance sheets is carried out for past several years to determine the performance trend of each item during the period under analysis. After analyzing the rising, falling or constant trend of efficiency in the business operation one can make comparison with the industry average or competitors.

The common size analysis is carried out for a period of one or more. The income statement items are divided by sales and expressed as a percentage of sales. The balance sheets items are divided by total assets and expressed as percentage of total assets. These percentages for a company are compared with the standard measures such as percentages calculated in the same manner industry and the competitors.

Thus, the comparison shows the company's performance relative to competitors as well as compared to it own past record.

d. Funds Flow Analysis

Funds flow analysis is the statement of changes in financial position of any organization that determines only the sources and used of fund between two dates of balance sheet. It is prepared to uncover the information that financial statements fail to describe clearly. It describes the sources from which funds were derived and used to which these funds were put.

The statement is prepared to summarize the changes in assets and liabilities resulting from financial and investment transactions during the period as well as those changes occurred due to the changes in owner’s equity. It also uncovers the way of using financial resources during the period by the firm.

Method of preparing funds flow statement depends essentially upon the sense in which the

term 'fund" is used. There are three concept of fund: cash concept, total resources concept and working capital concept. According to cash concept, the word fund is synonymous with cash. Total resources concept refers total assets and resources as fund. The term' fund" represents only to working capital on the stated last concept However, working capital concept of fund has gained wide acceptance as compared to the other concepts. Therefore any transaction that increases the amount of working capital is taken as source of fund while conducting funds flow analysis. Any transaction that decreases working capital is treated as application. But, any transaction that affects current liabilities or current assets without resulting any changes in working capital is not taken as sources or use.

e. Cash Flow Analysis

This statement is carried out to know clearly the various items of inflow outflow of cash. It is different from funds flow analysis in the sense, the analysis relates to the movement of cash rather than the inflow and outflow of working capital.

It deals the causes of changes in cash position for the period of two balance sheets date in brief. At the time of preparing cash flow statement, only cash receipt from debtors against credit deals are considered as the source of cash. Similarly, cash purchases and cash payments to suppliers for credit purpose are regarded as the uses of cash. The same holds true for expenses and incomes outstanding and prepaid expenses are not to be considered under this analysis.

2.1.9 Limitations of Financial Analysis

Financial performance analysis is of great significance for investor, creditor, management, economist, and other parties having interest in business. It helps management to evaluate its efficiency in past performance and takes decision relating to the future (Jain, 1989-33). However, it is not free from drawbacks. Its limitations are listed below.

(a) Historical nature of financial statements:

The basic nature of statements is historical. Past can never be a precise and can never be perfectly helpful for the future forecast and planning.

(b) No subject for judgment:

Financial analysis is a tool to be used by experts, analysts etc. to evaluate the financial performance of firm. That's why it may lead to faulty conclusion if used by unskilled analyst.

(c) Reliability of figures:

Reliability of analysis depends on reliability of the figures of the financial statements under scrutiny. The entire working of analysis will be vitiated by manipulation in the

income statement, window dressing in the balance sheet, questionable procedures adopted by the accountant for the valuation of fixed assets and such other facts.

(d) Single year analysis is not much valuable:

The analysis of these statements relating to single year only will have limited use and value. From this, one can not draw meaningful conclusion.

(e) Result may have different interpretation: Different users may differently interpret the result derived from the analysis. For example, a high current ratio may suit the banker but it may be the cause of inefficiency of the management due to under-utilization of fund.

(t) Change in accounting methods:

Analysis will be effective if the figures derived from the financial statements are comparable. Due to change in accounting methods the figures of current period may have no comparable base, and then the whole exercise of analysis will become futile.

(g) Pitfall in inter-firm comparison:

When different firms are adopting different procedures, records, objectives, policies and different items under similar heading, comparison will be more difficult. If done, it will not provide reliable basis to assess the performance, efficiency, profitability and financial condition of the firm as compared to the whole industry.

(h) Price level change reduces the validity of analysis:

The continuous and rapid changes in the value of money, in the present day, economically also reduces the validity. Acquisition of assets at different level of prices make comparison useless as no meaningful conclusion can be drawn from a comparative analysis of such items relating to several accounting periods.

(i) Selection of appropriate tool

There are different tools of analysis available to the analyst. The tools to be used in a particular situation depend on skill, training, intelligence and expertise of the analyst. If wrong tool is used, it may lead to wrong conclusion. This may be harmful to the interest of

business.

2.2 Concept of Financial Performance

Financial performance can be defined as the act or process of performing all the financial activities. How well or bad the financial activities of an enterprises have been performed is the financial performance of this enterprises. A well performed financial activity ensures the success of the enterprises where as a poorly performed financial activities indicate the failure. So, financial performance as a part of financial management is the main indicator of the success or failure of the enterprises. Better financial performance is always a point of attraction for all the stakeholders such as owners, managers, creditors, investors. Employees, customers, tax authorities etc.

Financial analysis helps to know the financial performance of an enterprise. Financial analysis is a process of identifying the financial strength and weakness of a firm by properly establishing relationship between the items of balance sheet and profit and loss (Pandey, 1992: 109). Financial analysis is nothing but a means to get to the real picture of the financial performance of enterprises. According to Hampton" financial analysis is the process of determining the significant operating and financial characteristics of a firm from accounting data and financial statement. The goal of such analysis is to determine the efficiency and performance of the firm's management, as reflected in the financial records and reports."

Financial statements are such records and reports which contain the data required for performance measurement. It contains the summery of the accounts of a business enterprise, the balance sheet reflecting the assets, liabilities and capital as of a certain date and the income statement showing the results of operation during periods. Financial statement analysis is a general term referring to the process of extracting and studying information in financial statements for use in management decision making. Financial statement analysis indicates an appraisal of a company's previous financial performance and its future potential. The analysis of financial statement is done to obtain a better insight into a firm's position and performance. In fact, analyzing financial statement is a process of evaluating the relationship between component parts of a financial statement of the enterprise to obtain the better understanding of a firm's position and performance. Thus, financial analysis is the analysis of financial statements of the enterprises which is done to evaluate the performance of the enterprise.

Financial statements are usually analyzed with the help of financial tools, and financial

ratios are one of the primary tools. The relationship between two accounting figures, expressed mathematically is known as financial ratio (Pandey, 1992: 110). Ratio is used as an index of yardstick for evaluating the financial position and performance of the firm. It helps analysts to make quantitative judgment about the financial position and performance of the firm. It uses financial reports and data and summarizes the key relationship in order to appraise financial Performance. Important ratios can be calculated from B/S and P/L account. Various ratios like liquidity ratio, capital structure ratio, efficiency ratio and profitability ratio are calculated in this regard.

Finance company is a firm that loans money to people who promise to repay the loan with interest over a specified period of time. Borrowers may be required to offer some guarantee that they will repay the loan, such as a lien on their salary or personal possessions. Some finance companies also offer credit card services that let the holder buy merchandise. They also make loans to traders and manufactures. A trader may offer the finance company a purchaser's contract to buy goods on in instalment payment as security for a cash loan. Business people who need a loan can offer property, merchandise or unpaid bills owing to them as security.

Finance companies are a significant factor in the consumer and commercial credit financial market. Finance companies serve as financial intermediaries by purchasing wholesale quantities of goods and then reselling it to individual consumers and businesses in retail quantities at retail prices. The growth of these financial institutions can be directly tied to changes in lifestyles, preference for private homeownership, and the related demand for consumer durables.

Finance companies came into operation under the finance companies act 2042 BS. They usually accept time deposits and advances loans to individuals, firms, companies or institutions for agriculture as well as non agriculture purpose in order to promote their economic benefits. They also perform function of merchant banking with prior approval of Nepal Rastra Bank. They are popular among low income and medium class people to make available hire purchase facility and other loans for the purchase of vehicles, machinery, tools, equipment, durable household goods or other similar movable property.

Financial Institutions prepare financial statement with generally accepted accounting principles and as per the provisions of Banks and Financial Institutions Ordinance and Directive issued by Nepal Rastra Bank. They also publish their audited balance sheet and profit and loss account in the leading newspaper for the information of general public. The balance sheet is composed of financial claims as liabilities in the form of deposit and as

assets in the form of loans. Fixed assets account for a small portion of the total assets. Financial innovations, which are generally contingent in nature, are considered as off balance sheet items. Interest received on loans and advances and investment and paid on deposit liabilities are major components of profit and loss account. The major sources of income are fee, commission, discount, service charges etc.

Financial ratios are used to evaluate the performance of financial companies. The ratios themselves do not indicate position and performance of the financial institutions; a standard or norm is needed to judge them. Mostly used criterion is analyzing trend in performance and making comparison over time with similar financial institutions. An attempt to make comparison with the pre issue and post issue financial performance of the same financial companies has been made in this study.

Due to the absence of the required research made, comparing the pre issue and post issue performance of the issuer companies, basically the reviews have been extracted only from the post issue performance of financial companies.

2.3 Review of related studies

Van Horne (2004 has divided financial ratio into four type liquidity ratio, debt ratio, profitability ratio and coverage ratio. These ratios are helpful for managerial control and for a better understanding of what outside suppliers of capital expect in financial condition and performance. He defines that until and unless there is comparison, financial analysis is meaningless therefore it should be compared with own firm overtime an inter firm.

Weston and Brigham (2002) describe that if management is to maximize the value of the firm's stock price, it must analyze the weaknesses and strength of the firm which is possible from the ratio analysis which help to assess the comparative financial performance. Financial statement analysis involves a comparison of firm's performance with that of other firm in the same line of business. The analysis is used to determine the firm's financial position in order to find out current strength and weakness and to suggest action that might be useful to firm to take advantage.

The growth of finance companies can be directly tied to changes in life styles. Preferences for private home ownership and the related demand for consumer durable goods, Finance companies provide in the form of short term and long term debentures or bonds. These bonds are subordinate to the claims of other creditors and are therefore riskier; they

demand a higher rate of return (Edmister,1980: 144).

Pandey (2003) defined various functions in financial management in which raising of funds, investing them in assets and distributing return earned from assets to shareholders, which are respectively known as financing, investing and dividend decision. While performing these funding a form should balance cash outflow and inflow, which is known as liquidity decision he also added the list of important decisions.

Pradhan (2001) in his article "Transaction Analysis of Finance companies in Nepal" has concluded that the finance companies are centred in the city as like commercial banks. If this trend remains, the central bank is to consider novel strategy. The central bank and government are expected to create or play a positive role in expanding Finance Companies throughout the country.

Poudel (2003) has compared finance companies with the commercial banks. Interest rate is relatively higher that is provided and accepted by finance companies. He also says the FC's should learn from the draw backs, failure and also from the success of the commercial banks and should introduce novel technology and equipment to collect deposits and investments.

Timilsina (2004) compared the projected financial statement with the actual financial statement of the issuer companies. He found out significant differences in the projection and actual achievement. He concludes that the companies deciding for IPO overstate their accounting figures. Therefore due considerations should be given either to improve the accuracy on projection or review the incorporation of financial projections in the prospectus of the issuer companies.

Neupane (2006) concluded that the finance companies with new financial instruments and innovation are highly needed in the country. There is still ample room for developing varieties of companies and financial instruments to attract small savings. This will provide investment opportunities to the small and medium savers. Nepalese people have the better experience of being cheated by the so-called UPAHAR, INSTALLMENT and other prize awarding schemes. Therefore, efforts could be made to create a sound institutional base so that people will not be cheated by freaks.

Karki (2007) has stated that the future of finance companies may not be always strong.

When a company is not successful in mobilizing deposit, then the saving conditions of deposit holders is too risky. Thus, the justification of deposit is must. Finance companies are following the same footstep of commercial banks which that are not favourable. They should identify new areas for investment to motivate the flow loan in new area instead of following commercial banks ideas and knowledge. They should not be successful to take opportunities and expand the adequate service in the existing economic activities of the country. So, before providing authorities, affiliate offices should be conscious for ling run operation of finance companies.

Nepal (2006) in establishment of finance companies, their numbers, least saving of people and consecutive dealing with finance companies have pointed to the crisis in the future due to Nepal Rastra Bank is expected to assess and observe the finance due to companies established by natives and foreigners. He suggested that of concerned experts should held discussion without any delay.

Palikhe (2007), has concluded that to trigger timely change in the economy of country and living standard of Nepalese people, the role of finance companies are important. But the quantity of finance companies does not count. Presently the trend of servicing in the urban areas should be discouraged and the rural regions should be made the main target area. In the political environment where commitment is lacking and open border with India, the finance companies have a difficult task to struggle against the minimum of pre-requisites.

Sapkota (2007) has concluded that the finance companies have contributed much to use financial equipment in the system of Nepales finance. The habit of saving and depositing is on the rise among Nepali customers as the finance companies are servicing door to door. They are interested in promoting capital. The debtors are also facilitated by the quick service in loan. As the finance companies are focusing on consumer commodities, they have not been able to contribute in the productive sectors like agriculture, industry and other.

Poudel (2001) stated in his articles that it is too early to evaluate the performance of FC's in Nepal but equally important fact is that the regulatory and supervisory authority should keep close eye to monitor their activities. He further has presented some important points which are:-

1. NRB should direct FC strictly in maintaining the prescribed regulations.
2. NRB should publish the rating of FC's so that their position can be well known to public.
3. The loan portfolio of FC's should be more diversified and should search new investment opportunities. FC's should diversify their activities to rural sectors, more and more concentration on cities will increase unnecessary competition.

Shrestha (1995) Finance Companies in Nepal are generally the outcome of government's economic liberalization policy. In a situation when commercial banks are unable to meet the credit requirements. FC's have been successful in meeting timely credit need. He further describes the position of few FC's and their working style. Further describes the position of few FC's and their working style. The analysis of their lending and investing activities show only very few finance companies have aggressive investment strategy compared to most of them following conservative strategy. Major part of their lending is in consumer durable through hire purchase and then to housing loan but later on there has been a gradual shift in lending policy towards term loan that consists of business and industrial loan. Therefore the financial performances of FC's have been varied from one company to another significantly in terms of their profitability, dividend payment and market price. He suggests that FC's should be able to demark the differentiation of them being different from commercial banks. For FC's there are many merchant banking activities available such as project planning, corporate counselling, loan syndication through underwriting, bridge financing issue management etc are risky but are profitable.

He has presented some valuable suggestions for better performance and long term survival of FC's which are as followings:-

* There should be clear-cut policies regarding what field of activities to be performed by FC's.
* There should be shift of credit from current activities to the productive industrial sectors thereby having meaningful relationship of FC's with national development.
* Since NRB is the main regulatory body, it should come forward with strategies in directing them properly.

Shrestha (2058) The main theme are as follows

1. Despite the existence of numbers of financial institution, local lending and borrowing transaction has covered about 80% of total credit demand of Nepal.
2. In the past costumers used to approach to financial institutions but nowadays the

institutions need to go to the clients for providing financial services. Thus finance companies need to modify their working style as demanded by time and should concentrate in quick and practical services.

3. There should be debt recovery act in Nepal.
4. Finance Companies are seen not getting able to collect long-term deposit satisfactorily. So they need to try to increase public confidence towards them.

Ghimire (2059) has attempted to suggest a broad framework for regulating depository institution. In this article four important regulations are discussed and they are:

1. Licensing Requirement.
2. Minimal capital Requirement.
3. Investment Restriction.
4. Capital adequacy Requirement.

Regulatory Discretion on Licensing

NRB has the discretionary power on who should not be allowed to open or won a company, NRB is supposed to take its decision after evaluating the potential owner's background. This regulation stops every third person walking on the street to start owing or running a company and stopping the probability of misuse and fraud in functioning of the system.

Minimum Capital Requirement for Licensing

Current regulation stipulates minimum amount of equity capital that the company should have to get license in operation and mobilizing deposits. This will definitely put bar on new entrance and lower the current competition by allowing already operating institution to operate freely. Since the concentration activity has been on capital only, there has been geographical sanction too.

According to Mr. Ghimire, the restriction on capital requirement and geographical location should be scrapped off. Minimal capital requirement should be substituted by minimum infrastructure. There should be regulation that portion of capital must be required in every risky investment. As far as geographical restrictions are concerned, capital can freely move from one geographical area to another, so there is no need of this restriction.

Investment Restriction

This regulation restricts how and where an institution can invest. For example, limit to any one sector, to any borrower or any one category etc. productive investment by the company affects the nation's economy. Restriction on investment on single borrower

avoids the risk of failure of any single borrower adversely affecting the intervention on their issues as companies have been smartly violation these regulations.

Capital Adequacy Ratio

Commercial Banks are primarily controlled by capital adequacy requirement whereas finance companies are controlled by the maximum amount of deposit fixed at a certain multiple of the net worth.

Capital indicates degree of owner's commitment on these institution and cushion against shrinkage of the assets of company in event of default. Since capital indicates degree of owner's commitment, capital as a percentage of risky investment should be enforced.

At the end, he further presents some of conclusions remarks and recommendation:-

- The regulation to be resorted must be carefully examined, analyzing the marginal cost and benefit.
- Depositing institutions engaged in the function of mobilizing deposits should be subject to uniform rules.
- Regulatory intervention in enhancing the overall efficiency is required.
- Minimum capital requirement for opening any financial institution should be scrapped.
- Regulation that does not make economic sense and that cannot be enforced hould be scrapped.

2.3.1 Review of previous theses

In this section, the previous work done about the performance of some financial institutions is reviewed. Very few studies have been conducted to access various aspects of banking and financial services in Nepal, taking into consideration of their post issue performance. Thinking that the conclusions drawn on such thesis work will be relevant to justify my study, the review of some previous thesis have been made and presented in this section.

Karki (2004) studied comparative financial performance based on the two finance companies i.e. Universal Finance & Capital Market Ltd (UFCM) and Nepal Housing & Merchant Finance Ltd (NH&MF). His main objective is to find out comparatively the actual financial position of the finance companies & to suggest the necessary corrective action for the improvement of their performance. In this regard he has tried to focus on the major problems of finance companies at growth level. The problems of finance companies

are financial problem, unfavourable economic situation, lack of investment opportunities and counselling services as well. The major findings of the study are:-

- The mean current ratio of both finance companies is found to be below the standard ratio of 2:1 while the quick ratio is satisfactory.
- The activity ratio indicates that cash management and utilization of deposit of NH&MF is better than UFCM.
- The overall profitability of NH&MF is better than that of UFCM rather it is not found to be satisfactory. Debt equity ratio of UFCM is in better position than NH&MF as debt equity ratio of NH&MF is found to be very high.
- Return on investment of NH&MF is in better position which means it has efficiency generated more profit from investment.
- NH&MF has contributed more than UFCM to the government for the development of nation.
- Major source of income for both companies is interest and operating expenses & interest expenses seems to be the major expenses of the companies.

Finally on the basis of findings he has put forward some guidelines for further improvement of finance companies. These companies are recommended to use the fund in new productive sectors to generate more profit and to utilize their resources more efficiently as well. They have to keep reasonable amount of liquidity to maintain their short term solvency position. He recommended the finance companies to actively participate on the social matters and program in which today's finance companies are far behind. As well as he revealed the paramount field like agriculture for the involvement of the finance companies by opening up operating different branches and to raise the rural economy by making investment in the minimum possible low interest rate. In future companies should explore the areas by expanding their business like leasing, bridge financing and venture capital financing.

Ghimire (2005) conducted a study basically to provide a detailed analysis on the financial performance of some listed financial companies namely NHDFCO, NSMCO, KFC, NFCO & AFCO. The financial performance of these companies was examined in terms of liquidity, activity, profitability, leverage, and capital adequacy and growth ratios. On the same ground he has tried to highlight on possible guidelines to improve the financial performance of finance companies.

Major findings of the study:

- Liquidity position of AFCO is comparatively better than that of other finance companies but is highly fluctuation in liquidity position shows that the company has not formulated any stable policies.
- Regarding activity ratio NSMCO & AFCO are below the standard than that of other finance companies. It predicts that they have to tackle new techniques incoming days so that they can earn maximum return.
- Profitability position of NSMCO is comparatively not better than of others. NSMCO must maintain its high profit margin in future.
- Leverage ratio of NH&MF is not adequate than that of other. Also not more risky and vice versa in AFCO, NSMCO & NFCO. Capital adequacy ratio of NSMCO seems to have unable to keep adequate capital fund.
- Growth ratio of NSMCO has not been more successful to increase its net profit, earning per share and dividend per share in comparison to other finance companies so that NSMCO hasn't any effective strategy to win confidences of shareholders, depositors and all of its customers.

On the basis of findings, he has recommended some of his views for improvement of these companies

- Finance companies have to canalize funds by gradually shifting priorities from hire purchase to trading and industry to help in the capital formation within the country.
- Legal and procedural improvement like unrestricted entry into the financial market and on-site supervision should be effective.
- Further statement improvement like joint promotion of finance companies, matching of assets and liabilities conducting trading seriously and positively impacting to public confidence.

Amatya (2005) conducted a study on "Financial performance of Lalitpur Finance Company" and found the company being run successfully for several years. The various financial indicators like liquidity ratio, leverage ratio, profitability ratio, return on equity capital, return on net worth, return on total assets and EPS were calculated and the financial position of the company was measured. These financial indicators show the company's position is satisfactory except some mismatches in investment activities.

The profitability ratio of LFC is not satisfactory. The profit ratios are not up to the expected level showing the company doing just average in terms of the profit earned. It might be due to the unstable political and economic condition of nation. High positive relationship between deposit and loans and advances and net worth and total assets have been found. With every increase in deposit, company is able to invest in different items of loans and advances viz. hire purchase, housing loans, term loan and other loans.

On the basis of these findings and many other facts following points of recommendations have been suggested:-

- The company has been suggested to maintain its consistency liquidity position around the normal standard of 2:1 and so as its turnover ratio like loans and advances to total deposit, loans and advances to total fixed assets etc.
- The company has been found to have investment of 103.70% of its paid up capital amount in the stock of Lumbini Bank which is not according to the guideline issued by NRB, mentioned in direction No. 8. The company is suggested to keep a careful watch on every investment made and follow the NRB guideline.
- The company is recommended to make appropriate mix of debt and owner's equity which in turn will increase the value of the firm.
- The company is suggested to formulate marketing strategies carefully to serve the customers. It is suggested to introduce ATM facilities, Credit Card facilities and many more.

Manandhar (2002) studied on "A comparative study on financial performance of financial companies ". He made comparative study of the financial performance of Lumbini finance and Leasing Company (LFLC), Universal Finance & Capital markets Ltd. (UF&CM), Nepal Housing & Merchant finance Ltd. (NHMF) and Himalayan Securities & Finance Ltd. (HSFL). The major findings of his study were:-

- The average mean current ratio over the study period maintained by all FC's is higher than the desired current ratio of 2:1.
- Highly levered capital structure is found in all institutions. The debt financing within the capital structure of NHMF, LUFL & HISEF are found to be more than 8 times of their corresponding equity capital.
- The debt equity ratio is found to be very high & unusual due to inclusion of deposit in the debt capital.

- LUFL is observed as more capable among these institutions on the ground of average gross profit margin. HISEF is remarked as the worst performer in this regard because of its high interest expenses.
- LUFL has paid comparatively the highest dividend out of the available earning per share.
- LUFL has been observed as the worst one as it has nearly 33% of income as interest receivable. However NHMF has the lowest such ratio being 7%.
- The accumulation of non-banking assets is found to be high in case of UNFC which is inferred as critically worst financial situations as directed by NRB.
- Out of that loans & advances, NHMF is comparatively found to be capable in maintaining good quality loan than the others.

On the basis of these findings, following suggestions have been recommended:-

- It is suggested to maintain a reasonable credit investment in the area of consumer durable through Hire-Purchase & Housing Loan.
- UFCL & LFCLS' growing amount of interest suspense account clearly reveals the deteriorating collection ability of the company. So it should initiate a dynamic action plan immediately in order to expedite the collection of account receivable.
- A violation of NRB directive by LFCL in respect of resource/deposit collection is observed. Since inefficient mobilization of excessive resources adversely affects the company's financial position, the company should think about minimizing the collecting deposit.
- The companies are suggested to adopt a specific dividend policy.
- HS&FL is suggested to utilize its current assets more efficiently in productive sectors like agriculture and industry.

Karmacharya (2007) studied Nepal Housing Development Finance Company Ltd(NHDFCO), National Finance Company Ltd.(NFCO) and Nepal Housing & Merchant Finance Ltd.(NH&MF) under study. The major findings of the study are:-

- The average current ratio of NHDFCO is higher, that of NFCO and NH&MF seem to be similar. All are far below the standard norms of 2:1.
- NHDFCO and NH&MF are utilizing the total deposit highly in lending activities while NFCO in investing activities.
- Profitability position of NFCO is comparatively not better than that of other FC's

except of its return on net worth.

- Use of debt is comparatively lower in NHDFCO. NFCO and NH&MF are following aggressive policy and utilizing higher debt.
- PE ratio of NH&MF is comparatively higher than that of other two FC's. Dividend pay ratio of NHDFCO is higher than others. It is paying higher amount of its income as dividend.

On the basis of these findings he has put forward following points of recommendations:-

- The current ratio of all these companies does not meet the standard level of 2:1. So FC's must identify the quality of current assets and current liabilities to develop their own standard current ratio.
- The FC's are suggested to employ their major source of fund i.e. deposit in more profitable sector so as to maximize the return and increase the net profit.
- NHDFCO and NH&MF seem to be unable in generating sufficient profit from its net worth. So management should use it more wisely.
- Return on investment of NFCO and NH&MF seem to be unsatisfactory, hence they must shift their investment from low income generating investment to the higher ones.
- NFCO and NH&MF seems to be highly leveraged which is symbol of risk and
- Inflexibility in the operation. Excessive use of debt capital by these FC's may cause to lower the return of equity holders. High leverage cost of capital can be considered as positive development if the increased debt can be invested on income generating performing assets. Failure of advancing loans and advances, these high cost bearing debt may lead ultimately to liquidity or bankruptcy. So it is recommended to increase their equity capital by issue of shares, expanding general reserve and retaining more earning.

KC (2004) study has disclosed following major facts:-

- Liquidity ratio of the company is higher than the normal standard.
- The capital structure of the company is extremely leveraged. Total debt to assets ratio is remained always higher indicating excessive use of debt in financing assets.
- The fund for the capitalization of the company by outsiders is favourable to the other finance companies because interest payable to long term debt is very less than earning from shareholders.
- The company always wants to have high return by investing its assets in productive

sectors. However, the return on assets ration of the company is very low as the company has not been able to utilize its resources in more efficient way. The major portion of the assets is blocked in cash and bank balance and fixed assets which do not generate income.

He has put forward following points of recommendations:-

- The company is suggested to work together for building up the public confidence and enhancing their image in the minds of public at large.
- The company has to now think about consolidating the finance companies in some way or the other. By being very small it is very difficult to serve in the market.
- The credit monitoring wings should be made strong enough to ensure timely cash inflows from credit granted.
- The company should be alert enough to avoid imperfect practices inherited from the past mistake.

2.4 Research Gap

Many researches have been carried out in the past on financial performance of finance companies. They are practically useful and all are appreciated by various related persons including academicians, shareholders and general public. Those researches have been successful in highlighting the strengths and weaknesses of the finance companies. The recommendations and suggestions given by them to improve the financial position of finance companies have provided some guidelines in decision making process. But, all these researches are limited to the comparative financial performance of finance companies after initial public offering (IPO). This research attempts to explore the effect of IPO on the financial performance of finance companies. Therefore, this research work includes comparative financial performance analysis before IPO i.e. pre-issue and after IPO i.e. post-issue.

Pre-issue and post-issue financial analysis of different finance companies has been made with the help of different financial ratios and their comparisons. This research thus will be helpful to all the stakeholders of different selected finance companies to know their strength and weakness, profitability, operating efficiency and many other important facts of both the time i.e. pre-issue and post-issue. It will be easier for the finance companies to evaluate their own performances by comparing their pre-issue and post-issue financial performances. This will help them to reformulate their policies and strategies. It will also be helpful to the general public to identify the good performing finance companies.

CHAPTER III

RESEARCH METHODOLOGY

This chapter states the methodology to accomplish the objective set in chapter one. It includes the research design, population and sample, nature and source of data, method of data analysis and tools used for the analysis.

3.1 Research design

Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to cancel variance. Descriptive cum analytical research design is being followed to analyze the financial performance of the selected finance companies to achieve the prescribed result.

3.2 Nature and sources of data

The nature of data required for this research work is secondary. The financial statements of the finance companies before and after going into public are the main sources of data. Besides these the annual reports published by Nepal Stock Exchange (NEPSE), Economic survey and NRB's publications are other sources of data. Other necessary information have been gathered from NRB, concerned finance companies, web sites, Libraries, Securities Board (SEBO) and many other sources.

3.3 Population and sample

All the finance companies which have issued shares in the public are the population of this study. Out of them, 17 finance companies which have at least three year history before and after public issue have been selected as sample. The selected finance companies are:

1. International Leasing & Finance Company Limited (ILFCL)
2. United Finance Ltd. (UFL)
3. Siddhartha Finance Limited (SFL)
4. Premier Finance Company Limited (PFCL)
5. Shree Investment & Finance Company Ltd. (SIFCL)
6. Nepal Merchant Banking & Finance Limited (NMB) now NMB bank Ltd.
7. Nawa Durga Finance Company Limited. (NDFCL)
8. Gorkha Finance Limited. (GFL)
9. Standard Finance Limited. (STDFL)

10. Butwal Finance Limited. (BFL)
11. Nepal Sri Lanka Merchant Bank Limited. (NSMBFL)
12. Cosmic Merchant Bank and Finance Company Ltd (COMBFL) Now CMB Finance Ltd.
13. Central Finance Limited. (CFL)
14. Kist Merchant Bank and Finance Company Limited. (KMBFL) now Kist Bank Ltd.
15. World Merchant Bank & Finance Company Limited. (WMBFL)
16. Capital Merchant Bank & Finance Company Limited. (CAMBFL)
17. Lumbini Finance & Leasing Company Limited. (LF & LCL)

3.4 Method of data analysis

Both financial as well as statistical tools have been used here for the analysis of collected data and which are described below.

3.4.1 Financial Tools

The available data are first summarized. Then the hidden facts put forth by financial statements are analyzed by using financial tools i.e. Ratio analysis.

Ratio Analysis

Ratio analysis is a technique of analysis and interpretation of financial statement. It is a powerful tool of financial analysis. It provides guidance specially in spotting trends towards better or poorer performance and in finding out significant deviation from any average or relatively applicable standard. It is considered as a tool for measuring the overall financial performance of any firm. It helps the researcher to make qualitative judgment about the firm's financial position and performance.

Following ratios have been used here in compliance to the objectives of the study.

- Liquidity Ratio
- Activity/Turnover Ratio.
- Leverage/Capital structure Ratio.
- Profitability Ratio.
- Valuation Ratio.

Liquidity Ratio

The ability of a firm to meet it's obligation in the short term is known as its liquidity. It reflects the short term financial strength of the business. "Liquidity is the ability to meet anticipated and contingent cash needs." The liquidity ratio measures the ability of a firm to meet its short term obligation. In order to ensure short term solvency, the company must maintain adequate liquidity. The following ratios are used to find out the short term solvency of the selected finance companies.

1. Current Ratio

The current ratio indicates company's liquidity and short term debt paying ability. It reflects the strength of the current assets available with the company over its current liability. Current ratio measures the short term solvency i.e. its ability to meet short term obligation or as a measure of creditors versus current assets. It can be calculated by dividing current assets by current liabilities. Thus

$$\textbf{Current Ratio} = \frac{\textbf{Current Assets}}{\textbf{Current Liabilites}}$$

Traditionally, the current assets of the company should be twice than current obligation to be technically solvent. If the current ratio of the firm is less than 2:1, the solvency position of the firm is not good"

2. Cash and Bank Balance to Total Deposit Ratio:

This ratio is employed to measure whether bank and cash balance is sufficient to cover unexpected demand made by depositor. It can be stated as

$$\textbf{Cash and Bank Balance to Total Deposit} = \frac{\textbf{Cash and bank balance}}{\textbf{Total Deposit}}$$

3. Cash and Bank Balance to Current Assets Ratio:

This ratio examines the finance companies liquidity capacity on the basis of it's most liquid assets i.e. cash and bank balance. Here cash and bank balance is the idle money kept for day to day payment to be made by the firm. This ratio reveals the quantity of cash and bank balance maintained by the firm out of its total current assets. It is computed by dividing cash and bank balance by current assets.

$$\textbf{Cash and Bank Balance to Current Assets} = \frac{\textbf{Cash and bank balance}}{\textbf{Current Assets}}$$

Activity/Turnover Ratio

This ratio indicates how quickly certain current assets are converted into cash. The funds of creditors and owners are invested in various assets to generate sales and profit. Activity ratios are employed to evaluate the efficiency which the firm manages and utilizes its assets. The ratio indicates whether the funds employed have been used efficiently in the business activity or not. These ratios are called turnover ratios because they indicate the speed with which assets are converted or turn over into profit generating assets. Following ratios are used under activity ratio.

1. Loans and Advances to Total Deposit Ratio

This ratio assess to what extent the firm is able to utilize the depositor's fund to earn profit by providing loans and advances. Deposit is the main source of income of the finance companies and they should be utilized properly in order to generate further profit. It is computed by dividing the total amount of loans and advances to total deposit funds.

$$\textbf{Loan and advances to total deposit} = \frac{\textbf{Loans and advances}}{\textbf{Total deposit}}$$

High ratio indicates higher or proper utilization of funds and low ratio is the signal of balance remained unutilized or idle.

2. Total Investment to Total Deposit Ratio

Investment is one of the major forms of credit created to earn income. This implies the utilization of firms deposit on investment in government securities and share, debenture of other companies and bank. This ratio measures the extent to which the finance companies are successful in mobilizing total investment on total deposit. The amount of deposit should be soundly invested not only to provide interest on its deposits but also has to declare a handsome dividend to its owners i.e. shareholders. It can be computed by dividing total investment by total deposit.

$$\textbf{Total investment to total deposit} = \frac{\textbf{Total investment}}{\textbf{Total deposit}}$$

3. Total Assets Turnover Ratio

The total assets turnover ratio is calculated by dividing sales (revenue) by total assets. It measures the overall utilization of firm's assets.

$$\textbf{Total assets turnover} = \frac{\textbf{Revenue}}{\textbf{Total assets}}$$

The high ratio indicates that the company is generating an adequate volume of business for the size of its asset investment. So, increasing ratio is preferable.

Leverage/ Capital Structure Ratio

A firm should have a strong short term as well as long term financial position. "To judge the long term financial position of the firm, these ratios help to measure the financial contribution of owners and creditors comparatively. These ratios indicate the situation of the capital structure which is calculated to measure the company's capability of using debt for benefit of shareholders. The related leverage ratios are:

1. Debt Equity Ratio

Debt equity ratio examines the relative claims of creditors and owners against the firm assets. Alternatively the debt to equity ratio indicates the contribution of debt capital and equity capital fund to the total investment. It can be stated as:

$$\textbf{Debt Equity Ratio} = \frac{\textbf{Total Debt}}{\textbf{Total equity}}$$

2. Debt Assets Ratio

Total debt to total assets ratio shows that what portion of the capital assets are financed by out side funds and measures the financial safety/security to the outsiders. The outsiders or creditors prefer a low debt ratio as it provides a sufficient cushion against losses in the event of liquidation. It is calculated dividing total debt by total assets. This can be stated as:

$$\textbf{Debt Assets Ratio} = \frac{\textbf{Total Debt}}{\textbf{Total Assets}}$$

3. Times Interest Earned Ratio

The ratio of earnings before interest and taxes (EBIT) to interest charges. It measures the ability of the firm to meet its annual interest payment. It can be stated as:

$$\textbf{Times Interest Earned Ratio} = \frac{\textbf{EBIT}}{\textbf{Interest Charge}}$$

4. Capital Adequacy Ratio

The capital adequacy ratio is one of the most significant ratios, used specially to assess the firm's strength of the capital structure of the adequacy of the capital. "Adequate capital is required to the efficient operation and functioning of the firm in the modern competitive environment" is always the matter of controversial debate. Capital refers to the paid up capital, general reserve and undistributed profits. So, capital adequacy is determined as

$$\textbf{Capital Adequacy Ratio} = \frac{\textbf{Capital fund}}{\textbf{Total Deposit}}$$

Profitability Ratios

Profitability ratio shows the overall efficiency of the business concerns. The relation of the return of the firm to either it's sales of it's equity of its assets is known as probability ratio. Profit is necessary to survive in any business field for its successful operation and further expansion. It measures management's overall effectiveness as shown by the return generated on sales and investment.

Profitability positions can be evaluated through profitability ratios. Some of the important ones are as follows:

1. Net profit margin on sales (revenue):-

It is the ratio of net income available to common stockholders to sales (revenue). It measures income per rupee of sales.

$$\textbf{Net profit margin on sales} = \frac{\textbf{Net income}}{\textbf{Sales}}$$

The increasing ratio shows that the net profit is maximizing and operating cost is decreasing so the increasing ratio is good for a company.

2. Earning Power Ratio

The ratio of EBIT to total assets is the earning power ratio. This ratio indicates the ability of the fir's assets to generate operating income.

$$\textbf{Earning Power Ratio} = \frac{\textbf{EBIT}}{\textbf{Total Assets}}$$

The increasing ratio is favourable for a company which shows that the net profit is increasing.

3. Return on Total Assets

Net profit to total assets evaluates the efficiency of a company in utilization and mobilization of the assets and its survival. The ratio is computed dividing net profit (loss) by total assets. Net profit indicates the position of income left to the interval equities after all costs, charges, expenses have been deducted. The high return on total assets indicates the high profit margin and high turnover of total assets and vice versa. It can be stated as

$$\textbf{Net profit to total assets ratio} = \frac{\textbf{Net Profit after Tax}}{\textbf{Total Assets}}$$

4. Net Profit to Total Deposit Ratio

This ratio examines whether management has been capable to mobilize and utilize the deposits. In other words, it is used for measuring the internal rate of return from deposits. It also helps to know the overall performance and generation of profit of finance companies. Generally, higher ratio indicates better utilization of deposits and vice versa. It can be presented as:

$$\textbf{Net profit to total deposit ratio} = \frac{\textbf{Net Profit after Tax}}{\textbf{Total Deposit}}$$

5. Return on Net Worth/Net Profit to Net Worth Ratio

Return on net worth is used to measure the profitability of the owner's investment or company's earning power against equity. This ratio is calculated by dividing net profit by net worth. Higher ratio indicates the high overall efficiency of the firm and vice versa.

$$\textbf{Return on net worth} = \frac{\textbf{Net Profit}}{\textbf{Net Worth}}$$

6. Return on Investment

Return on Investment is the major tool for measuring the capacity of the company to generate profit out of its total investment. Investment includes both long term and short term investment. It can be computed dividing net profit after tax by total investment.

$$\textbf{Return on investment (ROI)} = \frac{\textbf{Net Profit}}{\textbf{Total investment}}$$

7. Total Interest earned to total working fund Ratio

To depict the earning capacity of a finance company on its total assets/working fund, total interest earned to working fund ratio is very helpful and significant. A high ratio is an indicator of high earning power and better performance of the finance companies on it's total working funds and vice versa. It can be stated as

$$\textbf{Total Interest earned to total working fund ratio} = \frac{\textbf{Total interest earned}}{\textbf{Total assets}}$$

8. Total Interest Paid to total working fund Ratio

This ratio measures the percentage of total interest paid on liabilities with respect to total working fund. The interest paid comprises of total interest expenses on total deposits, loans and advances, borrowings and other deposit. A high ratio indicates high interest expenses on total working fund and vice versa. It can be stated as

$$\textbf{Total Interest paid} = \frac{\textbf{Total interest paid}}{\textbf{Total assets}}$$

Valuation Ratio

The valuation ratios indicate the market value of the firm as compared to the book value and measure the stock price relative to earnings. These ratio results the overall performance of the firm measuring the combined effect of risk and return. The following ratios are calculated under this group:

1. Earning per share:

The income of per common share is known as earning per share. It can be calculated by the following way.

$$\textbf{Earning per share} = \frac{\textbf{Net profit after tax- Prefernce dividend}}{\textbf{Number of common shares}}$$

2. Dividend per Share

The amount of earning which is distributed to the shareholders is known as dividend. The whole amount of earning may or may not be distributed to shareholders by a company. How much per share the dividend is distributed to common shareholders by a company can be known from this ratio. It can be calculated by following formula.

$$\textbf{Dividend per share} = \frac{\textbf{Dividend paid to equity shareholders}}{\textbf{Number of common shares}}$$

3. Dividend Payout Ratio

This ratio implies the relationship between earning belonging to the ordinary shareholders and dividend paid to them. It also shows the percentage of earning retained to them. It is calculated by dividing dividend per share by earning per share. Thus, dividend payout ratio is stated as

$$\textbf{Dividend Payout Ratio} = \frac{\textbf{Dividend per shares}}{\textbf{Earning per share}}$$

3.4.2 Statistical tools

"Statistical analysis is one particular language which describes the data and makes possible to talk about the relation and the difference of the variables. Without the adequate understanding of the statistics, the investigator in social science may frequently be like a blind man groping in a dark closed for a black cat that is not there. The method of statistics is useful in an ever widening range of human activities in any field of thought in which numerical data may be." There are various statistical tools which can be used for the evaluation of financial performance of finance companies. Among them Trend Analysis and Hypothesis test (t- test) have been used in this study for the evaluation of financial performance of selected finance companies.

Hypothesis Test (t-test)

The steps in testing paired t-test for difference of means are as follows:

Step 1

Null hypothesis and alternative hypothesis is set up as follows:

Null Hypothesis Ho: $\mu x = \mu y$ that is there is no significant difference in financial performance before and after IPO.

Alternative Hypothesis H_1: $\mu x \neq \mu y$ that is there is significance in financial performance before and after IPO

Step-2 computation of the test statistics,

Test Statistics: Under Ho, the test statistic is

$$\mathbf{t} = \frac{\mathbf{d}}{\sqrt{S^2/n}}$$

Where d= X-Y= difference between two set of observations.

$$\text{đ} = \Sigma d/n$$

$$\text{And } S^2 = \frac{1}{n-1}[\Sigma d^2 - (\Sigma d)^2/n]$$

Step -3

The tabulated value of t for (n-1) degree of freedom at 5% level of significance according as whether the alternative hypothesis is one tailed test or two tailed test obtained.

Step -4

Decision is made by comparing the calculated value of t with the tabulated value of t.

If calculated t ≤ tabulated t, it is not significant and Ho is accepted. Otherwise, it is rejected.

CHAPTER-IV

DATA PRESENTATION AND ANALYSIS

This chapter explains the presentation and analysis of data required to meet the objectives stated in chapter one.

4.1. Liquidity Ratio

Liquidity ratios are used to judge a ability of a company to meet short-term obligations. A high liquidity ratio shows the financial strength of the firm and vice versa. The following ratios are used to find out the short term solvency of selected finance companies.

Current Ratio

Current ratio indicates company's liquidity position and short term debt paying ability. It can be calculated by dividing current assets by current liabilities. Thus table 4.1 exhibits current ratio of the selected finance companies.

Table 4.1

Current Ratio (in times)

Company	Before IPO				After IPO			
	3rd year	2nd year	1st year	Average	1st year	2nd year	3rd year	Average
ILFC	1.09	1.07	1.09	**1.08**	1.16	1.17	1.13	**1.15**
UFL	1.00	1.01	0.99	**1.00**	1.12	1.13	1.08	**1.11**
SFL	1.12	1.03	1.03	**1.06**	1.02	1.01	0.97	**1.00**
PFL	1.03	1.03	1.03	**1.03**	1.02	1.04	1.02	**1.03**
SIFL	1.06	1.04	1.00	**1.04**	0.99	0.97	1.03	**1.00**
NMB	1.06	1.10	1.09	**1.08**	1.53	0.81	1.08	**1.14**
NDFCL	1.00	0.99	0.97	**0.99**	1.00	1.00	1.03	**1.01**
GFL	1.03	1.05	1.04	**1.04**	1.07	1.14	1.10	**1.10**
STDFL	1.02	1.03	1.74	**1.26**	1.75	2.26	2.24	**2.08**
BFL	0.85	0.93	1.00	**0.93**	0.85	0.92	1.08	**0.95**
NSMBL	0.84	0.79	0.86	**0.83**	0.93	0.99	0.92	**0.95**
CUMBFL	1.10	1.08	1.03	**1.07**	1.04	1.00	---	**1.02**
CFL	---	1.01	0.99	**1.00**	1.06	1.06	1.06	**1.06**
KFL	---	1.33	1.10	**1.22**	1.07	1.07	---	**1.07**
WMBFL	1.20	1.13	1.11	**1.15**	1.12	1.10	---	**1.11**
CAMBFL	1.05	1.12	1.06	**1.08**	1.15	1.10	---	**1.12**
LF&LCL	---	1.02	0.98	**1.00**	0.96	0.93	0.87	**0.92**

Source: Annual reports

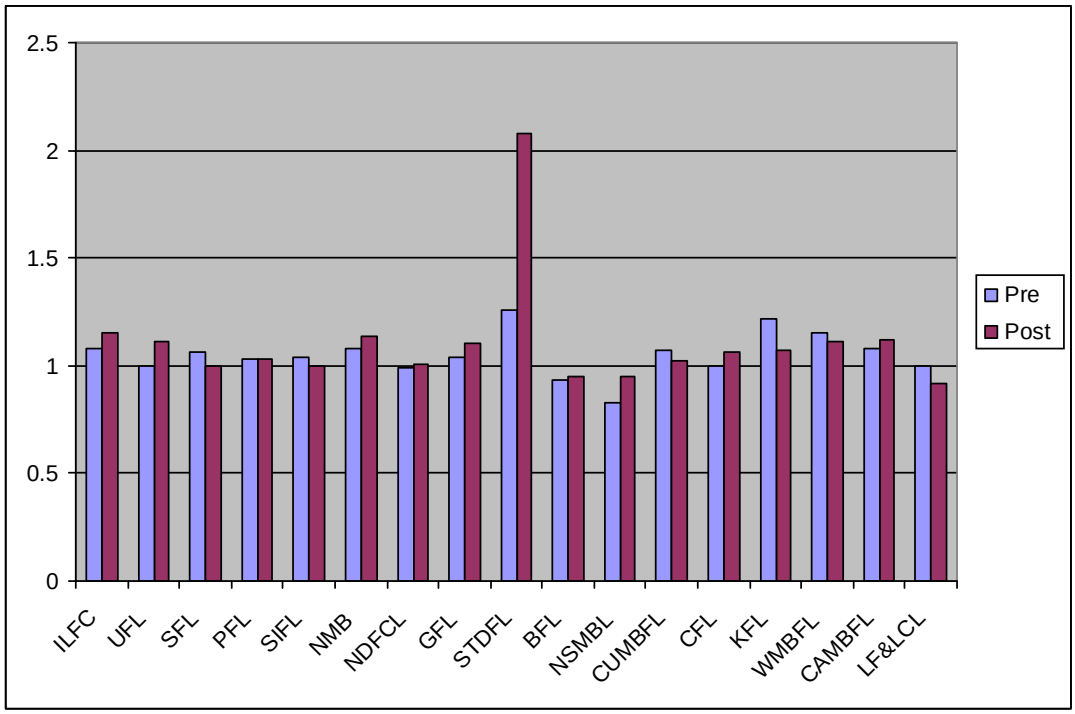
Table 4.1 shows that the average current ratio of ILFC, UFL, NMB, NDFCL, GFL, STDFL, CAMBFL, CFL and NMFBL have increased after IPO where as it has been not

been changed in PFL. The ratio has decreased in SFL, CUMBFL, KFL, WMBFL, and LF&LC and in SIFL. The average ratio of NSMBL is the lowest before IPO where as the ratio of LF&LC is the lowest after IPO. The ratio of NSMBL is the lowest among the entire ratios during both periods which is just 0.79 where as the ratio of STDFL on the second year after IPO is the highest which is 2.26. Only the average ratio of STDFL after IPO is found to meet traditional the standard of 2:1. The ratio of all other finance companies is found below the traditional level.

Although, the current ratio 2:1 is considered to be traditionally satisfactory, firms below this standard also can not be underestimated. They may be doing well by following aggressive policy and utilizing current assets properly in their operation. Current ratio is the test of quantity but not of quality of liquidity position. The pre-issue and post-issue average current ratio of the sample companies are presented in figure 4.1.

Figure 4.1

Average current ratio



Cash and Bank Balance to Total Deposit Ratio

Cash and bank balance to total deposit ratio is designed to measure the finance companies' ability to meet immediate obligation, mainly cash withdrawal by depositors. Lower ratio indicates that the companies might face a liquidity crunch while paying its obligations; whereas a very high ratio points out that the company has been keeping idle funds and not deploying them properly.

Table 4.2

Cash and bank balance to total deposit

Company	Before IPO				After IPO			
	3rd year	2nd year	1st year	Average	1st year	2nd year	3rd year	Average
ILFC	3.65	0.37	3.83	**2.62**	5.33	6.48	17.71	**9.84**
UFL	6.52	13.58	15.96	**12.02**	4.15	14.20	2.91	**7.09**
SFL	9.17	10.30	10.30	**9.92**	13.39	17.07	9.27	**13.24**
PFL	22.47	23.10	14.54	**20.04**	4.29	29.70	14.45	**16.15**
SIFL	7.53	12.23	23.03	**14.26**	8.20	10.80	9.94	**9.65**
NMB	3.18	25.77	22.39	**17.11**	73.14	23.30	15.29	**37.25**
NDFCL	13.71	14.61	14.21	**14.18**	10.66	10.59	16.65	**12.63**
GFL	9.92	17.35	13.08	**13.45**	22.95	24.89	13.00	**20.28**
STDFL	14.91	14.19	18.90	**16.00**	23.35	3.06	9.56	**11.99**
BFL	20.10	25.92	13.87	**19.96**	18.12	26.47	26.18	**23.59**
NSMBL	27.73	12.39	30.63	**23.58**	8.15	30.97	11.84	**16.99**
CUMBFL	12.91	26.99	22.86	**20.92**	24.82	19.52	----------	**22.17**
CFL	----------	7.76	11.76	**9.76**	26.49	25.63	20.02	**24.05**
KFL	----------	20.67	6.03	**13.35**	10.28	7.10	----------	**8.69**
WMBFL	34.73	18.94	15.47	**23.05**	19.33	24.30	----------	**21.82**
CAMBFL	54.98	11.29	10.13	**25.47**	12.58	13.07	----------	**12.82**
LF&LCL	----------	10.49	24.20	**17.35**	4.65	11.70	7.71	**8.02**

Source: Annual reports

Table 4.2 shows that the cash and bank balance to total deposit ratio of all finance companies are in fluctuating trend over both periods. CAMBFL has the highest average ratio of 25.47 before IPO and it is also found to be fluctuating. The maximum was 54.98 in its 3rd year before IPO. The other FC's having higher average ratios before IPO are NSMBL with average ratio of 23.58 and highest ratio of 30.63 on its 1st year, WMBFL with average ratio of 23.05 and highest ratio of 34.73 on its 3rd year, CUMBFL with average ratio of 20.92 and highest ratio of 26.99 on its 2nd year and PFL with average ratio of 20.04 and highest ratio of 23.10 on its 2nd year.

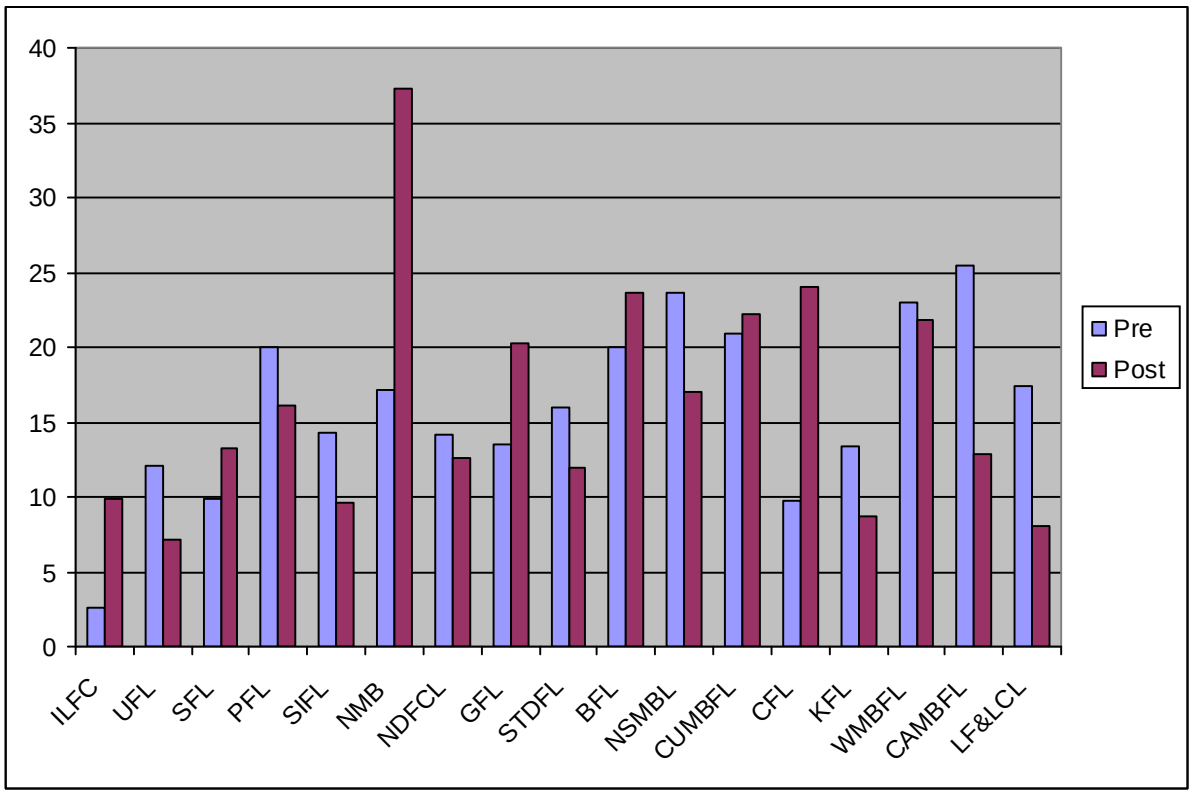
Similarly, NMB is found with the highest average ratio of 37.25 with maximum ratio of 73.14 on its 1st year after IPO. The other FC's with higher average ratios after IPO are CFL with average ratio of 24.05 and highest ratio of 26.49 on its first year, BFL with average ratio of 23.59 and highest ratio of 26.47 on its 2nd year, CUMBFL with average ratio of 22.17 and highest ratio of 24.82 on its 2nd year, WMBFL with average ratio of 21.82 and highest ratio of 24.30 on its 2nd year and GFL with average ratio of 20.28 and

highest ratio of 24.89 on its 2nd year after IPO.

Cash and bank balance are the idle money kept for day to day payments. A high ratio indicates the greater ability to meet their deposits and vice versa. Moreover, too high ratio is unfit as capital will be tied up and opportunity cost will be higher. This implies the inability of the company to invest its fund in income generating areas. This may be one of the reasons to lower the return of the company. However there is not any standard ratio in this aspect. The pre-issue and post-issue average cash and bank balances to total deposit ratios are presented through figure 4.2.

Figure 4.2

Average cash and bank balances to total deposit ratio



Cash and Bank Balance to Current Assets Ratio

This ratio examines the finance companies' liquidity capacity on the basis of its most liquid assets i.e. cash and bank balance. This ratio reveals the quantity of cash and bank balance maintained by the firm out of its total current assets. It is computed by dividing cash and bank balance by current assets.

Table 4.3

Cash and bank balance to current Assets

Company	Before IPO				After IPO			
	3rd year	2nd year	1st year	Average	1st year	2nd year	3rd year	Average
ILFC	2.95	0.29	3.00	**2.08**	4.03	4.90	11.94	**6.96**
UFL	5.88	12.31	15.36	**11.19**	3.17	11.21	1.68	**5.35**
SFL	7.34	9.15	9.15	**8.55**	10.70	13.80	7.98	**10.83**
PFL	18.58	20.00	12.67	**17.08**	3.91	26.75	13.04	**14.57**
SIFL	6.29	10.07	19.94	**12.10**	7.50	10.23	8.97	**8.90**
NMB	2.79	20.14	18.50	**13.81**	43.44	19.70	12.38	**25.17**
NDFCL	11.96	12.81	12.73	**12.50**	9.51	9.60	14.67	**11.26**
GFL	8.94	14.93	11.43	**11.77**	19.82	20.29	11.02	**17.05**
STDFL	12.75	11.92	9.90	**11.52**	12.36	1.32	4.16	**5.95**
BFL	20.50	24.01	12.29	**18.93**	19.36	26.22	22.76	**22.78**
NSMBL	22.00	11.25	28.88	**20.71**	7.85	28.42	11.12	**15.80**
CUMBFL	11.25	23.88	20.83	**18.65**	22.74	17.11	----------	**19.93**
CFL	----------	6.25	9.67	**7.96**	22.39	22.07	17.00	**20.49**
KFL	----------	14.47	5.04	**9.75**	8.92	5.53	----------	**7.23**
WMBFL	27.37	15.81	13.19	**18.79**	15.81	20.83	----------	**18.32**
CAMBFL	48.28	10.00	8.90	**22.39**	10.65	11.50	----------	**11.08**
LF&LCL	----------	9.26	17.66	**13.46**	3.89	9.99	7.97	**7.28**

Source: Annual reports

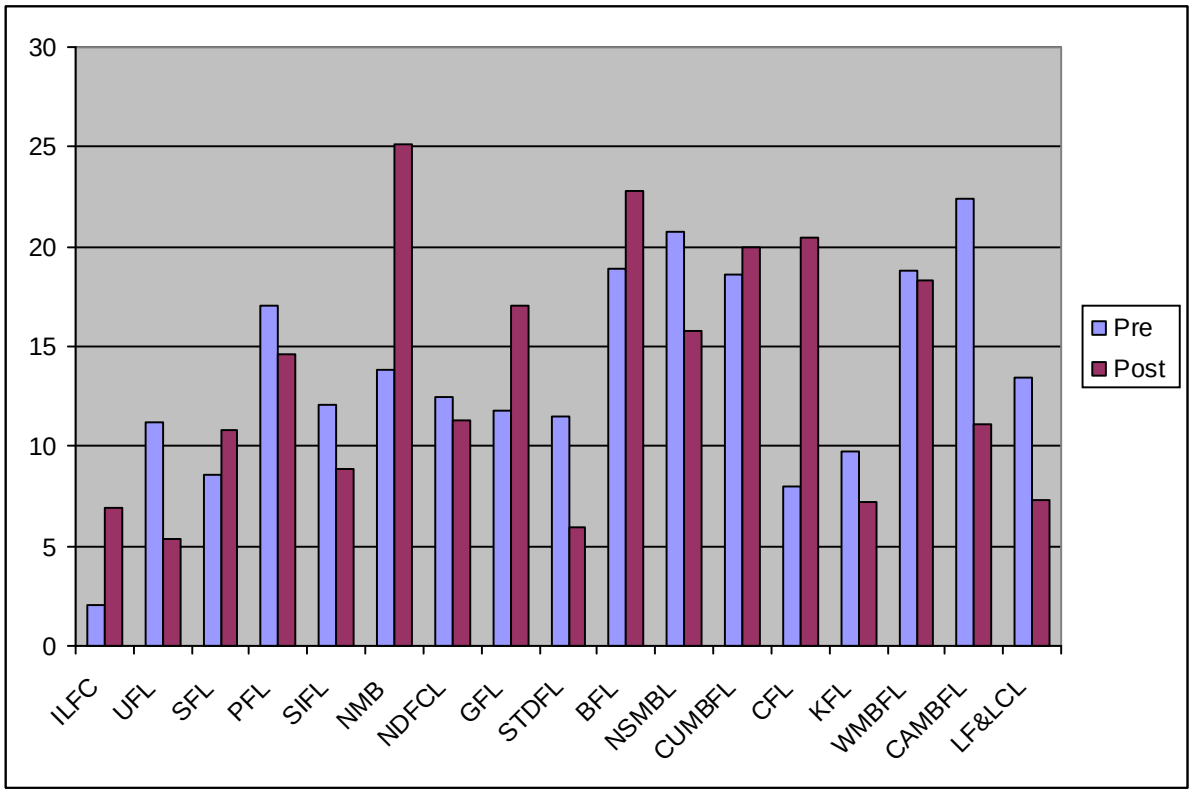
Table 4.3 shows that CAMBFL has the highest average ratio which is 22.39 before IPO. NSMBL, WMBFL, CUMBFL, BFL and PFL are the other companies which are found to be maintaining good average ratio before IPO.

In the similar manner NMB is found to be maintaining highest average ratio which is 25.17 after IPO. BFL, CFL, CUMBFL, WMBFL GFL are found to be in good position after IPO. There is no any standard value for this ratio to be mentioned. A high ratio indicates sound ability to meet their daily cash requirements and vice versa. Both higher and lowers are not desirable. So, sufficient and appropriate cash reserve should be maintained properly.

The pre issue and post issue average cash and bank balances to current assets are presented on following chart

Figure 4.3

Average cash and bank balances to current assets



4.2. Activity/Turnover Ratios

This ratio indicates how quickly certain current assets are converted into cash. The funds of creditors and owners are invested in various assets to generate sales and profit. Activity ratios are employed to evaluate the efficiency of a firm to utilize it's assets to generate sales. The ratio indicates whether the funds employed have been used efficiently in the business activity or not. These ratios are called turnover ratios because they indicate the speed with which assets are converted or turnover into profit generating assets. Following ratios are used under activity ratio.

Loans and Advances to Total Deposit Ratio

This ratio assess to what extent the firm is able to utilize the depositor's fund to earn profit by providing loans and advances. Deposit is the main source of fund of the finance companies and they should be utilized properly in order to generate further profit. A high ratio of loan and advances to total deposit is preferable.

Table 4.4

Loan and advances to total deposit

Company	Before IPO				After IPO			
	3rd year	2nd year	1st year	Average	1st year	2nd year	3rd year	Average
ILFC	96.45	103.65	99.35	**99.81**	96.00	100.35	101.74	**99.37**
UFL	90.67	88.31	78.85	**85.94**	112.24	107.34	159.16	**126.25**
SFL	108.18	98.91	98.91	**102.00**	111.04	106.07	100.93	**106.01**
PFL	94.72	87.61	95.96	**92.76**	91.51	74.94	85.38	**83.94**
SIFL	101.33	105.03	84.16	**96.84**	89.08	85.19	90.79	**88.36**
NMB	23.03	40.47	70.31	**44.60**	69.04	59.02	53.51	**60.52**
NDFCL	82.78	83.50	82.19	**82.82**	80.03	69.32	71.31	**73.55**
GFL	99.39	98.15	100.36	**99.30**	83.17	90.53	104.78	**92.83**
STDFL	87.44	96.75	83.81	**89.33**	84.69	72.89	101.01	**86.20**
BFL	77.94	82.01	91.72	**83.89**	67.68	66.25	81.02	**71.65**
NSMBL	85.49	84.71	65.04	**78.41**	78.55	67.02	78.12	**74.56**
CUMBFL	101.57	79.71	84.62	**88.63**	77.79	87.30	---------	**82.55**
CFL	---------	100.36	101.15	**100.76**	76.02	81.28	90.10	**82.46**
KFL	---------	109.97	76.93	**93.45**	74.98	101.36	---------	**88.17**
WMBFL	82.36	86.48	94.79	**87.88**	93.78	82.96	---------	**88.37**
CAMBFL	45.14	85.79	101.53	**77.49**	101.88	97.69	---------	**99.79**
LF&LCL	---------	90.79	103.88	**97.33**	107.63	99.24	80.07	**95.65**

Source: Annual reports

Table 4.4 shows that the movement of loan and advances to total deposit ratio of all the finance companies are not in consistent trend. SFL has the maximum average ratio of 102% with highest ratio of 108.18% on its 3rd year of before IPO. The other companies having higher average ratios are CFL with average ratio of 100.76%, ILFC with average ratio of 99.81%, GFL with average ratio of 99.30%, LF&LCL with average ratio of 97.33%, SIFL with average ratio of 96.84%, KFL with 93.45% and PFL with average ratio of 92.76%. CAMBFL has the least average ratio of 77.49%. The least ratio among all is 45.14% which can be seen on the 3rd year of CAMBFL.

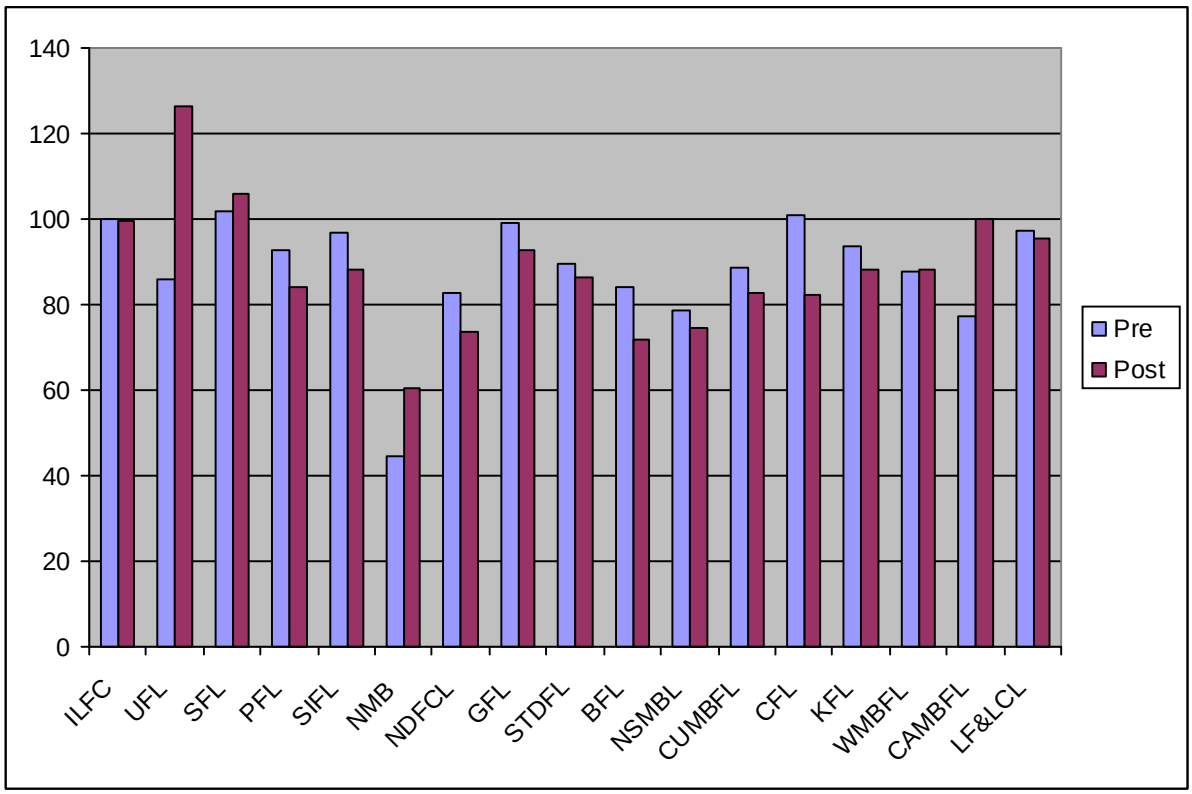
UFL seems to be highest utilizer of its deposit fund as loan and advances after IPO. It has been able to maintain the highest average ratio of 126.25% and highest individual ratio of 159.16% ratio on its 3rd year after IPO. The other companies having higher average ratio are SFL with average ratio of 106.1%, CAMBFL with average ratio of 99.79%, ILFC with average ratio of 99.37%, LF&LCL with average ratio of 95.65% & GFL with average ratio of 92.83%. NMB comparatively seems to be less performer in this aspect as it has been

able to maintain just 60.52% of average ratio. The least ratio among all is 53.51% which NMB has maintained on its 3rd year after IPO.

Hence it can be said that SFL is the highest utilizer of its deposit fund as loan and advances and CAMBFL is the least utilizer before IPO whereas UFL is the highest utilizer and NMB is the least utilizer of their deposit fund as loan and advances after IPO.

Figure 4.4

Loan and advances to total deposit ratio



Total Investment to Total Deposit Ratio

Investment is one of the major forms of credit created to earn income. This ratio implies the utilization of firms deposit on investment in government securities, shares and debentures of other companies and banks rather than in lending activities. A high ratio indicates that the finance company is efficient in mobilizing deposits in investing activities while low ratio indicates it's inability to mobilize deposits on investing activities. It can be computed by dividing total investment by total deposit.

Table 4.5

Total investment to total deposit

(in percentage)

Company	Before IPO				After IPO			
	3rd year	2nd year	1st year	Average	1st year	2nd year	3rd year	Average
ILFC	23.60	23.71	24.68	**23.99**	30.82	25.30	28.89	**28.34**
UFL	13.63	8.47	9.10	**10.40**	14.63	5.17	10.63	**10.15**
SFL	7.63	3.36	3.36	**4.79**	0.69	0.50	5.98	**2.39**
PFL	3.74	4.83	4.29	**4.29**	13.83	6.38	10.96	**10.39**
SIFL	10.83	4.13	8.32	**7.76**	12.01	9.51	10.14	**10.56**
NMB	87.77	61.76	28.29	**59.27**	26.22	35.97	54.69	**38.96**
NDFCL	18.18	15.91	15.26	**16.45**	21.40	30.40	25.54	**25.78**
GFL	1.62	0.73	1.01	**1.12**	9.64	7.23	0.20	**5.69**
STDFL	14.63	8.08	11.62	**11.45**	9.78	12.80	7.04	**9.87**
BFL	0.00	0.00	7.30	**2.43**	7.81	8.23	7.80	**7.95**
NSMBL	12.81	13.04	10.39	**12.08**	17.12	10.98	16.54	**14.88**
CUMBFL	0.26	6.31	2.26	**2.94**	6.51	7.21	--------	**6.86**
CFL	--------	16.12	8.66	**12.39**	15.78	9.22	7.63	**10.88**
KFL	--------	12.18	36.87	**24.52**	30.01	19.98	--------	**24.99**
WMBFL	9.79	14.38	7.06	**10.41**	9.12	9.43	--------	**9.27**
CAMBFL	13.75	15.84	2.22	**10.60**	3.64	2.83	--------	**3.23**
LF&LCL	--------	11.97	8.92	**10.45**	7.34	6.14	9.02	**7.50**

Source: Annual report and prospects of the respective companies

Table 4.5 shows that different companies have fluctuating trend in the mobilization of deposit as investment. NMB appears to be the highest mobilizer of the deposit fund as investment before IPO. The average ratio of total investment to total deposit of NMB is 59.27% with highest ratio of 87.77% on its 3rd year of IPO. ILFC has the average ratio of 23.99%. GFL has the lowest average ratio of 1.12% whereas BFL is found not mobilizing its deposit as investment at all on 2nd and 3rd year of IPO.

NMB appears the highest mobilizer of deposit fund as investment after IPO as well. Its average ratio is 38.96% with highest ratio of 54.69% on its 3rd year after IPO. ILFC is the next company with average ratio 28.34%. SFL has the lowest average ratio of 2.39% whereas GFL is found with least ratio of 0.20% on its 3rd after IPO.

Total Assets Turnover Ratio

The total assets turnover ratio is calculated by dividing total income by total assets. It

measures the overall utilization of firm's assets.

The high ratio indicates that the company is generating an adequate volume of business for the size of its asset investment. So, increasing ratio is preferable.

Table 4.6

Total assets turnover ratio

Company	Before IPO				After IPO			
	3rd year	2nd year	1st year	Average	1st year	2nd year	3rd year	Average
ILFC	20.04	18.65	16.01	**18.23**	14.69	12.15	10.90	**12.58**
UFL	17.79	13.98	13.71	**15.16**	10.30	10.01	11.57	**10.63**
SFL	14.47	14.21	12.69	**13.79**	13.89	13.60	14.43	**13.98**
PFL	14.60	15.03	14.11	**14.58**	12.91	11.53	13.68	**12.71**
SIFL	15.44	16.44	14.66	**15.51**	13.22	10.98	11.90	**12.03**
NMB	10.12	18.02	11.43	**13.19**	9.52	12.19	9.98	**10.56**
NDFCL	13.18	12.75	11.74	**12.56**	10.93	9.85	10.80	**10.53**
GFL	12.60	14.30	15.57	**14.16**	13.35	14.04	12.75	**13.38**
STDFL	12.59	13.66	6.11	**10.79**	6.72	5.51	4.30	**5.51**
BFL	18.07	16.48	12.79	**15.78**	15.26	13.61	11.12	**13.33**
NSMBL	22.38	17.61	11.46	**17.15**	10.26	11.74	7.56	**9.86**
CUMBFL	4.86	12.81	11.40	**9.69**	10.50	11.50	----------	**11.00**
CFL	----------	15.15	14.22	**14.69**	11.91	10.86	11.75	**11.51**
KFL	----------	3.81	10.21	**7.01**	10.06	10.22	----------	**10.14**
WMBFL	8.49	11.84	11.88	**10.74**	11.96	11.84	----------	**11.90**
CAMBFL	2.11	8.37	11.66	**7.38**	9.78	10.31	----------	**10.04**
LF&LCL	----------	15.08	12.45	**13.77**	12.36	12.43	11.53	**12.11**

Source: Annual reports

Table 4.6 shows that ILFC has the highest average total assets turnover ratio of 18.23% with increasing trend from first year to third year before IPO. NSMBL also has the similar trend with average ratio of 17.15%. BFL, SIFL and UFL have average ratio of 15.78%, 15.51% and 15.16% respectively with increasing trend of ratio. KFL seems to be the inefficient utilizer of its assets to generate total income.

SFL has the highest average ratio of 13.98% after IPO whereas GFL and BFL have average ratio of 13.38% and 13.3% respectively. STDFL has the lowest average ratio of 5.51% which shows this company utilizing its assets less effectively. 15.26% of BFL on the year 1st after IPO is the highest ratio among all.

All the ratios are in fluctuating trend. Even though there is no any prescribed standard ratio, however the higher ratio is always preferable.

4.3 Leverage/ Capital Structure Ratios

Leverage ratio tells us the relative proportion of capital contribution by creditors and owners. The related leverage ratios are:

Debt Equity Ratio

This ratio measures the relationship between borrowed funds and owners capital. Higher ratio indicates the higher contribution of debt capital than equity fund in the company. However a very high debt to equity ratio is unfavourable as debt are considered to be more risky which bears obligation towards creditors. Therefore an appropriate mix of debt and owners fund is desired by the finance companies. Debt to equity ratio can be calculated by dividing total assets by total equity.

Table 4.7

Debt equity ratio

Company	Before IPO				After IPO			
	3rd year	2nd year	1st year	Average	1st year	2nd year	3rd year	Average
ILFC	7.19	7.04	6.96	**7.06**	4.10	4.62	5.82	**4.85**
UFL	8.97	5.40	3.96	**6.11**	2.94	4.51	7.01	**4.82**
SFL	4.45	8.75	8.75	**7.32**	8.27	9.54	9.17	**8.99**
PFL	9.50	8.57	7.58	**8.55**	6.14	9.29	8.94	**8.12**
SIFL	10.39	10.53	8.54	**9.82**	7.69	9.28	9.47	**8.81**
NMB	11.26	7.31	8.08	**8.88**	6.67	9.15	8.50	**8.11**
NDFCL	9.55	9.38	9.34	**9.42**	7.66	9.08	8.95	**8.56**
GFL	9.05	8.92	7.72	**8.57**	6.54	4.86	5.21	**5.54**
STDFL	5.79	6.11	7.93	**6.61**	5.76	5.27	6.74	**5.92**
BFL	9.44	8.56	10.57	**9.52**	8.15	9.09	8.86	**8.70**
NSMBL	10.95	8.32	8.52	**9.26**	6.54	6.43	9.16	**7.38**
CUMBFL	6.97	8.55	12.12	**9.21**	8.44	8.16	----------	**8.30**
CFL	----------	11.21	11.50	**11.36**	8.32	9.92	9.44	**9.22**
KFL	----------	2.31	6.92	**4.62**	8.03	7.11	----------	**7.57**
WMBFL	3.39	5.34	7.32	**5.35**	6.07	7.85	----------	**6.96**
CAMBFL	5.41	6.64	10.01	**7.35**	5.31	7.21	----------	**6.26**
LF&LCL	----------	12.02	12.38	**12.20**	8.81	8.94	7.27	**8.34**

Source: Annual reports

Table 4.7 revels that LF&LCL as the highest debt financed than equity capital before IPO in comparison to others. Its average ratio is 12.20%. The other higher utilizer of debt capital is CFL with average ratio 11.36%. KFL is the company which appears to be the least debt financed for the same period.

CFL seems to be the highest debt financed after IPO in comparison to others. It has average ratio of 9.22%. UFL appears to be the least debt financed for the period with the average ratio of 4.82%.

The highly debt financed companies indicate less utilization of owners fund in comparison to debt or credit fund. The greater debt equity ratio indicates the greater the risk to the creditor. A high proportion of debt in the capital structure would lead to inflexibility in operations of the company as creditors would exercise pressure and interference to the management. Also such company would be able to borrow only under very restrictive terms and conditions, which creates serious difficulties to raise fund in future. Some high debt equity ratio of these companies is not a good signal.

Debt Ratio

Total debt to total assets ratio shows that what portion of the capital assets are financed by outside funds and measures the financial safety/security to the outsiders. The outsiders or creditors prefer a low debt ratio as it provides a sufficient cushion against losses in the event of liquidation. It is calculated dividing total debt by total assets.

A high debt to total assets ratio represents a greater risk to creditors and shareholders and vice versa. So, the decreasing ratio is preferable.

Table 4.8

Analysis of debt ratio

Company	Before IPO				After IPO			
	3rd year	2nd year	1st year	Average	1st year	2nd year	3rd year	Average
ILFC	88.00	88.17	86.91	**87.70**	80.88	82.87	86.09	**83.28**
UFL	90.19	85.20	81.37	**85.59**	74.74	83.12	88.59	**82.15**
SFL	82.41	90.82	90.82	**88.01**	90.08	91.86	91.91	**91.28**
PFL	90.96	90.07	89.01	**90.02**	88.22	91.01	90.84	**90.03**
SIFL	91.54	91.84	91.17	**91.52**	89.28	90.70	90.78	**90.25**
NMB	92.14	88.32	89.45	**89.97**	63.37	119.65	89.94	**90.99**
NDFCL	90.85	91.09	91.90	**91.28**	89.20	90.54	90.14	**89.96**
GFL	92.08	90.87	90.19	**91.05**	86.84	83.02	85.32	**85.06**
STDFL	89.85	86.14	54.82	**76.93**	54.66	43.20	43.71	**47.19**
BFL	107.14	95.67	91.62	**98.14**	110.10	105.17	89.97	**101.75**
NSMBL	92.65	91.48	91.82	**91.98**	87.88	88.57	91.66	**89.37**
CUMBFL	88.38	89.98	92.40	**90.25**	90.85	93.88	--------	**92.36**
CFL	--------	91.84	91.42	**91.63**	89.82	91.11	90.66	**90.53**
KFL	--------	70.33	87.01	**78.67**	90.97	86.78	--------	**88.88**
WMBFL	79.24	85.34	88.90	**84.49**	86.37	89.84	--------	**88.11**

CAMBFL	88.72	86.37	91.45	**88.85**	84.76	89.98	--------	**87.37**
LF&LCL	--------	93.21	93.96	**93.58**	90.28	92.18	91.74	**91.40**

Source: Annual reports

Table 4.8 shows that BFL has the highest average debt ratio of 98.14% before IPO. The highest average ratio of BFL is followed by 93.96% of LF&LC, 91.98% of NSMBL, 91.63% of CFL, 91.52% of SFL, 91.28% of NDFCL, 91.05% of GFL, 90.25% of CUMBFL and 90.02 % of PFL. 107.14% of BFL on its 3rd year before IPO is the highest ratio among all. This shows that these companies are highly leveraged companies. They are following aggressive policy using high level high debt capital.

The things have not been changed after IPO. Again BFL is found with highest average ratio which is 101.75% followed by CUMBFL with 92.36%, LF&LC with 91.40%, SFL with 91.28%, NMB with 90.99%, CFL with 90.53%, SIFL with 90.25% and PFL with 90.02%. STDFL is found with the least average ratio of 47.19% after IPO.

These values help to conclude that the finance companies having higher average ratio are highly leveraged companies. They are following aggressive policy using high debt capital which implies their success in exploiting debts to the more profitable assets. Here BFL seems to be in high level risky position whereas STDFL in less risky position. The trend of the movement of the ratio is found to be following zigzag path.

Capital Adequacy Ratio

The capital adequacy ratio is one of the most significant ratios, used specially to assess the firm's strength of the capital structure of the adequacy of the capital. Holding excess capital keeps the firm in low profit position while on the other hand; inadequate capital limits the firm to meet the public demand of loan and low earning capacity. However, extremely high or low capital adequacy ratio is undesirable in terms of lower return and lower solvency respectively.

Capital refers to the paid up capital, general reserve and undistributed profits. So, capital adequacy is determined by dividing net worth by total deposit.

Table 4.9

Capital adequacy ratio

Company	Before IPO				After IPO			
	3rd year	2nd year	1st year	Average	1st year	2nd year	3rd year	Average
ILFC	15.81	16.92	16.90	**16.54**	27.72	24.52	22.49	**24.91**
UFL	12.38	20.26	26.42	**19.69**	39.97	24.80	22.88	**29.22**
SFL	25.10	12.46	12.46	**16.67**	14.78	12.85	13.06	**13.56**
PFL	12.35	13.07	14.67	**13.36**	17.61	11.51	12.22	**13.78**
SIFL	10.86	11.05	13.48	**11.80**	14.33	11.75	11.41	**12.50**
NMB	9.57	15.92	13.79	**13.09**	16.56	16.03	13.48	**15.36**
NDFCL	11.96	12.34	12.36	**12.22**	14.60	12.15	12.36	**13.03**
GFL	11.89	12.41	14.21	**12.83**	16.51	22.14	20.54	**19.73**
STDFL	19.86	18.95	13.82	**17.54**	18.70	19.46	15.23	**17.80**
BFL	12.23	13.51	10.66	**12.14**	13.52	12.12	12.00	**12.55**
NSMBL	13.71	16.74	14.48	**14.98**	17.08	17.20	12.60	**15.63**
CUMBFL	14.92	12.27	8.78	**11.99**	12.41	14.00	--------	**13.21**
CFL	--------	10.93	10.64	**10.79**	13.45	11.04	11.75	**12.08**
KFL	--------	46.31	15.67	**30.99**	13.38	16.92	--------	**15.15**
WMBFL	31.18	19.81	14.47	**21.82**	17.99	13.54	--------	**15.77**
CAMBFL	19.99	15.16	10.72	**15.29**	19.35	14.34	--------	**16.84**
LF&LCL	--------	9.26	11.26	**10.26**	14.09	14.15	15.40	**14.55**

Source: Annual reports

Table 4.9 shows that the average capital adequacy ratio of KFL is the highest 30.99% before IPO where as that of LF&LCL is the lowest which is 10.26% before IPO. UFL, PFL, SIFL, GFL have increasing trend before IPO where as STDFL, CUMBFL, WMBFL and CAMBFL show the decreasing trend. The others have zigzag trend.

While referring to after IPO period, UFL is found with highest ratio of 29.22% and CFL with the lowest ratio of 12.08%. After IPO, the ratio of all the companies is found moving along zigzag trend. All the companies are found maintaining capital adequacy ratio more than 11% which is the prescribed ratio percentage by NRB. Maintaining higher percentage of CAR is good from depositor's point of view however it may tie up more capital reducing the volume of return.

4.4 Profitability Ratios

Profitability ratio shows the overall efficiency of the business concerns. The relation of the return of the firm to either it's sales or it's equity or its assets is known as probability ratio.

The difference between total revenues and total expenses over a period is known as profit. Higher the profitability ratio implies better the financial performance of the company and vice versa. Profitability positions can be evaluated through profitability ratios. Some of the important ones are as follows:

Net profit margin

It is the ratio of net income available to common stockholders to sales (revenue). It measures net income generated by per rupee of revenue.

The increasing ratio shows that the net profit is maximizing and operating cost is decreasing so the increasing ratio is good for a company.

Table 4.10

Net profit margin ratio

Company	Before IPO				After IPO			
	3rd year	2nd year	1st year	Average	1st year	2nd year	3rd year	Average
ILFC	13.52	11.12	7.09	**10.58**	11.25	11.69	20.42	**14.45**
UFL	16.31	10.05	0.81	**9.05**	2.57	7.22	11.55	**7.12**
SFL	10.63	10.60	10.60	**10.61**	10.73	11.30	11.19	**11.07**
PFL	13.86	14.11	14.41	**14.13**	1.69	10.11	16.94	**9.58**
SIFL	18.30	17.66	10.43	**15.46**	12.92	12.92	17.20	**14.34**
NMB	19.61	30.55	20.29	**23.48**	22.09	20.58	20.08	**20.92**
NDFCL	13.05	13.33	5.69	**10.69**	9.14	12.74	22.11	**14.66**
GFL	9.78	14.43	11.57	**11.93**	14.54	15.01	11.06	**13.54**
STDFL	1.90	18.15	14.49	**11.51**	8.33	10.16	7.61	**8.70**
BFL	10.88	10.08	7.81	**9.59**	5.73	7.94	10.24	**7.97**
NSMBL	8.40	-7.67	0.06	**0.26**	1.44	2.57	-21.80	**-5.93**
CUMBFL	9.22	5.84	16.17	**10.41**	4.21	8.58	--------	**6.39**
CFL	--------	14.75	10.81	**12.78**	6.95	11.21	15.44	**11.20**
KFL	--------	-60.18	19.81	**-20.19**	17.31	17.75	--------	**17.53**
WMBFL	6.59	11.04	14.58	**10.74**	11.21	14.34	--------	**12.77**
CAMBFL	-144.54	0.32	11.37	**-44.28**	6.34	10.68	--------	**8.51**
LF&LCL	--------	19.68	16.01	**17.84**	20.11	9.06	-13.36	**5.27**

Source: Annual reports

Table 4.10 shows that NMB has the highest average ratio of 23.48% followed by LF&LCL with the average ratio 17.84%. CAMBFL shows the least value of average ratio which is -44.28% because of the heavy losses it had suffered on the 3rd year before IPO.

The case has been repeated with NMB after IPO as it showed highest average ratio for the period which is 20.92%. NSMBFL has the lowest ratio, in fact negative, which is -5.93%

which is due to the heavy losses it suffered during 3rd year after IPO. UFL, PFL, NDFCL, BFL, CFL and CAMBFL are the companies which are showing their better steps in making increasing trend after IPO.

Return on Total Assets

This ratio is also known as return on assets (ROA). Net profit to total assets evaluates the efficiency of a company in utilization and mobilization of the assets and its survival. The ratio is computed dividing net profit (loss) by total assets. Net profit indicates the position of income left to the interval equities after all costs, charges, expenses have been deducted. Total assets comprise those assets which appear in the assets side of the balance sheet. The high return on total assets indicates the high profit margin and high turnover of total assets and vice versa.

Table 4.11

Return on total assets

Company	Before IPO				After IPO			
	3rd year	2nd year	1st year	Average	1st year	2nd year	3rd year	Average
ILFC	2.71	2.07	1.14	**1.97**	1.65	1.42	2.23	**1.77**
UFL	2.90	1.40	0.11	**1.47**	0.27	0.72	1.34	**0.77**
SFL	1.54	1.51	1.51	**1.52**	1.49	1.54	1.62	**1.55**
PFL	2.02	2.12	2.03	**2.06**	0.22	1.17	2.32	**1.23**
SIFL	2.82	2.90	1.53	**2.42**	1.71	1.42	2.05	**1.72**
NMB	1.99	5.51	2.32	**3.27**	2.10	2.51	2.00	**2.21**
NDFCL	1.72	1.70	0.67	**1.36**	1.00	1.26	2.39	**1.55**
GFL	1.23	2.06	1.80	**1.70**	1.94	2.11	1.41	**1.82**
STDFL	0.24	2.48	0.89	**1.20**	0.56	0.56	0.33	**0.48**
BFL	1.97	1.66	1.00	**1.54**	0.87	1.08	1.14	**1.03**
NSMBL	1.88	-1.35	0.01	**0.18**	0.15	0.30	-1.65	**-0.40**
CUMBFL	0.45	0.75	1.84	**1.01**	0.44	0.99	--------	**0.71**
CFL	--------	2.23	1.54	**1.89**	0.83	1.22	1.81	**1.29**
KFL	--------	-2.30	2.02	**-0.14**	1.74	1.81	--------	**1.78**
WMBFL	0.56	1.31	1.73	**1.20**	1.34	1.70	--------	**1.52**
CAMBFL	-3.05	0.03	1.33	**-0.56**	0.62	1.10	--------	**0.86**
LF&LCL	--------	2.97	1.99	**2.48**	2.49	1.13	-1.54	**0.69**

Table 4.11 shows that NMB is the most efficient utilizer of its total assets to generate profit in comparison to others before IPO. Its highest average ratio of 3.27% is the evidence to this fact. CAMBFL has the least average ratio of -0.56% as it suffered heavy loss during its 3rd year before IPO. Though the average ratio of WMBFL is not so higher, its ratios are in increasing trend before IPO.

NMB again has the highest average ratio of 2.21% after IPO. NSMBL has the least average ratio of -0.40% as it suffered losses on its 3rd year after IPO. UFL, PFL and NDFCL have been successful in performing better in this regard, for the period.

Net Profit to Total Deposit Ratio:

This ratio examines whether management has been capable to mobilize and utilize the deposits. In other words, it is used for measuring the internal rate of return from deposits. It also helps to know the overall performance and generation of profit of finance companies. This ratio identifies whether the organization is well efficient or not in mobilizing it's total deposit, so that corrective action can be taken. The ratio can be computed dividing net profit by total deposit. Here net profit implies profit after interest and taxes and total deposit consist those total amounts deposited in various accounts i.e. current, saving, fixed, call & short deposits and other. Generally, higher ratio indicates better utilization of deposits and vice versa.

Table 4.12

Net profit to total deposit ratio

Company	Before IPO				After IPO			
	3rd year	2nd year	1st year	Average	1st year	2nd year	3rd year	Average
ILFC	3.50	2.80	1.54	**2.61**	2.32	1.94	3.39	**2.55**
UFL	3.57	1.80	0.14	**1.84**	0.42	0.97	2.42	**1.27**
SFL	2.08	1.81	1.81	**1.90**	2.02	2.05	2.10	**2.06**
PFL	2.61	2.64	2.54	**2.60**	0.27	1.37	2.78	**1.47**
SIFL	3.48	3.68	1.93	**3.03**	2.11	1.71	2.44	**2.08**
NMB	2.32	7.26	2.89	**4.16**	3.66	3.07	2.55	**3.10**
NDFCL	2.16	2.16	0.84	**1.72**	1.25	1.53	2.93	**1.90**
GFL	1.44	2.51	2.19	**2.05**	2.41	2.73	1.77	**2.30**
STDFL	0.31	3.33	1.77	**1.80**	1.10	1.33	0.77	**1.07**
BFL	2.12	2.01	1.23	**1.79**	0.87	1.13	1.35	**1.12**
NSMBL	3.05	-2.05	0.01	**0.33**	0.19	0.38	-2.08	**-0.50**
CUMBFL	0.53	0.87	2.12	**1.17**	0.51	1.20	--------	**0.86**
CFL	--------	2.98	2.06	**2.52**	1.03	1.46	2.22	**1.57**
KFL	--------	-3.50	2.52	**-0.49**	2.06	2.51	--------	**2.29**
WMBFL	0.75	1.62	2.07	**1.48**	1.70	2.01	--------	**1.85**
CAMBFL	-3.71	0.03	1.56	**-0.71**	0.75	1.27	--------	**1.01**
LF&LCL	--------	3.54	2.96	**3.25**	3.42	1.55	-1.88	**1.03**

Source: Annual reports

Table 4.12 shows that the highest average net profit to total deposit ratio of 4.16% of NMB indicates that the company is most efficient in its deposit mobilization where as the least average ratio of -0.71% of CAMBFL indicates its inefficiency in deposit mobilization before IPO. 7.26% of NMB's ratio on 2nd year before IPO is the highest ratio among all the ratios indicating that the company was highly successful in generating income out of its deposit.

NMB has been successful in maintaining highest average ratio even after IPO which is 3.10% where as NSMBL has the least average ratio of -0.50%. Also 3.66% of ratio of NMB on its 1st year after IPO is the highest ratio where as -2.08% of NSMBL on its 3rd year after IPO is the least ratio for the period. The increasing trend of PFL, NDFCL WMBFL and CAMBFL is remarkably good where as the decreasing trend of NMB & LF&LCL have chances of leading into danger.

Return on Net Worth

Return on net worth is used to measure the profitability of the owner's investment or company's earning power against equity. The excess amount of total assets over total liabilities is known as net worth. Net worth refers to the owner's claim of a finance company. It includes equity, preference share capital, past accumulated profits but excludes fictitious assets. This ratio is calculated by dividing net profit by net worth. Higher ratio indicates the high overall efficiency of the firm and vice versa.

Table 4.13

Return on net worth

Company	Before IPO				After IPO			
	3rd year	2nd year	1st year	Average	1st year	2nd year	3rd year	Average
ILFC	22.13	16.55	9.09	**15.93**	8.38	7.92	15.05	**10.45**
UFL	28.85	8.91	0.54	**12.77**	1.04	3.92	10.57	**5.18**
SFL	8.30	14.52	14.52	**12.45**	13.68	15.96	16.11	**15.25**
PFL	21.14	20.19	17.32	**19.55**	1.52	11.89	22.79	**12.07**
SIFL	32.06	33.27	14.33	**26.55**	14.70	14.52	21.35	**16.86**
NMB	24.25	45.59	20.95	**30.26**	22.13	19.18	18.95	**20.09**
NDFCL	18.07	17.50	6.78	**14.12**	8.58	12.59	23.71	**14.96**
GFL	12.11	20.27	15.42	**15.93**	14.61	12.35	8.60	**11.85**
STDFL	1.54	17.57	12.81	**10.64**	5.90	6.84	5.05	**5.93**
BFL	17.33	14.87	11.54	**14.58**	6.47	9.35	11.21	**9.01**
NSMBL	22.23	-12.28	0.06	**3.34**	1.10	2.19	-16.48	**-4.40**
CUMBFL	3.53	7.12	24.19	**11.61**	4.11	8.58	-------	**6.34**

CFL	-------	27.28	19.34	**23.31**	7.67	13.24	18.89	**13.27**
KFL	-------	-7.55	16.09	**4.27**	15.37	14.86	-------	**15.12**
WMBFL	2.39	8.19	14.28	**8.29**	9.42	14.82	-------	**12.12**
CAMBFL	-18.57	0.21	14.51	**-1.28**	3.88	8.83	-------	**6.35**
LF&LCL	-------	38.28	26.26	**32.27**	24.26	10.93	-12.21	**7.66**

Source: Annual reports

Table 4.13 shows that LF & LCL has the highest average ratio 32.27% this indicates that the company has been properly mobilizing its net worth towards generating profit where as the least average ratio (1.28%) of CAMBFL indicates the company's inefficiency towards the same before IPO. But the highest average ratio 20.09% of NMB indicates NMB's higher efficiency in mobilizing net worth towards generating profit after IPO. NSMBFL has been proved as the least efficient in mobilizing its net worth towards generating profit after IPO. SFL and NDFCL are the two companies whose average ratios have been increased after IPO where as others ratios have been decreased. The decreased average ratio of most of the companies after IPO indicates that these companies have not been successful in mobilizing their increased volume net worth to increase profit volume simultaneously. So they need to work on finding out more productive opportunities for increased volume of net worth which will ultimately gives satisfactory return to its equity holders.

Return on Investment:

Return on Investment is the major tool for measuring the capacity of the company to generate profit out of its total investment. It reflects only those attributes of the firm's performance which are actually under the control of the firms operating management. It measures the company's return from investment. Here, return denotes net profit after tax. Investment includes both long term and short term investment. It can be computed dividing net profit after tax by total investment.

Table 4.14

Return on investment

Company	**Before IPO**				**After IPO**			
	3rd year	**2nd year**	**1st year**	**Average**	**1st year**	**2nd year**	**3rd year**	**Average**
ILFC	14.82	11.82	6.23	**10.96**	7.54	7.68	11.72	**8.98**
UFL	26.22	21.29	1.57	**16.36**	2.85	18.83	22.74	**14.81**
SFL	27.30	53.80	53.80	**44.97**	292.83	408.86	35.18	**245.62**
PFL	69.85	54.61	59.28	**61.25**	1.93	21.45	25.41	**16.27**
SIFL	32.15	89.01	23.22	**48.13**	17.54	17.93	24.02	**19.83**

NMB	2.64	11.75	10.21	**8.20**	13.98	8.55	4.67	**9.07**
NDFCL	11.89	13.57	5.49	**10.32**	5.85	5.03	11.47	**7.45**
GFL	88.71	344.53	217.24	**216.83**	25.01	37.82	867.58	**310.14**
STDFL	2.09	41.19	15.23	**19.50**	11.29	10.39	10.92	**10.87**
BFL	0.00	0.00	16.86	**5.62**	11.19	13.76	17.25	**14.07**
NSMBL	23.80	-15.76	0.08	**2.71**	1.10	3.42	-12.56	**-2.68**
CUMBFL	203.38	13.84	93.98	**103.73**	7.83	16.67	--------	**12.25**
CFL	--------	18.51	23.75	**21.13**	6.54	15.86	29.09	**17.16**
KFL	--------	-28.72	6.84	**-10.94**	6.86	12.58	--------	**9.72**
WMBFL	7.62	11.28	29.27	**16.06**	18.59	21.29	--------	**19.94**
CAMBFL	-27.01	0.20	70.23	**14.47**	20.62	44.73	--------	**32.68**
LF&LCL	--------	29.59	33.16	**31.38**	46.59	25.19	-20.83	**16.98**

Source: Annual reports

Table 4.14 displays the ratio between net profit and investment of the finance companies. GFL has the highest average ratio 216.83% before IPO which indicates that the company's profit volume is higher than investment volume. The least ratio -10.94% of KFL was due to loss it incurred on its 2nd year before IPO.

GFL also has the highest average ROI after IPO indicating higher volume of profit than investment volume. However, NSMBFL has the lowest average ROI of -2.68% after IPO because of the losses it had suffered on its 3rd year after IPO.

The ratios have been increase in case of GFL, SFL, BFL, CAMBFL and WMBFL where as it has been decreased in other finance companies after IPO.

Total Interest earned to total working fund Ratio

This ratio is very helpful and significant to depict the earning capacity of a finance company on it's total assets/working fund, total interest earned to working fund . In other words, this ratio reflects the extent on which the finance companies are capable to mobilize their total assets to generate high income as interest. Here, interest comprises total interest income from loans, advances, cash credit and overdrafts, government securities, inter finance company and other investment. A high ratio is an indicator of high earning power and better performance of the finance companies on it's total working funds and vice versa. It can be stated as

Table 4.15

Total interest earned to working fund

Company	Before IPO				After IPO			
	3rd year	2nd year	1st year	Average	1st year	2nd year	3rd year	Average
ILFC	17.31	15.88	11.54	**14.91**	12.88	11.00	9.61	**11.16**
UFL	16.36	13.18	12.98	**14.17**	9.10	8.47	10.11	**9.23**
SFL	14.47	14.21	14.21	**14.30**	12.74	12.40	13.22	**12.78**
PFL	12.64	13.80	12.72	**13.05**	11.49	9.51	12.21	**11.07**
SIFL	13.70	14.65	14.02	**14.12**	12.61	10.35	11.47	**11.48**
NMB	8.99	14.28	9.69	**10.99**	7.82	10.56	8.70	**9.03**
NDFCL	11.85	11.34	10.84	**11.34**	10.07	8.98	9.91	**9.65**
GFL	10.56	12.59	14.68	**12.61**	12.67	13.13	11.61	**12.47**
STDFL	11.44	12.69	5.73	**9.95**	6.26	5.23	3.95	**5.14**
BFL	15.86	14.67	11.95	**14.16**	14.18	12.24	10.34	**12.25**
NSMBL	10.29	8.92	9.21	**9.47**	8.61	9.23	6.71	**8.18**
CUMBFL	3.70	12.43	10.59	**8.91**	10.15	10.37	--------	**10.26**
CFL	--------	14.00	13.43	**13.71**	11.13	9.87	10.72	**10.57**
KFL	--------	2.80	8.20	**5.50**	8.85	8.70	--------	**8.77**
WMBFL	5.49	8.42	10.55	**8.15**	11.07	10.81	--------	**10.94**
CAMBFL	1.31	7.26	10.62	**6.40**	8.94	9.47	--------	**9.20**
LF&LCL	--------	14.33	11.20	**12.76**	11.29	12.09	10.95	**11.44**

Source: Annual reports

Table 4.15 shows that ILFC had the highest average ratio of 14.91% before IPO where as KFL had the lowest average ratio. However, the movement of the ratio was in decreasing trend in case of ILFC where as it was in increasing trend in case of KFL. In that sense, ILFC seemed to be the efficient utilizer of its working fund to generate higher income. The average ratio of CUMBFL, KFL, WMBFL and CAMBFL has increased after IPO. In that what we can say is, they have utilized their working fund better after IPO. The average ratio of all other companies has been decreased after IPO.

4.5 Valuation Ratio

The valuation ratios indicate the market value of the firm as compared to the book value and measure the stock price relative to earnings. These ratio results the overall performance of the firm measuring the combined effect of risk and return. The following ratios are calculated under this group:

Earning per share:

The income of per common share is known as earning per share. It can be calculated by the following way.

Table 4.16

Earning per share "in Rs"

Company	Before IPO				After IPO			
	3rd year	2nd year	1st year	Average	1st year	2nd year	3rd year	Average
ILFC	14.11	15.18	14.95	**14.75**	10.18	9.70	20.01	**13.30**
UFL	21.06	10.38	0.72	**10.72**	1.14	4.65	13.41	**6.40**
SFL	4.55	8.97	8.97	**7.49**	14.70	20.53	24.77	**20.00**
PFL	18.75	22.44	25.88	**22.36**	2.12	16.91	34.01	**17.68**
SIFL	44.58	51.70	28.51	**41.60**	21.49	21.29	34.89	**25.89**
NMB	13.50	29.69	14.71	**19.30**	15.59	14.54	15.12	**15.09**
NDFCL	17.33	21.92	10.38	**16.54**	10.62	15.96	31.61	**19.40**
GFL	13.43	23.52	23.19	**20.04**	16.55	14.50	11.35	**14.13**
STDFL	1.75	19.73	16.45	**12.64**	7.04	8.41	6.11	**7.19**
BFL	20.44	21.07	14.50	**18.67**	8.37	13.37	15.07	**12.27**
NSMBL	21.00	-12.95	0.07	**2.71**	1.12	2.38	-14.48	**-3.66**
CUMBFL	3.85	8.14	27.84	**13.28**	5.27	11.11	--------	**8.19**
CFL	--------	34.18	26.38	**30.28**	10.48	20.27	29.73	**20.16**
KFL	--------	-7.18	17.12	**4.97**	18.52	18.55	--------	**18.53**
WMBFL	2.52	9.38	19.84	**10.58**	12.03	22.12	--------	**17.07**
CAMBFL	-15.98	0.21	14.97	**-0.27**	4.44	13.44	--------	**8.94**
LF&LCL	--------	29.75	33.34	**31.55**	24.46	12.88	-18.23	**6.37**

Source: Annual reports

Table 4.16 shows that the average earning per share of SIFL Rs. 41.60 is the highest average EPS among the finance companies under study before IPO where as that of CAMBFL Rs. -0.27 was the lowest EPS. However the EPS of CAMBFL seemed to be in increasing trend. In the similar way the EPS of SFL, PFL, CUMBFL, KFL, WMBFL and LF & LCL were in increasing trend. The other finance companies had fluctuating EPS before IPO.

SIFL again had the highest average EPS which is Rs. 25.89 after IPO where as that of NSMBFL has the lowest average EPS of Rs -3.66. The EPS of GFL, NSMBFL and LF & LCL seem to be in decreasing trend after IPO where as all other companies have increasing trend of EPS after IPO. In that sense GFL, NSMBFL and LF & LCL seem to be work on check their decreasing trend of EPS.

Dividend per share

The amount of earning which is distributed to the shareholders is known as dividend. The whole amount of earning may or may not be distributed to shareholders by a company. How much per share the dividend is distributed to common shareholders by a company can be known from this ratio. It can be calculated by dividing the total dividend by total equity shares.

Table 4.17

Dividend per share

Company	Before IPO				After IPO			
	3rd year	2nd year	1st year	Average	1st year	2nd year	3rd year	Average
ILFC	10	12.88	0	**7.63**	10	10.53	10.53	**10.35**
UFL	15.34	5.66	0	**7.00**	5	5	7.5	**5.83**
SFL	3.50	6.75	6.75	**5.67**	10.525	15	13.16	**12.89**
PFL	11.04	18.10	0	**9.71**	12	0	6.00	**6.00**
SIFL	34.13	40.00	0	**24.71**	25	15	31.58	**23.86**
NMB	10.00	20.00	10	**13.33**	12.5	10	10.00	**10.83**
NDFCL	12.75	15.00	0	**9.25**	10	10	21.06	**13.69**
GFL	0.00	10.00	0	**3.33**	23	10	10.00	**14.33**
STDFL	0.00	16.00	0	**5.33**	16	21	10.53	**15.84**
BFL	15.00	0.00	16.67	**10.56**	0	15.79	10.53	**8.77**
NSMBL	0.00	0.00	0	**0.00**	0	0	0.00	**0.00**
CUMBFL	0.00	0.00	0	**0**	0	26.32	0	**13.16**
CFL	0	25.00	0	**12.50**	10	21.05	0.00	**10.35**
KFL	0	0.00	0	**0.00**	10.53	12.04	0	**11.28**
WMBFL	0.00	0.00	0	**0.00**	10	12	0	**11.00**
CAMBFL	0.00	0.00	0	**0.00**	0	10.53	0	**5.26**
LF&LCL	0	22.50	10	**16.25**	12	26.32	0.00	**12.77**

Source: Annual reports

Table 4.17 shows that the dividend distributed by the finance companies before and after their respective IPO to their shareholders. It can be seen that the average DPS of SIFL is the highest which is Rs 24.71 before IPO. Most of the finance companies have not distributed dividend at all before IPO. However the trend of distribution of dividend is not constant. It is fluctuating. SIFL has the highest average DPS after IPO also which is Rs 23.86. Most of the other finance companies can be found distributing dividend to their shareholders after IPO. But NSMBL is still found not distributing dividend till its 3rd year IPO. However the dividend distribution trend of all the finance companies can be seen fluctuating even after IPO.

Dividend payout ratio

This ratio implies the relationship between earning belonging to the ordinary shareholders and dividend paid to them. It also shows the percentage of earning retained to them. It is calculated by dividing dividend per share by earning per share. Thus, dividend payout ratio is calculated by dividing total dividend by total net profit.

Table 4.18

Dividend payout ratio

Company	Before IPO				After IPO			
	3rd year	2nd year	1st year	Average	1st year	2nd year	3rd year	Average
ILFC	70.89	84.87	0.00	**51.92**	98.22	108.49	52.60	**86.44**
UFL	72.82	54.58	0.00	**42.46**	437.32	107.49	55.94	**200.25**
SFL	76.92	75.28	75.28	**75.83**	71.60	73.08	53.12	**65.93**
PFL	58.89	80.65	0.00	**46.51**	567.38	0.00	17.64	**195.01**
SIFL	76.57	77.36	0.00	**51.31**	116.35	70.46	90.53	**92.44**
NMB	74.10	67.37	67.97	**69.81**	80.16	68.77	66.14	**71.69**
NDFCL	73.56	68.44	0.00	**47.33**	94.16	62.66	66.61	**74.48**
GFL	0.00	42.52	0.00	**14.17**	138.96	68.98	88.12	**98.69**
STDFL	0.00	81.09	0.00	**27.03**	227.38	249.60	172.43	**216.47**
BFL	73.39	0.00	114.97	**62.79**	0.00	118.12	69.85	**62.66**
NSMBL	0.00	0.00	0.00	**0.00**	0.00	0.00	0.00	**0.00**
CUMBFL	0.00	0.00	0	**0**	0	236.80	--------	**118.40**
CFL	--------	73.15	0.00	**36.58**	95.47	103.85	0.00	**66.44**
KFL	--------	0.00	0.00	**0.00**	56.84	64.92	--------	**60.88**
WMBFL	0.00	0.00	0.00	**0.00**	83.14	54.25	--------	**68.70**
CAMBFL	0.00	0.00	0.00	**0.00**	0.00	78.34	--------	**39.17**
LF&LCL	--------	75.62	30.00	**52.81**	49.06	204.37	0.00	**84.48**

Source: Annual reports

Table 4.18 shows that the dividend payout ratio of NMB is the highest before IPO which is 69.81% in average. However the ratio is not constant. Among all BFL has the highest ratio of 114.97% on its 1st year before IPO. NSMBL, CUMBFL, KFL, WMBFL and CAMBFL have average ratio of 0 before IPO. This does not mean that these companies had not earned profit during the period. They had earned profit but the earned profit was retained by them.

However STDFL has the highest average ratio of 216.47% after IPO followed by UFL with the average ratio of 200.25%. The other finance companies have considerably made dividend distribution after IPO therefore the DPR of all the companies have increased after

IPO. Even the finance companies whose DPR was 0 before IPO have increased their DPR after IPO except NSMBL. NSMBL still has DPR 0. This is because the profit earned by the company on the other years was retained as the company had suffered heavy losses on the 2nd year before IPO and on the 3rd year after IPO.

Net worth per share

Net Worth is calculated by subtracting all the liabilities from assets. It is the capital in which the equity holders have their ownership. It consists of equity, general reserve and surplus, retain earning, loan loss and different other provisions. It gives the book value of the shares. It shows the extent to which the paid up value of a share has been raised. Higher value is preferable. Net worth per share can be calculated by dividing total net worth by total number of shares.

Table 4.19

Analysis of net worth per share

"In Rs."

Company	Before IPO				After IPO			
	3rd year	2nd year	1st year	Average	1st year	2nd year	3rd year	Average
ILFC	63.73	91.71	164.40	**106.61**	121.51	122.48	132.95	**125.64**
UFL	73.00	116.54	133.77	**107.77**	109.65	118.52	126.85	**118.34**
SFL	54.82	61.75	61.75	**59.44**	107.44	128.64	153.77	**129.95**
PFL	88.71	111.15	149.36	**116.41**	139.24	142.17	149.20	**143.54**
SIFL	139.04	155.39	199.04	**164.49**	146.15	146.66	163.39	**152.06**
NMB	55.65	65.12	70.22	**63.66**	70.46	75.83	79.80	**75.36**
NDFCL	95.93	125.21	152.93	**124.69**	123.83	126.80	133.32	**127.98**
GFL	110.87	116.03	150.33	**125.74**	113.30	117.42	131.92	**120.88**
STDFL	113.82	112.27	128.43	**118.17**	119.25	123.08	120.98	**121.10**
BFL	117.95	141.71	125.67	**128.44**	129.44	143.03	134.41	**135.63**
NSMBL	94.48	105.47	116.41	**105.45**	101.55	108.84	87.83	**99.40**
CUMBFL	108.98	114.43	115.10	**112.84**	128.37	129.50	--------	**128.93**
CFL	--------	125.28	136.43	**130.86**	136.58	153.07	157.37	**149.01**
KFL	--------	95.08	106.39	**100.74**	120.46	124.81	--------	**122.64**
WMBFL	105.30	114.51	138.92	**119.58**	127.65	149.22	--------	**138.43**
CAMBFL	86.05	99.07	103.15	**96.09**	114.49	152.26	--------	**133.37**
LF&LCL	--------	77.72	126.95	**102.33**	100.83	117.85	149.34	**122.67**

Source: Annual reports

Table 4.19 shows SIFL having highest average net worth per share before IPO which was Rs. 164.49 where as SFL had the lowest average net worth per share of Rs. 59.44. SIFL

has highest average ratio also after IPO which is Rs. 152.06 where as NSMBFL seems to have lowest average net worth per share of Rs 99.40 after IPO. Although NMB has the net worth per share of Rs 75.36 but it is higher than that of NSMBFL as paid up value of each share of NMB is just Rs. 50 for the period where as that of NSMBFL is Rs 100. In that sense NSMBFL has the worst net worth per share among all the finance companies under study.

4.6 Hypothesis testing

This part of the study explains the test of the significance of difference in the financial performance before and after the initial public offering of the listed finance companies.

Sample calculation

Let us represent current ratio before IPO and current ratio after IPO of ILFC by X and Y respectively.

Null Hypothesis Ho:$\mu x = \mu y$ That is the mean current ratio before IPO and after IPO do not differ significantly.

Alternative Hypothesis H1: $\mu x \neq \mu y$ That is the mean current ratio before IPO and after IPO differ significantly.

Test Statistics: Under Ho, the test statistic is

$$t = \frac{\text{đ}}{\sqrt{S^2/n}}$$

Where $\text{đ} = \Sigma d/n$ and $S^2 = \frac{1}{n-1}[\Sigma d^2 - (\Sigma d)^2/n]$

Calculation of S^2,

X	Y	d = X-Y	d^2
1.09	1.16	-0.07	0.01
1.07	1.17	-0.09	0.01
1.09	1.13	-0.05	0.002
		Σd = -0.21	Σd^2= 0.02

We have, $\text{đ} = \Sigma d/n$ = -021/3 = -0.0714

$$S^2 = \frac{1}{n-1}[\Sigma d^2 - (\Sigma d)^2/n]$$

$$\frac{1}{3-1}[0.02 - 0.015]$$

$$= 0.0025$$

The test statistics is

$$t = \frac{\bar{d}}{\sqrt{S^2/n}} = \frac{-0.0714}{\sqrt{0.0025}/3} = -2.47$$

Hence, $|t| = 2.47$

The tabulated value of t for 2 d. f. at 5% level of significance for two tailed test is 4.303. Since calculated value of t is less than tabulated value, Ho is accepted i.e. there is no significant difference between CR before and after IPO.

Table 4.20 exhibits t-ratios i.e. calculated value and tabulated value at 5% level of significance of all ratios of the selected finance companies before IPO and after IPO.

Table 4.20

International Leasing & finance Company Limited (ILFC)

S.N.	Ratios	t-ratio(calculated)	Tabulated value	Inference
A	**Liquidity ratio**			
1	Current ratio	2.47	4.303	N. Si.
2	Cash & bank balance to total deposit	2.03	4.303	N. Si.
3	Cash & bank balance to CA	2.15	4.303	N. Si.
B	**Activity ratio**			
1	Loan & advances to total deposit	0.27	4.303	N. Si.
2	Total investment to total deposit	2.67	4.303	N. Si.
3	Total revenue to total assets	13.17	4.303	Si.
C	**Leverage ratio**			
1	Debt to equity	3.49	4.303	N. Si.
2	Debt to total assets	1.62	4.303	N. Si.
3	Net worth to total deposit	4.48	4.303	Si.
D	**Profitability ratio**			
1	Net profit to total revenue	0.81	4.303	N. Si.
2	Net profit to total assets	0.31	4.303	N. Si.
3	Net profit to equity	0.93	4.303	N. Si.

	4	Net profit to total deposit	0.06	4.303	N. Si.
	5	Net profit to investment	0.51	4.303	N. Si.
	6	Total interest earned to total assets	4.09	4.303	N. Si.
E		**Valuation ratio**			
	1	EPS	0.44	4.303	N. Si.
	2	DPS	0.69	4.303	N. Si.
	3	Dividend payout ratio	3.79	4.303	N. Si.
	4	Net worth per share	0.72	4.303	N. Si.

Table 4.20 shows that the total revenue to total assets and Net worth to total deposit ratios of ILFC have significant difference before IPO and after IPO where as other ratios of the company do not have significant difference before and after IPO.

Table 4.21

United Finance Company Limited (UFL)

S.N.		**Ratios**	**t-ratio(calculated)**	**Tabulated value**	**Inference**
A		**Liquidity ratio**			
	1	Current ratio	5.37	4.303	Si.
	2	Cash & bank balance to total deposit	1.19	4.303	N. Si.
	3	Cash & bank balance to CA	1.48	4.303	N. Si.
B		**Activity ratio**			
	1	Loan & advances to total deposit	2.01	4.303	N. Si.
	2	Total investment to total deposit	0.17	4.303	N. Si.
	3	Total revenue to total assets	2.89	4.303	N. Si.
C		**Leverage ratio**			
	1	Debt to equity	054	4.303	N. Si.
	2	Debt to total assets	0.49	4.303	N. Si.
	3	Net worth to total deposit	1.12	4.303	N. Si.
D		**Profitability ratio**			
	1	Net profit to total revenue	0.27	4.303	N. Si.
	2	Net profit to total assets	0.63	4.303	N. Si.
	3	Net profit to equity	0.69	4.303	N. Si.
	4	Net profit to total deposit	0.36	4.303	N. Si.
	5	Net profit to investment	0.12	4.303	N. Si.
	6	Total interest earned to total assets	3.88	4.303	N. Si.
E		**Valuation ratio**			
	1	EPS	0.46	4.303	N. Si.

2	DPS	0.23	4.303	N. Si.
3	Dividend payout ratio	1.53	4.303	N. Si.
4	Net worth per share	1.13	4.303	N. Si.

Table 4.21 shows that there is significant difference in the current ratio of UFL before IPO and after IPO where as there is no significant difference in the other ratio of the company before IPO and after IPO.

Table 4.22

Siddhartha Finance Limited (SFL)

S.N.	Ratios	t-ratio(calculated)	Tabulated value	Inference
A	**Liquidity ratio**			
1	Current ratio	1.23	4.303	N. Si.
2	Cash & bank balance to total deposit	0.74	4.303	N. Si.
3	Cash & bank balance to CA	1.00	4.303	N. Si.
B	**Activity ratio**			
1	Loan & advances to total deposit	0.96	4.303	N. Si.
2	Total investment to total deposit	1.18	4.303	N. Si.
3	Total revenue to total assets	1.03	4.303	N. Si.
C	**Leverage ratio**			
1	Debt to equity	0.57	4.303	N. Si.
2	Debt to total assets	1.35	4.303	N. Si.
3	Net worth to total deposit	0.65	4.303	N. Si.
D	**Profitability ratio**			
1	Net profit to total revenue	1.28	4.303	N. Si.
2	Net profit to total assets	0.96	4.303	N. Si.
3	Net profit to equity	3.02	4.303	N. Si.
4	Net profit to total deposit	1.24	4.303	N. Si.
5	Net profit to investment	2.05	4.303	N. Si.
6	Total interest earned to total assets	1.31	4.303	N. Si.
E	**Valuation ratio**			
1	EPS	8.73	4.303	Si.
2	DPS	11.77	4.303	Si.
3	Dividend payout ratio	1.79	4.303	N. Si.
4	Net worth per share	14.04	4.303	Si.

Table 4.22 shows that there is significant difference in the EPS, DPS and Net worth per share of SFL before IPO and after IPO where as there is no significant difference in the other ratios of the company before and after IPO.

Table 4.23

Premier Finance Limited (PFL)

S.N.	Ratios	t-ratio(calculated)	Tabulated value	Inference
A	**Liquidity ratio**			
1	Current ratio	0.03	4.303	N. Si.
2	Cash & bank balance to total deposit	0.53	4.303	N. Si.
3	Cash & bank balance to CA	0.40	4.303	N. Si.
B	**Activity ratio**			
1	Loan & advances to total deposit	3.07	4.303	N. Si.
2	Total investment to total deposit	2.46	4.303	N. Si.
3	Total revenue to total assets	2.10	4.303	N. Si.
C	**Leverage ratio**			
1	Debt to equity	0.34	4.303	N. Si.
2	Debt to total assets	0.42	4.303	N. Si.
3	Net worth to total deposit	0.17	4.303	N. Si.
D	**Profitability ratio**			
1	Net profit to total revenue	1.07	4.303	N. Si.
2	Net profit to total assets	1.36	4.303	N. Si.
3	Net profit to equity	1.03	4.303	N. Si.
4	Net profit to total deposit	1.50	4.303	N. Si.
5	Net profit to investment	3.92	4.303	N. Si.
6	Total interest earned to total assets	1.70	4.303	N. Si.
E	**Valuation ratio**			
1	EPS	0.65	4.303	N. Si.
2	DPS	0.51	4.303	N. Si.
3	Dividend payout ratio	0.81	4.303	N. Si.
4	Net worth per share	1.84	4.303	N. Si.

Table 4.23 shows that there is no significant difference in any ratios of PFL before IPO and after IPO.

Table 4.24

Shree Investment & Finance Company Limited (SIFL)

S.N.	Ratios	t-ratio(calculated)	Tabulated value	Inference
A	**Liquidity ratio**			
1	Current ratio	2.38	4.303	N. Si.
2	Cash & bank balance to total deposit	1.08	4.303	N. Si.
3	Cash & bank balance to CA	0.82	4.303	N. Si.
B	**Activity ratio**			
1	Loan & advances to total deposit	1.08	4.303	N. Si.
2	Total investment to total deposit	2.14	4.303	N. Si.
3	Total revenue to total assets	3.48	4.303	N. Si.
C	**Leverage ratio**			
1	Debt to equity	0.88	4.303	N. Si.
2	Debt to total assets	0.75	4.303	N. Si.
3	Net worth to total deposit	0.44	4.303	N. Si.
D	**Profitability ratio**			
1	Net profit to total revenue	0.28	4.303	N. Si.
2	Net profit to total assets	1.13	4.303	N. Si.
3	Net profit to equity	1.16	4.303	N. Si.
4	Net profit to total deposit	1.27	4.303	N. Si.
5	Net profit to investment	1.30	4.303	N. Si.
6	Total interest earned to total assets	2.85	4.303	N. Si.
E	**Valuation ratio**			
1	EPS	1.40	4.303	N. Si.
2	DPS	0.05	4.303	N. Si.
3	Dividend payout ratio	1.46	4.303	N. Si.
4	Net worth per share	1.00	4.303	N. Si.

Table 4.24 shows that there is not significant difference in any ratios of SIFL before IPO and after IPO.

Table 4.25

Nepal Merchant Banking & Finance Limited (NMB)

S.N.	Ratios	t-ratio(calculated)	Tabulated value	Inference
A	**Liquidity ratio**			
1	Current ratio	1.04	4.303	N. Si.
2	Cash & bank balance to total deposit	2.03	4.303	N. Si.

	3	Cash & bank balance to CA	0.77	4.303	N. Si.
B		**Activity ratio**			
	1	Loan & advances to total deposit	0.88	4.303	N. Si.
	2	Total investment to total deposit	0.80	4.303	N. Si.
	3	Total revenue to total assets	1.62	4.303	N. Si.
C		**Leverage ratio**			
	1	Debt to equity	0.44	4.303	N. Si.
	2	Debt to total assets	0.02	4.303	N. Si.
	3	Net worth to total deposit	0.96	4.303	N. Si.
D		**Profitability ratio**			
	1	Net profit to total revenue	0.68	4.303	N. Si.
	2	Net profit to total assets	1.09	4.303	N. Si.
	3	Net profit to equity	1.25	4.303	N. Si.
	4	Net profit to total deposit	0.65	4.303	N. Si.
	5	Net profit to investment	0.16	4.303	N. Si.
	6	Total interest earned to total assets	2.22	4.303	N. Si.
E		**Valuation ratio**			
	1	EPS	0.77	4.303	N. Si.
	2	DPS	0.65	4.303	N. Si.
	3	Dividend payout ratio	0.82	4.303	N. Si.
	4	Net worth per share	7.36	4.303	Si.

Table 4.25 shows that there is significant difference in Net worth per share of NMB before IPO and after IPO where as there is no significant difference in the other ratios of the company before and after IPO.

Table 4.26

Nawa Durga Finance Company Limited (NDFCL)

S.N.	Ratios	t-ratio (calculated)	Tabulated value	Inference
A	**Liquidity ratio**			
1	Current ratio	1.32	4.303	N. Si.
2	Cash & bank balance to total deposit	0.77	4.303	N. Si.
3	Cash & bank balance to CA	0.77	4.303	N. Si.
B	**Activity ratio**			
1	Loan & advances to Total deposit	2.73	4.303	N. Si.
2	Total investment to total deposit	2.84	4.303	N. Si.
3	Total revenue to total assets	3.51	4.303	N. Si.
C	**Leverage ratio**			
1	Debt to equity	1.67	4.303	N. Si.
2	Debt to total assets	3.41	4.303	N. Si.
3	Net worth to total deposit	0.10	4.303	N. Si.
D	**Profitability ratio**			
1	Net profit to total revenue	0.19	4.303	N. Si.
2	Net profit to total assets	0.82	4.303	N. Si.
3	Net profit to equity	0.89	4.303	N. Si.
4	Net profit to total deposit	0.63	4.303	N. Si.
5	Net profit to investment	0.32	4.303	N. Si.
6	Total interest earned to total assets	4.05	4.303	N. Si.
E	**Valuation ratio**			
1	EPS	0.31	4.303	N. Si.
2	DPS	0.53	4.303	N. Si.
3	Dividend payout ratio	1.28	4.303	N. Si.
4	Net worth per share	0.24	4.303	N. Si.

Table 4.26 shows that there is no significant difference in any ratios of NDFCL before IPO and after IPO.

Table 4.27

Gorkha Finance Limited (GFL)

S.N.	Ratios	t-ratio (calculated)	Tabulated value	Inference
A	**Liquidity ratio**			
1	Current ratio	4.54	4.303	Si.
2	Cash & bank balance to total deposit	1.80	4.303	N. Si.
3	Cash & bank balance to CA	1.62	4.303	N. Si.
B	**Activity ratio**			
1	Loan & advances to Total deposit	1.08	4.303	N. Si.
2	Total investment to total deposit	1.68	4.303	N. Si.
3	Total revenue to total assets	0.74	4.303	N. Si.
C	**Leverage ratio**			
1	Debt to equity	5.88	4.303	Si.
2	Debt to total assets	6.41	4.303	Si.
3	Net worth to total deposit	1.23	4.303	N. Si.
D	**Profitability ratio**			
1	Net profit to total revenue	0.63	4.303	N. Si.
2	Net profit to total assets	0.78	4.303	N. Si.
3	Net profit to equity	4.59	4.303	Si.
4	Net profit to total deposit	1.00	4.303	N. Si.
5	Net profit to investment	0.56	4.303	N. Si.
6	Total interest earned to total assets	0.09	4.303	N. Si.
E	**Valuation ratio**			
1	EPS	1.29	4.303	N. Si.
2	DPS	1.65	4.303	N. Si.
3	Dividend payout ratio	2.60	4.303	N. Si.
4	Net worth per share	0.72	4.303	N. Si.

Table 4.27 shows that there is significant difference in the current ratio, debt to equity and net profit to equity of GFL before and after IPO where as there is no significant difference in other ratios of the company before and after IPO.

Table 4.28

Standard Finance Company Limited (STDFL)

S.N.	Ratios	t-ratio (calculated)	Tabulated value	Inference
A	**Liquidity ratio**			
1	Current ratio	3.82	4.303	N. Si.
2	Cash & bank balance to total deposit	0.64	4.303	N. Si.
3	Cash & bank balance to CA	1.89	4.303	N. Si.
B	**Activity ratio**			
1	Loan & advances to Total deposit	0.26	4.303	N. Si.
2	Total investment to total deposit	0.50	4.303	N. Si.
3	Total revenue to total assets	2.84	4.303	N. Si.
C	**Leverage ratio**			
1	Debt to equity	1.99	4.303	N. Si.
2	Debt to total assets	3.10	4.303	N. Si.
3	Net worth to total deposit	1.02	4.303	N. Si.
D	**Profitability ratio**			
1	Net profit to total revenue	0.90	4.303	N. Si.
2	Net profit to total assets	1.30	4.303	N. Si.
3	Net profit to equity	0.34	4.303	N. Si.
4	Net profit to total deposit	0.61	4.303	N. Si.
5	Net profit to investment	1.86	4.303	N. Si.
6	Total interest earned to total assets	2.91	4.303	N. Si.
E	**Valuation ratio**			
1	EPS	1.01	4.303	N. Si.
2	DPS	3.31	4.303	N. Si.
3	Dividend payout ratio	9.97	4.303	Si.
4	Net worth per share	0.54	4.303	N. Si.

Table 4.28 shows that there is significant difference in the dividend payout ratio of STDFL before IPO and after IPO where as there is no significant difference in other ratios of the company before and after IPO.

Table 4.29

Butwal Finance Company Limited (BFL)

S.N.	Ratios	t-ratio (calculated)	Tabulated value	Inference
A	**Liquidity ratio**			
1	Current ratio	0.71	4.303	N. Si.
2	Cash & bank balance to total deposit	0.82	4.303	N. Si.
3	Cash & bank balance to CA	1.11	4.303	N. Si.
B	**Activity ratio**			
1	Loan & advances to Total deposit	6.93	4.303	Si.
2	Total investment to total deposit	2.20	4.303	N. Si.
3	Total revenue to total assets	6.30	4.303	Si.
C	**Leverage ratio**			
1	Debt to equity	1.19	4.303	N. Si.
2	Debt to total assets	1.11	4.303	N. Si.
3	Net worth to total deposit	1.83	4.303	N. Si.
D	**Profitability ratio**			
1	Net profit to total revenue	1.65	4.303	N. Si.
2	Net profit to total assets	0.73	4.303	N. Si.
3	Net profit to equity	0.46	4.303	N. Si.
4	Net profit to total deposit	0.74	4.303	N. Si.
5	Net profit to investment	1.67	4.303	N. Si.
6	Total interest earned to total assets	7.26	4.303	Si.
E	**Valuation ratio**			
1	EPS	1.73	4.303	N. Si.
2	DPS	0.19	4.303	N. Si.
3	Dividend payout ratio	0.00	4.303	N. Si.
4	Net worth per share	2.36	4.303	N. Si.

Table 4.29 shows that there is significant difference in the Loan and advances to total deposit, total revenue to total assets and total interest earned to total assets ratios of BFL before and after IPO where as there is no significant difference in other ratios of the company before and after IPO.

Table 4.30

Nepal Sri Lanka Merchant Bank & Finance Company Limited (NSMBFL)

S.N.	Ratios	t-ratio (calculated)	Tabulated value	Inference
A	**Liquidity ratio**			
1	Current ratio	2.88	4.303	N. Si
2	Cash & bank balance to total deposit	0.52	4.303	N. Si.
3	Cash & bank balance to CA	0.44	4.303	N. Si.
B	**Activity ratio**			
1	Loan & advances to Total deposit	0.43	4.303	N. Si.
2	Total investment to total deposit	1.13	4.303	N. Si.
3	Total revenue to total assets	2.94	4.303	N. Si
C	**Leverage ratio**			
1	Debt to equity	1.29	4.303	N. Si.
2	Debt to total assets	1.95	4.303	N. Si
3	Net worth to total deposit	0.69	4.303	N. Si.
D	**Profitability ratio**			
1	Net profit to total revenue	0.51	4.303	N. Si.
2	Net profit to total assets	1.84	4.303	N. Si
3	Net profit to equity	0.43	4.303	N. Si.
4	Net profit to total deposit	0.67	4.303	N. Si.
5	Net profit to investment	1.79	4.303	N. Si
6	Total interest earned to total assets	1.55	4.303	N. Si
E	**Valuation ratio**			
1	EPS	0.58	4.303	N. Si.
2	DPS	0	4.303	N. Si.
3	Dividend payout ratio	0	4.303	N. Si.
4	Net worth per share	0.53	4.303	N. Si.

Table 4.30 shows that there is no significant difference in any ratio of NSMBFL before and after IPO.

Table 4.31

Cosmic Merchant Bank and Finance Company Limited (COMBFL)

S.N.	Ratios	t-ratio (calculated)	Tabulated value	Inference
A	**Liquidity ratio**			
1	Current ratio	1.22	4.303	N. Si
2	Cash & bank balance to total deposit	0.61	4.303	N. Si.
3	Cash & bank balance to CA	0.57	4.303	N. Si.
B	**Activity ratio**			
1	Loan & advances to Total deposit	1.24	4.303	N. Si.
2	Total investment to total deposit	0.66	4.303	N. Si.
3	Total revenue to total assets	0.48	4.303	N. Si
C	**Leverage ratio**			
1	Debt to equity	0.86	4.303	N. Si.
2	Debt to total assets	0.90	4.303	N. Si
3	Net worth to total deposit	0.88	4.303	N. Si.
D	**Profitability ratio**			
1	Net profit to total revenue	0.79	4.303	N. Si.
2	Net profit to total assets	0.93	4.303	N. Si
3	Net profit to equity	1.04	4.303	N. Si.
4	Net profit to total deposit	1.12	4.303	N. Si.
5	Net profit to investment	0.33	4.303	N. Si
6	Total interest earned to total assets	0.42	4.303	N. Si
E	**Valuation ratio**			
1	EPS	0.78	4.303	N. Si.
2	DPS	1	4.303	N. Si.
3	Dividend payout ratio	1	4.303	N. Si.
4	Net worth per share	0.61	4.303	N. Si.

Table 4.31 shows that there is no significant difference in any ratio of COMBFL before and after IPO.

Table 4.32

Central Finance Company Limited (CFL)

S.N.	Ratios	t-ratio (calculated)	Tabulated value	Inference
A	**Liquidity ratio**			
1	Current ratio	1.17	4.303	N. Si
2	Cash & bank balance to total deposit	9.38	4.303	Si.
3	Cash & bank balance to CA	10.75	4.303	Si.
B	**Activity ratio**			
1	Loan & advances to Total deposit	0.41	4.303	N. Si.
2	Total investment to total deposit	1.04	4.303	N. Si.
3	Total revenue to total assets	0.34	4.303	N. Si
C	**Leverage ratio**			
1	Debt to equity	0.42	4.303	N. Si.
2	Debt to total assets	0.96	4.303	N. Si
3	Net worth to total deposit	0.20	4.303	N. Si.
D	**Profitability ratio**			
1	Net profit to total revenue	0.09	4.303	N. Si.
2	Net profit to total assets	0.38	4.303	N. Si
3	Net profit to equity	1.40	4.303	N. Si.
4	Net profit to total deposit	0.39	4.303	N. Si.
5	Net profit to investment	0.03	4.303	N. Si
6	Total interest earned to total assets	0.31	4.303	N. Si
E	**Valuation ratio**			
1	EPS	0.00	4.303	N. Si.
2	DPS	0.19	4.303	N. Si.
3	Dividend payout ratio	1.33	4.303	N. Si.
4	Net worth per share	1.29	4.303	N. Si.

Table 4.32 shows that there is significant difference in the cash and bank balance to total deposit and Cash and bank balance to current assets ratios of CFCL before and after IPO where as there is no significant difference in other ratios of the company before and after IPO.

Table 4.33

World Merchant Banking and Finance Company Limited (WMBFL)

S.N.	Ratios	t-ratio (calculated)	Tabulated value	Inference
A	**Liquidity ratio**			
1	Current ratio	1.16	4.303	N. Si
2	Cash & bank balance to total deposit	1.23	4.303	N. Si.
3	Cash & bank balance to CA	1.13	4.303	N. Si.
B	**Activity ratio**			
1	Loan & advances to Total deposit	0.87	4.303	N. Si.
2	Total investment to total deposit	2.25	4.303	N. Si.
3	Total revenue to total assets	0.60	4.303	N. Si
C	**Leverage ratio**			
1	Debt to equity	0.22	4.303	N. Si.
2	Debt to total assets	0.82	4.303	N. Si
3	Net worth to total deposit	0.03	4.303	N. Si.
D	**Profitability ratio**			
1	Net profit to total revenue	0.26	4.303	N. Si.
2	Net profit to total assets	0.82	4.303	N. Si
3	Net profit to equity	4.44	4.303	Si.
4	Net profit to total deposit	0.36	4.303	N. Si.
5	Net profit to investment	0.16	4.303	N. Si
6	Total interest earned to total assets	0.17	4.303	N. Si
E	**Valuation ratio**			
1	EPS	0.08	4.303	N. Si.
2	DPS	1.98	4.303	N. Si.
3	Dividend payout ratio	1.88	4.303	N. Si.
4	Net worth per share	0.49	4.303	N. Si.

Table 4.33 shows that there is significant difference in the net profit to equity ratio of WMBFL before IPO and after IPO where as there is no significant difference in other ratios of the company before and after IPO.

Table 4.34

Capital Merchant Banking and Finance Company Limited (CAMBFL)

S.N.	Ratios	t-ratio (calculated)	Tabulated value	Inference
A	**Liquidity ratio**			
1	Current ratio	0.89	4.303	N. Si
2	Cash & bank balance to total deposit	1.28	4.303	N. Si.
3	Cash & bank balance to CA	1.28	4.303	N. Si.
B	**Activity ratio**			
1	Loan & advances to Total deposit	0.23	4.303	N. Si.
2	Total investment to total deposit	2.62	4.303	N. Si.
3	Total revenue to total assets	0.12	4.303	N. Si
C	**Leverage ratio**			
1	Debt to equity	0.93	4.303	N. Si.
2	Debt to total assets	1.00	4.303	N. Si
3	Net worth to total deposit	0.51	4.303	N. Si.
D	**Profitability ratio**			
1	Net profit to total revenue	0.79	4.303	N. Si.
2	Net profit to total assets	1.05	4.303	N. Si
3	Net profit to equity	1.22	4.303	N. Si.
4	Net profit to total deposit	0.98	4.303	N. Si.
5	Net profit to investment	0.83	4.303	N. Si
6	Total interest earned to total assets	0.05	4.303	N. Si
E	**Valuation ratio**			
1	EPS	0.58	4.303	N. Si.
2	DPS	1.00	4.303	N. Si.
3	Dividend payout ratio	1.00	4.303	N. Si.
4	Net worth per share	0.15	4.303	N. Si.

Table 4.34 shows there is no significant difference in any ratios of CAMBFL before IPO and after IPO.

Table 4.35

Lumbini Finance and Leasing Company Limited (LF&LCL)

S.N.	Ratios	t-ratio (calculated)	Tabulated value	Inference
A	**Liquidity ratio**			
1	Current ratio	0.82	4.303	N. Si.
2	Cash & bank balance to total deposit	0.60	4.303	N. Si.
3	Cash & bank balance to CA	0.35	4.303	N. Si.
B	**Activity ratio**			
1	Loan & advances to Total deposit	1.21	4.303	N. Si.
2	Total investment to total deposit	0.12	4.303	N. Si.
3	Total revenue to total assets	0.67	4.303	N. Si.
C	**Leverage ratio**			
1	Debt to equity	0.06	4.303	N. Si.
2	Debt to total assets	0.92	4.303	N. Si.
3	Net worth to total deposit	15.28	4.303	Si.
D	**Profitability ratio**			
1	Net profit to total revenue	2.17	4.303	N. Si.
2	Net profit to total assets	0.88	4.303	N. Si.
3	Net profit to equity	1.98	4.303	N. Si.
4	Net profit to total deposit	0.66	4.303	N. Si.
5	Net profit to investment	0.59	4.303	N. Si.
6	Total interest earned to total assets	0.70	4.303	N. Si.
E	**Valuation ratio**			
1	EPS	3.10	4.303	N. Si.
2	DPS	0.25	4.303	N. Si.
3	Dividend payout ratio	0.78	4.303	N. Si.
4	Net worth per share	1.13	4.303	N. Si.

Table 4.35 shows that there is significant difference in the net worth to total deposit ratio of LF &LCL before and after IPO where as there is no significant difference in the other ratios of the company before and after IPO.

Table 4.36

Kist Merchant Banking and Finance Company Limited (KFL)

S.N.	Ratios	t-ratio (calculated)	Tabulated value	Inference
A	**Liquidity ratio**			
1	Current ratio	1.33	4.303	N.Si.
2	Cash & bank balance to total deposit	0.81	4.303	N.Si.
3	Cash & bank balance to CA	0.84	4.303	N.Si.
B	**Activity ratio**			
1	Loan & advances to Total deposit	0.18	4.303	N.Si.
2	Total investment to total deposit	0.03	4.303	N.Si.
3	Total revenue to total assets	1.00	4.303	N.Si.
C	**Leverage ratio**			
1	Debt to equity	1.07	4.303	N.Si.
2	Debt to total assets	0.98	4.303	N.Si.
3	Net worth to total deposit	0.90	4.303	N.Si.
D	**Profitability ratio**			
1	Net profit to total revenue	1.00	4.303	N.Si.
2	Net profit to total assets	1.15	4.303	N.Si.
3	Net profit to equity	0.93	4.303	N.Si.
4	Net profit to total deposit	0.95	4.303	N.Si.
5	Net profit to investment	1.38	4.303	N.Si.
6	Total interest earned to total assets	1.18	4.303	N.Si.
E	**Valuation ratio**			
1	EPS	1.12	4.303	N.Si.
2	DPS	14.91	4.303	Si.
3	Dividend payout ratio	15.07	4.303	Si.
4	Net worth per share	6.30	4.303	Si.

Table 4.36 shows that there is significant difference in the DPS, dividend payout ratio and net worth per share ratio of KMBFL before and after IPO where as there is no significant difference in the other ratios of the company before and after IPO.

4.7 Major Findings

After the analysis of the data presented the following findings are summarized:

Liquidity Ratio

The liquidity ratio of concerned finance companies reveals that

» All the finance companies are found to be maintaining average current ratio below the standard value of 2:1, except STDFL after IPO. However the ratios

have been found increasing in ILFC, UFL, NMB, NDFCL, GFL, STDFL, CAMBFL, CFL and NMFBL.

» CAMBFL has the highest average cash & bank balance to total deposit ratio before IPO where as NMB is found with highest average ratio after IPO. The ratios are found fluctuating in all the finance companies both before IPO and after IPO.

» CAMBFL has been found with the highest average cash & bank balance to current assets ratio before IPO. Similarly NMB is found to be maintaining highest average ratio after IPO. As the above liquidity ratio the cash & bank balance to current asset ratio of other finance companies are found to be fluctuating.

The above result shows that the liquidity position of CAMBFL and STDFL are comparatively better than that of other finance companies. However the highly fluctuating ratios show that none of these finance companies have formulated any stable policy.

Activity Ratio

The activity ratios of selected finance companies revel that:

» SFL has the maximum average loan & advances to total deposit ratio and CAMBFL has the least average ratio before IPO. Similarly UFL seems to the highest utilizer of its deposit fund as loan and advances where as NMB the least after IPO. ILFC is found to be maintaining good average ratio before and after IPO.

» NMB appears to be the highest mobilizer and GFL as the lowest mobilizer of the deposit fund as investment before IPO. NMB again appears as the highest mobilizer of deposit fund as investment and SFL as the lowest mobilizer after IPO. However the average ratios of NMB and SFL have been decreased after IPO where as it has been increased in GFL.

» ILFC has the highest average total assets turnover ratio with increasing trend of ratio from first year to third year before IPO where as KFL has the lowest average ratio for the same phase. SFL has the highest average ratio after IPO whereas STDFL has the lowest average ratio for the same phase. However the average ratio has been increased in SFL, KFL, WMBFL, CUMBFL and CAMBFL after IPO. The ratios have been decreased in other finance companies.

The above findings help to conclude that SFL and ILFC are utilizing their deposit more in lending activities where as NMB seems to be in investing activities.

Leverage Ratio

The analysis of leverage ratios reveals that:

» LF&LCL is the highest and KFL is the lowest debt financed than equity capital before IPO in comparison to other finance companies where as CFL is the highest and UFL is the least debt financed after IPO in comparison to other. SFL and KFL have increased their debt proportion after IPO where as other companies have decreased.

» BFL is found with highest and STDFL with the lowest average total debt to total assets ratio before and after IPO. However the ratio has been increased in SFL, NMB, BFL, CUMBFL, KFL and WMBFL where as it has been decreased in other finance companies after IPO.

» KFL has the highest and LF &LCL has the lowest average capital adequacy ratio before IPO. UFL is found with highest average ratio and CFL with the lowest ratio After IPO. SFL, KFL and WMBFL have decreased their capital adequacy ratio after IPO where as other companies have increased.

The above findings show that LF & LCL, SFL and BFL are following aggressive policy which indicates them to be riskier where as KFL, UFL and STDFL are making lower use of debt which indicates them to be less risky.

Profitability Ratio

The analysis of profitability ratio reveals that:-

» NMB has the highest and CAMBFL has the lowest average net profit to total revenue ratio before IPO where as NMB again has the highest but NSMBFL has the lowest average ratio after IPO. ILFC, UFL, PFL, NDFCL, BFL, CFL and CAMBFL are the companies which are showing their better steps in making increasing trend after IPO.

» NMB has the highest average ROA before and after IPO. However the ratio has been decreased after IPO. CAMBFL and NSMBFL have the lowest average ROA before and after IPO respectively. KFL has remarkably improved its average ROA after IPO.

» NMB again has the highest average net profit to total deposit ratio before and after IPO. CAMBFL and NSMBFL again have the lowest average net profit to total deposit ratio before and after IPO respectively. A remarkable improvement in the average ratio can be seen in KFL.

» LF & LCL has the highest average ROE before IPO where as NMB has the highest average ROE after IPO. Also, CAMBFL and NSMBFL have the lowest average ROE before and after IPO respectively. SFL, NDFCL, KFL and WMBFL have increased average ROE after IPO where as others have decreased average IPO after IPO.

» GFL has the highest average ROI before and after IPO where as KFL and NSMBFL have the lowest average ROI before and after IPO respectively. However the ratios have been increased in GFL, SFL, BFL, CAMBFL and WMBFL where as it has been decreased in other finance companies.

» The average interest earned to total assets ratio is highest in ILFC and lowest in KFL before IPO where as it is highest in SFL and lowest in STDFL after IPO. The average ratio of CUMBFL, KFL, WMBFL and CAMBFL has been increased after IPO where it has been decreased in other companies.

From the above findings it can be concluded that the profitability position of NMB, LF & LCL and also of ILFC is better before IPO. The profitability position of NMB, KFL, ILFC, WMBFL, NDFCL and CAMBFL can be seen better after IPO. The profitability position of NSMBFL and LF & LCL seem to be bad after IPO.

Valuation Ratios

The analysis of valuation ratios reveals that:-

»The average EPS of SIFL appears to be the highest before and after IPO, even though it has been decreased after IPO. The average EPS of CAMBFL and NSMBFL seem to the lowest EPS before and after IPO respectively. The EPS of all the finance companies, except GFL, NSMBFL and LF & LCL seem to be increasing after IPO.

» The average DPS of SIFL appears to be the highest before and after IPO, even though the ratio has been decreased after IPO. NSMBFL, KFL, CUMBFL, WMBFL and CAMBFL are found with average DPS equal to zero before IPO as they have not distributed dividend. NSMBFL is found with zero average DPS till the 3rd year of its IPO.

» NMB has the highest average DPR before IPO where as STDFL has the highest average DPR after IPO. KFL, CUMBFL, WMBFL, and CAMBFL have increased their average DPR after IPO.

» SIFL appears with the highest average net worth per share before and after IPO where as SFL and NSMBFL appear with the lowest net worth per share before

and after IPO respectively. GFL and SIFL are the other two finance companies in addition to NSMBFL, whose net worth per share have been decreased after IPO.

Test of Hypothesis

The test of hypothesis i.e. t-test at 5% level of significance of all the ratios of finance companies before and after IPO reveals the following findings:-

»Total revenue to total assets and Net worth to total deposit ratios of ILFC have significant difference before IPO and after IPO where as other ratios of the company do not have significant difference before and after IPO.

» There is significant difference in the current ratio of UFL before IOP and after IPO where as there is not significant difference in the other ratio of the company before IPO and after IPO.

» There is significant difference in the EPS, DPS and Net worth per share of SFL before IPO and after IPO where as there is not significant difference in the other ratios of the company before and after IPO.

» There is not significant difference in any ratios of PFL before IPO and after IPO.

» There is not significant difference in any ratios of SIFL before IPO and after IPO.

» There is significant difference in Net worth per share of NMB before IPO and after IPO where as there is no significant difference in the other ratios of the company before and after IPO.

» There is not significant difference in any ratios of NDFCL before IPO and after IPO.

» There is significant difference in the current ratio, debt to equity and net profit to equity of GFL before and after IPO where as there is not significant difference in other ratios of the company before and after IPO.

»There is significant difference in the dividend payout ratio of STDFL before IPO and after IPO where as there is not significant difference in other ratios of the company before and after IPO.

» There is significant difference in the Loan and advances to total deposit, Total revenue to total assets and Total interest earned to total assets ratios of BFL before and after IPO where as there is not significant difference in other ratios of the company before and after IPO.

» There is not significant difference in any ratio of NSMBFL before and after IPO.

»There is not significant difference in any ratio of COMBFL before and after IPO.

» There is significant difference in the Cash and bank balance to total deposit and Cash and bank balance to current assets ratios of CFCL before and after IPO where as there is not significant difference in other ratios of the company before and after IPO.

» There is significant difference in the Net profit to equity ratio of WMBFL before IPO and after IPO where as there is not significant difference in other ratios of the company before and after IPO.

»There is not significant difference in any ratio of CAMBFL before and after IPO.

» There is significant difference in the Net worth to total deposit ratio of LF &LCL before and after IPO where as there is not significant difference in the other ratios of the company before and after IPO.

» There is significant difference in the DPS, Dividend payout ratio and Net worth per share ratio of KMBFL before and after IPO where as there is not significant difference in the other ratios of the company before and after IPO.

CHAPTER-V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter summarises the whole part of this study. It includes summary, conclusion from the study and the recommendations.

5.1 Summary

The development of any country largely depends upon its economic development. Financial institution play dominant role in the process of economic development and upliftment of the nation. The beginning and establishment of financial institutions depends upon the level of economic activities and monetary transactions in the country. In Nepalese context, the history of modern financial institutions begins with the establishment of NBL in 1937 A.D. Since then several financial institutions i.e. joint venture banks, domestic commercial banks, finance companies have come in to existence which cater the financial need of the country.

Finance companies stimulate savings by mobilizing idle resource in one hand and on the other, lend the resources or mobilize to those who have investment opportunities. Though the Finance Company Act was passed in 1985, it was brought into effect only in 1992 after the implementation of liberal economic policy. Within the short period, this sector has assumed greater importance. In a situation when commercial banks are not able to meet individual credit needs, it is timely that finance companies have grown to replace and has been brought as legal institution within the regulation and control of NRB. Thus, they have served as one of the institution for development, enhancement and promotion of economic activities in the country.

The present study regarding the pre-issue and post-issue financial performance of the selected finance companies has been conducted to present the hidden implications of the figures shown in the balance sheet with regard to financial performance of the companies and to identify their contributions to the national economy before and after their IPO. The objective of the study was to analyze the financial performance before and after the IPO. In the second part of the study, the literatures available in this field of the study have been presented. It has shown the gap between previous studies and need of this study. Third part has explained the research methodology applied in this study. In order to carry out the study, the financial statement of the selected finance companies of the period three years before their respective IPO and three years after their respective IPO have bee analyzed in

the fourth part. This is the fifth part of the study and it summaries the whole part of the study.

5.2 Conclusion

On the basis of detail analysis of the performance of the sampled companies the following conclusions have been drawn:

SFL and ILFC are utilizing their deposit more in lending activities where as NMB seems to be in investing activities. LF & LCL, SFL and BFL are following aggressive policy which indicates them to be riskier where as KFL, UFL and STDFL are making lower use of debt which indicates them to be less risky. Profitability position of NMB, LF & LCL and ILFC found better before IPO where as the profitability position of NMB, KFL, ILFC, WMBFL, NDFCL and CAMBFL found comparatively better performance after IPO. The profitability position of NSMBFL and LF & LCL found bad performance after IPO. SIFL appears with the highest average net worth per share before and after IPO where as SFL and NSMBFL appear with the lowest net worth per share before and after IPO respectively. GFL and SIFL are the other two finance companies in addition to NSMBFL, whose net worth per share have been decreased after IPO.

The test of hypothesis at 5% level of significance, it is found that total revenue to total assets and net worth to total deposit ratios of ILFC, current ratio of UFL, EPS, DPS and net worth per share of SFL, net worth per share of NMB, current ratio, debt to equity and net profit to equity of GFL, dividend payout ratio of STDFL, loan and advances to total deposit, total revenue to total assets and total interest earned to total assets ratios of BFL, cash and bank balance to total deposit and cash and bank balance to current assets ratios of CFCL, net profit to equity ratio of WMBFL, net worth to total deposit ratio of LF &LCL, DPS, dividend payout ratio and net worth per share ratio of KMBFL have significant difference before and after IPO but other performances have not seen any significant differences before and after IPO.

5.3 Recommendations

From the findings and conclusions of this study, the following recommendations have been made to the concern companies to improve their performance.

» The current ratio of all the above selected finance companies does not meet the traditional standard level of 2:1 except that of STDFL after IPO. So, FCs must

identify the quality of current assets and current liabilities to develop their own standard current ratio.

» Though liquidity position of NMB and CAMBFL seem to be favourable in terms of cash and bank balance, it seems to be more. Hence it is recommended to reduce the excessive non performing cash and invest on income generating current assets.

» All the finance companies are suggested to employ their major source of fund i.e. deposit in more profitable sector so as to maximize the return and increase the net profit.

» NSMBFL, LF & LCL are especially suggested to work on credit management and focus on recovering non performing loan.

» LF & LCL, SFL and BFL are seemed to be highly debt financed. They are following aggressive policy which is the symbol of risk and inflexibility in the operation. In one hand, inadequate capital leads to failure of advancing loans and advances on the other hand excessive use of debt can also lead to bank rapt at the inability to meet the demand made by debt holders. In addition to this, excessive use of debt capital by these FCs may cause to lower return to equity holders. So these finance companies are suggested to increase their equity capital by issue of shares, expanding general reserves and retaining more earning. Further more, these finance companies must identify the investment opportunity and assort the risk assets portfolio carefully before accepting higher volume of deposits, especially high cost bearing fixed deposits.

» Total revenue to total assets ratio of NSMBFL has been decreased but its interest expenses, operational expenses, staff expenses has been decreased during its 3rd year after IPO. Due to which it has suffered heavy losses. The company is suggested to reduce its outstanding interest income, non performing loan and operational cost.

»The higher ratio of ROI of GFL and SFL is not due to higher volume of profit earned but due to lower volume of investment. So, these companies are suggested to make better investment portfolio.

» UFL has to mobilize its working fund better to improve interest income.

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