PROFIT PLANNING AND CONTROL

(A Case Study of Nepal SBI Bank Limited)

Submitted by: BABITA UPADHYAYA Nepal Commerce Campus

Campus Roll No.: 1108/063

T.U. Regd. No.: 7-2-15-1068-2000 Second Year Symbol No.: 251178

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

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

Kathmandu, Nepal September 2013

RECOMMENDATION

This is to certify that the thesis

Submitted by:

BABITA UPADHYAYA

Entitled:

PROFIT PLANNING AND CONTROL

(A Case Study of Nepal SBI Bank Limited)

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

Prof. Dr. Sushil Bhakta Mathema	Jyoti Pandey
(Head, Research Department & Thesis Supervisor)	(Campus Chief)
Date	

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

BY:

BABITA UPADHYAYA

Entitled:

PROFIT PLANNING AND CONTROL

(A Case Study of Nepal SBI Bank Limited)

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

Master of Business Studies (MBS)

Viva-Voce Committee

Head, Research Department	
Member (Thesis Supervisor)	
Member (External Expert)	
Date:	

DECLARATION

I hereby declare that the work reported in this thesis entitled "**Profit Planning** and Control (A Case Study of Nepal SBI Bank Limited)" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the degree of Master of Business Studies (MBS) under the supervision of **Prof.Dr.Sushil Bhakta Mathema** of Nepal Commerce Campus, T.U.

Date.																									
Daw.	٠	٠	٠	٠	٠	٠	٠	٠	٠	٠	٠	٠	٠	٠	٠	٠	٠	٠	٠	٠	٠	٠	٠	٠	٠

.....

Babita Upadhyaya (Researcher)

Nepal Commerce Campus

Campus Roll No: 1108/063

T.U. Regd. No: 7-2-15-1068-2000

Second Year Symbol No.: 251178

ACKNOWLEDGEMENT

This thesis entitles "Profit Planning and control: "A Case Study of Nepal SBI Bank Limited" has been prepared in partial fulfillment for the degree of Masters of Business Studies (MBS) under the supervision of Prof.Dr. Sushil Bhakta Mathema of Nepal Commerce Campus. It is my privilege of getting helps and co-operation from different persons. It is not possible to enumerate the names of all of them. However, it will be matter of injustice if I forget the names of those personalities whose valuable suggestions and co-operation escorted to complete this thesis report.

Firstly, I would like to express my sincere gratitude to my thesis advisors Prof.Dr. Sushil Bhakta Mathema of Nepal Commerce Campus who guided throughout research work with providing valuable suggestions, supports and supervision. Without these remarkable help and guidance, this thesis would not have come in this form.

Similarly, I would like to thank staffs of Nepal SBI Bank to support me for helping to conduct necessary survey and complete the study, it would have not been possible to complete the study without their support. I am equally grateful to all the authors, whose books, reports and thesis have been consulted during my thesis preparation period.

Lastly, I also owe deep gratitude to all family members, my friends, colleagues, well wishers and various organizations & institute extended their generous support to complete this thesis work.

Babita Upadhyaya

TABLE OF CONTENTS

Recommendation
Viva Voce Sheet
Declaration
Acknowledgement
Table of Contents
List of Tables
List of Figures

Abbreviations

	D N
	Page No.

CHAPTER – I INTRODUCTION						
1.1Background of the Study						
1.1.1 Nepalese Economy - Current Macro-Economic Condition						
1.1.2 Meaning and Importance of Financial Institutions	5					
1.1.3 Major Financial Policy of Nepal	6					
1.1.4 Development of Banks	9					
1.2 Statement of the Problems	11					
1.3 Objectives of the Study	11					
1.4 Profile of NSBI	12					
1.5 Rational of the Study	17					
1.6 Limitations of the Study	18					
1.7 Organization of the Study	19					
CHAPTER – II REVIEW OF LITERATURE						
2.1 Introduction	20					
2.2 Concept of Commercial Bank	20					
2.2.1 NRB Regulation	21					
2.2.1.1 Prescribed Regulations for Commercial Banks	21					
2.2.2 Evolution of Commercial Bank	22					
2.2.3 Existing Scenario of Banking Sector	26					
2.2.4 Domestic Legal Provisions Regarding Banking Sector	27					
2.2.5 Existing Rules and Regulations Relating to the Commercial Banks	29					
2.2.6 Activities of the Commercial Bank	31					
2.2.6.1 Collection of Pasources	32					

2.2.6.2 Deployment of Resources	33
2.2.7 Impact of National and International Situation on Commercial Bank	36
2.3 Profit Planning as a Concept	36
2.4 Mechanism of Profit Planning	39
2.4.1 Profit as a Concept	39
2.4.2 Long Term and Short Term Profit Planning	39
2.4.3 Concept of Planning and Control	40
2.5 Budgetary Control	41
2.5.1 Concept of Budgeting and Budget	41
2.5.2 Budgeting in Profit Plan	41
2.5.3 Prerequisites of Budgeting	42
2.6 Basic Concept of Profit Planning	43
2.7 Merits and Demerits of Profit Planning and Control	46
2.8 Profit Planning and Control Process	47
2.9 Limitation of Profit Plan	48
2.10 Profit Planning in Commercial Banks	49
2.10.1 Planning for Resources	49
2.10.2 Non-Fund Consuming Income Plan	50
2.10.3 Planning for Expenditure	50
2.10.4 Planning for Revenue	51
2.11 Application of Profit Plan in Banking Sector	52
2.12 Execution of Profit Planning and Control	52
2.13 Review of Previous Studies	53
2.14 Research Gap	59
CHAPTER – III RESEARCH METHODOLOGY	
3.1 Introduction	60
3.2 Research Design	60
3.3 Population and Sample	61
3.4 Sources and Collection of Data	61
3.5 Study Variables	61
3.6 Analytical Tools	62
3.6.1 Statistical and Mathematical Tools	62
3.6.1.1 Percentile Increment	62

3.6.1.2 Arithmetic Mean Average	62
3.6.1.3 Correlation of Coefficient	63
3.6.1.4 Regression Analysis	64
3.6.1.5 Standard Deviation	64
3.6.2 Financial Tools	64
CHAPTER – IV DATA PRESENTATION AND ANALYSIS	
4.1 Mission Statement of NSBI	65
4.2 Resource Mobilization Planning	65
4.3 Customer Deposit Collection	68
4.3.1 Deposit Collection Budget of NSBI	69
4.4 Resources Deployment Plan of NSBI	73
4.4.1 Budgeted and Actual LDO of NSBI	75
4.4.2 Resources Deployment in Other Sector (NLDO)	79
4.4.3 Actual Deposit and Outstanding LDO of NSBI	82
4.5 Interest Expenses	86
4.6 Interest Income	88
4.6.1 Interest Margin	90
4.7 Performance Evaluation of NSBI	91
4.8 Ratio Analysis	92
4.8.1 Liquidity Ratio	92
4.8.2 Leverage Ratio	94
4.8.3 Debt-Equity Ratio	95
4.8.4 Interest Coverage Ratio (ICR)	96
4.8.5 Profitability Ratio	97
4.9 Major Findings of the Study	99
CHAPTER - V SUMMARY, CONCLUSION AND RECOMMENI	DATIONS
5.1 Summary	101
5.2 Conclusion	102
5.3 Recommendations	104
Bibliography	
Appendices	

LIST OF TABLES

Table	e No. Title	Page No.
1.1	Nepal SBI Bank Branch Location	14
1.2	Nepal SBI Bank ATM Location	16
4.1	Status of Available Resources of NSBI	66
4.2	Status of Budgeted and Actual Deposit Collection	69
4.3	Summary of Deposit Collection Budget and Actual Deposit	71
4.4	Total Income Generating Deployment of NSBI	74
4.5	Budgeted and Actual Loan, Discounted, Overdraft of NSBI	75
4.6	Summary of Budgeted LDO and Achievement	78
4.7	Status of Budgeted and Actual Deployment in Other Sector	80
4.8	Summary of NLDO of NSBI	82
4.9	Status of LDO VS Actual Deposit of NSBI	83
4.10	Summary of Actual Deposit and Actual O/S LDO	85
4.11	Status of Average Cost of Deposit	86
4.12	Summary of Actual Deposit and Interest Expenses	87
4.13	Status of Average Return of LDO	88
4.14	Summary of Actual LDO and Interest Income	89
4.15	Movements in Interest Margin of NSBI	90
4.16	Current Ratio of NSBI	93
4.17	Debt-Equity Ratio of NSBI	95
4.18	Calculation of Interest Coverage Ratio	97
4.19	Profitability Ratio of NSBI	98

LIST OF FIGURES

Figur	re No. Title	Page No.
4.1	Pie Chart Showing Status of Available Resources of NSBI	67
4.2	Bar diagram Showing Status of Available Resources of NSBI	67
4.3	Bar Diagram Showing Budgeted and Actual Deposit Collection	70
4.4	Trend Line showing Budgeted and Actual Figure	71
4.5	Bar Diagram of Budgeted and Actual LDO of NSBI	76
4.6	Trend Line showing the Status of Budgeted and Actual	
	Deployment in LDO of NSBI	77
4.7	Bar Diagram Showing Status of Budgeted and	
	Actual NLDO of NSBI	81
4.8	Bar Diagram Showing Actual Deposit and Actual LDO of NSBI	84
4.9	Trend Line Showing Actual Deposit and Actual LDO of NSBI	84
4.10	Bar Diagram Showing Average Cost of Deposit	87
4.11	Bar Diagram Showing Average Return from LDO	89
4.12	Bar Diagram Showing Interest Margin of NSBI	91
4.13	Bar Diagram Showing Current Assets and	
	Current Liabilities of NSBI	94
4.14	Bar Diagram Showing Borrowing and Shareholder's	
	Equity of NSBI	96

ABBREVIATIONS

A.D : Anno Domini

ATM : Automated Teller Machine

B.S : Bikram Sambat

C.V : Coefficient of Variation

F.Y : Fiscal Year

G.D.P : Gross Domestic Product

HBL : Himalayan Bank Limited

L/C : Letter of Credit

LDO : Loan, Discount and Overdraft

MBS : Master of Business Studies

NB Bank : Nepal Bangladesh Bank

NBL : Nepal Bank Limited

NGO : Non-Government Organization

NIDC : Nepal Industrial Development Corporation

NRB : Nepal Rastra Bank

NSBI : Nepal SBI Bank Limited

OD : Overdraft

PPC : Profit Planning and Control

RBB : Rastriya Banijya Bank

ROE : Return on Equity

SCBNL : Standard Charted Bank Nepal Limited