CHAPTER –I

INTRODUCTION

1.1 Background of the Study

Finance is the life blood of the economy of any country. Well managed financial institutions are the vehicles that drive the country towards the economic development. They collects and mobilize funds in to the productive sectors .A proper financial system plays a vital role in both developed and developing countries .According to Peter E Rose "A financial system encompasses the financial markets, institution, laws, regulations and techniques through which financial assets are traded, interest rates are determined and financial services are produced and delivered around the world". It carries saving wealth, liquidity, credit payments, risk and policy functions. Financial institution collects the scattered and ideal saving and mobilizes them into productive sectors for the maximization of wealth. Therefore, it is obvious that contribution of this sector in national economy is huge.

In financial economics, a financial institution acts as an agent that provides financial service for its clients. Especially financial institutions are depository institution, loan providing institution, brokerage firms and insurance companies. They have been giving lots of financial services such as deposit collection, brokerage, consultancy fund transfer, bank guarantee, letter of credit, loans, bill purchase, issue of debenture, e-commerce and credit card and allied service etc. Financial institution are the one which make the financial markets work, without them financial markets would not be able to move funds from people who save, to people who have productive investment opportunities. Thus, they importantly effects on the performance of the economy as a whole. The question, "How are the financial institutions generating their financial services?" is the main concern for the development of the country. Although it plays major role in the development of the country and it is affected by the open market and liberalization polices of the government .In context of Nepal, Nepal Rastrya Bank is the apex institution of the monetary and banking structure of the country. It plays a leading role in organization,

supervising, controlling, regulating and developing the monetary and financial system. Nepalese financial system can be studied or looked in to two main categories i.e. banking and non-banking institutions. All the commercial banks are considered as banking sector while financial institutions other than bank are considered as non-banking sectors. So, we are focusing here for non-banking financial institutions.

Financial institution is profit making organization. One of the major motives is wealth maximization and giving maximum benefit to its shareholders. Basically, finance companies collect scattered saving of the individuals and mobilize in the various productive sector in the form of investment or lending such as hire-purchase, purchase of land, housing load etc. In conceptual term, finance companies are non-banking financial institutions and they are one of the large, most diverse, non-depository institutions that have developed world-wide. They are different from commercial banks and other financial institutions in terms of their orientation for management, risk taking, lending policies and practices, size and potentiality, service delivery mechanism and efficiency. Besides equity their main sources of fund are time deposit collection and issuance of debentures. They are allowed to invest in securities and invest securities and issue guarantee. In context of under developed countries like Nepal, it is a new type of institution. The primary goal of developing countries like Nepal is to achieve rapid economic growth and development to uplift the welfare of the citizen and the county. Finance companies are regarded as the catalyst of economic development of a country because they help in mobilization of the domestic resources, produce loan and cause finance innovations to facilities the trade and transaction.

Finance companies, licensed under the "Finance Companies Act 1985" are the third largest group of deposit taking financial institutions in Nepal. They are the creation of early 1990's. They were established as public limited companies mainly for providing loans to procure motor vehicles and other consumer durables on hire purchase loans, terms loan, land acquisition and building constructions and leasing plants and machinery. Finance companies leading operations have tended to complement the operations of the commercial banks, mainly in urban areas. But these companies are not allowed to accept demand and saving deposit from public and have thus concentrated in mobilizing funds through fixed deposits (NRB, 1996: p.45).

The history of modern commercial banking industry dates back to 1937 A.D. in which year Nepal Bank Limited was incorporated. Till 1984, financial sector was closed to private sector and foreign investors. Nepal government started to liberalize the financial sector in the first half of the 1980s. But it speeded up the process only early 1990s. Private sector rushed in to finance industries especially after the restoration of democracy in 1990. Most of commercial banks came into operation during the decade of 1990s. Nepal Rastra Bank as an apex monetary authority of country started to monitor and control the finance industry especially at the end of the 1990s by issuing the directive to the financial institution.

No finance companies were started till the amendment of the act in B.S. 2049. The ground work for establishing finance companies was initiated in 2042 B.S. with the enactment of finance company act 2042 B.S. Despite the provision of Act, private sectors are completely silent till 2049 B.S. After the 2049 B.S. some to the financial institutions were established under the finance company act 2042. Nepal Housing and Development finance Company was the first finance company which was established in 2049. Nepal finance and saving company was the second finance company of the country. Today there are more than 79 finance companies which are operated by private entrepreneurs, individuals and organized sectors. They collected deposit, extended loans and advanced to various sectors. The principal sources of these companies besides equity were deposit collections and issuance of debentures. The resources thus collected are invested in hire purchasing, housing finance, leasing finance, investment in government securities and bonds, issuing guarantee, which are approved by Nepal Rastra Bank for the finance companies. Therefore finance companies can be considered as complementary to commercial banks to some extent.

Fiancé companies are registered in kaski district: they are
Om finance
Pokahara finance ltd.
Fewa finance ltd.
Api finance ltd. (apex commercial bank)
Kaski finance ltd. (Based on latest data)

We are going to prepare of Investment Portfolio of finance company of Comparative Analysis of Om finance and Fewa finance.

Introduction of Om finance co. ltd.

Om Finance Limited is one of the pioneer & leading finance companies of the Pokhara. It was registered in 2054 B.S. by the group of highly reputed & skilled board of directors. In 29th Bhadra 2057 B.S. Nepal Rastra Bank provided the License as finance company, thus, om finance started its operation from 1st Ashwin 2057 B.S.

The head office of this finance limited is situated in Newroad, Pokhara. From its starting phase, Om Finance Limited is trying to bring motivation in the economic condition of the country, establish economic favor to every individual and utilizes the freezes capital of the country, plan and invest in an ordered (step by step) manner & upgrade the economical policies of Nepal.

Om Finance Limited is providing the cutting edge facilities to Pokhara Valley as per market demands to fulfill the basic to every level of customer demands. The services provided by the finance are trustworthy, protective and easy financial services. Famous and successful industrialists, businessmen, social workers and people having years of experience in financial sector of Pokhara. Om Finance Limited has its head office Newroad, Pokhara and branches have been operating in Ram Bazar and Bhairab Tole, Pokhara and other are Beshisahar, Lamjung and Bagdurbar and Maharajgung, Kathmandu, Golmadi, Bhaktapur, kumaripati, Patan and Safa Sadak, Damauli. (www.omfinanceltd.com.np)

Introduction of Fewa finance limited

Fewa Finance Limited is established under the company act 2053 and licensed by Nepal Rastra Bank in 9th Baishakh 2060 and came into operation in 17th Baishakh 2060. The Head Office is located in Chipledhunga, B.P. Chowk,Pokhara. The promoters of Fewa Finanace include successful businessman, traders, social workers and professionals having long experience in financial sectors. Fewa Finance is

equipped with modern technologies and it is providing fast and quality service to the valued clients. Due to the immense support, belief and help, Fewa Finance is rapidly extending its services. Capital structure of fewa finance limited is formed with rs 700 million in authorized capital, Rs 303.30 million in issued and paid up capital each.

Fewa Finance Limited has its head office in chipledhunga, BP chowk, Pokhara ,Nepal and branches have been operating in Birauta, Pokhara Amarsinghchowk ,Pokhara Bhimkalipatan Bagar,Pokhara , khichapokhar, Kathamandu, Maharajung, Kathmandu ,Fidim, Fidim and Tamghas, Gulmi and Jomsom, Mustang and Bharatpur, Bharatpur, Patan, Lalitpur and Butwal, Rupendehi.

Fewa Finance Limited is established to provide financial support to different productive and needy sectors by collecting the small and large savings all around the country for the overall development of the nation under the free economy policy of the Nepal government. (**www.fewafinanceltd.com.np**)

1.2 Statement of the Problem

Investment Portfolio is the combination of the different types of assets through which the investors maximizes the returns and minimize the risk. It should insure minimum risk and maximum profit. Portfolio management is basically concerned with efficient management of portfolio investment in financial assets. Portfolio management assumes periodic supervision of the security in the portfolio. The process of portfolio management is closely and directly linked with the process of decision making the correctness of which cannot be ensuring in all cases.

Nepalese economy is facing serious problem due to imbalance between resource mobilization and expenditure, saving and investment, import and export and lack of control over population growth. Various financial institutions have been established to assist the process of economic development of our country. Finance companies have been playing role by accepting deposits and providing various types of loans and investing in different sector. There are many commercial banks, development banks, finance companies and many more co-operative societies in existence with in Pokhara valley as well. An Organization can not accomplish its

goals and objectives without efficient and proper planning in investment in the though competitive environment.

In this context, Om Finance Limited was established before 12 years and it is the second oldest finance company in Kaski district. Likewise, Fewa Finance Limited has also been operating in 9 years. The companies are well established in this sector, what the profit strategy they have and the position they been attaining is the matter to be analyzed.

Through lot of challenges, how the companies have been attaining success, what the portfolio of investing they have been using? Therefore, following are the major problems that have been identified for the purpose of this study.

a. What are the different investment sectors of the company and their trends in five years?
b. What are the relationship between the deposit mobilization and the loan investment of Fewa Finance Limited and Om Finance Limited?
c. What is the profitability position of each company?
d. What is the risk and return each company?

1.3 Focus of the study:

This study is based on comparative study of investment portfolio of the Om Finance co. and Fewa Finance Company. Nowadays finance companies are growing day by day in Nepal even the world has been suffering from the depression since more than couple of years. Therefore it is considerable that how the finance companies in Nepal are still in stable position? The investment done by the finance company is guided by several principles such as their purpose, length of time, profitability etc. Are they earning as per their planning? Where the investment has been involved? These types of queries must be settled and the sound policies should be formulated for their sustainable growth.

Therefore this study focuses on alternatives of investment structure, investment decision process, trend of investment process and analysis of each part related to investment structure. Existing process, situation, structure and results are

carefully observed on the basis of decision science. Decision science prefers more and more alternatives, analyze then and select best alternative.

Normally Finance company's return depends upon the market risk and return. So here risk and return are critically examined with market risk and return through financial and statistical tools.

1.4 Objective of the study

The main objective of this research is to examine and analyze the investment portfolio of finance company; Fewa Finance Limited and Om Finance Limited. The specific objectives of this study are as fallows:

a. To analyze and compare different sectors of investment and their trends.
b. To analyze the deposit mobilization and investment trend of the each company.
c. To measure and compare the profitability position.
d. To analyze risk and return of each company.

1.5 Significance of Study

The study helps to understand the practice of investment portfolio of finance companies and shows the probability of different option for investment. Basically the proposed study has been important for the researcher to fulfill the academic requirement of Master's degree and it might be valuable for scholars, students, in relation to working investment portfolio.

Besides this, the study facilitates the different people in the following ways.

a. It provides useful feedback to shareholders and general public to invest
b. It helps the entrepreneurs and businessmen by providing the information related with credit facilities.
c. It helps the researchers, students and other interested people for future study and research.
d. It helps to anticipate the profitability position in different portfolio.
e. It will be also helpful for other same nature finance company to determine and manage investment.

f. It will be useful for Nepal Rastra Bank to formulate appropriate economic policy for the banking sector.

g. This study is helpful to carry out further research in this field.

h. This study helps to know concern parties and general interest public.

1.6 Limitations of the Study

As we know every study has its own limitation. This study of Investment Portfolio also has some limitation which, we can not overlook. The limitations are as follows.

a. The study is a partial fulfillment of MBS degree which is prepared with in time constraint.

b. This study has been concern with Om finance and Fewa finance limited only.

c. This study is based on secondary date hence accuracy depends upon the data collected and provided by the organization.

d. The course the relevant data and information only 065/66 to069/70 period.

e. The study is focused on loan and advance of the companies

f. The study is concentrated investment portfolio and thus may not cover the other financial aspects.

1.7 Organization of the study

The entire study has been organized to five main chapters as:

Chapter – I: Introduction

The first chapter deals with general background, Focus of the study, statement of the problem, objective of the study, significance of the study and limitation of the study.

Chapter – II: Review of Literature

The second chapter deals with conceptual review and related studies and. It also includes the brief review of previous research work.

Chapter – III: Research Methodology

This chapter states all the method of collection and analysis of data. It includes research design, population and sample, nature and source of data ,data collection procedure and method of analysis.

Chapter – IV: Data Presentation and Analysis

The fourth chapter deals with presentation and analysis of data. It gives a clear picture of how the collected data has been presented on the study and the study is concluded with major findings.

Chapter – V: Summary, Conclusion and Recommendations

And at last, the fifth chapter recapitulates the whole study, the statements of all the four proceeding chapters have been summarized and some suggestions have been made.

CHAPTER-II
REVIWE OF LITERATURE

Review of literature consists of study of past research studies and relevant information that they used and induced. It is an advancement of existing knowledge and in-depth study of subject matters. It starts with a search of a suitable topic and continuous throughout the volumes of similar or related subjects. This chapter deals with the review of the financial system and investment opportunity with more details are in descriptive manner. For this study, various books, journal and articles as well as the past thesis review were taken into consideration. During the review of this research, in depth study and theoretical investigation regarding portfolio's aspects and their present application and potentialities are studied.

2.1 Conceptual Framework

Portfolio management is the process of selecting different investment sectors that provides the organization a maximum yield for a given level of risk or alternatively ensuring minimum level of risk for given level of return. It can also be taken as risk and return management. It aims to determine an appropriate asset mix which attains optimal level of risk and return. Various books, which are either dependent or independent deals with theoretical aspects of risk, return and portfolio, are taken into consideration in this chapter.

2.1.1 Investment and Portfolio analysis:

The common definition of investment is the sacrifice of certain present value for future value. Investment is not a gamble rather it is the systematic and scientific way of using the excess fund to get the maximum return at minimum level of risk. Investment is done to obtain some expected profit. Investment forgives the present return for future return. Present investment is contribution to the future return. It is systematic and scientific way of using available fund for short or long term in order to gain expected return in future period. While expecting future return one should not forget that the amount s/he investing i.e. capital, a collective form of surplus. The

surplus is that part of money deducting all the expenses from income. A person spends his/her years in capital formation process. That is why each one should be rational while investing. Since most of investors are risk averters, they require additional unit of return for bearing one more level of risk. People always try to reduce the risk factor. Common definition say us that contribution of present value for future return is investment or it's a search of certainty within the uncertainty. An investment is a commitment of money that expects to generate additional money. Every investment entitles some degree of risk; it requires a present sacrifice for a future uncertain benefit. The motivating factor of investment is collective form of saving, expectation of future return and wealth position maximization.

"Investment is the main income generating activity for all banks and involves both risk and profit. But a sound investment process supported by quantitative analysis, qualitative judgment and a separate investment-monitoring cell can reduce the risk to a certain extent.**"(Internship Report on Investment management of SLIB and ALBL – A Comparative Study 2013**). Investors undertake investment with the target of making some expected rate of return. For making more return, they diversify their investment across different sectors rather than invest in one. Risk diversification creates an efficient investment thereby reducing the variability of return around the expected return. The reduction in risk will occur only if the returns within the portfolio do not move precisely together over time- that is, if they are not perfectly correlated.

A portfolio is collection of investments of the company. Portfolio theory deals with the selection of optimal portfolio; i.e. portfolio that provides the highest possible return for any specified degree of risk or the lowest possible risk for any specified rate of return.(western and Copeland, 1992).'' A portfolio simply represents the practice among the investors of having their funds in more than one asset. The combination of investment assets is called a portfolio."(Western and Brigham, 1996). In simple words, portfolio means the list of investment owned by an investor or institution, which provides maximum return at minimum risk. So an investor should always have

good knowledge of portfolio analysis as it considers the future return and risk and helps to develop a portfolio that provides the maximum return at given level of risk.

2.1.2 Portfolio Management and its objective

Portfolio management theory seeks to make risk- adjusted returns and take full advantage of portfolios through evaluation, diversification, and other asset management strategies. Financial management is one of the most common areas of application of portfolio management theory. Portfolio management theory helps investment managers to create a portfolio of investments to meet the current financial goals of the company. One of the fundamental principles of portfolio management theory is to yield value to the business and manipulate existing value to enhance returns. It is a theory on how investors can construct portfolios with a view to optimize market risk and derive more returns from a business.

Portfolio management is the process of defining portfolios, evaluating, tracking and studying portfolio performance, and reporting results to stakeholders. Portfolio management involves the balancing of risks and rewards for getting greater returns. Companies employ portfolio management to efficiently manage their resources. Portfolio management theory states that every project should be analyzed for risks involved and the returns expected. Successfully applying the portfolio management theory in practice helps a company to get expected and higher return through balancing of risk in different positions.

Portfolio theory deals with the selection of optimum portfolio. Only the optimum portfolio provides the highest possible return for any specified degree of risk or the lowest possible risk of any specified rate of return. In order to develop the optimum portfolio, the investor should have good knowledge of portfolio management. If is concerned with efficient management of funds allocated in different sectors of investment which derives the company to achieve long term and short term profit goal. It involves a logical set of steps to evaluate return with risk associated portfolio. It is just an attempt to be made by an investor to take a decision of maximizing return

at lower risk. Before taking decision, investor must have some knowledge about the objectives of portfolio management which can be categorized as:

Primary Objectives

⟩ To maximize return

⟩ To minimize risk.

Secondary Objectives

⟩ Regular return.

⟩ Safety or security of an investment.

⟩ Appreciation of capital.

⟩ Liquidity.

⟩ Marketability

⟩ Tax planning –capital gain tax, income tax and wealth tax.

The main objective of portfolio construction is to diversify the risk by combining different investment of low risk with the investment of high risk to obtain the highest expected return for a given level of risk. One of the well-said proverbs "never keep all the eggs in a same basket" supports this. So diversification plays an important role in designing efficient portfolios (that is portfolios whose return is maximum for a given level of risk or, equivalently, portfolios whose risk is minimized for given level of return.)

Diversification simply means spreading the risk among the various companies' assets or investment. It reduces the portfolio risk thereby eliminating the unsystematic risk, which is not rewarded. There are two types or risk attached with investment; systematic and unsystematic risk. The investors are only rewarded for systematic risk that is market risk, which is unavoidable. It is important to investors as it protect them from business risk, financial risk and the volatility. There are different types of diversification risk management techniques that help in reducing portfolio risk.

2.1.3 Portfolio Risk

Investors must bear risk in order to gain profit. Investors must have knowledge and awareness on the types of risks while making investment. For any investment, following types of risk are relevant (Weston, Bringham, 1996):

-) Financial Risk
-) Business Risk
-) Management Risk
-) Default Risk
-) Interest Rate Risk
-) Purchasing power Risk
-) Liquidity Risk

Portfolio risk is a combined risk that is generated through investment in different sectors. The riskiness of the portfolio is subjected by the relation between two or more investment sectors within the portfolio. It is measured by standard deviation. The risk of a portfolio is not a simple weighted average of the standard deviation of the individual securities. It depends on the investment weight on individual security.

Risk investors can reduce portfolio risk by investing sort of securities in the portfolio. Risk is divided in to two parts according to their natures:

a) Systematic Risk :
- ✓ Unavoidable risk.
- ✓ Cannot reduce.
- ✓ Generally generated from outside the company.
- ✓ Beta is the index of systematic risk.

b) Unsystematic Risk :
- ✓ Avoidable risk.
- ✓ Can be reduced.
- ✓ Risk generated within the company.

The total risk is the combination of the risks mentioned above and denoted by standard deviation.

Total Risk = Systematic risk + Unsystematic risk

Portfolio risk is generally measured by statistical tool standard deviation and variance. Portfolio is a function of the proportions invested in the components where the riskiness of the components computed by using the following equation:

In case of two assets:

$$\sigma_p = \sqrt{w_A^2 \sigma_A^2 + w_B^2 \sigma_B^2 + 2 w_A w_B (COV_{A,B})}$$

In case of three assets:

$$\sigma_p = \sqrt{w_A^2 \sigma_A^2 + w_B^2 \sigma_B^2 + w_C^2 \sigma_C^2 + 2 w_A w_B (COV_{A,B}) + 2 w_A w_C (COV_{A,C}) + 2 w_B w_C (COV_{B,C})}$$

And so on for more than three case.

Variance = σ_p^2

Where,

$(COV_{A,B})$ = Covariance between investment A and B and same as for other covariance.

W = Weight

σ_p = Standard deviation of portfolio

A, B and C denotes investment sector or assets.

2.1.4 Return

Return is the main motivation force of the investment or return is the reward of investment. In return, there are two factors one is capital gain and another is regular

15

gain or ordinary gain. Capital gain means difference between the ending and beginning price. Regular gain means annually cash receipt.

Total return = Capital gain + Regular gain (Ordinary gain)

Capital gain = Ending price Beginning price

Regular gain = Dividend or interest.

2.1.4.1 Single Period Rate of Return

The rate of return is the speed at which the investor's wealth increases or decreases. This rate of return depends upon the future cash flow that include cash receipt (dividend) and capital gains and the investors make investment for high rate of return at minimum risk. Thus, the investor's single period rate of return can be defined as the total return that the investor receives during the holding period and the single period return (HPR). But this type of return is not used in our study.

2.1.4.2 Required Rate of Return

While setting the required rate of return on an investment an investor have to consider the real rate of return, expected inflation and risk. Because consumption is foregone today, investor is entitled to a rate of return that compensate for different consumption in future. Required rate of return is the rate of return demanded by an investor forgoing the utility and satisfaction. If investors postpone his satisfaction for uncertain future, investment must compensate his satisfaction. The compensation that is demanded on behalf of future uncertainty over the risk is the required rate of return. The capital market determines required rate. The required rate of return is the minimum rate of return that an investor expects from his investment. It is function of real rate of return and risk.

2.1.4.3 Expected Rate of Return

Expected rate of return is the return one expects by his/her investment. Suppose one invested Rs 100 in security and he/she thinks that it will generate year-

end dividend of Rs 5 with Rs 110 then its total return will be Rs 15 and expected return will be 15%. The expected rate of return should be higher than required rate of return. Expected return is the hypothetical rate of return. The expected rate of return is based upon the expected cash receipt over the holding period and expected year-end selling price of the securities. It is obvious that, an investor's expectation on return must be reasonable as most expectation based on history. Reasonable conclusions about future returns can be gained by looking at the past history are one of the better forecasting ways. Even if expectations are reasonable, however, there are the possibilities that investment's actual return will be different from the expectation.

2.1.4.4 Portfolio Return

Since each investments future may be considered as a variable, the return of a portfolio as a variable, the return of a portfolio also can be thought the same way as variable depended on expected returns of the individual investment that make up portfolios. The expected return of portfolio is a weighted average return of the stocks or investment sectors in a portfolio where weights being the proportion of funds invested in individual investment of the portfolio. The expected returns of a portfolio should depend on the expected return of each security contained portfolio. It also seems logical that the amount invested in each security should be important. The multiplication between proportion of individual sector's investment weight and the returns is the process of calculate portfolio return.

2.1.5 Portfolio Performance Measurement

Risk and return should be considered by giving important priority when considering a portfolio performance. Due to absence of either risk or return, we cannot measure their performance of portfolio effectively. There are various methods applied to measure the portfolio performance like Sharpe's, Treynor's and Jensen's measurement. Among them, one of the important techniques i.e. Sharpe's portfolio performance measure is considering here in this study:

2.1.5.1 Sharpe's Performance Measure

William Sharpe is the founder of Sharpe's portfolio performance measurement. It helps to know the return that is generated with per unit of total risk. This measurement can be attained after deducting risk free rate of return from portfolio return and divided by total risk of portfolio:

2.1.5.2 Treynor's Portfolio Performance Measure

Another index of portfolio performance i.e. similar to the sharpe index is the treyneor's performance index. The Treynor's index however is concerned with systematic risk, while the sharpe index is concerned with total risk as measured by portfolio standard deviation of return. The Treynor's index is defined as follows;

2.1.5.3 Jensen Performance Measure

Micheal Jensen has developed a method for evaluating a portfolio assets performance. Jensen's measure is the average return of the portfolio over and above that predicted CPAM, given the portfolio's beta and the average market return. Jensen's measure is the portfolio alpha value. The Jensen's measures are computed with regression equation.

2.2 Review of Related Studies

Present section deals about concept or findings of earlier scholars on the concerned field of the study. It helps to develop the study as link in a chain of research that is developing and emerging the knowledge about the related field.

2.2.1 Review of Article /Journal

Shrestha (2007) A study on *"Portfolio management of commercial Banks in Nepal"* has made remarkable efforts to examine various portfolio behavior of commercial bank in Nepal such as investment portfolio, liability portfolio, assets portfolio etc. In the study, investment of commercial banks when analyzed individually, were observed in Nepalese domestic banks invest in government securities, national saving bond, debentures and company's shares. On the basis of this study the author found that the supply of bank credit was expected to depend on

total deposit, lending rate, bank rate, lagged variables and the dummy variables, similarly demand of bank credit was assure to be affected by national income, lending rate, treasury bill rate and other variables. The resources of commercial banks were expected to be related with variables like total deposits, cash reserve requirement, bank rate and lending rate.

Sharma (2008) the article *"Portfolio Management of listed Commercial Banks and Insurance Companies in Nepa Joint Venture Banks in Nepal"* it would be definitely unwise for Nepal not to let the CBs operate in the country and not to take advantage of them as additional means of resources mobilization. So far one should admit frankly no different treatment has been extended to the domestic and CBs, at least from the government side, which is commendable. If Nepal Government keeps on the stance of treating the domestic and CBs equally and if the CBs also show their alacrity to come forward to share the trials and tribulations of this poor country, both types of banks will coalesce and co-exist complementing each other and contributing to the nation's accelerated development. On the contrary, if the CBs use their strength against trading into the number, some path of development along with domestic banks and the government, they will eventually grow out the domestic banks from the more profitable urban areas and lucrative urban sectors unless remedying by the determination of the government.

Shrestha (2009) an article entitled *"Portfolio Management in Commercial Bank, Theory and Practice"* mentioned that the portfolio management becomes very important for both individuals as well as institutional investors; investors would like to select a best mix of investment assets subject to the following aspects.

Thapa (2010) published an article *"Portfolio Analysis on Investment with special Reference to Nepalese Commercial Bank"* stating the subsequent issues. Banking and financial service are among the fastest growing industries in the developing world and are also emerging as cornerstone for the other developing and underdeveloped nations as well. According to him, the primary function of a bank is trade risk. Risk cannot be avoided by the bank but can only be managed. There are different types of risk.

Among them interest rate risk is one of the common risk the banks facing owing to the volatility of the interest rate in the market.Another risk banks commonly face is the trading risk or market risk. Banks have to productively manage their excess liquidity by investing in various securities in foreign currencies and in other assets like swaps, options etc.Credit risk is another significant risk which the banks particularly in the under developed country like Nepal because our financial system is mostly dependent on banks. Hence, it is crucial that the bankers should manage such risks prudently since it not only hampers the particular banks in concern but also badly affects the growth prospects of the entire economy.Credit risks are of two types: diversifiable risk and un-diversifiable risk. Off- bank risk, owing to the creation of contingent liabilities should be managed by a prudent analysis of bank officials materializing such contingent contacts. Similarly, technological changes are frequently faced by banks. Therefore, for the smooth operation banks should adopt technological up-gradation from time to time.Maintaining proper liquidity is the most difficult problem as the demand of cash is uncertain. To avoid such risk, the central bank has initiated the regulation, whereby the banks need to maintain reserve in their vault and a certain specified percentage of the total deposit with the central bank.

2.2.2 Review of Thesis

Present section deals about concept or findings of earlier scholars on the concerned field of the study. It helps to develop the study as link in a chain of research that is developing and emerging the knowledge about the related field.

Ram Shrestha, (2009) performed a research work *"A Study on Investment Portfolio of Commercial Banks in Nepal"* with the general objective of identifying the current situation of investment portfolio of commercial banks in Nepal.

The specific objectives:

-) To analyze the investment portfolio of commercial banks.
-) To analyze the risk and return of the selected five commercial banks on investment using portfolio concept.
-) To forecast/examine the trend of investment for providing complementary measures.

The Main Research Methodology:

In this research, data are analyzed by using different types of tools. As per topic requirements, emphasis is given on statistical tools rather than financial tools. The statistical and financial tools which have been used are Loans and Advances to Total Risk Weighted Assets Ratio, Return on Investment Portfolio Loan, and Total Loans and Advances Ratio, Portfolio management Loan, Arithmetic Mean and Standard Deviation.

The main major findings:

) SCBL has more return from investment on government securities. Hence, it effectively mobilized its total deposits on them.

) The return on share and debenture displayed a wide fluctuation particularly due to the volatility of share prices in the market as well as changes in dividends.

) The portfolio risk on investment in government securities is lower than that in loan and advance or share and debenture.

Ramesh Pandey, (2010) has conducted a research work on*"Portfolio Management in Commercial Bank, Theory and Practice"* the secondary objective of her study was to analyze the risk and return and other relevant variables that help in making decisions about the stock and investment in Insurance Companies.

The specific objectives:

) To understand and identify the problems encountered by individual investors and Insurance Companies

) To calculate risk and return of common stocks and their portfolio and

) To analyze the volatility of different stocks and their companies and other relevant variables that should be considered during deciding investments in stocks.

The Main Research Methodology:

Research methodology is the focal part of the study. Ranges of financial and statistical tools are used to analyze the collected data and to achieve the objectives of the study. The research is analyze by using different types of tools such as Return on Total Assets Ratio,Return on Share & Debenture to Total Investment Ratio, Return on Share and Debenture to Total outside Investment Ratio, Return in Government

Securities to Total Investment Ratio Return on Government Securities to Total Investment Ratio etc.

The main Major Findings:

⟩ The stock of National Life and General Insurance Company is highly sensitive with the market owing to its degree of beta coefficient.

⟩ Expected return on the common stock of National Life Insurance and General Insurance Company Ltd (NLGI) is maximum and that of Himalayan General Insurance Company (HGI) is the lowest with the negative value.

  ⟩ The stock of United Insurance Company (UIC) moves opposite with the market due to its negative coefficient.

Mohan Joshi,(2011) conduct a study on *"Portfolio Analysis on Investment with Special Reference to Nepalese Commercial Bank"* the general objective of the study is to identify the current situation of investment portfolio of commercial banks in Nepal.

The specific objectives:

⟩ To analyze the current situation of the portfolio management of commercial banks.

⟩ To evaluate the financial performance of commercial bank investment strategies.

⟩ To analyze the way commercial bank management of risk and return on investment through portfolio concept.

The Main Research Methodology:

The research is analyzed by using different types of tools such as statistical tools and financial tools i.e. Portfolio Risk, Return Analysis, Risk and Return on Government Securities, Return on Total Assets, Return on Share, Holder's Fund or Equity, Arithmetic mean, Standard Deviation Correlation Coefficient etc.

The main major findings:

  ⟩ Return on the government securities is low but it has lower risk .In the similar manner, the loan and advances give more return than the government securities, but it has also higher risk than government securities.

-) The analysis indicates that commercial banks invested very nominal percentage of total outside investment on share and debenture of the other companies.

-) Investment on various assets, like government securities, loan and advances and share and debenture are in increasing trend.

Prakash Neupane (2012) conducted the research " *Investment portfolio of Everest Banks"* has found that measurement of lending strength in relative term has revealed that the loan and advance to total assets of EBL is highest but issued loan and advances are not generating the desired income. RBB shows the highest degree of deviation and variation while EBL has the most consistent ratio throughout the study period.EBL and NBL have highest proportion of the non-performing loan in the total loan portfolio, which exhibit the critical condition of the banks.

The specific objectives:
-) To evaluate the financial performance of commercial bank investment strategies.
-) To see the trend of investment in different portfolios.
-) To analyze the way commercial bank management of risk and return on investment through portfolio concept.

The Main Research Methodology:

In this research, data are analyzed by using different types of tools. As per topic requirements, emphasis is given on statistical tools rather than financial tools. So for this study following statistical tools and financial tools are use such as Covariance between Government securities& share and Debenture, Correlation between Loan &Advances & Share & Debenture, Portfolio Standard Deviation etc.

The main major findings:
-) The analysis indicates that commercial banks invested very nominal percentage of total outside investment on share and debenture of the other companies.

) Investment on various assets, like government securities, loan and advances and share and debenture are in increasing trend.

) The total investment fund with respect to total deposit of EBL is pretty low. Hence, it calls for identifying the new investment sectors, and efficient as well as effective investment in those sectors.

Prabi Raj Gautam (2013) conducted a study on, *"Investment policy of Commercial Banks in Nepal"*. A Comparative Study of Everest Bank Limited, Nabil bank Limited and Bank of Kathmandu Limited has presented

The Main objectives:
) To analyze assets management ratio and activity ratio.
) To see the trend of investment policy of different commercial banks.
) To find out the total deposit ratio and current assets ratio.

The Main Research Methodology:
Research methodology is the focal part of the study. Ranges of financial and statistical tools are used to analyze the collected data and to achieve the objectives of the study. The analysis of the data has been done according to pattern of data available. Financial
) Financial tools are used, risk and return on individual Investment assets and investment portfolio.
) Return on share and debenture, Risk on individual Assets, Standard deviation.
) Correlation Coefficient of degree o relationship between assets and loan advance.

The main Major findings:
) In the study, loan and advances to total deposit is higher in BOK but total investment to total deposit is higher in Nabil.
) Investment on shares and debentures to total working fund ratio is higher in BOK. But the coefficient of variation is higher in EBL.
The Liquidity position of EBL is comparatively better than NABIL and BOK

2.3 Research Gap

Research is the process of searching again and again to get the fact over the problem or issue. Various researchers have conducted research study on the topic of investment that may be investment policy, investment structure, investment portfolio, or investment trend. But most of the studies were conducted on bank, financial institutions, etc. Financial companies carry fund management activities. One research has various choices over the study or research of the same finance company. The students of managements have conducted research to fulfill their educational obligation and to find fact over the issue. So, various facts and conclusions are drawn as ending of the researches. The researches done in the past were not sufficient to cover the basic and con-current issues, any research is not final and one research always welcome the another one.The researcher has found various researches conducted on similar topic in the last several years. All these researches are conducted on same matters and conclusions derived were alike. The present researcher has initiated a small attempt to bridge up the gap among the various studies regarding similar subject matter. The researcher has shortened the research gap by addressing various issues.This is the one and single comparative study between Om finance and Fewa finance Limited. The data so collected are con-current, reliable and the calculation is made in scientific way. Comparative study is rarely done before this study made by the researcher, as the researcher has gone through portfolio performance of two different companies. Former researches have applied ratio analysis to determine the objectives of study which the researcher has denied and studies overall to determine the objective of study. The researcher has used various financial and statistical tools for the prompt conclusion.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Research Design

Descriptive and Analytical research designs are followed in this study, general pattern of investment, business structure, management of portfolio etc are covered by descriptive research design, grown trend and future total finance company predictions are covered through Trend research design and likewise Analytical population research design analyzes gathered facts, reports and information.

3.2 Population and Sample

The study is concerned with two finance company's Investment Portfolio among 6 finance company of Kaski district. Being a study of comparison, the study is a comparative study and convenience sampling method is used for sampling purpose.

3.3 Nature and Source of Data

The study is based on secondary data. The data required for analysis are directly obtained from balance sheet, P/L account and other reports etc. Supplementary data and information are collected from number of related institutions, places and articles like: NRB reports and circulations, NEPSE reports, various published subject matters, economic journals, magazines and electronic data.

3.4 Data Collection Procedure

Secondary data is collected from Annual reports, custom report provided by the companies especially for this dissertation, web sites of the company and other sites as well.

3.5 Data Processing and Analysis

After collecting data from different sources, data are analyzed critically examine them in order to achieve objective of the study. The analysis if data is done

according to the pattern of data available. The collected data are presented in systematic manner with the help of computer. Therefore available data and information are analyzed with the help of different tools and techniques, especially the following tools are used:

Financial Tools

Statistical Tools

Beside this, Tabulation, percentage, minor mathematical tools and diagrams are used according to the need and appropriateness of situation to be analyzed.

3.5.1 Financial Tools

Lots of financial tools are used step by step to analyze the objective of this study. Among then we have used some ratio analysis tools and some from portfolio analysis tools.

A) Return on Assets (ROA)

Return on Assets is the ratio which indicates the portion of return over total assets. It is calculated by dividing net profit after tax by total assets.

$$ROA = \frac{NPAT}{Total\ Assets} \times 100$$

Where,

ROA = Return on Asset

NPAT = Net Profit after Tax

B) Return on Equity (ROE)

Return on Equity is the ratio which indicates the portion of over total equity. It is calculated by dividing net profit after tax by total equity.

$$ROE = \frac{NPAT \quad \times 100}{Equity}$$

27

Where,

ROE = Return on Equity

NPAT = Net Profit After Tax

C) Return on Investment (ROI)

Return on Investment is the ratio which indicates the portion of return over total investment. It is calculated by dividing net profit after tax by total investment.

$$ROI = \frac{NPAT}{Total\ Investment} \times 100$$

Where,

ROA = Return on Asset

NPAT = Net Profit After Tax

D) Weighted Average Interest Ratio

Interest spread ratio is the ratio which indicates the degree of difference between interest earned and interest paid. Interest

Spread ratio calculated as under:

$$ISR = \frac{Income\ from\ loan\ portfolio}{Average\ loan\ portfolio} \times 100 \qquad \frac{Interest\ Exp.\ \&\ other\ financial\ charges}{Average\ borrowin}$$

Where,

ISR = Interest Spread Ratio

E) Portfolio Return

The expected return of portfolio, $\overline{R}p$, is simply the weighted average of the expected returns on the individual assets or investment sectors in the portfolio

with the weights being the fraction of the total portfolio invested in each asset or investment sector.

⟩ In case of two assets case:

$$Rp = W_{A\times} \bar{R}_A + W_B \times \bar{R}_B$$

⟩ In case of more than two assets case:

$$\bar{R}p = W_{A\times} \bar{R}_A + W_B \times \bar{R}_B + \dots\dots + W_n \times \bar{R}_n$$

Where,

$$W = Weight$$

$$R\,p = Portfolio\ Return$$

A and B denotes investment sector or assets.

F) Portfolio Risk

Portfolio risk is measured by a statistical tool called portfolio standard deviation. This is not a simple weighted average of the standard deviation of the individual securities. Portfolio risk depends not only on the riskiness of the securities constituting the portfolio but also on the relationship among these securities. The portfolio risk is computed by using the following equations:

⟩ In case of two assets:

$$\dagger_p \ X\sqrt{w_A^2 \dagger_A^2 \ \Gamma w_B^2 \dagger_B^2 \ \Gamma 2w_A w_B (COV_{A,B})}$$

⟩

$$\dagger_p \ X\sqrt{\begin{array}{l} w_A^2 \dagger_A^2 \ \Gamma w_B^2 \dagger_B^2 \ \Gamma w_C^2 \dagger_C^2 \ \Gamma 2w_A w_B (COV_{A,B}) \\ \Gamma 2w_A w_C (COV_{A,C}) \Gamma 2w_B w_C (COV_{B,C}) \end{array}}$$

And so on for more than 3 assets case.

Where,

(COV $_{A,B}$) = Covariance between investment A and B and
Same as for other covariance.

W = Weight
$_p$ = Standard deviation of portfolio
A, B and C denotes investment sector or assets.

G) Sharpe's Performance Measure

It was developed to evaluate a portfolio's performance by

$$Sp = \frac{\bar{R}j - \bar{R}f}{\sigma j}$$

Where,

S_p = Sharpe's Portfolio Performance Measure for portfolio

$\bar{R}_j$ = Average /Expected return from portfolio 'j'

$_j$ = Standard deviation of returns for portfolio 'J'

$\bar{R}f$ = Risk free rate of return.

H) Treynor's Performance Measure

It was derived by Jack Treynor. This measure is also used to measure portfolio performance. The difference between Sharep's and Treynor's performance measure is that Sharpe measure gives excess return

per unit of total risk but Treynor measure result excess return per unit of systematic risk.

$$T = \frac{r_i - r_f}{\beta_i}$$

where:

$T =$ Treynor ratio,

$r_i =$ portfolio i's return,

$r_f =$ risk free rate

$\beta_i =$ portfolio i's beta

3.5.2 Statistical Tools

Lots of Statistical tools can be used to conduct study on portfolio management. According to need of our objective of study, we are using the tools explained below:

A) Mean

A mean is simply the average value of the sum of all observation divided by the number of observation and it is given by formula below:

$$Mean(\bar{R}) = \frac{\sum_{i=1}^{n} R}{n}$$

Where,

$$\sum_{i=1}^{n} R = \text{Sum of the values.}$$

$\quad$ n $\quad$ = $\quad$ Number of pairs of observations.

31

B)   Standard Deviations (S.D.)

Standard deviation is the statistical measurement of the variability of a distribution of return around its mean. It is the square root of the variance and measures the total risk on investment. Sigma sign denote it ( ).

Symbolically,

$$\sigma_j \times \sqrt{\frac{\sum\limits_{i=1}^{n}(R_j - \bar{R}_j)^2}{n}}$$

Where,

σ_j = Standard deviation of returns on investment 'j' during the period n.

C)   Coefficient of Variation (CV)

The Co- efficient of Variation is defined as the standard deviation divided by the mean of expected return. It is used to standardize the risk per unit of return. In order word, it is the ratio of standard deviation of returns to the mean of that distribution. It gives the result regarding the unit of risk to bear for earning 1 unit of return.

Symbolically,

$$C.V. \times \frac{\sigma_j}{\bar{R}_j}.$$

Where,

σ_j =   Standard deviation of investment j

$\bar{R}_j$ =   Mean return of investment j.

D) Beta

Logically, the systematic risk is covariance between the return of an individual asset or portfolio and the return of the market portfolio. The measure of systematic risk is represented by beta. It is an index of systematic risk, which can not be eliminated through the means of diversification. It measures the sensitivity of an asset/ investment's return on the market portfolio.

Symbolically,

$$\beta_j = \frac{Cov(R_i, R_m)}{\sigma_m^2}$$

Where,

$\beta_j =$ Beta co-efficient for stock 'j'.

$Cov(R_j, R_m) =$ Covariance between returns on stock j and return of market.

$$Cov(R_j, R_m) = \frac{(R_j - \overline{R}_m)(R_m - R_M)}{n-1}$$

$\sigma_m^2 =$ Variance of market return.

An asset or a portfolio with a beta greater than 1is considered to be aggressive (more risky than the market). An asset or portfolio with a beta less than 1 is considered to be defensive (less risky than the market). Beta coefficient of market is always equal to 1.

E) Correlation Coefficient

The correlation is also a measure of the relationship between two assets. It can be taken on a value ranging from −1 to +1. Correlation and co-variance are related by the following equation.

Symbolically,

$$P_{ij} \; X \frac{Cov_{ij}}{\dagger_i \dagger_j}$$

Where,

$_j$ and $_j$ are standard deviations of returns for assets I and j.

P_{ij} = Correlation co-efficient of assets I and j.

3.6 Limitation of the Methodology

Every study is bounded by its own methodology and cannot be free from limitation. Because this study only relates with Investment portfolio of Om finance company and Fewa Finance company, the study becomes comparative study in where sampling method can be used. In such situation convenience sampling method is used which isn't free from criticism, every financial aspect of the company can't be covered. Data are normally collected upon certain assumption and tools are used to analyze them, therefore the reliability of analysis depends upon available data. **Sharpe's Performance Measure is only used to evaluate portfolio's performance.** Similarly **S.D. is used to measure the risk of portfolio investment.** And the portfolio performance analysis is generally used for stocks and assets in favor of individual investors but here performance analysis is used for ranking the company as per their investment in loans and advances and which can't be generalized. Being a cause study, the findings of the study may not be simplified for other investment portfolio.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

The main concern of this chapter is to analyze and interpret relevant and available data of OFL and FFL. In another way, we can say that this chapter deals in details in order to meet the objective of this study. Annual reports, other reports provided by OFL and FFL especially for this study. The data have been analyzed according to the methodology mentioned in chapter third.

Both Finance Limited have been following the directives and committed to maintain quality according to the rules and regulations of their own policies to run the organization effectively. Both company consider profitability, liquidity, safety and stability, variability etc during the investment as per their own investment policy defines.

4.1 Analysis of Investment Portfolio

For making investment, each and every finance company need fund. Both companies have two types of sources of fund. One is deposit collection and another is shareholders equity. They have managed those collections for different types of funds after it results profit. It is better to make investment below than 80% of the collections and primary capital considering liquidity and risk. Generally government securities and share and debentures of other institutions are referred as financial investment. In other hand financial institutions distribute loan and advances for various purpose, we can say those types of advances as short term investment. Financial investments of Nepal's financial companies are completely dominated by loan and advances.

Table 4.1

Investment of OFL and FFL (in %)

FY	OFL						FFL					
	Loans & Adv.	Govt Secu.	Shares &Dep.	Fixed Dep.	Oth.	Total	Loan & adv.	Govt's Secu.	Shares & Deb.	Fixed Dep.	Oth.	Total
065/66	98.50	1.23	0.27	0.00	0.00	100.00	95.00	0.22	0.01	4.77	0.00	100.00
066/67	94.21	0.94	0.21	4.64	0.00	100.00	99.86	0.14	0.00	0.00	0.00	100.00
067/68	95.51	0.67	0.15	3.67	0.00	100.00	99.91	0.09	0.00	0.00	0.00	100.00
068/69	97.22	0.49	0.11	2.17	0.00	100.00	99.64	0.06	0.00	0.00	0.29	100.00
069/70	98.80	0.35	0.08	0.77	0.00	100.00	99.73	0.05	0.00	0.00	0.22	100.00
Mean	96.85	0.74	0.16	2.25	0.00	100.00	98.83	0.11	0.002	0.95	0.10	100.00

(Source: Appendix 2)

It shows the historic investment trend of both finance limited. These tables depict the investment portfolio and elucidate that the portion of investment in loan and advance is comparatively higher than other sector. Comparative trend analysis graphical presentation is placed below:
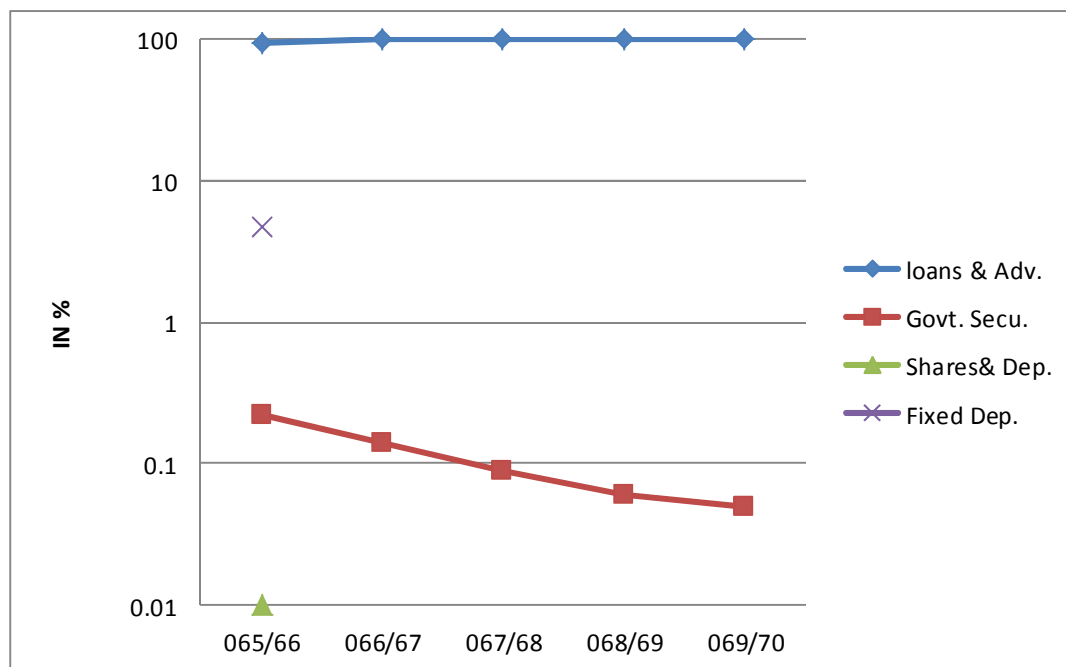
Figure 4.1

Investment Trend Analysis of OFL
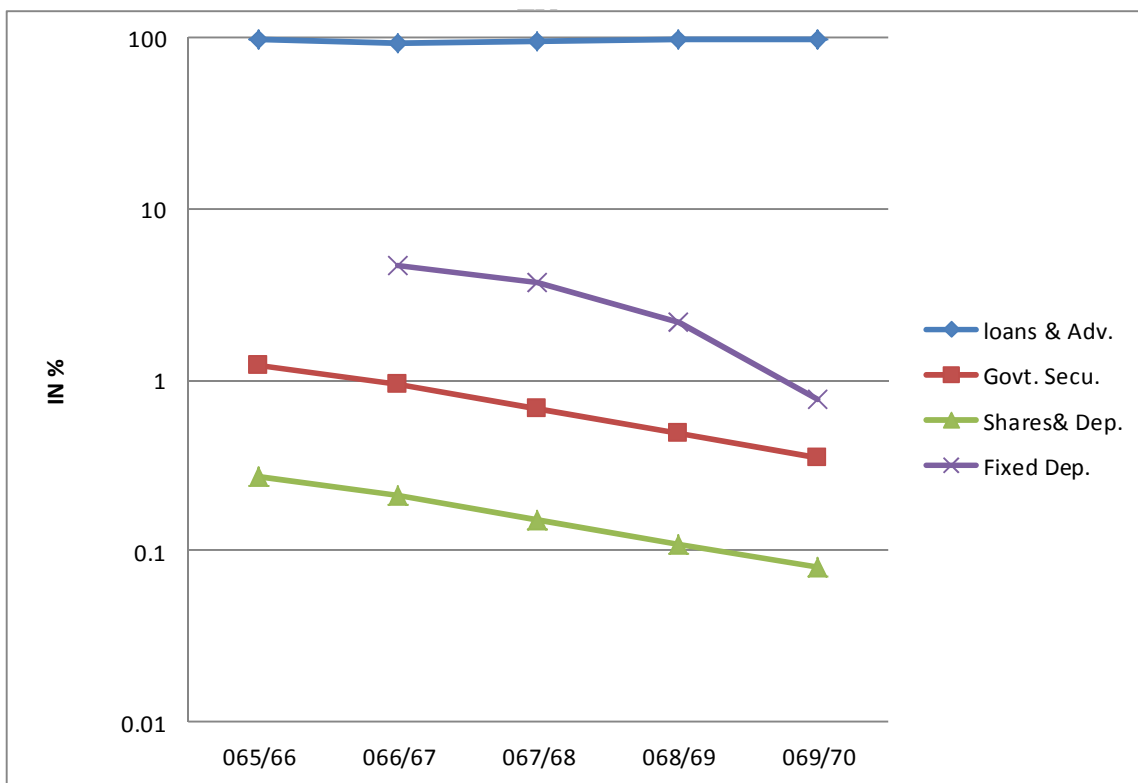
(Source: table no 4.1)   FY

Figure 4.2

Investment Trend Analysis of FFL

FY

OFL has made investment in loan and advance higher than government securities, shares and debenture, fixed deposit with 98.5% in 065/66 in where FFL has invested 95% only on loan and advances. After subsequent years OFL maintained its investment on loan and advance from 94% to 98% in where FFL increase its investment more than 99% in loan and advance over the last four years. It shows that OFL and FFL both invested their depositor's money to provide loan and advances instead of making other investment.

According to the table 4.1, investment on government securities was made 1.23% and 0.22% by OFL and FFL respectively on 065/66. And again the table shows that the percentage of both finance limited have been decreasing in following years. This is because of subject to survival in initial stage as it is a risk less assets. But, later in order to maximize the profit and sustain in the competitive market, large amount of investment has been made in loans and advances by deducting investment in government securities.

Investment in share and debentures of other institutions has been made 0.21% in 065/66 by OFL. FFL has not invested any shares in such investment in first year of this study period. Again it is noticeable that OFL has been deducting it's investment in share and debenture of other financial institution in subsequent years. But FFL never made noticeable investment percentage in share and debenture of other institutions. Because simply this is risky than other investment, FFL didn't make investment and OFL gradually declined its investment from the shares and debentures over the last four fiscal years.

Fixed deposit investments in other financial institutions are declined over the subsequent years except 066/67 by OFL where 4.77%was invested in fixed deposit of other financial institution by FFL in 065/66 only. After that there was no any such investment by FFL. OFL started investing on loan and advance by deducting its investment on fixed deposit sector likewise FFL fully diversified its investment on loan and advance.

FFL started to invest in gold since FY 065/66 which is located in other sector in table 4.1. But no such investment was done by OFL. This type of investment is new for finance company which is also not less risky than other investment.

Figure 4.3

Mean Investment of OFL and FFL (%)
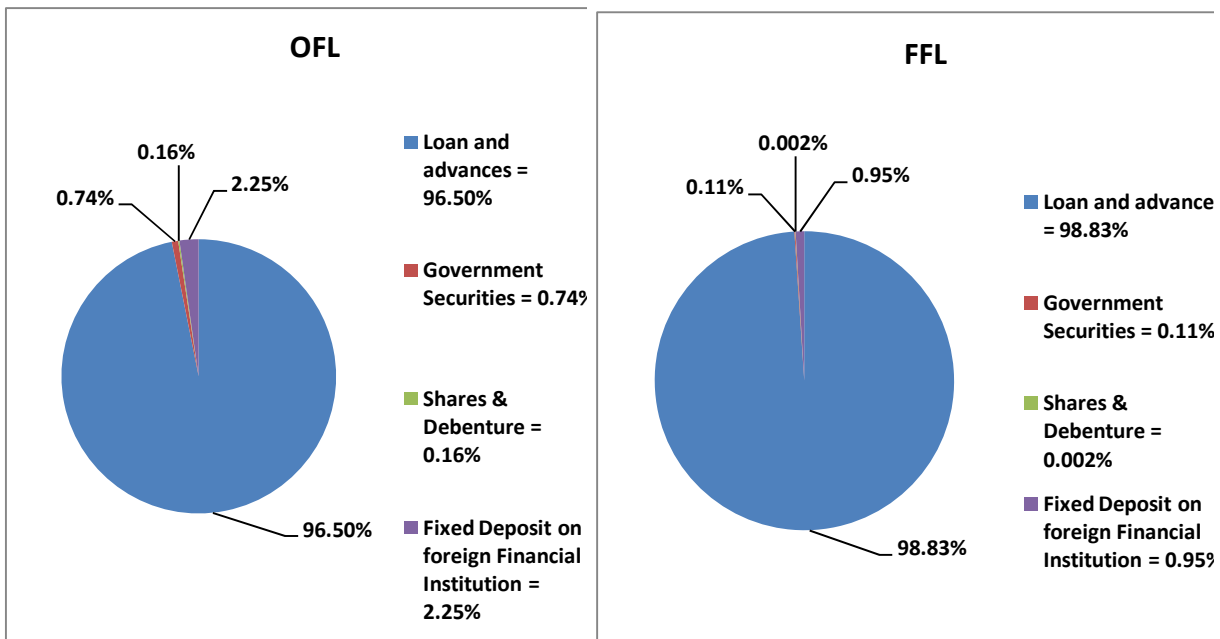
According to the figure, it is shown that both the companies haven't well diversified its investment. The major percentage is invested in the loans and advance. Above 98% is invested in loans and advances in both companies and the risk associate with the investment is higher than other investment. Government securities are risk less assets and the both companies have low portion in the security in order to take low risk. For low risk, companies normally make investment in government securities and share and debentures in their initial period. In comparison, loan and advances has occupied almost sent percent of their investment. Therefore for further study it will be focused only on loan and advances instead of all sectors of investment.

4.2 Investment Analysis of Loan and Advances

This section studies on portfolio management of loan and advances. OFL and FFL have focused its investment on hire purchase, housing, term and fixed deposit loan. And again FFL has extended its investment on gold loan and advances as well. As per NRB directives, finance companies shouldn't exceed their investment regarding to the different types of sector wise loan investment. Therefore NRB has declared criteria

for investment on sectors of loan and advances on its NRB Act 2058. It is better to analyze sector wise loan and advances considering that criteria.

Table 4.2

Loan and Advances investment of OFL and FFL (in %)

	OFL					FFL				
FY	Hire Purch.	Housing loan	Term Loan	Fixed Loan.	Total	Loan & adv.	Govt's Secu.	Shares & Deb.	Fixed Dep.	Total
065/66	14%	40%	44%	2%	100%	21%	38%	40%	1%	100%
066/67	9%	54%	35%	2%	100%	19%	39%	40%	2%	100%
067/68	9%	51%	39%	1%	100%	22%	37%	39%	2%	100%
068/69	8%	56%	34%	2%	100%	25%	35%	39%	1%	100%
069/70	10%	51%	34%	5%	100%	23%	45%	31%	1%	100%

(Source : Appendix 3)

Table No. 4.2 demonstrates sector wise loan and advance investment proportion for each year of study period. In first year Term loan dominate other sectors in OFL and housing loan has dominated other sectors in rest of years. In OFL, housing loan has occupied more than 50% of total loan. In other side, Term loan has dominated other sectors in first four years of FFL and investment on housing loan is highest on 069/070. The details analysis of sector wise loan and advance investments are explained below.

4.2.1 Hire Purchase Loan

This loan is related to purchase of vehicles, machinery and instruments. Clients use the amount of loan to purchase such item. Because these types of loans are generally taken for business or for luxury, high interest rate on hire purchase is applied. The interest rate depends upon situation and it lies between 10 to 16% during the study period of both companies. This is second highest investment on loan and advance of both companies. Finance company shouldn't increase their investment above 40% as per mentioned in NRB Act, 2058. The hire purchase loan investments of both companies are presented in table and figure below:
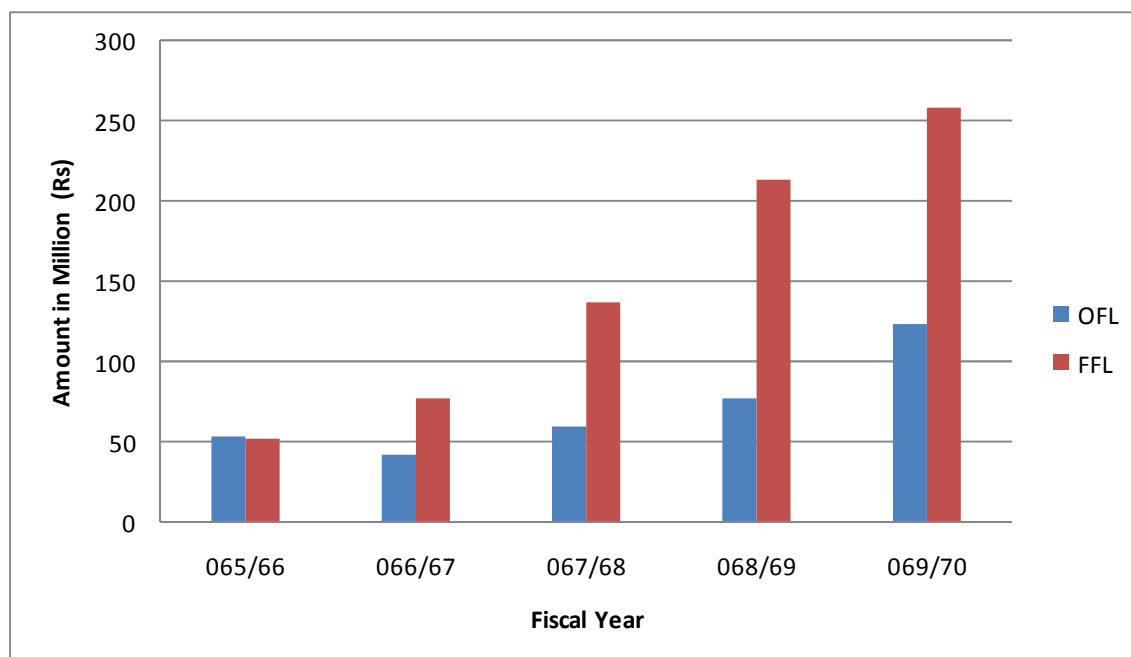
41

Table 4.3

Hire Purchase Loan Investment (in millions)

FY	OFL	FFL
065/66	52.70	51.71
066/67	41.09	77.10
067/68	58.54	137.38
068/69	76.06	213.62
069/70	123.03	258.50
Mean	71.28	147.66
S.D	30.53	78.65
C.V	0.43	0.53

(Source: Appendix 3)

Figure 4.4

Hire Purchase Loan Analysis

(Source: Table No. 4.3)

Table 4.3 and figure 4.4 demonstrate the investment the investment on hire purchase loan of OFL and FFL from 065/66 to 069/70. It is found that investment of FFL is higher than OFL during the investment period. OFL has invested Rs 52.70 million in 065/66 in where FFL has invested Rs 51.71 million only. During the study period investment of both limited has been increasing and reached at Rs 128.03 million and 285.50 million by OFL and FFL respectively. Investment on hire purchase loan of OFL is dominated by FFL every year except initial year. OFL has invested Rs 41.09 million on 066/67 in where OFL has invested Rs 77.10 million only on hire purchase loan. Same as Rs 58.54 million and Rs 76.06 million was invested by OFL on 067/68 and 068/69. In where, FFL has invested Rs 137.38 million and Rs213.62 million only on the same period. Mean investment of OFL and FFL on hire purchase loan is Rs 71.28 million and Rs 147.66 million respectively. 9.8% and 22% of total investment has been invested in this sector by OFL and FFL respectively. It denotes that the average investment over the study period of FFL is higher than OFL in where risk associated with the mean is also higher than OFL. C.V. between mean and standard deviation is again higher in OFL which illustrate that variation between them is lower in OFL than FFL. Overall investment by FFL is found higher in position than OFL.

4.2.2 Housing Loan

Under this loan, Finance company invests money in purchase of land and building **construction. House and warehouse specially comes under building construction and** purchase and sell of land which is known as real estate business. This is the sector where the investment of both companies engages comparatively higher than other loans. The interest charge in to housing loan from m12% to 18% and varies time to time and other circumstances. According to NRB act2058, Section 79, the finance company shouldn't exceed this type of investment by 40% of total loan and advances. Within end of Ashad 069, investment must be decreased up to 30% of total loan and advances and again it must be declined up to 25% of total loan and advances within end of Asadh 2070. The housing loan investment of both companies is shown below:

Table 4.4

Housing Loan Investment (Rs in millions)

FY	OFL	FFL
065/66	144.39	92.20
066/67	246.55	158.26
067/68	331.73	231.04
068/69	497.19	299.07
069/70	952.95	505.77
Mean	374.56	257.27
S.D	180.96	142.29
C.V	0.48	0.55

(Source: Appendix 3)

Figure 4.5

Housing Loan Investment (Rs in millions)
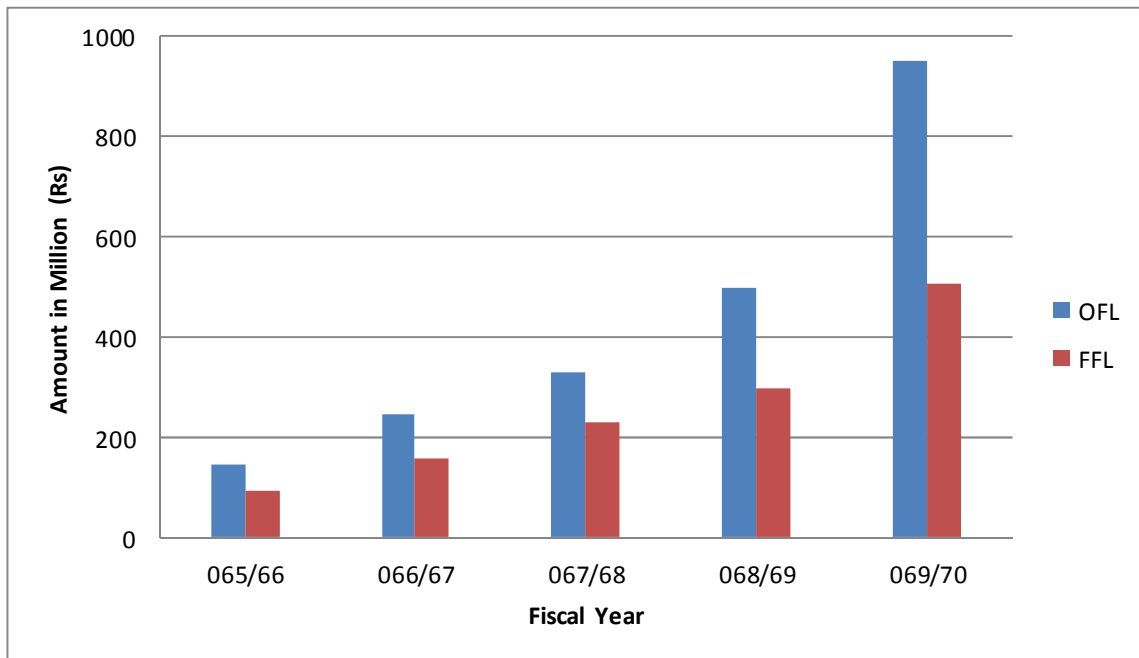
(Source: Table No.4.4)

44

Table No.4.4 shows that investment on housing loan is adopting increasing trend over the study period by both the companies. Comparatively OFL has been investing in housing loan of OFL. It is obvious to have high investment in housing loan of OFL and FFL due to the size of deposit collection. Each and every year OFL have made high investment in housing loan, more than six hundred million was invested on FY 069/70 by OFL where as below 500million only was invested by FFL in this sector. 51% and 39% of total investment has invested in this sector by OFL and FFL respectively. Investment was made 144.39 million to 652.95 million by OFL with 374.56 million made by FFL with 257.27 mean and 0.55 C.V. It shows that FFL have been maintaining better position that OFL over the investment on housing loan.

Real estate loan is the part of housing loan provided by financial institution. More than 50% investment is occupied by real estate within housing loan. One of the main functions of financial institutions is to deposit collection of scattered money within the country and to invest money collectively. It is direct liability of the financial institution to invest on favor of nation development, if they collect all the money from country people. Otherwise, it is impossible to develop the country. In another side the main cash outflows of banks end to the real estate loan. If so , is it better to invest in real estate loan by financial institution ? Discussing all about the point, we found that lots of causes to invest in real estate sector by financial institutions.

Each and every family from villages wants to immigrate into urban sector. In one hand, financial institutions have low investment opportunities and another hand each and every people need money to settle them in urban area. Then demand of money for real estate and housing loan only can fulfill the gap between deposits and loan investment. Even financial institutions are serious about the nation development; they have low short term investment opportunities. And again financial institutions are normally formed to earn profit. Therefore they must invest in short term profit making investment in order to run the organization. It may be a big challenge for financial institutions to go for investment in real estate loan and make short term profit.

In past years real state was becoming hot issues for investment personally or officially. Each and every land was becoming worthy rapidly. In past, it was increased unnaturally and became national issues. There are two main reasons for becoming national issue. One is fictitious rate of land on which basis banks are liable to issue loan. And another is liquidity crisis. Due to remittance most of family's made demand of land and house.it made real estate demand high and peoples got opportunity to invest and make quick income from the business. Financial institutions also realized high return in real estate as demand for the same was also high. Therefore they made high investment. On real estate loan and became one of the causes to liquidity crisis. But now it is stable because of NRB latest act.

Real estate business was rapidly increasing when remittance increased same where earning power of people increased. It increased price of land and each and every people got interest to involve in real estate business for quick profit. It had automatically increased housing loan of every financial institution. First factor was remittance. Remittance to Nepal in last some years was recorded very high. Remittance brought change in living standard and it produce interest in most of people to leave village and settle in urban areas. And demand of real estate was indicated high. From lower level to higher level standard people were started to involve in the business. Finally for the business, people should come to the door of financial market. Each and every financial institution were compelled to issue loan for housing business. As they don't have strict policy toward housing loan, they provided loan so that they can invest in this sector. Because the price of lands already touched unnatural rate, fianancial institution were compelled to value the land on the basis of unnatural rate. It was very dangerous situation for financial institutions which was not measured and even ignored. All of this happened and finally the rate and transaction of real estate increased, each individual had to give justification to deposit and withdraw more than rupees ten lakh from banks, thus people tried to keep the transaction out from banks. It created another huge problem of liquidity across the country.

After all these problems realized by NRB, On 02 Poush 2066, NRB had announced a circulation with three major directions on the loan and advances criteria which were,

a. Total loan and advances shouldn't be more than 80% of Local Deposit and Primary Capital.

b. Loan amount on real estate shouldn't cross the limit of 60% of Fair Market Value of the collateral asset.

c. Real estate loan amount shouldn't be more than 25% of total loan and advances amount. And both sum of real estate and housing loan shouldn't be more than 40% of total loan and advances.

We have already discussed why NRB was compelled to announce the circulation and now we are going to focus what is the current position of the financial institution over the directive and can they achieve the criteria.

Total loan and advances shouldn't be more than 80% of loacal deposit and primary capital. If any financial institution have already issued loan and advance more than this criteria before current circulation should adjust the loan and advances down to 95% within end of Asadh 2068, 85% within end of Asadh 2069, 80% with end of Push 2069.

To provide loan on real estate business, financial institution follows their policy and practice. Generally they focus the background of borrower; may be educational status, physical and mental condition, collateral and earning capacity etc. The practice of rate to provide real estate loan is more than 60% of collateral assets. The average of fare market value and distress value of land is generally calculated by financial institution for the final rate of collateral assets and the loan provided on the basis of final rate. And the loan below rupees ten lakhs can evaluate by loan officer and more than the amount must evaluate by external evaluator. If the loan seems good, financial institution provide loan up to 90%. But it isn't difficult to provide the loan below 60% in order to meet the NRB directive.

Table 4.5

Housing Loan portion over Total Loan (in %)

FY	OFL	FFL
065/66	40%	38%
066/67	54%	39%
067/68	51%	37%
068/69	56%	35%
069/70	51%	45%

(Source: Appendix 3)

Figure 4.6

**Housing Loan Analysis over Total Loan**
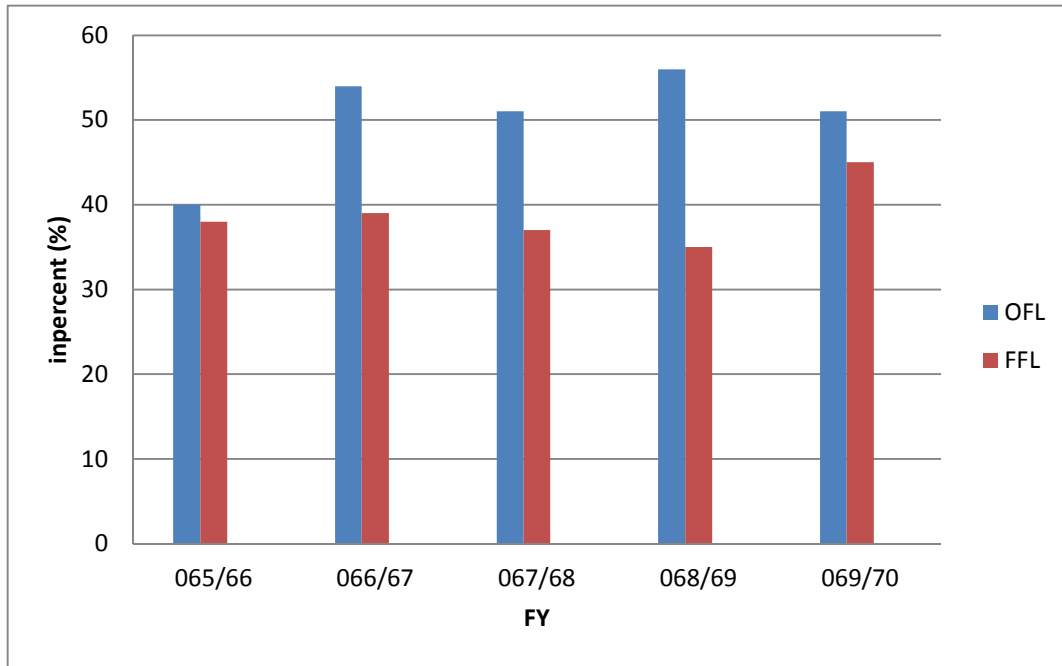
(**Source: Table No. 4.5**)

According to the figure, we can easily find that the both fiancé companies have housing loan investment as a major part of loan and advances. Total housing loan covered 40% and 38% in 065/66 by OFL and FFL. Later 54% and 39% in 066/67, and 51% and 37% in 067/68, 56% and 35% in 068/69, 51% and 45% housing loan in 069/70, covered by OFL and FFL respectively. FFL has crossed the 40% limit only once y in past study period in where OFL could not reduce housing loan investment below than 50%. It shows that OFL has invested more than 50% in housing loan which may be harmful for OFL in coming years. Considering the directive of NRB, we can find that OFL has been maintaining higher level in past years than the NRB criteria and little more difficult to manage deduction housing loan in coming years.

As per the NRB circulation, housing loan and advances should be deducted to 30% of total loan and advance within end of 2069 Asadh. Same as 25% within end of 2070 Asadh. It means both companies must come under 25% bracket for housing loan in where no more than 10% can be invested into real estate. It will be very difficult for both companies to maintain the bracket by deducting 50% of housing loan. It isn't simple to deduct loan by 50% of current issues. It is challenge for the both companies.

Figure 4.7

Effect of NRB's Circulation over Loan Borrower

Stop housing loan to meet NRB directive

Housing business

Profit for housing

Business loan borrower
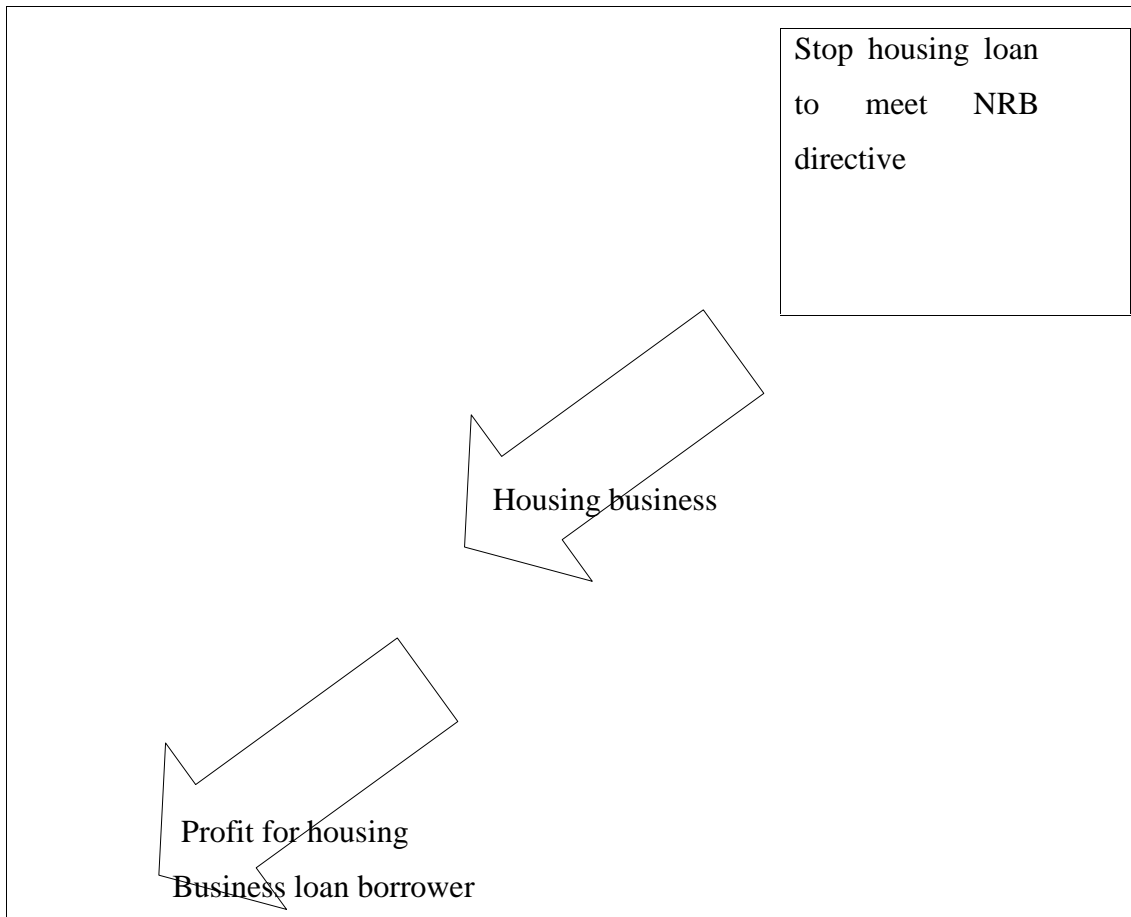
(Source : www.nrb.com.np)

After NRB's circulation, financial institutions have to face two challenges. One is to deduct the portion of housing loan and another is to deduct the loan safely. Because NRB circulation indirectly affect the business of housing loan, quick profit income objective of borrower has been becoming false. It results the loss for the borrowers which may be harmful for financial institutions.

Figure 4.8

Effect of NRB Circulation over Financial Institutions
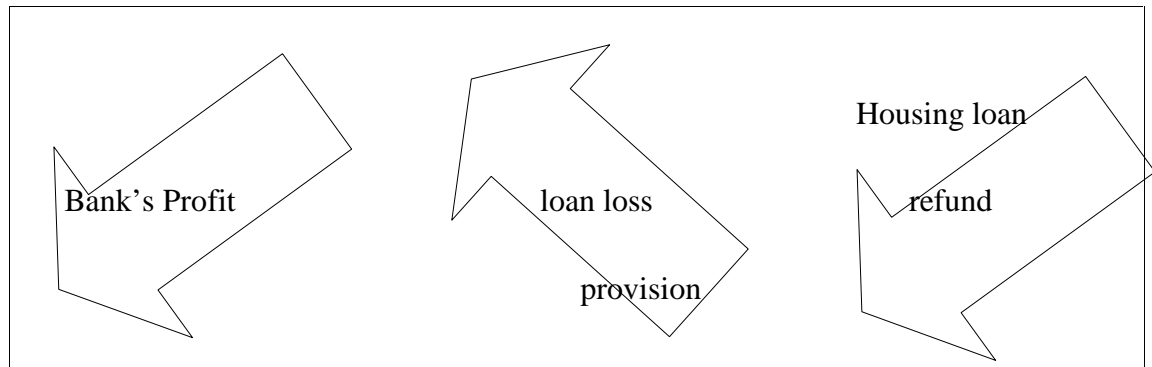
(Source : www.nrb.com.np)

Deduction of loan refunding will cause bad loan increase. Each and every financial institution is liable to make provision for bad loan according to their portion over the loan. This portion of bad loan provision will increase after fail to take refund the loan by financial institution. It will adversely affect financial institution's profit.

Finally some merits and demerits of the circulation of NRB can be generalized.

Merits:

1. The circulation will reduce the risk associated with housing loan

2. It saves financial institutions from anticipated accident.

3. It tries to maintain liquidity.

4. It shows that real estate loan isn't the healthy investment from the point of view of nation development.

5. Indirectly it tries to let finance institutions focus their investment in industrial sector instead of real estate loans.

Demerits:

Because it was too delay to circulate the direction, financial institutions had already made their high investment on housing loan.

1. It reduces financial institution's investment option.

2. It makes high probability to increase bad loan provision.

3. It will reduce profit if all conditions remain the same.

4. Funding source for housing developers will decline.

4.2.3 Term Loan

Term loan denotes the loan which is taken for education, agriculture, tourism, health etc. small business and industry occupy the major portion of this loan. Therefore, it can be assumed that the investment made in term loan is comparatively productive loan that other loan sectors. 13% to 17% interest rate was applied for those types of loan according to the nature of need, no. of years and other aspects during the study period. According to NRB Act 2058, Section 79, company should not make more than 75%investment in term loan. Term loan investment of both companies is presented as below:

Table 4.6

Term Loan Investment (Rs in million)

FY	OFL	FFL
065/66	160.18	95.21
066/67	159.80	162.32
067/68	253.68	243.53
068/69	306.82	333..25
069/70	435.30	348.42
Mean	263.16	236.55
S.D	102.87	97.37
C.V	0.39	0.41

(Source: Appendix 3)

Figure 4.9

Term Loan Analysis
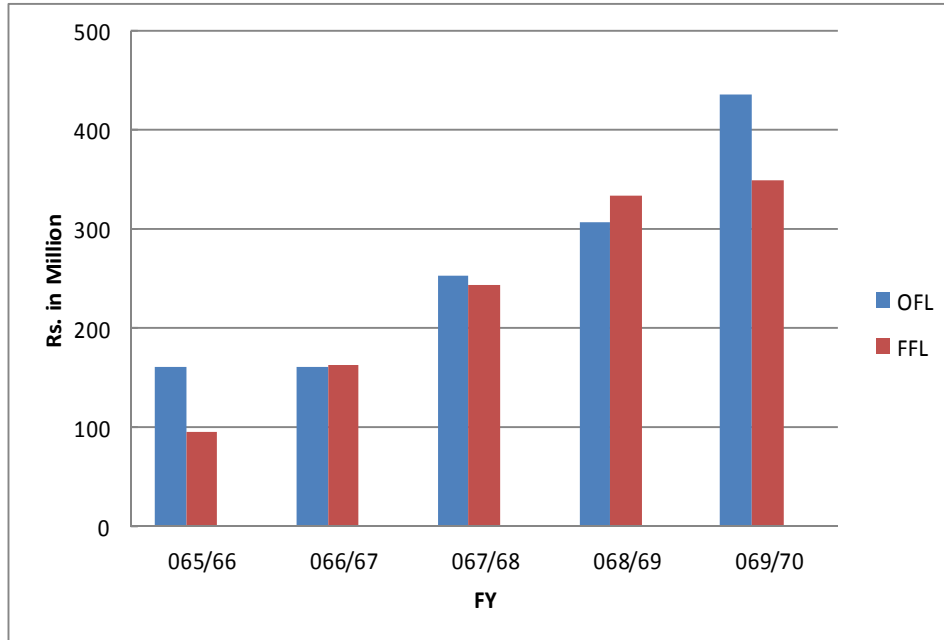
(Source: Table No 4.6)

Table 4.6 and figure 4.9 explain the term loan of OFL and FFL. OFL has invested Rs 160.18 million in FY 065/65 where as FFL has invested Rs 95.21 million only in 065/66 for the same. In FY 066/67 investment on term loan of OFL was dominated by FFL. And again OFL has invested Rs 253.68 million on 067/68 where as FFL has invested Rs 243.53 million and FFL was dominated by OFL. Remaining two fiscal years of study period, FFL has made more investment than OFL. 36% of total investment has invested in this sector by each of the companies. Both companies have been increasing their investment on term loan years to years. OFL has higher mean than FFL. It shows that the investment of OFL over the term loan is higher than FFL. But OFL has low deviation and coefficient of variation. It shows that OFL has been maintaining god position for the term loan investment.

4.2.4 Fixed Loan

Fixed loan is such type of loan which is provided on the basis of fixed deposit amount of the customer. Initially customer deposit money in fixed deposit account of finance company but later when the customer needs money, he/she claims loan on the deposited amount that he/she has been maintaining within the company. The finance company provides loan against the deposit by charging interest of generally 2% - 5% more than the deposited interest. The table and figure of the fixed loan is given below:

Table 4.7

Fixed Loan Investment (Rs in millions)

FY	OFL	FFL
065/66	6.67	1.86
066/67	9.13	8.12
067/68	6.50	12.49
068/69	15.77	8.54
069/70	64.01	11.24
Mean	20.42	8.45
S.D	22.06	3.68
C.V	1.08	0.44

(Source: Appendix 3)

Figure 4.10

Fixed Loan Analysis
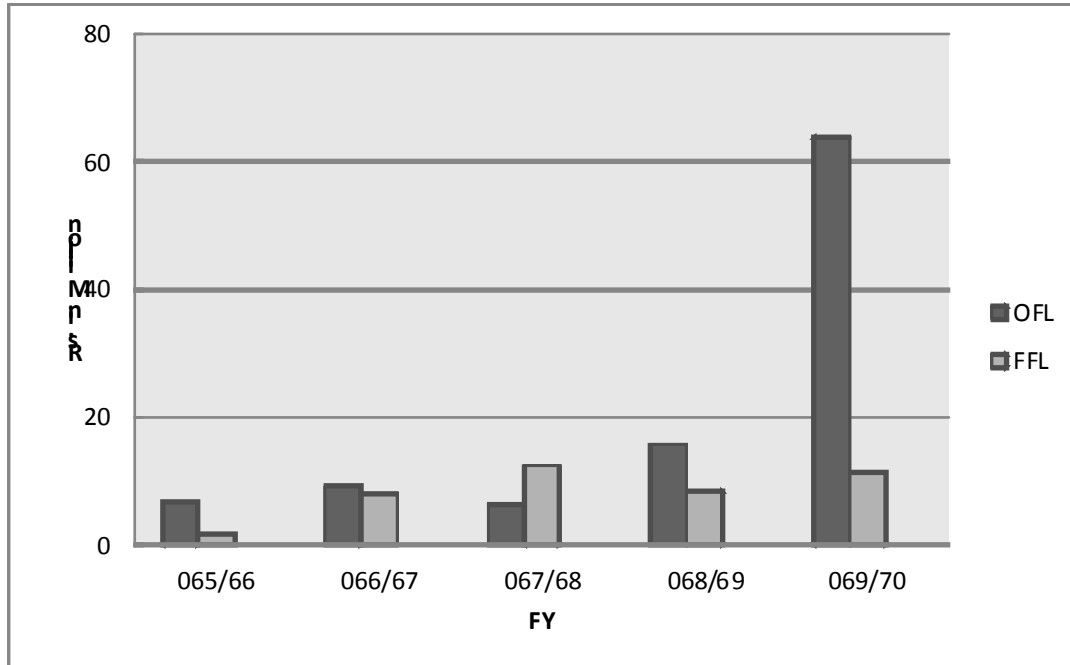
(Source: Table No. 4.7)

Table 4.6 and Figure 4.10 depict the fixed loan investment of OFL and FFL. Except FY 067/68, all the fiscal years during the study period, OFL has dominated the investment of FFL. Rs 6.67 million and Rs 1.86 million was invested on 065/66 by OFL and FFL respectively. In first FY of the study period, we can see that there is a large difference between investment of OFL and FFL. But in 066/67, the investment gap between OFL and FFL has come closer than last year and end at Rs 9.13 million and RS 8.12 million respectively. FFL has dominated OFL in FY 067/68 by investing Rs12.49 million where OFL has limited only in Rs 6.50 million. Again OFL has higher investment on fixed loan in FY 068/69. Finally OFL has made huge investment in 069/70 than FFL. This year is found quite different than past years of OFL. Rs 64.01 million were invested in final study period by OFL. This illustrates that OFL has diverted its investment on fixed loan from term loan in FY 069/70 2.8% and 1.3 of total investment was invested in this sector by OFL and FFL respectively. OFL has

higher mean, S.D., and C.V., than FFL. It explains OFL is not maintaining consistency over the fixed loan than FFL

4.3   Profitability Analysis

Profit is the main objective of every financial institution. They invest to earn profit, provide service in order to satisfy customer and to generate more profit. They take deposits and spread the loan to various persons to generate profit. Without profit, financial institutions can not operate their regular and irregular duties. Financial institutions provide dividend to staffs and take retained earnings from the profit they earned in each fiscal years. Hence, profitability ration can be regarded as a control measure for the earning power and operating efficiency of a firm.

4.3.1 Return on Total Assets

This is the ratio which indicates the position of profit over the assets. Financial institution makes investment over different types of assets in order to run daily operations. These types of assets are long run assets. It helps the organization to survive years to years. All the assets are the wealth of the company which means wealth of the shareholders. ROA helps to analyze strength of the company. Higher ratio indicates total assets are effectively used. Return on Total Assets of OFL and FFL are shown on the table below:

Table 4.8
Return on Total Assets (in %)

FY	OFL	FFL
065/66	2.10	2.48
066/67	1.86	2.09
067/68	1.80	2.49
068/69	1.62	2.51
069/70	1.80	2.07
Mean	1.83	2.33
S.D	0.15	0.20
C.V	8.40	8.66

(Source: Appendix 5)

The highest ROA of OFL is 2.10 % in 065/66 and lowest ratio is 1.62 % in 068/69. And the highest ROA of FFL is 2.51 % in 068/69 and lowest ratio is 2.07 in 069/70. Mean ratio is 1.83 % and 2.33% of OFL and FFL respectively. C.V. between return and total assets of OFL is 8.40 and FFL is 8.66. Both finance companies have been maintaining satisfactory return position over the assets separately but OFL is found comparatively weal than FFL on the basis of assets utilization. Also the C.V. between return and assets of both companies is positive. Figure can more define about the trend of ROA. So the figure from the same data is presented below:

Figure 4.11

Return on Total Assets Analysis
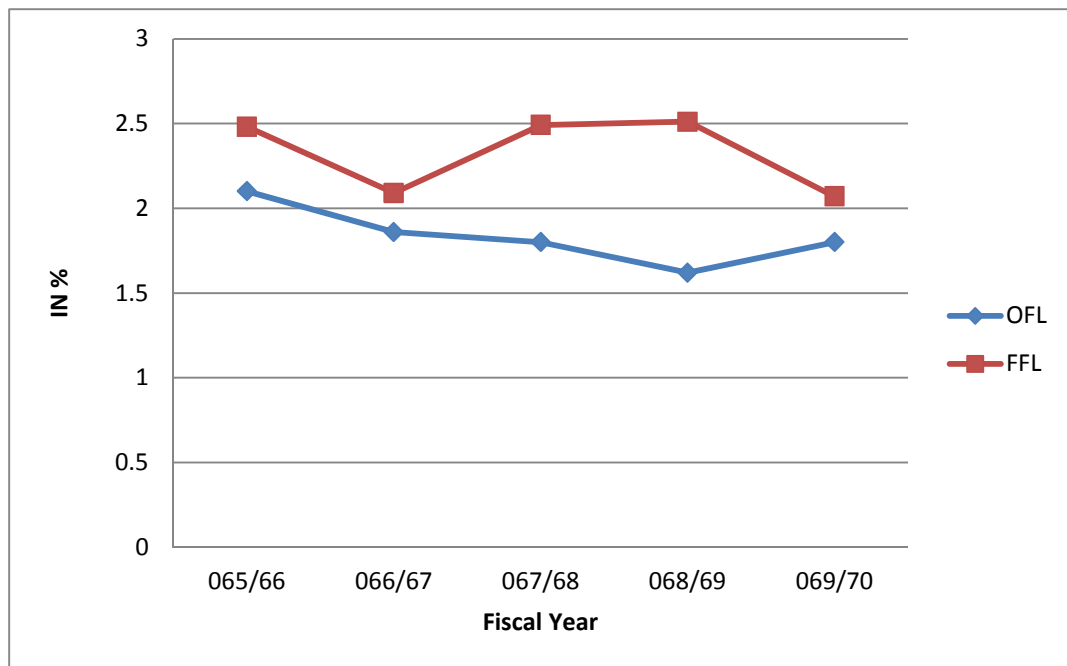
(Source: Table No.4.8)

Figure 4.11 shows that return on total assets ratio assets ratio has been decreasing during the study period of OFL and fluctuation situation of FFL. OFL has been generating more profit than FFL but the ratio of return and assets is found lower than FFL. It illustrates that FFL has been using the assets more effectively than OFL. We can conclude that both the finance limited has been maintaining consistent ratio of ROA but comparatively FFL is found more potential on using assets than OFL.

4.3.2 Return on Equity

Generally shareholder's wealth is denoted as equity. One of the main sources of fund is shareholder's equity. The term's meaning depends very much on the context. In finance, in general, we can say equity as ownership in any asset, after all debts associated with that asset are paid off. For an example, a car or house with no outstanding debt is considered as the owner's equity because we can enthusiastically sell the item for cash. Stocks are equity because they represent ownership in a company. It helps to analyze return on shareholder's investment. This ratio states how well the firm has used the resources of the owners to earn the profit. Therefore, it is better to be high return of equity for shareholders. ROE of OFL and FFL is listed below:

Table 4.9

Return on Total Equity (in %)

FY	OFL	FFL
065/66	45.40%	34.58%
066/67	21.77%	19.97%
067/68	19.56%	34.07%
068/69	26.69%	35.75%
069/70	24.91%	31.88%
Mean	27.66%	31.25%
S.D	9.20%	5.78%
C.V	33.27%	18.49%

(Source: Appendix 6)

The table 4.9 shows that 065/66 has the highest ROE in OFL and 065/66 has highest ROE in FFL. It is found that each company has high ROE in first study period and later it has been decreasing by year to years. FFL has been maintaining ROE more than 30% but OFL has been loosing the percentage of ROE year to year. The cause behind this is OFL has increased its shareholder's equity from 20 million to more than 104 million during the study period where as FFL has increased its equity

58

from 20 million to 91 million only in the same period. And the Net profit after tax of FFL is higher than OFl from FY 067/68. Mean is found satisfactory for both the finance limited. Because of higher standard deviation and lower mean, OFL is found less consistent on ROE than FFL. The table is presented below in figure:

Figure 4.12

Return on Total equity Analysis

(in %)
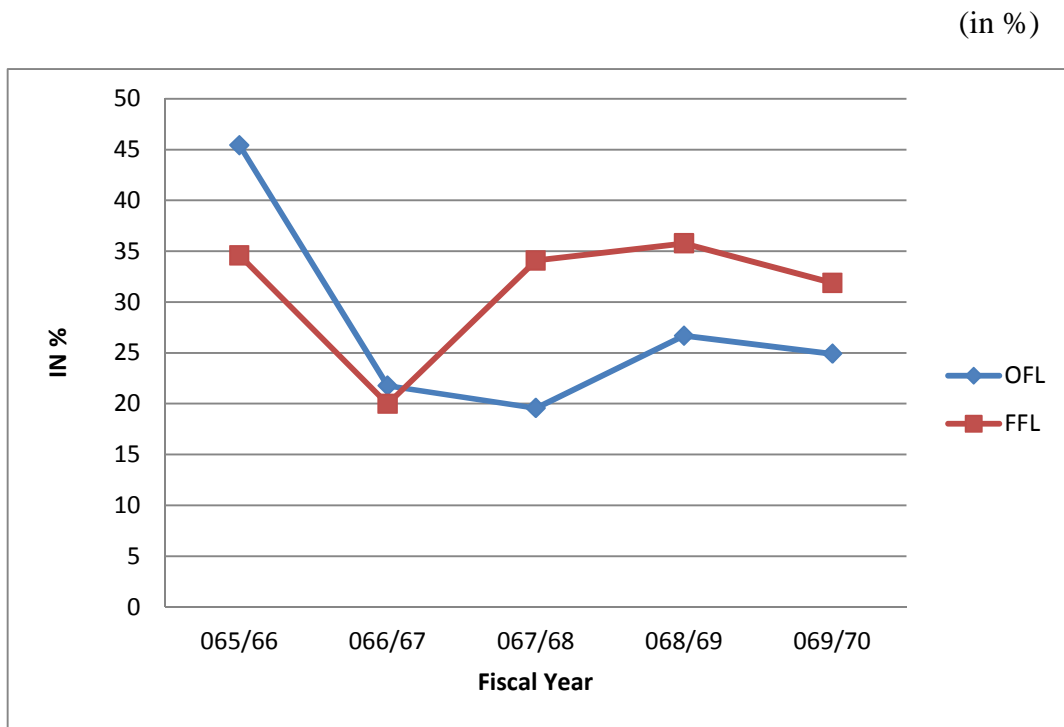
(Source: Table No.4.9)

The figure no 4.12 explains the trend of ROE in OFL and FFL during the study period. OFL has highest return in first study period in where FFL has less return by 10%. In FY 066/67 both limited has same return and after FFL has made growth over the return in where return of OFL has declined. Similarly return of OFL is increased in 068/69 from 20% to 27% where as FFL fail to increase their ROE as OFL. ROE of both companies have been declining at last fiscal year of the study period. In conclusion we can say that the trend of FFL's ROE is more effective than OFL.

4.3.3 Return on Investment

ROI refers to the ratio which indicates the return over the total investment of the company. In context of financial institutions in Nepal, only few portion of funds that has been using in investment, most portion of available fund has been using in disbursement of loan advances. Therefore, we hereby, took loan & advances and other investment all for analyzing return on investment. ROI measures management effectiveness over the available resources in generating profit. Higher profit is the signal of better management. ROI of OFL and FFL being tabulated as below:

Table 4.10

Return on Total Investment (in %)

FY	OFL	FFL
065/66	2.46%	2.73%
066/67	2.25%	2.46%
067/68	2.01%	2.73%
068/69	2.03%	2.92%
069/70	2.02%	2.57%
Mean	2.15%	2.68%
S.D	0.18%	0.16%
C.V	8.20%	5.84%

(Source: Appendix 7)

According to the table listed above, OFL and FFL have almost the same ROI. They have been maintaining their investment very sincerely. OFL has made 2.46%and FFL has made 2.73% ROE on first study period. We can see that OFL is not successful in getting return again during the study period where as it is shown that FFL has been trying to maintain the same return during the study period. Finally OFL has reached to 2.02% and FFL has maintained 2.57%. More of OFL is 2.15% and FFL is 2.68%. OFL has higher S.D. than FFL by 0.02%. Considering C.V., OFL has less effective ROE than FFL. The figure of the table is presented below:

60

Figure 4.13

Return Total Investment Analysis (in %)
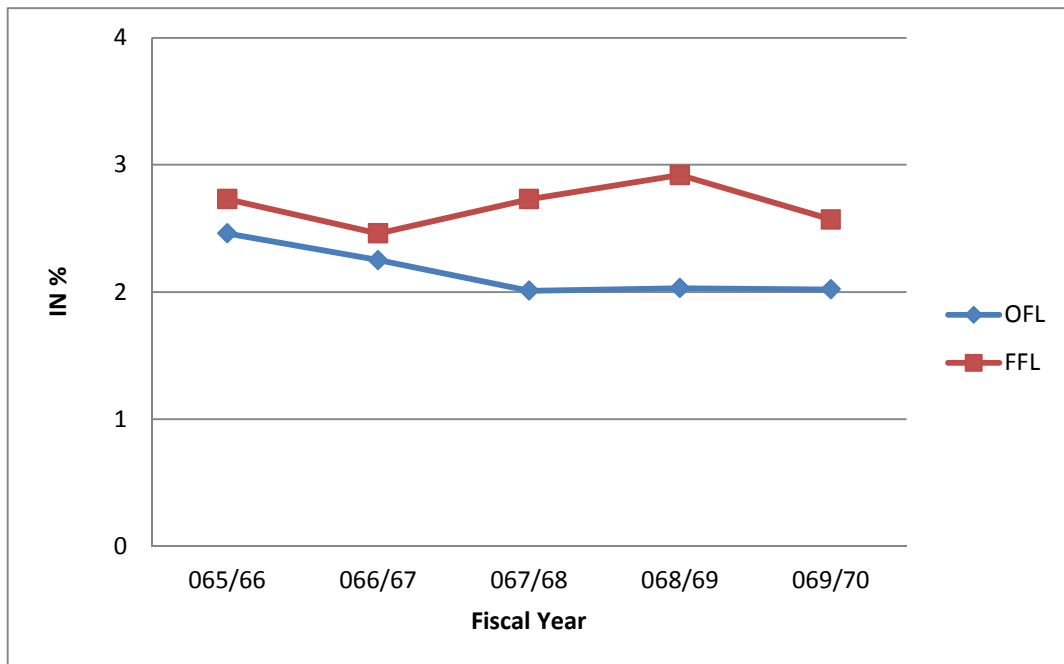
(Source: Table No.4.10)

The figure presented above reveals that ROE curve of OFL has been decreasing over the study period and ROE curve of FFL has been variable over the period. From 2.46% ROE of OFL is decreased to 2.02% and from 2.73% ROE of FFL has started decreasing to 2.46%, secondly increased to 2.92% and finally it is decreased to 2.57%. Although ROE of FFL is variable, mean is high and S.D. is low, the investment management of FFL is found better than OFL.

4.3.4 Weighted Average Interest Spread Ratio

Interest is the return of any lending. Interest spread is the difference between the interest payment and interest earn. The average of interest on all type of loan and interest on all types of borrowing can be called weighted average interest spread ratio. Especially the term is used in financial institutions because the major focuses of the firms is concentrated on the interest earned and the payment of the borrowings. Higher interest spread ratio defines more possibility of profit. Data table is listed below for interest spread ratio:

Table 4.11

Weighted Average Interest Spread Ratio

FY	OFL	FFL
065/66	5.86%	6.19%
066/67	4.72%	5.72%
067/68	4.44%	5.46%
068/69	3.74%	4.90%
069/70	4.05%	4.79%
Mean	4.56%	5.41%
S.D	0.73%	0.52%
C.V	16.00%	9.61%

(Source: Appendix 8)

The table 4.11 shows that interest spread ratio of both the limited in decreasing trend. FFL has been maintaining comparatively high ratio from the starting to end of the study period. It illustrates that the returns of FFL is higher than OFL. The ratio of OFL and FFL is 5.86% and 6.19% in 065/66 respectively which is the highest ratio over the study period for bolt limited. The ratio of OFL and FFL is decreased down to 4.05% and 4.79% respectively in 069/70 which is the lowest rate for FFL. The lowest ratio of FFL has maintained 5.47% over the study period. C.V. between OFL and FFL is differed by more than 6% consequently we can say that FFL is found more efficient than OFL.

Figure 4.14

Weighted Average Interest Spread Ratio Analysis

(in %)
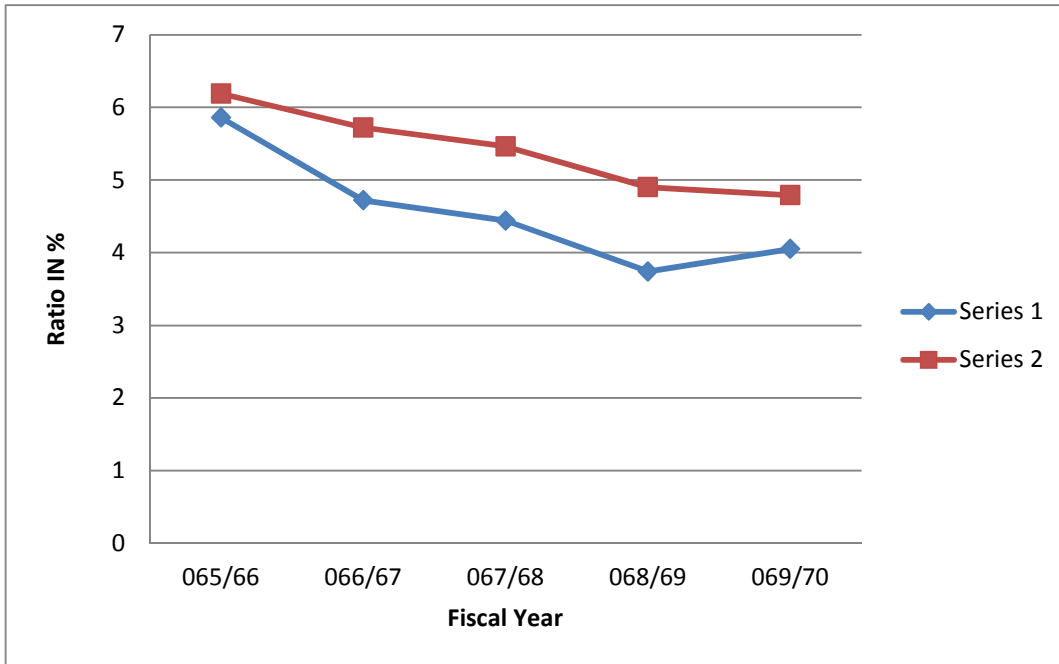
(Source: Table No. 4.11)

Figure 4.14 presents that the interest spread ratio of both companies has been running almost in same trend but the percentage between them is highly differed with each other. Interest spread ratio of first study period of both limited is in almost same position but after then the ratio of OFL is lying under than 5% where as the ratio of FFL is always seen more than 4.5%.

4.4   Analysis of Risk and Return of OFL and FFL

Risk and Return of OFL and FFL have analyzed in two categories. One is sector wise risk and return of loan and advances and another is portfolio risk and return. For portfolio risk and return we have analyzed individual return with weight, covariance, correlation and the portfolio risk and return one after one.

63

4.4.1 Sector wise risk and return of Loan and Advances

As we have mentioned in limitation, this study has focused on loan and advances as the loan and advances is the major investment sector of financial institutions. Because return of loan and advances is interest income, the researcher has not included profit as return in this study. All the returns represent the interest of concerned loan and advances.

Table 4.12

Sector wise Risk and Return of Loan and Advances

Loan and Advances	OFL			FFL		
	Average risk($_{OFL}$)	Weight(w)	Expected Return ($\overline{R}_{OFL}$)	Average risk ($_{FFL}$)	Weight (w)	Expected Return ($\overline{R}_{FFL}$)
Hire purchase	2.36	0.098	11.78	0.72	0.227	10.03
Housing Loan	1.11	0.514	0.19	1.11	0.396	10.39
Term Loan	1.13	0.361	10.54	0.67	0.363	10.07
Fixed Loan	3.86	0.028	8.87	3.34	0.013	8.25

(Source: Appendix 10 and 11)

The table no. 4.12 data portrays average risk, return and weight over the five years of study period. This data is suitable to analyze the risk and return of each loans and advances separately on the basis of their investment weight.

OFL has made 9.8% investment of total with l loan in hire purchase loan and generated 11.78% return with 2.36% of risk. For the same category, FFL has made 22.7% investment of total loan in hire purchase and generated 10.03% return with 0.72% of risk. Not only, we can see that the profit generated by OFL is higher than

FFL in hire purchase but also the percentage invested by OFL in the sector is also significantly lower than FFL. But the risk shows that OFL is not maintaining consistency over the return. Because of the more fluctuation in return of different five years, the risk of OFL has gone up to 2.36% which is higher by 1.13% than FFL.

Housing loan is the largest sector in where Finance companies have invested their funds. Here, OFL has made 51.4% investment of total loan in housing loan and generated 10.19% return with 1.11% of risk. For the same category, FFL has made 39.6% investment of total loan in housing and generated 10.39% return with 1.11% of risk. We can see that the profit generated by FFL in the sector is also significantly lower than OFL. And the most important part is that the risk associated with the return of both companies is equal which verifies that FFL has been maintaining better position on housing loan than OFL during the study period.

The weight of both finance limited in term loan are almost equal, OFL has invested 36.1% and FFL has made 36.3%. And again the return of both companies is equal to some extent, OFL prevailed 10.54% and FFL prevailed 10.07%. If both the situation is same, we have to ensure whether they have generated their return with again same risk or not? Exactly not, OFL has played more riskily than FFL. OFL has generated the return by bearing 1.13% of risk where as FFL has generated the return with 0.67% of risk only. In this case, we can easily determine that FFL has been investing in term loan with better performance than OFL.

In the forth sector of loan and advance, that is Fixed Loan, OFL has made 2.8% investment of total loan and advances where FFL has made 1.3% only. Comparatively OFL has made higher investment than FFL and has gained higher return also. OFL has generated 8.87% of return and FFL has generated only 8.25%. FFL has generated the profit with 3.34% of risk where as OFL has played 3.86% risk only.

4.4.2 Portfolio Return

The main objective of portion is to reduce unsystematic risk, through which the investor can get optimum return in certain degree of risk by constructing efficient portfolio. In making portfolio investment, the total available fund is divided into proportion for different sectors. The total weighted of a portfolio is equal to 100%.

Table 4.13

Portfolio Return of Loan and Advances

Loan and Advances	OFL			FFL		
	Expected Return ($\overline{R}_{OFL}$)	Weight(w)	Portfolio Return ($\overline{R}_{P\text{--}OFL}$)	Expected Return ($\overline{R}_{FFL}$)	Weight (w)	Portfolio Return ($\overline{R}_{P\text{--}OFL}$)
Hire purchase	11.78	0.098	1.151	10.03	0.227	2.279
Housing Loan	10.19	0.514	5.234	10.39	0.396	4.114
Term Loan	10.54	0.361	3.804	10.07	0.363	3.664
Fixed Loan	8.87	0.028	0.248	8.25	0.013	0.107
Portfolio return			10.44	Portfolio return		10.16

(Source: Appendix 9)

The table no. 4.13 illustrates the portfolio return of OFL and FFL. OFL has generated 11.78% return in hire purchase loan and advances with 9.8% of weight. Then the return of hire purchase loan in five years portfolio comes to 1.151%. Same as, the sector wise portfolio return of OFL is 5.234 % in housing loan, 3.804% in term loan and 0.248% in fixed loan. FFL has been maintaining consistency in expected

return in every sector. Due to different weight of investment, the expected return has come down to different figures. In hire purchase loan, FFL has earned 2.279% return, 4.114% in housing loan, 3.664% in term loan and 0.107% in fixed loan.

Even the expected return in hire purchase loan of OFL is higher than FFL, the portfolio return of the sector is lower than FFL due to the low proportion allocated to the hire purchase by OFL. Same condition is applied to FFL when we have a look on housing loan return. Even the FFL has higher expected return in housing loan ; the company has low portfolio return for the sector due to the same reason. Almost the same expected return and same weight, both companies have proximity in portfolio return amount of term loan. OFL has made high investment in fixed loan and has received high expected return also. Therefore the sector wise portfolio for fixed loan is higher than FFL.

The loan and advance investment portfolio return of OFL has finally reached to 10.44% where FFL has reached to 10.16%. From this, we can simply conclude that OFL has earned higher interest on the basis of their investment than FFL. But it will not be fare enough to make our final decision on the basis of portfolio return only. Therefore we have to work out more on performance position.

4.4.3   Analysis of Covariance and Correlation

As covariance is a measure of the degree where two variables move together over time period and correlation is computed through covariance which indicates relation between two sectors that is involved to create investment portfolio. The table listed below helps to show the relation between two sectors of investment;

Table 4.14

Covariance and Correlation of OFL and FFL

Loan and Advances	OFL		FFL	
	Covariance (Cov)	Correlation (*p*)	Covariance (Cov)	Correlation (*p)*
Hire Purchase & Housing Loan	0.05	0.02	0.10	0.12
Hire Purchase & Term Loan	2.18	0.81	-0.04	-0.07
Hire Purchase &Fixed Loan	1.12	0.12	0.37	0.16
Housing Loan &Term Loan	-0.54	-0.69	-0.69	-0.93
Housing Loan & Fixed Loan	-0.06	-0.01	-1.93	-0.52
Term Loan & Fixed Loan	-1.06	-0.24	1.71	0.77

(Source: Appendix 12)

If the covariance between the return is positive, it indicates the trend of positive move between the sectors of investment. Above table depicts that Hire purchase and Housing loan, Hire Purchase and Term loan, Hire loan and Fixed loan of OFL has positive covariance and indicate positive trend for positive move and rest of sectors have negative covariance which indicates trend for negative move together at the same time. In FFL, Hire purchase & Housing Loan, Hire Purchase & Fixed Loan and Term Loan & Fixed Loan tend to move in the same direction at the same time as

they have positive covariance and rest of sectors has negative covariance which indicates the trend of opposite move at the same time.

Correlation helps to authenticate the relationship between two sectors of loan and advances especially from the risk point of view. Portfolio having correlation between 0.40 to 0.75 reduces the risk, +1 correlation defines portfolio as single investment because risk cannot be reduced in such portfolio, portfolio having -1 correlation means risk can be eliminated fully, 0 correlation shows no relation between investment sectors and rest of other correlation values depicts that risk can be reduced partially. Hire purchase and housing loan, Hire Purchase and Term loan, Hire purchase and Fixed loan in OFL have positive correlation and rest of other sectors correlation are negative. Term Loan & Fixed Loan of FFL have positive correlation around 0.75 but rest sectors correlation are negative. The combinations of investment having negative correlations are generally accepted in order to minimize risk factor of the investment.

4.4.4 Portfolio Risk and Return

Loan and advances are divided in four sectors for portfolio calculation of loan and advances. Portfolio risk and return of loan and advances of both finance limited over five years is illustrated by assuming interest on sector wise investment of loan and advances as return and the proportion of investment as weight. On the basis of those figures we have calculated portfolio risk. Table and graphical presentation for Portfolio risk and return of both fiancé companies are placed below:
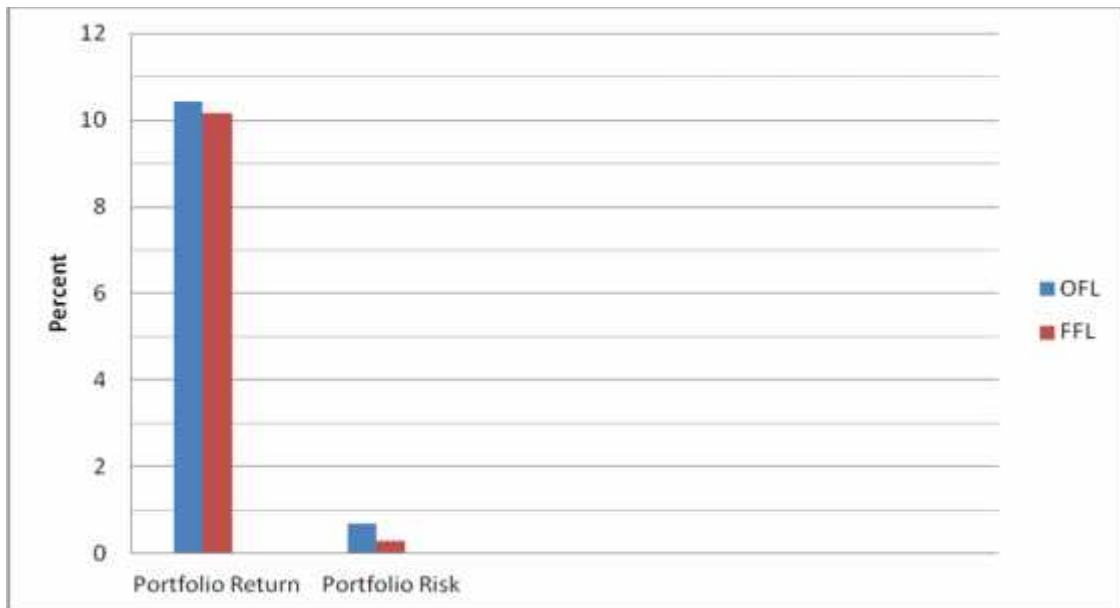
Table 4.15

Loan and Advance Portfolio Risk and Return

S.N	Finance Limited	Loan & Advances Portfolio Return (R_P)	Loan & Advances Portfolio Risk (σ_p)
1	OFL	10.44	0.70
2	FFL	10.16	0.30

(Source: Appendix 10 and 11)

Figure 4.15

Portfolio Risk and Return of Loan and Advance (in %)

The table and the graph located just above present the portfolio return on loan and advances of OFL and FFL. OFL has generated 10.44% return from the portfolio and 10.16% return is generated by FFL as explained above. The portfolio returns are not that far from risk. OFL has 0.70% portfolio risk associated with the return where as FFL has just 0.30% portfolio risks associated with return. From this analysis, we can say that FFL has been maintaining a good position than OFL because FFL has generated almost the same profit with lower risk. For further authentication of better portfolio performance, have we have used Sharpe portfolio measurement tools.

4.5   Portfolio Performance Analysis

For portfolio performance on the basis of Sharpe's concept, market performance is the standard performance on the basis of which the performance of other sectors portfolio can be analyzed. If the portfolio which we can to observe has low performance percentage can be declared as low performed portfolio and vice versa. Therefore the market performance should not be overseen while measuring performance of portfolio by using Sharpe measurement of portfolio performance.

4.5.1 Analysis of Market Position

Only one stock market exists in Nepal named Nepal named Nepal Stock Exchange Limited (NEPSE). Overall market movement is represent by the market index i.e. NEPSE index. All the trading of stock is traded in NEPSE. In this section, performance of finance companies is compared with market performance. Therefore market risk and return should not be overseen. Market return as per NEPSE index has been presented below:

Table 4.16

Calculation of Market Returns, Variance of market

Fiscal Year	NEPSE Index	$R_m \quad \mathrm{X} \dfrac{NI \; Z \, NI_{tZI}}{NI_{tZI}}$	$R_m \; Z \bar{R}_m$	$\int R_m \; Z \bar{R}_m \text{Å}$
064/65	222.04	-	-	-
065/66	286.67	0.291	-0.028	0.0008
066/67	386.83	0.349	0.030	0.0009
067/68	683.95	0.768	0.449	0.2017
068/69	963.36	0.409	0.090	0.0080
069/70	749.10	-0.222	-0.541	0.2931
Total		$R_m \; \mathrm{X} 1.5959$		$\int R_m \; Z \bar{R}_m \text{Å}$ $= 0.5045$

(Source: Appendix 14 and 15)

\# Expected Return $\int \bar{R}_m \text{Å} \mathrm{X} \dfrac{R_m}{n} \mathrm{X} \dfrac{1.5959}{5} \mathrm{X} 0.3191 = 31.91\%$

\# Standard Deviation $\int \dagger_m \text{Å} \mathrm{X} \sqrt{\dfrac{\int R_m \; Z \bar{R}_m \text{Å}}{n}} \mathrm{X} \sqrt{\dfrac{0.5045}{5}} \mathrm{X} \; 31.77\%$

\# Co-efficient of Variation (C.V.) $= \dfrac{\dagger_m}{\bar{R}_m} \mathrm{X} \dfrac{0.3177}{0.3191} \mathrm{X} 0.99561$

71

Variance (V) = $\int\!\!\dagger_m Å$ X0.1009

Figure 4.16

Market (NEPSE) Index movement (In %)
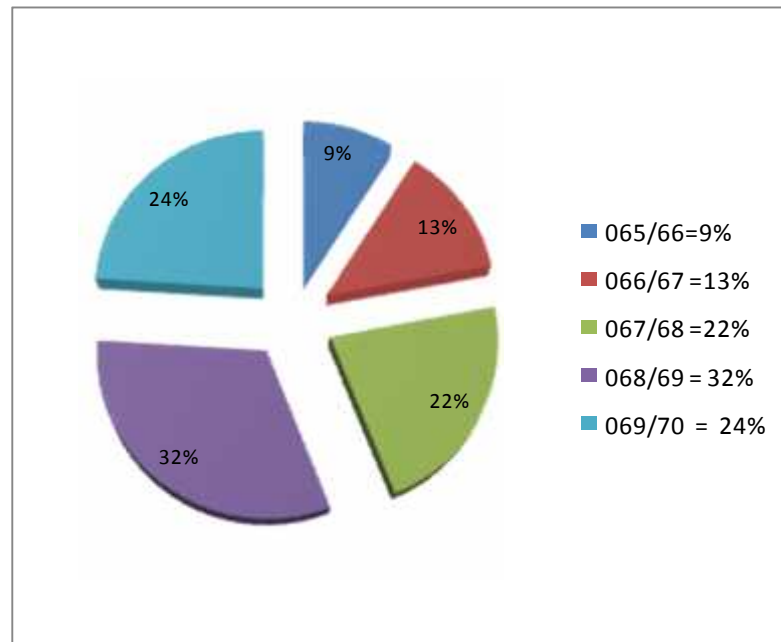
(Source: Appendix 15)

The NEPSE Index is very high in 2068/69 i.e. 963.36 and the lowest is 286.67 in 2065/66 during the period in this study. From the fiscal year 2065/66 to 2068/69, NEPSE index seems in increasing trend. However, in last fiscal year, the NEPSE Index starts to decrease in its value and reach down to 749.10 at fiscal year 2069/70. The year wise realized return of market is shown below.

Figure 4.17

Market Return Movement Ratio
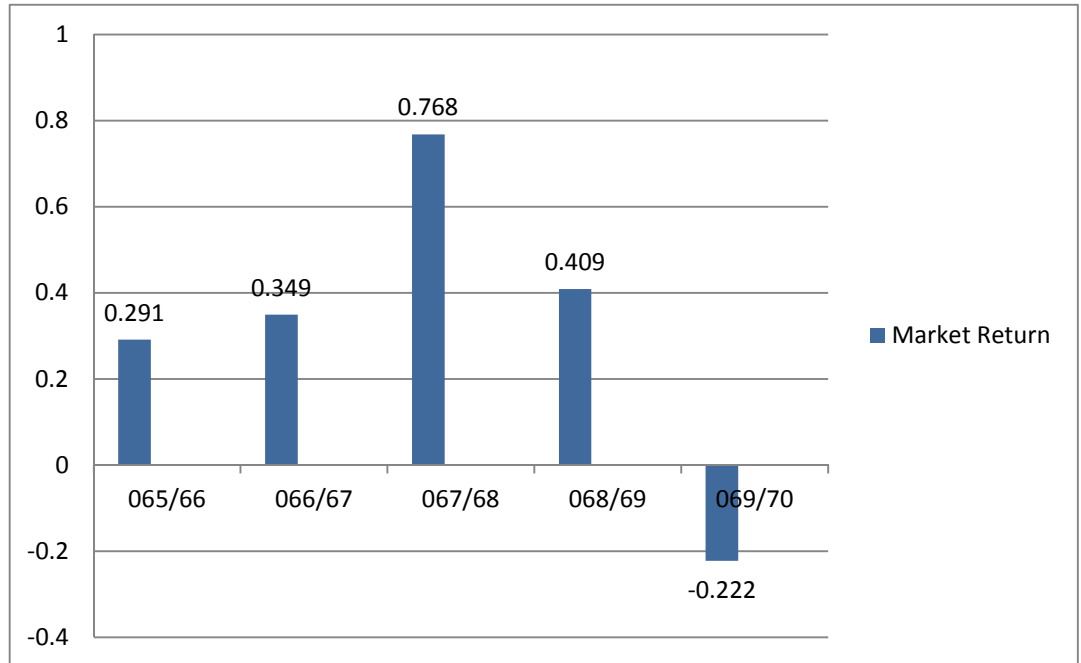
(Source: Appendix 14)

From the figure 4.17 diagram, we can see that the realized returns of the market is in negative trend up at the end of the study period but before that it is in positive trend up to fiscal year 067/68. In FY 068/69, the market return is decreased from 963.36 to 749.10 which describe the negative return in market index. First four years of market return follows the positive return however the market return attracts the decreasing trend from FY 069/70. The market return in 068/69 have quite good position of average return with 0.35 approx. but the return of last fiscal year carried down the average return of market in to 31.9% which quite higher return than OFL and FFL. Inconsistency in return brought market risk position higher than OFL and FFL with 31.77%.

4.5.2 Measurement of Portfolio Performance

While performing portfolio management, risk and return has to be taken into consideration. Various methods are applied to measure the portfolio performance. For the simplicity of the study, here the Sharpe portfolio performance is chosen.

The Sharpe portfolio performance measure is based on the capital market line (CML) and total risk, which makes it more suitable for evaluating portfolios rather than individual assets. Sharpe measurement has been presented in table and graph below:

Table 4.17
Sharpe Portfolio Performance Measurement

Sharpe Measurement Contents	OFL	FFL	Market
Portfolio Return (R)	10.44	10.16	31.89
Risk Free Rate (R_f)	4.664	4.664	4.664
Portfolio s.d.($_p$)	0.70	0.30	31.77
Performance in %	**8.1904**	**18.1665**	**0.8572**

(Source: Appendix 14 and 16)

Figure 4.18
Sharpe Portfolio Performance Measurement

(Source: Table No. 17)

74
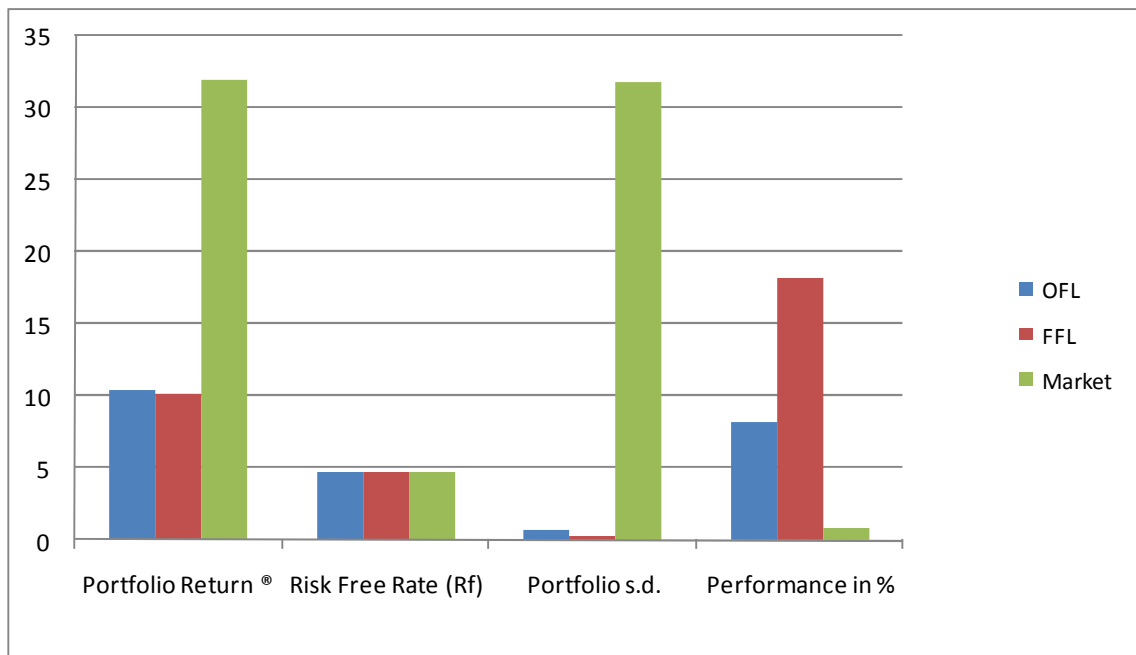
On the basis of Sharpe's concept on measurement of portfolio performance, market performance is the standard performance. On this basis, performance of other sector' portfolio can be analyzed. If the portfolio which we want to observe has low performance percentage can be declared as low performed portfolio and vice versa. Therefore the market performance cannot be overseen while measuring performance of portfolio using shape measurement of portfolio performance.The market rateof return on the basis of NEPSE's data over the study period is 31.89% with 31.77% of risk where the common average risk free rate declared by NRB over the study period is 4.664%. according to Sharpe measurement, market has obtained 0.8572% score for performance measurement. Same as OFL has fabricated 10.44% portfolio return with 0.70% risk. OFL obtained 8.1904% of performance score as per measurement of Sharpe portfolio performance. FFL has performed with 18.1665% score as FFL has generated 10.16% portfolio return with having 0.30% of risk. Therefore, it can we said concluded that both the finance companies have performed well in comparison to market during the study period which is presented in table and figure below:

Table 4.18

Ranking of Sharpe Portfolio Performance

Finance Ltd.	Performance Score	Compare with Market	Ranking
OFL	8.1904	Better than Market	2
FFL	18.1665	Better than Market	1
Market Score	0.8572	-	-

(Source: Appendix 16)

Figure 4.19

Ranking of Sharpe Portfolio Performance   (in %)
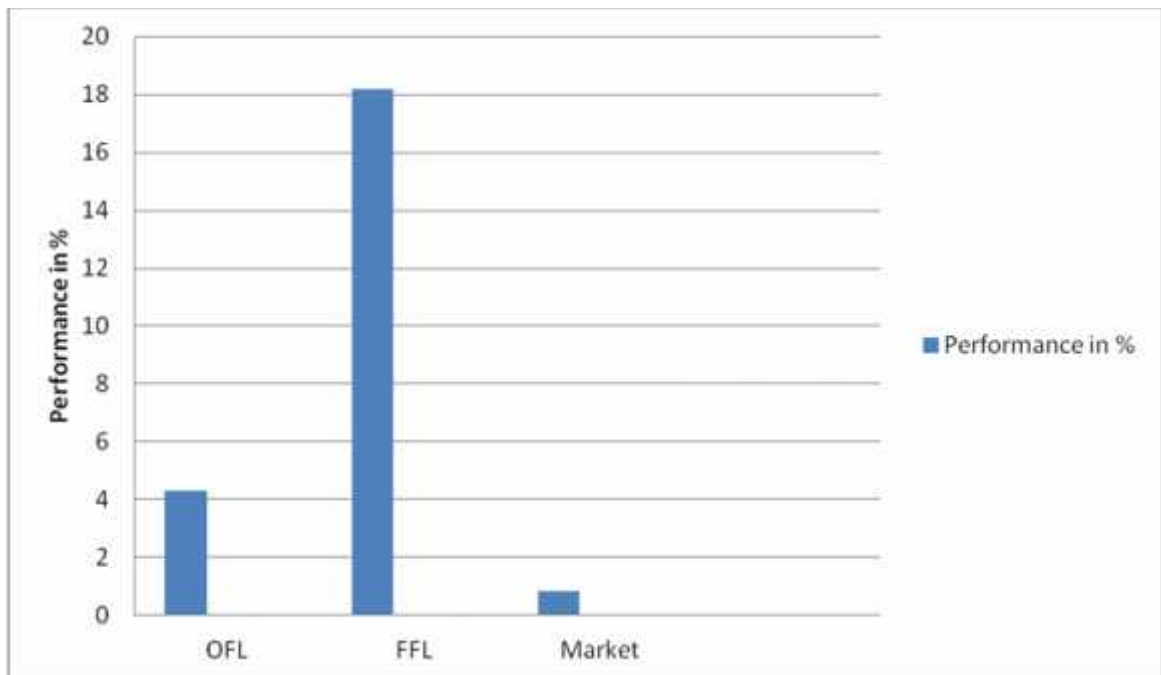
(Source: Table No. 18)

Finance company can be said on better performance position if the companies have more performance score than the market. OFL has performed good position with having 8.1904% of performance score which is higher than market performance score. And FFL has performed with 18.1665% score which is also again higher than market score. Both companies have well performed than market but we have to rank finance companies according to their performance score. As per table listed above table it illustrates that FFL has performed better than OFL as it has higher score by more than 9% and also the graph located just above has plotted FFL higher than OFL. Therefore it is declared that FFL has performed a better performance than OFL during the study period on the basis of Sharpe portfolio performance measurement.

4.6   Major Findings of the Study

The major findings of the study on investment portfolio of Om Finance and Fewa Finance Limited are as follows:

)   The total investment of portfolio of OFL and FFL during the study period has been made on loan and advances, fixed deposit with other institutions, government securities, Share and debentures and others. Investment on loan and almost sent portion of investment has been made on loan and advances by both the finance limited. It is found that investment on loan and advances made by OFL on 069/70 is the highest among the years of the study period with 98.80% investment. And the lowest investment on loan and advances made by OFL is 94.21% on 066/67. In another side, FFL has made highest investment on loan and advance is 99.91% on 067/68 and lowest investment on the same is 95% in 065/66.

)   The trend of investment on loan and advances has been increasing year to year during the study period of OFL and almost the same portion of investment has been made by FFL. On loan and advances over the period. Maximum investment made in Government securities is 1.23%, Share and debenture is 0.27% and fixed deposit is 4.24% by OFL. That was OFL's first investment in those sectors during the study period, the investment sectors except loan and advances have adopted decreasing trend after the investment. Maximum investment made in Government securities is 0.22%, Share and debenture is 0.1%, fixed deposit is 4.77% and other is 0.29% by FFL. That was FFL's first investment in those sectors during except loan and advances have adopted decreasing trend after the investment in FFL also. No investment was made in share and debenture and Fixed deposit after 065/66, by FFL. Finally the mean investment of Loan and advances has reached to 96.85% and 98.83% in OFL and FFL respectively which has dominated rest of the other investment sectors.

)   OFL and FFL have made investment in four different categories of Loan and advances and they are:- Hire Purchase, Housing, Term and Fixed Loan. In the first year, Term loan has dominated other sectors in OFL and rest of the years

were dominated by housing loan. In OFL, housing loan has occupied more than 50% of total loan. In other side, Term loan has dominated other sectors in the first four years of FFL but FY069/70 was dominated by housing loan. The main investment sector of loan and advances is housing loan for both the finance companies and second investment sector is Term loan. Hire purchase and fixed loan have got third and forth priority respectively.

) Vehicles and machines were invested under hire purchase loan by both finance companies where obviously vehicle has occupied the major part of investment. OFL has made 9.8% investment of total loan in hire   in purchase loan and generated 11.78% return with 2.36% of risk. For the same category, FFL has made 22.7% investment of total loan in hire purchase and generated 10.03% return with 0.27% of risk. Here, the profit generated by OFL is higher than FFL in hire purchase but the percentage invested by OFL is significantly lower than FFL. Variation over the investment in hire purchase by OFL has caused inconsistency in return which helped to increase risk of the company. And also OFL has been following the decreasing investment trend for hire purchase where FFL has been increasing their investment by year to year.

) Housing loan is the largest sector where Finance companies have invested their funds. Here, OFL has made 51.4% investment of total loan in housing loan and generated 10.19% return with 1.11% of risk. For the same category, FFL has made 39.6% investment of total loan in housing and generated 10.39% return with 1.11% of risk. With same position of risk and low investment, FFL has succeeded to generate higher profit than OFL.

) OFL and FFL have their huge investment in housing loan with increasing trend of investment. As per NRB direction, financial institutions should deduct their housing loan under 40% of total loan. It is noticed that OFL will face more difficulties to maintain the bracket directed by NRB than FFL. The profit of the organization will definitely decrease due to trim down of investment in housing loan. Investment alternatives are limited in Nepal for financial institutions and again investment areas get narrowed if investment in housing loan make down.

) Term loan is generally provided for education, agriculture, tourism, health etc. Small business and Industry occupy the major portion of term loan. The weight of both finance limited in term loan are almost equal, OFL has invested 36.1% and FFL has made 36.3%. Likewise, the return of both companies about to equal, OFL prevailed 10.54% and FFL prevailed 10.07%. OFL generated the return by bearing 1.13% of risk in where FFL generated the return with 0.67% of risk only. Both companies have been reducing their portion investment in term loan year by year.

) Investment in fixed loan made by OFL is between 1% to 5% and FFL is between 1% to 2% only. OFL has made 2.8% investment of total loan and advances during the study period where as FFL has made 1.3% only. Comparatively OFL has made higher investment than FFL and has gained higher return also. OFL has generated 8.87% of return and FFL has generated only 8.25%. FFL generated profit with 3.34% of risk where as OFL has played 3.86% risk.

) The return on total assets ratio of OFL and FFL are found between 1.80% to 2.10% and 2.07% to 2.51% respectively. OFL has generated the highest return on first year of the study period and FFL has generated on FY 067/68. Therefore it is found that FFL has more fluctuation than OFL. S.D. and C.V. both found higher in FFL than OFL which illustrates that FFL has less consistency in generating return on assets.

) It is found that each comp it any has high ROE in first study period and later it has been decreasing year to years. FFL has been maintaining ROE more than 30% in every year except on FY 066/67 but OFL has been loosing the percentage of ROE year to year. Mean is found satisfactory for both limited. Because of higher standard deviation and lower mean, OFL is found less consistent on ROE than FFL.

) The return on Investment of OFL has been decreasing from 065/66 to 069/70 where the minimum return is 2.01% and the highest is 2.46%.FFL has maintained its ROI more than 2.46% which is maximum return of OFL. And the maximum return of ROI is found in 068/69 with 2.92%. High standard

deviation and coefficient of variation comparatively with OFL, FFL is found less consistent and variable over the return on investment.

) FFL has been maintaining comparatively higher weighted average interest spread ratio than OFL from the starting to end of the study period. It depicts that the return of FFL is higher than OFL. T he highest ratio of OFL and FFL is 5.86% and 6.19% in 065/66 respectively over the study period for both the limited. The ratio of OFL and FFL has decreased down to 4.05% and 4.79% respectively and 069/70 which is the lowest rate for FFL. the lowest ratio of OFL is 3.74% in 068/69. Mean weighted average interest spread ratios over five study years are found to be 4.56% in OFL and 5.41% in FFL. OFL has more C.V. for the ratio by 6% than OFL which shows the inconsistency over the ratio.

) The loan and advances portfolio return of OFL is found higher than FFL during the study period. OFL and FFL have highest portfolio return in housing loan with 5.234% and 4.114% respectively. Hire purchase loan has portfolio return more than 1% in both companies and fixed loan has the return below 1%. Term loan has 3.804% and 3.664% portfolio return in OFL and FFL respectively. The portfolio return, in aggregate, of OFL is 10.44% and FFL is 10.16% during the study period. Therefore considering portfolio return only, OFL is found better than FFL.

) Hire Purchase and Housing Loan, Hire Purchase and Term Loan, Hire purchase loan and Fixed loan of OFL and Hire Purchase & Housing Loan, Hire Purchase & Fixed Loan and Term Loan & Fixed Loan of FFL have positive covariance and indicate positive tend for positive move and rest of sectors have negative covariance which indicates tend for negative move at the same time. Hire purchase and Housing loan, Hire Purchase and Term loan, Hire purchase loan and fixed loan in OFL have positive correlation where risk has been reducing by the portfolio and rest of other sectors correlation illustrated that the risk can be reduced for those sectors. Term Loan & Fixed Loan of FFL have positive correlation around 0.75, therefore the risk associated with the returns of those sectors has been reducing through the

portfolio but rest sector's correlation shows the risk associated with the returns can be reduced.

⟩ OFL has generated 10.44% return from the portfolio where 10.16% return was generated by FFL. OFL has 0.70% portfolio risk associated with the return where FFL just has 0.30% portfolio risk in order to gain the return. Form this analysis we can say that FFL has been maintaining a good position than OFL because FFL has generated almost the same profit with lower risk.

⟩ NEPSE index has been increasing in every year of study period till FY 069/70. From the fiscal year 2065/66 to 2069/70, it was increased from 286.67 to 963.36 but the NEPSE index has started to decrease its closing value and reached down to 749.10 at fiscal year 2069/70. The situation has leaded the index in negative return for that particular year. Because the return of the market was too much variable and inconsistent, the position of market is also found highly risky. Finally market rate fo return and market risk are settled at 31.89% and 31.77% respectively.

⟩ As per Sharpe measurement, market has obtained 0.8572% score for performance measurement. Same as OFL has fabricated 10.44% portfolio return with 0.70% risk. OFL obtained 8.1904% of performance score as per measurement of Sharpe portfolio performance. FFL has performed with 18.1665% score as FFL has generated 10.16% portfolio return with 0.30% of risk. Therefore both finance companies have been performed well than market performance during the study period. FFL has performed better than OFL as it has higher score by more than 9%. Therefore it is declared that FFL has performed a better performance than OFL during the study period and ranked as the best among the selected companies for study.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The objective of this study is to summarize the whole study. Therefore this chapter consists of three major contents. First is summary of the study, second is conclusion and final one is suggestions and recommendations on the basis of finding of the study.

5.1 Summary

This study is basically conducted to fulfill the requirement for completion of Master's degree which is focused on Investment Portfolio. Two finance companies – Om Finance Limited and Fewa Finance Limited are selected on different basis for the study. The study focuses on existing process, situation, structure and results are carefully observed on the basis of decision science. This study has been undertaken to examine and analyze the trend in investment, criteria of investment in real estate, profitability position, and investment portfolio risk and return and portfolio performance. This study helps to make improvement on investment portfolio.

The data for the study has collected through secondary sources and use in the study. The study has covered five years period from F.Y. 2065/66 to 2069/70. After collecting data from various sources, descriptive and analytical methods of research design were used to analyze the data. And the data for those years have been analyzed by using financial, mathematical and statistical tools in the study for meaningful results.

The total investment of portfolio of OFL and FFL during the study period has been made on loan and advances, government securities, Share and debentures and others. The trend of investment on loan and advances has been increasing by year to year during the study period of OFL and almost the same portion of investment has been made by FFL on loan and advances over the period. Finally the mean investment of loan and advances reached to more than 96% in both the finance companies which

highly dominated rest of the other investment sectors. OFL and FFL have made investment in different four categories of Loan and Advance:- Hire Purchase, Housing, Term and Fixed Loan. In first year term loan has dominated other sectors in OFL and rest of years were dominated by housing loan. In OFL, housing loan has occupied more than 50% of total loan. On the other hand, Term Loan has dominated other sectors in first four years of FFL but 069/70 was dominated by housing loan. The main investment sector of loan and advances is housing loan for both the finance companies and secondly is term loan. Hire purchase and fixed loan have got third and forth priority respectively. OFL has generated the highest return on assets in the first year of study period and FFL has generated on 068/69. It is found that FFL has more fluctuation in return on assets than OFL. FFL has less consistency in generating return on assets than OFL. It is found that each company has high ROE in first study period and later is has been decreasing year to years. FFL has been maintaining ROE more than 30% in every except FY 066/67 but OFL has been losing the percentage of ROE year to year. OFL is found less consistent on ROE than FFL. FFL is found less consistent and variable over the return on investment as it has maintained ROI more than 2 % in every. FFL has been maintaining comparatively higher weighted average interest spread ratio than OFL from the starting to end of the study period. It depicts that the net income on loan and advances of FFL is high than OFL. The loan and advances portfolio return of FFL is found higher than OFL during the study period. OFL and FFL have highest portfolio return in housing loan. Considering portfolio return only, OFL is found better than FFL. Hire purchase and Housing loan, Hire Purchase and Term loan, Hire purchase loan and fixed loan of OFL and Hire Purchase &Housing Loan, Hire Purchase &Fixed Loan and term Loan & Fixed Loan of FFL have positive covariance and indicate positive trend for positive move. OFL has generated more return associated with high risk from the portfolio than FFL. Because the return of the market was too much variable and inconsistent, the position of market is also found highly risky. Finally both finance companies have performed well than market during the study period. FFL has performed better than OFL as it has higher score in Sharpe portfolio performance measurement than FFL during the study period and ranked as the best among the selected companies for study.

5.2 Conclusion

Analyzing all the data and capturing some of the findings from the analyzed data, this is the part where some of conclusions are drawn.

The trend of investment in OFL and FFL shows that the large investment has been made on loan and advances. Secondly they have focused fixed deposit with other institutions, thirdly government securities and finally shares and debentures. This concluded that both the finance companies have managed their investment to earn moderate profit but they have not sufficiently diversified their investment as much as the investment alternative available.

OFL and FFL have made investment in different four categories of Loan and advances- Hire Purchase, Housing, Term and Fixed Loan. The main investment sector of loan and advances is housing loan for both the finance companies and secondly is term loan. Hire purchase and fixed loan have got third and forth priority respectively. Housing loan has occupied more than half portion of the investment in OFL and fixed loan has absorbed negligible share of total investment in both the finance companies. As the term loan is the investment in productive sector, the investment made by OFL being highly focused on unproductive sectors than FFL.

As OFL has made investment in housing loan more than half of the total investment, OFL will face more difficulties than FFL while maintaining the criteria circulated by NRB which rules that total investment in housing loan must not be more than 40% of total investment and 30% by the end of 2069 Asadh. It will increase the percentage of loan loss which will directly hit to profit of organization.

Low return on asset indicates that it has not been able to earn adequate profit. Both companies have low return more on assets. The return on total assets ratio of OFL is found lower than FFL. it is concluded that FFL has been utilizing the assets more profitable than FFL. But FFL has less consistency in generating return on assets than OFL.

OFL and FFL both have been maintaining high return on equity since the starting years of study period. FFL has more return and less consistency on return on equity than OFL. Therefore from the return on equity's point of view FFL is found in stronger position than OFL.

Profit of FFL on total investment is higher than OFL but found less consistent and high risky. But the profit of the companies is not in satisfied level as per their investment. ROI measures management effectiveness over the available resources in generating profit. Higher profit is the signal of better management. Therefore the effectiveness over the available resources of both companies is not in satisfied position but comparatively FFL is found in better position.

FFL has been maintaining comparatively higher weighted average interest spread ratio than OFL from the starting to end of the study period.

Loan and advances portfolio return of OFL is found higher than FFL and risk is higher in OFL than FFL. The combination of investment in hire purchase loan with other sectors of loans is found is positive in trend. From this analysis it is found that FFL has been maintaining a good position than OFL because FFL has generated almost the same profit with lower risk.

The return of the market is found too much variable and inconsistent with the negative return in one year of the study period; the position of market is found highly risky. As per Sharpe portfolio performance measurement, both finance companies have performed well than market and FFL has performed better than OFL during the study period.

5.3   Recommendations

The following recommendation may be useful to overcome the weakness, inefficiencies of investment of OFL and FFL. All the recommendations are based on analysis, findings and conclusions.

Financial organizations are the legal institutions for collecting scattered money within the country. As they have such funds of the country, it is their legal obligation to make investment in developing and productive sectors of the country.

It is now time to think about the alternative of loan and advances. Because almost sent percent of the funds are engaged in loan and advances, it is not good for health of nations in long term and highly risky for banking chain also. It is recommended to focus on dynamic, innovative areas like merchant banking, consortium finance, venture capital and share in hydropower as long term investment. NRB must think about the alternative of investment on time before any disasters happen in banking sectors.

OFL and FFL both have higher return, expected return and lower risk in hire purchase than housing loan. Therefore both companies should increase their investment in hire purchase by reducing investment in housing loan. Especially OFL must deduct the housing loan by making investment in hire purchase loan in order to meet the criteria circulated by NRB.

Market risk is so high comparative to its return. Governing body and NRB must play role to decrease the risk of market and provide space for banking sectors to make investment in securities, shares and debentures.

The return of both financial institutions is lower than market return. The market return shows that there is a possibility to generate high return. Therefore both finance companies must focus their investment activities in order to make higher profit than existing.

Profitability is the most important tools for measurement performance of company. OFL and FFL have fluctuating trend in profitability position during the study period. Trust of equity holders and other stakeholders play a vital role for organization's survival in loan run as they believe on profit. In order to make better profitability position, OFL and FFL both have to manage their resources efficiently.

OFL must try to make high and consistent investment in term loan and hire purchase. It will definitely decrease the risk and increase return of loan and advances portfolio.

Investors need to diversify their fund to reduce the risk. Proper construction of portfolio will reduce considerable potential loss, which can be defined in term of the risk but portfolio construction is dynamic and difficult job. Thus, investor should select the stocks that have higher return and negative correlation or near to zero correlation between different companies and sector. The portfolio revision is also necessary at certain interval of time to get best return at lower risk.

Investment on government securities, share and debentures may be increased in order to diversify the risk while increasing high return in portfolio.

Portfolio management is a dynamic subject matter, which changes at a flash. It is ever challenging. There should be regular research in portfolio management. Corporate body and individual investor are strongly recommended to make regular research on portfolio managements.

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Calculation of Mean, Standard Deviation and Coefficient of Variation for Om Finance Limited's Hire Purchase Loan

Fiscal Year	Hire Purchase Investment(HI)	$HI - \overline{HI}$	$(HI - \overline{HI})^2$
065/66	52.70	-18.58	345.20
066/67	41.09	-30.19	911.64
067/68	58.54	-12.74	162.40
068/69	76.06	4.77	22.77
069/70	128.03	56.74	3,219.91
Total	356.42		4,661.91

Mean Investment $= Mean(HI) = \dfrac{\sum HI}{n} = \dfrac{356.42}{5} = 71.28$

Standard Deviation (S.D.) $= \sigma = \sqrt{\dfrac{\sum (HI - \overline{HI})^2}{n}}$

$$= \sqrt{\dfrac{4661.91}{5}} = 30.53$$

Coefficient of Variation (C.V.) $= \dfrac{\sigma_{HI}}{\overline{R}_{HI}}$

$$= \dfrac{30.53}{71.28} = 0.43$$

In where, HI = Hire Purchase Loan Investment

And the same way of calculation is carried out for other investment sectors, ROA, ROE, ROI and weighted average interest spread ratio for both Finance limited.

89

Sector wise Investment in Loan and Advances of FFL (Rs in million)

FY	Hire Purchase	Housing Loan	Term Loan	Fixed Loan	Total
065/66	51.71	92.20	95.21	1.86	240.98
066/67	77.10	158.26	162.32	8.12	405.80
067/68	137.38	231.04	243.53	12.49	624.44
068/69	213.62	299.07	333.25	8.54	854.50
069/70	258.50	505.77	348.42	11.24	1,123.93
Total	738.31	1,286.35	1,182.73	42.25	3,249.65
Mean	147.66	257.27	236.55	8.45	649.93
S.D.	78.65	142.29	97.37	3.68	314.33
C.V.	0.53	0.55	0.41	0.44	0.48
Weight(w)	22.72%	39.58%	36.40%	1.30%	100.00%

(Source : Annual Reports of OFL and FFL)

Sector wise Investment of Loan and Investment in Percent

FY	OFL					FFL				
	Hire Purch.	Housing Loan	Term Loan	Fixed Loan	Total	Hire Purch.	Housing Loan	Term Loan	Fixed Loan	Total
065/66	14%	40%	44%	2%	100%	21%	38%	40%	1%	100%
066/67	9%	54%	35%	2%	100%	19%	39%	40%	2%	100%
067/68	9%	51%	39%	1%	100%	22%	37%	39%	2%	100%
068/69	8%	56%	34%	2%	100%	25%	35%	39%	1%	100%
069/70	10%	51%	34%	5%	100%	23%	45%	31%	1%	100%

90

Appendix 2

Investment of OFL (Rs in million)

FY	Loans and Advances	Government Securities	Shares and Debentures	Fixed Deposit on foreign Financial Institution	Other	Total
065/66	363.95	4.55	1.00	-	-	369.50
066/67	456.57	4.55	1.00	22.50	-	484.62
067/68	650.45	4.55	1.03	25.00	-	681.03
068/69	895.83	4.55	1.03	20.00	-	921.41
069/70	1,280.28	4.55	1.03	10.00	-	1,295.86

Investment of FFL (Rs in million)

FY	Loans and Advances	Government Securities	Shares and Debentures	Fixed Deposit on foreign Financial Institution	Other	Total
065/66	240.98	0.55	0.02	12.10	-	253.65
066/67	405.80	0.55	-	-	-	406.35
067/68	624.44	0.55	-	-	-	624.99
068/69	854.50	0.55	-	-	2.50	857.55
069/70	1,123.93	0.55	-	-	2.50	1,126.98

(Source : Annual Reports of OFL and FFL)

Investment of OFL and FFL (in %)

FY	OFL						FFL					
	Loan & Adv.	Govern. Secu.	Shares & Deb.	Fixed Dep.	Oth.	Total	Loans & Adv.	Gover.& secu.	Shares & Deb.	Fixed Dep.	Oth.	Total
065/66	98.50	1.23	0.27	2.00	0.00	100.00	95.00	0.22	0.01	4.77	0.00	100.00
066/67	94.21	0.94	0.21	4.64	0.00	100.00	99.86	0.14	0.00	0.00	0.00	100.00
067/68	95.51	0.67	0.15	3.67	0.00	100.00	99.91	0.09	0.00	0.00	0.00	100.00
068/69	97.22	0.49	0.11	2.17	0.00	100.00	99.64	0.06	0.00	0.00	0.29	100.00
069/70	98.80	0.35	0.08	0.77	0.00	100.00	99.73	0.03	0.00	0.00	0.23	100.00
Mean	96.85	0.74	0.16	2.25	0.00	100.00	98.83	0.11	0.002	0.95	0.10	100.00

Appendix 3

Sector wise Investment in Loan and Advances of OFL (Rs in million)

FY	Hire Purchase	Housing Loan	Term Loan	Fixed Loan	Total
065/66	52.70	144.39	160.18	6.67	363.95
066/67	41.09	246.55	159.80	9.13	456.57
067/68	58.54	331.73	253.68	6.50	650.45
068/69	76.06	497.19	306.82	15.77	895.83
069/70	128.03	652.95	435.30	64.01	1,280.28
Total	356.42	1,872.80	1,315.78	102.09	3,647.09
Mean	71.28	374.56	263.16	20.42	729.42
S.D.	30.53	180.96	102.87	22.06	330.27
C.V.	0.43	0.48	0.39	1.08	0.45
Weight(w)	9.77%	51.35%	36.08%	2.80%	100.00%

Appendix 4

Interest Income of Loan and Advances (Rs in million)

	Om Finance Company				Fewa Finance Company			
FY	Hire Purchase	Housing Loan	Term Loan	Fixed Loan	Hire Purchase	Housing Loan	Term Loan	Fixed Loan
065/66	6.99	17.33	16.88	0.53	5.86	10.68	8.87	0.27
066/67	6.39	23.57	19.37	0.94	7.50	16.12	15.81	0.37
067/68	5.76	33.93	22.91	1.01	13.09	25.17	23.73	0.60
068/69	8.50	43.01	35.04	1.02	19.88	32.70	33.40	0.93
069/70	11.62	68.71	41.83	2.65	26.55	42.25	39.57	1.47
Total	39.26	186.56	136.03	6.15	72.87	126.93	121.38	3.63

(Source : Data provided by OFL and FFL)

Appendix 5

Return on Total Assets

	Om Finance			Fewa Finance		
FY	Net Profit	Total Assets	Ratio(%)	Net Profit	Total Assets	Ratio
065/66	9.08	432.35	2.10%	6.92	278.46	2.48%
066/67	10.88	586.71	1.86%	9.99	476.78	2.09%
067/68	13.69	761.78	1.80%	17.03	685.28	2.49%
068/69	18.68	1,152.13	1.62%	25.02	997.09	2.51%
069/70	26.14	1,452.81	1.80%	29.01	1,401.66	2.07%
Mean			1.83%			2.33%
S.D.			0.15%			0.20%
C.V.			8.40%			8.66%

(Source : Annual Reports of OFL and FFL)

Appendix 6

Return on Total Equity

FY	Om Finance			Fewa Finance		
	Net Profit	Equity	Ratio(%)	Net Profit	Equity	Ratio(%)
065/66	9.08	20.00	45%	6.92	20.00	35%
066/67	10.88	50.00	22%	9.99	50.00	20%
067/68	13.69	70.00	20%	17.03	50.00	34%
068/69	18.68	70.00	27%	25.02	70.00	36%
069/70	26.14	104.96	25%	29.01	91.00	32%
Mean			27.66%			31.25%
S.D.			9.20%			5.78%
C.V.			33.27%			18.49%

(Source : Annual Reports of OFL and FFL)

Appendix 7

Return on Total Investment

FY	Om Finance			Fewa Finance		
	Net Profit	Total Assets	Ratio(%)	Net Profit	Total Assets	Ratio(%)
065/66	9.08	369.50	2.46%	6.92	253.65	2.73%
066/67	10.88	484.62	2.25%	9.99	406.35	2.46%
067/68	13.69	681.03	2.01%	17.03	624.99	2.73%
068/69	18.68	921.41	2.03%	25.02	857.55	2.92%
069/70	26.14	1,295.86	2.02%	29.01	1,126.98	2.57%
Mean			2.15%			2.68%
S.D.			0.18%			0.16%
C.V.			8.20%			5.84%

(Source : Annual Reports of OFL and FFL)

Appendix 8

Weighted Average Interest Spread Ratio

FY	OFL	FFL
065/66	5.86%	6.19%
066/67	4.72%	5.72%
067/68	4.44%	5.46%
068/69	3.74%	4.90%
069/70	4.05%	4.79%
Mean	4.56%	5.41%
S.D.	0.73%	0.52%
C.V.	16.00%	9.61%

(Source : Annual Reports of OFL and FFL)

Appendix 9

Calculation of Expected and Portfolio Return on Loan and advances of OFL and FFL

(Interest Income in % as Return of Loan and Advances)

FY	Om Finance Company				Fewa Finance Company			
	Hire Purchase	Housing Loan	Term Loan	Fixed Loan	Hire Purchase	Housing Loan	Term Loan	Fixed Loan
065/66	13.27	12.00	10.54	7.94	11.33	11.59	9.46	8.01
066/67	15.36	9.56	12.12	10.35	9.72	10.19	9.74	4.50
067/68	9.83	10.23	9.83	15.46	9.53	10.89	9.75	4.85
068/69	11.17	8.65	11.42	6.49	9.31	10.93	10.42	10.83
069/70	9.08	10.52	9.61	4.13	10.27	8.35	11.36	15.07
Total	58.91	50.97	52.72	44.36	50.15	51.96	50.33	41.24
Expected Return ($\overline{w \cdot \varphi}$)	11.78	10.19	10.54	8.87	10.03	10.39	10.07	8.25
Weight (w)	9.77%	51.35%	36.08%	2.80%	22.72%	39.58%	36.40%	1.30%
Portfolio return (σR)	1.151	5.234	3.804	0.248	2.279	4.114	3.664	0.107

Calculation of Sector wise risk and Portfolio Risk of Loans and advances - One Finance Limited

Appendix-11

Calculation of Sector-wise risk and Portfolio Risk of Loan and advances - Fewa Finance Limited

All figures are %

Assume that:

A	=		Hire Purchase	ω	= Weight
B	=		Housing Loan	σ	= Standard deviation
C	=		Term Loan	σ^2	= Variance
D	=		Trade Loan	σ_p	= Portfolio standard deviation
E	=		Overdraft		

Step 1: Calculation of Expected Return

FY	R_A	R_B	R_C	R_D
065/66	11.35	11.58	3.44	6.81
066/67	0.71	30.19	3.71	1.50
067/68	4.53	10.95	4.11	3.46
068/69	8.21	10.83	36.90	93.89
069/70	12.17		11.50	13.89
Exp. Return (M)	18.05	19.95	20.07	6.11

Step 2: Return about Expected Return

FY	$R_A - \bar{R}_A$	$R_B - \bar{R}_B$	$R_C - \bar{R}_C$	$R_D - \bar{R}_D$
065/66	1.16	-1.49	-3.30	-6.28
066/67	-0.21	-6.22	-0.11	-0.74
067/68	-9.51	-5.58	-0.33	-9.81
068/69	-4.72	0.34	6.04	3.56
069/70	3.24	-1.94	-1.29	4.65

Step 3: Calculation of Variance and Standard deviation

FY	$(R_A - \bar{R}_A)^2$	$(R_B - \bar{R}_B)^2$	$(R_C - \bar{R}_C)^2$	$(R_D - \bar{R}_D)^2$
065/66	1.38	1.40	0.06	8.00
066/67	0.18	0.56	0.11	13.01
067/68	0.28	6.36	4.33	12.73
068/69	0.33	9.75	0.00	6.99
069/70	0.05	4.18	0.63	21.23
Total	1.61	6.19	2.15	39.26
σ^2	0.32	1.24	0.45	11.33
σ	0.72	1.21	0.69	3.34

Step 4: Calculation of Covariance, Multiplied covariance by 1 and concerned sector's weight

FY	$(R_A-\bar{R}_A)(R_B-\bar{R}_B)$	$(R_A-\bar{R}_A)(R_C-\bar{R}_C)$	$(R_A-\bar{R}_A)(R_D-\bar{R}_D)$	$(R_B-\bar{R}_B)(R_C-\bar{R}_C)$	$(R_B-\bar{R}_B)(R_D-\bar{R}_D)$	$(R_C-\bar{R}_C)(R_D-\bar{R}_D)$
	A*B	A*C	A*D	B*C	B*D	C*D
065/66	1.35	-3.56	-6.68	-0.71	8.28	1.12
066/67	1.26	0.10	-1.55	-4.95	8.76	1.21
067/68	0.25	9.30	1.79	4.95	-0.72	1.10
068/69	0.08	1.84	1.47	4.00	1.90	8.11
069/70	4.42	1.11	1.38	2.35	1.03	5.33
Total	4.48	6.14	1.87	2.47	-7.24	8.36

Step 5: Multiplication of variance and square of weight

	A	B	C	D
σ^2	0.32	1.40	1.30	6.00
σ	0.72	1.11	0.67	1.34

Now, Putting the values in the formula:

$$\sigma_p = \sqrt{W_A^2\sigma_A^2 + W_B^2\sigma_B^2 + W_C^2\sigma_C^2 + W_D^2\sigma_D^2 + 2W_AW_BCov(R_A,R_B) + 2W_AW_CCov(R_A,R_C) + 2W_AW_DCov(R_A,R_D) + 2W_BW_CCov(R_B,R_C) + 2W_BW_DCov(R_B,R_D) + 2W_CW_DCov(R_C,R_D)}$$

$$\sigma_p = \sqrt{0.03 + 0.19 + 0.06 + 0.0022 - 0.0172 + (-0.0058) + 0.0022 + (-0.20) + (-0.0199) + 0.0152}$$

$$\sigma_p = \sqrt{0.06}$$

$$\sigma_p = 0.267$$

Appendix 13

Risk Free Rate

FY	T-bill rate
065/66	4.32
066/67	3.95
067/68	3.5
068/69	5.49
069/70	6.06
Total	23.32
Average Risk free rate ($\bar{r}_f$)	4.664

(Source : Monetary Policy for FY 2012/13 ; Table 16, NRB).

Appendix 14

Calculation of Market Risk and Return

FY	Nepse Index	Index Return	R_m (in %)	$R_m - \bar{R}_m$	$(R_m - \bar{R}_m)^2$
065/66	222.04	-	-	-	-
066/67	286.67	64.63	29.11	-2.79	7.76
067/68	386.83	100.16	34.94	-3.05	9.28
068/69	683.95	297.12	76.81	44.92	2017.41
069/70	963.36	279.41	40.85	-8.96	80.26
	749.10	-214.26	-22.24	-54.13	2930.52
Total	3291.95	527.06	159.47	0.00	5045.23

(Source : Annual report, NEPSE)

Mean Return of Market $Mean(\bar{R}_m) = \dfrac{\sum R_m}{n} = \dfrac{\sum 159.47}{5} = 31.89\%$

Market Standard Deviation $\sigma_m = \sqrt{\dfrac{\sum R_m - \bar{R}_m^2}{n}} = \sqrt{\dfrac{5045.23}{5}} = 31.77\%$

Appendix 15

Calculation of Market Index Movement

FY	Nepse Index	Index movement
065/66	286.67	9%
066/67	386.83	13%
067/68	683.95	22%
068/69	963.36	31%
069/70	749.1	24%
Total	3069.91	100%

Appendix 16

Calculation of Sharpe's Portfolio Performance Measure

Sharpe Measurement	Return ($\bar{R}_r$)	Risk Free Rate ($\bar{R}_f$)	Portfolio S.D. (σ_p)	$S_r = \dfrac{\bar{R}_r - R_f}{\sigma_r}$
OFL	10.44	4.664	0.70	8.1904
FFL	10.10	4.664	0.30	18.1665
Market	31.89	4.66	31.77	0.8572