A CASE STUDY ON LOAN MANAGEMENT OF AGRICULTURAL DEVELOPMENT BANK LIMITED

By: DEEPAK PRASAD LEKHAK

Shanker Dev Campus Campus Roll No: 476/062 T.U. Regd. No: 5-2-33-754-96

Second Year Symbol No.: 4480

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

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

Kathmandu, Nepal April, 2010

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

DEEPAK PRASAD LEKHAK

Entitled:

A CASE STUDY ON LOAN MANAGEMENT OF AGRICULTURAL DEVELOPMENT BANK LIMITED

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

Assso. Prof. Kishor Maharjan (Thesis Supervisor)	Prof. Bisheshwor Man Shrestha (Head of Research Department)	Prof. Dr. Kamal Deep Dhaka (Campus Chief)
I ayman Pai Kandal		
Laxman Raj Kandel (Thesis Supervisor)		

VIVA-VOCE SHEET

We have conducted the viva –voce of the thesis presented

by DEEPAK PRASAD LEKHAK

Entitled:

A CASE STUDY ON LOAN MANAGEMENT OF AGRICULTURAL DEVELOPMENT BANK LIMITED

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

Master of Business Studies (MBS)

Viva-Voce Committee

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

TRIBHUVAN UNIVERSITY

Faculty of Management

Shanker Dev Campus

DECLARATION

I hereby declare that the work reported in this thesis entitled "A Case Study on Loan Management of Agricultural Development Bank Limited" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Degree of Master of Business Studies (MBS) under the supervision of Associate Professor Kishor Maharjan and Laxman Raj Kandel of Shanker Dev Campus.

.....

Deepak Prasad Lekhak Researcher

T.U. Regd. No.: 5-2-33-754-96

Campus Roll No. : 476/062

Second Year Symbol No.: 4480

TABLE OF CONTENTS

Recommendation	
Viva Voce Sheet	
Declaration	
Acknowledgement	
Table of Contents	
List of Tables	
List of Figures	
Abbreviations	
CHAPTER – I INTRODUCTION	Page No
1.1 Background of the Study	1
1.2 An overview of Agricultural Development Bank Limited	4
1.2.1 Corporate Vision, Mission and Objective	4
1.2.2 Basis Operational Areas	5
1.3 Focus of the Study	7
1.4 Statement of the Problem	7
1.5 Objectives of the Study	9
1.6 Significance of the Study	9
1.7 Limitations of the Study	10
1.8 Organization of the Study	10
CHAPTER – II REVIEW OF LITERATURE	
2.1 Conceptual Review	12
2.1.1 Concept of Commercial Bank	13
2.1.2 Concept of Loan and Advances	14
2.1.3 Management of Loans	16
2.1.3.1 Loan Disbursement	17
2.1.3.2 Loan Collection	17
2.1.4 Security and Margin Policy	18
2.1.5 Loan Policy	18
2.1.6 Loan Approval Process	19

2.1.7 Necessary Documents While Receiving Loan from ADBL	20
2.1.8 Ability to Take Loan	20
2.2 Review of Related Studies	21
2.2.1 Review of Books	21
2.2.2 Review of Articles	23
2.2.3 Review of Dissertations	25
2.3 Research Gap	31
CHAPTER – III RESEARCH METHODOLOGY	
3.1 Introduction	32
3.2 Research Design	32
3.3 Population and Sample	33
3.4 Nature and Sources of Data	33
3.5 Data Collection Technique	34
3.6 Data Presentation and Tools for Analysis	34
3.7 Statistical Tools	35
3.7.1 Karl Pearson's Coefficient of Correlation	35
3.7.2 Coefficient of Determination	35
3.7.3 Hypothesis Testing	35
3.8 Diagrammatic and Graphical Presentation	37
3.9 Financial Tools	37
3.9.1 Balance Sheet	37
3.9.2 Profit and Loss Account	37
CHAPTER – IV PRESENTATION AND ANALYSIS OF DATA	
4.1 Introduction	38
4.2 Deposit Collection and Loan Disbursement	38
4.3 Actual Loan Disbursement and Loan Collection	30 40
	42
4.4 Actual Loan Outstanding and Collection4.5 Comparative Analysis of Loan Collection with Respect to	42
•	44
Total Loan Disbursement and Total Loan Outstanding	44

4.6 Trend Analysis of Total Deposit Collection, Total Loan Disbursement,	
Total Loan Collection and Total Loan Outstanding	46
4.6.1 Trend of Total Deposit Collection	46
4.6.2 Trend of Total Loan Disbursement	47
4.6.3 Trend of Total Loan Collection	48
4.6.4 Trend of Total Loan Outstanding	48
4.7 Achievement of Purpose wise Loan Disbursement,	
Outstanding and Collection	49
4.7.1 Purpose wise Loan Disbursement for Fiscal year 2004/05 to 2008/09	50
4.7.2 Purpose Wise Loan Collection from 2004/05 to 2008/09	51
4.7.3 Purpose Wise Loan Outstanding from FY2004/05 to 2008/09	52
4.8 Performing and Non-performing Loan	52
4.8.1 Performing Loan on Total Loan Outstanding	53
4.8.2 Non-performing Loan on Total Loan Outstanding	54
4.9 Targeted and Achieved Loan Disbursement and Collection	55
4.9.1 Targeted Loan Disbursement and Achieved Loan Disbursement	55
4.9.2 Targeted Loan Collection and Achieved Loan Collection	57
4.10 Financial Analysis Tools	58
4.10.1 Balance Sheet Analysis	58
4.10.2 Profit & Loss Account Analysis	60
4.11 Major Findings of the Study	62
4.11.1 Finding Obtained from Analysis of Deposit Collection and	
Loan Disbursement	62
4.11.2 Findings Obtained from Analysis of Loan Disbursement,	
Loan Collection and Loan Outstanding	63
4.11.3 Finding Obtained from Purpose-Wise Loan Disbursement,	
Collection and Outstanding	63
4.11.4 Finding Obtained from Analysis of Performing & Non-Performing I	_oan 64
4.11.5 Finding Obtained from Analysis of Targeted and Achieved	
Loan Disbursement and Collection	64

CHAPTER – V	SUMMARY, CONCLUSION AND	RECOMMENDATIONS
5.1 Summary		66
5.2 Conclusion		68
5.3 Recommendati	ions	69
Bibliography		

Appendices

ACKNOWLEDGEMENT

The preparation of the Master's thesis is one of the challenging tasks to the students. As it

has been the compulsion to procedure the Master's degree, I constantly worked upon it.

Now, I am opportune to express my heartfelt gratitude towards every individual who

have given me constant support during this research work. They have guided me when

things went wrong and I was amidst of confusion. The suggestions and recommendation

provided has helped me to complete my research work in desired manner.

I would like to express my deep gratitude towards my reverent supervisors Associate

Professor Kishor Maharjan and Laxman Raj Kandel for their incisive and constant

guidance. It could not have been possible for me to complete this research work without

their guidance and kind cooperation. Therefore I owe great debt of gratitude to them.

I would like to express my sincere thanks to Prof. Bisheshwor Man Shrestha, Head of

Research Department, for his valuable suggestions and encouragement through the work.

I wish to express my sincere thanks to my all colleagues including former and present

master students. I am thankful to all my family members especially my spouse Jyoti

Lekhak for the help and cooperation during this work.

Thanks you all for being the part of my endeavor and support

Deepak Prasad Lekhak

ABBREVIATIONS

ADBL = Agricultural Development Bank Limited

BAFIO = Bank and Financial Institution Ordinance

FY = Fiscal Year

IDP = Institutional Development Program

LLP = Loan Loss Provision

Ltd. = Limited

NBL = Nepal Bank Limited

NPA = Non Performing Assets

NPL = Non Performing Loan

NRB = Nepal Rastra Bank

Pvt. = Private

SFCL = Small Farmer Co-operation Limited

SFDBL = Small Farmer Development Bank Limited

SFDP = Small Farmer Development Program

t* = Calculated Value of T- test

T.U. = Tribhuvan University

WTO = World Trade Organization

LIST OF TABLES

Table	No. Title	Page No.
2.1	Security and Margin Policy	18
4.1	Deposit Collection and Loan Disbursement	39
4.2	Actual Loan Disbursement and Collection	41
4.3	Actual Loan Outstanding and Collection	43
4.4	Total Loan Disbursement, Collection and Outstanding	45
4.5	Trend Analysis of Deposit Collection Loan Disbursement,	
	Collection and Outstanding	46
4.6	Purpose Wise Loan Disbursement	50
4.7	Purpose Wise Loan Collection	51
4.8	Purpose wise Loan Outstanding	52
4.9	Percentage of Performing Loan on Total Loan Outstanding	53
4.10	Percentage of Non-performing Loan to Total Loan Outstanding	54
4.11	Percentage Change of Targeted and Actual Loan Disbursement	55
4.12	Percentage Change of Targeted and Actual Loan Collection	57
4.13	Comparative Balance Sheet of Agricultural Development Bank Limited	l 59
4.14	Comparative Profit and Loss Account of Agricultural Development Bar	nk 61
4.15	Interest Received from Investment of Loan	62

LIST OF FIGURES

Figur	e No. Title	Page No.
4.1	Loan Disbursements to Total Deposit	39
4.2	Loan Collection to Disbursement	41
4.3	Loan Outstanding to Loan Collection	43
4.4	Disbursement, Collection and Outstanding	45
4.5	Trend of Total Deposit Collection	47
4.6	Total Disbursement	47
4.7	Total Loan Collection	48
4.8	Total Outstanding	49
4.9	Performing Loan on Total Loan Outstanding	54
4.10	Non-performing Loan on Total Loan Outstanding	55
4.11	Targeted & Achieved Disbursement	56
4.12	Targeted & Achieved Loan Collection Limited	58