CHAPTER -I

INTRODUCTION

1.1 Background of the Study

The world is one of the pieces in the universe with variability in various aspects. Among its various economic conditions is one of the most remarkable distinctions. There are countries with per capita income more than $30,000 while in some horizon; other countries are crawling with even less than $200 per annual. Most of the countries are putting their best efforts to get in the track of better economic growth. To reduce the gap various policies and programs are being launched world widely. Countries are putting their best efforts to raise their economic condition.

Financial institutions refer to organization, which acts as agent's brokers and intermediaries in financial transactions. It plays an important role in financial market, which consists of agent, broker, institution, intermediaries, purchaser and seller of securities, and there has been a phenomenal growth of non-banking financial intermediaries. Financial institute facilitate and improve the distribution of funds, money and capital by providing services like payment mechanism, security trading, risk diversification, transmutation and portfolio management. Financial institutions are generally classified into three broad groups as follows:

- Banking system
- Non Bank financial institution
- Other institution in financial activities

There has been phenomenal growth of non-bank financial intermediaries.

Such institution is considered as the way of monetizing economy by the process of demand and supply of money assets through saving and loan.

Under the non- bank financial institution it includes

1. Development Bank
2. Finance Companies
3. Co-operative Society
4. NGO’S involved in Lending activities
5. Postal Saving Banks
6. Credit Guarantee Corporation
7. Employee Provident Fund
8. Nepal Stock Exchange
9. Citizen Investment Trust
10. Insurance Companies
11. Mutual Saving Banks
12. Pension Fund
13. Building Societies

Financial institution facilitate the saving and borrowing and in doing so, maximize the wealth of the institution owners unlike non-financial business which enter the money &capital market to satisfy the needs of other business. Money is regarded as a commodity, which is borrowed & lent to facilitate the timely employment of real economic resources. In the context of Nepal, scope for opening finance companies emerges as only the commercial banks are not getting able to supply credit timely to Nepalese entrepreneur and they pay less attention towards small projects. Finance companies have established to not only serve with less complicate procedure but also to carryout capital market activities and they make hard effort to leave no stone unturned to mobilize the maximum capital resources. Finance companies are the effective instruments for mobilizing public, private, and external financial resources & channeling them into productive areas as short-term loan & long term loan in different commercial business activities.

1.2 Statement of the Problem

Economic liberalization policy of the government has encouraged the establishment of growth of finance companies in the country within a short span of time. They were established to assist the process of economic development of the country. When commercial banks were unable to supply credit timely and carry capital market activities finance companies have come timely to meet the individual credit needs, undertaken merchant banking functions and also curtail the operations of Upahar and Dhukuti programmes.

History of finance company in Nepal is yearlong till today there are several numbers of finance companies operating in the country which is quite a good symptom for the improvement in the economic activities of the nation. But only increases in the number of these companies do not ensure success of these companies. Recent trend only shows increment in the number of neither these companies nor the satisfactory performance by them.

Any occupation, business and industry do have positive and negative aspects. Similarly, for any business to have bright future, maintain strong position should not have any problem. We can see in any business, from small to big problems. It is undisputable fact. The finance company business is an important business in Nepal. Though development in Nepal is not long, it has made some good advancement in short time. But some problems have appeared so that it cannot achieve the desired success. There are different problem that are been faced by finance companies and which need to be sorted out immediately which in turn helps the finance companies to maintain better position, gain public confidence and support form public effectively competing with the commercial banks.

These problems are:

- Capital formation and proper utilization is the major problem of finance companies. They are not getting adequate capital to run their operation. They are unable to collect long term deposit form public. Lack of capital formation hinders the finance companies to operate their function effectively. Proper utilization of those capitals can't be found effective. The capital generate has flown only for household consumption, promoters own subsidiary business .the finance companies need to diversify their investment portfolio depending upon preferences and need for liquidity profitability safety and capital appreciation.

  In this perspective, the finance companies should try to increase public confidence towards them for long term deposit by offering higher rate of interest on deposit.
- Number of policies and regulations are adopted to influence the activities of financial institution. These policies are primarily directed to influence money

supply and interest rate in the one hand and consumption and saving on the other. These policies in combination influence real investment in the economy and cost of loan. Finance companies being the subsystems of financial system are not spared form the influence of these general economic policies. These specific policies are directed to influence investment portfolio, liquidity structure, operations of finance companies, increase competition and improve the flexibility of financial institution to respond changing needs of individuals and business. Thus, general economic policies particularly monetary policy and specific company policies and regulations have direct bearing on the development and growth of finance companies. There is frequent change in these policies which made operations of finance companies difficult.

- Interest rate spread is another problem associated with finance companies. Interest rate deregulation has allowed finance companies to determine their own borrowing and lending rates. Each finance company has its own borrowing and lending rates. These ratios are little higher than the rates charged by commercial banks. Finance companies charge higher rate because their cost of fund is also higher because of higher rate they provide on deposit. Due to interest rate spread the customers are giving their priority to banks over these companies.
- High competition form commercial banks also posse's problem to the finance companies which made the situation worsening. Finance companies are facing difficulty in competition due to high cost of capital of these companies in comparison to the commercial banks.

- All the installment investments of finance companies in vehicles are in danger. This situation emerges because of the failure of recovery of loan in vehicles and other consumer goods without security. The long and unclear process of recovery is the main reason of this problem.
- There is also lack of improvement programmes in these institutions. Traditional methods are being practiced till date. There is more need of impoverished techniques, latest method to be followed. Due to this their operation are being lengthy so that the customers are not getting effective services by these institutions.

Other problems are:

- Unfair competition among finance companies.
- Too much regulation
- Mislead investors and directors
- Lack of efficient manpower

Finance companies are not gaining adequate public confidence because of the fear that there is risk of depositing money in finance companies. Many of the finance companies have not been able to provide professional competency and also not making selective credit strategy to have proper linkage between credit and cash flow generation.

1.3 Objectives of the Study

Financial markets have become an exciting, challenging and changing sector in the recent years. Rapid changing technology and increase globalizations are dramatically transforming financial policies for the markets. As a result, numbers of new finance companies are emerging. History of finance companies in Nepal reaches to a decade. So it is a right time to reevaluate their performance for the purpose of studying their problems and their prospects.

The main objective of the study is to find out and analyze the present situation problems and prospects of finance companies in Nepal and other objectives are

- To study and analyze the present financial position of finance companies in Nepal
- To analyze the allocation of funds of finance companies among different sectors.
- To evaluate the performances of finance companies.
- To examine the financial performance of selected finance companies in terms of liquidity, Activity, Profitability, Leverage and Capital Adequacy and Growth rates.
- To find out the prospects of finance companies in Nepal with the comparative analysis of deposit collection and loans and advances.
- To access the growths of finance companies in Nepal.
- To study the implications of policies & regulations affecting finance companies in the overall development of finance company in Nepal.
- To analyze the investment & lending practices that is being practiced by finance companies in Nepal.
- To suggest and recommend measures for better prospects of finance companies on the basis of analysis of data.

1.4 Significance of the Study

Nepal is one of the least developed countries in the world. Economic liberalization policy of the government has encouraged the establishment and growth of finance company in the country within a short span of time. Nepalese financial institution and capital market are not able to get rid of economic recession. Shrinking investment opportunities due to economic recession has put the Nepalese entrepreneur in a great trouble. Although the present situation is not fair for investment in the economic sector, evolution of financial institution, mostly finance companies are increasing.

Proper research is needed in this sector to acquire answers for the various questions like those raised in the statement of problems regarding the prospects of finance companies in Nepal. It is believed that the study may prove itself to be one of the helping pages for the various concerned parties like government policy makers, existing companies and new comers, NRB etc. moreover the study will provide relevant and pertinent literature for future research on the related field.

1.5 Limitations of the Study

- The main limitations are time constraints, financial problems and others.
- The study is limited on sample size. The study is concentrated only on those finance companies, which are operating in Katmandu valley and listed in NEPSE.
- The study will mainly focus on past and present state of finance companies, so the study will may not provide hard and fast conclusion about the future prospect of finance companies in Nepal.
- This research is done for the partial fulfillment of the requirement for the degree of masters of business studies therefore; it has to follow strictly the format prescribed by Tribhuvan University.

- The core of the study is based on the secondary sources of information. Hence any incorrectness in the key information may affect the accuracy of the outcome of the study.

1.6 Organization of the Study

The whole study will be organized into five chapters each denoted to some aspects of the study of clearing and settlement system. The titles of each of these chapters are as follows:

To study effectively and systematically "Status of Finance Companies" has been organized in five chapters. They are Introduction, Review of Literature, Research Methodology, Data Presentations and Analysis &Summary, Findings, Conclusion and Recommendation.

Chapter - I: Introduction

The introduction chapter briefly describes an introduction of research study as general overview, Background of Finance Company, meaning of Finance Company, statement of the problem, objective of the study, significance of the study, limitation of the study and organization of the study.

Chapter - II: Review of Literature

This chapter is related with studies and reviews of various articles, books, journals, report and thesis work that are similar to this study. Review of literature shows as well as visualize past literature's objective, opinion, view and conclusion. Which helps to study relevant topics in the related field of research or reviewing related research studies; findings such that all part studies and further research can be done. In the course of research, review of the literature would help to check the chances of duplication in the present study. Thus, one can find what studies have been conducted and what remains to go with.

Chapter - III: Research Methodology

This chapter, Research methodology is all about guideline solving systematically the research through various techniques. This is definitely used to evaluate the effectiveness of the companies. This chapter consists of research design, source of data, population and sample and method of data analysis.

Chapter -IV: Data Presentation and Analysis

This chapter presents the data required for the study, calculates and analyzes by using tools and technique of financial management, accounts and statistics.

Chapter - V: Summary, Conclusion and Recommendations

The final chapter is related with summary of the study, finding of the study, conclusion of the study and recommendation for the future improvement .This chapter summarizes the work presented in the main body of this thesis, evaluates the extent to which the original goal has been accomplished and shows contribution of this thesis to the research on the code acquisition problem.

CHAPTER - II

REVIEW OF LITERATURE

The review of literature is a crucial aspect of the planning of the study. The main purpose of the literature review is to find out what works have been done in the area the research problems under study and what has not been done in the field of the research being undertaken. This chapter highlits upon the literature that is available in this particular topic. Of course, there is no sufficient literature in the topic specially in the field of finance companies except commercial banks.this chapter is divided into two parts, first deals with the conceptual framework of finance companies, second part deals with some available literature including review of books, thesis, the relevant findings of academicians, researchers and professionals of related field. This chapter will be helpful to provide the foundation of knowledge in order to undertake this research more precisely.

2.1 Conceptual Framework

2.1.1 Meaning of Finance Company

The more developed financial system of the world characteristically falls into three parts: the central bank, the commercial banks and other financial institutions. They are also known as financial intermediaries. Central bank is the main bank of any nation that directs, regulates and control all the financial institution perform their functions under the rules and regulations of it. The financial institutions and separate finance companies are defined in many ways:

A financial intermediary not a bank which may obtain fund from its own capital resources by accepting deposits {usually for fixed period} or even by borrowing from other institutions and which it lenders for a variety of purposes, especially to finance hire purchase contracts, but also leasing (Dictionary of Modern Economic States).

An institution that uses its fund chiefly to purchase financial assets {Deposit, loan and bonds} are opposed to tangible property. Financial institution can be classified accordingly to the nature of the principle claims they issue on deposit, intermediaries include among other life and property insurance companies and pension funds, those claims are the policies they fail on the promise to provide after retirement, depository intermediaries obtain funds mainly by accepting deposits from the public (Jery M. Rosenberg, 1997).

A finance company is a kind of financial institution. Finance company is also called loan company. According to the finance company Act 2042{1985}, the finance company, by becoming a mediator, n one hand between the saver and the investor and in other hand, between the big financial institutions and the smaller debtor functions as an instruments to supply the loan. Unlike commercial banks, finance companies are not allowed to operate checking accounts and hence not involved in payment mechanism.

According to finance company Act 1985, any public limited company established with the objective of carrying out financial transactions is known as finance company.financial transactions include hire purchase or installments loans, housing finance, leasing finance, term lending, deposit mobilization, merchant banking, underwriting and syndication and trading on securities. In this sense, any public limited company licensed under finance company Act 1985 to carry out any or all of the above financial transactions are a finance company. This legal definition of finance company is able to accommodate varieties of financial institutions as finance companies. Such broader definition is helpful to bring different types of financial institutions under one regulatory umbrella. For e.g. Nepal finance and saving company _a saving institution, Nepal Housing Development finance company ltd;_-a housing finance company, NIDC capital market;- An investment banker, International leasing and finance company- a leasing company, Nepal srilanka merchant Bank- a merchant bank, all are finance companies.

Finance companies are the financial institutions, which play significant role in the development of the country, finance companies are providing employment as well as consuming funds and helping to increase purchasing power, which develops skill of living. Finance companies provide link between saving and investment, thereby facilitating the creation of new wealth. There are three channels of investment process- internal finance, direct external finance and indirect external finance. Under internal finance: one's own saving is used for one's own real investment. Under direct external finance, funds are loaned directly from those who save for investment. Under indirect external finance, saving flows from ultimate lenders to financial intermediaries, and then from intermediaries to ultimate borrowers.

Thus, finance companies are financial intermediaries as well as agents. As intermediaries, they purchase securities on their own accounts from borrowers and sell their own liabilities to investors and as agents they contract on behalf of investors and borrowers.

A finance company is not established with the objective as the objectives of the commercial banks are opened. It id established with the objective of collecting the capital scattered in the country with the medium of non-banking activities as to bring the speed in the economic development. Finance company has emerged as an important sector into the national economy. Finance company offer higher interest rate in deposits and induce saving and at the same time they serve marginal investors of the society. In Manohar Krishna shrestha's words, finance companies provide easy access to fulfill the individual credit needs; provide attractive return, incentives and favorable terms on deposits; great competitive financial service environment; and encourage consumers to strengthen their purchasing power.

2.1.2 Types of Finance Companies

There are different views about finance companies in different countries. Most of the countries don't have clear-cut directions to the finance companies in terms of their functions and area of coverage. However, banks and financial institution ordinance has mentioned certain areas of operations such as receiving time deposit of different maturity period, providing loans for hire purchase, house construction, business and also undertaking merchant banking functions such as share issue, portfolio management, mutual fund management, project counseling merger etc. generally, finance companies are categorized into three types according to their financial activities performed in different shape and structure, which are:

a) Sales Finance Company
b) Consumer Finance Company
c) Credit Union

a) Sales Finance Company

Sales finance companies are different from other consumer credit institutions by virtue of their indirect extension of credit. Sales finance company typically purchase the installment contract the notes signed by purchase of consumer durable goods from the dealers involved. The other consumer credit sources deal directly with the borrower. Thus, we can say that sales finance company acted as go between obtaining credit from commercial goods.

b) Consumer Finance Company

The consumers Finance Company are much more specialized than commercial banks and sales finance company.

c) Credit Union

After the consumer finance company the last major financial institution in the installment credit market activities is the credit union. The concept of credit union has been specula through out the post war period in the USA. This credit union may operate under either federal or state charter. Credit unions are cooperative associations where members must be linked by some common board such as employment, church or labor union membership. Funds are derived almost entirely from member's share account, which typically is an accumulated in small increment under payroll deduction schemes. They are used largely for installment cash loan s to members, although credit unions also hold relatively small amounts of other financial assets such as cash, US government securities and saving loans shares.

2.1.3 Establishment, Growth & Development of Finance Companies

The organization set up of finance companies is still new to Nepal , although finance companies began to come into operations already a decade. Finance companies are the effective instruments for mobilizing public, private and external financial resources and canalizing them into productive areas as short-term loan & long-term loan in different commercial business activities.

In this section, the effort has been made to collect different views about finance companies, which are given, by different countries. Most of the countries have common view point that finance companies in terms of their functions and area of coverage is not clear although finance company act has mentioned creation area of operations such as receiving time deposit of different maturity dates, providing loan for hire purchase, house construction business and also undertaking merchant banking function such as share issue, management portfolio, management mutual fund, project counseling merger.

Historically, finance companies were the creation of early 1960 and the real need for the creation of the finance companies were felt when commercial banks were unable to serve sectors of economy other than big business houses. The small savings and their small credit requirements were ignored. Need of those institutions serving the deprived sectors were felt which indeed gave birth to institutions like finance companies.

In the past, capital needs were met by borrowing from relatives and friends. Private money lenders and few informal organizations limited to ethnic groups like "GUTHI" the borrowing from people one knew and the informal form of organization was limited and was mostly based on personal contact and understanding which doesn't require any formal regulations. The private moneylenders showed certain organization regarding lending capital. Thus these private moneylenders can be taken as fore runner of the concept of financial institutions.

In Nepal the evolution of financial institution has a recent history. Before the establishment of ' Tejarath Adda', the unorganized sectors have their universal domination on the financial matter. This adda was initiated to provide credit at a cheap rate against gold and silver. The area of its functioning was limited to Katmandu and some urban area of the Terai. The beginning and establishment of financial institutions depends upon the level of economic activities and monetary transactions.

Need of Finance Company and the finance company act is necessary when unorganized sectors are collecting funds from public in the name of 'Upahar and Dhukuti' programs in the early of 2047 BS. The general publics were so much attracted by such programs and they invest their savings in such programs but after few years they felt being cheated by such programs. Government was very much interested from the trend of public investment attractions. So government felt to do some amendments in the old finance company act 2042, which dictates the legislative provision related to the establishment and functioning of finance company but despite this provision, private sectors keep silent till 2049 BS. So government came with the new finance company act 2049, BS, with some amendments as a result number of finance company applied for the registration in NRB.

The slow growth and traditional attitude of commercial banks in mobilizing financial resources, lack of financial innovations and growing interest of the public on Upahar and installment programs are the major reasons among others for the establishment of finance companies in Nepal.

The financial company Act was introduced in 1985(2042 BS) the aim of the act was to guide the economy in the right direction as giving services where commercial banks and other financial institution are not available. After the first amendment of financial company Act, 1985 in 1991 (2049 B.S), various finance companies were being established. In the month of Shrawan of that year, the first company, Nepal Housing and Development Finance Company was established by government sector. The second came in Poush of the sector. In a short period of time 1991 to 1995, 30 companies were established and there are 59 finance companies stablished upto 2063 BS.

With the adoptation of a policy of gradual liberalization by the government following the restoration of democracy in 1990 and subsequent assumption of the political power by democratic government in 1991, a number of reforms have been pursed in the financial sector. The reforms were mainly targeted to allow market forces to play a vital role in the financial sector and also encouraging private sector participation in the country's development endeavors.

The reforms brought in the promotion of a number of finance companies. Finance companies are a new type of institution I the Nepalese context. They can be registered only as a public limited company as per the rule of finance company Act, 1985. The company should be registered with HMG/Nepal and license for operation is granted by the central bank. All the finance companies should follow the directives and policies of NRB.

2.1.4 Functions of Finance Companies

Finance companies are very important to accelerate the economic development of the country. Finance companies undertake the task of encouraging the flow of personal savings from unproductive to productive uses. As the economy develops, the non-monetized sector gradually transformed into the monetized sector. So, the role of non-banking financial institution become more important to mobilize saving and invest these savings for capital formation and economic development.

Financial institution mobilize saving, invest them and thereby help in the capital formation and economic growth. The 8th plan (1992-1997) stresses,'the vacuum in the present national financial system need to be filled by institutionally develop capital market like investment company, finance company, leasing and housing finance in order to create healthy competitive financial sector'.

According to finance company Act 2042, major functions are:

- Providing installment on hire purchase loan
- Granting loans to construct residential houses, construction of offices, warehouses, commercial complexes etc.
- Make avail of lease financing and leasing of properties

- Providing term loan to business, industry and trade, serve in the capacity of financial intermediaries and also provide guarantee on the loan if needed.
- Undertake transaction in government securities, underwrite shares of other companies, participate in the loan dysdication and conduct trading in securities in accordance with the rules of Securities Transaction Act.
- Collection and mobilization of deposits within the limits specified by NRB.
- Perform merchant banking function with prior approval of NRB.
- Perform other activities essential to fulfill the objectives of Finance Company Act, 2042 BS (Now replaced by Bank and Financial institution Ordinance 2062).

Non –bank financial institutions like finance companies are the outcomes of the financial liberalization in Nepal. Before, restoration of the democracy, because of the tight economic situation, financial liberalization was not behaviorist. After democracy the finance company act became active and as a result the first finance company, Nepal Housing Development Finance Company Limited evolved in 11^{th} shrawan in Katmandu.

The nation received the finance company act 2042 BS but before restoration of democracy no finance companies activities took place in the nation. After democracy the nation adopted open door policy in the economy.

The 9^{th} plan committed that ‘the finance companies will be expanded and investment for saving will be diversified in order to enhance savings mobilizations through financial institutions.’ The finance companies are the sources of revenue collection. They are bounded to collect 30% of their income as government revenue or income tax

2.1.5 Impact of Finance Companies in the Economic Development

Financial activities have visual role in the development of a country. Financial development is one of the key indicators of economic development of any country. Financial activities are an integral point of national plan to accelerate the rate of economic development.

Shrestha," Finance Companies are the outcome pf government's economic liberalization policy, and also conclude that the negative impact of finance companies was no significant contribution to national economy, because of encouraging impacts of foreign goods and scarce of foreign exchange. The establishment and growth of finance companies have potential for overall national development come with a number of arguments.

Following are the positive and negative impacts of the Nepalese finance companies:

Positive Impact

For the economic development of the nation, finance companies systematically collects scatter capital in different institutions, companies or persons, as the financial intermediaries for depositing or giving credit, it does not regard as the positive impact. The positive impact for the economic development of the nation that is caused by the financial companies is as follows:

- They argue with the sense of confidence that the growth of finance companies has made it possible for clients to have easy access to fulfill individual credit needs which continue to be difficult in commercial banks as a result of too many unwanted and complicated procedures.

- The depositors have new alternatives to choose a finance company where they can put their funds with alternative return and incentive and favorable terms and conditions, which they do not enjoy earlier. The only thing is that finance companies are gaining experience and have to restore full confidence of depositors.
- Finance companies are competing for funds in market. This is healthy thing since only those finance companies that can manage and utilize funds that tap them and inefficient ones will be automatically driven out from the market.
- Finance companies tend to balance their funding portfolio by linking deposit with investment and lending function together, so as to encourage growth of capital market on the one hand and meeting consumer demand for credit and industrial growth on the other hand.
- Finance companies have come up with the idea to encourage consumer to strengthen their purchasing power through the channel of consumer credit as a hedge against inflation to build their consumer assets portfolio today by paying from future income. Even on hire purchase for instant, it is not fully exhausted as many consumers durable can be brought under the list of consumer assets building portfolio such as engineering equipment, medical appliances, kitchen tools etc.
- Finance companies are in better position to match repayment schedules by linking the cash inflows to credit outflows by minimizing credit defaults through strong internal management and strict credit monitoring in additions to timely credit supervision and control by NRB. Finance companies are trying to develop credit appraisal expertise within the organization itself.

Negative Impacts

In practical term, the criticism on the growth of finance companies is an escapable reality. Such criticism by the large is the direct outcome of events following experience and lessons learned from post mistakes. There is frequent hot news, public opinion debates and professionals' interactions shown in Nepal Television about the ways followed and impacts predicted regarding the uncontrollable growth in the number of finance companies, within a short span of time, the growth of finance companies has raised reasonable doubts among the intelligentsia and professionals. The main focus of their version that finances companies would be another kind of Dhukuti programs that would rub the national wealth to a greater extent. Their arguments against finance companies are streamlined below:

- The worldwide experience regarding the relationship between finance companies and economic development is found to be uncertain. Taken for instance, the growth of finance companies in a number of countries such as UK, MALAYSIA, USA, India etc. have to face loan repayment problems arising from growing credit defaults. There are also cases where the depositors are neither paid interest nor the principle amount. The saving and loan association in USA has to experience liquidity crunch and cash flow problems. As such the probability of failure of even a single finance company would bring the wider chain effect of pushing number of finance companies to a critical situation of closure and collapses.
- The injection of too many finance companies in the financial system of the country is dangerous for the simple reason that they are relying on the consumer goods that are mostly imported without ant relationship between consumption's pattern and

domestic industrial production. This kind of credit financing cannot remain sustainable to the extent that the performance of finance companies will not have favorable impact on the overall national economy. As is evident that the mushroom growth of finance companies in the absence of their contribution of industrial production and expansion would bring the financial sector to face higher exposure to risk of insolvency leading to national bankruptcy. A country cannot offer to encourage imports from consumer credit financing through finance companies without developing one's own industry. Finance companies at present have drained the scarce foreign exchange to finance imports and their extensive operations continue to bring massive capital outflows to other neighboring countries. This is what is called growth resulting from activities of finance companies that failed to invest in productive industrial sector.

- Moreover, finance companies tend to bring wider bandwagon effects in the economy once cash inflows are not properly matched with repayment schedules. As loans are going for consumption purpose without emphasis on productive sector loans. The risk of default is sure to come since how one can pay credit if there is no paper relationship between use of credit and its probable cash flows generations. Failure to pay interest and principle will come together at a time when finance companies face serious cash flows problems.
- The flat rate of finance companies interest rate charge on the lump sum loan has come to the criticism from clients that they are being exploited for their ignorance and laxity of controlling authority. Instead of charging the interest on declining balance of loan the flat rate has raised the actual cost of loan to the clients. But in

this regard, finance companies have opened both options either to pay at a lower flat rate in which size of installment is adjusted automatically or at a reducing balance method requiring higher interest rate to be paid on loan (12% flat rate versus 19% interest rate at reducing balance method).

- In the growth of finance companies, public criticism is focused to the promoter's strategy of getting quick risk by rising funds from the public to serve their limited vested interest without actually have any long term sustainable strategy when they were promoted. But, this is more of a wishful thinking as some other remarked since NRB is there to regulate finance companies with strict regulatory guidelines requiring promoters to follow.
- Finance companies are exposed to a greater degree of risk since they are still weak and deficient in credit analysis and appraisal. Many of them have not given priority to development of credit appraisal expertise sine loans are given even now on the basis of personal influences and relationship. The credit standards necessary to regulate and control finance companies are still in fluency stage.
- Finance companies are not gaining adequate public confidence because of the fear that there is risk of depositing money in finance companies. Many of the finance companies have not been able to prove professional competency and also not making selective credit strategy to have proper linkage between credit and cash flow generations.
- The gradual shift of lending from the hire purchase to housing loans is also not providing productive since the generation of income proves a long gestation period on the one hand and there is no guarantee that income will come after completion

on the other hand. Again, housing loan is for own use and in such a case how the income will be generated to repay the loan.

- Finance companies will have to face similar problem, which other financial institution are facing in the absence of clear transparent strict norms and standards and control them.
- Failure to recycle the funds in income generating sectors will have a serious rebounding effect to the extent that the future of finance companies in the country depend upon their high pop with better success.

2.1.6 Contribution of Finance Companies towards National Economy

Finance companies are recently featured in our country. Finance companies have to compete with other very well accepted financial institutions, including commercial banks and are practically made to fight against the prevailing public psychology that works against finance companies. Finance companies are potential institutional tools of collecting and mobilizing funds for investment in the country. They have emerged with an aim to ease and facilitate people in financing business and other ventures. It was not very long ago when people had to spend a lot of time in arranging and getting the finance for their required needs. Finance companies provide loans in very short period of time.

Finance companies in Nepal have a very short history and in this short period, these finance companies have been able to contribute significantly towards the economy. Financial development is one of the key indicators of economic development of any country. Financial activities accelerate the rate of economic development.

Finance companies are the effective scientific instrument for mobilizing public, private and external financial resources and channelise them into productive areas as short –term loans and long-term loans on different commercial business activities. The main objectives of finance companies is mobilization of small and large resources from urban as well as rural areas too and their channelisation into prospective, structured and high priority areas to assist in the economic development of the nation. Moreover, the finance companies have to channelise funds by gradually shifting priorities from hire purchase and trading to industry to help in the capital formation within the country. Finance companies help in the expansion and growth of both small and medium scale industries that in turn helps in industrialization process, creating the market for industrial products within the country. They can help consumers to consume domestic products and at the same time help in industries both in financing and creation of market for their products.

The finance companies support industries for production and to consumer's credit for consumption. The relationship between production and consumption function is important to make credit worthwhile to have a meaningful contribution in the development of national economy. As industry grows on, the support and funding of finance companies and other economic indicators such as creation of employment, income generation and saving to recycle for further collection of deposits again for finance companies and credit to industries also gear-up.

Finance companies are required to earmark certain percentage of loans & advances as provision for possible loan losses. Interest suspense account represents the portion of interest which is not realized in cash and which has not been treated as income.

2.2 Review of Previous Studies

For the purpose of this study, there are limited research and seminar programs, books and articles, journals and periodicals, previous thesis conducted by MBS students, NRB, are reviewed as follows.

2.2.1 Review of Books

In this section it tries to view the third man's thought which have been given by them through various books, articles, journals, papers, periodicals, other related books and booklets.

There are different books related to the finance. One of the most useful book about finance company.

Shrestha (1995), entitled "Finance Companies in Nepal". According to the writer finance companies have to be established, organized, managed and operated with a team of mixing innovative ideas with money and experience. The financial performances of finance companies from each other in terms of their profitability dividend payment and market prices.

The need to strengthen the institutionalization of finance companies is important to have meaningful relationship between finance companies and national development through shift of credit to the productive industrial sector. At the same time the series of reforms such as consideration of finance companies and commercial banks, direction attention to venture capital financing, appropriate risk return trade off by linking credit to timely repayment schedules deposit insurance schemes, achieving exceptional impacts of depositors and clients avoiding imperfections, allowing flexibility in lending, one window service from NRB, need of strong supervision and monitoring from NRB diversity scope of activities of fee based activities, allow funds transfer, refinancing facilities for finance companies, professional culture within finance companies etc. all these are necessary to ensure better future performances of finance companies that have already been established and growing in Nepal.

He further added," the analysis of their lending and investment activities show only every few finance companies have aggressive investment strategy compared to most of them following conservative strategy, major part of lending is in consumer durable through hire purchase and then to housing loan. But later on there has been that consist of business and individual loan.

Vickers (1985), the balance sheet items of finance companies; their principle sources of funds are long-term debt and short -term commercial papers. Some of these companies enjoy high credit ratings, making automobile loans and they are able to borrow in the unsecured commercial paper market. Their assets are mainly various forms of consumer and business accounts receivable.

Robinson and Wrightsman (1995) say in this regard," finance companies are second stage intermediaries' large accounts of the funds loaned by finance companies are found that borrowed by finance companies from commercial banks. Indirectly, then commercial banks lend to ultimate borrowers of marginal credit worth. The risks are assumed and the profits are taken however, by the finance companies are layered between the banks and the borrowers. Finance companies also procure funds in very large amounts by issuing long-term bonds and short-term paper. Most of the buyers of these securities are banks, businesses and other organizations. Very little personal savings get placed directly with finance companies.

Khan and Jain (1992) is considered to be a useful book in the financial management. The modern approach of khan and jain views the term financial management in broad sense and provides a conceptual and analytical framework for financial decision making. According to them," the finance function covers both acquisition of funds as well as their allocation hence apart from the issues of acquiring external funds, the main concern of financial management is the efficient and wise allocation of funds to various uses." The three major financial decisions according to them are:

- The investment decision
- The financial decision
- The dividend policy decision

2.2.2 Review of Articles

In this section effort has been made to review some of the related articles in different economic journals, NRB discussion papers, magazines, newspapers etc.

Sapkota (1998), in his magazine paper,"Development and present condition of finance companies in Nepal, has concluded that the finance companies have contributed much to use of financial equipment in the system of Nepalese finance. The habit of saving and depositing is on the rise among Nepalese customers as the finance companies are servicing door to door. They are interested in promoting capital. The debtors are also facilitated by the quick service in loan as the finance companies are focusing on customer commodities. They have not been able to contribute in the productive sectors like agriculture, industry, trade and other.

Shrestha (2000), entitled *"Present position and future challenges of finance companies in Nepal"* has emphasized that finance companies are not seen getting able to collect long term deposit satisfactorily. As they collect with maturity period of three months to six years only. They should try to increase public confidence towards them for long-term deposit. For the recovery of loan, debt recovery act is essential in Nepal. In the context of increasing number of finance companies in Nepal as there are increasing financial crisis in South Asian countries Nepal should learn the lesson from those countries and timely regulation is essential. Due to a competitive financial market nowadays the institution need to go to the clients for providing financial services with new market strategy and concentrate in quick and practical services, knowing the market demand. Thus finance companies need to modify their traditional working styles as needed by changing time and situation.

Neupane (1993) in his article," Development of finance companies in Nepal: prospects and challenges, has concluded that finance companies with new financial instruments and innovation are highly needed in the country. Regarding the establishment of these companies, there is still ample room for developing varieties of companies and financial instruments to attack the small savings. This will provide investment opportunities to the small and medium savers. Nepalese people have the better experience of being cheated by the so-called UPAHAR, INSTALMENT and other prize awarding schemes. Therefore efforts could be made to create a sound institutions base so that people will not be cheated by freaks.

Palikha (1996) in her article," Condition of finance companies in changing situation" has concluded that to trigger timely change in the economy of country and living standard of Nepalese people, the role of finance companies are important. But the quantity of finance companies does not count. Presently the trend of servicing in the urban areas should be discouraged and the rural regions should be in the main target area. In the political environment where commitment is lacking and open boarder with India, the finance companies have a difficult task to a struggle against the minimum of pre-requisites.

Timilsina (1999), entitled "Finance Company in Nepal" has concluded that specially finance companies are gathering in the urban areas. Under company Act, they are registered in the registrar office and license from the Nepal Rastra Bank, only can transact offer having acquired terms and conditions fulfilled. Learning from the experience of the Indian finance company and becoming conscious of crime risk failure and cheating in the bank and other financial institution. The central bank and other affiliated offices should pay proper timely attention to monitoring and evaluating of their presentations and activities.

Poudel (1996) give emphasis on the performance of finance companies in Nepal his article,"Finance companies in Nepal an overview". He had written that At the time 1996, the ratio of capital funds to deposits have been increasing over the time but on the top of this, it is substantially below than authorize level of deposit mobilization, which is ten times of the capital base, Never the less, some of the finance companies have even mobilize the deposits by more than ten times of their capital base by violating the regulatory norms issued by NRB. The credit/Deposit has remained quite high leaving the room for doubt about the quality of loan especially in the absence of loan repayment schedule. The loan diversification has been improved however, during short span of time. As such, the hire purchase housing and term loans are the major sectors which all together received more than 95%of the total loans and advances in mid July 1996. Because of the mushrooming growth of the number of finance companies, the average source of funds for each company is natural to decline, since the varying factor, it is too easy to evaluate the performance of finance companies in Nepal but equally important factor is that the regulatory and supervisory authority should keep close eyes to monitor their activities.

Poudel tried to give emphasis that NRB should be flexible and strongly monitor to these finance companies until they are developed enough.

Adhikari (1997) in his article," Challenges Ahead of Finance Companies" concluded that the finance companies should differentiate itself from commercial banks. The new challenges of finance companies would be to function activities like merchant banking, leasing financing factoring, brokerage etc. these are the activities actually should have been undertaken but instead finance companies have been undertaking quasi- banking activities. The transactions of finance companies are very high so has been survival of finance company in such situation. So finance companies should ensure, its safety so that it won't ring any damages to the economy.

Poudel (1997) in his article" Present Condition of Finance Company" has presented with compared to the commercial banks, the interest rate is relatively larger that is provided and accepted by finance companies. The finance companies should not be confirmed only in the valley rather should extend their services to the rural sectors of hill and terai to reduce regional imbalance. To sustain themselves in the environment of competition, they should introduce novel technology and equipment to collect deposits and investment. They should learn from the drawback, failure and success of commercial banks to effectively maintain alternative status.

2.2.3 Review of Thesis

In this section , theses work, which have been conducted by some students regarding the different aspects of finance companies such as financial performance, Investment analysis, market performance of finance companies most important for the study purpose are presented below:

The conclusion drawn on such theses work will be relevant to justify the study. Thus, some previous theses are reviewed in this section.

Karki (1997) entitled *"A Comparative Study on the Financial Performance of Finance Companies in Nepal")* The study is primarily based on the two finance companies i.e. Universal finance and capital market Ltd (UFCM) and Nepal Housing & Merchant Finance Ltd. (NH&MF). Its Main objective is to find out comparative financial position of the finance companies and to suggest necessary corrective action for the improvement of their performance. In this regard he has tried to focus on the major problems of finance companies. The problems of finance companies are financial problem, unfavorable economic situation, lack of investment opportunities and counseling services.

Major Findings of the Study

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

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

Ghimire (1998), conducted a study titled *"A Study of Financial Performance of Finance Company in the Context of Nepal."* This study is conducted basically to provide a detailed analysis such as practical, usable and valuable information on the financial performance currently facing the randomly selected and listed financial companies mainly NHDFCO, NSMCO, KFC, NFCO and AFCO and to present the forward and backward linkage. The main objective highlighted by Ghimire is to examine the financial performance of the selected finance companies in terms of liquidity, activity, profitability, leverage, and capital adequacy and growth rates. On the same ground he has tried to highlight on possible guidelines to improve the financial performance of finance companies.

Major Findings of the Study

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

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

- Finance companies have to channelize funds by gradually shifting priorities from hire purchase to trading and industry to help in the capital formation within the country.
- Legal and procedural improvement like unrestricted entry into the financial market and on- site supervision should be effective.

Further statement improvement like Joint promotion of finance companies, matching of assets and liabilities conducting trading seriously and positively impacting to public confidence.

Kandel (2001), conducted a study titled, *"A Comparative study on the financial performance companies in Nepal (With special reference to GFIL and NH & MF)"*. In the study, he has done a comparative study of these two finance companies. The main objective of the study was to analyze the position of these companies and to analyze the financial performance with regard to their profitability and liquidity position. Further, the researcher tried to provide suggestions an possible guidelines to improve the performance based on the findings of the study.

Major Findings of the Study

- The liquidity position of both finance companies was poor as current ratio of both companies was unable to meet the standard of 2:1
- Activity ratio of both finance companies was found to be very high.
- Profitability ratio of GFIL was better than NH&MF.
- GFIL was found to be in better position in respect of leverage ratio.
- As per the profitability ratio related to investment, both finance companies were found to be unable in utilizing their assets efficiently.
- On an average, EPS in NH&MF was higher than in GFIL.
- Dividend policy of both finance companies was found to be unstable, average dividend payout ratio of GFIL was much higher than NH&MF.

Further the researcher has suggested keeping reasonable amount of liquidity so as to maintain short term solvency and discharge liabilities more efficiently.

- They should mobilize their deposit efficiently.
- Management should use its net worth more wisely so as to generate sufficient profit.
- The debt equity ratio should be minimized as it is a symbol of risk and inflexibility.
- They have to minimize operating expenses and invest their resources in more productive sector.
- These companies should try to render their services in rural areas as well so as to intensify the profit and goodwill of the companies in future.

Ranabhat (1997), entitled, *"An analysis of financial performance of finance companies in the context of Nepal"* has stated that:

- The uses of funds towards the hire purchase loan were gradually decreasing. The highest amount used towards the hire purchase financing is by national finance company (NFCO) with amount of RS 1027.60 lakhs and the lowest is use of funds amount Rs 5.20 lakhs by merchant finance company.
- The use of funds towards housing loan is also gradually decreasing with different rate 28%, 27.34%, 27% and 26.95% for the period of mid march.
- The fund used by finance companies is gradually increasing towards leasing with the increasing rate. The different rates for the period of time is 3.45%, 5.3%, 5.5% and so on.

- There are special terms for use of funds on different areas. These figures also increased with increasing rate with other figure 1.55%, 1.72%, 2.70%and 4.45% on the period of mid march.

This study concludes that the uses of funds towards the hire purchase and housing loan are gradually decreasing. But the term loan and leasing is increasing on total uses of funds.

- Their lending investment activities shows only very few finance companies have aggressive investment strategy compared to most of them following conservative strategy.
- Further he has recommended some of his views for the improvement of these finance companies.
- Housing financing and hire purchased must be shifted towards business financing.
- Conducting trainings, workshops and seminars
- Strong supervision and control to finance company.
- There is an urgent need to have a gradual shift of focus from traditional financing to the dynamic and innovative areas.

Pandey (2001), in his research of five finance companies," A Comparative Assessment of Financial Performance among selected finance companies" has concluded the following:

- The financial performance of National Finance Company is concluded to be satisfactory. The performance of the company can be questioned only in the respect of interest receivables turnover and credit deposit ratio

- Lumbini finance and Leasing Company have been satisfactorily operating its business with all year profit over the study period. However, the declining interest receivables turnover and increasing credit investment towards unproductive sectors through housing and hire purchase loan are unfavorable aspects. In addition, dividend payment practices followed by the company do not seem so satisfactory since large portion of one's earning has been declared as dividend over the year of the study period.
- Investment in the form of loans and advances made by UFCM in unproductive sector through housing and hire purchase loan is comparatively very high than in productive sectors. The interest receivables turnover has been adversely affected due to inadequate collection effort and liberal grant of credit provided by the company which may eventually lead to loss in terms of bad debt. The performance of the company on the ground of other employed parameters is satisfactory except profitability.
- NH&MF is following sound financial practices. However the fluctuations in terms of dividend payments as well as declaration clearly exhibit unstable and inaccurate dividend policy of the company which is not fair. Besides this large sum of credit investment are made in secured but unproductive sector is not a good symbol as it doesn't help to boost the national economy though it is beneficial to the company.
- Himalayan Securities and finance company is not utilizing its current assets and deposits efficiently. Comparatively higher non banking assets than in other institutions are not satisfactory although it has recorded improvements in terms of such assets disposal lower credit deposit and growing interest expense of the

company over the study period indicated the financial inefficiency. In addition, increasing credit investment towards safe sector and decreasing profitability do not justify an appreciating performance of the company. However, the declining interest expense to interest income ratio is a favorable offsetting factor. Remaining employed financial indicators clearly reveal the appreciating performance of the company.

Gautam (2000), entitled *"Investment Analysis of the finance Companies in the context of Nepal"* concluded that:

- The overall performance of finance companies is satisfactory and the NRB has to play more active role to enhance the operation. The analysis of lending and investment activities shows that only few finance companies have aggressive investment strategy as compared to the most of the others following conservative strategy.
- Putting upper and lower ceiling rather than present spread rate system should control the unhealthy competition on interest rate. This will not only reduce the confusion of the customer, it will ensure the proper functioning of the company as well.
- The major source of fund of finance companies is utilized in loans & advances. The hire purchase loan is decreasing rapidly and terms loans are gradually increasing. All the companies have invested on housing loan and the use of fund towards housing loan is almost linear except for the year 1994. Only three companies have invested on lease loan.

- The finance companies have to prove that they can really contribute to the national economy, they are efficient and viable agencies for mobilization of saving and its channelization into productive sectors and are professionally managed and competent enough to ensure adequate rate of return on investment and are strategically well planned to be competitive with banks and other agencies and trust worthy.

Neupane (1999), prepared his thesis on the title of *"Prospects of Finance Companies"* concluded that:

- Short term solvency position of finance companies will be satisfactory if finance companies continue the present trend. So far long term solvency position is concerned, it showed weaker trend as finance companies were increasing risky assets, highly year by year in comparison to shareholder's fund which indicates that finance companies may face liquidity crisis in future.
- Future market demand of finance companies in Nepal is not found to be highly satisfactory.
- In comparison to available supply of fund. So, the industry cannot be considered to have better prospective if they continue the same trend of lending practices.
- The condition of profitability is nice in comparison to equity fund but not pleasing enough from total assets utilization point of view. However the companies seem to develop professionalism year by year as they are increasing effective spread interest rate between credit and deposit collection.

- As industry is facing default in loan repayment or say credit default problem arises, the industry may face liquidity crisis in future.
- It can be concluded that prospective of finance companies in Nepal are not promising enough if they keep on highly relying on same traditional lending & Investment activities.

Bhatta (2003), conducted a study on *"Portfolio Management of Listed Finance Companies in Nepal."* For this fine finance companies were selected namely Citizen Investment Trust (CIT), Peoples finance ltd (PFL), Universal finance company and Capital market ltd (UFCML), Kathmandu finance limited (KFL), and National finance company ltd (NFCL). The main objectives highlighted by Mr. Bhatta were to study and analyze the existing situation of portfolio management of listed finance companies in Nepal, study volatility of different stock of finance companies and to compute risk and return of the common stocks and their portfolio.

Major Findings of the study

- Stocks have greater volatility risk than other investment. Stocks taken a random and unpredictable path.
- The Higher risk of common stock may have greater possible return i.e. finance companies stock providing higher return for higher risk.
- Expected rate of return of UFCML (61.31%) is comparatively higher than that of other finance companies and expected risk of NFCL (24.62%) is lower than that of other finance companies.

- Expected market return (11.52%) is lower in comparison to market risk (34.09%) which concluded that market is risky place to invest.
- NFCL stock is highly correlated (0.971) with market than that of other finance companies.

Coefficient of determination of all these finance companies have greater than (50%) means portion of systematic risk is higher than the unsystematic portion. NFCL stock has the most systematic risk portion (94% of total risk and the CIT stock has the least systematic portion (52% of total risk) in comparison.

UFCML has the highest expected portfolio return(11.27%) and risk(32.97%) but PFL has the lowest expected portfolio return (5.43%) and risk (6.20%) using CML.

- It is found that in most of cases portfolio management of listed finance companies in Nepal is not systematically organized.
- After analysis of portfolio performance evaluation using Sharp measure, NFCL has the great performance but PFL has the lower performance.
- It is found that to reduce portfolios risk most of corporate investors use diversification across industries technique.
- In Nepalese stock market, it is found that passive portfolio strategy is more suitable than active strategy to achieve better results.
- It is found that majority of corporate investors depends on fundamental analysis than technical analysis for portfolio securities selection.
- It is found that major objectives of portfolio management are to minimize risk.

Sigdel (2006), on *"An Analysis of Financial Position of Listed Finance Companies in Nepal"* A study of financial ratio was done. For the study purpose finance companies were taken. The main objective of the study was to study and analyze the present financial position of listed finance companied in Nepal, analyze the investment and lending practices practiced by finance companies, find out the prospects of listed finance companies in Nepal with the comparative analysis of deposit connection and loans and Advances .Further, the researcher tired to suggest and recommend measures for bitter prospects of finance companies on the basis of analysis of data she has used ratio analysis to measure the performance of the selected companies. The study covered seven fiscal years from 1997 to 2003.

Major Findings of the Study

- Current ratio analysis shows that all finance companies are not capable to meet their current asset sufficiently because their ratios are less than standard 2:1 for the just three years only CIT could meet this requirement.
- The quick ratio is smaller in all finance companies except citizen investment trust (CIT). Which indicates that they cannot meet their current obligations? This will lead the company to financial cusses.
- Cash and bank balance to total deposit ratio is smaller in all finance companies except CIT. Poor financial performance was observed in those companies his indicates that the deposit is not properly utilized in CIT and other companies have used it better than CIT. But some have used too much excessively.

- The operating expenses in the finance companies are higher. The bigger amount of resources has been expenses in the operating field. During the study period low operating profit has been recorded.
- Debt earnings of total assets are smaller because the net profits of these companies are in small amount. Return on total assets ratio analysis gives the low utilization of total assets to earn sufficient project.
- Net profit is really very fewer than total deposit. Low profit margin can hamper the business operator.
- The net profit against loan and advances are a bit unsatisfactory because the rate of profit earning is average is smaller in comparisons to the total loan and advance.
- The net profits against shareholders' equity are not so favorable. Negative figures for some years show the poorness of the companies.
- The overall total interest earned to working capital rates is not satisfactory. Companies were seemed to be less proactive in earning interest in working fund. The profit observed by the study is low to manage the working capital of the firm.
- The total interest by credit distribution sales is simply satisfactory according to the analysis. The finance companies seemed to earned interest as required to credit distribution. The interests earned in comparison to credit distributed by the companies are sufficient.
- The total interest paid to total deposit rates is unsatisfactory. The interest paid to the deposit is lower than the expectation of general public in fair market system.

- Market value to book value rates is not satisfactory but not so bad. Improvement is necessary. Market value is lower. On the basis of findings, she has recommended some of these companies.
- The companies should involve in other future oriented investment practices. They should project themselves in new investment practices like venture capital, which helps entrepreneurs to actualize specific ideas and inventions.
- Finance companies are recommended to practice activities like project management, share issue planning and management, merger and acquisition, brokerage and service, design of capital structure, helping buying and selling of marketable securities on behalf of their clients, arranging foreign collaboration to make easy the work of local promoters, loan syndication, underwriting, amalgamation and takeover.
- It is better to finance companies to maintain the liquid fund to total deposit ratio at about 0.15:1 than keeping high by making huge investment in government securities.
- Finance companies need to decrease interest rate on loan and advances. This will decrease cost of production.
- Finance companies now need to shift their investment and credit strategy to the productive sectors of the economy.
- NRB should keep a strict watch over the activities of the companies to protect the public interest for this regular flow of information must be made mandatory of NRB to have correct evaluation and monitoring to their performance and maximize any irregularities directed in the course of investigation. Progress reporting should be a

continuous process and it should be transparent to all the stakeholders and general public. This would be effective way to ensure that everything is fair and transparent and no investors will be cheated.

Shrestha (2006), on *"A Comparative Study of Market Performance of Finance Companies Established Inside and Outside Valley"* for the study purpose 10 finance companies were taken. 5 from inside the valley and 5 companies from outside the valley. The selected companies taken were:

Finance companies from inside the valley

- Kathmandu Finance Limited (KAFC)
- Universal Finance Company Limited (UFCL)
- Nepal Housing and Merchant Finance Ltd. (NH & MF)
- Nepal Merchant Banking and Finance Ltd. (NMB)
- Ace Finance Company (ACFL)

Finance companies from outside the valley

- Paschimanchal Finance Company Ltd (PAFICOL)
- Narayani Finance Limited (NFL)
- Mahalaxmi Finance Company (MFC)
- Samjhana Finance Company (SFC)
- Pokhara Finance Company (POKF)

The main objective of the study was to examine the performance of the listed finance companies established inside the valley, identify the factors affecting the performance of finance companies inside and outside the valley. Examine the market price of share of finance companies, for this the researches has used arithmetic mean, unvaried analysis and hypothetical test for the analysis and the study covered the period of fiscal year 2060/61 to 2064/65.

Major Findings of the Study

- The average market price per share of finance companies established inside the valley is higher than that of finance companies established outside valley. There is significant difference between the finance companies established inside and outside valley at 5% level.
- The average market price per share of finance companies inside valley is highest for ACFL followed by KAFL, NH & MF, NMB and lowest for UFL. Among the finance companies outside valley, the average market price per share is highest for POKF, followed by NFL, MFL, and PAFICOL and lowest for SF.
- Analysis of net worth per share shows that the average net worth per share of finance companies outside valley is higher than that of finance companies inside valley.
- The average net worth per share of finance companies varies widely from on company to another companies inside valley is highest for KAFL followed by NH & MF, ACFL, and UFCL and lowest for NMB. In case of finance companies outside valley is largest for POKF followed by PAFICOL, NFL, and MFL and lowest for SF. The net worth per share values of both the finance companies have been in increasing trend over the period.

- The earning per share of finance companies outside valley, on an average is higher than that of finance companies inside valley, and there is a significant difference between the finance companies established and outside valley at 5% level.
- Analysis of earning per share indicates that the average earning per share is largest for KALF followed by NH & MF, ACFL, and UFCL and lowest for NMB in case of finance companies inside valley. The average earning per share of finance companies outside valley is largest for POKF, followed by MFL, PAFICOL, NFL, and it is lowest and even negative for SF. The earning per share of almost all the finance companies outside valet has increased even the period of time.
- Study of dividend per share revealed that the average dividend per share of finance companies outside valley is higher than that of finance companies inside the valley. The dividend per share of finance companies outside is in increasing trend.
- Study of price earning ratio revealed that price earning ratio of finance companies inside valley is higher than that of finance companies outside the valley.
- Analysis of dividend yield indicated that finance companies established outside valley on an average have provided higher dividend yield to their investor in comparisons to that provided by the finance companies inside the valley. But there is no significant difference between the finance companies established inside and outside valley.

Bhandari (2006), conducted a study as *"Dividend Policy a Comparative Study of Listed Finance Company"*. The study is primarily based on fine finance companies i.e. Annapurna finance company ltd, Nepal Housing Development Finance company Ltd, Kathmandu Finance Ltd, Narayani Finance company Ltd and Nepal finance and saving company ltd. Its main objective were to analyze the impact of dividend per share and other variables regarding dividend on market price per share, to assess the financial position of the listed finance companies in terms of dividends and other variables regarding dividends, examine the dividend policy of listed finance companies for this, the researcher study covered the period of cutting from year 2003/04 to 2007/08.

Major Findings of the Study

- A strong role is played by EPS and PER determines the MPS while DPS, DPR, DY and RONW have played weak role in case of Annapurna finance co. ltd.
- The relation of MPS with EPS, DPS, PER, DY and RONW is highly positive in NHDFCL whereas with DPR it is very low.
- The MPS of KFCL is positively related to all the variables in this case, MPS has how positive correlation with EPS and DY and very low positive relationship with rest of the variables.
- EPS of listed finance company is positively related to DPS, MPS, and RONW and negatively related to DPR, PER, DY.
- The result drawn from correlation analysis indicates that relation of MPS, with EPS, DPS, DPR, PER, and DY, RONW are same.
- The growth ration of Annapurna finance company is highest than other companies.
- Average EPS of AFCL is highest among other companies. While EPS of NFSCL is most volatile. Coefficient of variation of AFCL is lowest among other selected companies.

- Both average MPS and standard deviation of AFCL is highest and coefficient of variation of AFCL and NFCL is lowest among other companies.
- The average return on Net worth is highest in case of AFCL and lowest in case of NFSCL which also has highest standard deviation. Lowest standard deviation with reference to RONW is found on NHDFCL.
- Return on net worth of the selected finance companies are encouraging and have achieved two digit growth except in case of KFCL in the year 2005/06 and NFCL in the year 2005/06 and 2007/08
- The result drawn from DPS indicates that the policy of DPR and DY are same.
- DPS of Nepalese listed finance companies are not regular in every year. As KFCL couldn't pay dividend during FY 2004/05 and NFSCL couldn't pay dividend in FY 2004/05 and 2007/08.

2.3 Research Gap

For the purpose of the study, Eleven different researches carried out by different researches are reviewed which are to some extent related with the financial aspects of finance companies such as financial performances of different selected companies, investment analysis, market performance, prospects, dividend policy and portfolio management.

In this regard, seven research were related with the financial performance analysis of different selected companies, one was related to the investment analysis, one with the prospectus of finance companies, one for portfolio management of listed finance companies in Nepal, one conducted the research regarding the market performances of finance companies established inside and outside the valley and the other research was related with the dividend policy- A comparative study of listed finance companies.

All the research carried out degrading different aspects of finance companies at different period of time has provided different facts and views regarding various hidden facts of these companies. All these researches have been successful to some extent in portraying the position of finance companies. All these recommendation and suggestion put forward by them is useful to conduct the research on the other aspects of finance companies more properly and precisely.

Here, in this research study, an attempt has been made to conduct the research more effectively. This research study will try to cover all the aspects of finance companies which have remained unexplored in the previous research work. This research also includes various important information and data regarding finance companies which will be able to portray some of the present issues regarding the financial performance, growth, problems and many others which have direct impact on the performance of these companies. The research will also try to show the clear picture of finance companies, their current status in the present context.

The research to some extent will be helpful in accessing the growth of finance companies in the present context, their financial performance evaluation, study the implications of policies and regulations affecting the companies in their overall development in the most presentable and effective way. It will also try to portray how the finance companies should try to gain public confidence and can stand by stand with the commercial banks.

CHAPTER – III

RESEARCH METHODOLOGY

To accomplish the objectives stated in chapter1, this study follows the research methodology, described in this chapter. This study includes the various financial as well as statistical tools to analyze the data in order to come to the decisions. This chapter presents the research design, population and sample, nature and sources of data, financial statement analysis, selected finance companies etc.

3.1 Research Design

Research design is the main part of the thesis or any research work" research design is the plan, structure and strategy of investigations conceived so as to obtain answer to research questions and to control variance. The plan is the overall scheme of program of the research. It included an outline of what the investigation will do from the hypothesis and their operational implication to the final analysis of data. Thus research design is a plan to obtain the answer of research question through data. The research design of this study is based on exploratory as well as analytical type and also is less descriptive but more prescriptive because the historical secondary data have been employed to analyze the variable which is related to financial performance of selected finance companies to achieve prescribed result.

3.2 Population and Sample

The population of this study constitutes all the finance companies in Nepal. Currently, there are 60 finance companies in Nepal. Out of them, 49 finance companies are listed in

NEPSE. Three finance companies have been taken as sample for the study. The selected finance companies are as follows:

1) People's Finance Co.Ltd.
2) Katmandu Finance Co.Ltd.
3) Nepal Housing & Merchant Finance Co.Ltd.

3.3 Nature and Source of Data

The natural required of this research work is primarily secondary sources. The study has not demanded the primary data strongly. The data and information have been collected from different sources. The figures of equity share of data, balance sheet, profit and loss account for different years and ownership pattern of the companies have been collected. The financial statement of the listed companies, "published by the Nepal Stock exchange Limited, Katmandu. Other necessary information's have been gathered from NRB, finance companies, finance ministry, T.U. Library, authorized Web Sites, previous research, thesis, dissertation and Case studies, journals and articles etc.

Data obtained is presented in various tables, diagrams chart with supporting interpretation. Data is tabulated according to the nature of data on the basis of fiscal year, percentage and amount etc in different columns and rows. At least five fiscal years data has been tabulated. Data collected is then analyzed using statistical and financial tools and result is interpreted. The gathered data have been tabulated and shown in figures and diagrams wherever needed.

The study covered five fiscal years from 2060 to 2065. The study is base on these five fiscal years. The result conclusion and recommendations are drawn analyzing the data of five years.

3.4 Financial Statement Analysis

Financial statement analysis is largely a study of relationship among the various financial factors in a business as disclosed by the single set of statement and a study of these factors as shown in a series of statement. It is the process of analyzing the financial strength and weaknesses of the firm by properly establishing the relationship between the items of balance sheet and P/ L account.

Analysis of financial statement means the presentation of facts given in the financial statement into distinct and different components by using scientific methods and it also includes the arrangement of facts according to the need and connivance. Financial analysis involve the decision of facts on the basis of some define plans, classifying them into classes on the basis of certain conditions and presenting them in most convenient, simple and understandable form.

Financial statement analysis is done to find out the firm position according to the purpose. Basically, financial analysis is done to find out earning capacity and efficiency of various business activities, performance, efficiency and managerial ability, short term or long term solvency of a firm, profitability and future prospect, investigate the future potential and operational efficiency of similar concern. There are many tools for analyzing the financial statements broadly, can be divided into two parts i.e. financial tools and statistical tools. Both these tools are shortly described here.

3.4.1 Financial Tools

The data available will be firstly summarized. The hidden facts put forth by financial statements will be analyzed using financial tools such as ratio analysis, which is described below

3.4.1.1 Ratio Analysis

Ratio analysis is a powerful tool of financial analysis. A ratio is defined as the indicated quotient of two mathematical expressions and as the relationship between two or more things. In financial analysis, a ratio is used as an index or yardstick for evaluating the financial position and performance of a firm. It measures overall financial position and interprets and evaluates the financial position of a firm. Ratio analysis is used for calculation of the accounting data. According to the purpose of analysis, following ratios are used for financial analysis:

- Liquidity ratio
- Activity ratio
- Profitability ratio
- Capital structure (Leverage) ratio
- Capital Adequacy ratio
- Growth ratio

3.4.1.1.1 Liquidity Ratio

Liquidity ratio indicates the liquid position of business concerned to measure the ability of the firm to meets its maturing obligation. Liquidity ratio measures the ability of a firm to meet its short-term obligation and reflect the short-term financial strength solvency. In order to ensure short-term solvency of the company, the company must maintain adequate liquidity it means it should neither high or low. If the liquidity of the company is not enough, it will result in bad credit ratings, fewer creditors; confidence eventually may lead to the bankruptcy. If the company has high degree of liquidity funds, it will unnecessarily tie up in current assets. Thus, the company should endeavor to maintain proper balance between inadequate liquidity and unnecessary liquidity for the survival and for avoiding the risk of insolvency.

Following ratios are calculated for the purpose of our study

3.4.1.1.1.1Current Ratio

The current ratio indicates company's liquidity and short-term debt paying ability. It shows the relationship between current assets and current liabilities. It is computed by dividing the current assets by current liabilities. Thus,

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

Current assets include cash and those assets that can be converted into cash within a short period of time. Normally, not exceeding one year. Such as, cash & bank balance, money at call or short notice, loans & advances, investment in government securities. Similarly, current liabilities are those obligation which are payable with a short period. Sometimes, it is called working capital ratio. Deposit and other short-term loans, bills payable, tax provision, staff bonus, accrued expenses, dividend payable and miscellaneous are the examples of current liabilities.

The current ratio of 2: 1 is usually considered satisfactory applicable or is considered to be a rule of thumb. Higher the current ratio, greater the profitability of timely and full payment of current liability. Low ratio indicates that the firm may not be able to pay its future bills.

3.4.1.1.1.2 Cash and Bank Balance to Total Deposit Ratio

Cash and bank balances are the most liquid current assets. This ratio measures the percentage of most liquid fund with which the finance company to make immediate payment to the depositors. This ratio is computed by dividing cash and bank balance by total deposit. This can be presented as:

$$= \frac{\text{Cash and Bank Balance}}{\text{Total Deposit}}$$

Here, Cash and Bank Balance includes cash on hand, foreign cash on hand, cheques and other cash items, balance with domestic banks and balance held in foreign banks. The total deposit consists of current deposit, saving deposit, fixed deposit, money at call and short deposit and other deposit. A high ratio indicates the greater ability to meet their deposits and vice-versa. Moreover, too high ratio is unfit as capital will be tied up and opportunity cost will be higher.

3.4.1.1.1.3 Cash and Bank Balance to Current Assets Ratio

This ratio examines the finance companies liquidity capacity on the basis of its most liquid assets i.e. cash and bank balance. This ratio reveals the ability of the finance company to make the quick payment of its customer deposits. This ratio can be calculated by dividing cash and bank balance by current assets. This can be stated as,

$$= \frac{\text{Cash and Bank Balance}}{\text{Current Assets}}$$

A high ratio indicates the sound ability to meet their daily cash requirement of their customer deposits and vice-versa. Both higher and lower ratios are not desirable. The reason is that if a finance company maintains higher ratio of cash, it has to pay interest on deposits and some earnings may be lost. In contrast, if a finance company maintains low ratio of cash, it may fail to make the payment for presented cheques by its customers. So, sufficient & appropriate cash reserve should be maintained properly.

3.4.1.1.1.4 Investment on Government Securities to Current Assets Ratio

This ratio examines the portion of a finance company's current assets, which is invested on different government securities. More or less, each finance company is interested to invest their collected fund on different securities issued by government in different time to utilize their excess funds and in other purpose. Though government securities are not so liquid as cash and bank balance of finance company, they can easily be sold in market. This ratio can be calculated by dividing investment on government securities by current assets.

$$= \frac{\text{Investment on Government Securities}}{\text{Total Current Assets}}$$

Here, investment on government securities includes treasury bills and development bonds. This ratio shows that out of total current assets how much percentage of it has occupied by the investment on government securities.

3.4.1.1.2 Activity Ratio

Activity ratio can be used to know that efficiency of the different assets. With the help of these ratios, the analyst can know whether the assets are utilized efficiently or not. These ratios are also called turnover ratio. It measures how effectively the company employs the resources at its command. Funds are creates by the collection of share debt from the owner, creditors and outside parties.

3.4.1.1.2.1 Loan and Advances to Total Deposit Ratio

This ratio measures the extent to which the finance companies are successful in mobilizing, therefore the purpose of profit generation. This can be stated as,

$$= \frac{\text{Loan and Advance}}{\text{Total Deposit}}$$

Loan higher ratio shows the finance companies ability to provide the loan and to the people .a high ratio of loan and advances is consider to be the sign of efficient finance company management and better mobilization of collected deposits and vice versa.

3.4.1.1.2.2 Loan and Advance to Fixed Deposits Ratio

This ratio indicates how much of loan and advance is granted against fixed deposit. fixed deposit is the main account of the finance companies .fixed deposit is the higher interest rate payable deposit. Hence, finance companies must utilize the fixed deposit properly. Dividing loan and advance completes this ratio by fixed deposits. This can be presented as,

$$= \frac{\text{Loan and Advance}}{\text{Fixed Deposits}}$$

3.4.1.1.2.3 Investment on Government Securities on Total Working Fund Ratio

This ratio shows that finance companies investment on government securities in comparison to the total working fund. It is very significant to know the capacity of finance companies to mobilize their working fund to different types of government securities to maximize the income. All the deposits of the finance companies should not be invested in loan and advances and other credit form from security and liquidity point of view. Therefore, up to some extent, finance companies seem to invest their deposits by purchasing government securities. This ratio can be computed by dividing investment on government securities by total working fund. It is presented as:

$$= \frac{\text{Investment on government securities}}{\text{Total Working Fund}}$$

Here, the working fund includes all assets of balance sheet items. In other words, this includes current assets, net fixed assets, loans for development bonds and other investment in share debenture and other etc.

3.4.1.1.2.4 Total Investment to Total Deposit Ratio

This ratio measures the extent to which the finance companies are successful in mobilizing total investment on total deposit. The amount of deposit should be soundly invested, as the finance company has to provide interest on its deposit but also have to declare a handsome dividend to its owners i.e. shareholders. It is computed as:

$$= \frac{\text{Total Investment}}{\text{Total Deposit}}$$

A high ratio indicates that the finance company is efficient in investing on its deposits and a low ratio indicates inability to put its deposit for the lending activities.

3.4.1.1.3 Profitability Ratio

In any business organization, profitability is a major concern. A profitability of a firm can be measured by its profitability ratio. It is calculated to measure the operating efficiency of a firm. Profit is the objectives of all the policies frame and decision taken by the management. It reveals an interesting picture of how the organization has been managed. It is true that higher the profitability ratios better the financial performance and vice versa.

It measures management's effectiveness as shown by the return generated on sales and investment.

Profitability of a company can be measured by its profitability ratio. It can be determined on the basis of either sales or investment. Several types of profitability ratios are used to evaluate the profitability position of a firm. Profitability position can be evaluated through following way

3.4.1.1.3.1 Return on Total Assets Ratio

This ratio may also known as profit to assets ratio. Net profit refers profit after interest and taxes. It is also known as return on assets (ROA). Return on total assets evaluates the efficiency of a company in utilization and mobilization of the assets and its survival. This ratio is calculated by dividing net profit (loss) by total assets.

$$= \frac{\text{Net Profit}}{\text{Total Assets}}$$

Here, net profit is firm's profit after taxes excluding other charges such as dividend and other provisions. It is the pure income that needs for expansion, smooth operation of the firm. Total assets comprise those assets, which appear on the asset side of balance sheet. The high return on total assets ratio usually indicates that high profit margin and high turn over of total assets and vice versa.

3.4.1.1.3.2 Net Profit to Total Deposit Ratio

Net profit to total deposit ratio examines whether management has been capable to mobilize and utilize the deposit. It also helps to know the overall performance and generation of profit of finance companies. This ratio is most important to identify whether the organization is efficient or not in mobilizing its total deposit, so that timely corrective action could be taken. The return on total deposit ratio can be computed by dividing net profit by total deposits. This can be expressed as:

$$= \frac{\text{Net Profit}}{\text{Total Deposits}}$$

Here, net profit means profit before interest and taxes and total deposit means those total amount deposited in various accounts i.e. current, saving fixed, call and short deposit and other. Generally, higher ratio indicates better utilization of total deposit and vice versa

3.4.1.1.3.3 Net Profit to Net Worth Ratio

The net profit to net worth ratio is the measure to see the profitableness of the owner's investment or company earning power against owner's equity. It is also known as return on shareholder's equity. This ratio measures the managerial efficiency to use the owner's resources. This ratio is calculated by

$$= \frac{\text{Net Profit}}{\text{Net Worth}}$$

3.4.1.1.4 Leverage Ratio

The long-term solvency of a firm can be examined by using leverage or capital structure ratio. Leverage or capital structure ratio may be defined as financial ratios which throw light on the long-term solvency of a firm as reflected in its ability to assure long-term creditors with regards to periodic payments of interest during the period of loan and repayment of principle amount on maturity or in pre-determined installments at due date.

The capital structure ratios mainly highlight on the long-term financial health, debt servicing capacity & strength and weakness of the concerns. This ratio may be calculated from the balance sheet items to determine the proportion of debt in total financing. Following ratios are calculated to find out long-term financial solvency

- Debt/Equity Ratio
- Debt/Assets Ratio

3.4.1.1.4.1 Debt / Equity Ratio

Debt equity ratio examines the relative claims of creditors and owners against the firm's assets. It means it shows the relationship between borrowed funds and owners equity. It measures long-term solvency of the firm. A high ratio shows that creditors are greater than owners are and where as low ratio shows those owners are greater than creditors.

$$\text{Debt/Equity Ratio} = \frac{\text{Long Term Debt}}{\text{Shareholder's Equity}}$$

or,

$$\frac{\text{Total Debt}}{\text{Shareholder Equity}}$$

3.4.1.1.4.2 Debt /Assets ratio

The relationship between debt and assets is debt/asset ratio. This ratio is equivalent to debt to total capital ratio. Total capital; refers to sum of the capital and liabilities, while total assets refers all types of assets (current, fixed and intangible). It shows what portion of the capital assets is financial by out-sides funds and measures the financial safety to the outsides. It is calculated by dividing total debt by total assets.

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

Debt asset ratio measures financing total assets from debt capital. A low ratio represents security and high ratio represents risk to creditors. A firm should have neither high nor low debt asset ratio.

3.4.1.1.5 Capital Adequacy Ratio

The capital adequacy ratio is used to measure the strength of the capital structure adequacy of the available capital. A high or low capital adequacy ratio is undesirable items of lower return or lowered solvency respectively. Therefore, appropriate capital adequacy is needed but is a controversial matter. The capital adequacy ratio is measured by analyzing following ratio:

3.4.1.1.5.1 Shareholders Fund to Total Deposit Ratio

This ratio shows how well finance companies are maintaining sufficient amount as shareholders fund in comparison to the amount of total deposit. This ratio is calculated by shareholders fund divided by total deposit, which is presented as:

$$= \frac{\text{Shareholder fund}}{\text{Total Deposit}}$$

Here, shareholders fund is equal to the total equity or net worth.

3.4.1.1.5.2 Shareholders Funds to Total Assets Ratio

This ratio is concerned with the sufficiency of shareholders fund against the total assets. It is very essential for every financial institution to have a balance of required percentage of total assets at shareholders fund. Dividing shareholders fund by total assets we derive this ratio. This can be stated as

$$= \frac{\text{Shareholder Fund}}{\text{Total Assets}}$$

Generally, this ratio measures the relative claims of owners of the companies over the company's assets. A high ratio indicated that out of total assets, shareholders have more control over them and vice versa**.**

3.4.1.1.6 Growth Ratios

Growth ratio represents how well the finance companies are maintaining their economic and financial position. These ratios can be calculated dividing the last period figure by the period figure then by referring the product to the compound interest tables to determine the rate. Alternatively, it is calculated by using the following equations:

Dn = Do (I +g) n

Where, Dn = Dividend per share of current year

Do = Dividend per share of base year

N = Number of period

G = Growth rate

A high rate generally indicates better performance of a finance company and vice versa. To examine and analyze the expansion and growth of the finance companies business, following growth ratios are calculated in this study:

3.4.1.1.6.1 Net Profit

Net profit is the measure of the profitability performance for any business concern including finance companies. It is essential for its survival and growth and to maintain capital adequacy through profit-retention. This indicator is computed by subtracting total expenditure and interest & taxes from the operating income. It is also called net profit after interest and taxes. It is calculated by using following formula,

NPAI&T = OI – (TE+I+T)

Where,

NPAI&T = Net profit after interest & taxes

OI = Operating income

TE = Total Expenditure

I = Interest paid

T = Taxes

3.4.1.1.6.2 Earning Per Share

Earning per share measures the profit available to the equity holder on per share basis. EPS is a widely used ratio. This ratio is computed by dividing net profit after interest and taxes less preference dividend by the total number of equity shares outstanding of finance companies.

$$EPS = \frac{NPAI\&T - PD}{N}$$

Where,

EPS	=	Earning Per Share
NPAI&T	=	Net Profit After Interest & Taxes
PD	=	Preference Dividend
N	=	Number of Equity Shares

Since EPS reveals how much “Theoretically “belongs to the ordinary shareholders. Higher the EPS higher the amount of earnings belongs to the shareholders, which is considered favorable.

3.4.1.1.6.3 Dividend per Share

DPS is a part of net profit, which is distributed to the shareholders on per share basis. In other words, DPS is the net distributed profit belonging to the shareholder divided by the number of ordinary share outstanding. DPS is better because it shows exactly amount received by the owners. Hence, higher DPS is the result of better management. The company, which can provide higher DPS, can satisfy their shareholders. DPS is calculated as follows

$$\text{DPS} = \frac{\text{Dividend paid}}{\text{No.of Common Share Outstanding}}$$

DPS is the major concern for all that are directly or indirectly associate with that company. People are really interested to invest in that company which is paying higher dividend from longer period of the time from the past. So that people who are seeking for their investment will immediately motivated by this element. Hence, higher the DPS is considered favorable.

3.4.1.2 Statistical Tools

The relationship between different variables related to study topic would be drawn out by using statistical tools. The different tools to be used are:

3.4.1.2.1 Mean or Average

The average value is a single value within the range of the data that is used to represent all of the values in the series. Since, an average is somewhere within the range of the data , it is also called a measure of central value. Its value is obtained by adding together all the items and by dividing this total by the number of items. The formula is given below:

$$\overline{X} = \frac{X}{n}$$

Where,

x= Arithmetic mean

n= Number of items

3.4.1.2.2 Standard Deviation

The standard deviation is the most important and widely used measure of studying dispersion. It is known as root mean square deviation for the reason that the square root of the mean of the squared deviations from the arithmetic mean. The small Greek letter (read as sigma) also denotes it. It measures the absolute variability of a distribution.

Symbolically,

$$\sqrt{\frac{\phi d^2}{n}}$$

3.4.1.2.3 Co-efficient of Variation

The coefficient of the variation is the corresponding relative measure of dispersion, comparable across distribution, which is defined as the ratio of standard deviation to the mean expressed in resulting percentage. It is used in such problems where we want to compare the variability of two or more than two series.

Symbolically,

$$CV = \frac{\sigma}{\bar{X}} \times 100$$

3.4.1.2.4 Coefficient of Correlation

The term correlation indicates the relationship between two such variables in which changes in the values of one variable, the values of other variable also change. It helps in analyzing the co-variation of two or more variable.

The coefficient of correlation always varies between the two lines limits of +1 and –1 when there is perfect positive correlation, its value is +1 and when there is perfect negative correlation its value is –1. Its mid point is 0, which indicates absence of correlation.

There are various types of correlation. But the research study will be concerned to Karl Person’s correlation coefficient. This coefficient of correlation has been used to find out for the relationship between following two variables, which are as follows:

i. Coefficient of correlation between total deposit &total investment
ii. Coefficient of correlation between debt and return

$$r = \frac{N\sum XY - \sum X \sum Y}{\sqrt{\left[N\sum x^2 - \left(\sum x\right)^2\right]}\sqrt{\left[N\sum y^2 - \left(\sum y\right)^2\right]}}$$

3.4.1.2.5 Probable Error of the Co-efficient of Correlation

After the calculation of Co-efficient the next thing is to find out the extent to which it is dependable. For the purpose the probable error of the co-efficient of correlation is calculated. If the probable error is added to and subtracted from the co-efficient of correlation it would give two such limits with in which we can reasonable expect the value of co-efficient of correlation to vary.

$$PEr = \frac{.6745\ 1-r^2}{\sqrt{n}}$$

Where,

PEr	=	Probable error of Co-efficient of Correlation
R	=	Co-efficient Correlation
N	=	Number of pairs of observation

3.4.1.2.6 Co-efficient of Determination

The co-efficient determination is a measure of the degree of liners association or correlation between two variable, one of which happens to be independent and other being dependent variables. In other words, co-efficient of determination measures the percentage of total variation in dependent variable explained by independent variables.

Symbolically,

$$r^2 = (r)^2$$

$$R^2 = Co - effieient\ of\ Determination$$

R = Co-efficient of Correlation

3.4.1.2.7 Regression Analysis

Regression analysis is a statistical device with the help of estimate prediction of the unknown value of one variable from the known value of other variable. It is one of the scientific techniques and is considered as a useful tool for determination the strength of relationship between two or more variable?

Here, regression analysis is divided in two parts: simple and multiple. The analysis is used to describe the average relationship between only two variables at a time are known as simple regression analysis.

3.4.1.2.7.1 Regression Co-efficient

$$b = \frac{\sum xy}{\sum x^2}$$

3.4.1.2.7.2 Standard Error of Estimate

With the help regression equations perfect prediction is practically impossible, a measure of the precision of the estimates so obtained from the regression equations is provided by the standard error (S.E) of the estimate. Standard error is a word analogous to standard deviation which is a measure of desperation of the observations about the mean of the distribution and give us a measure of the scatter of these observations about the line of regression.

Where,

Syc **=** $\frac{\sqrt{1\sum(y-yc^{2}}}{N}$

Syc = The S.E of regression of Y value from yc

Yc = The estimated value of Y for given value of x obtain from the line of regression of Y of X

N = No. of observations

CHAPTER – IV

DATA PRESENTATION AND ANALYSIS

In this chapter collected data are presented and analyzed with various tools to achieve the objective studied and mentioned in the chapter one. This chapter consists of total four parts. These parts contain analysis and evaluation of financial performance and position of finance companies, their investments and credit sectors and their demand in future respectively.

4.1 Ratio Analysis

Ratio analysis is one of the most commonly used techniques in the analysis of financial statement and evaluation of managerial performance. In this section an attempts has been made to evaluate financial position of six finance companies taken in the sample of study to find out overall financial position and performance of the industry. It consists of calculation and analysis of different ratios including the following types:

a. Liquidity Ratio
b. Activity Ratio
c. Profitability Ratio
d. Leverage Ratio
e. Capital Adequate Ratio
f. Growth Ratio.

4.1.1 Liquidity Ratio

Liquidity ratio is compared to find out short term solvency position of a firm, the first concern of financial analyst. The ratio helps to check whether the firm is able to meet currently maturating obligation or not.

4.1.1.1 Current Ratio

It measures the short term solvency of the firm. It indicates the each rupee of the current assets available for each rupee of current liability. A normal standard current ratio is 2:1. Higher current ratio is the sign of better liquidity position. The current ratio is the most commonly used ratio for carrying out short term solvency because it shows the limit to which the claims of short term creditors are converted by assets that are expected to be converted into cash within a year.

As a conventional rule, a current ratio of 2 is 1 or more is considered satisfactory. The following table exhibits the current assets to current liabilities of the selected finance companies.

Table 4.1

Current Ratio (Times)

Finance Companies	2060/61	2061/62	2062/63	2063/64	2064/65	Mean	S.D	C.V
PFL	1.64	1.66	1.75	1.79	1.41	1.65	0.1322	8.012
KFL	3.55	4.70	2.67	2.13	1.11	2.832	1.2239	43.22
NH&MF	2.05	3.02	1.95	1.75	0.95	1.92	0.256	22.23

Source: Annual Reports

The table 4.1 shows that the mean current ratio of PFL is 1.65 is comparatively lower than the mean current ratio of other finance companies. KFL has higher mean current ratio of 2.832. Which indicates that, the ability to discharge the short-term obligation of that company so it is better than that of other companies? In general, current ratio is better when it meets 2:1 standard. The standard deviation measures the absolute dispersion of distributions, which represents that the current ratio of KFL. i. e. 1.2239 is less stable than other finance companies. Similarly, the coefficient of variation that measures the variability of the variable. This indicates that the current ratio of PFL i. e. 8.012 is more uniform then other finance companies.

Current ratio represents a margin of safety. i. e. a "cushion" of protection for creditors. The higher the current ratio, the greater the margin of safety. On other hand, a high current ratio of PFL Ltd. Indicates excessive investment in current assets leading to under utilization of finance companies resources and hence low current ratio of PFL indicates that the corporation may not be able to meet its short-term obligation. Hence low margin of safety. This may lead to loss of goodwill.

However, an arbitrary standard of 2 is to 1 should not be blindly followed. Firms with less than 2 is to 1 current ratio may be doing well, while forms with 2 is to 1 or even higher current ratio may be finding great difficulties in paying their bills. This is because the current ratio is a test of quantity, not quality.

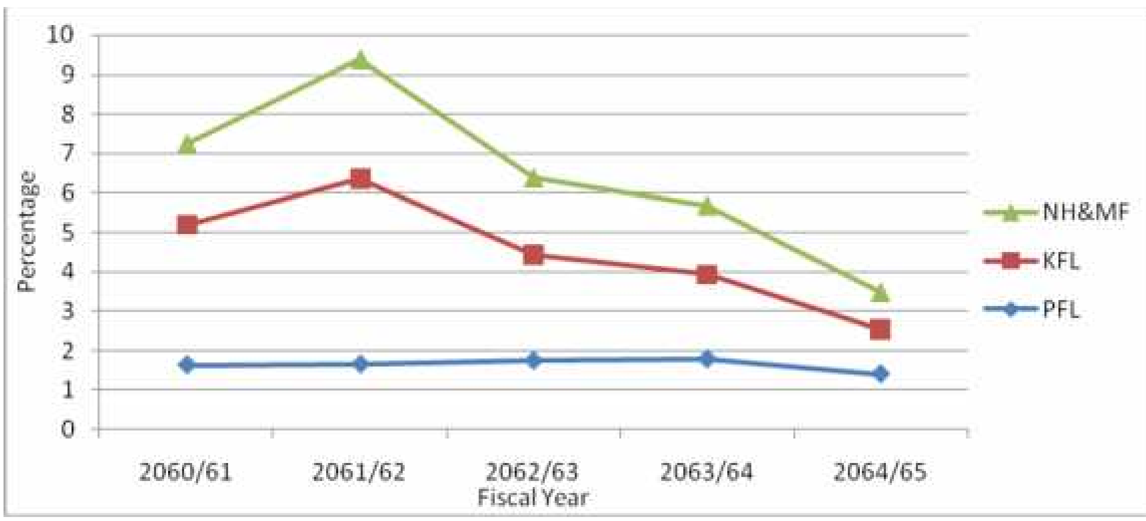
As a conventional rule, current ratio of 2:1 or more than it is considered as satisfactory. This table shows that PFL has more satisfactory mean current ratio then rest of two others.

The above-calculated ratios of current assets of Finance Companies during the study period are graphically presented as following.

The detail calculation of this above table is shown in annex-1

Figure 4.1

Current Ratio



4.1.2. Cash and Bank Balance to Total Deposit Ratio

This ratio is employed to measure whether bank and cash balance is sufficient to cover its current deposits.

The following table exhibits die cash and bank balance to total deposit ratio of selected finance companies.

Table 4.2

Cash and Bank Balance to Total Deposit Ratio (%)

Finance Companies	2060/61	2061/62	2062/63	2063/64	2064/65	Mean	S.D	C.V
PFL	-	1.93	28.65	24.03	18.04	14.53	11.67	79.78
KFL	8.0	10.67	14.55	13.10	15.64	12.39	2.7	22.24
NH&MF	2.03	1.37	3.92	13.14	13.29	6.75	5.358	79.18

Source: Annual Reports

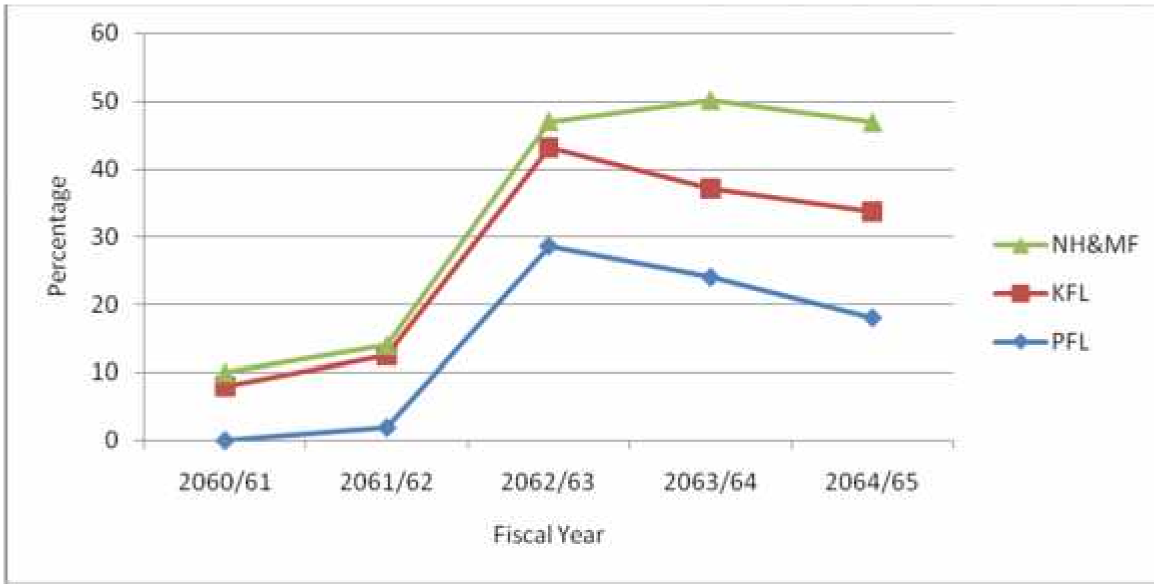
It is observed the total cash and bank balance to total deposit ratio of PFL is satisfactory in comparison to mean average from 2064 to 2065 but it is in decreasing order. The ration is increasing order in KFL except the FY 2063/64 (13.10%) it is over the average mean.

If we compare annually NH & MF ratio has increasing trends the FY 2062/063 to 2064/65 respectively 3.92% to 13.29%, which is also over the average 6.75% The mean cash and bank balance to total deposit ratio of PFL i. e. 14.53 % is considerably greater that that of other finance companies. The standard deviation of KFL has the lowest ratio i. e. 2.76% Likewise, the coefficient of variation ratio of KFL i. e. 22.24 is less that that of other finance companies. Which indicates that the variability of ratio of that company is more uniform and consistent. From the analysis, PFL is holding great ideal balance of cash, which is one of the main factors for less profit. This indicates that the finance companies is managed to keep less balance of cash against its various deposits. It implies the better liquidity position of PFL. In contrast, administrative high ratio of non-earning cash and bank balance may be unfit, which generates areas. However, there is no standard ratio in this aspect.

There is nothing to be worried about the lack of cash. IF the company has reserve borrowing power, firms have credit limits sanctioned from banks, and can easily draw cash.

Figure 4.2

Cash & Bank Balance to Total Deposit



4.1.3 Cash and Bank Balance to Current Assets Ratio

The following ration percentages are presented in the following table.

Table 4.3

Cash and bank Balance to current ratio (%)

Finance Companies	2060/61	2061/62	2062/63	2063/64	2064/65	Mean	S.D	C.V
PFL	87.60	56.35	64.83	69.15	63.33	68.26	10.52	15.41
KFL	11.40	14.14	16.48	16.24	19.80	15.62	2.78	17.79
NH&MF	5.74	2.76	9.06	29.31	24.89	14.36	10.69	74.45

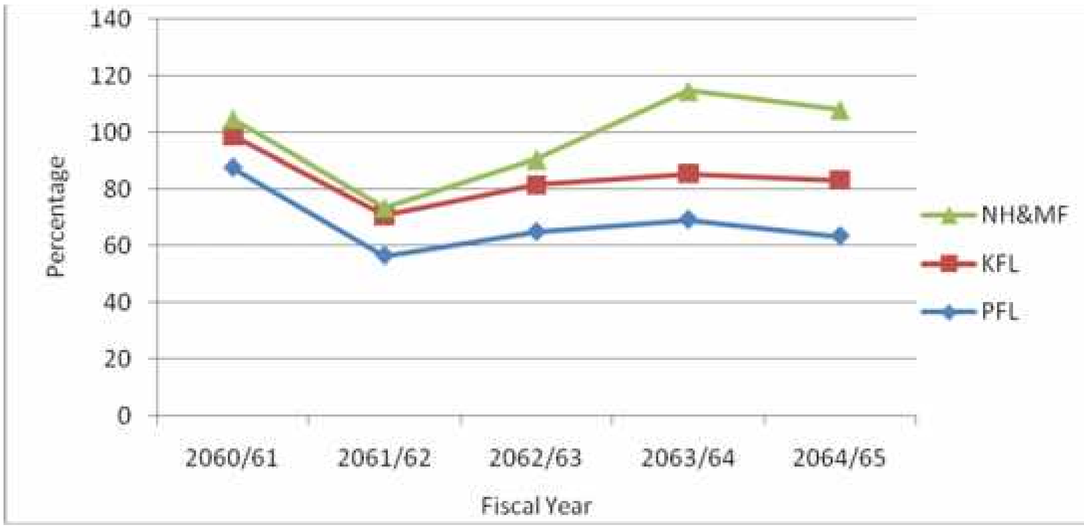
Sources: Annual Reports

From above table it is observed that the cash and bank balance to current asset ratio of PFL and NH & MF has been fluctuating over the study period, whereas the same ratio of KFL has been increasing trend. But the mean ratio of PFL of i. e. 68.26 % is greater than that of other finance companies. This supports that conclusion is, PFL has been successful to maintains higher cash and bank balance to current assets ratio but is does not mean that it has mobilized its more funds unprofitable sectors. It actually means that PFL can meet its daily requirement to make the payment on customer deposits. In contrast, the NH & MF i. e. 14.36% may have invested their fund in more productive sectors. The CV between the ratios of PFL is lower than that of other finance companies i.e. 15.41. This indicates that the variability of the ratios of the company is more consistent.

In this situation PFL has been successful to maintain daily cash payment. But their utility becomes more doubtful for firms with seasonal business. Therefore, they would mobilize their fund appropriately for improvement of business.

Figure 4.3

Cash and bank Balance to Current Ratio



4.1.4. Investment on Government Securities to Current Assets Ratio

The following table exhibits the ratio of selected finance companies.

Table 4.4

Investment on Government Securities to Current Assets Ratio (%)

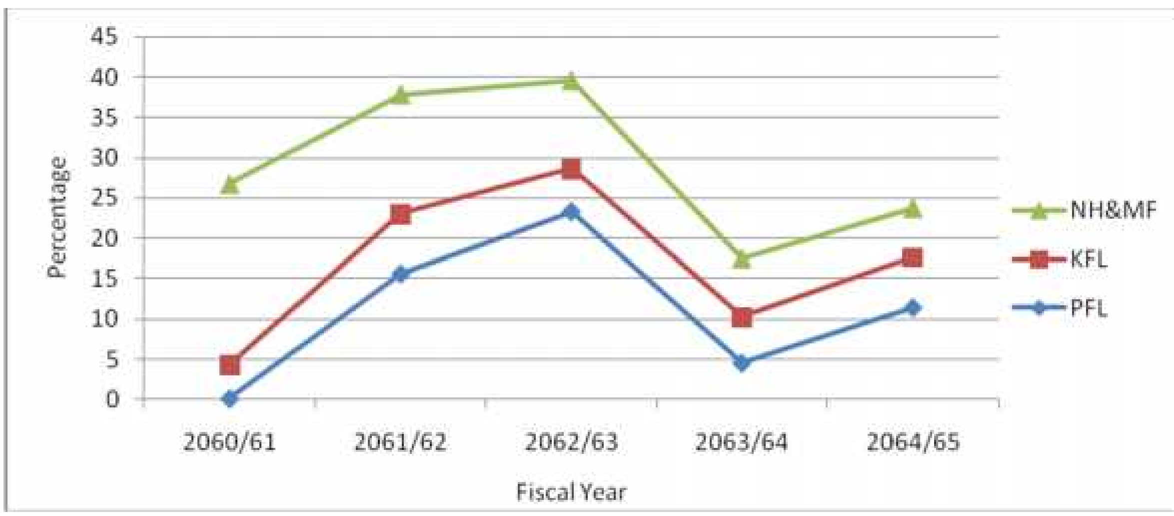
Finance Companies	2060/61	2061/62	2062/63	2063/64	2064/65	Mean	S.D	C.V
PFL	0.105	15.62	23.35	4.53	11.44	11.01	8.19	74.39
KFL	4.09	7.42	5.30	5.67	6.18	5.74	1.09	18.99
NH&MF	22.58	14.88	10.97	7.34	6.18	12.39	5.94	47.95

Source: Annual Reports

The above table of 4.4 reveals that the investment on government Security to current asset ratio of NH & MF has been in decreasing order annually 2060/061 to 2064/065 on the other hand this ratio of PFL and KFL is fluctuating over the study period. But the mean ratio of investment on government securities to current Assets of KFL i. e. 5.74 % is lower than that of other finance companies. it means KFL has not invested as much potion of its current assets. Moreover, the standard deviation between their ratios of PFL is higher i. e. 8.19 % coefficient of variation of PFL is higher than that of other finance companies i. e. 74.39 % . It is collusion that the higher ratio of administrative company gave the result of increasing deposit collections and unavailability of other secured and profitable investment sector. Lastly form the point of view of its ratio; NH & MF liquidity position is slightly richer than that of other finance companies.

Figure 4.4

Investment on Government Securities to Current Assets Ratio (%)



4.2 Activity Ratio

Activity Ratio of finance companies can be measured by following ratios.

4.2. 1 Loan and Advance to Total Deposit Ratio

The following table exhibits the ratio of loan and advances to total deposit of selected finance companies during the study period.

Table 4.5

Loan and Advances to Total Deposit Ratio (%)

Finance Companies	2060/61	2061/62	2062/63	2063/64	2064/65	Mean	S.D	C.V
PFL	-	107.06	93.86	91.57	91.75	76.85	29.20	37.99
KFL	101.32	94.263	92.00	93.63	101.16	96.55	3.92	4.06
NH&MF	74.80	80.29	82.48	79.46	77.64	78.93	2.58	3.28

Source: Annual Reports

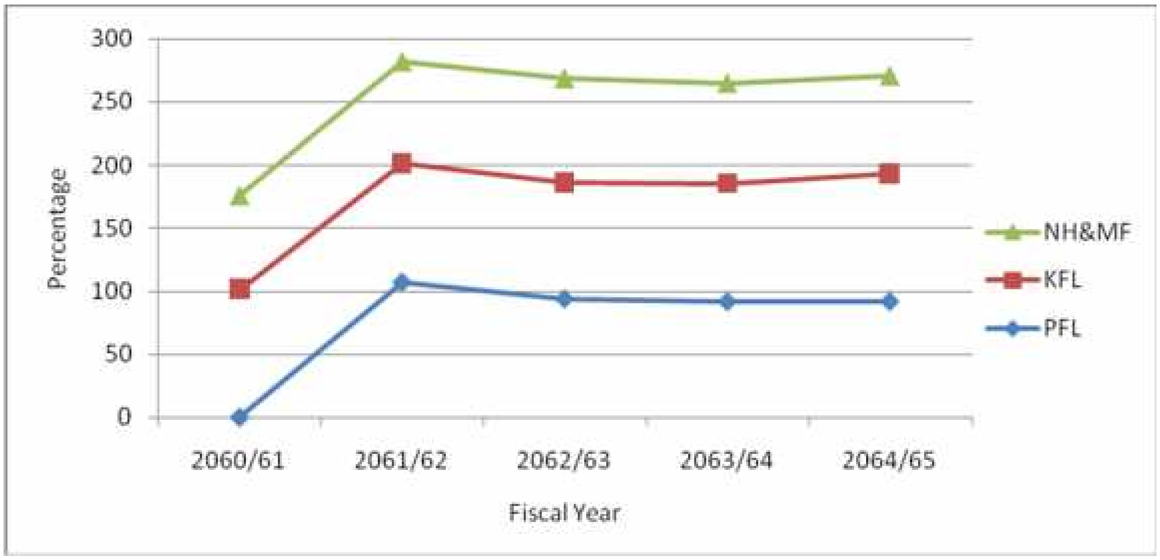
The above table 4.5 shows that loan and advances to total deposit ratio of PFL, KFL and NH & MF all have been gone randomly from 2060/061 to 2064/065. But the mean loan and advances to total deposit ratio of KFL i. e. 96.55% is considerably greater than that of other finance companies, where as the lowest PFL i. e. 76.85% similarly, the coefficient of variation of NH & MF i. e. 3.28% is to some extend lower than that of other. Its reasons are that the standard deviation is lower i. e. 2.58 % which indicates that the mire uniform between the variables.

So the quality of loan portfolio and soundness of management should always and strictly supervised in the finance companies and try to utilize deposit effectively.

The above-calculated ratios of loan advance to total deposit of Finance Companies during the study period are graphically presented as following.

Figure 4.5

Loan and Advances to Total Deposit Ratio (%)



4.2.2 Loan and Advance to Fixed Deposit Ratio

Table 4.6

Loan and Advance to Fixed Deposit (%)

Finance Companies	2060/61	2061/62	2062/63	2063/64	2064/65	Mean	S.D	C.V
PFL	-	107.06	93.86	91.57	91.75	76.85	38.40	49.79
KFL	101.32	94.63	92.00	93.63	101.16	96.55	3.93	4.07
NH&MF	74.80	80.29	82.48	79.46	77.64	78.93	2.58	3.28

Source: Annual Reports

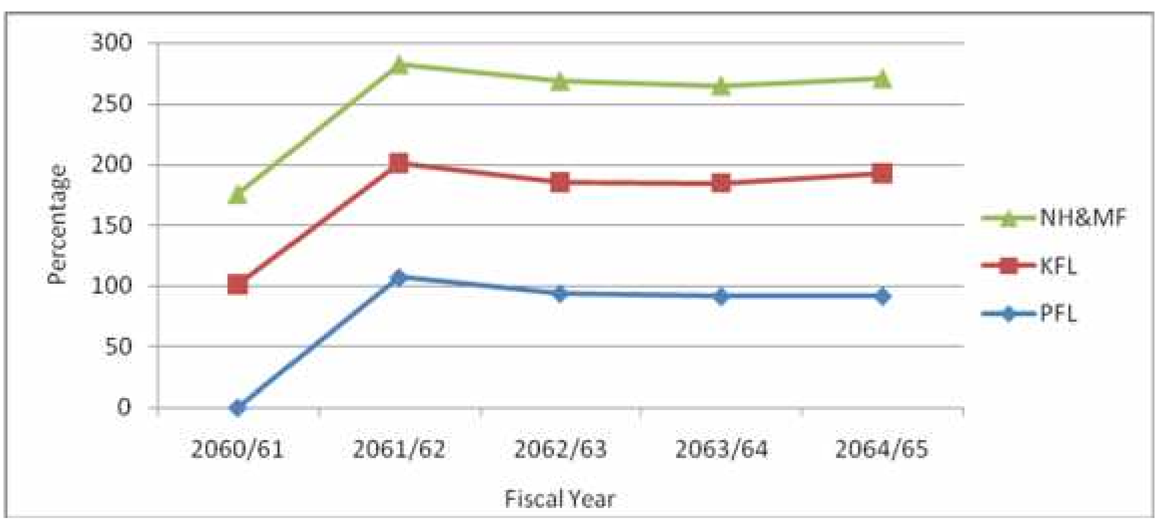
The above table 4.6 shows that loan and advances to total deposit ratio of PFL, KFL and NH & MF. All have been goes randomly from 2060/061 to 2064/065. Because amount of fixed deposit is utilized randomly. It is also affected by higher interest rate payable deposit.

It observes that the loan and advances to fixed deposit mean ratio of KFL. i. e. 96.56 % is properly utilized than that of other finance companies, where as the lowest PFL i. e. 76.85 %. The standard of the NH & MF i.e. 2.58 is lowest, and the highest i. e. 38.4% of the PFL. Likewise, the coefficient of variation between the rations of PFL is to some extent higher i. e. 49.97% which indicates that the variability of the ratios of that company is less consisted.

PFL and NH & MF should try to utilize their fund properly in loan and advances for going satisfactory position.

Figure 4.6

Loan and Advance to Fixed Deposit (%)



4.2.3 Investment on Government Securities to Total Working Fund Ratio

The following table shows the ratios of selected finance companies during the study period.

Table 4.7

Investment on Government Securities to Total Working Fund Ratio (%)

Finance Companies	2060/61	2061/62	2062/63	2063/64	2064/65	Mean	S.D	C.V
PFL	0.076	3.54	7.06	1.18	2.48	2.87	2.41	83.98
KFL	2.32	4.46	3.46	3.45	3.50	3.44	0.68	19.77
NH&MF	6.25	5.99	3.02	2.5	1.92	4.07	1.77	43.49

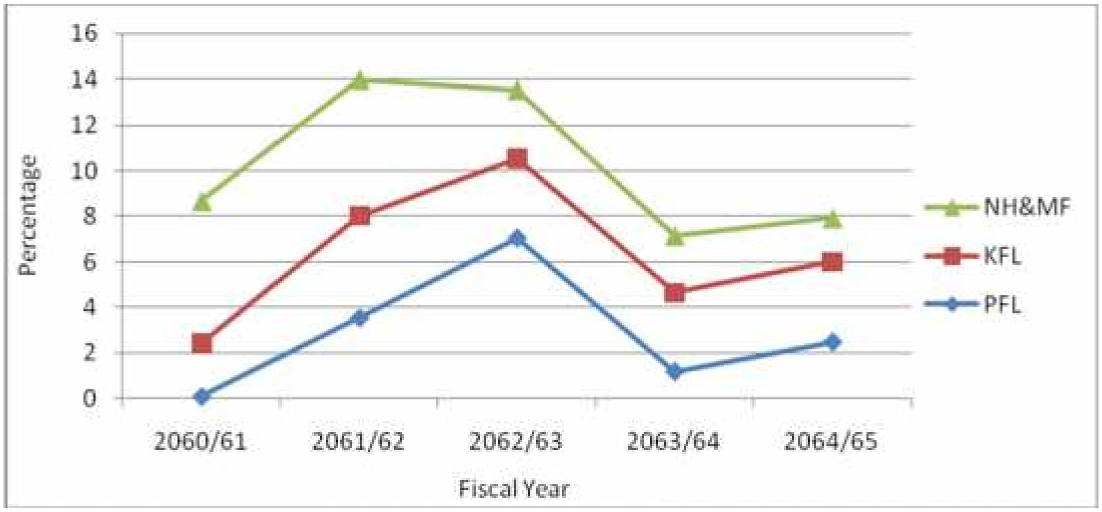
Source: Annual Reports

Above table 4.7 reveals than the mean ratio of investment on government securities and total working fund, NH&MF seems to be capable to maintain the attractive ratios performance i. e. 4.07%. The standard deviation of KFL i. e. 0.68% is lower. Similarly the coefficient of variation of KFL is less than that of other finance companies i. e. 19.77% which indicates that the variability between these ratios is more homogeneous during the study period. Lastly up to some extent NH&MF seem to be invested to utilized to utilized deposits by purchasing government securities, which indicates that, the positive relation with government.

The other two companies have to increase their government securities and they should keep positive relation with government for their betterment.

Figure 4.7

Investment on Government Securities to Total Working Fund Ratio



4.2.4 Total Investment to Total Deposit Ratio

The ratio measures how much the FC's are successful in mobilizing total deposits on total investment. In the present study total investment refers to government treasury bills', development bonds, company's shares and other investments.

Table 4.8

Total Investment to Total Deposit Ratio (%)

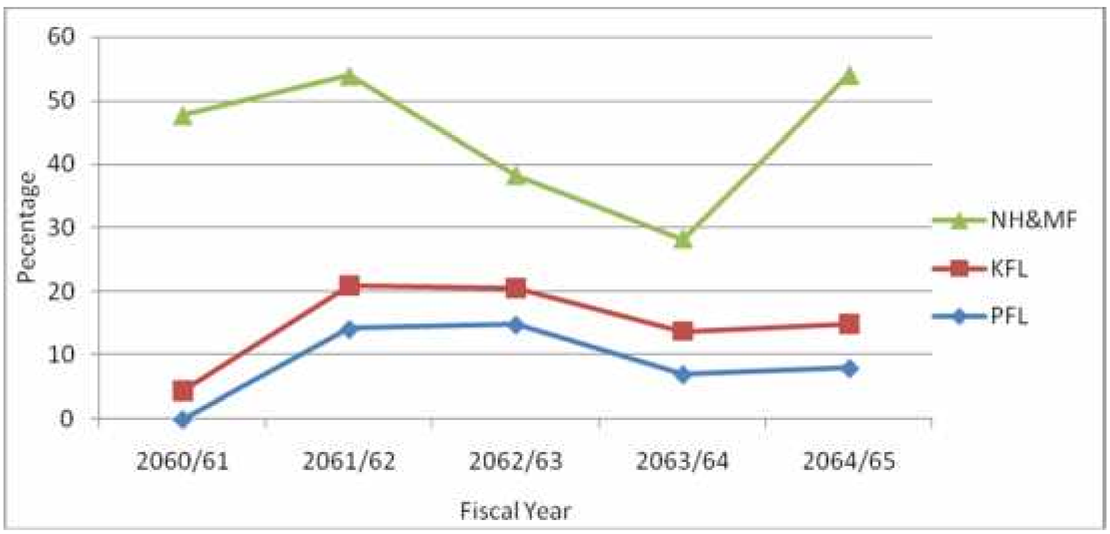
Finance Companies	2060/61	2061/62	2062/63	2063/64	2064/65	Mean	S.D	C.V
PFL	-	14.11	14.78	6.97	7.95	8.74	5.40	61.71
KFL	4.33	6.84	5.72	6.74	6.93	6.12	0.99	16.23
NH&MF	43.33	32.94	17.83	14.55	39.2	29.31	11.34	38.68

Source: Annual Reports

The above table 4.8 reveals that the mean ratios, NH&MF has highest i. e. 29.31% and lowest ratios i. e. 6.12% of KFL It can be said that KFL capacity to mobilize its Total investment on total deposits is not as good as compare to the other finance companies. The standard deviation of KFL is lowest i. e. 0.99% Likewise, observing the coefficient of variation of ratio, we can further conclude that PFL ratios have been quite more in consistent than that of other finance companies during the study period because of its higher CV i. e. 61.71% Lastly, it is clear from the above analysis, administrative high ratio is the indicator of high success to mobilize the finance companies fund as investment government securities, phase. Debenture of other companies, banks etc. and vice versa.

Figure 4.8

Total Investment to Total Deposit Ratio %



4.3 Profitability Ratio

The following ratios are computed to analyze the selected finance companies.

4.3.1 Net Profit to Total Assets Ratio

Return on Total asset is an overall profitability rate, which measures earning power and overall operating efficiency of a firm.

Table 4.9

Net Profit to Total Assets Ratio (%)

Finance Companies	2060/61	2061/62	2062/63	2063/64	2064/65	Mean	S.D	C.V
PFL	-10.83	0.48	1.80	2.36	1.29	-0.98	4.97	506.49
KFL	1.82	2.6	-6.08	3.36	5.32	1.407	3.92	278.61
NH&MF	-0.65	0.56	-	0.99	20.037	0.187	0.56	299.47

Source: Annual Reports

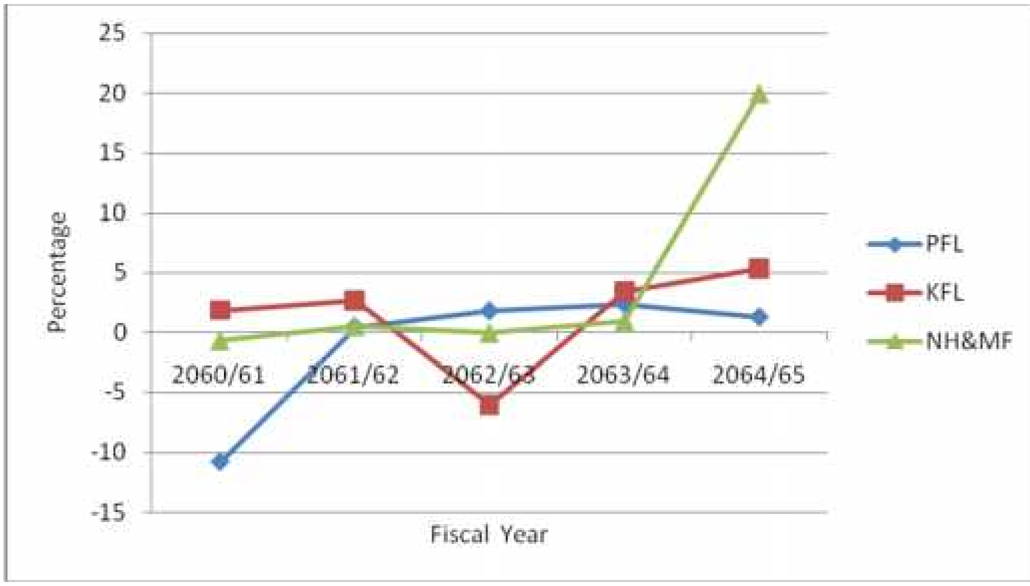
The above comparative table 4.9 reveals that, the return on total assets ratio of all finance Companies recorded increasing and decreasing trend during the study period. And the mean ratio of KFL is greater than that of other i. e. 1.407 %. The standard deviation of NH&MF it lower i. e. 0.56 % than other finance companies. Similarly, the coefficient of variation between the ratios of NH&MF. is higher than that of other two companies i. e. 299.47% . This indicates that the variability of the ratios of that company is less consistent. Lastly, it is concluded from above analysis that net profit to total assets ratio in the case of KFL has better performance by utilizing its overall resources than other finance companies.

Rest of the companies' i. e. PFL and NH&MF should utilize their resources to high their profit.

The above-calculated ratios of concerned finance Companies are graphically presented on the following.

Figure 4.9

Net Profit to Total Assets Ratio (%)



4.3.2 Net Profit to Total Deposit Ratio

This ratio reveals that the relationship between net profit after tax and interest and total deposits with an explanation of the ability of management in efficient utilization of deposits. This ratio is mirror of banks. Overall financial performance as well as it success in profit generation ratio, the reason is that deposits and earning by utilizing, this is the mean aspects finance companies.

The following table reveals the percentage of net profit to total deposit of Finance companies.

Table 4.10

Net Profit to Total Deposit Ratio (%)

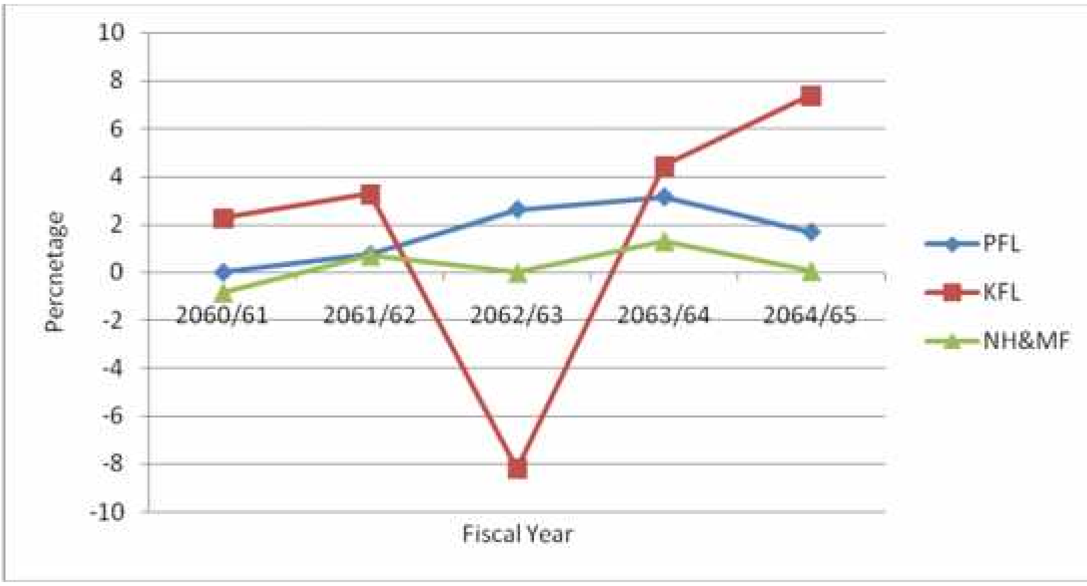
Finance Companies	2060/61	2061/62	2062/63	2063/64	2064/65	Mean	S.D	C.V
PFL	-	0.75	2.63	3.15	1.70	1.65	1.17	70.19
KFL	2.26	3.26	-8.22	4.44	7.41	1.83	5.32	290.71
NH&MF	-0.83	0.70	-	1.30	0.06	0.25	0.72	288.00

Source: Annual Reports

The above table shows that this ratio of KFL Ltd has regard between 2.26% (2060/061) and 7.41% (2064/065) with an increasing trend except in 2062/063 (8.22%) negative. Similarly, PFL and NH&MF have going and random the ratio of trend. The mean net profit to total deposit ratio of KFL Has considerably higher and lowest ratio of NH&MF i. e. 0.25%. Thus if is concluded that the ratio of NH&MF has not better performance in utilizing of total deposits than other finance companies. The standard of NH&MF is lower i. e. 0.72%. Moreover the coefficient of variation of KFL. Has the highest ratio i. e. 290.71 % which indicates that the company's net profit to total deposit ratio is more variability. The maximum use of deposit i. e. giving loan advance, the companies may in profit.

Figure 4.10

Net Profit to Total Deposit Ratio (%)



4.3.3 Net Profit to Net worth Ratio (Ordinary Shareholder's Equity)

It basically measures the company return toward the investment by owner of the company. This ratio reveals how the FCos have utilizes profitability of the owners' fund. This ratio helps us to judge whether the firm has earned satisfactory return for its equity holders or not.

The net profit to net worth ratio of finance companies is presented in the table Which are as follows:

Table 4.11

Net Profit to Net worth Ratio (%)

Finance Companies	2060/61	2061/62	2062/63	2063/64	2064/65	Mean	S.D	C.V
PFL	-.19.39	1.39	12.62	22.61	15.44	6.54	14.66	224.16
KFL	28.2	13.58	81.65	45.18	59.39	12.94	49.64	384.55
NH&MF	0	7.82	0.38	12.38	0.53	4.23	5.02	118.68

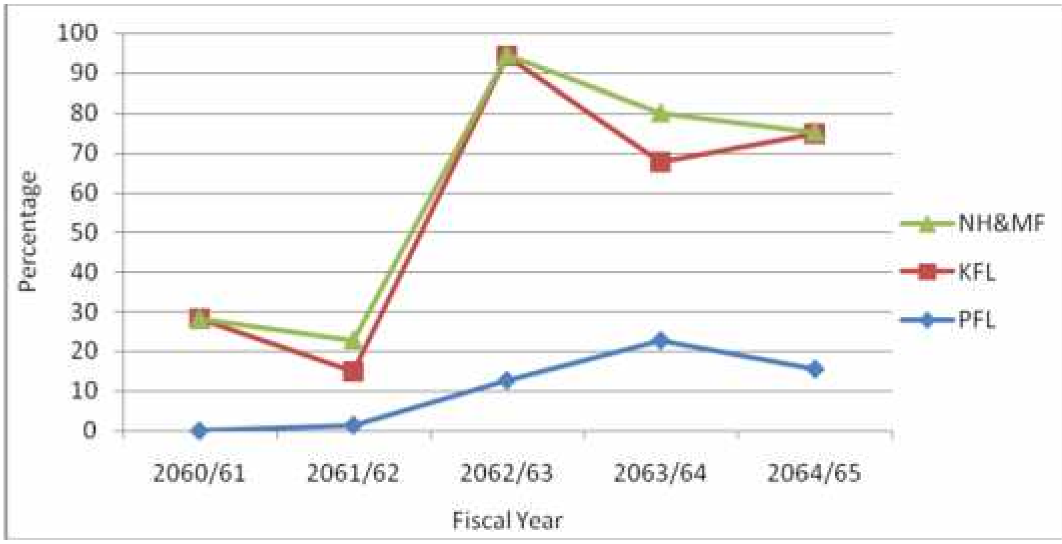
Source: Annual Reports

The above table 4.11 reveals that the ratio of PFL has ranged 1.39% (2061/062) to 22.61% (2063/064 with an increasing trend during the first 3 years and than decreasing in FY 2064/065. KFL has got higher profit in FY 2064/065 i. e. 59.39%. In FY 2062/063 PKFL profit after tax negative so ROSE is negative. But thereafter ROSE is increasing. The mean ratios of KFL has the highest ratio i. e. 12.94% than that of the other finance companies, which appeared, better achievement by mobilizing on resources of shareholders equity and vice versa. The standard deviation of NH&MF i. e. 5.02%, which is the lower than that of others. Similarly, the coefficient of variation of KFL has the highest ratio i. e. 384.55%, which indicates that the ratios are more variability or fluctuating in the fiscal year 2060/061 to 2064/065.

It shows that the other two companies PFL and NH&MF achieve better result by mobilizing on resources of shareholders equity.

Figure 4.11

Net Profit to Net worth Ratio (%)



4.4 Leverage Ratio

The significant leverage utilized in the study period is presented below.

4.4.1 Debt-Asset Ratio

This ratio shows that what portion of the capital assets is financed by outside fund. A high debt 'ratio implies. F. Cos success in exploiting debt to be more profit table as well as its risked capital structures.

Higher the debt ratio indicates higher financial risk as well as increasing claim of outsides in total assets. Similarly lower the ratio indicates lower financial risk as well as decreasing claims of outsides.

Conventionally a ratio of 1: 2 is considered to be satisfactory, although no hand and fast rules exist.

The following table exhibits the debt-assets (debt to capital) ratio of finance companies.

Table 4.12

Debt Assets Ratio (%)

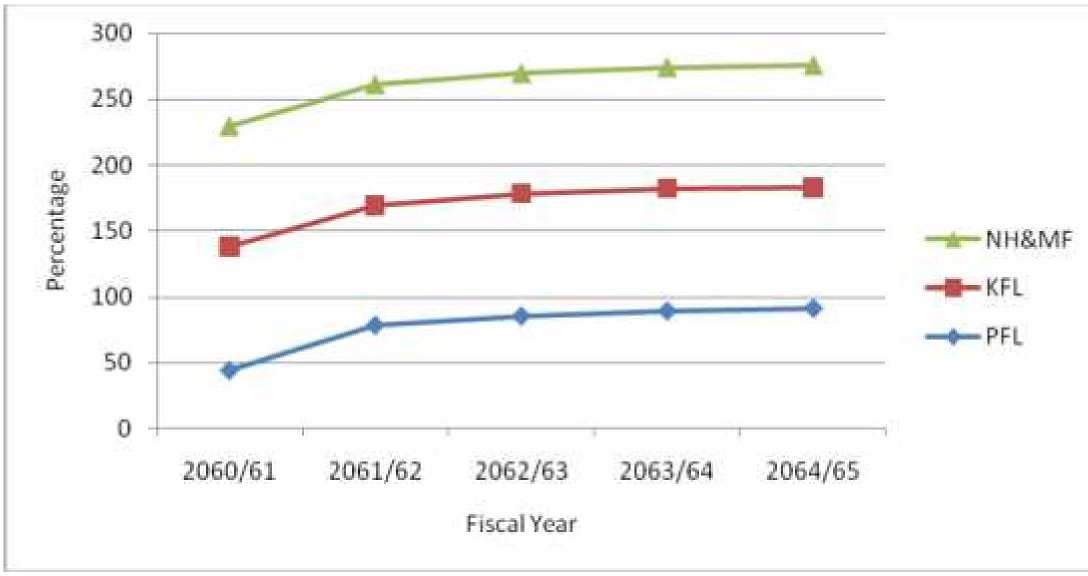
Finance Companies	2060/61	2061/62	2062/63	2063/64	2064/65	Mean	S.D	C.V
PFL	44.17	78.61	85.72	89.53	91.63	77.93	17.45	22.4
KFL	93.54	90.37	92.54	92.57	91.05	92.01	1.14	1.24
NH&MF	92.01	92.077	91.23	92.00	93.04	92.21	0.64	0.69

Source: Annual Reports

The comparative table shows that the debt assets ratio of the PFL is increasing trend during then study period. But KFL and NH&MF have been financed more than 90% of the assets by debt capital over the stud/ period. The mean debt assets ratio of NH&MF. is to some extend slightly higher ratio i. e. 92.21% and lower ratio i. e. 77.93% of PFL in comparison to other one finance company likewise the standard of NH&MF i. e. 0.64% is lower and the higher i. e. 17.45 % of PFL. The coefficient of variation between the ratios of is lower than that of other Finance Companies i. e. 0.69% which indicates that the variability of the ratio of NH&MF is more consistent and the other hand PFL i. e. 22.4% indicates less uniform. Finance companies from the above description it can be concluded that the capital structure of NH&MF. I highly leveraged in comparison to the companies, so NH&MF is more risky project.

Figure No. 12

Debt Assets Ratio (%)



4.4.2 Debt equity Net worth ratio

The following table shows the equity ratio of selected finance companies.

Table 4.13

Debt Equity Ratio (Time)

Finance Companies	2060/61	2061/62	2062/63	2063/64	2064/65	Mean	S.D	C.V
PFL	0.79	3.67	6.00	8.55	10.95	5.99	3.65	59.51
KFL	14.44	9.40	12.42	12.45	10.16	11.77	1.80	15.30
NH&MF	11.52	12.83	10.40	11.49	13.37	11.92	1.06	8.86

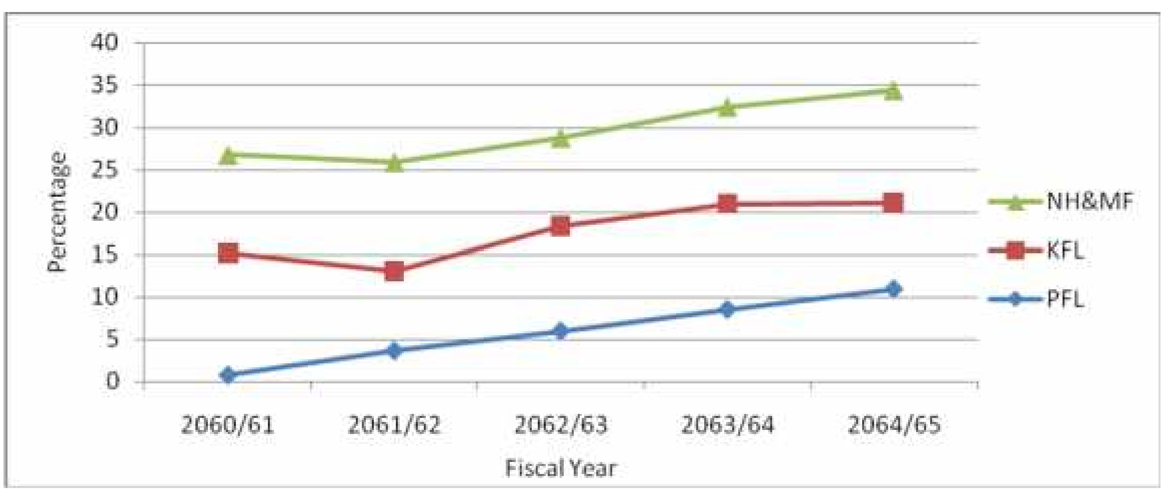
Source: Annual Reports

The above listed table 4.13 shows that the debt equity ratio of NHMF is increasing trend during the review period. Similarly KFL Ltd and are going randomly, but the mean debt equity ratio of PFL is lower than that of other finance companies i. e. 5. 99 times. The SD of NH&MF is lower i. e. 1.06 times. Likewise, the coefficient of variation between the ratios of NH &MF is lower i. e. 8.86% which indicate that the variability of the ratio is to some extent more uniform than that other F companies and vice versa. From the above analysis, it can be concluded that the PFL and NH&MF capital structure is less leveraged in comparison to KFL Ltd. companies during the study period are graphically presented below.

KFL has to low its debts equity ratio to maintain is position as other two finance companies.

Figure 4.13

Debt Equity Ratio (Time)



4.5 Capital Adequacy Ratios

The capital adequacy ratio of finance companies can be measured be analyzing following ratios.

4.5.1 Shareholder's Fund to Total Deposit Ratio

The shareholder's fund to total deposit ratio of F Cos for fiscal year 2060/061 to 2064/065 has been tabulated below:

Table 4.14

Shareholder's Fund to Total Deposit Ratio (%)

Finance Companies	2060/61	2061/62	2062/63	2063/64	2064/65	Mean	S.D	C.V
PFL	0	30.88	18.09	10.77	8.09	13.57	1.41	76.75
KFL	7.21	9.94	8.84	8.64	9.21	8.77	0.76	8.73
NH&MF	8.99	7.9	10.53	9.71	13.05	10.05	1.74	17.31

Source: Annual Reports

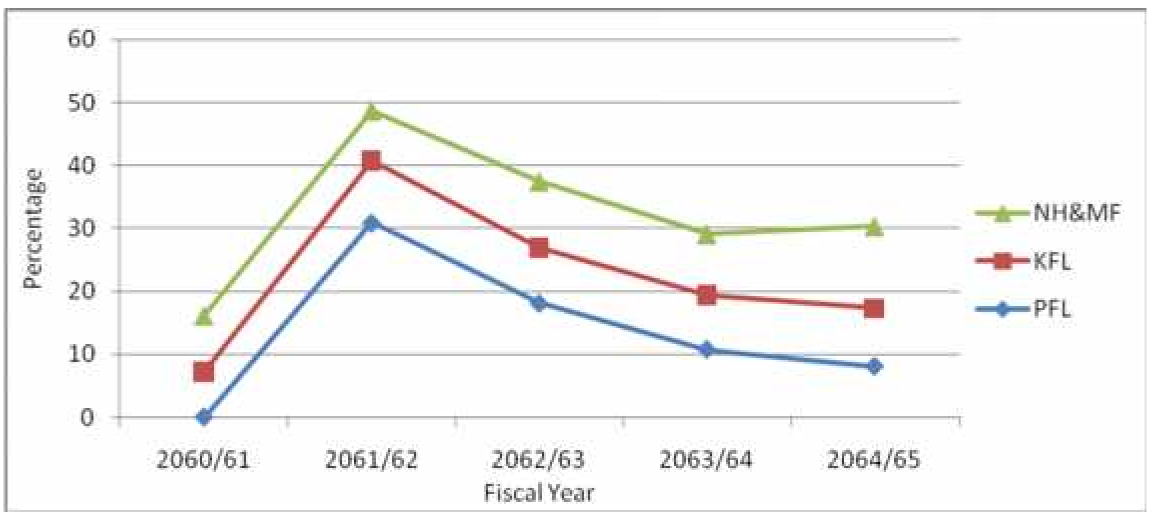
Above table reveals that shareholder's fund to total deposit ratio of PFL has been decreasing trend from FY 2061/062 to 2063/064 regularly. But it maintains highest ratio i. e. 13.57% in comparison to others two. Same ratios of KFL and NH&MF have been fluctuating trend over the study period.

The standard deviation of PFL is highest i.e. 1.74% and lowest i. e. 0.76% of KFL Similarly, the co-efficient of variation in the ratio of PFL is higher than other F. Cos i. e. 76.75% means that the less homogenous for more variability. In conclusion, it can be said that though PFL has success to maintain higher ratio of shareholders fund to total deposit but it has not capable to achieve the stability in ratios rather it decreasing.

For the case of all companies they have to increase their ratio even to catch up average. The above calculated ratios of shareholders fund to total deposit of concerned finance companies during the study period are graphically presented on the following

Figure 4.14

Shareholder's Fund to Total Deposit Ratio (%)



4.5.2 Shareholders Fund to Total Assets Ratio

The shareholders fund to assets ratios of finance companies during the fiscal year 2060/061 to 2064/065 are tabulated below.

Table 4.15

Shareholders Fund to Total Assets Ratio (%)

Finance Companies	2060/61	2061/62	2062/63	2063/64	2064/65	Mean	S.D	C.V
PFL	52.689	20.06	12.38	8.07	6.17	19.887	17.08	85.98
KFL	5.80	6.44	6.50	6.63	6.61	6.38	0.29	4.60
NH&MF	7.05	6.39	8.27	7.38	7.71	7.74	0.62	8.45

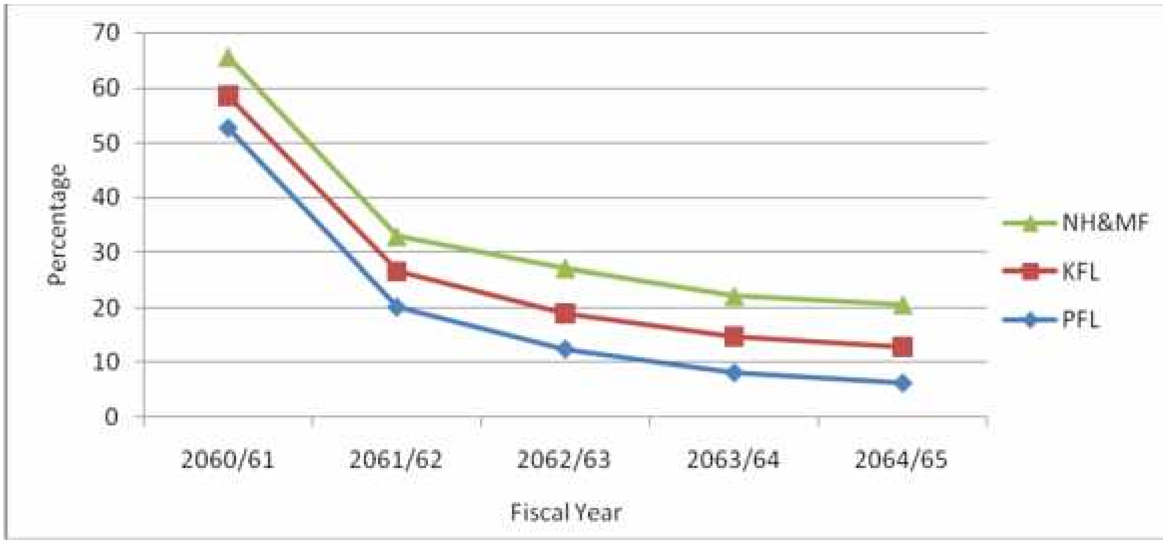
Source: Annual Reports

Note: shareholders fund = Ordinary Share+ Shareholder Reserve

According to table listed above the ratio of PFL has ranged between 52.689% (2061/062) to 6.17% (2064/065). It goes in decreasing order from FY 2060/061 to 2064/065 regularly. The same ratio of KFL is going on increasing trend in study period in the e case of NH&MF is in fluctuating trend. So assets turnover shows the activities of the firm in the relation to investing on fixed assets. Among 3 companies the performance of PFL is better than other. P. F. Ltd is the worst of all among the companies. Moreover, the standard devotion of KFL is lower i. e. 0.29% and the higher of PFL i. e. 17.08% similarly, lower coefficient of variation regarding the ratios eighth respect to KFL. i. e. 4.60% indicates that he finance company has performed stable ratios and vice-versa. Finally, administrative conclusion can be drawn that PFL has definitely grab the future opportunity due'-to its existing earning performance by employing debt fund, and capital adequacy position is better than that of other Finance Companies. Similarly, rest two companies should increase their shareholder's fund for their betterment.

Figure 4.15

Shareholders Fund to Total Assets Ratio (%)



4.6 Growth Ratio

Under this topic, growth ratios are described on the basic of following indicators:

4.6.1 Net Profit

The following table exhibits the net profit of selected F. Cos during the study period 2060/061 to 2064/065.

Table 4.16

Net Profit

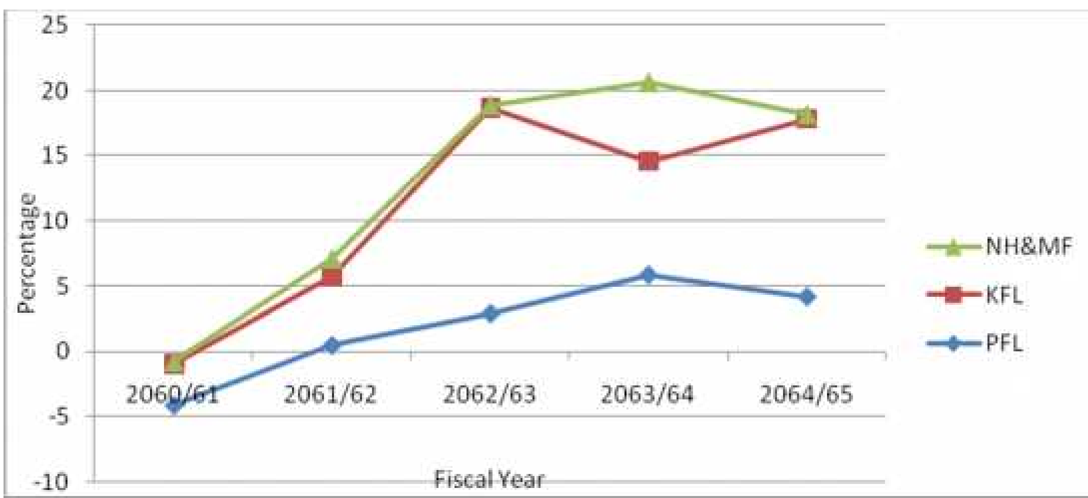
Finance Companies	2060/61	2061/62	2062/63	2063/64	2064/65	GR	AGR
PFL	-4.112	0.4849	2.9106	5.8588	4.1859	0.45	17.45
KFL	3.1437	5.2506	-15.7998	8.7440	13.6606	44.4	17.42
NH&MF	0.2194	1.3948	0.1505	6.0292	0.2916	7.4	17.42

Source: Annual Reports

According to table 4.16 listed above obviously shows the growth rations of net profit in case of finance company i. e. here KFL has success to keep normal growth rate i. e. 44.4% in comparison to two other finance companies. On the other hand PFL and NH&MF are Unable to meet the range of AJG.R. So that G. R. of net profit of KFL is generally two and half times greater than that of average G. R. 1 2. 42% during the review period. The above-calculated values of net profit of selected PCs are graphically presented on the following.

Figure 4.16

Net Profit



4.6.2 Earning Per Share

The earning per share of finance companies is presented in following table.

Table 4.17

Earning Per Share (EPS)

Finance Companies	2060/61	2061/62	2062/63	2063/64	2064/65	GR	AGR
PFL	-20.55	2.42	14.55	29.30	20.93	0.46	4.4
KFL	15.17	26.25	-79	43.721	68.34	44.4	4.4
NH&MF	2.2	4.65	0.033	10.5	0.48	-31.65	4.4

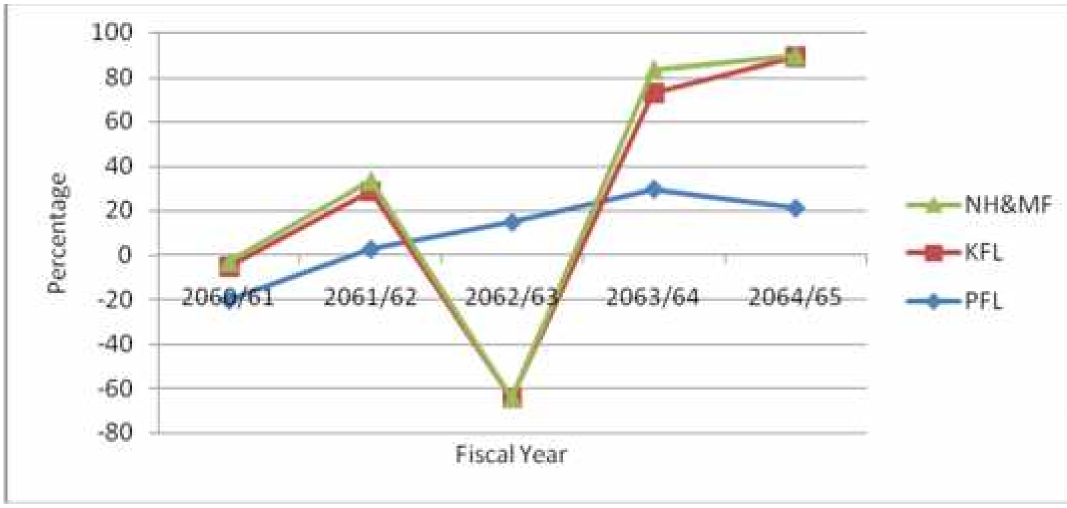
Source: Annual Reports

According to above listed table it is quite obvious that the analysis of EPS. KFL success to have companies to have normal growth rate i. e. 44.4% in comparison two other finance companies. In case of PFL has to keep even kept so poor growth rates, But incase of NH&MF has unable to keep even positive growth rate i. e. -31.65%. Thus we draw administrative conclusion that NH&MF could not successfully mobilize its resources in proper way with right decision for generating more incomes as availed higher earning per share.

PFL and NH&MF also need to utilize their resources in high ratio to get betterment.

Figure 4.17

Earning Per Share (EPS)



4.6.3 Dividend per share

The following table exhibits the indicator of the selected F. Cos during the study period 2060/061 to 2064/065

Table 4.18

Dividend per Share (DPS)

(Rs.)

Finance Companies	2060/61	2061/62	2062/63	2063/64	2064/65	GR
PFL	-	-	-	15	15	0
KFL	15	20	-	-	15.79	1.3
NH&MF	-	-	-	7.5	-	-

The detail calculation of this table is shown in annex-2

According to the table no4.18 listed above clearly shows that the growth rates concerned with DPS of finance companies under the review period, PFL has unable to declare more divided i. e. – it has zero growth rate. In above table all F. Co's are seemed to be failed for distributing the dividend in regular years during the total study period whereas the KFL growth rate of DPS is quite greater i. e. 1.3% than NH&MF i. e. Zero.

Finally, from above evaluation, it can be concluded that during the study period, not any company has seemed to be success high growth rates. Whereas the positive rate of dividend is very useful to attract the attention of shareholders toward the companies. Which lead to boost the market value of shares, it also reveals the better performance of company.

4.7 Coefficient of Correlation Analysis

Under this topic. Karl Person's coefficient of correlation has been used to find out the relationship between total deposit and total investment and total debt and return.

4.7.1 Coefficient of Correlation between Total Deposit and Total Investment

The coefficient of correlation between total deposit and total investment is to measure the degree of relationship between the variables. In correlation analysis, total deposit is independent variable (X) and total investment is dependent variable (Y), the main purpose of computing correlation of coefficient is to justify whether there is any relationship between these two variables or not.

To find out the correlation, a sample calculation of PFL (detailed in Annex 3). The following table shows the coefficient of correlation. Probable error of the coefficient of correlation (PEr), six times probable error (6pEr) and coefficient of determination (r2) between total deposit and total investment of finance companies during the study period.

Table 4.19

Correlation between Total Deposit and Total Investment

Finance Companies	r	r^2	Per	6PEr
PFL	.7062	.4987	.1512	.972
KFL	.8102	.6564	.1036	.6216
NH&MF	.5741	.3295	.2022	1.2135

From the above listed table, it is obvious that the coefficient of correlation between total deposit (Investment variable) and total investment (Dependent variable) value of 'r' shows positive relationship between these two variables. However by application of coefficient of determination, the value of '2' indicates that 98.87%. 65.64% and 32.95 of the variation in the dependent variable (Total investment) has been explained by the independent variable (Total deposit) with respect to PFL, KFL and NH&MF respectively. We can say that there is definitely significant positive relationship between total deposit and investment.

On the other hand. when a we observe coefficient of correlation between total deposit and total investment in case of die PFL and NH&MF they have been found that the value of v is 0.5741 respectively, which shows positive relationship between these two variables and further concluded that the relationship is significant because 'r' is less than six times of PEr i. e. 0.7062<0.9072 and 0.0574<1.2135 respectively.

In conclusion, it can be said that in the case of PFL and NH&MF the value of coefficient of correlation n area significant and the value of coefficient of determination are low. But in case of KFL the value of 'r' is significant. Thus comparatively we can say that PFL and NH&MF are weaker in total investment by performance of KFL

4.7.2 Coefficient of Correlation between Total Debt and Return

Karl Person's coefficient, of correlation is widely used in practice to measure the degree of relationship between two variables. IN correlation analysis debt and return is assumed as interdependent variables. In correlation analysis debt and return is assumed as interdependent variable (X) and dependent variable (y) respectively the value between zero and one indicates the goodness of fit. The higher value of 'r' denotes better fit, the value of rxy=+1, rxy=-1 and rxy=0 indicate perfect positive, perfect negative and no relationship between the variables respectively. The purpose of computing correlation of coefficient is to justify whether the debts are significantly generating more return or not. The following table shows the coefficient of correlation between debt and return; PEr and coefficient of determination (r2) of finance companies during the study period.

Table 4.20

Correlation between Total Debt and Return

Finance Companies	r	r^2	PEr	6PEr
PFL	0.87	0.7638	0.0717	0.4274
KFL	-0.74	0.5578	0.1334	0.8003
NH&MF	0.27	0.0751	0.2789	1.6739

From the above table, it is obvious that the coefficient of correlation between dept (Independent variable) and return (Dependent variable) value of V is 0.87 and 0.27 is the case of PFL and NH&MF Co 'respectively. It indicates that there is positive relationship between these two variables during the study period. However by application' of coefficient of determination the value of r2 is 0.7638 and 0.0751 in the case of PFL and NH&MF respectively determines that 76.38% and 7.51% of the variation in the dependent variable (return P has been explained by the independent variable debt). Moreover, by considering the probable error, since the values of 'r' is greater than six times of the PEr in the case of PFL except other two F. Co's. Hence, we can say that the value of rl is significant i. e. there is significant relationship between the variables debt and return for PFL capital market Ltd.

On the other hand, when we observe coefficient con-elation between debt and return incase of P. P. G. it has found that the value of 'r' is -0.74687 that shows the negative relationship between these two variables. But considering the value of 'r2' i. e. 0.5578 only which indicates that 55.78% on the dependent variable (return) has been explained by the independent variable (debt). Moreover, on the base of value of 6PEr of this F. Co, the value of 'r' i. e. -0.74 is less than six times of PEr i. e. 0.8003. Thus the value of r1 is insignificant and there is no significant relationship between the variables debt and return.

In conclusion we can say that from the above analysis, Finance Company i.e. KFL has failed to achieve proper amount of return by mobilizing the debt fund as compared to the other selected finance companies.

4.8 Regression Analysis

Regression analyses are divided into two parts i. e. simple and multiple.

4.8.1 Simple Regression Analysis

In this study, it has been use to study the influence of independent variable on dependent variable to determine whether the variable of total assets is related to not profit. Here two, variable asset (X) sand net profit (Y) are assumed interdependent and dependent variable respectively. The analysis between these variable are calculated by computer and are tabulated and interoperated below.

Table 4.21

Regression of Net Profit on Total Assets

(Regression Equation: Np-Administrative a+b TA)

Finance Companies	No. of Observation	Constant	Reg. Co- Eff (b)	R2	S.E of Estimate	Finance Companies Value
PFL	5	1.866	0.0156	0.7626	2.1798	9.638
KFL	5	3.02	0.0124	0.001	12.9716	0.03
NH&MF	5	1.618	0.0035	0.765	2.9748	0.248

The above table 4.21 depicts major output of simple regression between net profit (NP) and total Assets (TA) of the concerned Finance companies. Regression coefficient of beta is positive incase of Finance companies on which indicates that one rupee increase in total assets leads to an average increase of Rs 0.0156,0.0124 and 0.0035 of PFL, KFL and NH&MF respectively.

- Similarly, the values of standard error of estimate (SEE) of concerned finance companies have not find the Zero, so that there is variation about the regression line and vice-versa. The value of constant (a) indicates that the mean or average affect on dependent variable net profit. The value of beta coefficient for PFL and NH & MF Co are positive which obviously shows that if total assets of each PCs increase by Rs. 1, its net profit will be increase by same amount of total assets, and vice-versa incase of KFL
- Coefficient of determination of P.P> Co seem lower than of other FCs i.e. 0.10% which means same percent of the variation of independent variable (net profit) has been explained by the independent variable (total assets).
- Likewise, there is lower standard error of estimate incase of PFL i.e. 2.1798 than that of other FCs, which indicates the better estimate and least scantiness on variables and also vice-versa incase of KFL

The detail calculation of this table is shown in Annex-4

4.9 Major findings of the Study

The Liquidity ratios of concerned finance companies reveal that:

- Current ratio analysis shows that only KFL could meet the standard ratio of 2:1. Other finance companies mean current ratio are found to be below the standard of 2:1.

- Cash and bank balanceto to total deposit is higher in case of PFL. It implies better liquidity position of PFL over the other finance companies. It indicates the finance company ability to manage balance of cash against its various deposits.
- Cash and bank balance to current asstes ratio analysis shows PFL is successful in maintaining higher cash and bank balance to current asts.
- Investment on government securities to current assets shows that NH&MF has invested much portion of current assets government securities.

The activity ratios of Selected FCs reveal that:

- The mean ratio of loan and advance to total deposit of KFL is higher than that of other FCs, likewise; NH & MF ratios seem to be more consistent.
- The mean ratio of loan advance to fixed deposits KFL is greater than that of other F. Cs. Similarly; NH & MF ratios are highly consistent.
- There is small difference between the mean ratios of loan and advances to total working fund of the concerned PCs. However the mean ratio of loan and advances to total working fund of KFL is greater than that, of other FCs. Whereas KFL ratios are also more consistent in comparison to other F.Cs.
- The mean ratio of Investment on government securities to total working fund of N.S.M is slightly higher than that of other F.Cs. On the other hand, KFL ratios are more homogeneous than that of others.
- When we observed the total investment in to total deposit ratio, it can be concluded that the mean ratio of NH & MF is slightly higher than that of other F.Cs. Moreover, the variability of ratios of KFL is lower and quite more consistent.

The profitability ratios of concerned finance companies reveal that:

- The mean ratio of net profit to total assets of PFL value is negative. Similarly, PFL has been found more variability than that of other.
- The mean ratio of net profit to total deposit of KFL is considerably slightly higher than that of other F.Cs. Moreover, NH & MF has been found more consistent.
- The mean ratio of net profit to net worth of NH & MF. is slightly lower than that of other F.Cs. Likewise; the ratios of KFL are more fluctuating than that of other.
- The mean ratio of total interest earned to total working fund of NH & MF has been found lower that of other F.Cs. Similarly, PFL ratios are found less homogeneous than that of concerned F.Cs.

The average ratio of total interest paid to total working fund of KFL has been found slightly higher than that of other F.Cs. Likewise; the ratio of KFL is more stable than that of other.

From the above findings, it is concluded that profitability position of PFL and NH & MF are comparatively not better than that of KFL It indicates that PFL and NH & MF must maintain its high profit margin in future.

The leverage ratios of concerned finance companies reveal that:

- The mean ratio of debt asset of PFL is considerably lower than that of other FCs. Moreover, their ratio has been found less consistent than that of other FCs.

- The average ratio of PFL is lower than that of other PCs. Likewise; the ratios of PFL are more variable than that of other FCs.

From the above findings, it is concluded that debt portion of PFL is not adequate than that of other PCs. It indicates that, this company is not more risky and vice-versa of KFL and NH & MF.

The capital adequacy ratio of selected finance companies reveals that:

- The mean ratio of shareholder fund to total deposit of KFL has been found signification lower than that of other FCs. Similarly, their ratios are found more variable than of the other FCs.
- When we deserve the Shareholder fund to total assets ratio, the mean variable than that of other…

From above findings, it can be concluded that KFL and PFL both companies are seem to have unable to keep adequate capital fund.

From the analysis of growth ratio of concerned finance companies, it is clear that:

- Growth ratio of net profit of PFL is lowest i.e. (0.45%) whereas the highest positive growth of P.F. Co. i.e. (44.4%) but this percentage is not satisfactory.
- Likewise, growth ratio of EPS of NH & MF. has negative i.e. (-31.65%) and other have positive and higher is KFL

- Similarly growth ratio of OPS of PFL and NH & MF is zero, and KFL has maintained positive DPS i.e. (1.3%) this is not satisfactory.
- Coefficient of correlation analysis Coefficient of correlation analysis between variables of concern PCs reveals that.
- Coefficient of correlation between deposit and investment of PFL and KFL has been found positive significant relationship but the NH & MF insignificant positive relationship.
- From the above analysis, it can be concluded that NH & MF is weaker in total investment by mobilizing total deposit and KFL has been failed to achieve proper amount of return by mobilizing the debt funds.

Regression analysis of both simple and multiple between different variables of concerned finance companies reveal that:

- The value of beta coefficient for PFL and NH & MF Co are positive which obviously shows that if total assets of each PCs increase by Rs. 1, its net profit will be increase by same amount of total assets, and vice-versa incase of KFL
- Coefficient of determination of P.P> Co seem lower than of other FCs i.e. 0.10% which means same percent of the variation of independent variable (net profit) has been explained by the independent variable (total assets).
- Likewise, there is lower standard error of estimate incase of PFL i.e. 2.1798 than that of other PCs, which indicates the better estimate and least scantiness on variables and also vice-versa incase of KFL

CHAPTER - V

SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1 Summary and Conclusion

Nepal is an underdeveloped country. There is a need for additional capital investment to earn higher rate of economic growth as domestic savings and foreign capitals Grants and loans are two principal sources of capital available for investment. Domestic savings is the most important and stable source of capital. After the adaptation of economic liberalization policy by the government, different financial institutions are establishes and finance company is one of them. Finance company can only be registered as public limited company as per the bank and Financial ordinance 2062. Finance companies are registered with the registrar of the company registration office and NG/n. License is granted by NRB.

The main object of finance companies is to collect deposits from general public and institution and invest them on different sectors. To protect these public funds, these companies should operate properly. And there has to be a study to analyze them. This study has been on the basis of the data mainly published by NRB and the annual reports of the related finance companies. To meet the objectives of the study mainly secondary data are used for the analysis. Three Finance companies are taken as the sample for the study.

The financial position of the listed finance companies has been extracted from the analysis of available data and information. Generally, ratio analysis is used to analyze the data. Major ratios which are helpful for this study, like liquidity ratio, activity ratio, leverage ratio profitability ratio and Valuation ratio have been used in this study.

Liquidity ratio shows the liquidity position of a firm, says whether the firm is able to meet the required liquidity. Current ratio and quick ratio consists of this study.

Turnover ratio is the comparison of related items with sale of the firm. For financial institution, the collection of deposit can be taken as sales. The activity of business firm is presented by this ratio. For our purpose, cash and bank balance to total deposit ratio, loan and advance to total deposit ratio etc.

Leverage ratio is the capital structure ratio, which deals about the capital structure of firm, means the position of debt and equity of finance company. For this, we have used dept equity ratio analysis.

Profitability ratio is the comparison of net profit of different related items. It gives the position of net profit in relation to different items, like total assets, total deposit, loan and advance etc. For our purpose, we have used return on total assets ratio, return on total deposit ratio, on loan and advance ration etc.

Finally, the valuation ration is applied to this research, which shows the growth picture and changed value of firm. Market value to book value ration is used in this study to measure the market value of the firm.

According to the analysis, the findings say the general position of the selected finance companies are not giving satisfying results. Almost all ratios are in fluctuating trend for the whole study period. Less use of deposits can lead the companies in crises. But some rations for the whole study period are in favorable condition.

The above results shows that the liquidity position of PFL is comparatively better than that of other FCs. Highly fluctuating liquidity position shows that the bank J as not formulated any stable policy.

The Liquidity ratios of concerned finance companies reveal that:

- Current ratio analysis shows that only KFL could meet the standard ratio of 2:1. Other finance companies mean current ratio are found to be below the standard of 2:1.
- Cash and bank balanceto to total deposit is higher in case of PFL. It implies better liquidity position of PFL over the other finance companies. It indicates the finance company ability to manage balance of cash against its various deposits.
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- The mean ratio of Investment on government securities to total working fund of N.S.M is slightly higher than that of other F.Cs. On the other hand, KFL ratios are more homogeneous than that of others.
- When we observed the total investment in to total deposit ratio, it can be concluded that the mean ratio of NH & MF is slightly higher than that of other F.Cs. Moreover, the variability of ratios of KFL is lower and quite more consistent.

The above findings help to conclude that KFL & NH & MF are more successful in on balance sheet as well as of balance sheet operations that of the other F.Cs. In the other hand PFL has not followed any definite policy with regard to the management of its assets so it is less successful in balance sheet. It predicts that in the coming days PFL must be more tackle as new technique in the competitive market to achieve maximum return.

The profitability ratios of concerned finance companies reveal that:

- The mean ratio of net profit to total assets of PFL value is negative. Similarly, PFL has been found more variability than that of other.
- The mean ratio of net profit to total deposit of KFL is considerably slightly higher than that of other F.Cs. Moreover, NH & MF has been found more consistent.
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- Likewise, there is lower standard error of estimate incase of PFL i.e. 2.1798 than that of other PCs, which indicates the better estimate and least scantiness on variables and also vice-versa incase of KFL

5.2 Recommendation

For the achievement of target goals and objective of finance companies, from above study, analysis, observation, with facts we must concluded with seasonable realistic solution. Some of the important and valuable suggestion for strength of Finance companies establishment, growth and development, finance companies has to canalize funds by gradually shitting priorities from hire purchase to treating for industries to help in the capital formation of the country. Finance companies are key suggested for improvement in the present's status by applying following recommendations.

5.2.1 Legal and Procedural Improvements

1. The first and for most important requires that the finance companies should be allowed unrestricted entry to into the finance market.
2. NRB should as a facilitator to finance companies, take the first steps in clearing obstruction in the way of free movement of financial resources in to the market. There is simply to need of retaining the present Chinese well between the needy industrial and commercial sector of the economy and the institution and sectors with vast invisible funds.
3. Finance companies should be allowed entry into short term development markets, the benefits arising out of this change should for outweigh the regulatory risk perceptions NRB had in mind in connection with short term landing while issuing the directives.
4. Commercial banks can always use finance companies for developments of funds to smaller clients were their direct approach would not be cost effective. Instead of

there is one area where commercial bank and finance companies could work together.

5. The need of insurance of deposits with finance companies need not be over emphasized. Reported, the government is working towards this direction but fast suitable action is yet expected.
6. Finance companies should be allowed access to the refinance funds of NRB subject to the establishment criteria.
7. Rules for merger and acquisition to be formulated with specified process so that the closure of anyone finances company with not affect the whole finance system.
8. NRB along with HMG, should be set up a committee in participation with members of the finance compares for the purpose of formulating and recommending necessary rules and regulation for merchant, banking, investment banking and leasing and other activities that have direct impact on the performance and trust of a finance company.
9. Finance companies should be treated equally in the regulatory eyes of the government and NRB should present only other authority from treating is as a second class citizen.
10. On site and off site supervision by NRB is not as satisfactory as per the given rules. On site supervision should be effective.

5.2.2 Further Area of Research

1) Joint Promotion Finance Companies

It is suggested that a finance companies promotion committee should be constituted as a body for joint promotion of finance companies, in line with the banking promotion committee. For this, finance companies need to tie up with the NRB, Financially as well as organizationally.

2) Tight Grip on the Cost of Capital

It has been widely felt that finance companies have been resorting to interest rate driven strategy in resource mobilization, without taking care of the cost involved. Keeping the cost of capital family under control and checking it from upward swings is one of the major ingredients in a resource mobilization strategy.

3) Maintaining a Balance Capital Structure

Capital structure plays an important in the profitability as well as the long term solvency of a firm it is by ensuring a proper balance between the various components of own and debt capital that a finance company can stay healthy ‘beside ensuring adequate return to its stakeholders.

4) Matching of Assets and Liabilities

The problems with the present level to the mix of sources of funds and their deployments and the inherence risk of mismatches have also been highlighted. Finance companies should consider this very seriously, so that they can arrives at timely pertinent lent to this problems.

5) Encouraging Inter Finance Company Borrowing

Instead of offering very high rates of interest to depositors to salve the problems of cash mismatch a company with liquidity problems can borrow for short term from another finance company with surplus liquidity.

6) Issue of Post Dated Interest Cheques or Warrants to Depositors

Post dated bankers cheques are issued for repayment of deposits and interest. It would act as a bank guarantee for the deposits and may prove more successful.

7) Continuous Improvement in the Quality of Service

As is the case with any finance companies should also explore ways and mean for continuous improvement in the quality of service provide to its customers, boll suppliers of funds as well as borrower of funds.

8) Regional Expansion

Most of the finance companies have concentrated is Kathmandu for resources mobilization. Such concentration in a few pocked areas of Kathmandu requires a new shift of focus and strategy to expand regionally to rural areas where public saving scattered can be collected and canalized to formal productive sectors.

9) Strong Supervision and Control of Finance Companies

Finance companies are playing with publishes money that consists of both deposits and investors. As much NRB has to publish. For these, regular follow up regular's information must be made mandatory to NRB to have correct evaluation and monitoring of their performance and minimizes any irregularities directed in the course of investigation.

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ANNEX-1

A sample Calculation of Mean, Standard and Co-efficient of variation of the Ratio of FCs

F/Y	**x**	**-d (x-x)**	**d^2**
2060/61	**1.64**	**-0.01**	**0.0001**
2061/62	**1.66**	**0.01**	**0.0001**
2062/63	**1.75**	**0.1**	**0.01**
2093/64	**1.79**	**0.14**	**0.0196**
2064/65	**1.41**	**-0.24**	**0.0576**
	$\sum x$ = 8.25	**$\sum d$ = 0**	**$\sum d^2$ =0.0874**

The mean, SD and CV are calculated by using following formula.

$\overline{X} = \frac{\sum X}{n} = \frac{8.25}{5} = 1.65$

$\sigma = \sqrt{\frac{\sum d^2}{n}}$

$\sqrt{\frac{0.0874}{5}} = 0.1322$

CV $= \frac{\sigma}{\overline{X}} = \frac{0.1322}{165} X\ 100$

= 0.0801

= 8.01%

ANNEX-2

A sample calculation of growth rate analysis of DPS for Fco.

F/Y	**2060/61**	**2061/62**	**2062/63**	**2063/64**	**2064/65**
DPS	**15**	**20**	**-**	**-**	**15.79**

Here,

(D_o) DPS in base year. (2060/61) = 15

(D_n) DPS in current year (2064/65) = 15.79

No. of year (n) = 5

We have formula,

$$D_n = D_o(1+g)^{N-1}$$

$$15.79 = 15\ 1+g^{5-1}$$

Or, $1.053 = (1+G^{4}$

$(1+G) = 1.054^{1/4}$

(1+G) = 1.013

G = 1.013-1

G = 0.013

G = 1.3%

ANNEX-3

A sample calculation of Karl Person's Co-efficient of Correlation between the variable total deposit and total investment. Computation of Co-efficient for PFL.

Let Total Deposit = X, Total Investment = Y (Rs. In Million)

F/Y	X	Y	X^2	Y^2	XY
2061	**-**	**12.179**	**-**	**148.1089**	**-**
2062	**64.77**	**9.14**	**4195.1529**	**83.5396**	**591.9978**
2063	**110.52**	**16.334**	**12214.6704**	**266.9956**	**1805.8968**
2064	**185.68**	**12.94**	**34477.0624**	**167.4436**	**2402.6992**
2065	**247.08**	**19.65**	**61048.5264**	**386.1225**	**4855.122**

$$R = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2}\sqrt{n\sum Y^2 - (\sum Y)^2}}$$

$$= \frac{5\times 9655.7158 - 608.05\times 70.24}{\left[\sqrt{5\times 111935.4121 - (608.05)^2}\right]\sqrt{5\times 1052.2102 - (70.24)^2}}$$

$$= \frac{5509.147}{\sqrt{189952.258}\sqrt{327.3954}}$$

$$= \frac{5509.147}{435.8351\times 18.0940}$$

$$= \frac{5509.147}{7880.0070}$$

R= 0.7062

R= 0.4987

Again, Calculation of Probable Error

Per = 0.6745 $\times \frac{1-r^2}{\sqrt{N}}$

= 0.6745 $\times \frac{[1-(0.7062)^2]}{\sqrt{5}}$

= 0.6745 $\times \frac{[1-0.4987]}{\sqrt{5}}$

= 0.6745 $\times \frac{0.5031}{2.2361}$

PEr = 0.1512

6 Per = 0.9072

ANNEX – 4

A calculation of Regression Model by computer Model- 1: Regression of Net Profit (NP) on total Assets (TA)

Model 1	R	R Square	Adjustment	Standard Error
PFL	**0.837[a]**	**0.762**	**0.683**	**2.17798**
KFL	**0.0317[a]**	**0.0010**	**-0.33199**	**12.9716**
NH &MF	**0.2767**	**0.0765**	**-0.23125**	**2.7948**

a. Predictors : (Constant), Total Assets

ANOVA[B]

Model 1		Sum of Squares	DF	Mean Square	F	Sig.
PFL	**Regression**	**45.795**	**1**	**45.795**	**9.638**	**0.053**
	Residual	**14.254**	**3**	**4.751**		
	Total	**60.049**	**4**			
KFL	**Regression**	**0.5097**	**1**	**0.5097**	**0.03**	**0.959**
	Residual	**504.7886**	**3**	**168.2629**		
	Total	**505.2983**	**4**			
NH & MF	**Regression**	**1.9429**	**1**	**1.9429**	**0.248**	**0.652**
	Residual	**23.4337**	**3**	**7.8112**		
	Total	**25.3766**	**4**			

b. Department Variable : Net Profit

a. Predicators : (Constant), Total Assets

Coefficient[2]

Model		Un standardized Coefficient		Standardized Coefficient	t	Sig.
		B	Std. Error	Beta		
PFL	(Constant) Total Assets	-3.298 2.965E.02	1.928 0.010	0.873	-1.710 3.104	0.186 0.053
KFL	(Constant) Total Assets	4.940 -8.35E.03	35.708 0.152	-0.032	0.138 0.55	0.899 0.960
NH& MF	(Constant) Total Assets	0.432 2.656E.03	2.658 0.005	0.277	0.161 0.499	0.882 0.652