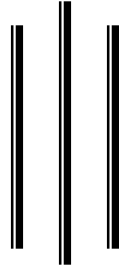


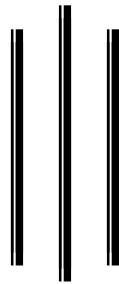
**PROBLEMS AND PROSPECTS
OF
FINANCE COMPANIES IN NEPAL**



**A Thesis Submitted to
Office of the Dean**

Faculty of Management, Tribhuvan University

**In partial fulfillment of the requirement for the degree of
Master of Business Studies**

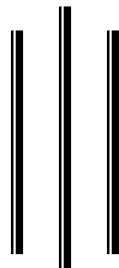


By

KISHOR SHRESTHA

Roll No. 1196/060

T.U. Registration No. 7-1-25-0513-96



Putalisadak, Kathmandu

July 2009

RECOMMENDATION

This is to certify that the thesis

Submitted by:

KISHOR SHRESTHA

Entitled:

**PROBLEMS AND PROSPECTS OF FINANCE
COMPANIES IN NEPAL**

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

.....

Prof. Dr. Kamal Das Manandhar

(Thesis Supervisor)

.....

Prof. Dr. Kamal Deep Dhakal

(Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis presented by

KISHOR SHRESTHA

Entitled

**PROBLEMS AND PROSPECTS OF FINANCE
COMPANIES IN NEPAL**

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

Master's Degree in Business Studies (M.B.S)

Viva-voce committee

Head of Research Department

Thesis Supervisor

Member (External Expert)

Date:

DECLARATION

I hereby declare that the work reported in this thesis entitled “Problems and Prospects of Finance Companies in Nepal” submitted to Office of Dean, Faculty of Management, Tribhuvan University is my original work done in the form of partial fulfillment of the requirement of Master of Business Studies (MBS) under the guidance and supervision of Professor Dr. Kamal Das Manandhar, Shankar Dev Campus, Tribhuvan University.

Date:

Kishor Shrestha

Shankar Dev Campus

Roll No. 1196/060

ACKNOWLEDGEMENT

I have analyzed the financial performance and future prospect of finance companies. As finance companies play an important role in the financial market, it is of immense importance to analyze their performance and market demand. Effort has been made to analyze the situation as clear as possible. This thesis, perhaps, may contain several errors and deficiencies, which I am confident, would be covered in the future studies.

This research has not been completed by my sole efforts. Many helping hands have made contributions in different ways to bring out it in this shape. I cannot remain without acknowledging these contributors.

I gratefully acknowledge the cooperation and assistance received from my teachers and friends. I extend my sincere gratitude to my thesis supervisors Mr. Kamal Das Manandhar, Lecturer of Shankar Dev Campus who guided me throughout from genesis of idea to the finalization of report despite of his hectic time schedules.

I would like to thank all the staff members of concern offices for providing their valuable time to me. I am also thankful to the library staffs of Shankar Dev Campus, NEPSE and Securities Board for their kind cooperation.

Kishor Shrestha

TABLE OF CONTENTS

Viva-Voce Sheet

Declaration

Acknowledgement

Abbreviation

CHAPTER 1: INTRODUCTION	Page
1.1 Background of the study	1
1.2 Objective of the study	5
1.3 Significance of the study	6
1.4 Limitation of the study	7
1.5 Organization of the study	7
CHAPTER II: REVIEW OF LITERATURE	
2.1 Theoretical framework	9
2.2 Conceptual framework	9
2.2.1 Financial markets	10
2.2.2 History of finance company in global context	11
2.2.3 Establishment, growth and development of finance companies in Nepal	12
2.2.4 Types of finance companies	14
2.2.5 Contribution of finance companies towards national economy	15
2.2.6 Sources and uses of funds of finance companies	17
2.2.7 Objectives and services of finance companies	18
2.2.8 Difference between finance companies and commercial banks	20
2.3 Review of related studies	23
2.3.1 Review of policy documents	23
CHAPTER III: RESEARCH METHODOLOGY	
3.1 Research design	29
3.2 Population and sample	29
3.3 Sources of data	30
3.4 Data processing procedure and analysis tools	30
3.4.1 Financial Tools	30
3.4.2 Statistical Tools	40

CHAPTER IV: DATA PRESENTATION AND ANALYSIS

4.1	Analysis of selected companies	45
4.2	Comparison on financial position of the selected companies and industry	63
4.3	Comparison of growth rate trend of total net profit of selected companies and the market	66

CHAPTER V: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1	Summary	72
5.1.1	Findings of ratio analysis	73
5.1.2	Findings of comparative analysis of deposit collection and loans and advances	75
5.1.3	Findings of trend analysis	75
5.1.4	Findings from coefficient of correlation analysis	76
5.2	Conclusion	76
5.3	Recommendation	78

Bibliography

Appendixes

List of Tables:

Table No.	Description	Page No.
1	Current ratio	46
2	Liquid Asset to total deposit ratio	46
3	Cash and bank balance to total deposit ratio	47
4	Loan and advance to total deposit ratio	48
5	Investment to total deposit ratio	49
6	Capital adequacy ratio	49
7	Debt-equity ratio	51
8	Total interest earned to total loans and advances ratio	52
9	Total interest paid to total deposit ratio	52
10	Total interest earned to total working fund ratio	53
11	Total interest paid to total working fund ratio	54
12	Interest income to total income ratio	55
13	Interest expenses to total expenses ratio	55
14	Interest income to interest expenses ratio	56
15	Net profit to total asset ratio	56
16	Net profit to total deposit ratio	57
17	Net profit to total loans and advances	58
18	Return on net worth	58
19	Return on total investment	59
20	Market value to Book value ratio	60
21	Earning per share	61
22	Price earning ratio	61
23	Trend analysis of net profit of selected companies	62
24	Cash and bank balance to total deposit ratio of industry	64
25	Loans and advances to total deposit ratio of industry	65
26	Investment to total deposit ratio of industry	66
27	Comparison of trend of total net profit and industry	67
28	Comparison of growth rate trend of total net profit	67

List of Figure:

Figure No.	Description	Page No.
1	Comparison of Cash and bank balance to total deposit ratios	63
2	Comparison of Loans and advances to total deposit ratios	65
3	Comparison of Investment to total deposit ratios	66
4	Comparison of growth trend of net profit of NFSCL with the market	68
5	Comparison of growth trend of net profit of NFCL with the market	69
6	Comparison of growth trend of net profit of NSM with the market	70
7	Comparison of growth trend of net profit of AFC with the market	71

Abbreviations Used

B.S	:	Bikram Sambat
C.V	:	Coefficient of variation
EPS	:	Earning per share
FY	:	Fiscal Year
Ltd.	:	Limited
No.	:	Number
NRB	:	Nepal Rastra Bank
Rs.	:	Nepali Rupees
NFSCL	:	Nepal Finance and Saving Company Limited
NFCL	:	National Finance Company Limited
NSM	:	Nepal Share Markets Company Limited
AFC	:	Annapurna Finance Company Limited