CHAPTER I

INTRODUCTION

1.1 Background

The Modern economics dictionary defines a finance company as "a financial intermediary not a bank which may obtain fund from its own capital resources by accepting deposits (usually for fixed periods) or even by borrowing from other institutions which it lends for variety of purpose, especially to finance hire purchase contract but also leasing." (Byrnej.Horton and others, 1948). Finance company plays a vital role in developed and under-developing country.

The Nepalese financial sector is composed of banking sector and non-banking sector. Banking sector comprises Nepal Rastra Bank (NRB) and commercial banks. The non-banking sector includes development banks, micro-credit development banks, finance companies, co-operative financial institutions, non-government organizations (NGOs) performing limited banking activities and other financial institutions such as insurance companies, employee's provident fund, citizen investment trust, postal saving offices and Nepal Stock exchange.

The open market and liberalization policies directly influence the world economy which creates the environment for the establishment, growth and development of the financial institution. Financial institutions are the specialized firms that facilitate the transfer of funds from savers to borrowers. They act as a bridge between the savers and users. They collect scattered deposits and give loans to maximize their wealth. The financial institutions (FIs) in Nepal can be broadly classified into two parts: banking and non banking financial institutions. Banking institutions includes commercial banks and development banks. Non-banking financial institution includes finance company, co-operative institution, provident fund, insurance company and mutual fund.

Finance companies are the non-banking financial institutions that tend to meet the various kinds of consumer credit needs. In a situation, when the existing financing institutions, especially commercial banks are unable to supply credit timely and carry capital market activities, finance companies have come timely to meet the individual credit needs, undertake merchant banking functions and other allied functions. The especial feature of finance companies is that they go to areas where commercial banks find difficult and not accessible to lend with risk. Most of the customers prefer finance companies with the notion that taking loan from finance companies, although little bit costly is confident in getting the loan without passing too many procedures often that exist in commercial banks. They stresses that the finance companies are the non-bank financial institution operating in the overall financial system of the economy. However, they serve as they act as the borrowing and lending financial institutions with additional financial risk taking management. Finance companies can be considered as quasi-banking institutions. They collect deposits; extend loans and advances to various sectors. The principal sources of fund of these companies beside equity are time deposit collections and issuance of debentures. The resources thus collect are invested in hire purchasing, housing finance, leasing finance, investment in government securities and bonds, issuing guarantee which are approved by Nepal Rastra Bank (NRB) for the finance companies. Therefore finance companies can be considered as complementary to commercial banks to some extend. The growth of business activities necessitated the financial institutions because they are the institution that supply capital required for business and funds for other purpose.

In our country Nepal, the history of finance is not so long. The first elected government in 1991 after the restoration of multiparty system adopted liberalized and market oriented economic policies followed by liberalization in the financial sectors. Theses measures included the deregulation of interest rate, free entry for banks and financial institutions, removal of statutory liquidity ratio (SLR), enactment of new Commercial Banks, Finance Company and Development Bank Acts so as to encourage private sector including foreign bank and financial institutions, divestment of governmental organizations (NGOs) for limited banking activities and freedom of portfolio management except in the priority sector lending, promulgation of Financial Intermediaries Act etc. As a consequence of these measures, Nepalese financial sector has been widened and deepened with the establishment of more banks and financial institution (FIs) beginning from mid 1980s (Karki, 2057). So, it can be the traced back to 2042 B.S (1985 A.D) which is the year in which the Finance Company Act was incorporated. This Act plays a vital role for the establishment and smooth functioning of finance company in different parts of Nepal. Finance company is registered under the Finance Company Act and license issued for operation is granted by Nepal Rastra Bank.

Despite, the provisions of Act, private sectors were completely silent till 2049 B.S. on Shrawan 2049 B.S, with the major shares of public sectors, named "Nepal Housing and Development Finance Company" was established. In the private sectors, Nepal Finance and Company Limited pioneered in this field and started its transaction since Poush 2049 B.S.

Till now 79 finance companies have been established in Nepal (Economic Bulletin, 2010). These finance companies have been succeeding in providing different types of facilities regarding financial activities. Most of the finance companies are concentrated in the Katmandu Valley. However these days' commercial banks and finance companies have been moving out of Kathmandu Valley opening its branches to different region and major parts of the country like Pokhara, Dharan, Birjung and Biratnagar etc. So, the efforts have been done to decentralize the finance company in different parts of the country to reduce regional disparity. Thus, the finance companies are established to collect the scattered funds from different communities providing credit (loans) for the benefit of the people which aids for the development of the nation as well as for the whole economy.

Pokhara Finance Limited is an independent and autonomous finance company. It was established in Pokhara in 2052 B.S under The Finance Company Act 2042. But legally it was operated from the 3rd, Chaitra, 2053. The head office is located at Gairapatan, Pokhara. At the starting period, POFIL had authorized capital of Rs.4 crore, issued capital of Rs.2 crore and paid-up capital of Rs.2 crore and now at present, it has increased its authorized capital to Rs.94 corer, and paid up/issued capital of Rs.31.20crore. Initially, it started its operation along with 6 employees and now, the total number of employees has crossed 40 along with three branches at various parts of Pokhara and Kathmandu as well. It is amongst the oldest finance company currently operating in Pokhara. Board committee possess seven members out of seven, four of them are promoters and others from the general public. The company has an ownership of 60% with 40% shares owned by the general public. All the decisions of POFIL are taken by the BOD under the rules and regulations formulated by NRB as well as Finance Company Act 2042 B.S. (Annual Report, 2067).

The prime objective of POFIL is to render banking services to the different sectors like industries, traders, businessmen, priority sectors, small entrepreneurs, deprived section of the society and every other people who need Banking Services. During the period of 14 years of its operation, it has accommodated a large number of clients and has been able to provide excellent services to its customers. POFIL always protects the rights of shareholders, customers and helps people to uplift their economic condition. In addition, the main goal is to collect the scattered capital throughout the country and convert them into deposit under various accounts and provide attractive interest and also invest them into needy sectors to establish business, trades, housing etc. With the tireless efforts and continuous support of valued customers the company has made all round progress in every sphere of its operation.

1.2 Focus of the Study

After the liberalization policy introduced in 1990, the financial sector especially the finance companies have been contributing significantly to increase the hire purchase business in Nepal. With an increasing demand for better life, the consumption of property has been on the uprising scale. This has not been backed-up by adequate purchasing power, transforming it into effectual demand (Mikharjee and Hanif, 1998). This has created the market for hire purchase system. When a person is unable to acquire an asset against immediate cash payment, he/she may arrange with the vendor stagger the payment. Financial institution plays role of facilitators between buyer and seller to enter into the hire purchase agreements. Hire purchase agreement makes it possible for business persons, professionals and others to take advantage of assets all of which enable them to organize and operate their activities effectively.

While going through the study of investment, Lending cash as loan comes upon in frontline. Finance companies do offer various kind of loan. Housing Loan, Hire purchase Loan, Industrial Loan, Business Loan, Educational Loan etc. to the customers. And among them Hire purchase financing is one of the major and attractive investment schemes of finance companies. It is a system of buying things on credit whereby the seller of the goods is regarded as the dealer, the purchaser is regarded as the hirer and the finance company is the owner. The ownership of the goods bought on hire purchase does not pass to the hirer at the time of the hire purchase agreement or upon delivery of the goods rather the ownership of the goods remains in the owner until the hirer has fully paid the price agreed upon in the hire purchase agreement. So these days, it has been gaining a big crowd of all kinds of customers and there by contributing to the profit of company in large volume and helping to uplift the whole economy position of the country as a whole though its contribution to the point is in small form.

In this study, therefore, an attempt has been made to analyze the quantitative as well as qualitative information to identify and evaluate the current state of POFIL in the field of hire purchase financing. A part from it, its existing hire purchase financing trends and related strategies are also carefully observed to depict whether the investment pattern in the field of hire purchasing is going through POFIL strategy or not.

1.3 Statement of the Problems

The establishment of the financial institutions has contributed a lot in the development of Nepalese economy. The major operation of this finance company is accepting deposits, advancing loans and making investment in various sectors.

Hire purchase is a form of credit. It is a way to buy property when a buyer can not afford to pay the full amount straight away. In this system, a customer agrees to buy property from a manufacturer of retailer and to pay price in a number of installments and the ownership of the property remains with the finance company until the hirer pays all installments.

The basic problem of this study is to identify and analyze the Hire purchase financing of POFIL for its sustainability and there by compete in the competitive business environment. Some of the problems are specified below:

a. What is the hire purchase financing trend of POFIL?
b. What are the sub-sectoral investments under hire purchase loan of POFIL?
c. What is the default ratio on hire purchase loan of POFIL?
d. What is the correlation between the total loan and hire purchase loan of POFIL?
e. What are the loan recovery procedures of POFIL?

1.4 Objectives of the Study

The general objective of this research is to reveal the results of above mention problem and analyze them logically. The specific objectives are highlighted below:

a. To identify the hire purchase financing trends of POFIL.
b. To analyze the sub-sectoral investments under hire purchase loan of POFIL.

c. To examine the default ratio on hire purchase loan of POFIL
d. To access the correlation between the total loan and hire purchase loan of POFIL.
e. To observe the loan recovery procedures of POFIL.

1.5 Significance of the Study

In general, the study will bridge the gaps on the study of hire purchase financing and will help the particular company to draw some drawbacks in the case of hire purchasing and there by develop some fine strategies in the case of hire purchase financing. In addition, this research will help the next potential researchers to research more on this topic that this study has not covered during the period of study.

Thus, this research study itself carries the significance and importance for every researcher scholars as a reference material.

1.6 Delimitation of the Study

This study is fully based on the data of hire purchase financing of POFIL and has certain delimitation.

- ✓ The study is simply a partial fulfillment of M.B.S degree and prepared within the time constraint.
- ✓ The whole study is based on primary and secondary data i.e. questionnaire method, financial reports and information provided by the company.
- ✓ The study covers only five years period beginning form the fiscal year 2062/2063 to 2066/2067.
- ✓ The study mainly focuses on the hire purchasing of POFIL, so, it does not give any attention to the whole pattern of finance company.

1.7 Organization of Structure of the Study

Rational behind this kind of study is to follow a simple research methodology approach. The structure of the thesis study comprises a total of 5 chapters, which have been briefly described as follows:

Chapter I: Introduction

To start the study, this chapter includes the general background, focus of the study, statement of problem, objectives, significance of the study, delimitation of the study and the structure of the study. This chapter has been targeted to help the reader to understand get the rhythm of the subject matter of the thesis report.

Chapter II: Review of Literature

This chapter includes conceptual review, review of related studies that includes review of articles and journals and review of dissertations. For this purpose, various books, journals and periodicals as well as internet have been adequately utilized.

Chapter III: Research Methodology

This chapter deals with Research design, population and sample, nature and sources of data, data collection procedures, data processing, data analysis tolls that include financial and statistical tools.

Chapter IV: Presentation and Analysis of data

This chapter illustrates the collected data into a systematic format. The analyses of those datas are also included in this chapter. As well as, interpretation of analysis and major findings have also been done in this chapter.

Chapter V: Summary, Conclusions and Recommendations

This is the last chapter where the summary of the entire thesis has been comprised. Further it makes the conclusion of the study and draws possible and viable recommendations of the study..

At the end, Bibliography and Appendices are also incorporated.

CHAPTER II

REVIEW OF LITERATURE

Basically, this chapter gives more emphasizes on the literature relevant to the study as many thoughts and ideas have built a theoretical base in the management of financial institutions. So, the review of literature is essential to depict what kind of gaps does exist in the literature. This study is made categorizing the literature in to two parts: Conceptual /Theoretical Review and Review of Related Studies

2.1 Theoretical Review

This topic deals with the theoretical aspects of the study. It includes the evolution of financial institutions in Nepal, financial products and srvices and concept of hire purchase along with its related sub-topics.

2.1.1 Evolution of Financial Institutions in Nepal

While tracing back to the history of banking in Nepal, it is found that from the ancient time, the financial transaction was carried out. During the reign of Gunkarma Dev, in about 8th century, the transaction of money in the form of lending was started and at the end of same century, a merchant named Shankharadhar had started the new era "Nepal Sambat" after freeing all the people of Katmandu from the debt.

During the course of development of borrowing, at the end of 14th century, King Jayasthiti Malla classified the people in 64 castes according to their occupation. Among them, one of the categories of the people, named "Tankadhari" worked as a money lender and who invested their money on the needy persons by charging some percentage of interest. Further more, during the reign of Mallas, it is believed that the lending business was done particularly for financing the foreign trade with Tibet which became quite popular. But, some money lenders used to charge high interest rate and other extra charges on loan advances due to the absence of the regulation of interest rate.

In the 19th century, Ranodeep Singh, prime minister opened a systematic organization called the "Tejaratha Adda" which granted the loans to the government officials and the people at 5 percent interest against the gold and silver and other ornaments. From this new established office, the government service holders got privilege to take loans which were repayable in installment out of their salary but this office had no right to accept deposit of public and also it had no characteristics of modern banks. (Dahal and Dahal, 2002). Nevertheless, it can be said that the institutional banking system had started from then.

Nepal's formal financial system begun in 1937 A.D. with the establishment of Nepal Bank Ltd (NBL) which was the first commercial bank in the country. The Nepal Rastra Bank (NRB), the country's central bank, was established in 1956 A.D. under the NRB Act 1955 A.D. and the Rastriya Banijya Bank (RBB) was set up in 1966 A.D. as the second commercial bank under the RBB Act with a view to expand activities in the banking sector and to provide better banking facilities to the people. In the developing stage of financial institution in Nepal, the establishment of Agriculture Development Bank was another significant achievement. It was established in 1968 A.D. under the ADBN Act 1967 A.D. to address the needs of agriculture sector.

The Mid-January 2010-mid-July 2010 Economic Bulletin published by Nepal Rastra Bank shows that there is a tremendous growth in the number of financial institution in Nepal in the last two decades. At the beginning of the 1980s when financial sector was not liberalized, there were only two commercial banks, and two development banks performing banking activities in Nepal. There were no micro-credit development banks, finance companies, co-operatives and non-government organizations (NGOs) with limited banking transactions. After the liberalization of the financial sector, bringing Umbrella Act, financial sector has made a hall-mark progress both in terms of the number of financial institutions and beneficiaries of financial services. As per the Umbrella act, banks and financial institutions are categorized in to the class A, B, C and D on the basis of minimum paid up capital. Accordingly, commercial banks are in "A" class and they are labeled as banks. Similarly, developments banks, finance companies, and micro-credit development banks are categorized into 'B' 'C' and 'D' class respectively and they are called financial institutions (BAFIO, 2004). By mid-January 2010-mid-July 2010 NRB licensed bank and non-bank financial institutions are totaled 264. Out of them, 27 are commercial banks, 79 development banks, 79 finance companies, 18 micro-credit development banks, 16 saving and credit co-operatives and 45 NGOs.(Detail in Appendix-1).

Economic liberalization policy of the government has encouraged the establishment and growth of finance companies in Nepal with in a short span of time. So, establishment of finance companies are the major outcomes of the economic liberalization. The groundwork for establishing finance companies was initiated in 2042 B.S. with the enactment of Finance Company Act 2042 B.S. Despite the provisions of Act: private sectors were completely silent till 2049. On Shrawan 2049 B.S., "Nepal Housing and Development Finance Company" was established with major shares of public sectors. In the private sector, Nepal Finance and Company Ltd. pioneered in this field and started its transactions since Poush 2049 B.S. As per the banking and financial statistics, mid-January 2010, No. 46 bulletin, finance companies have been growing rapidly. The total number of finance companies which stood at 47 in mid-July 2000 reached to 79 in mid-January 2010. However, majority of the finance companies are rendering their services in Kathmandu valley. Out of the total finance companies registered under the NRB, 47 are being operated outside the Kathmandu valley. Thus the mushrooming of finance companies in Nepal is the result of financial liberalization program of the government.

Finance companies are the non-bank financial institutions which borrow funds so as to profit on the difference between the rates paid on borrowed funds and those charged on loans. However, they act as the borrowing and lending financial institutions with additional financial risk taking management. They came into existence under the Finance Company Act, 2042 and now operating under Bank and Financial Institution Act, 2063. They registered as limited companies at the office of the Company Registrar. A finance company can accept time deposits of the maturity starting from three months to maximum six years (Economic Report, 2004). According to the NRB limited directives for Banks and Non-banks FIs issue number E.Pr.Ni.No.15/061/062 (Ashar, 2062 B.S.), Finance companies are free to fix interest rates on both the deposits they take and the loan they provide. So, the rate of interest on both the deposits and loans will vary from one finance company to another. Other financial services provided by finance companies are issue of shares and underwriting, act as financial guarantee, collect share applications, purchase and sale government bonds. However, now there is no bar for the spread on deposit and loan. (The consideration was that the spread on deposit and loan should not exceed 6%). A part from it, they can also collect fund by issuing debentures. These companies provide basically three types of loans. Such as hire purchase loan, housing loan and term loan. Some of the finance companies deal with leasing finance also. Finance companies make installment loans. They offer attractive rates on time deposits than commercial banks.

The primary function of finance companies is to make loan to both individuals and businesses. These companies are popular among low-income and medium class people for financing hire purchases, vehicles, machinery, tools, equipments, durable household goods etc. They can also perform merchant baking activities with prior approval of NRB. They are willing to lend to riskier borrowers than commercials banks. Further as per the NRB unified directives for Banks and Non-Bank FIs issue number E.Pra.Ni.No.8/060/061 (Ashar 2062 B.S.), there is no any restriction for finance companies to invest in government securities and Nepal Rastra Bank bonds. But, they have to perform their activities as prescribed by the NRB directives.

The minimum paid up capital of the finance companies is fixed at Rs.2.5 million but if the companies are interested in operating more than one activity or want to expand their branches, the minimum paid up capital is fixed at Rs.10 million. However, the paid up capital of Rs.30 million is fixed for the operation of leasing finance companies.

Subject to the Act, Bank and Financial Institution Act 2063, Class "C" licensed institution may conduct the following types of financial transactions:

(a) Accept deposits with or without interest and refund such deposits, subject to the limit prescribed by the NRB.
(b) Supply credits other than hypothecation credit as prescribed.
(c) Supply credits for business relating to hire-purchase, leasing and housing, as well as for service enterprises.
(d) Engage in merchant banking business.
(e) Write off credit subject to the bye-rules framed by the Board.
(f) Supply credit on the basis of co-financing by joining hands with other licensed institutions according to the agreement concluded for the purpose so as to divide the collateral.
(g) Supply credit against the guarantee provided by any bank or financial institution.
(h) Obtain credits by pledging its movable or immovable assets as collateral.
(i) Supply a fresh credit in a lump sum or in installment against the security of the same movable or immovable assets which have already been pledged with it or with any other licensed institution, to the extent covered by the total value of such security.
(j) Properly manage, sell or lease out its assets.
(k) Issue, accept, pay, discount or deal in bills of exchange, promissory notes, cheques, travellers' cheques, drafts or other financial instruments.
(l) Deal in Indian currency.
(m) Supply credits not exceeding the amount prescribed by the Rastra Bank to ensure the economic upliftment of the destitute class, low-income families and victims of natural calamities and inhabitants of any area of the country with the provision of individual or collective guarantee.

(n) Exchange with the Rastra Bank or any other licensed institution particulars, information or notices regarding debtors or customers who have obtained credits or any other facility from it or any other licensed institution.

(o) Supply installment or hire purchase credit to any individual, firm, company or institution for vehicles, machinery, tools, equipment, durable household goods or similar other movable property.

(p) Supply credit to any individual, firm, company or institution for the purchase or construction of residential houses or go downs, or for the purchase of lands for the construction of such residential houses of go downs.

(q) Supply credit (leasing-finance) to any individual, firm, company or institution for taking up vehicles, machinery, tools, equipment, durable household goods or similar other movable property on lease or provide such movable property on lease.

(r) Prescribe conditions according to need in order to protect its interests while supplying credit to any individual or institution or carrying out any transaction with him/her/it.

(s) Operate projects such as those relating to purchase of lands and construction of buildings for land development and residential purposes, and sell or manage such lands and buildings or make arrangements for doing so.

(t) Perform such other functions as are prescribed by the Rastra Bank.

2.1.2 Financial Products and Services

Finance companies can accept time deposit of the maturity of minimum three months to maximum six years. Generally, the following types of financial products are provided by finance companies.

- **Saving Deposit:** Finance companies accept saving deposit from individuals and organizations. The main purpose of saving deposit is to encourage the habit of saving among the common people and institutions. Depositors can deposit any amount in their accounts in anytime. But they can withdraw their money up to a limited amount in certain period. Prior information is required incase of withdrawal beyond the restricted limit. Finance companies are allowed to accept saving deposits not exceeding 2.5 times of their core capital. They provide interest on daily balance basis on saving deposit.

- **Fixed Deposit:** Fixed deposits are also known as time deposits or term deposits. They carry a fixed maturity, a penalty is charged for early withdrawal. Savers that do not need money for a stipulated period from 3 months to longer periods ranging up to 6 years are encouraged to keep it I fixed deposits. This type of deposit offers higher interest rate than saving account. Longer the maturity period, higher will be the rate of interest. However, the depositor can take loan against the deposit in case the cash is needed.
- **Recurring Deposit:** Various type of recurring deposit schemes are introduced by finance companies. This scheme was developed to encourage the economical among the people of fixed regular earnings. In this scheme, the depositor is required to deposit the fixed amount in each installment and repaid the total amount with interest at maturity.

Finance companies do provided loan and advances to individuals, firms, companies and institutions. They provide different types of loans which are as follow:

- **Term Loan:** Under this type of loan, finance companies provide loan for the expansion of trade and industry so called business and industrial loan. In addition further education, health, tourism, agriculture, water resources, irrigation and personal loan.
- **Hire purchase Loan:** Under this type of loan, finance companies provide loan for the purchase of vehicle, machines, equipments and tools, durable households' goods so called home appliances and other movable property. The loan is provided in installment basis and the interest rate depends on the situation like life of machines, model of machine for instant.

- **Housing Loan:** Under this, finance companies do provide loan for purchasing land, construction of house, repair and maintenance of house for individuals and warehouse. The rate of interest fluctuates depending upon the volume of amount carried out and repayment is done in installment however the grace period can be given according to the situation that could be figure out.
- **Working Capital Loan:** Under this type of loan, finance companies release loan to the business people for the expansion of trade and industry. Loan is provided to meet the current liabilities during the particular fiscal year with the provision that the loan will be cleared with in a year. However the schedule for payment of installment will not be in printed form.
- **Loan against Fixed Deposit:** Under this type of loan, person or organization that has certain amount on fixed deposit in the company will get loan. Only the fixed depositors can get the loan up to 90 percent of fixed deposit amount. The company charges plus 2 percent interest in this type of loan.

2.1.3 Concept of Hire purchasing

Generally, the investment refers employing of money to generate more money in future. It is a kind of sacrifice of current opportunity cost where the return is the prime. Every investment entails some degree of risk, it requires at present certain sacrifice for a future uncertain benefits. Thus, investment is the sacrifice of existing resources to generate return in future involving risk. Hire purchase is one of the sectors for investment, where an investment is made on plants & equipments and home appliances for instance.

Hire purchase (frequently abbreviated to HP) is the legal term for a contract developed in the United Kingdom, and now found in India, Australia, New Zealand, and other states which have adopted the English law concept. (In North America, where the word hire most commonly refers to employment, the comparable system is called closed-end leasing.) In cases where a buyer cannot afford to pay the asked price for an item of property as a lump sum but can afford to pay a percentage as deposit, a hire-purchase contract allows the buyer to hire the goods for a monthly rent. When a sum equal to the original full price plus interest has been paid in equal installments, the buyer may then exercise an option to buy the goods at a predetermined price (usually a nominal sum) or return the goods to the owner. In the United States, a hire purchase is termed an installment plan; other analogous practices are described as closed-end leasing or rent to own.

Hire purchase differs from a mortgage and similar forms of lien-secured credit in that the so called buyer who has the use of the goods is not the legal owner during the term of the hire-purchase contract. If the buyer defaults in paying the installments, the owner may repossess the goods, a vendor protection not available with unsecured-consumer-credit systems. HP is frequently advantageous to consumers because it spreads the cost of expensive items over an extended time period. Business consumers may find the different balance sheet and taxation treatment of hire-purchased goods beneficial to their taxable income. The need for HP is reduced when consumers have collateral or other forms of credit readily available. sources:http://en.wikipedia.org/wiki/hire purchase. Hire purchase is a form of credit. It is a way to buy property when buyers can not afford d to pay the full amount straight away. In this system, a customer agrees to buy property from a manufacturer of retailer and to pay price in a number of installments. Three parties-the manufacturer or retailer or vendor; the hiree and the hirer-involve in the hire purchase agreement. The hirer is a buyer or customer who buys property. The manufacturer sells property to the hiree who sells it to the hirer in exchange for the payment to be made over a specified period of time (Pandey 2004). In our study, finance company is the hiree.

A hire purchase installment system is an agreement drawn up, signed by the hirer, lending institution. If a retailer is involved, it also signs the agreement and supplies the agreement paper in question. It is an agreement whereby a buyer hires property for a period by paying installments and can own the property after the payment of all installments.

Manufacturers or retailers often have an agreement with a finance company to promote hire purchase finance. In such a case, a hirer makes the payments to the finance company no to the manufacturer or retailer. The name of the finance company will be on hire purchase agreement.

As soon as the contract is signed, the hirer acquires possession of the property and therewith the right to use the property over an agreed period. However, the ownership of the property remains with the finance company until the hirer pays all installments with in the specified period. In case if he fails to pay any of the installments, even the last one, the vendor or finance company takes back the hired property without compensating the hirer (Mukharjee and Hanif, 1998) and the finance company may terminate the hire purchase agreement if the specified or agreed amount don't come in specified time and if three number of installments get due by the hirer.

In Nepal, a hirer wishing to buy a property requires to contact the retailer for the quotation of the property intended to hire. Then, hirer contacts the financial institution on his/her convenience for hire purchase financing. After receiving the quotation, finance company evaluates the property and fixes the certain percentage of the value of the property for hire purchase financing and signs the hire purchase agreement with hirer, and finance company instructs the retailer to sell the property especially vehicle to the hirer. The hirer needs to make down payment. The ownership of vehicle is transferred to finance company after down payment and hirer acquires the ownership of the property only after payment of all installments.

2.1.3.1Commercial Hire Purchase (CHP)

The CHP agreement is simply a contract where the financier (the owner) allows the hirer the right to possess and use a car or other vehicle in return for regular payments. A balloon payment (a final payment made at the end of the term-ideally this payment should be no more than the estimated value of the car at the time) is optional with a hire purchase agreement. When the final payment of the commercial hire purchase is made, the title to the goods is transferred to the hirer. With a CHP there may be significant tax advantages as the hirer is able to claim the interest repayment as well as the depreciation of the asset where as with a standard lease the actual repayments are the tax-deductible part of the equation. The hirer also has the option to purchase the vehicle prior to the end of the term of the CHP.

Hire purchase is a wise choice if hirer wants to own a vehicle through regular payments without tying-up all of hirer's capital at once.

The vehicle appears as an asset on hirer balance-sheet from the day one. After the final payments, the vehicle becomes the hirer's.

However the hirer can choose a fixed or variable interest rate or a final balloon payment. Each option offers benefits depending on hirer's requirements.

- **Hire purchase fixed rate**

  Hire purchase fixed rate is a good option if you need to work as accurate budget during a period in which interest may fluctuate, the payment interest rate is fixed at the outset, as in the term over which payments are made. The timing of the payment can be tailored to suit the cash flow of your business.

- **Balloon payment**

  Hire purchase with balloon payment will appear if you want low monthly payments and the flexibility to pay a lump sum (balloon) as a final payment. At the end of the agreement, the hirer has two choices. The hirer can make a final balloon payment and keep the commercial vehicle or hirer can re-finance the balloon. The choice is entirely up to the hirer.

Hire purchase variable rate

Hire purchase variable rate is a smart choice if the hirer believes interest rates will fall and if that happens, a viable rate scheme will save the hirer money. There are no additional charges should you want to pay off a lump sum or settle the agreement early. Interest is calculated daily, but the hirer can pay it monthly or quarterly.

2.1.3.2 Finance Leasing

Lease financing denotes procurement of assets through lease. The subject of leasing falls in the category of finance. Leasing has grown as a big industry in the USA and UK and spread to other countries during the present century. In India, the concept was pioneered in 1973 when the first Leasing Company was set up in Madras and the eighties have seen a rapid growth of this business. Lease as a concept involves a contract whereby the ownership, financing and risk taking of equipment or assets are separated and shared by two or more parties. Thus, the lessor may finance and lessee may accept the risk through the use of it while a third party may own it. Alternatively the lessor may finance and own it while the lessee enjoys the use of it and bears the risk. There are various combinations in which the above characteristics are shared by the lessor and lessee.

A lease transaction is a commercial arrangement whereby an equipment owner or Manufacturer conveys to the equipment user the right to use the equipment in return for a rental. In other words, lease is a contract between the owner of an asset (the lessor) and its user (the lessee) for the right to use the asset during a specified period in return for a mutually agreed periodic payment (the lease rentals). The important feature of a lease contract is separation of the ownership of the asset from its usage.

Lease financing is based on the observation made by Donald B.Grant:

"Why own a cow when the milk is so cheap? All you really need is milk and not he cow."

Leasing can offer the hirer the most cost effective way to acquire an asset. Financing costs are calculated on the price of the equipment, exclusive of VAT. This dramatically reduces the cost of the monthly rentals. Rentals can be monthly or quarterly, tailored to the hirer cash flow and can be offset against the taxable profits if the hirer is VAT registered. However the buyer pays a fully tax deductible fixed monthly rental-there is no need to segregate monthly installment and interest and there is no security deposit. Lease purchase package provides the same tax and financial benefits as hire purchase but payment can be structured to suit hirer business cash flow.

2.1.3.3 Risk Insurance

The most common types of insurance required on a hire purchase contract are "risk insurance" and payment insurance. Commonly a hire purchase contract will require customers to insure goods for theft, loss, or damage as the goods remain the finance company's property until all payments are made.

Often called consumer credit insurance, consumer debt insurance, or payment protection plan, it is an insurance policy that covers the customer's hire purchase payments for a time if they lose their income through illness, accident, death, or redundancy. If the customer can not make their hire purchase payments for one of these reasons, the payments will be made by the insurance company. The terms and conditions of such a contract will vary depending on the insurance company.

2.1.3.4 Hire Purchase Agreement

With a hire purchase agreement, after all the payments have been made, the business customer becomes the owner of the equipment. This ownership transfer either automatically or on payment of an option to purchase fee.

For tax purposes, form the beginning of the agreement the business customer is treated as the owner of the equipment and so can claim allowances. Capital allowances can be a significant tax incentive for businesses to invest in new plant and machinery or to upgrade information system.

From a consumer's perspective hire purchase agreements can be seen as just another form of finance or installment purchase contract. Like installment payment contracts, such as lay-by by sales, they involve the purchase of goods via the payment of installments with legal title being retained by the vendor until receipt of the final installment.

However, hire purchase agreements are different form lay-by sales in two critical respects:

- Possession of the goods is not retained by the vendor until the hire purchase agreement is concluded. Instead, the purchaser has the right to use the goods throughout the period of the hire purchase contract. In this respect hire purchase agreements are more like leases than lay-by-sales.
- They involve a financier. The financier purchases the goods from the original vendor immediately prior to, or at, the outset of the hire purchase contract. The purchaser then purchases the goods by paying installments to the financier rather than the original Vendor.

These differences mean that payments made under a hire purchase agreement can be conceptually analyzed in three different ways.

First, the payments could be regarded as simple installment purchase payments. These will comprise a capital component or a capital and interest component. The capital components relates to the purchase of the goods. Where it includes an interest component this is intended to compensate the vendor for selling the goods via hire purchase rather than a simple sale. This analysis emphasizes the similarities between lay-by and hire purchase sales

2.1.3.5 Laws applying to a hire purchase

Hire purchase sales must comply with the Hire Purchase Act. Where a customer is paying more than the cash price of goods (eg. with interest added), the sale must also comply with the Credit Contracts Act.

Where the customer fails to pay their installments or puts the goods at risk, the finance company or you as the seller must comply with the Credit (Repossession) Act if the goods are "consumer goods" (if the goods are not " consumer goods" then the Personal Property Securities Act will apply).

Sale of goods on hire purchase are also subject to the Fair Trading Act and the Consumer Guarantees Act.

All these Acts can be accessed at the government legislation.

- **Credit Contracts Act 1981**

  The Act covers loan and hire purchase contracts which have a value not exceeding $250,000. If the customer has several loans with the same finance company the $250000 rule will apply to the total of those loans. There must be a charge for providing the credit (e.g., the amount repaid by the customer must exceed the cash price of the goods).

  The Act sets out information that must be in the contract (the rules about disclosure).

  - the cash price of the goods
  - the amount of credit
  - the total cost of credit
  - the finance rate
  - name and address of the creditor
  - the rate, frequency, and number of installments, when payment is due, and who payment is made to

- the right to cancel within three working days, and
- All other terms of contract.

The Act also sets out the penalties for failure to disclose.

- **Hire Purchase Act 1971**

The Act sets out:

- the requirements to provide a hire purchase contract in writing
- what particular format for that contract
- rules for assigning a hire purchase
- rules for early settlement of the contract
- Rules for variations to the contract.

2.2 Research Review

This topic deals with the review of journals, International and Nepalese along with Masters' dissertations. International journals have been accessed through the website www.blackwell-syergy.com and www.springerlink.com. Similarly, Nepalese Journals and Masters' dissertations have been accessed from Western Regional Library of Prithivi Narayan Campus and Central Library T.U., Kirtipur.

2.2.1 Review of Articles and Journals

This part reflects the picture about what national and international scholars have done in similar subject matter. Some of the articles relating to this topic are presented below.

Different research works were carried out by different scholars within the different parts of the country. Those studies and issues are reviewed in this section.

Shah (2003) the article published in Nepali times outlined “the dynamics of consumer banking has crossed the threshold". He has clarified that lenders in

Nepal are turning towards consumer banking. The prevailing stagnation investment and competition has forced most banks to look at individuals and tailor products for their needs. He has introduced the concept of consumer banking as, according to him, prior main utility of a bank was safe-keeping the savings of individual depositors. But today a bank means much more than that. It is now looked upon as a provider of financial solutions for individuals, which provides products and services that compliment their lifestyle. And that is what consumer banking is all about. He had further concluded that historically, banks used to concentrate their lending activities to companies and institution, but the stagnation of economy and growth of competition has forced banks to look at alternative avenues. Their first foray into consumer lending was with their auto loan. Their main objective is not just to provide a loan to buy a car, but to provide a solution to put the customer in the driving seat as it were.

Gurung (2005) in his article entitled “Hire Purchase Financing: A Case Study of Finance Companies of Pokhara” published on the journal of Nepalese Business Studies is the most valuable resource of this study. He is tried to find out the current position of hire purchase financing in Pokhara. He has taken five finance companies of Pokhara as a sample for his study they are Annapurna Finance Companies Limited (AFCL), Pokhara Finance Limited (POFIL), Om Finance Company Limited (OFCL), Fewa Finance Company Limited (FFCL) and Alpic Everest Finance Company Limited (AEFCL). In his conclusion, the deposit collection and their mobilization in hire purchase loan are significant and the performance of finance companies operated in Pokhara is satisfactory. According to his results, the proportion of hire purchase loan to total loan on AFCL is 31.5%. Similarly it is 9.25% in POFIL, 14.44% in OFCL, 21.45 in FFCL and 27.78% in AEFCL. These facts indicate that a significant amount of funds has been disbursed in hire purchase loan as compared to total loan.

KALASH a monthly news letter of Annapurna Finance Company Ltd. (Shrawan, 2064) revealed that Hire purchase Loan has been growing up rapidly. It brought out that the hire purchase loan of Annapurna Finance Company Ltd. as compare to fiscal year 2062/063 has increased by 65%. In the fiscal year 2062\063 the Hire purchase Loan was amounted Rs.292.8 million and this fiscal year 2063/064 hire purchase loan is amounted Rs.483.1 million. This shows that the tremendous increment is on the run in the case of hire purchasing.

2.2.2 Review of Dissertations

Under this heading, effort has been made to review some related dissertations done by different scholar.

Karki, (2008) has conducted a study on “Deposit Collection, Loan Disbursement and Loan Recovery Pattern of Fewa Finance Company Limited, Pokhara” with the objective of analyze the performance of FFCL in term of deposit collection, loan disbursement and loan recovery. According to him the deposit collection trends is increased and almost of the type wise deposit collection also increase. Similarly the amount of total loan is also increased. The housing loan, business loan and hire purchase loan purposes are covered high amount of loan. Most of loan customers are paid the interest with rebate and companies are needed to retain these customer satisfaction. The hire purchase loan has taken 23.71% of the total loan of FFCL on his study period i.e. fiscal year 2059/60 to 2063/64.

Gurung, Dhan Prasad (2005), in his research, "Lending Services Provided by Finance Companies: A Comparative Study of Annapurna Finance & Pokhara Finance" has made remarkable efforts with the objective of analysis and compare the performance of Annapurna Finance and Pokhara Finance. He used five years data i.e. fiscal year 2055/56 to 2059/60. His study has used different types of financial ratios to check up the financial performance of these two finance companies. He found that the lending growth of AFC is in increasing trend than that of POFIL. Both companies have provided term loan like home loan, business loan, hire purchase loan etc. than on fixed deposit loan. Moreover, AFC and POFIL both had provided hire purchase loan for vehicle purchase, machinery & equipment purchase and durable household goods.

Shrestha (2006) has conducted a study on “A Study On Investment Portfolio Of Pokhara Finance Limited”. The main objective of this study is to measure the liquidity and profitability position of the POFIL and to analyze the risk and return of the company. The major investment sectors of POFIL are loan and advances, government securities and shares and debentures. She has taken five year data on this study i.e. 2055/56 to 2060/61. The investment on loan, government securities and shares and debentures are 99.59%, 0.67% and 0.02% respectively on the average in study period. According to her like other loan investment, hire purchase loan has been increasing substantially during the study period. The reason behind this is due to the gradual decrease in the interest rate charged by POFIL and so, the customers or the people are encourage to borrow the loan on this sector.

Manandhar (2008) conducted a research work on “Consumer Loan Mobilization by Selected Finance Companies of Pokhara”. The main objective of this study is to analyze the consumer credit policy and to determine the consumer loan flow in comparison to the deposit of selected finance companies. He has taken POFIL, AFCL and OFCL as sample for the studies. According to him all selected finance companies have diversified their loans and advances on four different sectors namely Hire Purchase Loan, Home Loan, Term Loan and Fixed Deposit Loan. He found that the lending activities of these institutions are in growth trend during his research period. The POFIL invested Rs. 51.79 million, AFCL has invested Rs. 159.73 million and OFCL invested Rs. 35.2 million on hire purchase loan. He further add that the consumer loan to total deposit ratio of selected finance companies are not adopting the appropriate policies to manage and utilize the fund in income generating activities as well as to increase the quality of assets.

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CHAPTER III

RESEARCH METHODOLOGY

This chapter traces out the overall framework or plan for the collection, analysis and presentation of data needed to fulfill the objectives of the study. It also specifies the methods and procedures for acquiring the information needed to solve the research problems. The main objective of the study is to analyze and evaluate financial performance of finance company, Pokhara Finance Company Ltd. (Bittiya Sanstha) (POFIL). Different methodologies applied for the achievement of the objectives are prescribed below:

3.1 Research Design

The study is designed within the framework of descriptive and analytical research design. Descriptive research seeks to find out the fact by the help of sufficient data and information. Thus, the study is performed in and around the crux, to fulfill the research objectives.

3.2 Population and Sample

For the purpose of this study, finance companies are taken as population. Till Mid-July 2010, there are altogether 79 finance companies have been established in Nepal (Quarterly Economic Bulletin, volume-46, Mid-January 2010-Mid-July 2010).But, being a case study of a single unit, Pokhara Finance Company Limited (POFIL) is selected as sample for this study. For the sampling purpose, convenience sampling method is used.

3.3 Nature and Sources of Data

As per nature of the study, the study is based on primary and secondary data. For the study purpose, Questionnaire method (Details appendix 2) is used to obtain the primary data and annual reports of POFIL are used for the secondary data. In addition to this, necessary information are collected from the NRB reports, bulletins and its website, various articles published in journals, and books written by the various authors.

3.4 Data Collection Procedures

Questionnaire , a series of questions that the respondents has to answer in a set format, for opinion survey of credit/marketing staff and annual reports covering different fiscal years of POFIL were collected making floor/field visit. Similarly, NRB bulletins, banking and financial statistics and other publications are collected through NRB's website. Finally other supplementary information, literature reviews are collected from the Western Regional Library, Pokhara, Central Library T.U. and Library of Management, T.U.

3.5 Data Processing

Firstly, necessary data were extracted from above mentioned sources and recorded in the master-sheet. The datas were then entered into the spread-sheet to work out the necessary ratios to make necessary figures. Finally, different financial and statistical tools are used with the help of computer.

3.6 Data Analysis Tools

With respect to this study, the data are analyzed in accordance to the available data and information. So, the financial as well as other simple mathematical and statistical tools are used to accomplish the objective of the study in order to make the analysis more convenience, reliable and authentic too. The major tools apply in this study are discussed below.

3.6.1 Financial Tools

Financial tools are used in order to see the company’s position by establishing the relationship between the items of the financial statement. Among them ratio analysis is one of the widely used tool which helps to interpret the financial statement so that the strength and weakness of a company as well as its historical performance and current financial standing can be determined. So, following ratio is calculated and carried out in comparison to this study.

A. Hire Purchase Loan Default Ratio

In this context, the Loan Default ratio is calculated dividing the default hire purchase loan by the total hire purchase.

LDR = Hire purchase default loan\ Total Hire purchase loan*100%

Where,

$$\frac{\text{Default Hire Purchase Loan}}{\text{Total Hire Purchase Loan}} | 100\%$$

DLR= Default Loan Ratio

3.6.2 *Statistical Tools*

In order to analyze the study of hire purchase financing of POFIL, various statistical tools can be applied and so, the following statistical tools are used.

Mean

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

$$\text{Mean } (\overline{\text{X}}) = \frac{X}{N}$$

Where,

$\overline{\text{X}}$ = Weighted average mean, arithmetic mean.

X = Mean of the values

N = Number of pairs of observations

Standard Deviation (S.D.)

The measurement of the scattered ness of the mass of figures in a series about an average is known as the dispersion. The standard deviation measures the absolute dispersion. Greater the amount of dispersion, greater will be the standard deviation. A small standard deviation means a high degree of uniformity of the observation as well as homogeneity of a series; a large standard deviation means just opposite. This is calculated as follows:

$$\text{Standard Deviation (S.D.)} = \sqrt{\frac{(x \, \mathrm{Z} \, x)^2}{n}}$$

$$= \sqrt{\frac{x^2}{n} \, \mathrm{Z} \, \frac{x}{n}}^{\,2}$$

Where,

∃ = Standard Deviation

n = no. of observations

x = individual value

x = simple arithmetic mean/average

Coefficient of Variation (C.V)

The coefficient of variation is the relative measures of dispersion comparable across distribution which is defined as the ratio of the standard deviation to the mean expressed in percent. With the help of coefficient of variation the variables can be compared independently in terms of their variability. Less the coefficient of variation more will be uniformity and consistency and more the coefficient of variation less will be the uniformity and consistency. Hence, the coefficient of variation is under taken regarding to this study in order to compare the variability of various data respectively. It is calculated as follows:

CV = S.D/Mean

$$\text{C.V.} = \frac{\pm}{x} \mid 100$$

Where,

C.V = Coefficient of Variation

∃ = Standard Deviation

$\overline{X}$ = Average Mean

Karl Pearson's Coefficient of Correlation

Among the various methods of finding out the coefficient of correlation between two variables is Karl Pearson's Coefficient of Correlation. The coefficient of correlation measures the degree of relationship between the two sets of variables i.e. dependent and independent variables. "Correlation is the statistical tools that we can use to describe the degree in which one variable is linearly related to another." (Richard I. Levin &David S. Rubin, Statistics for Management, 7th ed., (New Delhi: Prentice Hall of India Pvt. Ltd. 1998). Here in the present study the coefficient of correlation is calculated in order to examine the relationship between the total loan and hire purchase loan and also between, which is calculated using the following formula:

$$r = \frac{\sum (x-\bar{x})(y-\bar{y})}{\sqrt{\sum (x-\bar{x})^2 \sum (y-\bar{y})^2}} \quad \text{or} \quad r = \frac{dx.dy}{\sqrt{dx^{2.} \quad dy^2}}$$

Where,

r = Karl Pearson's Coefficient of Correlation

The result of coefficient correlation always lies between ±1. The value of + 1 signifies perfect positive correlation between the two variables while the value of -1 signifies perfect negative correlation between them. But, if the value of correlation coefficient is zero then it is said that there is no any significant relationship between the two variables.

Probable error (P.E.) helps to interpret the value as well as measures the reliability of the coefficient of correlation. If the value of correlation coefficient is greater than the probable error, the value of correlation coefficient is said to be significant. If the value of correlation coefficient is less than the probable error, the value of correlation coefficient is said to be insignificant. Probable error is calculated as below:

$$\text{P.E.} = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$

Where,

P.E. = Probable Error.

Regression Analysis

In general regression analysis includes any techniques for modeling and analyzing several variables, when the focus is on the relationship between a dependent variable and one or more independent variables. More specifically, regression analysis helps us understand how the typical value of the dependent variable changes when any one of the independent variables is varied, while the other independent variables are held fixed. Most commonly, regression analysis estimates the conditional expectation of the dependent variable given the independent variables — that is, the average value of the dependent variable when the independent variables are held fixed. Less commonly, the focus is on a quantile, or other location parameter of the conditional distribution of the dependent variable given the independent variables. In all cases, the estimation target is a function of the independent variables called the **regression function**. In regression analysis, it is also of interest to characterize the variation of the dependent variable around the regression function, which can be described by a probability distribution.

Regression analysis is widely used for prediction and forecasting Regression analysis is also used to understand which among the independent variables are related to the dependent variable, and to explore the forms of these relationships.

In restricted circumstances, regression analysis can be used to infer causal relationships between the independent and dependent variables.

The performance of regression analysis methods in practice depends on the form of the data-generating process, and how it relates to the regression approach being used. Since the true form of the data-generating process is not known, regression analysis depends to some extent on making assumptions about this process. These assumptions are sometimes (but not always) testable if a large amount of data is available. Regression models for prediction are often useful even when the assumptions are moderately violated, although they may not perform optimally. However, in many applications, especially with small effects or questions of causality based on observational data, regression methods give misleading results (From Wikipedia, the free encyclopedia)

The regression equation is:

$y = a + bx$

where,

y is the dependent variable
x is an independent variable
a is the constant value
b is the gradient or slope of the line
When plotted on an equation "y" is determined by the value of "x." Regression equations are charted as a line and are important in calculating economic data.

CHAPTER IV

PRESENTATION AND ANALYSIS OF DATA

This chapter deals with the presentation, analysis and interpretations of the relevant and available data of POFIL which has been dealt in detail in order to achieve the stated objectives of the study. The data have been analyzed according to the research methodology as mentioned in chapter three to get best results. This research is related to hire purchase loan investment of POFIL, therefore this chapter is divided into the following sub-chapters.

4.1 Analysis of Hire Purchase Financing Trends of POFIL

While going through the analysis of hire purchase trends of POFIL, one has to have a glance on the **Hire Purchase Financing Policy of POFIL.**

The main purpose of developing the hire purchase financing policy is to facilitate in purchasing new/re-conditioned/used/vehicle/heavy equipment for private/commercial use (individual or organization) and further to facilitate refinancing self-owned vehicle/loan obtained for financing old vehicle/heavy equipments.

POFIL has the loan range of minimum Rs.5 lakhs and Rs.50 lakhs to the maximum. However, in case of motorcycle the minimum range is 40% of quotation price. In case of financing new private/public vehicles, POFIL provides maximum 80% of the quotation price of the vehicle or Rs.50 lakhs whichever is lower as hire purchase loan.. However, 95% of the quotation price or Rs.50 lakhs, which ever is lower, is financed when there's additional collateral is provided along with. But in case of used vehicles within 5 years of the date of manufacture- maximum 70% of the purchase price of the distress value of the vehicle as assessed by the POFIL's approved valuator whichever is lower and vehicle above 5 years of the date of manufacture- maximum 60 % of the purchase price of the distress value of the vehicle as assessed by the POFIL's approved valuator whichever is lower. While re-financing the vehicle, 100% of the principal outstanding of the loan on existing repayment term from the other bank/ financial institution in case of extra collateral provided and maximum 60% of the principal outstanding loan in the case of existing repayment term from the other bank/ financial institution. Valuation assessed by POFIL's approved valuator is must. Maximum 5 years period is provided to private vehicles as tenure period. The same maximum 5 years period is provided used vehicles. However, the maximum tenure including the date of manufacturing of the vehicle should not exceed 7 years. All the security documents like, registration of the vehicles in favor of finance company, personal guarantee, letter of consent authoring finance to sell the vehicle to third party at its will, insurance etc are mandatory. The vehicle will have to be insured under a comprehensive policy enlisting the total value of vehicles. The subsequent of completion of security documentation, and registration of the vehicle in the POFIL's name, payment will be made directly to the vehicle dealer. However in case of refinancing, payment will be made directly to the existing financing institution or borrower upon the registration of the vehicle in the name of POFIL.

To analyze the hire purchase trends of POFIL, a series of questions that the respondents have to answer in a set format, Questionnaire, is developed to know the opinion of credit staffs of POFIL. It is based on the opinion survey of credit/marketing staffs of POFIL. The following series of questions were set to meet the above objectives. (Detail in Appendix-2).

4.1.1 The major sectors of loan investment of POFIL.

Table 4.1

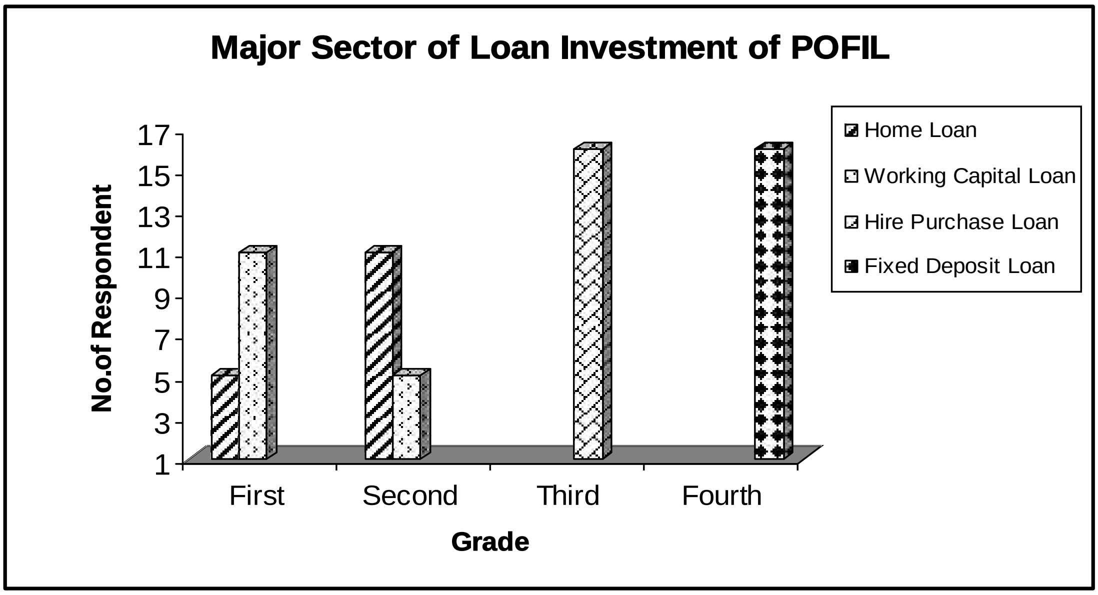
Major Sectors of Loan Investment of POFIL

Types of Loan/Grade	First	%	Second	%	Third	%	Forth	%
Home Loan	5	31.25	11	68.75				
Working Capital Loan	11	68.75	5	31.25				
Hire Purchase Loan					16	100		
Fixed Deposit Loan							16	100
Total	16	100	16	100	16	100	16	100

Source: Source: POFIL

Table 4.1 depicts the loan investment portfolio of POFIL. Basically, it presents the categories of Loan on which POFIL has been investing its deposits as loans. Majority of respondents' i.e.68.75% assigned their votes for working capital as a first rank on which POFIL has been concentrating its major loan investment and 31.25% of respondents gave the first rank to home loan and vice versa for the second rank.100% of respondents gave the fifth and sixth rank to hire purchase loan and fixed deposit loan respectively.

Figure 4.1



While analyzing the table No.4.1and figure 4.1, it is obviously seen that Working Capital is ranked to the first sector of POFIL with highest investment portfolio followed by Home Loan on the second rank. whilst Hire Purchase Loan on the third rank shows that it is still lagging behind the two leading categories in terms of investment and investment in Fixed Deposit category signifies people are less interested to use their own money as loan paying higher interest rate.

4.1.2 Hire Purchase Loan users of POFIL.

Table 4.2

Hire Purchase Loan users of POFIL

Hire Purchase Loan users	First	%	Second	%	Third	%
Business class	6	37.50	10	62.50		
Professionals	10	62.50	6	37.50		
Household					16	100
Total	16	100	16	100	16	100

Source: POFIL

Table 4.2 shows the hire purchase loan users status of POFIL. In the overall ranks to the user categories like business class, professionals and households of hire purchase loan of POFIL, 62.50% of respondents gave the first rank to the professional and 37.50% gave the same rank to the business class users. Cent percent respondents gave the least rank i.e. third was assigned to the household users.

Figure 4.2

Figure 4.2 shows that mostly professionals are the users of hire purchase loan who utilize the loan for the commercial purpose. While business class falls under the secondary, mainly consisting of the business firms, under the name of which the loan is sanctioned. Tertiary is the household category. The figure shows still in Nepal vehicles for personal use is beyond a normal Nepalese standard.

4.1.3 The factors considered on the part of customers while lending hire purchase loan of POFIL.

Table 4.3
Factors Considered for Lending Hire Purchase Loan of POFIL

Factors	First	%	Second	%	Third	%	Forth	%	Fifth	%
Level of Income	11	68.75	5	31.25						
Occupation			8	50.00	8	50.00				
Business property							14	87.50	2	12.50
Credibility	5	31.25	3	18.75	8	50.00				
Guarantor's worthiness							2	12.50	14	87.50
Total	16	100	16	100	16	100	16	100	16	100

Source: POFIL

Table 4.3 shows that the factors to be considered on the part of customers while making lending decision on hire purchase loan by POFIL, majority of respondents' i.e.68.75% gave the first rank to the level of income of the customers. However, 31.25% of respondents gave the same first rank to the credibility of the customer.50% of the respondents gave the second rank to the nature of occupation the customer involved in with followed by the level of income and the credibility with 31.25% and 18.75% for the secondary. The same equal percentage of respondents' i.e.50% assigned the third rank to the nature of occupation and credibility. 87.50% of respondents gave the forth rank to business property, 12.50% respondents gave the same rank to guarantors worthiness.

Figure 4.3

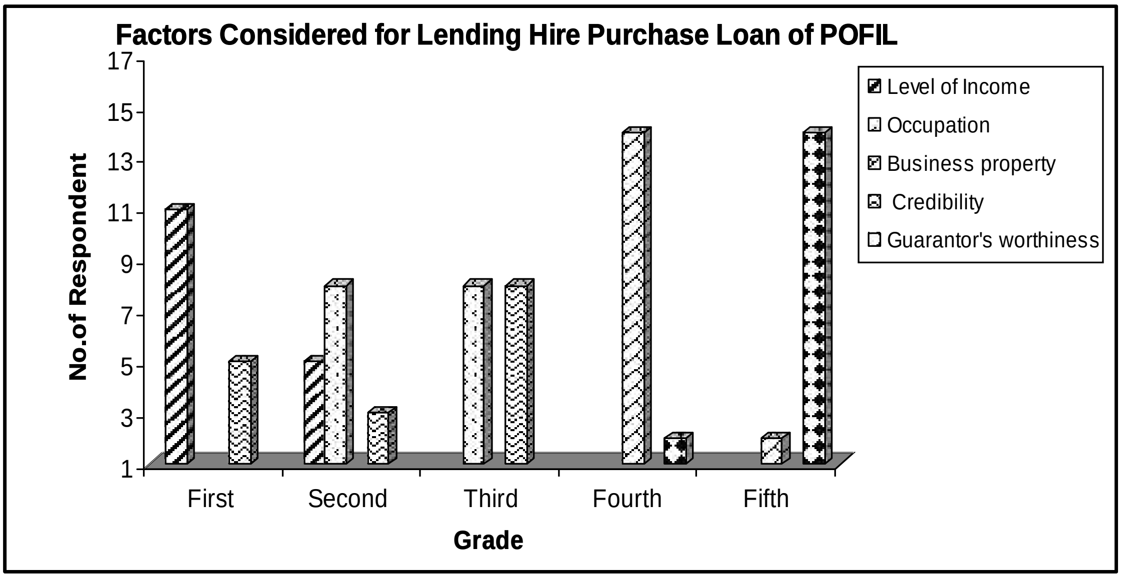


Figure 4.3 shows that the level of income is always a standard measure for lending any loan, which is significant in Hire Purchase Loan as well as diagrammatically shown that 68.75% of respondents assigned first rank to the level of income. The nature of occupation the customer involved in was ranked the secondary followed by the same equal level of percentage i.e.50% on occupation and credibility of customers for the third rank least ranks were assigned to business property and guarantors' worthiness.

4.1.4 Major Sectors of Investment under Hire Purchase Loan of POFIL.

Table 4.4

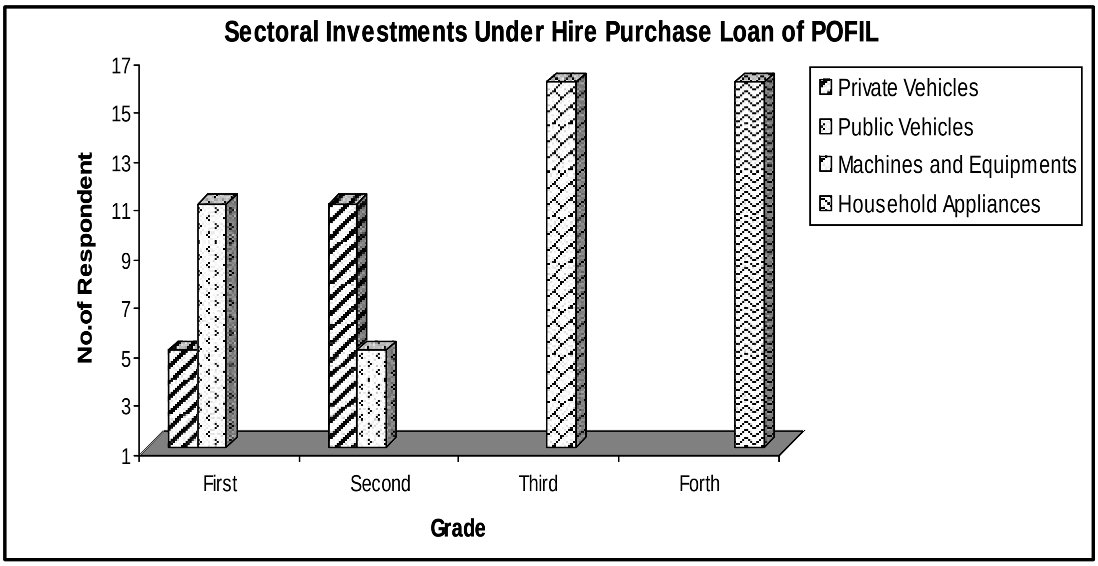
Sectoral Investments under Hire purchase Loan of POFIL

Hire Purchase Sector	First	%	Second	%	Third	%	Forth	%
Private Vehicles	5	31.25	11	68.75				
Public Vehicles	11	68.75	5	31.25				
Machines and Equipments					16	100		
Household Appliances							16	100
Total	16	100	16	100	16	100	16	100

Source: POFIL

Table 4.4 shows the rank on different categories under hire purchase loan provided by POFIL. As per table, 68.75% of respondents assigned the first rank to public vehicles like long route bus, taxi, tractor, truck etc.financing meant to be used for commercial purpose and the same rank was assigned to the private vehicles by 31.25% of the respondents. Machines and equipments were ranked to the third and fourth rank was assigned to the Household Appliances under which investment is almost negligible.

Figure 4.4



The above figure 4.4 shows that the majority of respondents i.e.68.75% of respondents assigned the first rank to the public vehicles followed by the private vehicles and machinery equipments on the second and third respectively. The least rank was assigned to the home appliances by the cent percent respondents where the loan investment is almost negligible.

4.1.5 Reasons for customers' attraction on Hire Purchase loan of POFIL.

Table 4.5

Reasons for Customers Attraction on Hire Purchase Loan of POFIL

Reason of attraction	First	%	Second	%	Third	%
No Need of Large Amount of Investment at a time	11	68.75	5	31.25		
Easy Payment System	5	31.25	11	68.75		
Easy cash flow to serve the loan (self liquidating)					16	100
Total	16	100	16	100	16	100

Source: POFIL

Table 4.5 shows the reasons for customers' attraction on hire purchase loan of POFIL. 68.75% of respondents gave the first priority to no need of large amount of investment at a time and remaining 31.25% of respondents gave first priority to easy payment system. The least priority, cent percent respondents gave the third rank, was given to easy cash flow to server the loan (self liquidating).

Figure 4.5

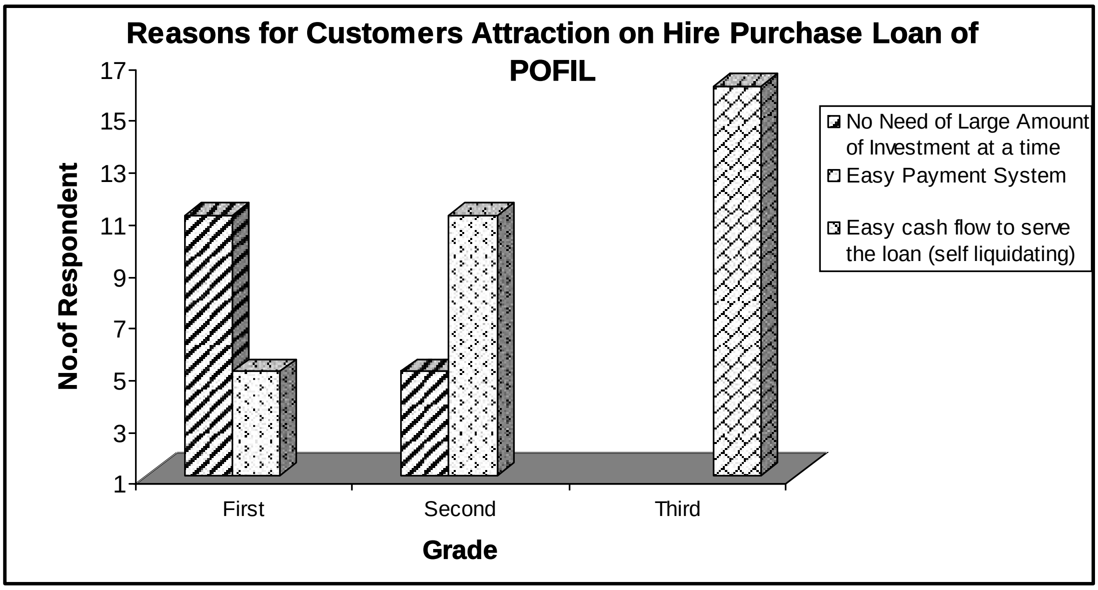


Figure 4.5 shows that the majority of respondents' i.e.68.75% gave the first priority to no need of large amount of investment at a time followed by easy payment system on the second and the least priority was given to the easy cash flow to serve the loan with self liquidating. The presented diagram explains unlike in other loan portfolio, large amount of investment is not necessary in hire purchase loan at a time which means only 20% to 30% initial investment falls on the part of the customers while the rest is born by the institution itself which is the foremost reason for the attraction of customer on this sector.

4.1.6 Hire Purchase Installment Payment Status of POFIL.

Table 4.6

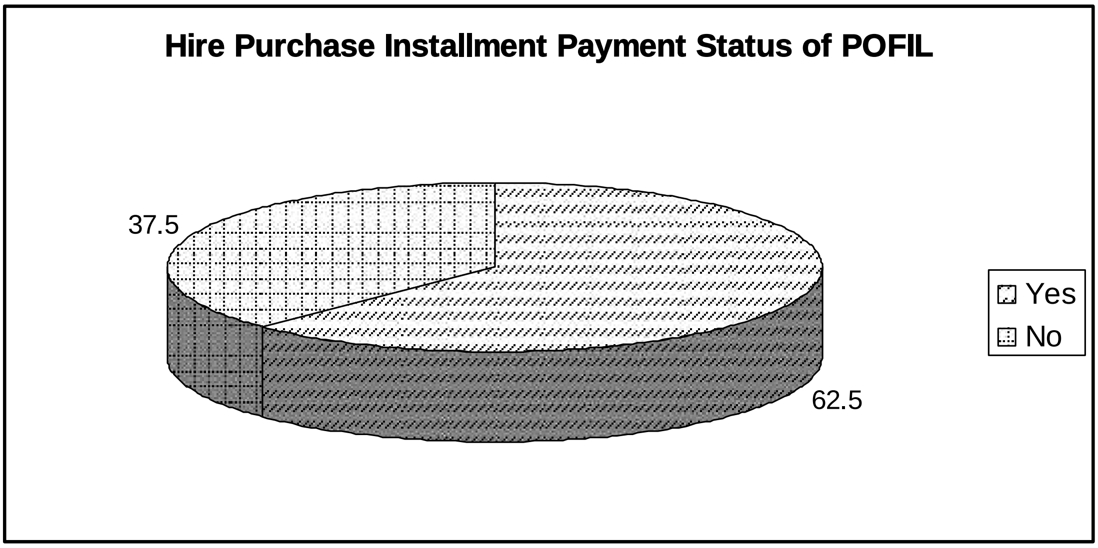
Hire Purchase Installment Payment Status of POFIL

Options	No. of Respondents	%
Yes	10	62.5
No	6	37.5
Total	16	100

Source: POFIL

Table 4.6 shows the no. of respondents with their verdict about the regularity of installment payment of Hire purchase loan in time. As per table, 62.50% of respondents opined that the users of hire purchase loan pay their installment in time while 37.50 experienced that they do not pay in time. This represents that the majority of Hire purchase loan users pay their installment in time and the least of them they don't. The tabulated data is clearly shown below on pie-chart.

Figure 4.6



The tabulated data is clearly shown on pie chart. Figure 4.6. It explains that by far, the payers of the installments of hire purchase loan i.e.62.50% exceed the non payers i.e.37.50% despite all the difficulties and inevitable circumstances that occur in the case of vehicles which paves a better way of investment in this sector in the following days to come.

4.1.7 Reasons for Being Default on Hire purchase Loan of POFIL.

Table 4.7

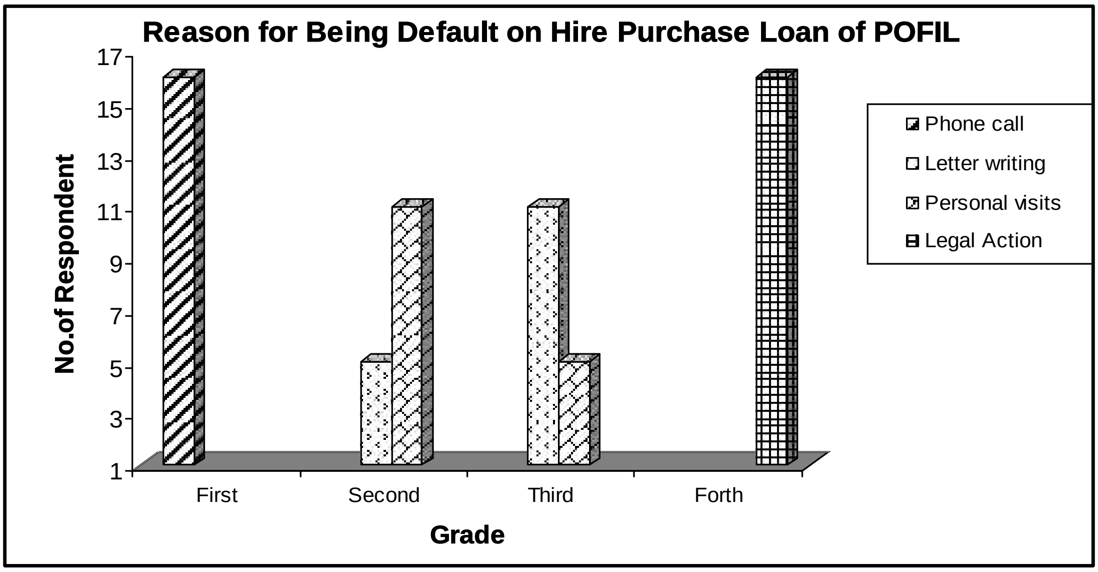
Reasons for Being Default on Hire Purchase Loan of POFIL

Reason	First	%	Second	%	Third	%
Business failure	11	68.75	5	31.25		
Political instability	5	31.25	7	43.75	4	25.00
Intention/negligence of customer			4	25.00	12	75.00
Total	16	100	16	100	16	100

Source: POFIL

Table 4.7 represents the reasons behind the being loan default on Hire purchase Loan of POFIL on which number of respondents gave their opinions.68.75% of respondents gave their opinion that the foremost reason for failure in installments payments is due to the business failure and followed by political instability in the second.75% of respondents opined that the intention and negligence on the part of customers is the third reason behind for being hire purchase loan default.

Figure 4.7



Negligence of a person regarding the loan either intentionally or unintentionally is the main cause for being default of hire purchase loan as per the diagram. While business failure for which the loan was meant for causes default on the part. Business supporting the payment of the installments if lapses, it directly hinders the repayment incase the business being the only source of income. This is immediately followed by Political Instability which is a roaring problem for a country of ours where we are abide by the political activities despite of all the difficulties that we need to pass through as a consequence of these activities.

4.1.8 Loan Recovery Procedures Followed by POFIL.

Table 4.8

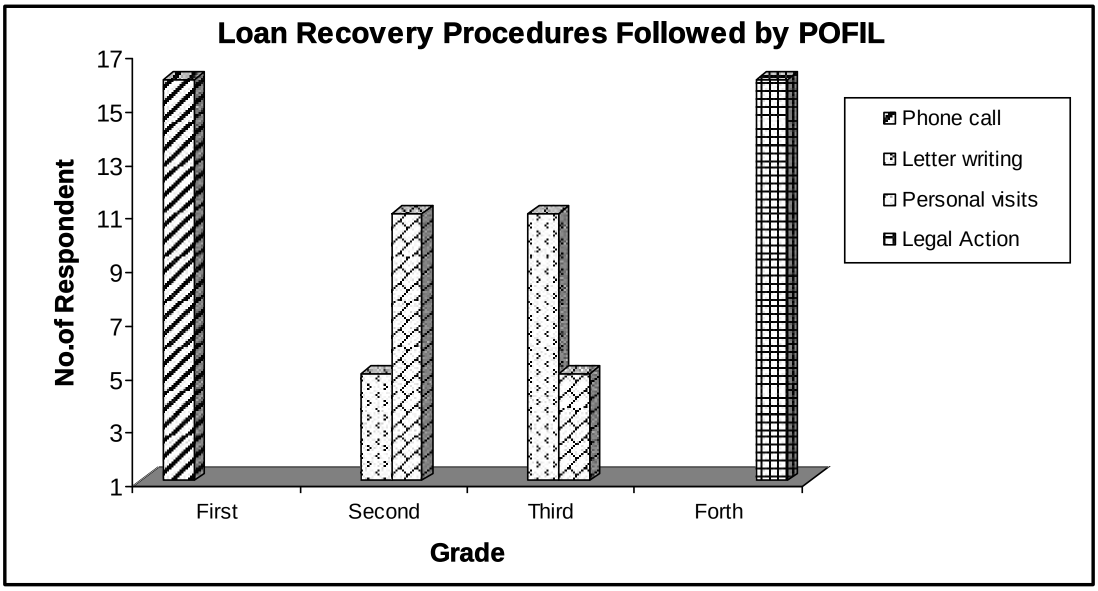
Loan Recovery Procedures Followed by POFIL

Reason	First	%	Second	%	Third	%	Forth	%
Phone call	16	100						
Letter writing			5	31.25	11	68.75		
Personal visits			11	68.75	5	31.25		
Legal Action							16	100
Total	16	100	16	100	16	100	16	100

Source: POFIL

Tabulated data, Table 4.8, shows the serial steps followed by POFIL in the recovery procedures of Loan. Cent percent respondents gave the first priority to the phone call as the first step where client is reminded about the overdue installment gently.68.75% of respondents gave the second rank to personal visit however 31.25% of respondents gave the same rank to letter writing. Legal action was ranked as the final step of recovering the overdue loan.

Figure 4.8



As per the bar diagram above figure 4.8, phone call is the first step followed by POFIL incase default occurs in hire purchase loan. Whereas also the legal action which is sought as the final step in other institutions is regarded as the initial step of recovery in POFIL being hire Purchase as one of the most sensitive portfolios which encompasses of seize of the vehicle under legal obligation while letter writing and personal visits are given equal importance and falls in the second step.

4.2 Analysis of Sub-Sectoral Investments under Hire Purchase Loan of POFIL.

POFIL has been maintaining three diversified portfolio under hire purchase financing through out the years. They are briefly discussed below along with the presentation of data.

- **Vehicles:**

  Under this category, Investment is made on private and public vehicles like Bus, Car, Taxi, Jeep, Van, Tractors and Motorcycles etc. The investment is made with or without additional collateral. The maximum exposure is 80% in case of with out additional collateral and maximum exposure 95% in case of with additional collateral..

- **Machinery & Equipments:**

  Investment in Machines, Machinery parts and Equipments like Heavy machines used in firm and industry, Bulldozer, Loader etc. falls under this category. Additional security is most and the maximum exposure is 85%.

- **Home Appliances:**

  Under this category, the investment is made in home appliances like Television, Refrigerators, Kitchen accessories, Sofa, cupboard etc. Additional security and guarantees are in option.

However POFIL does not have any different interest schedule for these different categories rather the investment amount fixes the interest rate to be charged. The sectoral investment under hire purchase loan is tabulated below. (Detail in Appendix-3)

Table 4.9
Sub-Sectoral Investments under Hire Purchase Loan of POFIL (Rs.In Million)

Fiscal Years	Total Amount	Vehicle	Machinery	Home Appliances
2062/063	52.64	44.64	6.94	1.06
2063/064	49.48	44.36	4.51	0.61
2066/065	51.59	45.11	6.11	0.37
2065/066	36.45	28.47	7.83	0.15
2066/067	47.15	34.46	12.61	0.08
Average Mean	47.462	39.408	7.60	0.454
S.D	5.82	6.76	2.73	0.355
C.V	0.1226	0.1716	0.3592	0.7819

Source: POFIL

The above comparative table reveals that the sectoral loan investment of POFIL under hire purchase from the FY 2062/063 to FY 2066/067. This table clears that the major portion of hire purchase loan is invested in the category of Vehicles followed by Machinery & Equipments and the least portion is in the category Home Appliances.

Reviewing the sectoral investment pattern in each category from FY 2062/063 to FY 2066/067, it has been found the amount in every sub-loan category of hire purchase i.e. vehicles and home appliances are decreasing by Rs.10.18 million and Rs.0.98 million respectively. But in case of Machinery & Equipments, it is increasing by Rs.5.67 million. The variation of vehicles in absolute term is Rs.6.76 million and it is in relative term of 0.1716. Similarly, an investment in Machinery & Equipments and Home appliances has the variation in absolute term of Rs.2.73 and Rs.0.355 million and it is in relative term of 0.3592 and 0.7819 respectively. Here vehicles category has the lowest variation in relative term i.e. 0.1716 and Home appliances have the highest one i.e. 0.7819. The higher value of variation in relative term indicates higher dispersion and low value of variation signifies the lower deviation in investment of these categories of hire purchase loan. Thus, the investment in the category of home appliances has been decreasing with higher deviation than that of other investment in the period of study. The table 4.9 has been presented in figure 4.9

Figure 4.9

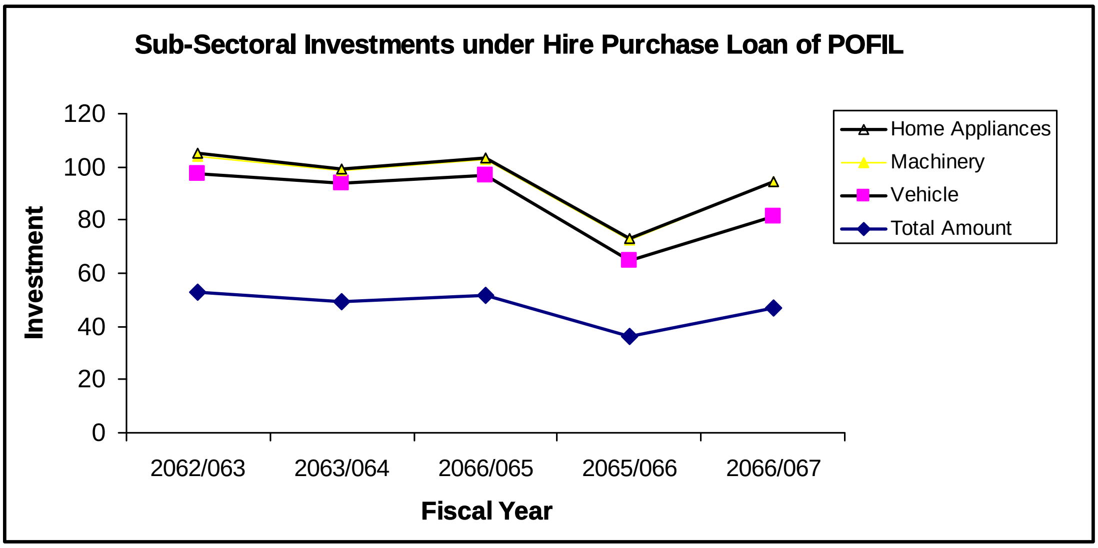


Fig.4.9 shows the trend of different hire purchase sectoral investment of POFIL for the past five years i.e. FY 2062/063 to FY 2066/067. The investment in vehicles has fluctuation trend. An investment in the FY 2062/063 was 44.64 million and slightly decreased into 44.36 million in the FY 2063/064. However in the FY 2064/065 it moved up to 45.11 million. Again in the FY 2065/066 the investment fell down to 28.47 million. Finally in the FY 2066/067 the investment in vehicles increased tremendously with 34.46 million. There's more fluctuation in case of machinery & equipments too. It has maximum increment in FY 2066/067 with 12.61 million as in the particular fiscal year POFIL had an investment in the heavy machine for manufacturing Bread & cakes. Meanwhile the investment in home appliances has been decreasing through out the years. Thus, this reflects that POFIL has emphasized in the categories of vehicles and machinery & equipments rather than in the category of home appliances. The reason for continue declining in home appliances is because of its easy accessibility and 0% interest facility in the competition market. However POFIL has been giving less priority in hire purchase loan as a whole because as per NRB act, the lesser one flows cash on vehicles the more one is secured.

4.3 Hire Purchase Loan Default Ratio of POFIL

It is not possible that always the total loan & advances get recovered with in the schedule period and time framework. Default occurs when debtor has not met his/her legal obligations in accordance to the debt contract, e.g. has not made a scheduled payment, or has violated a loan covenant of the debt contract. Simply, it is the failure of repaying the loan as per schedule. Being default has serious consequences like the entire loan balance including interest can be immediately due and payable. One will lose his/her deferment options and the particular account might be turned over causing him/her to pay additional charges. In addition, his/her account gets reported to central information bureaus leading your credit rating being damaged. The problem of loan recovery is the symptom of default. So, recovery is like an appendage to every bank and financial institutions to get rid off from being loan default. Some customers are negligent on their loan to repay. But, sometimes the political situations, natural disasters and other unforeseen situations make customers as default. This sub chapter tries to find out the defaulter position on hire purchase loan invested by POFIL. The defaulter to hire purchase loan ratio is calculated by dividing total defaulter by total hire purchase loan. This ratio indicate the what percentage of total investment on hire purchase loan is made default. The lower the ratio is better. Hence, the financial institutions try to minimize their default. The defaulter to hire purchase loan ratio of POFIL, are presented on following table. (Detail in Appendix-4)

Table 4.10

Hire Purchase Loan Default Ratio of POFIL

Fiscal Year	2062/63	2063/64	2064/65	2065/66	2066/67
Hire Purchase Loan Default Ratio	9.75%	9.01%	12.31%	17.26%	4.26%

Source: Pokhara Finance Limited

Table 4.10 shows the position of default loan on hire purchase loan investment of POFIL. In the F.Y 2062/63 POFIL had 9.75% default loan on hire purchase loan. Likewise, in the F.Y 2063/64, 2064/65 and 2065/66 the defaulter was increased to 9.01%, 12.31% and 17.26% of hire purchase loan investment. The reason behind was because of deficiencies in the recovery and its patterns. But, in the F.Y.

2066/67 it is decrease to 4.26% which indicates the POFIL is able to minimize its default rate in the particular fiscal year.

Figure 4.10

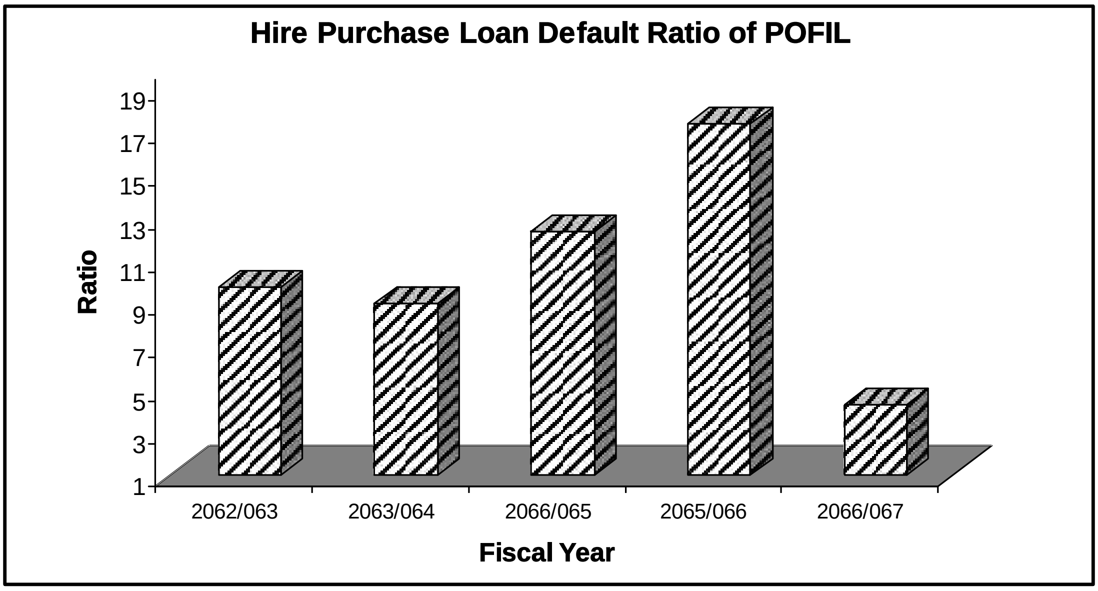


Figure 4.10 shows the defaulter problem faced by POFIL on hire purchase loan investment in different five year period. According to figure it is clearly understood that in the fiscal year 2065/66 POFIL had high percentage of default loans as compare to the others within the study period i.e. 17.26%. Whereas, in fiscal year 2066/67 POFIL was able to reduce its defaulter rate to 4.26% of hire purchase loan.

4.4 Correlation between the Total Loan and Hire Purchase loan:

The correlation between total loan and hire purchase loan shows the degree of relationship between these two items. This correlation measures a unit increase or decrease in total loan impact in the volume of hire purchase loan. In this case total loan is independent variable and hire purchase loan is the dependent variable.

Table 4.11

Correlation between the Total Loan and Hire purchase Loan of POFIL

Correlation Coefficient (r)	P.Er.	6*P.Er.	Remarks
-0.5678	0.2042	1.2264	r<6*P.Er.

Source: POFIL

The significant between total loan investment and hire purchase loan investment is tested through the test of Karl Pearson's coefficient of correlation and regression analysis. Table 4.11 shows that the correlations coefficient between independent variable total loan and dependent variable hire purchase loan of POFIL is 0.5678 and the probable error multiplied by six is found to be 1.2264(Detail in appendix-5 and 6). This result indicates that there is no any significant relation between total loan investment and hire purchase loan investment of POFIL. Therefore, the increasing trend of total loan investment is not associated with the increase in hire purchase loan. Total loan disbursement of POFIL is always in increasing trend but it has not affect to the investment of hire purchase loan yet. It means that total loan and hire purchase loan investment has perfectly negative relation and there is insignificant relationship between these two items. This result can be verified by regression equation, hire purchase loan(y) on total loan investment(x). The regression equation y= 61.17 – 0.01402x, which shows negative relation between total loan investment and hire purchase loan investment.

4.5 Loan Recovery Procedure and Policy of POFIL

Recovery is a process generally associated with loan and advances granted by banks and financial institutions. It is an integral part of credit management directly related with the credit screening process. Better the screening processes lower the probability of Non Performing Loan (NPL) thereby need of lower recovery mechanism and vice-versa. So no matter how good the credit appraisal system is, every financial institution should (FI's) have emplaced an efficient and effective recovery mechanism. FI's may have separate units/personnel to look after the recovery activities and the size of units/personnel is determined by the volume of problematic loans; however this department can not operate smoothly until and unless it gets support from the top level management and other departments. Internationally, FI's use specialized agencies for this kind of jobs which we lack.

The POFIL provides some direct and indirect benefits to the customers if they pay their installments regularly in time. Such customers get rebate from the company i.e.0.50% on prevailed interest rate and that can lead to the good relations between the customers and company. On the contrary the customers are charged penalty of 15% on their due principals in case of irregular payment of installments. Generally, the laborious and efficient customers are supposed to be winners and the inefficient customers who neglect their duties is penalized. The provision of rebate and penalty system leads the customers to utilize the amount of loan in most effective manner and thereby pay the installment in time. All the customers of company are not good so the loan classification under NPL is based only on overdue loan of previous year to overdue on the current fiscal year.

POFIL has its own recovery system and mechanism along with its separate departments. Three staffs are employed on this department for the complete monitoring accounts, process and performances of customers. A complete securitization of the loan is done at certain intervals to ensure that the loans are invested in the right project, business and the repayments are regular there by the rate of NPL is less. NPLs are identified and graded in accordance to customers' account performance. In addition, POFIL has its own Loan Recovery Committee that consists of three members of different departments as a whole. The Chief Executive Officer (CEO) of POFIL is the chairperson of the committee whilst head of loan/marketing department and head of account department are the other two members. The Loan Recovery Department takes the following actions to the customers:

a. **First Reminder Call:** This is the very first initial step where the delay in the payment of the installment of any client is immediately followed by a call as a gentle reminder. For the process, a staff from the recovery department has been assigned.
b. **Personal Visit:** The second step is followed by the personal visit. It's a kind of informal visit in which one or two staffs from the credit department visit the loanee who fails to provide strong conviction on the time of first call. Face to face interactions sometimes help to find out the real causes behind the delay in payment of installment.
c. **Series of Formal Letter:** Negligence by a particular loanee on time to time call and regular visits is now followed by a formal step. This is a crucial step as loanee's integrity is now challenged by an organization. The following steps are initiated,

    - As a first formal letter, 35 days official letter is either submitted or dispatched to the client in which 35 days time duration is provided to pay the dues principal and accrued interest
    - On the incapability of the client to clear out all the dues within the time frame provided, the next step initiated is a submission of second letter in which 15 days time duration is further extended to clear all the due principals and interests.
    - The first and second letter is immediately followed by the third letter in which 7 days letter is provided to the client according to which the

clients then have only seven days to clear all the dues. A copy is dispatched to the guarantors stating its consequences as well.

d. Publish of Notice on the National Newspaper: The clients who still fail to either clear all the dues or provide strong convictions now are almost declared as the defaulters. For these defaulters a strong action ought to be taken. Either a 21 days or 35 days notice is published on local as well as on national newspapers in which these defaulting parties are informed to collect all the dues principals as well as interests to regularize the loan. In this step, the guarantor's names along with the mortgaged collateral details are also published. A copy of newspaper is filed in the respective customers' file and the other is sent to the concerned party. On the capability of theirs to clear the dues and regularize the loan further process is stopped else wise, it is followed immediately by notice of auction.

e. Notice of Auction: This step is the crucial of all as it follows a series of legal obligations.

- After the 35 days of publishing notice in newspaper, if the concerned party still seems incapable to regularize the loan, POFIL is left with no other option than to go for auction process. Where foremost, the property mortgaged in our favor is revalued by listed valuator along with physical inspection by the credit staffs. The report thus obtained is presented to the Credit Committee on the analysis of which gives an authority for auction process.
- The date and the venue for auction procedure is thus finalized which is delegated to the concerned party within the three days of finalization. Company then publishes the notice of auction in national level newspaper after seven days of decision, giving the details of customers, owner of collateral, if the collaterals are of third party and guarantors with their photographs, information about auction place, date, time and details of collaterals.

- If the customer pleas for the additional time for payments of the loan to the BOD through the CEO, the company can stop the auction process for some period but not more than 6 months. The loan committee can stop the process for maximum 6 months, but the customer should pay the certain amount of loan in that time. If the customer cannot pay the balance loan amount within the auction stop period, the company again starts auction process and sells the collateral to collect the loan.
- The bidder has to deposit 10% of bid price. The ownership of the assets would be transferred to him only after paying loan amount and excess amount to the company. But, if no one wants to bid, the auction date will be extended further or the company can own the collateral itself as non-banking assets.
- Sometimes the value of the property seems incapable to withstand the existing loan amount. In such case, part is collected by auctioning the existing collateral and other sort balance will be collected from the guarantor's assets and vice-versa.

f. Provision on Bank & Financial Institution Debt Recovery Act 2058

If the loan cannot be repaid by the effort of finance company, this will be the last resort that the company can appeal the case to Loan Collection Court of Justice, which is established by Nepal Government with three members from Law, Banking and Accountancy. The application should be given for overdue loan before this Act within three years and after the Act within three years from overdue date. The company should be paid 0.25% claimed amount for loan collection charge with the application. Within 15 days from application, the Court of Justice declares the case. After the order being received from Court, the Loan Collection Officer should collect the loan from loan holder and pays to the bank or FIs for which he could adopt the following procedures:

a. Adopting or auctioning the pledge secured or other fixed and current assets of proprietor.

b. Adopting or auctioning the fixed current assets of guaranteed person.
c. To arrest the keen in jail for the loan holder (proprietor) or guaranteed person according to laws.

After receiving the loan amount, the company should pay 1% of loan to court of justice as a loan collection charges.

4.5 Major Finding of the Study

The major finding of the study on hire purchase financing of POFIL are as follows:

- With respect to the major aspect of hire purchase financing of POFIL regarding the overall ranks for various sectors of Loans like home loan, working capital, hire purchase loan and fixed deposit loan, 68.75%of the respondents gave the first rank to working capital loan followed by home loan on the second. Cent percent respondents gave the third rank to hire purchase.
- In the overall ranks to the user categories like businessman, professionals and households of hire purchase loans of POFIL, 62.5 %of the respondents gave the first rank to professional. However 37.50% of respondents gave the same rank to business class users and the least rank was assigned to the household users.
- With respect to the factors to be considered on the part of customers while making lending decisions on hire purchase loan by POFIL, 68.75% of respondents gave the first rank to the level of income of the customers. However, 31.25% of the respondents gave same rank to credibility of the customers. The nature of occupation was assigned the second rank by 50% of respondents and 18.75% of respondents assigned the same rank to the credibility as well.87.50% of respondents assigned the third rank to the business property. 12.50% of respondents assigned the third rank to the guarantor's worthiness and 87.50% of respondents made it to the fifth rank.

- With respect to the rank on different categories of hire purchase loan provided by POFIL, 68.75% of respondents assigned the first rank to public vehicles meant to be used for commercial purpose and the same rank was assigned to the private vehicles by 31.25% of respondents followed by machinery and equipments on the third rank. The least rank, fourth, was assigned to home appliances.
- With their overall ranking for customer attractions on hire purchase loan of POFIL, 68.75% of respondents assigned the first priority to no need of large amount of investment at a time and remaining 31.25% gave the same priority to easy payment system. Majority of respondents gave the second priority rank to the easy payment system and the least priority was assigned to easy cash flow to serve the loan.
- With respect to the regular payment of installments, 62.50% of the respondents opined that the hire purchase loan users pay their installment in time while 37.50 experienced that they do not pay in time. 68.75% of respondents gave the opinion that the first reason for being loan defaulter is because of business failure i.e.unfavourable business situation while the remaining percent thought that political instability could be the first reason of being loan default. 25% of respondents opined that political instability could be the second reason rather than the first and 75% of respondents opined that the intention or negligence on the part of customers is the third reason for being default on hire purchase loan.
- With respect to the loan recovery procedures followed by POFIL, cent percent respondents gave the first rank to the phone call and second rank was given to personal visits by 68.75% respondents. However 31.25% of respondents gave the same rank to the letter writing and the third and the final rank was assigned to the legal action.
- During the study period, the total investment on hire purchase loan of POFIL was highly fluctuating. In the beginning fiscal year i.e. 2062/063 of the study period, the total hire purchase loan was 52.64 million and in the end of study period i.e. fiscal year 2066/67 the investment on hire purchase

loan was decreased to Rs. 47.15 million. The least investment on hire purchase, 36.45 million, was made in the fiscal year 2065/066.

- The sectoral wise investment of POFIL under hire purchasing shows that the major portion of hire purchase loan is invested in the category of Vehicles followed by the Machinery & Equipments. The least portion was in the category of Home appliances. Reviewing the sectoral investment pattern under hire purchase loan from the FY 2062/063 to 2066/067, it is found that the amount in every sub-loan category of hire purchase i.e. vehicles and home appliances are decreasing by Rs.10.18 million and Rs.0.98 million respectively. But in case of Machinery & Equipments, it is increasing by Rs.5.67 million. The variation of vehicles in absolute term is Rs.6.76 million and it is in relative term of 0.1716. Similarly, an investment in Machinery & Equipments and Home appliances has the variation in absolute term of Rs.2.73 and Rs.0.355 million and it is in relative term of 0.3592 and 0.7819 respectively. Here vehicles category has the lowest variation in relative term i.e. 0.1716 and Home appliances have the highest one i.e. 0.7819. The higher value of variation in relative term indicates higher dispersion and low value of variation signifies the lower deviation in investment of these categories of hire purchase loan. Thus, the investment in the category of home appliances has been decreasing with higher deviation than that of other investment during the period of study.
- During the five years study period, the defaulter to hire purchase loan ratio of POFIL was fluctuating. In the beginning of the study period i.e. fiscal year 2062/63 its ratio was 9.75%. It means that 9.75% of POFIL's investment on hire purchase loan was defaulter in that year. And, in the end of the study period i.e. 2066/67 its ratio was decreased to 4.26%. This is the good for POFIL and represents the effective management of POFIL. The defaulter to hire purchase loan ratio of POFIL in fiscal year 2065/66 was higher in the study period, in this year its ratio was 17.26%. Whereas, in the fiscal year 2066/67 its ratio was decreased to 4.26%, which was the lowest ratio of the study period.

- The correlation analysis shows that the correlation coefficient (r)between total loan and hire purchase loan of the company is -0.5678 ant eh probable error multiplied by six is found to be 1.2264.Since,r<6*P.Er. It indicates that there is no any significant relationship between the total loan and hire purchase loan. Further, the regression equation of hire purchase loan on total loan investment was y = 61.17 – 0.01402x which shows the negative relation between hire purchase loan and total loan.
- POFIL has its own recovery system and mechanism along with its separate departments. Three staffs are employed on this department for the complete monitoring accounts, process and performances of loan customers. A complete securitization of the loan is done at certain intervals to ensure that the loans are invested in the right project, business and the repayments are regular there by the rate of NPL is less. NPLs' are identified and graded in accordance to customers' account performance. The Loan recovery committee which encompasses of CEO as the chairman, Loan and Marketing department and Account department head as other two members have been strongly speculating the recovery process for which three other junior staffs have been assigned. The process they follow consists of first reminder call as a gentle reminder about the overdue installment, personal visits, series of formal letters, notice on national newspapers and notice of auction as ultimate procedures. As a part of recovery and stimulating customers to pay in time POFIL has been waiving 0.50% of the accrued interest as reward or rebate and to the contrary 15% penal has been levied for the defaulting parties.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter basically includes three aspects of the study. Firstly, it summarizes the whole study, secondly it concludes with remarks and finally the study focuses on making some useful suggestions and recommendations based on findings of the study.

5.1 Summary

The study is carried out as an academic requirement of master's degree of business studies, on the topic of Hire Purchase Financing. The present study has been undertaken to examine and analyze the trends in hire purchase financing of Pokhara Finance Limited. In order to build the theoretical foundation and to get the clear destination of the research work, various materials were reviewed. Evolution of financial institutions in Nepal, Financial products and services, concept of hire purchasing were reviewed as conceptual review. Beside this, reviews of dissertation were also included in research review section of the report.

The study has covered six years period from F.Y.2062/063 to F.Y.2066/067 and was designed within the framework of descriptive and analytical research design and so the analysis has been made accordingly. The study has resorted to primary data that have been collected by questionnaire method, using unstructured interview and key information method with concerned personnel. Similarly, the secondary data have been first processed and analyzed respectively. Financial ratio, simple mathematical and statistical tools have been applied to get the meaningful result of the collected data in this research work. Further, Bar graph, line graphs and pie-chart have been used to present the data moreover clearly and attractively.

The analysis of hire purchase financing trends of POFIL through opinion survey reveals that the investment on hire purchase financing has been given less priority as compare to other loan categories. It has been ranked to the third category. In the overall ranks to the user categories like business man, professional and households, of hire purchase loan of POFIL, first rank is given to the professional users followed by business man and households on the second and third respectively. It is found that the level of income is the foremost factor considered on the part of customers while making lending decision followed by nature of occupation and credibility serially. Under hire purchase financing, majority of investment is centralized in public vehicles meant to be used for commercial purpose followed by private vehicles and machinery & equipments on the second and third respectively. The least investment is done on home appliances where the investment is almost negligible. The vehicles category has the lowest variation and home appliance has the highest variation which clarifies that the investment in the category of home appliances has been decreasing with higher deviation that that of other investment during the period of study. It is observed that most of the hire purchase customers are attracted on this category because of small investment at a time while acquiring assets. More than the half percent of hire purchase customers, they pay their installments in time. The hire purchase loan default ratio is decreasing year by year as the POFIL has been strongly monitoring its all overdue loan regularly. While analyzing the correlation between total loan and hire purchase loan it is found that there is no any significant relationship between total loan and hire purchase loan. Further, the regression equation showed the negative relation between hire purchase loan and total loan.

POFIL has its own recovery system and mechanism along with its separate departments consisting three staffs for the complete monitoring accounts, process and performances of customers. A complete securitization of the loan is done at certain intervals to ensure that the loans are invested in the right project, business and the repayments are regular there by the rate of NPL is less. The Loan recovery committee which encompasses of CEO as the chairman, Loan/Marketing department and Account department head as other two members have been strongly speculating the recovery process along with those three staffs. The processes they follow consists of first reminder call, personal visits, the series of formal letters, notice on national newspapers and notice of auction as ultimate procedures. As a part of recovery and stimulating customers to pay in time POFIL has been waiving 0.50% of the accrued interest as reward or rebate and to the contrary 15% penal has been levied for the defaulting parties.

5.2 Conclusions

The following conclusions have been drawn on the hire purchase financing by POFIL from the analysis of the main finding of the study:

5.1.1 In overall ranks for various sectors of loan like home loan, working capital, hire purchase loan and fixed deposit loan, hire purchase loan was assigned the third rank during the study period. This fact concludes that the hire purchase loan is considered the less priority sector as compare to other sector of loan leaving loan against fixed deposit behind.

5.1.2 In overall ranks to the user categories like businessman, professionals and households of hire purchase loan of POFIL, 62.50% of respondents gave the first rank to the professional users followed by businessman on the second and the least rank was assigned to household users. This fact indicates that still in Nepal vehicles for personal use is beyond a normal Nepalese standard.

5.1.3 During the study period, the level of income is considered the must on the part of customers followed by the credibility of customers and nature of occupation on the second the third respectively. Business property was assigned to the forth and the least was assigned to the guarantor's worthiness. This fact shows that the POFIL has been scrutinizing the income level of the customers before making lending decision.

5.1.4 During the study period, with respect to the ranking of different sub-categories under hire purchase loan provided by POFIL, 68.75% of respondents assigned the first category to the public vehicles meant to be used for commercial purpose followed by private vehicles on the second.

Cent percent respondents assigned the home appliances to the least category. This fact indicates that the POFIL has been giving the first priority on public vehicles and the least priority on home appliances where the loan investment is almost negligible.

5.1.5 During the study period, it is noted that the large number of customers are attracted to the hire purchase loan is because of no need of large amount of investment at a time.68.75% of respondents gave the first priority on this part followed by easy payment system on the second. This fact explains that unlike in other loan portfolio, large amount of investment is not necessary at a time while acquiring the assets under hire purchase financing as only 20% to 30% of total investment falls on the part of the customers while rest is born by the financial institution itself.

5.1.6 It is obviously drawn that majority of respondents i.e.62.50% opined that the hire purchase loan users pay their installment in time while the remaining 37.50% of respondents they experienced that they don't pay in time.

5.1.7 Business failure is the fore most cause for being irregular on the repayment of loan. The unfavorable business situation bounds the customers for being defaulter even though has no any intention to be. Political instability and the negligence or intentions of the customers are the other reasons for being hire purchase loan default. This whole scenario indicates that the main reason for being defaulter is unfavorable business situation followed by political instability and the negligence of the customers to the least.

5.1.8 In overall, POFIL has been giving the first priority to the phone call as the initial phase of loan recovery procedures. Cent percent respondents gave the first rank and priority to the Phone call which is made to the customers where the gentle reminder is done about the loan overdue. 68.75% of respondents gave the second rank and priority to the personal visits where the particular clients are visited at site to know their verdicts followed by the letter writing on the third. The last action on the course of recovery of loan is going through the legal action This indicates that the first priority has always been given to the phone call followed by the personal visits and letter writing on the second and third. Legal action is sought as the final step of recovery in POFIL being hire purchase as one of the most sensitive portfolio which encompasses of seize of the vehicle under legal obligations.

5.1.9 During the study period, the total investment on hire purchase loan of POFIL was highly fluctuating. In the beginning fiscal year 2062/063 of the study period, the total hire purchase loan was 52.64 million and in the end of study period i.e. fiscal year 2066/67 the investment on hire purchase loan was decreased to Rs. 47.15 million. The least investment on hire purchase, 36.45 million, was made in the fiscal year 2065/066. This states that POFIL has been giving less priority on hire purchase loan as a whole because as per NRB act, the leaser one flows cash on vehicles the more one is secured.

5.1.10 The sectoral wise investment of POFIL under hire purchasing shows that the major portion of hire purchase loan is invested in the category of Vehicles followed by the Machinery & Equipments on the second. The least portion is in the category of Home appliances. The variation of vehicles in absolute term is Rs.6.76 million and variation in relative term is 0.1716. Similarly, investments in Machinery & Equipments and Home appliances have the variation in absolute term of Rs.2.73 and Rs.0.355 million and its variation in relative term of 0.3592 and 0.7819 respectively. This indicates that the investment in the category of home appliances has been decreasing with higher deviation than that of other investment during the period of study.

5.1.11 During the five years study period, the defaulter to hire purchase loan ratio of POFIL was fluctuating. In the beginning of the study period i.e. fiscal year 2062/63 its ratio was 9.75% and in the end of the study period i.e. 2066/67 its ratio was decreased to 4.26%. The lower rate of defaulter indicates the investments are recovered with in time. This indicates that the POFIL has been updating its default loan along with its effective recovery mechanism.

5.1.12 There was a negative correlation between total loan and hire purchase loan. This signifies that there's no any relationship between the total loan and hire purchase loan and change in total loan does not affect the investment on hire purchase loan of POFIL.

5.1.13 POFIL has its own recovery system and mechanism along with its separate departments consisting three staffs for the complete monitoring accounts, process and performances of customers. A complete securitization of the loan is done at certain intervals to ensure the loans are invested in the right project, business and the repayments are regular there by the rate of NPL is less. The Loan recovery committee which encompasses of CEO as the chairman, and two department heads of Loan/Marketing department and Account department are the other members have been strongly speculating the recovery process along with those three staffs. The processes which followed consists of first reminder call, personal visits, the series of formal letters, notice on national newspapers and notice of auction as ultimate procedures. As a part of recovery and stimulating customers to pay in time POFIL has been waiving 0.50% of the accrued interest as reward or rebate and to the contrary 15% penal has been levied for the defaulting parties.

5.3 Recommendations

On the basis of analysis, findings and conclusions, the following recommendation can be forwarded to overcome the weakness, inefficiencies and to improve the present hire purchase financing of POFIL.

5.3.1 The exposure of POFIL in Hire purchase is more in commercial segment than private segment. To boost the exposure in private segment POFIL has to come up with better lending opportunities for customers along with the recommendations listed below.

- Should come up with easy financing scheme
- Need to offer competitive interest rate

- Regular visit to dealers for referral
- Should increase the financing limit
- Extend long tenure for easy installments
- Offer rebate in interest rate during festive seasons
- Tie up with dealers

5.3.2 The default ratio in hire purchase segment is decreasing year-by-year. However the ratio is still found to be at higher side. Hence to bring down the ratio, POFIL has to implement effective recovery policy/guidelines that should include the followings:

- Educate customers properly on the consequences of non-payment of EMI before extending loan.
- Call customers from the first day of default.
- Develop a data to diaries the talk between customer and staff
- Visit customers if required
- Issue first/second/third reminder letter if above does not work
- Regularly review the portfolio
- Provide attractive incentives and make life insurance of recovery staffs.

5.3.3 POFIL needs to come up with the following tactics that will help the company debt collection as well

- Offer Flexible plans for customers experiencing financial hardship
- Design "hardship" programs for borrowers that are late on their loan payments
- Offer a new payment schedule, and/or lower payments, fees and interest rates when you anticipate customer payment problems
- Crate communications channels where customers can openly discuss their issues. By proactively reaching customers early, one can prevent larger problems later.

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