

A STUDY ON LENDING PRACTICES

OF

FINANCE COMPANIES OF NEPAL

(With Special Reference to Six Finance Companies in Nepal)

A THESIS

Submitted By :

Kamleshwori Shrestha

Nepal Commerce Campus

Campus Roll No: 262/061

T.U. Registration No: 7-1-38-2321-98

Exam Roll No.: 2454/062

Submitted to :

Office of the Dean, Faculty of Management

Tribhuvan University

In the partial fulfillment of the requirements of

Masters of Business Studies (M.B.S)

New Baneshwor, Kathmandu

November 2008

VIVA VOCE SHEET

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

Ms. Kamalleshwori Shrestha

Entitled

**“Lending Practices of Finance Companies of Nepal
(With Special Reference to Six Finance Companies in Nepal)”**

and found the thesis to be the original work of the student and written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment of the requirement for Master’s Degree in Business Studies (M.B.S.)

Viva-voce Committee

Head of Research Department

Member (Thesis supervisor) :

Member (Thesis supervisor) :

Member (External expert) :

Date :

RECOMMENDATION

This is to certify that the thesis

Submitted by:

Ms. Kamalleshwori Shrestha

Entitled

**“Lending Practices of Finance Companies of Nepal
(With Special Reference to Six Finance Companies in Nepal)”**

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

(Dr. Bihari Binod Pokharel)
Head of Research Department
&
Thesis Supervisor

Mr. Diwakar Pokharel
Campus Chief

(Mr. Prakash Neupane)
Thesis Supervisor

Date :

DECLARATION

I hereby declare that the work reported in this thesis entitled “**Lending Practices of Finance Companies of Nepal (With Special Reference to Six Finance Companies in Nepal)**”, submitted to Nepal Commerce Campus, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Masters of Business Studies (MBS) under the supervision and guidance of Dr. Bihari Binod Pokharel, Head of Research Department, Nepal Commerce Campus & Mr. Prakash Neupane of Nepal Commerce Campus.

Date: November 2008

Kamaleshwori Shrestha
(Researcher)
Nepal Commerce Campus
Redg. No.: 7-1-38-2321-98

ACKNOWLEDGEMENT

This research study entitled “**Lending Practices of Finance Companies of Nepal (With Special Reference to Six Finance Companies in Nepal)**” has Prepared as a partial fulfillment of Master’s Degree in Business Studies (MBS) Program.

It has been completed under the supervision of Dr. Bihari Binod Pokharel, Head of the Research Department, Nepal Commerce Campus and Prakash Neupane for their valuable support and suggestion in the process of preparation of this thesis. I am especially thankful to him for his constructive guidance and suggestion. His guidance and help has been a great source of encouragement and inspiration to me. Without his valuable suggestion, I would not have been able to complete it.

I owe deep gratitude to all my friends whose continuous support encouraged me greatly to complete this study. I also thank my family for providing me support and assistance in all the ways possible. It is my pleasure to thank my well-wishes Mr. Sanjiv Parajuli, Santosh Pokharel and other friends who have supported me in different ways.

Finally, I would like to express my sincere gratitude to those who have inspired me to complete this work..

Kamaleshwori Shrstha
Kathmandu, Nepal
November, 2008

List of Tables

Table no.	Tables	Page
1	Guidelines of Assessing Risk	12
2	Share Structure of Gorkha Finance Co. Ltd.	16
3	Share Structure of Union Finance Co. Ltd.	17
4	Share Structure of NSLMB Finance Ltd.	17
5	Share Structure of Premier Finance Co. Ltd.	18
6	Share Structure of OM Finance Co. Ltd.	19
7	Share Structure of Inbesta Ltd.	19
8	Relations of Loans and Advances with Total Deposit of all finance companies as a whole (in millions)	20
9	Loan Categorization as according to NRB Directives	43
10	Investment to Loans and Advances and Investment Ratio	70
11	Loans and Advances and investment to Total Deposit Ratio	71
12	Loans and Advances to Shareholder's Equity Ratio	72
13	Loans and Advances (in millions)	74
14	Non-Performing Loan (in millions)	75
15	Interest Income from Loans and Advances (in millions)	77
16	Loan Loss Provision (in millions)	79
17	Net Profit (in millions)	80
18	Category wise Loan Classification – Union Finance Co. (in million)	82
19	Category wise Loan Classification – Gorkha Finance & Co. (in millions)	83
20	Category wise Loan Classification – NSLMM Finance Ltd. (in million)	84
21	Category wise Loan Classification – Premier Finance Co. Ltd. (in million)	84

22	Category wise Loan Classification – OM Finance Co. Ltd. (in million)	85
23	Category wise Loan Classification – Inbesta Ltd. (in million)	85
24	Hire Purchase Loan to Total Loan and Advances Ratio (%)	86
25	Housing Loan to Total Loan and Advances Ratio (%)	87
26	Term Loan to Total Loan and Advances Ratio (%)	88
27	Loan Loss Provision to Total Loan & Advances Ratio	89
28	Non-Performing Loans to Total Loan and Advances Ratio	91
29	Interest Income from Loans and Advances to Total Income	92
30	Interest Suspense to Total Interest Income from Loans & Advances Ratio	93
31	Loans and Advances to Total Deposit Ratio	94
32	Interest Income to Interest Expenses Ratio	95
33	Net Profit to Shareholder's Equity Ratio	95
34	Earning Per Share (EPS)	96
35	r, P.Er and 6xP.Er between Deposits and Loans and Advances	97
36	r, P.Er and 6xP.Er between ShareHolder's Equity and Loans and Advances	98
37	r, P.Er and 6xP.Er between Investments and Loans and Advances	99
38	r, P.Er and 6xP.Er between Total Income and Loans and Advances	100
39	r, P.Er and 6xP.Er between Interest Suspense and Interest Income	101
40	r, P.Er and 6xP.Er between Loan Loss Provision and	101
41	r, P.Er and 6xP.Er between Interest Income and Net Profit	102
42	Regression Equation of Loans and Advances on Deposit	103
43	Trend Equation and Propensity to Growth of Loans and Advances (in million)	104
44	Trend Equation and Propensity to Growth of EPS (in million)	106

List of Charts

Chart No.	Charts	Page
1	Loans and Advances	74
2	Non-Performing Loans	76
3	Interest Income from Loans and Advances	78
4	Loan Loss Provision	79
5	Net Profit (in millions)	81
6	Trend Behaviour of Loans and Advances	105
7	Trend Behaviour of EPS	107

Table of Contents

APPROVAL SHEET

RECOMMENDATION

DECLARATION

ACKNOWLEDGEMENT

LIST OF TABLES

LIST OF CHARTS

Chapter I INTRODUCTION	1
1.1 General Background	1
1.2 History of Finance Company	14
1.3 Brief Profile of Subjected Finance Companies	16
1.4 Statement of Problem	19
1.5 Objectives of the Study	21
1.6 Importance of the Study	22
1.7 Limitations of the Study	23
1.8 Organization of the Study	23
Chapter II REVIEW OF LITERATURE	24
2.1 Review of Relevant Studies	24
2.1.1 Review of Books	24
2.1.2 Review of Journals	29
2.1.3 Review of Unpublished Dissertations	37
2.2 Review of Relevant NRB Directives	41
Chapter III RESEARCH METHODOLOGY	50
3.1 Research Design	52
3.1.1 Source of Data	60
3.1.2 Population and Sample	60
3.1.3 Data Collection Procedure	60
3.2 Analysis of Data	61
3.2.1 Financial Tools	61
3.2.2 Statistical Tools	63
3.2.3 Qualitative Analysis	68

Chapter IV PRESENTATION AND ANALYSIS	69
4.1 Measuring the Lending Strength	69
4.1.1 Measuring the Lending Strength in Relative Terms	69
4.1.1.1 Investment to Loans and Advances and Investment Ratio	69
4.1.1.2 Loans and Advances and investment to Total Deposit Ratio	71
4.1.1.3 Loans and Advances to Shareholder's Equity Ratio	72
4.1.2 Measuring the Lending Strength in Absolute Terms	73
4.1.2.1 Loans and Advances	73
4.1.2.2 Non-Performing Loans	75
4.1.2.3 Interest Income from Loans and Advances	76
4.1.2.4 Loan Loss Provision	78
4.1.2.5 Net Profit	80
4.2 Analyzing the Portfolio Behavior of Loans and Advances	81
4.2.1 Category wise Loan Classification	82
4.2.2 Hire Purchase Loan to Total Loan and Advances Ratio (%)	86
4.2.3 Housing Loan to Total Loan and Advances Ratio (%)	87
4.2.4 Term Loan to Total Loan and Advances Ratio (%)	88
4.3 Analyzing the Lending Efficiency and its contribution to Total Profitability	89
4.3.1 Loan Loss Provision to Total Loan & Advances Ratio	89
4.3.2 Non-Performing Loans to Total Loan and Advances Ratio	90
4.3.3 Interest Income from Loans and Advances to Total Income Ratio	91
4.3.4 Interest Suspense to Total Interest Income from Loans & Advances Ratio	92
4.3.5 Loans and Advances to Total Deposit Ratio	93
4.3.6 Interest Income to Interest Expenses Ratio	94
4.3.7 Net Profit to Shareholder's Equity Ratio	95
4.3.8 Earning Per Share (EPS)	96
4.4 Measuring Correlation Between Different Variables	96
4.4.1 Correlation between Deposits and Loans and Advances	97
4.4.2 Correlation between ShareHolder's Equity and Loans and Advances	98
4.4.3 Correlation between Investments and Loans and Advances	98
4.4.4 Correlation between Total Income and Loans and Advances	100

4.4.5	Correlation between Interest Suspense and Interest Income	100
4.4.6	Correlation between Loan Loss Provision and Loans and Advances	101
4.4.7	Correlation between Interest Income and Net Profit	102
4.5	Measuring Regression of one variable on other	102
4.5.1	Regression Analysis of Loans and Advances on Deposit	103
4.6	Measuring the Propensity of Growth based on Trend Value	104
4.6.1	Trend Analysis and Propensity to Growth of Loans and Advances	104
4.6.2	Trend Analysis and Propensity to Growth of EPS	106
4.7	Qualitative Analysis of Recovery of Loan Findings	107
Chapter V	SUMMARY, CONCLUSION AND RECOMMENDATION	115
5.1	Summary	115
5.2	Conclusion	116
5.3	Recommendation	116

BIBLIOGRAPHY

APPENDIX

ABBREVIATION

BOD	-	Board Of Directors
B.S.	-	Bikram Sambat
Co.	-	Company
C.V.	-	Coefficient of Variance
EPS	-	Earning Per Share
Govt.	-	Government
LLP	-	Loan Loss Provision
Ltd.	-	Limited
NCML	-	NIDC Capital Markets
NEPSE	-	Nepal Stock Exchange
NPL	-	Non-Performing Loan
NRB	-	Nepal Rastra Bank
PAFICOL	-	Pashchimanchal Finance Company Limited
PEFIL	-	Peoples Finance Company
P.Er.	-	Probable Error
Pvt.	-	Private
S.D.	-	Standard Deviation