INVESTMENT POLICY OF FINANCE COMPANIES IN NEPAL

(With Special Reference to PF, SIF, AF, KF, UF1, UF2)

By

REJINA POKHAREL Shanker Dev Campus T.U. Regd. No.: 7-1-039-022-99 Campus Roll No. : 118/059

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

In partial fulfillment of the requirement for the Degree of Master of Business Studies (M.B.S)

> Kathmandu, Nepal September, 2009

RECOMMENDATION

This is to certify that the Thesis

Submitted by:

REJINA POKHAREL

Entitled: INVESTMENT POLICY OF FINANCE COMPANIES IN NEPAL (With Special Reference to PF, SIF, AF, KF, UF1, UF2)

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

.....

Ruchila Pandey Reader (Thesis Supervisor) Prof. Bisheshwor Man Shrestha (Head of Research Department)

Prof. Dr. Kamal Deep Dhakal (Campus Chief)

VIVA-VOCE SHEET

We have conducted the viva -voce of the thesis presented

by

REJINA POKHAREL

Entitled:

INVESTMENT POLICY OF FINANCE COMPANIES IN NEPAL (With Special Reference to PF, SIF, AF, KF, UF1, UF2)

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 Degree of Business Studies (M.B.S.)

Viva-Voce Committee

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

TRIBHUVAN UNIVERSITY Faculty of Management Shanker Dev Campus

DECLARATION

I hereby declare that the work reported in this thesis entitled "INVESTMENT POLICY OF FINANCE COMPANIES IN NEPAL (PE, SIF, AF, KF, UF1 & UF1)" submitted to Office of the Dean, Faculty of Management, Tribhuvan University, is my original work done in the form of partial fulfillment of the requirement for the Master's Degree in Business Study (M.B.S.) under the supervision of Mrs. Ruchila Pandey, Reader of Shanker Dev Campus.

.....

Rejina Pokharel Researcher T.U. Regd. No. : 7-1-039-022-99 Campus Roll No. : 118/059

1.1 ACKNOWLEDGEMENT

I would like to extend my eternal gratitude to my thesis supervisor Mrs Ruchila Pandey, Reader for her full intuitive support, proper guidance and constant encouragement. It would be impossible for me to successfully complete this thesis without her support.

I am very much grateful to my husband Mr Tirtha Raj Joshi for his encouragement and moral support during the preparation of this thesis. I would never forget my friend specially Mr. Uttam Kuikel who always encouraged me and helped me by providing support for the preparation of this thesis.

Finally, I would like to extend special thanks to all the respondents companies for providing the necessary data and valuable suggestion on my subject matter.

Rejina Pokharel Researcher

ABBREVIATIONS

&	= and
AF	= Ace Finance
Adv.	= Advances
ANOVA	= Analysis of Variance
CV	= Coefficient of Variation
Govt.	= Government
H ₀	= Null Hypothesis
H_1	= Alternate Hypothesis
i.e.	= that is
Invt.	= Investment
KF	= Kathmandu Finance
LSD	= Least Significance Differences
MBS	= Masters of Business Studies
NRB	= Nepal Rastra Bank
PF	= People's Finance
SF	= Shree Investment and Finance
U1	= Universal Finance
U2	= Union Finance
USA	= United States of America

TABLE OF CONTENTS

Acknowledgement Table of Contents List of Tables

List of Figures

Abbreviations

Page No.

CHAPTER – I INTRODUCTION

1.1 Background of the Study	1
1.1.1 Investment and Investment Policies	1
1.2. Focus of the Study	3
1.3. Statement of the Problem	4
1.4. Objectives of the Study	5
1.5. Introduction of Selected Finance Companies	6
1.6. Limitations of the Study	6
1.7. Organization of the Study	7

CHAPTER – II REVIEW OF LITERATURE

2.1. Conceptual Review	8
2.1.1.Investment and Investment Policies	8
2.1.2. Features of a Sound Lending and Investment Policy	13
2.1.3. Finance Companies and Investment Policies	15
2.1.4. History of Finance Companies	16
2.1.5. Growth and Development of Finance Companies in Asian Countries	20
2.1.6.Finance Companies of Nepal	20
2.1.7.Functions of Finance Company	22
2.1.8. Characteristics of Finance Companies	22
2.1.9. Sources and Uses of Fund of Finance Companies in Nepal	23
2.1.10. Problems of Finance Companies	25
2.1.11. Contribution of Finance Companies towards National Economy	26
2.2. Review of Relevant Studies	28

2.2.1.Review of Related Journals	28
2.2.2.Review of Related Articles	31
2.2.3.Review of Related Dissertations	34
2.3. Directives Issued by Nepal Rastra Bank for Finance Companies	37

CHAPTER – III RESEARCH METHODOLOGY

3.3.Population and Sample413.4.Sources and Collection of Data423.5.Data Analysis Tools423.5.1.Financial Tools42	3.1.Introduction	41
3.4.Sources and Collection of Data423.5.Data Analysis Tools423.5.1.Financial Tools42	3.2.Research Design	41
3.5.Data Analysis Tools423.5.1.Financial Tools42	3.3.Population and Sample	41
3.5.1.Financial Tools 42	3.4.Sources and Collection of Data	42
	3.5.Data Analysis Tools	42
	3.5.1.Financial Tools	42
3.5.2.Statistical Tools 46	3.5.2.Statistical Tools	46

CHAPTER - IV DATA PRESENTATION AND ANALYSIS

4.1 Financial Ratio Analysis	49
4.2 Statistical Analysis	61
4.2.1 Correlation and Regression Analysis	61
4.2.2 Analysis of Variance (ANOVA)	67
4.2.3 Least Significant Difference (LSD)	70
4.3 Major Findings	79

CHAPTER – V SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary	84
5.2 Conclusion	84
5.3 Recommendations	85

Bibliography

Appendix

LIST OF TABLES

Table	No. Title	Page No.
4.1	Mean of Ratios of Finance Companies	52
4.2	Coefficient of Variation of Ratios of Finance Companies	57
4.3	Average Data for 10 Financial Year (2055/56 to 2064/65) of	
	Net Profit, Interest on Investment and Interest on Loan & Advances	61
4.4	Correlation Matrix of Net Profit, Interest on Investment and	
	Interest on Loan & Advances	62
4.5	Multiple Regression Analysis of Net Profit on Interest on Investment	
	and Interest on Loan and Advances	63
4.6	Average Data of Total Investment and Loan and Advances	
	and its Various Sectors	64
4.7	Correlation Matrix of Total Investment and Loan and	
	Advances and Its Various Sectors	66
4.8	Distribution of investment sectors by Finance Companies	68
4.9	Anova Results	69
4.10	Absolute Differences of Averages between Finance Companies	70
4.11	Least Significant Differences between Finance Companies	70
4.12	Accepted Hypothesis between Finance Companies	70
4.13	Absolute Differences of Averages between Sectors of Investment	
	and Loan & Advances	74
4.14	Least Significant Differences between Sectors of Investment and	
	Loan & Advances	75
4.15	Accepted Hypothesis between Sectors of Investment	
	and Loan & Advances	75

LIST OF FIGURES

Figure	No. Title	Page No
4.1	Mean of Ratios of Finance Companies	53
4.2	Coefficient of Variation of Ratios of Finance Companies	58