A STUDY ON INVESTMENT PORTFOLIO OF ANNAPURNA FINANCE COMPANY LIMITED POKHARA

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RECOMMENDATION

This is to certify that the thesis:

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***has been prepared as approved by this Department in the prescribed format
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LIST OF ABBREVIATIONS

AFCL	:	Annapurna Finance Company Limited
B.S.	:	Bikram Sambat
C.V.	:	Coefficient of Variation
CAPM	:	Capital Assets Pricing Model
F.Y.	:	Fiscal Year
NEPSE	:	Nepal Stock Exchange
NGOS	:	Non-government Organizations
NRB	:	Nepal Rastra Bank
P.E.	:	Probable Error
ROA	:	Return on Assets
ROE	:	Return on Equity
ROI	:	Return on Investment
S.D.	:	Standard Deviation
SLR	:	Statutory Liquidity Ratio
T.U.	:	Tribhuvan University

CHAPTER I

INTRODUCTION

1.1 Background of the Study

"Financial Sector is regarded as the backbone or engine of growth of any economy whether developed or developing or in transition or emerging. It plays a very important role in the development of all sectors of the economy and actually works as a lubricator by providing financial resources. It operates as an intermediary between financial surplus units and financial deficit units."[1]

A finance company is defined by the dictionary of modern economics as "A financial intermediary not a bank which may obtain funds 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."

In the context of under developing countries like Nepal, finance companies are regarded as the new type of institutions which are serving the people of the country. Nepalese financial system can be looked into two broad categories: banking and non-banking institution. All the commercial banks are considered as banking sector while financial institutions other than banks are non-banking financial institutions. Banking institutions are those financial institutions which are taking deposit from pubic and non-banking financial institution are those financial institutions which do not accept public deposits but they have important role in the financial system in channelising financial resources from surplus units to deficit unit in the

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[1] Nepal Rastra Bank, ***"Economic Review"***, April 2004, p.16.

economy[2]. Finance companies are important component of financial system in under developing countries. They works as financial intermediaries and basically deal on consumers and business loan. They collects small savings and mobilize savings in various tasks like hire purchase, purchase of land, housing loan between the person who has got saving and investors, finance company and also persons or organizations which need the loan of small amount, as well as term loan in trade, industry, education, health agriculture etc. Moreover most of the finance companies are also offering their services in bank guarantee, Collection of shares and underwriting shares[3]. So it is considered as a complementary to commercial bank to some extend. The major sources of funds of these finance companies are public deposit and issuance of debentures.

In the foreign country, finance companies are developed in 19th century, but in our country Nepal, the history of finance company is not so very old. 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. These 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 banks Act. So as to encourage private sector including foreign bank and financial institutions, divestment of government shares in financial institutions, allowing the cooperatives and non-government organization (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 establishments of more banks and financial institutions (FIs)

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[2] Nepal Rastra Bank, "***Economic Report***", 2002/03, p.81

[3] Jas Bahadur Gurung. Financial Institution and Pokhara, ***Golden Jubilee Souvenir***, Pokhara Chamber of Commerce and Industry 2005, p.163.

beginning from mid 1980s[4]. After adopted liberalization policy in financial system, Finance Company Act 2042 B.S. (1985 A.D.) was enacted in 2042 B.S. Despite, the provisions of this act, private sector were not establish till 2049 B.S. On shrawan 2049 B.S. with the major shars of public sectors, named "Nepal Housing and Development Finance Company" was established. In the private sectors, Nepal Finance and Company Limited was established in Poush 2049 B.S. Which was the first finance company established by private sectors. This finance company pioneered in this field. As a consequence, finance company are mushrooming in various parts of the country. Most of the finance companies are established in the Kathmandu valley where as their presence out of the valley is very thin. So, the efforts must be done to decentralize the finance company in different parts of the country to reduce regional disparity. Till now, 72 finance companies has been established in Nepal.

Annapurna Finance Company Limited (AFCL) is the oldest and one of the best finance company. It succeed to achieve letter of appreciation from Nepal Rastra Bank. This Finance Company is the 'A' class finance company in Pokhara categories by NEPSE. It was established in the year 2049 B.S. under Finance Company Act 2042 B.S. But it was operated legally from 14th Aswin 2050 B.S. This is the first finance company established in Pokhara and it is also the first finance company to establish outside the capital of Nepal. It consists of one head office located in Chipledhunga, Pokhara, one branch office in Kathmandu and two contact offices in Baglung and Damauli.

The main objectives of AFCL is to collect scattered saving of people through attractive different schemes, accept to the deposit and mobilize the saving through financial instruments, convert them into capital and lend them to individuals and institutional borrowers. As a whole its main

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[4] Rewat Bahadur Karki, Nepalese Financial Sector: Challenges and Some Solution, ***NRB Samachar,*** 45th Anniversary, 2057 B.S., p.26.

objectives is to uplift the national economy by considering financial and technical facility to general public.

At the launching period, it has authorized capital of Rs. 10 million, issued Capital of Rs. 5 million and paid up capital of Rs. 3 million. Now it has increased its capital and it has authorized capital of Rs.320 million, issued capital 160 million and paid up capital 80 million. Recently coming in FY 2064/65 this company is going to increase in its capital where as authorize capital 500 million, issued capital 320 million and paid up capital minimum 160 million (or not less than 160 million)[5].

During the time of its establishment only 6 persons were employed and now, it has 27 persons are employed. There are 7 members in the board of directors of which 3 members are elected by the general public shareholders and 4 members are presented from promoters of the company. All activities depend on the board accept rules and regulation made by Nepal Rastra Bank (NRB).

These days, MIS (Management Information System) has become a vital role for the betterment and result oriented managerial decision. Annapurna Finance Company also realized this fact. So, it has been gradually introducing computers based information system. AFCL Lends for the purpose of hire purchase, housing, trade and industry etc. The interest rate for such hire purchase loans is fixed at 10-13 percent only. The interest rate on deposit is fixed at 5.50 percent on saving accounts (daily balance) where as range and interest rate will be various for fixed deposit on the basis of time intervals or period.

1.2 Focus of the Study

Finance companies perform various activities. Like taking deposit from public and invest them in various sector. Investing the collected money, is one of the very important activities of the finance company. The

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[5] Annapurna Finance Company Ltd., ***Annual Report*** (2058-2063).

main objectives of investing is to maximize the return by minimizing the risk. For this sound and viable investment policy should be formulated. A good investment policy attracts both borrowers and lenders which help to increase the volume and quality to deposits, loan and investment. The investment done by the finance company is guided by several principles such as their purpose, length of time, profitability safety etc. However, the finance company has to follow the instructions given by NRB considering their own interest.

This study mainly focuses on the investment structure and investment decision process of AFCL. Decision science says that developing more and more alternatives, analyzing each of the alternatives, considering various aspects around the alternatives and selecting the best alternatives is a good decision making process. In this study, the trend of investment process of AFCL in various sectors are analyzed and the existing investment situation and its investment strategy is also observed as well as whether the investment process has been passed through decision science or not?

Despite of all this with the means of financial and statistical tools, risk and return are tested as well as compared with the market risk and market return.

1.3 Statement of the Problem

The investment planning of the finance companies in Nepal heavily depend upon the rules and regulations provided by the central bank, NRB. The composition of asset portfolio of the finance companies is influenced by the policy of the central bank. This is the main problems of portfolio management of finance companies of Nepal.

With the prevailing economic recession in the country there has been low investment in the agriculture, industrial, manufacturing, financial and tourism sectors. Low volume of investment is causing lower growth of GDP. The competition is the key issue at present. Due to emergence of mushroom like finance companies, commercial banks, development banks, co-operatives banks , rural banks, etc in a short span of time competition is highly increasing. This competition caused high risk in financial sectors. It has challenged the finance companies to improve and manage their productivity. The credit policy, the discount policy, the interest rate ceiling and certain percent of deposits to be lend to productive sectors, all these policy effect investment decisions of the finance companies. In a developing country like Nepal, investors (individual, corporate) are unable to make suitable investment decisions due to lack of knowledge and information. Previous research shows that in Nepal most of investors invest their funds in single assets rather they can be benefits in portfolio of assets through diversification of risk.

Investment portfolio is the combination of different types of assets through which the investors maximizes the return and minimizes the risks. So, formation of optimum portfolio plays a vital role in the profitability position of the organization. Now, the problem may arise as how AFCL is diversifying its investment in different sectors to make the optimum portfolio. So one should also invest in government securities in order to diversify the risks. Thus, the investment activity is needed to be analyzed effectively to sustain and compete in the competitive business environment.

The study is mainly focused on the following problems, especially related to the investment of the Annapurna Finance Company limited.

- i What are the different sectors of investment for the past six years?
- ii What is the relationship between the deposit mobilization and the loan investment?
- iii What is the profitability situation of the company?
- iv What is the risk and return of the company?

1.4 Objectives of the Study

The basic objectives of the study are to analyze the investment portfolio of AFCL. The specific objectives of the research are as follows.

i To analyze the investment portfolio of Annapurna Finance Company for the past six years.

ii To analyze the deposit mobilization and investment trend of the company.

iii To measure the profitability position of the AFCL.

iv To analyze the risk and return of the company.

1.5 Significance of the Study

In the recent years, people are interested in making their investment in financial assets but lack the knowledge of choosing appropriate investment. So they are investing in hit-or-miss manner. In such case the investment portfolio decision helps them to judge which holdings are best for them by analyzing the risk and return factors associated with the respective holdings. So, portfolio management has became effective way to attract the new investors as it guide them to some extent.

Very few studies regarding the portfolio management of the finance companies have been conducted and none of the finance companies have been able to confine their portfolio management practices within the policies formulated by the central bank. There would be many reasons behind it for which enough studies have not been conducted. So, the conducted will be of considerable importance in finding out the discrepancies occurred.

1.6 Limitation of the Study

The study is simply conducted in the partial fulfillment for the requirements of the MBS program. So this study will be confined within the following factors i Only secondary data will be analyzed to interpret the result and the reliability of the result of the study depends upon accuracy of the secondary data.

ii This study will cover only six fiscal years beginning from FY 2057/58 to 2062/63. Before and after that period is not covered by this study.

iii This study mainly focuses on the investment portfolio of AFCL. So, it does not pay any attention towards the whole company pattern.

1.7 Organization of the Study

The study has been organized into five chapters each devoted to some aspects of the study of investment portfolio of Annapurna Finance Company Limited. They are Introduction, Literature Review, Research Methodology, Presentation and Analysis of Data and Summary, finding, Conclusion and Recommendation.

The study starts with an introduction chapter. In this first chapter deals with introduction, which includes general background, focus of the study, statement of the problem, objectives of the study, significance of the study and limitation of the study.

The second chapter deals with the review of literature. It includes conceptual review and review of related studies.

The third chapter states all the method of collection and analysis of data. It comprises research design, population and sample, nature and sources of data, data collection procedure and method of analysis.

In fourth chapter, collected data have been presented and analyzed using financial and statistical tools and techniques.

In the last chapter, the statements of all the four proceeding chapters have been summarized and the study is concluded with major findings. Based on the findings, some suggestions have been made. At the end, bibliography and appendices are also incorporated.

CHAPTER II

REVIEW OF LITERATURE

The main objective of this section is concerned to the review of major related literature about investment portfolio management and related studies. Many studies and researches have been made by academicians and researchers regarding portfolio management in the yesteryears, which provides a substantial base for further findings and managing portfolio. The section has attempted to cast light upon the theoretical framework and empirical studies till date. This section has been divide into three parts in which first part includes the evolution of finance company in Nepal, second part conceptual review and third part includes review of related studies.

2.1 Evolution of Finance Company in Nepal

Finance companies are essential factors for the process of economic development and to achieve economic growth and prosperity. Financial companies offer prospects for the expansions of employment and income. More than that it generates innovations and technological changes that bring about shifts in the production frontier, thereby accelerating growth and factor productively. Development of financial sectors among other sectors is equally essential for the rapid economic development of the country.

Nowadays Finance companies play a vital role for the development of the nation as well as for the world's economy. Although the history of finance companies in Nepal is not long, it has taken a long way to come up to present situation. The history of banking in Nepal in the form of money lending was started during the reign of Gunakama Dev in about 8th century.

In 723 A.D. Gunakama Dev borrow money to rebuild Kathmandu[6]. It showed that there was also transaction of money in the form of lending from the time of Gumakama Dev.

During end of 14th century, Jayasthiti Malla the ruler of Kantipur classified the people in 64 castes according to their occupation. Tankadhari one of the categories of the people who worked as a money lender. Tankadhari invested his money on the needy persons by charging some percentage as interest. But in the obsences of regulation of interest rate, some money lenders were known to have charged high interest rated and other extra charges on loan and advanced. Rana Prime Minister Ranodip Singh established systematic organization called the "Tejarath Adda" on 1933 B.S., which granted loans to the people at 5 percent interest against 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, but it can be said that the financial activities had started from that period. So, actual financial activities started only after the establishment of 'Nepal Bank Limited' in 1937 A.D. (1994 B.S.). After same years, Nepal Rastra Bank was established on 1956 A.D. (2013 B.S.) as the form of Central Bank. Nepal Rastra Bank had to engage itself in removing the dual currency system by the process of establishing the value of domestic currency, establishing the financial infrastructure, initiating developing activities and promote banking and financial system by providing financial and legal facilities. In 1935, a development agency was constituted under the name of "Udyog Parisad" which was responsible for accelerating the development of industrial and commercial activities in the country. Immediately in 1936 the Nepal Company Act was formulated. Therefore, various small, medium and

[6] J.C. Ojha and R.P. Rajbahak, ***Banking and Modern Currency in Nepal,*** (Kathmandu: Education Pvt. Ltd., 1965.), pp 68-69.

large-scale companies were established during the short period. A country can't achieve a better position without proper development in trade and industries. Thus, financialization and commercialization of its economic structure have a critical role in overall development of the nation as well as for the international economy.

It is obvious that economic development of the country heavily depends upon the financial sectors, indeed, the percentage of the extent may differ from country to country. A developing country needs continuous doses of investment and this in turn requires money in term of cash and the credit supply. In a situation when the existing financial institutions, especially commercial banks are unable to carry capital markets activities and also not in position to meet consumer needs for credit, today, to a noticeable extent, this function is borne by the finance companies. They are providing the required amounts of funds for the development of the economy. In a underdeveloped country like Nepal, economic development can be brought with the help of savings of common people and through proper utilization of the funds.

Government made a significance effort to regulate the finance company Act 1985. The aim of this act was to guide economy is right way. After the political change in Nepal in 2047 B.S. the economic liberalization, the government for the industrialization has followed privatization and globalization. This policy given more emphasis to the private sector encouraging factor sustainable economic growth, the new policy has already resulted in establishment of joint venture as well as private bank and finance companies. The policy of economic liberalization and globalization adopted by HMG/ N will continue to evoke response from the industrial, financial and commercial sector of the country. The development of the financial system in Nepal is applicable. Still much more has to be done is making financial system as an effective intermediate for the mobilization of domestic savings in productive sector.

The formulation of an effective monetary strategy and reformation program of the financial system in the country can make are important contribution in mobilization of more domestic resources as well as to finance required funds needed for economic expansion. Therefore, more emphasis should be given to an efficient monetary arrangement and reformation of financial system that is conducive to the proper growth of the financial system in Nepal.

Till now, in our country, financial institutions are being successful to take the important position. Finance companies are new type of institutions and the came into existence because of the slow growth and traditional attitudes of commercial banks in mobilizing financial resources lack of financial innovations as well as the growing interest of pubic on 'Upahar' or installment programs.

Finance company is registered under the finance company Act and license issued for operation is granted by NRB. The minimum paid-up capital of the finance companies is fixed at Rrs.2.5 million but if the company (es) 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.

Finance companies are allowed to collect time deposit with the maturity period of three month to five years. In terms of loan and investment they are allowed to extend loans for hire purchase, housing finance and leasing fiancé. They are allowed to invest in securities and issue guarantee. They are free to fix the rate of interest on deposits but the spread on deposit and loan should not exceed 6%.

Due to the increasing demand of the customers, number of finance companies are increasing day by day, in the review period 72 finance companies have been established in Nepal which is listed below.

Table 2.1

List of Finance Companies

(in Lakhs)

S.N.	Name of the Finance Companies	Central Office	Operation Date	Paid-up Capital
1	Nepal Housing & Development Finance Co. Ltd.	Kathmandu	2049/4/11	638.21
2	Nepal Finance & Savings Co. Ltd	Kathmandu	2049/9/22	200.00
3.	NIDC Capital Market Ltd.	Kathmandu	2049/10/13	749.41
4.	National Finance Ltd.	Kathmandu	2050/01/25	1045.44
5.	Annapurna Finance Co. Ltd.	Pokhara	2050/6/14	880.00
6.	Nepal Share Market & Finance Ltd.	Kathmandu	2050/07/9	1600.00
7.	Peoples Finance Ltd.	Kathmandu	2051/1/02	663.94
8.	Mercantile Finance Co. Ltd	Birgung	2051/07/24	150.00
9.	Kathmandu Finance Ltd.	Kathmandu	2051/07/24	329.00
10.	Himalya Finance and Saving Co. Ltd	Kathmandu	2051/2/25	480.00
11.	Union Finance Co. Ltd.	Kathmandu	2051/08/26	725.10
12.	Narayani Finance Ltd.	Chitwan, Bharatpur	2051/11/24	501.10
13.	Gorkha Finance Co. Ltd.	Kathmandu	2051/11/25	300.00
14.	Pachhimanchal Finance Co. Ltd.	Butwal	2051/12/26	506.00
15.	Nepal Housing and Merchant Finance Ltd.	Kathmandu	2051/12/28	544.50
16.	Universal Finance Ltd.	Kathmandu	2052/01/24	375.00
17.	Samjhana Finance Co. Ltd.	Banepa	2052/01/20	221.65
18.	Goodwill Finance Ltd.	Kathmandu	2052/02/01	500.00
19.	Siddartha Finance Ltd.	Siddarthanagar	2052/02/01	520.00
20.	Shree Investment and Finance Co. Ltd	Kathmandu	2052/2/28	480.00
21.	Lumbini Finance and Leasing Co. Ltd.	Kathmandu	2052/03/12	600.00
22.	Inbesta Finance Ltd.	Birgunj	2052/04/01	240.00
23.	Yeti Finance Co. Ltd.	Hetauda	2052/04/01	250.00
24.	Standard Finance Ltd.	Kathmandu	2052/04/01	600.00
25.	Ace Finance Co. Ltd.	Kathmandu	2052/04/30	1260.00
26.	International Leasing and Finance Company Ltd.	Kathmandu	2052/07/04	1200.00
27.	Mahalaxmi Finance Ltd.	Birgunj	2052/08/15	660.00
28.	Lalitpur Finance Co. Ltd.	Lalitpur	2052/08/28	506.25
29.	Bhajuratna Finance and Savings Co. Ltd.	Kathmandu	2052/09/25	350.00
30.	United Finance Co. Ltd.	Kathmandu	2052/10/12	600.00

31.	General Finance Ltd.	Kathmandu	2052/10/18	220.00
32.	Nepal Shreelanka Merchant Bank and Finance Ltd.	Kathmandu	2052/10/21	1300.00
33.	Merchant Finance Co. Ltd.	Kathmandu	2052/11/14	180.00
34.	Alpic Everest Finance Ltd.	Kathmandu	2053/04/02	500.00
35.	Nepal Merchant Banking and Finance Ltd.	Kathmandu	2053/09/11	1610.88
36.	Nava Durga Finance Co.Ltd	Lalitpur	2053/09/22	220.00
37.	Janaki Finance Co. Ltd.	Lalitpur	2053/11/24	400.00
38.	Pokhara Finance Ltd.	Pokhara	2053/12/03	600.00
39.	Central Finance Ltd.	Lalitpur	2054/01/02	360.00
40.	Premier Finance Co. Ltd	Lalitpur	2054/02/26	240.00
41.	Arun Finance and Saving Co. Ltd.	Dharan	2054/05/01	100.00
42.	Multipurpose Saving and Investment Co.Ltd.	Rajbiraj	2055/01/2	30.00
43.	Butwal Finance Ltd.	Butwal	2055/03/25	575.00
44.	Shreejana Finance Ltd.	Lahan	2056/08/9	105.00
45.	Nepal Bangladesh Finance and Leasing Co. Ltd.	Biratnagar	2056/12/5	500.48
46.	Om Fiance Ltd.	Pokhara	2057/06/1	500.00
47.	Cosmic Merchant Banking and Finance Co.	Kathmandu	2057/08/05	750.50
48.	World Merchant Banking & Finance Co.	Hetauda	2058/05/01	600.0
49.	Capital Merchant Banking and Finance Ltd.	Kathmandu	2058/10/29	700.00
50.	Cristal Finance	Kathmandu	2058/11/01	350.00
51.	Royal Merchant Banking and Finance Ltd.	Kathmandu	2058/11/2	550.00
52.	Guheshwori Merchant Banking and Finance Co. Ltd.	Lalitpur	2059/02/29	550.00
53.	Patan Finance Co. Ltd.	Lalitpur	2059/03/4	500.00
54.	Kist Merchant Banking and Finance Ltd.	Kathmandu	2059/10/23	1000.00
55.	Few Finance Co. Ltd	Pokhara	2060/11/9	500.00
56.	Everest Finance Ltd.	Siddarthanagar	2060/3/11	200.00
57.	Birgunj Finance Co. Ltd.	Birgunj	2060/6/7	600.00
58.	Prudential Financial Institution Ltd.	Kathmandu	2061/02/25	500.00
59.	ICFC Financial Institution Ltd.	Kathmandu	2062/3/13	505.80
60.	IME Financial Institution	Kathmandu	2062/3/14	500.00
61.	Sagarmatha Merchant Banking and Finance Co. Ltd.	Lalitpur	2062/5/13	300.00
62.	Shikhar Financial Institution Ltd.	Kathmandu	2062/05/30	300.00

63.	Civil Merchant Financial Institution Ltd.	Kathmandu	2062/06/02	300.00
64.	Prabhu Financial Institution Ltd.	Kathmandu	2062/11/04	560.00
65.	Emperial Financial Institutions Ltd.	Kathmandu	2062/11/24	305.00
66.	Kuber Financial Institution Ltd.	Kathmandu	2062/12/11	275.00
67.	Nepal Express Financial Institution Ltd.	Butwal	2063/01/21	300.00
68.	Valley Financial Institution Ltd.	Kathmandu	2063/01/28	275.00
69.	Seti Financial Institution Ltd.	Tikapur	2063/02/24	51.00
70.	Hama Financial Institution	Kathmandu	2063/03/02	315.00
71.	Reliable Investment Financial Institution Ltd.	Kathmandu	2063/06/08	350.00
72.	Lord Buddha Financial Institutions Ltd.	Kathmandu	2063/08/03	350.00

Source: NRB (Gorkhapatra) News, 2063 Falgun 29.

Table 2.1 depicts that there are 72 finance companies all over the country and among them most of the finance companies are highly concentrated in Kathmandu valley so, efforts should be made to decentralize in other parts of country to uplift the economy of the nation.

2.2 Conceptual Review

Conceptual review provides knowledge about some theoretical aspects related to the subject matter of the research. So here the attempt is made to review regarding to investment portfolio, portfolio risk an return, capital asset pricing model and features of a sound lending and investment policy.

2.2.1 Conceptual Review of Investment Portfolio

In general, the investment refers employing of money to generate more money in future. It is the sacrifice of current rupees where the return is the primary motive of investment. Every investment entails same degree of risk. It requires at present certain sacrifice for a future uncertain benefits.[7]

Sharp et al (2003) define the investment as sacrifice of current dollars for future dollars. They have attributed the investment of time and risk

[7] Jack Clark Francis, ***Investment Analysis and Management***, 5th ed. (New York: MC Graw Hire International, 1998), p.1

during investment. Sacrifice takes place in the present and is certain. The reward comes later if at all and the magnitude is generally uncertain. So investment as utilization of saving for something that is expected to produce profit or benefit.

A portfolio is usually defined as a combination of assets and a collection of securities. According to Western & Brigham "A portfolio simply represent the practice among the investors of having their funds in more than one asset. The combination of investment assets in called a portfolio".[8] So, the portfolio analysis considers the determination of future risk and return in holding various blends of individual securities.

Portfolio simply means collection of investment. Objectives of the portfolio is to help developing a portfolio that has the maximum return at chosen level of risk. Efficient portfolio provides the highest possible return for any specific degree of risk or the lowest possible risk for any specified rate of return. Portfolio theory deals with the selection of optional portfolio.

According to Raymond Brokington, "The term 'Portfolio'. Simply means, collection of investments. For an investor through the stock exchange the portfolio will be a collection of shareholdings in different companies. For a property investor his portfolio will be a collection of buildings. To a financial manager within an industrial company his portfolio will be a collection of real capital projects. It will be seen that the actual nature of the components of a portfolio will depend on the population of opportunities from which the selection has to be made".[9]

2.2.2 Portfolio Management

Portfolio management is concerned with efficient management of investment in financial assets including equity shares, preference shares, and debentures of companies. The process of portfolio management involves a

[8] J.F. Western & E.F. Brigham, ***Managerial Finance***, 8th ed. (Chicago: The Dryden Press, 1982), p.245.

[9] Raymond Brorington**,** ***Financial Management***, 5th ed., (Longdon: DP Publications Ltd., 1988), p. 148.

logical set of steps common to any decision, plan, implement and monitor. Portfolio management assumes periodic supervision of the security in the portfolio. Buy and hold philosophy, in present competitive society and in view of the fluctuations of the stock market is not prudent, conservative, or rational plan of action for sound portfolio management professionals may do the management or by individuals themselves. A portfolio of an individuals or corporate unit is the holding of securities and investment in financial assets. These holding are the result of individual preferences and decision regarding risk and return. The process of portfolio management is closely and directly linked with process of decision making the correctness of which can not be ensured in all cases.

The basic problem of portfolio management is to establish an investment goal or objective and then decide how best to reach the goal with the securities available. This has been stated as an attempt by the investors to obtain the maximum risk. In order to do proper job of portfolio management, the investor must be aware of the investment process.

According to cohen, Zinberg and Zeikel, "Portfolio management is the art of handling a pool of funds so that it not only preserves its original worth but also over time appreciates in value and yields an adequate return consistent with the level of risk assumed."[10]

2.2.3 Objective of the Portfolio Management

The investors would like to have the following objectives of portfolio management.

a. Primary Objectives
   i. Maximization of return.
   ii. Minimization of risk or risk avoidance.
b. Secondary Objectives
   i. Regular Return

[10] Feoroge B. Cohen, Edward D. Zinbard & Arthur Zeikel, ***Investment Analysis and Portfolio Management***. 3rd ed., (London: DP Publication Ltd., 1978). p591.

ii. Stable Income
iii. Safety of an investment.
iv. Ever liquidity
v. Tax benefit
vi. Easy marketability
vii. Appreciation of capital.

2.2.4 Portfolio Management in Finance Company

Portfolio management of financing companies assets basically means allocation of funds to different components of financing assets having different degree of risk and varying rates of return in such a way that balance the conflicting goal of maximum yield and minimum risk. In this competitive environment, managing portfolio in an efficient way is not an easy task rather it is a challenging task for the finance company. At present the portfolio management of Nepalese financial institutions is in beginning stage. However, on the other hand, finance companies are not being able to get success on doing such activities so far because of the following reasons.

- Lack of promotion of their financial services.
- Unable to explore new sectors for investment.
- Lack of proper techniques to run such activities in the best and successful manner.
- Less developed capital market and also few availability of financial instrument in the financial market.

Because of the above mentioned problems, limited opportunities are available to the finance company as well as commercial banks even though they are eager to provide such services regarding to the portfolio management.

Normally, the finance company does not trade on its own fund rather the finance company circulates people's money to the people. During this process, it makes profit by rendering different services to the people. Since the finance companies basic objective is to earn profit, they try to use every single rupee into a productive sector to meet their expenses as well as to earn profit. In other words, they should invest the fund in high yielding portfolio.

Thus, the portfolio management is important to both individuals as well as institutional investors. Investors select the best mix of investment assets subject to following aspects.

- Higher return comparing with alternative opportunities available.
- Capital gain.
- Maximum tax concession.
- Flexible investment.

2.2.5 Portfolio Risk and Return

Portfolio analysis considerers the determination of future risk and return in holding various blends of individual securities. Portfolio expected return is a weighted average of the expected return of the individual securities. An investors can sometimes reduce portfolio risk by adding another security with greater individual risk than any other security in the portfolio. Basically there are two kinds of risks which are:

a. Systematic risk or unavoidable risk or market risk measured by its beta (β).

b. Unsystematic risk or Avoidable risk or company risk.

The total risk is the combination of systematic risk and unsystematic risk, measured by its standard deviation. (∃).

2.2.5.1 Portfolio Return

Portfolio return is a weighted average of the expected return of individual securities in the portfolio, with weights being the proportion of wealth invested in individual securities. The return of a portfolio depends on

(i) the expected rate of return of each security contained in the portfolio and (ii) the amount invested each security.

The portfolio expected return is defined in equation below.

$$\overline{K}p \quad XWA\overline{K}A\,\Gamma\,WB\overline{K}B\,\Gamma\ldots\ldots\ldots\ldots\ldots\ldots\,\Gamma\,WN\overline{K}N$$

Where,

$\overline{K}p$ = Portfolio expected return.

WA = Weight of a security A

WB = Weight of a Security B.

$\overline{K}A$ = Expected return on Security A.

$\overline{K}B$ = Expected return on Security B.

2.2.5.2 Portfolio Risk

Portfolio risk is the variability of the returns of the portfolio. It is measured by the variance on standard deviation of the portfolio return. But portfolio risk is not a simple weighted average of the standard deviation of the individual securities. Portfolio risk depends not only on the riskness of the securities constituting the portfolio but also on the relationship among the securities. by selecting securities that have little relationship with each other, an investor is able to reduce relative risks. So, the variance of return from a portfolio made up of an assets in defined as follows.

$$\exists^2_p = WA^2\exists A^2 + WB^2\exists B^2 + 2WAWBrAB_{.}\ \exists A.\ \exists B$$

or, $$\exists_p = (WA^2\exists A^2 + WB^2\exists B^2 + 2WAWB\ Cov.AB)^{½}$$

Where,

$\exists_p$ = Standard deviation of portfolio rate of return.

Cov. AB. = Covariance of return between assets A and B.

The covariance is related to the correlation co-efficient as shown in equation.

$$Covij = rij.\ \exists i\ \exists j$$

Where,

Covij = Covariance between variable i and j.

|rij = Correlation Coefficient between variable i and j.

∃ i = Standard deviation of variable i.

∃j = Standard deviation of variable j.

2.2.6 Capital Asset Pricing Model (CAPM)

CAPM model was developed by William and John Linter in 1960s and it has had important implication for finance even since. This model is simple in concept and has real world applicability.

This model describes the relationship between risk and required return. In this model a security's expected return is the risk free rate plus a premium based on the systematic risk of the security. The CAPM represents the trade-off of systematic risk for the return that investors expects and are fettled to receive. The CAPM eplains the behaviour of security prices. It further explains how the prices and the interest rate on risky financial assets are determined in the capital market.

The major implication of the model is that the expected return of an asset will be related to a measure of risk for that asset known as 'beta'. The exact manner in which expected return and beta are related is, specified by the CAPM. The model provides intellectual basis for a number of the current practices in the investment industry.

The main essence of CAPM is that risk averse investors will not hold any risky assets unless they are adequately compensated for the risk they bear. CAPM combines the principles of portfolio theory with certain assumption regarding investors' expectation and characteristics and they are as follows.

- Investors (individuals) are risk-averse.
- Individuals can borrow and lend free at risk free rate of interest.
- Individuals have homogeneous expectation regarding risk and return of securities.
- The market is perfect and competitive.

- There are no transaction costs and taxes.
- Securities are divisible, meaning that an investor can buy a fraction of a share if he or she so desires.

Therefore the CAPM equation is

$$E(R_j) = RF + (R_m - R_f)\,\beta$$

Where,

E(Rj)	= Expected Return on Assets
RF	= Risk Free Rate of Return.
(Rm – RF)	= Market Risk Premium
β	= Coefficient of beta.

Here, Beta is the index of systematic risk. It measures the sensitivity of a stocks return to change in returns on the market portfolios.

2.2.7 Features of a Sound Lending and Investment Policy

The income and profit of the finance company depends upon its lending procedures, lending policy and investment of its fund in different securities. The greater the credit created by the finance company the higher will be the profitability. So a sound lending and investment policy must be formulated since it is a pre-requsite for the company's profitability and also crucially significant for the promotion of financially backward country like Nepal.

The main characteristics for sound lending and investment policy are discussed in this sub-section.

a. Safety and Security

Every finance company should accept that type of securities which are durable marketable and have high market prices. While accepting the securities, finance company should apply the principle of MAST.

Where,

M = Marketability

A = Ascertainability

S = Stability

T = Transferability

The finance company should not invest its funds in those securities, which are subject to too much depreciation and fluctuations because a little variation may impose to greater loss. It must never invest in funds into speculative businessman who may be bankrupt at once and who may earn million in a minute also.

b. Profitability

According to the principle of profitability, they should invest their funds in such sectors which ensures higher rate of return as they have to meet all expenses for daily administration, expansion and growth as well as payment of dividend to the shareholders. The profit mainly depends on the interest rate, volume of loan, its time period and nature of investment in different securities. Thus, the finance company must invest their fund which can maximize its volume of wealth as well as the returns on its investment with proportionately low risk.

c. Liquidity

People deposits money in finance company with strong confidence that the company repay their money when they need. To maintain such confidence of depositors, the company must keep this point in mind while investing or lending its excess fund in different securities. So that it can meet short term obligations easily when they become due for payment.

d. Purpose of Loan

Finance company should always know that why a customer needs loans, because if the borrowers misuses the loan, he can never repay and company with possess heavy bad debts. In order to avoid such circumstances, advances should be allowed to select the suitable borrowers and it should demand all the essential detailed information about the scheme of the project in which the company is lending for.

e. Diversification

"Do not put all the eggs on the same basket." This saying is very important to the every finance company and it should be always careful not to grant loan in only one sector. Every finance company must diversify its loan and investment an different sectors to minimize the risk. Diversification of loan helps to sustain loss according to the law of average because if securities of company deprived, there may be appreciation in the securities of other companies. In this way, the loss can be recovered.

f. Legality

Finance companies must follow the rules and regulation as well as different directions issued by Nepal Rastra Bank, Ministry of Finance, Ministry of law and other while mobilizing its funds. Illigal securities will bring out many hazards for the investors.

2.3 Review of Related Studies

Previous studies provide proper guidance in the research field. Prior this, large volume of thesis works have been carried out by various scholars covering the various aspects of finance companies and commercial banks such as financial performance, portfolio management, growth of finance companies, resource mobilization, investments policy, managerial budgeting etc. Some of them, as supported to relevant for the study are presented as below.

Gurung (2005) has conducted a study on "Portfolio Management of Finance Companies in Nepal". The objective of that study was to identify the situation of portfolio management of finance companies in Nepal. The study covered five years beginning from 1996/1997 to 2001/2002, specially based on secondary data. She has used different analytical tools like ratio analysis, index and comparative study. She has conducted comparative study among seven finance companies namely Universal Finance, Ace Finance, National Finance, Narayani Finance, Kathmandu Finance, Nepal

Finance and Yeti Finance. Among them she has concluded that the mean ratio of investment to total deposits of Ace was highest. The profitability position of national finance was better than others. She has further concluded that every finance company was providing very high amount of their funds on term loan i.e. more than 45% an average. Ace was only finance company to provide loans and advances for the merchant banking and also loans provided against fixed deposits. Likewise the national and Kathmandu finance were found to be performing better than the other finance companies operating under the same environment.

Bhatta (2003) in his thesis paper attempted to see the portfolio management of finance companies of Nepal, taking NFCL, CIT, HFL, KFL, UFCML and PFL. He has used secondary data with covered of 6 years from 1997 to 2002. He has used different analytical tools like, market return and risk, Beta coefficient, portfolio risk and return, required rate of return, arithmetic mean, standard deviation and variance, correlation coefficient etc. The researcher concluded that the most of the finance companies have enough unsystematic risk (diversifiable risk) that means there was no effective. Portfolio management of listed finance companies. Nepalese finance companies were to increase little bit of portfolio return, Company haste to bear higher portfolio risk. One of the major problem to manage the portfolio was volatility of different securities in Nepalese capital market. He also conducted that for the portfolio securities selection in Nepal, technical analysis does not work effectively.

Shrestha (2006) has conducted a study on "Investment portfolio of Pokhara Finance Limited". The objective were to analyze various investment sector, deposit mobilization and investment trend, liquidity position, profitability position and risk and return of the company. She has used mainly secondary data covered from 2055/2056 to 2060/2061. She has used different financial and statistical tools to analyze the investment portfolio. The researcher has revealed that nearly 100% of investment was made on loan and advances than other sectors. POFIL has diversified its loan and advances on four different sectors namely hire purchase loan, housing loan, term loan and fixed deposit loan, investment on all these four sectors were in increasing trend with fluctuation over the study period. Loans loss provision had increasing trend. Loan and advances to total deposit ratio was slightly decreasing trend. She had also found that return on total assets and on investment was fluctuating trend. Return on equity ratio were less consistent and more variable, growth ratio was increasing trend.

Gurung (2007) has conducted a study on "Financial Performance Analysis of Annapurna Finance Company Limited in the framework of CAMEL". The basic objective of the study was to analyze the financial performance of AFCL through CAMEL framework. She has used mainly secondary data with covered only five fiscal years from 2058/59 to 2062/63. Some financial and statistical tools and descriptive techniques are applied to evaluate the financial performance of AFCL. She found that core capital adequacy ratio of AFCL wa adequate and sufficient, generally above the NRB standard. It indicates that the financial position of the company is sound and strong. The non performing loan ratio of AFCL were in fluctuating trend during the study period. The earning quality ratio and return on Assets (ROA) were generally above the world bank benchmark. EPS of the company was found decreasing trend. The overall short term liquidity position of the company was poor than industrial average. Despite the company has maintained more than NRB standard of 8 percent through out the study period. The cash in vault to total deposit ratio of AFCL was found below than the industrial average in al observed years.

Sainju (2006) carried out the research study entitled "A Study of investment policy of Pachimanchal Grameen Bikas Bank" with the objective of to analyze the investment policy of PGBB. The study was based on secondary data from FY 1996/97 to 2003/04. He has employed various financial and statistical tools. The study was major concluded that the loan and recovery of financial assistance was increasing, satisfactory and encouraging trend i.e. 99% of loan. But profitability and investment function of PGBB is not satisfactory. The bank has not followed the risk and return factor at the time of investment.

Karki (2005) has conducted "A study on investment policy and practices of Nepal SBI Bank Limited" with objective to review the investment policy adopted by Nepal SBI Bank. The study has covered 5 years data starting from 1991/001 to 2004.04. Data and information were collected from basically secondary sources. The researcher has used different financial and statistical tools. Such as liquidity ratio, single borrower credit limit ratio, activity ratio, loans and advances portfolio, core capital adequacy ratio, asset management ratio, growth ratio, standard deviation, coefficient of variation, co-relation, and trend analysis. His major finding that the cash in vault to total deposit ratio of the bank was fluctuating trend. The balance held with NRB was found to be adequate as per NRB standard over the study period. The core capital adequacy ratio of the bank is above than the NRB standard in each year over the study period. Loans and advances to total deposit ratio are satisfactorily consistent over the study period. Investment of deposit fund was highly increasing trend. Investment on share and securities of organized institutions by bank was decreasing trend and growth ratio was increasing trend. The researcher finally concluded that the bank is running with financially soundness and strong.

Parajuli (2002) has carried out the "Study on effectiveness of managerial Budgeting in "Annapurna Finance Company Limited" with the objective was to analyze of examine the managerial budgeting in Annapurna Finance Company limited. The study was mainly based on Secondary data from fiscal year 1996/97 to 2000/01. In his studies various financial tools has been used. Such as return on capital, return on net worth, current ratio, EPS and trend analysis. The scholar concluded that this company has managerial budgeting process and method are applied in traditional method. There is no prepared the major and basic financial statement of profit planning i.e. projected balance sheet, projected cash flows statement and cost volume profit analysis. Specially the profit plan was based on last reports. The scholar further found that the main source of this company is capital fund deposit and borrowing from other person and institutions. But they can not collect sufficient deposits and borrowing exceeding ten times of their capital funds or net worth. He also finding that investment portfolio of the company was shown riskable. Most of the amount was invested in loan and advances. There are hire purchase loan, housing loan, business loan and security finance loan. It has found that volume or size of loan is fixed, no opportunity to small client who are demanded loan less than Rs.50 thousand. But scholar concluded that this may be wrong decision because small clients may also be good and they can pay in time. Basically in investment decision must analysis the clients character capacity, risk analysis, financial analysis, market analysis etc.

Thapa (2002) performed a study on "Performance Evaluation of Finance Company on the case of Annapurna Finance Company". The basic objective of the study was to evaluate the performance of AFCL. He has used secondary as well as primary data also for the period of six year starting from 2052/53 to 2057/58. He had applied different financial ratio to evaluate the financial performance. He had found that allocation of loans and advances by the AFCL was not seems so meaningful as the productive sector. Housing loan, term loan and fixed deposit loan have got quite negligible share percentage in the loan disbursement of company. Liquidity and profitability position of the company was satisfactory. There was a high positive relationship between deposit and investment. Likewise high positive relationship between investment and return.

Shresetha (2004) has carried out the study on "Portfolio management of commercial banks listed in NEPSE". The objective of the study was to explore and describe the portfolio management in Nepal from the investor's point of view. His study was focus on commercial bank which are listed in NEPSE, taking EBL, BOK, HBL, NABIL, NBB, NIC, NIB, SBI and SCB. The study was concentrated for seven years period beginning from 1997 to 2003. He has used different financial as well as statistical tools. He found that NIC stock has nominal level of risk but the return was negative. So suggested was to invest in the security other than NIC bank. If risk averter investor, they can invest their fund in the stocks of NIB than other bank because it has lowest standard deviation. He also found that national and international events have caused lots of negative impacts upon overall business sector. The price of stock in the case of most of the banks have decreased to some extent in 2001. Therefore, an investors cautioned to take necessary measures to overcome such unforeseen contingencies.

Paudel (2002) has conducted a study on "Financial performance of AFCL with reference to working capital management", for five years period starting from 2049/50 to 2054/55 B.S. He has found that cash/bank, government securities, accrued interest, loan and advances, Sundry debtors are major component of current assets of the company. AFCL has better short term liquidity position, profitability position also increasing trend. He also reveled that when working capital management is inefficient, the company will miss the chances of profitability.

K.C. (2005) carried out a study on "Investment policy of NABIL bank in comparison to Nepal Bangladesh Bank". The major objective of this study was comparative analyze the investment policy between NABIL and NB. He has covered five years data from 1999 to 203/04. He found that the liquidity position of NABIL bank was comparatively not better than NB bank. It has the lower current ratio. Assets management ratio of NABIL bank was found higher than NB bank. NABIL bank was better in utilizing its loan and advances to generate profit and earnings. Finally he has summarized in his study. the management of NB bank was found risk averter. But in the other hand the management of NABIL bank was found risk taker as it has diversified its investment into the different risky as well as non-risky sectors as per the weight of return.

CHAPTER III

RESEARCH METHODOLOGY

This section provides the methodology followed to achieve the objectives. Research methodology being an instrumental of arriving to the solution of the problem, is backed by planned and systematic dealing with collection, analysis and interpretation of the relevant details and data. The main objective of the study is to analyze and evaluate the investment portfolio of finance company namely Annapurna Finance Company Limited (AFCL). To meet the objectives, the methodology applied in the study is described as below.

3.1 Research Design

This 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 Justification for the Selection of Study Unit

AFCL is the 5th Finance Company in Nepalese Finance sector established in 2049 B.S. and now is one of the first & leading finance company in Pokhara. The reason for its selection as study unit in due to its past performance and record of accomplishment. In due course of its operation, AFCL has a leading and sensitive role in Nepalese financial intermediation. AFCL have extended their branches in different parts of the country with the increase in scale of operation. Thus in view of wide range operation of AFCL, this study attempts to give the actual glimpse on efficient mobilization and investment portfolio of idle saving of individuals collected in form of deposits and also provide prompt corrective actions for self regulation mechanism and problem solving.

3.3 Nature and Sources of Data

As per nature of the study, the study is solely based on secondary data. For the study purpose, annual reports of AFCL was used as the major sources of data. In addition to this necessary information was collected from NRB reports, bulletins and website also.

3.4 Data Collection Procedure

Field visit to AFCL was made to collect the annual reports covering different fiscal years of AFCL. Similarly, NRB directives, banking and financial statistics and other publications were collected from the website of NRB. Other supplementary information, literature review were collected from the Western Regional Library Pokhara, Central Library T.U. and NRB office Pokhara.

3.5 Data Processing

Obtained data were recoded in the master sheet. The data were then entered into the spread sheet to workout the financial ratios and prepared the necessary figures. Finally different financial tools as well as statistical tools were worked out with the help of computer programmes.

3.6 Data Analysis Tools

In this study financial as well as other simple mathematical and statistical tools were used to accomplish the objectives of the study in order to make the analysis more convenience, reliable and authentic too. The major tools apply in this study are discuss below.

3.6.1 Financial Tools

Several financial tools, which can be applied in order to analyze the portfolio of finance companies. Among them ratio analysis is one of the widely tool which help to interpret the financial statement so, that the strength and weakness of a firm as well as its historical performance and current financial condition can be determined. Thus, following ratios are considered for the analysis.

A) Loan Loss Ratio

Loan loss ratio is calculated by dividing the loan loss provision by total loans and advances.

$$\text{LLR} = \frac{\text{Loan Loss Provision}}{\text{Total Loans and Advance}} \times 100$$

Where,

LLR = Loan Loss Ratio

Loan Loss Provision = Loan loss provision for performing and non performing loans.

Total Loan and Advances = All the loans items provides by AFCL on different sectors.

B) Activity Ratio

i. Investment to Total Deposits Ratio

Investment to Total Deposit Ratios is calculated by dividing the investment by total deposits.

$$\text{ITDR} = \frac{\text{Investment}}{\text{Total Deposits}} \times 100$$

Where,

ITDR = Investment to Total Deposit Ratio

Investment = Loan and Advances +Corporate Security Investment (govt. bond, individual sector, other company shares and debenture and other investment).

Total Deposits = Short term and long term deposit.

ii. Loan and Advances to Total Deposit Ratio

Loan and advances to total deposit ratio is calculated by dividing loans and advances by total deposits.

$$\text{LTDR} = \frac{\text{Loans and Advances}}{\text{Total Deposits}} \times 100$$

Where,

LTDR = Loans and Advance to Total Deposit Ratio

Loans and Advances = all the short term and long term loans.

Total Deposit = Short term and long term deposit.

iii. Loans and Advances to Total Assets Ratio

This ratio is calculate by dividing loans and advances by total assets.

$$\text{LTAR} = \frac{\text{Loans and Advances}}{\text{Total } Assets} \times 100$$

Where,

LTAR = Loans and Advances to Total Assets Ratio

Loans and Advances = all the short term and long term loans.

Total Assets = all the items of right hand side of balance sheet.

iv. Non-performing loans to total loans and Advance Ratio

This ratio is calculated by dividing non-performing loan by total loan and advances.

$$\text{NPLR} = \frac{\text{Non Performing Loan}}{\text{Total } Loan\ and\ Advances} \times 100$$

Where,

NPLR = Non-performing Loan Ratio

Non-performing loan = Substandard, doubtful and loss loan

Total Loan and Advances = all the short-term and long term loan.

C) Profitability Ratio

i. Return on Total Assets

Return on total assets is calculated by dividing net profit after tax profit by total assets.

$$ROA = \frac{NPAT}{\text{Total Assets}} \times 100$$

Where,

ROA = Return on Assets

NPAT = Net Profit after Tax.

Total Assets = all the items of right hand side of balance sheet.

ii. Return on Equity

Return on equity is calculated by dividing net profit tax by equity.

$$ROE = \frac{NPAT}{\text{Equity}} \times 100$$

Where,

ROE = Return on Equity

NPAT = Net profit after tax

Equity = Reserve + Paid-up capital

iii. Return on Investment

Return on Investment is calculated by dividing net profit after tax by total investment

$$ROI = \frac{NPAT}{\text{Total Investment}} \times 100$$

Where,

ROI = Return on Investment

NPAT = Net profit after tax

Total Investment = Loans and advances + corporate security Investment (govt. bond, individual sector, other company shares and debentures and other investments)

D) Growth Ratio

Regarding the investment function, growth ratio of total deposit, growth ratio of loans and advances and growth ratio of total investment are calculated by following formula.

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

Where,

D_n = Total growth ratio of total deposit, total loans and advances and total investment in n^{th} year.

D_o = Total growth ratio of total deposit, total loans and advances and total Investment in the initial year

g = Growth year

n = total number of years

3.6.2 Statistical Tools

To analyze the study of portfolio management of the AFCL, various statistical tools can be applied and so, the following statistical tools are used.

i. Mean

ii. Standard of Deviation (S.d.)

iii. Coefficient of variation (CV)

iv. Karl Pearson's co-efficient of Correlation

i. 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.

$$\text{Mean } (\bar{X}) = \frac{X}{n}$$

Where,

$\bar{X}$ = Mean of the values.

N = Number of pairs of observations.

ii. Standard Deviation (S.d)

The standard deviation measures the absolute dispersion. Dispersion means the measure of the seatteredness of the mass of figures in a series about an average. The greater the amount of dispersion, greater the standard deviation. A small standard deviation means a high degree of uniformity of the observations as well as homogeneity of a series, a large standard deviation means low degree of uniformity. This is calculated as follows.

$$\text{Standard Deviation (S.D.)} = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

$$= \sqrt{\frac{\sum x^2}{n} - \left(\frac{\sum x}{n}\right)^2}$$

Where,

n = no. of observation

x = individual value

$\bar{x}$ = simple arithmetic mean/ average

iii. Coefficient of Variation (CV)

The corresponding relative measures is known as the coefficient of variation. It is used to compare the variability of two variable independently. Greater the coefficient of variation less will be consistency and uniformity and less the coefficient of variation more will be consistency and uniformity. Hence, the coefficient of variation is under taken regarding to this study in order to compare the variability of various data respectively. C.V. obtained as follows.

$$\text{C.V.} = \frac{\sigma}{\bar{x}} \times 100$$

Where,

σ = Standard Deviation

$\bar{x}$ = average or mean

When the relative dispersion is stated in terms of mean and standard deviation, the resulting percentage is known as the coefficient variation or coefficient of variability.

iv. Karl Pearson's Coefficient of Correlation

Several mathematical method of measuring correlation, the Karl Pearson's method popularly known as Pearson's' coefficient of correlation, is most widely used in practice. It 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 are variable is linearly related to another."[11] In this study the coefficient of correlation is calculated to findout the relationship between the deposits and investment and also between the investment and loans and advances. Which is obtained by following formula.

$$r = \frac{\sum (x-\bar{x})(y-\bar{y})}{\sqrt{\sum (x-\bar{x})^2 \sum (y-\bar{y})^2}}$$

The value of the coefficient of correlation always lies between ± 1. When +1, it means there is perfect positive correlation between two variables. When -1, it means there is perfect negative correlation between them. When the value is zero it means there is no relation between two variables.

v. Probable Error (P.E.)

P.E. of the correlation coefficient is applicable for the measurement of reliability of the computed value of the correlation coefficient (r). The probable error (P.E.) is defined by

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[11] Richard I. Levin & David S.Rubin, ***Statistics for Management***, 7th ed. (New Delhi: Prentice Hall of India Pvt. Ltd., 1998).

$$P.E. = 0.6745 \times \frac{1 Z r^2}{\sqrt{n}}$$

Where,

r = correlation of coefficient

n = No. of pairs of observation

If the r is greater than P.E, there is evidence of correlation between the variable. If the r is less than P.E., there is no evidence of correlation between the variable.

3.7 Limitation of the Methodology

The study is carried out with in the framework of case study research design, it is bounded by its own methodology, it is not free from any limitation. Only single unit is taken for the study therefore the study may not be able to represent the whole scenario. The data cover from FY 2057/58 to FY 2062/63 period only. Convenience sampling method is used which is not free from criticisms.

However, the financial as well as statistical tools which are used to analyze the collected data are based on certain assumption so reliability of the analysis depends upon the circumstances on which the models are used.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4.1 Presentation and Analysis of Data

The purpose of this chapter is to analysis and interpretation of relevant and available data of AFCL, which has been dealt in order to fulfill the major objectives of this study. The data have been analyzed according to the research methodology to get best result. Since, the topic is related to investment as a whole, the ratio related to investment, return and comparision of data has been done on the basis of annual report of the company and to arrive at the concrete decision regarding the company's and to arrive at the concrete decision regarding the company's financial performance and portfolio structure.

4.1.1 Analysis of Investment Portfolio

The main source of funds of the finance companies are deposit and borrowings. Companies can not utilize whole of its fund raised through the deposits and borrowings into loan and advances. In order to fill this gap between borrowing into lending, the company goes for investment such as, govt. securities, shares and debenture of other institutions which is called financial investment. While the short-term investment is loan and advances provided to various sectors of market such as consumer loan, business loan etc. They provide loans and advances against the security of the movable and immovable properties. The investment portfolio of AFCL is presented below (Detail in Appendix I).

Table 4.1: Investment Portfolio of AFCL (%)

Investment Portfolio	Fiscal Year						Mean
	2057/058	2058/059	2059/060	2060/061	2061/062	2062/063	
Loans & Advances	90.35	91.60	93.86	96.21	97.41	97.88	94.55
Government securities	8.16	6.10	4.57	2.61	2.00	1.67	4.19
Share and Debentures	1.49	2.30	1.57	1.18	0.59	0.46	1.26
Total	100	100	100	100	100	100	

Source: AFCL, Annual Report.

Fig. 4.1: Mean Ratio of Investment Portfolio of AFCL

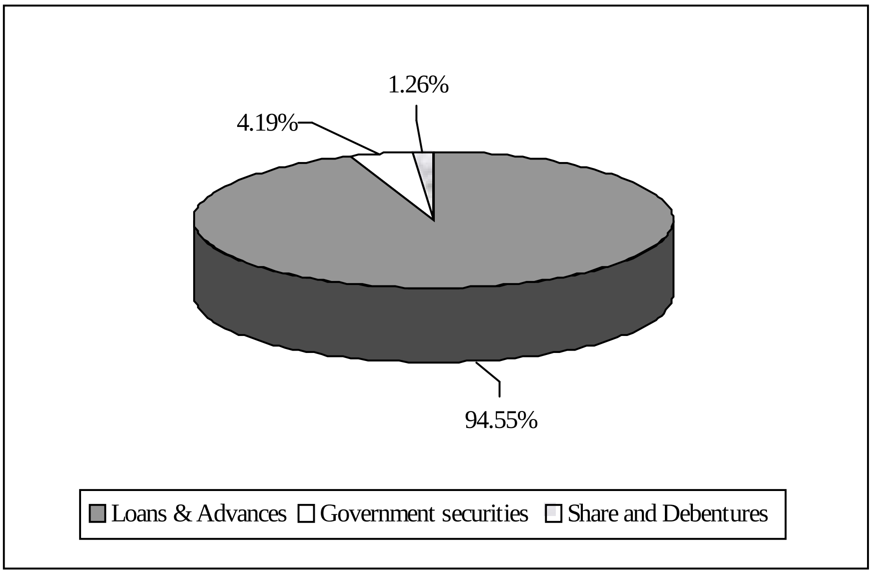


Table 4.1 exhibits that the investment portfolio of AFCL from the FY 2057/58 to FY 2062/63. It presents the pattern of investment made by the AFCL, which clarifies that investment is made on loan and advances, shares and debentures and government securities.

The investment percent on loans and advances has been increased during the study period ranging from 90.35% to 97.88%. This implies that it has the highest percent among the other components and has given more emphasis on loan and advances. So, it shows that the company is able to providing fund to outsiders by loans and advances. In the case of government securities investment ratio are fluctuating over the study period. It shows that investment of AFCL on Government securities are decreasing.

It means the company survive small amount investment has been made in govt. securities as it is a riskless assets. But, later in order to maximize the profit and sustain in the competitive market, large amount of the investment has been made in loans and advances. They have also made investment on shares and debentures of other financial institutions. But the percentage of investment in this sector is not significant, the percentage invested on shares and debentures has been decreasing gradually in last two years.

In conclusion, the company has not well diversified its investment where the major percentage is investment in the loan and advances which has high risk and high return. The investment on government securities has decreasing trend during the study period and also investment on shares and debenture of other financial institution are fluctuating over the study period. However, the company has made its investment more in risky asset portfolio i.e. loans and advances investment comparison to other two investments.

4.1.2 Analysis of Sectoral Loan Investment

Finance companies are required to extend loans and advances in the different sectors as rules and regulation of NRB. So, in this section, we examine the portfolio management of loans and advances. AFCL has mainly concentrated its loan investment on four sectors. Such as, hire purchase loan, housing loan, term loan and fixed deposit loan to different types of borrowers. As per NRB directives, finance companies should not exceed their investment regarding to the different types of sectoral loan investment. So each and every sectoral loan investment has been described in detail in order to analyze the portfolio behaviour of loans and advances of AFCL for the study period.

4.1.2.2 Hire Purchase Loan

Hire purchase loan is that type of loan where the clients takes the loan for the purchase of vehicles, machinery and instruments. The interest rate charged on the hire purchase loan was 10-13% during the study period. Under the NRB Act 2058, section 79, finance companies must not exceed their investment in hire purchase loan by 40%. The hire purchase loan investment of AFCL is shown in Table 4.2 and Fig. 4.2

Table 4.2

Hire Purchase Loan Investment of AFCL

(in Million Rs.)

Fiscal Year	Hire Purchase Loan	Mean
2057/058	70.19	161.93
2058/059	115.73	
2059/060	119.97	
2060/061	148.36	
2061/062	224.45	
2062/063	292.90	

Source: AFCL, Annual Report.

Fig. 4.2: Hire Purchase Loan Investment of AFCL

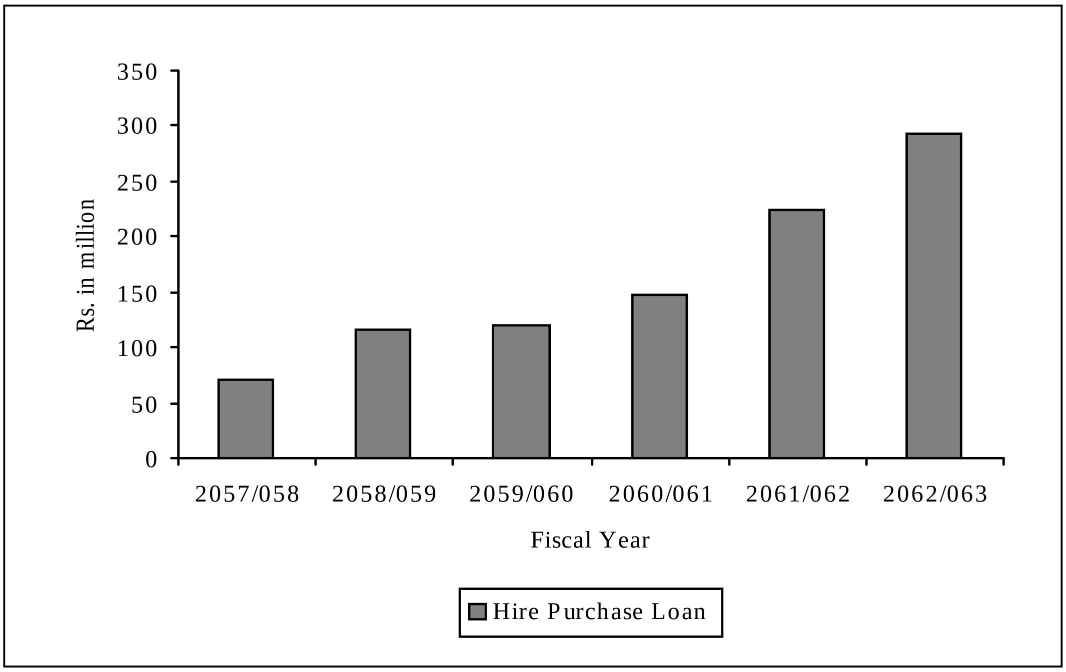


Table 4.2 and Fig. 4.2 exhibits the hire purchase loan investment of AFCL from FY 2057/58 to FY 2062/63. It is found that the investment on FY 2057/58 is Rs. 70.19 million and continuously increased and reached to Rs 292 million on FY 2062/63. The mean for the study period is 161.92. So finding shows that the investment on hire purchase loan has been increasing substantially during the study period.

4.1.2.2 Housing Loan

Housing loan is that type of loan where the clients takes the loan for purchase of personal and institutional land, personal and institutional house construction and also institutional warehouse constructions. The interest rate charged on the housing loan was 10-14% during the study period. Under the NRB Act 2058, section 73, the finance company should not exceed its investment by 40%. The housing loan of AFCL is shown in Table:

Table 4.3

Housing Loan Investment of AFCL

(in Million Rs.)

Fiscal Year	Housing Loan	Mean
2057/058	48.50	194.46
2058/059	49.32	
2059/060	148.60	
2060/061	228.03	
2061/062	299.27	
2062/063	393.07	

Source: AFCL, Annual Report.

Fig. 4.3: Housing Loan Investment of AFCL

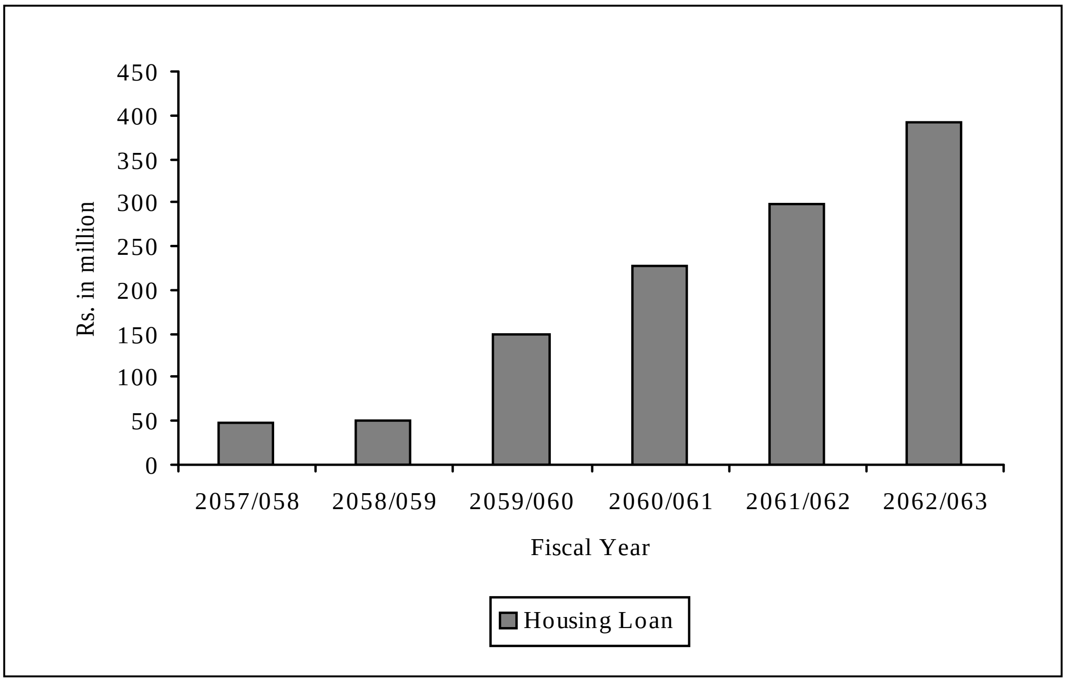


Table 4.3 and Fig. 4.3 shows that the loan investment on housing loan has been increasing from the beginning of FY 2057/58 to FY 2062/63 respectively. The amount of the loan investment ranged from Rs. 48.49 million to Rs 393.06 million with the mean of 194.45. The finding shows that every year the investment on housing loan has been increasing which is good for AFCL. It is because of the growing interest of the people of the society to purchase and construct the personal as well as institutional land and houses.

4.1.2.3 Term Loan

Term loan is that type of loan which is mainly taken by the industry, trade, education, health, agriculture, tourism, water resources and other service oriented sectors. The interest rate charged on the term loan was. 10.13% during the study period. In this regard, the NRB Act 2058 section 79, has the provision that the company should not make its investment more that 75%. The term loan investment of AFCL is shown in Table 4.4 and Fig. 4.4

Table 4.4

Term Loan Investment of AFCL

(in Million Rs.)

Fiscal Year	Term Loan	Mean
2057/058	154.30	259.77
2058/059	170.67	
2059/060	214.32	
2060/061	288.26	
2061/062	360.25	
2062/063	370.84	

Source: AFCL, Annual Report.

Fig. 4.4: Term Loan Investment of AFCL

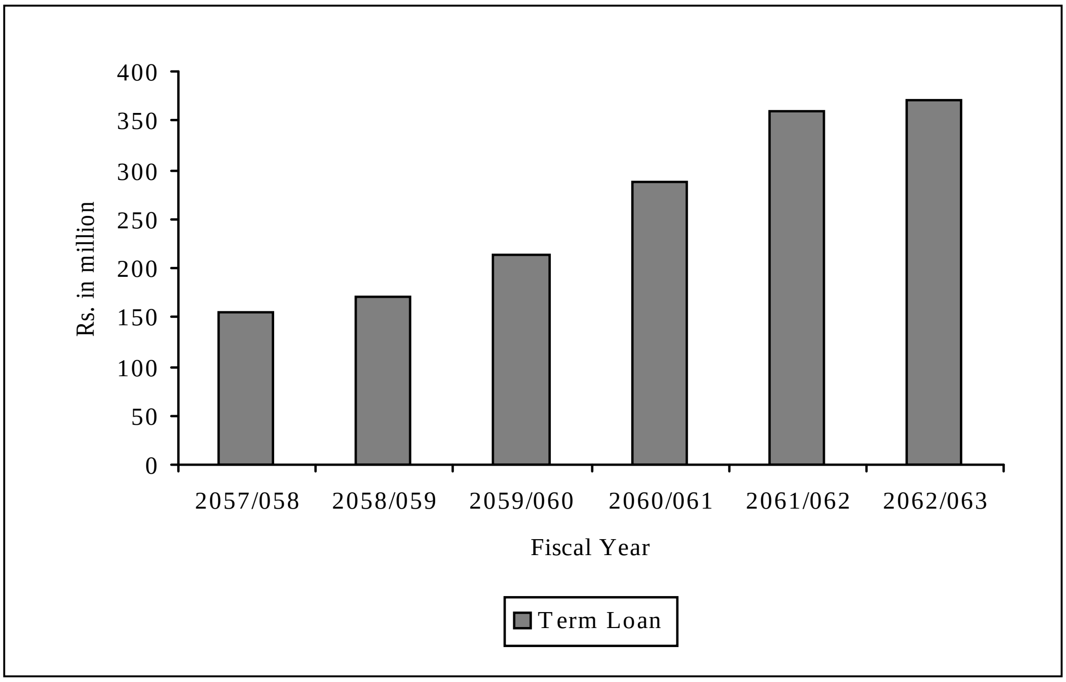


Table 4.4 and Fig. 4.4 shows the investment made by AFCL on term loan which is increasing over the study period. In FY 2057/58, the investment is Rs 154.30 million and in FY 2058/59, it has increased and reached to Rs 170.67 million. Similarly, in FY 2059/60 and FY 2060/61, the investment has been increasing and reached to Rs 214.31 million and Rs 288.26 million, and last two years there has been an maximum increment in the investment and reached to Rs 360.25 million in FY 2061/62 and Rs

370.84 million in FY 2062/63. This shows that investment regarding to term loan is becoming more popular among the people.

4.1.2.4 Fixed Deposit Loan

Finally, in the case of fixed deposit loan, the clients take the loan against the fixed deposit account. The interest rate charged on the basis of spread rate. Basically finance company charged interest rate on fixed deposit loan over than the fixed deposit account. Here the interest rate beginning from 7.75%. The interest rate on deposit was regulated by NRB in the past years but now the NRB has freed the company. Itself to determine the rate. The fixed deposit loan investment of AFCL is shown in Table 4.5 and Fig. 4.5

Table 4.5

Fixed Deposit Loan Investment of AFCL

(in Million Rs.)

Fiscal Year	Fixed Deposit Loan	Mean
2057/058	11.18	11.95
2058/059	9.52	
2059/060	9.59	
2060/061	8.65	
2061/062	15.90	
2062/063	16.86	

Source: AFCL, Annual Report.

Fig. 4.5: Fixed Deposit Loan Investment of AFCL

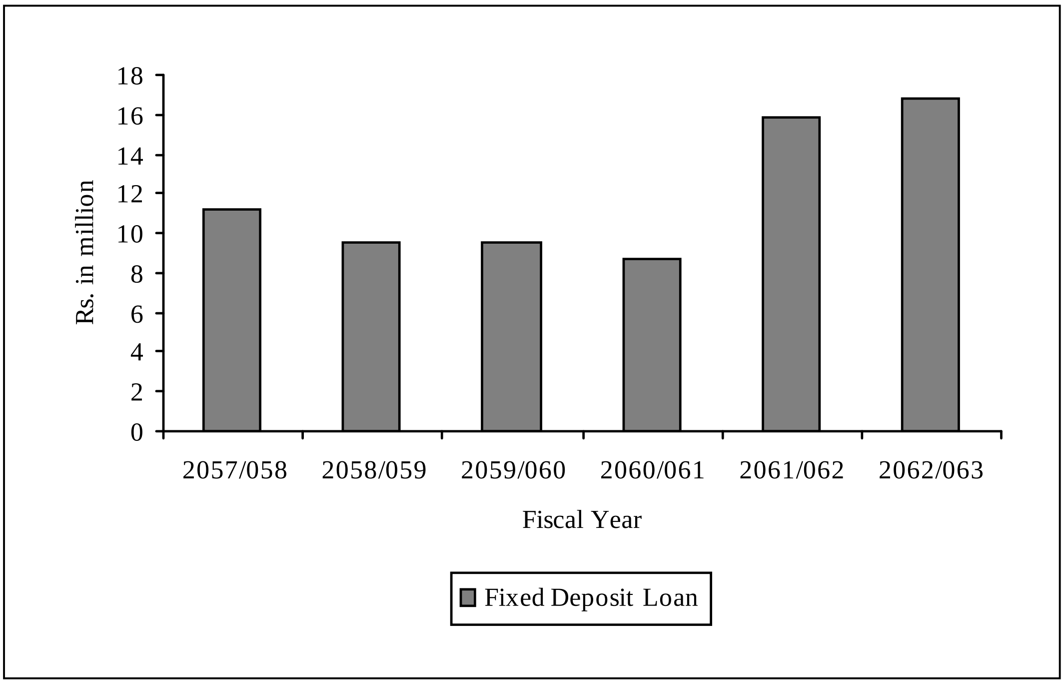


Table 4.5 and Fig. 4.5 depicts the fixed deposit loan investment of AFCL over the study period. The amount invested on this sector ranges from Rs 11.17 million to Rs 16.75 million with the mean of 11.95. The analysis shows that the investment amount on the fixed deposit is decreasing for three FY i.e. 2058/59, 2059/60 and 2060/61. While in FY 2061/62 it has increased and has reached to Rs. 15.89 million and in FY 2062/63 it has more invested than previous year and reached to Rs 16.75 million.

Thus, the sectoral loan investment of AFCL is tabulated below.

Table 4.6
Sectoral Loan Investment of AFCL

(in Million Rs.)

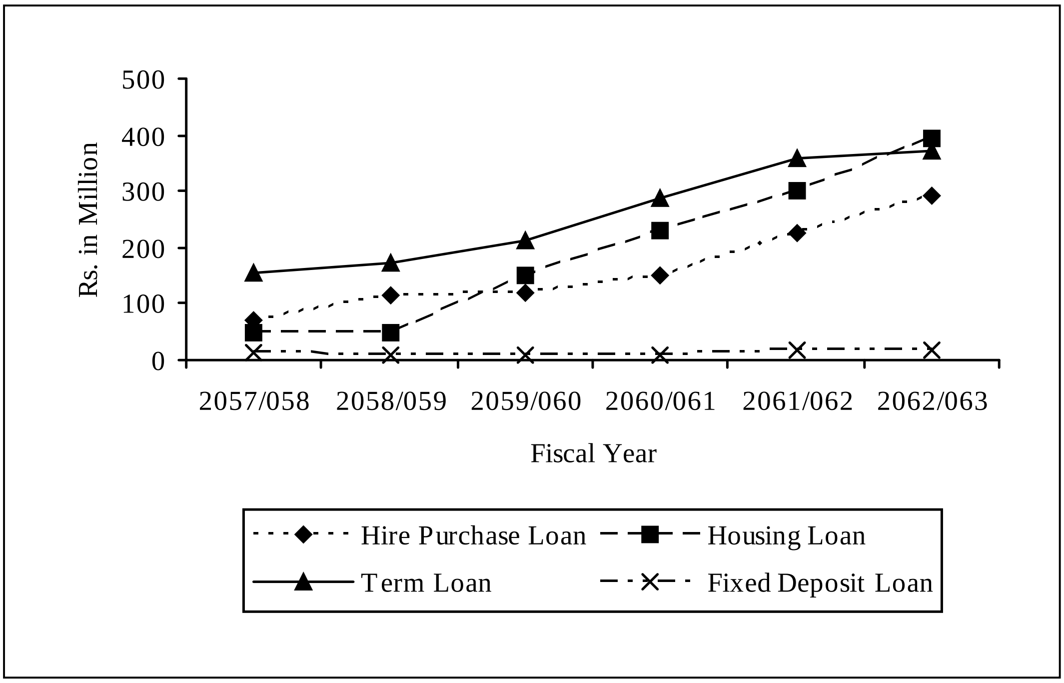
Fiscal Year	Aggregate	Hire Purchase Loan	Housing Loan	Term Loan	Fixed Deposit Loan
2057/058	284.17	70.19	48.50	154.30	11.18
2058/059	345.23	115.73	49.32	170.67	9.52
2059/060	492.48	119.97	148.60	214.32	9.59
2060/061	673.30	148.36	228.03	288.26	8.65
2061/062	899.86	224.45	299.27	360.25	15.90
2062/063	1073.66	292.90	393.07	370.84	16.86
Average	628.12	161.93	194.46	259.77	11.95
S.D.	286.10	74.78	126.51	86.00	3.23
C.V.	0.46	0.46	0.65	0.33	0.27

Source: AFCL, Annual Report.

The above comparative table 4.6 depicts the sectoral loan investment of AFCL from FY 2057/58 to FY 2062/63. From the table, it is clear that the major portion of the loan investment of the company is done on Term Loan, Housing loan and Hire Purchase loan which get the second and third priority respectively. While the fixed Deposit loan gets the last preference in the company loan portfolio.

After seeing the investment pattern in each sectors from FY 2057/58 to FY 2062/63, it has been found that the amount in every loan sectors i.e. hire purchase loan, Term loan, and fixed deposit loan are increasing by Rs 222.71 million, Rs 216.54 million and Rs 5.68 million respectively. But, in case of Housing loan, it is found that there is maximum increment by Rs 344.57 million it variation in absolute term is Rs 126.51 million and it is in relative term of 0.65. Similarly, the investment in hire purchase loan, Term loan and fixed deposit loan has the variation in absolute term of Rs 74.78 million, Rs 86 million and Rs 3.23 million and it is relative terms of 0.46, 0.33 and 0.27 respectively. Here, the fixed deposit loan has the lowest variation in relative term and highest in housing loan. The higher value of variation in relative term indicates higher dispersion and low value of variation signifies the lower deviation in loan investment. Thus, the investment on housing loan is moving in increasing way with higher deviation than that of other investment in the period of study.

Fig. 4.6
Sectoral Loan Investment of AFCL



In Fig 4.6 shows the trend of different sectoral loan investment for the past six years. This represents that the housing loan shows the steady upward movement i.e. it is increasing over the study period. In the case of Term loan, there is slow increase for the initial year i.e. From FY 2057/58 to FY 2061/62 and slightly decrease in FY 2062/63. Likewise, in hire purchase loan from the beginning of FY 2057/58 to 2058/59, the amount has increased in high and then after, it is increased steady upward movement. Finally the fixed deposit loan amount has been fluctuating over the study period. Thus, it reflects that AFCL has emphasized more on housing loan rather than on the other remaining three loans.

4.1.3 Analysis of Loan Repayment

Deposits are being mobilized by providing different types of loans to the customers. On the same time finance companies have to maintain the repayment from the investment for the sustainability and profitability of the company. As the repayment becomes regular, this money will be circulated to another investment thus, generating service charge and other incomes. So, analysis of repayment is very important. Here, the repayment analysis is done through the loan loss provision.

According to the NRB unified directives for Banks and Non-Bank FIs issue number E.Pra.Ni. No. 02/061/062, every finance companies has to classify to loans and advances into four categories which is shown in Table 4.7.

Table 4.7

Loan Loss Provision

Classification of Loan	Time Period	Loan Loss Provision
Good Loan	1-3 months matured	1%
Sub-standard Loan	3-6 months matured	25%
Doubtful Loan	6-12 months matured	50%
Bad Loan	More than 1 year matured	100%

Loan loss provision set aside for performing loans (Good loans) defined as general loan loss provision and loan loss provision set aside for non-performing loan (sub-standard loan, doubtful loan and bad loan) is defined as specific loan loss provision. Through NRB directive No. E.Pra.Ni. No. 03/061/062 finance companies can extend its loans and advances to a single or group of related borrowers maximum of 50% it's core capital (primary capital). But if there is cent percent additional loan loss provision for lowering the concentration risk, then finance companies also can extend its loan greater than that limits.

Loan loss provision signifies the cushion against future contingency created by the default of the borrowers. The low ratio signifies the good quality of assets in the total volume of loans and advances. The high ratios signifies the relatively more risky assets in the volume of loans and advances. The loan loss ratio shows how efficiently the finance companies manages its loans and advances and makes effort for timely recovery of loans. The loan loss provision to total loans and advances ratio of AFCL is tabulated below (Detail in Appendix No. II).

Table 4.8

Loan Loss Provision to Total Loans and Advances Ratio

Investment Portfolio	Fiscal Year					
	2057/058	2058/059	2059/060	2060/061	2061/062	2062/063
Loan Loss Provision to Total Loans and advances Ratio (%)	4.19	3.58	3.06	2.81	3.52	4.49
Mean	3.61					
S.D.	0.59					
C.V.	0.16					

Source: AFCL, Annual Report.

The table 4.8 reveals that the loan loss ratio has decreased over the first four fiscal years and then slightly increase in the last year. The ratio range from 4.19% to 4.49% with mean average of 3.61%. The C.V. between them is 0.16 percent which indicates that the ratio is variable and not consistent. It means there is a chance to increase default borrowers in future but this company success to manage loan loss provision with NRB standard for lowering the concentration risk of the company.

Fig. 4.7

Loan Loss Provision to Total Loans and Advances Ratio

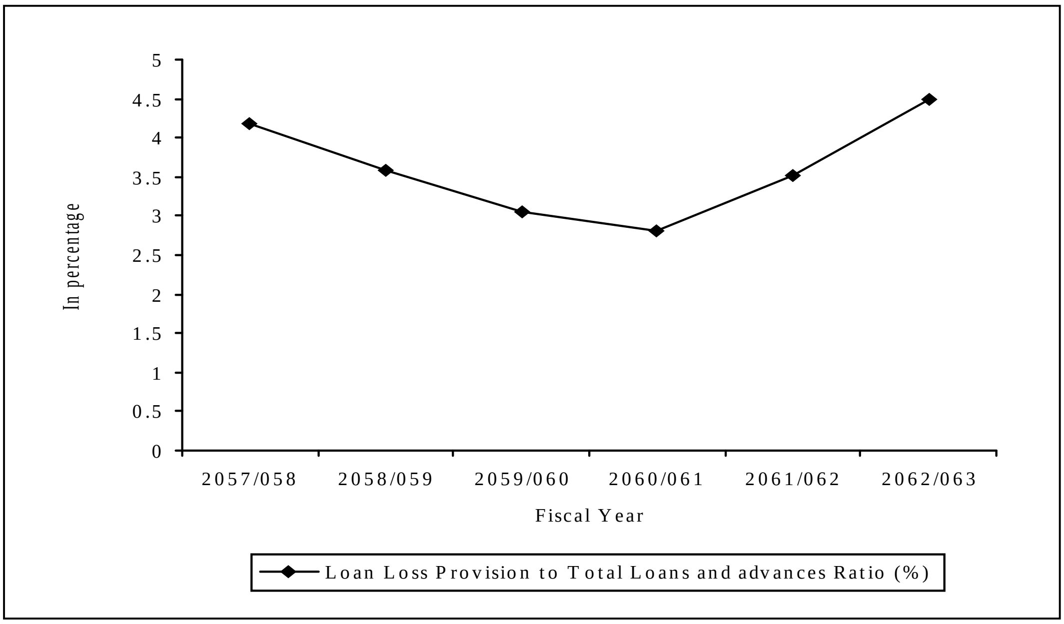


Fig. 4.7 shows that the loan loss ratio has decreased from FY 2058/59 to FY 2061/62. However, in FY 2062/63 it has slight increase to 4.49%. Therefore, the increasing trend of loan loss ratio over the last study period indicates that the non-performing loans are increasing, it signifies the cushion against future contingency created by the default of the borrowers.

4.1.4 Activity Ratio

In this section, the lending efficiency in term of quality and turnover is measured. Activity ratios are the indicator of a concern with regards to its efficiency in assets management. So they are often called as efficiency ratios. Here some of the efficiency ratios are calculated to assess the company's efficiency in utilizing available resources.

4.1.4.1 Investment to Total Deposits Ratio

A finance company may mobilize its deposit by investing in different securities issued by government and other financial or non financial organized institutions. This ratio measures the extent to which the finance companies are successful in mobilizing the total deposit on investment. This ratio also indicates the proportion of deposits utilized for maintaining liquidity in appropriate level. A high ratio is the indicator of success to utilize deposits in securities and vice versa. Total investment to total deposits ratio of AFCL has been tabulated below (Detail in Appendix III).

Table 4.9

Investment to Total Deposit Ratio

Fiscal Year	Total Investment to Total Deposit Ratio (%)	Mean	S.D.	C.V.
2057/058	11.28	5.95	3.62	0.61
2058/059	9.88			
2059/060	6.58			
2060/061	3.75			
2061/062	2.32			
2062/063	1.90			

Source: AFCL, Annual Report.

Table 4.9 shows that investment to total deposits ratio of the AFCL is highest in FY 2057/58 with 11.28% and lowest in FY 2062/63 with 1.90%. The mean ratio is 5.95% with 0.61 percent C.V. between them which shows that the ratio are less consistent and not successful in utilizing its resources on investment.

Fig. 4.8

Investment to Total Deposit Ratio

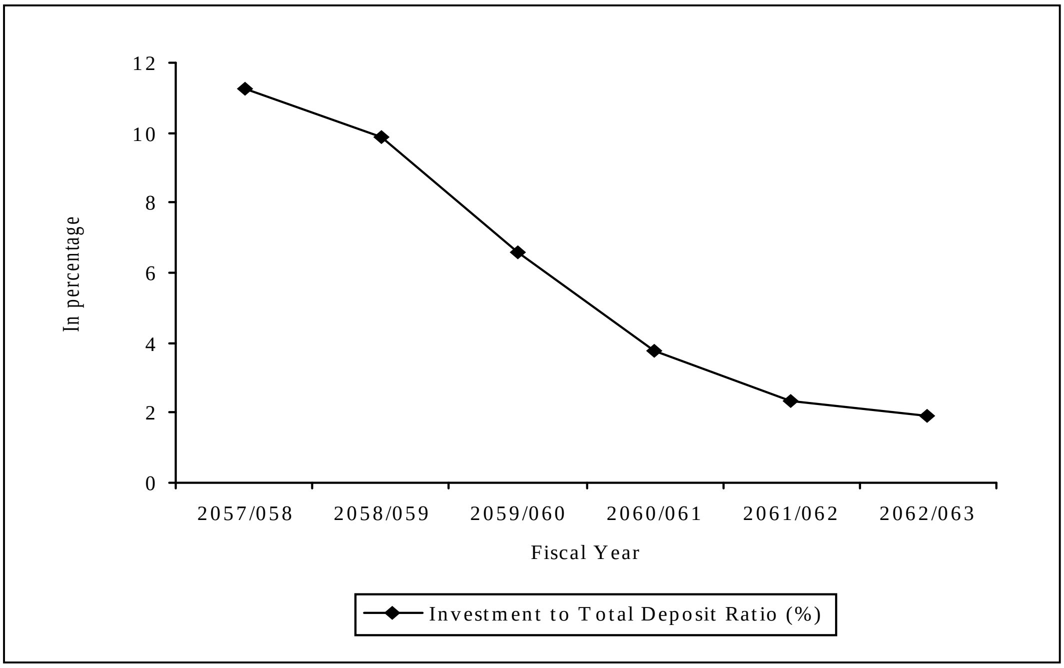


Fig. 4.8 depicts the decreasing trend of investment to total deposit ratio of AFCL. From the FY 2057/58 to FY 2062/63 ratio has continuous decreasing trend due to lack of safe investing sector, difficulties to achieve

suitable investment opportunities, competition and changes of NRB rules and regulation. This shows that AFCL has unable to utilize the resources on government securities, stock in trade and other finance companies. It means this company have not priority to riskless investment.

4.1.4.2 Loan and Advances to Total Deposit Ratio

The loans and advances to total deposit ratio measures the extent to which the company are successful to mobilize the outsider's fund, i.e. total deposits in loan and advances for the purpose of profit generation. A high ratio shows the greater efficiency to utilize the fund and vice versa. Loans and advances to total deposit ratio of AFCL has been tabulated below (Detail in Appendix IV).

Table 4.10

Loans and Advance to Total Deposit Ratio

Fiscal Year	Loan and Advance to Total Deposit Ratio (%)	Mean	S.D.	C.V.
2057/058	105.66	108.23	1.89	0.02
2058/059	108.84			
2059/060	109.19			
2060/061	105.64			
2061/062	110.49			
2062/063	109.54			

Source: AFCL, Annual Report.

Table 4.10 shows that loans and advances to total deposits ratio of the AFCL is highest in FY 2061/62 with 110.49% and lowest in FY 2060/61 with 105.64%. The mean ratio is 108.23%. It cleared that AFCL is mainly investing collected fond into loan and advances. Fluctuation in this ratio during research period is 0.02 percent, that implies that 98% consistency in case of AFCL while lending total deposit into loan and advances. While analyzing the above table it reveals that this company has been successful to mobilized its fund to productive sector in the following FY year.

Fig. 4.9

Loan and Advances to Total Deposit Ratio

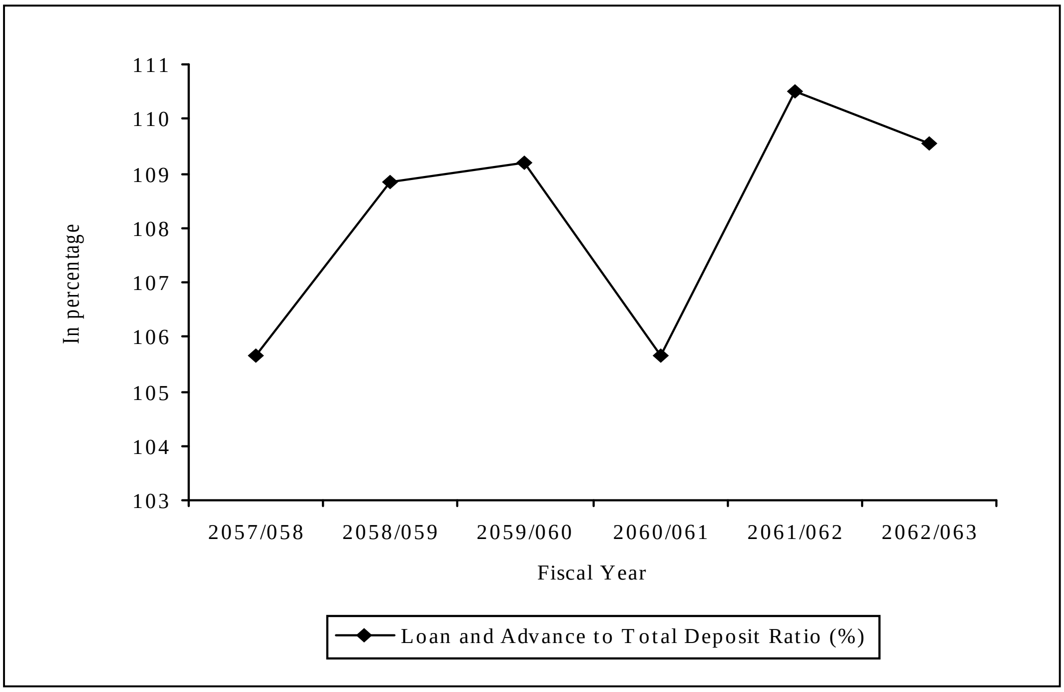


Fig. 4.9 depicts the fluctuating trend of loans and advances to total deposits ratio of AFCL. From the FY 2057/58 to FY 2059/60 ratio has increased but in Fiscal Year 2060/61 ratio has slightly decreased and then in FY 2061/62 ratio has maximum increased and then slightly decreased in last year. This shows that the AFCL has been able to utilize the outsider's funds in extending credit to further profit generation and therefore there will be no idle cash left for other investment opportunities.

4.1.4.3 Loan & Advance to Total Assets Ratio

Loan and Advances to Total deposit ratio measures the how much the company are successful to utilize the total assets of the company. Higher ratio indicates the higher utilization of resources in relation to total assets and yields a higher return for the finance. Loans & advances to total asset ratio of AFCL has been tabulated below. (Detail in Appendix V).

Table 4.11

Loan & Advance to Total Assets Ratio

Fiscal Year	Loans & Advances to Total Assets Ratio (%)	Mean	S.D.	C.V.
2057/058	79.04	87.50	4.07	0.05
2058/059	85.09			
2059/060	90.19			
2060/061	87.81			
2061/062	91.60			
2062/063	91.28			

Source: AFCL, Annual Report.

Table 4.11 shows that the ratio of loan and advance to total asset of AFCL in fluctuating trend throughout the review period. Highest in FY 2061/62 with 91.60 and lowest in FY 2057/58 with 79.04%. The mean ratio is 87.50% with 0.05 percent C.V. between them which shows that the ratio are consistent with less variable over the study period.

Fig. 4.10

Loan & Advance to Total Asset Ratio

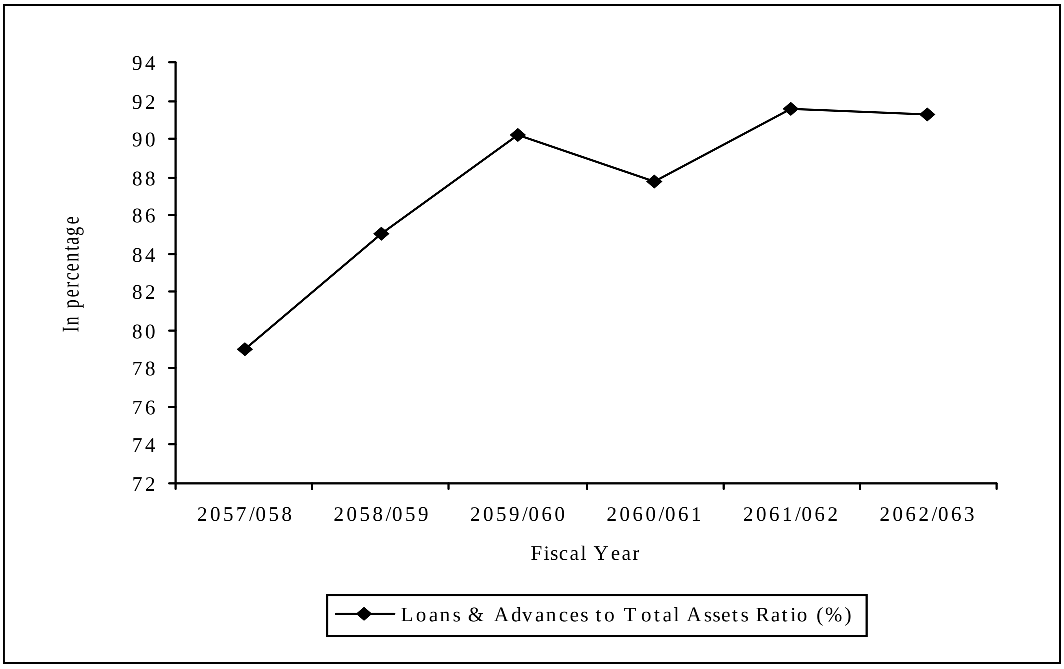


Fig. 4.10 depicts the fluctuating trend of loan and advances to total assets ratio of AFCL. From the FY 2057/58 to FY 2059/60 ratio has increased but in FY 2060/61 it has been slightly decreased and then

remaining two years, ratio has increased. This shows that the AFCL has been able to utilization of resources in relation to total assets and yields a higher return for the finance.

4.1.4.4 Non-performing Loans to Total Loans and Advances Ratio

The ratio of non-performing loans to total loans and advances shows the quality of assets that company is holding. This ratio measures the proportion of non-performing loans on the total value of loans and advances. Higher ratio reflect the bad performance of the company in mobilizing loans and advances and bad recovery rate and vice versa. The non-performing loans to total loans and advances ratio of AFCL has been tabulated below (Detail in Appendix VI)

Table 4.12

Non-performing Loans to Total Loans and Advances Ratio (%)

Fiscal Year	Non – Performing Loans to Total loan and Advances Ratio (%)	Mean	S.D.	C.V.
2057/058	2.61	2.54	0.57	0.23
2058/059	2.30			
2059/060	1.92			
2060/061	1.92			
2061/062	2.95			
2062/063	3.52			

Source: AFCL, Annual Report.

The data given in the Table 4.12 exhibit that the non-performing loans to total loan and advances ratios of AFCL is maximum in FY 2062/63 with 3.52% and minimum in FY 2059/60 and FY 2060/61 with 1.92% and mean ratio of 2.54%. The lower ratio is considered favourable for the company and vice-versa. The ratios of the company are fluctuating over the study period. The C.V. between them is 0.23 percent on the basis of C.V. it can be concluded that the ratios are variable and less consistent.

Fig. 4.11

Non-performing Loans to Total Loans and Advances Ratio (%)

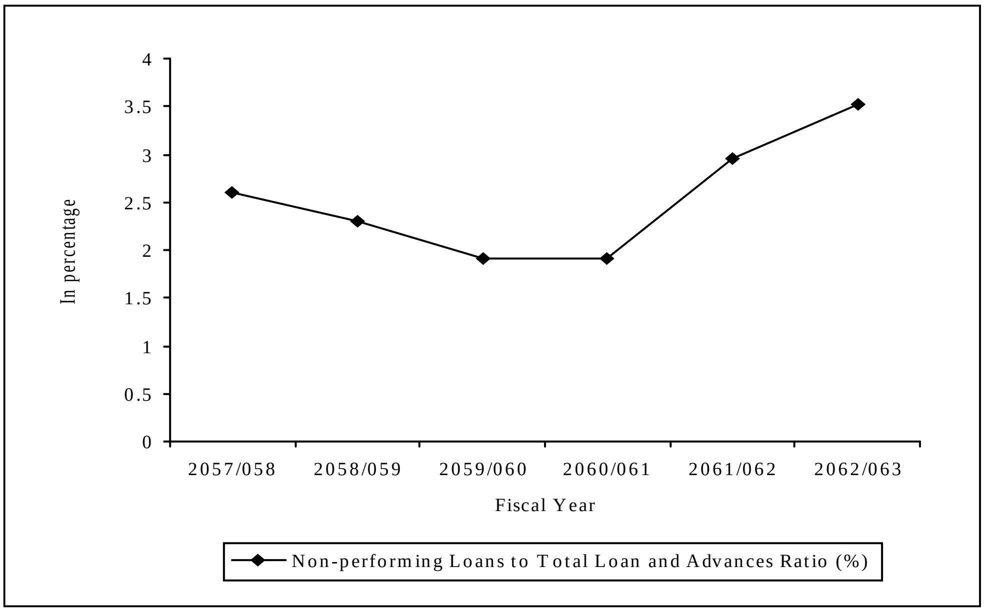


Fig. 4.11 shows that NPL ratio of AFCL is in fluctuating trend. The reason of this fluctuating of the NPL ratio of AFCL is due to decline in loan quality increase in loan volume and changes in NRB directives in NPL classification.

4.1.5 Profitability Ratio

Profitability ratio is regarded as a control, measure of the earning power and operating efficiency of a firm. This ratio measures the overall efficiency of the company and these ratios are compared with the past period ratio of the firm a given a standard to whether the company is improving or not. Profitability ratios related to investment shows the relationship between the amount of profit and amount of capital assets etc. The ratios which are relevant to the profitability is calculated as follows:

4.1.5.1 Return on Total Assets Ratio (ROA)

This ratio indicates how well an institutions assets are being used to generate profits. It measures the overall effectiveness of management in generating profit which its available assets. The higher the company return on assets the better it is doing in operation and vice-versa. The return on total assets ratio of AFCL has been tabulated below (Detail in Appendix VII).

Table 4.13

Return on Total Assets

Fiscal Year	Return on Total Asset Ratio (%)	Mean	S.D.	C.V.
2057/058	3.93	2.94	0.56	0.19
2058/059	3.45			
2059/060	2.46			
2060/061	2.75			
2061/062	2.44			
2062/063	2.63			

Source: AFCL, Annual Report.

The table 4.13 depends the return on total assets of AFCL has been fluctuating during the study period. The highest ratio is 3.93% in FY 2057/58 and the lower ratio 2.44% and C.V. 0.19 percent between them. This indicated that less consistent over the study period. The finding has shown that there is high efficiency in utilizing overall resources in the initial year but in later years profit has slightly gone down.

Fig. 4.12

Return on Total Assets

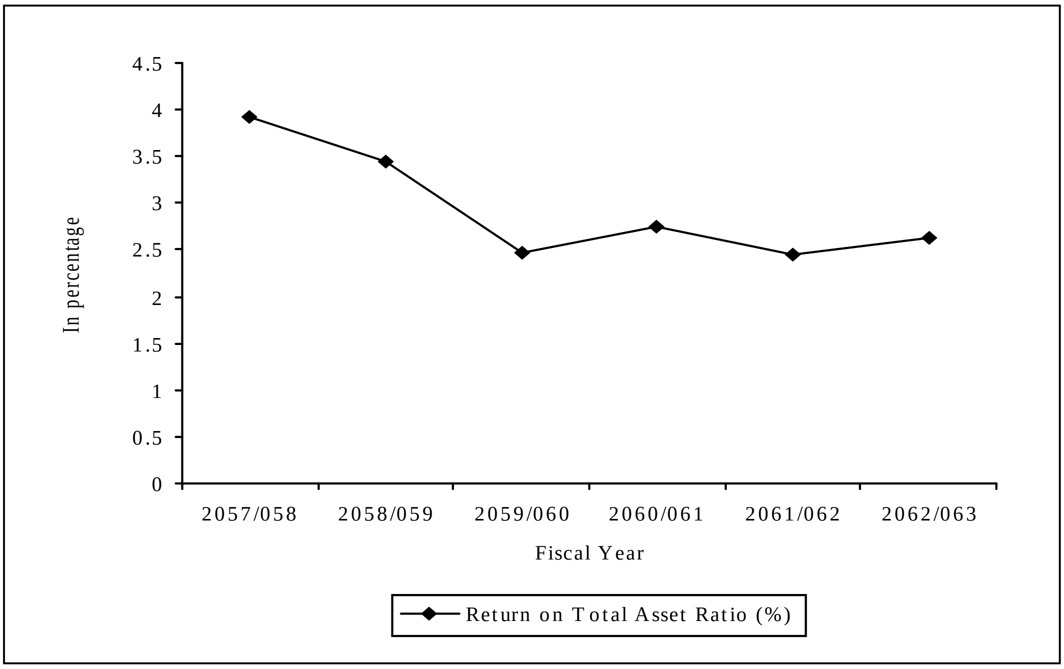


Fig. 4.12 shows that return on total assets ratio of AFCL is in fluctuating trend due to increase in total assets but the profit of the company has not increased in same ratio as the total assets have increased.

4.1.5.2 Return on Equity (ROE)

The return on equity ratio measures the how well the owners are doing on their investment. It indicates how well the firm has utilized the resources of the owners to earn the profit. So it is one of the important ratio to judge whether the company has earned a satisfactory return for its equity shareholders or not. Higher ratio of ROE ensures to owners that their investment is safe and they can get regular return. The return on equity is tabulated below (Detail in Appendix VIII).

Table 4.14

Return on Equity

Fiscal Year	Return on Equity Ratio (%)	Mean	S.D.	C.V.
2057/058	37.63	24.50	6.40	0.26
2058/059	27.13			
2059/060	21.44			
2060/061	22.16			
2061/062	19.10			
2062/063	19.77			

Source: AFCL, Annual Report.

The data given in the Table 4.14 shows that the ratio is in fluctuating trend with the highest ratio 37.63% in FY 2057/58 and the lowest 19.10% in FY 2061/62. The mean ratio of AFCL is 24.50% and the C.V. between them is 0.26 percent on the basis of C.V. it can be concluded that the ratio are variable and less consistent.

Fig. 4.13

Return on Equity

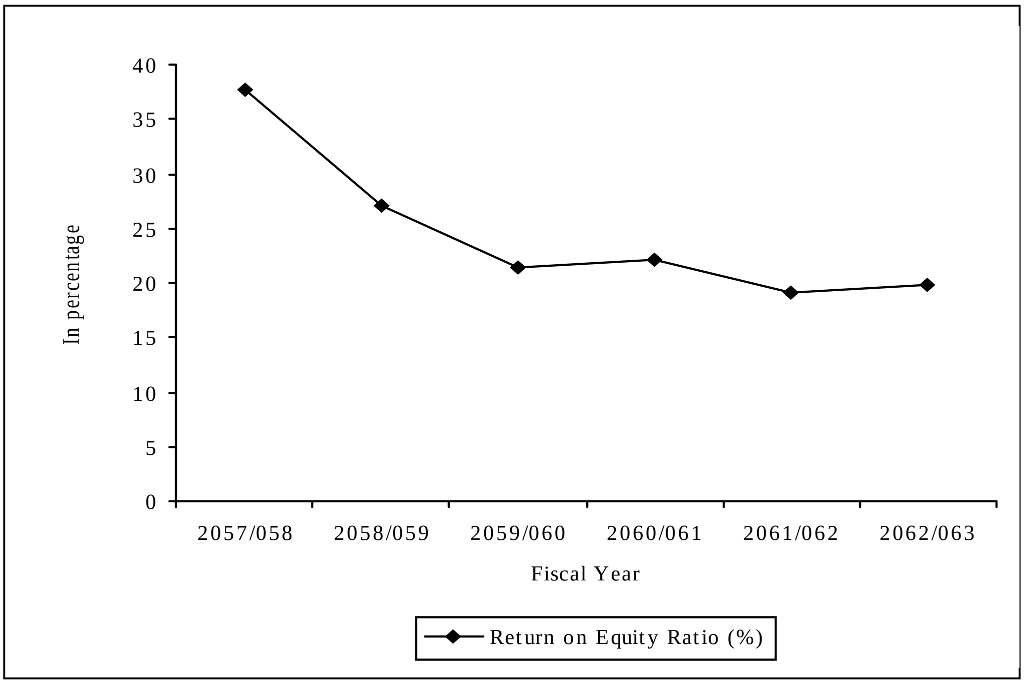


Fig. 4.13 shows the return on equity over the years. The return on equity has decreased. The trend shows that maximum return on equity ratio in FY 2057/58, then after ratio has slightly decreased over the study period. The ROE ratio of the company is fluctuating due to increase in shareholders' equity but the profit of the company has not increased in same ratio as the equity has increased.

4.1.5.3 Return on Investment (ROI)

Return on Investment measures the overall effectiveness of management in generating profit with its available sources. The higher the firm's return on investment the better it is doing in operation and vice-versa. The return on total investment of AFCL has been tabulated below (Detail in Appendix IX).

Table 4.15

Return on Total Investment

Fiscal Year	Return on Total Investment	Mean	S.D.	C.V.
2057/058	4.49	3.21	0.69	0.21
2058/059	3.72			
2059/060	2.57			
2060/061	3.03			
2061/062	2.61			
2062/063	2.83			

Source: AFCL, Annual Report.

Table 4.15 exhibit that the return on total investment ratio of AFCL is in fluctuating with decreasing trend. The return on total investment ratio of AFCL is maximum in FY 2057/58 with 4.49% and minimum in FY 2059/60 with 2.57%. The mean ratio is 3.21% with C.V. of 0.21 percent between them. This indicates that the ratios are fluctuating during the study period. The table 4.15 has been shown in Fig. 4.14.

Fig. 4.14

Return on Investment

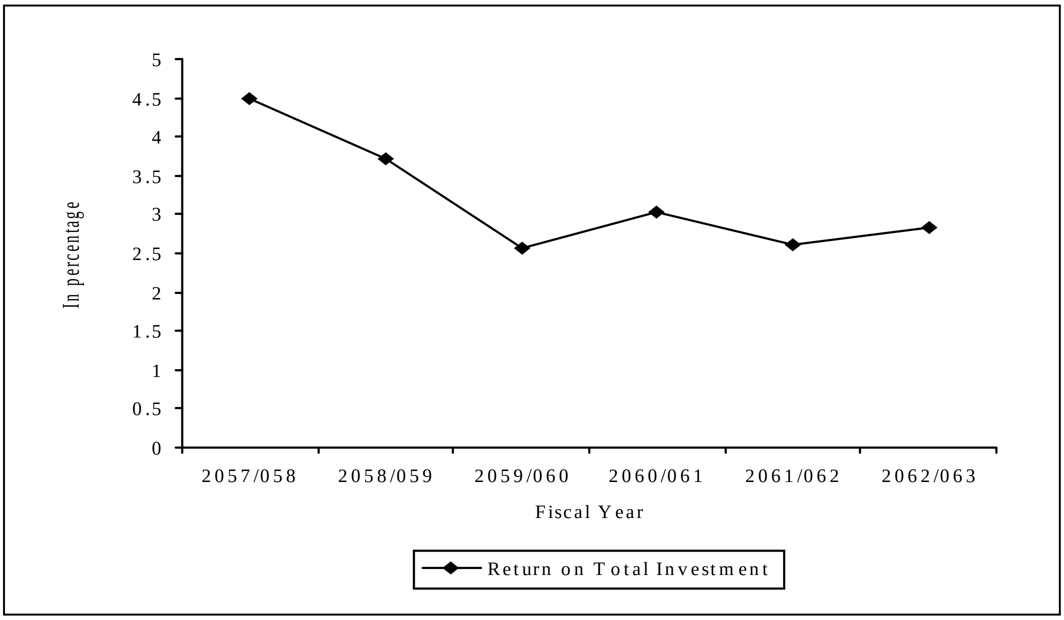


Fig. 4.14 shows the return on total investment of AFCL has been fluctuating with decreasing trend. This indicates that initial years it is doing better in operation but in later year it has continuous gone down.

4.1.6 Growth Ratio

Growth Ratio plays a significant role as they are directly related to the mobilization of fund and the investment decision of the company. It shows the performance of the company to generate profit. So higher the growth ratio better the performance of the company. In this study growth ratios related to the total deposit, loan and advances and total investment of AFCL has been analyzed below (Detail calculation in Appendix X).

Table 4.16

Growth Ratio of Total Deposit

(in Rs.)

Growth Ratio of Total Deposit	Fiscal Year						Growth Ratio (%)
	2057/058	2058/059	2059/060	2060/061	2061/062	2062/063	29.51
	268960426	317196629.45	451028280.72	637341358.17	814431120	980112602	

Source: AFCL, Annual Report.

Fig. 4.15

Growth in Total Deposit

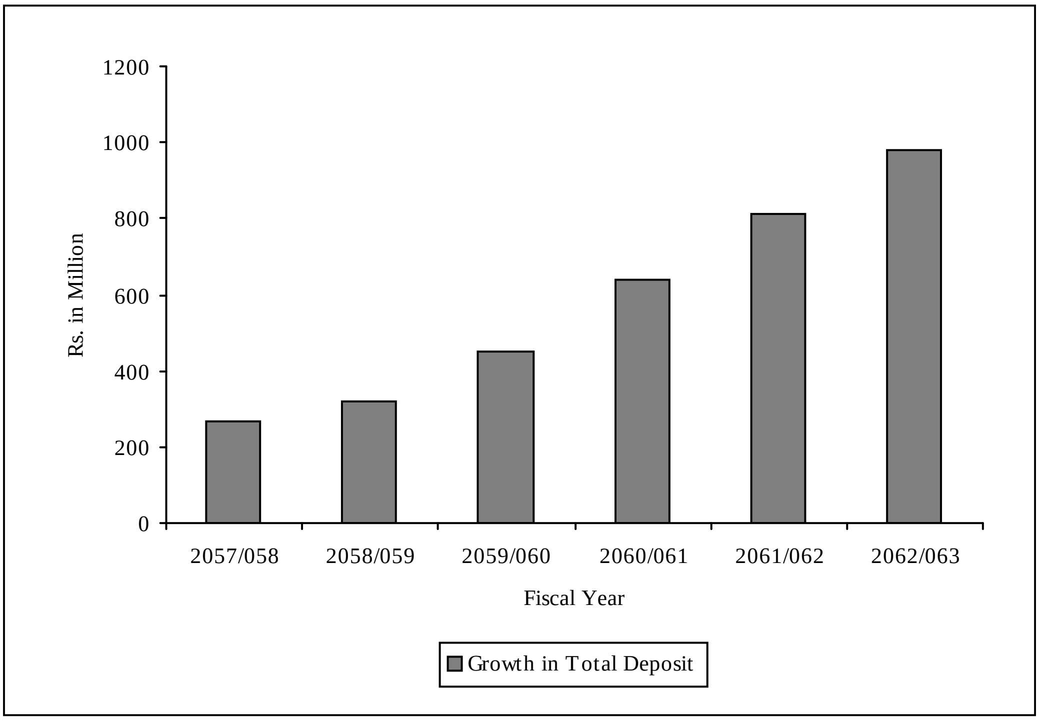


Table 4.17

Growth Ratio of Total Loan and Advances

(in Rs.)

Growth Ratio of Total Loan & Advances	Fiscal Year						Growth Ratio (%)
	2057/058	2058/059	2059/060	2060/061	2061/062	2062/063	30.45
	284172550	345234193	492481545	673298708	899861794	1073662871	

Source: AFCL, Annual Report.

Fig. 4.16

Growth in Loan and Advances

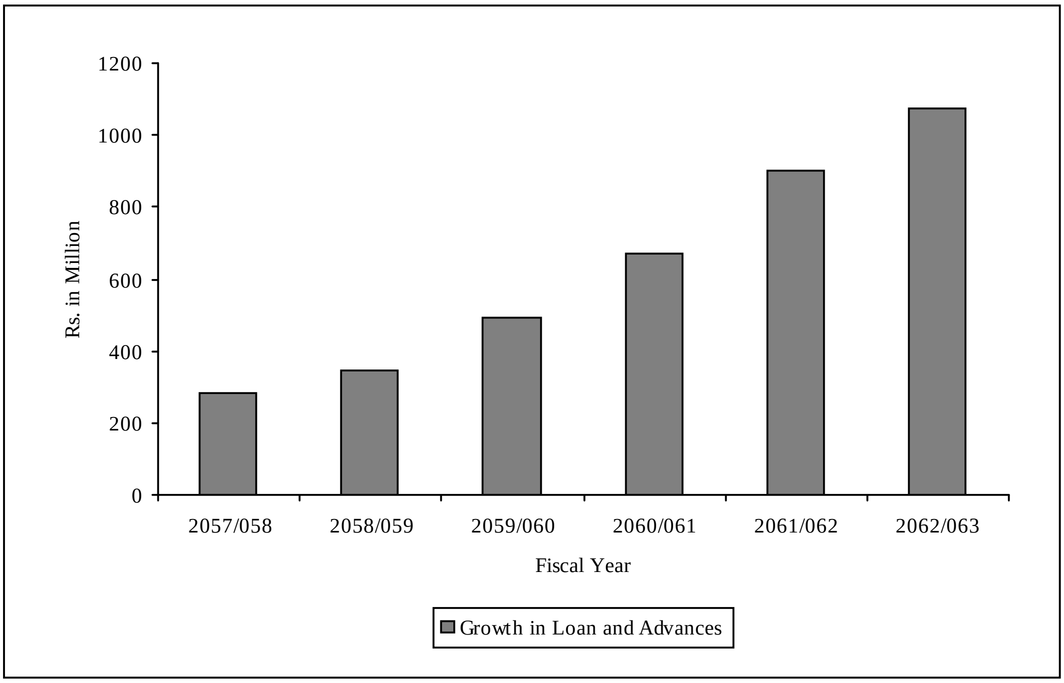


Table 4.18

Growth Ratio of Total Investment

(in Rs.)

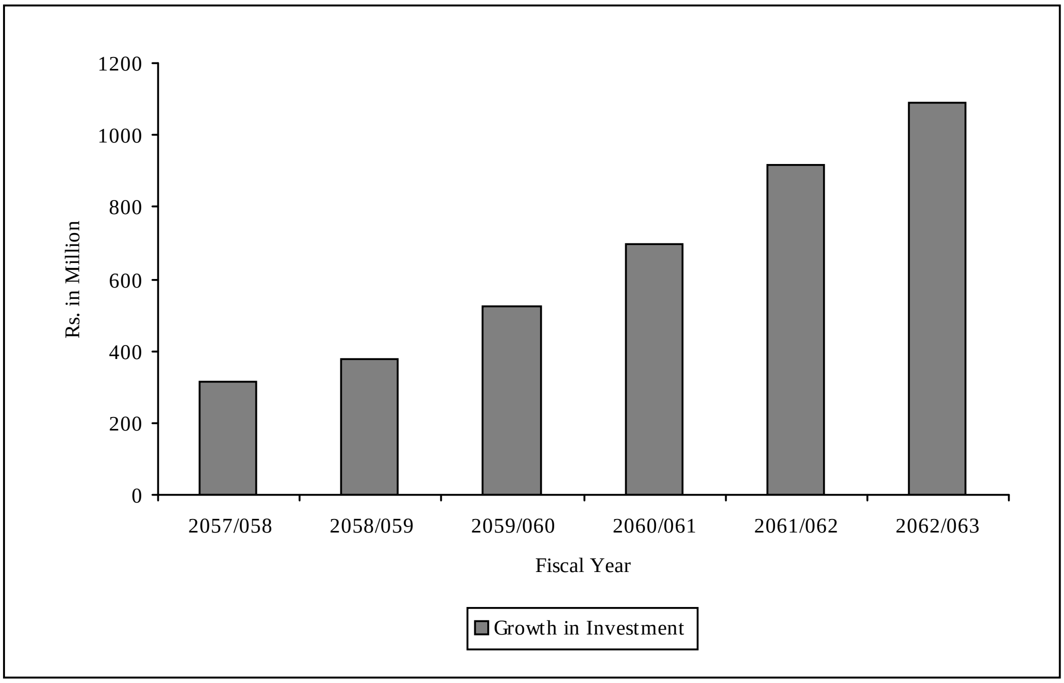
Growth Ratio of Total Investment	Fiscal Year						Growth Ratio (%)
	2057/058	2058/059	2059/060	2060/061	2061/062	2062/063	28.27
	314518606	376571264	522145739	697201842	918735764	1092303271	

Source: AFCL, Annual Report.

From Table 4.16 to 4.18 depicts the growth ratios of total deposits, total loans and advances and total investment of AFCL during the study period. The analysis shows that total deposit of the company is increasing trend over the years having the growth rate of 29.51%. Similarly loans and advances and the total investment of the company is also in increasing with the net growth rate of 30.45%, and 28.27% respectively, during the study period.

Fig. 4.17

Growth in Investment



4.1.7 Measuring Correlation between Different Variables of Investment Portfolio

4.1.7.1 Correlation between Deposit and Loans & Advances

Correlation describes the degree of relationship between two variables. Here with the help of correlation, we can determine whether or not two variables (i.e. deposits and loans & advances) are correlated. Deposit is the independent variable and loan & advances is the dependent variable. This measure how a unit increase or decrease in deposit effects in the volume of loans and advances respectively. (Detail in Appendix XI).

Table 4.19

Correlation Between Deposit and Loans and Advances

Correlation Coefficient (r)	P.E.	6×P.E.	Remarks
0.9994	0.00033	0.0019	r >6×P.E.

Table 4.19 shows correlation coefficient between deposit and loans and advances of the AFCL is 0.9994 and probable error multiply by six is found to be 0.0019. Since r>6×P.E., and r is positive and is near by 1, so, it can be interpreted that there is a very strong positive correlation between deposit and loans and advances and the AFCL is successful in mobilizing their deposit in proper way in loan and advances during the study period.

4.1.7.2 Correlation between Investment and Loans and Advances.

The correlation between the investment and loans and advances explain whether there is a positive relation between these two variables. So, the increase or decrease in a volume of loans and advances directly reduces or increases the level of idle fund. (Detail in App. XII)

Table 4.20

Correlation between Investment and Loans and Advances

Correlation Coefficient	P.E.	6×P.E.	Remarks
1	0	0	r >6×P.E.

Table 4.20 shows the correlation coefficient between investment and loans and advances of AFCL is 1 and probable error multiply by six is found to be 0. Since r>6×P.E., and r is positive and +1. So, it can be interpreted that the relationship between the investment and loans and advances is strongly significant which indicates increasing more in loans and advances of advances of AFCL and seems to be more profitable for the company during the study period.

4.1.7.3 Correlation between Deposit and Investment

The correlation between total deposit and investment indicate the degree of relationship between these items. This correlation shows a unit increase or decrease in deposit, impact in the volume of investment. Here deposit is the independent variable and investment is the dependent variable. (Detail in Appendix XIII).

Table 4.21

Correlation between Deposit and Investment

Correlation Coefficient	P.E.	6×P.E.	Remarks
0.9994	0.00067	0.0040	r >6×P.E.

Table 4.21 shows the correlation coefficient between independent variable deposit and dependent variable investment of the AFCL is 0.9994 and the probable error multiplied by six is found to be 0.0019 which states that the value of correlation coefficient (r) is significant and has positive relationship between these two items during the study period of the company.

4.2 Major Findings of the Study

The major findings of the study on investment portfolio of Annapurna Finance Company Limited are as follows:

4.2.1 The total investment portfolio of AFCL from FY 2057/58 to FY 2062/63 has been made regarding loans and advances, government securities and shares and debentures. While analyzing the data, it is found that maximum of investment is made on loans and advances where it shares the highest percentage of investment i.e. 97.88% in FY 2062/63. While the lowest percentage of investment is 90.35% in FY 2057/58 during the study period. In case of government securities the investment has been made fluctuating trend, highest percentage of investment in initial year and thereafter percentage of investment is decreasing year by year. Finally, the investment regarding on shares and debentures of other financial institution has low investment percentage in comparison to other total investment.

4.2.2 Annapurna Finance Company has diversified its loan and advances into four broad different sectors namely hire purchase loan, housing loan, Term loan, and fixed deposit loan. It is found that investment regarding on all these four sectors are increasing trend with fluctuating over the study period. In this loan portfolio, the highest preference appears to term loan i.e. 259.77 million. Likewise housing loan and hire purchase loan gets the second and third priority with these respective investment i.e. Rs. 194.46 million and Rs 161.93 million. The fixed deposit loan gets the last preference in the loan portfolio of the company i.e. Rs 11.95 million. Thus, this shows that the trend in changing toward term loan and as term loan mainly consists of business and industrial loan. Likewise education, health and tourism, this is an indication of investment on productive sectors.

4.2.3 The loan loss provision to total loans and advances ratio has fluctuating trend over the study period. The ratio has ranged from minimum to 2.81% in FY 2060/61 and maximum to 4.49% in FY 2062/63. The mean average ratio is 3.61% and the coefficient of variation between them is 0.16 percent on the basis of coefficient variation, it is found that the ratio are fluctuating.

4.2.4 Investment to total deposit ratio of AFCL has decreasing trend over the study period. This ratio from 11.28% to 1.90% with mean ratio 5.95%. The C.V. between them is 0.61 percent which shows ratios are fluctuating during the study period. It indicates that the company has low investment priority in government securities and other financial institution.

4.2.5 The loan and advances to total deposit ratio of AFCL has increasing as well as slightly decreasing trend over the study period. The increasing ratio range from 105.66% to 110.49% with mean ratio 108.23%. The C.V. between them 0.02% which shows ratio are consistent with other less variable during the study

4.2.6 The loan and advance to total asset ratio of AFCL has increasing with fluctuating trend over the study period. The highest ratio is 91.60% in FY 2061/62 and lowest ratio is 79.04% in FY 2057/58 with mean ratio 87.50%. The C.V. between them 0.05 percent which presents that there is consistent and less variable among these ratios.

4.2.7 The non-performing loan ratio of AFCL is in fluctuating trend during the study period. The lowest ratio is 1.92% in FY 2059/60 and 2060/61 and the highest ratio is 3.52% in FY 2062/63. The mean ratio is 2.54% and C.V. 0.23 percent which shows that the ratio are fluctuating.

4.2.8 The return on total assets ratio of AFCL has fluctuated over the study period. The ratio has ranged from minimum to 2.44% in FY 2061/62 and maximum to 3.93% in FY 20.57/58. The mean ratio is 2.94% and the coefficient of variation between them is 0.19%.On the basis of coefficient and variation, it is found that the ratios are variable and less consistent.

4.2.9 The relation on equity ratio of AFCL has fluctuated over the study period. The ratio has ranged from minimum to 19.10% in FY 061/62 and maximum to 37.63% in F 2057/58. The mean ratio is 24.50% and C.V.between them 0.26 percent on the basis of C.V., it is found that the ratios are variable and less consistent over the study period.

4.2.10 The return on total investment ratio AFCL has fluctuating over the study period. The ratio has ranged from minimum to 2.57% in FY

2059/60 and maximum to 4.49% in FY 2057/58. The mean ratio is 3.21% and C.V. between them 0.21 percent which shows that the ratios are less consistent and variable.

4.2.11 From the analysis of growth ratios of total deposit, total loans and advances and total investment of AFCL during the study period shows that the total deposit of the company is increasing over the years having net growth rate of 29.51%. Similarly loans and advances and total investment of the company are also increasing with growth rate of 30.45% and 28.27% respectively during the study period.

4.2.12 The correlation analysis shows that the correlation coefficient (r) between deposit and loans and advances of the company is 0.9994 and the probable error multiplied by six is found to be 0.0019. Since r > 6 ×P.E., and r is positive and near by 1, it can be stated that there is a very strong positive correlation between deposits and loans and advances during the study period.

4.2.13 The correlation analysis shows that the correlation coefficient (r) between investment and loans and advances of the company is 1.0000. The probable error multiplied by six is found to be '0'. Since r > 6×P.E. It shows that there is a very strong positive relationship between the investment and loans advances during the study period in AFCL.

4.2.14 The correlation analysis shows that the correlation coefficient (r) between the deposits and investment of AFCL is 0.9994 and the probable error multiplied by six is found to be 0.0019 which states that the value of correlation coefficient is significant and has positive relationship between the deposit and investment during the study period.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter includes three aspects of the study- Summary, Conclusion and recommendations. The first aspect summarizing the whole study, second draws the conclusion and the last one focuses on recommendation.

5.1 Summary

The study was conducted to examine and analyze the trend in investment and the loan portfolio of Annapurna Finance Company Limited over the six years period from FY 2057/58 to FY 2062/63 following a descriptive and analytical research design. For the study purpose, AFCL is drawn as a study unit with applying convenience sampling method out of 72 finance companies till mid- march 2007. The study is based on secondary data. For the analysis the study, annual reports and financial statements of AFCL are used as the major sources of data. Various financial ratios, Simple mathematical and Statistical tools have been used in this study to get the meaningful result and to meet the research objectives.

The analysis of the investment portfolio of AFCL shows that it has mainly focused on loans and advances, secondly on government securities and finally on shares and debentures of other financial institutions. Apart from this AFCL has diversified and extend its loans and advances to various fields like hire purchase loan, housing loan, term loan and fixed deposit loan etc. and it is found that the investment regarding to these various sectors are in continuous increasing trend but in the case of fixed deposit loan in increasing trend with fluctuations during the study period. The loan loss provision to total loans and advances ratio is in fluctuating trend during the study period. Similarly, to measure the activity ratio, basically investment to total deposit ratio, loan and advance to total assets ratio and non-performing loans to total loans and advances ratio were calculated. Investment to total deposit ratio shows that AFCL has gradually minimize its investment on government securities and other financial institutions. Loan and advance to total deposit ratio are fluctuating trend. Loan and advance to total asset ratio shows that AFCL has been able to mobilized its total deposit and also the non performing loan ratios show the good performance of the company in mobilizing loan and advances. In addition to this different types of ratios such as return on total assets, return on equity, return on total investment ratios has been calculated in order to measure the profitability. Return on total assets ratio, return on equity ratio and return on total investment ratio are fluctuating trend so not satisfactory even though it has adopted the modern style of management i.e. portfolio diversification. Thus, it can be said that AFCL has tried to maintain a sound profitability position even though there is a slight decrease in profitability. While calculating the growth ratios of total deposits total loans and advances and total investment, it is found that the growth ratio of the loans and advances is higher as compared to the growth ratio of total deposit and total investment respectively finally there is strong positive correlation between deposit and loans and advances, Investment and loan and advances and deposit and investment.

5.2 Conclusions

Based on the findings, following conclusions have been drawn as a concluding framework for the study on investment portfolio of Annapurna Finance Company Limited.

5.2.1 The investment portfolio of AFCL has made maximum investment on loans and advances then in government securities and finally on shares and debentures respectively during the study period. This indicated that it has managed efficiently as to maximize the return there from but it has not sufficiently diversified its investment to reduce the portfolio risk. However, it has mobilized its depositors fund to earn profit by advancing those funds in the form of loans and advances which shows that it has been able to maintain a balance ratio among the deposit and investment.

5.2.2 While analyzing the sectoral investment of AFCL, it is found that the term loan has got the maximum share percentage than those remaining investment. As compared to term loan, housing loan and hire purchase loan has got less share percentage in this loan disbursement. But, the fixed deposit loan has got very negligible share percentage to this respect. Thus, this sectoral loan investment of AFCL seems to have meaningful investment in productive sector as the term loan has got prior shares in comparison to other remaining loan investment.

5.2.3 The loan loss provision to total loans and advances ratios are in fluctuating but in increasing trend during the study period. It indicates that the quality of loans becoming degrading year by year i.e. it seems that amount of non-performing loans and possibility of default in future is increasing.

5.2.4 The decreasing trend of investment to total deposit ratio during the study period indicates that AFCL is adopting low priority on investment in government securities, and other financial company's shares and debentures. Likewise the increasing as well as decreasing trend of loan and advances to total deposit ratio and loan and advance to total assets ratio during the study period indicates that AFCL is adopting the appropriate policies to manage and utilize the fund in income generating activities as well as to increase the quality of assets.

5.2.5 As the non-performing loan ratio of AFCL is found fluctuating due to decline in loan quality, increase in loan volume and changes in NRB direction. But the NPL ratios are below the international standard i.e. 5% it can therefore concluded that AFCL has placed efficient credit management and recovery efforts.

5.2.6 The profitability ratio of AFCL shows that it has tried to maintain a positive return even though there is a fluctuation. Low profitability ratio indicates that it has not been able to earn adequate profit but however tried to maintain the profit in relative years. Among the various profitability ratios, like return on total assets (ROA), return on equity (ROE) and return on total investment (ROI) etc. the performance of AFCL is fluctuating in terms of all profitability.

5.2.8 The growth ratio of total deposits, loans and advances and the investment shows that the company has been increasing its disbursement of loans and advances than in deposits collection and investment. The growth rate of loans and advances is higher which indicates that AFCL is more emphasis to invest in loans and advances than other in order to generate profit.

5.2.9 Finally, the correlation analysis shows that there is a strong positive relation between deposits, loans and advances and investment during the study period of AFCL.

5.3 Recommendations

Based on the analysis and the findings of the study, the following recommendations can be advances to overcome weakness and inefficiency and to improve the present fund mobilization and investment of Annapurna finance company limited.

5.3.1 AFCL is focusing more investing on loans and advances rather than on government securities and shares and debentures of other companies so the portfolio conditions should be regularly revised from time to time and also try to maintain the equilibrium in the portfolio condition. It should always try to make the continuous effort to explore competitive and highly yielding investment opportunities to optimize its investment portfolio.

5.3.2 AFCL is suggested to increase the investment which can facilitate them to utilize the idle fund to generate the income as well as to minimize the risk. So AFCL should increase the investment in government securities and corporate securities in order to diversify the risk.

5.3.3 Loans loss ratios of the company are in fluctuating trend during the review period. It indicates that there is probability of loan default in future. So the company is advised to lower the proportion of loan loss provision by increasing the quality of assets by strengthening the credit appraisal and follow-up measures.

5.3.4 The ratios of investment to total deposit are in decreasing trend. It shows investment made is very inconsistent. So the company is recommended for the proper mobilization of its deposits for the sake of investment.

5.3.5 As the non-performing loan ratios of the company are in fluctuating trend during the study period it signals deterioration in the quality of loans. So, the company is recommended to improve the loan quality. For this the company should strictly follow their own loan policies towards the loan recovery.

5.3.6 The profitability ratios of the company like return on assets, (ROA), return on equity (ROE) and return on investment (ROI) are in fluctuating trend during the study period. Profitability is the most important tools of measurement of the company's performance. Without profit, no firm can grow and survive in long run. So the company is recommended to increase its yields as its net profit to gain the trust of the equity holders and other stakeholders.

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APPENDIX I

Investment Portfolio of AFCL

(in Rs.)

Fiscal Year	Loan and Advance		Government Securities		Share and Debentures		Total	
	Amount	%	Amount	%	Amount	%	Amount	%
2057/058	284172550.00	90.35	25650000	8.16	4696055	1.49	314518605.00	100.00
2058/059	345234193.00	91.60	23000000	6.10	8653215	2.30	376887408.00	100.00
2059/060	492481545.00	93.86	24000000	4.57	8225914	1.57	524707459.00	100.00
2060/061	673298708.00	96.21	18293000	2.61	8260914	1.18	699852622.00	100.00
2061/062	899861794.00	97.41	18480300	2.00	5454740	0.59	923796834.00	100.00
2062/063	1073662871.00	97.88	18275000	1.67	5018740	0.46	1096956611.00	100.00

APPENDIX II

Loan Loss Provision to Total Loans and Advances Ratio

(in Rs.)

Fiscal Year	Loan Loss Provision	Total Loans and Advances	Ratio (%)
2057/058	11919155	284172550.00	4.19
2058/059	12355748	345234193.00	3.58
2059/060	15089053	492481545.00	3.06
2060/061	18928431	673298708.00	2.81
2061/062	31630705	899861794.00	3.52
2062/063	48169182	1073662871.00	4.49
Mean			3.61
S.D.			59
C.V.			16

APPENDIX III

Investment to Total Deposit Ratio

(in Rs.)

Fiscal Year	Investment	Total Deposit	Ratio (%)
2057/058	30346055	268960426.00	11.28
2058/059	31337070	317196629.45	9.88
2059/060	29664194	451028280.72	6.58
2060/061	23903134	637341358.17	3.75
2061/062	18873970	814431120.00	2.32
2062/063	18640400	980112602.00	1.90
Mean			5.95
S.D.			3.62
C.V.			61

APPENDIX IV

Loans and Advances to Total Deposit Ratio

(in Rs.)

Fiscal Year	Loan and Advances	Total Deposit	Ratio (%)
2057/058	284172550.00	268960426.00	105.66
2058/059	345234193.00	317196629.45	108.84
2059/060	492481545.00	451028280.72	109.19
2060/061	673298708.00	637341358.17	105.64
2061/062	899861794.00	814431120.00	110.49
2062/063	1073662871.00	980112602.00	109.54
Mean			108.23
S.D.			1.89
C.V.			2

APPENDIX V

Loans and Advances to Total Assets Ratio

(in Rs.)

Fiscal Year	Loan and Advances	Total Assets	Ratio (%)
2057/058	284172550.00	359540695.37	79.04
2058/059	345234193.00	405720545.52	85.09
2059/060	492481545.00	546069494.70	90.19
2060/061	673298708.00	766738055.63	87.81
2061/062	899861794.00	982376972.00	91.60
2062/063	1073662871.00	1176183471.00	91.28
Mean			87.50
S.D.			4.39
C.V.			5

APPENDIX VI

Non-performing Loans to Total Loans and Advances Ratio

(in Rs.)

Fiscal Year	Non-performing Loans	Loan and Advances	Ratio (%)
2057/058	7416903.58	284172550.00	2.61
2058/059	7939748.22	345234193.00	2.30
2059/060	9437707.55	492481545.00	1.92
2060/061	12950015.08	673298708.00	1.92
2061/062	26506979.00	899861794.00	2.95
2062/063	37810660.00	1073662871.00	3.52
Mean			2.54
S.D.			0.57
C.V.			23

APPENDIX VII

Return on Total Assets

(in Rs.)

Fiscal Year	NPAT	Total Assets	Ratio (%)
2057/058	14131533.11	359540695.37	3.93
2058/059	13999837.61	405720545.52	3.45
2059/060	13431978.56	546069494.70	2.46
2060/061	21113520.59	766738055.63	2.75
2061/062	24004507	982376972.00	2.44
2062/063	30876696	1176183471.00	2.63
Mean			2.94
S.D.			0.56
C.V.			19

APPENDIX VIII

Return on Equity

(in Rs.)

Fiscal Year	NPAT	Equity	Ratio (%)
2057/058	14131533.11	37550000.00	37.63
2058/059	13999837.61	51611693.91	27.13
2059/060	13431978.56	62643672.47	21.44
2060/061	21113520.59	95279704.95	22.16
2061/062	24004507	125690392.00	19.10
2062/063	30876696	156146035.00	19.77
Mean			24.54
S.D.			6.40
C.V.			26

APPENDIX IX

Return on Total Investment

(in Rs.)

Fiscal Year	NPAT	Total Investment	Ratio (%)
2057/058	14131533.11	314518606.00	4.49
2058/059	13999837.61	376571264.00	3.72
2059/060	13431978.56	522145739.00	2.57
2060/061	21113520.59	697201842.00	3.03
2061/062	24004507	918735764.00	2.61
2062/063	30876696	1092303271.00	2.83
Mean			3.21
S.D.			0.69
C.V.			21

APPENDIX X

Growth Ratio

(in Rs.)

Fiscal Year	Deposit	Loan and Advances	Investment
2057/058	268960426.00	284172550.00	314518606.00
2058/059	317196629.45	345234193.00	376571264.00
2059/060	451028280.72	492481545.00	522145739.00
2060/061	637341358.17	673298708.00	697201842.00
2061/062	814431120.00	899861794.00	918735764.00
2062/063	980112602.00	1073662871.00	1092303271.00
Growth Rate (%)	29.81	30.45	28.27

Calculation of Growth Ratio of Total Deposit of AFCL

Where

D_n = Total Deposit in the n^{th} year (2062/063) = 980112602

D_0 = Total Deposit in Initial Year (2057/058) = 268960426

g = Growth Rate

n = Total number of Years

We have,

$D_n = D_0 (1+g)^{n-1}$

or 980112602 $= 268960426\ (1+g)^{6-1}$

or, g $= \sqrt[5]{3.6440773}$ Z1

or, g $= 1.2951423 - 1$

or, g $= 0.295142$

… g $= 29.51\%$

other growth rate are calculated accordingly.

APPENDIX XI

Calculation of Correlation Coefficient between Deposit and Loans and Advances

(in Rs.)

Fiscal Year	Deposit	Loan and Advances	Correlation Coefficient (r)	P.E.	6×P.E
2057/058	268960426.00	284172550.00	0.9994	0.00033	0.0019
2058/059	317196629.45	345234193.00			
2059/060	451028280.72	492481545.00			
2060/061	637341358.17	673298708.00			
2061/062	814431120.00	899861794.00			
2062/063	980112602.00	1073662871.00			

Calculation of Probable Error (P.E.) for Correlation Coefficient between Deposit and Loans and Advances:

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

Where,

N = Number of Observation = 6

r = Correlation Coefficient = 0.9994

or, P.E. $= 0.6745 \times \frac{1-(0.9994)^2}{\sqrt{6}}$

… P.E. = 0.00033

Other Probable Correlation Coefficient between Investment and Loans and Advances.

APPENDIX XII

Calculation of Correlation Coefficient between Investment and Loans and Advances

(in Rs.)

Fiscal Year	Investment	Loan and Advances	Correlation Coefficient (r)	P.E.	6×P.E
2057/058	314518606	284172550.00	1.0000	0	0
2058/059	376571264	345234193.00			
2059/060	522145739	492481545.00			
2060/061	697201842	673298708.00			
2061/062	918735764	899861794.00			
2062/063	1092303271	1073662871.00			

APPENDIX XIII

Calculation of Correlation Coefficient between Deposit and Investment

(in Rs.)

Fiscal Year	Deposit	Investment	Correlation Coefficient (r)	P.E.	6×P.E
2057/058	268960426.00	314518606	0.9994	0.00033	0.0019
2058/059	317196629.45	376571264			
2059/060	451028280.72	522145739			
2060/061	637341358.17	697201842			
2061/062	814431120.00	918735764			
2062/063	980112602.00	1092303271			