

**HIRE PURCHASE FINANCING OF PASHCHIMANCHAL
FINANCE CO. LTD., BUTWAL**

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TRIBHUVAN UNIVERSITY

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VIVA-VOCE SHEET

We have conducted the viva-voce examination of the thesis

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

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TABLE OF CONTENTS

<i>Acknowledgement</i>	Page
CHAPTER I: INTRODUCTION	1-5
1.1 Background of the Study	1
1.2 Focus of the Study	3
1.3 Statement of the Problem	3
1.4 Objectives of the Study	4
1.5 Significance of the Study	4
1.6 Limitations of the Study	5
1.7 Organization of the Study	5
CHAPTER II: REVIEW OF LITERATURE	6-31
2.1 Conceptual Review	6
2.2 Review of Related Studies	25
2.3 Research Gap	31
CHAPTER III: RESEARCH METHODOLOGY	32-37
3.1 Research Design	32
3.2 Population and Sample	32
3.3 Nature and Sources of Data	33
3.4 Data Collection Procedure	33
3.5 Data Processing	33
3.6 Method of Data Analysis	33
CHAPTER IV: DATA PRESENTATION AND ANALYSIS	38-55
4.1 Presentation and Analysis of Data	38
4.2 Major Findings of the Study	53
CHAPTER V: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS	56-59
5.1 Summary	56

5.2	Conclusions	57
5.3	Recommendations	58

BIBLIOGRAPHY

APPENDICES

LIST OF TABLES

Table	Page
4.1 Hire Purchase Loan, Total Loan & Ratio of Hire Purchase Loan & Total Loan	38
4.2 Hire Purchase Loan to Total Deposit Ratio	40
4.3 Default Loan to Hire Purchase Loan Ratio	42
4.4 Private Vehicles Financing Amount and Growth Rate	44
4.5 Public Vehicles Financing Amount and Growth Rate	46
4.6 Machine and Equipment Financing Amount and Growth Rate	47
4.7 Composition of Hire Purchase Loan	48
4.8 Hire Purchase Loan, Total Loan and Total Deposit of PAFICOL	50
4.9 Correlation Coefficient between Deposit Collection and Hire Purchase Loan	52
4.10 Correlation Coefficient between Deposit Collection and Hire Purchase Loan	52

LIST OF FIGURES

Figure	Page
4.1 Hire Purchase Loan to Total Loan Ratio	39
4.2 Hire Purchase Loan to Total Deposit Ratio	41
4.3 Default Loan to Hire Purchase Loan Ratio	
43	
4.4 Private Vehicles Financing	44
4.5 Public Vehicles Financing	46
4.6 Machine and Equipment Financing	
48	
4.7 Composition of Hire Purchase Loan	
49	
4.8 Relationships among Hire Purchase Loan, Total Deposit and Total Loan of PAFICOL	51

ABBREVIATIONS/ ACRONYMS

A.D.	-	Anno Domini
AFCL	-	Annapurna Finance Company Limited
BAFIO	-	Bank and Financial Institution Ordinance
B.S.	-	Bikram Sambat
C.V.	-	Coefficient of Variation
FIs	-	Financial Institutions
GBBL	-	Garima Bikas Bank Limited
GDP	-	Gross Domestic Product
HP	-	Hire Purchase
NIDC	-	Nepal Industrial Development Corporation
NRB	-	Nepal Rastra Bank
OFCL	-	Om Finance Company Limited
PAFICOL	-	Paschimanchal Finance Company Limited
P.E.	-	Probable Error
PFL	-	Pokhara Finance Limited
POFIL	-	Pokhara Finance Limited
RBB	-	Rastriya Banijya Bank
S.D.	-	Standard Deviation

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Financial markets play a fundamental role in the economic development of country. They are the intermediary link in facilitating the flow of funds from savers to investors. By providing an institutional mechanism for mobilizing domestic saving and efficiently channeling them into productive investments, they lower the cost of capital to investors and accelerate economic growth of the country. Financial intermediation between borrowers and savers is done by finance companies. They have collected a huge amount of public deposit recklessly and invest them to support the purchase of consumer durable, hire purchase as well as short term to medium term business finance.

The history of financial institution is not very old. When banking sectors started carrying out current activities of finance company, large number of finance company was established and they expanded at rapid pace in the development countries UK and USA in 1960s. In the context of Nepal, there were few insurance companies and Karmachari Sanchaya Kosh working as non banking financial institution before enactment of finance company act 2042. Need of finance company act was felt because unauthorized sector was collecting saving from the common public in the name of Upahar and Dhukuti programs. People showed great interest and enthusiasm in these programs but they were cheated by the most of the organizer of these programs. Considering people interest in such programs, benefit of mobilizing such saving in productive sectors, banking sectors, inability to carry out markets activities and need for credit, government felt the need of finance company set up till 2049 because the act came into being only in 2049 with same amendments (Basel, 2015).

“The finance company was developed largely to serve specialized loan markets. At the present time are many types of specialized finance companies. The oldest and most familiar are the consumer finance companies that were formed to serve the demand for small personal loan” (Smith, 1974). Therefore, finance companies are established to collect deposit and provide loans and also mobilizing scattered saving through various schemes and deploys them in different sectors of the economy for the economic

development of country. Finance companies are the intermediates with limited liability which are neither been allowed to accept demand deposit nor operate current accounts. They have concentrated their funding activities at attracting fixed deposit from public on higher interest rate than commercial banks. They also charge much more higher on interest in money lending than commercial banks.

The history of modern commercial banking industry date back to 1937 A.D. in which year Nepal Bank Ltd, was incorporated. Till 1984, financial sectors was closed to private sector and foreign investors. Nepal government started to liberalize the financial sector rushed into finance industries especially after the restoration of democracy in 1990. Most of commercial banks came into operation during the decade of 1990s. Government of any countries highly monitors and controls the finance industry even in the liberalized market economy. Nepal Rastra Bank (NRB) as an apex monetary authority of country started to monitor and control the finance industry especially at the end of the 1990s by issuing the directive to the financial institutions.

Pashchimanchal Finance Company Limited (PAFICOL) is establish on 21st Poush, 2051 with the view of providing support to different productive and needy sector by collecting the small and large saving all around the country for the overall development of the nation under the free economy policy of Nepal Government is 'c' class institution licensed by Nepal Rastra Bank (NRB). The head office of PAFICOL is located in Sukrapath, Butwal and it has 9 branches till date. Agriculture, tourism, business, services and industries are the major target areas for lending. Besides these PAFICOL helps to find, establish, develop and finance productive sectors which is base for nation building. PAFICOL provides easy, fast and convenient services to our valued customers using modern technology and experienced staff family (Basel, 2015).

The most popular method of selling property is the cash sale. There is another alternative method of cash sale which is known as credit sale. The third system of selling property is the installment system. In this installment system, property are delivered to the buyer immediately but payment is made in periodic installments such as weekly, quarterly or half yearly or yearly so on. Hire purchase and installment purchase system are the major parts of installment system. With an increasing demand for better life, the consumption of property has been on the uprising scale. This has not been backed up by adequate purchasing power, transforming it into effectual demand

(Mukharjee & Hanif, 1998). This has created the market for hire purchase system. When a person is unable to acquire an asset against immediate cash payment, he may arrange with the vendor to stagger the payment. Financial institutions play a role of facilitators between buyer and seller to enter into the hire purchase agreements. Hire purchase agreement makes it possible for business persons, professionals and others to take advantage of assets all of which enable them to organize and operate their activities effectively. After the liberalization policy introduced in 1998, the financial sector especially the finance companies have contributed significantly to increase the hire purchase business in Nepal. This study attempts to analyze the current performance of Paschimanchal Finance Company Limited (PAFICOL) in the field of hire purchase financing.

1.2 Focus of the Study

This study mainly focuses on the effectiveness of lending decision on hire purchase loan of PAFICOL. In this study, the trend of investment process of PAFICOL in hire purchase loan is analyzed and the existing investment situation and its investment strategies especially on hire purchase loan are carefully observed. Therefore, whole energy and effort concentrate on hire purchase financing of PAFICOL and its investment as well as recovery procedure.

1.3 Statement of the Problem

The main objective of financial institution is to increase its return for a shareholder. Financial institutions collect scattered money from individual as deposit and invest in to those who required it. The major challenge of finance company is to lend the public's deposit in safe investment. Nowadays, most of Nepalese finance company is facing recovery problem.

The elementary problem of this study is to identify how the investment of hire purchase loan of PAFICOL is safe. Based on this fundamental problem this study has sought the answer to the following specific problems.

- What is the position of hire purchase loan and total loan?

- What is the fraction of hire purchase loan on total deposit?
- What is the performance of hire purchase loan?
- What is the composition of hire purchase loan in PAFICOL?
- What is the relationship between hire purchase loan, total loan and total deposit of PAFICOL?

1.4 Objectives of the Study

The general objective of the study is to analyse hire purchase loan and its recovery. However, the other specific objectives of the study are as:

- To analyze the position between hire purchase loan and total loan ratio.
- To analyze the ratio of hire purchase loan to total deposit.
- To analyze the performance of hire purchase loan.
- To analyze the composition of hire purchase loan in PAFICOL.
- To analyze the relationship between hire purchase loan, total loan and total deposit in PAFICOL.

1.5 Significance of the Study

The hire purchase loan is an important sector of investment of any finance company. Before making lending decision, Finance companies need to know more about the person/firm to whom finance is going to invest. The finance companies will face problem if there is increase in defaulters on their investment. Thus finance companies need minimize their number of defaulter as for as possible. This study will attempt the performance and current state of affairs of Pashchimanchal Finance Company Limited in the field of hire purchase financing. The study will be helpful to analyze the growth of hire purchase financing in Nepal and its contribution on Nepalese economy. Apart from this study will be a matter of interest for academicians, students, researchers, teachers, or persons practicing in the field of finance.

1.6 Limitations of the Study

The major limitations of the study are as follows:

- This study is based on secondary data hence accuracy depends upon the data collected and provided by the organization.
- This study is conducted within Pashchimanchal Finance Company Limited only.
- This study covers the relevant data and information only for five years period.
- This study mainly focuses on the hire purchase loan of PAFICOL so; it doesn't pay any attention the other services offered by PAFICOL.

1.7 Organization of the Study

The study in a systematic way, this study has been organized into the five chapters. Which are as follows:

The first chapter is Introduction. This chapter deals with the introductory framework of the study. This includes on general background of the study. This includes the statement of problem, objective of the study, significance, limitations and organization of the study itself. The second chapter is Literature Review. This chapter deals with the review of the available literature. It is directed towards the review of books as theoretical framework and research review including review of articles and review of dissertations. This chapter also contains research gap. The third chapter is Research Methodology. This chapter describes the research methodology employed in the present study. This chapter presents research design, source and nature of data, population and sample, nature and source of data, data collection procedures and tools for analysis. The fourth chapter is Presentation and Analysis of data. In this chapter, data and information are analyzed with the help of different statistical and financial tools and finding of the study are presented at the end of this chapter. The fifth chapter is Summary, Conclusion and Recommendation. This is the termination chapter of the study which deals with summary of main finding and provides the conclusion and recommendations for further improvement. Besides a Bibliography and Master sheet is attached at the study.

CHAPTER II

REVIEW OF LITERATURE

In this chapter, review of relevant theoretical aspects and past studies has been given. So, this chapter has been organized into two sections conceptual review and review of related studies.

2.1 Conceptual Review

This sub chapter presents the theoretical aspect of the study. It includes the concept of finance company, function of financial company, historical development of finance company in Nepal, concept of financial performance analysis, concept of finance companies and concept of hire purchase along with its related sub-topics.

The main functions of finance companies are to collect the deposit from depositors and make the loan to both individual and businesses. These companies are popular among low income and medium class people for financing hire purchase, vehicles, machinery, tools, equipment, durable house hold goods etc. They can also perform merchant banking activities with prior approval of NRB. They are willing to lend to riskier borrowers than commercial bank. They are free to fix interest rate on both deposits for banks and non-bank financial institution (E.Pra, 2062). There is no any restriction for finance companies to invest government securities and NRB bonds. But they to perform their activities as prescribed by the NRB directives (Aryal, 2013).

2.1.1 Concept of Finance Companies

Financial companies are the non-bank financial institutions which borrow funds so as to profit on the different between the rates paid on borrowed funds and those charged on loans. However, they act as the borrowing and lending financial institution with additional financial risk taking management. They came into existence under the financial company act 2042 and now operating under bank and registered as limited companies at the office of the company can accept time deposits of the maturity of three months to maximum six years (Economic report, 2004). They can also collect fund by issuing debentures. These companies provide basically three types of loan. Such as hire purchase loan, housing loan, term loan, some finance companies deal with leasing

finance also. Finance companies make installment loans. They offer attractive rates on the deposit than commercial bank.

The main functions of finance companies are to collect the deposit from depositors and make the loan to both individual and businesses. These companies are popular among low income and medium class people for financing hire purchase, vehicles, machinery, tools, equipment, durable house hold goods etc. They can also perform merchant banking activities with prior approval of NRB. They are willing to lend to riskier borrowers than commercial bank. They are free to fix interest rate on both deposits for banks and non-bank financial institution (E.Pra, 2062). There is no any restriction for finance companies to invest government securities and NRB bonds, but they to perform their activities as prescribed by the NRB directives.

2.1.2 Origin and Development of Financial Institutions in Nepal

Almost all countries have the logical history of the development of financial structure. In the context of Nepal, the first stage from rudimentary economy in which the commodity money such as gold and silver coins generally accepted as a means of payment. The history of banking in Nepal may be described as a component of gradual and orderly evolution in the financial and economic sphere of the Nepalese life. The existence of unorganized money market, landlords, rich merchants, shopkeepers and other individual money lender have acted as barrier to institutional credit. Though establishment of banking industry was very recent, some crude bank operations were in practice even in the ancient time (Basel, 2015).

During the regime of Gunakamadev in about 8th century from of lending was started. He borrowed money to rebuild Kathmandu. It showed that there also transactions of money in the form of lending. At the end of 11th century, Jayasthiti Malla, the ruler of Kantipur classified the people in difference cast based on their occupation. “Tanka Dhari” is one of the categories of the people, who worked as a money lender. Tanka Dhari used to invest their money to needy person by charging some interest. It was further believed that the money lending business particularly for financing the foreign trade with Tibet was quite popular during the regime of Malla’s. But the absence of regulation on interest rate some lenders were charged high interest rate and other extra charge (Basel, 2015).

During the eight years of Prime Minister Ranodeep Singh (1877-1885 A.D.), a number of economic and financial reforms were introduced. The establishment of “*Tejarath Adda*”, fully subscribed by the government in Kathmandu valley was one of them. The main purpose of setting up of this *Tejarath Adda* was to provide credit facilities to the general public at a very concessional rate of interest i.e. 5%. The establishment of this financial institution marked the beginning of extending credit through any organized financial institution in Nepal. The *Tejarath Adda* disburses credit to the people especially on the collateral of gold and silver. This move was taken in order to reliance the people from the exorbitant rate of interest charged by traditional landlords and money lenders. Hence, the establishment of *Tejarath Adda* could be regarded as pioneer foundation of banking in Nepal (Dahal, 2008).

Nepal Bank Ltd. Is the first modern bank of Nepal. It is taken as the milestone of modern banking of the country. Nepal bank marks the beginning of a new era in the history of the modern banking in Nepal. This was established in 1937 A.D. Nepal Bank has been inaugurated by King Tribhuvan Bir Bikram Shaha Dev on 30th Kartik 1994 B.S. Nepal bank was established as a semi government bank with the authorized capital of Rs. 10 million and the paid – up capital of Rs. 892 thousand. Until mid- 1994s only metallic coins were used as medium of exchange. So the Nepal Government (His Majesty Government on that time) felt the need of separate institution or body to issue national currencies and promote financial organization in the country. Nepal Bank Ltd. Remained the only financial institution of the country until the foundation of Nepal Rasta Bank is 1956 A.D. Due to the absence of the central bank. Hence, the Nepal Rasta Bank Act 1955 was formulated, which was approved by Nepal Government accordingly, the Nepal Rasta bank was established in 1956 A.D. as the central bank of Nepal. Nepal Rasta Bank makes various guidelines for the banking sector of the country (Khanal, 2017).

A sound banking system is important for smooth development of banking system. It can play a key role in the economy. It gathers saving from all over the country and provides liquidity for industry and trade. In 1957 A.D. Industry Development Bank was established to promote the industrialization in Nepal, which was later converted into Nepal Industrial Development Corporation (NIDC) in 1959 A.D.

Rastriya Banijya Bank was established in 1965 A.D. as the second commercial bank of Nepal. And then Agricultural Development Bank was established in 1968 A.D. For more than two decades, no more banks have been established in the country. After declaring free economy and privatization policy, the government of Nepal encouraged the foreign banks for joint venture in Nepal. The first joint venture bank is Nepal Arab Bank Ltd and later renamed as Nabil Bank Ltd. It has started its operations in 7th July, 1984 BS (Khanal, 2074/075 B.S)

Today, the banking sectors is more liberalized and modernized and systematic managed. There are various types of bank working in modern banking system in Nepal. By the end of December 2017, there are altogether 193 bank and non- banking financial institutions licensed by NRB are in operation. Out of them, 30 are “A” class commercial banks, 81 “B” class development banks, 52 “C” class finance companies, 36 “D” class micro-finance Company (Sharma & Khanal, 2017).

Sherstha (1995), in her book Portfolio Behavior of Commercial Bank in Nepal said the commercial banks fulfill the credit needs of various sector of the economy including agriculture, industry, commercial and social service sectors. The lending policy of commercial banks is based on the profit maximizing of institution as well as the economic enhancement. The book analyzed the financial performance of commercial banks through the techniques of ratio and management achievement index. It has also analyzed the investment and lending operation of commercial bank and their contribution to the national economy.

2.1.3 Bank and Financial Institution Act, 2063

Previously in Nepal, Financial Act 2042 used to govern finance companies and then Bank and Financial Institutions Ordinance (BAFIO) came in to existence in February 4, 2004. BAFIO used to govern all types of financial institutions. The ordinance repeals and replaces all existing acts relating to commercial banks. Nepal Industrial Development Bank, other development banks and finance companies brought all such institutions under single act which is known as Umbrella Act. For the proper and smooth operation of bank and financial institutions, as Umbrella Act named as Bank and Financial Institution Act (BAFIA), 2063 has been implemented with effect from 16th Shrawan, 2063 (Basel, 2015).

Subject to this Act and the memorandum of association and articles of association, Class “C” licensed institution may carry on the following financial transactions:

- Subject to the limit prescribed by the Rasta Bank, accepting deposits with or without interest, and refund such deposits:
- Supplying credit, other than hypothecation credit, as prescribed:
- Supplying credit for hire-purchase, leasing, housing and service business:
- Carrying on merchant banking business:
- Writing off credit, subject to the bye-laws made by the Board:
- Supplying credits jointly, on the basis of co-financing in collaboration with other licensed institution in accordance with the mutual agreement entered into for the division of the collateral *paripassu*:
- Supplying credits against the guarantee of any native bank or financial institution:
- Obtaining credit against the security of its movable and immovable assets:
- Supplying a fresh credit in lump sum or by installment against the security of the same movable or immovable property which has already been furnished with, it to the extent covered by the total value of such security or supplying a fresh credit in lump sum or by installment against the security of the same movable or immovable property which has already been furnished with any other licensed institution as security, to the extent covered by the total value of such security:
- Making proper arrangement of its assets sell or rent the same:
- Issuing accepting paying, discounting or purchasing and selling bills of exchange, promissory notes, cheque, travelers cheque, drafts or other financial instruments;
- Purchasing and selling the Indian rupees;
- Supplying credits not exceeding the amount prescribed by the Rasta Bank, against individual or collective guarantee, for the economic upliftment of the destitute class, low-income families, victims of natural calamities and inhabitants in any area of the country;

- Exchanging with the Rasta Bank or any other licensed institutions particulars of, information or notices on debtors or customers who have obtained credit or any kind of facility from it and other licensed institution;
- Supplying installment or hire-purchase credit to any person, firm, company or institution for motor vehicles, machinery, tools, equipment, durable household goods or similar other movable property;
- Supplying credit to any person, firm, company or institution for purchasing a residential building or warehouse or purchasing land for constructing such residential building or warehouse;
- Supplying credit (Leasing finance) to any person, firm, company or institution for hiring a motor vehicle, machine, tools, equipment, durable household good or similar movable property or renting such movable property;
- Prescribing conditions, as required, in order to protect its interests while supplying credits to any persons or institutions or doing any transaction with them;
- Issuing guarantees on behalf of its customers, having such customers execute necessary bonds in consideration thereof, obtaining security and acquiring their movable or immovable properties as collateral or on mortgage, or the assets of third persons as collateral;
- Acting as a commission agent of its customers, taking custody of, any arranging for the sale or purchase of, shares, debentures or securities and collecting interests, dividends, profits, etc. accruing from shares, debentures or securities;
- Operating projects such as purchase of lands and construction of buildings for land development and residential purposes and selling and managing or causing to be sold and managed such lands and buildings;
- Performing such other functions as may be prescribed by the Nepal Rasta Bank;

2.1.4 Types of Loans and Interest Rates Offered by PAFICOL

Today's market is very competitive. So, banks and financial institutions have to introduce different loan products as per the market demand. For the existence of the financial institutions, lending position has to be strong. So, banks and financial institutions offer the loan to the public expecting to earn the more interest and services charge income as well as the principal amount. They can offer different categories of loan such

as personal loan, business loan, hire purchase loan, real estate loan, educational loan, health loan, social loan, tourism and hotel loan, fixed deposit loan etc. Out of them, PAFICOL has offered the following loan products to the customers.

1. **Business and Industrial Loan:** Business and industrial loans are extended to business firms to support the production and distribution of their product and services. PAFICOL provides these loans to operate new business or expand existing industries PAFICOL 13.5% to 16%.
2. **Housing and Land Development Loan:** Home loan is granted for construction of house, purchase of land building for those individuals or groups who are having established base of regular and state income. PAFICOL extends different types of home loan such as; residential building, commercial building construction of warehouse etc. to their customers. PAFICOL charges 13% to 15% interest rate in this product.
3. **Hire Purchase Loan:** Hire purchase loan is credit facility introduced to finance durable goods like motor vehicles, contractor equipment, other machineries and equipment etc. the interest loan varies from 13% to 15%.
4. **Business and Industrial Loan:** Business and industrial loans are extended to business firm to support the production and distribution of their products and services. PAFICOL provides these loans to operate new business or expand existing industries PAFICOL charges 13% to 14.50% interest rate in this product.
5. **Agricultural Loan:** PAFICOL extends Agriculture loan to individuals or business having regular and state income for their, individual agriculture business and unified agro firm. PAFICOL charge 13% to 14% interest rate in this product.
6. **Personal Loan:** This is the loan extended to private individuals for private household purpose. Generally, personal loans are extended to finance the purchase of automobile and appliances (T.V, Computer set, Washing machines etc.). PAFICOL can provides this loan if the customer has sufficient security and regular income source. PAFICOL charge 13% to 15% interest rate in this product.
7. **Gold Loan:** Gold loan is extending to them who are need for their customs. PAFICOL provides this loan to the individual who are able to present their

documents of collateral and salary details. PAFICOL charge 15% interest rate in this product.

- 8. Education Loan:** PAFICOL extends the educational loan to those individuals who want to continue their further education within country and abroad. PAFICOL charge 14% to 15% interest rate in this product.
- 9. Foreign Employment Loan:** Foreign employment loan is extending to them who are going to foreign country for their employment. PAFICOL provides this loan to the individual who are able to present their documents for foreign company's details and salary details. PAFICOL charges 14% to 15% interest rate in this product.
- 10. Household Equipment Loan:** This is the loan extended to private individuals for private household purpose. Generally, personal loans are extended to finance the purchase of automobiles and appliances (T.V, Computer se, Washing machines etc.). PAFICOL can provide this loan if the customer has sufficient security and regular income source. PAFICOL charges 13% to 14% interest rate in this product.
- 11. Health Loan:** PAFICOL can extend health loan to those individuals or company that operate their program in the field of health like; hospital, nursing home, medical, clinic etc. PAFICOL charges 13% to 15% interest rate in this product.
- 12. Other Loans:** Besides of above mentioned loan products, PAFICOL provides Real estate loan, Working capital loan, Project loan medication loan, Loan against government bonds etc. PAFICOL charges 15% interest rate in this product.

But this study is mainly focused on the analysis of Hire Purchase Financing in context of PAFICOL.

2.1.5 Hire Purchase Financing

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

an investment is made on plants & equipment and home appliances for instance (Aryal, 2013).

Hire purchase is the legal term for a contract development in the United Kingdom and now found in India, Australia, New Zealand and other states which have adopted the English law concept. (In North America, where the word hire most commonly refers to employment, the comparable system is called closed-end leasing). In cases where a buyer cannot afford to pay the asked price for an item of property as a lump sum but can afford to pay a percentage as deposit, a hire-purchase contract allows the buyer to hire the goods for a monthly rent. When a sum equal to the original full price plus interest has been paid in equal installment, the buyer may then exercise an option to buy the goods at a predetermined price (usually a nominal sum) or return the goods to the owner. In the United States, a hire purchase is termed an installment plan; other analogous practices are described as closed-end leasing or rent to own (Basel, 2015).

Hire purchase differs from a mortgage and similar forms of lien-secured credit in that the so called buyer who has the use of the goods is not the legal owner during the term of the hire-purchase contract. If the buyer defaults in paying the installments, the owner may repossess the goods, a vendor protection not available with unsecured-consumer-credit systems. HP is frequently advantageous to consumers because it spreads the cost of expensive items over an extended time period. Business consumers have collateral or other forms of credit readily available (Aryal, 2013). Hire purchase is a form of credit. It is a way to buy property when buyers cannot afford to pay the full amount straight away. In this system, a customer agrees to buy property from a manufacturer or retailer or vendor; the hire and the hirer-involve in the hire purchase agreement. The hirer is a buyer or customer who buys property. The manufacturer sells property to the hirer who sells it to the hirer in exchange for the payment to be made over a specified period of time (Pandey, 2006). In our study, finance company is the hire.

A hire purchase installment system is an agreement drawn up, signed by the hirer, lending institution. If a retailer is involved, it also signs the agreement and supplies the agreement paper in question. It is an agreement whereby a buyer hires property for a period by paying installments and can own the property after the payment of all installments. Manufactures or retailer often have an agreement with a finance company to promote hire purchase finance. In such a case, a hirer makes the payments to the

finance company no to the manufacturer or retailer. The name of the finance company is on hire purchase agreement (Basel, 2015).

As soon as the contract is signed, the hirer acquires possession of the property and therewith the right to use the property over an agreed period. However, the ownership of the property remains with the finance company until the hirer pays all installments within the specified period. In case if he fails to pay any of the installments, even the last one, the vendor or finance company takes back the hired property within compensating the hirer (Mukharjee & Hanif, 1998) and the finance company may terminate the hire purchase agreement if the specified or agreed amount don't come in specified time and if three number of installments get due by the hirer.

In Nepal, a hirer wishing to buy a property required to contact the retailer for the quotation of the property intended to hire. Then, hirer contacts the financial institution on his/her convenience for hire purchase financing. After receiving the quotation, finance company evaluates the property and fixes the certain percentage of the value of the property for hire purchase financing and signs the hire purchase agreement with hirer, and finance company instructs the retailer to sell the property especially vehicle to the hirer. The hirer needs to make down payment. The ownership of vehicle is transferred to finance company after down payment and hirer acquires the ownership of the property only after payment of all installments (Basel, 2015).

2.1.6 Hire Purchase Loan Approval Procedures, 2070(Revised) of NRB

Due to the adoption of this bank in favor of hire purchase loan giving acceptance from this bank according to Article 76 of the Nepal National Bank Act, 2058, policy and procedural arrangement have been implemented as per the provision of grant of such Hire Purchase Loan.

1. **Definition:** Hire purchase loan means that any person, firm, company or institution for agriculture, industrial or commercial sponsorship should remember the loan or consent given to the transfer of money after all the payment has been made after refunding the vehicle, machinery and equipment to buy the equipment.
2. **Registration and Approval:** The company with holding for approval for hire purchase loan must be registered as a company of hire purchase loan under company act, 2063, along with the same purpose. The companies like this will also have to accept approval from the Nepal National Bank as per Article 76 of the National Bank of Nepal.
3. **In Relation to Fixed Capital:** The minimum paid capital (ordinary share) of the hire purchase loan company should be Rs. 10 million. Such a company will have to maintain at least Rs. 10 million of the assets in the business operations.
4. **Process to Accept Hire Purchase loan Company:**
 - **Request:** The hire purchase loan company for the approval with the request in this form of the Schedule-1, for the approval, 0.1% of the company's secured capital is equal to acceptance (not refundable), including the details and documents mentioned in Schedule-2 to give.
 - **To Know Commitment:** The company's regulatory committee will submit the application with documents submitted by the company for the approval of the hire purchase credit for the approval of the company.
 - a) The NRB has maintained the minimum capital as determined by time to time.
 - b) There is a strong basis for preparing the business and establishing necessary services and convenience.

The agreement to follow the terms set by the Nepal National Bank for hire purchase loan.

- **Arrangement of Approval:** (1) If NRB is satisfied with the necessary examination of the additional financial obligations in order to operate a hire purchase loan company, then the company will be able to give credit to the hire purchase loan.

- (i) Due to the approval of hire purchase loan, the business seems to be healthy, competitive and viable,
- (ii) In order to be able to pay hire purchase loan for the rule & regulations or orders issued under the law and the rules & regulations or issued orders and directories and regulations,
- (iii) The company has to short the same business within 6 months after the acceptance of hire purchase loan. Otherwise the approval provided to such companies is automatically can wed.

5. Hire Purchase Loan cannot be Accepted: The NRB cannot accept the grant of hire purchase loan to the applicant in any case of the following.

- (a) If the company or the financial sector does not appear to be suitable for accepting such companies based on the situation status and probability.
- (b) Details offered by hire purchase loan do not appear to be satisfactory or worldly. If any company is not able to accept hire purchase loan, the NRB will have to inform the concerned companies within 120 days after the date of receipt of the requested date or additional details of the request.

6. To Renewal:

- (a) This bank has to renew the approval of the hire purchase loan every two years. For renewal Rs.100,000 will be required to appeal and submit documents according to schedule 4 in the form of schedule 3 in the period including the original wilderness deposited in the bank.
- (b) As the point no. (a) if the request is not made for renewal within the time specified, it will be automatically canceled by the bank to share the hire purchase loan. Once such approval is canceled, the same company will not be provided again.

7. In Related to Blacklist: The NRB will not proceed against the request of the company which has been a blacklist of loan information center or has not been disbursed for three year of removal from the blacklist etc.

2.1.6 Factors Affecting Hire Purchase Financing

The credit analysis division of bank is conduct credit analysis. Credit analysis is through financial examination and evaluation to determine the level of creditworthiness of applicant. It is to determine whether the customer has sufficient cash flow and backup

assets to repay the loan. The credit analysis division of bank is responsible for analyzing and making recommendations on the fate of most loan applicants. Regarding each loan application, this division must satisfactory answer the following question.

- Is the borrower creditworthy?
- Can the loan agreement be properly structured and documented so that the bank is adequately protected?
- Can the bank perfect its claim against the assets or earning of the customer so that, in the event of default, bank funds can be recovered rapidly at low cost and with low risk?
- Can the customer have a high probability of being able to service the loan without excessive strain?

This study is focused on the hire purchase financing of PAFICOL. Hire purchase loan is a credit facilities introduced to finance the consumer durable goods like motor vehicles and other machineries and equipment etc. This type of credit facility is meant for those who find it hard to save up the market price of the product in advance. Hire purchase loans are characterized by periodic repayment of principal and interest over the maturity of the loan. Hirer agrees to take the goods on hire at stated rental including the repayment of principal as well as interest with an option to purchase. It can be extended on secured or unsecured basis having maturities of five years or longer.

Before making any investment decision, PAFICOL make deep study on the nature of applicants, their capacity for repayments and other important factors. Nowadays, many financial institutions are facing the problem on their investment. Khanal (Personal Communication, December 21, 2010) argues that the following factors are to be considered while making hire purchase financing decisions of PAFICOL.

Income Level: The income level of customer is the most important factor to be considered while providing the hire purchase loan. The customer should have the ability to generate enough cash/income to repay the loan. Generally, PAFICOL grants this loan for those individuals or group of individual who are having established base of regular and stable income.

Repayment Source: The repayment source presented by borrower at the time of loan application must be genuine. If the PAFICOL found the fake or non-genuine source of income the loan should not be made to the application. Therefore, the borrower should have regular and stable income source to pay the monthly installment of hire purchase loan to get loan approval from the PAFICOL.

Strength and Potentiality of Business: The potentiality and strengths of business run by the customer is also affecting the hire purchase loan decision. The PAFICOL official should consider the present scenario of same nature business in the market. The prosperity of increasing profit level of business is considered before making investment decision. The PAFICOL invest those parties or customer, whose potentiality of business is high, where the invested amount will be secured.

Intention of Parties: The intention and character of parties is another important factor to be considered by PAFICOL, while lending hire purchase loan. First of all, PAFICOL credit officer must be convinced that the customer has well-defined purpose for requesting credit and serious intention to repay all money are considered as intention of parties. If the credit officer feels the customer is insincere in promising to use borrowed fund and repaying as agreed, the loan should not be made to the applicant.

Market Trend: The PAFICOL is also considered the market trend of business while making lending decision. The credit analyst must be aware of trends in the borrower's line of industry or business. It must be clear that how the changing economic conditions might affect the loan.

Nepal Rasta Bank's Rules and Regulation: Nepal Rasta Bank (NRB) is the supreme monetary and banking system of the country which regulates monitors and supervises all activities of financial institutions. PAFICOL should follow the rules and regulations set by NRB in the field of loan investment while making hire purchase financing decision.

2.1.7 Loan Recovery Procedure and Policy of PAFICOL

Financial institutions do not keep cent percent reserve against deposit for meeting the demands of depositors. As all depositors do not need money at the same time, banks with a small reserve satisfy their demand whenever and wherever demonstrated and

grant loan from excess reserve than depositors need to needy feasible subscriber. Loan is financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for an obligation repay on specified date or demand. In each loan modalities for repayment is mentioned which is affected by the nature of debt. In case of term loan, housing loan and hire purchase loan payment is received in the form of installments as per prefixed monthly schedule. While in case of working capital, interest is paid monthly while principle is paid at any time before expiry of the facility.

PAFICOL respects to those customer who pay their installment on time. Timely paying customers can also receive some direct and indirect benefits. Firstly, the company helps such customer by granting necessary additional loan facilities. Those customers are supposed to be confidential and respectable person in the eyes of the company as well as society. If a customer is unable to repay amount of loan in due date, the customer is compelled to pay the penalty as punishment. Generally, the laborious and efficient customers are supposed to be winner and the inefficient customers who neglect their duties is penalized (Basel, 2015).

PAFICOL has its own loan recovery committee which consist three members. The loan recovery committee takes the following action to the customers (Khanal, Personal Communication, December 21, 2010).

- a) **First Remind letter:** In the first step of recovery process, PAFICOL send the remind letter and offered them to pay the loan as soon as possible before and after the one month of the due date.
- b) **Second Remind Letter:** If the customer fail to pay the due amount within the due time given on first letter, PAFICOL send another second letter to the customer by providing 15 days to one month's period to repay the loan amount.
- c) **Third Remind Letter:** If the customer fail to pay the due amount within the time given on second letter, PAFICOL again send another remind letter by providing 7 to 15 days to one month's period to repay the loan amount.
- d) **Notice of 35 Day's Publish on Newspaper:** If the customer are not responding on the previous three letters send by company the PAFICOL goes to another strong action to the customer. The company published the notice into national level newspaper for the collection of loan within 35 days. A copy of newspaper

sends to the loan holder and the receipt letter should keep in his file if the loan holder pays satisfactory amount within 35 days, the company can stop the forward process.

- e) **Notice of Auction:** If the customer is not paid the loan after 35 days of notice published on newspaper, the auction process is begins. First of all, the loan committee revalued the collateral which was secured by loan and the project also inspection. From the report of revalued and inspection, the loan and the project also inspection, the loan committee make decision to auction the collateral. After the decision, the process is run to central level auction of collateral committee. The committee fixed the date of auction and decision to auction the collateral. The information of the decision should be sent to the customer or his family within three days. Company publishes the notice of auction in national level newspaper after seven days of decision, giving the name of loan holder and guarantor's with photograph, information about auction place, date, time and details of collateral.

If the revaluation of collateral on auction time is less than the loan amount, only collateral revalued amount of loan is processed on auction and others rest loan is collateral from other legal process. On the date of auction, the person who want to purchase collateral he needs to deposit 10% of bid price. The ownership of the assets would be transferred to the buyer only after paying loan amount and excess amount to the company. But, if no one wants to call the amount of the auction date will transfer in further date or the company can own the collateral itself.

If the customer applies the additional time for payments of the loan to the BOD through the CEO, the company can stop the auction process for some period. The loan committee can stop the process for maximum 6 months, but the customer should pay the certain amount of loan in that time. If the customer cannot paid the balance loan amount within the auction stop period the company again starts auction process and sell the collateral to collect the loan. The excess amount after paying loan should be provided to the owner of the assets or loan holder/ customer. If the collected amount through auction process is not sufficient to cover the principal, interest and other charge of loan, the company can collect from the guarantor's assets.

If no one wants to purchase the auction assets the company may transferred its ownership as non-banking assets. In this company fixed the value of assets through the market value or remaining loan amount is less.

Provision on Bank and Financial Institution Debt Recovery Act 2058.

If the loan cannot repayment by the effort of finance company, the company can appeal the case to loan collection Court of Justice, which is established by Nepal Government with three members from law, banking and accountancy. For these members, the following qualifications have been needed.

- For the law member, one who is incumbent or has already become or is qualified to become a judge of the District Court,
- For the banking member, one who, having possessed at least bachelor's degree in economics or commerce, has at least ten years of experience in a post of at least Class Two officer level post in a bank or financial institution established pursuant to the prevailing law.
- For the accounts member, one who, having possessed at least bachelor's degree in commerce or passed chartered accountancy or examination equivalent thereto, has obtained the auditors certificate of at least "b" class and gained at least ten years of experience in auditing of the bank financial institution sector.

The law member shall be the chairperson of the tribunal and in his/her absence the banking member shall chair the tribunal. The application should be given for overdue loan before this act within three years and after the act within three years from overdue date. The company should be paid 0.25% claimed amount for loan collection charge with the application. Within 15 days from application, the court of justice declares the case. After the order receiving from court, the loan collection officer should collect the loan from loan holder and pays to the bank or FLS. For this he could adopt following procedures:

- a) Adopting or auctioning the pledge secured or other fixed and current assets of proprietor.
- b) Adopting or auctioning the fixed of current assets of guaranteed person.
- c) To arrest the keen in jail for the loan holder or guaranteed person according to laws.

After receiving the loan amount, the company should pay 1% of the loan to curb of justice as a loan collection charge (Basel, 2015).

2.1.8 Loan Approval Process of PAFICOL

There are different loan products offered by PAFICOL. The approving process of each loan is different from others. Loan approving authority approves the loan only after being convinced that the loan will be recovered along with interest. PAFICOL has followed the following loan approval process (Khanal, Personal Communication, Dec. 21, 2010).

- **Loan Application:** The loan approval process starts from submission of application of loan request by the customer. Every loan process gets impetus after submission of loan request.
- **Conducting the interview:** After submission of loan application from, the representative or loan officer of PAFICOL conducts the interview to the customer. In this process, he/she starts to screen the customer in surface. The purpose of conducting the interview is to clarify about:
 - Loan propose
 - Loan amount
 - Source of loan repayment
 - Business history
 - Long term Banking relationship or multiple banking status etc.

If the interview clarifies the above aspects positively, the process goes ahead.

- **Site Visit (Business, Residence, Fixed Assets Collateral):** After conducting the customer interview, the officer of PAFICOL usually makes a site visit to access the customer's locations and conditions of the property. It helps to verify the information provided by the applicant. It also helps to access the integrity, attitude and sincerity of the applicant.
- **Reference Check:** The officer may conduct the reference check procedure to those applicants who have already maintained the banking relationship with other FLs. The officer can request to the officer of another FLs regarding their experience on transaction of the client. The officer can ask such questions as;

did he/she have maintained the sufficient deposit balance in his account? Did he/she have maintained the sound credit history? Generally, PAFICOL checks its customer's past credit history from the credit information bureau in Kathmandu.

- **Documentation:** If all the things up to the point are favorable, the customer then asked to submit several essential documents in order to fully evaluate the loan request including complete financial statements and in case of a corporation, board's resolutions authorizing the negotiation of a loan with the bank.
- **Credit Analysis:** After submission of all documents, PAFICOL-Credit Analysis Division conducts the credit analysis of the applicant through financial analysis of them aimed at determining whether the customer has sufficient cash flow and backup assets to repay the loan. The credit analysis division then prepares the brief summary and recommendation which goes to
 - the loan committee for the approval. They discuss about the strengths and weaknesses of the applicant. If the situation gets favorable, then the committee will approve the loan.
 - **Collateral:** When the loan committee approves the customer's request, the loan officer or committee usually check on the property or other assets to be pledged as collateral in order to ensure that the bank has immediate access to the collateral or can acquire title of the property involved in the loan agreement if defaulted. If everything is up to satisfaction, the property is pledged in the finance company's favor and loan disbursement process starts.

2.2 Review of Related Studies

2.2.1 Review of Journal Articles

Shrestha (1998) conducted a study on "Lending operation of commercial banks of Nepal and its impact on GDP" with the object to make analysis of contributing of commercial bank lending to the Gross Domestic Product (GDP) of Nepal. She has set hypothesis that there has been positive impact of lending of commercial bank to the GDP. In research methodology she has considered GDP as the dependent variable and

various sectors lending agriculture, industrial, commercial service and general and social sectors as the independent variables. A multiple regression technique have been applied to analyze the contribution. The multiple analyses showed that all the variable except service and lending have positive impact on GDP. She has accepted that there is positive is positive impact on GDP by lending of commercial banks in various sectors of economy, except service sector investment.

Upadhyaya (2004) has conducted a study on “Financial analysis of Finance Companies in Pokhara: A comparative study of Pokhara Finance Ltd (POFIL) and Annapurna Finance Company Ltd (AFCL) with the objective of analysis and compare the past and present performance of POFIL and AFCL and to forecast the future position of POFIL and AFCL. He used five years date i.e. 2055/56 to 2059/60. His study has used different types of financial ratios to check up the financial performance of these two finance companies. Basically, he used solvency ratio, liquidity ratio, efficiency ratio, profitability ratio and valuation ratios in this study. As a conclusion, he found the solvency position of both companies is not sound. Based on the cash reserve ratio, the liquidity position of AFCL is better than that of POFIL. Based on operating efficiency, return on investment, return on equity, return on assets and P/E ratio, POFIL is better than that of AFCL.

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

Shrestha (2006) has conducted a study on “A Study on Investment Portfolio of Pokhara Finance Limited”. The main objective of this study is to measure the liquidity and

profitability position of the PFL and to analyze the risk and return of the company. The major investment sectors of PFL are loan and advance, government securities, shares and debenture. She has taken 5 years date on this study i.e. 2055/2056 to 2060/61. The investment on loan, government securities and shares and debentures are 99.59%, 0.67% and 0.002% respectively on the average in study period. According to her like other loan investment, hire purchase loan has been increasing substantially during the study period. The reason behind this is due to the gradual decrease in the interest rate charged by PFL. So, the customer or the people are encouraged to borrow the loan in this sectors.

2.2.2 Review of Thesis

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

Baral (2010) carried out the research study entitled “Hire Purchase Financing: A case study of Pokhara Finance Ltd”. The main objective of this study is to analyze the relationship among total loan, total deposit and hire purchase loan of Pokhara Finance Limited (PFL). He has also tried to present the major factors that affect directly to the hire purchase loan of PFL. According to him, the deposit collection and lending of PFL has been continuously increased during the study period. This indicate that the deposit schemes offered by PFL are useful to public and increasing trend of loan disbursement helps to increase its interest income as well as support to increase profit. As collected, the investment on hire purchase loan of PFL was highly fluctuating during the study period. In the fiscal year 2056/66, its investment was in negative growth rate i.e. 29.65%

and in 2066/67, it has increased by 29.36% of pervious year. He has also concluded that this fluctuating trend of hire purchase loan investment indicates that this sectors is not popular among the public. The weak marketing policy is the major reason behind this.

Gurung (2011) has conducted study on “Hire Purchase finance of Pokhara Finance”. The main objective of this study is to identify the hire purchase financing trends of PEL and to analyze the sub sectored investment under hire purchase loan of POFIL. The investment ratio on hire purchase loan with total loan is satisfactory on the POFIL. The default ratio of hire purchase loan of POFIL is less than the other loan. On the study, POFIL has decreased the investment on hire purchase financing. POFIL has invested to hire purchase loan on 2062/063 Rs.52.64 Million and after the year the loan was stand Rs.36.45 Million on 2065/066. He has declared that POFIL has been giving less priority on hire purchase loan as a whole because as per the NRB Act.

Rayamajhi (2012) has conducted the research in the title of “Credit Management: A case study of Development Credit Bank Ltd”. The main objective of study is to have true insight into the credit management of Development Credit Bank Ltd (DCBL). The main objective of this study are to analyze the portfolio of lending sectors of banks, to evaluate various financial ratios, to examine position of the priority sector lending of bank and to determine the impact of deposit in liquidity and its effect on lending.

The cash and bank balance to total deposit of the DCBL shows the fluctuating trend during the study period. The mean ratio is 0.057 times in the study period. Credit and advances to total deposit ratio is tittle fluctuating trend. The mean ratio is 0.68 times in the study period. Similarly, credit and advances to total assets is not so fluctuating trends. The average mean ratio is 58% in the study period. This ratio indicates the high contribution made by lending and investing activities. Thus, credit management is in good position. The debt to equity ratio of DCBL is in increasing trend during the study period. Excess amount of debt capital structure results heavy burden in payment of interest which implies that the bank has riskier debt financing position. Correlation coefficient between total credit and total assets is 0.99 which shows high degree of positive correlation.

Aryal (2013) has carried out the research on hire purchase financing of Pokhara Finance Limited. The main objective of this study are to find out the ratio and relationship between hire purchase loan and total loan, to analyze the ratio and relationship between hire purchase loan and total deposit, to find out the default loan and to analyze the composition of hire purchase loan of POFIL. The major finding of the study are as follows:

During the five years study period, the deposit collection and loan investment of POFIL continuously increased. In the study period, total investment of hire purchase loan of POFIL was highly fluctuating. In the beginning of the study period i.e. fiscal year 2064/65 it invested Rs.51.81 million in hire purchase loan. And, in the end of study period i.e. fiscal year 2068/69 its investment on hire purchase loan was increased to Rs.95.11 million. This increasing trend of hire purchase loan investment indicates that POFIL has managed his deposit to invest on the hire purchase loan.

Throughout the five years study period, the hire purchase loan to total deposit ratio of POFIL continuously decreased till 2067/68. In the five years study period total deposit collection of POFIL was increased year by year but the investment on hire purchase loan was some time increase and sometime decrease. Therefore, the hire purchase loan to total deposit ratio was in decreasing trend. During the five years study period, the hire purchase loan to total loan ratio of POFIL continuously decreased till 2067/68 and increased on 2068/69. The independent variable deposit collection showed negative correlation with hire purchase loan of POFIL and the relationship between total deposit collection and hire purchase loan is not significant. The independent variable total loan investment showed negative correlation with hire purchase loan of POFIL and the relationship between total loan and hire purchase loan is not significant.

Ghale (2015) has conducted a study on “Hire Purchase Financing: A Case Study of Om Finance Limited”. He carried out the study with the objective of analyzing the relationship between total deposit collection, total loan investment and hire purchase financing pattern of Om Finance Limited (OFL). The study was conducted by using secondary data and data collection form the OFL. The study covers five years data from the fiscal year 2064/65 to 2068/69. For this study the analytical as well as descriptive

methods have been adopted. Simple statistical analysis such growth, percentage, average coefficient of correlation and regression analysis etc. have been calculated to analyze the data. He has further summarized in his study that OFL basically offer the deposit in various deposit account (Fixed, saving etc.) and it has invested in different sector like hire purchase loan, trade loan, housing loan, industrial loan etc. This study mainly focused on hire purchase loan investment of OFL. Hire purchase loan is a credit facility introduced to finance the consumer durable goods like motor, vehicle, contractor, equipment, other machineries etc. It is an agreement where buyer hires property for period by paying installment and can own the property after the payment of installment. OFL provide this type of loan purchasing vehicle and other machinery equipment, the interest rate on hire purchase loan varies 12 to 16 percent up to the end of fiscal year 2068/69. OFL's deposit collection was Rs.3227.56 million and its loan disbursement was Rs.2521.09 million and investment on hire purchase loan was Rs.177.30 million during the five year study period. POFIL's deposit collection and total loan disbursement was increasing day by day whereas the investment on hire purchase loan was no satisfactory increasing.

Aryal (2016) has carried out the research on "A Case Study of Hire Purchase Finance of Garima Bikas Bank Limited". The Main objective of this study are to find out the hire purchase financing position of the bank, to analyze the hire purchase financing trend of bank, to find out the default ratio of hire purchase financing and to analyze the total loan and advance of GBBL.

In this study period, the hire purchase loan and trend of hire purchase loan of GBBL in between FY 2067/68 to FY 2071/72. It is found that the total investment on hire purchase loan in FY 2067/68 is Rs.255 million, while in FY 2068/69 the investment is increased to Rs.292 million. Similarly, in FY 2069/70, FY 2070/71 and FY 2071/72 in investment is increased to Rs. 402, Rs. 604 and Rs. 869 million respectively. The mean of hire purchase loan is Rs. 484.40 and standard Deviation is 227.22. The coefficient of variation of hire purchase loan is 46.95%.

The five years study period, the increasing and decreasing trend of hire purchase loan to total loan ratio of GBBL. It shows that the ratio has been gradually decreasing FY

2067/68 to 2069/70. And then it has been increasing in FY 2071/72 and thereafter it has been gradually decreasing. The observed values of the ration are fluctuation over the study period. It is indicates that the trend of hire purchase loan to total loan is decreasing over the study period.

The increasing and decreasing trend of hire purchase loan to total deposit ratio of GBBL in the past five years of study period, as shown in thesis the ratio raised in FY 2067/68 and thereafter it has been gradually decreasing from FY2068/69 to 2069/70. Again it has raised 15.04% in FY 2070/71 and thereafter, it has been decreased 13.67% in FY 2071/72. The observed values of the ratio are fluctuating over the study period. The default problem faced by GBBL on hire purchase loan invested in different five years period. According to above thesis it is clearly understood that in fiscal year 2067/68 GBBL has high percentage of default loans as compare to other year with the study period, which is 19.71% where as in FY 2071/72 GBBL is able to reduce its defaulter rate to 5.32% of hire purchase loan. Therefore, the decreasing trend line of hire purchase loan default ratio over the study period indicates that the default hire purchase loan is decreasing. It shows that there will be change loan default in future.

2.3 Research Gap

From the above literature review we can conclude that various objective has undertaken in Finance companies on Hire Purchase Loan. All the above research studies are concerned with the effect of Hire Purchase loan on total loan and total deposit of bank and finance company. No one research study is done on proportion of hire purchase loan on finance company (PAFICOL). So, this study tries to analyze the working effectiveness of hire purchase loan on PAFICOL. Besides that major concern of this study is to analyze the relationship among hire purchase loan to total deposit, total loan. So, this research will be stepping stone to further extend of new research.

CHAPTER III

RESEARCH METHODOLOGY

This chapter provides the overall framework or plan for the collection, analysis and presentation of data needed to fulfill the objectives of the study. It also specifies the methods and procedures for acquiring the information needed to solve the research problems. The main objective of the study is to find out investment purchase loan and relationship between total deposit and hire purchase loan of Paschimanchal Finance Company Limited (PAFICOL). Different methodology applied for the achievement of the objectives are prescribed below.

3.1 Research Design

A Study research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure. Research design is the plan, structure and strategy of investigation conceived. So as to obtain answers to research question and to control variances. This study focused on case study research design. Within case study, both analytical and descriptive research approach has been used to fulfill the research objectives in this study.

3.2 Population and Sample

There are 52 finance operation in Nepal till date December, 2017 (Khanal, S.). All the finance companies in Nepal has considered as total population. This research study is based on the hire purchase financing of PAFICOL only. So, PAFICOL is taken as the sample of the study by using convenience sampling method. It has 20 years a long history of serving in rural areas like Beni, Kushma, Syangja, Palpa, Tulsipur.

3.3 Nature and Sources of Data

This study is conducted on the basis of secondary data. The data relating to the investment, deposit loan and advances, assets and profit and loss are directly obtained from the balance sheet and profit and loss a/c of concerned finance company's annual reports. Besides, information has been collected from various articles publishes in newspapers, NRB report, websites related journal etc. However, some information has been also collected from personal unstructured interview of staff members of PAFICOL.

3.4 Data Collection Procedure

Since the data have been obtained from secondary sources, after collection of financial statement, master sheet of financial data have been extracted and tabulated as per the need of this study. In order to process the data, financial statement and other available information were reviewed. These data were grouped in different tables and charts according to their nature. Most of the data have been complied in one from and processed and interpreted as required.

3.5 Data Processing

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

3.6 Method of Data Analysis

In this study, various financial and statistical tools have been used to get convenience reliable and authentic result. The major tools applied in this research are described in the following sections.

3.6.1 Financial Tools

Various financial tools have been used in the study to make rational interpretation and to meet the objective of the study. Financial ratio analysis is one of the widely used tool which helps to interpret the financial statement so that the strength and weaknesses of the company as well as its historical performance and current financial condition can be determined. For the study purposed following financial ratios are calculated and carried out to get the objective of the research.

Hire Purchase Loan to Total Deposit Ratio: The hire purchase loan to total deposit ratio is calculated by dividing total investment on hire purchase loan by the total deposit collection. The ratio shows the relation between hire purchase loan and total deposit collection of PAFICOL. It indicates what percentage of total deposit is used in hire purchase loan. It is calculated by the following formula.

$$\text{Hire Purchase Loan to Total Deposit Ratio} = \frac{\text{Total Hire Purchase Loan}}{\text{Total Deposit}} \times 100$$

Hire Purchase Loan to Total Loan Ratio: The hire purchase loan to total loan ratio is calculated by dividing total loan disbursement in hire purchase loan by total loan disbursement. This ratio shows the relation between hire purchase loan and total loan disbursement by PAFICOL. In another word, it indicates how much percentage of total loans is disbursement on hire purchase loan. It is calculated by the following formula.

$$\text{Hire Purchase Loan to Total Loan Ratio} = \frac{\text{Total Hire Purchase Loan}}{\text{Total Loan}} \times 100$$

Loan Default Ratio: In this context, the defaulter to hire purchase loan ratio is calculated by dividing defaulter amount by hire purchase loan disbursement by PAFICOL. The ratio shows the position of defaulter on hire purchase loan disbursement by PAFICOL. It indicates how much percentage of total hire purchase loans is in risk or having the difficulties in recovery of disbursement loan. This is calculated from the following formula.

$$\text{Loan Default Ratio} = \frac{\text{Defaulter on Hire Purchase Loan}}{\text{Total Hire Purchase Loan}} \times 100$$

Where,

Defaulter = Total Defaulter amount on Hire Purchase Loan Disbursement by PAFICOL

Hire Purchase Loan to Total Asset Ratio: In this context, the hire purchase loan to total asset ratio is calculated by dividing total asset amount on hire purchase loan by total asset disbursement. The ratio shows the relation between hire purchase loan and total asset disbursement by PAFICOL. It indicates how much percentage of total asset is disbursement on hire purchase loan. It is calculated by the following formula.

$$\text{Hire Purchase Loan to Total Asset Ratio} = \frac{\text{Total Hire Purchase Loan}}{\text{Total Asset}} \times 100$$

3.6.2 Statistical Tools

To make study concise and clear, various statistical tools are used. In order to analyze the study of hire purchase finance of PAFICOL, following statistical tools are used.

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

$$\begin{aligned} \text{Standard Deviation (SD)} &= \sqrt{\frac{\sum(x-x)^2}{n}} \\ &= \sqrt{\frac{\sum x^2}{n} - \left[\frac{\sum x}{n}\right]^2} \end{aligned}$$

Where,

n = Number of pairs of observation

X = Individual Value

x = Sample arithmetic mean/average

Karl Pearson's Coefficient of Correlation: To test the significant relationship between total deposit collection and hire purchase loan, and total loan disbursements and hire purchase loan, Karl Person's Coefficient of correlation 'r' is used. To measure the level of significance 'r' is taken as significant, if the value of 'r' is more than 6 times of

probable error. In this study, the different formulas are used to find out the correlation (Sharma & Chaudhary, 2066).

Let, $(x - \bar{x})^2$

X = Total deposit collection and loan disbursement

Y = Purchase loan

We have,

$$r_{xy} = \frac{\sum dx \cdot dy}{\sqrt{\sum dx^2 \sum dy^2}}$$

And the probable error is defined by $P(Er) = 0.6745 \times \frac{1-r^2}{\sqrt{n}}$

Where,

r = Correlation coefficient

N = Number of pairs of observation

The numerical measurement of relationship between two variables is denoted by symbol, r whose value ranges from -1 to 1.

If r = 0, there is no relationship between the variables

If r < 0, there is negative relationship between the variables

If r > 0, there is positive relationship between the variables

If r = +1, the relationship is perfectly positive

If r = -1, the relationship is perfectly negative

If r < P(Er), there is no evidence of correlation between the variable

If r > 6 P(Er), Correlation is significant

Regression Equation: Correlation measure the degree of relationship between the variable, regression analysis shows how the variables are related. Regression and correlation analysis, thus determine the nature and strength of relationship between variables.

Regression equation of deposit collection and hire purchase loan and total loan and hire purchase loan is:

Let the regression of y on x be

The normal equation is, $y = a + bx$

X is the independent variable (Deposit collection and Total loan)

Y is the dependent variable (Hire purchase loan)

a and b are constant

'A' measure the intercept and measures the slope. Following formulae are used to calculate the value of a and b (Shakya, Ghimire, Acharya, Thapa, Acharya, Khanal, Magar, 2067).

$$b = \frac{N \sum XY - \sum X \sum Y}{N \sum X^2 - (\sum X)^2}$$

$$a = \frac{\sum y - b \sum x}{N}$$

or, $a = Y - bx$

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

Data presentation and analysis is important part of the research work. This chapter is for number of closely related operations, which have been performed with the purpose of summarizing and organizing data in such manner that they answer the research question. The basis objective of this chapter is to analyze and expose the collected data following the conversion of unprocessed data to an understandable presentation. The research is related to hire purchase loan disbursement of PAFICOL. Therefore this chapter is divided in the following sub chapter.

4.1 Presentation and Analysis of Data

4.1.1 Position of Hire Purchase Loan to Total Loan Ratio

Bank & financial institution extends loan to generate the interest and service charge income. Hire purchase loan is one of the major sectors of loan. It plays the vital role to increase the overall loan portfolio. Position of hire purchase loan to total loan shows the relationship between hire purchase loan and total loan. It indicates that how much of total loan is invested on hire purchase loan. The percentage of hire purchase loan with total loan is invested on hire purchase loan. The percentage of hire purchase loan with total loan of PAFICOL in different year is percentage in the following table.

Table: 4.1

Hire Purchase Loan, Total Loan & Ratio of Hire Purchase Loan & Total Loan

Fiscal Year	H.P Loan (Rs.in Millions)	Total Loan (Rs.in Millions)	Ratio (in %)
2068/69	326.2	1810.2	0.2001
2069/70	488.9	2011.9	0.2430
2070/71	367.2	2280.8	0.1611
2071/72	529.9	2707.2	0.1957
2072/73	774.3	3011.2	0.2571

S.D (σ)	157.5	441.4	3.42
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Source: Annual Reports, PAFICOL

Table 4.1 shows position of hire purchase loan to total loan of different five years period of PAFICOL. The hire purchase loan is Rs.326.2 million in FY 2068/69 and thereafter. Here, the amount of hire purchase loan increasing in every years by 2068/69 to 2072/73 respectively. The highest increasing amount is Rs.774.3 million in FY 2072/73 and lowest increasing amount is Rs.367.2 million in FY 2070/71, The amount invested on this sector range from Rs.326.2 million to 774.3 with S.D of 157.5 million. This shows that there is satisfactory consistency over study period. The total loan is Rs.1810.2 million in FY 2068/69 and then it is increasing in each year up to the FY 2072/73. Hence the amount of total loan investment in ranged from Rs.1810.2 million to Rs.3011.2 million with S.D of Rs.441.4 million. It shows that there is satisfactory consistency over study period. Similarly, the hire purchase loan to total loan ratio is increasing in every years. In FY 2068/69 the hire purchase loan is 20.01% of total loan. It means PAFICOL invested 20.01% of total loan in hire purchase loan in 2068/69. The ratio of hire purchase loan to total loan investment ratio is 20.01% to 25.71% with S.D of 3.42%. It shows that there is satisfactory consistency over study period. The lower the ratio is better. Hence, the financial institutions tries to minimize their total loan.

Figure: 4.1

Hire Purchase Loan to Total Loan Ratio

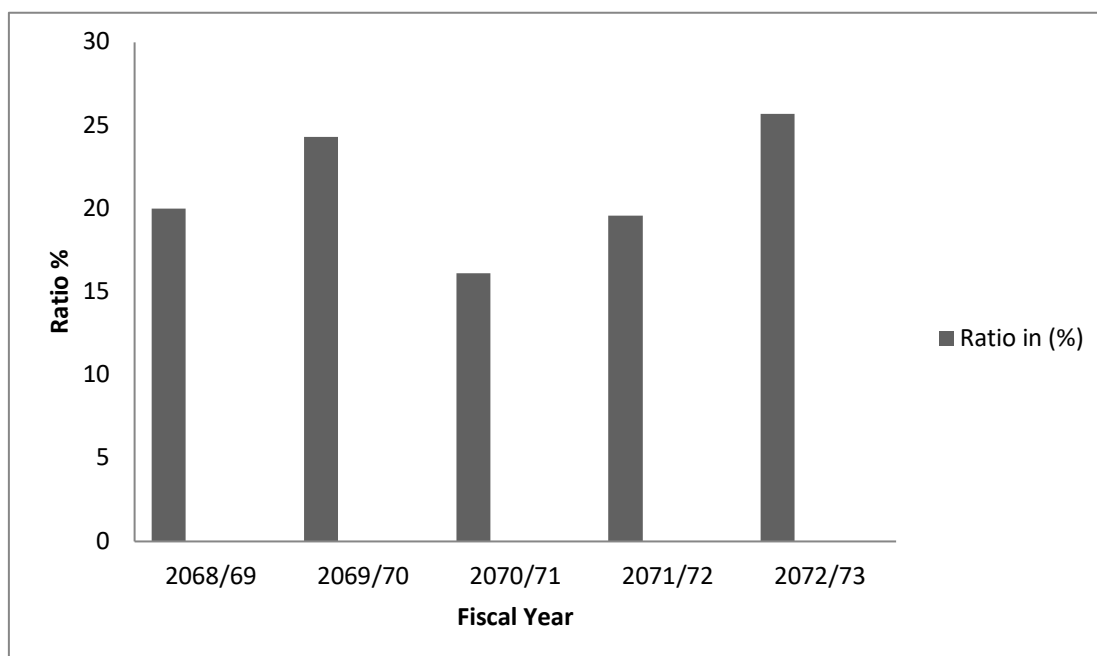


Figure 4.1 shows position of hire purchase loan to total loan of different five years period of PAFICOL. In FY 2068/69, the hire purchase loan to total loan ratio is 20.01%. It means invested 20.01% of its total investment on hire purchase loan. In FY 2070/71, the ratio is the lowest ratio of study period which indicates 16.11% of total loan was investment on hire purchase loan. In FY 2069/70, 2071/72 and 2072/73 is 24.30%, 19.57% & 25.71% of PAFICOL invested of total loan on hire purchase. The ratios are also presented in figure 4.1.

4.1.2 Hire Purchase Loan on Total Deposit Ratio

Deposit means the fund collected by the bank and financial institutions from the public that has to be returned when it called with certain amount of interest whereas hire purchase loan is a credit facilities introduced to finance the consumer durable goods like motor vehicles, contractor equipment, other machineries etc. Thus, the hire purchase to total deposit ratio is calculated by dividing total investment on hire purchase loan by the total deposit collection. This fraction shows the relation between hire purchase loan and total deposit collection of PAFICOL. It indicates that how much percentage of the total deposit is invested on hire purchase loan. The percentage of hire purchase loan with total deposit collection of PAFICOL in different year was presented in the following table.

Table: 4.2

Hire Purchase Loan to Total Deposit Ratio

Fiscal Year	H.P Loan (Rs.in Millions)	Total Deposit (Rs. in Millions)	Ratio (in %)
2068/69	326.2	2198.5	0.1484
2069/70	488.9	2531.8	0.1931
2070/71	367.2	2757.8	0.1331
2071/72	529.9	3342.2	0.1585
2072/73	774.3	3795.5	0.2040
S.D (σ)	157.5	545.1	2.69

Source: Annual Reports, PAFICOL

Table 4.2 shows hire purchase loan on total deposit fraction of different five years period of PAFICOL. The hire purchase loan is Rs.326.2 million in FY 2068/69 and thereafter. Here, the amount of hire purchase loan increasing in every years by 2068/69 to 2072/73 respectively. The highest increasing amount is Rs.774.3 million in FY 2072/73 and lowest increasing amount is Rs,367.2 million in FY 2070/71, The amount invested on this sector range from Rs.326.2 million to 774.3 with S.D of 157.5 million. This shows that there is satisfactory consistency over study period. The total deposit is Rs.2198.5 million in FY 2068/69 and then it is increasing in each year up to the FY 2072/73. Hence the amount of total deposit collected in ranged from Rs.2198.5 million to Rs.3795.5 million with S.D of Rs.545.1 million. It shows that there is satisfactory consistency over study period. Similarly, the hire purchase loan to total deposit ratio is increasing in every years. In FY 2068/69 the hire purchase loan is 14.84% of total loan. It means PAFICOL invested 14.84% of total deposit in hire purchase loan in 2068/69. The ratio of hire purchase loan to total deposit collected ratio is 14.84% to 20.40% with S.D of 2.69%. It shows that there is satisfactory consistency over study period. Therefore it is concluded that hire purchase loan is more consistent that total deposit.

Figure: 4.2

Hire Purchase Loan to Total Deposit Ratio

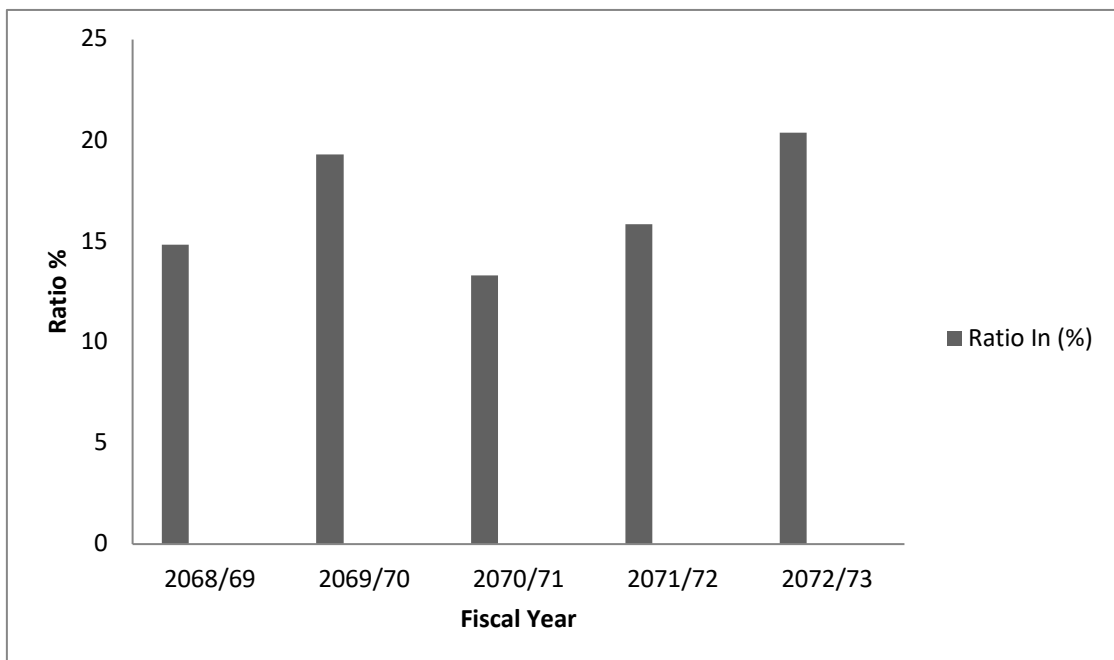


Figure 4.2 shows the fraction between hire purchase loans to total deposit collection of PAFICOL. The investment on hire purchase loan is decrease in FY 2070/71 in comparison to previous year (i.e. 19.31% to 13.31%). The ratio in FY 2068/69, 2071/72 and 2072/73 is 14.84%, 15.85% and 20.40% respectively. In FY 2072/73, the ratio is the highest ratio of study period which indicates 20.40% of total deposit was invested on hire purchase loan. The figure 4.2 is also describe the relation of hire purchase loan and total deposit loan. The ratios are also presented in figure 4.2.

4.1.3 Default Loan to Hire Purchase Loan Ratio

It is not possible that always total investment is recovered in time. Bank and financial institutions face sometime recovery problem on their loan investment. The problem on loan recovery is the symptoms of default. Some customers are negligent on their loan to repay. But, sometime the political situation, natural disaster and other unforeseen situation make customer as default. This sub chapter tries to find out the defaulter position on hire purchase loan invested by PAFICOL. The defaulter to hire purchase loan ratio is calculated by dividing total defaulter by total hire purchase loan is made default. The lower the ratio is better. Hence, the financial institutions try to minimize their default. The defaulter to hire purchase loan ratio of PAFICOL, are presented on table.

Table: 4.3
Default Loan to Hire Purchase Loan Ratio

Fiscal Year	Default Loan (Rs. in Millions)	H.P Loan (Rs. in Millions)	Ratio (in %)
2068/69	61.613	326.2	0.1889
2069/70	78.081	488.9	0.1597
2070/71	70.448	367.2	0.1919
2071/72	68.524	529.9	0.1293
2072/73	93.294	774.3	0.1205
S.D (σ)	10.82	157.7	2.945

Source: Annual Reports, PAFICOL

Table 4.3 shows the position of defaulter on hire purchase loan investment of different five years period of PAFICOL. The default loan is Rs.61.613 million in FY 2068/69 and thereafter. Hence the amount of default loan increasing in every year by FY 2068/69 to 2072/73. The highest increasing amount is Rs.93.294 million in FY 2072/73 and lowest amount is 61,613 million in FY 2068/69. The amount invested on this sector range from Rs.61.613 million to Rs.93.294 million with S.D of Rs.1082 million. This shows that there is satisfactory consistency over study period. The hire purchase loan is Rs,326.2 million in FY 2068/69 and, than it is increasing in each year's up to the FY 2072/73. Hence the amount of total loan investment in ranged from Rs.326.2 million to 774.3 million with S.D of 157.5 million. It shows that there is satisfactory consistency over study period. Similarly, the default loan to hire purchase loan ratio is decreasing in every year. In FY 2068/69 the defaulter loan is 18.89% of hire purchase loan. It means PAFICOL invested 18.89% of hire purchase loan in defaulter loan in FY 2068/69. Similarly, in FY 2069/70, 2070/71, 2071/72 & 2072/73 the defaulter loan to hire purchase loan ratio was 15.97%, 19.19%, 12.93% & 12.05% respectively. The ratio of default loan to hire purchase loan ratio is 18.89% to 12.05% with S.D of 2.945%. It

shows that default loan to hire purchase loan ratio is decreasing. The decreasing ratio is better. Because the PAFICOL tries to minimize their default.

Figure: 4.3
Default Loan to Hire Purchase Loan Ratio

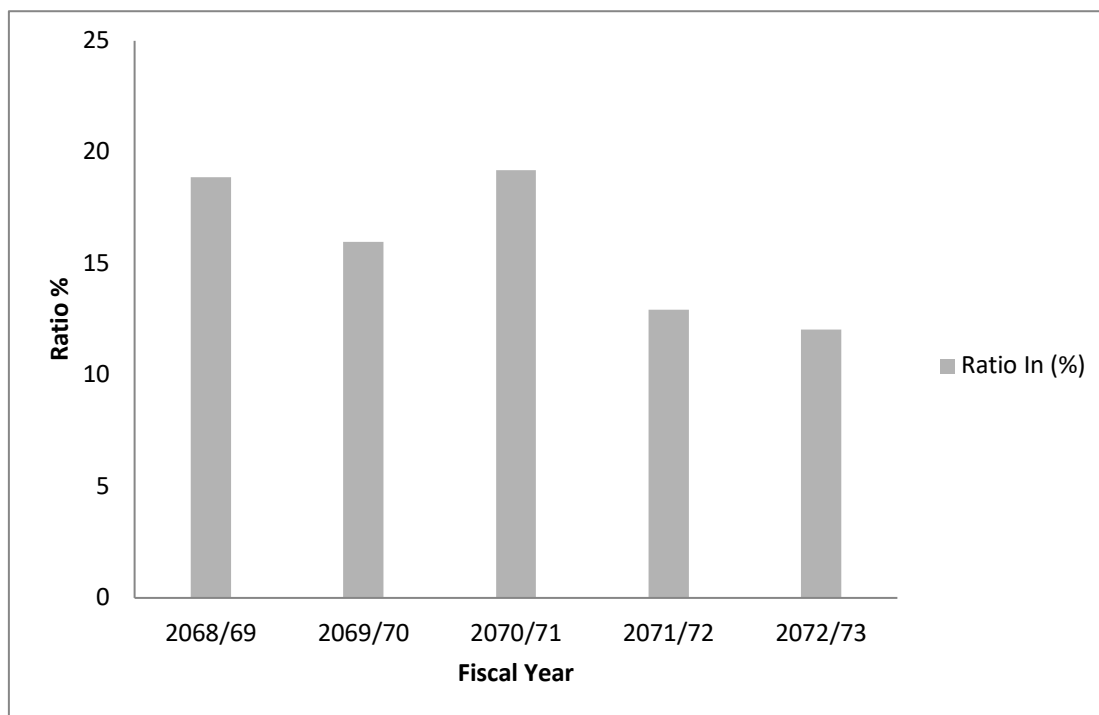


Figure 4.3 shows the defaulter position of PAFICOL on hire purchase loan. According to the figure, it shows that there is slightly high percentage of defaulter in FY 2068/69 as compare to other fiscal years of study period i.e. 18.89% whereas, in FY 2072/73, PAFICOL was able to reduce its defaulter to 12.05% on hire purchase loan.

4.1.4 Composition of Hire Purchase Financing

Composition of hire purchase financing of Paschhimanchal Finance Company Limited (PAFICOL) is increasing trend. It has been rapidly grow up. PAFICOL has invested tree types of hire purchase financing i.e. Privates vehicles, Public Vehicles and Machine and equip. These types of hire purchase financing is presented in give below table.

4.1.4.1 Private Vehicles Financing

Private vehicles financing mean a private passenger car, motor bike etc. in the context of insurance is an automobiles used for privates needs as opposed to business uses. These vehicles are generally defined as having only four wheels and are not used to

carry passengers for money. The ownership of the property remains in the favor of financial institution until the final installment is not paid. The total investment of PAFICOL on private vehicles are presented on the following table.

Table: 4.4
Private Vehicles Financing Amount and Growth Rate
(Rs. In Million)

Fiscal Year	Privates Vehicles	Growth Rate (in %)
2068/69	125.9	---
2069/70	155.6	23.6
2070/71	130.9	(15.9)
2071/72	201.6	54.01
2072/73	313.4	55.5

Source: Annual Reports, PAFICOL

Table 4.4 shows the total privates vehicles investment in different sectors of 5 years study period of PAFICOL. In the FY 2068/69, PAFICOL invested Rs.125.9 million in different loan sectors. In FY 2069/70 it was increased by 23.6% than previous years. But in FY 2070/71 it was decreased by (15.9%) than the previous years. Similarly the growth rate of privates vehicles investment is increasing in FY 2071/72 and FY 2072/73 were 54.01% and 12.33% respectively.

Figure: 4.4
Private Vehicles Financing

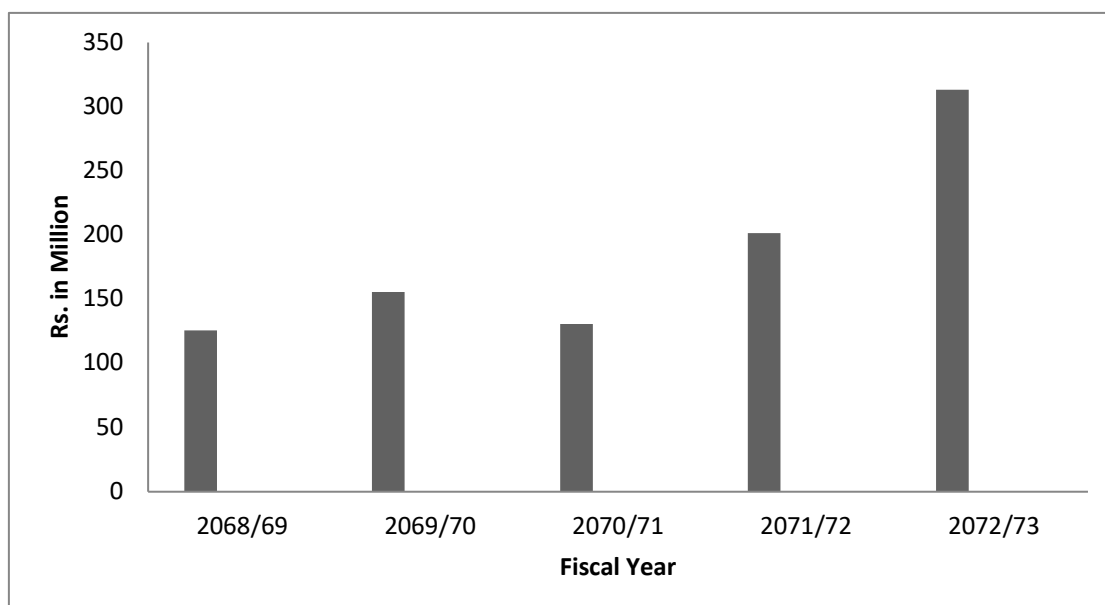


Figure 4.4 shows that the private vehicles investment trend of PAFICOL is always in increasing rate. The PAFICOL invested Rs.125.9 million on different private vehicles sector in FY 2068/69. The private vehicles investment increased year in FY 2069/70 PAFICOL invested Rs.155.6 million. In FY 2070/71 it was decreasing to Rs.130.9 million. Similarly, private vehicles investment increasing years by years in FY 2071/72 and FY 2072/73 PAFICOL Rs.201.6 million and Rs.313.4 million respectively on different private vehicles sectors.

4.1.4.2 Public Vehicles Financing

Public vehicles financing mean credit facilities given to the consumers. Who have interest to purchase the durables goods like vehicles equipment etc. It is provided to those who cannot afford for full payment of the property at the time of purchase under this type of loan facility. The ownership of property remains in the favor of financial institutions unit the final installment is paid. PAFICOL provides these types of loan for purchasing the vehicles interest rate varies from 14 to 18%. The total investment of PAFICOL on public vehicles loan are presented on the following table.

Table: 4.5
Public Vehicles Financing Amount and Growth Rate

(Rs. In Million)

Fiscal Year	Public Vehicles	Growth Rate (in %)
2068/69	115.3	---
2069/70	228.1	97.8
2070/71	171.3	(24.9)
2071/72	179.7	4.9
2072/73	294.9	64.4

Source: Annual Reports, PAFICOL

Table 4.5 shows the total investment on public vehicles loan of different five years period of PAFICOL. In the FY 2068/69, PAFICOL was invested Rs.115.3 million in public vehicles. In FY 2070/71 it was decreased by (24.9%) than the previous year. Similarly, in FY 2071/72 it was increased by 4.9%. Again in FY 2072/73 the growth rate is increased by 64.4% than the previous years.

Figure: 4.5
Public Vehicles Financing

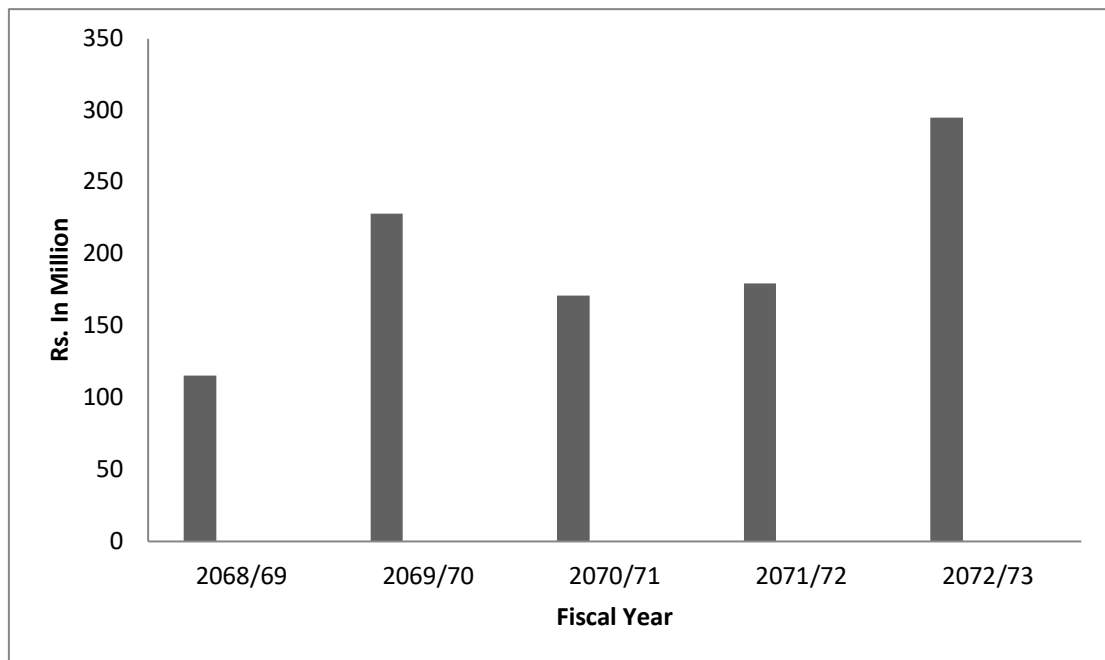


Figure 4.5 shows the total investment of Public Vehicles by PAFICOL. The figures indicate that the trend of public vehicles investment is random. In FY 2068/69 PAFICOL investment Rs.115.3 million in Public vehicles. In FY 2069/70 it was increased by 97.8% and reached to Rs.228.1 million. In FY 2070/71 it was decreased to Rs.171.3 million. But in FY 2071/72 it was increased to Rs.179.9 million which was 4.9 % of previous years. Again it was increased by 64.41% than previous years in FY 2072/73 and reached to Rs.294.9 million.

4.1.4.3 Machine and Equipment Financing

Obtaining equipment is one of the most common reasons business owners outside financing. Everything from computers and desks, furniture for an office to farm equipment and heavy machinery can be acquired without shelling out the full price up front. Machine and equipment financing is the use of a loan or lease to purchase or borrow hard assets for business. Lending in different sectors is the major functions of every financial institution. So, PAFICOL collects the fund from the public and invests it in machine and equipment. PAFICOL provides this types of loan for purchasing the machine and equipment interest rate varies from 14 to 18%. The investment of PAFICOL on hire purchase financing are presented on the following table.

Table: 4.6
Machine and Equipment Financing Amount and Growth Rate
(Rs. In Million)

Fiscal Year	Machine & Equipment	Growth Rate (in %)
2068/69	85	---
2069/70	105.2	23.8
2070/71	65	(38.2)
2071/72	148.6	128.6
2072/73	166	11.7

Source: Annual Reports, PAFICOL

Table 4.6 shows the total investment on machine & equipment of different five years period of PAFICOL. In FY 2068/69, PAFICOL was invested Rs.85 million in machine and equip. In FY 2069/70 it was increased by 23.8% than the previous years. But FY 2070/71 it was decreased by (38.2%) than previous years. Similarly in FY 2071/72 & FY 2072/73 were growth rate is increased by 128.6% and 11.7% respectively.

Figure: 4.6
Machine and Equipment Financing

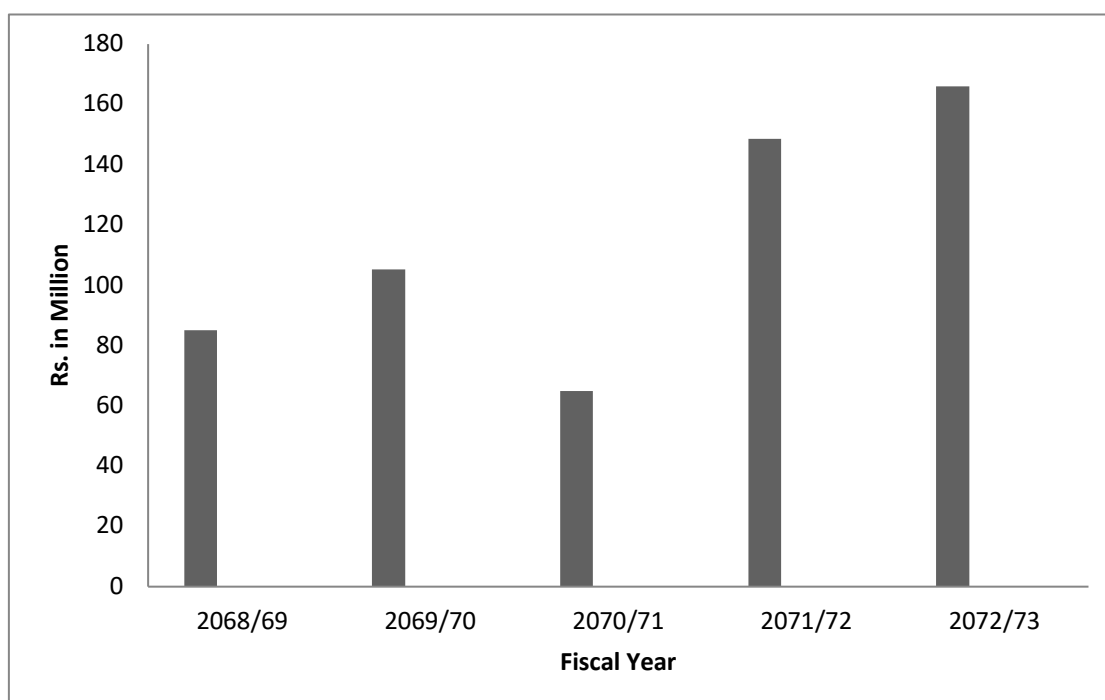


Figure 4.6 shows the total investment of machine and equipment by PAFICOL. The figure indicates that the trend of machine and equipment investment is random. In FY

2068/69 PAFICOL invested Rs.85 million in machine and equip. In FY 2069/70 it was increased to Rs.105.2 million. But in FY 2070/71 it was decrease to Rs.65 million by than previous years. Again it was increased in FY 2071/72 reached to 128.6%. In FY 2071/73 it was increased by Rs.166 million than previous year.

Table: 4.7
Composition of Hire Purchase Loan

Fiscal Year	H.P. Loan	Private Vehicles		Public Vehicles		Machine & Equip.	
		Amount	In %	Amount	In %	Amount	In %
2068/69	326.2	125.9	38.61	115.3	35.35	85	26.06
2069/70	488.9	155.6	31.82	228.1	46.66	105.2	21.52
2070/71	367.2	130.9	35.65	171.3	46.65	65	17.70
2071/72	529.9	201.6	38.04	179.7	33.91	148.6	28.04
2072/73	774.3	313.4	40.48	294.9	38.09	166	21.44

Source: Annual Reports, PAFICOL

Table 4.7 shows the composition of hire purchase financing position of Paschimanchal Finance Company Limited. FY 2068/69, PAFICOL has invest on private vehicles Rs. 125.9 million, public vehicles Rs. 115.3 million and machine and equipment Rs. 85 million. But FY 2070/71 year of study period, it has decreased Rs. 130.9, Rs. 171.3 and Rs. 65 million on Private, Public and Machine equipment. Another of last years of study period, it has increasing respectively. The composition of hire purchase financing PAFICOL is in increasing trend.

Figure: 4.7
Composition of Hire Purchase Loan

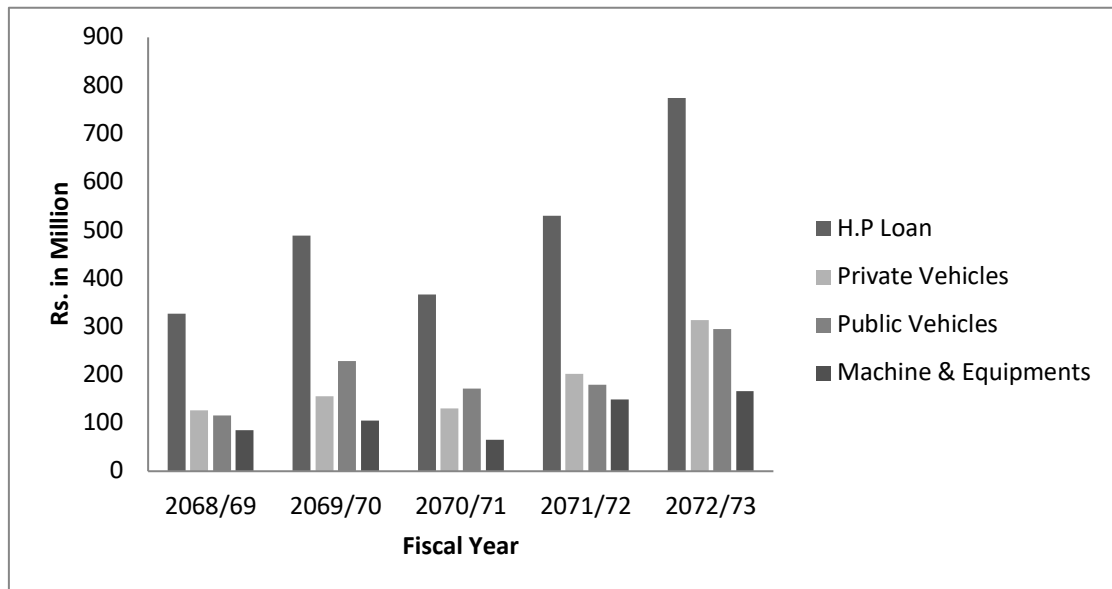


Figure 4.7 shows the of hire purchase financing of PAFICOL on hire purchase loan investment in different five year period in different sectors. According to figure it is shows that in the fiscal year 2068/69 PAFICOL has invest on private vehicles comparatively high than public vehicles and machinery equipment. But the second and third year of study period PAFICOL has invest on public vehicles more than other two sectors. Then next last two years of study period the investment also increase and the investment on private vehicles, public vehicles & machinery equipment are on the rank on first, second and third respectively.

The significant relationship between private vehicles, public vehicles and machinery equipment with total hire purchase loan are almost positive. Which correlation is hire purchase with private vehicles 0.99, hire purchase with public vehicles 0.96 and hire purchase with machinery 0.92.

4.1.5 Relationship among Hire Purchase Loan, Total Deposit and Total Loan of PAFICOL

Bank and financial institution extends their loan in different sectors such as hire purchase, home loan, business loan etc. to generate interest income along with the expectation of getting the principal back within the stipulated time period and the fund is collected the market as deposit. This sub chapter of research tries to shows the relationship among hire purchase loan, total loan and total deposit of PAFICOL. The following figures are used to make the relation with them.

Table: 4.8
Hire Purchase Loan, Total Loan and Total Deposit of PAFICOL

Fiscal Year	Hire Purchase Loan (Rs.in Millions)	Total Deposit (Rs.in Millions)	Total Loan (Rs.in Million)
2068/69	326.2	2198.5	1810.2
2069/70	488.9	2531.8	2011.9
2070/71	367.2	2757.8	2280.8
2071/72	529.9	3342.2	2707.2
2072/73	774.3	3795.2	3311.2

Source: Annual Reports, PAFICOL

Table 4.8 shows the hire purchase loan, total deposit collection and total loan investment in different years period by PAFICOL. The portion of hire purchase loan is always small than its total investment because it is one of the sector loan. PAFICOL invested Rs.326.2 million on hire purchase loan and Rs. 1810.2 million on total loan in FY 2068/69 whereas its total deposit collection was Rs. 2198.5 million. In FY 2069/70, 2070/71, 2071/72 and 2072/73 PAFICOL invested Rs. 488.9 million, Rs. 367.2 million, Rs. 529.9 million and Rs. 774.3 million on hire purchase respectively. Similarly, PAFICOL invested Rs. 2011.9 million, Rs. 2280.8 million, Rs. 2707.2 million and Rs. 3795.5 million on total loan in FY 2069/70 to FY 2072/73 respectively. Whereas, in FY 2069/70 to FY 2072/73 PAFICOL collected Rs. 2531.8 to Rs. 3795.2 million on different deposit scheme respectively.

Figure: 4.8
Relationships among Hire Purchase Loan, Total Deposit and Total Loan of PAFICOL

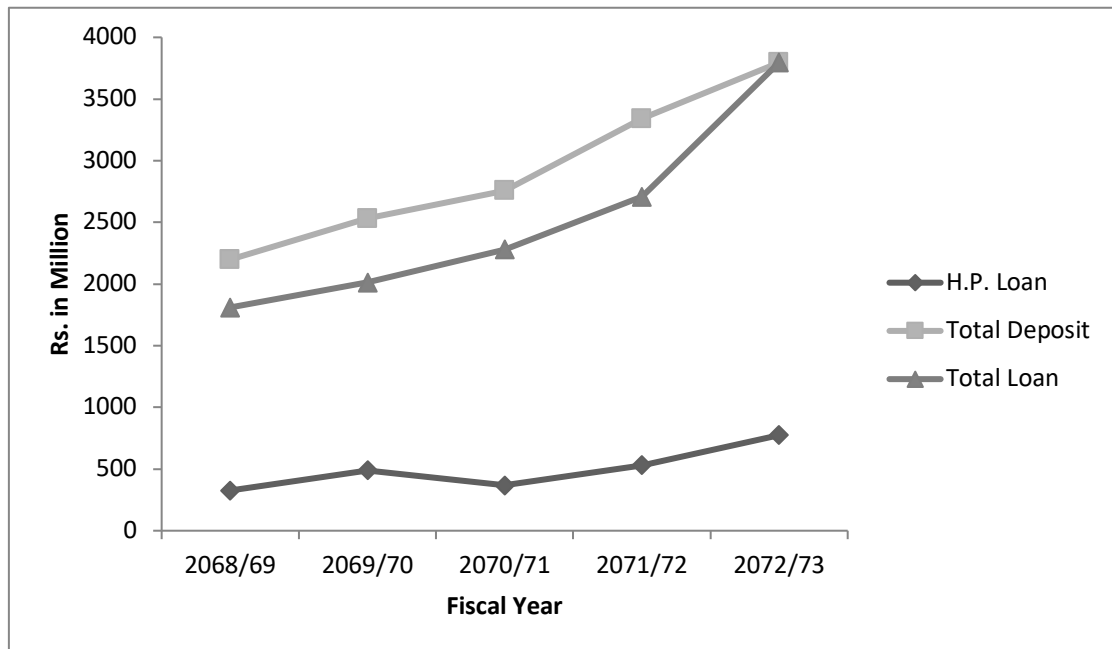


Figure 4.8 shows the total deposit collection, total loan investment and investment on hire purchase loan in different five year period by PAFICOL. The figure shows that hire purchase line is always below the deposit and total loan line because it is one of the part of total loan. The deposit line is over the total loan line in every years period. According to figure the growth rate of total deposit higher than the total loan whereas the growth rate of hire purchase loan is more fluctuate.

Relationship between Deposit Collection and Hire Purchase Loan

The significant relationship between deposit collection and hire purchase loan investment is tested through the Karl Pearson's Coefficient of Correlation and Regression Analysis. Hire purchase loan investment has almost perfectly positive relationship with the deposit collection. The coefficient of correlation between deposit collection and hire purchase loan of PAFICOL has brought $r_{xy} = 0.8953$. This result indicates that there is significant relation between deposit collection and hire purchase loan of PAFICOL. It deposit increase, hire purchase loan also increase and vice versa. The following table presents the relation of deposit collection and hire purchase loan.

Table: 4.9

Correlation Coefficient between Deposit Collection and Hire Purchase Loan

Pearson's	R	P(Er)	Significance
Correlation	0.8952	0.0333	Significant

Source: Appendix I

The probable error P(Er) of the coefficient of correlation helps in interpretation. The value of probable error measures the reliability of the coefficient of correlation. If value of r is greater than six times of probable error, the correlation is significant. Since value of correlation (r_{xy}) is greater than 6. P(Er) i.e. $0.8952 > 0.198$, the value of r_{xy} is significant. In another words, the correlation coefficient between deposit collection and hire purchase loan is significant.

Relationship between Total Loan and Hire Purchase Loan

The significant relationship between total loan investment ad hire purchase loan investment is tested through the Karl Pearson's Coefficient of Correlation and Regression Analysis. Hire purchase loan investment has almost perfectly positive relationship with total loan investment of PAFICOL. The coefficient of correlation between total loan investment and hire purchase loan of has brought $r_{xy} = 0.8599$. This result indicates that there is significant relation between total loan investment and hire purchase loan of PAFICOL. It total loan investment increase, then hire purchase loan also increases and vice versa. The increasing trend of total loan investment is completely associated with increase in hire purchase loan.

Table: 4.10

Correlation Coefficient between Deposit Collection and Hire Purchase Loan

Pearson's	R	P(Er)	Significance
Correlation	0.8599	0.059	Significant

Source: Appendix II

The probable error P(Er) of the coefficient of correlation helps in interpretation. The value probable error measures the reliability of the coefficient of correlation is significant. Since, the value of correlation (r_{xy}) is greater than 6. P(Er) i.e. $0.8600 > 0.354$, the value of r_{xy} is significant. In another words, the correlation coefficient between total loan investment and hire purchase loan is significant.

This result can be verified by regression equation, hire purchase loan (y) on total loan investment (x). The regression equation $y = 287.83 + 0.0886x$, which shows the positive relation between total loan investment and hire purchase loan investment.

4.2 Major Findings of the Study

The major findings of the study on hire purchase financing of PAFICOL are as follows.

- During the five years study period, the hire purchase loan to total ratio of PAFICOL continuously increased till 2072/73. In the beginning of the study period i.e. fiscal year 2068/69 its ratio was 20.01%. It mean that PAFICOL invested 20.01% of total loan investment on hire purchase loan. And In the end of the study period i.e. 2072/73 its ratio was 25.71%. In the five year study period investment on hire purchase loan was increased years by years. Therefore, the hire purchase loan to total loan ratio was in increasing trend. The hire purchase loan to total loan ratio of PAFICOL in fiscal year 2072/73 was higher in the study period, in this year ratio was 25.71%. Whereas, in the fiscal year 2070/71 its ratio was decreased to 16.11%, which was the lowest ratio of study period with SD is 3.42%. This increasing trend of hire purchase loan and total loan disbursement indicates that loan sectors offered by PAFICOL is useful to public.
- During the five years study period, the hire purchase loan to total deposit ratio of PAFICOL continuously increased in FY 2068/69 to 2072/73. In the beginning of the study period i.e. fiscal year 2068/69 its ratio was 14.84%. It means that PAFICOL invested 14.84% of total deposit collection on hire purchase loan. And, in the end of study period i.e. 2072/73 its ratio was increased 20.40%. In the five years study period total deposit collection of PAFICOL was increased year by year and the investment on hire purchase loan of all over study period time it was increase trend. Therefore, the hire purchase loan to total deposit ratio was increasing trend. The hire purchase loan to total deposit ratio of PAFICOL in fiscal year 2072/73 was higher in the study period, in this year its ratio was 20.40%. Whereas, in the fiscal year 2070/71 its ratio was decreased to 13.31%, which was the lowest ratio of the study period with

the SD is 2.69%. As per study the finance is in hire purchase loan cover the total deposit satisfactory position over the study period.

- During the five years study period, the defaulter to hire purchase loan ratio of PAFICOL was fluctuating. In the beginning of the study period i.e. fiscal year 2068/69 its ratio was 18.89%. It means that 18.89% of PAFICOL's investment on hire purchase loan was default loan in that year. And, in the end of the study period i.e. 2072/73 its ratio was decreased to 12.05%. This is the good for PAFICOL and represents the effective management of PAFICOL. The defaulter to hire purchase loan ratio of PAFICOL in fiscal year 2068/69 was higher in the study period, in this years its ratio was 18.89%. Whereas, in the fiscal year 2072/73 its ratio was decreased to 12.05%, which was the lowest ratio of the study period.
- Composition of hire purchase financing by PAFICOL was increasing every vehicles of study of five years period. In FY 2068/69 the financing of private vehicles Rs.125.9 million, public vehicles Rs.115.3 million and machine & equip. Rs.85 million of hire purchase loan. In Last years FY 2072/93 PAFICOL was Rs.313.4 million on private vehicles, Rs.294.9 million on public vehicles and Rs.166 million on machine & equip. of hire purchase loan. This indicates that the composition of hire purchase financing PAFICOL is in increasing trend.
- During the five years study period, the deposit collection and loan disbursement of PAFICOL was increasing years by year where as the investment on hire purchase loan was fluctuating. In beginning of the study period i.e. FY 2068/69 the deposit collection, loan disbursement and investment on hire purchase were Rs.2198.5 million, Rs.1810.2 million and Rs.326.2 million respectively. And in the end of study period i.e. FY 2072/73 the deposit collection and loan disbursement were increased to Rs.3795.5 million and Rs.3311.2 million respectively whereas the investment on hire purchase loan decreased to Rs.774.3 million. This result indicates that the PAFICOL's management in the field of deposit collection and loan disbursement in aggregate was good.
- The independent variable, deposit collection showed positive correlation coefficient with hire purchase loan of PAFICOL. The coefficient of correlation

between deposit collection and hire purchase loan is 0.8952 which is greater than 6 times of $P(Er)$. Thus, the relationship between total deposit collection and hire purchase loan is significant. This result indicates that the changes in deposit collection makes changes in hire purchase loan. The regression equation of hire purchase loan on deposit collection was $y = 268.57 + 0.078x$ showed the positive relation between hire purchase loan and deposit collection. It means that one unit (million) increase in deposit collection leads to 0.078 units (million) increase in hire purchase loan.

- The independent variable, total loan showed positive correlation coefficient with hire purchase loan of PAFICOL. The coefficient of correlation between total loan investment and hire purchase loan is 0.8599 which is greater than 6 times of $P(Er)$. Thus, the relationship between total loan investment and hire purchase loan is significant. This result indicates that the change in total loan investment makes changes in hire purchase loan. The regression equation of hire purchase loan on deposit collection was $y = 287.83 + 0.0886x$ showed the positive relation between hire purchase loan and total loan. It means that one unit (million) increase in total loan leads to 0.0886 units (million) increase in hire purchase loan.
- For using financing facility from PAFICOL, large chunk goes to business man. It gives that there is remaining to penetrate the individual market i.e. individual user and professional person.

CHAPTER V

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

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

5.1 Summary

The study was carried out with the objective of exploring the hire purchase financing pattern, relationship between total loan and hire purchase loan of PAFICOL. The study was conducted by using the secondary data collected from the PAFICOL. The study covers five year data from fiscal year 2068/69 to 2070/73. For this study the case study design method have been adopted. Simple statistical analysis Karl Person's coefficient of correlation and regression analysis and loan default ratio as financial tool have been calculated to analyze the data. Bar graph have been used to present the data moreover clearly and attractively. The required data and information are mainly collected from the secondary sources.

For the development of any country, the growth and progress in economic sector is the first condition. Finance companies occupy the crux role in development of the nation. These companies not only mobilized saving but also promote investment in different enterprises of the national economy that spontaneously assist in alleviating poverty, uplifting of employment opportunities and thereby developing the society and country as a whole. After the restoration of democracy in Nepal, the democratic government adopted the liberal, independent and market oriented policy. This policy has encouraged the establishment and growth of finance companies in the country. Now, there are 52 finance companies are in operation throughout the country. PAFICOL was established on 2051 B.S. under the finance company act 2042 and started transaction from 21st Poush. The main objective of PAFICOL is to provide financial support to different productive and needy sector by collecting the small and large saving all-round the country for the overall development of the nation under the free economy o policy of Nepal government. Currently, the authorized capital and paid up capital of PAFICOL is 30 corer and 27 corer and 9 lakh respectively. PAFICOL basically offer thee deposit collection and loan facility to the public. PAFICOL collects deposit under the various deposit accounts such as fixed, normal saving, institutional accounts etc. and it has invested it in different sector like hire purchase loan, housing loan, personal loan and industrial loan etc. this study mainly focused on hire purchase loan investment of

PAFICOL. Hire purchase loan is a credit facility introduced to finance the consumer durable goods like motor vehicles, contractor equipment, other machineries and equipment etc. it is an agreement whereby a buyer hires property for a period by paying installment and can own the property after the payment of all installments. PAFICOL provides this types of loan for purchase vehicles and other machinery equipment. The interest rate on hire purchase loan varies from 13% to 15%. During the five years study period, PAFICOL's deposit collection and loan disbursement was increasing day by day whereas the investment on hire purchase loan was quite fluctuating.

5.2 Conclusions

The following conclusions have been drawn on the hire purchase financing of PAFICOL from the analysis of the main findings of the study.

- The investment on hire purchase loan of PAFICOL is also continuously increased during the study period. Hire purchase financing policy of PAFICOL is satisfactory. It has been successful to invest its fund in hire purchase sector. And the increased trend o loan disbursement helps to increase interest income as well as support to increase the profit. Also composition of the hire purchase loan and total loan investment ratio of PAFICOL, also continuously increase during the five years study period. This increasing trend of ratio indicates that PAFICOL will helps to investment of hire purchase loan.
- This increasing trend of deposit collection indicates that the deposit schemes offered by PAFICOL are useful to public. If other things remaining the same, the deposit collection of PAFICOL will which helps to manage the liquidity position. Also, the hire purchase loan on total deposit collection ratio of PAFICOL also continually increase during the five years research period. The increased trend of ratio help to investment of hire purchase loan of PAFICOL.
- During the five years study period, the defaulter on hire purchase loan was decreasing up to fiscal year 2072/73, the defaulter ratio was decreased. This indicates that PAFICOL adopted the strong loan recovery procedure rather than previous fiscal year. It is noticed that the recovery procedure and client screening process was satisfactory the of study period.

- The total deposit collection of PAFICOL is higher than total loan and hire purchase loan of PAFICOL is lower than total loan because it is one of the sectors of total loan. This indicates that PAFICOL has not invested the entire collected amount in different loan sectors.
- There is positive correlation coefficient between deposit collection and hire purchase loan PAFICOL. Thus relationship between deposit collection and hire purchase loan is significant.
- The independent variable; Total loan shows the positive correlation coefficient with hire purchase loan of PAFICOL. Thus the relationship between total loan investment and hire purchase loan is significant. Hire purchase loan has been increased when total loan increased.
- For using financing facility from PAFICOL, large chunk goes to business man. It gives that there is remaining to penetrate the individual market i.e. individual user and professional person.
- Having the information about recover status of borrowers, business failure was the major cause of delaying payment of financing amount over their facility.

5.3 Recommendations

Recommendations are the final output of the whole study. It helps to convey positive information and proper way of improvement to the concerned institutions. On the basis of analysis, finding and conclusions the following recommendations can be put forwarded to overcome the weakness, inefficiencies and to improve the present hire purchase financing situation of PAFICOL.

- The increasing trend of hire purchase financing indicates that PAFICOL was able to invest more fund even the market is more competitive. PAFICOL needs to continue the present loan repayment collection scheme with the same interest rate. It is better if the PAFICOL will offer some new scheme to cover small income level customers.
- The hire purchase loan to total loan ratio of PAFICOL is unstable. The ratio is increasing during the study period. Therefore, it is recommended to improve the increasing trend of ratio, PAFICOL should focus more on investment in hire purchase loan.

- There is strong positive relation between total deposit and hire purchase loan and regression coefficient of total deposit on hire purchase loan is significant. Therefore, it is recommended to PAFICOL that both total deposit and hire purchase loan should be increased simultaneously.
- Regarding the security of loan, PAFICOL may demand the extra collateral for hire purchase loan. However, it is recommended that proper assessment and validity of the project should also be taken into consideration apart from the traditional concept of collateral based lending.