CHAPTER I
INTRODUCTION

1.1 Background of the study

Nepal is least developed country. Socio-economic status of Nepalese people is very poor. Agricultural sector is predominating the economy of Nepal to the great extent. However this sector has not been performing well in spite of several efforts both by government and private sector.

Uncontrollable outbreak of population growth, high unemployment rate, inadequate infrastructure, scarcity of skilled manpower to utilize the available resources and economic instability are the main deteriorating factors to the targeted socio-economy growth of our country. Thus our study should primarily be concerned with socioeconomic development of Nepal so that we are able to trace out the way and break the vicious cycle of under development as viewed in the process of socio-economic development of a country.

By and large, different governmental and non-governmental institutions have the direct access to get the approximate of the desired development pertaining to their objectives followed by well and suitable planning, systematic and proper implementations, and good governance effectively.

In this regard, institutions related with financial activates should play a vital role to upgrade the socio-economic status of Nepalese people by mobilizing the financial resources efficiently. And hence they are greatly responsible for finding several ways of development. Moreover, Government of Nepal in assistance with Nepal Rastra Bank has issued the necessary directions, Rules and Regulations to facilitate their various financial operations and regulate them in a proper and systematic manner. Essentials among them are mentioned in financial company Act 2042 (B.S.), Company Act 2053 (B.S.) & Nepal Rastra Bank Act 2058 (B.S.).

1.2 Financial Institutions

1.2.1 Definitions: A Financial Institution is a financial intermediary involved in facilitating the transfer of funds from savers to borrower so as to maximize their wealth. It is of two types. One is 'Banking 'and other is 'Non-Banking '.

A finance company is a non-banking financial intermediary that may obtain funds from its own capital resources by accepting deposits, usually for fixed periods, or even by borrowing from other institutions which if lends for variety of purpose especially to finance hire purchase contract and leasing.

1.2.2 History: After the restoration of multiparty democracy system, in the meantime, the government of Nepal adopted liberalized and open market policies in 1991(A.D.). This influenced the Nepalese economy and availed the ground for establishment, growth and development of financial companies. Thus, on Shrawan, 2049(B.S.) Nepal Housing Development Finance Company Ltd. was established under the finance company Act 2042 (B.S.). Most of the shares were issued to public sector .On Chaitra 2049(B.S.) Nepal Finance and saving co. Ltd. Was established from private sector. Birgunj Finance Ltd. Has obtained permission from Nepal Rastra Bank to operate as a Finance, company act 2053 on Ashwin 7, 2060 and accordingly started its operation as a finance company since 2060 Ashwin 11. The registered Head office located at the prime location of Parsa District, Adarshnagar, Birgunj with Kamladi, Kathmandu Brach. BFL is conducting its entire activities the supervisory regulation of Nepal Rastra Bank.

In this way by the following years an outbreak of financial companies has been faced by Nepal on the ground of its economic liberalization. According to the NRB statistics 125 finance companies are already being in operation till June, 2009.

Thus, in a short span of time many financial companies were evolved including insurance companies, Co-operative societies, Non-government of organization and development banks and they were permitted for limited banking activates. And obviously higher interest rates on deposits, low administration costs, high demand for customer credit, and quick management with respect to service and decision

and liquidity position of the market are the main causative factors for speedy growth of such financial intermediaries.

1.2.3 Role and Functions: As we have already discussed about the depriving factors in brief which are prevailing in our context and making us unable to get the desired socio-economic development, financial companies can proved themselves to be a indispensable tool for achievement in this regard. They can mobilize the financial resources efficiently. Finance companies generally obtain funds from its own paid-up capital. They perform lending activities and provide the loan for business, industry, housing   and a lot many other development activities which are directly related with infrastructural development of the nation. They help in promotion of industry, trade and commerce. They also can develop the agricultural sector and employ the new technology equipped with skilled manpower and also utilize the available resources by providing the necessary fund for those overall activities. Finance companies investigate and use both the money market and capital market. That is why they are also known as market maker. They also provide their services as advisors to the public. They advice on technical, economical and managerial sectors.

There is a famous saying," Change you before you change others." Despite of several challenges in the market place, finance companies should grow healthier, and then only they can have the access towards prosperous Nepal. To achieve such a goal and strengthen themselves to become financially sound institution, they should come out with one of the major weapons that is proper planning for future investment and implement a rigorous follow up to control opposing and inefficient variables or factors.

1.3 Statement of the problem

The position of our Nation's economy is in front of us. Despite of several steps of improvements the growth rate of Nepal's economy is also open to us. According to income and expenditure statement of financial year 066/067, the

economic growth rate achieved was only 2.5% against targeted growth rate of 4.5% in financial year 2066/067 and inflations rate also reached up to 6.6%.

It is because the financial institutions occupy great scope in the area of development of Nation's economy & then after socio-economic status of Nepalese people, they themselves should be effective and efficiency to perform each and every financial activities and transactions soundly.

In the recent scenario, political instability of our nation has reached to a climax. Our dependency is increasing day by day towards foreign products and services. Though the liberalization policy in economic sector has already proved to be a milestone of socio-economic development in most of the countries worldwide, we are still unable to achieve the desired success. In such a background, the financial institutions should adopt and manage their different polices and changes them according to the prevailing situations which are evolving in response to the rapidly changing circumstances.

Pertaining to our study, here we have tried to analyze one of the major tools among the few which are solely responsible to put financial institutions in a proper and healthier place so that they can perform their aforesaid banking activities excellently. This tool under our research study in **proper planning of investment and controlling mechanism** to be followed by the financial institutions. Thus the problem here is to develop the method of proper planning of investment and formulate the effective controlling mechanism after diagnosing the pros and cons of prevailing processes. We can summarize the main problems which aroused our senses towards the research that followed by a case study of **Birgunj Finance Limited** are as follows:-

1. What is the proper investment policy in current period?
2. What type of control mechanism is suitable?
3. How are the current practices on planning the investment?
4. How the bank currently is controlling the variables resulting for adverse Outcomes?
5. What is the current position of capital fund of **Birgunj Finance Limited** to invest as planned for future investment?

1.4 Objectives of the Study

Placing ourselves on the ground of failures, who are unable to meet the targeted success of nation's socio-economic development, and looking the present scenario by the eyes of financing institutions, we can point out lot many barriers, major of which are: political instability, though competitions among financing institutions, imbalance between resource mobilization and expenditure, imbalance between savings and investments, discrepancy between export and import, etc. Under such circumstances if a bank adopts the right and suitable planning for future investment and develops effective and efficient control mechanism, it can come out with the success to a great extent and will contribute towards the better growth rate of nation's economy at its best.

Thus the main objectives of this study are to set a proper planning for future investment and to build an effective and efficient controlling mechanism. However, our study is a case study upon Birgunj Finance Limited, the specific objectives of the research pertaining to this company are as follows:-

1. To review and analyze the investment policy of Birgunj Finance Ltd.
2. To study and evaluate the controlling system and feedback mechanism of the company.
3. To examine the deviation between planned figures and achievement, &
4. To evaluate the source of fund for re-investment and provide suggestions for future betterments.

Thus ultimately to diagnose the causative factors and to make relevant suggestions, ideas and materialize the recommendations based on the available facts and figures is the objective of this study.

1.5 Significance of the Study

Planning is the only major step to go ahead and operate various functions towards the achievement as per the planning. Various processes will then be guided by the planning. is generally level and is a most crucial task also. The study also highlights the feedback mechanism and it's interpretations in

controlling system. "Planning consists in setting goal for the firm both intermediate and long range, considering the various means would be best suited to the attainment of the goals sought under the conditions expected to prevail(Lynch & Williamson,1984;5)

Planning and controlling both are the two wheels of a cart. So, the absence of any one will never allow the bank to grow. Thus both planning and controlling are the significant aspects in the level of decision making.

This study on 'Profit planning and control' for Birgunj Finance Ltd. is concise and problem solving. This study is very useful to those scholars who are interested to get the relevant concepts related to the 'Topic' of this study. Obviously, this study will be very practical and notable for Birgunj Finance Ltd. And other banking institutions. They can adopt the recommended planning policies and implement the techniques of controlling. Thus the conclusions and recommendations of this study will Birgunj Finance Ltd. And other financial institutions to reach at their targeted goal and contribute to the rise of nation's economy.

Scholars, student and other interested personnel can use this case study for further researches and case studies.

1.6 Limitations of the Study

Though the purpose of the study is vast as it is aimed towards the improvement of nation's economy via banking institutions, we have concentrated the study upon a single finance Companies among 125 nationwide and derive the conclusions on the basis of available facts and figures of the same finance. The study focuses only towards the analysis of profit planning and control   policies by Birgunj Finance Ltd. The backbone of this study is mainly based on secondary data which are published in annual reports of Birgunj Finance Ltd. From the fiscal year 2062/063 to 2066/067, i.e. a period of five years. However we have also prepared the questionnaire to collect some essential primary data. The study focuses on budged and actual performance with respect to deposits, credits, loans and advances within Birgunj Company Ltd. The study also focuses on portfolio investment and

management of Non-performing assets. The reliability of the study mostly depends upon the concerned figures published by Birgunj Finance Ltd. At their annual reports. The time and resources are also the main constraint to undertake the study upon a single bank. Moreover, the study is conducted to fulfill the requirement of MBS Degree within a prescribed framework of T.U.

1.7   Research Methodology

1.7.1   Definitions: Research is a systematic investigation to find solutions to a problem.

(Kpthari, 2002; 5). Research is an organized inquiry carried out to provide information for solving problems. Business research is a systematic inquiry that provides information to guide business. (Cooper and Schindler, 2003;89) Research methodology or process to carry out the whole research work. Again according to C.R. Kothari (1990), research methodology is the way to solve systematically about the research problem.

1.7.2   Research Design: According to Kerlinger (1986), Research design is the plan, structure and strategy of investigation conceived so as to obtain answers to research questions and to control variance.   Research design is a blue print for further research where theory building process is carried out.

The research design under the study is of analytical and descriptive as well as of diagnostic type.

1.7.3   Population and Sample: According to NRB statistics (2009, Mid- June) 25 banks are operating their financing activities in Nepal. These are termed as population under study. Whereas the study uses the single bank among them as the sample. Thus the sample under the study is Birgunj Finance Ltd.

1.7.4   Sources of Data: Secondary data are the main source for the study. These data are collected from annual reports of Birgunj Finance Ltd for the five consecutive fiscal year, i.e. 2062/2063 to 2066/067. Internet, website, NRB

publications and relevant journals were observed. Primary data were also collected from authorized personnel of Birgunj Finance Ltd. Though schedule of questionnaire.

1.7.5 Analysis of Data: The collecting data are presented and tabulated for analysis. Different statistical and analytical tools and techniques are used as the requirement. Major of which will be the various financial ratios, return on investment, return on paid up capital , return on net worth , earning per share , BEP analysis , trend analysis, correlation analysis etc.

1.8 Organization of the Study

Chapter under study are divided as follows:

Chapter-1: Introduction

This chapter includes following sub-chapter:

-) Background of the study
-) Statement of the problem
-) Objective of the study
-) Significance of the study
-) Limitations of the study &
-) research Methodology

Chapter-2: Review of Literature

Available literatures, journals, works related to the topic are reviewed in detail in this section. Here conceptual frameworks are build up and major studies are done to get vital support for the research work.

Chapter-3: Research Methodology

This chapter includes the following sub-chapters:

-) Meaning and concept of research methodology
-) Design of the research under study
-) Population and sample of the study

⟩   Sources of data

⟩   Variables used

⟩   Limitations of methodology

Chapter-4: Presentation and Analysis of Data:

Collected data are presented, tabulated and analyzed using different statistical tools and techniques. Inferences are drawn in the end.

Chapter-5: Summary, Conclusion and Recommendations:

This is the chapter for what study is done. Inferences based conclusions are mentioned in brief and then recommendations are narrated for concrete solution of the right problem for what is done.

At the end of the Chapter-5, references and bibliography of books and authors are listed in a way that is prescribed by T.U. The following and the last section stores the bulk data and details which are not suitable and practical to put in between the thesis. This section is known as Appendix section.

CHAPTER II
REVIEW OF LITERAURE

2.1 Conceptual Review

Simply concept means the after topic selection, the next step of researcher is to develop concepts and ideas about the selected topic by reviewing all the relevant materials. Simply concept means the merits and ideas about selected topic. Review is through and analytical study of literature.

Thus concept review is the thought and analytical study and ideas about the selected topic. The conceptual review provides basic for review of literature.

2.1.1 Introduction

Literature here means the related printing materials about the subject matters of research work. It may be in various forms like book, booklet, thesis, report, etc. There are two types of literature: research literature and conceptual literature. Research literature includes the studies made earlier which are similar to the one proposed and conceptual literature includes the concept and theories about the subject. Review of literature means thorough and analytical study of such literatures. Review of literature is vital while doing research work as it gives the findings of the previous study; it can be used as a secondary data; and it gives the valuable information about the subject.

Available literatures, journals, works related to the topic are reviewed in detail in this section. Here conceptual frameworks are built up and major studies are done to get vital support for undertaken study. Moreover, dissertations, master thesis and some NRB publications have been reviewed. Thus, Literature review is basically a 'stock taking' of available literature in one's field of researcher. (Wolf & Pant, 1980; 85).

2.1.2 Investments

An investment involves cash flows. It is a commitment in form of money which is expected to generate additional money. In other words, investment is the certain monetary sacrifice in return of future uncertain monetary benefit. According to Oxford Learner's Dictionary, Investment is the use (of money, time, etc.) to earn interest or bring profit. According to Gadner Ekly," The broader category of investment includes, of course, the purchase or construction of new residential structure whether by business or household.

As opined by Edward Spario Investment is the value of the part of economy's output for any time period that takes the form of new structure, new producer's durable equipment and change in inventories. Though these both definitions from two different economists seem a bit complex, they simply informed that investment is to employ something of value in return of more valued things in future. Return is the primary motive of investment, but it always entails some degree of risk. (Shrestha, et.al.2003; 2).

Investment is a commitment of fund in the expectation of some positive rate of return. (Fishers & jordon, 2000; 85).

The activity of transformation of present saving with the purpose of earning more wealth in future is called investment. (Joshi, 2006; 2). More clearly it can be said that: to achieve same quantity of goods and services in future, which can be consumed by available saving and wealth presently, one needs more savings or more wealth in future than present. Thus, in one side, there is a regular income from investment done today and in other side; there is a regular creation of capital gain due to the increase in value of investment tomorrow. Now, it can be conclude that investment is the use of saving with the purpose of getting income and capital gain in future. Moreover risk factors, returns and time factors are the main considerations undertaken prior to the investment.

2.1.3 Concept of Planning and Controlling of Investments

Planning refers to set a goal for the company. It includes time factor, means and methods, decisions and expectations during the process. Time factor is

envisaged for both short term and long term. In other hand, various tools and techniques are applied to evaluate and correct various financial activities and learn from the past performance of the company. Thus, supervision of different company's activities, measurement of performances, regular follow up of plans and strategies and analysis of deviation between forecast and achievements comes under controlling sector for the company.

Hence, when these planning and controlling mechanism, by and large, adhere to investment policy of the company, this imparts an indispensable sector for the company which is known as

2.1.4 Planning of Investments in finance companies: Planning is a process of developing enterprises objectives and selecting a future course of action to accomplish them. It includes, establishing enterprises objectives, developing promises about the environment in which they are to be accomplished, selecting a course of action for accomplishing the objectives including activities necessary to translate planning to correct the current deficiencies. (Welsch, et.al,2006;156).

Thus planning is a frame work build in advance to perform various activities and processes which guides the company in a way so that it will be able to answer the different 'wh' questions, like, what and why to do? When and where to do? Whom to do? How to do? Etc. In such a ground the goal oriented actions can be forwarded. Thus it can be declared that planning is the first essence of management of a company. Planning is the projected course of action. So, planning is the one among some of major tools in achieving company's objectives and goals. Proper planning helps the company to come ahead of others despite of tough competitions in the market place. Planning is the specific process of setting goals and development ways to reach them.(Hampton,1998;133).

During planning of investment four major factors are taken under consideration. The first is Return. Return is the only aspect considered in top during the planning of investment. Assets under investments are analyzed, proper portfolios are selected, market value of the investment is found out, cost of undertaking the investment is calculated and thus required rate of return is worked out. The second

is Risk factor. It needs very careful and skilful study to evaluate the risk of investment. Risk is associated with every return. The more is the risk the more is the return. Depending upon the nature of assets under investment, the amount of risk varies accordingly. Different portfolio selection is carried out to evaluate the amount of risk under each investment portfolio. Thus risk is diversified within different kinds of investment having different types of Risks. There are some kinds of assets like Government's Treasury bills which are known as risk free assets. The third is Time factor. It is the time value of money which determines the rate or return from the undertaking investment. By virtue of investment, company suffers positive and negative cash flows in different time periods. For example, if investment is done to purchase fixed assets; it will require an immediate cash outlay and will generate cash flows during many future periods. Similarly if the company borrows funds from a bank or from any other source, if receives cash now and commits an obligation to pay interest and repay principle in future periods. Time factor is positively correlated with risk factor to a great extent. The more is the main interval of cash returns, the more is the risk associated with them. Thus the recognition of the time value of money and risk is extremely vital during planning of investments. The fourth factor is Information. No planning is ever successful unless they are buildup in the ground provided by world of information. A manager of a company if sufficiently equipped with bunches of information related to the potential assets under investment; planning of such investment will be much more accurate and fruitful to the company. Information of   liquidity position of the capital market, information on money market ups and downs, information on general psychology of potential investors in share market, information on market opportunity and threats etc. are some of the major subjects upon which one should be well informed generally for all kinds of planning made for investment purpose.

 Planning of investment in finance companies is followed by preparation of projected or Performa profit and loss account, balance sheet and funds flow statement. Generally planning of investment is a detailed plan of action during a period of 1 year to 5 years. Such a planning will help financial manager of the

company to regulate flow of funds which is his primary concern and reduces uncertainty that may be faced during the course of action. Thus in conclusion, planning is done to achieve the expected returns from investment within a accepted returns from investment within a acceptable framework in advance.

Certain prerequisites are totally responsible for a successful and sound investment planning. They are:

- Investment policy and strategy,
- Management attitude towards investment,
- Managerial approaches,
- Support by the management,
- Clear and realistic objectives,
- Meaningful and real participation of officials,
- Responsible investment center,
- Mutual trust and communication among officials of the company and
- Flexible budgeting.

Finance companies are mainly interested to invest their funds in Loan and advances. In other words, most of their investments do occur upon credits. Generally, Loans and advances dominate the assets side of the balance sheet. Most often these are in secure form. Finance companies will also have the investment portfolio that includes securities held primarily for income. Commonly, it can be observed that when demand of loans and advances are lower, amount of securities are generally higher in investment portfolio and vice- versa. Every finance company has it's own as well as government's investment policy. Deposit and paid-up capital are the main sources of investment in finance companies. So, planning of investment is made in accordance with collected deposit and paid-up capital. During the planning investment, consideration of proportionate investment upon both financial and real assets is very much essential. Physical assets like land and building, machinery etc. are real assets and other assets like share, debenture etc. are financial assets. Finance company plays the vital role to help in making such investment by providing loans, advances and bills purchased or discounted.

External factors greatly affected the planning of investment in finance companies. Sound economy and stable political situations of the nation provides favorable condition for finance companies to undertake the investment. Strike, war, excess liquidity in banking sectors etc. always exert the negative impact. Planning is done keeping in mind the market competition, as the competition has been created due to the establishment of new banks and financials institutions along with the expansion of branches of commercial banks as a result of liberalization policy for such financial institutions. In a limited area for investment where most of the financial institutions are also more interested towards supply of consumer oriented loans, it is very difficult to plan so as to get the better opportunities for investment in forth coming years, tourism industry and trade sector also have the effect upon planning investment in finance companies in later years.

2.1.5 Controlling of Investment in Finance Companies: Controlling of investment is the other side of a coin. Controlling mechanism is essential if a company has a strategy to meet its objectives efficiently and achieve the target within a planned framework. Past performances and present scenarios provide the strong foundation to build up a efficient and effective controlling mechanism for investment to be undertaken by a finance company. Examination, Evaluation and correction are the main parts of controlling mechanism. In a broader sense, controlling means supervision of company's activities, analysis of deviation between budgeted and actual data. Performance evaluation and follow up of programs, strategies, decisions, etc. in the managerial level.

Controlling is the process of assuring efficient performance to attain the enterprises objectives. It involves establishing goals and standards, comparing performance against the established goals and standards and reinforcing success and correcting short coming (Welsch, et.al.,1990;3). This statement has emphasized equally on various aspects in controlling mechanism. They are assurance, comparison, reinforcement, efficient ness, performance, enterprises objectives, short coming and corrective actions. These all aspect has an integrated effort towards success in achieving goal set by the company. Controlling

procedure is forwarded by finding the methods of setting goals and performance standards. Methods are developed to measure the performance. Corrective actions are set to apply during the course of action. A system of reward and punishment is set within the company to upgrade the efficiency and adopt the discipline within working staffs. Incentive provision is also set for motivational purpose. Follow up activities from supervisors time to time is also important part of controlling. In finance company, NRB officials do visit time to time to observe the financial activities and give suggestions. Financial companies also initiate the corrective steps to minimize the difference between budget and actual performance with respect to the investment undertaken by the company. Certain perquisites are very much important for an effective controlling of investment. They are:

> Planning of investment ,

> Past history of investment,

> Investment policy,

> Investment strategy,

> Management attitude,

> Transparency and good governance ,

> Investment pattern,

> Fiscal policy,

> NRB Directive and

> Acts and regulations from government.

A properly scheduled planning of investment provides the strong foundation for the development of controlling mechanism for investment. The ways of planning finds the ways for controlling. A report on past history of investment helps to find out the shortcomings and lay out suitable corrective steps for future course of action. Investment policy of the company helps to diversify the risk. Based upon investment policy towards investment on portfolios of securities, finance companies maximize their income by holding short term securities during the rising interest rate. Some financial companies do adopt dynamic portfolio policy. They alter maturity of portfolio dynamically so that income can be maximized. It needs regular observation upon market interest rate. Thus, investment portfolio

should consist of securities which give fair rate of return and inherits low credit risk, interest risk and liquidity risk.

Fiscal policy of the government mentions the tax and revenue, expenditure in advance and loan provision. Fiscal policy helps to find out sector for investment by controlling consumption behavior of the people. Fiscal policy has the provision to change the investment structure according to changing circumstances. Structure of tax on assets, profit and income is made clear on fiscal policy and the company will be able to adopt the controlling mechanism in investment accordingly so as to fulfill the need specified in the above policy. Controlling of investment in finance companies has been affected and guided accordingly by the monetary policy of the government. Though, in a broad sense, the objective of the monitory policy are to make the price stable to give priority on neutrality of money, to make the exchange rate stable and to manage the full employment , the company to minimize the non-performing loan and advance continuously, to maximize investment towards private sector, to maintain the fixed cash reserves ratio etc.

Finance company executes its financial activities under the norms of directives issued by NRB. The inspection officials of NRB do regular visit to the financial institutions. They observe whether the directives are followed by the companies in a prescribed manner or not. They try to find the extent of avoidance of rules and regulations by those companies. There is the provision for minimum capital fund that should be maintained by finance companies. Classification of loans should be done in five classes. They are:

- Good loan,(pass)
- Sign of Sub-standard loan,
- Sub-standard loan,
- Doubtful loan and
- Bad loan

Companies should have the provision for loss of loan for each classes of loan. In the directives there are also the provision for installment loan and collateral. Investment being well reviewed. Moreover, directive also mentions the code of conduct of directors, responsibility of directors, and code of conduct for auditing

committee, accounting policy and structure of financial statement too. Controlling of investments in finance companies is further guided by some acts and ordinance. They are:

- ➢ Security Exchange Act 2040 B.S.
- ➢ Finance Company Act 2042 B.S.
- ➢ Company Act 2053 B.S.
- ➢ Nepal Rastra Bank Act 2058 B.S.
- ➢ Bank and Financial Institutions Ordinance 2061 B.S.
- ➢ Company Act 2063 B.S.
- ➢ Security Transaction Act 2063 B.S. etc.

Some of these acts and ordinance will be reviewed in brief in the following sections of this chapter. Being specific to the study; focus should be given towards non-performing assets. Non- performing assets have played big role in search of innovation towards the concept of controlling of investment in finance companies have become even more important nowadays due to the accumulation of non-performing assets. NRB categorized Non-performing assets as classified loans and advances. Profit/ loss account is debited to maintain the provision of loss on loan in such cases. Thus, as the liquidity of loan degrades, the degree of provision on loss of loan increases and hence profitability of the company suffers. Here the controlling mechanism is set to find out the effect of Non-performing assets on profitability of finance companies.

2.2 Review on Acts and ordinance

2.2.1 Finance Company Act 2042

Finance company act has been made to provide incorporation and management of finance companies where as it is expedient to incorporate finance companies for non-banking business having brought about dynamism in the economic development of the country in order to promote economic benefit of the people in general through institutionalized investment, consolidating the scattered capital in the country.

On the advice of Late king Birendra and with the consent of the National Panchayat, this Act was built up. It was issued in 2042-06-23 and first amendment done in 2049-08-11. This Act is known as Finance Company Act 2042. This Act consists of 7 chapter and 63 sections.

A company (Limited Company) with limited liability may be incorporated having raised capital through sale of shares for the objectives of carrying out the financial transactions.

All financial transactions mentions as follows:

- ➢ To make available installment on hire purchase, credit of loan to any individual firm, company or institution for agriculture or non-machinery, tools, equipment, durable, household goods or other similar movable property as required to them.
- ➢ To make available credits for medium terms or long term duration for operating any industry, trading or business that is likely to promote economic development.
- ➢ To act as an intermediary these aspects.
- ➢ To provide guarantee.
- ➢ To sell and purchase the bond issued by the Nepal Government or Security issued by other company or institution.
- ➢ To underwrite them and top form syndicates for such purpose or to participate in such syndicates and
- ➢ To act as broker under the securities Exchange Act 2040 (1983).

There should be a separate fund of a company. All amounts including shares, capital, loan and financial assistance of a company should deposit in such funds. A separate reserve fund should be maintained by a company. At least 25% amount from the net profit of each year should be deposited in the reserve fund. Balance sheet, profit and loss account is needed to submit within 6 month after the expiry of fiscal year.

The central bank may from time to time inspect books of records and account of financial business and other activities of the central and branch offices

of company. A company should submit the statement of investment to the bank within 15 days of the end of every month.

If the fund of the company is not sufficient to run the transaction, the company can issue debenture with pre-content of bank and accept the economic subsidy or borrowing from other institution. The company should produce the approval letter in prior.

2.2.2 Company Act 2053

Company act further made accessible, simple and transparent to the company's foundation, operation and administration. The parliament enacted company Act 2053on the occasion of silver jubilee of king Birendra's crowning. This act was published in Royal Seal publication in the Gazettee at 2053-11-22 and named as Company Act 2053. This comprises 14 character and 144 sections. According to the act, every company should prepare and publish the memorandum and prospectus, name the company, address of office, objectives of company and authorized capital

Amount of company. Company should publish number of various shares for directors, method of calling meting, right and bans for preference shareholders, rights and duties of managing directors. Moreover provision for salary and allowance of director and other necessary items should be included in memorandum and prospectus. The board of directors should prepare the balance sheet, profit and loss and cash flow statement of company each year, 30 days before general assembly and the company should audit their account every year. After approval of the special proposal by general assembly, the company can increase or decrease the authorized capital and change the memorandum and prospectus as per the requirement.

Under the Act, memorandum and prospectus, company can sell its debenture as other tangible assets. In this way the company Act 2053 enhanced financial companies towards more transparency and better governance.

2.2.3 Nepal Rastra Bank Act 2058

In the year 2058 B.S., A new act was introduced which is known as NRB Act 2058. This act was published in Royal Seal a publication in the Gezettee at 208-10-17. This comprises chapters and 11 sections.

The main objective of this act is to monitor, inspect and supervise the overall activities of all the banks and other financial institutions of the nation. And financial institutions should follow the directives issued by NRB. It establishes the loan information centre and collects the data of all commercial banks and financial institutions of the nation. NRB possess the right to make monetary policy and install them in kingdom of Nepal. The bank issues directives to the financial institutions to maintain a stated stoke of money compulsorily in the ratio of deposits, borrowing funds and other liabilities. Under the term of agreement and process fixed by bank, it can provide the loan to the financial institutions for up to 6 month. Any individual, firm company or institutions should get permission to collect any kind of deposit and loan regularly. By virtue of the NRB Act 2053 B.S., financial instruments and to borrow from other institutions or banks.

2.2.4 Bank and Financial Institutions Ordinance 2061.

The economic and financial environment of Nepal is changing rapidly. The liquidity state and consumer behavior compelled to amend the earlier laws, rules and regulations in favor of financial customers. Thus in the year 2061 B.S., Bank and financial institutions ordinance (2061) was published under the section 72 of Nepal constitutions 2047 B.S. This ordinance consists of 12 chapter and 93 sections. Under the effect of this ordinance, only those banks and other financial institutions can run the financial transactions which are already licensed by NRB. Classification of license holder was done on the basis of paid up capital. Minimum authorized capital, issued capital and paid up capital belonging to license holder companies are being observed by NRB regularly. Ordinance also necessitates the provision for capital fund, general reserve fund and risk bearing fund. Moreover the license holder financial institutions are allowed to proceed for following financial transaction.

- ➢ Buying and selling the securities issued by government or NRB,
- ➢ Arranging merchant Banking activities as per NRB, directives,
- ➢ Flowing loans and advance for hire purchase, leasing, housing, industry and service business.
- ➢ Accumulating deposit with or without interest and pay back etc.

2.2.5 Bank and financial Institutions Act 2063 B.S.

In recent years, it is felt that, to increase the faith and trust upon whole banking and Financial system of nation is necessary. Depositors want to be secured with respect to their authority and well being. People need qualitative and reliable service by bank of financial intermediary. Bank and financial institutions have to do healthy competition. It is necessary to minimize the risk associated with Banking and financial sector. For the establishment, operation, management and supervision of banks and financial institutions, more liberalized policy and necessary reformation on prevailing laws are needed. So it is necessary to set and edit for time suitable laws. Therefore the earlier bank and financial institution Act was deactivate after doing proper amendment and setting a new bank and financial institutions Act 2063 B.S. this act was endorsed by royal seal publication and Nepal gazette on 2063-07-19 B.S.

2.2.6 Nation's Loan Act 2059 B.S.

After deactivation of Nation's Loan Act 2016 B.S., Nation's Loan Act 2059 B.S. was activated in the year 2059 B.S. Approval from Royal Seal is obtained on 24th Ashad 2059 B.S. The main objectives of this Act are as follows:

- ➢ To arrange the collection of loan by issuing Debentures,
- ➢ To bridge the gap between financial policy and monetary policy and
- ➢ To influence the manipulation of internal saving.

2.2.7 Secure Transaction Act 2063 B.S.

This act purposefully enacted to operate the transaction of collaterals and secured assets more effectively so that majority of the framers would be benefited by this act.

2.2.8 Company Act 2063 B.S.

After deactivation of Company Act 2053 B.S., this act was activated in the year 2063 B.S. This Act has 188 units and several sub units. Main objectives of this Act are as follows:

- ➢ To promote investment on Industry, trade and business by adopting more effective economic liberalization policy,
- ➢ To develop Nations economy rapidly and
- ➢ To make establishment, operation and administration more accessible, simple and transparent.

Thus after necessary editions, reformations and amendments on earlier Act, this company Act 2063 B.S. got approval on 24th Kartik, 2063.

2.3 Non-performing Assets (NPA)

Non Performing assets represent that part of loan amount which has not been realized by banks or financial institutions even after the expiry of maturity date. In other words, a certain amount of distributed loan, which is not returned in time by the borrower and becomes overdue, is termed as non performing assets or non performing loans. NPA may be defined broadly as the bad debt, however in financial term it consists of those loans and advances which are not performing well and likely to be turn as bad debt. NRB categorized NPA as classified loans and advances. Accumulation of NPA can deteriorate profitability of the company directly because the interest income is lost and the principle loan amount is written off. Financial companies are not allowed to book income on the amount of such assets rather they have to build up the provision on such assets. Since NPAs are the major factor to attach risk on loans. That is why, loans are the risky assets and risk of non repayment of loan is known as credit risk. Some defined such risk as default risk.

The study on cause and effective of NPA plays a big role in planning and controlling of investments in finance companies. To minimize NPA has always been a significant problem for every financial company. Management of the company puts this case in top priority, planning and controlling of investment is

done in such a way that the interest and principle can be recovered within the time limit and without any hurdle.

2.4 Review of Previous Research

There are several unpublished theses and dissertations in the University Library and campuses. Some of them provided immense help to get the clear idea about many terms and terminologies that came across the study and they added more knowledge towards planning and controlling of investments in finance companies of Nepal. Important among them are as follows:

a) In the case of study on 'Planning and Controlling of Investment in financial institutions of Nepal [20] for Birganj finance limited (estd. 2060 B.S.)., **Mr. Krishna Shah** evaluated some of the major financial measurements from financial year 2060/061 to 2063/064 and concluded that Investment policy of POFIL meets to the notion of fiscal and monetary policy Government. Most of the investments are attracted towards term loan instead of other forms of loans and advances (e.g. Hire purchase, Housing and loan against fixed deposit). He found liquidity and portfolio of POFIL is satisfactory, though investment portfolio was not well diversified. Source of investment in POFIL were its capital fund, net worth and deposit only. Moreover, company never borrowed or issued bond or debenture. Current ratio, return on capital, return on net worth , earning per share, average income and expenditure, Break even point and trend of net worth and assets were the financial indicators used by Mr. Shah to measure the financial position of the company. His study showed that POFIL has limited lending areas. Only small percentage of total investment was undertaken by the company towards government's securities, bond, debenture and share of other companies. Company has lacked to invest towards natural resources and employment. Company is suffering short capital fund.

b) **Dr. Sunity Shrestha,** in her research of "Investment planning of commercial Bank in Nepal" has found that the investment portfolio of Banks were changing frequently according to the change in return rate of different securities. The sector of loan and investment was found to be influenced greatly due to the

variability of rate of return from securities. Investment planning of commercial Banks in Nepal was directly traced to the fiscal policy of government and strict regulatory procedure of central Bank that is why; the investments were not made in professional manner. Planning of investment and operation of commercial banks of in Nepal were not satisfactory in terms of profitability, liquidity, productivity, safety and social responsibility according to the study. Moreover, Dr. Shrestha has suggested that the commercial banks should take their investment function with proper business attitude and should perform lending and investment operation effectively with proper analysis of the project to overcome the prevailing obstacles.

c) **Mr. Prakash Kumar Chaudhary** concluded a case study on NPA of JFCL objectives of his study were to assess the relationship between NPA and NPA, to diagnose the external factors that results to accumulate NPA and to find out internal factors influencing the management of NPA. In addition to financial indicators, he also used statistical tools such as ANOVA, Correlation analysis and trend analysis to work out the results of the study. He collected the data eight years, i.e. from fiscal year 054/055 to 061/062 B.S. He found that due to the increase in loan loss provision by the directives of NRB, JFCL incurred losses in some years. Nepotism and favoritism between top management and borrower was dominating factor to raise the level of NPA. Recovery system of the company was poor and late. He found that bad intension, weak monitoring and mismanagement were the most responsible factor for NPA growth. Moreover , some factors like lack of portfolio analysis, less effective credit policy and short fall on security were also identified as enforcing factors for growth of NPA.

d) **Mr. Manoj Baral** has concluded a study on Profit Planning and controlling system of Machhapuchhre Bank Limited, Pokhara. Data of the study were collected for the period of six years, starting from year 2000/2001 to 2005/2006 A.D. After his both descriptive and analytical type of research design equipped with various financial and statistical tools, he found that fixed deposit, call deposit and saving deposit are in higher side of total collected deposit. In

addition to major investment securities with second priority. Current ratio maintained by MBL is only 1:1, which is the result of high supple of loan and Advance. About 80% of total deposit was invested in loan advances. The bank is efficient in managing Non-Performing loans in later years. Bank could improve its profitability in later years.

e) Mrs. Shobha Palikhe has concluded case study on performance evaluation of ANFCL. Major objective of the study was to evaluate the performance of ANFCL in terms of its impact on financial and non-financial market positively or negatively. She concluded that the allocation of loans and advances has not seemed to be meaningful because productivity sectors were not getting priority by ANFCL sufficiently in its loan portfolio. Investments towards term-loan and fixed deposit loan have got quite low share where as housing loan has dominated all other type of loans. Various financial indicators like current ratio, Quick ratio, leverage ratio, profitability ratio, capitalization ratio, return on capital, return on net worth, return on total assets and earning per share have been calculated to measure the financial position of the company. Liquidity and profitability position of the company was satisfactory according to those indicators. There was nearly perfect positive relationship between deposit and investment at ANFCL. The same type of relationship was there between investment and return. But proportionate increment of investment and deposit were not matching.

CHAPTER III
RESEARCH METHODOLOGY

3.1 Meaning and Concept

Research may be defined as the objective and systematic method of finding solution to a problem. Research Methodology is the way to solve systematically about the research problem. It helps to analyze and interpret the various aspects of research works like sale planning, Production planning and over all profit planning. For this various financial statement, statistical tools and other related documents have been studied.

3.2 Research Design

A research design is the arrangement of conditions for collecting and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Claire Seltiz). Thus the research design is a framework that keeps the researcher in a particular track. The research design for this study is analytical and descriptive type. This study examines and analyses the budgeting procedure in the process of profit plan of BFL. Thus the study is closely related to draw the picture of various functional budgets, evaluate sales planning and other accounting statements as well as actual results based on budgets.

Descriptive and analytical research design has been adopted in order to conduct this study. Descriptive in the sense that various investment policies, investment and deposit patterns, NRB directives, fiscal and monetary policy of Government, Management of loans and advances, management of NPA, fund generation for investment etc. are described to conceptualize the problem under study. In the mean time the study also forwards analytical approach to measure various financial indicators, performance analysis, trend analysis and impact of NPA on profitability of the company. The research design includes both primary and secondary data for fulfillment of the study.

3.3 Population and Sample

A group of all 125 finance companies, According to NRB statistics (till June, 2009), constitute the population and its size. Among these finance companies, one company named Birganj Finance Limited has been chosen from Birganj as a sample. The whole study is concerned with planning and controlling of investment in BFL, Birganj. BFL is taken as a representative of all finance companies of Nepal.

3.4 Sources of Data

Secondary data are major source of this study. Thesis data are collected from various sources. Some of them are mentioned below:

➢ Annual report of BFL for 5 consecutive year i.e. from fiscal year 2062/063 to 2066/067,

➢ Official report of BFL,

➢ NRB Publications,

➢ Business Journals,

➢ NRB Directives,

➢ NRB Statistics,

➢ Master's thesis,

➢ Daily and weekly newspaper (e.g. Gorkhapattra, Kantipur Daily, Time Magazine etc.)

➢ Officers of BFL,

➢ www.nrb.np,

➢ www.nepalstock.com,

➢ Economic Survey (063/064), Ministry of finance etc.

➢ Birgunjfinance.com

Moreover, Primary data are also collected from top officials of BFL through a scheduled questionnaire (appendix V) for the fulfillment of the study. Some facts are collected by observational survey procedures also.

3.5 Variable Used for the Study

To carry a study, after preparing proper research design and determining population and sample for the study and gathering suitable data from secondary and primary sources, variables and their characteristics are studies under different analytical approaches and statistical tools according to design. A variable is anything that can take on differing or varying values with respect to times, places or objects. This study is mainly concerned with two types of variable. One is dependent variable and the other is independent variable. Dependent variable is the main variable that poses the problems of the study, whereas independent variable is one that influences the dependent variable and explains the differences or variance. During the study of planning and controlling of investment in BFL, following terms are used as variables and categorized below to

To get a clear objective for the study:

Independent Variables	Independent Variables
➤ Loans and advances	Profitability
➤ Investment Portfolios	Liquidity
➤ Deposit	Activity
➤ Assets	Tend
➤ Capital Employed	Break Even Point
➤ Equity Capital	Coverage etc.
➤ EBIT	
➤ NPAT	
➤ Income and Expenditures	
➤ NPA	
➤ Loan Loss provision	
➤ Fixed and Variable costs etc.	

Only when time analysis is performed, all the independent variables mentioned above becomes dependent variable with respect to time and then the only independent variable is fiscal year**.**

The study of above mentioned variables during the series of 5 years time period help to diagnose the proper planning and controlling mechanism of the BFL.

3.6 Tools used for the analysis of data :

A) Financial Tools

    1 Financial Analysis

    a) Profitability Ratios

- Return on assets
- Return on Capital Employed
- Return on Equity
- Earnings per Share

    b) Liquidity Ratios

- Current Ratio
- Quick Ratio
- Cash Ratio

    c) Some Other Measures of Liquidity

- Loan & Advance to Current Ratio
- Cash to Total Deposit Ratio
- Loan & advance to Total Deposit Ratio
- Total Investment to Total Deposit Ratio
- Credit Risk Ratio
- Capital Risk Ratio

    d) Growth Ratio:

    2. Cost-Volume Profit Analysis

- Break-even Point
- P/V Ratio

B) Statistical Tools

- Measures of Central Tendency
- Coefficient of Variation
- Correlation Coefficient
- Probable Error
- Trend Analysis
- Diagrammatic and Graphical re-presentation

3.7 Limitation of the Methodology

        The study undertaken is a case study upon a finance company named as Birganj Finance Limited. Only descriptive and analytical approaches have been forwarded. The five years data from fiscal year 2061/062 to 2065/066 are used. Limited time and resources are the main constraint for the study. Major findings of the study and recommendations are mostly to BFL only. Percentages, ratios and trends are the major analysis of data. The study has been conducted for the fulfillment of MBS Degree as prescribed by Tribhuvan University.

3.8 Research Gaps

        Most of the research studies mentioned above are basically related to "Profit Planning and Controlling of Financial Institutions". The dissertations have not touched the profit planning and controlling system. Mr. Manoj Kumar Baral "A study on Profit Planning and controlling pattern of Machhapuchhre Bank Limited, Pokhara." Was really an effort on the evaluation of profit planning system of MBL. But the research lacked to explain about controlling tools.

        This study is little bit different than previous studies. It is the study based on the recent data I.e. from FY 2061/062 to 2065/066. This study may enable us to compare the profit planning and controlling system of BFL. After the recommendation provided by Mr. Baral in his thesis. It is one of the few research studies in the field of profit planning and control taking the case study of commercial bank as well as service oriented organizations. This study has tried to indicate the role of budgets for the effective formulation and implementation of profit planning system. Similarly, the study attempts to analyze the financial position of BFL by applying the tools of ratio analysis and finally it concludes the various findings of the research and recommend for immediate and long term improvement and corrections.

CHAPTER IV
PRESENTATION AND ANALYSIS OF DATA

4.1 Presentation of Data and Analysis

 Data are presented by displaying them in a proper format. Data are collected from various sources and presented for the study. Since this is the case study on "Planning and controlling of investment in BFL, most of the data are collected from annual reports of BFL. Those data which are relevant and not found in annual reports of BFL are collected from other sources. Some of them are NRB publications, Master's theses, other official reports of BFL and business journals. Questionnaire method is used to collect the residual but important data as primary data. Some facts are put after observations upon the official system of BFL. By the nature of the subject under study, only those data are presented which have the access to guide for proper planning and to set for a effective controlling for BFL. Data, here, are put in tabulated form and analysis is carried out along with by using appropriate statistical tool and analytical approach wherever necessary.

Obviously, data are put for each year for five years; these resemble with time series data.

Study, on the data, focuses on investment pattern followed by BFL. Main focused sectors within overall investment are loans and advances, investment on securities and other current and fixed assets. To observe the controlling systems of BFL, the data related to Non performing assets and their management is situated analytically. It is because for overall investment strategy and planning a finance company should have sufficient deposit in addition to equity fund and other fund producing liabilities. So, starting of this chapter is held with the collection of data related to deposit where deposit patterns followed by BFL and Budget planning from the fiscal year 2061/062 to 2065/066 are described and tabulated for analysis.

4.2 Analysis of Deposit pattern in BFL

One of the major sources of money for investment is deposit. Deposit is the strength of finance companies. More is the deposit; more is the activities of lending or investment. Finance companies attract consumer's stable money by offering better interest alternatives for different kinds of deposit and invest the money to earn better. Thus, mobilization of resources can happen. Deposit patter set by company as per the NRB directives is as follows:

- ➢ Fixed deposit
- ➢ Saving deposit
- ➢ Recurring deposit
- ➢ Provident fund deposit
- ➢ Other deposit

Deposit pattern of BFL is depicted in the following table.

Table No.:4.1

Pattern of Deposit in BFL

(Rs. '000')

FY	FD	%	SD	%	RD	%	Total	%	Increment %	Difference
2061/062	19615200	48.0	20662275	51.0	413459	1.0	40318834	100	-	-
2062/063	120181713	68.7	54230468	31.0	524811	0.3	174936992	100	333.8	134618158
2063/064	2344270786	70.9	94170909	28.5	2081673	0.63	330424241	100	88.9	155487249
2064/2065	360918721	70.1	150339895	29.2	3604039	0.7	514862655	100	55.8	184438414
2065/066	510446468	64.0	283138275	35.5	3987863	0.5	797572606	100	54.9	282709951

Source: Annual Reports, BFL

Fixed Deposit (FD): Fixed deposit enables a finance company to advance loans and to invest in various sectors of the economy. Consumers who invest their fund in deposit accounts are called depositors. In fixed deposit account, depositors fix their fund in the account for some specified period. In finance companies these periods generally range from 3 months to 6 years. Depositors is not allowed to

retain his/her money before due period, otherwise he/she should pay fine as a certain percentage withdrawals. Company generally requires a minimum balance to produce fixed deposit account. Highest interest is paid to depositors.

Table No. 4.1 show the amount of fixed deposit realized by BFL in the corresponding 5 fiscal years. Per years growth in realized amount is Rs. 85 million in average. Rapid growth of fixed deposit can be seen from the table 4.5 where within the four year span 222% growth (i.e .100-322) has been reported. Major portion of deposited amount is occupied by fixed deposit in BFL. BFL pays interest up to 8.40% against such deposit.

Saving Deposit (SD): Saving deposit encourages the individual or firm to make habit of saving. Under the directives of NRB, finance company raise saving deposit only up to a certain of its financial resources as fixed by NRB. Depositors of saving deposit can withdraw the limited amount of money when they needed without any penalty. Rather they will be benefited of interest charges. A minimum balance is needed to open the account for saving deposit at the company. Against saving deposit, consumers are benefited with several types of facilities. Requirement of nominal amount to open the special account, interest on daily balance basis, Reimbursement of interest tri-monthly etc. are the main facilities. Depositors can deposit any amount in their accounts anytime but finance company cannot lend or invest such fund in interest earning assets all at once. Interest rate is set as per the NRB direction which is put under change any time.

Second major portion of the deposited amount is occupied by saving deposit in BFL. A minimum balance needed by BFL to open the saving account is Rs. 1000.00. Birgung finance special saving account needs only Rs.500.00 to open the Account and provides interest at the rate of 6%, while BFL in generally providing the interest at the rate of 5% on the basis of daily balance. Table 4.1 shows the amount of saving deposit corresponding to five year from 2061/062 to 2065/066. A rapid increasing pattern can be seen from the table. Per year realized growth of saving account is averaged Rs. 45 million. Table 4.5 shows the highest growth i.e. 294.3% (394.3 minus 100) of saving deposit amount others.

Recurring Deposit (RD): Recurring deposit has a provision that requires deposition of the fixed amount in each installment and is rapidly a fixed amount stated previously at maturity. BFL collects less than 1% in average of such deposit. No weight has been given for such deposit under this study.

Provident fund and other Deposit: These types of deposits count no weight in the main stream of deposits as BFL. So no study has been done relating to these types of deposit

Bar diagrammatic representation of the deposit patterns followed by BFL as described earlier Is shown below:

Figure No. 4.1: Deposit Pattern at BFL
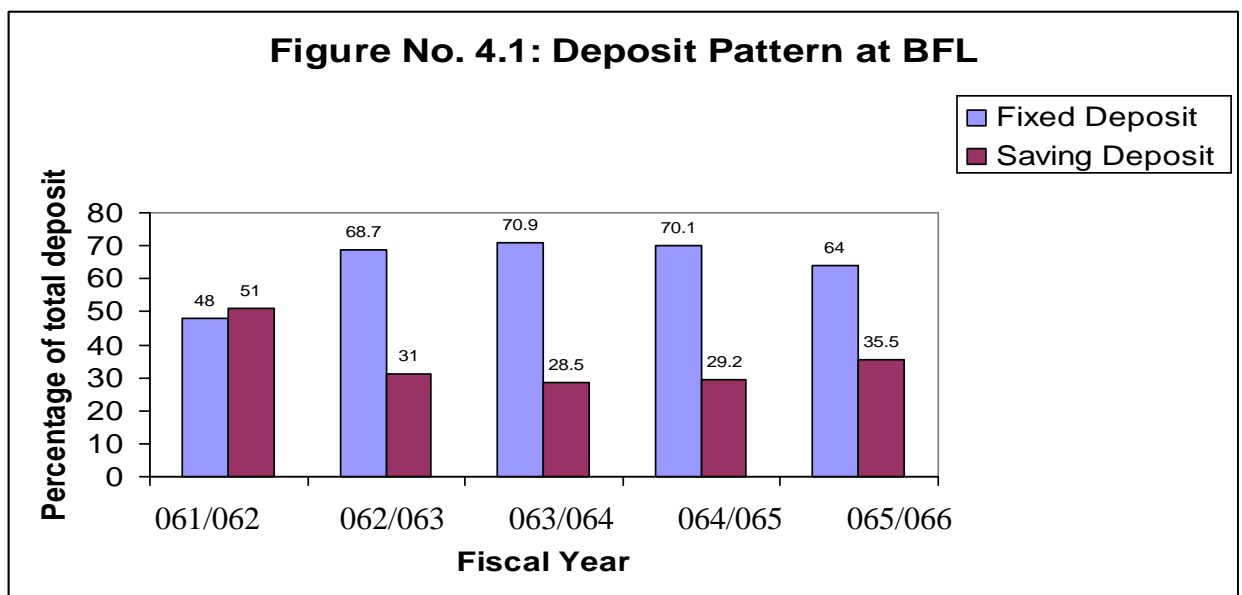
In the figure, it is observed that deposit is the dominating part of total deposit. Only the diagram corresponding to FY 2061/062 is contradicting the fact and it is because company had no time to make efficient strategy for promoting fixed deposit to their customers within hardly tree months.

Comparison of Budgeted Deposit and Actual Deposit:

According to the official records of BFL, budgeted planning of Deposit and achievements for the each five years under study are presented below in the tabular form. Moreover, table below also depicts the % achievement in the respective year.

Table No: 4.2
Comparison of Budgeted Deposit and Actual Deposit

(Rs. '000')

Fiscal Year	Budget Deposit	Increment (%)	Actual Deposit	Increment (%)	Achievement (%)
2061/062	-	-	40318.83	-	-
2062/063	160000	-	174936	333.88	109.34
2063/064	335842	109.90	330424	88.88	98.39
2064/065	678455	102.02	514862	55.82	75.89
2065/066	875991	29.12	797572	54.91	91.05

Source: Official Reports & Annual Reports, BFL

Expected in the year 2064/065, every year company has exceeded the planned deposit. Maximum percentage of achievement can be seen in FY 2062/063 which is 109.34 percentages over the budgeted figure of deposit. Figure 4.1 shows the Bar diagram of above data to make clear observation upon the difference between the figure of budgeted and actual deposit.

Figure. No. 4.2

A Diagrammatic Presentation of Comparison between Budgeted and Actual Deposit in BFL

Figure No. 4.2: Deposit Pattern at BFL
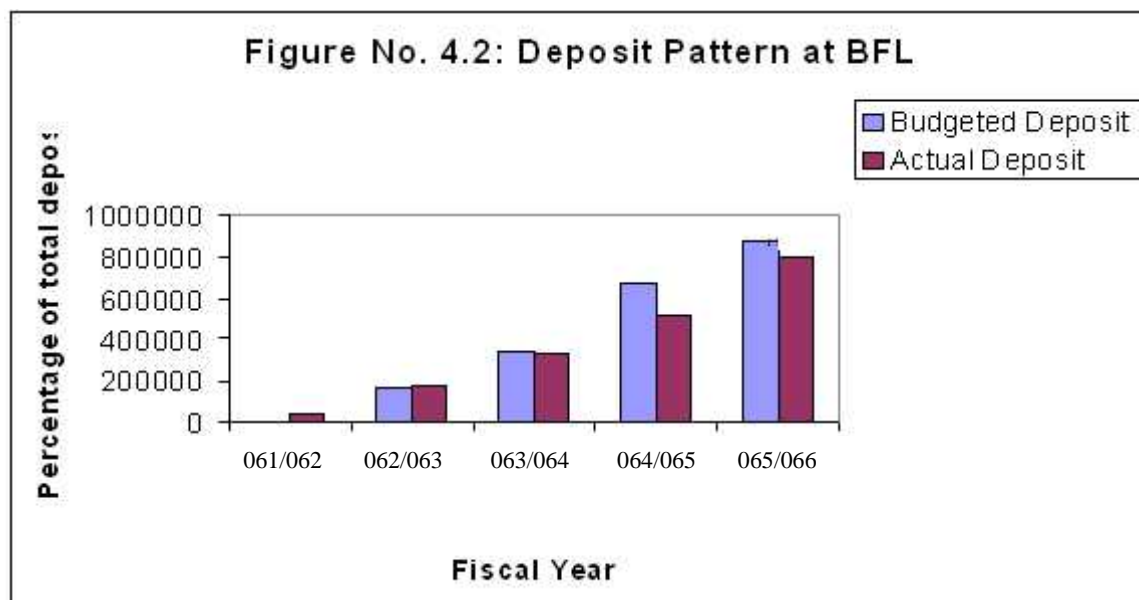
In the figure difference in the height of Bar Diagram between budgeted and actual deposit is maximum. Corresponding to FY 2062/063 representing actual deposit in

higher side. In the other hand, the minimum hand, the minimum difference is achieved in the FY 2064/066 still putting actual deposit in higher side. The more is the match between the budgeted and actual deposit, or the less is the difference between the heights of the bar corresponding to budgeted and actual deposit the company will be at more comfortable level to plan the investment and fulfilling it's objectives.

Simply, following Table No. 4.3 depicts the budgeted and actual figure of fixed deposit in corresponding fiscal year.

Table No.:4.3
Comparison between budgeted and actual figures of saving deposit and fixed deposit

(Rs. '000')

FY	Fixed Deposit		Achievement %	Saving Deposit		Achievement %
	Budgeted	Actual		Budgeted	Actual	
2061/062	-	19615	-	-	20662	-
2062/063	112249	120181	107.06	50634	54230	107.10
2063/064	248547	234427	94.31	87583	94170	107.52
2064/065	361029	360918	99.96	175344	150339	85.74
2065/066	525407	510446	97.15	295461	283138	95.83

Source: Annual Reports, BFL

The pattern of percentage achievement of fixed deposit has followed nearly same pattern as showed by total deposit on the Table 4.2. The achievement of fixed deposit over budgeted amount is found to be increased in fiscal year 2062/063 and 2064/065 and reached maximum, i.e. 107.06 on fiscal year 2062/063 but in the

year 2063/064, though the total deposit suffered minimum achievement percentage. The company could not collect fixed deposit as planned. It suffered a deficit of 2.85 percentages over the budgeted amount this year. Maximum deficit occurred in FY 2063/064. Only 94.31 percentages was the achievement. Following is the diagrammatic presentation of the data shown in the table No.4.3

Figure No. 4.3

A diagrammatic Presentation of Budgeted and Actual amount of fixed deposit and saving deposit
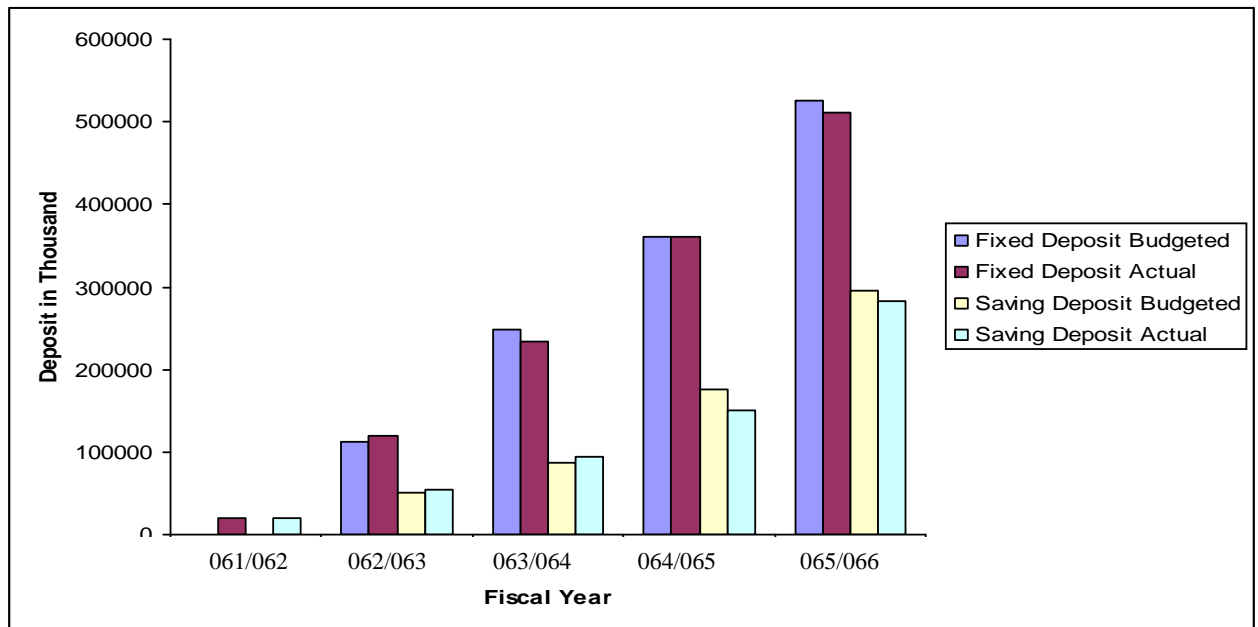
Finance company can raise the deposit to the extent of some proportion of the net worth as directed by NRB. Table No. 4.4 shows the proportion of deposit to net worth for each financial year starting from 2061/062 to 2065/066.

Table No. 4.4

Net worth to Deposit Ratio

(Rs.'000')

FY	Deposit	Net Worth	Ratio
2061/062	40318.83	36729	1.10

2062/063	174936.99	64987	2.7
2063/064	330424.24	70981	4.66
2064/065	514862.66	77015	6.69
2065/066	797572.61	92208	8.65

Source: Annual Reports, BFL

Company has succeeded to collect deposit more than expected year after year. Company able to collect 125 more million in average each year.

Figure No. 4.4

Trend of Total Deposit at BFL
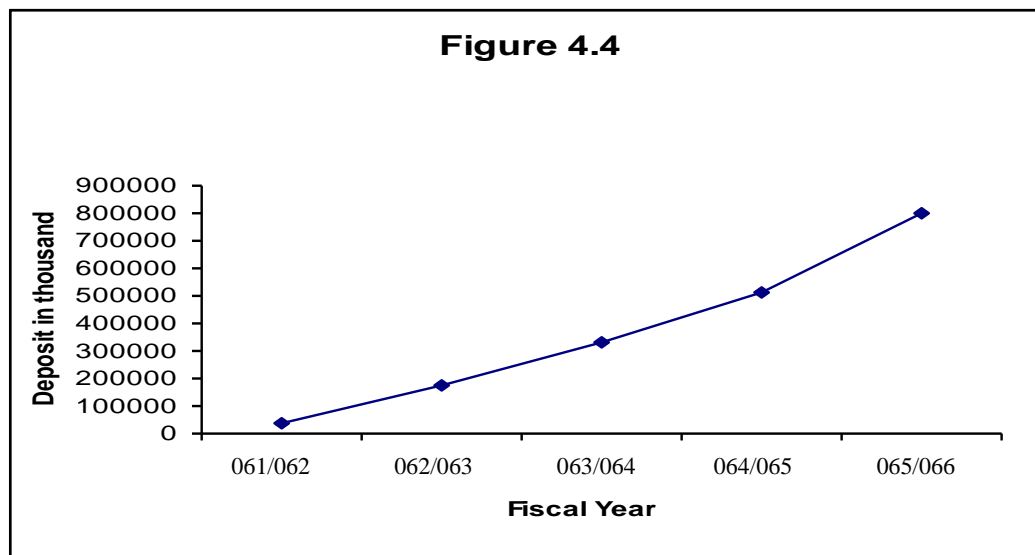
Here, in the figure the deposits are in increasing trend in every fiscal year. In addition to deposit, following table table more clearly perform the trend analysis assuming the fiscal year 2062/063 as the base year.

Table No. 4.5

Trend of deposit pattern in BFL

FY ⟍ Variable	2061/062	2062/063	2063/064	2064/065
Deposit	100	144.6	237.5	344.5
Saving Deposit	100	134	224	394.3

39

Fixed Deposit	100	148.8	242.4	322

Figure No. 4.5

Trend of Deposit pattern in BFL
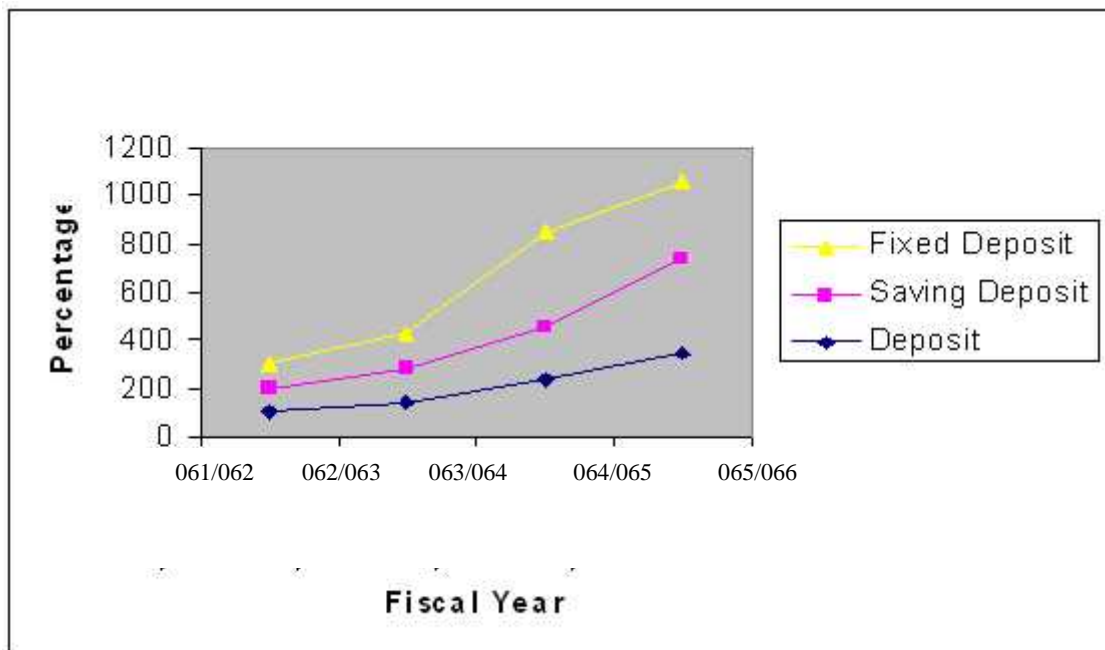
Company is entertaining the rapid growth in deposit sectors.

4.3 Analysis of Investment Pattern in BFL

In addition to deposit funds from public and other firms, a finance company possesses equity capital and other liabilities as the source of fund. These funds are invested in different types of assets as follows:

    a) Cash and Bank Balance

    b) Balance at registered financial institutions other than bank.

    c) Investments on:

        ⌡ Government's securities, share and debentures.

        ⌡ Organized institution's shares, debenture and bonds.

    d) Loan and advance & Bills purchased,

e) Fixed assets and

f) Others assets.

A finance company operates its overall activities with the main objective of profitability so that it can promote the economic sector of the Nation to some extent by its part. Such company utilizes the necessary fund in various investment projects in return of earning to run the company long. Among various investment sectors as listed above, Loan and Advance is the major one which dominates the assets side of the balance sheet in most of the finance company in comparison to others. The loan and advance generated by the company is secured with a suitable security. As per the NRB directives they should be 100 % secured with easily saleable goods and marketable securities. But those securities which are subjected to depreciation are not accepted by the company. Generally a finance company grants the loan and advance for short periods. BFL extends the loan for four to six years in average. BFL extends the loan generally against good security and good source of income. BFL generally extends 51 % to 75 % of the amount of collateral value to the borrower. The clients of BFL generally amortize the loan in installment basis.

BFL follows strict credit policy and guidelines. On the basis of set policies and guidelines, BFL prepares a tentative budget planning for investment with Loan and Advance in BFL. Following table depicts the budgeted and actual amount of Loan and Advance and the % achievement over planned figure.

Assuming the fiscal year 2062/063 as the base year.

Table No. 4.6

Loan and Advance of BFL Actual Vs Budgeted

(Rs '000')

FY	Budgeted	Increment (%)	Actual	Increment (%)	Achievement (%)
2061/062	-	-	43214.55	-	-
2062/063	150000	-	143369.11	231.76	95.58
2063/064	246869	64.46	240980.86	68.08	97.60

| 2064/065 | 345481 | 40.00 | 405801.60 | 68.40 | 117.46 |
| 2065/066 | 594802 | 72.17 | 624441.3 | 53.88 | 105 |

In above table budgeted data of FY, 061/062 are kept silent because company could operate hardly for two and half months at the end of this year. Though the performance upon the investment on Loan and Advance of BFL is satisfactory over the year, in the year2064/065, company realized a boom in performing such investment. This year BFL supplied Loan and Advance 17 % more than budgeted. Supply amount of Loan and Advance is in increasing trend year after year with 63 % increment in average in later 3 years which is the excellent aspect of BFL.

The data of Table No. 4.6 are presented by bar diagram in the following figure.

Figure No. 4.6

Loan and Advance Actual Vs Budgeted
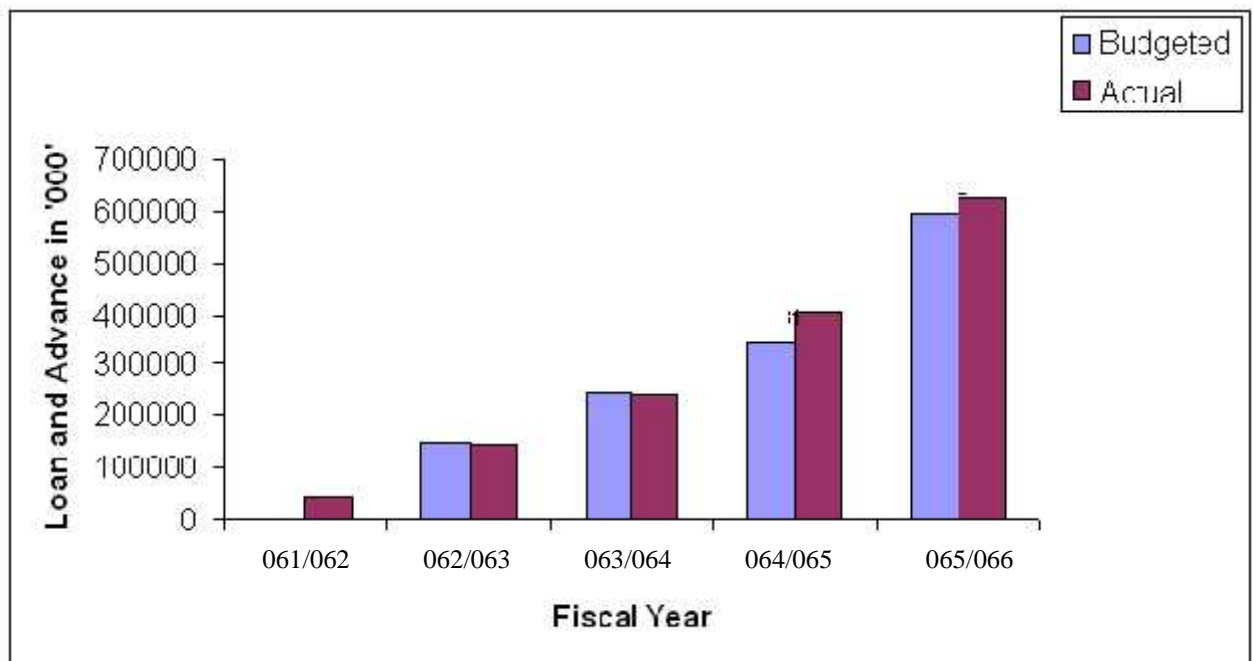
The maximum difference between the height of Bars of actual and budgeted figure is drawn corresponding to the year 2064/065, where Actual Loan and Advance is

in higher side. But in initial two year (i.e. 062/063 and 063/064), the bars representing the actual figure have lower heights than that of Budgeted one. Overall view is that both the heights are increasing rapidly year after year.

4.4 Structure of Loan and Advance in BFL

A finance company provides the loan and advance for the different purpose of their customer. The main sector of the loan and advance in BFL are hire purchase loan against vehicle, equipments etc, housing loan and term loan. However BFL follows the following structure of Loan and Advance.

- ➢ Hire purchase loan,
- ➢ Housing loan,
- ➢ Term loan and
- ➢ Loan against fixed deposits.

BFL is extending it's investment on loan and Advance for the period of 4 to 7 years in average.

Hire Purchase Loan: Hire purchase loans are generally extended for vehicle (e.g. Car, Jeep, Truck, Tractor, Motorcycle etc.), machineries and parts (e.g. Generator, Computer, Photocopy machines etc.), equipments and tools, durable household goods and other movable properties. Interest rate charged is dependent in the characteristics of loan and client's source of income. It is negotiable to some extent also. BFL is extending hire purchase loan mostly for vehicle. Interest rate is in between 10 % to 15 %. Following table depicts the amount invested by BFL for granting Hire purchase loan during each year up to 5 years from 2060/061 to FY 2064/065.

Table No. 4.7
Actual Hire Purchase Loan at BFL

(Rs'000')

FY	Total Loan and Advance	Increment (%)	Hire Purchase Loan	Increment (%)	$\frac{\text{Hire Purchase Loan}}{\text{Loan and Advance}} \times 100$

2061/062	43214.55	-	13031.78	-	30.16
2062/063	143369.11	231.76	36989.51	183.84	25.80
2063/064	240980.86	68.08	51714.50	39.81	21.46
2064/065	405801.60	68.40	77102.3	49.10	19.00
2065/066	624441.30	53.80	137377.08	78.17	22.00

<div align="right">Source: Annual Reports, BFL</div>

In FY 062/063, a sudden surge of 183.84% in hire purchase loan over the year 2061/062 can be seen in the above table. This is because of very low supply of hire purchase loan in the year 2061/062 when company just started it's financial activities two and half months ago at the end of the year. Thus, in average, BFL has provided the hire purchase loan up to 24 % of total loan and advance. Percentage increment of hire purchase loan is rapidly increasing year after year. Though both of the total and advance and hire purchase loan are increasing every year, the pattern of increment is not matching. Percentage increment of loan and advance is stagnant in FY2063/064 and FY 2064/065 at 68 % while that of hire purchase loan has increased from 39.81 % to 49.10. Also, percentage increment of loan and advance has reduced to 53.80%, while that of hire purchased has increased from 49.10% to 78.787 %.

Housing Loan: under housing loan arrangement, a finance company invest in purchase of land, construction of buildings and construction of ware houses for either individual or institutional. Till the date BFL is investing such a loan for individuals only at 10 % to 15 % interest rate is charged and is rapidly on installment basis. Following table depicts the amount invested by BFL for granting housing loan during each year up to 5 years from 2061/062 to 2065/066.

<div align="center">

Table No. 4.8

Actual Housing Loan at BFL

</div>

<div align="right">

(Rs'000')

</div>

FY	Total Loan & Advance	Increment (%)	Housing Loan	Increment (%)	$\dfrac{\text{Housing Loan}}{\text{Loan \& Advance}} \times 100$

<div align="center">44</div>

2061/062	43214.55	-	15897.00	-	36.79
2062/063	143369.11	231.76	56346.56	254.44	39.30
2063/064	240980.86	68.08	92199.28	63.63	38.26
2064/065	405801.60	64.40	158262.62	71.65	39.00
2065/066	624441.3	53.80	231043.28	46.00	37.00

From the above table it can be seen that, in average, 38 % of loan and advance housing loan is as high as up to 41.65 % on fiscal year 064/065 and as low as up to 46 % on FY 2065/066. The data of the year 062/063 has not been taken into consideration due to the fact as already mention earlier.

Term Loan: Under this type of loan arrangement company generally promotes the investment towards trade, industry, education, health, tourism, agriculture, water resources, irrigation and other similar sectors. In BFL term loan for trade and industry is the donating among other term loans. While service sectors like education, health agriculture etc. are not covered well. Following table depicts the amount invested by BFL in term loan during each year up to 5 years from FY 2061/062 to 2065/066

<div align="center">

Table No. 4.9

Actual Term Loan at BFL

</div>

(Rs'000')

FY	Total Loan and Advance	Increment (%)	Term Loan	Increment (%)	Term Loan / Loan and Advance X 100 %
2061/062	43214.55	-	14035.85	-	32.48
2062/063	143369.11	231.76	48762.82	247.42	34.00
2063/064	240980.86	68.08	95207.81	95.25	39.51
2064/065	405801.60	68.40	162320.64	70.50	40.00
2065/066	624441.3	53.80	233532.12	50.00	39.00

Source: Annual Reports, BFL

From the above table, we can draw out the fact that in average 37 % of total loan and advance has been allocated for term loan during a year. The amount of term loam is increasing year after year as the total loan and advance is increasing. Following table shows the allocation of term loan in different sectors for the five fiscal years:

Table No. 4.10

Allocation of Term Loan in BFL

(Rs'00000')

Particular	2061/062	2062/063	2063/064	2064/065	2065/066	Average increment (%)	% of Term Loan in Average
Agriculture	-	2.4	-	3.54	38.00	340	0.77
Industry	14.83	89.52	160.52	358.05	604.00	194	21.8
Trade	125.53	350.9	639.71	1042.56	1283.00	87	61.00
Health and Education	-	34.00	52.16	117.5	221.02	71	7.53
Tourism	-	10.80	84.80	27.2	178.00	388	5.30
Others	-	-	14.90	74.56	111.30	223	3.60
Total	140.36	487.62	952.08	1623.21	2435.32	16	100

Source: Annual Reports, BFL

Here in the table no. 4.10, every sector investments are increasing year after year. The least performance is given to agriculture sector where just 0.77 % of total term loan in average has been invested whereas trade sectors posses' highest percentage of total term loan which is on average 61 % through the years under study. In recent years BFL also started to focus tourism sector for investment. In the year2065/066, 7.32 % of total term loan has been invested while it was only 2021 % in the year 062/063. The investment towards service sectors are also increasing with start of 7 % share of total term loan FY 062/063 for health and education has reached to 9 % share on total term loan on FY 2065/066 accumulating the average growth percentage of 4.53 % in average over the five year period.

Figure No. 4.7

Representation by Pie- chart to Allocation of Term Loan in BFL
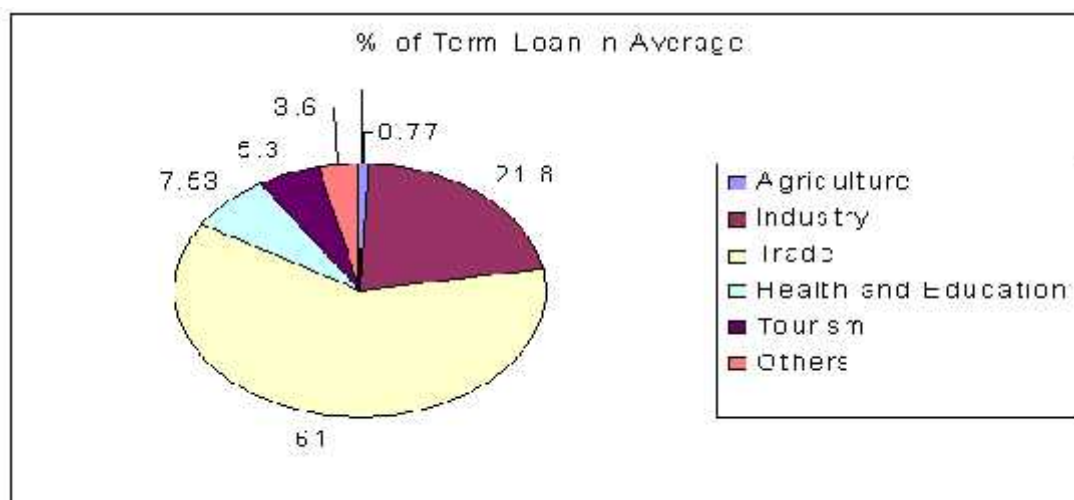
Fixed Deposit Loan: When individual or firm needs money in term of loan who already have the certain amount of fixed deposit account in a financial company, they can draw such type of loan on the basis of their fixed deposit account. Company charges a nominal interest against such loan. BFL charges 2 % on such loan. Company extends the loan about 90 % of fixed deposit along with the total loan and advance from FY 2061/062 to FY 2065/066.

Table No. 4.11

Fixed Deposit Loan at BFL

(Rs'000')

FY	Total Loan and Advance	Increment (%)	Fixed Deposit Loan	Increment (%)	$\dfrac{\text{Fixed Deposit Loan}}{\text{Loan and Advance}} \times 100$
2061/062	43214.55	-	250.00	-	0.58
2062/063	143369.11	231.76	1270.21	408.00	0.88
2063/064	240980.86	68.08	1863.6	46.72	0.77
2064/065	405801.60	68.40	8116.03	335.5	2.00
2065/066	624441.3	53.80	12488.42	53.8	2.00

Source: Annual Reports, BFL

From the above table, it is very clear that the amount of loan against fixed deposit is not significant. Though such type of loans are risk free, company do not earn any more. So this part is left from the study and analysis.

Following table presents the allocation of loan and advance at one glance. In other word, table no. 4.12 is a combined form of table no. 4.7, 4.8, 4.9 and 4.11 as depicted below:

Table No. 4.12

Allocation of Loans and Advance in BFL

FY	Hire Purchase		Housing Loan		Term Loan		Loan Against Fixed Deposit		Total Loan and Advance		Increment %ofLoan and Advance
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
2061/062	13031.78	30.16	15897.00	36.79	14035.85	32.48	250.00	0.58	43214.55	100	-
2062/063	36989.51	25.80	56346.56	39.30	48762.82	34.00	1270.21	0.88	143369.11	100	232.00
2063/064	51714.50	21.46	92199.28	38.26	95207.81	39.51	1863.60	0.77	240980.86	100	68.1
2064/065	77102.3	19.00	158262.62	39.00	162320.64	40.00	1816.03	2.00	405801.60	100	68.4
2065/0656	137377.08	22.00	231043.25	37.00	243532.12	39.00	12488.42	2.00	624441.3	100	53.80

Source: Annual Reports, BFL

Following diagram presents the data of table no. 4.12 with more clear view upon allocation of loan and advance in BFL.

Figure No. 4.8

Allocation of Loan and Advance in BFL (FY 2060/061 to 2064/065)
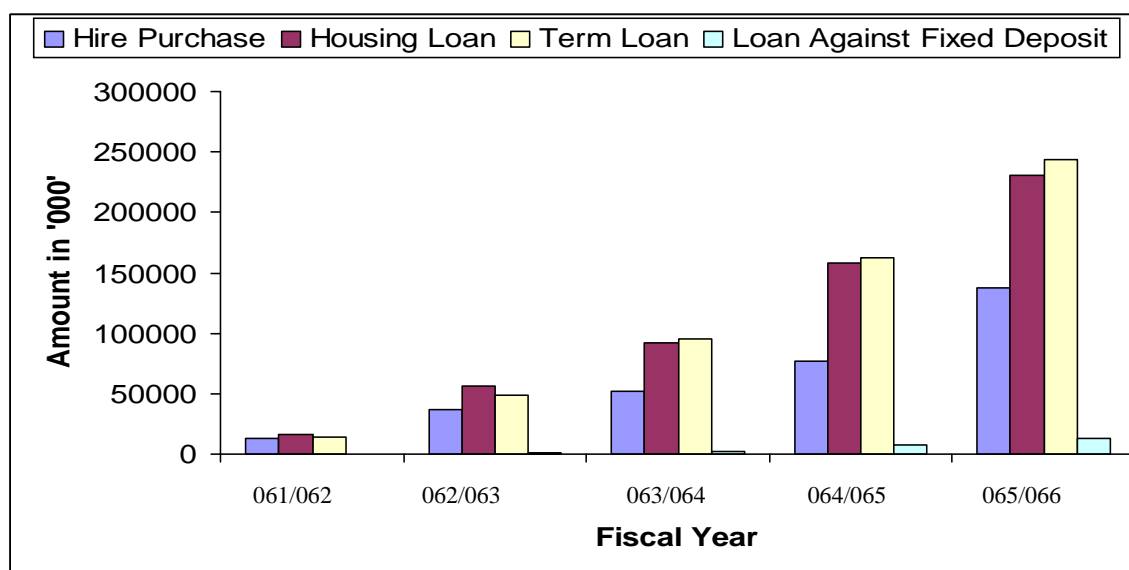
To be more specific, following are the percentage based pie-diagrams of data presented in table no. 4012 for each fiscal years under study.

Pie- diagrams representing the allocation of Loan and advance

In BFL for five fiscal years

Figure No. 4.9

FY 2061/062

Figure No. 4.10

FY 2062/063

Figure No. 4.11

21
1
40
38
Hire purchase
Housing Loan
Term Loan
Loan Against Fixed Deposit

FY 2063/064

Figure No.: 4.12

2
19
40
39
Hire purchase
Housing Loan
Term Loan
Loan Against Fixed Deposit

FY 2064/065

FY 2065/066
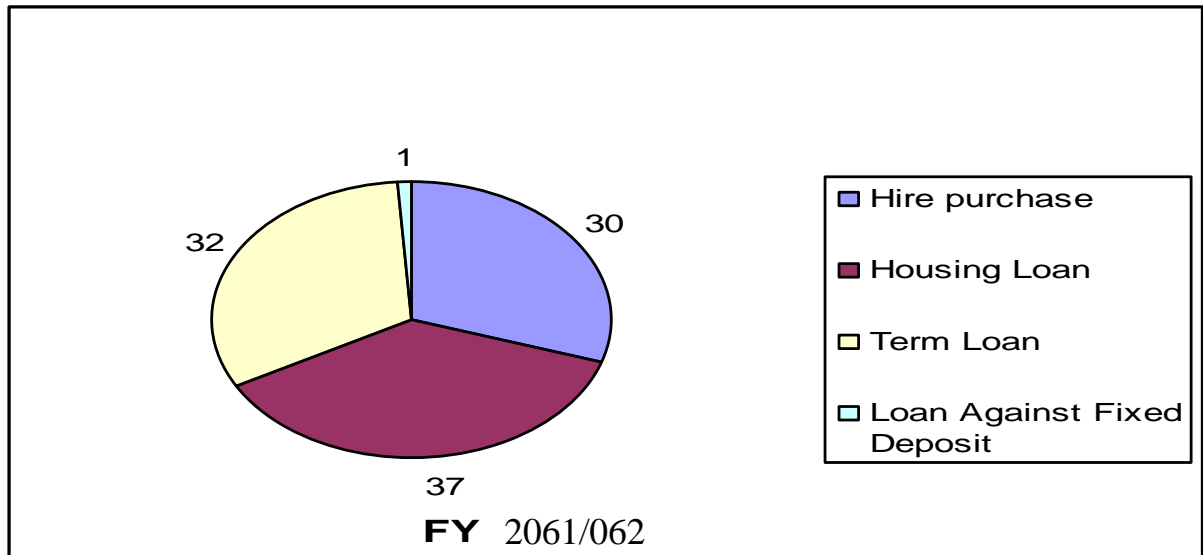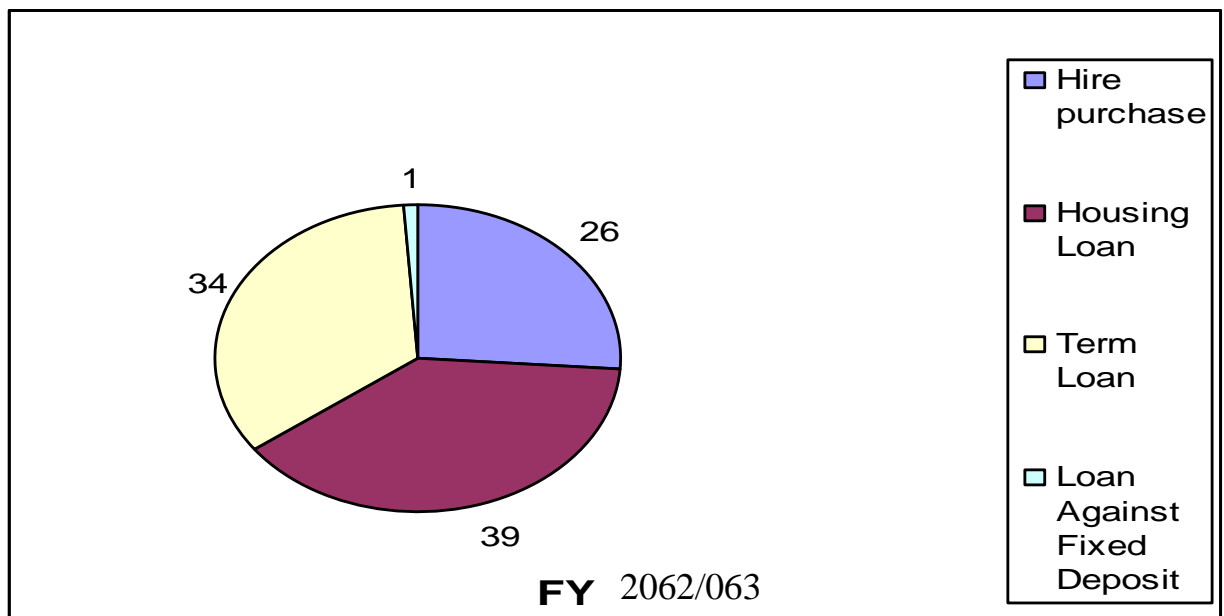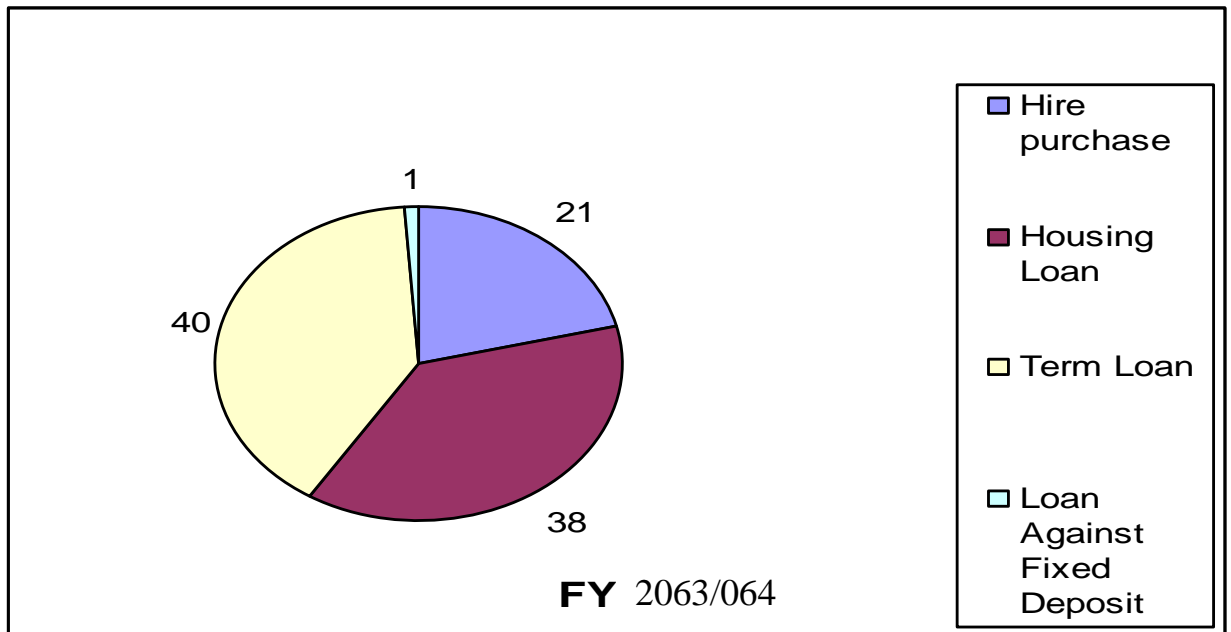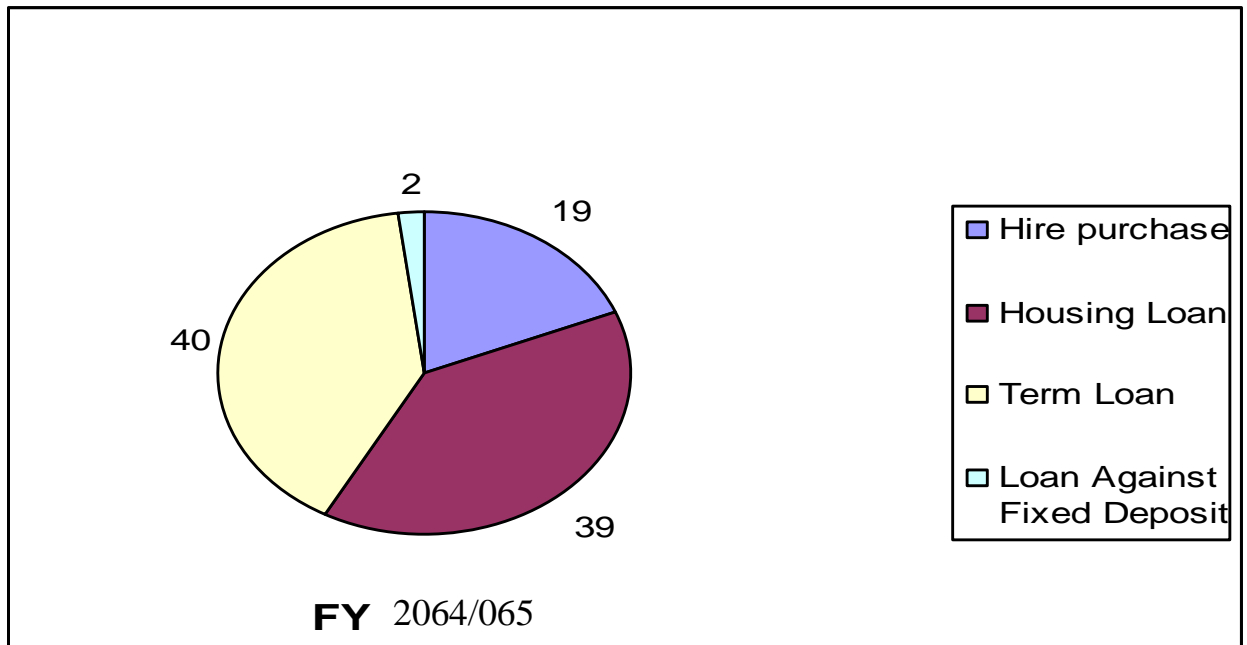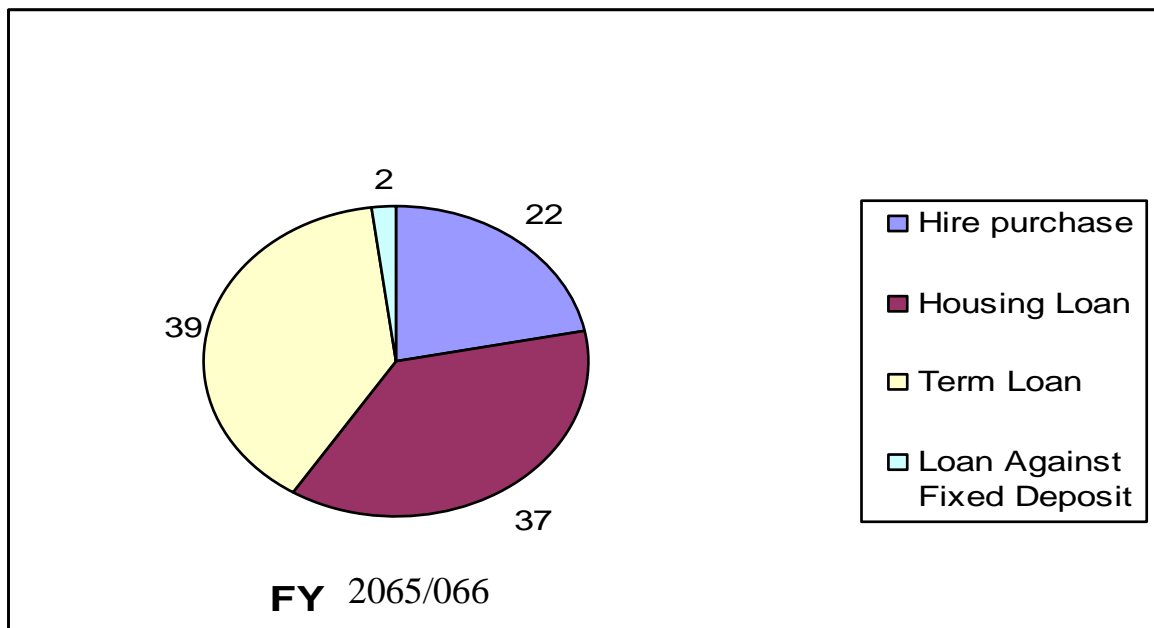
4.5 Structure of Investment in Financial Assets at BFL

Generally, a Finance company is involved in planning of investment towards financial assets. Financial assets on this aspect have following two parts.

Government securities, share and debentures: - Though a financial company can earn some interest and dividend from the investment on government securities share and debenture, it is not the main source of income. A finance company extends credit by purchasing government securities, bond and share for several reasons. These are the marketable securities or assets and are therefore liquid assets. If the company needs liquidity immediately, it can convert those securities or assets into cash without any delay. By holding government's securities, company can minimize the burden of expected withdrawals by depositors or large demand of the loan by its customers. Moreover, company will seek to invest in such assets when the demand for loans decreases or company is not efficient to absorb its excess reserves.

Organized institution's securities, share and debentures: - A finance company also have the strategy to invest upon shares and debentures of other organized or non-organized institutions within the limit as directed by NRB. In a situation of excess fund and least opportunity to invest upon more profitable sector, a finance

company do invest in shares and debentures of organized or non-organized institutions without any violation of regulations from NRB.

Following table depicts the patterns of investment on shares and debentures of government and other institutions.

Table No. 4.13

Investment on Securities by BFL

(Rs. '000')

FY	Government Securities	Shares of Debentures of Organized Institution	Total	Increment (%)
2061/062	0	0	0	-
2062/063	550000	23000	573000	-
2063/064	550000	23000	573000	0
2064/065	550000	0	550000	-4.01
2065/066	550000	0	550000	0

Beside the purpose to maintain liquidity position in good condition company has not invested in marketable securities significantly rather it has reduce it's investment on securities from Rs 573000 to 550000 by selling the listed shares in the year 064/065. Saying more clearly, BFL has now limited it's investment towards the portfolio of different securities. Only 0.1 % of total investment. It means the net investment in securities is not producing any noticeable impact upon company's overall investment strategy.

4.6 Deposit-Investment Relationship in BFL

Here in the study, investment refers to the investment towards loan and advance in BFL. The increasing trend of total deposit and that of loan and advance should match in year after year progression.

Table no. 4.14 below presents the figures related to total deposit and loans and advance for each of the year under study and loan and advance to deposit ratio is shown in the last column of the table.

Table No. 4.14

Proportion of Deposit and Investment Trend of BFL

(Rs.'000')

FY	Deposit	Loan and Advance	Securities	Loan and Advance to Deposit Ratio
2061/062	40318.83	43214.55	0	1.07
2062/063	174936.99	143369.11	573	0.82
2063/064	330424.24	240980.86	573	0.73
2064/065	514862.66	405801.6	550	0.79
2065/066	797572.61	624441.3	550	0.78

Source: Annual Reports, BFL

The relation between deposit and loan and advance is the benchmark for existence of a finance company. The strategy is to invest in loan and advance generally more than collected deposit. The more is the amount of loan and advance than total deposit, the better in the earning position of the company. From table no. 4.14, BFL is always in a better position, though year 2062/063 is a bit distressing in this aspect. Supply of loan and advance is less than deposit.

4.7 Financial Ratio Analysis

It is a well agreed fact, Safety, liquidity and profitability are the prime considerations for bankers to formulate advance policy.(Basu,1957;19). During the study of planning of investment in BFL, various financial ratios are evaluated and their increasing or decreasing trend in the span of five year period are studied following trend analysis and relations between some important variables which vary year after year are also studied so that performance of investment by BFL. Profitability ratios, liquidity ratios, activity ratios, growth ratios are the major measures evaluated hereafter.

4.7.1 Profitability Ratios:

Profit is lifeblood of an earning oriented company. Investment planning is carried out with the expectation of profit in future. Planning is done to invest in such sector where a higher rate of return is ensured so that the company can meet all expenses for daily administration, expansion and growth as well as payment of dividend to the shareholders. Profit is the difference between revenues and expenses over a period of time. This time period is generally of one year in finance companies. Finance companies do exercise to find the better investment area which maximizes the volume of their wealth with higher returns and low risks. The profitability ratios are calculated to measure the operating efficiency of the company. Besides management of the company, creditors and owners are also interested in the profitability of the company. Measures of profitability of a finance company are as follows:

- ➢ Return on Assets (ROA),
- ➢ Return on Capital (ROC),
- ➢ Return on Equity (ROE) &
- ➢ Earning Per Share (EPS).

Return on Total Assets (ROA): The term assets also refer to the total investment of the company which comprises both fixed assets and current assets. ROA is the earning per rupees of total investment or total assets.

$$ROA = \frac{\text{Net Profit after Tax}}{\text{Total Assets}}$$

Following table shows ROA of BFL for each five years under study as given below:

FY	NPAT	TA	ROA (%)
2061/062	37398	54194833	0.12
2062/063	4987856	242045482	2.06
2063/064	6359689	406168732	1.57
2064/065	6380819	599507007	1.06
2065/066	15861210	1053784388	1.51

Source: Annual Reports, BFL

Initial years have shown lower returns with respect to total assets, but in latter years ROA is about one and half percent but in the FY 2062/063 ROA is 2.06, it is highest percent in all fiscal year.

Particularly it is not suitable to judge the efficiency of the company by measuring ROA with respect to NPAT. This is a conventional approach.[30] It is because TA resembles a pool of funds supplied by equity holders, lenders and depositors, it is conceptually not sound to use

NPAT or NI to shareholder In the calculation of ROA. NPAT or NI is affected by capital structure. It is therefore more appropriate to use after tax EBIT [i.e. EBIT (1-T)] instead of NPAT. Thus, more appropriately, following measure of ROA for comparing the operating efficiency of the firm should be used for analysis.

$$ROA = \frac{EBIT (1-T)}{TA} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots.. (eq^n \ 4.1)$$

Here, it needs to work out EBIT and effective tax rate. EBIT is the sum of net operating income and other non-operating income less non-operating losses. Bonus to Employees, if tax exempt, is also deducted before calculating EBIT. Following table displays EBIT and effective tax rate using the data from annual reports of BFL for each of five consecutive years under study as follows:

Table No. 4.15

Calculation of EBIT and effective tax rate

Particular	2061/062	2062/063	2063/064	2064/065	2065/066
a. Income: Interest and commission/discount	679056	19567807	34953165	52856236	98596656
b. Other operating income(Income–Expenses).	377104	1307278	2156588	3580551	6882476
c. Staff Expenses	(219950)	(1626797)	(2264452)	(4111629)	(6541372)
d. Net loss provision on loans and investments	(432146)	(1453012)	(2624804)	(5379704)	(6182110)
e. Non operating income/loss	0	675	-	675	-
f. Bonus	-	(3123929)	(6267101)	(3390517)	(12106336)
A. EBIT	**404064**	**14672022**	**25953398**	**13040959**	**80648714**
g. Interest	(292294)	(7150576)	(15858662)	(2773916)	(54488415)
h. Profit before tax	111770	7521446	10094736	10267043	26160289
i. Provision for tax	(33196)	(19161161)	(2817344)	(2952856)	(7920874)
j. Bonus	(11177)	(617429)	(917703)	(933368)	(2378205)
B. NI to Shareholders	**67397**	**4987856**	**6359689**	**6380819**	**15861210**
C. Effective tax rate (%)	**29.5**	**28.5**	**28.5**	**29.5**	**31.5**

Source: Income statement of BFL.

Using equation 4.15 the calculated values of ROA are tabulated below:

Year	2061/062	2062/063	2063/064	2064/065	2065/066
ROA (%)	0.53	.4.30	4.60	1.50	5.20

Appendix II

From the table 4.15, it is observed that EBIT is in fluctuating in following years. Net income to shareholder is also in the same order. Return on assets in starting year is low. It is because the company could operate for only three months. Interest income on the 1st fiscal year is low i.e.6.80 lakh. And expenses were also more than 6 lakh. This has resulted low EBIT. On looking towards the overall investment, BFL has supplied low Loan and Advance that could earn low interest income. ROA also resembles to the return on investment. In the starting year 2061/062, company could earn very low operating income with respect to total assets. Thus ROA was only 0.53 % in the first year. In average ROA is found to be increasing. In the year 2065/066, it is peak. It is because net loss provision on loans and investments was significantly lower. This resulted in comparatively greater EBIT that later year. It will be even clearer if we look upon the % change of EBIT year after year as shown on Table below:

Table No. 4.16

% change in EBIT

Year	2061/062	2062/063	2063/064	2064/065	2065/066
EBIT (Rs)	404064	14672022	25953398	13040959	80648714
Change (%)	-	-	0.7689	-0.4975	8.82

 % change is higher in fiscal year 2065/066, i.e.882 Vs -49.75 and 76.89 %. The data for 2062/063 is worthless because this year the company faced a surge of income abnormally but was as per the projection of BFL.

Return on Capital Employed (ROCE): A financial company raises its long term fund either from long –term creditors or from equity holders of the same company. Long term creditors are depositors of fixed deposit account. The return on capital employed is one of the significant financial tools in order to judge the efficiency of company in utilizing the fund supplied by the long term creditors and owners of

the company. Capital employed includes total debt raised by the company and its net worth/owner's equity.

$$\text{Capital Employed} = \text{Long Term Debt.} + \text{Owner's Equity}$$

Following is the structure of Long Term Debt and Owner's equity of a financial company.

Total Debt	Owner's Equity
Debentures,	Paid-up capital
Bonds,	Reserve and surplus,
Deferred payments,	Retained Earnings,
Public deposits and	Proposed bonus share and dividend and
Other loans (interest bearing)	Capital redemption reserve (CRR)

Following table shows the figures of total debt, owner's equity and capital employed of BFL during the each years under study as given below:

Table No 4.17

Structure of Total Debt, owner's equity and capital employed of BFL

Particular	2061/062	2062/063	2063/064	2064/065	2065/066
Deposit	40318834	174936992	330424241	514862655	797572606
FIs and Bank loan	0	0	0		40000000
Sundry Creditors	1127077	1493405	5058715	4586574	5659239
Total Debt	**41445911**	**176430397**	**335482956**	**519449229**	**843231845**
Paid-up capital	6000000	6000000	66000000	66000000	72594300
Retained Earning	50548	1970215	7502424	9612425	1827016
Proposed Dividend & Bonus Share	0	0	0	5263158	21278535
Capital redemption reserve	0	0	0	5000000	0
Equity	**12067398**	**7970215**	**14102424**	**26475583**	**95699851**
Capital Employed	**53513309**	**184400612**	**349585380**	**545924812**	**938931696**

Source: Annual Report, BFL

Now after calculating employed capital and EBIT for each of the five years from (Table 4.15) and Table (4.17) return on capital employed can be estimated by using following formula:

$$ROCE = \frac{EBIT\,(1\text{-}T)}{CE} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(Equation 4.2)}$$

Using equation (1), calculated values of ROCE are tabulated below:

Table No. 4.18

Calculation of ROCE

FY	2061/062	2062/063	2063/064	2064/065	2065/066
ROCE (%)	0.51	5.69	5.31	1.68	5.88

Appendix: (II)

In the year 2060/061, ROCE is minimum and it was due to low earning in comparison to high capital employed. After wards company is very much successful to result on high ROCE. BFL has topped in 2064/065 resulting in ROCE 5.88 %.

Return of Equity (ROE): ROE measures the profitability of shareholder's investment ROE indicates how well the firm has used resources of owners. It is the ratio of Net profit after tax or net income available for shareholders to total equity capital. ROE is evaluated as follows:

$$ROE = \frac{Net\ Income\ to\ shareholders}{Equity\ Capital} \times 100\ \% \ \ldots\ldots\text{Equation. (4.3)}$$

Calculated values of ROE using equation 4.3 are tabulated below:

Table No. 4.19

ROE at BFL

FY	2061/062	2062/063	2063/064	2064/065	2065/066
ROE (%)	0.56	62.58	45.10	24.10	16.57

Appendix (II)

BFL is in good profitable condition at later years of establishment. In the year2062/063 and 2063/064 ROE is 62.58 and 45.10. This reveals that company is in better position to attract future investments.

Earning Per Share (EPS): EPS is another measure of profitability of the shareholder's investment. It shows profitability of the firm per share basis. Though EPS does not reflect how much is paid as dividend and how much is retained in the company, it is a valuable and widely used ratio. It is the ratio of net income for shareholders to total no of outstanding source i.e.

$$EPS = \frac{\text{Net Income to shareholders}}{\text{No. of shares outstanding}} \quad \ldots\ldots\text{Equation. 4.4}$$

Following table presents the EPS for different year using equation (4.4).

Table No. 4.20

EPS at BFL

FY	2061/062	2062/063	2063/064	2064/065	2065/066
EPS (Rs)	0.1347	8.31	10.60	9.67	21.85
Increment (%)	-	60.69	27.56	-8.77	125.96
No. of Shares outstanding	500000	600000	600000	660000	725943

Source: Annual Reports, BFL

In average, company is achieving high EPS. In FY 2064/065 EPS is comparatively low. It was only Rs.9.67. But in average, company's EPS is Rs.10.11. This means shareholders investments are profitable region. Above table shows the significant fluctuations in EPS year after year, but in average positive fluctuations are greater than negative fluctuations resulting in high EPS.

4.7.2 Liquidity Ratios: Liquidity refers to the ability of a firm to repay the money when required. Liquidity position certifies the certainty of paying fixed obligations to the depositors. During the planning of investment, a finance company must consider its ability to meet the current and short term obligations as soon as they become due for payment. The absence of adequate fund may deteriorate the trust of customer upon the company any time. Current ratio, quick ratio and cash ratio are the main measures of Liquidity.

Current Ratio (CR): It is a very clear fact that current assets management of a company results in the performance on behalf of liquidity. Current Ratio determines the liquidity position of the company. It is the margin of safety for creditors. Current Ratio is a tool for measuring the short term stability or ability of the company to carry on its day to day work and meet the short term commitment earlier. (Hingorani, et. Al.,1980; 154). It is the ratio of total current assets to total current liabilities.

Finance Companies have following structure of current assets and current liabilities.

Current Assets	Current Liabilities
Cash, bank and financial	Short term loans,
Institutions balance	Sundry Creditors,
Sundry debtors,	Account Payables,
Marketable Securities,	Accrued expenses,
Bank Overdraft,	Income tax liability
Prepaid Expenses and Money at call	Long Term debt maturing in
	Current year, and proposed divided to pay.

Following table depicts the liquidity position of BFL during the period under study.

Table No. 4.21

Current Ratio of BFL

FY	CA (Rs)	Increment (%)	CL (Rs)	Increment (%)	CA/CL
2061/062	9434947	-	1808602	-	5.23
2062/063	39512332	318.73	5438729	200.7	7.26
2063/064	27376472	-34.14	12606278	131.8	2.18
2064/065	77649588	184.00	24326236	93	3.19
2065/066	71382914	-8.02	26917701	10.65	2.65

Source: Annual Reports, BFL

Unlike any other business firm, a finance company needs to be more liquid comparatively. Due to the nature of its financial activities, the more the positive value of current ratio, the more is strength of the company to make the money available any time for investment and simultaneously meet its fixed obligation. BFL has policy to maintain the company a bit in more liquid state. In average it is maintaining its CR equal to 4.00. But a high liquidity is also not preferred, BFL showed high CR equal to 7.16 on the FY 062/063. And in latter year it has maintained the optimum level of CA and CL.

Quick Ratio (QR): Quick ratio is the ratio of liquid assets to current liabilities. A liquid assets or quick assets can be converted into cash immediately without a loss of value. Among the different current assets, cash is the most liquid. Quick assets in a financial company comprise cash, bank balance, balance in financial institutions, money at call and marketable securities.

Following table depicts quick ratio of BFL at the periods under study.

Table No. 4.22

Quick Ratio at BFL

FY	QA (Rs)	Increment (%)	CL (Rs)	Increment (%)	QA/CL
2061/062	8422784	-	1808602	-	4.66
2062/063	45277099	437.56	5438729	200.7	8.32
2063/064	31015508	-31.44	12606278	131.80	2.46
2064/065	70577674	127.55	24326336	93	2.9
2065/066	63598394	-9.89	26917701	10.65	2.36

Source: Annual Reports, BFL

Here in the table quick ratio has been maintained high. One of the reasons behind this is that, it is by the nature of finance companies, they should hold more liquid assets. The pattern of quick ratio maintained by company is nearly the same with that of current ratio.

Cash Ratio (CR): Maintenance of cash ratio is also major policy of a finance company. Cash, here, means cash, bank balance and marketable securities. Following table depicts the management of cash ratio by BFL during the period under study.

Here,

$$\text{Cash\&Equivalent Ratio} = \frac{\text{Cash + Marketable Securities + Bank Balance}}{\text{Current liabilities}} \quad \text{.......eq}^n 4.5$$

Table No. 4.23

Cash Ratio at BFL

FY	2061/062	2062/063	2063/064	2064/065	2065/066
Cash (Rs)	8422784	36210099	22038507	11131014	14510256
Cash Ratio	4.66	6.66	1.75	0.46	0.54

Source: Annual Reports, BFL

In earlier year's cash ratios are high i.e. in fiscal year 2061/062, cash ratio was 4.66 and in FY 2062/063, cash ratio was 6.66. But in later years it has low level of cash ratio. From one side it is good to maintain a positive cash ratio lower than one but such less liquid situation with respect to cash some times may put a company in problem.

Some other measure of liquidity: There is some other important measure of liquidity described below and are used for analysis of data of BFL.

a) Loan and Advance to current Assets Ratio: This measure notifies that how much of current assets are utilized for Loan and Advance for a specific year. It is the ratio of Loan and Advance to current Assets of the company for any specific period. Following table depicts Loan and Advance to Current Assets ratio for each five years under the study.

Table No. 4.24

Loan and Advance to Current Assets Ratio at BFL

FY	2061/062	2062/063	2063/064	2064/065	2054/066
LA/CA	4.58	3.63	8.80	5.23	8.75

Amount of Loan and Advance is given in the Table No. 4.14 for each period. From this table investment performance of BFL med the best by supplying loan and advance by 8.75 times more than the current assets of that year. A growing

company should follow such practices. BFL is in comfortable region for each of the 5 year period in terms of Loan and Advance to current assets ratio.

b. Cash to total Deposit Ratio: This ratio indicates the proportion of cash and bank balance to total deposit ratio to find out how much investment is done for such assets with respect to total deposit. Following table gives the cash to total deposit ratio of BFL for each of the period under study. Cash here means the sum of cash, bank balance and government's securities only. Table No. 4.23 depicts the cash amount and Table No. 4.14 depicts the amount of total deposit in previous section.

$$\text{Cash to total deposit (CD) ratio} = \frac{\text{Cash + Bank and FI's balance + Government Securities}}{\text{Total Deposit}}$$

Table No. 4.25

Cash to total Deposit Ratio at BFL (FY 2060/061 to 2064/065)

FY	2061/062	2062/063	2063/064	2064/065	2065/066
CD Ratio	0.21	.102	0.60	0.57	0.56

The above data related to cash to total deposit ratio clearly explains that BFL has remarkably fluctuating proportion of cash in relation to total deposit. In early two years, FY 2061/062 and FY 2062/063, 1.02 % cash of total deposit were maintained. But in later years a sudden increasing can be seen. i.e. 0.60 then after declining in proportion a little. Thus the trends of total deposit collection and cash maintenance are in opposite direction. Total deposit is increasing while cash is decreasing year after year.

4.7.3 Activity Ratio: Major source of fund of a finance company are deposit, reserve and surplus and share capital. These funds are invited in various assets to promote different types of business, industry and service programmed. The better is the management of investment assets the larger is the earnings to the company. Activity ratios are employed to evaluate the efficiency of management and utilization of the assets. A proper balance

between collected fund and their investment reflects performance on behalf of over all investment. Thus calculation of various activity ratios over a period of several years enables a finance company to plan better investment strategies and follow up of controlling mechanism. Activity ratios of BFL over a five year period (FY 2061/062 to FY 2065/066) are calculated ahead using following measures:

- ❖ Loans and Advance to Total Deposit ratio,
- ❖ Non-performing assets to total Deposit ratio,
- ❖ Credit risk ratio, and
- ❖ Capital risk ratio.

Loan and Advance to Total Deposit Ratio: The necessary details for LA to TD ratio have already been discussed in section 4.6 of this chapter. For the sake of revision, data are put in brief in following table:

Table No. 4.26

LA to TD ratio at BFL.

FY	2061/062	2062/063	2063/064	2064/065	2065/066
LA/TD	1.07	0.82	7.3	0.79	0.78

According to the policy of BFL to invest more than deposited, it has got the success in average during the five year period. Only in the year 2063/064 it has got greater success over the study of five years.

Only 88 % of TD could it invest for LA, rather it increased bank balance in commercial bank to earn interest in this year. In the FY 2063/064, BFL comparatively invested more in LA, resulting in LA to TD ratio equal to 1.11

Total Investment to Total deposit Ratio: This indicates the over all performance of investment with respect to TD. Following table presents the ratio for each of the under study.

Table No. 4.27

TI to TD ratio at BFL

(Rs. In lakh)**.**

FY	LA (a)	Securities (b)	TI (a +b)	TD	TI/TD
2061/062	432.14	0	432.14	403.19	1.07
2062/063	1433.69	5.73	1439.42	1749.37	0.82
2063/064	2409.81	5.73	2415.54	3304.24	0.73
2064/065	4058.02	5.50	4063.52	5148.63	0.79
2065/066	6244.41	5.50	6249.91	7975.73	0.78

Source: Annual Reports, BFL.

 TI to TD ratio and LA to LD ratio (Table No.4.26) are similar in each year. This is because company normally invested in securities in comparison with LA.

NPA to TD ratio: The meaning and characteristics of Non-performing assets (NPA) will be discussed in detail in the following sections. The management of NPA is a topic to be studied under controlling of investment section. Here, just to know how the NPA is incurring with respect to TD, NPA to TD ratio is studied. The more is the NPA, the more is the amount of loss provision resulting in reduction of potential investment and subsequently activity is diminished. Following table presents the necessary data related with NPA to TD ratio.

Table No. 4.28

NPA to TD ratio at BFL

(Rs.'000')

FY	NPA	TD	NPA/TD
2061/062	0	40318.83	0
2062/063	0	163422.38	0
2063/064	0	236309.84	0
2064/065	2329.47	388192.51	0.60
2065/066	5662.77	563116.74	1.01

Source: Annual Reports, BFL

NPA is nil up to FY 2063/064. Then after, NPA came to exist with very low quantity resulting in just 0.60 or 1.01 % of TD.

Credit Risk Ratio: Loan and Advance occupies major sector of loan availed to the customer. Loan, by its nature, is always inherited with risk. The more company extends the credit or loan the more is the accumulation of risk. One of the measures of such type of risk is Credit Risk ratio. This indicates the portion of LA allocated from total investment. Here, total investment indicates the total assets of the company including both current and fixed assets. Following table presents the credit risk ratio at BFL for each five years under study.

Table No. 4.29

LA to TA Ratio

(Rs.in Lakh.)

FY	LA	Increment (%)	TA	Increment (%)	LA/TA
2061/062	432.14	-	541.95	-	0.80
2062/063	1433.69	231.76	2420.45	346.62	0.59
2063/064	2409.81	68.08	4061.69	67.81	0.59
2064/065	4058.02	68.40	5995.07	47.60	0.68
2065/066	6244.41	53.88	10537.84	75.78	0.59

Source: Annual Reports, BFL.

From the data of above table it can be observed that increasing pattern of LA is a bit higher than that of TA. This includes a higher credit risk ratio. Credit risk ratio of BFL is always high with only a bit fluctuation in some years. In FY 2062/063, FY 2063/064 and FY 2065/066 credit risk ratios are 0.59.

These ratios resulted in same over the credit risk ratio of other years which are above 0.80.

Capital Risk Ratio: This measures the portion of share capital in terms of risk weighted assets so that the risky nature of returns to shareholders can be explained while performing the planning of investment. Risk weighted assets is composed of following type of risky assets in a finance company:

- Balance at registered bank and FI,
- Money at call,
- Fixed assets,
- Account Receivables, etc.

Capital risk ratio is calculated as follows:

$$\text{Capital Risk Ratio} = \frac{\text{Share Capital}}{\text{Risk Weighted Assets}}$$

Table No. 4.30

Capital risk ratio at BFL

(Rs. Lakh)

FY	Share Capital	Risk Weighted Assets	Share Capital/Risk weighted asset
2061/062	400	471.85	0.85
2062/063	600	1553.49	0.39
2063/064	600	2517.82	0.24
2064/065	660	4116.62	0.16
2065/066	725	6248.40	0.12

Source: Annual Reports, BFL

From the above table, it can be observed that BFL is minimally trying to increase capital risk ratio. Only at the starting year FY 2061/062 it was a bit higher up to 0.85 then after in decreasing trend.

4.7.4 Growth Ratios: A company may not sustain for long run if it can not grow in terms of various aspect. Companies over all planning and controlling systems are driven by only the major objective to in forth coming years. It would invest only at that sector where the chance to grow is. Moreover the growth of many independent variables are needed in prior and their growth patter describes the strength and weakness of the company and accordingly company invests in response to the opportunities and threats prevailing in the investment sector of the economy. The major variables, whose growth rates are studied in the following sections, are given below:

Deposit, NPA LA NPAT & Total investment.

Growth ratios or growth rates are interchangeably used in the study. Following is the formula to estimate the growth rate:

$$V_n = V_0 (1 + g)^{n-1}$$

Where, V = Variable under study

V_0 = Value at base year

Vn = Value at nth year

G = growth rate.

Table No. 4.31

Growth Ratio of Deposit, Loan and Advance, Total Investment, NPA, and NPAT at BFL

FY	Deposit Growth Ratio	LA Growth Ratio	Total Investment Growth Ratio	NPA Growth Ratio	NPAT Growth Ratio
2061/062	-	-	-	-	-
2062/063	3.34	2.32	2.33	-	73.00
2063/064	0.89	0.68	0.68	-	2.75
2064/065	0.56	0.68	0.68	-	3.32
2065/066	0.55	0.54	0.54	0.40	1.49

NPAT in the table resembles with the net income to shareholders as shown earlier in the Table No. 4.15. Besides the growth rate calculated in the year 062/063, all the variables are growing rapidly. NPAT has realized highest growth rate in average as compared with other variables.

4.8 Cost – Volume – Profit (CVP) Analysis

Cost – Volume – Profit (CVP) analysis is also known as Break- even analysis. Break – even analysis is a very important and essential step in financial planning and decision-making. It helps to know the effects of various factors on profit. The analytical technique used to study the behavior of profit in response to the changes in volume; costs and prices in called the CVP analysis. It is a device used to determine the usefulness of the planning of investment in a company. Planning of investment is entirely related with CVP. CVP analysis in a finance company helps to find break – even point in between income and expenditures or investments. It will help to determine the minimum investment so that just to avoid the loss. Management of the finance company therefore uses CVP analysis to predict and evaluate the implications of its short run decisions about fixed costs, variable costs and volume of investments and income. CVP in a finance company will help to find minimum level of investment needed to avoid losses, to find level of investment for a targeted income, to find the effect of changes in cost and investments in income, to find the profitable assets under investment etc. Break-even analysis establishes a relationship between revenues and costs with respect to the volume of investment in a finance company. It indicates the level of investment at which costs and revenues are in equilibrium. This equilibrium point is known as break-even point. It is that level of investment where total income/revenues equal to total cost/expenditures. In other word break-even point (BEP) is no-profit, no-loss point. CVP analysis is based on certain assumptions, which are as follows:
- ❖ It is based on accounting data,
- ❖ Cost are classified as fixed and variable,
- ❖ Fixed cost per annum is assumed to be remaining constant,

❖ The basic policy of the management will not change materially in short run and so on.

In case of a finance institution, above things remaining the same; house rent, staff salaries, staff expense, depreciation, audit fee, yearly membership fees and interest on fixed deposit are fixed costs whereas remaining all other costs are termed as variable costs. Here is the study PV (Profit-Volume) ratio uses investment in place of volume. Following is the formula to calculate BEP as under:

$$\text{BEP (In Rs.)} = \frac{\text{Fixed Cost}}{\text{P} - \text{V Ratio}}$$

Break-even analysis of a finance company can also be performed with respect to revenues instead of investment. It this case, P-V ratio will be as follows:

$$\text{P-V ratio} = 1 - \frac{\text{Variable Cost}}{\text{Revenue}}$$

In this study, BEP is calculated on the basis of both Investment and Revenue. The Particulars under fixed costs and variable costs for BFL are mentioned in Appendix I .

Table No. 4.32

Calculation of BEP on the basis of revenue

FY	2061/062	2062/063	2063/064	2064/065	2065/066
Revenue (Rs)	1578195.00	18480647.00	31409575.00	47496474.00	73218714.00
PV Ratio	0.72	0.81	0.81	0.83	0.83
BEP (Rs)	818993.00	1047165.00	16996359.00	23146378.00	33907948.00

Source: Annual Reports, BFL.

In above table, data clearly shows that the company would be in break-even point even if it would have collected around 50 % of total revenue every year except FY

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2062/063 where only 5.67 % of total revenue was sufficient revenue to put BFL in Break-even position.

4.9 Correlation Analysis

 Correlation is a statistical device designed to measure the degree of association between two or more variables. In other words, the measure of relations between two or more variables in terms as correlation. Sir Francis Galton (1822-1911) and Karl Pearson (1857-1936) is the explorer of the method for measuring the association between two variables. In the process of measuring degree of association between two variables. IN The process of measuring degree of association between such variables, one more summary statistics is needed and is known as correlation coefficient. It is generally denoted by **r.** This could be a range between -1 to +1. i.e. the value can neither exceed +1 nor precede -1 . The value of **r** equal to +1 indicates the perfect positive correlation between the variables under the study. It the value of **r** equal to -1 indicates the perfect negative correlation between the variables under the study. It the value of **r** is equal to zero, it indicates that those variables are not correlated at all. Moreover, on the basis of the value of **r,** correlation between the variables is categorized as positive, negative, linear, non-linear, partial and multiple correlations.

The study here is limited to only four types of correlation for analysis purpose of defferent variables at BFL. They are:

- ⌡ Positive Correlation
- ⌡ Negative Correlation
- ⌡ Linear Correlation &
- ⌡ Non-Linear Correlation.

Before performing the analytical interpretation of calculated values of correlation coefficient **r,** it is necessary to know the validity of **r** . The validity or significance of **r** is determined by using a measure called **Probable Error.** Probable Error of correlation coefficient **r** is denoted by **P.E.** Following criteria are applied to draw the inference related to the significance of correlation coefficient.

> If r < P.E. : There is no evidence of correlation, i.e. Value of **r** is not significant.

> If r > P.E. : There is strong evidence of correlation i.e. Value of r is significant.

> Other then above two situations, nothing can be started for the outcome.

One major limitation of correlation analysis is that, it does not tell about the causes and effect relationship. Though, there is a high degree of correlation between the variables under study, one can not say which one is the cause and which one the effect. The list of pairs of variables put under this study for analysis of correlation is as follows:

> Deposit and Loan and Advance ,

> Loan loss Provision and Loan and Advance,

> Non-performing Assets and Loan and Advance,

> Total capital Employed and investments,

> Total investment and Total deposit and

> Non-performing Assets and Loan Loss Provision.

After performing the various calculations of correlation coefficient **r** in Appendix (iii) with different variable taking two at a time, following facts are observed.

Deposit and Loan and Advance are highly correlated positively. (I.e. r = 0.9977). Value of r is highly significant. There existed nearly linear correlation between Deposit and Loan and Advance at BFL. (Appendix iii)

a. Loan loss provision and Loan and Advance are highly correlated positively (i.e. r =0.98). Value of r is highly significant. There existed non-linear correlation between Loan loss Provision and Loan and Advance at BFL. (Appendix iii)

b. Non performing assets and loan and Advance are positively correlated with higher value of correlation coefficient. (I.e. r =0.92). Value of r is significant. There existed non-linear correlation between NPA and Loan and Advance at BFL. (Appendix iii)

c. Total Capital Employed is highly correlated with Total Investment at BFL. (I.e. r =0.99). Value of r is highly significant. There existed non-linear but positive correlation between total capital employed and total investment. (Appendix iii)

d. Total deposit is also highly correlated with total investment in positive direction at BFL. (I.e. r = 0.9). Value of r is greatly significant. There existed nearly linear correlation between total deposit and total investment. (Appendix I)

e. NPA at BFL possesses a high degree of correlation with Loan loss Provision in the positive direction. (I.e. r =0.40). Value of r is also very significant. There existed a non-linear correlation between NPA and Loan provision at BFL. (Appendix iii)

4.10 Trend Analysis

All the data collected for the study purpose are presented in chronological order. Those time series data possess the span of five years period starting from fiscal year 2061/021 to 2065/066. And almost all variables, either dependent of independent under the study have shown direct response for series of time periods. In figures almost all variables have shown the increasing trend over the time period under the study. However, only two variables showed the decreasing trend while they are studied on percentage basis. One is NPA as percentage of total investment and the other is investment portfolio of shares and debentures as the percentage of total investment. Since NPA existed only at last two years, performing trend analysis of NPA may not conclude the valid inferences, so NPA is excluded with Planning and controlling part for execution of various results, trend analysis is an indispensable statistical tool on order to fulfill the purpose of the study. It helps in future forecasting and planning with help of past and present data and the factor affecting them will make possible to forecast the future magnitude. Most of the variables studied earlier in previous sections are analyzed here with respect to yearly time series data for 5 years (i.e. 2062 to 2066). Prior to

the study upon collected data, a concept upon time series analysis is appropriate for understanding here.

A series formed from a set of statistical data arranged in accordance with their time of occurrence is said to be a time series. Time series the relation between two variables, one being the time (Bajracharya, 2057; 94). Mathematically, a time series data is defined by the function relation y = f (t), Where y is the value of the variable under study at the time 't'. Here in the study, a widely and most commonly used method is applied to describe the trend, i.e. least square method. Under this method, a trend line is obtained and called the line of best fit. If y is the dependent variable and x is the independent variable, i.e. time, the trend line is represented by following equation.

$$Y = a + bx \dots\dots\dots\dots\dots\dots\dots (I)$$

Where, a is the average value of y and B is the slope of trend line, in other word it is an amount of change in y for a unit change in x.

To find the values of a and b, and to set the trend line, following two equations are needed to be solved:

$$y = na + b \quad x\dots\dots\dots\dots\dots\dots (ii)$$
$$xy = a \quad x + b \quad x^2\dots\dots\dots\dots\dots..(iii)$$

Where, n is the number of periods or years for which the data are given

Following are the variables for which trend analysis is performed using least square method in this study:

⌡ Total deposit

⌡ Loan and advance

⌡ Total investment and

⌡ NPAT

In Appendix IV, necessary calculations and lines of best fit are presented.

4.11 Controlling Of Investment in BFL

Controlling here deserves a broad meaning. Different investment policies follow up procedures, violation and non-violation of NRB directives, NRB supervision and other various process related to policing of overall investment under taken by a finance company is studied here. According to the objectives of the study, management of non performing assets and NRB directives that influences BFL are described and analyzed in this section. This study upon controlling mechanism in BFL is carried out because without any proper controlling system, the achievement of goal is nearly impossible. Moreover, as the importance of planning of investment in a finance company is there, the similar is the importance of controlling mechanism for investment in the same company.According to the facts mentioned earlier, it is the Loan and Advance which occupies the major portion of investments in a finance company. Thus the management of Loan and Advance is the major concern of the study in following sections.

Loan provided by the finance company is categorized in five classes according to guidelines of NRB .They are:

⟩ Good loan/pass,

⟩ Sign of sub-standard loan,

⟩ Doubtful loan

⟩ Sub-standard loan, and

⟩ Bad loan

NRB has the directives under which a finance company has to establish different provisions for different classes of loans. Provisions are maintained in terms of money assigning percentages specific to the type of loan. A loan which is not overdue or matured falls on category of good loan and one percent (1%) of such loan amount is put on loss provision amount at NRB. This type of loan also do not cross due period of three month. A loan, whose due period has been changed by increasing date of payment and adjusted in that manner, falls on sign of sub standard loan. 12.5% amount of such loan is put on loss provision account at NRB. A loan, whose due period has already set in the range of 3 month to 6 month, falls

under the category of substandard loan and 25 % of such loan amount is maintained for loss provision. Similarly, a loan whose due period has reached over 6 months but not cross 1 year falls under the category of doubtful loan. Loss provision need to maintain for such loan is 50 % of total loan amount of this type. If principle of a loan is overdue for more than one year, it is declared as bad debt. For such type of bad loan 100 % loss provision is needed by NRB. Following table explained these regulations of NRB set to the every type of loans and their characteristics with corresponding loss provision for finance company.

Table No. 4.33

Category of Loan and Corresponding Loss Provision as NRB directives

Category of Loan	Overdue period	Loss Provision
Good Loan	Not overdue or matured	1.0
Sign of Sub-standard loan	Overdue is adjusted for less than 3 months	12.5
Sub-standard loan	3 to 6 months	25.0
Doubtful loan	6 months to 1 year	50.0

Source: FI Supervision Department, NRB.

According to NRB unified directives the total amount of loss provision should not exceed 1.25 % of total risk weighted asset. Moreover, for loan disbursement and to ease the availability of loan to customer, the existing fund based limit per customer is 25 % of primary capital and non-fund based limit is 50 % of primary capital. Such changes of NRB are similar to the international practices.

4.11.1 Non-Performing Assets (NPA): Introductory part has already been covered briefly in chapter two. Practically, that amount of loan, which the individual financial company have already provided to the customer but this customer has not paid until the time is already matured, is called non-performing asset. In a broader sense, this non-Performing asset is specifically termed as non-

performing loan in a finance company. This study focuses on overall impact of NPA on the profitability of finance company and comparison between NPA growth and profitability of BFL.

According to Athmanathan and Venkatakrishna, non-performing assets do not earn any income to the finance company rather they do affect the profit in following ways:

The resource locked up in NPA is borrowed at a cost and have to earn a minimum return to service this cost. NPA on the one hand do not earn any income but on the other hand drain the profits earned by performing assets though the claim on provisioning requirements. Since they do not earn interest, they bring down the yield on advances and the net interest margin or the spread. NPA have a direct impact on return on assets and return on equity, the two main two parameters for measuring profitability of the finance company. Return on assets will be affected because while the total assets include the NPA they do not contribute to profit which are the numerator in the ratio. The cost of maintaining these assets include administrative costs, legal costs of procuring the resources locked in. NPA bring down the profits, affects the shareholder value and thus adversely affect the investor confidence. Moreover, NPA results in lower ROE and ROA. NPA results in lower ratings and ranking of finance company. Investor's confidence upon the company may be weakening. Blockage of capital and increase in recovery costs are detrimental to a NPA holding finance company.

Here in the study as a first part, the trend of NPA, operating profit, net profit and loan loss provisioning increment level compared to previous year has been computed. Then trend of NPA with operating profit, net profit and loan loss provisioning is compared to assess whether the increment ratio of operating profit, net profitability is affected with the worth of NPA. If the increment ratio of NPA is higher than of operating profit, it can be concluded that significant portion of operating profit is sacrificed for maintaining required loan loss provisioning and there is reduction on net profit. Likewise if net profit level is similar even though the NPA level is increased, we may conclude that net profit level is maintained because bank's actual profitability is not affected only due to NPA growth. In

second part trend of loan portfolio and NPA increment level on the basis of previous year positions have been computed. His purpose of assessing the trend is for finding the relation of loan expansion and growth of NPA. If there is positive growth of loan and advances and NPA, growth is also positive in case of finance companies under study, and we can say that the enhancement of credit portfolio may cause accumulation of risky assets resulting NPA growth.

Following table depicts NPA, operating profit, net profit, loan loss provision and their increment in percentages for two fiscal years 2064/065 and 2065/066. It is because in previous years no NPA are reported and thus no provisioning on loan loss was required by BRB for non performing loans.

Table No. 4.34

Analysis of NPA and Profitability of BFL.

Particulars	064/065	2065/066
NPA	0.23	0.57
Increment (%)	-	147.83
Operating Profit *	675	-
Increment (%)	-	-
Net Profit *	6380.72	15861.21
Increment (%)	-	148.07
Loan Loss Provision	5379	61810.11
Increment (%)	-	104.91

*Refer Table No. 4.15

Since, company should it's NPA after 4th year (FY 2064/065) of its establishment it showed an increment of 147.83 % till next year (FY 2065/066). Still company is not able to produce higher increment on operating profit. And on net profit (I.e.148.07 > 147.83%). But unfortunately increment in loan loss provision is also much lower than that of NPA. i.e. . (104<147.83)

4.11.2 Analysis of NPA with respect to TA, LA, PA and other important measure:

NPA plays a great role towards deterioration of a finance company. So, it is very necessary to manage NPA in a proper way, management of NPA starts with a proper analysis of its relationship with various financial and non financial assets. Here in the study, relationship of NPA with TA, LA, PA and other important measures for the requirement of aforesaid analysis.

Table No. 4.35:

Analysis of NPA with respect to TA, LA, PA and loss provision.

Rs.'000'

FY	NPA	TA	LA	PA	$\dfrac{NPA}{TA} \times 100\%$	$\dfrac{NPA}{LA} \times 100\%$	$\dfrac{NPA}{PA} \times 100\%$
2063/064	2329.475	599507.01	405801.60	405062.00	0.38	0.57	0.58
2064/065	5662.771	1053784.39	624441.30	623407.00	0.53	0.91	0.91

Source: Annual Reports

The data of above table are sufficient to make conclusion that BFL is successful in controlling NPA. The percentages of NPA in decimal figure do not imply and significant effect at BFL, though it has agreed of acceptable region up to 5 % of LA. The figure above shows the percentages of NPA are in decreasing trend whereas TA and LA are increasing. Also Pa is increasing resulting in pressure for NPA growth.

4.8.3. NRB regulations: Besides the loan loss provision, NRB has issued many other directives which have direct or indirect impact upon overall investment activities of a Finance company. BFL is found to follow each of them. A finance company should maintain primary capital at least 5.5 % and total capital 11 % of total risk weighted assets. BFL has maintained these funds as follows:

Table No. 4.36

Capital Adequacy Ratios

FY	2061/062	2062/063	2063/064	2064/065	2065/066
Primary Capital (% of Total RWA)	25.57	14.56	11.73	15.51	12.84
Capital Fund (% of total RWA)	26.49	16.30	12.96	16.76	14.09

Source: Annual Reports, BFL

NRB has issued directives to limit the investment portfolio of finance Companies. According to these directives, a finance company can not invest more then 10 % of its primary capital towards shares or debenture of any other single organized (listed) institutions. But a finance company can invest up to 20 % of its primary capital towards or debentures of an organized institution which is involved in financial transactions. Moreover, up to 30 % of Primary capital can a finance company invest towards shares and debentures of two or more than two organized institutions? Following table shows the investment portfolio and it's percentage over primary capital in BFL.

Table No. 4.37

Percentage of investment portfolio over primary capital

FY	Primary Capital	Investment in govt. securities	Investment in organized FI	Total investment on securities	Total Portfolio investment / Primary Capital X 100 %
2062/063	22626.95	550	23	573	2.53
2063/064	29542.21	550	23	573	1.94
2064/065	63847.42	550	-	550	0.86
2065/066	80245.43	550	-	550	0.68

Source: Annual Reports, BFL

In the fiscal year 2061/062, company did not invested in any shares or debentures. Organized institutions are already listed in NEPSE.

NRB has categorized all the finance companies in class 'C'. The company under this category should maintain their cash stock at NRB equal to 2 % of total deposit and borrowed amount. A finance company can collect financial resources up to 15 times of its primary capital. Financial resources here are meant for the collected amount from deposit of group-member, borrowing and debentures. The institutions under class 'C' category or a finance company can manipulated institutional deposit (individual firm, company or organized institutions) up to 20 % of its total deposits as per the revised investment policy of NRB for FY 2065/066. A company can issue debentures and bonds only after completing five successful years of financial transaction, listed in NEPSE for continuous tree years and company should have no retained loss till the date. NRB follow up procedures also includes the restrictions on distribution of dividends and additional collection of financial resources on violation of deposit collection limit. Recently, NRB on its loan policy stated that not more than 70 % loan should be provided on vehicle.

4.11.3 Monetary Policy and it's endorsement by BFL.

According to the report on **Monetary Policy 065/066** dated 1st chaitra, 2064; year on year (y-o-y) consumer price inflation rate has reached up to 5.8 % and growth rate of market capitalization has increased by 119.8 %. Budgeted economic growth at the end of the fiscal year 2065/066 is 5.0 %. Provision for such reserve ratio has been reduced to 5 % for financial institutions whereas it was 6 % previously. The provision for CAR has already been discussed in previous section. According to the current quality, management of liquidity and fluctuations on interested rates on behalf of financial sectors.

Last year total ten thousand five hundred million rupees where invested on loan and advance by various financial institutions of Nepal against the security of shares. This was alarming to risk of bad debt accumulation. So, keeping in mind

the depositor welfare, NRB issued a decree to postpone the supply of loan and advance against the security of shares. Latter on, NRB withdrew that order.

Currently, economic growth of the Nation is greatly depending upon non-economic factor rather than monetary factors. Most of the financial companies are suffering excess liquidity. Consumer credit is in higher side rather than that of productive sector. Interest rates are low on account of excess liquidity. Due to the concentration of financial companies towards credit flow to unproductive sectors, mobilization of financial resources and stand discouraged. Thus, to eradicate the odd circumstances on financial sector, NRB has proposed for financial sector reform program. This program will help to maintain the price stability and minimize financial instability. The overall objective of this program is to amend the financial health of all institutions involves in financial transactions/activities.

In effect of monetary policy, BFL has sufficiently maintained CAR. BFL has already started the necessary preparations to have paid-up capital equal to Rs. 200 million in coming five years. Till the date BFL has not supplied any loan and advance against the security of shares of organized institutions. BFL is extending the more credits year after year in service sector. In FY 2065/066, BFL is expending the more credits year after year in service sector. In FY 2065/066, BFL invested Rs 820 locks in productive sector like industry, agriculture and tourism. This was 13.13 % of total loan and advance. Per year increment is 260 % in average, which is extraordinary performance of BFL. Similarly, Rs 221 lakh invested in LA for service sector during FY 2065/066. The increment percentage of such loan is 107 % in yearly average (Table no. 4.10) BFL is realizing high quality. Five years data in average show that BFL has CR equal to 4, QR equal to 4.14 and Cash ratio equal to 2.8. (See Table No. 4.21, 4.22 and 4.23).

4.12 Major Findings of the Study

In the previous sections of this chapter, data related to the study are presented and tabulated. Many data are presented in graphs and different diagrams. Various financial indicators and parameters are calculated some statistical tools are also

applied wherever necessary for analytical purpose. Thus, after performing all these activities, lot many things are noticed and found to be very important for the study of **Planning and Controlling of Investment** at BFL. Major of them are mentioned below:

Deposit Collection at BFL in retrospect:-

a. In fiscal year 2061/062 deposit has increased by 110 % over 5 year period and share of deposit are: fixed 64%, Saving 35% and Recurring 1% in average.

b. Predicting coming year deposit would be Rs. 659.30 million (Time series)

c. In FY 062/063 favorable deviation in deposit achievement was by 75.89% than budgeted

But in FY 2062/063 achievement was by 75.89%.

d. In FY 2062/063, 2063/064, and 2064/065 favorable achievement or excess deposits are

Collected than actual but 2064/065, BFL could collect only 85.83% of its actual target.

Investment at BFL in retrospect:-

a. At BFL, except FY 2063/064, Loan and Advance always exceeded the Total Deposit by   6 % in average. In higher side, LA exceeded TD by 11 % in the FY 061/062. Only in the FY 063/064, LA was supplied up to 73 % of TD.

b. Company has realized an average increment of 105.5 % LA over 5 year period. The highest   increment of 231.76 was recorded in the fiscal year 2062/063 and lowest increment of 53.88 has been recorded in the recent FY 065/066. Till FY 065/066, company is able to supply the LA equal to Rs. 624441301.00 with the start of Just Rs 43214550.00 in FY 2061/062.

c. In the past five years, LA of BFL is found to be increasing rapidly year after year. Time   series analysis performed upon LA showed a steep line

of trend, the equation of which is y = 27.83+12.7x. Thus, in the coming FY 066/067, BFL will invest an amount equal to Rs. 719.10 million in LA.

d. Housing loan came out with greatest share percentage i.e. 38.10 of LA in average over five   year period. However, Term loan also possess nearly the same % of share i.e. 37 % of LA. A bulk of amount from LA has been allocated for hire purchase. About 24 % of LA has been allocated for hire purchase loan in average over 5 years period. Thus only about 1 % of LA has been found to be allocated for loan against fixed deposit.

e. In average over 5 year period, increment each year has been realized by hire purchase loan. A surge of increment up to 183.84 % was there in FY 2062/063. Percentage increment in LA is stagnant in FY 2063/064 and FY 2064/065 at 68 %, but that of hire purchase increased from 39.81 % to 49.10 % in these respective years.

f. Loan against trade has dominated the other sectors of Term loan. In average over 5 year's   period, there is 61% share of trade loan whereas agriculture sector has been in term loan. Where as agricultural sector has been given the least preference as it cloud possess only 0.77% share in average. Though there is very low share % of loan for tourism sector, this sector has realized the very high growth rate in average i.e. 371.16% in average. Share % of other term loan like, Industry, health and education are 21.8% and 7.53% respectively taking the average data for each 5 years.

g. The total investment have followed the exactly the same pattern as LA. Trend line of TI   has the coinciding approach with that of LA. The equation of line of best fit from time series data of TI is y = 37.08+18.89x. Thus in the coming year it will be investing in total an amount of Rs. 719.80 million.

h. Normally, BFL is increasing TA by 53 % each year. And maintaining LA to TA ratio at around 80 % in average.

Financial Indicators at BFL in Retrospect:-

a. NPAT in the initial years FY 061/062 and 2062/063 were low. They were 0.12 % and 1.06% respectively. Company has achieved proportionately good growth of ROA and reached up to 1.51 % in FY 2065/066 and ROA is measured using after tax EBIT, not NPAT, The highest ROA was 2.20 % in FY 2065/066. Keeping the data of FY 2061/062 apart, in average company earned 5.60 % ROA.

b. ROCE was lowest in FY 2061/062 and lower in FY 2064/065. They were 0.53 % and 1.68 % respectively. But in the following fiscal year BFL could perform better. ROCE was 5.88 % the highest, in FY 2065/066.

c. ROE also followed nearly the same pattern as ROA and ROCE. ROE was highest, i.e. 62.58 in FY 2062/063. BFL is maintaining nearly the high ROE in recent year. Also in FY 2063/064, ROE was 45.10. But in rest fiscal years, company has relatively low ROEs.

d. EPS showed different pictures among other financial indicators. EPS was highest in the fiscal year 2065/066, it was recorded Rs 21.85. EPS lowered down up to Rs. 0.1347 but then after EPS realized 60 % growth in average and reached to Rs. 8.31 in the fiscal year 2062/063.

e. BFL was highly liquid in FY 2062/063. Current ratio in this year was 7.26. Otherwise, the company is maintaining the current ratio around 3.5 in average. Quick ratio was highest in the FY 2062/063. It was 8.32. In average company in maintaining quick ratio around 3.0. Similarly 6.66 was the highest cash ratio maintained by the company in the fiscal year 2062/063. In rest of the years the company maintained the cash ratio equal to 1.85 in average.

f. Credit risk ratio was around 60 % over the five years. In contrast to this, capital risk ratio was around 12 %. However, only at the year of operation, i.e. 2061/062 capital risk was highest and was 85 % and was lowered down to 12 tolls FY 2065/066.

g. Keeping the growth data for the FY 2062/063 apart from study (there was abnormal growth due to already mentioned fact about BFL, and it may

misguide the analysis), the normal growth rates in average realized by TD, LA, TI, NPA and NPAT were around 51 %, 63%, 63%, 40% and 95% respectively over 5 year period. Thus, NPAT led all other variables in terms of growth rate.

i. Trend line, fitted to NPAT using least square method has the equation y = 6.726+3.63x.Thus in next coming FY 2066/067 Company may earn NPAT equal to Rs. 19.73 million.

Findings from correlation Analysis:-

Characteristics of performed correlation analysis are simple i.e. only two variables at a time are tested.

    a. Calculated values of **r** for six pairs are significant.

    b. Each pairs are highly correlated and positively correlated.

    c. The value of **r** and linearity between the variables of every pairs and TD & LA, LLP &LA, NPA &LA, TCE &TI, TI & TD are non linear except NPA & LLP.

Controlling of Investment at BFL:-

a) For reinvestment only 80% of total funds collected from different sources (e.g. share capital, deposit and other liabilities) are sufficient.

b) Till 2063/064, no NPA was recorded at BFL. But at the last two years NPA was Rs. 2329475.00 in FY 2064/065 & Rs. 5662771.00 in FY 2065/066. Thus, NPA realized a growth rate of 39.78% in FY 2064/065

c) Company is able to reduce % of NPA with respect to LA. In FY 2064/065 it was 0.18% whereas it was 0.17% in FY 2065/066.

d) % of NPA with respect to TA is only 0.15% in FY 2065/066.

e) BFL is disbursing loan for 4 to 7 years average.

f) Company judges its clients suitable for granting the loan by collateral and source of income.

g) Company avails up to 75% of the value of the collateral.

h) BFL is realizing the loan recovery in installment basis.

i) Company regularly provides data to NRB (i.e. monthly, quarterly, half-yearly and yearly).

j) Till the data company do not suffer any type of loan other than good loan (pass) and NPL.

k) BFL has classified the category of LA.

l) Loan loss provision was increasing at the rate of 150% in average. However % of LLP was very low. It was 91.5% of LLP was only against good loan.

m) BFL never collected funds from financial resources more than 15 times of it's primary capital.

n) Cash Stock at NRB is more than 20 % of total Deposit.

o) Company seems to be passive towards portfolio investment. It has invested up to only Rs 573000.00 during the 5 year period.

p) Thus, BFL has obeyed each and every directions and regulations decreed by NRB.

CHAPTER-V
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

Growth and progress in the economic sector is the utmost challenge for a developing country like Nepal. To achieve the targeted socio-economic growth of the nation, the major deteriorating factors of the economy, like uncontrollable outbreak of population growth, high unemployment rate, inadequate infrastructure, scarcity of skilled manpower to utilize the available resources and political instability, should be controlled and managed properly. Nation's economy is facing an indwelling situation between prosperity and recession. According to a report on monetary policy by NRB (2065/066), consumer price inflation is 2.80 % and growth in market capitalization rate has been increased by 119.8 % and reached up to Rs 302 billion. With the average inflation rate of 5.5 % in 2008/2009, the nation has planned to achieve an economic growth by 5 % in coming fiscal year (Monetary Policy, A report, 08/09).

Moreover, Economic liberalization and open market policy of the government has encouraged the establishment and growth of various finance companies in the country. A number of finance company has been established and still evolving under the finance company act. 2042, Bank and financial institutions ordinance 2061 and company Act 2063. Till Mid June 2009, 125 finance companies have already been in operation. Main causative factors for such speedy growth of finance companies are higher interest rates on deposits, low administration cost, high demand of consumer credit, quick management and fast service, prompt decision and liquidity position of the market. Thus, finance company mobilizes the financial resources effectively and efficiently and there by it can prove itself to be an indispensable tool for achieving the targeted socio-economic development of the nation. So one can not deny that, despite of the several challenges in the market places, finance companies should grow healthier and then only they have the access towards prosperous economy. Thus to defeat

the prevailing deteriorating and opposing factors every finance company should intervene the market place equipped with the major weapons. To fulfill this objective, this study has introduced one of the major weapons called **Planning and controlling of Investment** in a finance company. BFL is selected as sample unit for the study. Among 125 finance companies, BFL is established in 2060 B.S. and started its transaction from 11 Ashwin 2060. It has Rs 40 million authorizes capital in start. Thus, it has spent nearly five financial years in the service of Nation's economy.

Study clearly reveled that BFL has properly mobilized savings, ensured efficient allocation of resources and promoted economic growth by transforming the size, maturity and risk characteristics of different assets. It attracted resources from surplus units for better investment projects associated with limited risk and made fund available for reinvestment earning higher returns. Year after year BFL is expanding its capital fund and operation scale and for FY 2065/066, this has sufficient fund available for reinvestment equal to Rs. 443.65 million.

In order to fulfill the objective of the study, investment policy of BFL is reviewed and analyzed, controlling system and feedback mechanism of BFL is studied and evaluated, the deviations between planned figure and achievements are properly examined and after accessing the availability of source of fund for reinvestment, the suggestions for future betterments are provided to BFL.

Since, the study is focused upon the Planning and controlling of investment in BFL, each and every activity during the study is performed keeping in mind the main objectives of the study, to carryout this study, data have been obtained from secondary as well as primary sources. Planning is part of investment included investment patterns of BFL, amount of investment sector wise and type wise, and returns and ratios under different investment projects. Similarly, in controlling part of investment, different measures are studied to control inefficient and non-performing investments. NRB regulations and directions upon the investment policies and follow up procedure are also overviewed in the study.

5.2 Conclusion

Using the data (primary and secondary) and performing descriptive and analytical approach by applying various financial and statistical tools and techniques, the study concluded following facts upon '**Planning and Controlling of Investment'** at BFL:

1) Company's main sector for investment is loan and advance. More than 90 % of total investments are concentrated to LA. Major portion of LA is occupied by housing loan and term loan. They possessed around 75 % share of LA.

2) BFL has always succeeded to achieve more than planned figure of investment upon LA and similar growth pattern is there with components of LA. (i.e. housing loan, term loan, hire purchase etc.)

3) BFL is able to earn require rate of return from the various types of risky investment.

4) Company is able collect sufficient funds for investment from different sources. Major of them are deposits and capital fund.

5) Fixed deposit and saving deposits occupied about 64 % and 35 % respectively in total deposit fund.

6) Company invested on LA more than deposited every year in average.

7) Though the share percentage of total investment towards agriculture sector and service sector (e.g. Health, education etc.) are negligible, rupee wise loan for these type of sectors are rapidly increasing year after year. Same type of picture is with tourism sector but with higher growth rate.

8) Company's profitability ratios are very good; liquidity position is a bit higher both in terms of current assets and quick assets.

9) BFL is efficiently handling the credit risks and capital risks.

10) In spite of very low bad debt ratios, company is still lowering the % of NPA on the basis of LA.

11) BFL is increasing it's investment upon total assets by 53 % growth rate in average and has maintained LA to TA ratio at around 80 % in average over 5 years period.

12) The major role playing variables for planning and controlling of investment like TD, LA, TI, NPA and NPAT over 5 year period.

13) The variables in pairs like TD-LA, LLP-LA, NPA-LA, TCE-IF, TI-TD and NPA-LLP are highly co-related in positive direction.

14) Company is operating its various investment activities placing itself in the big area of margin of safety which is around 50 % normally on the basis of revenue and 96.5 % in average when BEP is calculated on the basis of total investment.

15) Company meets the suggestions supplied by NRB though it's regular monetary policy and investment policy.

16) BFL is in accordance with each and every directive of NRB.

17) Updating of feedback mechanism is also a part of company's official system by providing the regular trainings, guidance and motivational factors to the office staffs and field forces.

18) Till the data BFL neither borrowed nor issued bond or debenture.

5.3 Recommendations

One of the major objectives of the study is to provide suggestions for future betterment of BFL. The necessary recommendations perceived to be forwarded for the company are as follows:

1. Company should expand its areas of investment by increasing more lending activities.

2. BFL should think of balancing the risk portfolio by increasing the investment towards government securities and shares and debentures of other organized institutions so that investment portfolio is efficiently managed under the dynamic implication of financial markets.

3. Company should carefully examine the safety principle as well as sources of repayment, capital structure and creditworthiness of borrower.

4. Credit manager of the company should evaluate credit risk by considering well known four **C's** of credit. They are: capacity, collateral, capital and character.

5. Loan administration of the company which comprises appraisal of loan project, sanction, disbursement, follow ups, monitoring, supervision and collection of loan should be strengthened.

6. Company should widen the investment towards productive sectors like industry and business rather to focus housing loan and hire purchase loan. Thus company will help to increase the level of imports and minimize the problem related to Balance of Payment (BOP) of the nation by it s part to some extent.

7. Company should continue to increase the weight of fixed deposit in total deposit without ignoring other type of deposits.

8. Company should minimize the contribution of total assets towards non-productive sectors and select productive sectors for long term benefits.

9. Credit risk is in higher side, so BFL should try to diversify the credit risk.

10. BFL should develop a policy so that small depositors and entrepreneurs can be attracted for promotion and mobilization of their small investment.

11. BFL should increase the quality of assets under investment as per the international standard.

12. Company should increase value maximization activities so that EPS can be increased.

13. Besides the investment towards higher returning areas, company should increase its investment towards them loan for agricultural sector, health sector and educational sector. Moreover, company should have the provision for investment in priority area and disadvantaged group of community.

14. Company should develop transparency and democracy within and outside its official systems.

Appendix-I

Allocation of Total Costs of BFL

For the Purpose of study of Break-even analysis, allocations of total costs are as follows:

Fixed Cost	Variable Costs
Interest on Fixed deposit	Interest on saving and recurring deposit
Staff Overhead	Electricity and Water
House Rent	Repair and maintenance
Auditing Fees	All other official overheads other than
Depreciation of fixed assets	those listed for fixed costs and provisions
Membership Fee	(e.g. loan loss, bonus, tax, etc.)
Renewal Fee	

Appendix-II

Calculation of Averages and Percentages

a) Average increment $= \dfrac{\text{Succeeding Year Value} - \text{Preceding Year Value}}{\text{Preceding Year Value}} \times 100\ \%$

b) % of an amount in average $= \dfrac{\text{Sum of \% Value in each Year}}{\text{No. of Years}}$

c) Calculation of ROE (Using Equation 4.3)

Year	2061/062	2062/063	2063/064	2064/065	2065/066
ROE	0.55	62.58	45.10	24.10	16.57

d) Calculation of ROCE with respect to after tax EBIT (Using Equation 4.2)

1) Fiscal Year 2061/062

$$\text{ROCE} = \frac{\text{EBIT}\,(1-T)}{\text{CE}} = \frac{404064\,(1-0.295)}{55513309} = 0.51\ \%$$

2) Fiscal Year 2062/063

$$\text{ROCE} = \frac{\text{EBIT}\,(1-T)}{\text{CE}} = \frac{14672022\,(1-0.285)}{184400612} = 5.69\ \%$$

3) Fiscal Year 2063/064

$$\text{ROCE} = \frac{\text{EBIT}\,(1-T)}{\text{CE}} = \frac{14672022\,(1-0.285)}{184400612} = 5.69\ \%$$

4) Fiscal Year 2064/065

$$\text{ROCE} = \frac{\text{EBIT}\,(1-T)}{\text{CE}} = \frac{13040959(1-0.295)}{545924812} = 1.68\ \%$$

5) Fiscal Year 2065/066

$$\text{ROCE} = \frac{\text{EBIT}(1-T)}{\text{CE}} = \frac{80648714(1-0.315)}{938931696} = 5.88\ \%$$

d) Calculation of ROA with respect to after tax EBIT (Using Equation 4.1)

1) Fiscal Year 2062/063

$$\text{ROA} = \frac{\text{EBIT}(1-T)}{\text{TA}} = \frac{404064(1-0.295)}{54194833} = 0.0053 \text{ or } 0.53\ \%$$

2) Fiscal Year 2063/064

$$\text{ROA} = \frac{\text{EBIT}(1-T)}{\text{TA}} = \frac{14672022(1-0.285)}{242045482} = 0.043$$

3) Fiscal Year 2063/064

$$\text{ROA} = \frac{\text{EBIT}(1-T)}{\text{TA}} = \frac{25953398(1-0.285)}{406168732} = 0.046$$

4) Fiscal Year 2064/065

$$\text{ROA} = \frac{\text{EBIT}(1-T)}{\text{TA}} = \frac{13040959(1-0.295)}{599507007} = 0.015$$

5) Fiscal Year 2065/066

$$\text{ROA} = \frac{\text{EBIT}(1-T)}{\text{TA}} = \frac{80648714(1-0.315)}{1053784388} = 0.052$$

Appendix-III

Calculation of correlation coefficient (r) between total deposit and loan and advance, loan loss provision and loan and advance, NPA and loan and advance, total capital employed and total deposit and loan loss provision on and NPA of BFT.

(a)   calculation of correlation coefficient (v) between total deposit and loan and advance of BFL

Year	Deposit (x) (in ten million)	LA (y) (in ten million	dx = (x-$\bar{x}$)	dy= (y-$\bar{y}$)	d×^{2}	dy^2	dx×dy
2061/062	4.03	4.32	-33.13	-32.76	1097.60	1073.22	1085.34
2062/063	17.49	14.34	-19.67	-22.74	386.91	517.11	447.30
2063/064	33.04	33.75	-4.12	-3.33	16-97	11-09	13-72
2064/065	51.49	54.05	14.33	16.97	205.35	287.98	243.18
2065/066	79.76	78.94	42.60	41.86	1814.76	1752.26	1783.24
	ϕx=185.81	ϕy=185.40			ϕdx^2= 3521.59	ϕdy^2= 3642.66	ϕdx×dy= 3572.78

Here,

    No of observation (n) =5

we have,

$$\bar{x} \text{ X} \frac{x}{n} \text{ X} \frac{185.81}{5} \text{ X37.162}$$

$$\bar{y} \text{ X} \frac{y}{n} \text{ X} \frac{185.40}{5} \text{ X37.08}$$

Now,

$$\text{Probable Error(} r_{xy} \text{ X} \frac{dx \mid dy}{\sqrt{dx^2 \mid dy^2}} \text{ X} \frac{3572.78}{\sqrt{3521.59 \mid 3641.68}} \text{ X} \frac{3572.78}{3581.12} \text{ X0.998}$$

$$\text{P.E. (} r_{xy}\text{)=0.6745} \times \frac{1 Z r^2{}_{xy}}{\sqrt{n}}$$

99

$$= 0.6745 \mid \frac{1 Z(0.998)^2}{\sqrt{5}}$$

$$= \frac{0.0031}{2.236} \text{ X} 0.0014$$

Now,

$6 \times \text{P.E.}(r_{xy}) = 0.008$

Thus,

0.998>008, which implies,

r_{xy}>6 times P.E. (r_{xy}) i.e. value of r_{xy} is significant here.

(b)   Calculation of correlation coefficient (r) between loan loss provision and loan and Advance at BFL.

Year	LLP (x) (in tem million	LA (y) (in ten million	$dx = (x-\bar{x})$	$dy= (y-\bar{y})$	dx^2	dy^2	dx×dy
2061/062	0.77	4.32	-2.48	-32.76	6.15	1073.34	81.24
2062/063	1.29	14.39	-1.96	-22.74	3.84	447.30	44.57
2063/064	2.62	33.75	-0.63	-3.33	0.40	13.72	2.10
2064/065	5.38	54.05	20.13	16.97	4.54	243.18	36.15
2065/066	6.18	78.94	2.93	41.86	8.58	1783.24	122.65
	ϕx=16.24	ϕy=185.40			$\phi dx^2=$ 23.51	$\phi dy^2=$ 3641.66	$\phi dx\times dy=$ 286.71

Here,

No. of observation (n) =5

We have,

$$\bar{x} \text{ X} \frac{x}{n} \text{ X} \frac{16.24}{5} \text{ X} 3.248$$

$$\bar{y} \text{ X} \frac{y}{n} \text{ X} \frac{185.40}{5} \text{ X} 37.08$$

Now,

$$r_{xy} \text{ X} \frac{dx \mid dy}{\sqrt{dx^2 \mid dy^2}} \text{ X} \frac{286.71}{\sqrt{23.51 \mid 3641.66}} \text{ X} \frac{286.71}{292.60} \text{ X} 0.98$$

Probable Error

$$\text{P.E. } (r_{xy})=0.6745\times\frac{1\,Z\,r^2{}_{xy}}{\sqrt{n}}=0.02$$

Now,

$$6\times\text{P.E.}(r_{xy})=0.120$$

Thus,

0.987>0.120, which implies r_{xy}>6 times PE (r_{xy}) i.e. value of r_{xy} is significant here

(c) **Calculation of correlation cefficient (r) between NPA and loss and advance of BFL**

Year	NPA (x) (in tem million	LA (y) (in ten million	dx = (x-$\bar{x}$)	dy= (y-$\bar{y}$)	d$\times^2$	dy^2	dx$\times$dy
2061/062	0	4.32	-0.16	-32.76	0.0026	1073.34	5.24
2062/063	0	14.34	-0.16	-22.74	0.026	447.30	3.64
2063/064	0	33.75	-0.16	-3.33	0.025	13.72	0.53
2064/065	0.23	54.05	0.07	16.97	0.0049	243.18	1.19
2065/066	0.57	78.94	0.41	41.86	0.1681	1783.24	17.16
	ϕx=0.80	ϕy=185.40			ϕdx^2 = 0.25	ϕdy^2 = 3641.66	ϕdx$\times$dy= 27.76

Here,

No. of observation (n) =5

We have,

$$\bar{x}\,X\frac{x}{n}\,X\frac{0.80}{5}\,X0.16$$

$$\bar{y}\,X\frac{y}{n}\,X\frac{185.40}{5}\,X37$$

Now,

$$r_{xy}\,X\frac{dx\mid dy}{\sqrt{dx^2\mid dy^2}}\,X\frac{286.71}{\sqrt{23.51\mid3641.66}}\,X\frac{286.71}{292.60}\,X0.98$$

Probable Error

$$\text{P.E. } (r_{xy})=0.6745\times\frac{1\,Z\,r^2{}_{xy}}{\sqrt{n}}=0.6745\times\frac{1\,Z\,0.85}{2.24}\,X0.05$$

Now,

6×P.E.(r$_{xy}$) =6×0.05=0.27

Thus,

6.93>0.27, which implies, r$_{xy}$>6 times P.E. (r$_{xy}$) i.e, value of r$_{xy}$ is significant here.

(d)   Calculation of correlation cefficient (r) between total capital Employed and total investment at BFL.

Year	TCE (x) (in tem million	TI (y) (in ten million	dx = (x-$\bar{x}$)	dy= (y-$\bar{y}$)	d×^{2}	dy^2	dx×dy
2061/062	5.35	4.32	-36.15	-24.88	1306.82	619	899.412
2062/063	18.74	14.4	-22.76	-14.80	518.02	219	336.85
2063/064	34.96	24.15	-6.54	-5.05	42.77	25.50	33.03
2064/065	54.59	40.64	13.09	11.44	171.35	130.87	149.75
2065/066	93.89	62.50	52.39	33.30	2744.21	1109.00	1744.59
	ϕx=207.53	ϕy=46.01			ϕdx^2 = 4783.67	ϕdy^2 = 2103.32	ϕdx×dy= 3163.63

Here,

No. of observation (n) =5

We have,

$$\bar{x} \text{ X} \frac{x}{n} \text{ X} \frac{207}{5} \text{ X}41.50$$

$$\bar{y} \text{ X} \frac{y}{n} \text{ X} \frac{146.01}{5} \text{ X}29.20$$

Now,

$$r_{xy} \text{ X} \frac{dx \mid dy}{\sqrt{dx^2 \mid dy^2}} \text{ X} \frac{3163.63}{\sqrt{4783.67 \mid 2103.32}} \text{ X} \frac{3163.63}{3172.00}$$

Probable Error

P.E. (r$_{xy}$)=0.6745× $\frac{1 Z r^2{}_{xy}}{\sqrt{n}}$ =0.0012

Now,

6×P.E.(r$_{xy}$) =0.0072

Thus,

0.99>0, which implies, r_{xy}>6 times P.E. (r_{xy}) i.e, value of r_{xy} is significant here.

(e) Calculation of correlation cefficient (r) between total Investments and total Deposit of BFL

Year	TD (x) (in tem million	TI (y) (in ten million	dx = (x-$\bar{x}$)	dy= (y-$\bar{y}$)	dx^2	dy^2	dx×dy
2061/062	4.03	4.32	-33.13	-24.88	1097.60	619	824.27
2062/063	17.49	14.4	-19.67	-14.80	386.91	219	291.12
2063/064	33.04	24.15	-4.12	-5.05	16.97	25.50	20.81
2064/065	51.49	40.64	14.33	11.44	205.35	130.87	163.94
2065/066	79.76	62.50	42.6	33.30	1814.76	1109	1418.58
	ϕx=185.81	ϕy=146.01			ϕdx^2 = 3521.59	ϕdy^2 = 2103.32	ϕdx×dy= 2718.72

Here,

No. of observation (n) =5

We have,

$$\bar{x} \ X \frac{x}{n} \ X \frac{185.81}{5} \ X 37.16$$

$$\bar{y} \ X \frac{y}{n} \ X \frac{146.01}{5} \ X 29.20$$

Now,

$$r_{xy} \ X \frac{dx \mid dy}{\sqrt{dx^2 \mid dy^2}} \ X \frac{2718.72}{\sqrt{3521.59 \mid 2103.32}} \ X 0.998$$

Probable Error

P.E. (r_{xy})=0.6745$\times\dfrac{1 Z r^2_{xy}}{\sqrt{n}}$ =0.0014

Now,

6×P.E.(r_{xy}) =0.0083

Thus,

0.99870> 0083, which implies, r_{xy}>6 times P.E. (r_{xy}) i.e, value of r_{xy} is significant here.

(f)   Calculation of correlation coefficient (r) between loan and loss provision and NPA of BFL

Year	LLP (x) (in tem million	NPA (y) (in ten million	dx = (x-$\bar{x}$)	dy= (y-$\bar{y}$)	d×^{2}	dy^2	dx×dy
2061/062	0.77	0	-2.48	-1.6	6.15	2.56	3.97
2062/063	1.29	0	-1.96	-1.6	3.84	2.56	3.14
2063/064	2.62	0	-0.63	-1.6	0.40	2.56	1.00
2064/065	5.38	2.33	2.13	0.73	4.54	0.53	1.55
2065/066	6.18	5.67	2.93	4.07	8.58	16.56	306.63
	ϕx=16.24	ϕy=8			ϕdx^2 = 23.51	ϕdy^2 = 24.77	ϕdx×dy= 9.66

Here,

No. of observation (n) =5

We have,

$$\bar{x} \text{ X} \frac{x}{n} \text{ X} \frac{16.24}{5} \text{ X3.25}$$

$$\bar{y} \text{ X} \frac{y}{n} \text{ X} \frac{8}{5} \text{ X1.6}$$

Now,

$$r_{xy} \text{ X} \frac{dx \mid dy}{\sqrt{dx^2 \mid dy^2}} \text{ X} \frac{9.66}{\sqrt{23.51 \mid 24.77}} \text{ X0.40}$$

Probable Error

P.E. (r_{xy})=0.6745$\times \dfrac{1 Z r^2{}_{xy}}{\sqrt{n}}$=0.25

Now,

6$\times$P.E.(r_{xy}) =1.53

Thus,

0.40<1.53, which implies, r_{xy}>6 times P.E. (r_{xy}) i.e, value of r_{xy} is significant here.

Appendix-IV

The lines of best fit for variables TD, LA, TI and NPA of BFC with respect to time using least square method.

Year (x)	x= y=	TD (y_{td}) (in tem million	LA (y_{la}) (in tem million	TI (y_{ti}) (in tem million	NPAT (y_{npat}) (in million	x^2	$x.y_{td}$	$x.y_{la}$	$x.y_{ti}$	$x.y_{npat}$
2062	-2	4.03	4.32	4.32	0.037	4	-8.06	-8.64	-8.64	-0.074
2063	-1	170.49	14.34	14.4	4.98	1	-17.49	-14.34	-14.4	-4.98
2064	0	33.04	33.75	24.15	6.36	0	0	0	0	0
2065	1	51.49	54.05	40.64	6.38	1	151.49	54.05	40.64	6.38
2066	2	79.76	78.94	62.50	15.87	4	159.52	157.88	125	31.74
	$\phi x=$ 0	$\phi y_{td}=$ 185.81	$\phi y_{ta}=$ 185.40	$\phi y_{ti}=$ 146.01	$\phi y_{npat}=$ 33.63	ϕx^2 =10	$\phi x.y_{td}$ =185.50	$\phi x.y_{la}=$ 188.9	$\phi x.y_{ti}=$ 142.60	$\phi x.y_{npat}=$ 33.066

Calculation of 'a' for different	calculation of 'b' for different variables
a_{td} X $\dfrac{y_{td}}{n}$ X $\dfrac{185.81}{5}$ X37.16	b_{td} X $\dfrac{x.y_{td}}{x^2}$ X14.26
a_{la} X $\dfrac{y_{la}}{n}$ X37.08	b_{la} X $\dfrac{x.y_{la}}{x^2}$ X18.89
a_{ti} X $\dfrac{y_{ti}}{n}$ X29.20	b_{ti} X $\dfrac{x.y_{ti}}{x^2}$ X14.26
a_{npat} X $\dfrac{y_{npat}}{n}$ X6.726	b_{npat} X $\dfrac{x.y_{npat}}{x^2}$ X3.63

Fitting of trend line for different variables:

➢ Trend line of total deposti:

$y = 37.16+14.26\times$ ——————— (i)

➢ Trend line of loan & advance:

$y= 37.08+18.89\times$——————— (ii)

➢ Trend line of total investment:

$y=29.20+14.26\times$ ——————— (iii)

➢ Trend line of NPAT

$y=6.726+3.63\times$ ——————— (iv)

Note: Suffixes t_d, la, ti and npat represent the variables TD, LA, TI and NPAT

Appendix V

QUESTIONNAIRE

Please tick the mark '   'into the box that corresponds to your answers.

1.   What is the main principle that guides the company during investment decision?

    a) Profitability ☐

    b) Liquidity ☐

    c) Safety and Stability ☐

    d) All ☐

2.   How you find the investment policies of Government?

    a) Excellent ☐

    b) Good ☐

    c) Satisfactory ☐

    d) None ☐

3. Is current fiscal policy of government suitable for investment?

    a) Yes ☐   No ☐

4.   Which is the company's main sector for investment?

    a) Hire purchase ☐

    b) Housing ☐

    b) Term (Periodic) ☐

    C) All ☐

5. Does your company invest in government securities?

    Yes ☐   No ☐

6. Does your company invest in registered shares?

    Yes ☐   No ☐

7. In average, how long are the 'investments of your company?

   a) 1 to 3 years ☐

   b) 4 to 6 years ☐

   c) 7 to 10 years ☐

   d) 11 to 15 years ☐

8. How you judge your clients suitable for granting the loan?

   a) By collateral and income source ☐

   b) By physical condition ☐

   c) By Educational status ☐

   d) All ☐

9. What percentage of collateral does your company avails the loan in average?

   a) 1 to 25 % ☐

   b) 26 to 50 % ☐

   c) 51 to 75 % ☐

   d) 76 to 100 % ☐

10. How your clients amortize the loan?

   a) Perpetual ☐

   b) Installment ☐

   c) Balloon Payment ☐

   d) All ☐

11. Is it necessary to decrease economic inequality?

   a) Yes ☐   No ☐

12. Does your company have any provision for interest in priority area and disadvantaged?

    group of community?

    Yes ☐   No ☐

13. How often your company provides the data to NRB?

    a) Monthly ☐

    b) Quarterly ☐

    c) Half yearly ☐

    d) Yearly ☐

14. Does your company classifies the provision for loss on loan and advance as per NRB directives?

    Yes ☐   No ☐

15. How is the bad debt ratio at your company?

    a) High ☐

    b) Normal ☐

    c) Low ☐

    d) Very low ☐

Please answer in brief the following questions:

16. Have you any special policies for investment?

17. What are the good policies for investment?

18. What are the investment objectives of your company?

२०६४ साल अषाढ मसान्तको
वासलात

सि.नं.	पूँजी तथा दायित्व	अनुसूचि	चालु आ.व. रु.	गत आ.व. रु.
१	शेयर पूँजी	४.१	६६,०००,०००।००	६०,०००,०००।००
२	जगेडा तथा कोषहरु	४.२	११,०१५,२०६।६५	१०,९८९,७३६।४०
३	ऋणपत्र तथा बण्ड	४.३		
४	तिर्न बाँकि तथा सापट	४.४	५१४,८६२,६४४।४८	३३०,४२४,३४१।१४
५	निक्षेप दायित्व	४.५		
६	भुक्तानि दिनुपर्ने बिलहरु			
७	प्रस्तावित तथा भुक्तानिदिन बाँकि लाभांश			४४६,३९,४४३६
८	आयकर दायित्व	४.७	७६२०९,१४४।६८	४,३०६,३४०।८८
९	अन्य दायित्व		४५४,४०६,००७।४१	४०६,१६८,०३१।२०
	कुल दायित्व			
	सम्पत्ति			
१	नगद मौज्दात	४.६	२,४०४,०६३।२३	१,६००,००९।६३
२	नेपाल राष्ट्र बैंकमा रहेको मौज्दात	४.९	१०,६११,५०९।६८	५,९४०,५९५।५४
३	बैंक/वित्तिय संस्थामा रहेको मौज्दात	४.१०	३१,६०९,०२७।९२	५५,५०२,६४२।३३
४	माग तथा अल्प सूचनामा प्राप्त हुने रकम	४.११	१०,०००,०००।००	५००,०००।००
५	लगानी	४.१२	४३९,८६८,४०९।१७	३३२,३५८,०३१।६१
६	कर्जा सापट तथा बिल खरीद	४.१३	७,३३२,४२०।०९	४,७४४,८२६।१३
	शिवर सम्पत्ति	४.१४	२,१२९,४७४।५२	
८	गैर बैंकिङ सम्पत्ति	४.१५	४,१२१,६८९।१०	४,४०१,६६४।४१
९	अन्य सम्पत्ति		४५४,४०७७७।४१	४०६,१६८,७८३।०६
	कुल सम्पत्ति			

		अनुसूची	४.१७
१	सम्भावित दायित्व	अनुसूची	४.२९
२	ब्याजसहहरुको छोटना	अनुसूची	४.३०
३	पर्याप्तकोष तालिका	अनुसूची	४.३०।३१
४	जोखिम भारित सम्पत्ति विवरण तालिका	अनुसूची	४.३१
५	प्रमुख सूचकाइहरु	अनुसूची	४.३२
६	प्रमुख लेखा नीतिहरु	अनुसूची	४.३३
७	लेखा सम्बन्धी टिप्पणीहरु		

४.१ देखि ४.१७ सम्मका अनुसूचिहरु वासलातका अभिन्न अंग हुन् ।

मिति: २०६४/१/३०

स्कीन्द्र अग्रवाल
लेखा प्रबन्धक

गुण्यराज लामसारी
प्रमुख कार्यकारी अधिकृत

संचालकहरु
बद्री बहादुर राजनथशारी
श्याम कुमार अग्रवाल
सुरेश कुमार अग्रवाल
रवीन्द्र कुमार अग्रवाल
राजेश कुमार सरबगी
सुरेन्द्र घौडेल
प्रमोद कुमार भोयनजा

विजय कुमार खटराछी
अध्यक्ष

संलग्न प्रतिवेदन अनुसार
श्री देवकी विजन एण्ड क.
चार्ड एकाउन्टेन्ट्स
प्रो.डा. स्खनाधर
(साभेद्वार)

वीरगंज फाइनान्स लिमिटेड
BIRGUNJ FINANCE LIMITED

वासलात
२०६५ साल आषाढ मसान्तको

सि.न.	पुँजी तथा दायित्व	अनुसुचि	चालु आ.व रु	गत आ.व रु
१	सेयर पुँजी	४.१	४२,४९४,३००।००	६६,०००,०००।००
२	जगेडा तथा कोषहरु	४.२	११,६१३,७८८३२	११,४१४,२०६८२६
३	ऋणपत्र तथा सपड	४.३		
४	तिर्न बाँकि तथा साँचट	४.४	४०,०००,०००।००	
५	निक्षेप दायित्व	४.५	५१५४,५७२,६०६।२५	५१४,८६३,६६५४२५
६	भुक्तानि दिनुपर्ने बिलहरु	४.६		
७	प्रस्तावित तथा भुक्तानदिन नाफिक लाभांश			
८	आयकर दायित्व		६,८२७,०९६।४८	
९	अन्य दायित्व	४.७	१२२,१७६,६८३।०१	७,६२९,१४४।६८
	कुल दायित्व		१,०४३,७६८,३८८।०१	९९९,४०७,००४।०१
	सम्पति			
१	नगद मौज्दात	४.८	१,५१४,६०१।१४	२,४०५,७८२३२
२	नेपाल राष्ट्र बैंकमा रहेको मौज्दात	४.९	३२,२६९,४०४४००	१०,६१३,३०४।६८
३	बैंक/वित्तीय संस्थामा रहेको मौज्दात	४.१०	२०६,०७७,५७५।२२	४६,८०९,०२०५।२
४	माग तथा अल्प सूचनामा प्राप्त हुने रकम	४.११		
५	लगानी	४.१२	७०,३४६,८४०।००	
६	कर्जा साँचट तथा बिल्त खरीद	४.१३	७७३,६४८,३१३।००	५२६,८५८,४०१।१०
७	स्थिर सम्पति	४.१४	६,६१२,६९९।५४	७,३१३,६२०।०९
८	गैर बैंकिङ सम्पति	४.१५	५,६६२,७०५८५८	२,३२९,४०५।०२
९	अन्य सम्पति	४.१६	३६,२०३,५२५।३९	६,१४१,३८६।९०
	कुल सम्पति		१,०४३,७६४,३६५।०१	५९९,४०७,००७।०१
१	सम्भावित दायित्व	अनुसुचि ४.१७		
२	सञ्चालकहरुको घोषणा	अनुसुचि ४.१८		
३	पुँजीकोष तालिका	अनुसुची ४.३०		
४	नोक्सान खरिद सम्पत्ति विवरण तालिका	अनुसुची ४.३०(क)		
५	प्रमुख सुचकांकहरु	अनुसुची ४.३१		
६	प्रमुख लेखा नीतिहरु	अनुसुची ४.३२		
७	लेखा सम्बन्धी टिप्पणीहरु	अनुसुची ४.३३		

४.१ देखी ४.१७ सम्मका अनुसुचिहरु वासलातका अभिन्न अंग हुन् ।

बीरगंज
मिति : २०६५/०९/०८

रवीन्द्र अर्याल
लेखा प्रमुख

पुष्पराज मण्डारी
प्रमुख कार्यकारी अधिकृत

सञ्चालकहरु
सदी बहादुर सारंगधारी
बलराम कुमार अग्रवाल
सुरेश कुमार अग्रवाल
रबीन्द्र कुमार कालाबाल
उमेश कुमार सलबगी
सुनिल केडिया
इन्देट कुमार गोयनका

विकय कुमार सलबगी
अध्यक्ष

साथी संलग्न प्रतिवेदन अनुसार
सि. रेषकी विजय शाह का
चार्टर्ड एकाउन्टेन्ट्स

पी. के. जग्गीबाल
सार्टनर

मिति २०६३ साल श्रावण देखी २०६४ साल अषाढ मसान्तसम्मको
नाफा नोक्सान हिसाब

क्र.न.	विवरण	अनुसूचि	चालु आ.व.रु.	गत आ.व. रु.
१	ब्याज आम्दानी	४.१८	५०,०८३,९१३।२२	३३,२४८,०४४६।०
२	ब्याज खर्च	४.१९	२७,७३९,१६४।१५	१४,८४८,५६२९।७
	खुद ब्याज आम्दानी		२२,३४४,७४८।७७	१७,३८९,३८२।३
३	कमिशन तथा डिस्काउण्ट	४.२०	२,७७२,३२२।७	१,७७४,१२०।१२
४	अन्य संचालन आम्दानी	४.२१	३,५८०,४४०।९७	२,१४५,५८८।१९
५	सटही घटबढ आम्दानि	४.२२		
	कूल संचालन आम्दानी		२८,६९७,६२१।८५	२१,२४१,०९१।२६
६	कर्मचारी खर्च	४.२३	४,१११,६२९।९८	३,२९४,४४५।९१
७	अन्य संचालन खर्च	४.२४	८,१६२,७५.३०६	६,२६७,७७४।७७
८	सटही घटबढ नोक्सान	४.२२		
	संभावित नोक्सानी व्यवस्था अघिको संचालन मुनाफा		१६,४२३,२३९।११	१२,७१८,८६५।६८
९	संभावित नोक्सानी व्यवस्थाहरु	४.२५	६,१२६,१९४।७२	२,६२४,८०३।५५
	संचालन मुनाफा		१०,२६७,०४३।३९	१०,०९४,०६१।१३
१०	गैर संचालन आम्दानी/नोक्सान	४.२६		५७०,१२९
११	संभावित नोक्सानी व्यवस्था बाट फिर्ता	४.२७		
	नियमित कारोबार बाट भएको मुनाफा		१०,२६७,०४३।३९	१०,०९४,७३६।४२
१२	असामान्य कारोबारबाट भएको मुनाफा/खर्च	४.२८		
	सम्पूर्ण कारोबार समावेश पछिको खुद मुनाफा		१०,२६७,०४३।३९	१०,०९४,७३६।४२
१३	कर्मचारी बोनस व्यवस्था		९३३,३६७।५८	९१७,७०३।२०
१४	आयकर व्यवस्था			
	यस वर्षको		२,९५२,८२६।२३	२,८१७,३४४।१९
	गत वर्ष सम्मको			
	खुद नाफा/नोक्सान		**६,३८०,८१९।५८**	**६,३५९,६८८।७**

बीरगंज फाइनान्स लिमिटेड
BIRGUNJ FINANCE LIMITED

नाफा नोक्सान हिसाब

मिति २०६४ साल श्रावण ०१ गते देखि २०६५ साल आषाढ मसान्तसम्मको

सि.नं.	विवरण	अनुसूचि	चालु आ.व रु.	गत आ.व रु.
१	व्याज आम्दानी	४.१८	९३,५४८,२७९७७	७०,०८३,९११३२
२	व्याज खर्च	४.१९	५४,५१८,२२४१४	२७,७३९,१५४१६
	खुद व्याज आम्दानी		३९,१२९,८५६६०	२२,३४४,७४५७०
३	कमिशन तथा डिस्काउण्ट	४.२०	५,०४८,३०९८०	३,०७२,३२२७१
४	अन्य संचालन आम्दानी	४.२१	६,८८२,४०६२४	३,५००,५५०१९०
५	सटहि घटबढ आम्दानी	४.२२		
	कुल संचालन आम्दानी		५१,०६०,७०७६४	२८,६८७,६२९०५
६	कर्मचारी खर्च	४.२३	६,४४१,३७०३६७	४,१११,६२९१९८
७	अन्य संचालन खर्च	४.२४	१०,६६०,५३१३७	८,१६२,५४२००६
८	सटहि घटबढ नोक्सान	४.२२		
	संभावित नोक्सानी व्यवस्था अघिको संचालन मुनाफा		३३,८५८,८०३६०	१६,४२३,२३५११
९	संभावित नोक्सनी व्यवस्थाहरू	४.२५	७,६९९,५१०६९	६,१५६,१९५१०२
	संचालन मुनाफा		२६,१५०,२९२९१	१०,२६७,०४३३२
१०	गैर संचालन आम्दानी/नोक्सान	४.२६		
११	संभावित नोक्सानी व्यवस्था बाट फिर्ता	४.२७		
	नियमित कारोबारबाट भएको मुनाफा		२६,१५०,२९२९१	१०,२६७,०४३३९
१२	असामान्य कारोवारवाट भएको मुनाफा/खर्च	४.२८		
	सम्पूर्ण कारोबार समावेश छंछको खुद मुनाफा		२६,१५०,२९२९१	१०,२६७,०४३३९
१३	कर्मचारी बोनस व्यवस्था		२,३७५,२८०८४४	९३३,३६७०६८
१४	आयकर व्यवस्था			
	यस वर्षको		७,९२०,८७९४२६	२,६५२,८५६४२३
	गत वर्ष सम्मको			
	खुद नाफा-नोक्सान		१५,८६१,२१०२१	६,३५०,८१९१६६

४.१८ देखी ४.२८ सम्मका अनुसूचिहरू नाफा नोक्सान हिसाबका अभिन्न अंग हुन् ।

खरगज
मिति : २०६४/०७/०९

हाम्रो संलग्न प्रतिवेदन अनुसार
डि. देवको विजय एण्ड कं.
चार्टड एकाउण्टेण्ट्स

स्वीन्द अर्यल
लेख शाखा

गुणराज भण्डारी
प्रमुख कार्यकारी अधिकृत

सम्पत्तकरह
थदी बहादुर राजभण्डारी
कृष्ण कुमार अग्रवाल
सुरेश कुमार अग्रवाल
रवीन्द कुमार बराम्बाल
राजेश कुमार सावगी
सुरेन्द पोदेल
कृपद कुमार गोलन्छ

विजय कुमार सावागी
अध्यक्ष

बी. के. खर्बंकार
सहसेदार

नगद प्रवाह विवरण

मिति २०६२ साल श्रावण १ गते देखी २०६३ साल अषाढ मसान्तसम्मको

गत वर्ष रु.	विवरण	यस वर्ष रु.
६,७७७,३०२।४०	को) कारोबार संचालनबाट नगद प्रवाह	६,१२८,२०९।४२
१०,११०,४२९।४२	१ नगद प्राप्ति	५६,४२६,७८८।००
३२,२४८,०४४।५०	१.१ व्याज आम्दानी	५०,०८१,९१३।४२
१,७७५,१२०।१२	१.२ कमिसन तथा डिस्काउण्ट आम्दानी	२,७७३,३२२।७५
	१.३ विदेशी विनिमय कारोबारबाट आम्दानी	
	१.४ अपलेखित कर्जाको असुली	
२,९२७,२९३।८०	१.५ अन्य आम्दानी	५,४५०,४४०।९७
१०,३३२,१२७।७२	२ नगद भुक्तानी	५०,३०८,२७७६।८
३२,४२८,६६३।५७	२.१ व्याज खर्च	२९,७८९,१६४।१२
३,७६२,१२२।९७	२.२ कर्मचारी खर्च	५,०४४,९९७।४५
६,८९३,४७८।३३	२.३ कार्यालय संचालन खर्च	१४,३१८,९४८।८८
२,२९९,७७०।७३	२.४ आयकर भुक्तानी	१,२०५,१६६।३९
	२.५ अन्य खर्च	
१३,०१६,२६६।६०	कार्यगत पूँजी(Working Capital) परिवर्तन अघिको नगद प्रवाह	(१२,४०९,९८७।१७)
(१४४,३३२,३६१।२६)	संचालन सम्बन्धि चालु सम्पत्तिमा कमी/(वृद्धि)	(१३९,३५७,२३०।४२)
	१. माग तथा अल्प सूचनामा प्राप्त हुने रकममा कमी/वृद्धि	
	२. सन्चय अल्पकालीन सगातीमा कमी/वृद्धि	
(१४२,३९८,४४४।४५)	३. कर्जा तथा विल्स खरीदमा कमी/वृद्धि	(९९७,६४०,३६९।२५)
(७३३,६२४।७१)	४. अन्य सम्पत्तिमा कमी/वृद्धि	(१,३२९,६६०।९३)
१४७,३४२,९४०।४४	संचालन सम्बन्धि चालु सम्पत्तिमा (कमी)/वृद्धि	१८६,९४०,४६६।३४
१४४,४८७,२४९।०७	१. निक्षेप दायित्वमा (कमी)/वृद्धि	१८४,४३६,४१।४३२
	२. सर्टिफिकेट अफ डिपोजिटसा (कमी)/वृद्धि	
	३. अल्पकालीन सापटीमा (कमी)/वृद्धि	
१,६४८,६९।६४४७	४. अन्य दायित्वमा (कमी)/वृद्धि	२,२११,०४३००६
	१३०,७९०६४ ख) लगानी कारोबारमा नगद प्रवाह	(१२,०२७,६९३।१९)
	१. दिर्घकालीन लगानीय कमी/(वृद्धि)	(१,२००,०००.००)
(१,८६२,२७९।१६)	२. स्थिर सम्पत्तिमा कमी/(वृद्धि)	(२,४२७,३५९।८८)
	३. दिर्घकालीन लगानीय व्याज आम्दानी	
	४. लाभांश आम्दानी	
२,०००,०००।००	५. अन्य	
	(ग) वित्तीय श्रोत कारोबारबाट नगद प्रवाह	
	१. दिर्घकालीन ऋण (बण्ड डिबेंचर आदी) मा वृद्धि/(कमी)	
	२. शेयर पूँजीमा वृद्धि/(कमी)	
	३. अन्य दायित्वमा वृद्धि/(कमी)	
	४. नेपाल राष्ट्र बैंकबाट प्राप्त सहुलियत/पूर्वकर्जामा वृद्धि/(कमी)	
	घ) नगद तथा बैंक मौज्दातको विनिमय दरमा भएको फरकबाट आम्दानी/खर्च	
१९,६२८,२८७९।४	ङ) सब वर्षको सम्पूर्ण गतिविधिबाट नगद प्रवाह	(१६,३१४,२४६।७)
४३,२१४,४८७९०।	च) नगद तथा बैंकमा रहेको शुरु मौज्दात	६१,१४४,१७९१४
६३,३१४,१७९।४	छ) नगद तथा बैंकमा रहेको अन्तिम मौज्दात	४४,८२९,३२०।६४

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वीरगंज फाइनान्स लिमिटेड
BIRGUNJ FINANCE LIMITED

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नगद प्रवाह विवरण

मिति २०६४ साल श्रावण ०१ गते देखी २०६५ साल आषाढ मसान्तसम्मको

गत वर्ष रु	विवरण	यस वर्ष रु
६,३१६,५०६३२२	(क) संचालन संचालनबाट नगद प्रवाह	१४,५६७,२१०२१
१६,३२६,७०१००	१ नगद प्रवेश	१०५,४९५,१२३४०
५,००२,५१३३२	१.१ ब्याज आम्दानी	११,४९५,२०६३०
३,००२,३२३२०१	१.२ कमिशन तथा डिस्काउण्ट आम्दानी	६,०५५,३७६२८
	१.३ विदेशी विनिमय कारोबारबाट आम्दानी	
	१.४ जमानीको कर्जाको असुली	
३,२००,२३१०१०	१.५ अन्य आम्दानी	५,५५२,४५१२६
३१,३००,२४४६१६	२ नगद भुक्तानी	१०६,५१६,१२३६०
२०,०२३,५६०१६	२.१ ब्याज खर्च	५५,५१०,४५६०७०
५,०४४,११५००६	२.२ कर्मचारी खर्च	१,५५५,६०१११
१९,२१०,१६०३६०	२.३ कार्यालय संचालन खर्च	५०,३०६,०४१०६
३,२०१,३००२६	२.४ अफिसर भुक्तानी	१६,१३०,०७४३२१
	२.५ अन्य खर्च	
३१२,४०६,५५५०५०	कार्यान्त एवं पूर्वविधि अघिको नगद प्रवाह	१६६,३१३,३०५५२१
(३६६,२५०,४२०११)	संचालन सम्बन्धि चालु सम्पतिमा कमी (वृद्धि)	[३६६,०२३,३५३(००)]
	१ मग तथा अल्प सुचकाको प्राप्त हुने रकममा कमी (वृद्धि)	
	२ अन्य अल्पकालीन लगानीमा कमी (वृद्धि)	(१,५४६,६२५०००)
३१००,१४०,३६०१५६	३ कर्जा तथा बिल्स सोधिएमा कमी (वृद्धि)	[३४२,०५६,५१३६३]
(१,०४६,६६०१४)	४ अन्य सम्पतिमा कमी (वृद्धि)	(१५,४३१,४१४५४)
१०६,३५१४,४१६०३६	संचालन सम्बन्धि चालु सम्पतिमा (कमी)/वृद्धि	१३६,४१३,६४००६५
१०३,४३१,४३५०३३	१ निक्षेप दायित्वमा (कमी)/वृद्धि	३६३,६०५,२३०१५०
	२ सर्टिफिकेट अफ डिपोजिटमा (कमी)/वृद्धि	
	३ अल्पकालीन बाधीमा (कमी)/वृद्धि	१६,०००,०००३०
३,०११,०४३०३	४ अन्य दायित्वमा (कमी)/वृद्धि	३३०,५०५,५११०१३
(२,१३०,५१५०६)	(ख) लगानी कामेबारम नगद प्रवाह	(०,१२०,४०१०८)
	१ दिर्घकालीन लगानीमा कमी/(वृद्धि)	(१४,५००,२२५०४)
(३,१३०,४३५१५)	२ स्थिर सम्पतिमा कमी/(वृद्धि)	३००,४३०१४
	३ दिर्घकालीन लगानीमा प्राप्त आम्दानी	
	४ लाभांश आम्दानी	
	५ अन्य	
	ग) वित्तीय श्रोत कामेबारबाट नगद प्रवाह	
	१ दिर्घकालीन ऋण (नगद डिबेंचर आदी) मा वृद्धि/(कमी)	(१,५००१०)
३,००१,०००३२	२ शेयर पूंजीमा वृद्धि/(कमी)	३,१५४,३००१०
(१,०००,०००१०)	३ अन्य दायित्वमा वृद्धि/(कमी) (जगेडा तथा चोत्ता कोष)	(१,५००,०००१०)
	४ नेपाल राष्ट्र बैंकबाट ऋण सहुलियतगुरिक्यौका वृद्धि/(कमी)	
	घ) नगद तथा बैंक सीमद्धाको विनिमय दरमा भएको फलकबाट आम्दानी/खर्च	
(६,५१०,५२६१०१)	ङ) यस वर्षको सम्पूर्ण मतिक्रियाबाट नगद प्रवाह	५०५,१३४,४३००१६
५३,५२६,३००१३४	च) नगद तथा बैंकमा रहेको शुरु पिन्दात	५५,५३५,३५०१५३
५५,५३५,३३००३३	छ) नगद तथा बैंकमा रहेको अन्तिम मौज्दात	३२२,५६०,०६०१०६

नोट : गत वर्षको अन्तरित बोनस शेयरको रकम रु. ६,०००।- अन्य आम्दानीमा समायोजन गरीएको छ ।

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