INVESTMENT ANALYSIS OF COMMERCIAL BANKS IN NEPAL

Submitted By Bidhya Shree Rayamajhi Regd. No. 34410-95

Submitted To
Office of the Dean
Faculty of the Management
Tribhuvan University

In Partial Fulfillment of the Requirements for the Master's Degree in Business Studies (M.B.S.)

Bhairahwa, Rupandehi September, 2010

Recommendation Letter

This is to certify that the thesis

Submitted by Bidhya Shree Rayamajhi

Entitled

Investment Analysis of Commercial Bank

in

Nepal

has been prepared as approved by the this Department in the prescribed

format of Faculty of Management. This	thesis is forwarded for examination.
Dr. Ramji Gautam Thesis Supervisor	Mr. Kapil Dev Lamichhane (Campus Chief)
Head of Research Department	(Campus Cinei)
Co-ordinator MBS Programme	Data
	Date:

Viva-Voce Sheet

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

By Bidhya Shree Rayamajhi

Entitled

"Investment Analysis of Commercial Banks in Nepal"

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

Viva-Voce Committee	
Chairperson, (Research Committee)	
Member (Thesis Supervisor)	
Member (External Expert)	
Date:	

DECLARATION

I hereby declare that the work reported in this thesis entitled "Investment Analysis of Commercial Banks in Nepal" submitted to the Bhairahawa Multiple Campus; Faculty of Management, Tribhuvan University, is my original work. It is done in the form of partial fulfillment of the requirements for the Master of Business Studies (MBS) under the supervision and guidance of **Dr. Ramji Gautam,** Lecturer, Bhairaharawa Multiple Campus, Tribhuvan University.

Bidhya Shree Rayamajhi

Researcher
T.U. Regd. No. 34410-95
Bhairahawa Multiple Campus
Tribhuvan University
Bhairahawa

ACKNOWLEDGEMENT

This research study on "Investment Analysis of Commercial Bank in Nepal" has been prepared to fulfill the particular requirement of my MBS program. For this, I am greatly thankful to the management faculty of Bhairahawa Multiple Campus and all authors and researchers who have contributed to the area of my research. I further hope that I have interpreted their view and expression properly.

Dr. Ramji Gautam for his valuable suggestion, supervision, kind guidance and constant inspirations through the process of the preparation and completion of this dissertation. I am also grateful to **Dr. Keshav Joshi** associate professor and **Mr. Narendra Raj Pandey**, Coordinator MBS Program the lecturer of the campus whose valuable suggestion and co-operation added strength to write this thesis. Our campus chief **Mr. Kapildev Lamichhane** is also encourages me to write this thesis. I am thankful to all **lecturers** and **other staff members** for assisting me to make my final work more productive. The librarian of the Bhairahawa Multiple Campus will also always be remembered for their assistance to provide me necessary materials relate to my thesis.

I would like to acknowledge the constant support and help provided by **Ms. Geeta Sapkota**, my loving friend and **Mr. Prem Chhetri**, my loving husband who not only encourage me to prepare this dissertation but also helped me a lot to collect the necessary data as required for dissertation.

I express my sincere gratitude to my respected parents, lovely brothers, friends and other concerned parties for their kindest co-operation, inspiration and patients during the research work.

Finally, I would like to thank **Mr. Rabindra KC**, **Kalika Cyber Café** for his excellent computer setting.

Bidhya Shree Rayamajhi

Researcher
Bhairahawa Multiple Campus
Tribhuvan University
Bhairahawa

TABLE OF CONTENTS

Recommendation

Viva	a Voce	e Sheet	
Dec	laratio	on	
Acknowledgement			
Tabl	le of C	Contents	
List	of Tal	bles	
List	of Fig	pures	
	_	breviations	
_150	01110	0.2 (
			Page No
Cha	pter-	I: INTRODUCTION	1-12
1.1		General Background	
1.2		Profile of Sampled Bank	
1.3		Focus of the Study	
1.4		Statement of the Problem	
1.5		Objective of the Study	
1.6		Limitation of the Study	
1.7		Organization of the Study	
Cha	pter l	II: REVIEW OF LITERATURE	13-24
2.1	•	The Conceptual Framework	
2.2		Characteristics of good investment	
	2.2.1	Liquidity	
	2.2.2	Profitability	
	2.2.3	Safety and Security	
	2.2.4	Suitability	
	2.2.5	Diversification	
2.3		Investment Portfolio Management and Portfolio Theory	
2.4		Review of Previous Thesis	
2.5		Review of Articles	
2.6		Concluding Remarks	
2.7		Research Gap	
Cha	pter l	III: RESEARCH METHODOLOGY	25-43
3.1		Research Design	

3.2	Nature and Sources of Data	
3.3	Population and Sample	
3.4	Method of Data Analysis	
3.4.1	Financial Tools	
3.4.1.1	Liquidity Ratio	
3.4.1.2	Assets Management Ratio	
3.4.2	Profitability Ratio	
3.4.3	Statistical Tools	
3.4.4	Statistical Analysis	
4.4.4.1	Co-efficient of Correlation	
Chapter 1	IV : DATA PRESENTATION AND ANALYSIS	44-98
4.1	Introduction	
4.2	Financial Analysis	
4.2.1	Ratio Analysis	
4.2.1	.1 Liquidity Ratio	
4.2.1	.2 Assets management Ratio	
4.2.1	.3 Profitability Ratio	
4.3	Statistical Analysis	
4.3.1	Karl Pearson's Coefficient of Correlation and Probable	
	error between deposit and Loan & Advances	
4.3.2	Coefficient of Correlation between Liquidity and	
	Profitability	
4.4	Major Finding of the Study	
Chapter '	V: SUMMARY, CONCLUSION & SUGGESST	TON 99-110
5.1	Summary	
5.2	Conclusion	
5.3	Recommendation	
5.4	Future Avenue	
	BIBLIOGRAPHY	111-114

LIST OF ABBREVIATIONS

@ = At the Rate

& = and

 \bar{x} = Arithmetic Mean

 Σ = Summation

< = Less than

% = Percentage

 $\mathbf{A.D.}$ = Anno Domini

B.S. = Bikram Sambat

CRR = Cash Reserve Ratio

CR = Current Ratio

C.V. = Co-efficient of Variation

e.g. = Example

etc. = Etcetera

FY = Fiscal Year

HBL = Himalayan Bank Ltd.

i.e. = That is

ISO = International Organization for Standardization

JVBs = Joint Venture Banks

Ltd. = Limited

MBL = Machhapuchhre Bank Ltd.

M.B.S. = Master Degree of Business Studies

N = No. of Observation

NABIL = Nepal Arab Bank Ltd.

NEPSE = Nepal Stock Exchange

NPAT = Net Profit After Tax

NPL = Non-Performing Loan

NRB = Nepal Rastra Bank

Per = Probable Error

R = Karl Pearson's Coefficient of Correlation

RoE = Return on Equity

 $\mathbf{Rs.}$ = Rupees

SBI = State Bank of India

SCBL = Standard Chartered Bank Ltd.

S.D. = Standard Deviation

S.N. = Serial No.

T.U. = Tribhuvan University

LIST OF TABLES

Table No.	Title	Page No
Table 4.1	Current Ratio	47
Table 4.2	Cash & Bank Balance to Total Deposit Ratio	
Table 4.3	Cash & Bank Balance to Current Assets Ratio	55
Table 4.4	Investment on Government Securities to current assets	58
	Ratio	
Table 4.5	Loan and Advance to Total Deposit Ratio	61
Table 4.6	Total Investment to Total Working Fund Ratio	64
Table 4.7	Loan and Advances to Total Working Fund Ratio	67
Table 4.8	Investment in Shares and Debenture to Working Fund	70
	Ratio	
Table 4.9	Return on Capital Employed Ratio	73
Table 4.10	Return on Total Assets Ratio	75
Table 4.11	Return on Total Deposit Ratio	78
Table 4.12	Return on Equity	80
Table 4.13	Correlation Coefficient Between Total Deposit and Loan	82
	& Advances of SCBL	
Table 4.14	Correlation Coefficient Between Total Deposit and Loan	84
	& Advances of NABIL	
Table 4.15	Correlation Coefficient Between Total Deposit and Loan	85
	& Advances of MBL	
Table 4.16	Correlation Coefficient Between Total Deposit and Loan	86
	& Advances of NSBI	
Table 4.17	Correlation Coefficient Between Total Deposit and Loan	88
	& Advances of HBL	
Table 4.18	Correlation Coefficient Between Liquidity and	89
	Profitability of SCBL	
Table 4.19	Correlation Coefficient Between Liquidity and	90
	Profitability of NABIL	
Table 4.20	Correlation Coefficient Between Liquidity and	91
	Profitability of MBL	
Table 4.21	Correlation Coefficient Between Liquidity and	92
	Profitability of NSBI	
Table 4.22	Correlation Coefficient Between Liquidity and	93

Profitability of HBL

LIST OF FIGURES

Figure No.	Title	Page No.
Figure No 4.1	Current Ratio	49
Figure No 4.2	Cash & Bank Balance to Total Deposit Ratio	53
Figure No 4.3	Cash & Bank Balance to Current Assets Ratio	57
Figure No 4.4	Investment on Government Securities to current	59
	assets Ratio	
Figure No 4.5	Loan and Advance to Total Deposit Ratio	63
Figure No 4.6	Total Investment to Total Deposit Fund Ratio	66
Figure No 4.7	Loan and Advances to Total Working Fund Ratio	69
Figure No 4.8	Investment in Shares and Debenture to Working	71
	Fund Ratio	
Figure No 4.9	Return on Capital Employed Ratio	74
Figure No 4.10	Return on Total Assets Ratio	76
Figure No 4.11	Return on Total Deposit Ratio	79
Figure No 4.12	Return on Equity	81