PROFITABILITY ANALYSIS OF SIDDHARTHA BANK LIMITED

A Project Work Report

By

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DECLARATION

I hereby declare that the project work entitled "**Profitability Analysis of Siddhartha Bank Limited**" submitted to the Faculty of Management, Tribhuvan University, Kathmandu is an original piece of work under the supervision **of Mr. Narayan Jung Ale,** faculty member, **Saraswati Kunj College, Ratopul, Kathmandu,** and is submitted in partial fulfillment of the requirements for the degree of Bachelor of Business Studies (BBS). This project work report has not been submitted to any other University or Institution for the award of any degree or diploma.

Amisha Shrestha

SUPERVISOR'S RECOMMENDATION

The project work report entitled "**Profitability Analysis of Siddhartha Bank Limited**" submitted by **Amisha Shrestha** of **Saraswati Kunj College, Ratopul, Kathmandu,** is prepared under my supervision as per the procedure and format requirements laid by the Facility of Management, Tribhuvan University, as partial fulfillment of the requirements for the degree of Bachelor of Business Studies (BBS). I, therefore, recommend the project work report for evaluation.

Narayan Jung Ale

ENDORSEMENT

We hereby ender the project work report entitled "**Profitability Analysis of Siddhartha Bank Limited**" submitted by **Amisha Shrestha** of Saraswati Kunj College, Ratopul, Kathmandu, in partial fulfillment of the requirements for the degree of the Bachelor of Business Studies (BBS) for external evaluation.

Dr. Birendra Shah   **Mr. Bhola Nath Chalise**

Chairman, Research Committee   **Campus Chief/ Principal**

AKNOWLEDGEMENT

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ABBREVIATIONS

ABBS	Any Branch Banking Service
ATM	Automated Teller machine
EPS	Earning Per Share
FY	Fiscal Year
MPS	Market Value per Share
NPAT	Net Profit After tax
P.E.	Probable Error
P/E Ratio	Price Earnings Ratio
ROA	Return on Assets
ROE	Return on Equity
ROFA	Return on Fixed Assets
SBL	Siddhartha Bank Limited

CHAPTER I

INTRODUCTION

1.1 Background of the Study

Profitability is the end result of number of corporate policies and decision. It measures how effectively the firm is being operated and managed. It is related to profit of the business. Profit is essential for the survival of business so that it is considers as the engine that mobilizes the business and indicates economic progress. It measures the overall efficiency of the business. Banks are established with the objective of earning profit in different between revenues and expenses over a period of time. Profit is the ultimate output of a company and it will have no future if it falls, to make sufficient profit. (Shrestha, M.K. and Bhandari, D.B, (2008),

In reality, firms do have profits targets, and sometimes they pay managers for reaching them, but the goals of firms are broader than profits alone. Proceeding with other determinants of profits, rising prices of competitors, better sales conditions and skills, a higher overall price level allow for higher prices of the considered firm's products, thus increase nominal profits to the extent that costs are inelastic, i.e. they rise less than proportionally to revenues. Maximizing profits is said to be the objective of all firms. Indeed, it's not always easy for the management to find out which are the right decisions that would maximize them. For instance, short-run profits can be easily pumped up by avoiding maintenance, discretionary costs, investments, that however are necessary of on-going competitiveness, as you can experiment with this free business game (Thapa, K. (2012)

A Bank is an organization whose primary functions are concentrated with accumulation of idle money from General public and advancing loan to individuals, traders industries and business houses for expenditure. Generally the bank collects money from those who have spare of it from their income on which it pays interest regularly. The money thus accumulated can be invested different sectors such as business, foreign trades, agriculture's industry and social works for which it charges certain percentages of interest which is higher than interest paid by the bank to accumulated fund.

Such charges on advancing loan is the major revenue sources of the bank by which it can bear administration expenses incurring in the process of operating its activities. Thus the bank is a good mediator between depositors and loan takers. To know the precise and clear meaning of bank, some expert's definition can be given. Chamber's twentieth century dictionary defines a bank as an "Institutions for keeping, lending and exchanging etc of money."

Therefore a bank is a financial institution, which collects deposits and in turn provides loans by creating credit. Today banking is such a vague tern, it does a lot more then deposits and credit like remitting money, issue of money guarantee, letter of credit, controlling, payment, other agency functions, monetary activity of country etc. are also the major function of bank. This multiplicity of bank service and function has led to a bank being labeled "financial supermarket".

There is no unanimity among the economists about the origin of the world banking the term bank derives from the Italian World Bank which refers to the bench on which the banker would keep its money for lending and exchanging. Some person tract its origin from the Latin word Bancus which refers to the bench on which the banker would keep its money and his record it is believed that the ancestors of modern banking system were merchants goldsmiths and money lenders.

Modern banking showed its seed in the medieval Italy despite strong Christian prohibitions against charging interest. The first banks called the banks of Venice were established in Venice Italy in 1157A.D to finance bank of Genoa was establish in 1401and 1408 respectively. After that bank of Amsterdam was established in 1609A D when the bank of England was established in 1940 it played the vital role for the development of modern banking system. After it's establishment banks spread all over the world.

1.2 Profile of the Organization

Siddhartha Bank Limited (SBL), established in 2002 and promoted by prominent personalities of Nepal, today stands as one of the consistently growing banks in Nepal. While the promoters come from a wide range of sectors, they possess immense business acumen and share their valuable experiences towards the betterment of the Bank.

The range and scope of modern banking products and services the Bank has been providing is an example to its commitment towards customer satisfaction. It is this commitment that has helped the Bank register quantum growth every year. And the Bank is confident and hopeful that it will be able to retain this trust and move even further towards its mission of becoming one of the leading banks of the industry. In addition to benefiting its clients, customers and stakeholders, SBL contributes to developing Nepal. As a responsible corporate, SBL supports innumerable CSR activities throughout the country

Vision

Siddhartha Bank runs with a vision to be financially sound, operationally efficient and keep abreast with technological developments.

Mission

The Bank desires to be one of the leading banks of the industry by fulfilling the interest of the stakeholders and also aims to provide total customer satisfaction by way of offering innovative products and by developing and retaining highly motivated and committed staff. The following mission statement is a guide to meet the Vision of the Bank:

- Be one of the leading banks of the industry in terms of profitability, productivity and innovation.
- Aim at total customer satisfaction by rendering efficient and diversified financial services through improved technology.
- Build a highly motivated and committed team of staff by nurturing a good work culture to achieve superior individual performance aiming to enhance organizational effectiveness.
- Be the place of pride to all its stakeholders.

Core Values of the Bank

- Customer focus
- Shareholder prosperity
- Employee growth
- Economic welfare

1.3 Statement of Problem

As we know that the main objective of commercial bank is wealth maximization that is obtained by mobilization of available resources but if the bank fails to deposit adequate deposits then it loses profitable opportunities and hence, fails to generate profit. If the bank is not able to collect sufficient deposits how would it be successful to achieve overall organizational objective. Moreover how would it be able to maintain the profitability position? If the bank is not able to maintain the position then there will be a great question mark of its survival as a feasible institution in this competitive environment of commercial banking sector. Liquidity, political situation, NRB policy affect the profitability. Besides some of the problems to be studied in this report are:

- Moreover how would it be able to maintain the profitability position?
- What is trend of profitability of SBL?
- How is the relationship between profitability and liquidity of the bank?

1.4 Objectives of the Study

Commercial banks are providing a large contribution to different sectors through trade, industry, commerce, agriculture, tourism etc. They have now become the base for the development of Nepal. So, activities of such sector should be studied and evaluated time to time and this field work is also based on the same objective. Moreover, the other main objectives of the present study are:-

- To examine the trend of profitability position of Siddhartha Bank Limited.
- To analyze the correlation of net profit to total operating profit..
- To evaluate the financial ratio of the bank.
- Too determine the impact of deposit in liquidity and its effect on lending practices.
- To offer suitable suggestions based on findings of this study.

1.5 Rationale of the Study

Research has its own importance because it aims to gain knowledge and add new literature to the existing field. This study analyses the status and scenario of profitability position of the bank in Nepal. Besides these, it also provides information regarding non-

interest income generated by the banks. This study is important for other parties such as universities, commercial banks, researchers, scholars, students and so on. The following are the few points, which light on the importance of the fieldwork report are as follows:

- This study will provide important information and data to stakeholder and other related aspects.
- It helps to know about the profitability condition of the bank.
- Important to "outsiders" who are mainly the customers, financing agencies, stock exchanges etc.
- This research will be important for the forth coming students who need some information; it will be a reference for them.
- Important to the management bodies of the bank for the evaluation of the performance of bank. It can be a good asset of library and guideline for other report writer.

1.6 Literature Review

The word profitability is composed of two words, namely, profit and ability. The term profit has been explained above and the term ability indicates the power of a business entity to earn profits. The ability of a concern also denotes its earning power or operating performance. The profitability may be defined as the ability of a given investment to earn a return from its use. Profitability is a relative concept whereas profit is an absolute connotation. Despite being closely related to and mutually interdependent, profit and profitability are two different concepts. In other words, in spite of their generic nature, each one of them has a distinct role in business. (Tulsian, M. 2014)

As an absolute term, profit has no relevance to compare the efficiency of a business organization. A very high profit does not always indicate sound organizational efficiency and low profitability is not always a sign of organizational sickness. Therefore, it can be said that profit is not the prime variable on the basis of which the operational efficiency and financial efficiency of an organization can be compared. To measure the productivity of capital employed and to measure operational efficiency, profitability analysis is considered as one of the best techniques, (Tulsian, M. 2014).

Profits, the difference between revenues and costs. In a trade transaction, profit is the difference between the price at which you sell a good and the price at which you bought it. Running a business, net profit is what is left out of turn-over after paying suppliers, workers, financing institution, and the state. In insurance companies, it's the difference between the sums of the premiums collected and the total claims resulting from insured negative shocks. Distributed profits are the income source of the owners of business. As a social group, they are called "owners" or "capitalists". The part of the value added not distributed as wages, interests, and taxes, remain within the firm to finance investments. (Bhandari, D.R (2008),

Maximizing profits is said to be the objective of all firms. Indeed, it's not always easy for the management to find out which are the right decisions that would maximize them. For instance, short-run profits can be easily pumped up by avoiding maintenance, discretionary costs, investments, that however are necessary of on-going competitiveness, as you can experiment with this free business game. Profitability is the net result of policies and decisions. It is the combined effort of liquidity, assets management and debt management ratios. Profitability ratio measures the overall performance of the firm by determining the effectiveness of the firm in generating profit.

Profit is essential for the survival and growth of a firm over a long period of time, so it is regarded as the engine that drives the business and indicates economic progress. Profit can also be defined as ultimate outputs that owners are interested in the profitability of the firm as creditors want to get interest and repayment of principles regularly while owners want to get a reasonable return on their investment. (Shrestha, M.K. and Bhandari, D,B, (2008),)

Moreover, what maximizes the "overall profits" is not necessary what allows to attain the maximum of "profitability", i.e. the percentage of profits to turn-over, as you can better understand by using this model of monopoly and comparing two policies: (i) extremely high prices (= high profitability), (ii) a price set from a mark-up of 15% on costs. In reality, firms do have profits targets, and sometimes they pay managers for reaching them, but the goals of firms are broader than profits alone. Proceeding with other determinants of profits, rising prices of competitors, better sales conditions and skills, a higher overall price level allow for higher prices of the considered firm's products, thus

increase nominal profits to the extent that costs are inelastic, i.e. they rise less than proportionally to revenues.

A. Research Gap

The review of above relevant literature has contributed to enhance the fundamental understanding and knowledge, which is required to make this study meaningful and purposeful. Various researchers conduct on liquidity management, credit management, credit risk management, financial performance and financial analysis of various commercial banks. In this study, the major areas are to disclose the profitability position of Siddhartha Bank. This type of research was not found much. This study shows that the unique feature of findings. Previous researches on the basis of financial performance, deposit, liquidity etc.

But this research is about minutely analysis of Siddhartha Bank in terms of the profitability position. The research can help the people who wanted to know about the different types of deposits provided by the banks. Therefore, this topic may be effective as well as the researches efforts may be appreciable.

1.7 Research Methods

The process used to collect information and data for the purpose of making business decisions is known research methodology. It is specific procedures or technique used to identify, select, process, and analyze information about topics. In a research paper, the methodology section allows the reader to critically evaluate a study's overall validity and reliability. The methodology section answers to main questions: how was the data collected or generate? How was it analyzed? An appropriate methodology has to be followed to achieve the desired objectives of the study. For preparing this report, reports of banks published in annual general meetings and website of the SBL was followed. The required data were sorted, different financial and statistical tools were used to analyze and interpret the various aspects of Siddhartha Bank Ltd. And report was prepared accordingly.

A. Research Design:

Research design is defined as a framework of methods and techniques chosen by a researcher to combine various components of research in a reasonably logical manner so

that the research problem is efficiently handled. It provides insights about "how" to conduct research using a particular methodology. Every researcher has a list of research questions which need to be assessed – this can be done with research design. The sketch of 'how research should be conducted' can be prepared using research design.

B. Population and Sample

At present twenty eight Commercial banks are operating in Nepal. All the commercial banks are considered as the population. It is not possible the study all the data related with all banks because of the limited time period. In this scenario, one commercial banks, Siddhartha Bank Limited have been selected as sample for the present study. Similarly, financial statements of banks for five fiscal years have been taken as samples for the same purpose.

C. Types of Data

The researcher uses the secondary data for this study. The secondary data were collected from the different sources. Secondary sources consists of annual reports of the banks, published and unpublished bulletins, reports of the banks, previous studies and reports, banking and financial statistics report of Rastra Bank Magazines etc.

D. Data Collecting Procedures

Due to confidentiality maintained by the bank I cannot collect all data from primary sources, but those important data which are very necessary to achieve the objectives of my study that are collected from secondary sources. Especially the annual report and website of the concerned are taken as main source of data collection for purpose of study. The annual reports of the concerned banks were obtained from their head office and their websites. NRB publication, such as Banking and Financial Statistics Economic Reports, Annual Reports of NRB etc., has been collected from the personal visit of concerned department.

E. Data Processing

The collected data were processed for further analysis and presentation. In course of that, tables, and figures were prepared in the sequential order.

F. Tools Used

Basically, financial tools are used to analyze the data. While processing data in tables and

figures both mathematical and financial tools were applied. The tools used are shown as follows:

1) Return on Assets = Net Profit / Total Assets
2) Return on Equity = Net Profit / Total Equity
3) Return on Fixed Assets = Net Profit after Tax / Net Fixed Assets
4) Earnings Per Share = Net Profit after Tax / No. of Common Shares
5) Interest Income to Total Loans & Advances = Interest Income / Total Loans & Advances
6) P/E Ratio = Market Value per Share / Earning Per Share
7) Net Profit to Total Loans & Advances = Net Profit after Tax / Total Loans & Advances

1.8 Limitations of the Study

There are some limitations in this field work study. They are:

- This profitability analysis is based on only one commercial bank .i.e. SBL
- This study is based on secondary data
- Only five years data are included in this report
- Results or conclusions are based on five years data only
- Those data used in study are all in a rounding figure
- Using tools to measure profitability is insufficient
- Covid Scenario has drastically affected in conducting research procedures

1.9 Report Structure

The structure of the study will try to analyze the study in a systematic way. The study report has presented the systematic presentation and finding of the study. The study report is designed in five chapters which are as follows:

Chapter-I: Introduction

This chapter describes the basic concept and background of the study. It has served orientation for readers to know about the basic information of the research area, various problems of the study, objectives of the study and need or significance of the study. It is oriented for readers for reporting giving them the perspective they need to understand the detailed information about coming chapter.

Chapter-II: Result and Findings

This chapter analysis the data related with study and presents the finding of the study and also comments briefly on them.

Chapter-III: Discussion and Conclusion

Last section will present summary and conclusion of the study. Implication of findings will be stated as recommendation. This section will also incorporate an outlet for future research. Reference will be included at the end of the study.

CHAPTER II
RESULT AND ANALYSIS

2.1 Presentation of Data

Data presentation and analysis plays an important role in every field and similar is the importance in urban planning. A great presentation can be a deal maker or deal breaker. Some people make extremely effective presentation with the same set of facts and figures which are available with others.

This chapter is basically concerned with the presentation and analysis of data. This figure of data is in rupees. Amounts are approximately in thousand or million or in crores. All the important financial variables have been analyzed to give my project realistic and meaningful touch. I have gathered data and applied various means of analytical tools and result is taken out and comparison is done. Profitability ratio measures the overall performance of the firm by determining the effectiveness of the firm in generating profit.

The following ratios used in the research helps to analyze and measure the profitability position of SBL which are further presented in line graph and bar graph as per the requirement and easiness of the research.

2.2 Analysis of Data

Profitability is the end result of number of corporate policies and decision. It measures how effectively the firm is being operated and managed. It is related to profit of the business. Profit is essential for the survival of business so that it is considers as the engine that mobilizes the business and indicates economic progress. It measures the overall efficiency of the business. Banks are established with the objective of earning profit in different between revenues and expenses over a period of time. Profit is the ultimate output of a company and it will have no future if it falls, to make sufficient profit.

To find out the trend of increment or decrease of net profit with passage of time, the application of trend analysis is done in this step. This analysis helps to describe the trend of any variables.

Profit trend of SBL is presented in the figure below:

Table No 2.1.

Profit Trend of SBL

Fiscal Year	% increase
2015/16	-
2016/17	-7.15%
2017/18	46.06%
2018/19	50.23%
2019/20	52.20%

Note: Appendix I
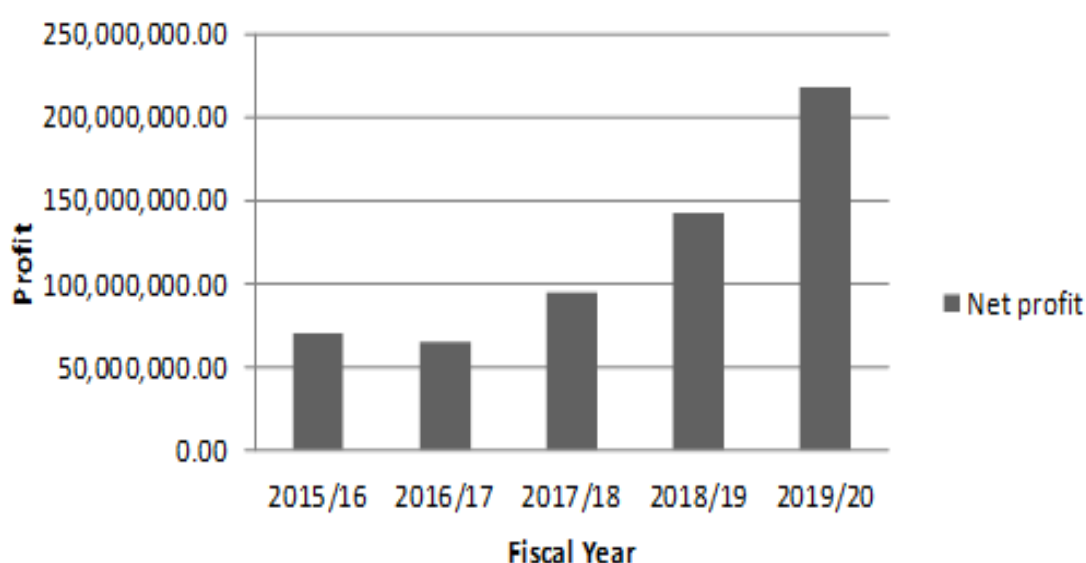
Figure 2.1: Profit Trend of SBL

Table 2.1 shows the trend of profit is in increasing trend. The profit is highest in the latest FY 2019/20 and lowest in the FY 2015/16 with Rs. 217,915,808.00 and Rs. 65,252,812.00 respectively. There is also negative increment in the profit in the FY 2016/17. But after that there is continuous increment in the profit.

Thus we can say that the profitability position of SBL is efficient. The above figure shows that the profit trend is normally increasing. It is highest in the FY 2019/20 and lowest in the FY 2015/16. There was a slight decrement in the FY 2018/19 but since then the profit of SBL is increasing.

2.2.1 Return on Assets (ROA)

This ratio of Net profit to Total Assets is measured the return on total assets (ROA) after interest and taxes. A higher ratio indicates the efficiency of overall financial resources to invest in the SBL. Therefore, the higher ratio, the better will be the performance. It is calculated by dividing net profit by total assets. This ratio establishes the relationship between net profit and total assets. It can be ascertained with the help of following formula:-

$$Return\ on\ Assets = Net\ Profit\ /\ Total\ Assets$$

Table 2.2

Return on Assets of SBL

Fiscal Year	Ratio (%)
2015/16	2.27
2016/17	1.37
2017/18	1.2
2018/19	1.23
2019/20	1.22

Note: Appendix II

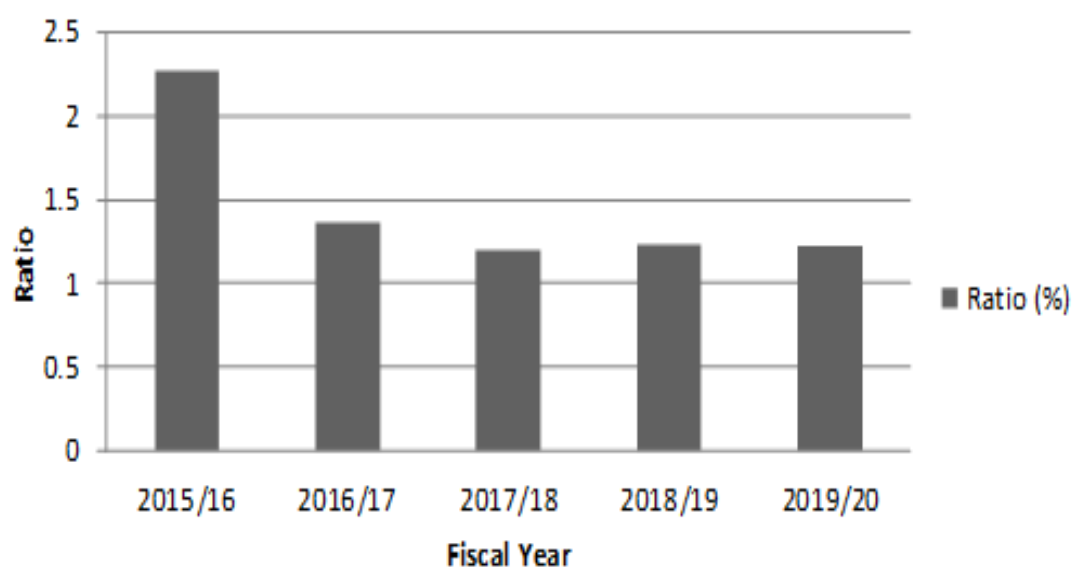**Figure 2.2: Return on Assets of SBL**

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Table 2.2, the trend of ROA is in decreasing trend. It has decreased by 0.9 in the FY 2016/17 to reach 1.37. The decrement has continued in the next year as well. In the FY 2018/19, ROA has increased slightly and reached to 1.23 in FY 2018/19. At last again the ROA has decreased by 0.1 and reached 1.22. The higher the ROA implies the more available source and tools are employed efficiently. Since the ratio of SBL is in decreasing trend, we can say that the management of SBL is not able to mobilize their available source and tools efficiently.

The above figure shows that the trend of ROA is normally decreasing. The ratio is positively highest and lowest in FY 2015/16 and FY 2017/18 with 2.27 and 1.20 respectively. In the current year ROA has decreased by 0.1% as compared to the previous year.

2.2.2 Return on Equity (ROE)

This ratio of Net profit to equity is measured the return on common equity (ROE) or the rate of return on stockholder investment. The equity includes paid up capital, general reserves, and retained earnings of surplus & general loan loss provision. It reflects whether the firm has earned satisfactory return for its equity-holders of not. So, higher ratio is favorable of the stockholders. It is calculated by dividing net profit by total assets. Return on equity is the ratio of net income to common equity. It is also known as the rate of return on stockholders' fund. Higher the ratio, the more efficient the management and utilization of shareholder's fund will be. ROE can be calculated as follows:
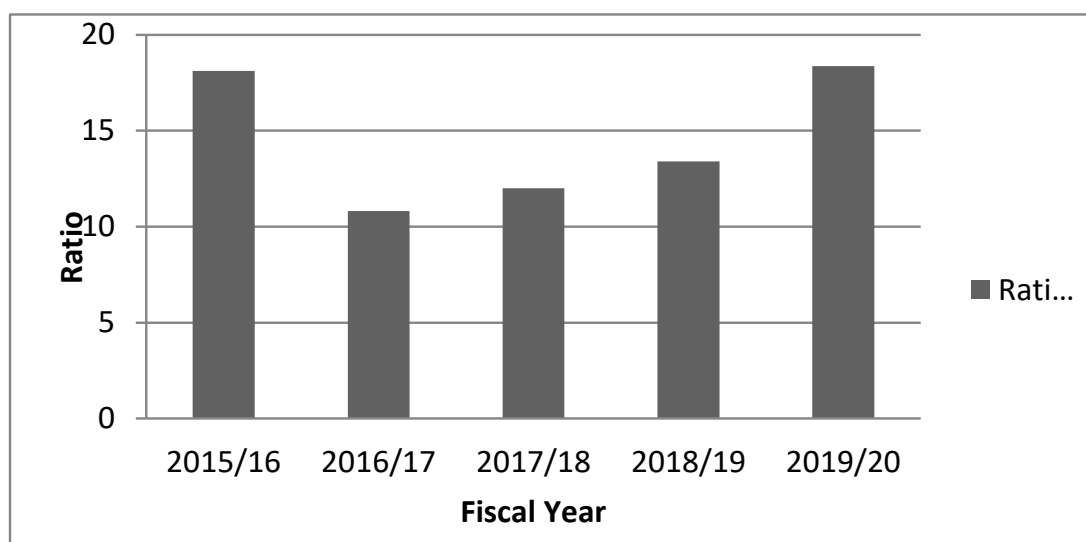
Return on Equity = Net Profit / Total Equity

Table 2.3

Return of Equity of SBL

Fiscal Year	Ratio (%)
2015/16	18.12
2016/17	10.82
2017/18	12.01
2018/19	13.40
2019/20	18.37

Note: Appendix III

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Figure 2.3: Return of Equity of SBL

According to table 2.3, the ROE ratio is in increasing trend even though in the FY 2016/17 it has decreased. Since ROE indicates how well the resources contributed by the owners are utilized. So we can say that the management of SBL is efficient. There is increasing trend of ROE of SBL. It is positively highest and lowest in the FY 2019/20 and FY 2016/17 with 18.37% and 10.82% respectively. It has increased by 4.97% to reach 18.37% in the FY 2019/20 as compared to FY 2017/18. This ratio shows efficient management of SBL.

2.2.3 Return on Fixed Assets

This ratio established the relationship between fixed assets and profit of the organization.   Return on Fixed Assets = Net Profit after Tax / Net Fixed Assets

Table: 2.4:

Return of Fixed Assets of SBL

Fiscal Year	Ratio
2015/16	2.33
2016/17	1.64
2017/18	2.04
2018/19	1.98
2019/20	1.27

Note: Appendix IV
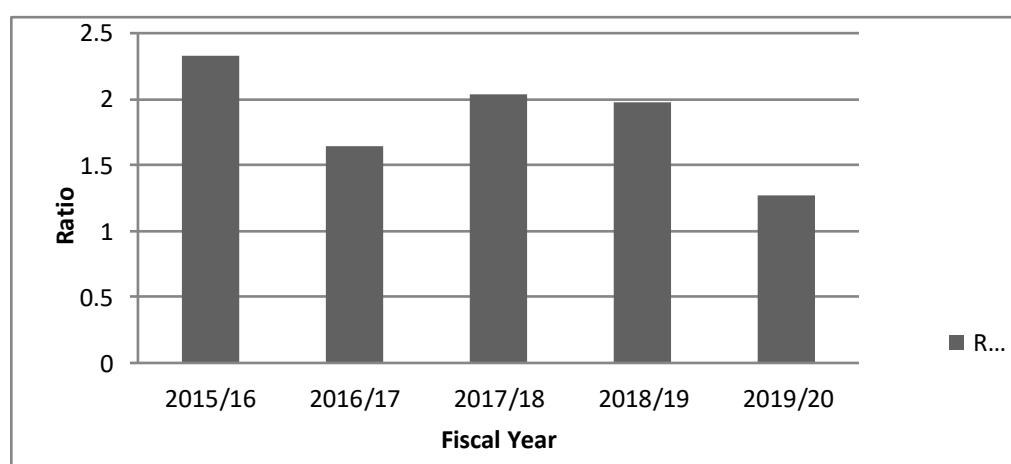
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Figure 2.4: Return of Fixed Assets of SBL

Table 2.4 illustrated the trend of ROFA is in fluctuating trend. It has sometimes increased and sometimes decreased. In the FY 2015/16, ROFA were 2.33 which decreased to 1.64 in the next FY. It again increased by 0.4 and reached to 2.04 in the FY 2017/18. It has again decreased to 1.98 and more decreased to 1.27 in the FY 2019/20. In the latest years the ROFA of SBL shows that fixed assets of SBL are not utilized and most of the fixed assets are idle. This ratio is positively highest and lowest in FY 2015/16 and 2019/20 with 2.33 and 1.27 respectively. It has decreased by 0.71 in the current year as compared to previous year.

2.2.4 Earning Per Share

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability. The income of per common share can be known from the Earning per Share. Earnings per share (EPS) is the monetary value of earnings per outstanding share of common stock for a company. EPS is used to determine the value attached to each outstanding share of a company. A "good" EPS should be a positive figure that has a long track record of consistent growth.

Its formula is:

Earnings per Share = Net Profit after Tax / No. of Common Shares

A higher EPS indicates greater value because investors will pay more for a company's shares if they think the company has higher profits relative to its share price. So, it is considered the higher the EPS number, the more profitable the company.

Table 2.5:

Earnings Per Share of SBL

Fiscal Year	EPS (Rs.)
2015/16	20.08
2016/17	13.05
2017/18	15.88
2018/19	17.29
2019/20	22.89

Note: Appendix V

Figure 2.5: Earning Per Share of SBL
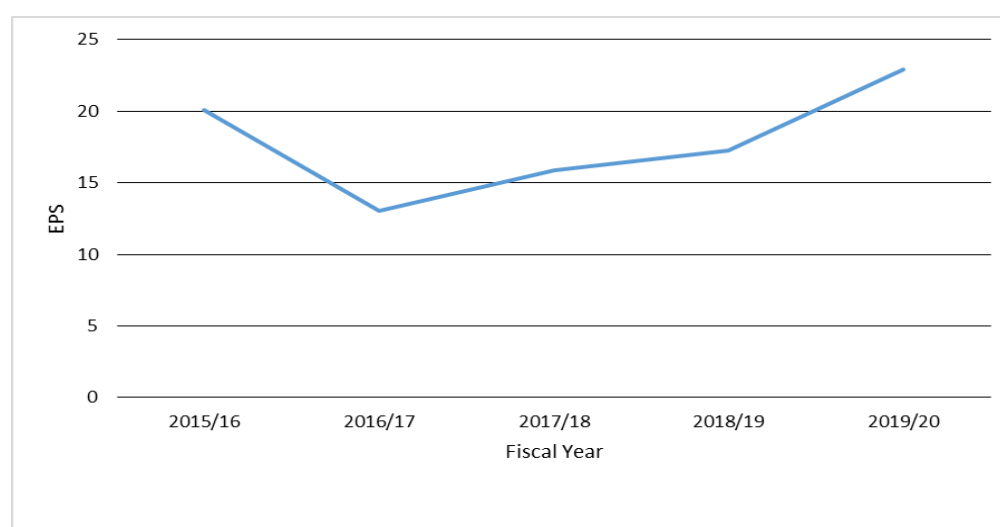
Average EPS = $\sum$EPS = $\frac{89.19}{5}$ = Rs. 17.84
              N

According to table 4.5, the trend of EPS is in rising trend. Even though it has decreased by 7.03 in the FY 2016/17, there is continuous increment in EPS after that. The more per share return, the more excellent it is thus the trend shows the good condition of EPS in SBL. The EPS is positively highest and lowest in FY 2019/20 and 2016/17 with 22.89 and 13.05 respectively. The average EPS is Rs.17.84. The EPS is positively increasing. In the current year it has increased by 5.60 as compared to previous FY.

Earning per share is the same as any profitability or market prospect ratio. Higher earnings per share are always better than a lower ratio because this means the company is more profitable and the company has more profits to distribute to its shareholders.

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Although many investors don't pay much attention to the EPS, a higher earnings per share ratio often makes the stock price of a company rise.

2.2.5 Interest Income to Total Loans & Advances

This ratio shows the relationship between interest income and total loans and advances. It can be ascertained with the help of following formula:-
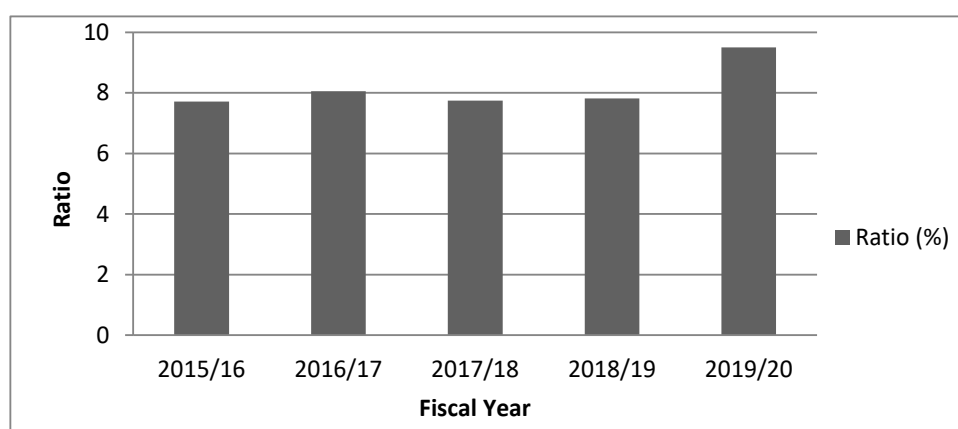
Interest Income to Total Loans & Advances = Interest Income / Total Loans & Advances

Table 2.6:

Interest Income to Total Loans & Advances of SBL

Fiscal Year	Ratio (%)
2015/16	7.71
2016/17	8.06
2017/18	7.74
2018/19	7.82
2019/20	9.50

Note: Appendix VI

Figure 2.6: Interest Income to Total Loans & Advances of SBL

This ratio is in fluctuating trend. This ratio is positively highest and lowest in FY 2019/20 and 2015/16 with 9.50% and 7.71% respectively. In the last three years this ratio is continuously increasing which shows good sign for SBL. SBL should maintain this increasing ratio.

Above table and figure shows that the ratio has increased by 0.35% in the FY 2016/17. However it has decreased by 0.32% and reached to 7.74% in the FY 2017/18. After this the ratio is continuously rising and in the FY 2011/12 it has reached to 9.50% with an increment of 1.68% as compared to FY 2018/19.

2.2.6 Price Earnings ratio (P/E ratio)

The price earnings ratio, often called the P/E ratio or price to earnings ratio, is a market prospect ratio that calculates the market value of a stock relative to its earnings by comparing the market price per share by the earnings per share. In other words, the price earnings ratio shows what the market is willing to pay for a stock based on its current earnings.

Investors often use this ratio to evaluate what a stock's fair market value should be by predicting future earnings per share. The ratio is used for valuing companies and to find out whether they are overvalued or undervalued. Companies with higher future earnings are usually expected to issue higher dividends or have appreciating stock in the future. This ratio shows the relation between market value per share and earnings per share. This ratio is drawn out by dividing the market value per share by earning per share. It can be calculated as:-

P/E Ratio = Market Value per Share / Earning Per Share

Table 2.7:

Market Value per Share to Earnings per Share of SBL

Fiscal Year	Ratio
2015/16	-
2016/17	27.59
2017/18	48.99
2018/19	63.04
2019/20	43.69

Note: Appendix VII

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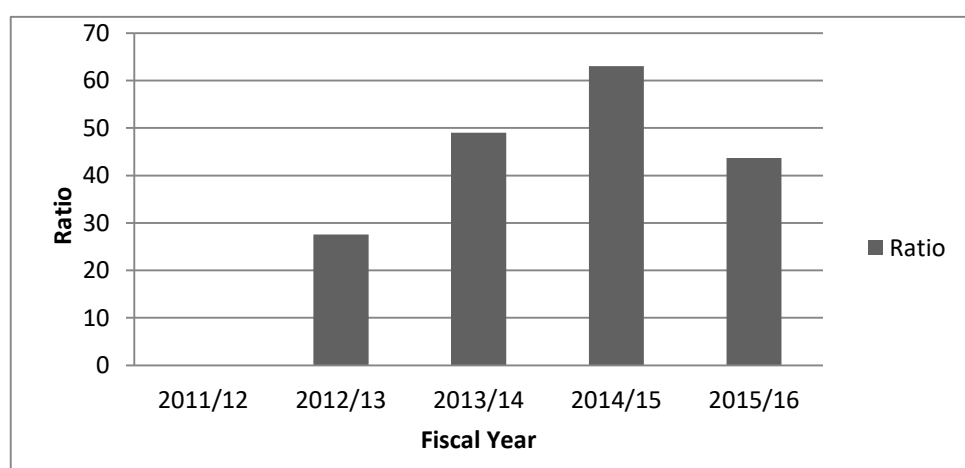**Figure 2.7: Market Value per Share to Earnings per Share of SBL**

Table 2.7 illustrated the trend of P/E ratio is in fluctuating trend. The P/E ratio is positively highest and lowest in the FY 2018/19 and FY 2016/17 with 63.04 and 27.59 respectively. It is increased by 21.39 in the FY 2017/18 to reach 48.99. The increment continues in the next FY as well but in the FY 2019/20 the ratio has decreased. The diagram shows that the P/E ratio is in increasing trend initially and then in a decreasing trend. In the Fiscal Years 2016/17, 2017/18 and 2018/19 the P/E ratio is continuously increasing but in the FY 2019/20 it has decreased by 19.35 to reach 43.69 as compared to FY 2018/19.

The price to earnings ratio indicates the expected price of a share based on its earnings. As a company's earnings per share being to rise, so does their market value per share. A company with a high P/E ratio usually indicated positive future performance and investors are willing to pay more for this company's shares. A company with a lower ratio, on the other hand, is usually an indication of poor current and future performance. This could prove to be a poor investment. In general a higher ratio means that investors anticipate higher performance and growth in the future.

2.2.7 Net Profit to Total Loans & Advances

This ratio shows the relationship between net profit and total loans and advances. It can be shown as:-

Net Profit to Total Loans & Advances = Net Profit after Tax / Total Loans & Advances

Table 2.8:

Net Profit to Total Loans &Advances of SBL

Fiscal Year	Ratio (%)
2015/16	2.73
2016/17	1.72
2017/18	1.53
2018/19	1.53
2019/20	1.63

Note: Appendix VIII

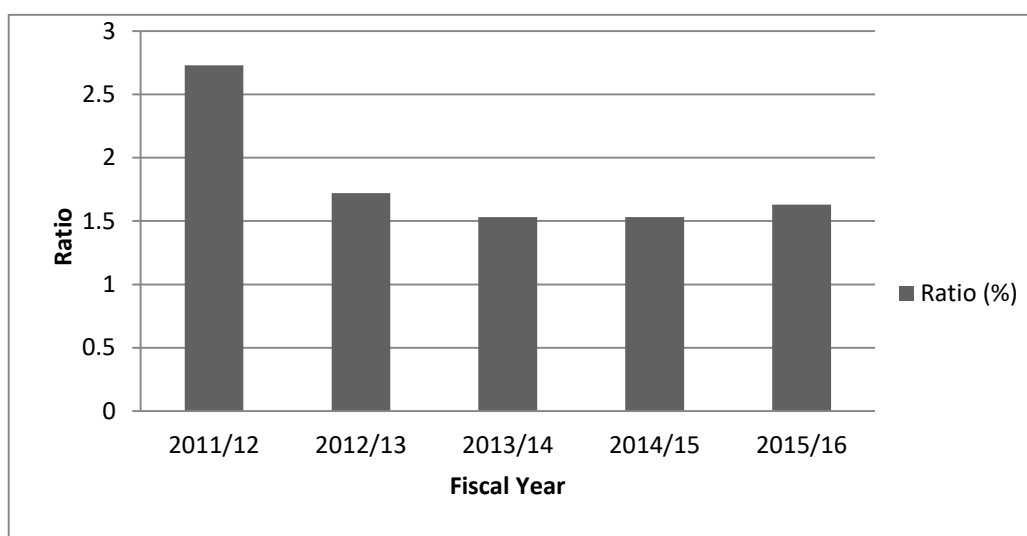**Figure 2.8: Net Profit to Total Loans &Advances of SBL**

Table 2.8 shows the decreasing trend of Net Profit to Total Loans & Advances. From the FY 2015/16 to FY 2018/19 the ratio is decreased continuously. However in the FY 2017/18 the ratio has remained constant to 1.53%. In the next FY 2019/20, the ratio has slightly increased to 1.63. This Net profit to Total Loans & Advances ratio's decreasing trend doesn't show the good position of SBL. However, in the recent year the increment shows some positive chances of the position of the bank being good.

This ratio is basically in decreasing trend. It is positively highest and lowest in the FY 2015/16 and FYs 2017/18 and 2018/19 with 2.73% and 1.53% respectively. In the FY 2016/17 it has drastically decreased by 1.01. The decrement continuous in the next FY also but with less ratio .i.e. only by 0.19 to reach 1.53%. It has increased by 0.10 in the current year and reached to 1.63 as compared to the previous FY.

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2.2.8 Statistical Analysis

a) Karl Pearson's Correlation Coefficient

This method of measuring correlation is also known as Pearson's correlation coefficient. It is the mathematical method for measuring the degree of association between the two variables. It is denoted by 'r'.

The value of 'r' always lies between +1 and -1. When r = +1, it means there is perfect positive correlation between the variables. When r = -1, there is perfect negative correlation between the two variables. Similarly when r = 0, it means there is no relation between them. The formulae for computing Pearson Coefficient of Correlation is:-

$$r = \frac{\sum xy}{\sqrt{\sum x^2} \ \sqrt{\sum y^2}}$$

Where, $x = X - \overline{X}$

$y = Y - \overline{Y}$

2.2.8.1 Correlation between Market Value and Earning per Share

The two variables whose degree of relationship to be measured is market value per share (MPS) and earning per share (EPS)

Table 2.9:

Calculation of correlation between Market Value and Earning per Share of SBL

Fiscal Year	MPS (X)	EPS (Y)	$x = X - \overline{X}$	$y = Y - \overline{Y}$	x^2	y^2	xy
2015/16	-	20.08	-	2.24	-	5.03	-
2016/17	360.00	13.05	-285.6	13.05	81567.36	170.30	-259.24
2017/18	778.00	15.88	132.4	-1.96	17529.76	3.83	-259.24
2018/19	1,090.00	17.29	444.40	17.29	197491.4	298.94	7683.68
2019/20	1,000.00	22.89	354.40	22.89	125599.4	523.95	8112.22
-	$\sum X = $ 3228	$\sum Y = $ 89.19	-	-	$\sum x^2 = $ 422187.8	$\sum y^2 = $ 1002.06	$\sum xy = $ 15277.41

Note: Annual Reports of SBL, 2015/16 to 2019/20

Mean $(\overline{X}) = \dfrac{\sum X}{N} = \dfrac{3228}{5} = 645.6$

Mean $(\overline{Y}) = \dfrac{\sum Y}{N} = \dfrac{89.19}{5} = 17.84$

Using Pearson's formulae of correlation,

$r = \dfrac{\sum xy}{\sqrt{\sum x^2}\,\sqrt{\sum y^2}} = \dfrac{15277.41}{\sqrt{422187.8}\ x\ \sqrt{1002.06}} = \dfrac{15277.41}{649.76\ x\ 31.66} = 0.7427$

The correlation coefficient between MPS and EPS is 0.7427. This figure shows the positive relationship between these two components MPS and EPS. It means when MPS of SBL increases, EPS of SBL also increases. We can use the probable error to measure the reliability. Probable error of the correlation coefficients is applicable for the measurement of reliability of the computed value of the correlation coefficient, r. The probable error (P.E) can be defined as:-

Where,

r = correlation co $\quad$ P.E. $= 0.6745\ \dfrac{1-r^2}{\sqrt{n}}$

n = no. of observations

If r <P.E, the value of r is not significant .i.e. there is no evidence of correlation between the variables. If r > 6 x P.E, the value of r is significant .i.e. correlation is certain.

Now,

P.E. $= 0.6745\ x\ \dfrac{1-r^2}{\sqrt{n}} = \dfrac{0.6745\ x\ 1-(0.7427)^2}{\sqrt{5}} = \dfrac{0.6745\ x\ 0.4485}{2.2361} = 0.1353$

6 x P.E = 6 x 0.1353 = 0.7117

Here,

r = 0.7427

6 x P.E = 0.7117

Since, r > 6 P.E, the value of r is significant .i.e. correlation is certain.

2.2.8.2 Correlation between ROA and ROE

The two variables whose degree of relationship to be measured is Return on Assets (ROA) and Return on Equity (ROE)

Table 2.10:

Calculation of correlation between ROA and ROE of SBL

Fiscal Year	ROA (X)	ROE (Y)	$x = X - \overline{X}$	$y = Y - \overline{Y}$	x^2	y^2	xy
2015/16	2.27	18.12	0.81	3.58	0.66	12.79	2.90
2016/17	1.37	10.82	-0.09	-3.72	0.01	13.87	0.33
2017/18	1.20	12.01	-0.26	-2.53	0.07	6.42	0.65
2018/19	1.23	13.40	-0.23	13.4	0.05	179.56	-3.06
2019/20	1.22	18.37	-0.24	3.83	0.06	14.64	-0.91
-	$\sum X$ = 7.29	$\sum Y$ = 72.72	-	-	$\sum x^2$ = 0.84	$\sum y^2$ = 227.28	$\sum xy$ = -0.08

Note: Annual Reports of SBL, 2015/16 to 2019/20

Mean $(\overline{X}) = \dfrac{\sum X}{N} = \dfrac{7.29}{5} = 1.46$

Mean $(\overline{Y}) = \dfrac{\sum Y}{N} = \dfrac{72.72}{5} = 14.54$

Using Pearson's formulae of correlation,

$$r = \frac{\sum xy}{\sqrt{\sum x^2}\ \sqrt{\sum y^2}} = \frac{-0.08}{\sqrt{0.84}\ \times \sqrt{227.28}} = \frac{-0.08}{0.92 \times 15.08} = -0.0058$$

The correlation coefficient between ROA and ROE is – 0.0058. This figure shows the negative relationship between these two components ROA and ROE. It means when ROA of SBL increases, ROE of SBL doesn't increase.

Probable Error (P.E) for above calculation:

$$P.E. = 0.6745 \times \frac{1-r^2}{\sqrt{n}} = \frac{0.6745 \times 1-(-0.0058)^2}{\sqrt{5}} = \frac{0.6745 \times 0.99997}{2.2361} = 0.3016$$

Since, r > P.E, the value of r is not significant .i.e. there is no evidence of correlation between the variables ROA and ROE.

2.3 Major Findings

Here, the findings of above calculations are pointed out:

- The trend of profit is in increasing trend. There is also negative increment in the profit in the FY 2016/17. But after that there is continuous increment in the profit. Thus we can say that the profitability position of SBL is efficient.

- The trend of ROA is in decreasing trend. Since the ratio of SBL is in decreasing trend, we can say that the management of SBL is not able to mobilize their available source and tools efficiently.

- The ROE ratio is in increasing trend even though in the FY 2016/17 it has decreased. So from the ratio above we can say that the owner's contribution is effectively utilized. Higher the ratio, the more efficient the management and utilization of shareholder's fund will be. So we can say that the management of SBL is efficient.

- The trend of ROFA is in fluctuating trend ROFA shows how effectively the fixed assets are utilized and in the latest years the ROFA of SBL shows that fixed assets of SBL are not utilized and most of the fixed assets are lying idle.

- The trend of EPS is in rising trend. The more per share return, the more excellent it is thus the trend shows the good condition of EPS in SBL.

- Interest Income to Total Loans & Advances ratio is in fluctuating trend. In the last three years this ratio is continuously increasing which shows good sign for SBL. SBL should maintain this increasing ratio.

- The trend of P/E ratio is in fluctuating trend. It is increased by 21.39 in the FY 2017/18 to reach 48.99. The increment continues in the next FY as well but in the FY 2019/20 the ratio has decreased.

- The correlation coefficient between MPS and EPS is 0.7427. This figure shows the positive relationship between these two components MPS and EPS. It means

when MPS of SBL increases, EPS of SBL also increases. Since, r > 6 P.E, the value of r is significant .i.e. correlation is certain.

- The correlation coefficient between ROA and ROE is – 0.0058. This figure shows the negative relationship between these two components ROA and ROE. It means when ROA of SBL increases, ROE of SBL doesn't increase. Since, r > P.E, the value of r is not significant .i.e. there is no evidence of correlation between the variables ROA and ROE.

CHAPTER III
SUMMARY AND CONCLUSIONS

3.1 Summary

SBL wants to be a leader among the banks of its age in Nepal by fulfilling the interest of the stakeholders and also aims to provide total customer satisfaction by way of offering innovative product and by developing and retaining highly motivated and committed staffs. Siddhartha Bank firmly believes customer focus is a core value, shareholder prosperity is a prime priority, employee growth is a commitment and economic welfare is a sincere concern. Its vision is to be financially sound, operationally efficient and keep abreast with technological developments.

From the above analysis, profit trend is in increasing trend. It shows that SBL is able to maintain the increasing ratio of profit each year. The trend of ROA is in decreasing trend which shows that the management of SBL has not been able to maintain the net profit in respect to total assets. The ROE ratio is in increasing trend so we can say that the management of SBL is efficient to utilize shareholder's fund. ROFA is fluctuating trend, but in recent years it has decreased so it shows that fixed assets are not utilized properly in the current years.

Similarly, EPS is in rising trend. It maintains its trend in a positive way and is being able to maintain the increasing trend of SBL, profitability position. There is decreasing trend of Net Profit to Total Loans & Advances. However in the recent years, it has slightly starting increasing which shows some positive chances of the position of the bank being good.

3.2 Conclusions and Implications

The trend of profit is in increasing trend. There is also negative increment in the profit in the FY 2018/19. But after that there is continuous increment in the profit. Thus we can say that the profitability position of SBL is efficient. The profitability position of SBL is satisfactory. Even though the ROA is normally in decreasing trend but it has maintained the positive position. But it can increase its level of ratio more. We think SBL must mobilize the total assets even more.

The ROE ratio is in increasing trend. Since ROE indicates how well the resources contributed by the owners are utilized. So from the ratio above we can say that the owner's contribution is effectively utilized. Higher the ratio, the more efficient the management and utilization of shareholder's fund will be. So we can say that the management of SBL is efficient. ROFA of FY 2015/16 is not maintained in any of the Fiscal Years. In recent years, it is continuously decreasing so fixed assets are not utilized properly in the recent years.

EPS is in increasing trend. It is quite satisfactory. It indicates that SBL has maintained good position of EPS. After the decrease in the FY 2018/19, SBL has maintained good position in other fiscal years. The ratio of interest income from loan has increased in the last three Fiscal Years. So we can say that SBL is earning more interest income from loan. The Net profit to Total Loans & Advances ratio's decreasing trend doesn't show the good position of SBL. However, in the recent year the increment shows some positive chances of the position of the bank being good.

We can get a clear financial picture of SBL from all above presentation and it is realized that it still need some improvement to provide best service and to face every worse situation. Therefore, some valuable suggestions and recommendations are presented as follows:

- Due to the establishment of several banks, financial companies etc, SBL is facing lot of competition. So, bank should emphasis on modern technology development and efficient manpower development. Bank should be more market oriented, service-oriented and offer a complete range of financial services.
- SBL is recommended to decrease its amount of money at call by increasing loans advances for improving their respective assets management as well as liquidity positions.
- SBL is recommended to increase its cash bank balance for improving liquidity.
- SBL have low percentage of total assets of bank covered by income generating assets. So, SBL is recommended to invest more and more percentage of their assets on loans and advances.
- The strongest part of SBL is its increasing net profit. This aspect makes strong profitability of SBL. So, it is recommended to maintain this position by SBL.

- SBL should operate new branches in non-representing urban areas for more deposit collection and more utilization of the same as well as to increase their transactions and to provide financial services and facilities to more customers.

- SBL should adopt efficient and latest market strategy to make their transactions more capable as well as to fulfill growing demand of new financial services and facilities.

- SBL are not successful to boost foreign investment. So, it is recommended to activate for increasing foreign investment in Nepal by means of their wide international banking network.

- They should sponsor various social programs, contests, etc. for maintaining favorable public image.

- SBL should establish contact with more and more institutions such as donor agencies, large business house, joint venture companies etc to expand it transaction.

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APPENDIX I

Fiscal Year	Net profit
2015/16	330,000,000
2016/17	481,000,000
2017/18	701,000,000
2018/19	767,000,000
2019/20	1,255,000,000

Note: Annual Reports of SBL, 2015/16 to 2019/20

APPENDIX II

Fiscal Year	Total Assets	Net profit
2015/16	3,091,102,752.00	330,000,000
2016/17	4,756,935,448.00	481,000,000
2017/18	7,954,664,475.00	701,000,000
2018/19	11,668,355,950.00	767,000,000
2019/20	17,881,750,138.00	1,255,000,000

Note: Annual Reports of SBL, 2015/16 to 2019/20

APPENDIX III

Fiscal Year	Equity	Net profit
2015/16	387,888,643.00	330,000,000
2016/17	603,141,455.00	481,000,000
2017/18	793,709,939.00	701,000,000
2018/19	1,068,346,086.00	767,000,000
2019/20	1,186,030,315.00	1,255,000,000

Note: Annual Reports of SBL, 2015/16 to 2019/20

APPENDIX IV

Fiscal Year	Net Fixed Assets	Net profit
2015/16	30,217,153.00	330,000,000
2016/17	39,692,489.00	481,000,000
2017/18	46,667,101.00	701,000,000
2018/19	72,398,043.00	767,000,000
2019/20	172,158,131.00	1,255,000,000

Note: Annual Reports of SBL, 2015/16 to 2019/20

APPENDIX V

Fiscal Year	No. of share outstanding	Net profit
2015/16	3,500,000.00	330,000,000
2016/17	5,000,000.00	481,000,000
2017/18	6,000,000.00	701,000,000
2018/19	8,280,000.00	767,000,000
2019/20	9,522,000.00	1,255,000,000

Note: Annual Reports of SBL, 2015/16 to 2019/20

APPENDIX VI

Fiscal Year	Interest income	Total Loans & Advances
2015/16	198,184,538.00	2,570,776,015.00
2016/17	305,560,896.00	3,789,122,692.00
2017/18	481,523,807.00	6,222,586,813.00
2018/19	729,872,484.00	9,335,597,738.00
2019/20	1,265,582,131.00	13,328,621,515.00

Note: Annual Reports of SBL, 2015/16 to 2019/20

APPENDIX VII

Fiscal Year	Market Value	Earnings Per Share
2015/16	-	20.08
2016/17	360.00	13.05
2017/18	778.00	15.88
2018/19	1,090.00	17.29
2019/20	1,000.00	22.89

Note: Annual Reports of SBL, 2015/16 to 2019/20

APPENDIX VIII

Fiscal Year	Total Loans & Advances	Net profit
2015/16	2,570,776,015.00	330,000,000
2016/17	3,789,122,692.00	481,000,000
2017/18	6,222,586,813.00	701,000,000
2018/19	9,335,597,738.00	767,000,000
2019/20	13,328,621,515.00	1,255,000,000

Note: Annual Reports of SBL, 2015/16 to 2019/20