

Book Review

***Research in Nepalese Finance.* By RADHE S. PRADHAN. Kathmandu: Buddha Academic Publishers & Distributors Pvt. Ltd. 2003. Pp. x+176.**

THIS BOOK IS THE first of this kind and useful reference book for the students carrying research project for their Master dissertation majoring in finance. This contains altogether ten empirical studies carried out in different periods in the article form. Of these, three are related to the financial distress, two to capital markets, and rests to the financial management practices in Nepal. Most of them are already published. Two, among the ten articles, are published in the *Nepalese Management Review*, two in the *Economic Journal of Nepal* and one in *Studies in the Financial Markets of the Pacific Basin*; two are extracted from the book entitled *Financial Management Practices in Nepal* authored by the author; two are the seminar papers; and only one article is fresh. All articles are equally important for the students conducting the research in finance for Master dissertation. All are well documented and written precisely.

The first article has explained the effect of dividend payment and retained earnings on market price of share in the context of Nepalese companies. This article is based on the pooled cross section data of 29 companies from 1994 to 1999 with total of 93 observations. The results of the models of this study have shown that dividend has the strong effect on the market price of the share and less effect of retained earning. Moreover, this study found that dividends are relatively more attractive to Nepalese stockholders. This paper is useful for those students pursuing the research project on impact of dividend policy on the market price of the share.

The second article is the reproduction of the paper presented in the *International Seminar on Perspective for Millennium Corporate Restructuring* organized by P.G Department of Commerce, Utkal University, Bhubaneswar, India in 2002. This paper focuses the legal framework of financial distress and the extent of financial distress of Nepalese enterprises and movement of selected financial ratios with the financial distress. This paper is based on the study of more than 90 percent of public enterprises in operation during the late nineties. The time horizon of the secondary data included in this study is 3 years—fiscal year 1996/97 through 1998/99. Defining occurrence of loss as the financial distress of public enterprises, this paper has regressed the net profit ratio and return on equity on operating expenses ratio, liquidity ratio, turnover ratio, labor productivity and debt coverage ratio of public enterprises. The results have shown the negative relation of net profit ratio with operating expenses and positive relation with liquidity, turnover, labor productivity, and interest coverage. And finally it has concluded that Nepalese public enterprises were suffering from financial distress during the study period.

The third article is the revised version of the article published in *Studies in the Financial Market of the Pacific Basin* in 1994. This article presents the results of the survey on financial management practices in Nepal. Based on the survey of 24 public enterprises and 54 private enterprises in Nepal, this article presents the issues relating to finance functions, sources and types of financing, debt ratios and debt limits, sensitivity analysis of financing preferences, tax and distress effects, dealing with the banks and dividend policy of public and private enterprises in Nepal. The article has mentioned the working capital management

as the most important finance function and maintaining the good relationship with the stockholders as the least important one. This paper may be instrumental to those researchers who are intending to conduct the survey on finance functions in Nepalese enterprises.

The fourth paper is related to stock market behavior in a small capital market like the then Stock Exchange Centre. This paper also a republication of an article published in the *Nepalese Management Review* in 1993. This study is based on the pooled cross sectional data of 17 enterprises listed in Stock Exchange Centre and has examined the relationship of market equity, market value to book value, price earnings and dividend with liquidity, leverage, profitability, asset turnover, and interest coverage. It has concluded that larger stocks have larger price-earning ratios, larger ratio of market value to book value of equity, lower liquidity, lower profitability, and smaller dividends, and stocks with higher price-earning ratios have lower liquidity, higher leverage, lower profitability, lower turnover, and lower interest coverage.

The fifth article is a part of the *Financial Management Practices in Nepal* published in 1994. This is based on the survey of executives of 78 enterprises located in Kathmandu, Bhaktapur, Chitawan, Kaski and Lalitpur districts in 1992. This paper provides the behavioral evidences from 63 executives of Nepalese industries on the appropriateness of the choice of variables of prediction of financial distress. Pradhan has used 14 financial ratios: quick assets to current liabilities, current assets to current liabilities, cash to current liabilities, total debt to total assets, income to sales, working capital to total assets, sales to average inventories, net income to net worth, current assets to total assets, cash flows to sales, sales to total assets, cash flow to total debt, cash flow to total assets, and EBIT to fixed interest charges, as the indicators of financial distress. In this study he has concluded that executives of Nepalese enterprises perceive that short term liquidity ratios are the most important indicators of the financial distress. Moreover, he concluded that there is no significant difference between the choices of financial ratios by the private enterprises and public enterprises in Nepal.

The sixth article also is a part of the same book, *Financial Management Practices in Nepal*, of the author. This article is based on the survey of 63 executives from private and public sector enterprises. In this article, author has investigated into major aspects of financial distress in Nepalese context. These aspects include causes of financial distress, symptoms of financial distress, policy measures to be adopted to rehabilitate industries under financial distress, and suggestions for industrial units under financial distress. Author has concluded that the major causes of financial distress are frequent changes in government policy, problem of raw materials, power and skilled labor, and poor management. In addition, he has concluded that Nepalese executives perceive the decline capacity utilization, decline in the quality of products and services as symptoms of financial distress.

The seventh article has investigated into the transaction demand for the inventories, and effect of capital cost on inventory holdings of manufacturing public corporation of Nepal. The study has covered twelve years data (from 1973 through 1984) of nine corporations. This study has shown the presence of economies of scale with respect to demand for inventories and demand for inventories is the function of sales and inventory holding costs of the corporations. But the question on the validity of the conclusion of this study rises due to the small numbers of study unit. However, it may be valuable sample for further study.

The eight paper of this anthology is the joint paper of the author with Maheshwar Prasad Yadav published in the *Economic Journal of Nepal* in 2002. This paper focuses the role of saving, investment and capital formation in economic development of Nepal. The study has covered 27 years, from fiscal year 1974/75 through 2000/01. This article is based on the macro-economic variables like saving, investment, gross domestic products and capital formation. The study has found the significant association of gross domestic product with the saving, investment and capital formation both at current price and real terms. The major implications of the results of this study are the positive impact of saving, investment and capital formation on the economic development, current value of these explanatory variables have larger impact on economic development than that of the past values, and strong role of saving and capital formation in the economic development of the country.

The ninth article is related to the dividend policy and practices of Nepalese enterprises and coauthored with Nav Raj Adhikari. This is based on the survey of the views of 135 managers on dividend policy of 50 large Nepalese enterprises, but the article has not mentioned when the survey was carried out. This study found that the managers give the third priority to the dividend decision in the large Nepalese enterprises; cash dividend is paid to communicate the shareholders that their companies are doing good; majority of the managers do not conceive the dividend decision as a residual decision; announcement of earnings of the companies help to push up the market price of the share; and corporations distribute the stock dividend to conserve cash. Regarding the factors affecting the dividend policy, this study has concluded that managers of Nepalese enterprises assign the first priority to earning, second priority to availability of cash, the third to past dividend, fourth to concern about maintaining or increasing stock price.

The last article of this anthology is related to the demand for cash by corporations. This study is based on the time series data of nine manufacturing public enterprises. Author has estimated the demand for cash equations with pooled data consisting of 90 observations. The estimated pooled regression results have showed the presence of the economies of scale with respect to the demand for cash. Further this study has shown that the demand for cash is the function of both sales and holding cost of cash.

Physical appearance and quality of paper and printing are not so bad but it is not up to the marks. Price of this book is NR.145.00. It is not so high. It can not be considered dearer relative to the nature and quality of materials it contains. Color of cover page and outlook of the book is attractive. **Forward** written by Professor James S. Ang of Florida State University has added some weight to this anthology.

Most of the articles are difficult to understand without the knowledge of econometric models. Since author has used them extensively almost in all articles. Dr. Pradhan has taken the sole authorship of this anthology and he has not acknowledged any contributors to this anthology in the *Preface* of the book. But the perusal of articles implies that other faculties such as Professor Manohar Krishna Shrestha, Dr. Kamal D. Manandhar, Dr. Rajan Bahadur Paudel, Maheswor Prasad Yadav, and Nav Raj Adhikari have contributed to some articles of the book.

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