

**WORKING CAPITAL MANAGEMENT
OF
NEPAL DOORSANCHAR COMPANY LIMITED**

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T.U. Regd.No:24963-89

A Thesis Submitted to
Office of the dean
Faculty of Management
Tribhuvan University

In partial fulfillment of the requirements for the degree of
Master of business studies (**M.B.S.**)

Itahari,Sunsari

July, 2013

RECOMMENDATION

This is to certified that the thesis
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Has been prepared approved by this department in the prescribed format of the faculty of
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ACKNOWLEDGEMENT

This thesis is prepared in partial fulfillment for the degree of masters of business studies (M.B.S) examination of Tribhuvan University, Kathmandu. It is an interesting exercise for the student to write and complete it. I have prepared this thesis entitled WORKING CAPITAL MANAGEMENT OF NEPAL DOORSANCHAR COMPANY LTD with the help and cooperation of my respected teachers, friends and others concerned persons. I would like to thank all of them for their kind help and cooperation to complete this thesis report.

While preparing this report, I had faced many constraints and barriers. I came to know that thesis report writing, not only is difficult and brain storming deed, but also is really challenging and interesting too. I felt many new things during this period and experienced to start new job under my own leadership. That's why I became knowledgious in the field of gaining new knowledge since my job.

I would like thank my Campus Chief to Mr. Narad Upreti and other faculty member. Similarly, I kindly thank all those known and unknown people who help directly or indirectly to prepare this Thesis. I am very grateful to my respectable teacher & chairman of reseach committee Mr SANTIRAM KHANAL for his constructive guidance and suggestions, which proved great source of encouragement and inspiration to me I also thank to library section of the campus for their cooperation.

I extend my deep gratitude to my family members and friends Mr Gopal Dungal Mr.Bedhnidhi Chapagain and Mr Nobin Ojha for their support and perpetual kind cooperation.

Finally, I would like to thank to all the individuals and institutions whose efforts I have used as reference for this study.

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DECLARATION

I hereby proclaim that the work reported in the thesis entitled "Working capital management of Nepal Doorsanchar Company Limited" submitted to Janta Multiple Campus, faculty of management, Tribhuvan university is my original work done in the form of partial fulfillment of the requirements of Masters degree in business studies (M.B.S) Under the supervision of **Santiram Khanal** Janta Multiple campus Itahari Sunsari.

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ABBREVIATIONS

B.S.	Bikram Sambat
CA	Current Assets
CDMA	Code Division Multiple Access
CV	Coefficient of Variation
DDC	Diary Development Corporation
FA	Fixed Assets
GSM	Global System of Mobile Communication
GWC	Gross Working Capital
IDA	International Development Association
LTD	Limited
NBCL	Nepalese Battery Company Limited
NLL	Nepal Liver Limited
NPAT	Net profit after Tax
NST	Nepal Satellite Telecom
NT	Nepal Telecom
NTC	Nepal Telecommunication Corporation
NWC	Net Working Capital
P.E.	Probable Errors
PSTN	Public Switch Telephone Network
SD	Standard Deviation
UTL	United Telecom Limited
VDC	Village Development Committee
WCM	Working Capital Management

Executive Summary

Nepal Doorsanchar Company Limited is popularly known with its name as Nepal Telecom as a trade mark. It's powerful services oriented public company. Its products are lunched throughout the country having a nature of communication services. Financial structure and ownership of it is in variety manner. Government leadership in ownership is fully practiced except little public offering portion.

Working Capital Management of Nepal Telecom under this study is revealed that it has so sound in financial section. Current assets, current liabilities, fixed assets are utilized by Nepal Telecom is able to generate high profit. As being the primary objective, profit generation, services in public sector is being tried effective. Study of five year operation since 2064/65 fiscal year to 2068/69, financial sector in its all surrounding with proper suggestion come to be true to meet the objectives. It sets the objective of setting working capital policies having the significance of current assets management. Forecast sale and actual sales with all variables are with how much deviation is the objective under the study. It focuses on the finding of short coming of present working capital management. Moreover, liquidity position is targeted to the study.

The study focuses on various questions like

-) Does Nepal Telecom properly adopt the working capital management policies and practices?
-) Does Nepal Telecom manage current assets and current liabilities in right proportion?
-) What is the planning of Nepal Telecom in current assets investment?

Under the methodological part, the study used tools like central tendency, time series analysis, standard deviation, ratio analysis all the tools helped in giving conclusion of the study by proving guidelines.

Sources of data collection are given priority to the electronic media but physically collected data are found to be more reliable.

The research study in Working Capital Management of Nepal Telecom during five year plan is quite satisfied. Current assets and current liabilities are increasing but no excess out of control in liability side. General profit management side is a little bid weak but no change to it. Sales volume of some product level is increasing and some are decreasing. Overall sales volume is in increasing trend.

In the study of overall sense, new knowledge is developed for the controlling of irregularity; optimum level of cash management is needed to be stepped at first major suggestion by this study. Some of the other suggestion are following :

-) Determine optimum level of cash balance to hold every year applying cash management techniques. The study also revealed that the large portion of current assets being unproductive by lying in absolute liquid form in Nepal Telecom. This indicates the inefficiency of management of cash.
-) Forecast current assets and current liabilities variable with reference to change in sales and profit.
-) The study revealed the fact that Nepal Telecom fails to collect debt in time. Among the total receivables of Nepal Telecom, the largest portion is held by sundry debtors.

CHAPTER I

INTRODUCTION

1. Background of the study

Telecommunication is a means of communication among various types of communication media. Telecommunication is an electronic base of communication at distance that transmits voice data through wave channel. Telecommunication is further defined as a connecting means of two persons from place to place that helps in understanding views, opinions, and thoughts.

It is of two words 'Tele' and 'Communication' where 'Tele' means far and communication means sharing of thoughts and information. Telephone was invented by Graham Bell in 1878 A.D. With his assistant Thomas and Watson, telephone service was only for communication in form of voice from 1876 AD to 1980 AD. After the drastic change in information technology its structure broadened rapidly in every sector. It vacillated not only business sector thereafter but also closed the relation of human life. Research and advancement on telecommunication went on in rapid growth as progress of economic states to uplift the financial situation of business. So research on telecommunication has made the world as global village.

Telecommunication is a basic infrastructure of national development. A communication facility leads to changes on growth of business acting as facilitators. So it contributes in national development in various ways through the economic, social and cultural changes. Communication plays significant role in the development of industry, trade and commerce. It plays a vital role in government administrative work effectively by adding efficiency that helps in meeting national goals. Effect of globalization due to communication facilitates has increased international trade as per the expectation.

It is a means of communication at a distance it includes all forms of electronic transmission of intelligence as telegraphy, telephone, radio and television listed in their chronological order of development, data transmission between a computing system and remotely located device via a unit that performs the necessary format conversion and controls the rate of transmission.

Since the investigation of satellite there have been coming various kinds of development in the telecommunication sector without having rapid progress in communication system, the country can't be developed, due to rapid development of

telecommunication many countries in the world are reached into highest level development.

1.1. Introduction of Nepal Telecom

Nepal Doorsanchar Company LTD, brand name is Nepal Telecom is a financially powerful services oriented organization in Nepalese organizational environment. Its products are lunched throughout the country having a nature of communication services. Financial structure and ownership of it is in variety manner. Government leadership in ownership is fully practiced except little public offering portion. Its background in financial base as well as service and marketing is really effective in recent competitive threats. As being the government ownership organization, it is in the various parts of the country. For rendering communication service even if loss occurs in some project. Lunching services up to remote area is under the responsibility of Nepal Telecom. So it comes to be a base organization of infrastructure development as it accelerate pace of business, trade and so on for economic development of a country.

Nepal Telecom is one of the financially strong organizations. Its services and programs are in effective manner such as importing of new technology that first time practiced in Nepal in South Asia in the communication scenario like third generation services. Nepal government also prepares plan every year in priority basis need of infrastructure development. Financing is a must for effective program in it. Nepal government is investing a huge amount in public enterprises. Telecom is a government owned Telecommunication organization, thus proper planning for profit should be prepared so that loss can be eliminated in days to come. At present Telecom have competitors like Spice Nepal, UTL, Smart Nepal as a major competitors. NST is in the process of installing the required infrastructure like main care system base station, subsystem and solar system. Muktishree Telecom (NEPAL) Sewa, Telecom Bangladesh, Pakistan Mobile Telecommunication and Air Bell Company (Cyprus) have invested in the NST.

NT has been providing basic telephone services from long time and has also introduce global system mobile internet and others value added services are being provided with great challenges. Nepal Telecom has a long term objective of providing communication services in all VDC of Nepal with the slogan '**Building Nation Is Our Goal**'

It has planned to launch CDMA (Code Division Multiple Access) and land line services as an international gateway.

Nepal Telecom has a goal of launching advanced services in the telecommunication sector with high level advanced technology in all VDC of the country. Services have been provided by it in the main brand name areas GSM, CDMA and PSTN. These products are overall extended in all parts of Nepal.

1.1.1 Telecommunication in the context of Nepal

Nepal is an underdeveloped country in respect of transportation, communication as well as industrialization. Communication is a basic need of industrialization. It has not long history in Nepal for rendering services in the communication sector. In Nepal, telecommunication service started in 1993 BS since the date of Rana Regime with the establishment of a telephone system in Kathmandu as a luxury for Rana rulers. At that time, government was directly involved in the development and distribution of telecommunication services, in the year 1959 AD under the ministry of work, transport and communication a separate telecommunication department was established. To develop the country's communication service in a systematic manner under the telecommunication expansion programme undertaken with the help of International Development Association (IDA). Furthermore Nepal Telecom board was established in the year 1969 and its resource base considerably strengthened in terms of its ability to handle modern telecommunication technology for the establishment of new telecommunication facilities in Nepal. Telecom board was converted into Nepal Telecommunication Corporation (NTC) in 1975 later on; it was again named as Nepal Telecom in 2061 B.S. Nepal Telecom is a form of different communication organization in its name for the purpose of increasing its administrative efficiency.

Nepal Telecom is playing a vital role in the communication sector at present. It is basic infrastructure for development and it has a great importance for the overall development of the nation. Telecom is providing qualitative service to its customer. Public enterprises are also facilitated by this company in reasonable price. It has brought changes in human civilization in changeable social phenomenon as per the need of modern age. So, human life is incomplete without telecommunication.

Telecommunication is leading public enterprises among various public and private organizations. It has a contribution in economic development as well as a major source of government revenue has to give effective direction to its management.

1.1.2 Historical Development of Telecommunication in Nepal

In Nepal, operating and any form of Telecommunication service dates back to 94 years in B.S. 1970 but formally telecom service was provided mainly after the establishment of Mohan Akaswani in B.S. 2005. Later as per the plan formulated in first national five year plan (2013-2018) Telecommunication Department was established in B.S. 2016 to modernized the communication services and to expand the services during third year plan (2023-2028), Telecommunication Department was converted in to Telecommunication Development board in B.S. 2026. After the enactment of Communication Corporation Act 2028, it was formally established as fully owned government corporation called Nepal Telecommunication Corporation in B.S. 2032 For the purpose of providing telecommunication services to Nepalese people. After serving the nation for 29 years with great pride and a sense of accomplishment, Nepal Telecommunication Corporation was transferred into Nepal Doorsanchar Company Ltd. from Baishak 1, 2061. Nepal Doorsanchar Company registered under the company Act 2053(now 2063). However the company is known to the general public by the brand name Nepal Telecom as registered trade mark.

1.1.3 Concept of working capital

Working capital management is the management of funds that just need to be mobilized in such a manner that fulfills the current need in day to day operation of business organization. Working capital is further defined to be in different ways like gross working capital, net working capital and net operating working capital. Here gross working capital is the sum of cash and marketable securities, account receivable, inventories and prepaid expenses. Net working capital is defined as total current assets minus total current liabilities. Cash and marketable securities receivables and inventories are current assets from which total liabilities with the sum of accounts payables or creditors. Notes payables and accruals are subtracted. Furthermore net operating working capital is the operating current assets minus non operating current liabilities .To broaden the knowledge of working capital, types to explain is more meaningful, they are permanent working capital and temporary

working capital . The level of current assets which is constant and meets the short term minimum level of short term needs over the time is permanent working capital. It is also called fixed working capital. It is important to financial manager because it helps in taking financing decision regarding the arrangement of financial needs opportunities .on the other hand, the level of current assets, which is fluctuating with seasonal requirement, is called temporary working capital. It is changeable in nature. Because of the change in the sales seasonal demand cause the change in sales which leads to the change in working capital, such kind of working capital is called temporary working capital it is also called temporary or volatile working capital. Size and nature of working capital vary from firm to firm that depends on growth and development of firm. The firm having advanced technology acquires high level of demand which shapes the volume of working capital. However, prospective demand and market can help to arrange the capital that consists of working capital. So, factors effecting working capital are level of sales, seasonal demand, change in technology, duration of manufacturing process and credit policy etc.

Working capital management theory is based on the short term financing requirement. Assets can be classified into two categories like short term as well as long term. Short term financing requirement is varied with the management of current assets and current liabilities which deals with working capital management. Short term assets are those assets items which can be converted into cash within a accounting year and current liabilities are those financial statistics which are to be met within an accounting year. Cash budget is under the working capital management, examining of it pictures a firm's liquidity position of a firm is under study is comprehensive issue. It shows the cash inflows and cash outflows.

Balance between short term and long term assets investment is necessary to be calculated. Excess of short term financing is as harmful as the unemployed funds in the firm as being the current assets is life blood of an organization. Investment made in the form of raw material, cash, semi-finished goods etc are under the study area of working capital. So putting such assets in short term conversion area is a priority for getting higher achievement in short period, Low investment in working capital leads to the firm in the state of insolvency, Excess investing in it leads to the conflict between the investor and management, because idle investment earns nothing. So rationale investment in current assets and current liabilities is a must at present business scenario.

1.2 Focus of the Study

Every business firm is established with the objective of getting success in term of financial values. To achieve this objectives an organization should acquire various kinds of resources like human resources, physical resources and others accessories that require on day to day operation of business activities. For those purpose short term as well as long term fund is essential in the firm. short term fund is required to buy short term assets and long term fund is required to buy long term assets and long term fund is acquired to through long term borrowing by issuing long term security to acquire long term assets. Short term fund can be used to make the short term obligation.

Financial manager should manage the fund to meet the need of short term obligation. It brings smoothness in the day to day operation of the firm. Here management of current assets and current liabilities is a management of working capital management. Current assets are cash, receivable, inventories, marketable securities. Current liabilities comprise accounts payable notes payable, accruals. There difference is working capital.

Nepal Telecom is financially sound organization with government ownership in majority. What position of current assets and current liabilities it exist s at present is focal point under this study. Neither more working capital nor less working capital is good in the business organization. Excess amount of working capital a firm exists or lack of working capital that a financial manager can't manage in time leads to the firm liquidation. So its proper management at present is focus to be studied. So this study comes to reflect the knowledge of how to manage working capital services rendering in days to come.

1.3. Statement of the Problems

Liquidity is most essential in every organization in optimal level. Effective working capital management in Nepal Telecom is lack that could not employee available current assets in right manner for higher achievement in financial term. Science and empirical research in working capital is a need of Nepal Telecom. Working capital is high as its current assets is higher , in this regard ,the performance of working capital management is to be analyzed in such a manner that could give higher return with the investment of current assets in profitable portfolio. its funds utilization to be in advance technology as being high-tech organization like, purchasing advance

equipment and devices . Never the less Nepal Telecom should maintain minimum level of liquidity that can meet the minimum level of funds in meeting operating cost and expansion strategy.

In this context, there is need of evaluating working capital effectiveness in Nepal Telecom; therefore the following problems are presented in this research.

-) Does Nepal Telecom properly adopt the working capital management policies and practices?
-) What is the significance of working capital management in Nepal Telecom?
-) How working capital is useful in forecasting sales and profit in Nepal Telecom?
-) Does Nepal Telecom manage current assets and current liabilities in right proportion?
-) What is the planning of Nepal Telecom in current assets investment?
-) Is Nepal Telecom giving acceptable return from investment of current assets?

1.4. Objective of the Study

Objectives are the basic goals that set by Nepal telecom to be achieved in respect of working capital management. Nepal Telecom is government owned enterprises establishing with the objective of rendering communication services whose primary objectives are presented as below in summarized form.

-) To explore liquidity position of Nepal Telecom.
-) To examine turnover position of Nepal Telecom.
-) To examine profitability position of Nepal Telecom.
-) To explore the relationship of working capital to profit and sales of Nepal Telecom.

1.5. Significance of the Study

Working capital is the floating capital and contributes to turnover of a company. It is planed based on cash flows expected that is the recovery from customer from the date of dispatch, the inventories of finished goods held etc. And also on raw material, inventories etc. unless all elements that go into working capital are under control, the

business is seriously affected by cash shortage. Working capital management is such managerial job that punishment of organization through day to day operation with smooth action regarding financing. Nepal Telecom is financially strong organization in government ownership. It's all efforts will go in vain if no proper working capital management handled. So on a research on working capital is a compulsory at present to protect Nepalese economy. It covers up large scale in share market regarding financial market. It is expected that the study will be guideline in days to come in Nepal telecom for proper management of working capital.

1.6. Limitation of the Study

The study on working capital of Nepal Telecom comes to be true in near future but complete solution is not the study in changeable business environment. Continuous study is a must as a process it is only a sample study which comprises the following limitation.

-) The study covers up a limited period of five years.i.e.2064/65 to 2068/69.
-) It collects the balance sheet, cash flow statement, profit and loss account as a basic source of secondary source of information.
-) It can't use the forecasted information.
-) Lack of research experience, lack of recent information, time and sources constraints are other limitations.
-) The study makes the analysis of financial performance of Nepal Telecom; it may not be applicable to any other enterprise.

1.7. Organization of the Study

This study will be organization by five chapters as follows

Chapter I

Introduction

It describes the general background, history of the company, focus of the study, significance of the study, statement of the problem, objectives of the study, significance of the study and limitation of the study.

Chapter II

Review of literature

It incorporates the theoretical analysis and brief review of related literature available. it also includes a discussion on the conceptual reviews as well as review of major studies in general.

Chapter III

Research methodology

This is a chapter for studying the research design, sources of data and information along with different analytical as well as statistical tools and techniques.

Chapter IV

Presentation and analysis of data

This chapter deals with the data collection procedure, presentation and analysis of data by using different financial and statistical tools and techniques.

Chapter V

Summary, conclusion and recommendations are the matters included in this chapter. So it helps in observe the research at a glance.

CHAPTER II

LITERATURE REVIEW

2.1 Conceptual Framework

Every business organization is established the objective of making profit. Those objectives can be achieved by making proper plan with right allocation of resources. An organization needs assets which help in making short term as well as long term objective. Assets like land and building equipment machinery are real tangible assets which have physical existence. They are also called fixed assets. They help in meeting long term need of firm. Goodwill, trademark copyright, patents are intangible assets. Among these some assets are requiring to meet the need of regular production and some for day to day expenses and short term obligation .current liability are those claims of outsiders which are expecting to be matured within in accounting year. It includes creditors, bills payable and outstanding expenses.

Working capital management is concerned with the problem that arises in the management of current assets and current liabilities. It affects the overall functional area of the firm. Thus the success or failure of any manufacturing firm virtually depends upon the efficiency of working capital management. Therefore it is crucial assets of any firm.

Working capital management come to be proved when day to day job is blocked due to the lack of current assets sufficiently. So, it is assumed to be life blood and controlling nerve centre for any types of business organization. Current assets are used to bring smoothness in day to day actions and meeting the current liabilities. So working capital management comprises management of right amount of current assets and liabilities.

The main purpose of this chapter is to review of the available literature on working capital management in the context of Nepalese enterprises including the available information of Nepal Telecom.

2.2 Review of books

The study is tried to be made easier by reviewing books related to working capital management.

2.2.1 Concept of Working Capital

a. Gross Working Capital

b. Net Working Capital

Gross Working capital

The term working capital refers to gross working capital. Gross working capital is the assets which can be converted into cash within a year. It is a sum of current assets which includes cash and near cash assets, receivable, inventories, and prepaid expenses. In others words, the GWC is the difference between total liabilities and equity and fixed assets. Sometimes the term working capital is misleading because accountants refer the term working capital as net working capital for gross working capital or current assets. It can be calculated as below.(Shrestha, 2069 p 368)

Cash and marketable securities	Rs xxx
Account receivables	xxx
Inventories	xxx
Gross working capital (total)	xxxx

Net Working Capital

The net working capital is defined as total current assets minus total current liabilities. In others words, it is the difference between total currents assets and total currents liabilities .it shows the amounts of current assets that remains in the firm after meeting all current liabilities it can be calculated as . (Shrestha, 2069 p 369)

Current Assets	
Cash and Marketable securities	Rs xxx
Receivables	xxx
Inventories	xxx
Prepaid expenses	xxx
Total current assets	Rs xxxx
Current liabilities	
Accounts payable or creditors	xxx
Notes payable	xxx
Accruals	xxx
Total current liabilities	xxxx
Net working capital(CA-CL)	xx

Net Operating Working Capital

Net operating working capital can be defined as operating current assets minus operating current liabilities. The operating current assets are the sum of current assets which do not pay interest while operating current liabilities are sum of current liabilities which do not change interest .the non interest bearing liabilities are the spontaneous sources of short term financing such a creditors accrual etc. on the other hand, interest bearing current liabilities is not spontaneous sources of short term financing. Pro.DR.Manohar Krisna shrestha has mentioned the operating current assets as follows:

$$\text{Net Operating Current Assets} = \text{operating current assets} - \text{operating current liabilities.}$$

2.2.2 Types of Working Capital

Working capital can be classified into two parts like permanent working capital and variable working capital. These two types of working capital are necessary for continuous production and sales without any interruption. (Shrestha,2069 p 369)

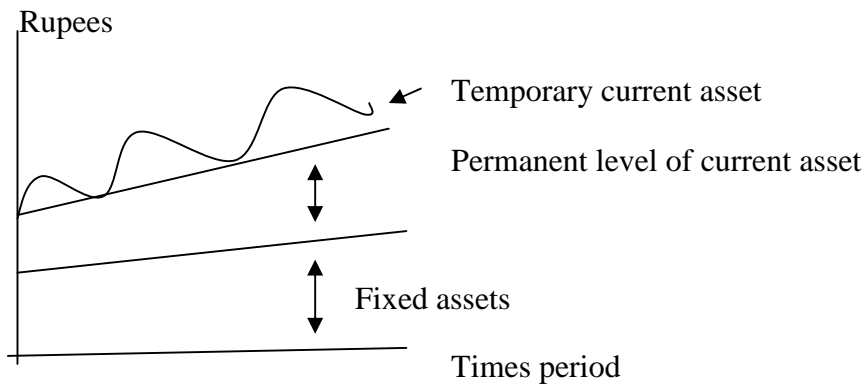
a. Permanent Working Capital

The level of current assets which is constant and meets the short term minimum level of short term needs over the time is capital, the permanent working capital. It is the lowest amount of current assets which is fixed over the in spite of the level of sales is changed. Therefore, it is also called fixed working capital.

b. Temporary Working Capital

The level of current assets, which is fluctuating with seasonal requirement, is called temporary working capital .the temporary working capital depends upon the season. The level of temporary working capital is very high during the peak season and low during the slack season. Sometimes the temporary working capital may fall to zero. The reason of variability of working capital is volatility of sales because the sales depend upon the seasonal demand. Note that the permanent working capital is constant in spite of fluctuation of sales. The permanent and temporary working capitals are figured as shown below.

Fig.1



2.2.3 Working Capital Policy

Working capital policy refers to the investment in current assets and sources of financing used to finance the current assets. The success and failure of company also depends upon the working capital policy adopted by the firm because working capital is necessary to run day to day normal business operation.

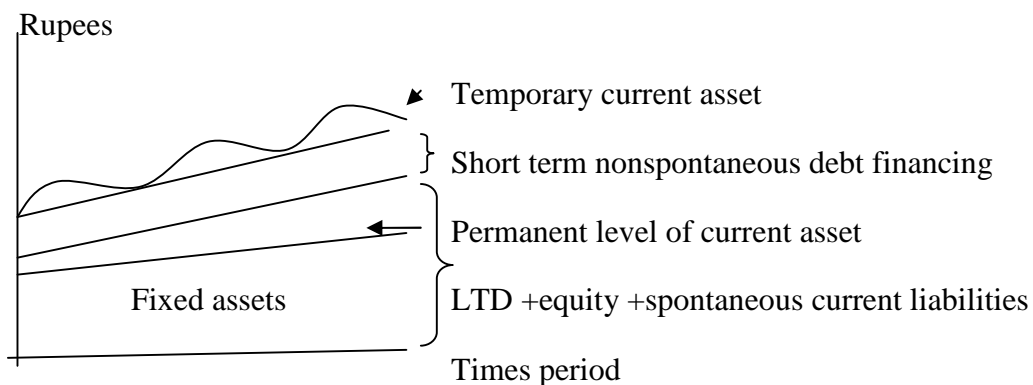
Both the current assets investment and financing policy are classified into

1. Aggressive Policy
2. Conservative Policy
3. Moderate Policy

1. Aggressive Policy

Aggressive Policy is riskier policy of current assets investment .it carries low level of each categories of current assets .thus ,the ratio of current assets to sales ,under this policy is low therefore this policy is tight or lean and mean or restricted policy. Under this policy, temporary as well as same part of permanent current assets is financed with short term non spontaneous sources of fund such as creditors and accruals .hence under this policy the liquidity position of firm is low because both current ratio and quick ratio are low due to more use of current liabilities.

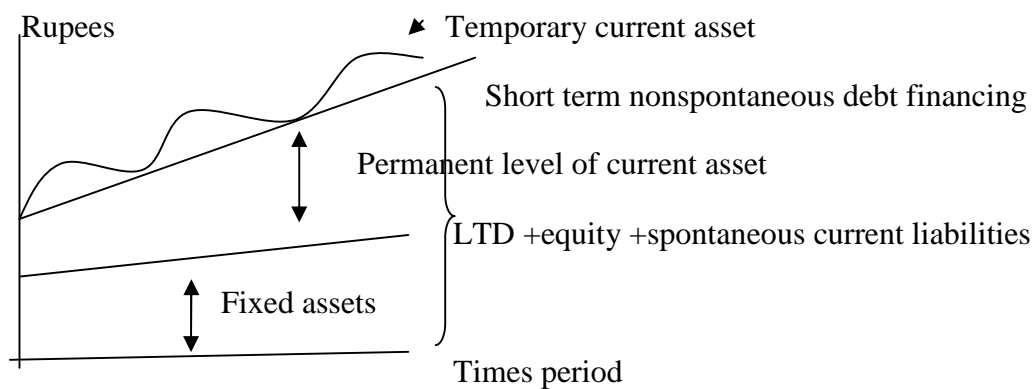
fig.2



2. Conservative Policy

A firm which follows conservative policy has to maintain higher level of current assets. It is also called relaxed or fat cat policy .in which low level of current assets is tried to be maintained. This policy carries high level of current assets and low level of current liabilities, therefore liquidity position of firm is higher because both current and quick ratio are high.

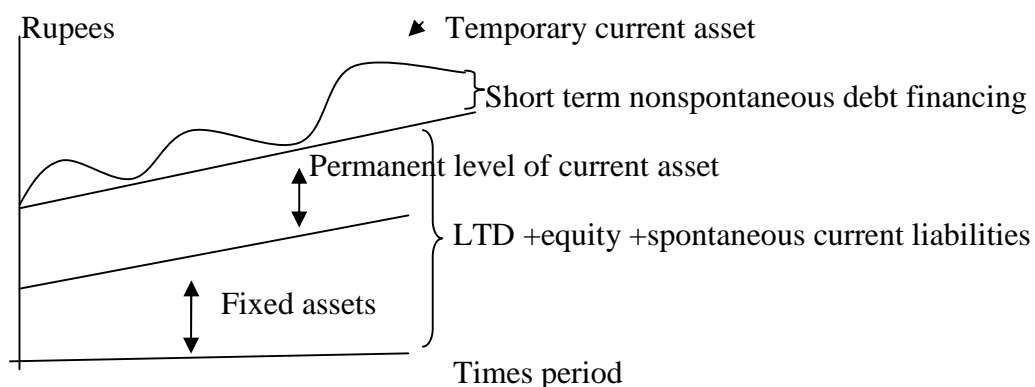
Fig.3



3. Moderate Policy

The risk and return under this policy is moderate. It is between of aggressive and conservative policy so it is also called average policy. The policy matches the assets and liabilities according to their maturity. Under this policy the assets of the firm are financed with same maturity. Sources of financing, hence moderate policy is also called the maturity matching and self liquidity approach.

Fig. 4



2.2.4 Objective of Working Capital

Working capital is required to run the business smoothly and efficiently. There is no doubt that the company cannot achieve its goal without proper use of working capital. That's why; working capital is compared as a life blood of any organization the main objectives of working capital follows. (Shrestha, 2069 p 397)

-) To fulfill the present need of business.
-) To operate the present need of business smoothly.
-) To **equip** the resources directly towards objective.
-) To increase the attraction of business.
-) To perform the task as per objective of business.

2.2.5 Need for Working Capital

Working capital is life blood of any business organization. No business runs without working capital. It systematizes the day to day business activities. High liquidity can be fulfilled by working capital so high profit through maximum grip of opportunities by business is possible only after the systematic management of working capital. The need of working capital in the business scenario is highlighted as below. (Shrestha,2069 p 444)

i. The Transaction Motive

A firm is to be operative smoothly which needs right amounts of inventories than regulates sales, thus working capital is for meeting the transaction motive.

ii. The Precautionary Motive

Demand and supply are those factors which affect the production process availability of raw materials and cash are those factors which brings smoothness in business operation. Their systematic management is a need for today for what unexpected shortage and strike problem should be overcome by managing requirements holding cash and inventories helps in solving the problem of late collection of receivables collection of ordered goods. So working capital is to meet any **contagious** in future.

iii. Speculative Motive

Speculative motive refers to the desire of a firm to take advantage of following opportunities.

-) Opportunities of profit making investment.
-) An opportunity to purchase raw material at reduces priced on payment of immediate cash.
-) To speculative on interest rate and to make purchase at favorable price etc.

2.2.6 Financing of Working Capital

Every manufacturing concern or industry required additional assets whether they are in stable or in growing condition. Major function of financial manager is to determine the level of current assets and current liabilities that shape the opportunities of business in days to come. So, financial manager should decide how current assets and liabilities should be used with appropriate proportion to bring smoothness. Generally these kind of financing are seen. (Pandey, 2004 p 590)

- i. **Long Term Financing:** Long term financing has low profitability and high liquidity resource of financing. Long term debt, ordinary share, debenture, preference share, retain earning are long term sources of financing.
- ii. **Short Term Financing:** Bank borrowings through notes payable is sources of short term financing that comes to be true in business firm to meet the short term obligation.
- iii. **Spontaneous Financing:** Spontaneous financing is another sources of financing through which funds can be managed spontaneously as per the change in sales to meet short term liabilities. It depends upon the term trade credit and bank credit.
 -) **Trade Credit:** It refers to the credit that a customer gets from suppliers of goods in the normal course of business. The buying firms do not have to pay cash immediately for the purchase is called trade credit. Another form of trade credit is bills payable.
 -) **Bank Credit:** Working capital financing is made through primary institutional sources. Bank lends credit after approaching necessary dates that play supportive role in arrangement of credits to needed party in terms of notes payable. Banks determines the maximum credit based on the margin requirement of security. Moreover, bank provides other arrangements as commercial paper and loan arrangement.

2.2.7 Determinants of Working Capital

Working capital is life blood of any kind of business organization. No business can be operated without working capital. Efficiency of working capital depends upon the modernization of funds as per the nature of business. By financial manager, financial manager should arrange working capital to meet their need of current assets purchase and short term obligation within a business period. How much working capital is a present need is to be scientifically managed within the challenges of limitation factors by financial manager. The number of factors which determine working capital are as below. (Pandey: 2004, p 584)

- i. **Nature of Business:** Working capital requirement for a company depends upon a business it carries out. Public limited company, private limited company and others kinds of business are operated with different objectives. Their operation functions are directed by availability of funds and source adequacy. Manufacturing company needs to purchase raw material, financial company needs huge amount of working capital.
- ii. **Size of Business:** Large scale organization needs to maintain large amount of funds as current and small scale organization needs to maintain optimal level of assets so that heavy cost of funds can be eliminated.
- iii. **Manufacturing Cycle:** Longer manufacturing cycle need large amount of working capital as it ties up during manufacturing process.
- iv. **Reduction Policy:** Production policy is determinant of working capital. Production policy like uniform production policy needs to maintain larger amount of working capital and dissimilar production scale in different ranges of time changes the need of working capital requirement.
- v. **Availability of Credit:** More facility in credit can fulfill the need of fund immediately. So borrower does not need to maintain highly funds and vice-versa.
- vi. **Growth and Expansion of Business:** Good credit relation maintenance can be achieved through business expansion as per need; funds should be managed in fixed assets in higher volume that helps in meeting demand of customer's expectation.
- vii. **Price Level Change:** Changes in price level shape the working capital position. Increase in price level needs to be higher level of working capital and vice-versa.

- viii. **Change in Technology:** Technology development is a need in production process and growth of business new technology needs to acquire funds .working capital requirement needs to be felt highly if new technology hired.
- ix. **Operating Efficiency:** Strong operating efficiency mobilizes funds in economized manner that require lesser working capital.
- x. **Profit Margin:** The levels of profit margin differ from firm to firm. It depends upon the nature and quality of product. Marketing management and monopoly power in the market. If the firm deals with the high quality product, has a sound marketing management and enjoyed the monopoly power in the market then it earns quite high profit and vice versa. Profit is a source to working capital because it contributes towards the working capital by generating more internal funds.
- xi. **Level of Taxes:** The level of taxes also influence working capital requirement. The amount of taxes to be paid in advance is determined by the prevailing tax regulation. However, the firms profit is not constant or can't be predetermined. Tax liability in a sense of short term liquidity is payable in cash. Therefore the amount of provision for tax is one of the important aspects of working capital planning. If tax liability is increased then the firm needs to increase the working capital and vice-versa.
- xii. **Cash Requirement:** Cash is one of the current assets which is essential for the successful operation of production cycle. Cash should be adequate and properly utilized. Adequate cash is also required to maintain good credit relation.
- xiii. **Business Fluctuation:** The situation whether an organization operation in boom or recession or depression period also determined the working capital need of the organization.

2.2.8. Review of Related Journal/Article

This part of this thesis mainly focus on the review of articles/journal published by different management expert in the field of working capital management

Upadhaya, P R (2007) in his article “*Five years financial projection of Nepal Telecom*” published in 3 rd Anniversary Souvenir 2007. He highlights Nepal Telecom have to invest on modern technology in time and optimum utilization of the technology so as to guide for the high return on investment. Only investing on modern

technology may not be sufficient to get the required return on investment its optimum utilization is must otherwise the investment in new technology cannot give the return. Investment in modern new technology may turn riskier for the company. He had analyze past five year financial data of NTC and tried to project the financial future of the company. He found that the operating profit of NTC is slightly increasing this is due to decreasing of operating expenses. Study shows that NTC is successful to manage cost efficient. Return on assets is about 26% this means Company is able earn 26% profit in terms of total assets. He projects the future five years financial performance of NTC by using regression analysis, judgmental approach. According to his projection growth rate on return will remain around 4.69%.

R.S. Pradhan (1986) has published another article relating to working capital management. He studied on the demand for "Working Capital by Nepalese Corporation" He analyses the nine selected manufacturing public corporation with the twelve years data from 1973-1984. Regression education has been adopted for the analysis. He has summarized that the earlier studies concerning about the demand for cash and inventories for business firm did not reported unanimous findings. A cost of controversies exists in respect to the presence of economies of scale. Roles of capital cost, capacity utilization rates and the speed with which actual cash and inventories are adjusted to describe cash and inventories respectively.

Review of related thesis

D. N. Yogi (2000) conducted a study on "*A study on working Capital Management of Unilever Nepal Limited (U.N. Ltd). Nepal*" with the objective of:

- Analyze the liquidity, composition of working capital, assets utilization and profitability position.
- Analyze of the optimal level of working capital.
- Analyze the current assets and current liability policy.
- Analyze the financing pattern of working capital, liquidity position, and profitability position.
- Examine the relationship between liquidity and profitability position.

This thesis is conducted through basically secondary data. The data had been collected from annual reports and audited financial statements of the company submitted to Nepal Stock Exchange Company. The data has been directly extracted

from the balance sheet and income statement of the company. The primary information has been collected through interview with the officials of U.N. Ltd. Various Ratio analysis is used to analyses the data and Karl Pearson's coefficient of correlation (r) is used to examine the relationship between liquidity position. The major findings are,

- The liquidity position of the company is fluctuation year by year.
- The proportion of current assets is affected is affected by the sales. In other words, the sales affected the management of current assets.
- The components of current assets and current liabilities are fluctuating in nature.
- The in significant relationship between liquidity and profit margin implies that there is not trade off between liquidity and profitability.

Deependra Ray Sharma's (1999) Study

He carried out his research on a study on "**A Working Capital Management of Nepalese Battery Company Limited (NBCL)**". The main objectives of his study were as follows:

-) To analyses the liquidity, composition of working capital, assets utilization and profitability position of NBCL.
-) To study the relationship between sales and different variables of working capital in NBCL.
-) The major unsound inventory management policy unnecessary tie up of working capital and less utilization of working capital in NBCL.
-) There is good liquidity position of company. He also found that there is an operating inefficiency in the company and by reducing operating expenses, the company can improved its profitability.

Prem Kumar Shrestha's(2000) Study

He has carried out study on "**Working Capital Management of Bhrikuti Mills Ltd**". He aimed at analyzing current assets and current liabilities and their impact and relationship to each other. Major findings on his study were:

-) Cash and bank balance hold the largest part of current assets.
-) Liquidity preference highly trend and decreasing trend in current assets.

OM Bikram Gurung 's (2002) Study

Mr. Gurung has carried out his study on "**A Working Capital Management of Nepal Lever ltd**". The main objective of his study is to examine the working capital management of it. Here, major findings were disclosed as:

-) Inventory holding on current assets as a major party
-) A little bit satisfaction on liquidity is found.
-) There is not trade off between liquidity and profitability .however profitability of NLL is satisfaction.

Basudev Shrestha's (2002) Study

His study is on "**A Study in Working Capital Management of Dairy Development Corporation**". Major study he set out in his study is to analyses the current assets and current liability and their impact and relationship to each other. The major findings on his study are as follows. The major components of current in DDC are inventory covers up major part of current assets.

Investment on current assets is increasing. There is ineffective liquidity position and unsatisfactory profitability ratio on in DDC. The overall return position of DDC is negative.

Kamala Kandel's (2010) Study

Study of Kamala Kandel study on "**Working Capital Management of Nepal Telecom**" is recent study. It is focused on working capital holding by this company. She made study on it is fruitful to the company if conclusions is accepted.

She has found the following matters as strength and weakness of the company.

-) Working capital to the company is excessive.
-) Inventory in reserve is also unsatisfactory.
-) No more current assets management is made by company in effective manner.

1.3 Research gap

From the study, Research gap is short analysis of lacking in the knowledge of Working Capital Management of Nepal Telecom. At what extend Nepal Telecom is taking step lacked still is fulfilled by this study. In conclusion, profit to be generated in satisfactory level with the help of proper working capital management is reflected in this study.

CHAPTER III

RESEARCH METHODOLOGY

3.1 Background

The research methodology refers to the various sequential steps to be adopted by a researcher in studying a problem with certain objectives in view. This chapter is derived to present the methodology applied to draw the conclusion of objectives of research study. Under this study primary and secondary data are collected from annual report, booklets, books, articles magazines report of study manuals journals and economic survey where as researcher uses his idea and technique to present the data.

How sales and profit are related and what impacts of working capital of NTC is on sales and profit can be concluded by using different tools like statistical tools and financial tools. Financial as well as statistical tools helps in measuring relationship of working capital and net profit and sales the following section contains the discussions on the design of study various sources of data a description of research instrument and the methods of collect and analyses the data.

3.2 Research Design

A research design is a plan for the collection and analysis of data. It presents a series of guide parts to enables the researchable to progress in the right direction in order to achieve the goal (Wolff & Pant, 1999 p 50) Research Methodology. In the present study the research has followed descriptive as well as analytical research design to meet the stated objectives various financial parameter and efficient research techniques are the organization and know the relationship and impact among various factors.

3.3 Sources of Data

The data that comes under the secondary sources like financial statement such balance sheet, profit and loss account; Statement, Schedule and cash flow statement etc. for the five fiscal years are collected and analyzed.

3.4 Collections of Data

Objectives of study are to the comparative study on working capital management of Nepal Telecom that has in the various fiscal years. It requires data to analyze in order

to find out the outcomes as per the objectives. Data can be collected from various methods to compare the objectives of different similar firms. This data are extracted from the balance sheet, profit and loss account, and income statement of company. In order to collect the supportive data a detail review of the related documents have been carried out.

3.5 Data Analysis Tools

Data that which are collected from various sources are to be analyzed in order to meet the outcomes of the study. So, various tools and techniques are presented as follows.

3.5.1 Financial Tools

Financial tools are defined as the systematic use of ratio to interpret the financial statement so that the strength and weakness of a firm as well as the historical preference and current financial condition can be determined. Managerial performance can be measured by ratio analysis that comprises various financial data to compare the position that helps to remove the problems.

The most useful tools of financial tools of financial analysis are ratio analysis. A firm should **compare** funds in the composition of debt and equity. Equity and debt position are most considerable of factors in the financial statement in analyzing job. Profitability and total assets, profitability and equity capital etc. are also the factors that help in analyzing firm's total performance. (Van Horn, 2002 p 205).

The following ratios are under this study.

a. Liquidity Ratio: Short term obligation is a need to meet in time that shows the company's ability these ratios provides insight into the present cash solvency in event of adverse financial position. This ratio is used to measure the company's short term obligations with short term resources available at given point of time.

- i. **Current Ratio:** Current assets and current liabilities are short term assets and liabilities respectively. Ratio of them as observed firm is a need of calculation
Here,

$$\text{Current Ratio} = \text{Current Assets/Current Liabilities}$$

- ii. **Quick Ratio:** Quick assets are assets that calculated as the assets of convertible soon. On the other hand, cash is most liquidities assets, stock and prepaid expenses are subtracted from current assets to get quick assets.

Here,

$$\text{Quick Ratio} = \frac{\text{Current Asset} - (\text{Inventory} + \text{Prepaid})}{\text{Current Liabilities}}$$

- iii. **Cash to Current Assets Ratio:** This ratio is calculated to measure whether total cash balance is sufficient to cover its current assets. It is calculated by dividing total current balance by current assets.

Here,

$$\text{Cash to Current Assets Ratio} = \frac{\text{Cash Balance}}{\text{Current Assets}}$$

- iv. **Turnover Ratio:** In business concern, through this ratio it is known whether the funds employed have been used efficiently in the business activities or not. The following are the ratio employed to analyze the activities of the concerned company.

- a. **Inventory Turnover Ratio:** inventory turnover ratio shows the efficiency of the business concern in an inventory management. It is the relationship between cost of goods sold and average inventory it can be illustrated as follows.

Here,

$$\text{Inventory Turnover Ratio} = \frac{\text{Sales}}{\text{Inventory}}$$

- b. **Debtor receivable turnover ratio:** Receivable is the part of sales that made on credit net sales is the amount of sales that can be calculated by subtracting sales return. Receivable turnover ratio can be determined by showing the relationship between sales to receivable.

Here,

$$\text{Debtor Receivable Turnover Ratio} = \frac{\text{Credit Sale}}{\text{Average Debtors}}$$

- c. **Cash Turnover Ratio:** Cash turnover ratio shows the number of times the average cash balance is turned over during the year. It measures the speed with which cash moves through the organization operation.

It is calculated as,

$$\text{Cash Turnover Ratio} = \frac{\text{Sales}}{\text{Cash Balance}}$$

- d. **Net Working Capital Turnover Ratio:** Sales is the generated amount of revenue that collected from to total selling of goods on the after hand net

working capital is the amount of capital used for the day to day operation of business.

It is calculated as below,

$$\text{Net Working Capital Turnover Ratio} = \text{Sales}/\text{Net Working Capital}$$

Where, Net working capital = Current Assets - Current Liability

b. Profitability Position: Firm is established with the objective of making profit. Profit generation helps in measuring the business efficiency in turn of economy value. It plays vital role in running business daily.

- i. **Net profit with Net working capital:** This ratio is developed to establish the relationship between net profit and net working capital of the company. It measures the overall profitability or company's ability to earn net profit. It is compared as net profit by net working capital.

$$\text{Net Profit Margin Ratio} = \text{Net Profit}/\text{Net working capital}$$

- ii. **Operating Ratio with Net working capital:** It is the ratio of establishing relationship between total operating expenses and net working capital. It is computed as below.

$$\text{Operating Ratio} = (\text{Cost of Goods Sold} + \text{Operating Expenses})/\text{Net working capital.}$$

Where,

$$\text{Operating Expenses} = \text{Administrative Expenses} + \text{Selling and Distribution Expenses} + \text{Financial Expenses.}$$

- iii. **Return on Total Assets Ratio:** Return on total assets ratio measures the profitability of the company by established relationship between net profit after tax and total assets. It also helps to understand the utilization of assets of the company .it is computed as,

$$\text{Return on Total Assets} = \text{Net Profit after tax}/\text{Total Assets}$$

- iv. **Return on Net Worth Ratio:** Shareholder expect to get something as return on their investment. It shows that what volume of profit goes to shareholder. It is calculated as,

$$\text{Return on Net worth Ratio} = \text{Net Profit after tax}/\text{Net Worth}$$

- v. **Return on Working Capital:** Working capital points out that how much asset is under operation in running process of business considered as working

capital. Working capital management helps in managing business. So, a firm can determine how much operating profit as well as net profit is in the working capital.

$$\text{Return on Working Capital} = \text{NPAT/Net Working Capital}$$

3.5.2. Mean

The most popular and widely used measure of representing the entire data by the one value is known as average. Average value is calculated by adding all of the values under observation and divided by no. of observation. One representing value of total observation is an one value that leads other by their character. It can be calculated as,

$$\text{Mean} = (x_1 + x_2 + x_3 + \dots + x_n) / n$$

The importance of mean in calculating representing value is due to following reasons.

1. mean value represents all the observation with their characteristics
2. It helps in answering at a time.
3. It helps in reducing mass of data
4. It helps in saving time to observe the result.

3.5.3 Standard Deviation

Return with the attachment of risk is expected by investors. Return generally expected with low level of risk. In others words figure indicated in the observation needs to be in closed form that results the low risk. Higher the scatterness of data higher will be the risk. Risk measuring tools is simply standard deviation is an absolute measurement of dispersion in which the drawback present in other measure of dispersion is removed. The amount of dispersion reflects high standard deviation. The small standard deviation means the high degree of homogeneity of the observation. It is calculated for selected dependent and independent variables specified. It is denoted by small sigma.

$$\sigma = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

3.5.4 Coefficient of Variation

The coefficient of variation is a branch of knowledge in statistics. This shows the relationship between standard deviation and mean. It is the relative measure of dispersion; it is defined to be the risk per unit return. This can be calculated as follows.

$$CV = \frac{\sigma}{\bar{X}} \times 100$$

3.5.5 Correlation Analysis

The correlation coefficient analysis refers to the tool that is used in measuring the closeness of relationship between two or more than two variables. The term correlation (co-variance) indicates the relationship between two such variables in which change in the value of variables, the value of variables also changes. If two or more quantities vary in sympathy than that movement in one trend to be accomplished by corresponding movement, other and they are said to be correlated. "The correlation is defined as the relationship between the dependent variables and one more than one independent variables or factor. In other word, correlation is the relationship between (or among two or more variable i.e. only one variables dependent or more variable(s) independent."

$$r = \frac{n \sum XY - (\sum X)(\sum Y)}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum Y^2 - (\sum Y)^2}}$$

Interpretation of correlation coefficient (r)

-) The coefficient of correlation as obtained by the above formula always lies between +1 to -1.
-) When r is +1, then there is positively perfect correlation between the two variables.
-) When r is -1, then there is negative perfect correlation between the variables.
-) When the value of r is between 0.7 to 0.999, than there is high degree of correlation between variables.

-) When r is between 0.5 to 0.699 than there is moderate degree of correlation between variables.
-) When r is less than 0.5 than there is low degree of correlation between variables.
-) When r is 0, than there is no correlation between the variables or the variables are not correlated.

3.5.6 Probable Errors:

The probable of the correlation coefficient is applicable for measurement of reliability of computed value of the correlation coefficient; 'r' the probable error (P.E.) is defined by:

$$P.E. = 0.6745 \times \frac{1 - r^2}{\sqrt{N}}$$

Where, r = Correlation Coefficient

N = No. of pair of observation

Conclusion or interpretation

-) If $r < P.E.$, The value of 'r' is not significance no matter, how the high value is i.e. there is no evidence of correlation between the variables.
-) If $r > P.E.$ than value of 'r' is significance i.e. correlation is significant.

CHAPTER IV

DATA PRESENTATION AND ANALYSIS

4. Introduction

This chapter presents the calculation of different ratios and their application on analysis of WCM. The ratio will help us to find the objectives of the study and give valuable suggestion on the particular organization for the improvement in further transaction.

4.1 Analysis of Working Capital Position

Various kinds of current assets used by organizations are observed to analyze in different fiscal years. Some organizations have high amount of current assets and some of them have low in amounts. It depends upon the nature of business and attitude of management towards risk. The company which has risk adverse management system maintains the high liquid assets in total working capital and vice versa.

Every organization has aim of making higher return. So, the organization should try to maximize its profit through higher sales and operation with more activities in financial nature. On this perspective, organization should maintain higher amount of current assets to carry out overall financial activities. Lower and excess amount of working capital affects profitability and liquidity position of the companies. Therefore, effective composition of current assets has the greater impact on the whole working capital management as well as the success and failure of the organization.

An organization should compile different kinds of assets in need. For the day to day operation of business, different kinds of current assets are required. Nepal Telecom is financially strong organization in government ownership. It has to make huge amount of expenditure in day to day operation. Therefore, high amount of working capital is a must to be maintained. Right amount of working capital is state of success or failure of organization.

The major current assets of Nepal Telecom are cash and bank balance, loan and advances, sundry debtors and stores & spares. Miscellaneous current assets are also a component of current assets. Interest accepted on investment and unexpired loan and advances are included in miscellaneous current assets. The ratio will be calculated to study the working capital position of Nepal Telecom.

The following table 4.1 shows the amount of cash and bank balance, inter-branch balance, loan and advance, sundry debtors, stores & spares and miscellaneous current assets of Nepal Telecom at the study period.

Table 4.1 represents that the composition of current assets of Nepal Telecom. Cash and Bank balance is rapidly increased over the study period. Similarly, loan and advance have also increased. Cash and bank balance is decreased in the 2067/68 and loan and advances have decreased in fiscal year 2064/65. The overall total current assets are increased during the study period.

Table 4.1

Current Assets Composition of Nepal Telecom

Fiscal Year	Inventory	Debtors	Cash & Bank	Loan & Advance	INVESTMENT	Total
2064/65	416,424,150.00	3,482,610,812.00	16,134,516,743.00	4,147,086,656.00		24,180,638,361.00
2065/66	180,131,603.00	3,593,205,053.00	18,191,058,076.00	5,699,165,581.00		27,663,560,313.00
2066/67	842,405,822.00	4,295,998,004.00	21,611,536,437.00	6,805,636,259.00		33,555,576,522.00
2067/68	958,052,566.00	3,904,742,902.00	16,769,204,878.00	8,747,035,494.00		30,379,035,840.00
2068/69	1,049,688,996.00	4,339,424,927.00	25,220,623,215.00	22,421,596,092.00	224,818,000.00	53,256,151,230.00

Sources: Annual Report of Nepal Telecom 2064/65 to 2068/69

Table 4.1 represents that the composition of current assets of Nepal Telecom. Cash and bank balance is nearly constant in every year. Inventory is in decreasing state in fiscal year 2064/65 and 2065/66 and then in increasing state. Debtor has no change in vast difference position in different study period. In the fiscal year 2068/69 inventory position is higher than beginning periods. The overall current assets since fiscal year 2064/65 to 2068/69 are in increasing trend but fiscal year 2067/68 has figure of higher from fiscal year 2066/67.

Table 4.2

Percentage of Current Assets to total Current Assets

Fiscal Year	Inventory	Debtors	Cash & Bank	Loan & Advance	INVESTMENT	Total
2064/65	1.72	14.40	66.70	17.18	-	100
2065/66	0.65	12.99	65.76	20.60	-	100
2066/67	2.51	12.80	64.40	20.29	-	100
2067/68	3.16	12.89	55.20	28.75	-	100
2068/69	1.97	8.14	47.35	42.12	0.42	100

Fig. 4.1
Current Assets Composition of Nepal Telecom

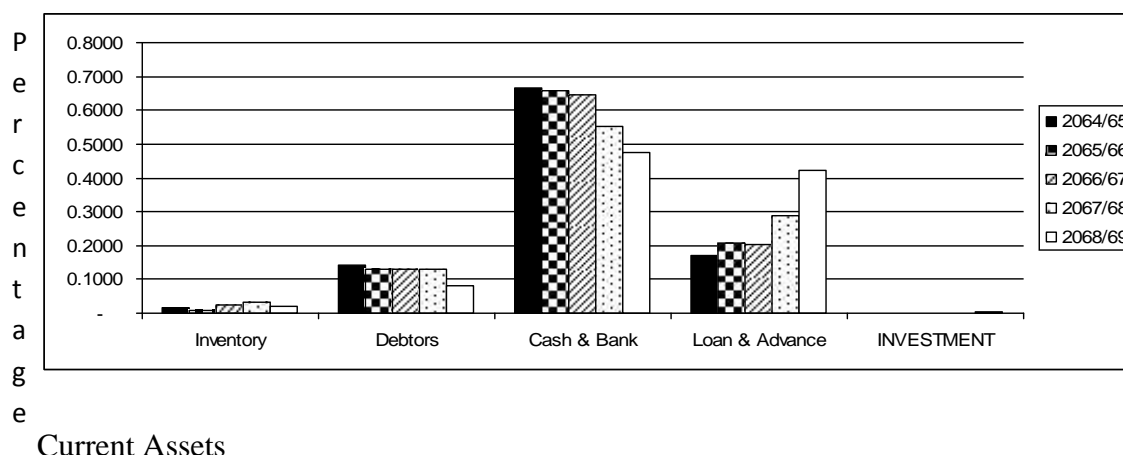


Figure 4.1 represents that the current assets of Nepal Telecom for the five fiscal years. The figure shows that bank and cash is higher in percentage and loan and advances is second in ranking. The lowest current asset is investment.

4.1.1 Gross Working Capital or Current assets to Total assets Ratio

This ratio can be analyzed to study the position of working capital of the company. It expresses the gross working capital position that is held in the total assets. It shows that how much percentage of total assets has been invested on gross working capital of the company. It can be calculated by current assets divided by total assets as represented in the table 4.3.

Table 4.3
Gross Working Capital or Current Assets to Total Assets Ratio

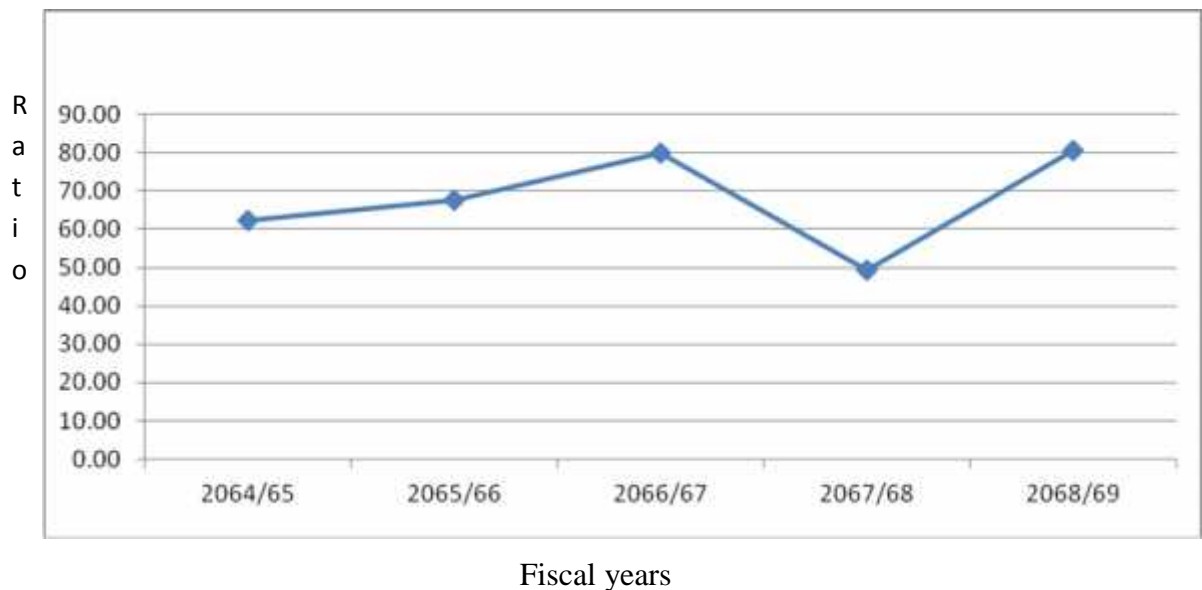
Fiscal Year	Current Assets	Total Assets	Ratio (%)
2064/65	24,180,638,361.00	50,358,333,624.00	48.07
2065/66	27,663,560,313.00	58,686,689,120.00	47.13
2066/67	33,555,576,522.00	66,835,844,174.00	50.20
2067/68	30,379,035,840.00	76,021,558,762.00	39.36
2068/69	53,256,151,230.00	105,918,327,392.00	50.28
Mean			47.34
S.D.			4.3204
C.V			9.1264

Sources: Annual Report of Nepal Telecom 2064/65 to 2068/69

Table 4.3 shows that the current assets with respect to total assets ratio are not consistent over the study period. The current assets and total assets were in increasing trend. The current to total assets ratio decreased in the fiscal year 2065/66 relative to 2064/65. The next year, it increased slowly, but again decreased in slow rate. The highest ratio was 50.20% and the lowest one is 39.36% in the fiscal year 2067/68 and fiscal year 2067/68 respectively. The current asset on the lowest ratio was Rs.30379035.84 and a current asset with the highest ratio was Rs.53,256,151,230.00. They were in the fiscal year 2067/68 and fiscal year 2068/69 respectively. On that analysis, it is found that a total current asset was Rs. 169,034,962,266 and total assets were Rs. 355,690,831,608. The discovered the standard deviation and coefficient of variance 4.3204 and 9.1264 respectively.

Fig 4.2

Gross Working Capital or Current Assets to Total Assets Ratio



The figure 4.2 presents that the current assets to total assets ratio of Nepal Telecom which is not consistent over the study period. It shows that ratio calculated is fluctuating over the study period.

4.1.2 Net Working Capital with respect to Total Assets Ratio

This study focuses that what position of net working capital on total assets and it helps to examine the business capacity to run the company with respect to financial position. The following table presents the real situation of net working capital on total assets.

Table 4.4

Net Working Capital to Total Assets Ratio

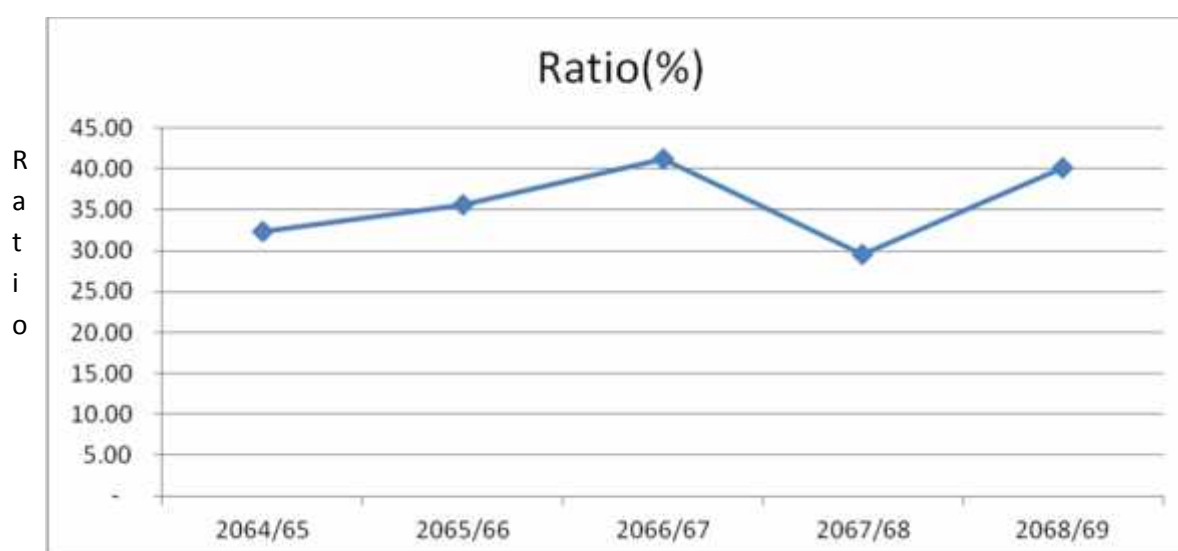
Fiscal Year	Net working capital	Total Assets	Ratio (%)
2064/65	16,265,137,399.00	50,358,333,624.00	32.30
2065/66	20,945,505,646.00	58,686,689,120.00	35.69
2066/67	26,626,241,106.00	66,835,844,174.00	39.84
2067/68	22,521,016,473.00	76,021,558,762.00	29.62
2068/69	42,498,298,099.00	105,918,327,392.00	40.12
Mean			35.78
S.D.			4.4213
C.V			12.357

Sources: Annual Report of Nepal Telecom 2064/65 to 2068/69

Table 4.4 shows that the net working capital to total assets of Nepal Telecom is not stable over the study period. The ratio of NWC to total assets in fiscal year 2064/65 was 32.30% and 35.69% next year but a bit change on increment trend following year that again decreased next fiscal year 2067/68. The highest ratio was fiscal year 2068/69 and lowest ratio was fiscal year 2067/68. Highest ratio represents the more deviation between NWC and total assets. From this analysis it was found that mean standard deviation and CV were 4.4213 and 12.357 respectively.

Fig. 4.3

Net Working Capital to Total Assets Ratio



Fiscal years

Fig 4.3 presents that the net working capital to total assets ratio of Nepal Telecom. The highest ratio was in the fiscal year 2068/69. Overall, the ratios are not consistent during the study period.

4.1.3. Net Working Capital with respect to Fixed Assets Ratio.

This ratio finds the financial policy of Nepal Telecom. It presents the measurement of net working capital with respect to fixed assets. Net Working Capital is difference between current assets and current liabilities. This ratio can be calculated as NWC divided by FA as shown below.

Table 4.5

Net Working Capital to Fixed Assets Ratio

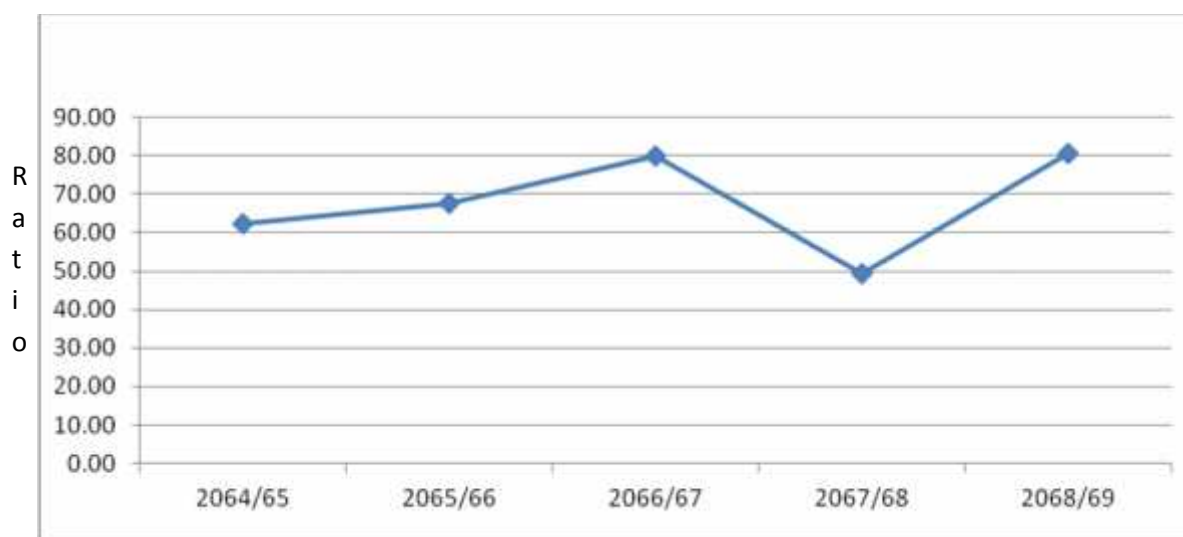
Fiscal Year	Net working capital	Fixed Assets	Ratio(%)
2064/65	16,265,137,399.00	26,177,695,263.00	62.13
2065/66	20,945,505,646.00	31,023,128,807.00	67.51
2066/67	26,626,241,106.00	33,280,267,652.00	80.00
2067/68	22,521,016,473.00	45,642,522,922.00	49.34
2068/69	42,498,298,099.00	52,662,176,162.00	80.70
Mean			69.032
S.D.			12.993
C.V			18.8216

Sources: Annual Report of Nepal Telecom 2064/65 to 2068/69

The table 4.5 shows that the net working capital to fixed assets ratio is not stable over the study period. The net working capital and fixed assets are in increasing from first to third study period. Fiscal year 2064/65, fixed asset was Rs. 26,177,695,263.00 that increases in the following years by somewhat value. It is because of over valuation on total value of fixed assets in market place. The following year during the study period, fixed assets were increased. The ratio of net working capital to fixed assets in fiscal year 2064/65 was 62.13%. The percentage next two years were increased and then decrease . It means that there is large difference increasing in between net working capital and fixed assets. From the above study it was found that S.D. and C.V. were 12.993% and 18.8216% respectively.

Fig. 4.4

Net Working Capital to Fixed Assets
Ratio



Fiscal assets

Fig. 4.4 shows that net working capital to fixed assets ratio of Nepal Telecom. The highest ratio was in the fiscal year 2066/67. Overall ratios are not consistent during the study period.

4.1.4 Calculation of Cash and Bank Balance with respect to Current Assets Ratio

This ratio helps to know the position of cash and bank balance that has been used in the organization. It is calculated as cash and bank balance divided by current assets shown as table below

Table 4.6

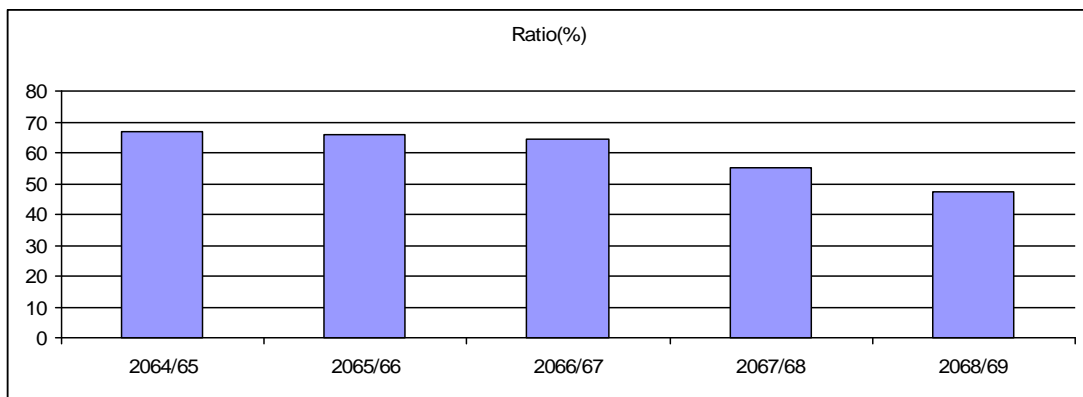
Cash and bank balance to Current Assets Ratio

Fiscal Year	Cash & Bank	Current Assets	Ratio(%)
2064/65	16,134,516,743.00	24,180,638,361.00	66.72
2065/66	18,191,058,076.00	27,663,560,313.00	65.76
2066/67	21,611,536,437.00	33,555,576,522.00	64.41
2067/68	16,769,204,878.00	30,379,035,840.00	55.20
2068/69	25,220,623,215.00	53,256,151,230.00	47.36
Mean	19,585,387,869.80	33,806,992,453.20	59.89
S.D.			7.4903
C.V			12.5067

Sources: *Sources: Annual Report of Nepal Telecom 2064/65 to 2068/69*

Table 4.6 shows that the cash and bank balance ratios are not stable over the study period. But changes on the ratios are not so different. The cash and cash equivalents were in increasing trend except for fiscal year 2067/68, again current assets also the same in position of inclination. Highest ratio during the study period is 66.72% in fiscal year 2064/65 and lowest ratio was 47.36% in the fiscal year 2068/69. Cash is liquid assets that help in day to day operation of business. From the data of cash and bank balance and current assets shows the standard deviation 7.4903 And 12.5067 respectively.

Fig 4.5
Cash and Bank balance to CA Ratio



Ratio/Fiscal years

Fig 4.5 presents that the cash and bank balance to current ratio of Nepal Telecom. Cash and bank balance and current assets ratio are decreased over the study period. All the years are constant but a bit difference among the years is the representation on figure. Balance on cash and cash equivalent are increasing but ratio is not consistent. The overall ratio is moving down slowly.

4.1.5. Relation of Debtor with respect to Current Assets.

Debtor is one of the major components of working capital. It indicates the debtor portion that is occupied in current assets. It is calculated as debtor divided by current assets as shown in table below.

Table 4.7

Debtor to Current Assets Ratio

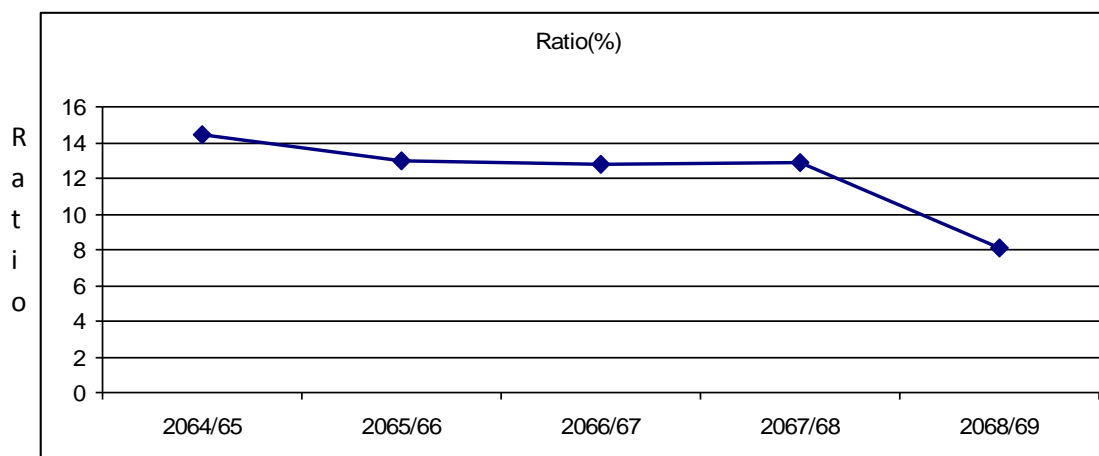
Fiscal Year	Debtors	Current Assets	Ratio (%)
2064/65	3,482,610,812.00	24,180,638,361.00	14.4
2065/66	3,593,205,053.00	27,663,560,313.00	12.99
2066/67	4,295,998,004.00	33,555,576,522.00	12.8
2067/68	3,904,742,902.00	30,379,035,840.00	12.85
2068/69	4,339,424,927.00	53,256,151,230.00	8.14
Mean			12.236
S.D.			6.129
C.V			50.4985

Sources: Sources: Annual Report of Nepal Telecom 2064/65 to 2068/69

The table 4.7 shows that the calculation of debtor to current assets ratio. The debtor increased from fiscal year 2064/65 to fiscal year 2066/67 and again decreased for next year. Here, debtor is accepted as trade receivables. From above calculation, mean debt was Rs. 3923196.2 thousand and mean ratio was 12.236. This calculation shows the S.D and C.V. were 6.129 and 50.4985 respectively.

Fig 4.6

Debtors to Current Assets Ratio



Fiscal year

Figure 4.6 shows that the debtors to current assets ratio of Nepal Telecom. The lowest ratio was 8.14% in the fiscal year 2068/69 and the highest ratio was 14.4% in the fiscal year 2064/65 and overall ratios are not consistent during the study period.

4.1.6. Proportion of Inventory with respect to Current Assets.

Inventory is one of the major components of current assets. This ratio will help us to find proportion of inventory with respect to current assets. It can be calculated as inventory divided by current assets which can be shown as follows:

Table 4.8

Inventory to Current Assets Ratio

Fiscal Year	Closing Inventory	Current Assets	Ratio(%)
2064/65	416,424,150.00	24,180,638,361.00	0.0172
2065/66	180,131,603.00	27,663,560,313.00	0.0065
2066/67	842,405,822.00	33,555,576,522.00	0.0251
2067/68	958,052,566.00	30,379,035,840.00	0.0315
2068/69	1,049,688,996.00	53,256,151,230.00	0.0197
Total			0.1
Mean			0.02
S.D.			0.008
C.V			41.7397

Sources: Sources: Annual Report of Nepal Telecom 2064/65 to 2068/69

Table 4.8 shows that the calculation of inventory to current assets ratio. The inventory of Nepal Telecom is not stable during the study period. But current assets increased every year. Inventory decreased from fiscal year 2064/65 to fiscal year 2065/66 but highly increased in the fiscal year 2067/68 and 2068/69. Highest inventory during this study period is Rs. 1,049,688,996.00 in the fiscal year 2068/69 where current asset is Rs. 53,256,151,230.00. From the calculation it was found that highest ratio was 0.0315% in the fiscal year 2067/68. The calculation gave as result as a mean and standard deviation as 0.008 and 41.7397 respectively.

Fig 4.7

Inventory to Current Assets Ratio

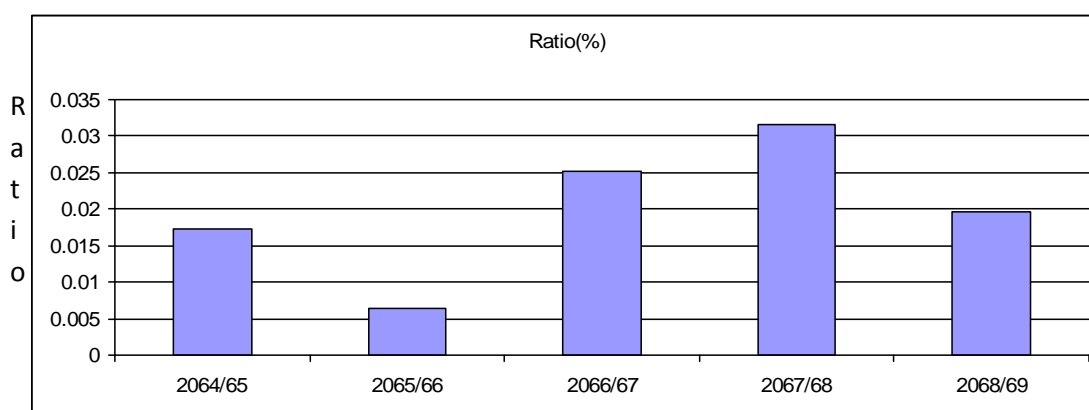


Fig 4.7 shows that the inventory to current assets ratio of Nepal Telecom. The highest ratio was in the fiscal year 2067/68. Overall ratios are not constant in the changes. Last three years inventory shown by figure are higher in terms of ratio but second and third study period are low by nature.

4.2. Liquidity Position of Nepal Telecom

Liquidity of any business organization is directly related with working capital or current assets and current liability of the organization. In other words, one of the main objectives of working capital management is keeping sound liquidity position. Nepal Telecom is a different organization, which is engaged in mobilization of funds. So, without sound liquidity position, the heavy regular cost cannot be net in time by time period basis. Operation function of Nepal Telecom is a must to be operated with sound manner that can be made possible with having adequate working capital in the organization. Various liquidity ratios are calculated to depict the position of Nepal Telecom in respect of meeting the shows term obligation. The following calculation regarding the liquidity as well as solvency of ratio presented the real picture in terms of working capital of Nepal Telecom.

4.2.1. Current Ratio

This ratio indicates the current short term solvency ratio. Higher current ratio indicates better liquidity position. Moreover, current ratio represents a margin of safety. This ratio is technically applied by every organization to measure the solvency position. Nepal Telecom is such organization in terms of financial position that meets all kinds of short term as well as long term obligations. It is calculated dividing current assets by current liabilities. The following table shows the current ratio to compare the working capital management of Nepal Telecom.

Table 4.9
Current Ratio

Fiscal Year	Current Assets	Current Liabilities	Times
2064/65	24,180,638,361.00	7,915,500,962.00	3.05
2065/66	27,663,560,313.00	6,718,054,667.00	4.11
2066/67	33,555,576,522.00	6,929,335,416.00	4.84
2067/68	30,379,035,840.00	7,858,019,367.00	3.86
2068/69	53,256,151,230.00	10,757,853,131.00	4.95
Mean			4.162
S.D.			0.694
C.V			16.685

Sources: Appendix- 7, Annual Report of Nepal Telecom 2064/65 to 2068/69

The table 4.9 shows that the current assets of Nepal Telecom increased every fiscal year of the study period except F/Y 2067.68. Current liabilities during the study period are not consistent. Highest current liabilities was in the fiscal year 2068/69 amounting Rs. 10,757,853 thousands and lowest current liabilities was in the fiscal year 2065/66 with the sum of Rs. 6,718,054 thousands. The ratio between current assets and current liabilities in respective years changes in increasing order. Here, the mean ratio calculated was 4.162 times and SD. And C.V is 0.694 and 16.685 respectively.

The figure drawn representing current ratio is as follows.

Fig. 4.8

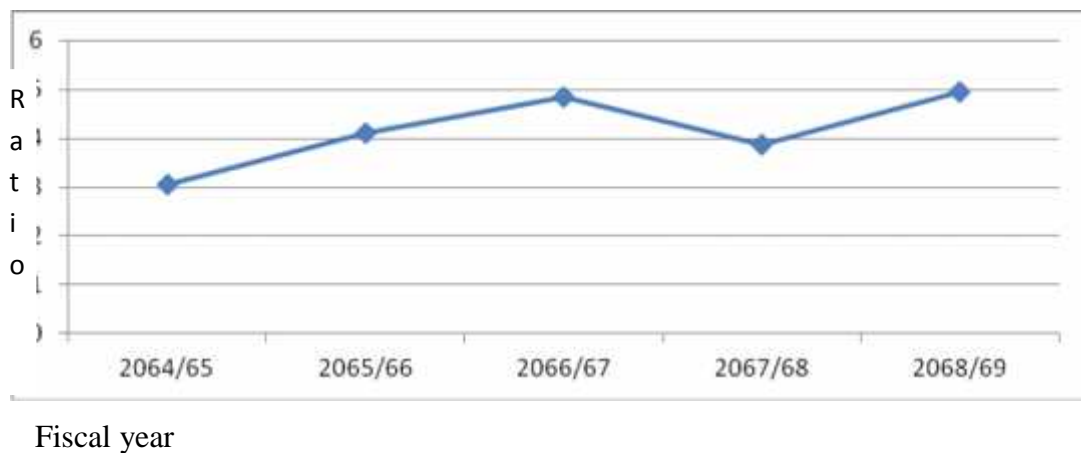


Fig. 4.8 represents the current ratio of Nepal Telecom. Current ratio with the current assets and current liabilities were not consistent during the study period.

4.2.2. Quick Ratio

Quick ratio establishes a relationship between quick or liquid assets and current liabilities. An asset is liquid if it can be converted into cash immediately or reasonably soon without a loss of original value. Cash is the most liquid asset. Quick asset is equal to total current assets without inventory. This quick ratio is calculated as dividing the total of quick assets by current liabilities. The following table shows the quick ratio of Nepal Telecom.

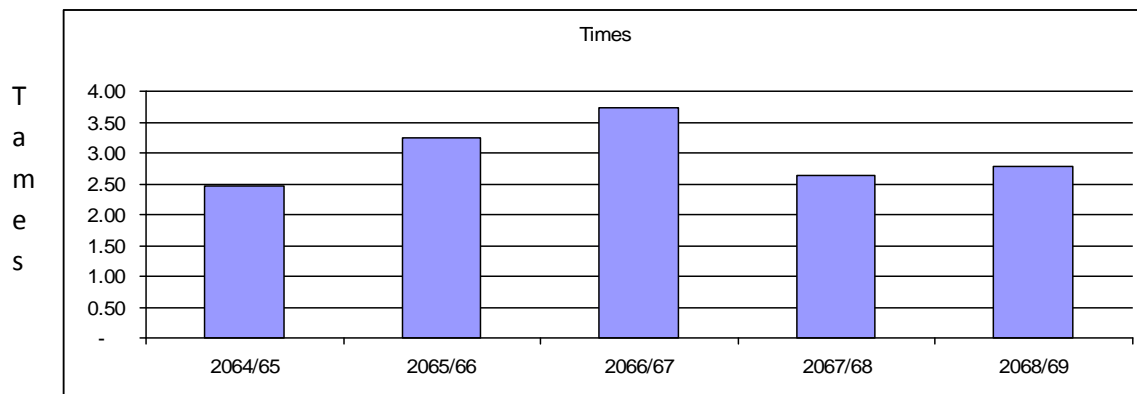
Table 4.10
Quick Ratio

Fiscal Year	Quick Assets	Current Liabilities	Times
2064/65	19617127555	7,915,500,962.00	2.47
2065/66	21784263129	6,718,054,667.00	3.24
2066/67	25907534441	6,929,335,416.00	3.74
2067/68	20673947780	7,858,019,367.00	2.63
2068/69	29784866142	10,757,853,131.00	2.77
Mean			2.97
S.D.			0.463
C.V			43.27

Sources: Annual Report of Nepal Telecom 2064/65 to 2068/69

Table 4.10 depicts that the quick ratios are not consistent over the study period. The quick assets of Nepal Telecom increased during the study period but in the fiscal year 2067/68 decreased from the preceding year. Quick ratio calculated from the table 4.10 shows the different positions. The quick ratio is increasing and fiscal year 2067/68 shows the lower ratio than fiscal year 2066/67. Generally standard quick ratio is 0.463. But Nepal telecom has higher than standard ratio. The standard deviation and coefficient of variance was 0.463 and 41.7397 respectively.

Fig 4.9
Quick Ratio



Fiscal year

Figure 4.9 represents that the quick assets and current liabilities with quick ratio of Nepal Telecom. Quick assets and current liabilities slowly increased but fiscal year 2066/67 remained steady and other years increased in terms of ratio.

4.3 Turnover Position of Nepal Telecom

Assets of an organization are power of in terms of resources for competencies. Proper asset management is a must. These ratios are also employed to evaluate the speed with which assets are being converted and turnover. These ratio, moreover help in measuring the organizations ability to utilize their available resources.

4.3.1. Inventory Turnover

This ratio indicates how efficiently the organization manages inventory and the efficiency of the firm in selling its products. Inventory turnover ratio is defined as the cost of goods sold or sales dividing by inventories. Inventory turnover ratio shows how rapidly the inventory turnover is the indicative of good inventory management. A low inventory turnover implies excessive inventory level than warranted by production and sales activities or a slow moving or obsolete inventory.

Table 4.11

Inventory Turnover Ratio

Fiscal Year	Net Sales	Closing Inventory	Times
2064/65	17,889,310,266.00	416,424,150.00	42.96
2065/66	22,257,714,378.00	180,131,603.00	123.56
2066/67	27,221,068,035.00	842,405,822.00	32.31
2067/68	29,849,161,062.00	958,052,566.00	31.16
2068/69	36,791,820,206.00	1,049,688,996.00	35.05
Mean			53.008
S.D.			35.516
C.V			67.0004

Sources: Annual Report of Nepal Telecom 2064/65 to 2068/69

Table 4.11 shows that the inventory turnover ratios of Nepal Telecom are not always in increasing trend. The net sales increased every year but closing inventory is fluctuation in manner, so the ratio is also not consistent by its calculation as above. The highest inventory turnover ratio is 123.56 in fiscal year 2065/66 and lowest ratio is 31.16 in the fiscal year 2067/68. Where net sales was Rs. 134,009,073,947.00 and closing inventory was Rs. 3,446,703,947.00. The mean inventory turnover ratio is 53.008 times and the SD and C.V. are 35.516 and 67.0004 respectively.

Fig. 4.10
Inventory Turnover Ratio

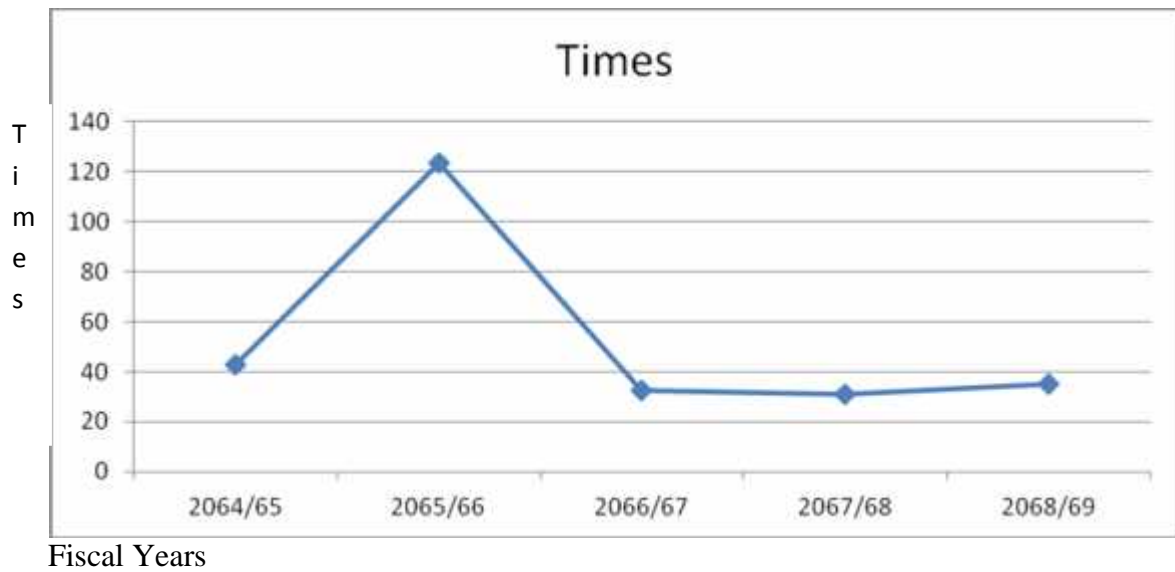


Figure 4.10 represents that net sales and inventory with inventory turnover ratio. Inventory turnover ratio is increasing up to fiscal year 2065/66 and then again decreased for the remaining two years.

4.3.2. Debtors/Receivables Turnover

Receivable turnover ratio indicates the speed with which receivable are being converted into sales. This turnover ratio is calculated as net sales by debtors. The table below shows the net sales to debtors/receivable ratio. This ratio analyzes the capacity of Nepal Telecom management in utilization of fund in current assets

Table 4.12
Debtors/Receivable Turnover Ratio

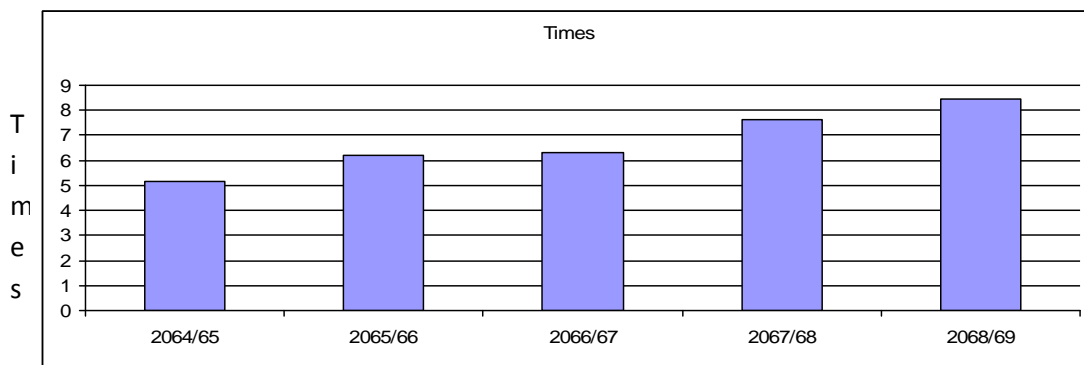
Fiscal Year	Net Sales	Debtors	Times
2064/65	17,889,310,266.00	3,482,610,812.00	5.136
2065/66	22,257,714,378.00	3,593,205,053.00	6.194
2066/67	27,221,068,035.00	4,295,998,004.00	6.336
2067/68	29,849,161,062.00	3,904,742,902.00	7.644
2068/69	36,791,820,206.00	4,339,424,927.00	8.478
Mean			6.7576
S.D.			1.172
C.V			17.347

Sources: Annual Report of Nepal Telecom 2064/65 to 2068/69

The table 4.12 shows that the debtors/ receivable turnover ratio was in increasing trend over the study period. The net sales of Nepal Telecom increased every fiscal year. Debtors are also increasing over the study period. But fiscal year 2067/68 a bit slow moves in the debtors was seen. The highest debtors' turnover ratio was in the fiscal year 2068/69 as 8.478 times and lowest turnover during the study period was in the year 2064/65. A highest sale was in the year 2068/69 and lowest sales in the year 2064/65 as Rs. 36,791,820,206.00 and Rs. 17,889,310,266.00 respectively. From the calculation, it is found that the standard deviation was 1.172 and the C.V. was 17.347

Fig. 4.11

Debtor/Receivable Turnover Ratio



Fiscal year

Fig. 4.11 shows that net sales and debtors with turnover ratio of Nepal Telecom. Receivable turnover ratio was in increasing trend during the study period.

4.3.3. Current Assets Turnover

Sales policy is a factor for affecting working capital. Sales are major one to be changed to working capital. Sales on credit short the working capital at present. It focuses to be indicated to reduce debtors investment on current assets requires sales in short run. So adequately in sales focal point in working capital management. Generally a high current assets turnover ratio indicated efficient utilization of current assets. The current assets turnover ratio is calculated by dividing net sales by current assets. The current assets turnover ratio of position of Nepal Telecom during the study period is tabulated below:

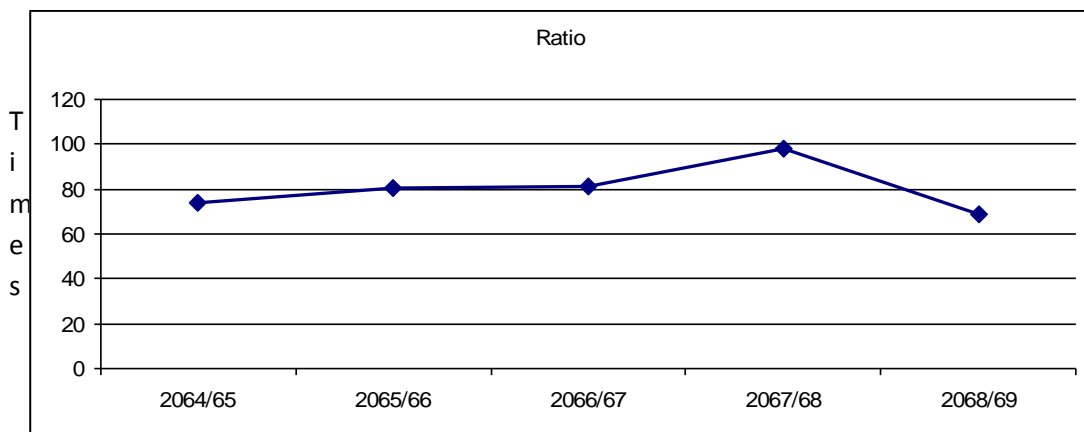
Table 4.13
Current Assets Turnover Ratio

Fiscal Year	Net Sales	Current Assets	Ratio
2064/65	17,889,310,266.00	24,180,638,361.00	73.98
2065/66	22,257,714,378.00	27,663,560,313.00	80.46
2066/67	27,221,068,035.00	33,555,576,522.00	81.12
2067/68	29,849,161,062.00	30,379,035,840.00	98.25
2068/69	36,791,820,206.00	53,256,151,230.00	69.08
Mean	26,801,814,789.40	33,806,992,453.20	80.578
S.D.			9.883
C.V			12.265

Sources: Annual Report of Nepal Telecom 2064/65 to 2068/69

Table 4.13 shows that current assets turnover ratio is increasing during the study period except F/Y2068.69. The highest current assets turnover ratio was in the fiscal year 2067/68. It was 98.25% and the lowest one was in the year 2068/69. Generally scene of this study in respect of current assets turnover ratio is simple to be understood. Where slowly increasing trend is displayed. Average ratio over the study period was 80.578%. S.D. and C.V. were 9.883% and 12.265% respectively.

Fig 4.12
Current Assets Turnover



Fiscal Year

Fig 4.12 represents current assets turnover ratio of Nepal Telecom. Net sales and current assets are increased every year but last study period showed lower than fiscal year 2067/68.

4.3.4. Cash Turnover

Cash turnover ratio indicates the efficiency of management in application of cash. It is one of the main parts of current assets which have greatest value to meet the current obligations incurred in the business. Without adequate cash, business is not possible, but the excess unnecessary holding cost. So the company should try to maintain the adequate amount of cash fund, keeping in mind the risk return tradeoff. The cash turnover ratio is calculated as net sales by cash & bank balances.

Table 4.14

Cash Turnover Ratio

Fiscal Year	Net Sales	Cash & Bank	Ratio
2064/65	17,889,310,266.00	16,134,516,743.00	110.88
2065/66	22,257,714,378.00	18,191,058,076.00	122.35
2066/67	27,221,068,035.00	21,611,536,437.00	125.96
2067/68	29,849,161,062.00	16,769,204,878.00	177.99
2068/69	36,791,820,206.00	25,220,623,215.00	145.88
S.D.			23.567
C.V			17.251

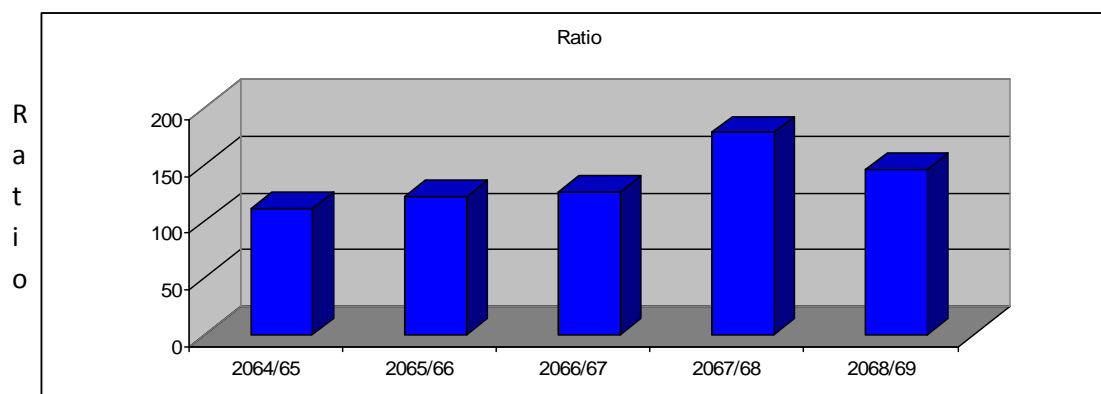
Sources: Appendix- 12, Annual Report of Nepal Telecom 2064/65 to 2068/69

Table 4.14 shows that the cash turnover ratios of Nepal Telecom are not consistent over the study period. The net sales of Nepal Telecom increased every fiscal year. Cash and bank balance of Nepal Telecom increased every fiscal year. Cash and bank balance in the fiscal year 2068/69 is highest amounting Rs. 25,220,623,215.00 where highest ratio 177.99 in the fiscal year 2067/68. Calculated net sales and cash and bank balance presented in the above table can make real picture of financial position for current operational position. From the calculation mean ratios were 136.61 whereas S.D. and C.V. were 23.567 and 17.251 respectively.

Cash and bank balance in the fiscal year 2064/65 was lowest amounting Rs. 16,134,516,743.00.

Fig. 4.13

Cash Turnover



Fiscal Years

Fig 4.13 shows that net sales and cash and bank balance with cash turnover ratio of Nepal Telecom. The ratio were increasing over study period except F/Y 2068.69.

4.3.5. Net working Capital Turnover

Net working Capital is difference between current assets and current liabilities. Net working capital turnover ratio is the ratio between net sales divided by net working capital. The size of working capital has been utilized to general sales in an organization. The size of working capital depends upon production cycle and business cycle. This indicates the velocity of utilization of working management. This ratio measures the efficiency with which the working capital is being used by Nepal Telecom. It is calculated as net sales by net working capital.

Table 4.15

Net Working Capital Turnover Ratio

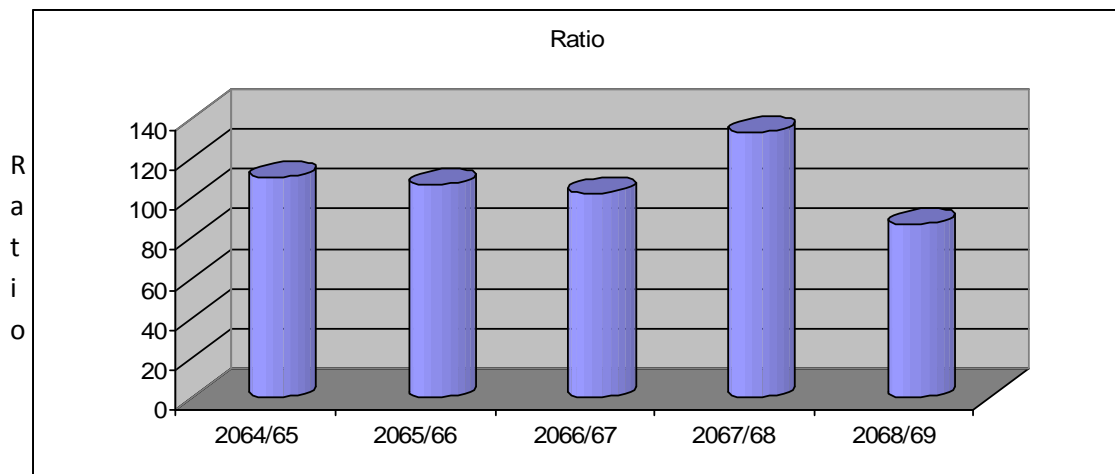
Fiscal Year	Net Sales	Net working capital	Ratio
2064/65	17,889,310,266.00	16,265,137,399.00	109.98
2065/66	22,257,714,378.00	20,945,505,646.00	106.26
2066/67	27,221,068,035.00	26,626,241,106.00	102.23
2067/68	29,849,161,062.00	22,521,016,473.00	132.54
2068/69	36,791,820,206.00	42,498,298,099.00	86.57
Mean			107.52
S.D.			14.836
C.V			13.799

Sources: Annual Report of Nepal Telecom 2064/65 to 2068/69

Net sales are an indicator of cash flows to be maintained for the business operation. Here, sales compared with net working capital presented the ratio for what business operation is a need of Nepal Telecom. Net working capital helps to bring smoothness in day to day operation. Net working capital is increasing except some data in some years. It is fluctuating in nature net sales is increasing every year. Mean sales over the study period is Rs. 26,801,814,789.40 and net working capital in average is Rs. 25,771,239,744.60. Standard Deviation and C.V. were 14.83 and 13.799 respectively.

Fig. 4.14

Net Working Capital Turnover Ratio



Fiscal years

Fig 4.14 represents that net sales and net working capital with net working capital turnover of Nepal Telecom. Net working capital turnover ratio is increasing over the study period.

4.4 Profitability Position with working capital and assets

Generally, profit is incentives to investors who contribute as equity holder. It is excess of revenue over the cost during the accounting period. Profitability measures efficiency and the search for it. It provides an incentive to achieve efficiency. Profitability ratio is such ratio which indicates degree of success in achieving desired profit level. Profit helps in modifying business structure in desired size. Strategically, profit earned by business firm can be used in portfolio unit. A required level of profit is necessary for the firms' growth and services in the competitive environment. Various ratios can be developed upon the profit under different circumstances. These

different ratios are called profitability ratio, which are required to support the purpose of the study.

4.4.1. Net Profit with net working capital

Net profit with net working capital is the relation between net profit after taxes and net working capital. It indicates management efficiency in controlling the manufacturing and administrative cost of the products. The net profit reflects how much amount of net profit has been earned in working capital of one rupee. A high result is favorable and otherwise vice versa. High result insures adequate return to the owner. Net profit with working capital is as net profit after taxes by net working capital multiplied by hundred.

Table 4.16

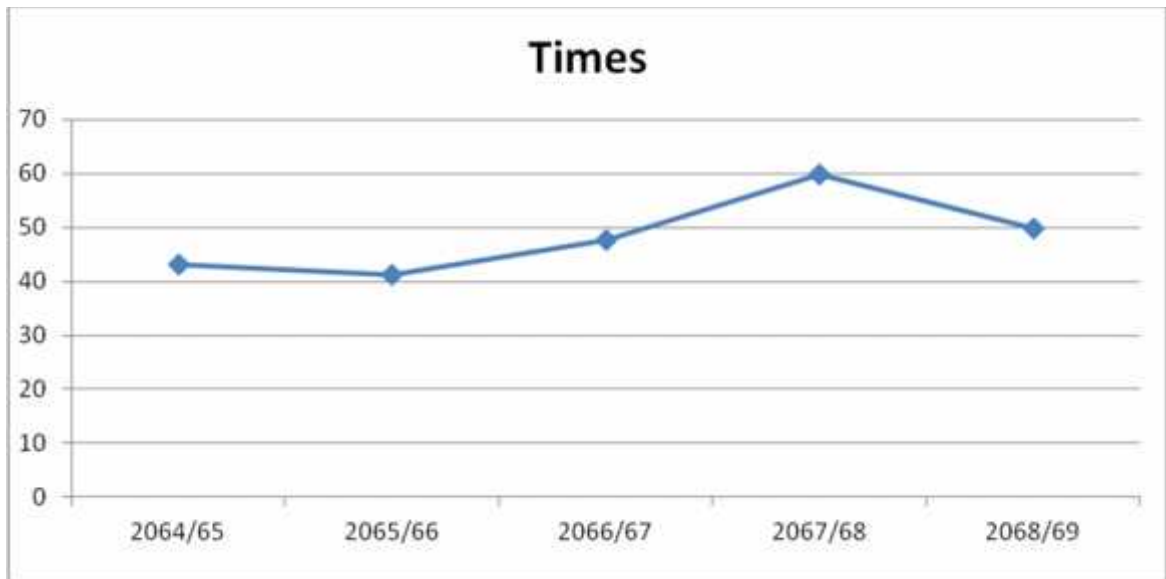
Net Profit with working capital

Fiscal Year	Net profit after tax	Net working capital	Ratio
2064/65	7,942,901,598.00	16,265,137,399.00	48.83
2065/66	10,178,024,718.00	20,945,505,646.00	48.59
2066/67	10,775,154,464.00	26,626,241,106.00	40.47
2067/68	12,120,298,794.00	22,521,016,473.00	53.82
2068/69	11,605,269,582.00	42,498,298,099.00	27.31
Mean			43.80
S.D.			9.291
C.V			21.21

Sources: Annual Report of Nepal Telecom 2064/65 to 2068/69

Table 4.16 depicts that net profit margin ratios are not consistent over the study period. Net profit after taxes of Nepal Telecom continuously increased. Net working capital is increase four fiscal year. The highest net profit margin ratio was 53.82% in the fiscal year 2067/68 which net profit after tax was Rs. 12,120,298,794.00 and net working capital Rs. 22,251,016,473.00. Lowest net profit ratio was 27.31.

Fig 4.15
Net Profit with working
capital



Fiscal years

Figure 4.15 represents that net profit margin ratio of Nepal Telecom. Net profit and net working capital are not consistent over the study period. It is found to be moving down.

4.4. Operating Ratio with net working capital

The operating ratio is computed by dividing all operating expenses by net working capital. The operating ratio is an important ratio that explains the change in the net working capital. Total amount of net working capital and operating expenses are assumed to be best indicator that helps in measuring the financial performance in the organization. Currently how much sales made by making certain volume of expenses are a need of organization to measure the financial performance. A higher operating ratio is an important ratio that explains the change in the net profit margin ratio. A higher operating ratio is unfavorable since it will leave a small amount of operating income to meet interest as desired. Operating ratio is calculated as operating expenses by net working capital multiplied by hundred.

Table 4.17
Operating Ratio

Fiscal Year	Operating expenses	Net working capital	Ratio(%)
2064/65	7,017,854,136.00	16,265,137,399.00	43.15
2065/66	8,623,724,506.00	20,945,505,646.00	41.17
2066/67	12,721,208,106.00	26,626,241,106.00	47.77
2067/68	13,459,521,698.00	22,521,016,473.00	59.76
2068/69	21,174,631,194.00	42,498,298,099.00	49.82
Mean			48.34
S.D.			6.502
C.V			13.4515

Sources: Annual Report of Nepal Telecom 2064/65 to 2068/69

Table 4.17 shows that operating ratios are not consistent but first f/y increasing and next year decrease. It is the ratio between operating and maintenance cost and net working capital from the study. It is disclosed that net working capital slowly increased and operating cost also increased. Highest operating cost amounting Rs. 21,174,631,194.00 and lowest cost amounting Rs. 7,017,854,136.00 in the fiscal year 2068/69 and 2064/65 respectively. Operating ratio with highest percentage is 59.76 % and lowest ratio is 41.17% in the fiscal year 2067/68 and 2065/66 respectively. The standard deviation and coefficient of variance were 6.502% and 13.4515% respectively.

Fig 4.15
Operating ratio

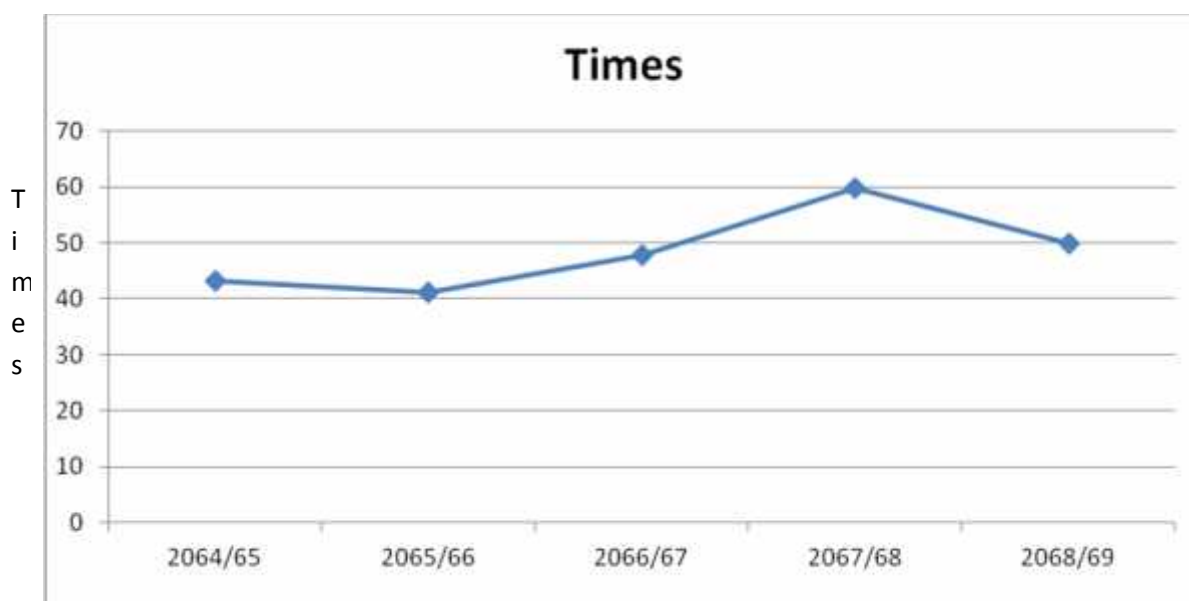


Fig 4.16 presents that operating expenses and net sales with operating ratio of Nepal Telecom. Operating expenses and net working capital increased over the study period. Operation ratio of Nepal Telecom was not stable over the study period but increased in rapid speed in some years and somewhat slow.

4.4.3. Return on Total Assets

This ratio is useful in measuring the profitability of all financial resources invested in the firm's assets. The return on assets or profit to assets ratio is calculated by dividing the amount of net profit after taxes by the amount of total assets employed. The return on total assets is calculated as net profit after taxes by total assets multiplied by hundred.

Table 4.18
Return on Total Assets

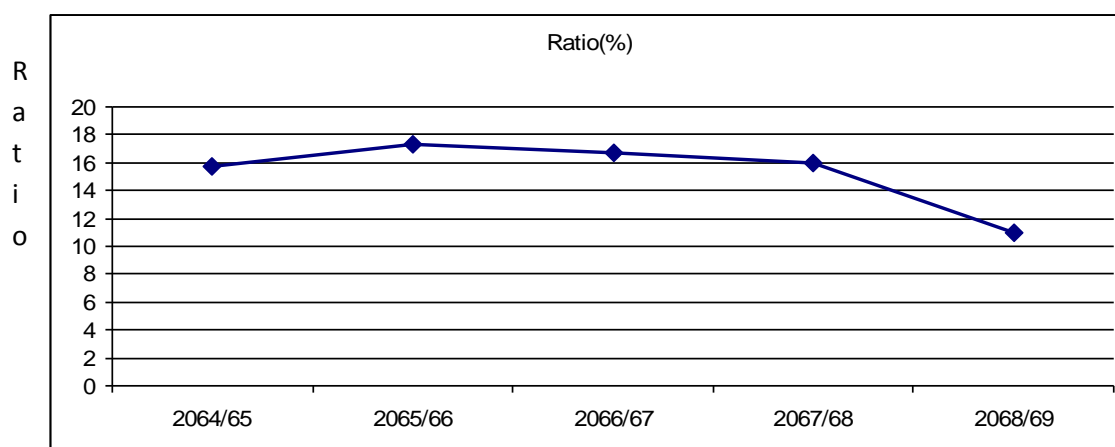
Fiscal Year	Net Profit After Tax	Total Assets	Ratio (%)
2064/65	7,942,901,598.00	50,358,333,624.00	15.77
2065/66	10,178,024,718.00	58,686,689,120.00	17.34
2066/67	10,775,154,464.00	66,835,844,174.00	16.12
2067/68	12,120,298,794.00	76,021,558,762.00	15.94
2068/69	11,605,269,582.00	105,918,327,392.00	10.96
Mean			15.332
S.D.			2.256
C.V			14.714

Sources: Annual Report of Nepal Telecom 2064/65 to 2068/69

Net profit after tax has been increased every fiscal year except last F/Y during the study period. Net profit every year shows financially strong position in Nepal Telecom. Highest net profit during the study period was Rs. 12,120,298,794.00 and lowest profit made by the company was Rs. 7,942,901,598.00 in the fiscal year 2067/68 and 2064/65 respectively. From the calculation, it was found that highest ratio was 17.34% in the fiscal year 2065/66 and lowest ratio was 10.96% in the fiscal year 2068/69.

Fig 4.17

Return on total assets



Fiscal years

Fig 4.17 shows that net profit after tax and total assets ratio. It shows return on assets. Here return on assets ratio is consistent during the study period.

4.4.4 Return on Net Worth

The return on net worth ratio is measure of profitability of the firm in respect of the utilization of net worth. It is calculated dividing the net profit after tax by net worth. Net worth includes total equity capital and total reserve and surplus. It reflects that whether the company can give satisfactory level of return to equity holder or not. So, higher ratio is favorable to equity holders. So, return on net worth is calculated as net profit after taxes divided by net worth.

Table 4.19

Return on Net Worth

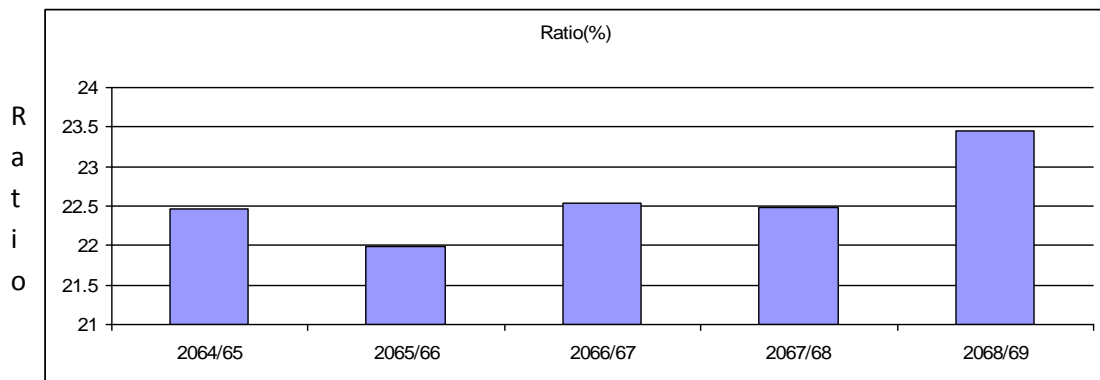
Fiscal Year	Net profit after tax	Net worth	Ratio(%)
2064/65	7,942,901,598.00	35,343,894,199.00	22.47
2065/66	10,178,024,718.00	46,280,626,076.00	21.99
2066/67	10,775,154,464.00	47,819,733,327.00	22.53
2067/68	12,120,298,794.00	53,893,886,985.00	22.49
2068/69	11,605,269,582.00	49,474,560,053.00	23.46
Mean			22.588
S.D.			0.479
C.V			2.1184

Sources: Annual Report of Nepal Telecom 2064/65 to 2068/69

The table 4.19 shows that net worth were increased every year as being the increment in reserve and surplus. Net worth is claimed of equity holder. Net profit increased every year in satisfactory level. But return on net worth displayed inconsistencies. Average ratio is 22.588%. Highest ratio was 23.46% in the fiscal year 2068/69 and lowest ratio was 21.99% in the year 2065/66. Here, highest amount of net profit displayed was Rs. 12,120,298 and lowest amount was Rs. 7942901 thousand during the study period.

From the calculation, the mean ratio was 22.588%. Standard deviation and coefficient of Variation were 0.479%. And 2.1184% respectively.

Fig 4.18
Return on Net Worth



Fiscal Years

Fig 4.18 represents that the return on net worth of Nepal Telecom. Net profits and net worth is speedily increased over the study period. Ratios on return on net worth were not consistent.

4.4.5. Return on Working Capital

Return is the incentive to investors. It is excess of revenue over the cost. Working capital is the assets which are used for the smooth operation of business in day to day functions. It is part of assets after meeting all the current obligations. It indicates how Nepal Telecom has used its available resources. The return on net worth is calculated as net profit after taxes by working capital multiplied by hundred.

Table 4.20
Return on Working Capital

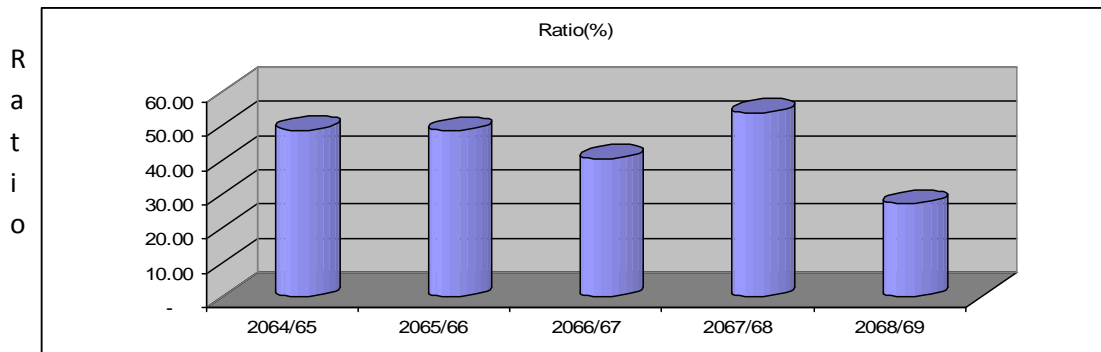
Fiscal Year	Net profit after tax	Net working capital	Ratio (%)
2064/65	7,942,901,598.00	16,265,137,399.00	48.83
2065/66	10,178,024,718.00	20,945,505,646.00	48.59
2066/67	10,775,154,464.00	26,626,241,106.00	40.47
2067/68	12,120,298,794.00	22,521,016,473.00	53.82
2068/69	11,605,269,582.00	42,498,298,099.00	27.31
Mean			43.80
S.D.			9.29
C.V			21.211

Sources: Annual Report of Nepal Telecom 2064/65 to 2068/69

Table 4.20 shows that return on working capital is not consistent. Net working capital every year presented above were not consistent as a result, the ratio calculated too was inconsistent. Higher ratio was 53.82% in the fiscal year 2067/68 and lowest one was in the year 2068/69 as 27.31%.

From the calculations, it was found that mean ,SDand CV are 43.80,9.29 and 21.211 respectively.

Fig 4.19
Return on Working Capital



Fiscal Years

Fig 4.19 represents that the return on working capital. Net working capital increased but some years displayed in the decreasing trend. Return on working capital is changeable every year during the study period.

4.5 Correlation of working capital with sales and net profit

The financial performance of an organization is directly related to their ability to manage working capital management. Different variables relating to working capital

comes to be the matter of study. These are compared to evaluate the performance efficiency and effectiveness of financial performance is measured with the help of following statistical tools. Statistical tools presented as below used to see the relationship between variables provide meaningful implication:

Correlation of working capital and sales

One dependent and one independent variable are related to measure the relationship between them. It is useful tool in many ways such as

-) To determine whether the relationship exist or not.
-) Whether the relationship is significant or not.
-) Establish cause and effect relation, if any.

To find out the relationship between current assets and current liabilities, sales and debtors and sales and inventory, following correlation are calculated

a. Relation between Working Capital and Net Profit

Coefficient of Correlation	Relationship	r²	P.E. Ratio	6PE	Significant/ Insignificant
0.60	Moderate	0.36	0.20	1.20	Insignificant

The correlation coefficient between working capital and net profit of Nepal Telecom has 0.60 that is positive relation between them because value of 'r' is greater than zero. The table depicts that the coefficient of correlation value is less than GPE the relationship working capital and net profit is insignificant.

b. Relation between working capital and sales

Coefficient of Correlation	Relationship	r²	P.E. Ratio	6PE	Significant/ Insignificant
0.91	High	0.83	0.05	0.30	Significant

The correlation between working capital and sales of Nepal Telecom was 0.91. That is positive relation between them because the value of 'r' greater than zero. The table depicts that the coefficient of correlation value is greater than 6PE the relationship between working capital and net profit is significant.

4.6 Major Findings

Structure of Working Capital

This section has deal with the structure or composition of working capital and approximate ratio of cash, inventory and receivables of Nepal Telecom. The observation of the cash and bank to current asset ratio shows that the major portion of current asset is held by cash and bank in Nepal telecom since the average ratio of cash and bank to current assets is calculated as 59.89% since this ratio is too high. This situation of the company is facing a problem of having excess cash without proper investment in other assets.

High cash balance of company is influenced by national economic scenario. It shows the unfavorable situation of the company. Inventory is another component that is required at anytime. It is nominal part of working capital since the average inventory turnover is 53.008%. It is normal but since the study period, it is more fluctuating. Another component is receivables which represents sundry debtors plus interest accrued on investment. The volume of receivables is fluctuating over the study period. Receivable turnover in average during the study period was 6.7576 times the sales.

Efficiency of Working Capital Management

The efficiency of management of working capital is measured through the turnover ratio since the volume of sales in any business organization not only affects the size of working capital but also clearly reflects the efficiency with which sales are managed. Management of working capital is not only the matter of sufficiently influence in the firm but also the logically withdrawn to meet the necessities for bringing the smoothness.

Working capital is financial engine of company which runs the firm in right way if optimal amount is invested. Nepal Telecom is such organization in the service sector which is strong but effective management is lacking.

The study is overall giving next step in the study in working capital management of Nepal Telecom. Adequacy is its characteristics in financial position of Nepal Telecom. Some dates collected in proceed form shows its situation. Working capital to fixed assets ratio is satisfactory. Debtor to current asset ratio is also satisfactory having 12.236% in average. Inventory turnover ratio is little bit improved having 53.008% similarly, cash turnover ratio and net working capital turnover ratio have 136.612 and 107.52% respectively. Net profit margin ratio is 43.8% in average.

Return on total assets is not worst because of good financial position in others respects.

Liquidity position

Liquidity position of the company has been found satisfactory. The current ratio varies from 3.05 times to 4.77 throughout the study period. It is in increasing trend. Acceptable ratio of 2:1 in current ratio is also maintained during the study period. From this study, it is concluded that cash position of Nepal Telecom is more than the optimal level as per the requirement. Liquid assets and current obligation is having distant gap that shows ideal amount cash balances. Nepal telecom is having as being the any secured investment area elsewhere.

Negative/Positive relationship is considerable in this analysis in between profitability and liquidity.

CHAPTER V

SUMMARY, CONSULATION AND RECOMMENDATION

5.1 Summary

As stated earlier, working capital management refers to the management of cash receivable, inventory and others factors of working capital. The main concern of this study was a very sensitive area of finical management i.e. working capital management of Nepal Telecom. Likewise, as stated in the introduction selection of this study, the specific objectives of this study are:

-) To analyze the composition of working capital of Nepal Telecom.
-) To examine the effect of working capital on net profit and sales in Nepal Telecom.
-) To examine liquidity position and profitability position Nepal Telecom.
-) To recommend viable suggestion to cope up with working capital management shortcoming in Nepal Telecom.
-) To inquire answer for current financial position problem.

For the purpose of the study, the necessary data on working capital and other related variables were collected from secondary sources. The balance sheet and income statement for the period 2064/64 to 2068/69 was taken from annual report of Nepal Telecom. Various financial as well as statistical tools and techniques were applied to analyses the data to accomplish the objectives of the study by developing the tabulation in systematic manner.

Current assets in various components and liabilities were incorporated in the study. Activity and profitability ratios calculated in the study moves to be proved the question by calculating different liquidity ratios like current ratio, quick ratios etc. The growth trend of working capital and its related variables were studied in trend analysis. An analysis of sources and used of fund was carried out in order to get better insight into the acquisition and application of fund. More than 40 percent of the total assets were held in the form of current assets. The large portion of current assets was being unproductive by lying in absolute liquid form i.e. cash and bank since half of the current assets was in the form of cash and bank. More than current assets were in the form of account receivables. Most of the components of working capital were found to be in increasing trend. The company collected fund mainly from its

operation. A large position of fund was kept in liquid form and some of them were used to purchases fixed assets and to pay long term loan. Hence, an effort has been made in this chapter to present major findings of the study. Thereafter, in the same pattern, recommendations have been stated. Likewise, conclusions have been drawn at the end of the chapter.

5.2 Conclusion

Nepal Telecom is financially Sound so quite satisfactory situation is drawn conclusion. Also the positive growing profitability is its present state. Most of the variable or working capital is in increasing trend and the company operating with good profit. After a long analysis process, it is concluded the overall financial management of Nepal Telecom was quite satisfactory during five years study period. There was sufficient amount of current assets to meet the current obligations of the company which obviously is a sign of good liquidity position. The company had invested its considerable amount in current assets by increasing the investment on every fiscal year. Major finding as conclusion for this report is present below.

-) Current assets management is not likely to be managed for its smooth operation although having sufficient opportunity of investment.
-) Liability is a obligation to be meet with the scientific level of cash reservation to be maintained, that should be within the capacity area of current assets.
-) Demand of its service is highly increasing but sales volume is lacking to be increased as its financial management is weak in its surrounding.
-) It has been making satisfactory level of profit but no utilization for the further periods.
-) Effective profit management is weak.
-) Fixed assets are not in its count for assets evaluation.
-) Working capital and sales are increasing with attractive profit.
-) Financially it could not extend its service to the broad area as it is huge company in respect of finance.
-) Current assets and current liabilities both are stable except a little bid changes during the study period.

5.3 Recommendations

Following suggestions have been recommended to improve the working capital management efficiently in Nepal Telecom.

-) Current assets and current liabilities as maintained by Nepal Telecom during the study period should be maintained as per the size of operational activities in adjustable manner.
-) Determine optimum level of cash balance to hold every year applying cash management techniques. The study also revealed that the large portion of current assets being unproductive by lying in absolute liquid form in Nepal Telecom. This indicates the inefficiency of management of cash.
-) Forecast current assets and current liabilities variable with reference to change in sales and profit.
-) The study revealed the fact that Nepal Telecom fails to collect debt in time. Among the total receivables of Nepal Telecom, the largest portion is held by sundry debtors.
-) Use of statistical and financial tools should require having extensive knowledge.
-) Financial tools and techniques timely should be used by financial experts are essential.
-) Working Capital in excessive amount should reduce in comparison to sales.
-) Mismanagement of liquid assets should be controlled by developing regular audit system.

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