

WORKING CAPITAL MANAGEMENT OF ORGANICS INDUSTRIES IN BIRATNAGAR

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CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled **“Working Capital Management of Organics Industries in Biratnagar.”** The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor has it been proposed and presented as part of requirement for any other academic proposes.

The assistance and cooperation that I have received during this research work has been acknowledged in addition, I declare that all information sources and literature used are cited in the reference section of the dissertation.

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REPORT OF RESEARCH COMMITTEE

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ABBREVIATIONS

ACP	:	Average Collection Period
BoD	:	Board of Director
CA	:	Current Assets
CAFA	:	Current Assets to Fixed Assets
CBCA	:	Cash & Bank to Current Assets
CL	:	Current Liabilities
CR	:	Current Ratio
DTR	:	Debtors Turnover Ratio
F/Y	:	Fiscal Year
GPM	:	Gross Profit Margin
ICA	:	Inventory Current Assets
ICP	:	Inventory Conversion Period
ITR	:	Inventory Turnover Ratio
MCACA	:	Miscellaneous Current Assets to Current Assets
NIBL	:	Nepal Investment Bank Ltd
NPAT	:	Net Profit after Tax
NPM	:	Net Profit Margin
PE	:	Probable Error
Q.R.	:	Quick Ratio
R	:	Karl Pearson's coefficient of correlation
SCBNL	:	Standard Chartered Bank Nepal Ltd

ABSTRACT

This study delves into the intricate relationship between current assets and current liabilities at Premier Organic Pvt Ltd. The primary focus is on optimizing working capital management, addressing overall company dynamics. Utilizing financial tools and statistical analysis, key metrics such as current ratio, net working capital, inventory conversion period, debtors collection period, payable deferral period, and cash conversion cycle are meticulously examined. The study acknowledges its limitations, including a narrow scope confined to working capital management and reliance on annual reports for data. Nevertheless, the research endeavors to offer insights into the efficiency of premier organic's working capital practices, presenting a holistic perspective into the efficiency of premier Organic working capital practices, presenting a holistic perspective on the company's financial health

The study revealed a negative correlation between Inventory Conversion Period (ICP) and return on net assets (ROA) of Nigerian conglomerate companies. The study recommends that companies should sufficiently plan and control their operations, amend the shortfalls whenever identified, consider the principles of finance in their decision making, utilize the services of professionals in complex business areas and perform periodic stock taking. That there is an insignificant negative impact of the inventory conversion period (ICP) and receivable conversion period (RCP) and an insignificant positive impact of the payables deferral period (PDP). Thus, this paper concludes that Nepalese non-financial firm can increase their profitability by decreasing the current ratio (CR) and debt ratio (TDTA) and increasing the ratio of current assets to total assets (CATA).

Keywords: Cash Conversion Cycle, Inventory Conversion Period, Payable Deferral Period, Return on Assets

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

The term "working" implies something in action or operation at the moment. Thus, "working capital" refers to capital currently engaged in operations. Technically, working capital management is an integral part of overall financial management. It represents that part of fund that circulates from one form of current assets to another form in ordinary course of business. For example, cash is used to purchase raw material, which creates stock of finished goods, which, in turn, is sold for cash. Therefore, working capital management is concerned with problems that arise within attempting to manage the current assets, current liabilities and the interrelationship that exists between them. Working capital represents the resources a company utilizes for its daily operations, crucial for its success. Put simply, it's the surplus of current assets over current liabilities. Essentially, it's the liquidity that allows a business to function smoothly. Cash is necessary for bill payments, receivables enable the timing difference between delivering goods or services and receiving payment, and inventories are essential for production and immediate deliveries top of form bottom of form (Dhungana, 2013).

To effectively run a business, another crucial type of capital is required, known as Short Term Capital or Working Capital. This capital encompasses funds needed for purchasing raw materials, paying wages, and covering other day-to-day expenses. Similarly, investments required for work-in-progress, raw materials, finished goods, sundry debtors, and bills receivable also fall under the umbrella of working capital. This capital can be converted into cash within a relatively short period, usually within a year, hence earning monikers like Circulating Capital, Revolving Capital, or Floating Capital. Generally, working capital pertains to the capital needed for the day-to-day operations of a business and involves managing current assets and liabilities. Current assets are assets of a short-term nature expected to be converted into cash within a short period. Examples include cash in hand, bank balances, bills receivable, sundry debtors, inventory, prepayments, loans, and advances. On the other hand, current liabilities are obligations expected to be settled within a short timeframe. Examples include bank overdrafts, sundry creditors, bills

payable, outstanding expenses, cash credits, and advances received in advance. (Pandey, 1994).

1.2 Problem Statement

The liquor industry has created quite a few problems for this vital sector. The Industry face some problems such as, manufacturing expenses, government impose high taxes, and high cost for logistics expenses, managed by bureaucrats who lack the vision for the industry. They do not have the requisite experience and understanding of the sector. High taxes on Spirits manufacturing expenses and equally high liquor industries charge were the major cost heads for Indian carriers. In this study are attempt every year the sales and consumption of Liquor an increased. So the researcher attempt that to analyze Profitability, Liquidity Turnover and Comparative analysis and risk-return relationship of liquor manufacturing companies in Nepal.

The liquor industry is experiencing a reduction in size due to intense competition, including unfair and unhealthy practices. Product duplication has emerged as a significant concern, with counterfeit products being sold at lower prices, posing health risks to consumers and undermining the industry as a whole. Additionally, there are challenges related to sales and distribution, with intermediaries adopting "pay when sold" transactions leading to significant annual bad debts of 5 to 10 percent. Some manufacturers are offering enticing schemes to gain market share, further exacerbating corruption and unhealthy competition within the industry. Quality control remains a persistent issue, while insufficient emphasis on export promotion activities hampers global market penetration. Rising prices of petroleum products and raw materials are driving up production expenses, compounded by high interest rates imposed by banks during periods of economic growth.

Efficient working capital management is recognized as pivotal in decision-making processes. It mirrors the management of short-term liquidity, crucial for sustaining day-to-day operations. Working capital serves as the life force of a business, vital for its smooth functioning. Yet, inadequate or excessive allocation of working capital can impede an enterprise from attaining its core goals. Hence, striking the right balance to maintain an optimal level of working capital becomes imperative, as it intricately

intertwines with the trade-off between risk and return. However, determining the precise amount of working capital required by a specific business entity can pose a challenge.

. Thus this study tries to answer the following questions.

- What are the major factors affecting working capital the management of Premier, Himalayan and National Organics Pvt. Ltd?
- Is there any relationship between CCP, ICP, PDP and ROA working capital?
- What is the impact of CCP, ICP, and PDP on ROA?

1.3 Objectives of the Study

The objectives of the study are as follows:

- The objective is to examine the factors influencing working capital management across Premier, Himalayan, and National Organics Pvt. Ltd.
- To examine the relationship between CCP, ICP, PDP and ROA working capital.
- To analyzed the CCP, ICP, and PDP on ROA.

1.4 Rationale of the Study

This study mainly focuses on analyzing the working capital management of Premier organic Pvt Ltd. its also helpful to the manage working capital in organization. The study address the cause of problems manufacturing expenses, government impose high taxes, and high cost for logistics expenses. This study on Premier Organic Pvt Ltd is motivated by a need to enhance our understanding of the company's financial dynamics, particularly in the realm of working capital management. Premier Organic, as a key player in its industry, operates within a complex economic environment where effective management of current assets and liabilities is critical for sustained growth and competitiveness. The investigation seeks to uncover insights into how the company navigates challenges and leverages opportunities in optimizing its working capital.

The choice of focusing on metrics such as current ratio, net working capital, inventory conversion period, debtors collection period, payable deferral period, and cash conversion cycle stems from their significance in assessing liquidity, operational efficiency, and overall financial health. By delving into these indicators, the study aims to provide practical recommendations that could contribute to refining Premier Organic's financial

strategies. Moreover, the study's relevance is underscored by the limited existing literature on Premier Organic's financial practices, making it imperative to bridge this gap in knowledge. The findings from this research not only hold implications for Premier Organic but also offer broader insights into effective working capital management practices that could benefit companies operating in similar industries. Therefore, this study is positioned to contribute both to the academic understanding of financial management and the practical strategies adopted by premier organic Pvt. Ltd.

1.5 Limitations of the Study

Research involves extensive exploration and investigation into the subject matter aimed at resolving identified issues or questions.

It quite different to access in depth of the care area of the problem on basis of financial statement on the other banks due to the fulfillment of partial requirement of master degree programmer and limited time to finish this study all the concerned area might not be possible to cover. Here, some limitations are inheritable while conducting the research work.

- This study exclusively focuses on the working capital management of Premier Organic Pvt Ltd.
- The study is based on annual reports of Premier Organic Pvt Ltd.
- This study may not represent the scenario of Nepalese liquor industry.
- Some financial tools and statistical tools are used to the need of the analysis the working capital management of Premier Organic Pvt Ltd.
- This study covers only five-year period from 2070/71 to 2079/80.

CHAPTER-II

LITERATURE REVIEW

2.1 Conceptual Review

Effective management of working capital plays a crucial role in financial decision-making as it pertains to the investment in current assets and liabilities. This directly impacts the liquidity and profitability of the company. Working capital management encompasses the strategic planning and control of current assets and liabilities, aiming to mitigate the risk of failing to meet short-term obligations while avoiding unnecessary overinvestment in these assets. (Eljelly,2004). Strategic working capital management is integral to a company's overall corporate strategy, contributing to the creation of shareholder value. Working capital represents the time difference between spending on raw materials and receiving payment for finished goods sold. The manner in which working capital is managed can profoundly influence the liquidity and profitability of the company. (Shin and Soenen, 1998). Every firm aims to maximize profits, yet maintaining liquidity is equally crucial. Increasing profits at the expense of liquidity can lead to significant challenges for the firm. Therefore, a firm's strategy must strike a balance between these two objectives. Working Capital Management directly impacts the liquidity and profitability of the organization. Liquidity ensures that firms can meet short-term debts and obligations promptly. It can be measured as the average time needed to convert non-cash current assets into cash; shorter conversion periods signify stronger liquidity positions. Working capital management has emerged as a critical concern for organizations, with financial executives striving to identify key working capital drivers and determine the appropriate level of working capital. (Lamberson, 1995).

2.2.1 Classification of working capital

Working capital can be categorized into two types:

- Permanent or Fixed Working Capital
- Variable or Temporary or Fluctuating Working Capital

Permanent working capital denotes the level of current assets needed consistently throughout the year. For a manufacturing entity, this portion of working capital is indispensable for regular production and sales operations. It represents the minimum amount of working capital essential to sustain uninterrupted production and sales activities. Moreover, it correlates directly with the firm's capacity expansion efforts. (Srivastav, 1984).

Variable working capital encompasses the portion of working capital needed in addition to the permanent working capital. Its requirement is contingent upon factors such as the firm's production nature and the relationship between labor and management. Effective management of this segment of working capital can provide a competitive edge in the fierce market competition.

2.2.2 Components of working capital

In simple terms, working capital is typically defined as the variance between a company's current assets and current liabilities. Current assets commonly encompass cash, marketable securities, receivables, and inventory, while a significant part of current liabilities comprises payables.

The management of working capital involves strategies and methodologies aimed at regulating all aspects of current assets and current liabilities. In essence, working capital management revolves around the adept and efficient utilization of these components to mitigate overall costs.

(Kochar, 2016).

2.2.3 Influencing factor of working capital

The working capital needs of a business are influenced by numerous factors. The important ones are discussed in brief as given below:

- Nature of Enterprise
- Manufacturing/Production Policy
- Operations
- Market Condition

- Availability of Raw Material
- Price Level Changes
- Manufacturing Cycle

The manufacturing cycle starts with the purchase of raw material and is completed with the production of finished goods. If the manufacturing cycle involves a longer period, the need for working capital would be more. At times, business needs to estimate the requirement of working capital in advance for proper control and management. The factors discussed above influence the quantum of working capital in the business (Ial and Chavan 2019).

When evaluating the need for working capital, consideration is given to these factors. Each element of working capital maintains its status for a specific duration, influenced by the aforementioned factors. To accurately assess the requirement for working capital, the duration of each stage in the working capital cycle is estimated. Subsequently, appropriate values are assigned to the respective current assets based on their stage of completion. The rationale for assigning value to each component is detailed below:

Consequences of Under Assessment of Working Capital

- Growth could be hindered, making it challenging for the enterprise to pursue profitable ventures due to a lack of working capital.
- Execution of operational strategies might face obstacles, potentially leading to unmet profit targets.

A cash shortage may arise due to a lack of working funds.

- Full utilization of fixed assets' capacity may be hindered by the unavailability of working capital.
- Failure to meet commitments promptly could harm the business's reputation, potentially leading to its closure..
- The business might be forced to purchase raw materials on credit while selling finished goods for cash, potentially increasing purchasing costs and lowering selling prices through discounts. These circumstances could negatively impact profitability.

- A lack of funds leading to unavailable stocks may halt production.
- While underestimating working capital can have disastrous implications for a business, overestimating it also carries its own risks (Sharma 1999).

Consequences of over Assessment of Working Capital

- An abundance of working capital can cause unnecessary buildup of inventories.
- It might lead to excessively lenient credit terms for buyers and poor recovery systems, affecting cash management negatively.
- Management may become complacent, resulting in inefficiency.
- Overinvestment in working capital can render capital less productive and lower return on investment. Efficient management and control of working capital are crucial for business success. (Shrestha 1999).

2.2.4 Sources and applications of working capital

Generally, the sources of Working Capital are as follows:

a) Funds from operations

The primary origin of working capital is funds from operations, which denote the funds generated through the core activities of a business. (Gurung 2002).

b) Proceeds from the sale of non-current assets

Selling non-current assets involves converting them into current assets and serves as a source of funds, irrespective of whether the sale results in a gain or loss.

(Pathak 1995).

c) Long-term borrowing

Long-term borrowing, like issuing debentures and convertible bonds, leads to an augmentation of current assets (in the form of cash), consequently elevating working capital. Conversely, with short-term borrowing, the rise in current assets is balanced out by an increase in current liabilities, resulting in no net change in working capital.

(Sijakhwo 2008).

d) Issue of shares for cash

The issuance of shares leads to an inflow of current assets and is thus considered a source of funds. In the context of sole proprietorships and partnerships, the infusion of additional capital serves as a source of funds. (Poudel 2008).

e) Non-operating income

Income such as dividends and interest earned from operations beyond the core activities of a business leads to an inflow of current assets and thus should be depicted as a source of funds (Dahal 2006).

2.2.5 Need of working capital

The management of working capital is recognized as a critical factor in decision-making processes. While determining the exact amount of working capital needed by a company is challenging, it is crucial to analyze and optimize fund utilization to mitigate the risk of losses and achieve profit objectives. Working capital plays a vital role in the operational lifespan of a company. A successful business ensures the swift movement of its working capital, often referred to as circulating or moving capital. The continuous transformation of working capital into income and profits, and vice versa, is a dynamic and essential aspect of business operations. This constant flow of current assets is what sustains a business. A fully operational factory lacking materials for processing, lacking cash to settle bills, or devoid of stock to sell serves no purpose. These scenarios underscore the significance of working capital in a business firm (Yadav 2013).

The importance of working capital or current assets cannot be overstated. The primary objective of financial decision-making is to maximize shareholder wealth, which necessitates generating adequate profits. Profitability is largely contingent on sales volume, among other factors. Thus, an effective sales strategy is crucial for any business to earn profits. However, it's important to note that sales don't translate into cash immediately; there's typically a delay between goods sold and cash receipt (Gautam 2006).

Hence, the necessity for working capital in the form of current assets arises to address the challenge of delayed cash realization from goods sold. Adequate working capital is essential to sustain sales activities, which is technically known as the operating or cash cycle. The operating cycle represents the duration needed to convert sales, following the conversion of resources into inventories, into cash. Most firms strive to maximize shareholder wealth by earning sufficient returns from their operations. Profitability is directly influenced by the volume of sales, among other factors. To ensure uninterrupted

business operations, every firm must maintain essential working capital components such as cash, receivables, and inventories. Therefore, working capital is indispensable for fulfilling the following objectives (Acharya 2013).

a) Purchase of fixed assets

Acquiring long-term assets, such as plant and equipment or land and buildings, typically leads to a reduction in current assets or an increase in current liabilities. As a result, working capital is diminished (Dhakal 2002).

b) Redemption or payment of long –term debt

Repaying short-term debt is not categorized as a use of funds because both current assets and current liabilities are decreased by the same amount. However, paying off long-term debt reduces current assets and is thus considered a use of funds. (Tenzin Namdak 2005).

c) Redemption of preference share or investment made

Using cash to redeem preference shares or to acquire securities as investments results in a reduction of working capital and is therefore considered a use of funds (Thapa 2004).

d) Loss from operations

Operational losses lead to greater outflows of funds compared to inflows and are thus considered a use of funds. (Sharma2002).

e) Payment of dividend, tax etc

Paying dividends or taxes in cash results in the outflow of current assets, hence, it's considered an application of funds (Rijal 2005).

2.3 Empirical Review

Hadiza¹, (2023) conducted study on the effect of inventory conversion period (ICP) on return on net assets (ROA): evidence from conglomerate firms in Nigeria. This paper aims to assess the correlation between inventory conversion period and return on net assets (ROA) among Nigerian conglomerate firms, utilizing historical panel data analysis. An ex-post facto research design was adopted for this evaluation, with data sourced from secondary sources - specifically, the annual reports and accounts of six conglomerate companies listed on the Nigerian Stock Exchange from 2006 to 2017. The study employed descriptive statistics, Pearson correlation, and fixed-effect and random-effect generalized least square (GLS) regression techniques, supplemented by the Hausman Specification Test. The findings indicate a negative correlation between Inventory

Conversion Period (ICP) and return on net assets (ROA) for Nigerian conglomerate firms. The study suggests that companies should focus on planning and controlling their operations, addressing identified shortcomings, integrating financial principles into decision-making, seeking professional expertise in complex business areas, and conducting regular stocktaking to optimize performance.

Rahaman and Parmeshwara (2023) analyzed This study investigates the association between working capital management and the profitability of Indian vehicle manufacturers during the 2023 period. It aims to quantify this relationship for four Indian automotive passenger vehicle manufacturers listed on the CMIE database. The objective is to evaluate the extent to which working capital management impacts profitability and to propose that increased working capital can enhance the profitability of automobile manufacturing companies. Data analysis employs multiple backward step regression, with the current asset turnover ratio as the dependent variable and various components of working capital as independent variables. Results indicate that cash and other current assets had a negative impact on profitability at Hyundai Motor India Ltd., while inventories positively influenced profitability at Force Motors. Moreover, the impact of current liabilities on the current asset turnover ratio was favorable at Toyota Kirloskar Motor Pvt. Ltd.

Aldubhani, Wang, Gong, and Maudhah (2022) conducted a study investigates the influence of working capital management on the profitability of listed companies in Qatar, focusing on manufacturing firms. Using a multiple regression analysis approach, the researchers examined all manufacturing companies (ten firms) listed on the Qatar Stock Exchange in 2022. Proxies for working capital management included metrics like the average collection period, inventory turnover, average payment period, and cash conversion cycle. Profitability was evaluated using indicators such as operating profit margin, return on assets, return on capital employed, and return on equity. The findings indicate that companies with shorter receivables collection periods and cash conversion cycles tend to achieve higher profitability. Conversely, longer inventory turnover periods and accounts payable payment periods are associated with increased profitability for firms

Haralayya (2022) Conducted study on This study examines the working capital management practices at Hyundai Showroom Bidar, aiming to assess and quantify overall working capital management in selected four-wheeler companies. The objective is to analyze and evaluate the financial performance of these companies within the automobile sector in India. The methodology involves evaluating operational capital, considering working cycles, and employing various financial ratios to gain a comprehensive understanding of the situation. The findings suggest that maintaining a higher level of current assets compared to current liabilities is essential for improved working capital. Moreover, the high stock turnover ratio indicates a heightened risk of stockouts, highlighting the need for effective inventory management controls within the company.

Esther (2022) conducted a study examines how working capital management practices influence the financial performance of listed commercial banks in Nigeria. It analyzes secondary data from the financial statements of banks listed on the Nigerian Stock Exchange (NSE). The study assesses working capital using four variables: inventory turnover, receivable turnover, payable turnover, and cash conversion. Descriptive, correlation, and regression analyses are employed to achieve the study's goals. The results indicate that receivable turnover, payable turnover, and inventory turnover positively impact the financial performance of deposit money banks listed on the NSE. However, the cash conversion cycle demonstrates an insignificant and inverse relationship with the financial performance of these banks

Rawal (2021) conducted research on This study examines the relationship between working capital management and profitability at Nepal Telecom. It investigates the working capital and profitability of the company with the main objectives being to assess its liquidity position, analyze its working capital position, and explore the connection between working capital and profitability. Data from the fiscal year 2021 were utilized for analysis, employing correlation coefficient techniques and regression analysis. The key findings indicate a modest positive correlation between Return on Assets (ROA) and Working Capital Turnover Ratio, as well as a strong positive correlation between ROA and Average Collection Period. Additionally, there was observed a slight negative correlation between the current ratio and ROA.

Shrestha (2020) analyzed this study investigates how working capital management (WCM) affects the profitability of non-financial firms listed on NEPSE. Utilizing measures such as current ratio (CR), debt ratio (TDTA), current assets to total assets (CATA), current liabilities to total assets ratio (CLCA), inventory conversion period (ICP), receivable conversion period (RCP), payable deferral period (PDP), and cash conversion cycle (CCC), the paper analyzes annual panel data from 2005/06 to 2019/20 for 12 non-financial NEPSE-listed firms. Through Breusch and Pagan Lagrangian multiplier and Hausman tests, the Random Effect model is determined as the appropriate regression model. The findings from the Random Effect regression model reveal a significant impact of WCM on profitability. Specifically, there is a significant negative effect of current ratio (CR) and debt ratio (TDTA), and a significant positive effect of the ratio of current assets to total assets (CATA) on profitability. Moreover, the study suggests that there is an insignificant negative impact of inventory conversion period (ICP) and receivable conversion period (RCP), as well as an insignificant positive impact of payables deferral period (PDP) on profitability. Consequently, the paper concludes that Nepalese non-financial firms can enhance their profitability by reducing current ratio (CR) and debt ratio (TDTA), while increasing the ratio of current assets to total assets (CATA).

Alvarez, Sensini and Vazquez (2020) researched on working capital management and profitability: evidence from an emergent economy. The purpose of this paper is to study the impact of working capital management on the profitability of Argentine manufacturing firms, using the main theoretical framework suggested by the literature. The companies analyzed were selected using a stratified sampling technique based on an economic criterion. The data cover a time horizon of 3years and were collected through a questionnaire. To achieve the study objective fixed effect regression model was used. The results highlighted a positive and statistically significant relationship between all the components of working capital and profitability suggesting that an increase in each variable considered determines an improvement in performance in terms of ROA and ROA. Conversely leverage has shown a statistically negative relationship to profitability suggesting that an increase in debt has a negative impact on firm performance.

Minggu (2019) researched on investigates the effects of the cash conversion cycle (CCC) on profitability in the Malaysian plantation sector. The CCC is a vital indicator of a firm's efficiency in converting inventory into sales and cash. Data from 43 firms listed on Bursa Malaysia from 2016 to 2019 were utilized to explore the relationship between CCC and profitability. The components of CCC—days sales outstanding (DSO), days payables outstanding (DPO), and days inventory outstanding (DIO)—were examined alongside firm profitability represented by Return on Assets (ROA). Data were collected from published annual reports and financial statements and analyzed using EViews version 10. Results indicate that DSO positively influences profitability significantly, while DIO also shows a positive influence on profitability, albeit insignificantly. Conversely, DPO has a negative effect on profitability, also found to be insignificant. These findings offer valuable insights for Malaysian government, investors, and policymakers in formulating effective policies to enhance economic productivity, growth, and financing decisions in the plantation sector.

Louw, Hall, and Pradhan (2019) analyzed a article examines the correlation between working capital management and profitability, drawing evidence from South African retail and construction firms. The study investigates the enduring relationship between these factors across the years 2019. Employing cointegration technique and Granger causality test, the research reveals indications of a long-term association between working capital management and firm profitability in the majority of cases. Moreover, both unidirectional and bidirectional causality between working capital management and profitability are observed. The findings suggest that working capital management exerts a more pronounced influence on the profitability of retail firms compared to those in the construction sector.

Alvarez, Sensini and Vazquez (2020) conducted study on This paper investigates the correlation between working capital management and profitability in an emerging economy, focusing on Argentine manufacturing firms. Utilizing the primary theoretical framework from existing literature, the study employs a stratified sampling technique based on economic criteria to select companies for analysis. Data spanning a three-year period were collected via questionnaire. The study utilizes a fixed-effect regression model to achieve its objectives. Results indicate a positive and statistically significant

relationship between all components of working capital and profitability, indicating that an increase in each variable leads to improved performance in terms of Return on Assets (ROA) and Return on Equity (ROE). Conversely, leverage demonstrates a statistically negative relationship with profitability, suggesting that increased debt negatively impacts firm performance.

Ojha (2019) conducted this research delves into the impact of working capital management on the profitability of Pukar International Co. Ltd. It aims to elucidate the significance of working capital management, as evaluated through Return on Assets (ROA) and its constituents, namely the current ratio, average collection period, and average payment period. Utilizing financial data spanning a four-year period, the analysis employs Pearson's correlation and descriptive analysis techniques to establish the relationship between working capital management and the company's profitability. The findings indicate a positive correlation between profitability and the current ratio. Moreover, the study highlights the significant influence of both the current ratio and the firm's size on its profitability.

Godswill, et al. (2018) conducted a study on a research investigates the relationship between working capital management and bank performance, with a focus on empirical research involving ten deposit money banks in Nigeria. The study aims to examine how effective working capital management can enhance the profitability of banks. Empirical analysis is conducted using panel data spanning seven years (2010-2016) and covering ten deposit money banks in Nigeria. The analysis employs panel fixed effect, panel random effect, and pooled ordinary least squares (OLS) models. Proxies for working capital management include Return on Assets (ROA) and Return on Equity (ROA), with indicators such as net interest income, current ratio, profit after tax, and monetary policy rate. The findings indicate a significant impact of working capital management on the profitability of the selected banks, with ROA identified as a more effective measure of bank profitability.

Le, Vu, le, DU and Tran (2018) conducted study on the study examines the influence of working capital management on financial performance in Vietnam, focusing on data collected from listed firms on the Ho Chi Minh Stock Exchange (HOSE). The sample

comprises 69 public firms over a three-year period from 2014 to 2016. Statistical tools such as correlation and regression analysis are employed for the study. The variables include cash conversion cycle, growth, cash flow, liquidity, risk, and leverage. Financial performance is measured using return on assets, return on equity, and return on sales. The findings suggest a positive impact of working capital management on the financial performance of firms in the sample.

Ali (2018) researched on the investigates how working capital management affects the performance of banks in the UK. It examines 10 large banks over the period from 2000 to 2017, utilizing panel ordinary least squares for analysis. The main objective is to evaluate the influence of working capital management and its components, including Borrowers' Collection Period (BCP), Creditors' Payment Period (CPP), and Banks Cash Conversion Cycle (BCCC), on UK banks' profitability measures such as Return on Assets (ROA) and Net Interest Margin. The findings reveal a negative relationship between profitability and BCP and CPP, while BCCC is positively associated with profitability. Regression analysis indicates that only the impact of BCP is statistically significant, with a negative effect, suggesting that a longer borrower collection period reduces profitability.

Meta Tables

Authors/Date	Articles	Objectives	Methodology	Findings
Hadizal (2023)	The effect of inventory conversion period (ICP) on return on net assets (ROA):	The impact of WCM on the profitability of non-financial firms listed in NEPSE,	Using the descriptive and causal-comparative research design	The finding also reveals that there is an insignificant negative impact of the inventory conversion period (ICP) and receivable conversion period (RCP) and an insignificant positive impact of the payables

Rahaman and Parmeshwara (2023)	Relationship between working capital management and profitability of Indian automobile manufacturers”	To measure the extent of relationship between working capital management and profitability. To suggest that having more working capital will make automobile manufacturing companies more profitable.”	Multiple backward step regression	deferral period (PDP). Cash and “other current assets had a negative influence on profitability in Hyundai Motor India Ltd., but inventories had a positive impact on profitability in Force Motors. The impact of current liabilities on the current asset turnover ratio was favorable at Toyota Kirloskar Motor Pvt. Ltd.”
Aldubhani, Jitian Wang, Tingting Gong(2022)	Impact of working capital management on profitability: evidence from listed companies in Qatar	To find out the effect of working capital management policies on profitability of manufacturing companies	Multiple regression analysis	“Companies with shorter receivables collection period and cash conversion cycles are more profitable. Longer inventory turnover periods and account

Haralayya (2022)	management in Hyundai Showroom Bidar	calculate the overall working capital management in selected four- Wheeler Company and to analyze and evaluate the financial performance of selected companies.	running capital, considering working cycles	payable payment periods are related to higher profitability of firms". more current assets than current liabilities to have a better working capital. The stock turnover ratio is exceptionally high which indicates higher risk out of stock position. Similarly the company should maintain working management controls in place. Further, the finding also reveals that there is an insignificant negative impact of the inventory conversion period (ICP) and receivable conversion
Shrestha (2020)	The impact of working capital management on profitability: evidence from Non-Financial Firms Listed in NEPSE.	Working capital management (WCM) is expected to contribute positively to the firm's profitability	Using the descriptive and causal- comparative research design	Further, the finding also reveals that there is an insignificant negative impact of the inventory conversion period (ICP) and receivable conversion

				period (RCP) and an insignificant positive impact of the payables deferral period (PDP).
Alvarez, Luca Sensini, Maria Vazquez (2020)	Working capital management and profitability: evidence from an emergent economy.	Impact of working capital management on the profitability of Argentine manufacturing Firms	Fixed effect regression model	“Positive and statistically significant relationship between all the components of working capital and profitability”. Leverage has shown a statistically negative relationship to profitability. There is low degree of positive correlation between ROA and Working Capital Turnover Ratio.
Rawal (2021)	Working capital management and profitability: A study on Nepal Telecom	To analyze the liquidity position , to analyze the working capital position and to analyze the relationship between working capital and profitability	Correlation coefficient technique and regression analysis	There is low degree of negative correlation between current ratio and ROA.
Alvarez,	Working	Impact	of	Fixed effect

Sensini, Vazquez (2020)	capital management and profitability: evidence from an emergent economy.	working capital management on the profitability of Argentine manufacturing Firms	regression model	statistically significant relationship between all the components of working capital and profitability”. Leverage has shown a statistically negative relationship to profitability.
Minggu (2019)	Cash conversion cycle effects on profitability of Malaysian Plantation Sector.	The cash conversion cycle (CCC) is a crucial indicator in determining how efficiently a firm can turn its inventory	Correlation analysis Regression analysis	Provide useful information for the Malaysian government, investors, and policymakers in developing effective policies, rules, or regulations to promote economic productivity
Louw, Hall and Pradhan(2019)	The relationship between working capital management and profitability: Evidence from South Africa Retail and	To examine “the long- run relationship between working capital management and profitability of South African firms in the retail and construction industries over the period 2004-	Cointegratio n technique, Granger casually test	“Long run relationship between working capital management and the profitability of a firm in most of the cases. Presence of both

	Construction firms.	2015”.		unidirectional and bidirectional causality between working capital management and profitability was found. Working capital management has a greater impact on the profitability of retail firms than construction firms”.
Hoang Lan Le, Kieu Trang Vu, Thi Bich Ngoc Le, Ngoc Khanh DU and Manh Dung Tran (2018)	Impact of working capital management on financial performances: the case of Vietnam	To investigate the impact of working capital management on financial performance	Correlation analysis Regression analysis	Working capital management positively impacts the financial performance of firms in the sample.
Ali (2018)	Impact of working capital management on bank's performance: Evidence from the UK.	To” examine the impact of WCM and its element namely Borrowers’ Collection Period (BCP), Creditors’ Payment Period (CPP), Banks Cash conversion	Panel ordinary least square	BCCC is “positively associated with profitability. OLS regression analysis reveals that only the effect of BCP is

cycle (BCCC) on
UK
Banks”

statistically
significant
which is
actually
negative
implying that
longer
borrower
collection
period
decreases the
profitability”.

2.4 Research Gap

Despite the comprehensive nature of the study on premier organics pvt..Ltd, Himalayan Organic Pvt Ltd and National Organic Pvt Ltd working capital management, notable research gaps exist that present opportunities for further exploration. Firstly, the study predominantly focuses on quantitative metrics and financial tools, leaving a gap in understanding the behavioral aspects of decision-making within Premier organic. Investigating the cognitive processes, managerial strategies, and decision dynamics behind working capital policies could provide a more nuanced understanding of the company financial decision-making processes. Additionally, the study's reliance on annual reports highlights a need for more dynamic analysis, including real-time data, quarterly reports, or longitudinal studies, to capture the evolving nature of Premier Organic's working capital practices over time. Furthermore, a research gap emerges in the absence of a comparative analysis with other companies in the organic products sector, hindering insights into industry-specific benchmarks and competitive dynamics. Exploring the influence of external factors such as economic conditions and industry trends, as well as incorporating stakeholder perspectives beyond internal considerations, would further enrich the study's findings. Addressing these gaps could not only enhance the understanding of premier organic's working capital management but also contribute valuable insights to the broader field of financial management.

CHAPTER-III

RESEARCH METHODOLOGY

research methodology serves as a systematic approach to address the research problem. This chapter outlines the research design, data sources, population and sample selection, data collection procedures, and methods of analysis. Following the methodology described in this chapter, the study aims to achieve its objectives in a structured and organized manner.

3.1 Research Design

A research design is purely and simply the framework or plan for a study that guides the collection and analysis of data. It is an integrated system that guides the researcher in formulating, implementing and controlling the study. Descriptive and analytical research design has been used in this study.

3.2 Population and sample

There are more than three industries in Biratnagar. All the industries operating in Biratnagar is our population of the study. Among them premier organics pvt..Ltd, Himalayan Organic Pvt Ltd and National Organic Pvt Ltd will be the sample of the study.

3.3 Nature and source of Data

This research relies on secondary data obtained from various sources. The annual reports of Premier Organics Pvt. Ltd., along with supporting information from company documents, booklets, and other published and unpublished materials, serve as crucial sources of data. Additionally, data were collected from financial statements, books, websites, journals, and reports of significant organizations.

3.4 Data Collection Techniques

The research is based on secondary data. Secondary data is the data that have been already collected by and readily available from other sources. These secondary data are collected mainly from sources like annual reports, newspaper, journal internet, book and others sources.

3.5 Data processing

The collected data must be organized and presented systematically to be meaningful for analysis. Relevant information has been arranged in tables for clarity, while unnecessary data has been omitted. Rigorous documentation of data processing methods ensures the accuracy and usefulness of the analysis. Statistical tools such as mean, standard deviation, coefficient of variance, correlation, and regression were employed, utilizing computer software like Excel and SPSS for calculations.

3.5 Tools of Data Analysis

Various methods have been employed to analyze the data, including financial ratio analysis, assessment of different aspects of working capital, and determination of working capital requirements. Statistical tools such as mean, standard deviation, correlation, and regression have also been utilized in the analysis process.

3.6 Financial Tools

Financial tools are very essential tools to identify the financial strength and weakness for any organization. In order to obtain the relationship between various variables, the ratio analysis is used. It shows the Quantities or numeric relationship between two various or more financing statement. Financial ratio analysis is widely used to know that financial condition of the firm. It is process of summarizing the large quantity of financial data and making quantitative judgment about the Premier Organics Pvt. Ltd financial performance. Those various ratios are employed and grouped for the analysis of composition of working capital, liquidity position, turnover position, profitability position, types of working capital and working capital required. The financial tools used in the study are as follows: liquidity ratio, activity or turnover ratio and profitability ratio. Similarly net working capital calculation's, proportion of current assets on total assets, proportion of current assets on total assets, proportion of current assets on fixed assets are also calculated.

Net working capital

Working capital, also referred to as net working capital (NWC), represents the disparity between a company's current assets—such as cash, accounts receivable, and inventory—and its current liabilities, including accounts payable. Net operating working capital mirrors a company's liquidity, delineating the variance between operating current assets and operating current liabilities. Frequently, these computations coincide and originate from the summation of company cash, accounts receivable, and inventories, subtracting accounts payable and accrued expenses.

This metric serves as a gauge of a company's liquidity, operational efficiency, and short-term financial robustness. A significant positive working capital signifies potential for investment and expansion. Conversely, if a company's current assets fall short of its current liabilities, it might encounter challenges in growth, debt repayment, or even insolvency.

Inventory Conversion Period

The inventory conversion period represents the duration needed to procure materials for a product, process them into finished goods, and subsequently sell them. Essentially, it signifies the timeframe during which a company allocates cash to convert raw materials into revenue-generating sales. This metric is computed as

$$\text{Inventory Conversion Period} = \frac{\text{Inventory}}{\text{Cost of goods sold per day}}$$

Though the inventory conversion period is treated as an average amount for all of the items that a company manufactures, it is most useful when calculated on an individual product basis, since you can then discern which products require the longest period to construct and convert to cash - which can result in process analysis to compress these time periods, thereby reducing the company's cash investment in inventory.

Debtors Conversion Period

In accounting the term debtor conversion period indicates the average time taken to collect trade debts. In other words, a reducing period of time is an indicator of increasing efficiency. It enables the enterprise to compare the real collection period with the granted/theoretical credit period. It is also known as DCP or ACP.

$$\text{Where Debtor Conversion Period} = \frac{\text{Average Debtors}}{\text{Credit sales per day}}$$

Credit Sales are all sales made on credit (i.e. excluding cash sales). A high debtor's collection period is an indication of slow or delay payments by debtors.

Cash Conversion Cycle

The cash conversion cycle (CCC) is a measure, typically in days, indicating the duration it takes for a company to transform its investments in inventory and other resources into cash inflows from sales. Also referred to as the Net Operating Cycle or Cash Cycle, CCC evaluates how long each net input dollar remains invested in the production and sales process before being converted into received cash.

This metric considers the time required for selling inventory, collecting receivables, and paying bills without penalties. By encompassing these factors, CCC aids in assessing the efficiency of a company's operations and management practices. A consistent or declining trend in CCC values over multiple periods is generally favorable, whereas increasing values may necessitate further analysis based on other contextual factors. It's important to note that CCC is applicable primarily to specific sectors reliant on inventory management and associated operations.

The formula for calculating CCC involves determining the net aggregate time across the aforementioned stages of the cash conversion lifecycle.

$$\text{CCC} = \text{DIO} + \text{DSO} - \text{DPO}$$

Where,

DIO = Days of inventory outstanding (Also known as days sales of inventory)

DSO = Days sales outstanding

DPO = Days payable outstanding

DIO and DSO are DIO and DSO is associated with the company's cash inflows, while DPO is linked to cash outflow. Hence, DPO is the only negative figure in the calculation. Another way to look at the formula construction is that DIO and DSO are linked to inventory and accounts receivable, respectively, which are considered as short-term assets and are taken as positive. DPO is linked to accounts payable, which is a liability, and thus taken as negative.

Receivable Turnover Ratio

The receivable turnover ratio, also known as the debtor's turnover ratio, is an efficiency metric categorized as an activity financial ratio utilized in financial statement analysis. It assesses how effectively and promptly a company transforms its accounts receivable into cash during a specified accounting duration. The ratio is computed by dividing net sales by the average accounts receivable. Net sales are determined by subtracting sales returns and sales allowances from sales made on credit. The average accounts receivable is calculated as the sum of starting and ending receivables over a designated period.

$$\text{Receivable Turnover Ratio} = \frac{\text{Sales}}{\text{Average Debtors}}$$

Inventory Turnover Ratio

Inventory turnover is a financial metric that indicates the frequency with which a company has sold and replenished its inventory within a specified timeframe. By dividing the days in the period by the inventory turnover formula, a company can determine the duration it takes to sell the inventory it currently holds. Analyzing inventory turnover aids businesses in making informed decisions regarding pricing, production, marketing strategies, and inventory procurement

$$\text{Inventory Turnover Ratio} = \frac{\text{COGS}}{\text{Average Inventory}}$$

Operating Cycle

The operating cycle is the time between when the firm receives the inventory from suppliers and when it collects cash from customers. Therefore, the operating cycle is the sum of inventory conversion period and receivables collection period. The operating cycle can be separated into two segments and expressed as follows:

$$\text{Operating Cycle (OC)} = \text{Inventory Conversion Period (ICP)} + \text{Debtors collection period (DCP)}$$

3.7 Statistical tools

Statistical tools play a crucial role in accomplishing the objectives of this study. They are instrumental in examining the relationship between interest rates and deposit and lending activities. In this research, statistical techniques such as arithmetic mean, standard

deviation, coefficient of correlation, coefficient of determination, coefficient of multiple determinations, and t-test for the significance of correlation coefficient are utilized.

(a) Arithmetic Mean

The arithmetic mean of a given dataset is calculated by adding up all the values and dividing the sum by the total number of observations. In this study, the simple arithmetic mean is utilized for analysis, as it provides an equal weight to each item in the dataset, as required.

$$\text{Mean}(\bar{X}) = \frac{(\sum X)}{(n)}$$

Where,

$\sum X$ = Sum of all Values of the variable 'X'

n= number of observations

X= Variables involved

(b) Standard Deviation

The standard deviation, often represented by the symbol sigma (σ), is a measure of dispersion within a dataset. It is calculated as the positive square root of the arithmetic mean of the squared differences between each observation and the mean of the dataset.

$$\text{Standard Deviation}(\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{n}}$$

The greater the standard deviation the greater will be the level of the deviation of the values from mean and vice versa.

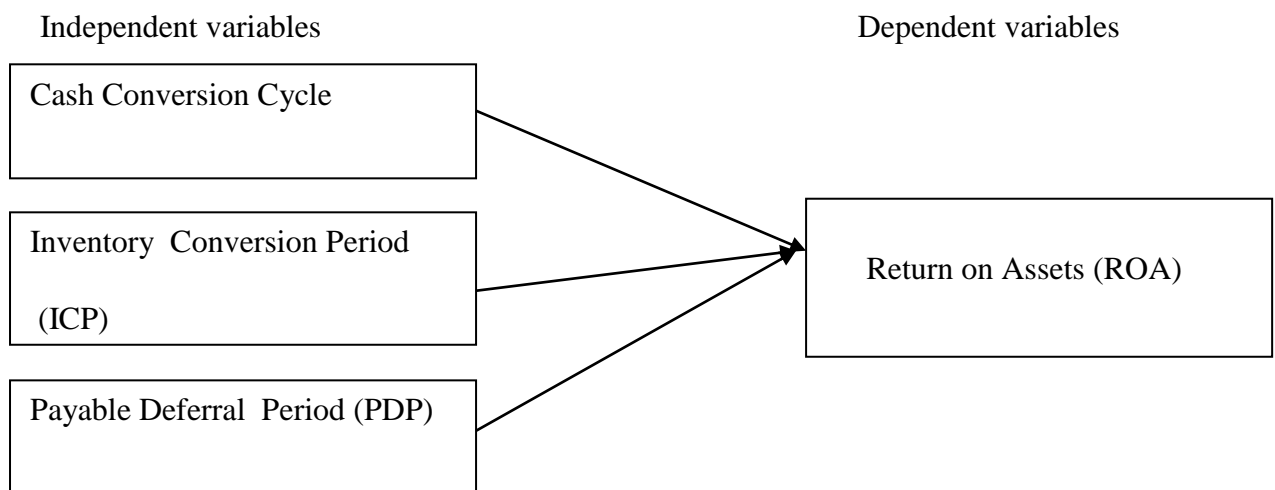
(c) Coefficient of variation

The coefficient of variation is the most commonly used measure of relative variation. It is used in such problems where the researcher wants to compare the variability of more than two years. Greater the C.V, more variable, less consistent, less uniform but less c.v. more consistent, more uniform, more stable and homogenous.

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

3.4 Research Framework

A literature review involves examining previous studies, including theses, dissertations, books, articles, and journals, related to the subject matter under investigation. Its purpose is to understand the existing knowledge in the field and identify gaps or areas for further research. Essentially, it provides insight into what has already been studied and what areas require further exploration, helping to determine the significance and relevance of the current study



(Source Shretha, 2020)

Figure 3.1 Research Framework

Operational Definition of Variables

Independent Variables

Cash Conversion Cycle

The cash conversion cycle (CCC) is a financial metric used to assess how efficiently a company converts its investments in inventory and other resources into cash from sales within a specific period, typically measured in days. Also referred to as the Net Operating Cycle or Cash Cycle, CCC evaluates the duration each net input dollar remains invested in the production and sales cycle before being realized as cash inflows (Minggu, 2019). The mathematical formula for calculating CCC is expressed as:

$$CCC = DIO + DSO - DPO$$

Where,

DIO = Days of inventory outstanding (Also known as days sales of inventory)

DSO = Days sales outstanding

DPO = Days payable outstanding

Inventory Conversion Period

The inventory conversion period represents the duration needed to procure materials for manufacturing a product, complete its production, and subsequently sell it. Essentially, it signifies the timeframe in which a company allocates cash towards the transformation of materials into revenue through sales (Hadiza1, 2023). This metric is determined by calculating...

$$\text{Inventory Conversion Period} = \frac{\text{Inventory}}{\text{Cost of goods sold per day}}$$

Payable Deferral Period (PDP)

The payable deferral period refers to the average duration between the procurement of raw materials and labor and the subsequent cash payment for them. The extent of the payable deferral period is contingent upon the credit terms extended by suppliers and the payment structure for wages. Also referred to as the creditor deferral period, it is computed using the following equations (Shrestha, 2020). This period is calculated as...

$$\text{CCC} = \text{Operating Cycle} - \text{Payable Deferral Period}$$

Return on Assets (ROA)

Return on assets (ROA) signifies a company's profitability relative to its total assets, offering valuable insights into management's efficiency in utilizing resources to generate profits. Expressed as a percentage, ROA is determined by dividing a company's annual earnings by its total assets (Hadiza1, 2023). This calculation is represented as...

$$\text{Return on Assets} = \frac{\text{Net Income}}{\text{Total Assets}}$$

CHAPTER-IV

RESULTS AND DISCUSSION

4.1 Data Presentation and Analysis

In this chapter, the analysis part is presented in detail. This chapter is mainly concerned with presentation of collected data in suitable tables and diagrams as well as the analysis and presentation of those collected data in a suitable manner using various statistical tools and financial tools.

4.1.1 Current Ratio

A current ratio within or slightly above the industry average is typically deemed satisfactory. Conversely, a current ratio below the industry norm may signal an elevated risk of financial distress or default. Conversely, an excessively high current ratio compared to industry peers suggests potential inefficiencies in asset utilization by management. Known as the working capital ratio, the current ratio encompasses all current assets and liabilities, distinguishing it from certain other liquidity ratios..

Table 1

Current Ratio

Current Ratio			
Fiscal Year	POPL	HOPL	NOPL
2070/71	1.54	5.32	1.64
2071/72	2.88	3.95	2.37
2072/73	6.51	5.35	2.23
2073/74	0.70	3.95	1.87
2074/75	0.67	3.77	1.60
2075/76	1.21	3.77	0.77
2076/77	1.39	4.79	0.55
2077/78	1.67	4.08	1.76
2078/79	4.84	3.07	1.42
2079/80	3.63	2.00	1.22
Mean	2.50	4.01	1.54
S.D.	1.95	1.01	0.58
C.V.	77.76	25.20	37.58

Source: Annual Report of Premier, Himalayan and National Organic Pvt Ltd

Table 1 shows the current ratio of Premier, Himalayan and National Organic Pvt Ltd from fiscal year 2070/71 to 2079/80. In average current ratio is Premier organic pvt ltd is 2.5,

Himalayan organic pvt ltd is 4.01 and National Organic Pvt Ltd is 1.54. The mean best is himalyan organic pvt ltd. Premier organic pvt ltd is standard deviation is 1.94 Himalayan organic pvt ltd is 1.01 and National Organic Pvt Ltd is 0.58, the standard deviation is best is national organic pvt ltd. Coefficient of variation is Premier organic pvt ltd is 77.76, Himalayan organic pvt ltd is 25.2 and National Organic Pvt Ltd is 37.58, the CV is best premier organic pvt ltd.

4.1.2 Net Working Capital

Working capital, often referred to as net working capital (NWC), represents the variance between a company's current assets, including cash, accounts receivable (outstanding customer invoices), and inventory of both raw materials and finished products, and its current liabilities, such as accounts payable. Net operating working capital serves as an indicator of a company's liquidity and pertains to the contrast between operating current assets and operating current liabilities. Frequently, these computations yield identical results and are deduced from the summation of company cash, accounts receivable, and inventory, minus accounts payable and accrued expenses.

Table 2

Net Working Capital

Net Working Capital			
Fiscal Year	POPL	HOPL	NOPL
2070/71	73241.00	105714.00	39018.00
2071/72	87275.00	126856.00	60018.00
2072/73	115986.00	144179.00	70600.00
2073/74	127300.00	174626.00	87701.00
2074/75	140332.00	181272.00	116592.00
2075/76	169076.00	208540.00	125847.00
2076/77	201139.00	226410.00	147767.00
2077/78	237680.00	266390.00	151653.00
2078/79	291066.00	309987.00	273876.00
2079/80	416170.00	328901.00	357690.00
Mean	185926.50	207287.50	143076.20
S.D.	105460.84	75799.47	100170.68
C.V.	56.72	36.57	70.01

Source: Annual Report of Premier, Himalayan and National Organic Pvt Ltd

Table 2 shows the Net working Capital of Premier, Himalayan and National Organic Pvt Ltd from fiscal year 2070/71 to 2079/80. In average current ratio is Premier organic pvt

ltd is 185926.5, Himalayan organic pvt ltd is 207287.5 and National Organic Pvt Ltd is 143076.2. The mean best is Himalayan organic pvt ltd. Premier organic pvt ltd is standard deviation is 105460.84 Himalayan organic pvt ltd is 75799.47 and National Organic Pvt Ltd is 100170.68, the standard deviation is best is Himalayan organic pvt ltd. Coefficient of variation is Premier organic pvt ltd is 56.72, Himalayan organic pvt ltd is 36.57 and National Organic Pvt Ltd is 70.01, the CV is best national organic pvt ltd.

In this case Nepal Distiller Pvt. Ltd, established in 1961, boasts Khukri XXX Rum as the oldest brand in the domestic rum market. With a well-established brand, extensive distribution network, and strong consumer base cultivated over the years, NDPL holds promising business prospects. Demonstrating robust growth over the three-year period spanning FY2018 to FY2019, NDPL's sales in FY2021 have not only rebounded to pre-Covid levels but have also exceeded the sales figures of FY2019, despite facing a significant decline in FY2020. As a dominant player in the domestic rum segment, Khukri XXX contributes to over 80% of rum sales in Nepal. Furthermore, NDPL benefits from its extensive track record and the presence of high tariff barriers for imported rum, which serve as advantageous factors for the company.

(www.icranepal.com).

4.1.3 Inventory Conversion Period

The inventory conversion period is the time required to obtain materials for a product, manufacture it, and sell it. The inventory conversion period is essentially the time period during which a company must invest cash while it converts materials into sales.

Table 3

Inventory Conversion Period

Inventory conversion Period			
Fiscal Year	POPL	HOPL	NOPL
2070/71	120.00	132.01	146.96
2071/72	482.23	140.88	111.00
2072/73	176.13	92.59	114.92
2073/74	76.68	108.18	140.65
2074/75	75.78	106.32	143.05
2075/76	16.24	98.94	207.15
2076/77	21.96	106.16	273.99
2077/78	16.49	105.44	146.93
2078/79	13.54	109.82	185.12
2079/80	13.32	104.99	204.83
Mean	101.24	110.53	167.46
S.D.	14.51	14.67	50.26
C.V.	14.56	13.28	30.01

Source: Annual Report of Premier, Himalayan and National Organic Pvt Ltd

Table 3 shows the Inventory conversion period of Premier, Himalayan and National Organic Pvt Ltd from fiscal year 2070/71 to 2079/80. In average Inventory conversion period is Premier organic pvt ltd is 101.24, Himalayan organic pvt ltd is 110.53 and National Organic Pvt Ltd is 167.46. The mean best is national organic pvt ltd. Premier organic pvt ltd is standard deviation is 14.51 Himalayan organic pvt ltd is 14.67 and National Organic Pvt Ltd is 50.26, the standard deviation is best is premier organic pvt ltd. Coefficient of variation is Premier organic pvt ltd is 14.56, Himalayan organic pvt ltd is 13.28 and National Organic Pvt Ltd is 30.01, the CV is best national organic pvt ltd. It shows that the company inventory conversion period is higher which means company has not been able to utilize its inventory properly. In the recent years the company has been lowering its inventory conversion period for effective working capital management.

In the case of Himalayan Distillery Inventories are the stock of the product, a company manufactures for the sales and the inventories are the components that make up a product.

Inventory is the major part of the current assets. The shortage of required inventory results irregular production and hamper the production process. In other hand the excess inventory causes unnecessary holding of capital which increases the cost. These ratios measure the effectiveness with which a firm utilizes its inventory (Fundamental analysis of Himalayan distillery).

In the case of Nepal Distilleries Pvt. Ltd primarily revolves around its Khukri XXX rum brand, along with two minor variants, constituting over 95% of its sales revenue in recent years. This heavy reliance on a single product renders NDPL's business highly susceptible to fluctuations in its performance. Moreover, the company experiences a significant concentration of sales during the winter months, with approximately 72% of sales occurring between November and February. Consequently, any disruptions during these peak periods significantly affect NDPL's financial standing. Despite maintaining a strong market position in the rum segment, NDPL faces fierce competition in the distillery-based liquor market, posing challenges to sustaining its market share in the future.

(www.icranepal.com).

4.1.4 Debtors Collection Period

In accounting the term debtor collection period indicates the average time taken to collect trade debts. In other words, a reducing period of time is an indicator of increasing efficiency. It enables the enterprise to compare the real collection period with the granted/theoretical credit period. It is also known as DCP or ACP.

Table 4

Debtor Collection Period

Debtor Collection Period			
Fiscal Year	POPL	HOPL	NOPL
2070/71	90.00	125.71	113.89
2071/72	92.69	120.30	112.75
2072/73	90.48	135.95	134.88
2073/74	45.15	182.68	307.00
2074/75	38.60	221.70	371.00
2075/76	10.98	284.04	152.50
2076/77	13.61	216.65	272.47
2077/78	15.75	195.52	228.00
2078/79	15.43	228.95	341.10
2079/80	15.08	154.16	385.25
Mean	42.78	186.57	241.88
S.D.	35.16	52.96	107.98
CV	82.20	28.38	44.64

Source: Annual Report of Premier, Himalayan and National Organic Pvt Ltd

Table 4 shows the debtor collection period of Premier, Himalayan and National Organic Pvt Ltd from fiscal year 2070/71 to 2079/80. In average debtor collection period is Premier organic pvt ltd is 42.78, Himalayan organic pvt ltd is 186.57 and National Organic Pvt Ltd is 241.88. The mean best is National organic pvt ltd. Premier organic pvt ltd is standard deviation is 35.16 Himalayan organic pvt ltd is 52.96 and National Organic Pvt Ltd is 17.98, the standard deviation is best is premiet organic pvt ltd. Coefficient of variation is is Premier organic pvt ltd is 82.2, Himalayan organic pvt ltd is 28.38 and National Organic Pvt Ltd is 44.64, the CV is best premier organic pvt ltd.

In the recnt year it has been able to lower its debt collection period which shows that the company has been efficiently able to manage its debts collection and it has been lowering its debt collection period every year. The company needs to lower its debt collection more for efficient management of working capital.

In the case of Nepal Distilleries Pvt. Ltd, the rating upgrade is attributed to the company's enhanced financial performance, marked by improvements in profitability, reduced gearing levels, and bolstered liquidity, particularly evident in FY2021 despite the challenges posed by the Covid-19 pandemic. The gradual recovery from the pandemic is anticipated to further bolster the company's prospects. Profitability in FY2021 was bolstered by cost-saving measures in selling and promotional expenses amid the pandemic, while gearing levels and liquidity were fortified by profit retention strategies. The rating also considers the company's extensive industry experience, robust market position, and strong brand recognition of Khukri XXX Rum, its flagship product. Additionally, NDPL benefits from an established distribution network and protective duties on imported finished liquor, safeguarding it against competition from international brands and cheaper imports (linkedin.com).

4.1.5 Payable Deferral Period

It is the average length of time between the purchase of raw materials and labor and the payment of cash for them. The length of payable deferrable period depends on the credit facilities provided by the supplier and wages payment system. The payable deferrable period is also known as creditor deferrable period and computed by using following equations:

Table 5

Payable Deferral Period

Payable Deferral Period			
Fiscal Year	POPL	HOPL	NOPL
2070/71	125.00	129.04	135.74
2071/72	66.10	199.81	279.65
2072/73	78.82	180.32	317.09
2073/74	61.23	261.17	146.14
2074/75	84.85	223.71	138.12
2075/76	14.30	162.68	180.42
2076/77	13.30	118.86	180.56
2077/78	12.31	152.87	124.14
2078/79	12.65	165.59	129.99
2079/80	14.84	211.72	176.20
Mean	48.34	180.58	180.81
S.D.	40.42	44.06	66.01
CV	83.61	24.40	36.51

Source: Annual Report of Premier, Himalayan and National Organic Pvt Ltd

Table 5 shows the payable deferral period of Premier, Himalayan and National Organic Pvt Ltd from fiscal year 2070/71 to 2079/80. In average payable deferral period is Premier organic pvt ltd is 48.34, Himalayan organic pvt ltd is 180.58 and National Organic Pvt Ltd is 180.81. The mean best is National organic pvt ltd. Premier organic pvt ltd is standard deviation is 40.42 Himalayan organic pvt ltd is 44.06 and National Organic Pvt Ltd is 66.01, the standard deviation is best is Premier organic pvt ltd. Coefficient of variation is Premier organic pvt ltd is 83.61, Himalayan organic pvt ltd is 24.4 and National Organic Pvt Ltd is 36.51, the CV is best premier organic pvt ltd.

It indicates that the company payable deferral period is higher which provides relief to the management in paying its debts to the creditors. There is high variability in the payable deferral period.

There is high variability in the payable deferral period. The payables deferral period is a very critical benchmark for a company. It helps them in managing their cash flows efficiently. However, a company should not consider the DPO period as just a number but should compare it with other companies in the industry and the industry average. Furthermore, rather than just looking at the DPO, a company must consider the full cash conversion cycle. By analyzing this cycle, a company could make better cash flow management decisions (Ansuinvest.com).

In the case of Nepal Distilleries Pvt. Ltd, the ratings are influenced by certain factors. These include the company's heavy reliance on a single product, Khukri XXX dark rum, and the relatively small market size of the rum segment in Nepal, which may limit growth opportunities. Additionally, the seasonal nature of rum sales and regulatory risks inherent in the liquor industry pose challenges and expose the company to revenue volatility. The consistent rise in excise duty on 25 UP products, with a notable increase of approximately 20% in FY 2022 to NPR 1,188 per liter, presents further challenges by potentially affecting pricing and margins, or moderating product demand. Moreover, NDPL's dependency on imported or external suppliers for raw materials exposes it to supplier-related risks and potential margin pressures, particularly considering the volatility in raw material prices (londonspiritscompetition.com).

4.1.6 Operating Cycle Period

The operating cycle is the time between when the firm receives the inventory from suppliers and when it collects cash from customers. Therefore, the operating cycle is the sum of inventory conversion period and receivables collection period. The operating cycle can be separated into two segments and expressed as follows:

Operating Cycle (OC) = Inventory Conversion Period (ICP) + Debtors collection period (DCP)

Table 6

Operating Cycle

Operating Cycle			
Fiscal Year	POPL	HOPL	NOPL
2070/71	210.00	257.72	260.85
2071/72	574.92	261.18	223.75
2072/73	266.61	228.54	249.80
2073/74	121.83	290.86	447.65
2074/75	114.38	328.02	514.05
2075/76	27.22	382.98	359.65
2076/77	35.57	322.81	546.46
2077/78	32.24	300.96	374.93
2078/79	28.97	338.77	526.22
2079/80	28.40	259.15	590.08
Mean	144.01	297.10	409.34
S.D.	73.50	46.86	134.64
CV	50.70	15.77	32.89

Source: Annual Report of Premier, Himalayan and National Organic Pvt Ltd

Table 6 shows the operating cycle of Premier, Himalayan and National Organic Pvt Ltd from fiscal year 2070/71 to 2079/80. In average operating cycle is Premier organic pvt ltd is 144.01, Himalayan organic pvt ltd is 297.10 and National Organic Pvt Ltd is 409.34. The mean best is National organic pvt ltd. Premier organic pvt ltd is standard deviation is 73.5 Himalayan organic pvt ltd is 46.86 and National Organic Pvt Ltd is 134.64, the standard deviation is best is Himalayan organic pvt ltd. Coefficient of variation is is

Premier organic pvt ltd is 50.7, Himalayan organic pvt ltd is 15.2 and National Organic Pvt Ltd is 32.89, the CV is best premier organic pvt ltd.

It indicate very high period for conversion of inventories into finished goods into saleable form. There is high variability in the operating cycle period. In the recent years the company has been able to maintain its operating cycle period in average of 120 days which is quite significant.

Similarly, Himalayan Distillery Limited (HDL) dependence on its parent companies for sales, purchase, distribution channels, and operations has incurred large related party transactions. In addition to dependency and related party transactions, the regulatory body's penalty to a former company director, a significant increase in trade receivables and non-disclosure of complete information invite significant risk to shareholders. While analyzing the quality spectrum of its financial report, HDL accounting is within Generally Accepted Accounting Principal (NAS) but has biased accounting choices. Although the company has sustainable and adequate earning quality, influenced accounting choices and limited disclosure impedes our ability to correctly assess its past performance. It further impairs our ability to forecast future performance and thus appropriately value the company (www.himalayanmultiagro.com).

In the case of Nepal Distilleries Pvt. Ltd, the company has witnessed improved gearing levels and liquidity, primarily due to robust profitability in FY2021 and the retention of profits. Going forward, the company's gearing levels and liquidity cushion will continue to be important rating sensitivities, particularly considering the seasonal nature of its business. Therefore, monitoring the company's future dividend and capital expenditure (capex) plans will remain crucial for rating assessment (Nepaldistilleries.com).

4.1.7 Cash Conversion Cycle

The Cash Conversion Cycle (CCC) serves as one of several quantitative metrics for assessing a company's operational efficiency and management effectiveness. A consistent or decreasing trend in CCC values across multiple periods generally indicates positive performance, whereas an increasing trend warrants further investigation, considering other influencing factors. It's important to note that CCC is applicable primarily to sectors reliant on inventory management and related operations. As CCC involves aggregating

the time across the three stages of the cash conversion lifecycle, the mathematical formula for CCC is represented as...

Get

$$CCC = ICP + DCP - PDP$$

Table 7

Cash Conversion Cycle

Cash Conversion Cycle			
Fiscal Year	POPL	HOPL	NOPL
2070/71	85.00	128.68	125.11
2071/72	508.82	61.37	-55.90
2072/73	187.79	48.22	-67.29
2073/74	60.60	29.69	301.51
2074/75	29.53	104.31	375.93
2075/76	12.92	220.30	179.23
2076/77	22.27	203.95	365.90
2077/78	19.93	148.09	250.79
2078/79	16.32	173.18	396.23
2079/80	13.56	47.43	413.88
Mean	95.67	116.52	228.54
S.D.	54.89	69.07	179.64
CV	57.37	59.28	78.60

Source: Annual Report of Premier, Himalayan and National Organic Pvt Ltd

Table 7 shows the cash conversion cycle of Premier, Himalayan and National Organic Pvt Ltd from fiscal year 2070/71 to 2079/80. In average cash conversion cycle is Premier organic pvt ltd is 95.67, Himalayan organic pvt ltd is 116.52 and National Organic Pvt Ltd is 228.54. The mean best is national organic pvt ltd. Premier organic pvt ltd is standard deviation is 54.89 Himalayan organic pvt ltd is 69.07 and National Organic Pvt Ltd is 179.64, the standard deviation is best is premier organic pvt ltd. Coefficient of variation is Premier organic pvt ltd is 57.37, Himalayan organic pvt ltd is 59.28 and National Organic Pvt Ltd is 78.60, the CV is best National organic pvt ltd.

It indicates that higher cash conversion period. In the recent years the companies has significantly reduce its cash conversion which shows that the company has been significantly working in reducing its cash conversion period by proper management. In the case of Himalayan Distillery limited, The Company increased its gross sales revenue went from 1.3 billion to 6.5 billion in the last five years at an incredible CAGR of 37% (actual increase is 382.76% over five years) and its net profit by 84.38% (CAGR) over the past five years. But more importantly, the increase in its net sales revenue (after costs) has been more impactful to its bottom line, especially in the last three years via a tremendous improvement in its profitability margins.

(www.himalyanfundamentalanalysis.com).

In the case of Nepal Distilleries commenced operations in 1961, introducing Khukri XXX Rum, the oldest brand in Nepal's domestic rum market. Benefiting from an established brand presence, a well-tested distribution network, and consumer loyalty cultivated over the years, NDPL's business prospects are promising. Despite challenges, such as the notable decline in sales during FY2020 due to the Covid-19 pandemic, NDPL demonstrated resilience and achieved remarkable growth in FY2021. Notably, FY2021 sales exceeded pre-pandemic levels recorded in FY2019, reflecting the company's adaptability and market strength. As a market leader in Nepal's domestic rum segment, Khukri XXX commands over 80% of rum sales in the country, underscoring NDPL's market dominance. Furthermore, NDPL benefits from its extensive track record and the protective tariff barriers for imported rum, which serve as advantages for the company's operations.

(www.icranepal.com).

4.1.8. Receivable Turnover Ratio

The accounts receivable turnover ratio, also known as the debtor's turnover ratio, is a financial metric utilized in financial analysis to assess a company's efficiency in converting its accounts receivable into cash within a specified period. This ratio is indicative of how swiftly and effectively a company collects payments from its customers. The accounts receivable turnover ratio is computed by dividing net sales by the average accounts receivable balance. Net sales are determined by subtracting sales returns and allowances from total credit sales. The average accounts receivable balance is

calculated by adding the beginning and ending accounts receivable balances and dividing by two.

$$\text{Receivable Turnover Ratio} = \frac{\text{Sales}}{\text{Average Debtors}}$$

Table 8

Receivable Turnover Ratio

Receivable Turnover Ratio			
Fiscal Year	POPL	HOPL	NOPL
2070/71	2.00	13.85	16.96
2071/72	3.94	15.04	18.62
2072/73	4.03	16.40	18.81
2073/74	8.08	21.96	20.65
2074/75	9.46	16.49	19.96
2075/76	6.34	13.54	15.40
2076/77	6.52	13.32	17.42
2077/78	5.54	8.94	10.97
2078/79	2.06	12.08	13.60
2079/80	1.47	13.60	13.36
Mean	4.94	14.52	16.58
S.D.	2.71	3.40	3.16
CV	54.75	23.39	19.09

Source: Annual Report of Premier, Himalayan and National Organic Pvt Ltd

Table 8 shows the receivable turnover ratio of Premier, Himalayan and National Organic Pvt Ltd from fiscal year 2070/71 to 2079/80. In average receivable turnover ratio is Premier organic pvt ltd is 4.94, Himalayan organic pvt ltd is 14.52 and National Organic Pvt Ltd is 16.58. The mean best is national organic pvt ltd. Premier organic pvt ltd is standard deviation is 2.71 Himalayan organic pvt ltd is 3.4 and National Organic Pvt Ltd is 3.16, the standard deviation is best is premier organic pvt ltd. Coefficient of variation is Premier organic pvt ltd is 54.75, Himalayan organic pvt ltd is 23.39 and National Organic Pvt Ltd is 19.09, the CV is best premier organic pvt ltd.

It shows that the company has been increasing its sales through credit sales and also has been effectively managing its debts collection. In the recent years the company receivable turnover ratio has increased significantly which shows that company has been increasing its sales through credit.

In the case of Himalayan Distillery during FY 2020-2021, the company reported earnings well over twice its previous year's earnings and announced a 100% dividend (75% bonus and 25% cash) which rocketed its share price and brought it considerable attention from investors (A fundamental analysis of Himalayan Distillery Ltd).

In the case of In the fiscal year 2020-2021, Himalayan Distillery reported earnings that were more than double those of the previous year and announced a dividend of 100%, consisting of 75% bonus shares and 25% cash. This announcement significantly boosted its share price and garnered considerable attention from investors (A fundamental analysis of Himalayan Distillery Ltd).

On the other hand, Nepal Distilleries Pvt. Ltd. primarily relies on the Khukri XXX rum brand and its two minor variants, which collectively contribute to over 95% of its sales revenue in the last two years. This heavy reliance on a single product makes NDPL's business highly dependent. Additionally, the sales pattern of distillery-based liquor is heavily skewed, with the majority of sales occurring during the winter months (November to February). Any disruptions during this period can have a disproportionately large impact on the company's financial performance. Despite NDPL's strong market position in the rum segment, the competitive landscape in distillery-based liquor remains intense, posing challenges to maintaining market share in the industry moving forward.

(Nepaldistilleries.com).

4.1.9 Inventory Turnover Ratio

Inventory turnover is a financial metric that measures the frequency with which a company sells and replenishes its inventory within a specific timeframe. By dividing the days in the period by the inventory turnover formula, businesses can determine the number of days it takes to sell their existing inventory. This calculation enables companies to make informed decisions regarding pricing strategies, manufacturing processes, marketing campaigns, and inventory procurement.

Table 9

Inventory Turnover Ratio

Inventory Turnover Ratio			
Fiscal Year	POPL	HOPL	NOPL
2070/71	3.00	1.61	1.07
2071/72	0.38	1.78	0.92
2072/73	1.04	1.81	0.55
2073/74	2.38	2.05	2.79
2074/75	2.41	2.24	2.86
2075/76	1.50	1.82	2.41
2076/77	1.50	2.31	1.57
2077/78	1.02	1.48	1.22
2078/79	0.88	1.71	1.38
2079/80	2.04	1.76	1.26
Mean	1.62	1.86	1.60
S.D.	0.82	0.27	0.80
CV	50.83	14.28	50.14

Source: Annual Report of Premier, Himalayan and National Organic Pvt Ltd

Table 9 shows the inventory turnover ratio of Premier, Himalayan and National Organic Pvt Ltd from fiscal year 2070/71 to 2079/80. In average inventory turnover ratio is Premier organic pvt ltd is 1.62, Himalayan organic pvt ltd is 1.86 and National Organic Pvt Ltd is 1.6. The mean best is himalyan organic pvt ltd. Premier organic pvt ltd is standard deviation is 0.82 Himalayan organic pvt ltd is 0.27 and National Organic Pvt Ltd is 0.8, the standard deviation is best is himalyan organic pvt ltd. Coefficient of variation is Premier organic pvt ltd is 50.83, Himalayan organic pvt ltd is 14.28 and National Organic Pvt Ltd is 50.14, the CV is best premier organic pvt ltd.

The company has not been able to utilize its inventory significant manner. In the recent years the company has increased its inventory turnover ratio which shows that the company has been increasing its inventory utilization in a significant way.

In the case of Himalayan Distillery HDL converts its investments in inventory and receivables into cash in 165 days. A significant increase in the company's cash

conversion cycle (CCC) during FY 76-77 may signal channel stuffing, decreased market preference of product, considerable bargaining power of buyers, and high investments in working capital. CCC was negatively affected due to an increase in day's sales outstanding (DSO) and days inventory in hand (DOH). An increase in DSO and DOH indicates increased credit sales and large amounts of inventory being held (Ansuinvest.com).

In the case of Nepal Distilleries Pvt. Ltd., the company benefits from the government's imposition of high import tariffs on finished liquors, which shields the domestic spirit industry from external competition. However, this protection exposes NDPL to potential risks associated with changes in import tariff regulations. Any reduction or elimination of import duties could significantly affect the company's revenue, profit margins, and debt coverage ratios. Additionally, liquor remains subject to high taxation in Nepal, with excise tariffs steadily increasing each year, including a notable 20% hike in FY2022. Continued tariff hikes and competitive pressures may limit NDPL's ability to pass on increased costs to consumers, potentially reducing profit margins in the future. Moreover, any restrictions imposed by regulatory agencies on liquor promotion, sales, and distribution could impact NDPL's future growth prospects. (www.icranepal.com).

4.1.10 Descriptive Analysis

Descriptive statistics are brief descriptive coefficients that summarize a given data set, which can be either a representation of the entire or a sample of a population. Descriptive statistics are broken down into measures of central tendency and measures of variability (spread). Measures of central tendency include the mean, median, and mode, while measures of variability include the standard deviation, variance, and the minimum and maximum variables.

Table 10
Descriptive Statistics

Descriptive Statistics		N	Minimum	Maximum	Mean	Std. Deviation	C. Variance
Cash Conversion Cycle (CCC)		30	8.50	21.96	14.3460	3.13039	9.799
Inventory Conversion Period (ICP)		30	0.28	2.30	1.4423	0.39843	0.159
Payable Deferral Period (PDP)		30	10.75	15.75	12.9500	1.41737	2.009
Return on Assets (ROA)		30	0.12	4.03	1.2727	0.91553	0.838

Sources: SPSS Output

Table 10 shows the descriptive statistics for the selected variables considered in this study. Their CCC has a minimum value of 8.50 percent and a maximum of 21.96 percent with average of 14.34 percent. Standard deviation is 3.13 percent. Coefficient of Variation is 9.79. Their ICP has a minimum value of 0.28 percent and a maximum of 2.3 percent with average of 1.44 percent. Standard deviation is 0.398 percent. Coefficient of Variation is 0.159. Their PDP has a minimum value of 0.12 percent and a maximum of 4.03 percent with average of 1.2727 percent. Standard deviation is 0.915 percent. Coefficient of Variation is 0.838.

4.1.11 Correlation Analysis

The association between two variables that are measured on the same interval or ratio scale is depicted by the Pearson coefficient, a particular form of correlation coefficient. The correlation between two continuous variables is quantified by the Pearson.

Table 11

Pearson's Correlations Coefficient Matrix

Correlation				
	CCC	ICP	PDP	ROA
CCC	1			
ICP	.455*	1		
PDP	-0.279	0.022	1	
ROA	-0.295	-.672**	-0.145*	1

*. Correlation is significant at the 0.05 level (2-tailed).

** . Correlation is significant at the 0.01 level (2-tailed).

Sources: SPSS Output

The table 11 shows the correlation matrix of dependent and independent variable. The correlation coefficient between ROA and CCC is -0.295 showing lesser degree of relationship between these two variables and the relationship is not significant at 5% level of significance. The correlation coefficient between ROA and ICP is -0.627 showing lesser degree of relationship between these two variables and the relationship is significant at 1% Level of significance. The correlation coefficient between ROA and PDP is 0.145 showing lesser degree of relationship between these two variables and the relationship is significant at 1% level of significance.

4.1.12 Multiple Regression Analysis

To investigate the connection Impact of working capital management of premier organics private limited, a multiple regression analysis is carried out. Finding the influence of predictors (independent variables) on the dependent variables is the goal of regression analysis. The linear equation with one or more independent variables and the coefficients that best predicted the value of the dependent variable can be estimated using regression.

Model Summary

Table 12

Impact of PDP, ICP, CCC on ROA

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.85 ^a	0.70	0.409	0.70405

a. Predictors: (Constant), PDP, ICP, CCC

Sources: SPSS output

Table 12 show the model summary of data. The multiple Correlation Coefficients is 0.85 and the coefficient of coefficient of determination is 0.70 which Show that only 70% variation in ROA is explained by independent Variable and PDP, ICP, CCC.

Analysis of Variance (ANOVA)

Table 13

Impact of PDP, ICP, CCC on ROA

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11.420	3	3.807	7.679	.001 ^b
	Residual	12.888	26	0.496		
	Total	24.308	29			

a. Dependent Variable: Return on Assets (ROA)

b. Predictors: (Constant), Payable Deferral Period (PDP), Inventory Conversion Period (ICP), Cash Conversion Cycle (CCC)

Sources: SPSS output

Table 13 show the ANOVA. The ANOVA test shows that the significant value is 0.001 lesser than level of significance 0.05 showing that the overall regression model is significant.

Table 14

Impact of PDP, ICP, CCC on ROA

Coefficients ^a						
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
1 (Constant)	4.773	1.545		3.090	0.005	
Cash Conversion Cycle (CCC)	0.011	0.050	0.038	0.224	0.824	
Inventory Conversion Period (ICP)	1.498	0.374	0.652	4.001	0.000	
Payable Deferral Period (PDP)	0.091	0.098	0.141	0.935	0.359	

a. Dependent Variable: Return on Assets (ROA)

Sources: SPSS Output

Table 14 shows the coefficient analysis of ROA and independent Variable. The P value of CCC 0.824 higher than Significance level 0.05. It shows the relation between CCC and ROA is not significant. The beta coefficient of CCC is 0.011 which shows that for unit discernment in the value CCC, the value of dependent variable ROA increase by 0.011 units. The P value of ICP is 0.000 lesser than significant level 0.05. It shows the relation between ICP and ROA is significant. The beta coefficient of ICP is -1.498 which shows that for unit increment in the value ICP, the value of dependent variable ROA increase by 1.498 units. The P value of PDP 0.359 higher than significant level 0.05. It shows the relation between PDP and ROA is not significant. The beta coefficient of PDP is -0.091 which shows that for unit increment in the value PDP, the value of dependent variable ROA increase by 0.091 units.

4.3 Discussion

The current ratio of Premier Organic Pvt Ltd from fiscal year 2070/71 to 2079/80. In average current ratio is 2.5, standard deviation is 1.94 and coefficient of variation is 77.76%. It indicate that its average current ratio is good but still in last few years the

company is facing difficulty in paying its short term obligations as its current ratio in the year 2070/71 to 2079/80 is less than the average current ratio of 2.5:1. The net working capital of Premier Organic Pvt Ltd from fiscal year 2070/71 to 2079/80. In average net working capital is 3251456027; standard deviation is 4140347947 and coefficient of variation is 127.33. It shows that the company net working capital need was increasing in the 2071/72 to 2073/74 and afterwards the company net working capital was negative during the fiscal year 2074/75 to 2075/76. It indicates that the company has not been able to maintain its net working capital efficiently. In the case of Himalayan Distillery Ltd has reported its fourth-quarter report with an increase in net profit by a mere 1.33%. The net profit increased to Rs. 1.05 Arba in this quarter from Rs. 1.04 Arba in the corresponding quarter of the previous year. The company's paid-up capital stood at Rs. 1.51 Arba and reserve and surplus stood at Rs. 1.32 Arba; with an increase of 16.50%. In this quarter, HDL reported an increase in sales revenue by 16.54%. The revenue increased to Rs. 7.58 Arba compared to the corresponding quarter of the previous year. The company spent Rs. 96.47 crores on administrative expenses. The descriptive statistics for the selected variables considered in this study. Their CCC has a minimum value of 8.50 percent and a maximum of 21.96 percent with average of 14.34 percent. Standard deviation is 3.13 percent. Coefficient of Variation is 9.79. Their ICP has a minimum value of 0.28 percent and a maximum of 2.3 percent with average of 1.44 percent. Standard deviation is 0.398 percent. Coefficient of Variation is 0.159. Their PDP has a minimum value of 0.12 percent and a maximum of 4.03 percent with average of 1.2727 percent. Standard deviation is 0.915 percent. Coefficient of Variation is 0.838. The model summary of data. The multiple Correlation Coefficients is 0.85 and the coefficient of determination is 0.70 which show that only 70% variation in ROA is explained by independent Variable and PDP, ICP, CCC. The ANOVA test shows that the significant value is 0.001 lesser than level of significance 0.05 showing that the overall regression model is significant. The coefficient analysis of ROA and independent Variable. The P value of CCC 0.824 higher than Significance level 0.05. It shows the relation between CCC and ROA is not significant. The beta coefficient of CCC is 0.011 which shows that for unit discernment in the value CCC, the value of dependent variable ROA increase by 0.011 units. The P value of ICP is 0.000 lesser than significant level 0.05. It shows the relation between ICP and ROA is significant. The beta coefficient of ICP is -1.498 which shows that for unit increment in the value ICP, the value of dependent variable ROA

increase by 1.498 units. The P value of PDP 0.359 higher than significant level 0.05. It shows the relation between PDP and ROA is not significant. The beta coefficient of PDP is -0.091 which shows that for unit increment in the value PDP, the value of dependent variable ROA increase by 0.091 units.

In the case of Nepal Distilleries Pvt. Ltd., the rating upgrade reflects the company's enhanced financial performance, marked by improvements in profitability, gearing levels, and liquidity in FY2021, despite the challenges posed by the Covid-19 pandemic. The gradual easing of pandemic-related restrictions is anticipated to bolster the company's outlook further. Profitability gains in FY2021 were bolstered by cost-saving measures in selling and promotional expenses during the pandemic, while improved gearing levels and liquidity were attributed to profit retention. The rating also considers NDPL's extensive industry experience, strong market position, and brand recognition of Khukri XXX Rum, its flagship product, along with a well-established distribution network. Moreover, the duty barrier on imported finished liquor provides a protective shield for domestic players like NDPL against international competition and cheaper imports. (linkedin.com).

The objective can be achieved through profit planning, which entails understanding the selling price per unit of the product, the variable cost involved in its production and sale, and the variance between the selling price and the unit variable cost. Essentially, management needs to determine the contribution margin for each unit of every product line managed. Profitability is influenced by several factors, including the selling price, quantity of units sold, unit variable costs, total fixed costs, and the mix in which different product lines are sold

The study uncovered an inverse relationship between Inventory Conversion Period (ICP) and return on net assets (ROA) among Nigerian conglomerate companies. To address this, the study suggests that companies should meticulously plan and manage their operations, rectify any identified shortcomings, incorporate financial principles into their decision-making processes, seek expert assistance in complex business domains, and conduct regular inventory audits.

(Hadiza1, 2023).

According to the findings of the study, the Random Effect regression model was deemed appropriate based on the results of the Breusch and Pagan Lagrangian multiplier and Hausman tests. Using this model, the study observed a significant impact of Working Capital Management (WCM) on profitability. Additionally, there was a significant negative effect of the current ratio (CR) and debt ratio (TDTA), and a significant positive effect of the ratio of current assets to total assets (CATA) on profitability. However, the study found an insignificant negative impact of the inventory conversion period (ICP) and receivable conversion period (RCP), and an insignificant positive impact of the payables deferral period (PDP) on profitability. Thus, the paper concludes that Nepalese non-financial firms can enhance their profitability by reducing the current ratio (CR) and debt ratio (TDTA) while increasing the ratio of current assets to total assets (CATA) (Shrestha, 2020).

Similarly, the study on the Malaysian plantation sector reported a significant positive influence of the Days Sales Outstanding (DSO) on profitability. The Days Inventory Outstanding (DIO) also showed a positive impact on profitability, although it was deemed insignificant. Conversely, the Days Payables Outstanding (DPO) had an adverse effect on profitability, with an insignificant relationship. These findings offer valuable insights for the Malaysian government, investors, and policymakers to formulate effective policies, regulations, and decisions aimed at fostering economic productivity, growth, and optimal plantation financing strategies (Minggu, 2019).

CHAPTER-V

SUMMARY AND CONCLUSION

5.1 Summary

Business organizations set profit objectives and create budget plans to achieve these objectives. In profit planning, management must have a clear understanding of the selling price of each unit of product, the variable costs involved in manufacturing and selling, and the contribution margin for each product line. Various factors influence profits, including selling price, quantity sold, variable costs per unit, total fixed costs, and the product mix.

Many firms have significant cash tied up in working capital and rely on short-term payables for financing. These firms aim to find the optimal level of working capital that maximizes their value. Effective working capital management involves balancing the trade-off between maintaining large inventories and offering generous trade credit to customers, which can lead to higher sales and reduced risk of stock-outs. Working capital management, also known as WCM, is essential for ensuring that a company can meet its short-term debt obligations and operational expenses. It involves managing short-term assets and liabilities to ensure ongoing operations and sufficient cash flow.

The management of working capital includes overseeing inventory levels, accounts receivable and payable, and cash reserves. Implementing an efficient working capital management system can significantly enhance a company's profitability. Key aspects of working capital management include conducting ratio analysis and effectively managing individual components of working capital.

5.2 Conclusion

Company inventory conversion period is higher which means company has not been able to utilize its inventory properly. In the recent years the company has been lowering its inventory conversion period for effective working capital management. The company debtor collection period is during the fiscal year 2072/73 and 2079/80 was over 90 days which is not considered good as per company average. In the recent year it has been able to

lower its debt collection period which shows that the company has been efficiently able to manage its debts collection and it has been lowering its debt collection period every year and payable deferral period is higher which provides relief to the management in paying its debts to the creditors. There is high variability in the payable deferral period. Operating cycle of premier organic Pvt Ltd is very high period for conversion of inventories into finished goods into saleable form. There is high variability in the operating cycle period. In the recent years the company has been able to maintain its operating cycle period in average of 120 days which is quite significant.

Company has been significantly working in reducing its cash conversion period by proper management and increasing its sales through credit sales and also has been effectively managing its debts collection. In the recent years the company receivable turnover ratio has increased significantly which shows that company has been increasing its sales through credit.

The company has not been able to utilize its inventory significant manner. In the recent years the company has increased its inventory turnover ratio which shows that the company has been increasing its inventory utilization in a significant way.

5.3 Implications

The implications of this study are as under:

- Premeir, Himalayan and National Organic Pvt Ltd need to improve its current assets and liabilities position.
- Premier, Himalayan and National Organic Pvt Ltd need to improve its net working cpaital.
- Premier, Himalayan and National Organic Pvt Ltd to improve its inventory turn over ratio for effective management of working capital.
- Premier, Himalayan and National Organic Pvt Ltd need to improve its debt collection period under 90 days.
- Company payable deferral period is higher which provides relief to the management in paying its debts to the creditors. There is high variability in the payable deferral period.

- Operating cycle of premier organic, Himalayan and National Pvt ltd is very high period for conversion of inventories into finished goods into saleable form. There is high variability in the operating cycle period. In the recent years the company has been able to maintain its operating cycle period in average of 120 days which is quite significant.
- Company has been significantly working in reducing its cash conversion period by proper management.
- Company has been increasing its sales through credit sales and also has been effectively managing its debts collection. In the recent years the company receivable turnover ratio has increased significantly which shows that company has been increasing its sales through credit.
- The company has not been able to utilize its inventory significant manner. In the recent years the company has increased its inventory turnover ratio which shows that the company has been increasing its inventory utilization in a significant way.

Overall profitability of the company, the company should analyze other profit planning tool i.e. decision making where department wise, product wise, make or buy, drop or continue, decision are provided. The company Premier Organics is also multiple products producer and it produces some materials like ENA, denature spirit and GNA for self-consumption. There may be high cost rather than outsider suppliers. So, Decision making tools also can adopt for profit planning purpose.

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